

Now includes 2020 Update:

*The Pandemic's Lasting Impact on Retailing*

## *Retailing: Integrated Retail Management 3e*

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### **Differentiators and About 3e:**

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- **Expanded coverage of Mobile and e-Tailing and included throughout the text** and not treated as a stand-alone chapter. This helps emphasize that e-tailing is a form of retailing that uses many of the same models as other forms.
- Importance of **omni-channel retailing** incorporated throughout text.

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Doc has sat/sits on the board of directors for numerous corporations and has worked for an array of corporations including General Motors, Meijer, Martin Guitar and D&B, to name just a few. He has consulted for many others in the areas of advertising and marketing. Ogden has been listed in over 40 "Who's Who" publications and has been given Outstanding Educator awards on numerous occasions. Ogden has been cited for "Excellence in Marketing Education" and has received the prestigious Freedom's Foundation at Valley Forge Award for "Excellence in Economic Education". He is currently the Chairman of the Board for the Center for Retailing Solutions.

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## About this Publication:

**The idea...** behind this text is to harness an integrative approach to help students see the big picture regarding the retailing process. Through the integrated retail management (IRM) flowchart provided at the onset of each chapter, students will be able to see where each of the various concepts fit in to the overall retail management process. In other words, instead of teaching students chapter material, this text reinforces the teaching of “subject” areas. This approach allows students to utilize critical thinking instead of chapter memorization. As one of the book’s reviewers commented, “... the organization of the text-book is logical and student-friendly in approach, which enhances the user’s learning and the emphasis on the role and importance of strategy in retailing.”



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# Update 2020

## The Pandemic's Lasting Impact on Retailing

“The only constant in the universe is change.” With the recent outbreak of the COVID pandemic, this saying has never been truer. A common complaint of retailers is they don't have time to plan. The response to that is simply, You don't have time not to plan. Retailers must be constantly planning, evaluating, and controlling their integrated retail management plans in order to respond to change. Consumer and customer wants and needs change regularly. Other environmental factors and variables also impact a retailer's business. Changes in the environment have a lasting effect on sales. Chapter 4 provides an overview of the overall situational analysis process, and Chapter 3 provides an overview of the environmental scanning process.



## Importance of Environmental Scanning

As part of the *retail planning and management function*, retailers create a system for **environmental scanning**. As defined in Chapter 3, environmental scanning is a process that progressive retailers use to monitor changes in their retail environments. Retailers are looking for changes in their business environments that can have an impact on their business. Retailers can no longer afford to ignore international changes. As seen by the recent pandemic (COVID-19) outbreak in 2019/2020, retailers can be damaged by not having plans in place that respond to important environmental changes.

Environmental scanning can be used to identify and respond to changes in the retail organization's market. Numerous variables might cause this change. It's important to identify those variables, determine the nature and rate of change of the variables, and then respond to the changes. Once the variables have been identified, a response can be infused with market forecasting techniques to get a better picture of what the market is going to look like. As mentioned, there must be a response to those changes.

### Overview

In this chapter we examine changes in retailing and the impact the COVID-19 pandemic has had and will have on the retail industry. We break down the environmental scanning process and provide a more in-depth look at responding to changes in retailers' environments, particularly during a crisis or pandemic. Also covered are forecasting levels and demand analysis during a crisis. Finally, we provide suggestions for marketing and retailing responses during a crisis.



## Changes in Retailing: 2017- 2019

The retail industry has experienced such turmoil over the past few years that the term “retail apocalypse” became popular. The trend away from big box stores to boutique stores and the growth of online retail led to closures of traditional brick-and-mortar stores. 2017 was a record-breaking year as more than 8,000 stores closed including locations from major retailers such as Charming Charlie, Sears, Kmart, J.C. Penney, Macy’s, and Payless. Designer brands such as True Religion, Ascena Retail Group (Ann Taylor, Justice, Loft), Michael Kors, Abercrombie and Fitch, J Crew and Bebe stores were not immune to closures.

Despite improvements in technology, personalization, and reimagined brick-and-mortar stores, in 2018, traditional brick-and-mortar retailers closed about 5,900 locations. Several retailers closed permanently including Toys “R” Us, Henri Bendel, Dress Barn, Charlotte Russe, Charming Charlie, Avenue, and Performance Bicycle.

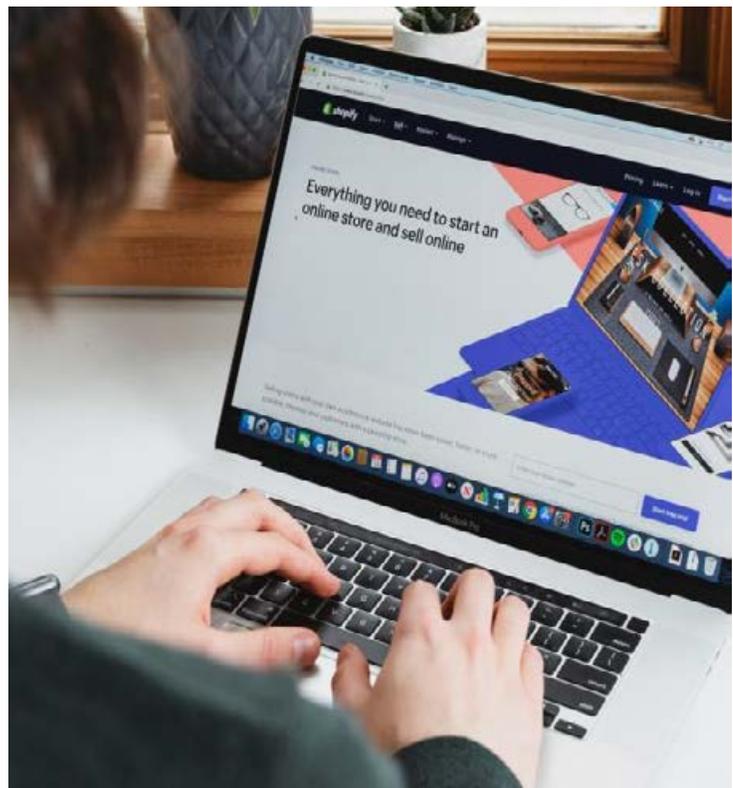
2019 was another record-breaking year as over 9,300 stores closed, a 63% increase from 2018. Retailers closing stores included Game Stop, Signet stores (Jared, Kay Jewelers and Zales), Dollar Store, Chicos, Gap, Walgreens, Things Remembered, Pier 1 Imports, Office Depot, Barneys New York, J.C. Penney, Bed Bath Beyond, and Party City. The stores that survived offered unique experiences and high levels of customer service.

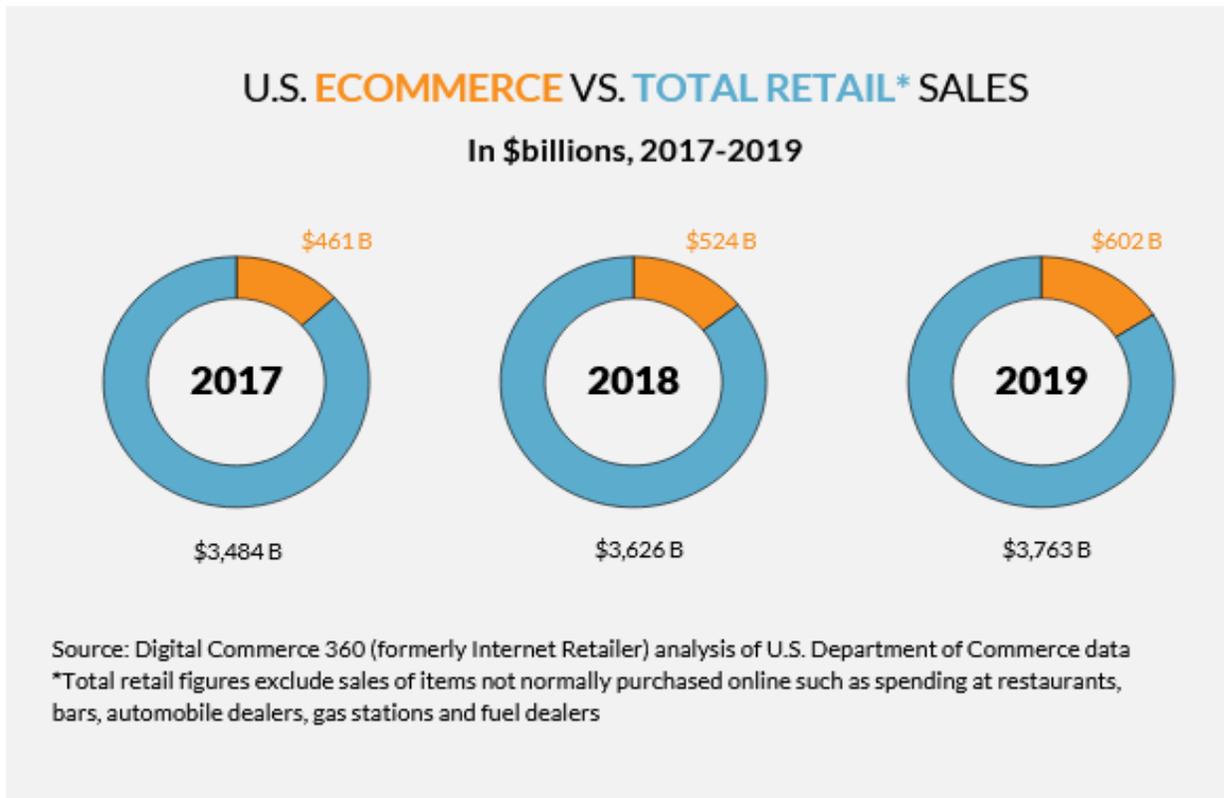
While some viewed the retail landscape as apocalyptic, others viewed it as in transition. According to a 2019 report from IHL Group (Holman & Buzek 2019), the press tends to focus on negative news. The IHL report shows that although stores were closing in record numbers, since January 2017 the industry actually increased sales by \$565.7 billion and 8,575 stores. Of the retail segments examined, the apparel and department store chains experienced the most net closures. From 2017 to 2019 there were net closures of 9,651 stores. In 2019 there were more than five retail chains opening stores for every store closing. Most of the growth came from food/drug/convenience/mass merchants (+9.5) and restaurants (+6.3).

In 2019, unemployment was low and, while many retailers closed branches, overall retailing was up. The traditional formats were no longer working as people purchased items from multiple channels.

### The Shift from Brick and Mortar to Online Retail

Prior to the pandemic, online retailing was growing at a steady pace. This led many retailers to invest more heavily in technology and knowledge acquisitions concerning ecommerce. Figure 1 shows U.S. ecommerce sales compared to total sales from 2017 to 2019. Online sales for 2019 were up 14.9% over 2018 and 2018 sales were up 12% from 2017.





In 2017, Cyber Monday sales hit a record of \$6.59 billion, the largest shopping day recorded. In comparison, that same year, Black Friday sales were \$5.03 billion and Thanksgiving day brought in \$2.87 billion (Su, 2017). Cyber Monday was promoted by retailers to increase sales after the Thanksgiving holiday.

In the online realm, because people can't touch the merchandise, other indicators become more important. Several studies suggest that brand names and brand loyalty are more important in online retail (Anesbury, Nenyecz-Thiel, Dawes, & Kennedy, 2016). In some categories, brand names are more important online than offline and price promotions have stronger effects online (Degeratu, Rangaswamy & Jianan, 2000; Chu, Arce-Urriza, Cebollada-Calvo, & Chintagunta, 2010).

This shift of consumer purchases to online retail from brick-and-mortar stores was further exacerbated when many retailers were forced to close due to COVID-19. Even after stores reopen, many consumers will be uneasy about exposure to other shoppers and store employees.

## Here Comes the Pandemic: COVID-19

Coronaviruses are a large family of viruses, some of which cause illness. COVID-19 is a new type of coronavirus that causes respiratory illness and can be spread from person to person (Centers for Disease Control, 2020). In the Fall of 2019, the novel SARS-CoC-2 coronavirus emerged in Wuhan, China (Scripps Research Institute, 2020). On December 31<sup>st</sup>, 2019, spokespeople from China told the World Health Organization (WHO) of an outbreak of a novel strain of coronavirus causing severe illness (*Ibid*, 2020). This was the beginning of a pandemic that has caused harm to both human health and world economies. On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. It was determined that the virus was natural and not lab manufactured.

During 2014-2015, the United States government under President Barack Obama recognized the danger of worldwide pandemics. Coming off issues with the Ebola outbreak, the U.S. government decided it must act. A document was developed called the “Playbook for Early Response to High-Consequence Emerging Infectious Disease Threats and Biological Incidents” (Knight, 2020). The goal was to have a plan in place for the United States in case there were further outbreaks of worldwide disease, such as was the case with Ebola and Zika. A pandemic playbook was needed. Although environmental scanning identified a potential issue and the government developed a response, further utilization of the planned response was scrapped when a new administration decided to pursue a different course.

## COVID-19 Timeline

Retail Customer Experience (2020) tracked the environmental impact of the virus on retailers. The following highlights are adapted and modified from Retail Customer Experience (Mottl, 2020):

January 31, 2020: Coronavirus likely to impact airport travel, retail worldwide

February 3, 2020: Apple shuts stores in China

March 12, 2020: Apple shuts stores in Italy

March 13, 2020: Questions surface about payment methods for retailers, digital versus cash

March 16, 2020: Retailers close stores for worker safety and customer safety

March 17, 2020: Amazon is hiring 100k workers to keep up with online sales increases

March 19, 2020: Grocers begin to hire more to meet demand

March 24, 2020: Retail industry begin lobbying for federal support

March 25, 2020: Retailers begin to set up ‘special’ shopping times for seniors

March 27, 2020: Stimulus package to offer \$350 Billion in small business loans. \$2 Trillion rescue package offered to businesses and employees

March 30, 2020: Federal CARES Act provides relief

April 1, 2020: Walmart begins checking employee temperature before shifts

April 2, 2020: J.C. Penney furloughs workers

April 6, 2020: Amazon begins to deploy masks and taking workers temperatures

April 7, 2020: Target workers get masks, gloves... customers get more space. Wayfair gets a stock boost

April 8, 2020: Self-service grows

April 14, 2020: Amazon continues hiring to meet demand





April 16, 2020: Some retailers prepare to open; The Nebraska Mall gets ready to reopen. Walmart sets special pickup hours for their COVID high-risk customers

April 21, 2020: COVID-19 drives ecommerce upward 'big time.' Treatment of essential workers impacting consumer decision making

April 24, 2020: Target extends worker pay enhancements and benefits

April 27, 2020: The U.S. House approves an additional \$484 Billion in relief funds for small businesses, testing, and hospitals

April 28, 2020: Requiring masks is difficult because of customers. Digital shopping increases Target sales

April 30, 2020: Social distancing drives changes in the way consumers spend their money

May 5, 2020: Consumer mindsets shift during the virus outbreak

May 7 and 8, 2020: The Gap will open 800 stores by month's end. Nordstrom is shuttering stores

May 11, 2020: The NRF says the retail recovery will be gradual

May 15, 2020: J.C. Penney files Chapter 11 bankruptcy

May 27, 2020: Tuesday Morning files Chapter 11 bankruptcy

June 8, 2020: The National Bureau of Economic Research announces the United States is in a recession, which began in February, 2020

Many retail experts predict more retail closures in the months and years ahead. Camilla Yanushevsky, a retail stock analyst for CFRA Research, states that "The companies that are most at risk are the ones that were already distressed before the crisis." (Bomey, 2020, para 13).

## ENVIRONMENTAL SCANNING IN PRACTICE

Environmental scanning is important to ensure awareness of trends and threats. Retailers that have a risk/crisis management program in place have a better chance of surviving. Environmental scanning programs allow a company to better adapt to changes occurring in the retail environment. This section looks at (a) environmental scanning in more detail, (b) forecasting methods, and (c) responses to changes in the retailer's environment.

Environmental scanning programs must be set up to be flexible and allow for continual input. In good economic times, retailers often fail to look to their future, allowing their scanning to fall behind. Programs should ensure that environmental changes can be shared by all decision makers in a timely manner. Employees involved in environmental scanning must have strong communication skills, patience, and flexibility.

Retailers need to identify environmental forces that will affect the organization. Any change in the retailer or marketer's environment that could affect marketing strategies or marketing opportunities creates an environmental force. This force may be positive (new technological advances that create production savings) or negative (COVID 19).

In early 2019, retailers had reason to be optimistic. Unemployment was low and, while many retailers closed branches, overall retailing rose. The hospitality and travel industries were at

their highest revenue levels in more than 16 years and consumer spending was at a record \$13.2 trillion (Repko, Josephs, Wayland & Lucas, 2020). The traditional retail formats were no longer working as people purchased items from multiple channels. Very few could have predicted that retail employees would become essential workers as a pandemic hit the world.

COVID-19 has, in many ways, crippled economies around the world. As governments scrambled to create policies that would protect their citizens, countries' economies were shut down. Nobel Prize-winning economist Joseph Stiglitz summed it up when he stated on the CBS show *Sunday Morning* (2020) in connection to the recent COVID-19 crisis, "We are shutting down the economy to protect our health." Fed Chairman Jerome Powell, echoed, Stiglitz's words, "It is worth remembering that the measures we are taking to contain the virus represent an investment in our individual and collective health." He added, "As a society, we should do everything we can to provide relief for those who are suffering for the public good" (Powell, 2020).

The pandemic, other crises (scandals, natural disasters, consumer boycotts), and environmental forces will push the retailer to make needed changes. The more prepared retailers are, the faster they can adapt and make changes. In these situations, it's important to generate as much data and information as possible and make the best decision. This can only happen if the retailer continually monitors its retail environment.



## Retail Environments

The retail environment, simply, is any *external* change or force that impacts the retailer. The retailer's environment is largely uncontrollable, which increases the complexity of responding to changes. Every retailer scans the specific environments that are most important. Primary environments affecting retail include social, governmental, technological, economic, and natural.

In the following section we look at the main environments affecting retailers and how COVID-19 has impacted them. Keep in mind that these environments are related to each other and often overlap. A combination of these environments could also provide threats and/or opportunities for retailers.

## The Social Environment

The social environment includes consumer behavior and insights as well as how the social environment may be changing.

Retailing, and in particular brick-and-mortar retailing, is a social activity. When the pandemic hit the United States in February and March of 2020, stay-at-home and shelter-in-place orders shocked the operations of brick-and-mortar retailers. Most people stayed home except for essential trips. Those people who were required to go to work during this time were deemed “essential.” Essential businesses like grocery stores, banks, and drug stores remained open. Especially hit were service retailers such as restaurants and bars, salons, and entertainment venues. The orders to stay home were lifted region by region based on guidelines issued by the CDC.

Even when stay-at-home orders were lifted, retailing changes were apparent. Social distancing, fewer people in stores, protections for employees, food shortages and purchase limits, increased credit card usage, reduced hours, and curbside pickup changed consumer behaviors.

According to a University of Southern California study, the pandemic has created significant shifts in people’s behavior. People are washing their hands more than ever and adhering to social distancing guidelines. People also cancelled or postponed travel and avoided public spaces. Many stockpiled essentials out of fear (Hedt, 2020). The fear and stockpiling led to a widely publicized nationwide shortage of toilet paper.

Retailers still have a need to connect their products and services with consumers, but the COVID-19 pandemic fundamentally, at least in the short-term, has changed the way consumers interact with products and their physical surroundings. At the very least, the pandemic has accelerated the already changing retail dynamic. Although the way consumers buy is changing, why they buy -- their motivations -- change little.



### Impact of COVID-19 on the Consumer Psyche

When asked about potential changes in consumer motivations, retail guru Paco Underhill, author of the books *Why We Buy* and *Call of the Mall*, responds, “The monster of consumption is intact” (2020, personal interview). While consumer demand for some products and categories may ebb and flow over the next few years, like durable luxury goods, it is probable that consumer desire to consume will change very little post COVID-19. This desire for products and services resides deep within the human psyche, which seeks to maintain stable levels of psychological assets related to the self, such as self-esteem, belongingness, feelings of power, and feelings of control over one's environment (Crocker & Park, 2004; Kay, Wheeler, & Smeesters, 2008; Leary, Tambor, Terdal, & Downs, 1995; Whitson & Galinsky, 2008).

services resides deep within the human psyche, which seeks to maintain stable levels of psychological assets related to the self, such as self-esteem, belongingness, feelings of power, and feelings of control over one's environment (Crocker & Park, 2004; Kay, Wheeler, & Smeesters, 2008; Leary, Tambor, Terdal, & Downs, 1995; Whitson & Galinsky, 2008).

How long will the effects of the coronavirus remain in consumers' psyches? It's unclear. Products serve as psychological salve to reduce distress (Mandel, Rucker, Levav, & Galinsky, 2017). To maintain stable human psyche levels, individuals often monitor the congruence between their present state (or actual self) and a goal state (or ideal self) (Carver & Scheier, 1990; Higgins, 1987). When a person perceives a self-discrepancy, or an inconsistency between one's ideal and actual self, she seeks to correct the discrepancy (Higgins, 1987). For many consumers this results in altered consumer behavior. This cerebral hard wiring is an important consideration for the U.S. retailer as consumer spending in some industries (healthcare services, transportation, recreation, food services, accommodations) showed considerable losses in sales (Council of Economic Advisers, 2020). It is evident that the pandemic is affecting psychological functioning. A study by NORC at the University of Chicago (2020) reports that people's happiness is the lowest it's been in fifty years. The study, conducted in May, 2020, reports that only 14 percent of American adults say they are very happy compared to 31 percent in 2018, a 17 percent drop.

### Social Unrest

Over the course of a month, many demonstrations worldwide were held to protest the killing of George Floyd, who died on May 25, 2020, when a police officer held a knee to his neck for 8 minutes and 46 seconds. Of course this happened against the backdrop of the frustration of the Coronavirus pandemic. For many, the knee to the neck is a metaphor for how many black people are treated. Many retailers made statements supporting the protests or donated to the Black Lives Matter movement or other organizations that stand for racial equality. Retailers who donated monies include Apple, Amazon, Lululemon, McDonalds, Wendy's, Walmart, Warby Parker, Target, Etsy, H&M, Gap Brands and Home Depot. Coupled with additional changes in the social environment, such as the Black Lives Matter movement, retailers must have a thorough understanding of their market. Consumer insights become more and more important and must be incorporated into any analysis.



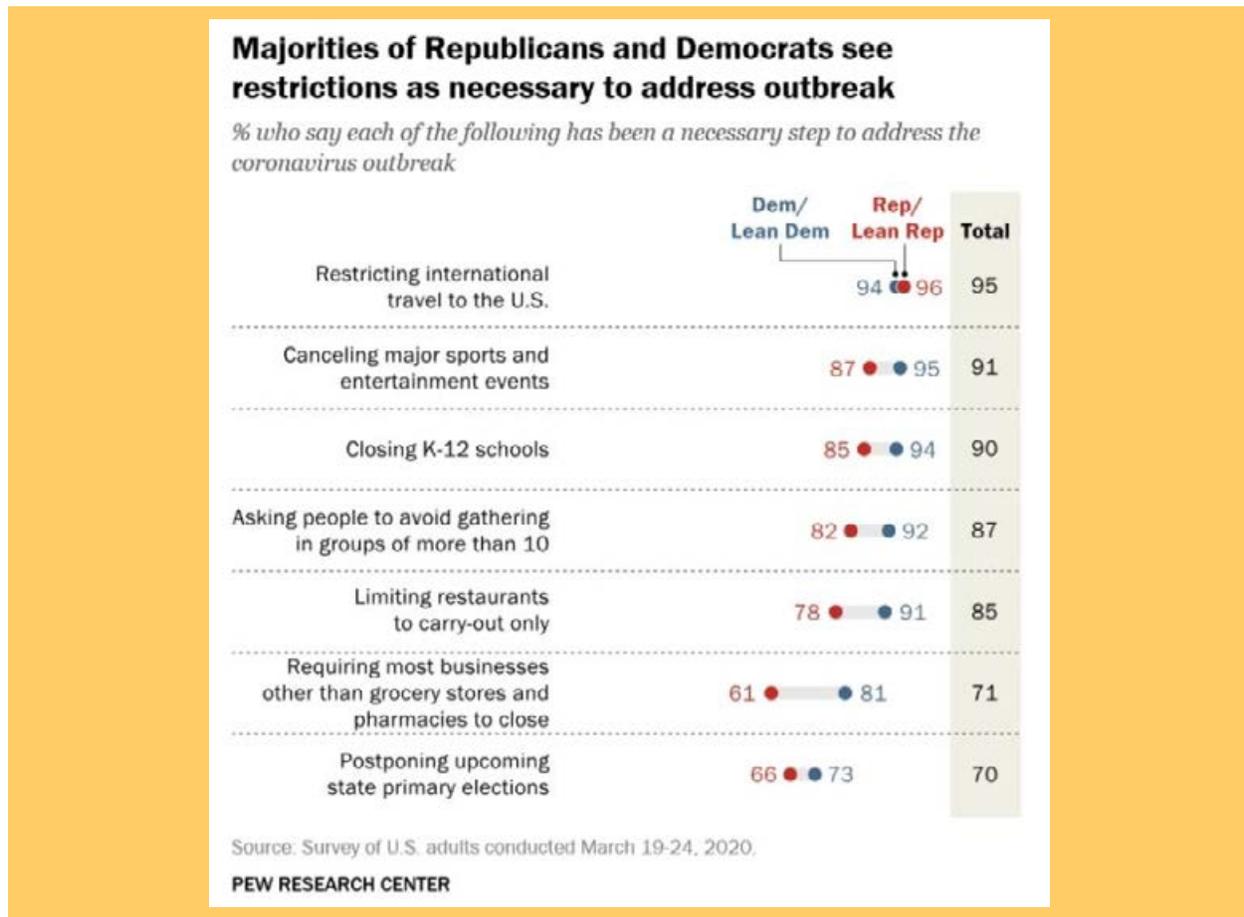
## The Government/Political Environment

The government and political environment includes information on laws and how political decisions are affecting retail operations. The goal of government is to help consumers and businesses. With unemployment at record highs, the government is playing a key role in information and aid.

To help the economy, Congress passed a \$1.7 trillion economy relief package called the CARES Act (Coronavirus Aid, Relief and Economic Security). The money provided financial assistance for Americans, small businesses, and low- and middle-income citizens. As part of the package, the federal government issued economic impact checks. While amounts varied, eligible taxpayers received a payment of \$1,200 for individuals (\$2,400 for married couples) and up to \$500 for each qualifying child. As of June, 2020, a second stimulus check had been proposed by Congress.

Early on, both major political parties politicized the virus outbreak. The Pew Research Center (Green & Tyson, 2020) described five facts about partisan responses to the pandemic:

1. Majorities in both parties agree that a range of restrictions were necessary, although a greater percentage of Democrats agree with this as the table below shows:



2. There was a wide partisan gap on views of President Trump's response to the outbreak. 83% of Republicans and people who lean Republican rated Trump's response as either excellent or good, while only 18% of Democrats and Democratic leaners agreed.

3. Democrats/Democratic leaners were more likely than Republicans/Republican leaners to see the coronavirus in the most serious terms. 78% of Democrats and people who lean Democrat believed the outbreak was a major threat to the U.S. population, while 52% of Republicans and people who lean Republican felt the same.
4. Both parties (Democrats, 36% and Republicans, 30%) said that someone in their household had either lost a job or taken a pay cut due to the coronavirus outbreak.
5. The two major parties differed on how people across the country reacted to the outbreak. Republicans/Leaners were more likely to say that people in the U.S. are overreacting to the outbreak (39%) than Democrats/Leaners (25%). 31% of Republicans/Leaners believed that people in the U.S. were not taking the virus seriously enough while 48% of Democrats/Leaners believed this.

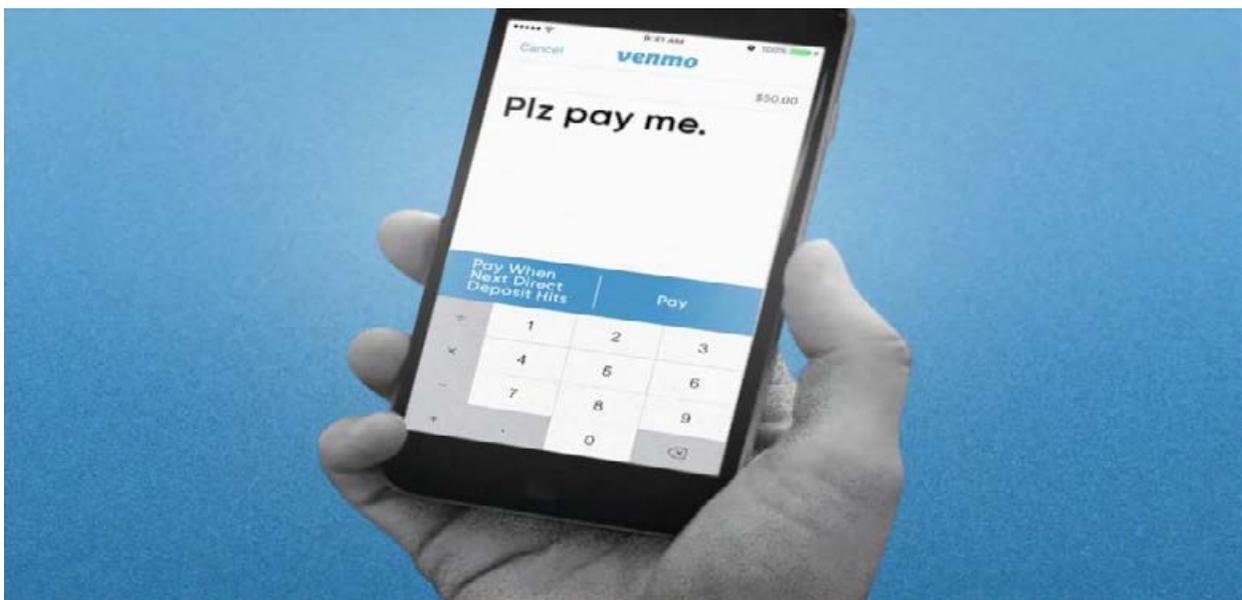
2020 is an election year, so political ads and issues are prevalent. As many have said, the coronavirus does not care about a person's political stance. Yet one's political stance does impact retailing. According to retailing expert Erin Jordan, politics plays a role in changing people's perspectives on the economy, and this may affect consumer spending. She says that consumers look at brands as extensions of themselves and are more aware of retailers' social stances as they represent their own lifestyle (Danziger, 2018).

## The Technological Environment

The technological environment includes changes and improvements in technology that help consumers and/or retailers.

The World Economic Forum (2020) lists technology trends that have emerged during the pandemic. Trends that affect retailing include:

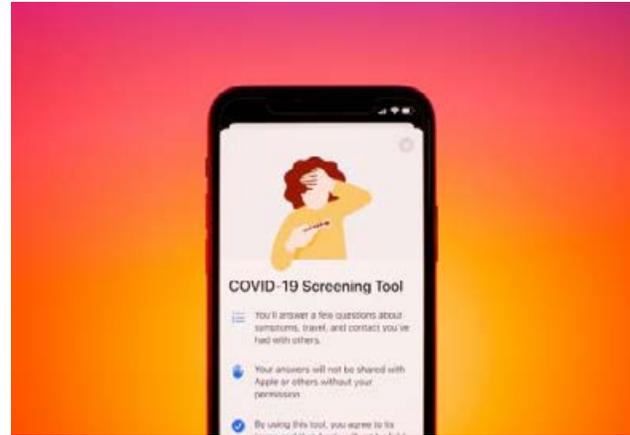
1. The growth of online shopping and contactless delivery, including using robots for delivery. Companies got creative when enticing people to purchase. Innovative ideas included online happy hours and lunch with strangers via Zoom.
2. Digital and contactless payments. Because cash carries germs, many consumers increased the use of digital payments such as Apple Pay, Google Pay, Paypal, and Venmo.



3. Remote work. As more people throughout the world were forced to work from home, technologies to make work more efficient were increasingly adopted including virtual private networks (VPNs), remote virtual meeting programs such as Zoom, GoToMeeting, Google Hangouts and Skype and facial recognition technology. The downside to using these technologies is the concern about information security and privacy.

4. Telehealth. The rise in health care organizations providing telehealth services skyrocketed during the pandemic. In addition, there was an increase in wearable technology that tracks health statistics. Chatbots are being used to triage patients prior to allowing a face-to-face visit.

5. Online entertainment. Internet and streaming technology allowed many types of technology to move online. Museums and zoos offered virtual tours, online concerts and theatre were live streamed. As movie theaters closed, studios released movies on various streaming and on-demand platforms. One of the biggest movie streaming success stories was *Trolls World Tour*, making over \$100 million in three weeks. The success of the movie led to a dispute with AMC theaters, who said it would stop streaming films from Universal (Alexander, 2020).



6. Supply Chain 4.0. The pandemic created havoc on supply chains as demand increased for some products and fell dramatically for others. Some factories were shut down as COVID-19 outbreaks spread among the workforce. The usage of technologies increased including cloud computing, Big Data, Internet-of-Things (IoT), circular economy, and blockchain (electronic ledger used to record cryptocurrency transactions).

7. 3-D Printing. As the supply chain broke down, shortages of products, especially medical protective gear, were common. Several individuals and companies began using 3-D printing technology to make items such as nasal swabs, face shields, face masks and even ventilators.

8. Robotics and drones. To protect people from contacting COVID-19, the use of robotics and drones increased. Uses included cleaning, food delivery and walking dogs. Some municipalities used talking drones to remind people to keep the recommended social distancing.

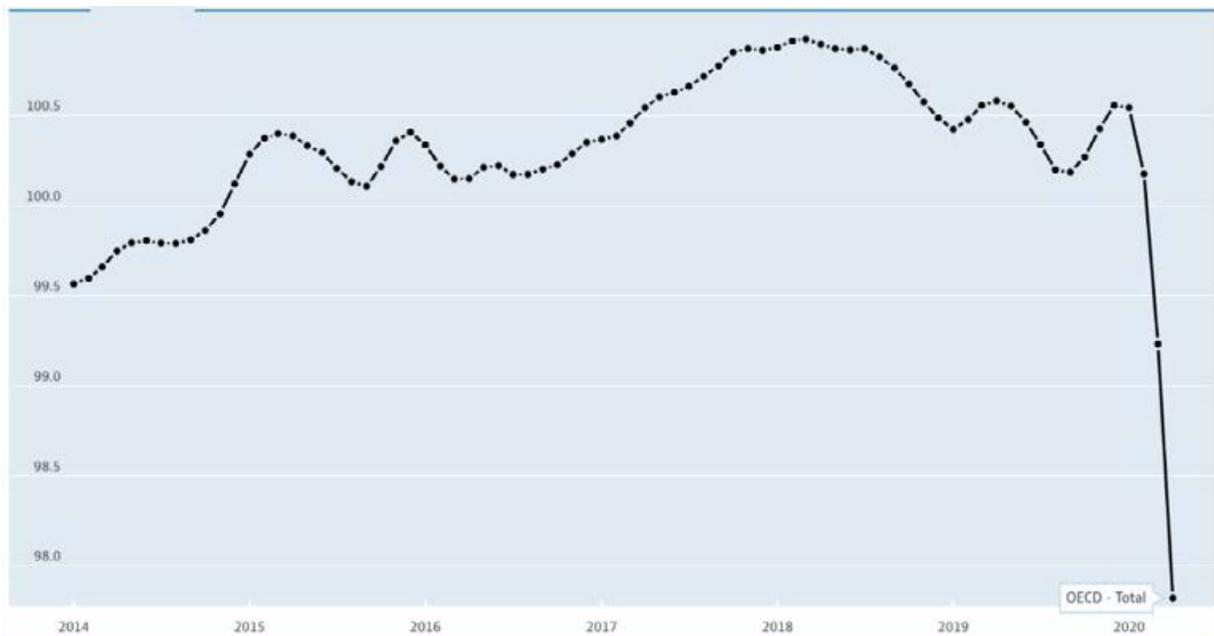
9. 5G and other communication technology. 5G is the fifth generation mobile network that is faster, more reliable and promises higher connectivity and a more uniform experience for users. With 5G a movie can be downloaded 500 percent faster than with 4G. The technology will allow retailers to better use technologies such as augmented reality and virtual reality. With families working from home, reliable Internet technology becomes more important. Experts predict the need for better, faster, and more reliable wireless technology will increase the adoption of 5G technology. All major U.S. carriers have 5G technology, but it takes a while to roll out technology nationwide. In addition, smart phones must have 5G capability.

Retail innovations such as improvements in POS (point of sale) systems, augmented shopping, staff-free stores, and the use of artificial intelligence will continue to evolve as consumers navigate the new normal.

## The Economic Environment

The economic environment includes information on employment, sales and trends. As a result of shutting down, world economies were faced with two big problems. On the supply side, supply chains became fractured as producers closed to protect their workers. Manufacturers struggled to find product sources and transportation was interrupted. On the demand side, consumer spending dropped sharply. During the first quarter of 2020, millions of people lost their jobs and consumer confidence plunged to historic lows.

The Consumer Confidence Index (CCI) is based on answers from consumers about their financial situation, unemployment, and capability of savings. An indicator above 100 means consumers are confident about the future economic situation and are more inclined to spend. An indicator below 100 means that consumers are pessimistic about the future economy and tend to save more and consume less (OECD Data, 2020). The Conference Board noted that in April, 2020, its confidence index tumbled to a reading of 86.9, the lowest level in nearly six years and down from 118.8 in March of the same year (CNBC, 2020).



Source: OECD Data: Consumer Confidence Index (Jan 2014 - May 2020).  
Retrieved from <https://data.oecd.org/leadind/consumer-confidence-index-cci.htm>

Low consumer confidence and, in some instances, constrained supply channels during the first quarter of 2020 had a profound negative effect on the U.S. economy. According to the Bureau of Economic Analysis (2020), consumer spending dropped a record 13.6% in April, 2020. The unemployment rate went from one of the lowest on record at 3.8% in February, 2020 to one of the highest on record at 14.4% in April, 2020. Due to the pandemic, the number of unemployed Americans grew from 6.2 million in February, 2020 to 20.5 million in May, 2020 (Kochhar, 2020).

## Recession Hits

On June 8, 2020, The National Bureau of Economic Research announced the United States is in a recession, which began in February, 2020. Economists are unsure if the economic recovery from the recession will take a “V-shape” or a “U-shape.” A V-shaped recovery is a short period between decline and economic recovery. A U-shaped recovery is where a longer period is spent in a

recession before recovery occurs. If the coronavirus resurges, a “W-shape” may emerge where the economy is in recession, improves, then falls into another recession, followed by a quick improvement. An economic depression is depicted by an L-shaped recovery where there is a sharp decline in the economy followed by a long recovery that could take a decade or more.

The economy and consumer behavior are intertwined. S&P credit analyst Sarah Wyeth states, “We believe the economic shutdown and lingering social distancing behaviors will trigger a broad shakeout of retail as the industry will be forced to meaningfully reduce its physical footprint and rapidly evolve to reach the post-pandemic consumer” (Bomey, 2020, para 6). Retailers are hoping that pent-up demand will result in a return to pre-pandemic sales levels. Others fear that people will realize they don’t need as much, especially with the possibility of unemployment looming. It is clear that people are more likely to return to brick-and-mortar shopping if they feel safe. In response, retailers have developed plans around how to disinfect stores and how to communicate safety measures to customers. Until a vaccine is developed, social distancing and wearing masks in public spaces may become the norm.

## The Natural Environment

The natural environment includes things like natural resources, terrain, physical barriers for customers, the climate, disease and pandemics, pollution, and other areas.

This is not the first infectious outbreak experienced in North America. Other outbreaks include:

- Smallpox (1633-1634)
- Yellow fever (1793)
- Cholera (1832-1866)
- Scarlet fever (1858)
- Typhoid fever (1906-1907)
- H1N1 Flu aka Spanish Flu (1918)
- Diphtheria (1921-1925)
- Polio (1916-1955)
- H2N2 flu (1957)
- Second Measles Outbreak (1981-1991)
- H1N1 flu (2009)
- HIV/AIDS (1980s – present)

Any time there is a worldwide pandemic, retail is affected. Based on past experience, scientists have learned much about disease spread, hygiene, and treatments that is helping people and businesses navigate the changing environment.

Currently the pandemic is getting the most attention due to its far-reaching impact, but other disasters occurred in 2020 that also affected retailing including wildfires, flooding, and earthquakes. An unexpected benefit of the pandemic was the cleaner air that resulted from fewer cars on the road and the shutdown of many pollution-causing businesses. Early in April, 2020 daily global carbon emissions were down by 17% compared to 2019. The gains may be short-lived as the economy opens again. Corinne Le Quéré, professor of climate change at the University of East Anglia (Britain), fears that the carbon output could exceed pre-COVID-19 levels because, during the 2007/08 financial crisis, emissions bounced back after the crisis ended (Gardiner, 2020).

## ENVIRONMENTAL SCANNING STEPS

The importance of environmental scanning becomes clear during a worldwide pandemic. Environmental scanning systems, environments and techniques must be continually monitored. The information and data generated must be transmitted to all decision makers. There are numerous techniques for undertaking environmental scanning. In Chapter 3, a five-step process for the undertaking of environmental scanning is presented.

## Step 1: Identify Relevant Environments

Retailers should look for any changes that may have an impact on their marketing operations. These changes might come from internal as well as external environments. It is best to also look for international changes. Changes in the international environment affect retailers even if they only operate domestically. Think about the World Health Organization and changes in the world's health that impact retailing.

Retailers also examine their country environments such as changes in competition, supply chains, and consumer behavior. From the domestic markets, more specific environments such as legal, technological, and other macro-environments should be monitored. From the macro-environmental view, move to micro-environment including the task/mediating environments such as markets, intermediaries, competitors, etc. Finally, end with an assessment of intraorganizational environments (changes in departments, personnel, etc.).



Within those environments, look at the outside forces (external to the marketing function) and the relationship those forces have (or could potentially have) on the retailing operations. Once identified, the retailer must strive to create an understanding of the impact of the social market (think about anything within the social environment that could affect retailing such as changes in age of the market, pandemics, shortages of raw materials, and interruption of the supply chain).

In summary, when identifying relevant environments, the retailer is: a.) collecting needed information and data in order to analyze outside forces, b.) looking at all events occurring within the identified environments, and c.) looking at the relationships between the change and the retailer's business. Then, d.) try to avoid crisis by undertaking advanced planning – i.e., be proactive, not reactive, and e.) have a clear understanding of the social, technological, legal, political, economic, natural and any other environment(s) that will affect the retail operations.

## Step 2: Identify Changes in the Retailer's Environments

When searching for and identifying change, the retailer should be looking for movements in their markets, movement by competitors and changes in the macro environment that could be causing the changes.

During a crisis, this step is difficult, yet critical. It is difficult because many do not know what will happen tomorrow, much less a year from now. It is critical because changes occur very quickly; it's important to be proactive in the response. It is also necessary for the retailer to look at the probability of changes and potential impact. It may be helpful to analyze different scenarios looking at the best, worst, and moderate scenarios.

Two researchers (Klein and Neuman, 1980) developed a system for identifying important environments called SPIRE (A Systematic Procedure for Identifying Relevant Environments for Strategic Planning). SPIRE is an effective tool because it combines data with computer analysis to iden-

tify environmental factors that are likely to affect a company's strategic operations. Retailers have a variety of other computer analytic tools to help identify changes.

Depending upon the speed of the movement of the change, differing types of scanning may be required. Some retailers use continuous scanning, which creates a new cost. Others use intermittent scanning, which can create a 'crisis-response' situation that is not preferred. Some type of regular scanning is highly recommended. In terms of creating a scanning technique, often ad hoc studies are undertaken, structured data-collection systems are used and crisis-avoidance or response systems or models are also used. Once the change in the environment has been identified, the retailer must determine if it is necessary to keep an eye on that change. Some questions to ask are: What's the nature of the change? What's the direction of change? How fast is the change occurring? What is the magnitude of the change? What will be the impact of the change on the retail industry?



### Step 3: Monitor the Change

During this step, retailers attempt to understand the changes in terms of their *nature*, *direction*, and *magnitude*. Monitoring change is a function of marketing or business research. Although larger corporations create models to monitor the change, smaller retailers utilize already-published data (secondary data) such as newspapers, internet sites, business magazines, non-business magazines, trade associations, chambers of commerce, the Conference Board, and others. The government is a great source of data and information to assist in monitoring change. Trade sources and the government offer some of the best (and often free) sources of information to allow for change monitoring. The United States Department of Commerce, Bureau of Labor Statistics, Data Resources, Inc., Yankelovich, Inc. D&B, IRI, Nielsen and others are great sources for information and data that will allow the monitoring of environmental change.

While monitoring the change, the retailer must pay attention to what could occur in the future. Remember, the future is unknown, so the retailer may have to guess as to what will occur (or perhaps utilize research). Thus, the next step is to forecast.

### Step 4: Forecast the Impact, the Timing, and the Consequences of the Change

Because they want to be ready when the change occurs, retailers may have to project what will occur in the future by using historical trends and data. The better the monitoring system, the better the identification of relevant environments, the better the forecast. The objective is to estimate the timing of the change or force and its impact on the retail operation. The techniques presented below are popular with retailers:

- SWAGs or *guesstimates*. Often called individual judgment. It's very hard to initiate cause and effect studies (called causal modeling) because the actual cause of the change may not be known. Therefore an expert might create a best guess. In practice, best guesses are often called SWAGs (or Scientific Wild Ass Guess) based on any/all information and data available. There are, obviously, validity and reliability issues with this method.
- *The Delphi Method*, developed by the Rand Corporation, utilizes a panel of knowledgeable people or experts. The experts are individually questioned without a group discussion. The individual responses from the panel members are brought together and summarized. The most popular responses are then re-sent to the panel until the panel has some degree of consensus regarding the forecast or responses.
- If specific causes of change can be identified, and those causes can be correlated and expressed in equation or econometric modeling form, modeling can be undertaken. *Modeling* typically regresses thousands of pieces of data and forecasts outcomes as changes in the environments occur. Judgment is often used to help modify the models as time progresses.
- *Trend Extrapolation* came about because of the intuitive nature of the Delphi Technique forecasting. Trend extrapolation does not consider causes of change in the environment. Trend extrapolation, rather, projects historical trends into the future. It assumes the factors causing the change will be like those causing change in the past. It is typically used when the nature of the change is not very well understood.
- *Scenarios* are cases, or verbal pictures, of a potential future. An in-depth account of events that created the situation or scenario described should also be included. Usually more than one scenario is developed. By developing more than one scenario, different strategic directions for response can be tested and evaluated. By looking at the various scenarios, retailers can develop more realistic-based responses to the environmental changes.
- *Cross-Impact Matrices* are tools for assessing retailers' environments and estimating their collective impact. *These tools* are used to search for integrated and consistent visions or descriptions of the future of the retailer after the environmental force hits. Each force is assigned a score (often between -10 and +10) in a table based on its own strength and the strength of interactions with other forces. When adding up the scores, they separate to determine driving versus inhibiting forces. Cross-impact matrices can help to identify interactions among other forecasting techniques that are consistent. The cells can then be looked at to see if the occurrence or nonoccurrence of change will have an impact on the retailer by (1) altering the likelihood of another event; (2) having a strong or weak influence on another event or (3) speeding up or delaying another event. The overall concern of the



cross-impact matrix becomes the complexity as additional events (or large numbers of events) are placed into the equation.

Chapter 6 of the text focuses on the processes used for the creation and understanding of market and marketing research. Statistics and research methodologies are a great tool in helping to generate data that will help assess the impact, timing and consequences of action or inaction.

A thorough understanding of the market and retail operations is required to develop effective strategic responses to environmental changes. Numerous strategies should be developed and studied in order to select the best response strategy.



### Step 5: Developing Strategic Responses to Changes in the Environment

A decision on how to react to change is both a fact-based and intuitive process. The idea is to match the retailer's strength with the changing marketplace. Retailers access the retail information system to help provide additional data and information that will be used to deal with the external environmental change. Remember, retailers often have limited funds, skills and other limitations. There must be a creative and fact-based response. What needs to be done and when it needs to be accomplished should be delineated. Use the following guidelines:

- *Focus on Probability, Consequences and Timing.* The goal is to balance the probabilities of occurrences with the consequences of those occurrences as potential strategies are evaluated. If there are dangerous outcomes or consequences, the situation must be dealt with even if the probability of occurrence is low. Alternatively, if there is a great marketing opportunity with great rewards, that outcome is given attention even if the probability of occurrence is low. Efforts should be focused on prioritizing events that are most likely to occur and that have the most significant outcomes or

consequences. The objective is to exploit positive outcomes and tamp down negative consequences. Finally, it's important to concentrate on those occurrences that are likely to occur soon. Timing is extremely important!

- *Stay Flexible* in order to be able to change quickly. Remember, the only constant in the universe is change. Forecasts are based on historical sampling data and probabilities, so there must be flexibility in the strategic response. Employees who are entrepreneurial or who have an entrepreneurial spirit are good candidates.
- *Develop Counterforces* in order to modify or slow the force. When a retailer responds to an environmental force, they either try and modify the force or they change their response strategy. It is often impossible to modify a force (such as a natural disaster) and attempts to modify the force may be unsuccessful. If the force can't be modified, retailers must adapt to the change.
- Create an *"If you can't beat them, join them"* or *reposition strategy*. Alter your marketing strategy to reduce or eliminate the force. If you can reposition away from the trajectory the force is taking, the retailer can reduce the impact. Or, the retailer may want to reposition in order to join the force's potential path. In any case it should reduce the impact of the environmental force.

## DEMAND ANALYSIS AND FORECASTING

After changes in the environment are identified and after the retailer has created a strategic response to the change, it's time to look to the future. Any type of environmental change will have an impact on demand, sales and revenue. Disruptions in the supply chain should also be considered. At this point the retailer must ask where the best marketing opportunities exist. A revisit to the market opportunity analysis (MOA) will help reduce losses and take advantage of potential markets that will increase revenues and sales.

Retailers need to look at all potential markets and assess each market's value by looking at the market's size, the market's requirements, and the typical behaviors of competitors. For example, Melitta is a popular brand of coffee filters. The company has been in business over 100 years. When the coronavirus hit, safety masks were in short supply in Germany. The company realized that making masks and making coffee filters had a similar process. The company also had a division that made vacuum cleaner bags. After quickly assessing the situation, the company used their knowledge and equipment to make medical-grade masks. In the first month, the German company produced over 10 million masks. While the company had considered making masks in the past, the company considered the market too small, until the pandemic caused exponential market growth (Schuetze, 2020).

A funnel approach in trying to identify market opportunities is useful.

- Identify the market area's population.
- Subtract out the Generic Class Market
- Subtract the Product Market
- Subtract the Brand or Niche Market  
= Demand and/or Revenue

Each of these steps is based on consumer buying decisions. When the consumer wants to know:

- Which needs or wants to satisfy, it creates **Generic Product Demand**.
- Which type of product will best satisfy needs or wants creates **Product Demand**.
- Which specific brand of the product will best satisfy wants and needs creates **Brand Demand**.

The retailer must assess demand potential and make a forecast at each level of demand (generic, product and brand). In addition, retailers and demand analysis specialists forecast upper limits, lower limits and expected demand for each level mentioned above. The upper limit represents demand (and/or revenue) if the retailer sells the entire category. The expected forecast is what the retailer can expect to happen (based on input variables). For each level of demand there will be a market profile, industry profile and a demand potential (selling the entire market) and forecast.

Generic Market Profile + The Industry Profile = Aggregate Demand Potential and Forecast

Product Market Profile + Product Industry Profile = Market Demand Potential and Forecast

Brand Demand Profile + Competitor Profile + Retailer's Brand Positioning Position/Strategy/  
Tactical Executions = Sales Demand Potential and Forecast

In building the forecasts make sure to include all outside influences on the markets such as market composition, market requirements, the economy, population growth, key competitors and other variables that could affect demand for a market.

Next, we take a closer look at the impact of the pandemic on retail employees, how some retailers are thriving during the pandemic and the future.

## RETAIL EMPLOYEES DURING COVID-19

### Incentives for Essential Workers

With the increase in sales, more employees were needed. Many retailers rewarded and incentivized their employees with temporary pay hikes under the monikers of Service Pay, Hero Pay and Hazard Pay. Kroger initiated a "hero bonus" of \$2 per hour for frontline and other "essential workers." Albertsons granted a \$2 "Appreciation Pay" bonus to its 230,000 employees' checks. Walmart provided two bonuses: \$300 for full time and \$150 for part-time and temporary employees. Amazon paid a bonus of \$2/hour and doubled overtime pay. All good things come to an end and that is the case with the temporary pay hikes that many retailers instituted. By the end of May and June 2020 many of the bonus pay programs were ending as states lifted the stay-at-home orders. United Food and Commercial Workers International Union (UFCW) called on retailers to reinstate essential pay until protective gear is no longer needed.



Much of the retail grocery growth was due to online shopping. According to Coresight Research (Redman, 2020b), online grocery sales are projected to grow about 40 percent from 2019 levels.



## Safety and Health Concerns

Since the start of the pandemic, front line retail workers have been spat on by disgruntled customers, suffered physical violence from angry customers and have been greeted by irate customers who blame employees for empty shelves.

According to the United Food and Commercial Workers International Union (UFCW) (2020), at least 68 grocery workers have died and more than 10,000 have become infected or exposed to the virus. This is a conservative number as many retailers, including Walmart, Trader Joes, Whole Foods and Kroger, did not release information on deaths and infections.

According to one retail employee (as cited from the UFCW website 2020, para 9):

“There is a lot of fear in my store because of the virus. Every day, we prepare like we’re going into battle with the virus. We are exposed to thousands of people every day for hours and the reality is it only takes one person to expose an entire store. Kroger ended our ‘hero pay,’ but the crisis is not over. I face each day with anxiety and it gets worse when I see customers refuse to wear masks. I am a mother and my children need me to stay healthy,” - a Kroger meat department worker in Lansing, Michigan.

Early in the pandemic retail employees protested the lack of personal protection provided by employers. Protests at Amazon’s facilities led to changes in warehouse policies, including screening for sickness and mandating social distancing (Dzieza, 2020). United for Respect, an advocacy group, says that retail employees should have a seat on the board of directors. Walmart’s em-

employees are attempting to exert more influence and to have a bigger seat at the table, including board representation. This step would require investor support and support from the Walton family, who own half of the company. Still, the concern for worker safety may be the tipping point for employee representation on the board (Jones, 2020).

In March, 2020, Remish and Mercer/Sirota conducted an online focus group with 256 retail employees from various organizations. When asked how retailers can help, many had financial concerns and wanted assurances that employees would keep their jobs and receive paid leave if they became sick. Employees wanted straightforward communication with daily updates. Safety and health for themselves and other employees were essential. They felt people should be able to stay home when sick. Finally, employees called for better emotional and psychological resources and support (Caputo & Hyland, 2020). Retailers who listen and respond to employees' concerns are more likely to retain them during this uncertain time.

## Retailers that Are Thriving During the Pandemic

Despite all of the negative impact retailers face in a worldwide pandemic, some retailers are not only surviving but have benefited from a revenue and company value perspective. Those retailers who were strong before the pandemic fared better during the pandemic. For example, the largest retailers (Walmart, Amazon, Costco, Target) are positioned for record sales and profits. Walmart reported a 74% surge in online sales from February to April 2020 (Bhattarai, 2020) and Target's ecommerce surged 141% (Davis and Toney, 2020).



RV (recreational vehicle) retailers experienced a surge in demand as vacations were canceled and the fear of staying in hotels or rentals increased. People were tired of staying home and the RV provided them more control over their environment. A survey by MMGY Travel Intelligence (2020) showed that 67% of respondents are likely to travel by personal car in the next six months. This is more than twice the percentage of respondents who reported planning to travel by air during the same period. Other segments experiencing an increase in sales include home pool installation and home exercise equipment and products.

While sales for some companies are rising, so are customer complaints. The Federal Trade Commission (2020) reports that complaints related to COVID-19 surged. Top areas of complaints include cancellation and refunds for travel, and problems with online shopping. Scams related to the coronavirus were also a concern as consumers reported losses of \$4.77 million due to fraud. Amazon's customers alone left 800,000 negative reviews during April, 2020, twice the number from 2019 for the same month (Newton, 2020).

Retailers who adopted an omnichannel strategy are also more likely to survive. Smaller retailers often do not have an integrated omnichannel strategy and struggled to compete after the pandemic hit. Small retailers account for about 40% of overall retail sales (pre-pandemic). Small business closings result in substantial job losses, especially for rural communities.



## Grocery Industry Sales Rise Significantly

The retail grocery industry did very well during the midst of the Coronavirus. As an industry (NAISC 4451), revenues rose 14.4% the first four months of 2020 over the same time period in 2019 (U.S. Census, 2020). The Kroger Co., the largest grocery retailer in the U.S., noted that customer behavior began changing in the last few days of February, 2020 as shoppers stocked up on sanitizer, cleaning products, water, paper goods, boxed meals and health-related products in preparation for stay-at-

home orders. The company experienced a 30% year-over-year growth in the online and brick-and-mortar combined business. Increases in grocery sales are attributed to restaurant closures, stay-at-home orders, increased caring for children in the home, fear of going out, and stockpiling (Redman, 2020a).

During the beginning of fiscal 2020, the Albertsons Companies (2020), the second largest U.S. grocery chain that also operate the Safeway, Jewel-Osco, and Acme chains, reported that identical sales increased 47% during the first four weeks of fiscal 2020 (ending March 28, 2020) and increased 21% during the second four weeks of fiscal 2020 (ending April 25, 2020)

Grocers were not the only retail winners. Retail giants like Walmart and Home Depot reported boosts in the first half of 2020, due to panic buying as Americans stayed home. Walmart's online sales surged 74%, lifting overall sales by nearly 9% from February to April of 2020. Meanwhile, Home Depot said its revenue rose 7 percent. Walmart provided free masks and gloves to employees and, like many other brick-and-mortar retailers, installed sneeze guards at its checkouts. Walmart spent nearly \$900 million on employee bonuses and other COVID-19 related costs (Bhattarai, 2020).

## The Future

So where does retailing go from here? During the COVID-19 pandemic, phrases like, “unprecedented,” “new normal,” and “we’ll get through this together” were ubiquitously used throughout media and became the mantra for several marketing campaigns. Marketers paused their overt sales messages to, instead, convince people how much they cared for their customers, their communities, and the world.

## Radical Changes in Retailing

According to McGahan (2014, para 10), radical transformation of an industry is unusual and occurs when “both core activities and core assets are threatened with obsolescence.” There has to be new technology, regulatory changes, changes in consumer tastes or some crisis that forces transformation. For the retailing industry, the crisis may be COVID-19.

There are many areas of concern for the retail industry including insurance, travel, automotive and department stores. Many businesses are operating in a limited capacity or have ceased operations permanently. By May, 2020, 260,000 U.S. retailers had temporarily closed their stores during the coronavirus outbreak (Bhattarai, 2020).

Of particular concern are regional shopping centers. The demise of malls has been forecasted for years. Mall expert and consultant, Paco Underhill (personal interview, 2020) is far more optimistic. He posits that there are many strategies that, although not often utilized within the U.S., could breathe life and foot traffic into the malls. For example, bringing a day-care center into a mall would not only attract young parents, but would be appealing for a mall tenant selling children's goods. Underhill suggests malls consider leasing space for offices, apartments, churches, schools, medical practices, upscale grocers, and libraries. Underhill goes on to state that the most underused asset for malls is the crumbling parking lot. One could imagine seasonal pop-up shops or mobile food and retail trucks.



While a world-wide pandemic will make recovery slow and painful, changes in the shopping model are not new. The Sears catalog, now defunct, was seen as a great innovation as it allowed customers to purchase products they could not physically examine. In 1916, a Memphis, Tennessee Piggly Wiggly store was the first self-service supermarket and allowed customers to choose what they wanted and then pay at a central checkout area. When customers can see and touch their own items, they buy more (Turrow, 2017). This idea caught on and is still present today (Strasser, 1989). In 2002, Apple changed retailing when they sold digital goods directly to consumers via iTunes. In 1994 a major disrupter entered the scene. Amazon became a one-stop shop for the masses and in 2005 developed a membership program called Amazon Prime which gave users free two-day shipping, access to music and movies and other perks. Today there are over 100 million Prime members.

### Changing Consumer Behavior

According to a May, 2020 survey by *Salesforce Research*, due to the convenience and the positive experience during the stay-at-home orders, many customers will continue to buy items online even after the pandemic. To return to stores, consumers need assurance of safety precau-

tions such as social distancing measures and use of personal protection equipment for employees and customers. Many consumers indicate they won't return until there is wide-spread availability of COVID-19 testing and/or a vaccine. Older people tend to more cautious with return to in-store interactions.

Experts predict that COVID-19 will significantly change our lives. Shown below are some of their predictions that impact retailing (Hochman, 2020):

Expert	Prediction
Eric Toner, M.D., Senior Scholar, Johns Hopkins Center for Health and Security	Mask wearing may draw political and generational lines.
Rami el Samahy, Boston Architect	“Clean’ is the new ‘green’” (p. 10) as businesses make clear their elevated hygiene efforts.
Tim Wu, <i>New York Times</i> opinion columnist and author of “The Curse of Bigness”	The distance economy will grow as people are using online to buy things never considered before the pandemic
Ken Doctor, Media Analyst	The pandemic is an “extinction event” for the newspaper industry
Jeffrey Cole (2020), Director for the Center for the Digital Future	Going to the movies may be replaced by streaming at home. If movie theaters survive, the industry will be much smaller.
Abraham Madkour, Publisher and Executive Editor of <i>Sports Business Journal</i>	The Fear of Going Out (FOGO) will grow as people avoid large crowds. Sports events will operate at 25 – 30% capacity with strict attendance standards such as segmented arrival times.
Bert Sperling, Founder of BestPlaces.net	Society will rethink commuting as fewer people opt to take mass transportation.
Brian Kelly, The Points Guy founder	Rental shares such as Airbnb will face less consumer demand as staying in someone’s house becomes less appealing during a pandemic.
Nora Super, Senior Director of the Milken Institute’s Center for the Future of Aging	People are considering moving to less populated cities. Older people considering downsizing may stay put as space is more desirable.

## Retailer Activities to Move Forward

McKinsey and Co. suggest that companies must act across five stages to emerge from the pandemic (Sneader & Singhal, 2020):

1. **Resolve** is the need to determine the scale and depth of action required at the business, state, and national levels.
2. **Resilience** refers to the need to stay the course despite uncertainty.

3. **Return** refers to actions needed to return businesses to operational health after shut-downs.
4. **Reimagination** is about reinventing oneself and businesses to leverage the opportunities that will emerge.
5. **Reform** refers to improvements and flexibility to weather future crises.

Waldron and Wetherbe (2020) describe five key strategies they call the “HEART framework of sustained crisis communication” (para 6):

1. **Humanize the company** – Retailers should let customers know they understand the changing environment and that they care. Communicate the value that the company creates for customers.
2. **Educate about change** – Retailers need to communicate to their stakeholders the changes to the operation and their responsiveness to concerns.
3. **Assure stability** – Retailers should let customers know that the business will continue to provide products and services (now or upon reopening) and how the retailer will maintain their value propositions.
4. **Revolutionize offerings** – Retailers need to adapt to changes and invent new ways to provide value.
5. **Tackle the future** – Retailers should be proactive and determine how and when the business will reevaluate changes in operations; they should learn from the crisis and keep the changes that improve the customer experience.

The implications on in-store merchandising and hygiene will also be critical to successful retailing. Underhill (personal interview, 2020) points out the need for retailers to consider hygiene from two perspectives – design and operationally. The design of the space, the interaction with products, traffic flow, signage, furniture, employee engagement, entrances and exits are all considerations that retailers must now address. Operationally, stores must be cleaned and disinfected more often and will likely require greater expense in terms of equipment, cleaning products, and labor.



## Summary

Retailing will be forever defined as before COVID-19 and after COVID-19. We do not yet know how different the before and after will be. Even after the economic fallout is calculated, there will be questions that remain unanswered. The use of planning, technology, employees, and information security could play a large role as retailers move forward. Retailers are being asked to perform under extraordinary uncertainty. The new normal may not include small businesses and some iconic brands that were unable to recover. Still, there will be entrepreneurs who leverage the changes to create new retail establishments.

The challenge for retailers will be to consistently perform environmental scanning and to keep customers and employees safe while providing engaging, efficient, and even fun shopping experiences. Brands must continue to improve the customer experience and better connect with their customers if they want to remain relevant. Retailers of all sizes need to gain a deeper understanding of their markets to better connect with their customers.

The pandemic shutdown may provide opportunities for retailers to examine their brands in terms of brand promise, brand message, and brand attributes. Doing so will empower retailers to better understand and align their own purpose, mission, and vision for their stakeholders.



## Discussion Questions

1. Give two examples of retailers that perform environmental scanning well. Provide a rationale for your choices.
2. What retailers did well during the outbreak? How could they improve?
3. What impact does a pandemic have on a retailer's supply chain?

4. In what ways does customer behavior affect the supply chain?
5. Suggest ways retailers can lessen the impact of the pandemic on business.
6. What types of changes in consumer behavior that occurred during the pandemic do you think will continue? Explain.

## Exercises

1. Choose a major retailer and discuss their response to the COVID-19 outbreak.
2. Research a major retailer that closed during the COVID-19 outbreak. What environments impacted their business operations?
3. What would retailers have to do to make you feel more comfortable shopping in a physical store? How about entertainment retailers, like movie theaters and music venues?
4. What advice would you give to retailers to retain employees during the pandemic? Research a company that is treating their employees well and one that is not treating employees well and explain their actions.

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## Case

### Sherwin-Williams Adapting to Change During COVID-19



Based in Cleveland, Ohio, Sherwin-Williams (symbol: SHW) was founded in 1866 and is dedicated to innovating and distributing paints, coatings, and related products to professional, industrial, commercial, and retail customers. The company is vertically integrated, which means that the company controls the supply chain, including manufacturing, development, production, transportation, and sales.

There are 4,900 company-operated stores and facilities where Sherwin-Williams branded products are exclusively sold. Brands include Valspar, HGTV HOME<sup>®</sup> by Sherwin-Williams, Dutch Boy, Krylon, Minwax, Thompson's Water Seal, Cabot and many more. These brands are sold through various retailing venues including home centers, mass merchandisers, independent paint companies and automotive retailers and detailers.

To remain competitive and nimble in their environments, many retailers and organiza-

tions adjust their strategy to capitalize on their brand successes and adapt to the changing environment. The purpose is to broaden the retailers' customer bases by developing products and services that allow them to capture new markets or expand their current market base. However, 2020 has been a challenging year for many retailers, including Sherwin-Williams.

At the end of their first quarter financial reporting, Sherwin-Williams initially predicted that the rapid decline in the world economy due to COVID-19 would carry through to the second quarter. They did not see an improvement in their markets and could not predict when improvements would be seen. They predicted second quarter 2020 consolidated net sales to decrease by a low-to-mid-teen percentage versus the second quarter of 2019.

Sherwin-Williams' company-owned brick-and-mortar stores were closed during the pandemic shut down orders. The stores were able to complete some sales with curbside pick-up. This change in operations strikes at the heart of Sherwin-Williams' core values: customer service and to provide expert product knowledge of its products from store personnel.

A challenging market did not discourage Sherwin-Williams. According to the website ([www.sherwin-williams.com](http://www.sherwin-williams.com)), in June 2020, the company announced an improvement in all three of their business segments during the second quarter. This improvement was due to the quick change in business operations and included curbside pick-up, utilizing their fleet of over 3,000 delivery vehicles, and leveraging their e-commerce platform. They gradually opened nearly all of their sales floors and ensured safety measures were implemented to protect employees and customers. Safety measures included enhanced cleaning and sanitizing procedures, establishment of a COVID-19 Intranet Resource Center (for employees), cancellation of large events, temperature checks and social distancing policies, and limiting the way customers can order and receive products.

The Do-It-Yourself (DIY) segment remained strong while the residential repaint and new residential segments improved at a faster rate than other segments of the business. In the Consumer Brands Group, the demand from their retail partners remained strong. The demand was driven by consumers who were stuck at home and decided to tackle DIY projects.

### Questions:

1. What activities made Sherwin-Williams successful during the pandemic?
2. Do you believe Sherwin-Williams will be outperformed by a competitor? Explain. What can Sherwin-Williams do to prevent the competition from capturing their customers?
3. What are ways Sherwin-Williams can leverage the process of customers ordering online and picking up at a local store and still maintain customer service levels?
4. What are the advantages and disadvantages of Sherwin-Williams manufacturing their own products and selling them through a variety of channels?
5. What are the characteristics of a strong brand name that will help the brand through a crisis?

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Sources: Sherwin-Williams website; Press Release (June 22, 2020). Sherwin-Williams Increases Second Quarter 2020 Sales Guidance. Retrieved from <https://investors.sherwin-williams.com/press-releases/press-release-details/2020/Sherwin-Williams-Increases-Second-Quarter-2020-Sales-Guidance/default.aspx>

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