

NO.2 Retail in  
Lockdown

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# GREEN PAPERS

THOUGHTS ON A WORLD IN THE MIDST OF RADICAL CHANGE



## **NO.2 RETAIL IN LOCKDOWN – DELIVERY SERVICES AND PANIC BUYING.**

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### **THE SITUATION:**

Retail is always a good indicator of how things are going in Germany. What are people buying? Where are they buying it? How much and at what price? And it's worth asking these questions at the moment too, since coronavirus is subjecting the German retail sector to an unexpected stress test.

Trading conditions have rapidly changed, without any opportunity to prepare. The impact on retail has been highly varied. Winners and losers are often only one door down from each other. And it's been a rollercoaster ride for everyone. Only those who are best able to master all the loops, all the ups and downs, without coming uncoupled or flying off the tracks will survive.

Generally speaking, brick-and-mortar retail can be divided into two main groups at the moment: businesses that have been allowed to stay open and those that have been forced to close. It's not yet clear whether being in one group rather than the other automatically makes you a winner or a loser, but it does greatly affect the situation a business finds itself in. What is clear is that any communication activities planned for the current time need to be rethought. The most pressing challenge, of course, is ensuring security of supply: meeting demand rather than generating it.

Let's take a brief look at the current state of certain sectors and possible opportunities arising out of the crisis:

### **GROCERY RETAILERS**

Grocery sales have risen by around 20 % in the past few weeks (source: Süddeutsche Zeitung).

It remains to be seen whether this trend will be sustained, since people won't need to buy any more dried pasta and canned goods until they've used up what they've already bought. And toilet paper has no use-by date. After the initial panic buying and stockpiling, there's already evidence of a sales slump in the current phase of social distancing and general lockdown.

In companies' communications, there have been some very unusual alliances. Back on Valentine's Day, businesses were still furiously jostling for market share; now Netto and Kaufland are thanking not just their employees but also their competitors. The question is how long this will last before price competition moves on to the next, likely very brutal stage.

Two opportunities for the post-corona era are worthy of mention. Firstly, food retail workers are being shown much greater appreciation at the moment; companies can build on this after the crisis too. Secondly, companies can develop a genuine regional supply structure in order to reduce dependency on imports and provide a solid base for regional suppliers.

## **DRUGSTORES**

Drugstores have definitely been one of the winners in the crisis. Unlike grocery retailers, their big rise in sales is down to consumable products such as soap and hand sanitizer that people are using and not just hoarding. Drugstores also benefit from already being in a strong position prior to the crisis, when they were one of Germany's healthiest brick-and-mortar retail sectors.

The biggest challenge at the moment is keeping up with demand and ensuring everything to run smoothly. Discounts and promotional offers have been suspended to avoid generating additional demand. This sector too has seen advertising budgets shifting to a joint campaign between competitors, with dm, Rossmann, and Müller teaming up to thank their employees.

## **CLOTHES STORES**

This is where the alarm bells are ringing loudest. Even before the crisis, this segment was fragile and under extreme pressure, and the lockdown creates a big risk of companies going bust. Brick-and-mortar retailers are worst affected, of course, but even online retailers are reporting a 20 to 30 % drop in sales.

Depending on how long the lockdown lasts, the world of fashion retail will look very different after the crisis than before. But even in this sector there are opportunities. One is that coronavirus provides a chance to break with the pattern of all-year sales that had become established and return to the old rhythm of alternating sales and full-price seasons, which would offer better long-term prospects for the industry. At a pinch, social sales on Instagram and Pinterest can also be used as effective alternative sales channels.

## **DIY STORES**

Spring is Christmas for DIY stores. It's a critical season for the sector, and any businesses that fail to generate sales during this time will struggle to make up for it later. And just as this season was getting started, the crisis came along. DIY stores (those that are still open, anyway) have experienced an upsurge of demand. Customers have time on their hands to do repairs and projects around the home, and spring is also an ideal time to get busy in the garden.

Whether this will make up for the usual spring sales that this sector critically depends on remains to be seen. Hornbach expects sales to fall due to closures of some stores. This season's must-haves (some of them sold out) are overalls, rubber boots, and face masks. There's been stockpiling in this sector too: electrical cable, firewood, and paint are the toilet paper of DIY stores. Despite closures in some regions, DIY stores can continue to serve commercial customers, which is good news for businesses that count lots of tradespeople among their customers.

The situation for DIY stores varies from state to state. Saxony, Bavaria, Mecklenburg-West Pomerania, and Lower Saxony have ordered their stores to close. This has resulted in "DIY tourism" in some parts of Germany, with people popping across state borders to get their DIY supplies.

The big opportunity here lies in building customer loyalty, by using tailored services and offers to convert new customers into regular ones.

## **INDEPENDENT RETAILERS**

Definitely the weakest link in the chain. Independent retailers are often short on capital and lack the expertise and capacity for alternative solutions and relief programs. They also don't have much leverage in negotiations with landlords and manufacturers, and so their room for maneuver in the crisis is limited.

But even here there are glimpses of light. Many companies are experimenting with social sales platforms. City websites and app solutions (such as [wirvонhier](#) and [helfen.berlin](#)) provide a sustainable alternative to the big e-commerce platforms and allow regional brick-and-mortar retailers to continue trading.

Ultimately, however, it will be us customers who determine whether the independent retailers survive or not.

## **AMAZON**

Without a doubt the big winner in the corona crisis. There are no external constraints on Amazon's growth. Worldwide, it has hired an extra 100,000 workers. Amazon Fresh is booked solid. And it's precisely this that poses the biggest danger for the German retail landscape: new purchasing habits that develop over the short term in the corona crisis, and play into Amazon's hands in the long term. Because if there's one thing Amazon is extremely good at, it's managing a positive brand experience across all touchpoints and successfully converting people who try out its services into regular customers.

## **CONCLUSION:**

It's still too early to draw any real conclusions. The forecasts for the next few weeks are too uncertain. But what is clear is that the world of retail will not be the same after the crisis. Innovations such as delivery services and social sales will be accelerated and become firmly established. Consumer habits are being permanently changed, from contactless payment in brick-and-mortar stores, to subscription services with online retailers.

But as is well known, every crisis is also an opportunity – and the way we behave as consumers will have a big impact on the face of retail after coronavirus. Will we keep shopping at local stores and showing appreciation to supermarket checkout assistants even once the crisis has passed?

If Matthias Horx is to be believed, the world could actually become a slightly better place.

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