



COVID-19 AND BEYOND: WHAT'S NEW FOR BRICK-AND-MORTAR STORES

Abstract

Since COVID-19 was first detected in December 2019, it spread across the globe rapidly.

Retail, consumer goods, and logistics businesses are affected in many ways - stores are closed, online traffic has increased, demand is unpredictable, fulfillment and delivery are unreliable, and government restrictions are disrupting supply chains. Companies have adapted to meet these challenges.

Our point of view focuses on the opportunities for retail stores when we overcome these challenging times and prepare for the new normal.

Impact of COVID-19

COVID-19 was a storm that impacted all industries and sectors across regions. Not only did it impact business, it also influenced consumers to change their priorities and preferences. Be it social, cultural, or governance-related, there is probably no area that Covid-19 has not affected adversely.

The relentless outbreak of the pandemic has brought the world economy to its knees.

With multiple countries announcing lockdowns and stringent restrictions on people movement, factory production, sales and growth forecasts have dropped drastically, causing stock markets to nosedive.

Governments and central banks have swiftly approved sweeping and sizable fiscal programs and monetary stimulus measures to ensure liquidity in the system and prevent another Depression.

The impact of coronavirus on stock markets since the start of the outbreak



Source: Bloomberg, 29 June 2020, 12:00 BST

BBC

Source: ^[1]



Behavioral changes

Apart from the impact on economies and governments, the scale and nature of the pandemic are reshaping how people work, travel, eat, party, shop, and even exchange pleasantries. Touch is now taboo, and social distancing the current norm.

Job losses

According to the International Labour Organization (ILO), the COVID-19 pandemic is causing a catastrophic effect on working

hours and earnings. The crisis is expected to wipe out 6.7% of working hours globally in the second quarter of 2020 – equivalent to 195 million full-time workers.

- Full or partial lockdown measures are now affecting nearly 2.7 billion workers, representing around 81% of the world's workforce.
- Large reductions are foreseen in the Arab States (8.1%, equivalent to 5 million full-time workers), Europe (7.8%, or 12 million full-time workers) and Asia and

the Pacific (7.2%, 125 million full-time workers).

- Huge losses are expected across different income groups but especially in upper-middle income countries (7.0%, 100 million full-time workers). It exceeds the effects of the 2008 financial crisis.
- The sectors most at risk include accommodation and food services, manufacturing, retail, and business and administrative activities.

Impact on retail stores post-COVID-19

Even before COVID-19, retail stores were struggling to attract footfalls and provide an experience that rivals digital channel sales. To reverse the slowdown, retail stores were already on a transformational journey. Enterprises were adopting analytics, smart devices, new age payment systems, AR / VR along with development of omnichannel capabilities were . After COVID-19, safety and hygiene at stores added one more dimension of the highest priority for transformation.

The biggest driving force for store transformation will be a shift in consumer behavior post-COVID-19.

Safety tops the list of shopping preferences:

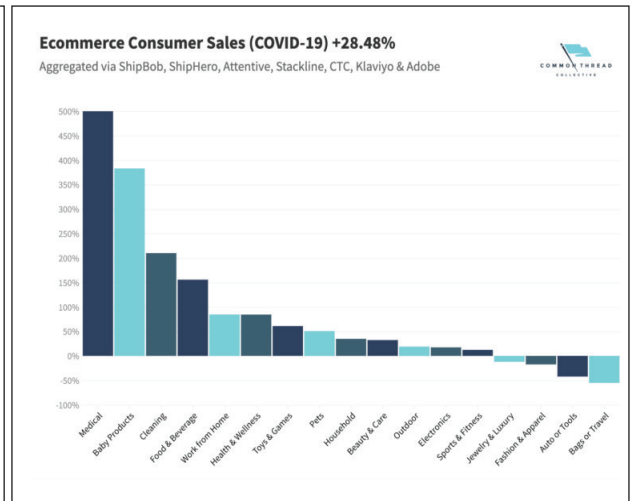
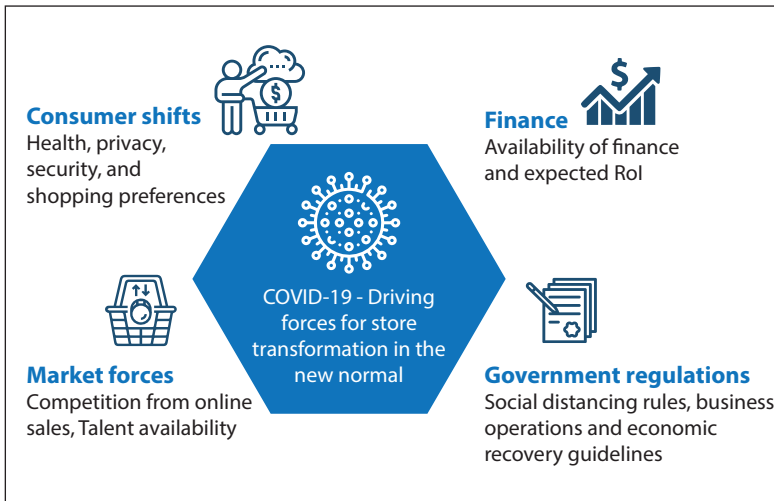
- Sales and promotion in their current form are not desired as they may attract large gatherings in stores.
- Customers want minimal human touchpoints, while exploring the product or at payment.
- Product display and packaging should facilitate the highest degree of packaging.
- Along with product provenance, product journey information will be required to ensure that all safety protocols are

followed till the product reaches the customer.

Consumers are worried about job losses and the economic slowdown, and these worries, along with the lockdowns, have changed their shopping patterns:

- Expenditure on luxury products will be reduced.
- Products manufactured from animal skin or fats may register a slowdown.
- Sales of essential products such as groceries will grow, as consumers prepare for more lockdowns.

Data also shows that consumers have started to spend more online for essential items



Source: [2]

Retail industry research shows that shoppers prefer frictionless commerce in the new normal

73% want order only stores (products shipped to homes)

69% want grab-and-go stores (self-checkout from their phones)

43% want digital order buttons for specific products

47% want virtual reality technology to try new products

Source: [3]

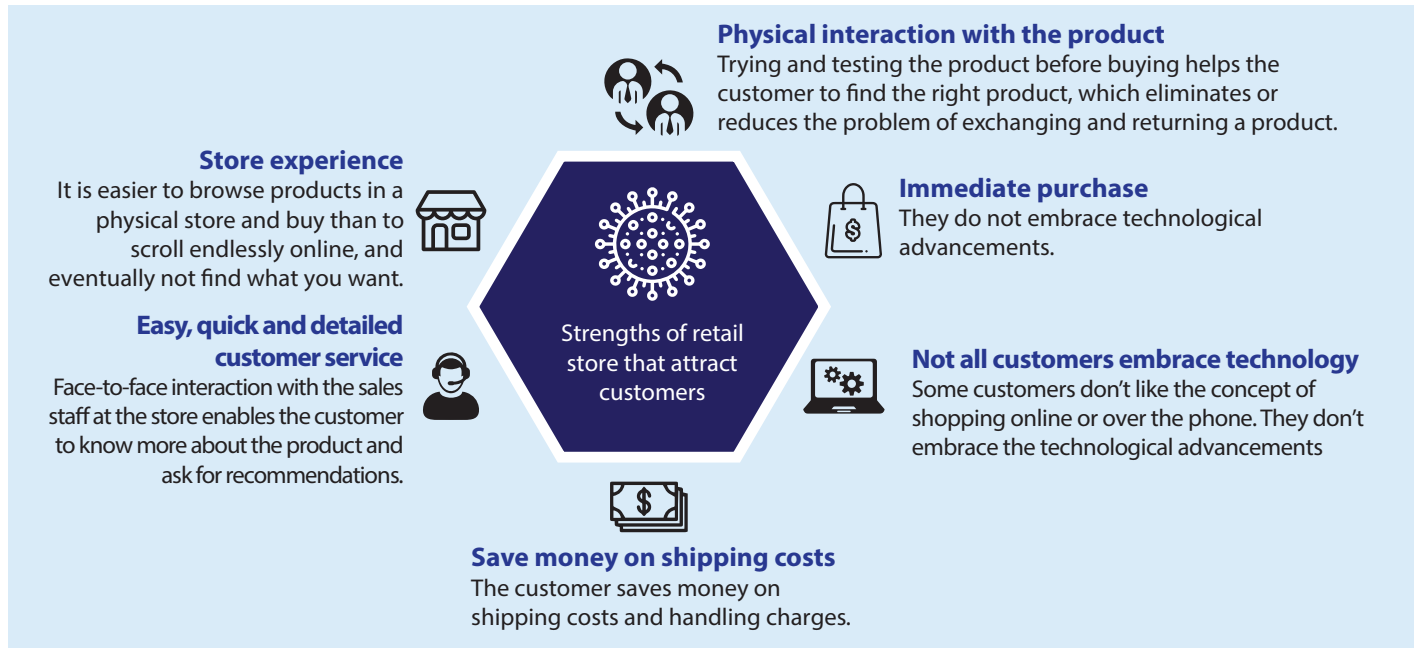


Will stores survive after COVID-19?

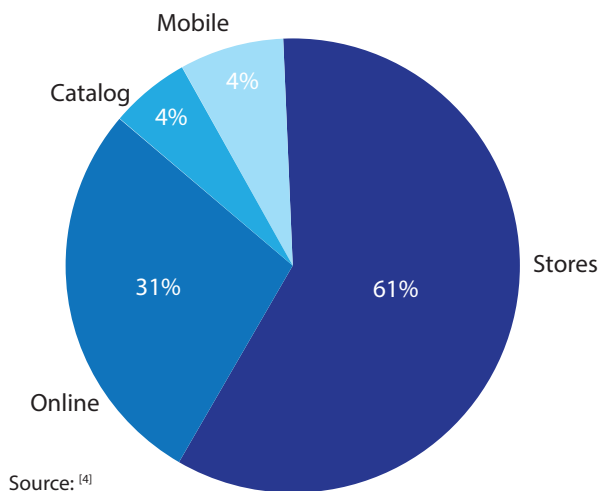
People have become more cautious, especially when buying products other than essentials. Consumers avoid leaving their houses for fear of contracting the virus. However, on the positive side, retailers are planning strategies to make the customer experience safer yet

engaging. Not only are these strategies going to help during the pandemic, but they will also prepare the retail stores to survive future pandemics. Moreover, studies show that customers visit stores not just to buy, but for the whole experience of shopping. In fact, most online shoppers

also prefer shopping at brick-and-mortar stores for a superior customer experience. Physical stores have unique strengths that attract customers, which retailers can capitalize on.



Preferred mode of shopping



- 87%** of U.S. shoppers prefer to shop in stores with “touchless or robust self-checkout options,” for example, while more than two-thirds are using some form of self-checkout
 - 55%** of shoppers reported visiting a store prior to purchasing online
 - 81%** of Millennials still prefer In-store shopping, even the ones who also engage in online shopping
 - 69%** of consumers believe attending live experiences helps them connect better with the brand, their friends, and their community
- Source: ^[5]

Brick-and-mortar stores will register robust demand even after the COVID-19 pandemic. Physical stores offer the best and the most popular articles only, which helps consumers make easy purchase choices by focusing only on the essentials, and avoid getting lost in the process.

They want to know how driving a new car feels, or how shoes look and feel, how comfortable the couch is, or if the dress fits. Shopping is a multi-sensory experience. People tend to make more accurate judgements about products when they are in a physical store. Considering

all these facts, retailers need to innovate and provide their customers with the best possible experience in their stores. The COVID-19 situation has helped retailers to work on major strategic implementations which can help them succeed in increasing sales despite the pandemic.

Transformation of retail stores in the new normal

COVID-19 will eventually peter out and things will come back to normal. However, the customer experience will never be the same again. The pandemic is a grim reminder for the consumer and retailer that such a situation may recur in the future. So, retail stores should undertake a transformation at two levels:

1. Capability to address a COVID-19-like situation
2. Continued transformation journey to remain relevant amid e-commerce growth

New strategies to be adopted to address COVID-19 impact

Store operations

Research indicates that consumer behavior will shift toward physical distancing, health, and privacy. During the crisis, consumers are coping with the frictions created during the journey (stockouts, longer wait times for delivery or pick up, inconvenience). However, these factors will become important for users in the new normal. In order to win, retail stores need to adopt new strategies across operations.

For instance, stores must provide visible safety measures to assure consumers, from entry to exit. Safety measures should facilitate social distancing, minimize human touch, and ensure adequate hygiene.

Operational changes

- Operating hours: Stores should consider the option of staying open for longer hours, probably a 24x7 model, to provide shoppers with the option of shopping at a time of their convenience, and also reduce the possibility of crowding. Being operational for longer hours will require changes to typical end of day (EOD) and opening and readiness activities of stores.

- Workforce: Longer operational hours usually means requiring to hire an additional workforce. But in the post-COVID-19 era, this will not apply. Rather, the workforce need to be reduced due to a low number of customers at one time.
- No queue shopping: Footfall per unit time should be in a controlled manner and appointment-based store visits will be promoted.

Strategic changes

- Alliance for last-mile delivery: E-commerce companies should focus on their strengths and delegate the delivery and logistics to the experts. They can explore new alliances with last-mile delivery companies, and try new methods, such as drone or robot deliveries.
- Returns: In the new normal, additional measures and checks have to be established to ensure that the return process is contactless and the products are quarantined or isolated for a few

days before being part of the available inventory.

- Assortment: With a struggling economy, people are losing their jobs and their purchasing power is affected. Purchases are mostly restricted to essential goods, while luxury goods are no longer on their wish list. Stores need to plan their assortments accordingly. For the short term, the focus should be on essential items instead of luxury goods.
- Stock: Stores should stock reduced quantities but with a wide assortment on display, while they should be in a position to deliver larger quantities when required.
- Sales and promotions: Stores should focus on bundled offers and discounts, focus on the whole look rather than single items (for clothing), and dish recipes instead of single ingredients.
- Next-gen store: Stores should invest quickly to transform themselves and adopt next-gen store features such as omnichannel capabilities and smart devices.





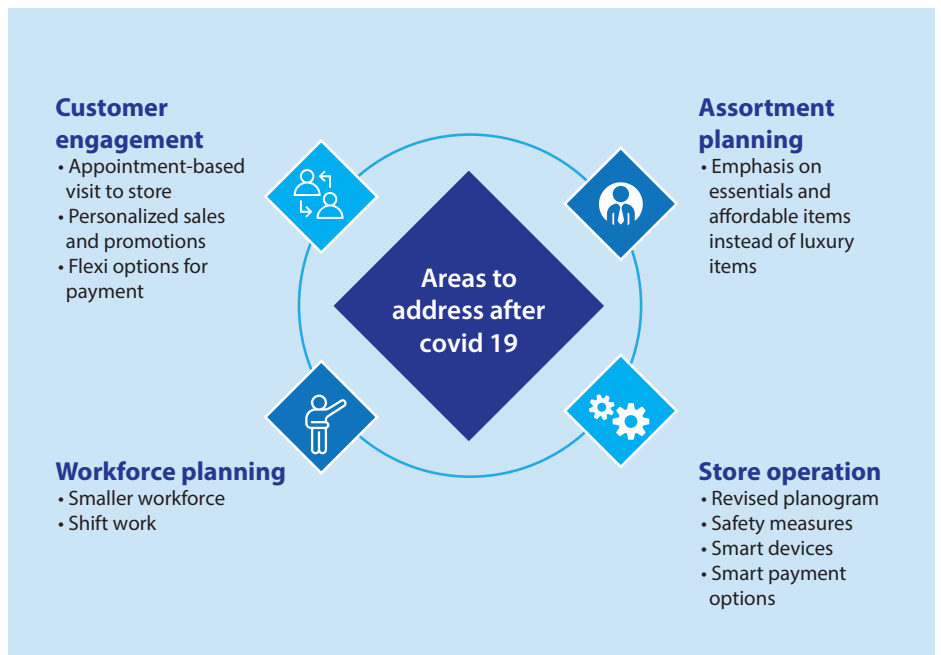
Changes in store appearance

- **Planogram:** The traditional aisle-based planogram should be replaced with innovative layouts, which discourage crowding. The number of aisles should be reduced to provide more space to customers. More space should be given to display products in high demand, while reducing the display space for low-demand products, to optimize sales per square feet.
- **Payment options:** Stores should promote touchless payment options such as facial-recognition payment or digital wallet payment.
- **Smart devices:** Stores should introduce smart carts with built in barcode scanners that record all goods purchased. They should facilitate mobile payments, smart mirrors for customers to try on outfits without actually wearing them, smart shelves to provide complete product information and offers without customers actually touching any products. These innovations will minimize human touchpoints and offer a better customer experience.

- **Robotics:** To minimize human touchpoints, usage of robots should be promoted.
- **Additional safety measures:** Stores must introduce sanitized entry points, with sanitizers made available at multiple places. Facial recognition cameras and thermal scanners can be used to identify the customer and detect health issues. Alerts can be sent to the store manager in case of crowding.

Leveraging technology

- **Omnichannel presence:** Stores have mostly limited their omnichannel capabilities to 'buy online, pick up in store' (BOPUS), but it is now time to enhance their capabilities to include 'buy online, return in store' (BORIS).
- **Product journey:** Along with the provenance of the product, the journey of the product also matters now. Enhancement of technology to track the product's journey is also needed.
- **Augmented reality, virtual reality:** The customer should not touch the product to find out additional information, instead it can be made available using AR or VR.



Conclusion

In order to compete with online stores, brick-and-mortar stores initiated a digital transformation journey before COVID-19, but the after-effects of the pandemic have forced them to accelerate the process. In the new normal, stores should continue the transformation journey, and should work on new strategies, to respond not only to COVID-19, but to prepare for similar challenges in the future.

While new imperatives require stores to reduce crowds, call customers on an appointment basis, establish security protocols for social distancing, in reality, the solution is not so simplistic:

- Stores may lose some of their loyal customers forever due to stringent security protocols
- Stores need to invest further to change the planogram, run the store for longer hours, and adopt additional hygiene measures
- Stores may have to stock less profitable assortments (essentials) in higher quantities and reduce highly profitable (luxury) inventory

Sales associates will transform into personal assistants with access to and training on additional tools to engage customers proactively and remotely. Leads will be generated remotely and store visits will be based on appointment bookings.

Stockroom associates will become shipment experts. They will need tools to get real-time stream of online orders, accurate inventory updates, easy and optimal pick lists, and an integrated system to reduce manual intervention for faster delivery.



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