

COVID-19 and its Effect on Fashion Retail

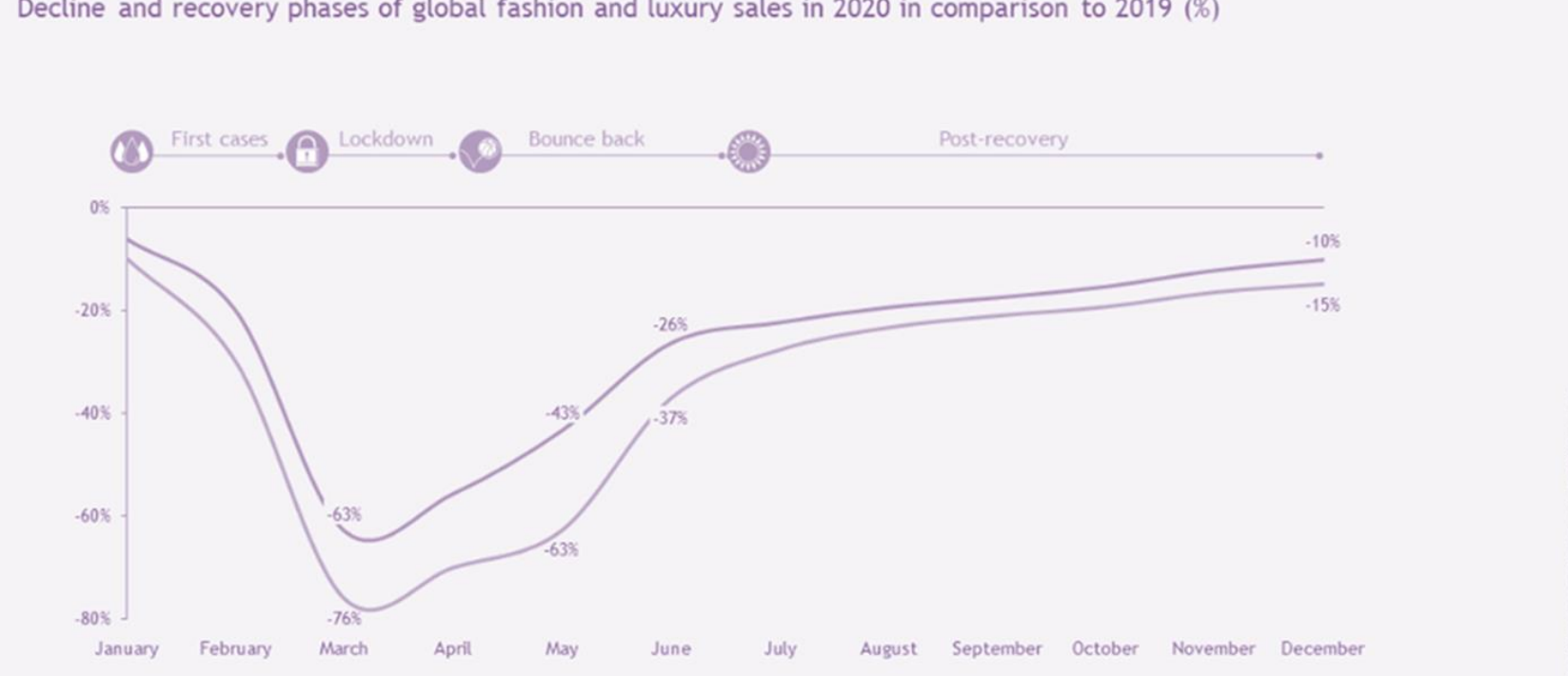
At the last count, COVID-19 (aka Coronavirus) virus has spread to 180+ countries across the globe, infected >2 Mn and forced ~2 Bn people under lockdown. As countries continue to evolve their responses to fight against the pandemic, it is all too apparent that the fight will be a long-drawn one, with far-reaching social and economic impact. With the world's largest consumer (US) and largest manufacturer (China) getting impacted, the ramifications of the virus on the world economy in general and the US in particular are becoming all too obvious now. It is clear that the impact will be long lasting and across all sectors. In the light of this information, it is no surprise that Retail in general and Fashion Retail in particular is staring at very tough times ahead, owing to the outbreak and its likely fall out.

Impact

As per a recent study conducted by the Boston Consulting Group, it is expected that the Fashion Retail industry will see a 23-40% reduction in Y-O-Y Sales for the Year 2020. This translates to a Sales loss of approx. \$270bn. The disruption will see a curve, with the sales decline bottoming around March/April and slowly moving up to around -10% Y-o-Y by Dec.

Exhibit 2 | Sales Will Hit Bottom in Q2, Then Begin to Bounce Back

Decline and recovery phases of global fashion and luxury sales in 2020 in comparison to 2019 (%)



The key areas in Fashion Retail which will get directly impacted are:

- Store Sales
- Supply Chain
- Fulfillment
- Change in Consumer Buying behavior

The key challenges coming out of the impact areas discussed above are:	
Immediate/Short Term (till May)	Medium-Long Term (June - Dec)
Sales Channel Disruption	Skewed Consumer Buying Patterns
Supply Chain Disruption	Product Development Strategy
Unsold Inventory	---
Orders In-process	---

Let us review how the situation will play out in the coming days/months

FOR RETAILERS

- **Sales channel disruptions**
 - B&M Stores & Omni-channel Capabilities: Many Stores have been closed owing to lockdowns imposed by Federal/State authorities. Apart from direct loss of in-store Sales, this imposes an immediate limitation on the omni-channel capabilities of Retailers since “Buy Online Pick-up In Store” (BOPIS) and “Buy Online Return In Store” (BORIS) models will cease to remain feasible
 - E-commerce delivery issues: With Stores closed, Consumers will shift to online modes of purchase. However, as indicated above, with reduced omni-channel capabilities, online deliveries will face their own set of challenges
- **Supply chain disruptions:** Restrictions on logistics and shipping clearances have already resulted in large pile-ups at port-of-loading (POL) and port-of-discharge (POD) locations. This is in addition to containers lying unattended at DC & other locations - this is only going to get worse as time goes on
- **Unsold inventory in Warehouses/Stores:** With almost zero in-store Sales and limited omni-channel capabilities, inventory will pile up and will likely act as an impediment to accommodating new shipment deliveries
- **Order in-process:** Existing inventory and additional financial pressures will force re-look at orders in process. Case in point, order value >\$1.3 Bn cancelled or put on hold in B'ladesh (Source: Apparel Sourcing)
- **Need for adjusting to skewed buying patterns:** At least in the short term, buying patterns will change with more focus on basics/core essentials. This will impact the way Retailers plan their Assortments, which will drive Development and Sourcing in a different direction altogether
- **Modified product development strategy:** Any change in the POS/Supply Chain necessitates a re-look at the Product Development process/strategy. The most likely impacts will be the change in Carryovers, Use of core-materials over new material developments, and Re-evaluation of Sourcing options (in preference of local suppliers who can support on-demand supply as opposed to relying on direct imports)

FOR CONSUMERS

- Decline in purchasing power owing to job losses: In the US alone, unemployment is expected to peak at 20%. This means reduced purchasing power, forcing shoppers to defer their purchasing plans outside of immediate needs
- Reduced purchases out of general fear of the future: At least in the immediate future, irrespective of their financial position, consumers will be cautious to commit for purchases outside of the essentials
- Change in buying habits: There will be reduced brand/store loyalty, given the dire economic situation. Price points and accompanying offers will gain a competitive advantage

How to Respond to these challenges?

Retailers will have to pull out all the stops to measure up to the challenges imposed by the lockdowns. Below are some of the strategies that may prove to be successful.

- **Sales channel disruptions**
 - Offer additional discounts/markdowns/deferred payment options online to keep up the traffic
 - Identify the locations that have the least impact and are likely to return to normalcy faster, and have a plan in place to open the Stores in such locations once lockdowns are removed
 - For those already on Amazon, increase commitments on Amazon. For those who still do not offer their products through Amazon or similar ecommerce portals, it will be essential to develop a clear e-commerce strategy through Amazon or similar portals
- **Supply chain disruptions**
 - Evaluate options for re-routing shipments to Ports that serve DC locations catering to Stores that are likely to open first
 - For shipments that are still at POL, review options for re-scheduling dispatches
 - Re-work containers to optimize assortments so as to receive only the focus merchandise
- **Piling unsold inventory**
 - Review if any of the existing in-store only merchandise can be offered online as well
 - Option for customers to book merchandise online today with payments to be made only when delivered
- **Orders in-process**
 - Identify the current state of the orders (raw materials received, cutting in progress, etc.) vis-à-vis sales/inventory requirements to prioritize the merchandise to be produced
 - Break-down existing orders into smaller quantities spread across multiple deliveries
 - Work with the factories to put in place a staggered plan for consuming materials that may already have been received and are in various stages of the process
- **Need for adjusting to skewed buying patterns**
 - Work on adjusting existing Buyers' Tool models to the new buying patterns so that they are able to correctly predict the buyers' needs
 - Focus on social listening to understand the changed consumer needs/expectations to align accordingly
- **Modified Product Development Strategy**
 - Focus on designs that have fast turnaround both from a development as well as production standpoint
 - Focus on carry-overs and develop designs that can use material inventory lying in factories
 - Focus on designs that offer high margins
 - Identify the local sourcing options to mitigate supply chain risks (with lower replenishment turnaround)

What ITC Infotech can do to contribute

So how does a leading IT Service Provider like ITC Infotech help Retailers achieve the above? The main focus will be towards helping our Customers to work out an effective and efficient way to make data-driven decisions, leveraging the existing system landscape with minimum changes.

Since it is clear that all scenarios - both current and in the near future - do not have a precedence and are likely to be the core capability offered. In addition, ITC can help build a system framework that ensures that the Customers are able to quickly adjust to similar eventuality in future.

The capability can be built using the data available across multiple systems (FlexPLM, ERP, etc.) in combination with additional technology platforms that help users to get clear visibility on the current state and also work out possible outcomes using “what if” scenarios. The advanced AI and ML models can be used to enable machine suggested options that the users can consider as well. A few representative examples from a Product Development perspective are as follows:

- Give Product Developers a Ringside view of unused “raw materials” available across factories that can be used in new developments
- Prioritize Factories for Product Development based on geo-wise availability
- Suggest the best Carryover options based on changing Customer behavior
- Suggest sourcing price-points and predict impact across range

Conclusion

The COVID-19 crisis is a once in a 100 years event. Naturally, the Fashion Retail Industry has not faced a calamity of this scale in the past. The impact of this crisis is being felt at a global scale, and its fallouts too will be unprecedented. The key to survival for the Fashion Retail Industry will be to clearly understand how the crisis is going to unfold in the coming months and the likely impact areas, so that effective response to the crisis can be worked out and enough protection can be built against something similar in the future. Since the nature of the problem is such that it encompasses multiple aspects of Fashion Retail operations, the response has to be multi-pronged and needs to involve all the stakeholders - Retailer, Customer, and Vendor Partners. Some of the key steps that Retailers may want to consider include looking at improving their e-commerce offerings, prioritizing shipments, Re-planning orders already released, as well as adjusting the rules for Product Development. In these circumstances, ITC Infotech can help its Customers by providing solutions that facilitate data-driven decision making.

About the author

Pinaki Banerjee is responsible for leading the Retail PLM digital transformation initiatives across clients in ITC Infotech. He has over 17+ years of experience across multiple Retail Business and IT roles. As part of the ITC Infotech's Retail PLM team, he has been associated with 15+ PLM implementations and business transformation engagements. He has helped to develop new client base and extend existing engagements through business process optimization and solutions that help create long term business value. In his present role, he works closely with clients to help develop approach that maximize their PLM experience through a mix of business process and system capabilities. In addition, he also leads the in-house solution development initiatives within ITC Infotech.

