



EFFECTUS

ECOSYSTEM OF PRODUCT:
MONTHLY UPDATE AND OUTLOOK

April, 2020



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April Newsletter

As the spread of COVID-19 continues to shape the business world with a number of unprecedented effects, it is imperative that we remain vigilant and informed about the implications that this could have for both us and our client partners, especially those in the consumer product space.

Market Watch Summary

According to the U. S. Department of Commerce, March saw a record drop of 8.7% in U.S retail sales, where clothing stores were the most affected, followed by other categories such as motor vehicles, electronics and sporting goods. Under new regulations such as 'shelter-in-place,' consumers quickly shifted their shopping patterns and spending to more essential needs leading to an increase in sales of up to 25.6% at grocery and beverage stores.

As the COVID-19 situation continues, April retail sales are expected to be much worse as many manufacturers slow (or halt) production, supply chain processes are disrupted and restrictions that affect store purchase activity continue. Wells Fargo's CFO has recently announced that consumer spending early reads have already fallen 35% - 36%, week over week in April versus the prior year. In addition, as society adapts to the 'new normal,' panic buying has now largely subsided and more people are starting to save for the challenging months ahead. With the rise of unemployment numbers and uncertainty of the short-term future, people have less to spend and are more conscious now than ever of where they choose to spend it.

E-Commerce Trends

The emergence of e-Commerce is not new to the retail landscape, but the circumstances related to social-distancing and quarantining are creating new dependencies for both online shopping veterans and those that are new to the direct-to-consumer (DTC) platforms. Business leaders report that a digital platform is only allowing them to recover a fraction of lost sales due to store closures, but for many smaller companies, this is the only source of income keeping their business afloat.

Now, more than ever, it is becoming mission-critical for our clients to capitalize on a strong digital presence that delivers effective messaging and user-experience comparable to other expressions of their brand. While many consumers will return to the brick-and-mortar shopping experience post-COVID-19, we can expect some users to latch onto this newfound convenience for future purchases which could hurt businesses without a strong e-Commerce strategy.



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A Reminder that Cash is King

With a rapidly growing unemployment rate, consumers are not the only ones facing financial problems – this situation has also been a learning experience for business executives when it comes to the capitalization of their business. Regardless of the nature of work our clients do, cash (or liquid assets) is the life force for business continuity, especially in the midst of turbulent times where business is significantly disrupted and 'riding it out' is the only option.

While debt can be a valuable instrument for injecting capital into a business, overleveraging could create constraints for businesses subject to debt covenants without a plan for business continuity. According to Reuters, companies like GE are carrying out debt buy back and issuance plans. While it's unclear whether or not this is in direct response to COVID-19, it's important to remember business strategy extends beyond marketing.

A Plea for Help: Extended Payment Terms

As the retail space is deviating further from business as usual, retailers are revisiting conversations with their supplier and manufacturing counterparts to temporarily extend their credit terms to as much as Net-120, giving retailers 4 months to move inventory and pay their vendors. While this is beneficial to retailers, the pass-through impact is on the vendors, suppliers and manufacturers who also require the funds to satisfy their own financial obligations.

Supply Chain Under the Magnifying Glass

Due to supply chain disruption all over the world, we may begin seeing a shift in procurement strategies for both raw materials and finished goods. As buyers are reminded of the link between diversification and exposure, this could translate into businesses reconsidering where they purchase their goods from (e.g. domestic versus international) and who they do business with. This could create more competition for brands looking to secure brick-and-mortar placements while also creating more opportunities for organizations with a capacity for new business.

Pause and Resume: Retail of Nonessentials

Businesses like Dick's Sporting Goods, while normally a powerhouse in sports equipment and apparel retail, have reluctantly had to furlough employees from retail, distribution and even corporate headquarters due to the nature of their products being nonessential. While we could begin seeing more businesses moving in that direction, e-Commerce-giant, Amazon, is beginning to let their third-party sellers resume the shipping of nonessential items which could be a step towards normalcy for the rest of the retail space.

While some of the nonessential industries such as apparel saw a 13% drop in e-Commerce sales in March, according to Adobe Analytics, it was found that among the most popular items in people's digital shopping carts were wellness products, gym equipment, toilet paper and canned foods. Additionally, categories related to virus protection products such as gloves, masks and hand sanitizers surged 807%.

