

## Covid-19 Impact on Retailing

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### ABSTRACT

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 high. Traditional retail formats were no longer working as Omni channel retailing took hold. Very few could have predicted that retail employees would become essential workers as a pandemic hit the world. The retailing industry took a major hit and experts are unsure about a total recovery. In this paper we examine the impact of COVID-19 on retail environments and what the future of retailing may hold.

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### Introduction

The retail industry has had ups and downs over the past few years such 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. 2019 was a record breaking year as over 9,300 stores closed, a 63% increase from 2018. While some viewed the retail landscape as apocalyptic, others viewed it as in transition. According to a 2019 report from IHL Group, the press tends to focus on negative news. Their 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 2017-2019 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 and restaurants.

In early 2019, retailers had reason to be optimistic. Unemployment was low and while many retailers closed branches, overall, retailing sales 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 [1]. Traditional retail formats were no longer working as Omni channel retailing took hold. Very few could have predicted that retail employees would become essential workers as a pandemic hit the world.

In this paper we examine the impact of COVID-19 on retail environments and what the future of retailing may hold.

### Enter Covid-19

In the fall of 2019, the novel SARS-CoV-2 coronavirus emerged

in Wuhan, China [2]. On December 31st, 2019, spokespeople from China told the World Health Organization (WHO) of an outbreak of a novel strain of coronavirus causing severe illness. This was the beginning of a pandemic that 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.

### COVID-19 Timeline

Tracked the environmental impact of the virus on retailers. The following highlights are modified from Retail Customer Experience [3].

- January 31, 2020: Coronavirus likely to impact airport travel, retail worldwide
- 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 6, 2020: Amazon begins to deploy masks and taking worker’s

temperatures

April 7, 2020: Target workers get masks; gloves...customers get more space.

April 8, 2020: Self-service grows

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 e-commerce upward 'big time'. Treatment of essential workers impacting consumer decision-making

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

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

May 5, 2020: Consumer mindsets are shifted during the virus outbreak

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

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

### Impact of Pandemic on Retail Environments

In the following section we look at the main environments impacting retailers and how COVID-19 has impacted these environments. 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 Feb/Mar 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 that 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 [4].

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

### Impact of COVID-19 on 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" [5]. 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 [6-9].

How long will the effects of the coronavirus remain in consumer's psyches? It is unclear. Products serve as "psychological" salve to reduce distress [10]. Often to maintain stable human psyche levels, individuals monitor the congruence between their present state (or actual self) and a goal state (or ideal self) [11, 12]. When a person perceives a self-discrepancy, or an inconsistency between one's ideal and actual self, she seeks to correct the discrepancy for many consumers this results in altered consumer behavior. It is evident that the pandemic is affecting psychological functioning. A study by NORC at the reports that people's happiness is the lowest it has been in fifty years [13]. The study, conducted in May 2020, reports that only 14% of American adults say they are very happy compared to 31% in 2018, representing a 17% drop.

### The Government/Political Environment

The government and political environment includes information on laws and how political decisions are impacting 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 parties politicized the virus outbreak. There is a wide partisan gap on views of President Trump's response to the outbreak. 83% of Republicans and people who lean Republican rate Trump's response as either excellent or good while only 18% of Democrats and Democratic leaders agree. In addition, according to the Pew Research Center [14].

1. Democrats/Democratic leaders are more likely than Republicans/Republican leaders to see the coronavirus in the most serious terms. 78% of Democrats and people who lean Democrat believe the outbreak is a major threat to the U.S. population while 52% of Republicans and people who lean Republican feel the same.
2. Both Parties (Democrats, 36% and Republicans, 30%) say that someone in their household has either lost a job or taken a pay cut due to the coronavirus outbreak.
3. The two major parties differ on how people across the country are reacting 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 believe that people in the U.S. are not taking the virus seriously enough while 48% of Democrats/Leaners believe 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 play a role in changing people's perspectives on the economy and this may impact consumer spending. She says that consumers look at brands as extensions of themselves and are more aware of retailer's social stances as they represent their own lifestyle [15].

## The Technological Environment

The technological environment includes changes and improvements in technology that help consumers and/or retailers [16]. Lists technology trends that have emerged during the pandemic. Trends impacting retailing include:

1. The growth of online shopping and contactless delivery, including using robots for delivery
2. Increase in digital and contactless payments
3. Increase in remote work arrangements
4. Rise in health care organizations providing telehealth services
5. Internet and streaming technology allowed many types of technology to move online
6. Usage of technologies in supply chain management increased including cloud computing, Big Data, Internet-of-Things (IoT), circular economy, and blockchain (electronic ledger used to record cryptocurrency transactions)
7. Increase in usage of 3-D Printing to make health care equipment such as masks and ventilators
8. The use of robotics and drones increased for such things as cleaning, food delivery and walking dogs

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 the economy, 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 [17]. 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 [18].

Low consumer confidence and, in some instances, constrained supply channels the first quarter of 2020, had a profound negative effect on the U.S. economy. According to the consumer spending dropped a record 13.6% in April 2020 [19]. 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 [20].

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 what shape the economic recovery will take.

Retailers are hoping that pent-up demand will result in a return to pre-pandemic sales. Others fear that people will realize they do

not 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 people wearing masks in public spaces may become the norm.

## The Natural Environment

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

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

Currently the pandemic is getting the most attention due to the far reaching impact but there are other disasters that occurred in 2020 that also impact 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 globally 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 [21].

## The Future

### Radical Changes in Retailing

According to, radical transformation of an industry is unusual and occurs when “both core activities and core assets are threatened with obsolescence [22].” There has to be new technology, regulatory changes, and 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. There are many businesses 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 [23].

Of particular concern are regional shopping centers. The demise of malls has been forecasted for years. Mall expert and consultant, Paco Underhill 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 crumbing parking lot. One could imagine seasonal pop-up shops or mobile food and retail trucks.

### 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 precautions such as social distancing measures and use of personal protection equipment for employees and

customers. Many consumers indicate they will not 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 [24].

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, New York Times 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 theatres survive, the industry will be much smaller.
Abraham Madkour, Publisher and Executive Editor of Sports Business Journal	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 less 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.

The implications on in-store merchandising and hygiene will also be critical to successful retailing. Underhill 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 engage, 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.

### Conclusion

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 at the ones that were already distressed before the crisis” [25]. 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 role of planning, technology, employees, and information security may play a great 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, who were unable to recover. Still, there will be entrepreneurs who leverage the changes to create new retail establishments [26].

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.

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