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COVID-19: IT IS ALL ABOUT THE BASELINE FOR RETAIL & CPG

Akhilesh Ayer, EVP & Head, Research & Analytics
Sinan Gurman, SVP, Research & Analytics



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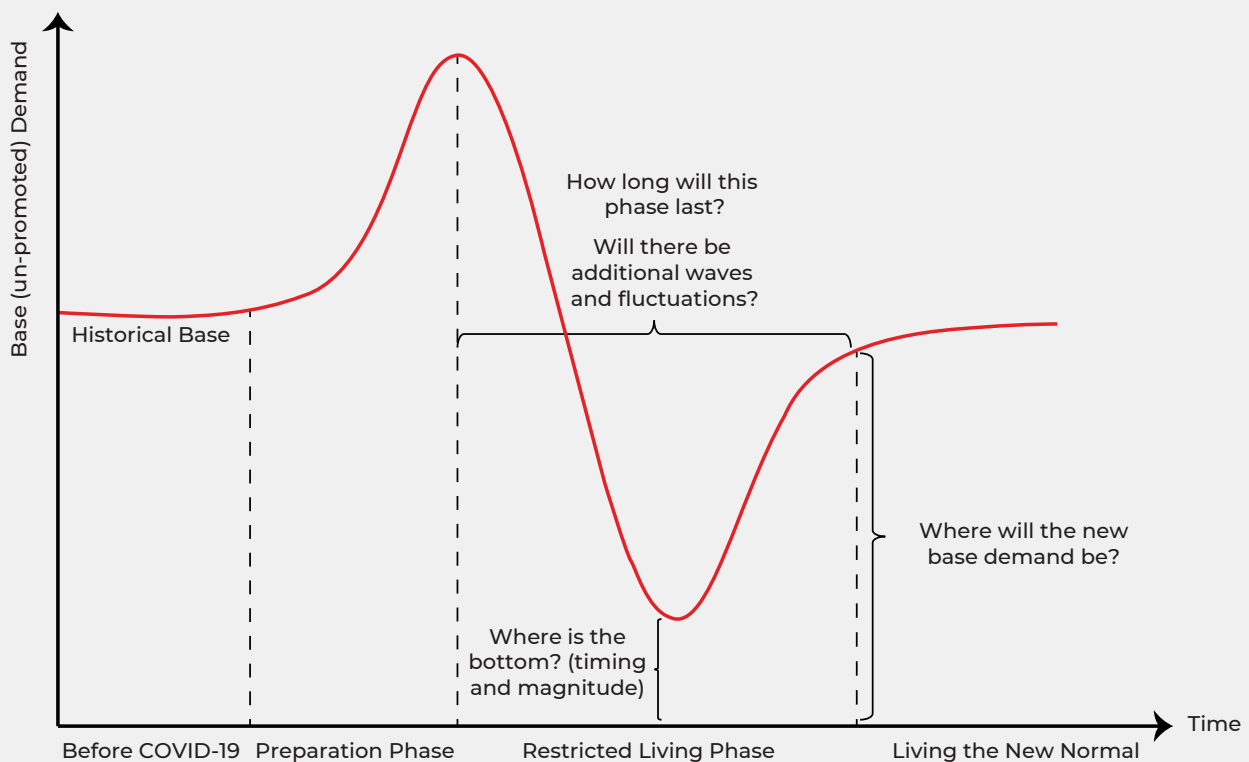
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The COVID-19 situation is an indication of a new world order. The shift to e-commerce, click and collect, and contact-less delivery options and even ways in which certain categories are consumed could alter consumer behavior permanently, creating a new retail environment.

This also raises some key questions: how long will the current restricted living period last? When will retail reach a turnaround point? What will the 'new normal' living be like? The answers, although difficult to predict at this stage, will differ significantly, based on geographies and health risk profiles. Therefore, more frequent and agile tracking of local regulations, trends and base demand signals is crucial.

Figure 1: Demand for Essential Categories During & After the Outbreak

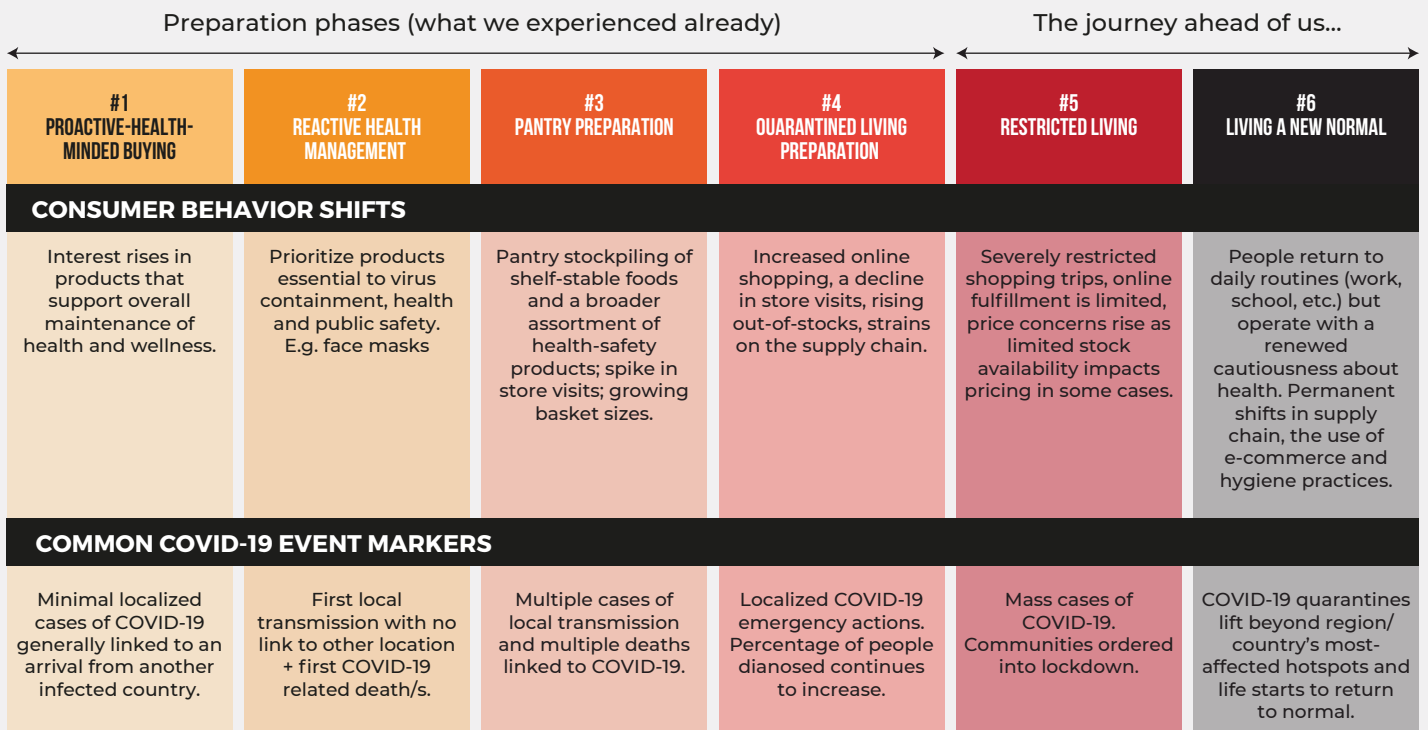


(Source: WNS)



According to Nielsen, thresholds of consumer behavior shifts are defined across six stages, as seen in Figure 2 below, that tie directly to concerns around the outbreak.¹

Figure 2: Six Stages of Consumer Behavior



Note: These represent typical markers of these stages but are not always consistent, especially with number of cases or deaths.

Source: Nielsen

Most countries are now in the 'restricted living' stage and China is the only country that is in the early stages of 'living a new normal.'

One thing is certain. There is an urgent need for retail and e-commerce companies to tackle the restricted living phase head-on while preparing for the new normal. Granular-level analysis and personalization of communications based on

data will be key to delivering and surviving the new market dynamics.

From a data, analytics and insights generation perspective, we believe there are two key areas that retailers should focus on:

- **Supply chain optimization**
- **E-commerce strategy**

¹<https://www.nielsen.com/us/en/insights/article/2020/covid-19-tracking-the-impact-on-fmcg-and-retail/>

Supply Chain Optimization

The backbone of retail fulfillment, supply chains are directly impacted by sudden and dramatic shifts in buying patterns. As 'stay-at-home' orders along with COVID-19 cases increase, and consumers start depending on their personal pantries, we expect to see a significant drop in the baselines. Identifying and predicting new baselines, and re-calibrating operations as well as marketing communications will be key for retailers.

As multiple geographies enter and exit different phases at different times, supply chains will need to adapt quickly to meet changing demands. A dynamic supply chain operation that observes, analyzes, predicts and adapts to changing requirements is therefore more critical than ever.

Here are some additional considerations for retailers as they work towards efficient supply chain management.

1. Inventory Optimization, Allocation & Assortment

More frequent sales and operations alignment will be required as markets go through restricted living and into the new normal living phase. Measuring and identifying changing habits developed during the previous phases will be essential, and will need to be done at local levels and with variations for each category. For example, Walmart has been monitoring the supply of essential items and fair pricing.² The company is taking steps to replenish stocks of in-demand items and also divert supply to regions that need it the most – a pure analytics-driven strategy.

Store managers have been empowered to manage inventory and limit sale quantities of high-demand goods, if required. This can be achieved by considering historical consumption cycles per category to mitigate hoarding by customers. Retailers also need to consider more

frequent collaborations with vendors for shared data knowledge to further boost these efforts.

In mid-March, as the baselines for essential categories were increasing significantly due to stockpiling, Amazon announced acceptance of shipments only for essential items for a period of three weeks, to meet the surge in demand.³

We also expect the need for significantly increased bespoke tracking, measuring, reporting and analysis as most supply chains / reporting systems are not automated to handle such exceptions.

2. Demand Forecasting

As we approach the end of restricted living and move into a new normal living phase, demand forecasting and inventory control, both at regional as well as store levels, will require additional considerations to prevent stock-out situations.

We may not be able to know or accurately predict the outbreak of another pandemic in the future. Regardless, any advanced model currently being built for demand forecasting should be trained with the inclusion of an independent pandemic variable at local levels. Otherwise, the impact will be mistakenly attributed to the other variables, thus decreasing the efficacy of the overall forecasting mechanism. The value of the variable may be determined based on the number of cases, death toll and local government regulations. It is also important that the value of coefficients along with the assumptions made while modeling them are documented in detail for the model to be editable in case of a similar outbreak in the future.

Lastly, return policies and actual returns at category levels need to be reviewed and incorporated into demand planning.

²<https://corporate.walmart.com/newsroom/2020/03/10/the-latest-on-walmarts-response-to-the-coronavirus>

³<https://variety.com/2020/digital/news/amazon-essential-products-suspends-supplier-shipments-1203537764/>

3. Supplier Risk Assessment

Retailers will need to closely monitor government regulations on shutting down different types of manufacturing facilities during the restricted living phase. Loss of business has created credit crunch for many small businesses globally. Small suppliers going out of business could strain the retail supply chain further. The U.K. supermarket chain Morrisons took a decision to pay its small suppliers immediately to help them efficiently maneuver the current situation.⁴ Continual supplier financial health assessment will be a lot more critical across restricted living as well as the initial stages of the new normal phase.

4. In-store Space / Shelf Allocation

In order to minimize out-of-shelf instances, frequent adjustments to in-store space allocations are required with the consideration of supply and labor constraints. This needs to be done in accordance with the sales velocity during preparation, restricted living, and living the new normal phase. Post-pandemic demands need to be tracked and measured frequently before switching back to business-as-usual space allocation.



⁴<https://www.bbc.com/news/business-51870146>

E-commerce Strategy

Historically, certain products and categories have been positioned above others for e-commerce success. COVID-19 has turned this hierarchy on its head. Social distancing is compelling shoppers to use online channels for even the most traditional products. In this scenario, retailers should re-consider their e-commerce strategy and capitalize on this shift to reach a broader set of customers.

Some of the key considerations include rising demand, everyday pricing, and brand equity and reputation. Let's explore each of these in detail.

1. Rising Demand

A study of customer sentiment in the U.S. in the second half of March 2020 shows that while overall customer spend is declining, there is a significant shift to online channels.⁵ Grocery purchases through online channels were estimated to witness a 13 percent increase and household supplies by 7 percent.

Contact-less home delivery, click-and-go and drive-through pick-up options are taking center-stage. Weekly and monthly subscriptions models will become more prevalent. Traditionally high-priced, heavier and longer shelf-life products have proven to be more feasible for the e-commerce model. However, as the demand for low-priced essential items increases, online subscription models will also prove to be viable in the longer term.

Isolated and high-risk customers (older / those with pre-existing conditions) may continue social distancing for longer time periods possibly ranging from 12 to 18 months or more. Subscription box models will present the opportunity for increased sale of non-essential items through bundling. Effective sentiment analysis coupled with purchase history can help e-commerce players identify these customer segments and personalize their

communications. This will ease the buying journey for customers and enable companies to sell a wider range of products.

Consumer Packaged Goods (CPG) companies are expected to prioritize consumer needs and increase their focus on Direct-to-Consumer (D2C) channels despite potential contractual conflicts with retailers. The current situation is likely to provide CPG players with the required ammunition to implement a D2C strategy. As new customer habits are likely to stay, it will be crucial for retailers to increase investments in e-commerce and related fulfillment capabilities immediately.

The global convenience store chain 7-Eleven already had its app 7NOW in place before COVID-19. It enabled the company to home-deliver orders during the crisis.⁶ The surge in orders necessitated the company to increase its workforce by 20,000 to meet the demand.⁷

2. Everyday Pricing

Limited supply, especially in the restricted living phase, may drive increased list pricing by CPG companies. Product supply constraints will need to be monitored along with order status, and applied to pricing more frequently. At the same time, the upper limit of consumer pricing thresholds should be measured frequently to avoid negative shopper sentiment.

Continuous evaluation of demand and supply data, coupled with sentiment analysis, can help in effective pricing. Marketing communications due to potential pricing increases also need to be tailored based on primary research inputs, especially during the restricted living phase.

The above baseline shifts, un-related to everyday pricing changes, should be considered as exceptions in price elasticity analysis as well as for future predictions.

⁵<https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-us-consumer-sentiment-during-the-coronavirus-crisis>

⁶<https://www.retail-insight-network.com/news/7-eleven-7now-us/>

⁷<https://cnycentral.com/news/local/7-eleven-looking-to-hire-around-20000-to-meet-demand-during-pandemic>

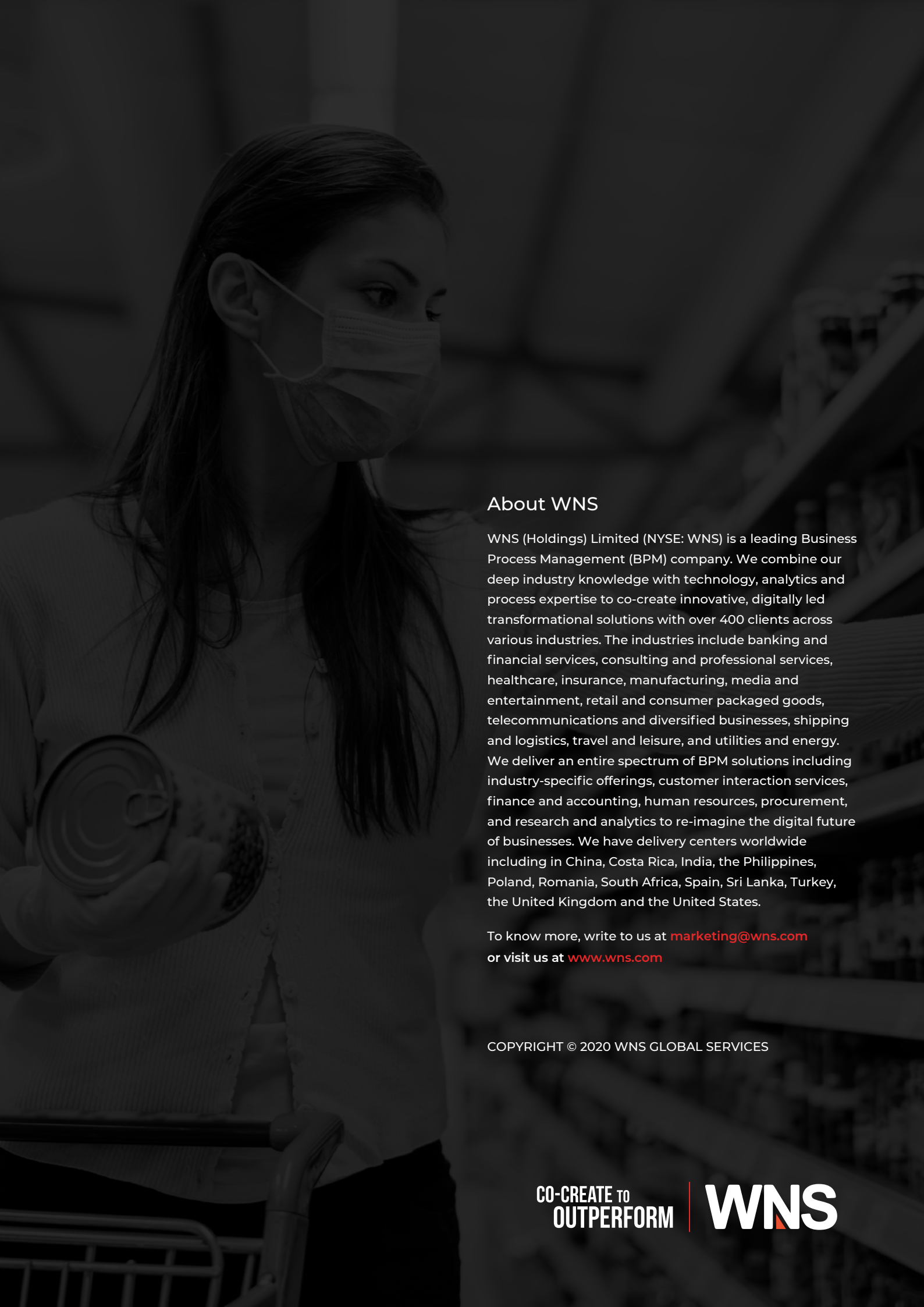
3. Brand Equity & Reputation

As the situation unfolds and people make a bee-line to stores for supplies, front-line customer service personnel are facing significant challenges in dealing with panic-stricken customers due to depleted stocks and high tempers. Equipping service staff with the right information and training them to manage such situations will go a long way in building brand loyalty. Monitoring online and in-store customer sentiments and ensuring quick redressal of

complaints will be an imperative – especially during the crisis.

Retail and e-commerce delivery capabilities have been and will continue to be the key to maintaining a semblance of sanity across the globe. Pivoting to the new normal quickly will now be key to proving their resilience and resurgence in the near and far future. Superior data and analytical capabilities will be the linchpin in this journey.





About WNS

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