

BAIN & COMPANY 

COVID-19 Retail Webinar

Scenarios and implications
for Brazil

March 30th, 2020



Introductions of our team today



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Impact by retail sector in Brazil and how to face the next steps



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Global and European learnings



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Chinese learnings and crisis response



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Agenda



1

What are the possible scenarios for Brazil?



2

What are expected impacts during and after the crisis, by retail sector?



3

How to be prepared to face the upcoming phases?



4

Q&A

Agenda



1

What are the possible scenarios for Brazil?

15 min



2

What are expected impacts during and after the crisis, by retail sector?

10 min



3

How to be prepared to face the upcoming phases?

5 min



4

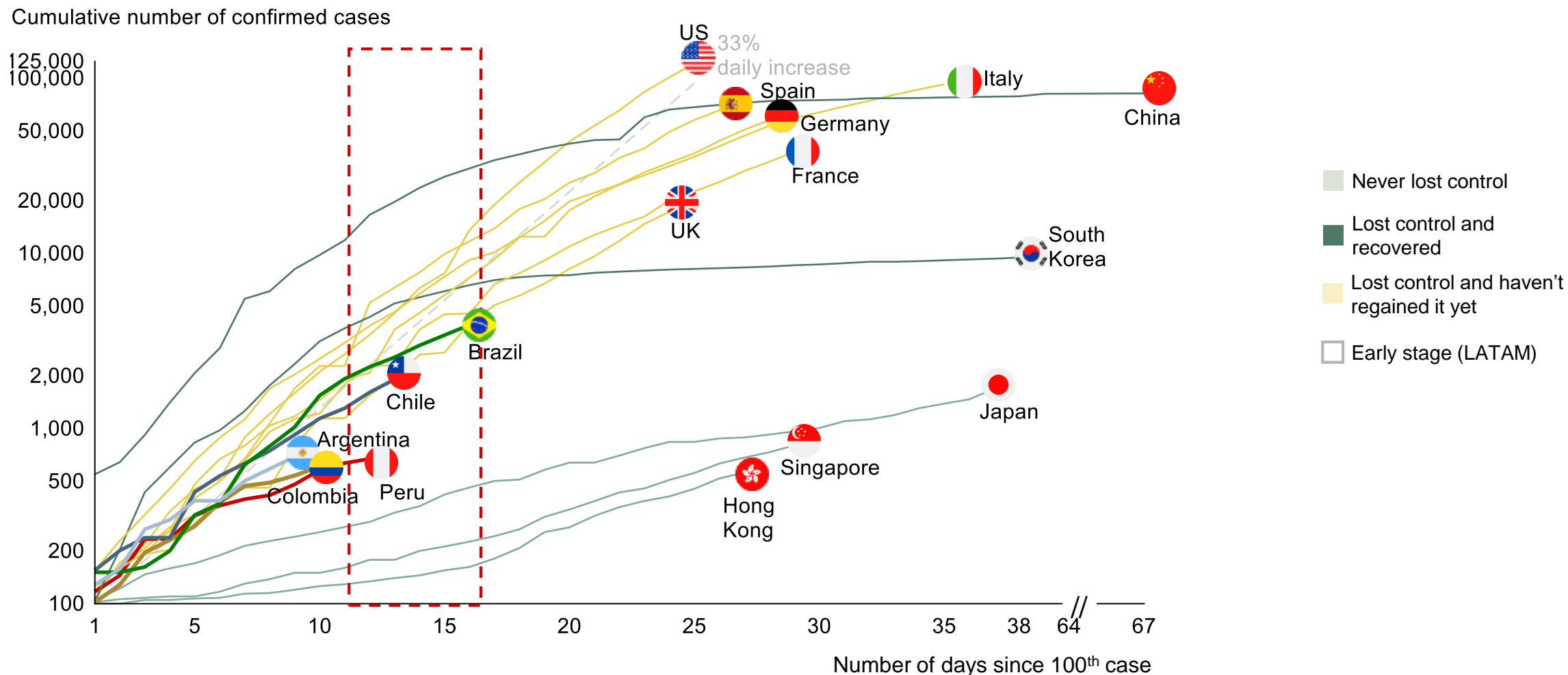
Q&A

30 min

There are 3 types of Covid evolution

Brazil is currently following the European trend

/ UPDATED ON MAR, 29TH













Note: Average case growth from the 12th to the 16th day after the 100th case (current period in Brazil)
 Source: JHU Coronavirus Data Stream 29/03; media press.

Where Brazil stands right now vs other countries?

Snapshot at ~4000 cases

■ Never lost control
 ■ Lost control and recovered
 ■ Lost control and haven't regained it yet
 □ Early stage (LATAM)

/ UPDATED ON MAR , 29TH

Country	How covid is evolving?			How is impacting the population?		How is impacting the Health system?	
	Days from 100 – 4.000 cases (# days)	Tests with 4.000 cases (# tests; k)	Growth rate (last 5 days)	Deaths with 4.000 cases ¹ (# fatalities)	incidence (Cases/1M)	Severity (Sever cases / 1M pop)	Use of UCI capacity (%)
 Singapore ²	---	-	6%	2	151	~1	NA
 Hong Kong ²	---	5	5%	4	81	~1	NA
 Japan ²	---	15	12%	52	15	~1	1%
 South Korea	11	140 ³	11%	28	77	~1	1%
 China	12	17 ³	16%	133	3	~0,2	0,5%
 Italy	12	31	24%	197	67	6,6	5,3%
 Spain	11	9 ³	37%	133	85	5,7	6,8%
 Germany	13	44 ³	22%	9	48	~0,2	0,1%
 US	12	30 ³	41%	85	12	~0,5	0,1%
 Brazil	16	15-20⁴	15%	111	19	~0,7	0,4%

What are the leading countries doing right?

Note: (1) For countries with less than 4,000 cases, current number of death cases was considered. (2) For countries with less than 4,000 cases, latest information regarding was considered. (3) For countries with no data at 4,000 cases, number of testes was estimated by total number of cases. (4) Brazil tests estimated by tests by day from 100th case ratio.

Source: JHU Coronavirus Data Stream 28/03; Tableau. University of Oxford "Oxford University launches world's first COVID-19 government response tracker"; Ourworld in data; WHO.

Countries that never lost control, used extensive mitigation policies...

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MITIGATION

Never lost control
Lost control and recovered
Lost control and haven't regained it yet
Early stage (LATAM)

“Mitigation” policies: aim to flat the curve

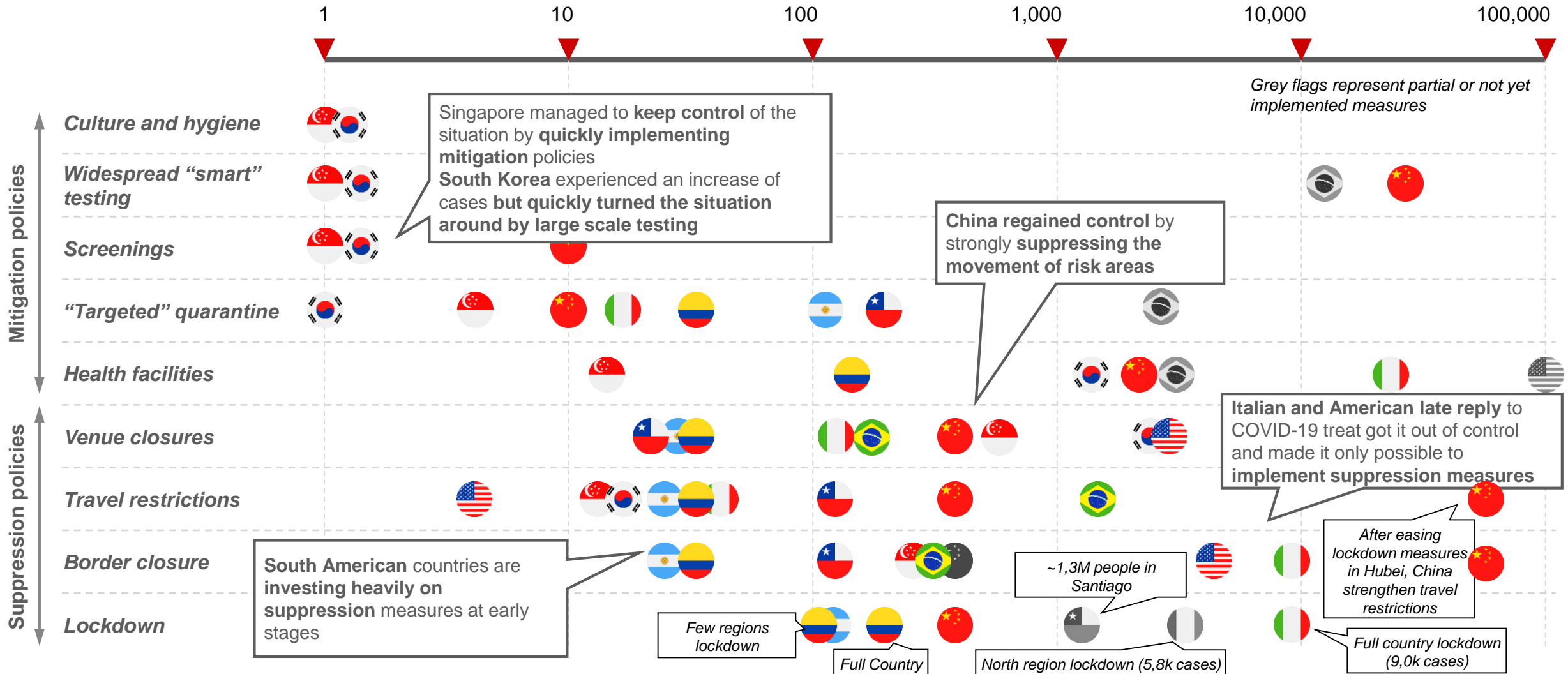
“Suppression” policies: aim to rapidly reduce spread

Country	Culture and hygiene	Widespread “smart” testing	Screenings	“Targeted” quarantine	Health facilities	Venue closures	Travel restrictions	Border closure	Lockdown
Singapore	✓	✓	✓	✓	✓	✓	All countries	✓	
Hong Kong	✓		✓	✓	✓	✓	All countries	✓	
Japan	✓		✓	✓ ⁷	✓	✓	China, S. Korea, Iran, Italy, San Marino, Swiss, Spain, Iceland, Israel, Qatar, Bahrain Congo & SE Asia ⁴		
S. Korea	✓	✓	✓	✓	✓	✓	Ban from Daegu/Gyeongbuk regions and Hubei (China)	✓	
China		✓	✓	✓	✓	✓	All countries	✓	✓
Italy				✓	✓	✓	All countries	✓	✓
Spain		✓ ⁸		✓	✓	✓	All countries	✓	✓
Germany		✓	✓			✓	All countries outside Schengen area	✓	✓ ¹
USA					✓	✓	China, Iran, Europe and UK	✓ ⁵	
Brazil		✓ ⁸		✓ ¹⁰	✓ ⁹	✓ ¹	China, Japan, S. Korea, Australia & Europe	✓ ⁵	
Chile				✓		✓	All countries	✓	✓ ¹
Argentina				✓		✓	All countries	✓	✓
Colombia				✓	✓	✓	All countries	✓	✓
Peru				✓		✓	All countries	✓	✓

Note: 1) Varying measures per state in the country; 2) Clousure of “border” in Hubei, Wenzhou & Zhejiang provinces; 3) Gradually imposed; 4) Gradually imposed to specific regions in these countries; 5) Terrestrial borders; 6) Technology used to ease communication; 7) Quarantine designated but law status forbid enforcement; 8) Testing strategy to be enforced in near future; 9) Fiel hospitals under construction; 10) Quarantine for specific cases

Source: Time “What We Can Learn From Singapore, Taiwan and HK About Handling Coronavirus”; ABC “Coronavirus COVID-19’s Wuhan lockdown, a month on”; Medscape “COVID-19: What Can the World Learn From Italy?”; Forbes; Folha de S. Paulo; Ministry of Education Singapore; NPR; The Japan Times; BBC; The Wall Street Journal; Reuters; CNN; Business Insider; El Pais; The Guardian; The New York Times; WEF; Valor Econômico; National Post; Bloomberg; El Comercio

...but in order for “mitigation” to work, it is required to start early on

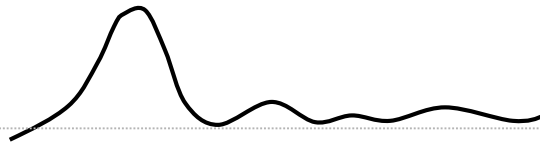


Source: Time “What We Can Learn From Singapore, Taiwan and Hong Kong About Handling Coronavirus”; Al Jazeera “South Korea’s coronavirus lessons: Quick, easy tests; monitoring”; Wikipedia “Timeline of the 2019–20 coronavirus pandemic”; U.S. Department of State “Presidential Proclamations Regarding Novel Coronavirus”; U.S. News “Chile Bans Large Public Events Over Coronavirus Fears, Ahead of Planned Protests”; EuObserver; Republic; Channel News Asia; The Straits Times; NPR; Los Angeles Times; CNN; Reuters; El Colombiano; Bloomberg; Folha de S. Paulo; Agência Brasil; The Jakarta Post; The City Paper

Going forward there are **3** possible scenarios for Brazil

Shock and recovery

1



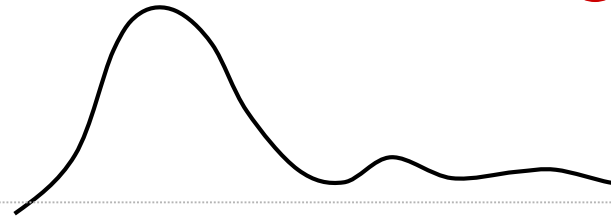
Suppression cycle followed by mitigation

Lockdown will be successful and will reduce virus transition

After control, countries would adopt efficient mitigation measures that will avoid the return of the virus and allow economy to normalize

Extended suppression followed but controlled mitigation

2



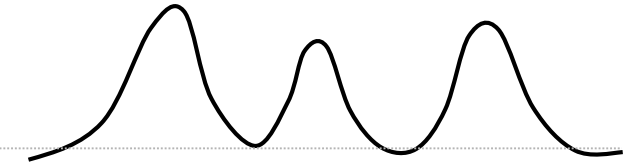
The outbreak takes much longer to be controlled

Current suppression measures would not be enough to slow down the curve and/or other focus will appear. A more severe lockdown measure would be taken at a later moment allowing to regain control.

After control, countries would adopt efficient mitigation measures that will avoid the return of the virus and allow economy to normalize

Sequence of suppressions due to lack of control

3



Multiple outbreaks & suppression cycles

After controlling the first cycle of the outbreak, transmission will quickly rebound when interventions are relaxed

Mitigations measures won't be effective to keep contamination at low levels. Second cycle will be less intensive than the first one, but will still slow down the economy

Number of new cases

What we need to believe?

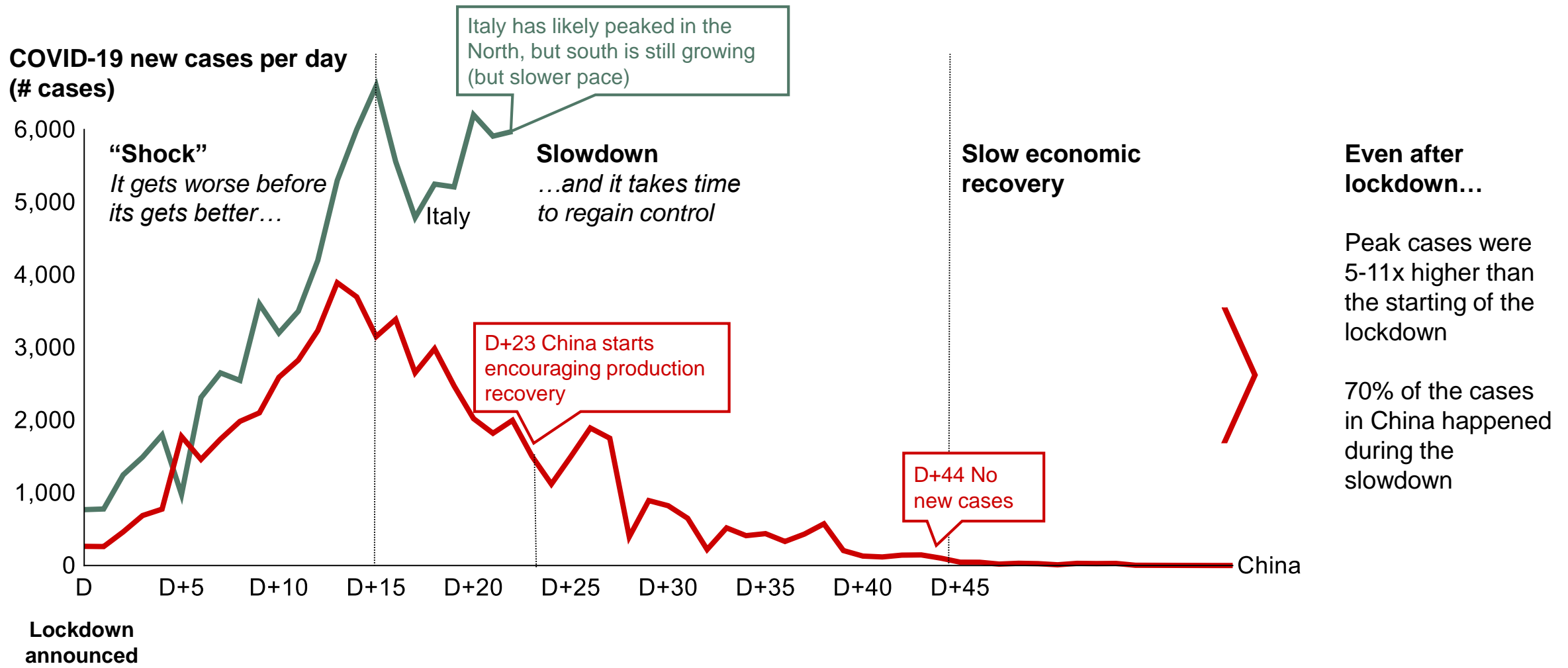
Two questions are critical:

How long will the suppression phase last? Will mitigation policies work after suppression?

A successful suppression should last +45 days, with some activities starting as early as 30. Critical to follow up European cases

SUPPRESSION

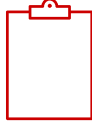
/ UPDATED ON MAR, 29TH



Source: JHU Coronavirus Data Stream `29/03; Tableau.

For mitigation to work, technology has been deployed in different manners to maximize the effect of the mitigation policies

MITIGATION



Testing

Start-ups are developing 10 minutes tests for Coronavirus using Internet of Things

Temperature scanning solutions to identify potentially infected people in the crowd, especially airports



Screening

Using geolocation data stored in smartphones of confirmed cases, South Korea is able to send notifications to anyone who was close to that individual

Singapore launched an app to trace its user movement and send alerts in case they come in contact with someone infected



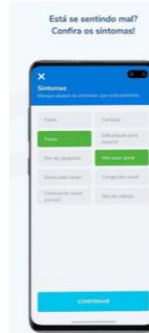
Selective Quarantine

Wristband and apps that sends notifications for authorities in case the user leaves the designated quarantine area

In China, new software by Alipay uses big data to dictate quarantines, allowing user to enter public spaces, or not, according to their color coding



Health facilities & treatment



Brazilian public health system launched a mobile application to support diagnosis remotely, avoiding unnecessary medical consultation

- Open source 3D printing projects for supplies and ventilators



Logistics & Cleaning

In China and Singapore, drones and robots are used to deliver food and medicine to high risk areas as well as to conduct disinfection tasks



Data

Data to enable detailed mapping of the outbreak and hot spots

Government response tracker to evaluate impact of public measures



Source: World Economic Forum "Here's how Asia is using tech to tackle COVID-19"; New York Times "In Coronavirus Fight, China Gives Citizens a Color Code, With Red Flags"; CNBC "Singapore says it will make its contact tracing tech freely available to developers"; CNN "Hong Kong managed to contain the virus, now it's worried international travelers will bring it back"; Forbes "Coronavirus Spy Apps: Israel Joins Iran And China Tracking Citizens' Smartphones To Fight COVID-19"; Spectrum "Five Companies Using AI to Fight Coronavirus"

Implications for Brazil?

The three scenarios have different economic and public health impacts

	Shock and recovery ①	Extended suppression followed but controlled mitigation ②	Sequence of suppressions due to lack of control ③
Time to peak & recovery	Brazil may behave as a “multi-region” where each region may peak in 14-16 days , followed by a 30-40 days to recover , but aggregated would take longer	30+ days to peak , followed by 1-2 months to recover . Economic recovery starts around July or later	Up to 2/3 of time under suppression measures during the next 18 months
Total cases	165k (peak day 5-7k new cases) 50-60k until peak + 110k during slowdown	300-500k (peak day with +15-20k new cases)	+1M in multiple waves
Health system impact	Severe and critical cases peak: 6-11k (vs ~6k available) Will depend by state; additional 4-5k beds should reduce the pressure on the system	Severe and critical cases peak: 18-30k (vs 6k available) Collapse of the health system	Severe and critical cases peak: 6-11k (vs 6k available) in multiple waves will cause a collapse of health system
GDP impact	Total impact: -2.1% in 2020 (2Q: -8% and 3Q: -1.6%)	Total impact: negative 3 to 4% in 2020 (2Q: -8% and 3Q: -8%) & political instability	—

How to incorporate best practices in your planning?

“Plan Now” actions should be focused in a few topics

Mission

Act now to Protect and Run the business today

Plan now to Retool the Business for the Future

Orientation

‘WAR ROOM’

Mobilize the organization to protect the company’s employees, customers and strategic flexibility

Prepare company and strategy to adjust to accelerated structural changes resulting from a Pandemic-driven deep recession

Recovery

“Plan Now”:
critical
things to
monitor

- **Have a different team looking into the “recovery” scenarios:** War room team is too focused in the short term
- **Understand globally “Suppression success”:**
 - Monitor Italy and Spain in the next few days to have a sense of the effectiveness of the “suppression” policies
 - Monitor US as it is a good proxy for a continental country
- **Plan for discrete scenarios:**
 - Avoid betting in a single one, have actions in place for 3-4 scenarios
- **Engage with regional authorities** to understand how they are thinking

‘NEW NORMAL’ Transformation office

- **Monitor “Mitigation” success:**
 - Keep an eye on the mitigation actions in place in a regional basis to compare with global best practices
 - Monitor # tests per region and ICU beds occupied
- **Plan for the “new normal”:**
 - Lower traffic & higher internet sales
 - Different buying behaviors
 - Drastically reductions in travels

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How to be prepared to face the upcoming phases?



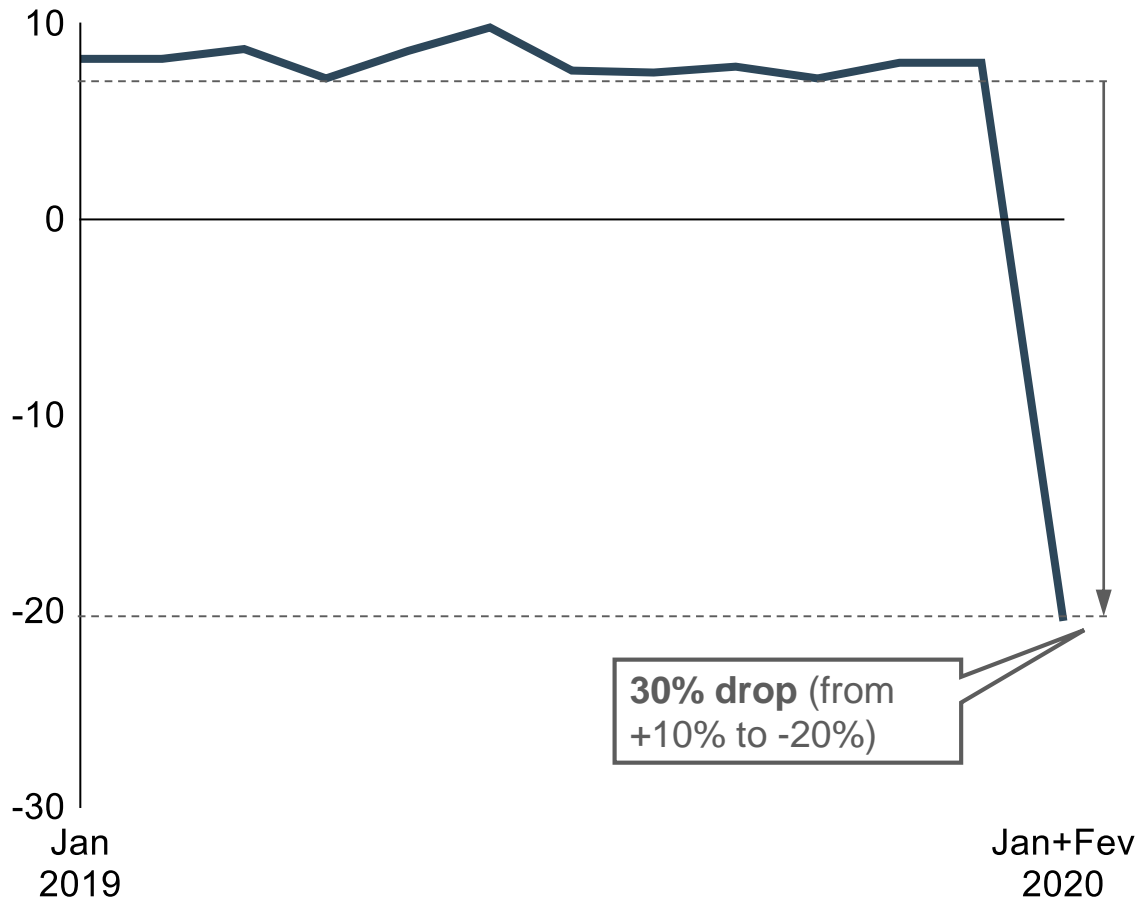
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Q&A

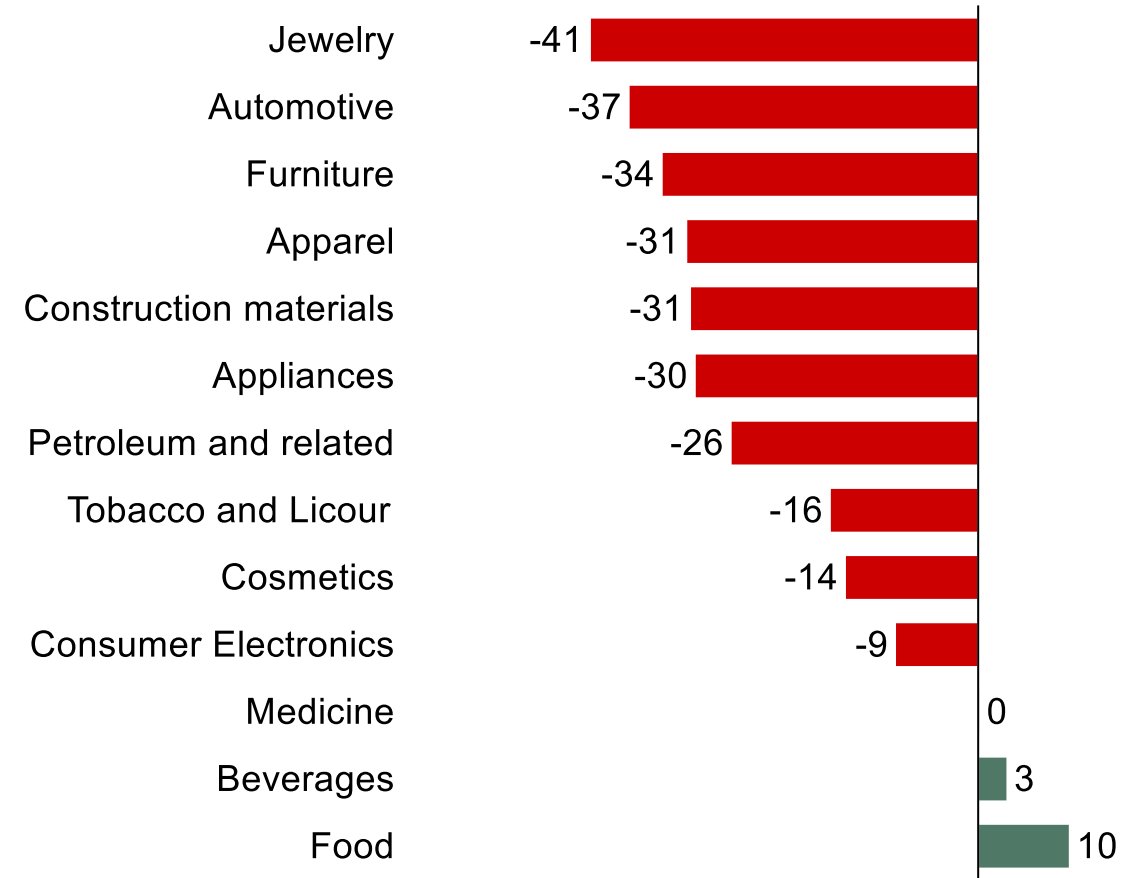


China retail sales dropped 30 points, with very different impact across sectors

China Retail Sales YoY (%)



China Sales YoY by product category (%)

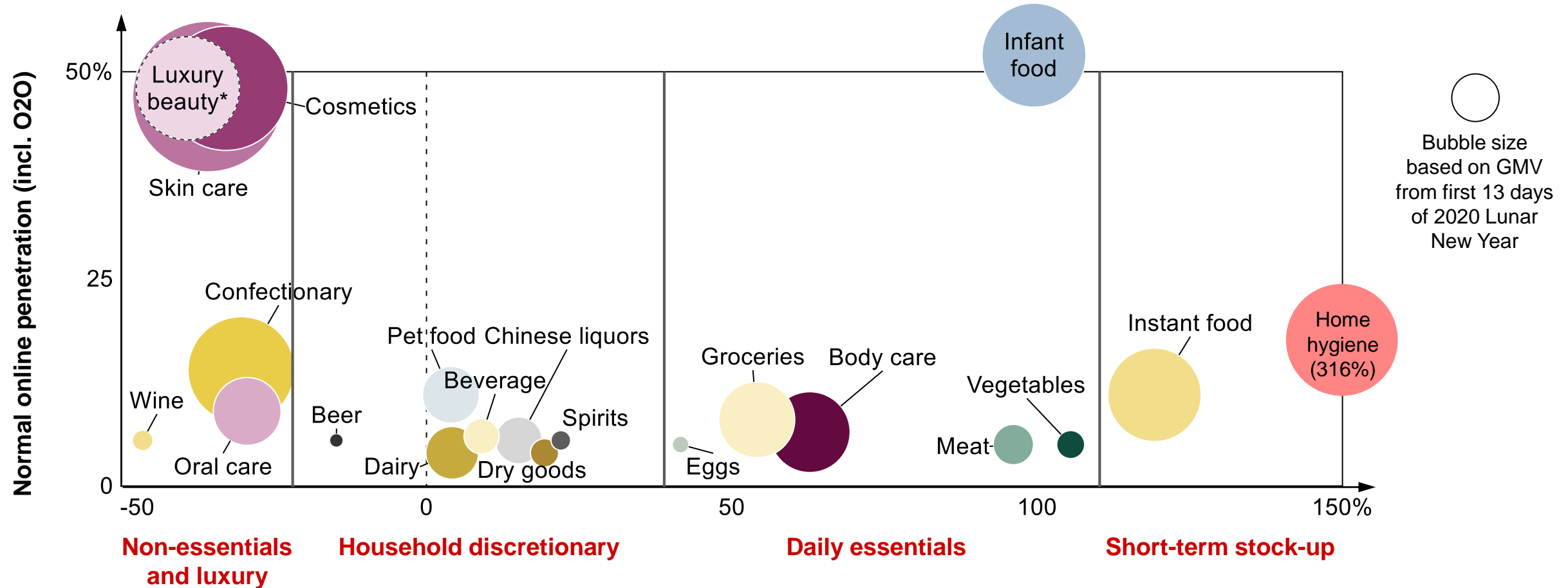


Note: Nominal terms, year-on-year basis

Source: Trading Economics | National Bureau Statistics of China – Updated on March 17th



On-line sales showed a similar trend, with non essentials suffering the most



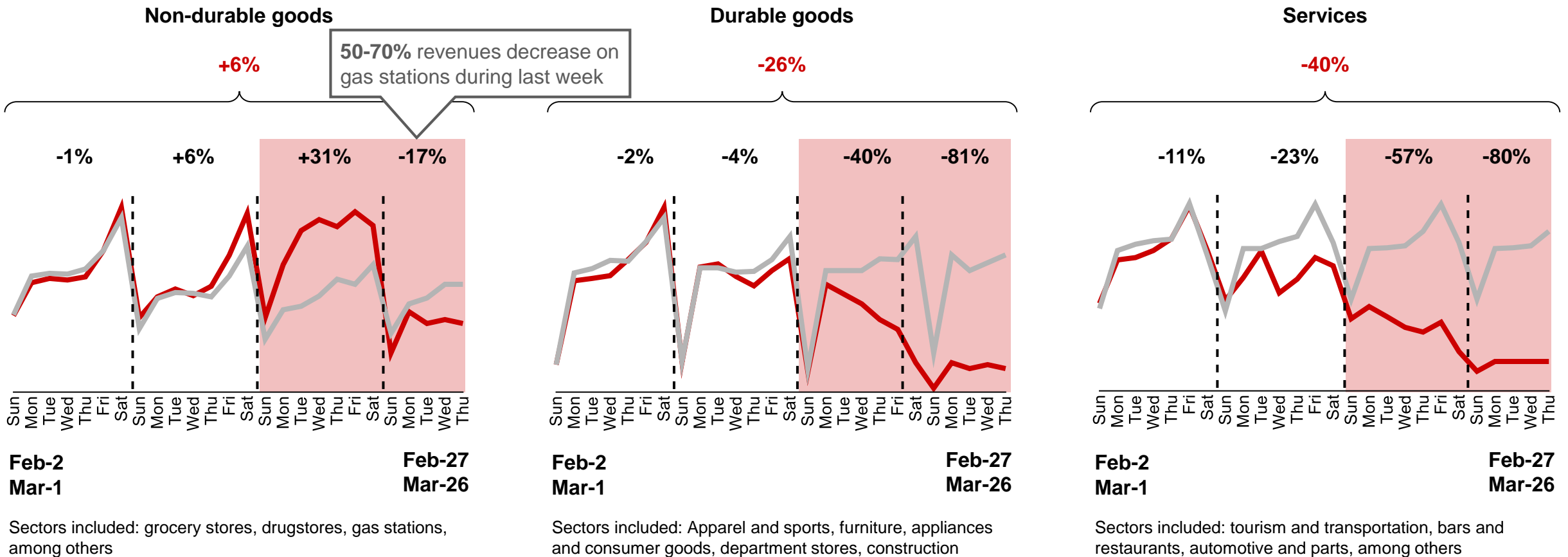
*Luxury beauty includes both cosmetics & skin care products, thus, unlike the others, this definition is based on price segmentation instead of product type; **Comparable period of first 13 days of Lunar Chinese New Year, i.e. 2020/01/25 – 2020/02/06 vs. 2019/02/05 – 2019/02/17; ***Includes Tmall and Tmall Int'l
 Source: Bain – Kantar Shopper Report; Alibaba, Bain analysis



In Brazil, the drop in retail sales is accelerating

Revenue – Groups of sectors - Brazil

Base 100 = Sunday (Feb-2)



— Feb/2020 — Mar/2020

Store traffic is falling in all categories. Supermarkets and Drugstores are growing on line

/ ONLY PHYSICAL STORES

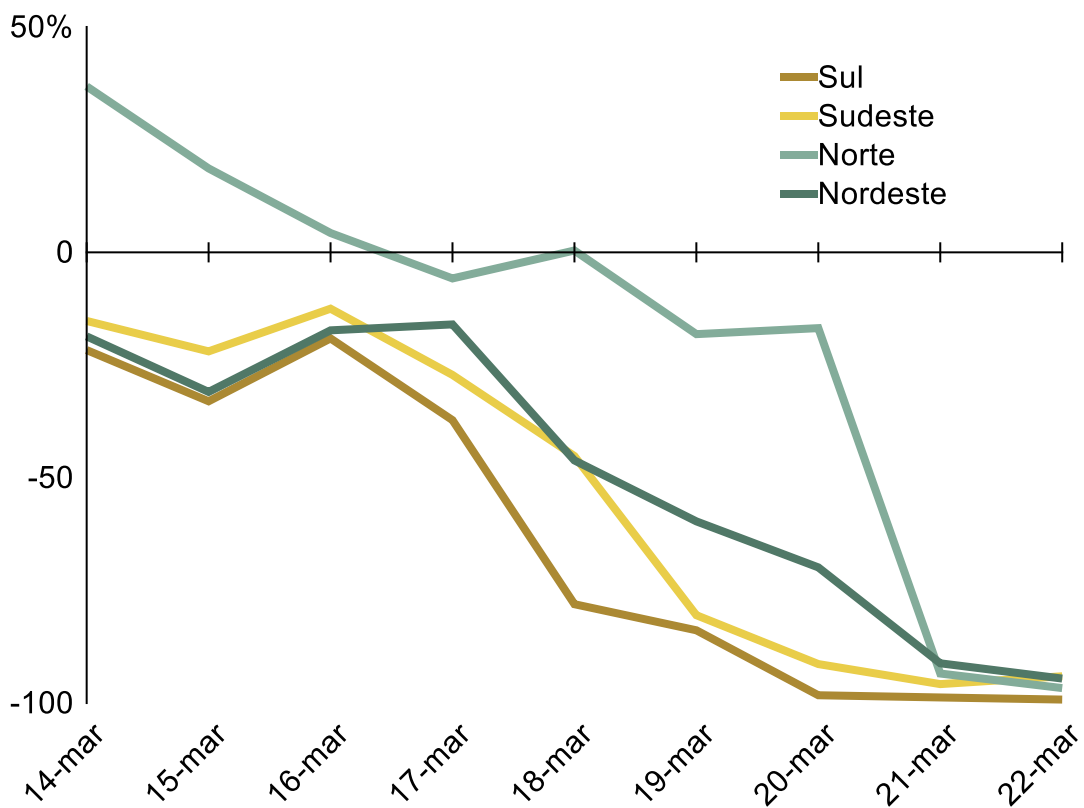
Average number of visitors per physical store, by category for the last 3 weeks (% relative traffic vs. 3 weeks ago)



Store traffic is falling across regions and locations

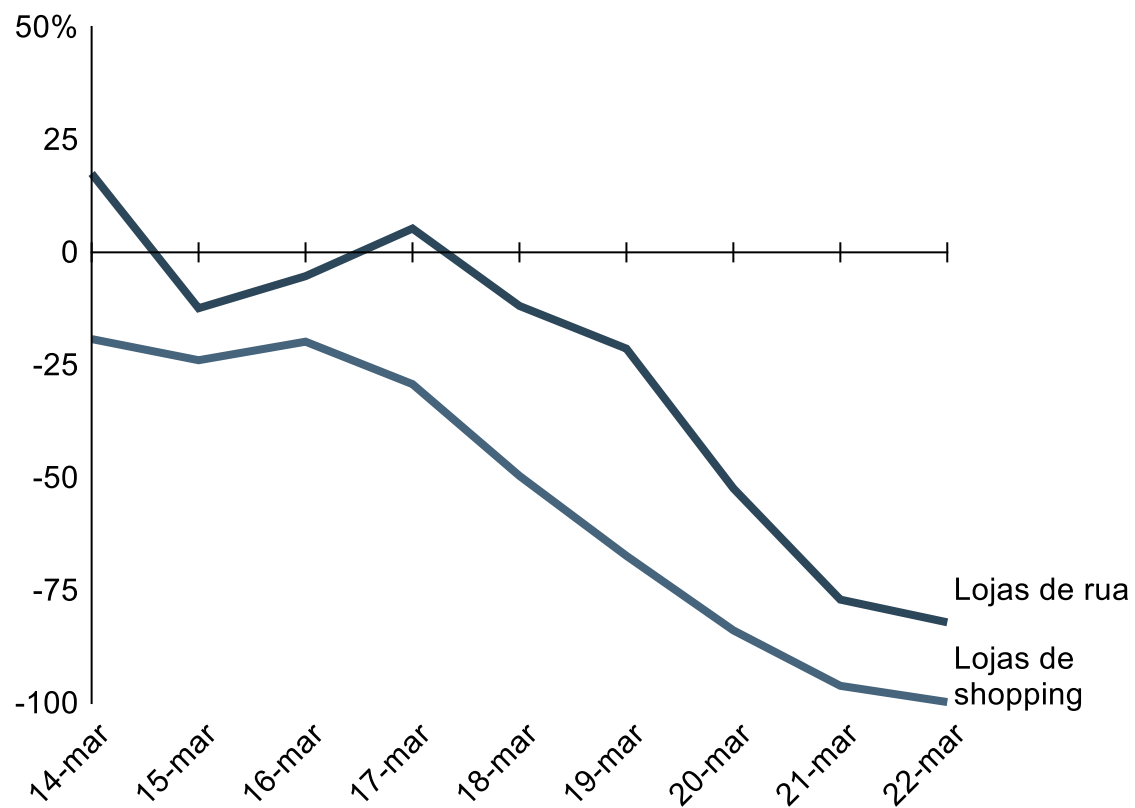
Country regions

Change in number of visitors in physical stores per region 2020 vs. 2019 (%)



Shopping mall vs. street stores

Change in number of visitors in physical stores 2020 vs. 2019 (%)



Industries are expected to experience different demand profiles as COVID-19 levers get rolled out, regardless of disease outcome

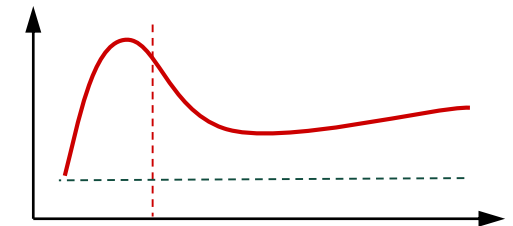
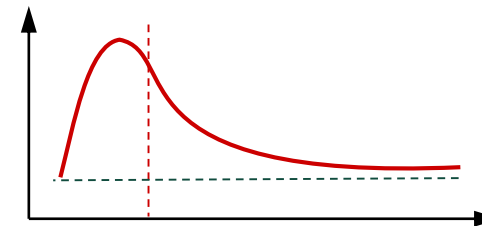
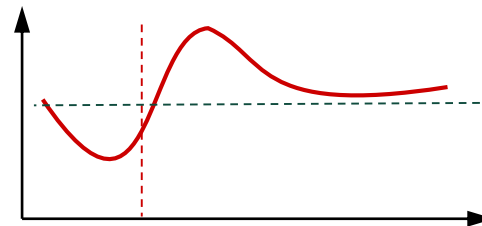
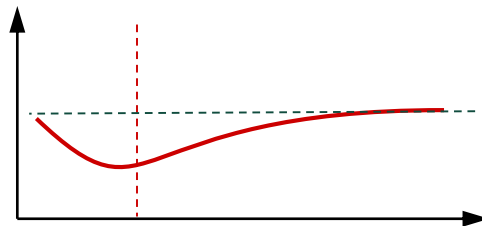
1 Hit in short-term, recover in long-term

2 Hit in short term, bounce back and stabilize

3 Spike in short-term, stabilize in long-term

4 Spike in short-term, keep growth momentum in long-term

--- Normal level
 ···· Outbreak end



Definition

Demand suppressed during outbreak, to **slowly recover to pre-COVID-19 levels**

Demand suppressed during outbreak, **to bounce back** to even higher consumption level because of “**revenge buying**” or **mindset change**

Demand stimulated because of **panic stockpile** and **staying at home**, to **return to normal level and stabilize** after outbreak

Demand stimulated because of **treatment need** and **staying at home**, **may keep growth momentum** because of **mindset and behavior change**

Industry examples

Out-of-home dining
 Travel/ transportation
 Hospitality and tourism
 Out-of-home entertainment & education
 Gym and fitness

Clothing and accessories
 Beauty products and services (e.g manicure)
 Household appliances

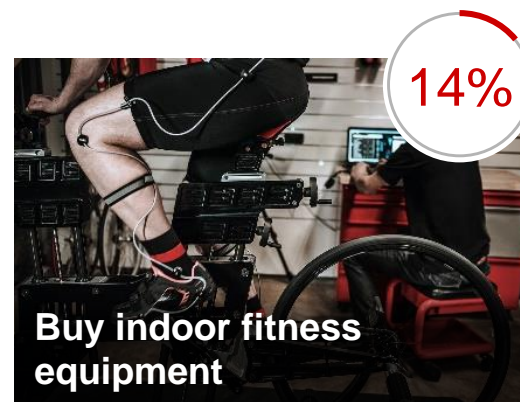
Grocery and household goods
 Mobile and fixed broadband/ telecom
 Household cleaning
 Epidemic prevention products

Distance learning
 Work from home tools
 Nutrition and health
 Telemedicine
 Online entertainment
 Medical/life insurance

In times of crisis consumer behavior changes considerably, fostering new behaviors, mainly online



First attempts during the epidemic (% of respondents)



+35% of customers who bought groceries online in last 2 weeks did it for the 1st time (2x historic average)



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4

Q&A

We are firmly in phase two. Retailers need to adapt their planning and operations to deal with the disruption, but also look ahead and plan for the recovery

PHASE ONE



Emerging Situation

- Virus is present, but has not yet impacted a large population
- Government has not taken action
- Day-to-day life is still mostly “normal”
- Variable public sentiment, *“it’s just the flu”*

PHASE TWO



Rapid escalation

- Virus has become prevalent
- Governments take restrictive actions to contain virus
- Retail operations & daily life strongly impacted
 - Retail that remains open is overloaded with stock-outs etc.
 - Retail that is forced to close, must focus on protecting cash

PHASE THREE



Recovery & Beyond

- The situation progressively returns to (a new) normal
- Competitive positions and customer relationships may have been significantly altered



Brazil



US



Most of Europe



China is starting to emerge into recovery

We recommend organizing efforts around the following seven priorities



1.

Rapidly mobilize an Emergency Response Team

Set up a core central team

Organize and act in an agile approach

Scan the market and take swift action



2.

Protect people as the utmost priority

Employees (at HQ and in stores)

Customers



3.

Save cash to adapt to new financial realities

Outline extreme downside scenarios and translate to revenue decline to stress test P&L

Ensure executive mindset shift to cash

Define trigger points to take more drastic measures



4.

Put operations in "crisis mode"

Store operations

Supply Chain

Online fulfillment

DC & logistics



5.

Defend against revenue declines

Take a customer centric view

Identify opportunities in current/new product mix and shift inventories

Rethink mkt/pricing investment based on consumer behavior

Leverage on-line to connect with consumer and scale delivery capabilities



6.

Plan to emerge from the crisis stronger

Prepare to capture rebound in demand for different categories

Take advantage of new consumer behaviors after crises

Upgrade capabilities to connect digitally with customers

Assess bolder strategic moves to gain share

7.

Communicate and collaborate internally and externally



Establish communication cadence and key messages across audiences (authorities, employees, board, customers, suppliers and shareholders)

Create needed bandwidth and adapt messages (social media, call centers, internal emails and others)

Company efforts to execute the 7 priorities should be phased

PHASE ONE



Emerging Situation

1. Rapidly mobilize an Emergency Response Team

2. Protect people as the utmost priority

3. Save cash to adapt to new financial realities

4. Put operations in "crisis mode"

5. Defend against revenue declines

6. Plan to emerge from the crisis stronger

7. Communicate and collaborate internally and externally

PHASE TWO



Rapid escalation

PHASE THREE



Recovery & Beyond

Company efforts to execute the 7 priorities should be phased

PHASE ONE



Emerging Situation

1. Rapidly mobilize an Emergency Response Team

2. Protect people as the utmost priority

3. Save cash to adapt to new financial realities

4. Put operations in "crisis mode"

5.

6.

7. Communicate and collaborate internally and externally

PHASE TWO



Rapid escalation

Defend against revenue declines

PHASE THREE



Recovery & Beyond

Plan to emerge from the crisis stronger

1 Retailers should rapidly mobilize a centralized **Emergency Response Team** dedicated to managing the crisis

PHASE 1: EMERGENCY RESPONSE TEAM

Set up a core central team



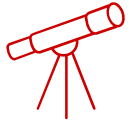
- Set up a small but trusted central “core” team attached to CEO/CFO/CRO Office
- Give the team clear access to key executives
- Empower the team to make cross-functional recommendations based on a rapid risk assessment
- Outline clear daily responsibilities:
 - Executing daily update to top management
 - Holding together multiple ongoing communication initiatives
 - Tracking and reviewing progress on initiatives, ready to adjust up/down
 - Reporting internal KPIs deemed relevant for major decisions

Organize and act in an agile approach



- Where relevant, set up “local” Emergency Response Teams, e.g., by country, region, format, store/DC, function
 - By country
 - By region
 - By format
 - By store or distribution center/warehouse
 - By function
- Prioritize and action major work streams, setting a tone of daily progress using an agile approach
- Break the usual reporting and update cycles – urgency requires a different model (i.e., daily informal CEO updates)
- Set up and embed a tracking tool

Scan the market and take swift action



- Dedicate at least one FTE to scanning relevant information on spread of virus and other retailers’ actions in affected markets
- Support local teams with timely information as virus impacts their markets
- Outline specific macro COVID-19 scenarios, by major geography
 - Translate those scenarios into tangible revenue decline and operational disruption scenarios
 - Must get full team aligned with the true severity of the macro COVID-19 situation, and worst case financial scenarios
- Begin to outline no-regret moves
 - This needs to be done in days, not weeks (and can iterate from there)
 - Keep safety as the #1 priority, and cash conservation and liquidity a close #2
- Anticipate constantly, “wait and see” could damage the company

2 Protect people (your employees and customers) as the utmost priority

PHASE 1-2: PROTECT PEOPLE

Employees (at HQ and in stores)



- Equip employees with any needed sanitary or personal protection equipment (disinfecting wipes, masks, gloves, etc.) needed to do their job safely
- Implement strict requirements for frequent hand-washing and sanitization of surfaces
- Follow official advice on deep-cleaning the most-used areas or facilities, such as elevators, meeting rooms and toilets, as well as air purifiers, air conditioners and HVAC ducts; consider adding extra cleaning contractors
- Strict enforcement of 7-14 day quarantine of employees if they have any type of cold/flu (COVID-19) symptoms
 - Relax sick-leave policies and communicate this clearly to employees
 - Consider screening employees for symptoms (temperature, etc.) and sending home staff that display signs of illness
 - Assign a COVID-monitor who should look out for unwell employees and send them home
- Consider continuing to pay front-line employees at home on quarantine - employees may fear loss of income and come into work despite being unwell
- Identify high-risk employees and recommend for them to stay at home until further notice; may need to consider compensation as they may have fear of loss of income
- Cancel non-critical meetings to reduce large group meetings. During critical operational meetings, ensure that there is social distancing and masks
- Reduce or eliminate all non-essential travel
- Close cafeterias and canteens in HQ/back office

Customers



- In store
 - Implement social distancing e.g., 1m between customers and customers-cashiers
 - Implement self-checkout over cashier service where possible (and clean regularly)
 - Offer customers self-sanitizing options such as antibacterial cart wipes and hand sanitizer and provide plastic gloves if possible
 - Regularly clean surfaces, payment terminals, counters and other frequently touched areas, while also weighing how to minimize risks from handling cash
 - Close self-service and deli options e.g., such as produce, bakery, meat counter, and prepared food
 - Close eat-in areas in stores
- On click & collect/BOPIS, home delivery
 - Implement similar measures to above to limit customer-employee contact and maintain social distancing guidelines
 - Push all click & collect/BOPIS to 'pay online' (vs pay at pickup) to limit shared physical contact of payment device
 - Enable 'contactless' delivery or pickup e.g., leave basket so there is no physical contact;
- Customer feedback & communication
 - Use social media (and other forms of feedback tracking) to listen real-time to customer hygiene concerns
 - Provide clear communication on hygiene procedures implemented for stores, staff and customers

3 Save cash for survival

3 Cash management levers and considerations



Ensure executive mindset shift to cash

- **Set-up cash task force to model impacts and run cash scenarios** with weekly/daily reviews of collections outlook and decision making on cash conservation
- **Align C-suite and management on new constraints and parameters**
- **Coordinate closely with finance to tighten/loosen controls where relevant**



Define the scope of savings levers that are on the table

“Hand-brake” lever examples

Near-term actions to implement to mitigate cash crunch

- Freeze hiring plans as relevant
- Freeze/adjust non-mission critical spend & CAPEX
- Cancel all travel and training** that is not operationally-critical
- Stop **non-critical third-party engagements**
- Adjust marketing spend** to match shifts in consumption
- Extend payables** with suppliers to preserve cash
- Limit IT spend**; return unused IT devices and cancel non-business critical software licenses
- Draw down on all existing **lines of credit**
- Consider deferring **executive variable compensation**
- Review **tax strategies** for short-term opportunities



Develop concrete plan for when to activate “break glass” initiatives

“Break glass” initiative examples

To be activated at defined crisis milestones; clear owners with implementation plan developed

- Implement **salary cuts** (bearing in mind tradeoffs on frontline) or benefits freeze
- Furlough employees** in non-critical functions
- Accelerate **planned HC reductions**
- Execute permanent **store closures** or exits from some geographies
- Freeze all **non-business critical spend** (e.g. maintenance)
- Delay non-essential AP**
- Negotiate **discounts** for faster **debt payment** or early invoice payment
- Explore **sale-leaseback** of property or valuable assets

4 Put operations in "crisis mode"

Complete checklist available (to be sent by e-mail)

/EXAMPLE

Store operations



3 Put operations in "crisis mode"

Considerations for store operations

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Implement back-up staffing plans

- Implement "Red" and "Blue" teams. Split core operations into teams that work on alternate days so that "red team" can still function if "blue team" are sick/quarantined
- Negotiate with local authorities to include key run-the-business employees as eligible for continued childcare (as with medical personnel)
- Consolidate front-line workforce into fewer, priority stores. This means selectively closing some non-priority stores
 - Prioritize stores by region and banner in catchment areas with multiple stores
 - Implement clear communications to customers on nearest open store
- Add a short-term temporary labor force. Negotiate with local retail/foodservice players who are temporarily closed to "borrow" their workforce on temporary contracts
- Repurpose employees (from HQ) to stores e.g., customer service, restocking shelves, online grocery, in logistics/DCs
- Cross-train employees as needed to ensure high-priority tasks can be completed

Prioritize health & safety

- Redouble store cleaning efforts, focus on payment terminals, counters, shopping carts, and other frequently touched areas, consider additional contracts with cleaning suppliers
- Minimize manual handling of products (e.g. bakery), close delis/butchers/counters
- Shift to packaged SKUs vs loose to reduce contact/germs transmission
- Encourage increased use of self-checkout where available (and sanitize frequently)
- Enforce minimum physical distance between customers, and between customers and staff
 - Allocate staff within store to enforcing safe distance; post reminders throughout store
- Limit number of customers in store; implement one-in, one-out policy; employ additional security on entrance
- Consider checking the temperature of workers and customers

Deliver essentials & support the vulnerable

- Repurpose aisle space to 'essential' categories and highest-priority departments and simplified SKU selection
- Simplify assortment and process to replenish shelves. Simplify displays and shelf-facings to reduce operational complexity, put products out in pallets
- Consider special entry hours or priority accesses for:
 - The vulnerable or those who are supporting the vulnerable
 - Medical workers/essential workers
- Implement a simple reservation or ticketing system to reduce chaos/frustration of queue
 - Customer can be given a target time window on arrival at store or be texted when their turn comes around (similar to how a fully booked restaurant is managed)
- Adjusting operating hours to address traffic peaks/slowdowns, labor shortages, and for additional cleaning efforts

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Online fulfillment



3 Put operations in "crisis mode"

Considerations for supply

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Simplify "essential" assortment

- Simplify assortment within and among categories to focus on essential categories and simplified SKU selection
- In certain categories, focus on larger packaging types or bulk buying to adjust to purchase patterns
- Deprioritize or stop planned deliveries of non-essential categories or items
- Drastically reduce promotions to avoid unnecessary complexity
 - Focus promotions only on products at end of shelf life to avoid waste and accelerate cash conversions
 - Limit promotions to slow-moving items

Ensure continuity of supply

- Monitor stock levels daily
- Perform risk assessment on rupture/delay on essential SKUs e.g., assessing geographic source in case of cross-regional transportation ban
- Provisionally line up new, local suppliers on essential SKUs in the circumstance that existing suppliers cannot meet demand or address risks, or just to meet increased demand
- Consider prioritizing private label if supply is more controlled
- Relax payment terms and on-time/in-full requirements to ensure that essential SKUs continue to be delivered
- Block algorithms that are unsuited to current consumption patterns (e.g., automatic replenishment)

Collaborate with suppliers

- Work together on flexible production e.g.,
 - Fewer essential lines (2 types of soup) in order to increase speed of manufacturing & delivery
 - Fewer best selling pack sizes/bulk
- Conduct joint assessment of demand and supply risk. Set up joint process to continually monitor
- Request suppliers to redirect deliveries closer to market to speed up delivery process
- In-demand inventory direct to store (or as close to the market as possible) and as fast as possible
- Regular shipments directly to stores (or main e-comm fulfillment centers)
- Maintain close comms with suppliers on real-time changes that impact them
 - E.g., how the store network is being redeployed to DCs or online fulfillment centers
- Work together on business continuity measures

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BAIN & COMPANY 45

Supply Chain



3 Put operations in "crisis mode"

Considerations for online fulfillment

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Scale up online capacity

- Expand Click & Collect / BOPIS capacity
 - Consider repurposing non priority stores to "dark stores" for support online order fulfillment
 - Limit assortment available to essential SKUs, easy to pick (e.g., packaged) and to simplify operations
 - Restrict quantities per customer to avoid stock out (and ensure fairness of distribution)
 - Don't be afraid to increase capacity as customers will be forgiving of stock outs
- Make delivery efficient and increase delivery capacity
 - Evaluate new third party partners for delivery e.g., taxi companies who are experiencing 'lull'
 - Consider closing delivery operations in lower density/yield areas
 - Consider to collaborate with other local retailers in more rural areas to make deliveries efficient
- Ensure labour workforce capacity can support increased demand
 - Re-allocate labor (including from HQ or support functions) to fulfilling e-commerce orders
 - Add a short-term temporary labor force. Negotiate with local retail/foodservice players who are temporarily closed to "borrow" their workforce on temporary contracts
- Ensure IT Infrastructure can withstand increased web traffic; make investments needed to support traffic surge
- Ensure suppliers can quickly ship inventory in critical categories and product ranges to fulfillment centers or stores (for click and collect)
- Consider reducing or closing some online operations if store needs to be prioritised

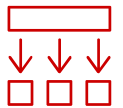
Seize opportunity to win in online and grab share

- Take measures to make online operations more profitable
 - Consider charging for the service
 - Push Click & Collect / BOPIS over delivery
 - Implement minimum basket size - customers are also more accepting of with fewer, bigger baskets
 - Customers are less price sensitive and grocers should ensure they are covering their costs to operate
- Shift marketing spend to drive online traffic and conversion
 - Redirect marketing spend to online advertising

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DC & logistics



3 Put operations in "crisis mode"

Considerations for distribution center operations and logistics flows

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Adapt distribution center operations to heightened risks

- Conduct a risk assessment to understand areas of key risks and vulnerability, especially for mission-critical DC facilities
- Implement detailed self-through, inventory and availability monitoring on key lines to be able to rapidly identify and respond to supply shortages
- Work with suppliers to ensure sufficient stock of critical items is available in DCs (both for shipment to stores and online deliveries)
- Thoroughly sanitize facilities
- Implement heightened hygiene protocols for staff
- Anticipate labor shortages and implement back-up staffing plans to ensure continuity of service
 - Consider borrowing staff from less critical HQ roles or engaging temporary workers
 - Cross-train employees as needed to ensure high-priority tasks can be completed
 - Implement red and blue teams

Increase logistics flexibility and mitigate impact to transport

- Work with authorities to understand potential lockdown areas and how deliveries may be impacted
- Revisit your transport and delivery plan with a focus on getting stock as close to stores as possible. Collaborate with suppliers to coordinate on options to deliver directly to stores as needed
- Consider changing delivery frequency and delivery quantities to increase velocity of inventory through the supply chain
- Work with third-party partners (e.g. delivery fleets) to ensure enforcement of sanitization and hygiene procedures, and track capacity adjustment to ensure continuity of service
 - From DCs to stores
 - From DCs to end-consumer (for online orders)
- Try to use different logistics providers for different warehouses and distribution centers, as segmenting transport flows helps mitigate the risk of transmission

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Put operations in “crisis mode”

4 Considerations for store operations

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Implement back-up staffing plans



- ❑ **Implement “Red” and “Blue” teams.** Split core operations into teams that work on alternate days so that “red team” can still function if “blue team” are sick/quarantined
- ❑ **Negotiate with local authorities** to include key ‘run-the-business’ employees as eligible for continued childcare (as with medical personnel)
- ❑ **Consolidate front-line workforce into fewer, priority stores. This means selectively closing some non-priority stores**
 - ❑ Prioritize stores by region and banner in catchment areas with multiple stores
 - ❑ Implement clear communications to customers on nearest open store
- ❑ **Add a short-term temporary labor force.** Negotiate with local retail/foodservice players who are temporarily closed to ‘borrow’ their workforce on temporary contracts
- ❑ **Repurpose employees (from HQ) to stores** e.g., customer service, restocking shelves, online grocery, in logistics/DCs
- ❑ **Cross-train employees** as needed to ensure high-priority tasks can be completed

Prioritize health & safety



- ❑ **Redouble store cleaning efforts**, focus on payment terminals, counters, shopping carts, and other frequently touched areas; consider additional contracts with cleaning suppliers
- ❑ **Minimize manual handling** of products (e.g, bakery), **close delis/butchers/counters**
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- ❑ Encourage increased use of **self-checkout** where available (and sanitize frequently)
- ❑ Enforce **minimum physical distance** between customers, and between customers and staff
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- ❑ Consider **checking the temperature** of workers and customers

Deliver essentials & support the vulnerable



- ❑ **Repurpose aisle space to ‘essential’ categories** and highest-priority departments
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- ❑ **Adjusting operating hours** to address traffic peaks/slowdowns, labor shortages, and for additional cleaning efforts

Put operations in “crisis mode”

4 Considerations for supply

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Simplify “essential” assortment



- ❑ **Simplify assortment within and among categories** to focus on essential categories and simplified SKU selection
- ❑ In certain categories, **focus on larger packaging types or bulk buying** to adjust to purchase patterns
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- ❑ **Drastically reduce promotions to avoid unnecessary complexity**
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Ensure continuity of supply



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- ❑ **Perform risk assessment on rupture/delay on essential SKUs** e.g., assessing geographic source in case of cross regional transportation ban
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- ❑ **Work together on flexible production** e.g.,
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- ❑ **Maintain close comms with suppliers on real-time changes that impact them**
 - ❑ E.g., how the store network is being redeployed to ‘DCs or ‘online fulfilment centres’
- ❑ **Work together on business continuity measures**

Put operations in “crisis mode”

4 Considerations for online fulfillment

PHASE 2: PUT OPERATIONS IN CRISIS MODE

Scale up online capacity



Expand Click & Collect / BOPIS capacity

- Consider repurposing non priority stores to “dark stores” for support online order fulfillment
- Limit assortment available to essential SKUs, easy to pick (e.g., packaged) and to simplify operations
- Restrict quantities per customer to avoid stock out (and ensure fairness of distribution)
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Make delivery efficient and increase delivery capacity

- Evaluate new third party partners for delivery e.g., taxi companies who are experiencing ‘lull’
- Consider closing delivery operations in lower density/yield areas
- Consider to collaborate with other local retailers in more rural areas to make deliveries efficient

Ensure labour workforce capacity can support increased demand

- Re-allocate labor (including from HQ or support functions) to fulfilling e-commerce orders
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Ensure IT infrastructure can withstand increased web traffic; make investments needed to support traffic surge

Ensure suppliers can quickly ship inventory in critical categories and product ranges to fulfillment centers or stores (for click and collect)

Consider reducing or closing some online operations if store needs to be prioritised

Seize opportunity to win in online and grab share



Take measures to make online operations more profitable

- Consider charging for the service
- Push Click & Collect / BOPIS over delivery
- Implement minimum basket size - customers are also more accepting of with fewer, bigger baskets
- Customers are less price sensitive and grocers should ensure they are covering their costs to operate

Shift marketing spend to drive online traffic and conversion

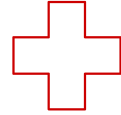
- Redirect marketing spend to online advertising

Put operations in “crisis mode”

4 Considerations for distribution center operations and logistics flows

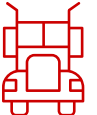
PHASE 2: PUT OPERATIONS IN CRISIS MODE

Adapt distribution center operations to heightened risks



- Conduct a risk assessment to understand areas of key risks and vulnerability, especially for mission-critical DC facilities
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 - From DCs to stores
 - From DCs to end-consumer (for online orders)
- Try to use different logistics providers for different warehouses and distribution centers, as segmenting transport flows helps mitigate the risk of transmission

5 Defend against revenue declines

Take a customer centric view



- **Focus front line employees** on how they can **support customers**
- **Proactively contact all customers** to let them know about 'business continuity' and 'extraordinary actions' being taken
 - E.g., Waive cancellation fees
- Issue **targeted marketing** campaigns directed **at highest risk segments** to proactively double down on potential **segment/customer specific concerns**

Build specific mitigation actions



- Develop and execute on actions to **mitigate downside risks**
 - Identify the best way to approach the most affected **customer segments, geographies, channels**
- Develop **clear pricing strategy** to maximize revenue for the short and long term
 - E.g., segmented value-based pricing, dynamic pricing as market conditions fluctuate
 - Avoid slashing prices indiscriminately, our findings show that this can take 2+ years to recover

Pivot resources to current and future growth



- In the short- and medium-term, identify **new/accelerated revenue opportunities**
 - E.g., pushing e-commerce as opposed to in-person purchases, capitalizing on 'in-demand' products or services
- *For the longer-term opportunities – see “Play Offense, not just defense”*

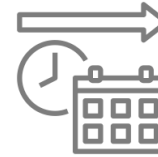
6 Plan for recovery - when emerging into recovery, retailers will need to adjust both short & long term plans and increase resilience to future shocks

PHASE 2-3: PLAN FOR RECOVERY



Early stages of recovery...

Learn from the crisis and welcome back staff, products and customers



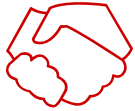
...Longer term

Re-assess competitive position and play offense, not just defense

6 Plan for recovery - In the early stages of recovery, retailers should adjust in-year plans while gradually returning to pre-crisis posture

PHASE 2-3: PLAN FOR RECOVERY

Prepare to welcome back employees



- ❑ Prepare to welcome back your staff and gradually return to pre-crisis posture, it will take some time to return to business as usual
- ❑ Prioritize creating a healthy workplace environment
 - ❑ Share actions that have been taken to ensure ongoing safety and hygiene
- ❑ Work with your suppliers to put into place ongoing health & safety measures

Codify key learnings and prepare for next wave or event



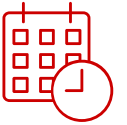
- ❑ Learn from this shock to make your business more resilient in future external shocks (economic downturns, terror attacks, natural disasters) and potential next waves of COVID-19
- ❑ Gradually wind-down resources dedicated to managing the crisis, but only after doing a post-mortem on lessons learned
- ❑ Codify your approach to the next similar crisis
- ❑ Ensure an Emergency Response Team can be activated quickly in case of a next similar event or wave of COVID-19

Review stock levels and demand planning



- ❑ Adjust inventory levels for stock-up categories with longer shelf life as consumers reduce stock at home
- ❑ Gradually re-instate automatic or algorithmic systems as buying behavior re-normalizes
- ❑ Develop commercial revitalization plans to reactivate demand

Restart 2020 with refreshed plan



- ❑ Reset and restart plan for 2020 with new objectives, budgets and operational plans
- ❑ Update your near-term M&A/target partnership list

6 Plan for recovery – Retailers should re-vamp strategy and long-term plans to come out of the crisis stronger than before (“Play offense, not just defense”)

PHASE 2-3: PLAN FOR RECOVERY

Understand how demand has changed and adapt



- ❑ Review customer and market data to highlight areas where market share has been gained or lost during the crisis. Review should include:
 - ❑ How the retailer’s highest-value customers weathered the crisis, to identify high-priority actions to nurture those relationships
 - ❑ Competitive innovations/ new business models that helped consumers during the crisis
- ❑ Develop commercial revitalization plans to reactivate demand.
- ❑ Develop investment plans to address increased omnichannel demand (in particular to increase flexible capacity for order fulfillment and delivery) and retain customers gained in the crisis

Adapt capabilities and network to meet new demands



- ❑ Review supply chain, IT and logistical setups to increase flexibility, resilience and capabilities in the long run
- ❑ Review buying strategy and relocate supply or production as needed
- ❑ Design network redeployment plans as required, such as:
 - ❑ Closing the most affected, least productive stores (or online fulfillment points)
 - ❑ Opening stores, online points or distribution centers as needed to fill gaps
 - ❑ Swapping assets with competitors in weak or strong areas
- ❑ Review the role of automation in the supply chain and in stores

Evaluate long-term cost position & build financial resilience



- ❑ Lay out a clear path to continuous cost improvement and productivity increases, especially if share has been lost in the crisis
- ❑ Make cost base as variable as possible
- ❑ Ensure the balance sheet is robust enough to withstand any hostile approaches

Prepare bolder moves to strengthen strategic position



- ❑ Understand impact of crisis on your leadership positions and on competitors’ dynamics
 - ❑ Footprint & capacity evolution
 - ❑ Changes in relative cash & cost positions
 - ❑ Competitor actions that will drive consolidation scenarios
- ❑ Adjust CAPEX pipeline and development priorities
 - ❑ Where to rebuild leadership positions (most vulnerable areas)
 - ❑ Where to build new potential leadership positions (weakened competitors)
- ❑ Identify and prioritize M&A targets to pursue
- ❑ Envision potential bold changes in capital structure

7 Communicate and collaborate: Consistent and relevant internal and external communications are critical as the situation further develops

PHASE 1-3: COMMUNICATE & COLLABORATE

Establish communication cadence and key messages across audiences

Local authorities

- Maintain open communication as the situation develops (e.g., understand proposed measures to curb panic-buying or shortages, or potential areas that could face logistical constraints)
- Ensure your employees and customers are aware of (and comply with) the precautions and health guidelines recommended by authorities

Internal (employees + board)

- Ensure leadership and staff hears it from you first (rather than hearsay)
- Communicate in specifics rather than generalities, highlighting concrete measures being taken to protect personnel
- In affected areas, call executives to show you care/share the pain
- Keep the Board fully appraised of the situation and your plan

Customers

- Proactively and transparently communicate the following:
 - What measures you are implementing (store cleaning, hygiene protocols) to make them feel safe
 - How you are adapting your offer and operations to continue serving them
 - How you share the pain - empathize with the personal cost of the pandemic

Suppliers

- Create a drumbeat of communication with suppliers to keep them informed of real-time changes to ordering, assortment, etc.

Shareholders

- Consider broader communication to shareholders and the investment community
 - Earnings guidance, dividend guidance, actions taken, etc.

Create needed bandwidth

- Resource call centers (for customers, suppliers) and equip them with scripts
- Allocate resources to answering internal communications (emails, others)
- Activate social media to outline actions taken and engage directly with customers
- Plan to adapt messaging as the crisis evolves

Agenda



1

What are the possible scenarios for Brazil?



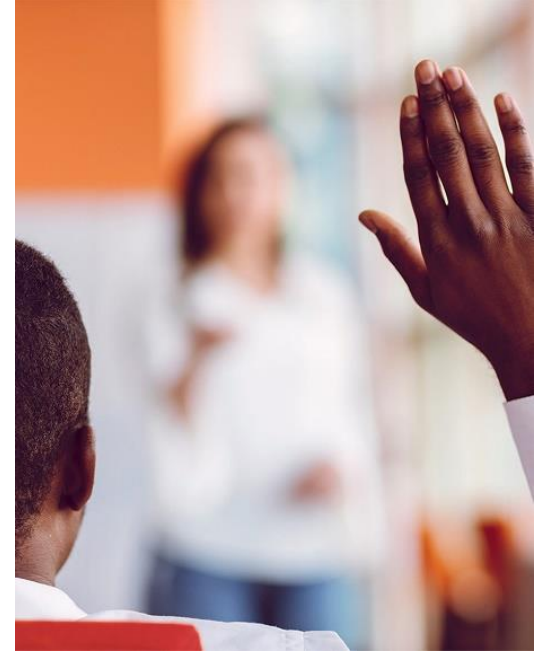
2

What are expected impacts during and after the crisis, by retail sector?



3

How to be prepared to face the upcoming phases?



4

Q&A

Q&A

To submit a question press the button “Q&A”



Marc-Andre Kamel
Partner, Paris

30+ years of consulting experience
Leader of global Retail practice

Global and European learnings



Jonathan Cheng
Partner, Hong Kong

11+ years of consulting experience
Leader of Retail practice China

Chinese learnings and crisis response



Jason Ding
Partner, Beijing

18+ years of consulting experience
Retail and Consumer Goods practices

Chinese learnings and crisis response

Going forward...



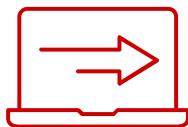
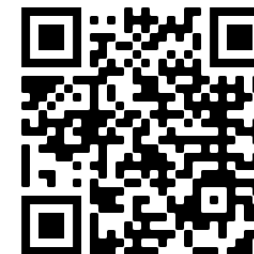
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<https://www.linkedin.com/showcase/bain-&-company-brasil/>

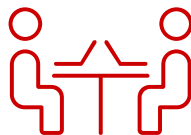


Access all **Bain material** on COVID-19 by accessing our **website**

www.bain.com/insights/topics/coronavirus/



Stay tuned for **more webinars** in the coming days



Get in touch to **discuss individual actions** for your company

Thank you



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