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Letter to editor

Suggestion for retailers during and post covid-19 downturn

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1.0 Overview of Malaysia's Retailers in 2019 and Expectation of 2020

At the end of 2019, all indicators propose that the year 2019 may be described as a cautiously positive period for the retailers. Entering Q4 2019, the Retail Group of Malaysia (RGM) has analyzed that the overall 3.7% retail sales growth, representing RM107.5 billion in sales for the year 2019. This analysis is backed by the downward performance from the previous quarter topped with the less than stellar projection for the rest of 2019. The projection by RGM is lower compared to its initial analysis of 4.9% growth in early 2019. The group's apprehensive approach is also influenced by the current business decision taken by the leading players in the industry. In 2019, GCH Retail (M) Sdn Bhd, Malaysia's arm of Dairy Farm International and operator of well-established hypermarkets and supermarkets branded Giant, Cold Storage, and Mercato has ceased 12 of its stores' operation during the first three quarters of 2019. Citing restructuring means the company currently only has 60 operating stores, far from its peak in 2014, where it operates 147 stores. Besides that, market observers noted that Tesco Plc's might pull its plug for Asian operations and sell it for the interested buyer, focusing on strengthening its business at the core and Central Europe region. Previously, Tesco has shut down operations in Japan and Turkey under the turnaround program.

For the year 2020, RGM has predicted a sales value of RM112.4 billion of sales, with an overall growth rate of 4.6%. Even with 2019's slow growth, the announced 2020 Budget driver is expected to stimulate consumer spending, especially during the cyclical peak on festive periods, such as Chinese New Year, Hari Raya, and Christmas. The forecasted growth is also banking on the Visit Malaysia 2020 campaign's success by the Ministry of Tourism, Arts, and Culture (Motac). The campaign aims to attract 30 million tourists to Malaysia, generating income worth RM 100 billion. Thus, with the combined factor, most retail industry players remain relatively conservative in their growth expectations while also strategizing to grab any growth opportunity available.

2.0 Covid-19 Pandemic Effect on Malaysian Retailers

Alas, like the old proverb said, never count your chicken before they hatch. The Covid-19 pandemic caused all the plans went down the drain. The case was initially identified on 31 December 2019 when several viral pneumonia cases with no apparent cause were reported in Wuhan, China. One month later, as the number of cases and affected areas increases, the World Health Organization declares a Public Health Emergency of International Concern. In Malaysia, there are 8,402 cases have been recorded, with 119 death tolls.

With the outbreak and no clear solution to curb the virus, the government has introduced a Movement Controlled Order period starting 18 March 2020. During this period, only essential retailers are permitted to operate with strict standard operating procedures need to be followed, such as a limited number of customers allowed in the operated stores, reduced operating hours, and implementation of social distancing of at least 1m. The MCO implementation, which also encourages citizens to stay at home, really does its numbers to the retail industry. In Q1 2020, RGM reported that the quarterly decline faced by the industry is estimated at 18.8%, the highest since the 1998 financial crisis. Generally, in the first quarter, the sales are boosted by the Chinese New Year period, with retailers fulfilling demands from local and foreign consumers. However, as the earliest Covid-19 cases were recorded in January 2019, consumers began to exercise precautionary steps, reducing their spending. The worldwide pandemic spread has also brought foreign visitors' arrival to Malaysia to halt, thus contributes to further growth contraction.

The government has actively plan and act to curb the downturn effect and boost the economy back. Currently, there are four economic stimuli worth almost RM300 billion introduced in 3 months. In conjunction with these plans, retailers should also start planning their action plan to emerge from the downturn period, at least with similar performance pre-recession, or even better.

3.0 Consumer Behavior and Preferences during Covid-19 Downturn

To design a strategy facing the downturn and emerging successfully after the recession period, the retailers should understand how consumers behave during this time.

Admittedly, the Covid-19 downturn is a unique case of its own – the cause and effect are almost immediate with no precautionary signals for consumers to prepare for it. As a result, panic buying occurs during the early period. Consumers hoard essential items such as toilet papers, canned foods, sanitary items, raw food, and others. During the first two weeks, the spending behavior caused a spike on grocery retailers that almost send a false alarm to the industry players.

As the Movement Controlled Order goes on, some overarching consumer trends can be identified. One of them is transforming their **impulsive and wasteful purchase to making a rational purchase**. In the typical situation, consumers may engage in impulsive and wasteful purchases due to factors including promotional factors and fear of missing out. These purchases are generally for items that feed their wants and easily expendable—for example, the latest fashion garments, unnecessary gadgets, viral items, and others. During the downturn period, consumers are becoming much more rational in managing their expenditure. As the majority are facing uncertainty in procuring income sources due to the downsizing, needless spending is being limited or removed entirely and focused are on essential items that can assist them throughout the #stayathome period. The rationality also influences customers to embrace the Do-It-Yourself mentality. With many retailers being closed, it is becoming more difficult to obtain items and services generally purchased at stores, such as foods and repairing services. Therefore, most consumers decide to purchase raw material and tools themselves so that they can cook or do the repair themselves.

Besides that, consumers are also prioritizing **simplicity and conveniences in their purchase experience.** Usually, consumers can easily change their preferences when making purchases. With an abundance of choices, they can typically stay loyal on their brand preferences or choose the next best alternatives, willing to adjust their behavior. As mentioned above, consumers are much rational in managing their expenditure in a downturn. Due to that, rather than fussing on making choices, they adopt a simple method: making their purchase hassle-free and convenient that can directly meet their need. This includes purchasing items in bulk, shopping in one location instead of going to multiple avenues, and preferring their purchases to be delivered directly to them. The last factors, coupled with the closure of major shopping malls and the ones that currently open limiting their operating hours and capacity, cause the rise of e-commerce retails during the MCO period.

4.0 Retailing during Covid-19 Downturn

4.1 Striking the balance between defensive and aggressive strategy

In a recession period, it is not surprising that retailers did not adopt similar approaches. The root of differences lies in the management's perception and motivation when facing an unfavorable situation. Typically, companies react to a downturn by taking a defensive, conservative approach by actively cutting possible costs cross-dimensions and limiting investing opportunities. This action indicates that they prioritize their survival on top of anything else, including the action of other players in the industry. On the other end, some companies will adopt a more proactive, aggressive stance – chasing customers and making long-term investments for growth purposes. They see this recession period as a time to gain a competitive advantage from other rivals and establishing their presence in the industry.

Both approaches above, depending on the company's situation, business objective, and capability, are not wrong. However, to ensure that the company survives in a recession, it is suggested that companies find the right balance between taking careful measures and networking with opportunities. According to a study analyzing companies' performance in the United States of America, only 21% of companies that focus on cost-cutting strategy manage to fare better than others after the recession period. Being defensive limits the company's approach, which may relatively b make better than cost-cutting. Besides that, the cost-cutting approach is being made while companies maintain procedures with no changes made even with the lack of resources. For example, grocery retailers who were furloughing staff are arranging the remaining staff to cover the whole staff. Even with the limited operation staff and customers, the staff's workload did not necessarily lessen and ironically increased. The siege mentality is also often affecting staff, fear of losing their jobs every time the company faces a tough period. This may result in decreasing productivity, which affects output quality and customer satisfaction.

From a different point of view, the study above also shows that companies that delve into optimism culture also did not do much better than their conservative counterpart. There is a fine line between being bold and being reckless in facing adversity, and most companies that act aggressively fail to toll between the lines. They become in denial with the degree of crisis that they face. These companies often act in a bubble, thinking that if they innovate and spend on aggressively on long-term growth, their performance indicator will improve. Typically, they will try to introduce new varieties of products in their stores or opening new premises where their rival has closed. Unfortunately, the reality of the situation - customers cutting their spending, shifting demand, and shrinking market shares, just to name a few, will halt their progress. To make it worse, those in the companies that try to bring the realities forward are ignored. It is not surprising that most of them are facing poor financial results. According to the study, only 26% of companies that choose aggressive approach did better after the downturn as their growth investment is taking longer to acceptable borne results.

There is no one-size-fits-all solution to achieve equilibrium in being defensive and aggressive while retailing during a downturn period. However, the companies that manage to do so are applying multichannel strategy: preparing a safety net to counteract the downturn effect while hedging their investment for the future. On reducing cost, these progressive retailers lean on making their operation much more efficient to reduce leakages and wastages. While staff downsizing and other cost-cutting may be inevitable, it usually is the last option chosen by them. According to the study, of all the companies that manage to stand their ground during the recession, only 23% chose staff lay off, and the magnitude of the cut was usually lower. On the investment front, they identify their strength that can be exploited to meet customers' needs during the recession period and invest in boosting their advantages. One good example of this is Target, one of the largest retailer chains in America. During the 2008-2009 recession, the company controls their capital expenditure by limiting the number of stores opened to only ten new stores, a drop of 84 stores opened annually, and at the same time giving back shareholders' investment in the form of dividends and share repurchases. The company also brings food assortment in the leading stores to meet customer's demand and introduce the "Low Price Promise" campaign that matches its products' price with the lowest in the market. It reduces the price and bridge the value perception. As a result, Target manages to generate a net profit of $2.9 billion in 2010.

4.2 Strengthening the core process of the company

If companies are a battle-hardened warrior trying to weave through the endearing recession period, the strategies above are like their weapon. Their core process is the company's physical composition. It does not matter if the strategy is useful if it does not have an adequate core process to execute them. This is why companies need to start examining their business model aspects, including store operations, supply chain management, brand marketing strategy, and financial control thoroughly. Ensuring all aspects are operated efficiently will assist permanently in reducing operating costs. As a result, their cost controlling benefit is not restricted during the downturn period, thus inducing their profits growth hate to be higher than their competitors.

Referring to our Target example above, the company manages to reinforce its operations structure and supply chain network. During the 1998 recession period, the company had collaborated with other retailers to establish the Worldwide Retail Exchange. This global business-to-business electronic marketplace allows trading between retailers and vendors to be much more efficient; these initiatives boost Target's sales by 40% and income by 50% during the downturn period.

4.3 Expected Consumer Behavior Post Covid-19 Downturn

Recent news is bringing silver lining to the retailers. The government has decided to ease the MCO and introduce a Recovery Movement Controlled Period starting 10 June 2020. This decision has allowed most retailers to resume operations subject to conditions and standard operating procedures.

In conjunction with the new average, retailers cannot expect that consumer behavior to be like the period before and during the recession. Ernst and Young have prepared a thoughtful analysis on this matter. Dubbed the future consumer index, the audit firm has identified four significant behaviors that emerge from the Covid-19 downturn period:

Cut deep group: These consumers cluster are comprised of middle age citizens that faced the most significant impact on their employment status. 25% of this group's employment is being furloughed either temporarily or permanently. Due to this, most of them (78%) are reducing their shopping frequency, while 64% of them limit their expenditure to essentials. This group also holds on to the simple approach above, as they feel brands are far less critical to them than the price of the item.

Stay calm, carry on: The group that somehow is feeling not affected by the downturn and maintaining their spending preferences.

Save and stockpile: This family-oriented segment is prioritizing their loved ones' future and well-being above others. They adopt behavioral shift from spending on non-essential needs to necessary groceries that can be saved in the long run.

Hibernate and spend: This group has the youngest age range compared to others and the most concerned about the pandemic's impact given the number of resources and exposures they have on the current pandemic situation. While they save to survive the recession, they are intended to spend after the recession is over. With the planning, their brand preferences increase as most of them attests that what the brands do during the recession period plays a vital role in their purchase decisions.

One of the main factors that we can infer from the customer behavior above is the income level. Even with the moratorium introduced and other assistance introduced by the government's economic stimuli is not enough for their daily lives, especially with the uncertainties post downturn. This will limit their propensity to spend even if the economy recovers.

As the economy recovers, the type of item purchased by consumers may also change. While essential items are still the main preferences, consumers may engage in 'revenge spending' to indicate their happiness and release some pent-up demand due to the lockdown. Due to this, high-end items' demand will be spiking. In China, this phenomenon materializes by the surge gained by luxury brand Hermes with US$2.7mil (RM11.7mil) sales recorded the day its store in Guangzhou being opened after the lockdown being lifted.

On top of that, the customer's movement into the stores will also be affected by the new normal. Even with the eased period, the health standard operation procedures of temperature checking, minimum 1m social distancing, and limited capacity in stores are still being implemented. Customers who feel the procedures create a hassle and interfere with their spending experience may not return so soon and prefer to shop online instead.

4.4 Retailing Post Covid-19 Downturn

With consumer's demand to shift due to the changes brought by the Covid-19 lockdown, retailers should also adapt to the demand and revising their product portfolio at their respective stores. This is also in line with how consumers preferring simplicity in making purchases. Understandably, introducing a variety of SKUs provide a choice option for the customer. However, during the recession period, the insistence on maintaining product-facing complexity with too many marginally performing products for the sake of variety purposes may make only redundant. This will eat up resources available to promote the product, inducing inventory cost to store the slow-moving item, and may lead to write-off cost if the products expire before it can be sold completely. For example, convenience stores may remove mineral water brands that are not well known among the consumers and increase the facing of highly demanded mineral water brand that the customers are familiar with instead. Incorporating this strategy may not only boost sales without the need to increase spending to promote the product, but the fast-moving goods will reduce inventory holding costs and time as well.

Given the level of consumers' income, after the downturn may not yet return to normal, retailers also suggest bringing products with lower price points to meet consumers' demand. Lower price point items can help consumers meet their needs, are easy to promote, and are fast-moving. If the items are noted readily available at stores, retailers can take this opportunity to engage with their R&D arms and produce the lower price point item in a house instead. This will provide the opportunity for retailers to control the availability and quality of the product as well.

Besides that, retailers are encouraged to reinforce their relationship with all levels of consumers. This includes consumers that are loyal to their brand and headroom consumers – consumers that are outside of their market segmentation or with the rival brand as preferences instead. The easiest way to do so is through a loyalty program, exclusive discounts, and especially providing excellent consumers experience when they went back to the stores.

On top of that, retailers should also start to embrace technological advancement in their core business model, from data-centric stock forecasts, targeted customer-based analytic marketing, and cashless options at stores. Creating this experience will ease the operations easier on both retailers and consumers end.

In a nutshell, these Covid-19 induced period is a challenging time for all parties, especially retailers. This is why retailers need to understand the current situation in the market and act accordingly to survive during the recession and emerge successfully after facing adversity.