

COVID-19 RESPONSE

AlixPartners insights and advice: grocery retail

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Grocery retail is proving to be a vital and tenacious societal link as the country deals with the escalating impact of COVID-19. States under varying degrees of closures have deemed grocery workers as essential, allowing stores to stay open in order to serve their local communities. While the initial consumer scramble to stockpile food and other essentials caused a demand-supply imbalance, grocers have battled through the demand shock and the food supply chain has proven resilient. Stores are working expediently, with visibly accelerated sanitation and crowd control. Most have already shifted workers into the most important roles, hired new associates, and speedily rolled out safety training. The food industry workforce is doing a heroic job during these trying times.

Situation

As this is an unfolding human crisis, retailers must prioritize the health and safety of consumers and workers while showing empathy and understanding. Because the situation is dynamic, continue assessing your risk exposure while staying open. Consider that there may be workforce shortages down the road. Looking ahead, there are three possible supply bottlenecks:

1. Timely and adequate supply to distribution centers
2. Channeling product through distribution centers into stores
3. Production slowdown of labor-intensive staples such as eggs, milk, meat, etc.

In this uncertain environment, adaptability is key. Prepare to be flexible with product and assortment choices, employee roles, and repurposing store and warehouse space. Be ready for quick tactical changes such as allowing at-risk populations split access to stores and creating contingency plans as supply chains continue to remain stressed.

Advice

Safety is top priority: Most grocery retailers have already worked quickly on creating a safe and healthy work and shopping environment by ensuring protective equipment for employees and increased enforcement of disinfection and sanitation measures. Considering the special responsibility of the industry in keeping the community functioning, continue ensuring all employees and third parties are in strict adherence. Minimize person-to-person contact and ensure suppliers and drivers are using similarly strict safety standards.

Managing the demand bump

Evaluate assortment: As buying behavior continues to shift, consider reapportioning replenishment, such as increasing frozen products and decreasing fresh foods. This may require localized assessments as states and cities are at different stages of closures. Create extra capacity through third-party trucking companies if your existing network is insufficient to support changes. Expand assortment of products acceptable under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) to serve in-need customers.

Make ecommerce pivots: You likely will need to increase home delivery capacity in the short term. But get creative about pushing delivery customers to click-and-collect options to sustain margins. You may need to throttle inventory assigned to home delivery operations to preserve stocks in the store. Negotiate with home delivery providers to pause or reduce commissions in the short term, giving them priority or dedicated hours relative to limited capacity. One major European grocer has launched a subscription service that delivers weekly baskets of 40 products, mostly from its private brand, to meet the needs of two people for a week. This approach serves the needs of consumers and provides a high service level as online inventory rapidly changes.

Communicate regularly: Have daily conversations with your largest suppliers of critical categories to understand future supply chain constraints. Create a way for employees to ask questions and access critical information and let customers know how you are keeping them safe and fed. Widely share any changes to opening hours or enforced product quantity limitations. Set up an experienced response team that conveys calm and concise messaging to the public.

Preparing for supply complications

Reallocate transportation capacity: While there are plenty of trucks and commercially licensed drivers, capacity may be misallocated. The Food Industry Association is working with The International Foodservice Distributors Association and others to match distributors with excess capacity to grocers in need. In all retail categories, the tightest bottlenecks thus far have been in getting product out of distribution centers. However, this may change and needs to be watched closely.

Manage throughput and utilization: As hiring needs grow in stores and distribution centers, consider workers who have been displaced from restaurants and other retail jobs. To reduce risks, limit contact and organize workers into groups so one coronavirus case doesn't impact the entire team. Turn off the potentially overwhelmed computer-assisted ordering system and let store personnel place manual orders. Set up a practical plan to quickly reallocate if orders exceed available stock.

Prepare for fresh product constraints: Quickly determine which items are going on allocation as suppliers rapidly reduce SKUs to essentials and cut line extensions. This will help regulate directing appropriate product from distribution centers to stores. Get creative about contingencies for fresh, products, such as sourcing from restaurant supply businesses for whom deliveries to usual clients have slowed considerably.

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Make smart pricing calls: You will need a pricing and promotions strategy as commodity costs start to rise because of predicted labor and fresh food supply constraints. Talk to vendors and create a strategy now. You will want to delay raising prices as long as possible. This may mean absorbing some cost increases but determine how long you are willing to wait, and which product categories will tolerate it better.

Create a financial glide path: With comparables through the roof, food retailers do not face the same existential threat this crisis poses to other retailers. But enormous shifts in assortment mix, store labor, commodity pricing, and mix of in-store versus home delivery versus click-and-collect options will make margins very tough to pin down. Start now to design a financial glide path back to “normal” that accounts for massive volume increases – and inevitable declines – plus margin mix changes.

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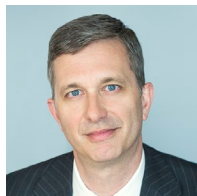
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