

Managing under 'crisis mode' Actions for CP & Retail as COVID-19 unfolds

Webinar 2
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BAIN & COMPANY 

We have clarified **six urgent imperatives** for all Retailers & CPGs. In phase two, focusing on operations and cash is key

PHASE ONE



Emerging Situation

1.

Rapidly mobilize an Emergency Response Team

2.

Protect people as the utmost priority

3.

Put operations in "crisis mode"

4.

Save cash to adapt to new financial realities

5.

Communicate and collaborate internally and externally

6.

Plan to emerge from the crisis stronger

PHASE TWO



Rapid escalation

PHASE THREE



Recovery & Beyond

3. Put operations in “crisis mode”: Considerations for online fulfillment

PHASE 2: PUT OPERATIONS IN CRISIS MODE



Scale up online capacity

Expand Click & Collect / BOPIS capacity

- Limit assortment available to essential SKUs, easy to pick (e.g., packaged) and to simplify operations
- Restrict quantities per customer to avoid stock out (and ensure fairness of distribution)
- Don't be afraid to increase capacity as customers will be forgiving of stock outs
- Consider repurposing non-priority stores to “dark stores” to support online order fulfillment

Make delivery efficient and increase delivery capacity

- Evaluate new third party partners for delivery e.g., taxi companies who are experiencing ‘lull’
- Consider closing delivery operations in lower density/yield areas and re-allocating resources
- Consider collaborating with other local retailers in more rural areas to make deliveries efficient

Ensure labour workforce capacity can support increased demand

- Re-allocate labor (including from HQ or support functions) to fulfilling e-commerce orders
- Add a short-term temporary labor force: eg negotiate with local retail/foodservice players who are temporarily closed to ‘borrow’ their workforce on temporary contracts, hire college students

Ensure IT infrastructure can withstand increased web traffic

- Make investments needed to support traffic surge
- Repurpose IT capacity from other projects to online

Ensure suppliers can quickly ship inventory in critical categories and product ranges to fulfillment centers or stores (for click and collect)

Consider reducing or closing some online operations if offline needs to be prioritized or for safety reasons

3. Put operations in “crisis mode”: Considerations for online fulfillment

PHASE 2: PUT OPERATIONS IN CRISIS MODE



Seize opportunity to win long-term in online and grab share

- Take measures to make online operations more profitable** (customers are less price sensitive and grocers should cover their cost to operate)
 - Consider charging for the service (test different pricing schemes, including subscription)
 - Push Click & Collect / BOPIS over delivery
 - Implement minimum basket size - customers are also more accepting of with fewer, bigger baskets
- Test ways to expand reach and increase share**
 - Focus your efforts on a few key cities/ catchment areas to get a leading market share (repurpose stores into fulfillment centers, focus marketing spend, best-in-market service level, etc)
 - Test partnerships with others (ecosystem platforms, new business models, other traditional retailers, etc)
- Shift marketing spend to drive online traffic and conversion**
 - Redirect marketing spend to online advertising

3. Put operations in “crisis mode”: Focus on Non Food

Store operations



Continue to prioritize health and safety (if allowed to remain open):

- Store cleaning efforts, minimal manual handling, minimum physical distance & limited number of customers, special opening hours

Maintain the assets

- Security/ protection
- Small mandatory maintenance

Prepare full closure of specific stores beyond the crisis

Start preparing re-opening plans (waves, staffing, etc)

Supply Chain



Unplug automatic re-ordering (if not yet done), and stop planned deliveries

Assess inventory along the entire supply chain and upcoming delivery risks (primary & secondary)

Put on hold/ re-assess/ cancel long-term orders

Revisit category strategy/ individual category plans, including alternative sourcing

Sell inventory in bulk (esp seasonal) to other players where relevant

Online fulfillment



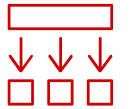
Rapidly scale up existing online capacity

Adjust operations to increased online demand

Seize opportunity to win long-term in online and grab share

Shift marketing spend to online channels

DC & logistics



Revisit capacity planning in light of the crisis

Repurpose some capacity to online fulfillment

Explore sharing some logistics/ DC capacity with others

4. Save cash for survival: cash management levers



Ensure executive mindset shift to cash

- **Set-up cash task force to model impacts and run cash scenarios** with weekly/daily reviews of collections outlook and decision making on cash conservation
- **Align C-suite and management on new constraints and parameters**
- **Coordinate closely with finance to tighten/loosen controls where relevant**



Define the scope of savings levers that are on the table

“Hand-brake” lever examples

Near-term actions to implement to mitigate cash crunch

- Unplug regular promo calendar
- Freeze long-term buying orders/ unplug algorithms for automatic replenishment
- Extend payables** with suppliers to preserve cash
- Adjust marketing spend** to match shifts in consumption
- Freeze hiring plans as relevant
- Freeze/adjust non-mission critical spend & CAPEX
- Cancel all travel and training** that is not operationally-critical
- Stop **non-critical third-party engagements**
- Limit IT spend**; return unused IT devices and cancel non-business critical software licenses
- Draw down on all existing **lines of credit**
- Consider deferring **executive variable compensation**
- Review **tax strategies** for short-term opportunities



Develop concrete plan for when to activate “break glass” initiatives

“Break glass” initiative examples

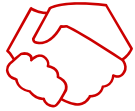
To be activated at defined crisis milestones; clear owners with implementation plan developed

- Implement **salary cuts** (bearing in mind tradeoffs on frontline) or benefits freeze
- Leverage where possible government unemployment protection
- Furlough employees** in non-critical functions
- Accelerate **planned HC reductions**
- Execute permanent **store closures** or exits from some geographies
- Freeze all **non-business critical spend** (e.g. maintenance)
- Delay non-essential AP**
- Negotiate **discounts** for faster **debt payment** or early invoice payment
- Explore **sale-leaseback** of property or valuable assets
- Offload part of the inventory (eg seasonal) to other retailers in relevant geographies

6. Plan for recovery - In the early stages of recovery, retailers should adjust in-year plans while gradually returning to pre-crisis posture

PHASE 2-3: PLAN FOR RECOVERY

Prepare to welcome back employees



- ❑ Prepare to welcome back your staff and gradually return to pre-crisis posture, it will take some time to return to business as usual
- ❑ Prioritize creating a healthy workplace environment
 - ❑ Share actions that have been taken to ensure ongoing safety and hygiene
- ❑ Work with your suppliers to put into place ongoing health & safety measures

Codify key learnings and prepare for next wave or event



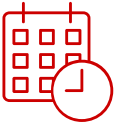
- ❑ Learn from this shock to make your business more resilient in future external shocks (economic downturns, terror attacks, natural disasters) and potential next waves of COVID-19
- ❑ Gradually wind-down resources dedicated to managing the crisis, but only after doing a post-mortem on lessons learned
- ❑ Codify your approach to the next similar crisis
- ❑ Ensure an Emergency Response Team can be activated quickly in case of a next similar event or wave of COVID-19

Review stock levels and demand planning



- ❑ Adjust inventory levels for stock-up categories with longer shelf life as consumers reduce stock at home
- ❑ Gradually re-instate automatic or algorithmic systems as buying behavior re-normalizes
- ❑ Develop commercial revitalization plans to reactivate demand

Restart 2020 with refreshed plan



- ❑ Reset and restart plan for 2020 with new objectives, budgets and operational plans
- ❑ Update your near-term M&A/target partnership list

6. Plan for recovery – Retailers should re-vamp strategy and long-term plans to come out of the crisis stronger than before (*“Play offense, not just defense”*)

PHASE 2-3: PLAN FOR RECOVERY

Understand how demand has changed and adapt



- ❑ Review customer and market data to highlight areas where market share has been gained or lost during the crisis. Review should include:
 - ❑ How the retailer’s highest-value customers weathered the crisis, to identify high-priority actions to nurture those relationships
 - ❑ Competitive innovations/ new business models that helped consumers during the crisis
- ❑ Develop commercial revitalization plans to reactivate demand.
- ❑ Develop investment plans to address increased omnichannel demand (in particular to increase flexible capacity for order fulfillment and delivery) and retain customers gained in the crisis

Adapt capabilities and network to meet new demands



- ❑ Review supply chain, IT and logistical setups to increase flexibility, resilience and capabilities in the long run
- ❑ Review buying strategy and relocate supply or production as needed
- ❑ Design network redeployment plans as required, such as:
 - ❑ Closing the most affected, least productive stores (or online fulfillment points)
 - ❑ Opening stores, online points or distribution centers as needed to fill gaps
 - ❑ Swapping assets with competitors in weak or strong areas
- ❑ Review the role of automation in the supply chain and in stores

Evaluate long-term cost position & build financial resilience



- ❑ Lay out a clear path to continuous cost improvement and productivity increases, especially if share has been lost in the crisis
- ❑ Make cost base as variable as possible
- ❑ Ensure the balance sheet is robust enough to withstand any hostile approaches

Prepare bolder moves to strengthen strategic position



- ❑ Understand impact of crisis on your leadership positions and on competitors’ dynamics
 - ❑ Footprint & capacity evolution
 - ❑ Changes in relative cash & cost positions
 - ❑ Competitor actions that will drive consolidation scenarios
- ❑ Adjust CAPEX pipeline and development priorities
 - ❑ Where to rebuild leadership positions (most vulnerable areas)
 - ❑ Where to build new potential leadership positions (weakened competitors)
- ❑ Identify and prioritize M&A targets to pursue
- ❑ Envision potential bold changes in capital structure