

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

March 2020

DRAFT

BAIN & COMPANY 

We are firmly in phase two. Retailers & CPGs need to adapt their planning and operations to deal with the disruption, but also look ahead and plan for the recovery

PHASE ONE



Emerging Situation

- Virus is present, but has not yet impacted a large population
- Day-to-day life is still mostly “normal”
- Government has not taken action
- Variable public sentiment, “it’s just the flu”

PHASE TWO



Rapid escalation

- Virus is quickly spreading
- Governments take restrictive actions to contain virus
- Retail operations & CPGs supply/demand strongly impacted
 - Retail that remains open is overloaded with stock-outs etc.
 - Retail that is forced to close, must focus on protecting cash

PHASE THREE



Recovery & Beyond

- The situation progressively returns to (a new) normal
- Competitive positions and customer relationships may have been significantly altered



UK is acting as if in phase 1



Parts of US are in phase 1



Most of Europe is in phase 2



Parts of US are in phase 2



China is starting to emerge into recovery

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

PHASE ONE



Emerging Situation

PHASE TWO



Rapid escalation

PHASE THREE



Recovery & Beyond

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. *Plan to emerge from the crisis stronger*
6. *Communicate and collaborate internally and externally*

A G E N D A

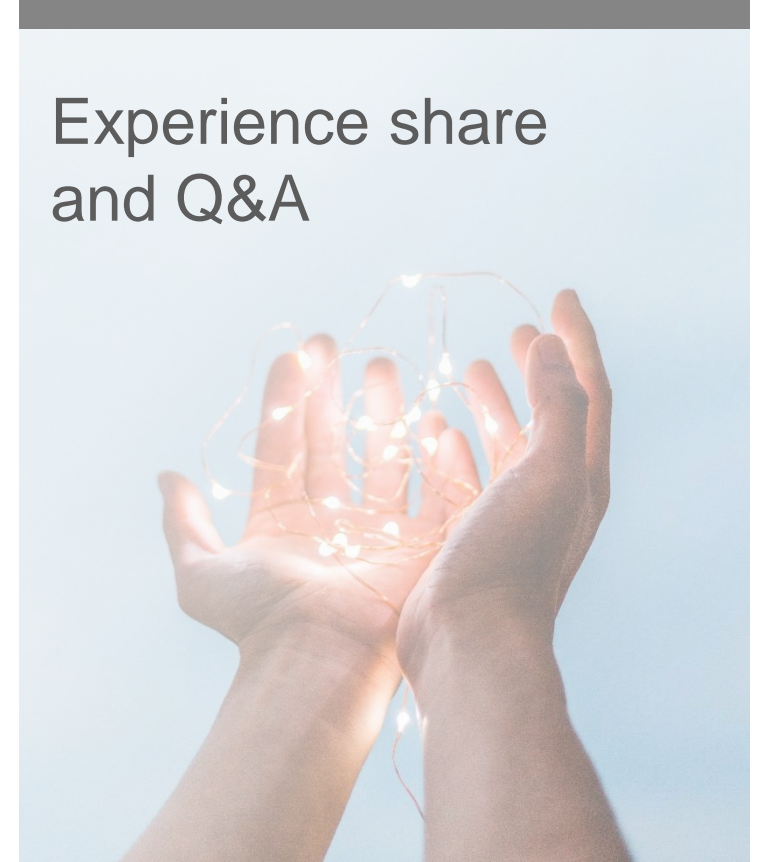
Action plan for retailers



Action plan for CPGs



Experience share and Q&A



1

2

3

3. Put operations in “crisis mode”: Four key areas to consider

Store operations



Continue to prioritize health and safety:

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

Adapt operations as workforce shortages mount:

- Back-up staffing plans
- Non priority aisles closed
- Limited assortment
- Temporary consolidation of operations

Supply Chain



Monitor risks & supply day-to-day

Ensure continuity of supply:

- Local sourcing in key categories
- New suppliers

Re-assess assortment:

- Simplified assortment among categories
- Adapted packaging type

Focus on getting products to stores

Adjust promotional activity

Online fulfillment



Rapidly scale up existing online offering:

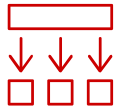
- BOPIS/Click & Collect increased capacity
- Increased IT investments
- Partnerships with 3rd parties for online delivery

Adjust operations to increased online demand:

- Re-allocation of labor
- Temporary labor hiring
- Store repurposing into “dark stores”

Shift marketing spend to online channels

DC & logistics



Adapt DC operations to heightened risks:

- Identification of areas of key risks
- Collaboration with suppliers on critical items
- Back-up staffing plans

Increase logistics flexibility and mitigate impacts to transport:

- Identification of potential lockdown areas
- Transport and delivery plans revised

4. Save cash for survival: Cash management levers and considerations



Ensure executive mind shift to cash

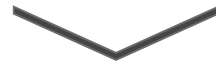
- **Model impacts and run scenarios**, with a focus on cash (dedicated team)
- Ensure **C-suite is fully conscious of new constraints**
- Ensure **Finance tightens/loosens where relevant**



Define the scope of savings levers that are on the table

“Hand-brake” levers examples

Near-term actions to implement to mitigate cash crunch



- **Freeze/adjust not operationally-critical spends & CAPEX**
- Stop **non-critical third-party engagements**
- **Extend payables** with suppliers to preserve cash
- Draw down on all existing **lines of credit**



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

“Break glass” levers examples

To be activated at defined crisis milestones; clear owners and implementation plan attached



- Implement **salary cuts** or benefits freeze
- Accelerate **planned HC reductions**
- Execute permanent **store closures** or exits from some geographies
- Freeze all **non-business critical spend** (e.g. maintenance)

Phase 3: When emerging into recovery, retailers will have to adjust in-year and longer term plans, as well as make their business more resilient to future shocks



In the early stages of recovery, retailers should adjust in-year plans...

1 Prepare to welcome back staff and customers

- Don't expect to immediately return to "business as usual"
- Maintain basic safety & hygiene measures
- Over-communicate on how health issues are prioritized

2 Analyze the response and codify key learnings

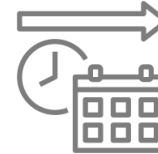
- Learn from this shock to make your business more resilient
- Keep the Emergency Response Team active to conduct a full debriefing and codify their knowledge

3 Review stock levels

- Adjust inventory levels for stock-up categories
- Gradually re-instate automatic or algorithmic systems

4 Refresh & restart 2020 plan

- Set new objectives, budgets and operational plans



...Looking ahead, they should adjust long terms plans and increase their resilience

1 Understand what's changed and re-define your strategy

- Investigate areas of market gains/losses
- Develop commercial revitalization plans to reactivate demand
- Develop investment plans to address increased omnichannel demand

2 Adapt your capabilities and network to meet new demands

- Review supply chain and logistical setups
- Review buying strategy, relocate supply/production as needed
- Design network redeployment plans
- Review the role of automation in the supply chain and in stores

3 Evaluate long-term cost position and build financial resiliency

- Lay out a clear path to continuous cost improvement and productivity increases
- Ensure robustness of balance sheet

AGENDA

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**Action plan
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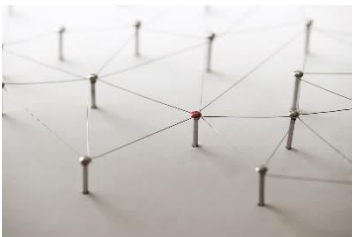
Quickly review and adjust production plan and inventory management



- Identify weak links in overall supply chain, and address them in order from least to most resilient



- Quickly shift production plans based on demand
 - Scale up for high-demand products, best-selling 'hero' SKUs, and formats for high-demand channels (e.g., online)
 - Scale down (or turn off) for low-demand products, rotational/fill-in SKUs, and formats for low-demand channels (e.g., on-trade)



- Diversify manufacturing to hedge risk
 - Split production across countries, plants, teams to ensure continuity of supply in case of an isolated outbreak
 - Embrace flexible production and deployment of inventory



- Look beyond your own operations for spare capacity (e.g., co-manufacturers), holding them to the same increased safety standards



- Stay vigilant with raw materials suppliers
 - Watch for increasing lead times
 - Develop contingency plans for alternative (or excess) sourcing



- Manage inventory closely
 - Increase stock levels for high-demand items, and vice versa
 - Move inventory as close to the market as possible, as fast as possible
 - Halt algorithms that are unsuited to current demand patterns

Turbocharge logistics flexibility



- Work with authorities to understand potential 'lockdown' areas, and plan for advance deliveries to those locations



- Focus on getting stock as close to stores as possible – this may mean new interim tactics, such as direct store delivery (DSD)



- Free up freight capacity for high-demand items by stopping deliveries of non-essential categories and aggressively enforcing minimum freight orders



- Diversify transportation and distribution providers to hedge risk
 - Try to use different providers to service different warehouses and distribution centers, to mitigate risk of transmission or local outbreak



- Be agile with logistics – consider:
 - Working with retailers to see if backhaul or customer pickup opportunities exist
 - Leverage joint capacity with competitors
 - Explore third-party on-demand logistics providers and 'less-than-truckload' shipping



- Ensure that all external logistics providers adhered to elevated hygiene standards and safety protocols

Stay close to customers, while flexing your commercial strategy to adjust to demand



- Shift key account management (KAM) focus from buying negotiations and pricing/promotion conversations to ensuring continuity of supply



- Ensure a new level of closeness with retail customers, even if not in-person (e.g., video)
 - More frequent communication will be necessary to maintain supply levels
 - Quickly resolve any pain points and bottlenecks



- Control pricing and promotions, resetting promotion levels to category averages (or even temporarily suspending promotions) to save cash



- Serve as a critical conduit between retail customers and manufacturing, providing 'real time' communication
 - Share real-time order and sales data to inform ramp-up/ramp-down of certain products, SKUs, or pack types



- Accelerate and manage online retail
 - Shift production towards 'fit for online' packs
 - Ensure sufficient supply to prevent out-of-stocks and risk alienating consumers, many of whom might be new to your brand via e-commerce



- Stay close to on-trade customers and wholesalers who are struggling
 - Balance temporary credit extensions (their need for cash) against your need for cash
 - Examine your customer network and 'triage' based on those most critical to preserve

Adapt marketing tactics and messaging



- Adapt marketing touchpoints to reflect rapid shifts in the consumer landscape
 - Online and digital, vs. out-of-home and physical media
 - Fewer in-person activations, more digital activations (news site, gaming, etc.)



- De-emphasize discretionary marketing and advertising spend to free up cash for mission-critical activities



- Adapt content and messaging to be timely, relevant, and appropriate in the context of the pandemic
 - Broader health and safety messages (even if not a 'core' part of the brand) can boost goodwill and brand equity



- Be nimble with online marketing spending – be ready to pivot across channels, products, campaigns as situations dictate



- Maintain a close connection among marketing, supply chain, and key account management functions to avoid low/no ROI advertising (e.g., promoting out-of-stock products)

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