

The background of the entire page is a photograph of a modern building's interior. On the left, there is a glass-enclosed elevator shaft with multiple levels visible. To the right, there are large windows and a balcony area with people walking. A large yellow trapezoidal shape is overlaid on the right side of the image, containing the title and date.

COVID-19

Industry Pulse Report: Retail

June 2020



COVID-19 Industry Pulse Report: Retail

- ▶ What is the industry sentiment around the impact of COVID-19 on the Retail sector?
- ▶ How is COVID-19 expected to impact the Retail sector?
- ▶ What response measures have been taken to date to address the impact?



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Foreword



As the developed world is exiting from lockdown, the virus is taking hold in poorer countries. The overwhelming uncertainty around how the pandemic will continue to affect our lives and the economy lingers on.

In Cyprus, we have seen a series of support measures from the Government and we are in the process of exiting the lockdown and relaxing social distancing. But as people return to the streets and businesses begin to re-engage, there is little doubt that there is still a long road ahead, paved with economic restructuring and business transformations to adapt to the new era. Executives are focusing on addressing the next day of the new norm by adjusting supply and value chains, volumes, prices and margins based on rapidly and drastically changing consumer behaviours. Business leaders have had to reassess their business outlook and to reconfigure short-term and mid-term operations.

As part of our efforts to understand the impact of COVID-19 on the Cyprus economy, we have prepared a new Industry Pulse report on the Retail sector, adding to our portfolio of reports for Banking, Real Estate and Hospitality. Like its predecessors, this report aims to provide a sector-specific perspective on the COVID-19 impact, fiscal and monetary policy, recovery scenarios, trends and recommendations.

Though it comprises of many different industries with varying cyclicity, in recessionary periods, the Retail sector is always in the eye of the storm. Collectively, the sector is now facing a downturn triggered by unprecedented changes in consumer behaviour and, as such, there is a real challenge in deciphering and capturing the magnitude of the impact.

As part of the effort to overcome this challenge, our team has spoken with retail sector leaders and executives to obtain a comprehensive sense of their sentiment regarding this crisis, their views on government measures to date, expectations for the future and insights on the road to recovery.

This publication will be updated periodically with respect to the impact of the virus on the sector, government and regulators' response actions as well as an updated economic assessment in accordance with our view.

We trust that this material will become a reference document for discussion among stakeholders such as corporate executives, financial institutions and the Government.



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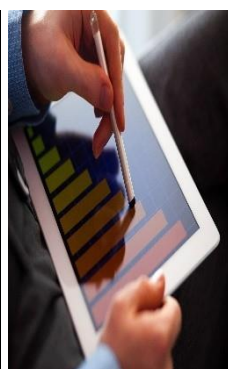
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Executive Summary

Impact on Retail - Key takeaways

COVID-19 is having a significant impact on product demand and sales channel preferences through denaturing consumer behaviour. Consumers spend more time at home, are faced with deflated social lives and restricted mobility, heightened health concerns and financial insecurity (despite some savings from foregone spending). The impact of COVID-19 on consumer demand in Cyprus is depicted below by segment and sales channels, accompanied by retailers' outlook.

Impact of COVID-19 on demand

Food & Beverage



- **Increase in sales** due to stockpiling and displacement from HORECA
- Less frequent store visits leading to **higher tickets per visit**.
- Demand for **delivery** and take-away spikes.
- **Consumers move from hypermarkets to smaller shops** due to safety concerns.

Health & Beauty



- Health-minded consumers **stockpile on vitamins and supplements**.
- **Fragrances and cosmetics under pressure** as a result of declining social lives and store closures.

Electricals/ Electronics



- **Increased demand for technology goods** due to work/study from home.
- **Demand for white goods stutters** in line with property construction.
- **Brown goods see modest rise** as time spent at home increases.

Home/ Furniture/ DIY



- **Homeware/furniture experience initial sharp decline** in demand, as these products merit physical inspection.
- Halt in the housing market undermines home moves and **delays purchases**.
- **DIY and gardening suffer less** due to rise in home improvement projects.

Apparel



- **Apparel demand takes a dive** due to reduced social interaction. **Shift to online** generates some sales.
- **Demand contracts** due to limited online infrastructure, dampened mood and embedded culture of shopping experience as a social activity.
- Retailers hit by **excess inventory, no tourists, mall closures**.

Online



- **Low technology adoption rate** in Cyprus hampers mass transition of consumers to digital channels during lockdown, unlike their European counterparts.

Shops & Malls



- **Consumers turn to high street shops** as malls remain closed or considered unsafe.
- **Structural transition of brands to malls** in recent years* implies swifter revival of malls upon reopening.

Retailers' outlook

- Following a demand increase in H12020, food retailers anticipate overall **decline for 2020 of 5%-15%** as recession hits. Sustained increase in revenues for smaller shops and online.

- Retailers expect **moderate decrease in revenues for 2020** due to less socialising, limited airport traffic and low consumer confidence.

- Overall, retailers anticipate decrease in revenues in H12020 and **y-o-y decline of 10%-15% for 2020** as rise in demand for work PCs and home entertainment is offset by the fall in demand for white goods as construction activity slows down.

- Retailers voice mixed projections as pent-up demand interacts with decline in consumer confidence and construction activity. Revenue **expectations for 2020 vary from -35% to positive** for those retailers who expanded capacity of remote sales channels.

- Retailers expect **revenue drop in 2020 as high as 40-50%** due to closures of shops and malls, hesitant customers, deflated social lives, fewer tourists and abnormal promotions to offload stock.

- Retailers with strong online presence boast **market share gains**, while all of them vow to continue investment in technology.

- Mall owners expect **large decline in revenues** for mall tenants and owners in 2020 but remain positive for recovery by Christmas, pending no second wave.

*=i.e. high street shops have declined in importance as a sales outlet in the local market

Executive Summary (cont'd)

Key takeaways from Industry Sentiment



Majority of retailers have embraced flexibility and reconfigured operations. Some contemplate between new strategic alliances vs developing capability in-house.



Supply chain problems include temporary shortages for food retailers; delays in production, distribution and stock issues with long lead times for non-food suppliers.



Most retailers agree that technology and data analytics are vital for management decisions especially in times of uncertainty.



Many retailers have increased their online banking features to improve user-friendliness and accommodate increase in traffic.



The majority of retailers agree that the Cypriot consumer is getting ready to embrace alternative sales channels, closely following their European counterparts.



Retailers agree on the need to invest in online channels for business continuity reasons and because Cypriot consumers increasingly place a higher premium on omnichannel experience.



Half of retailers think that this crisis will be worse than that 2013 as the halt in tourism deals a blow on direct and indirect demand in the medium term.

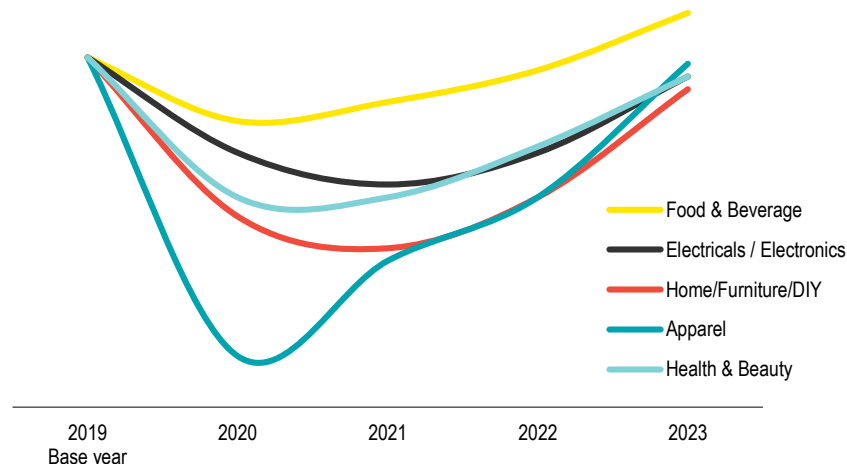


Retailers are satisfied with the Government's swift response but express grievances on delays in loan restructuring and rent guidance.

Expected Impact of COVID-19 on Retail for 2020-2023

Below are the sales forecast for each retail segment over 2020-2023 for Scenario 2 (mild resurgence).

Recovery profile for turnover of retail segments under review



- Necessity goods (e.g. F&B) continue undeterred on a modest upward trajectory following the 2020 shock.
- Recession, low consumer confidence and decrease in construction slow down the recovery of Electricals and Home products through 2021. Recovery in 2022 coincides with exit from recession and increase in new homes.
- Apparel and Health & Beauty sales exhibit the highest volatility with a sizeable decrease in 2020 followed by an increase in 2021 as consumer confidence improves, social lives revive and tourists arrive. Sales levels return to 2019 by 2023.

Long-term Trends



Change in industry landscape due to closures and market consolidation.



Consumers develop a taste for omni-channel experience



Transformation of idle physical retail space into logistic hubs



Technology adoption including digital shelf, data analytics, automation of operations and online supply chain systems



Consumers of social responsibility, transparency and sustainability practices.

Recommendations



Ecosystems matter - formation of trusted partnerships and strategic alliances



Business model adaptation with focus on consumer and their new needs



Transformation of operations to drive competitive advantage



Technology as an enabler of business transformation



Increased focus on CSR & Transparency



Government's role as a catalyst for recovery

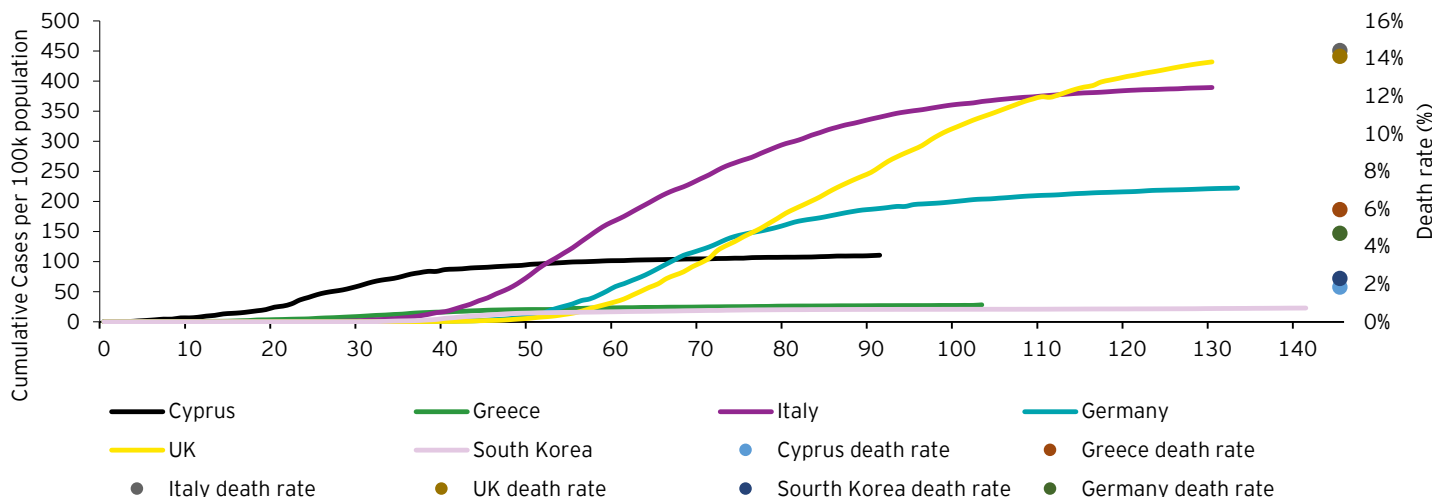
COVID-19 Key facts & figures

Introduction and brief global update

Introduction

The objective of the Industry Pulse report is to:

- ▶ Present a snapshot of the latest facts, figures, discussions and the industry sentiment around COVID-19
- ▶ Capture the change in consumer behaviour and business transformation in the Retail sector in Cyprus
- ▶ Estimate the potential economic impact of COVID-19 on the sector
- ▶ Discuss effective strategic, fiscal and monetary measures for mitigating the adverse potential effects



Latest actions by Governments, Institutions and Regulators

More than one third of the world population has been in lockdown as a response to the rapid spread of the virus (depicted in the graph above). This strategy was implemented to mitigate the strain on the healthcare system and save lives. However, this strategy can only be sustained for a short period of time due to its economic, social and psychological ramifications. Most countries across the world are gradually easing lockdown measures and travel bans as they turn the page to the new normal. The latest key updates are laid down below:

Health

- ▶ Countries are relaxing lockdown measures and establishing health guidance for citizens (e.g. face masks, gloves) and preventative measures at workplaces (e.g. physical distancing, hand sanitizing at facilities, thermal monitoring).
- ▶ Development and implementation of contact tracing apps. Countries are adopting two types of apps - country independent products (centralized systems) and/or based on Apple/Google technology.¹ So far, 22 countries have requested access to the latter.
- ▶ **Vaccine²:** The landscape of candidate vaccines is developing fast with 10 candidates at clinical evaluation (1st or 2nd or 2b/3rd phases) and 121 in preclinical evaluation.
- ▶ **Drugs³:** "Solidarity" clinical trial (launched by WHO and partners) with COVID treatment options under study: Remdesivir (previously tested for Ebola), Lopinavir/Ritonavir (licensed treatment for HIV), Lopinavir/Ritonavir with Interferon beta-1a (treatment for sclerosis), and Hydroxychloroquine (treatment for rheumatology conditions).
- ▶ **Testing⁴:** DnaNudge, lab-free and one hour COVID test developed by Imperial College London has been rolled out in urgent patient care settings in the UK.

Economy

- ▶ G-20 fiscal support to fight the consequences of lockdown due to the pandemic is estimated at \$9tn.⁵
- ▶ EU has adopted a combination of fiscal and monetary measures: fiscal flexibility in budgetary rules, debt burden support (e.g. joint employment insurance fund), state aid flexibility (e.g. direct grants, government guarantees on bank loans, subsidisation of interest rate on public and private loans etc.), ECB support such as additional asset purchases and relaxation of banking guidance.⁴
- ▶ Gradual opening of EU borders and "travel bubbles" (corridor of quarantine-free movement) between countries to boost sectors such as tourism.⁷
- ▶ New €500bn EU recovery fund negotiated by France and Germany with the aim to support sectors and regions worst hit by the pandemic.⁸

1. <https://www.bbc.com/news/technology-52807635>

2. <https://www.who.int/who-documents-detail/draft-landscape-of-covid-19-candidate-vaccines>

3. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/global-research-on-novel-coronavirus-2019-ncov/solidarity-clinical-trial-for-covid-19-treatments>

4. <https://www.imperial.ac.uk/news/197798/lab-free-covid-19-test-trialled-london-hospitals/>

5. <https://blogs.imf.org/2020/05/20/tracking-the-9-trillion-global-fiscal-support-to-fight-covid-19/>

6. https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/economy_en

7. <https://knews.kathimerini.com.cy/en/news/eu-pushes-to-unlock-borders-as-coronavirus-ravages-travel>

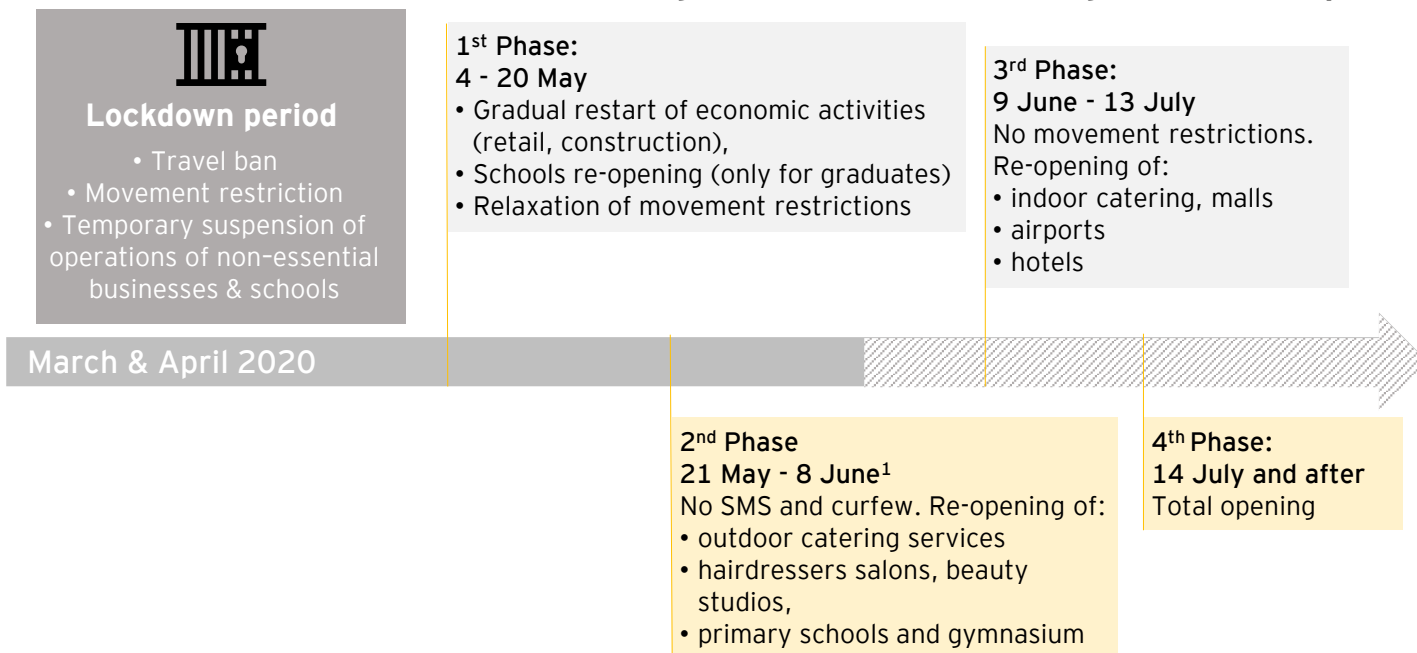
8. <https://www.ft.com/content/9fb00360-9a7f-11ea-871b-edeb99a20c6e>

COVID-19 Key facts & figures

Local intervention roadmap: current status and outlook

Following two months of lockdown, the Government announced on April 30th their strategy for the gradual easing of lockdown measures and the reopening of the economy. The strategy comprises of phases; each phase lasts two weeks and the decision of transition to the next phase is reevaluated based on epidemiological data.

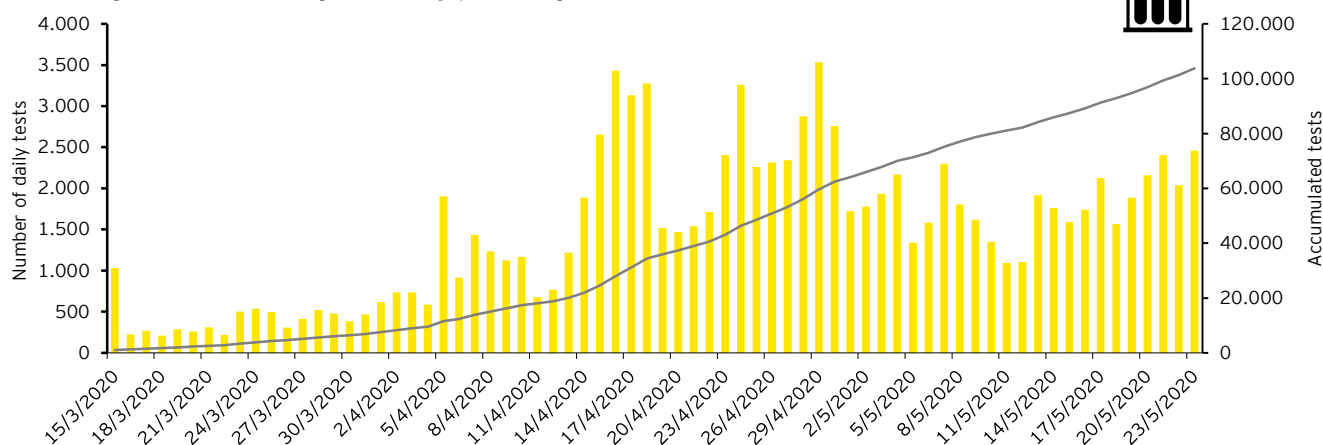
Gradual easing of lockdown and restarting of the economy



International travel resumes in the beginning of the 3rd phase (June 9th). Entrance in the country will be regulated as follows:¹

- ▶ Eligible source countries are divided into two categories (Category A and B) based on epidemiological data. This categorisation will be reviewed and updated on a weekly basis.
- ▶ Travelers from both categories will need a PCR test taken 72 hours before travel.
- ▶ Travelers from non-eligible countries will require approval from authorities (even for transit flights).
- ▶ As of June 20th, only Category B countries will continue to require PCR test prior to traveling.

Intensity of laboratory testing per day and in total (as at 23/05/2020)²



- ▶ So far, over ~100k COVID tests were conducted, which implies an average of **1,500 per day** (last 7 day average is closer to 2,000). Cyprus ranks high (14th globally, 6th in Europe) in terms of tests per head³.
- ▶ A contact tracing mobile app, COVTRACER, has been made available on a voluntary basis.⁴

1. https://www.pio.gov.cy/assets/pdf/newsroom/2020/05/29.5.2020_COVID-19%20Destination%20Protocol%20-%20Cyprus.pdf

2. <https://www.pio.gov.cy/coronavirus/en/pdf/ep2605en.pdf>

3. <https://www.worldometers.info/coronavirus/>

4. <https://www.euronews.com/2020/05/02/coronavirus-cyprus-launches-voluntary-tracking-app-to-halt-spread>

COVID-19 Key facts & figures

Local intervention roadmap: current status and outlook

The Government of Cyprus, in their efforts to mitigate the negative economic impact, has implemented 57 economic support measures of total budgeted cost at € 1.2-1.3 bn (5.4% of GDP) ¹. A new support package was announced on May 27th by the President of the Republic.

Main components of the first support package voted by the Government²

Public health sector support ✓

- ▶ Spending support and investment in employment of additional staff
- ▶ Enhancement of equipment, infrastructure, ambulance services and center for testing

Special employee schemes ✓

- ▶ Schemes for employees of businesses with fully/ partially suspended operations
- ▶ Unemployment allowance to self-employed
- ▶ Scheme for unemployed
- ▶ Absence leave & subsidized sick leave schemes

Measures through the Banks ✓

- ▶ Suspension of loan installments (incl. interest) for rest of 2020; no recapitalisation of accrued interest
- ▶ Temporary suspension of foreclosures for 3 months
- ▶ ECB support measures to release capital reserves for CBC (>€1.3bn)

Sector Specific/Tourism ✓

- ▶ Additional budget of €11mIn to support tourism between June and September 2020, as well as initiatives to attract tourism for October 2020 - March 2021
- ▶ Tourist accommodation establishments allowed to issue vouchers in case of booking cancellations due to pandemic³
- ▶ Government guarantees in the benefit of companies to assure travelers protection in case of insolvency (€86.6mIn)³

Tax Measures ✓

- ▶ 3 month suspension of planned increased NHS contributions in April
- ▶ Temporary suspension of VAT payments by 10/11/2020
- ▶ Advance payment of VAT by businesses in some categories (e.g. supermarkets, pharmacies) to support the economy.
- ▶ Incentives to landlords for rent reduction in the form of tax relief ³

Other ✓

- ▶ Reduction of electricity tariff by 10% for a period of 3 months
- ▶ 2 month halt in housing evictions
- ▶ Allowance for students studying abroad to avoid their return for Easter holidays and repatriation
- ▶ Introduction of price ceiling on products of personal hygiene

New support package under way⁴



- ▶ Participation in the Pan-European Fund Guarantee, expectation to draw an amount of €300 - 400mIn
- ▶ Liquidity grant for SMEs (€800mIn) through Cyprus Entrepreneurship Fund and increase of lending scheme (by €500mIn) in conjunction with EIB
- ▶ Interest subsidy scheme for new loans to enterprises including self-employed and new housing loans
- ▶ Grants for small businesses and self-employed whose operations were fully/partially suspended
- ▶ Fast-tracking of tenders for ripe development projects
- ▶ Incentive scheme for airline companies at €6.3mIn and €10mIn to increase Cyprus attractiveness as tourism destination through tourist agents
- ▶ Decrease of VAT from 9% to 5% for tourism accommodation & catering sector until January 2021
- ▶ Support to agriculture sector amounting to €22mIn

1. https://www.pio.gov.cy/coronavirus/press/18052020_9.pdf

2. https://ec.europa.eu/info/sites/info/files/coronavirus_policy_measures_28_may.pdf

3. https://www.pio.gov.cy/coronavirus/en/press/22052020_21.pdf

4. https://www.pio.gov.cy/coronavirus/en/press/28052020_5.pdf

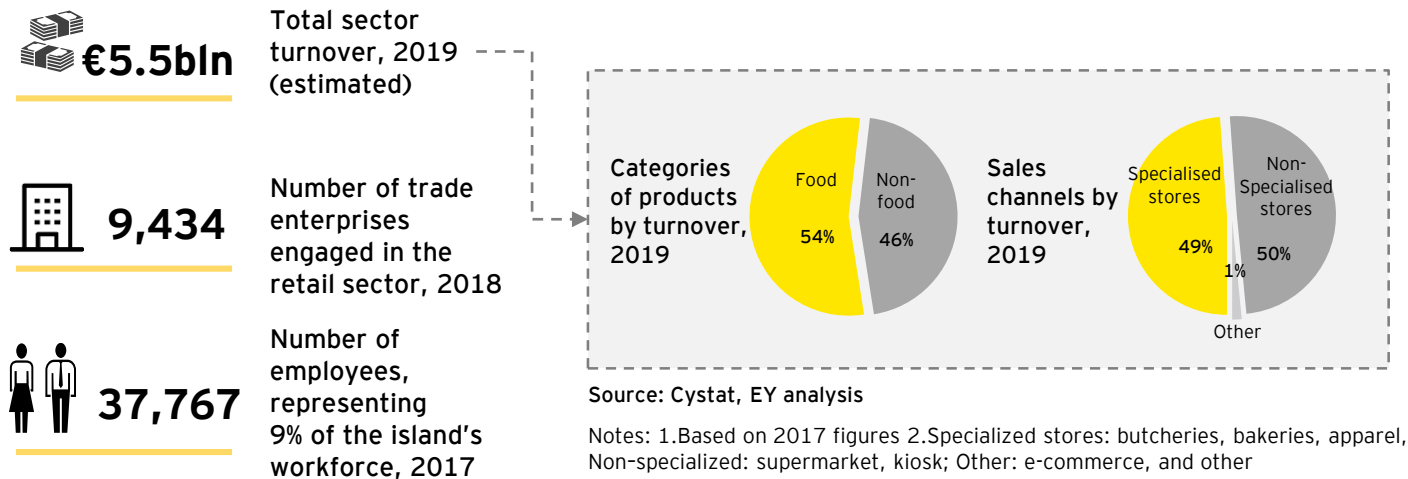


Overview of the Retail sector

Introduction: Dissecting the retail market

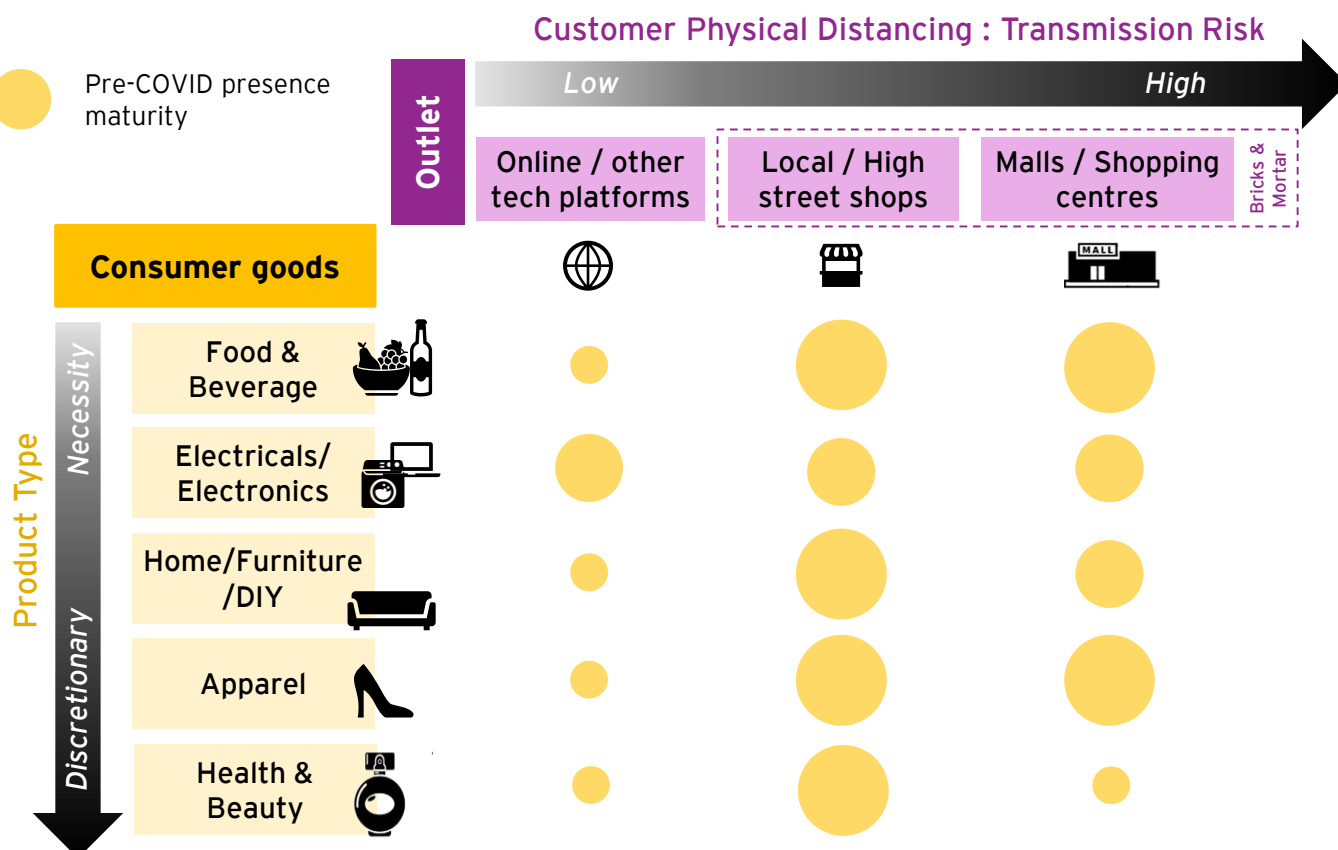
Retail is a key sector of the Cypriot economy contributing around 5.3%¹ to GDP and employing 9% of the local workforce. In 2019, the sector achieved an annual turnover of €5.5bln (without fuel), marking an annual average growth of around 3.5% since 2013. Below is a snapshot of the Cypriot Retail sector.

Cypriot Retail sector snapshot



Due to COVID-19's ability to transmit rapidly and the need for home quarantine and social distance while in public spaces, consumer social interactions and buying preferences have changed dramatically. As a result, we have found it helpful to analyse the sector by looking at the effects of the pandemic on each category of consumer goods as well as the impact experienced by each type of retail outlet (i.e. technology based platforms/online/telephone, individual shops, malls).

In the matrix below we depict the maturity of each retail category under the scope of our study, by type of outlet. For example, street shops and malls are developed in Cyprus and the Food and Beverage (F&B) retail category shows a heavy presence in those outlets. The same cannot be said for F&B's online presence.

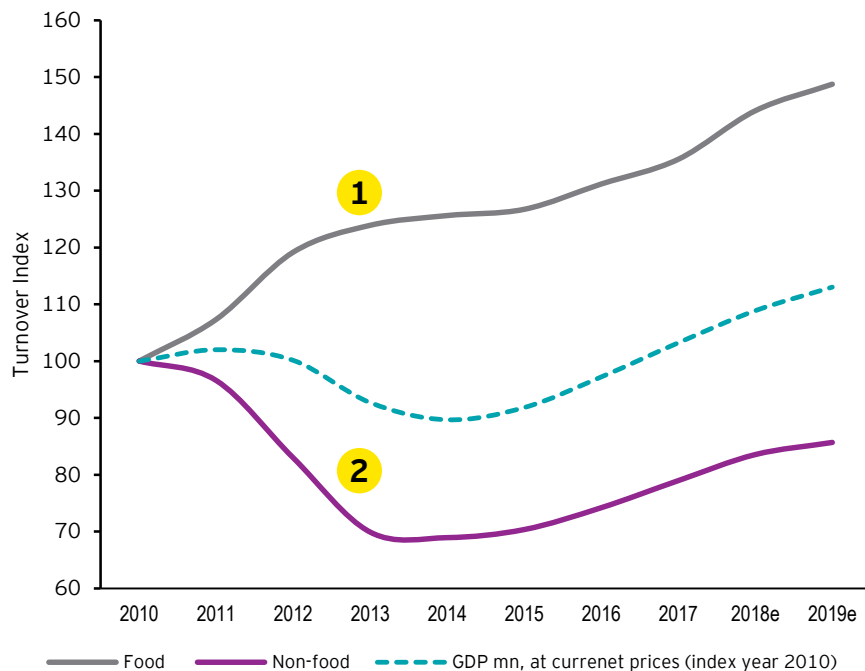


Next is a brief overview of the impact of the 2013 crisis, before we move on to explore COVID-19's impact on the different types of consumer categories, outlets, and retail's wider economic ecosystem.

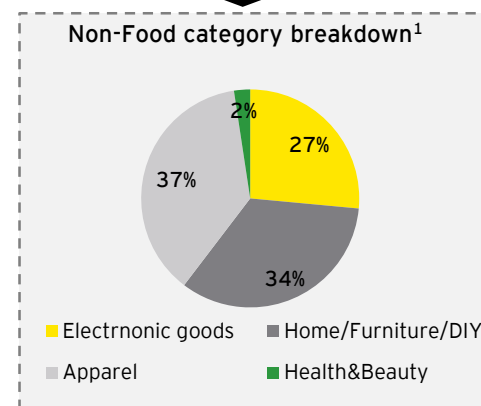
Retail sector recent performance

A glance at the 2013 crisis

Retail Turnover Evolution, categorized by food Vs non-food products

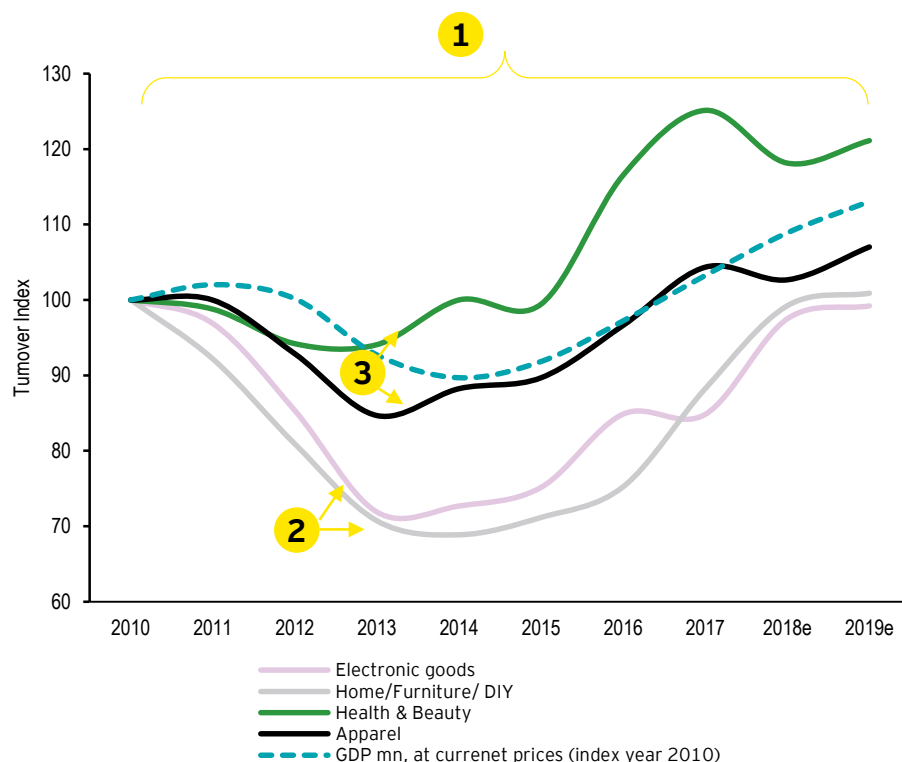


- 1 With reference to the most recent financial crisis of 2013, food products demonstrate resilience to the economic downturn as they are considered necessities.
- 2 In contrast, non-food products suffered considerably as they are dependent on the level of disposable income. **Our study focuses on ~60% of non-food:**



Note: 1. Non-food categories such as flowers, jewellery (~40% of non-food) are excluded

Non-Food Retail Turnover Evolution, sub-categorized



- 1 All non-food subcategories except health & beauty have seen a material multi-year turnover drop roughly in line with the wider economy (GDP).
- 2 The two most affected subcategories were electronic goods and Home/Furniture/ DIY, especially in 2013 (y-o-y shrink of c.16% and c.13%, respectively).
- 3 On the other hand, apparel and health & beauty faced lower decline (c.9% and stable, followed by 5% decline in 2012, respectively) and returned to their 2010 levels much faster (health & beauty in 2014 and apparel in 2017, whereas electronic and household goods had to wait for 2018)

Source: Cystat, EY analysis

Notes: 2018e and 2019e figures are estimated

Covid-19 impact on Retail sector

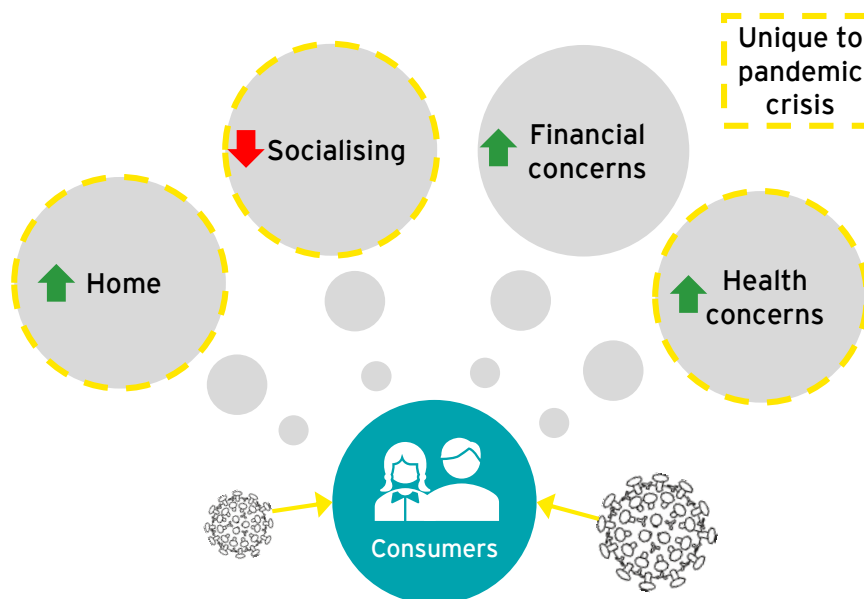
Impact on consumer behaviour and demand side

In this subsection we explore COVID-19's core impact on consumers' behaviour before moving on to discussing the impact on demand for the consumer good categories under review. Finally, in this regard, we also briefly explore the observed differences across EU and Cyprus, caused by underlying differences in local culture and business infrastructure.

Focusing at COVID-19's impact on consumer behaviour, our take on consumers is as follows:

- ▶ Faced with deflated social lives and life at home occupying more time in their minds (due to social distancing and restricted mobility).
- ▶ More concerned about their health and financial security (despite some savings from foregone spending), and as such prioritise spending on *necessity goods* (and newly-considered necessity goods e.g. disinfectants).

The above manifest in changes in product demand and shopping channel preferences, albeit in different ways across each product category. The impact of COVID-19 on consumer demand across retail segments and sales channels is explored below.



Food & Beverage 	<ul style="list-style-type: none"> • Material increase in grocery sales due to: <ul style="list-style-type: none"> • Displacement of restaurant consumption • Panic buying/stockpiling of necessity goods. Popular products include staple foods and cleaning products. • Consumers visit stores less frequently leading to higher tickets per visit. • Demand for delivery and take-away spikes. • Sales of food and sweets in bakeries decrease as consumers prefer to do one-stop shopping at groceries and socialising decreases. • Loyalty gives way to safety and convenience as consumers switch from hypermarkets to neighbourhood shops and previously ignored online channels to avoid crowds and long queues. • Uptake of online channels grows but is limited due to lack of infrastructure and price edge that leave consumer less than satisfied. 	  
Electrical/ Electronic goods 	<ul style="list-style-type: none"> • Increased traction for technology goods and gadgets such as low-priced PCs, tablets, printers and headsets as people switch to working from home and parents look to occupy their children and assist with distance learning. • Demand for white goods stalls in line with real estate construction projects. • Brown goods (TVs & entertainment, small domestic appliances, etc.) see modest rise as consumers spend more time at home • Consumers embrace online shopping in mass numbers for the first time and favour retailers with established call centres and good aftersales support. • Online sales fall considerably post-lockdown as people return to stores across Cyprus, perhaps due to many still feeling the need for face-to-face interaction with sales reps. However online sales remain high in comparison to pre-lockdown levels, reflecting some progress in technological uptake. 	  
Home /Furniture /DIY 	<ul style="list-style-type: none"> • Homewares and furniture experience a sharp decline in demand, as they are products that require physical contact for inspection. • A blow to the housing market undermines home moves and delays purchases. • DIY and gardening suffer less than other non-food sectors (notably apparel, contrary to 2013 crisis) as home-bound consumers focus on home improvement projects. Demand for barbeque equipment soars. • Limited online presence pushes orders through call centres. Customers put a premium on good customer service and fast delivery. • Sales through online and call centres take a dive upon reopening of stores as consumers are eager to move outside their homes. • Physical purchases record high y-o-y sales increase during first two weeks of re-opening. 	  



=COVID-19 impact on sales...



online











in shops



in malls / shopping centres

Covid-19 impact on Retail sector

Impact on consumer behaviour and demand side




<p>Apparel</p> 	<ul style="list-style-type: none"> • Apparel demand takes a dive due to reduced social interaction. • Shift to online generates some sales but does not insulate against overall decline. Limited online infrastructure, dampened mood and embedded culture of shopping experience as a social activity lead to a stall in demand. • Retailers hit by excess inventory, rise in anti-consumerism and cash-strapped consumers looking to trade down or turn to off-price channels. • Re-opening of stores reveal shoppers hesitant to try on clothes or spend a lot of time in store. Average basket increases and sales mix favours best sellers and basics instead of luxury/more adventurous items. • Lower tourist footfall and closure of malls takes a big toll on demand. 	  
<p>Health & Beauty</p> 	<ul style="list-style-type: none"> • Health-minded consumers worldwide stockpile on vitamins and supplements through pharmacies. • Fragrances and cosmetics are under pressure as declining social lives undermine demand and store closures damage sales of beauty brands. • Sustained demand for skin care products and bathroom toiletries pushes consumers towards online cosmetics shops. • Cypriot consumers prove ready to embrace ecommerce for cosmetics as electronic subscriptions to loyalty cards grow substantially during the lockdown. • Online sales continue strong even after-reopening of physical stores, with repeat customers and noteworthy portion of sales. 	  

Key differences in consumer behaviour across EU and Cyprus



VS



	<p>Vast adoption of online shopping across product categories.</p>	<p>Low technology adoption rate finds most consumers & retailers unprepared for ecommerce, casting doubt on permanence of change.</p>
	<p>Consumers turn to high street shops as malls remain closed or considered unsafe.</p>	<p>Structural transition to malls in recent years has left high streets relatively weak, implying a swift revival for malls upon reopening.</p>
	<p>Online channel becomes an integral part of food purchasing habits as consumers have few troubles switching due to pre-existing infrastructure. A big portion of the switch to ecommerce is believed to be permanent.</p>	<p>Low levels of online sales due to lack of familiarity and limited availability of click & pay platforms that mirror in-store experience in terms of pricing and product range. Capacity limitations in delivery further hinder adoption of online channel.</p>
	<p>Fragrances and cosmetics face stark decline in demand as middle class takes a hit.</p>	<p>Perfume sales remain somewhat buoyant, acting as feel-good purchases.</p>
	<p>Historically high levels of online penetration supports sales and enable consumers to continue shopping as usual.</p>	<p>Disruption of habitual shopping channel forces consumers to try out remote shopping. Consumers embrace online shopping in big numbers for the first time and favour retailers with call center service.</p>
	<p>High levels of online penetration support the increase in demand for DIY goods but do little to mitigate drop in sales of furniture and homeware.</p>	<p>Above-average increase in sales of BBQ equipment as Cypriots look for ways to entertain their families in isolation.</p>
	<p>Accelerated use of online capabilities for sizing clothes and ease of delivery of products at home increases popularity of virtual shopping.</p>	<p>Cypriot shopper accustomed to experience shopping as a social activity. Small distances, high car ownership and parking availability supports this behaviour.</p>



=COVID-19 impact on sales...



online



in shops

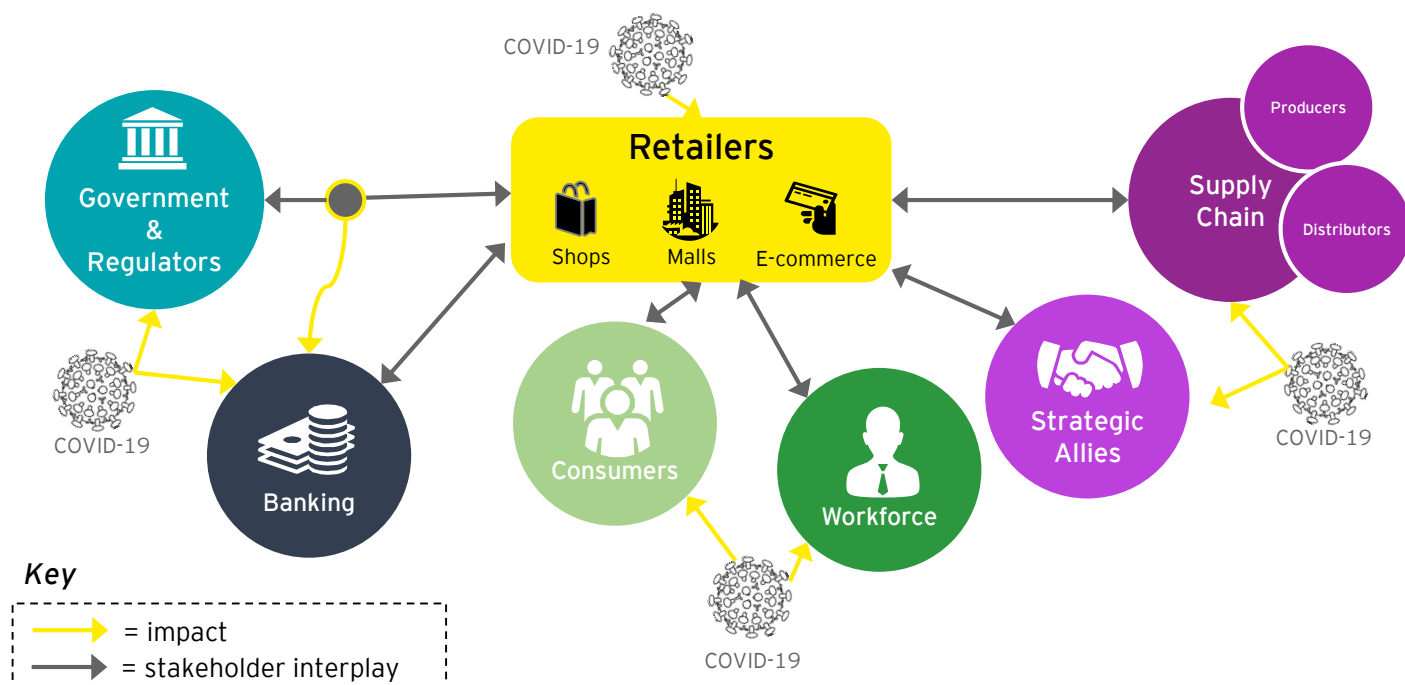


in malls / shopping centres

Covid-19 impact on Retail sector

Impact on sector ecosystem

Having looked at the impact of coronavirus on consumer behaviour and ensuing changes in demand, we take a broader look at the impact on the retail sector by exploring the impact on its wider ecosystem. We analyse how COVID-19 has impacted each stakeholder within the ecosystem, their reaction and interplay. Brief explanatory notes are provided for each stakeholder.



Retailers

COVID-19 impact

- F Surge in demand for groceries challenges food retailers and forces them to rethink operations, sales channels and supply chain.
- nF Nonfood retailers move fast to create new pathways to customers by capitalizing on online presence, expanding call centers and fighting against delivery capacity limitations.
- nF Apparel retailers in trouble with excess levels of stock and no digital channels to consumers. Shops sales compromised by health concerns and mall closures. Discounting causes margin erosion and adds to cash flow problems.

Reaction

- Business model reconfiguration, innovation and formation of strategic alliances in efforts to adapt to economic and consumer shifts and improve positioning on value chain.
- nF For those retailers who were plagued with underlying issues prior to the pandemic, threat of bankruptcy exists.
- nF Anticipated waves of consolidation and M&A activity. Retailers to evaluate divestment and acquisition opportunities to strengthen core and capture whitespaces that emerge from the reshuffle.

Government & Regulators

COVID-19 impact

- nF Suspension of "non-essential" brick-and-mortar stores from March 17th to May 4th (and malls until later date) leads to reduced inflows in the form of direct and indirect taxation.
- nF Pressure on Government to support hard hit retail segments (i.e. non-food) at the level of both businesses and workforce.

Reaction

- nF Economy-wide fiscal and financial support measures reach the retail sector in the form of postponement of financial obligations, employee compensation schemes, deferral of tax payments and direct grants.
- F Targeted measures aimed at players along the food retail supply chain (agriculture, fishery)

Banking

COVID-19 impact

- nF Decreased ability of non-food retailers to service debt obligations threatens banks with an increase in NPEs in the near future.
- nF Reduction in new business lending as investments halt.
- nF Reduction in banks' profitability due to provision of liquidity at lower interest rates, debt restructurings, NPE provisions and write-offs.

Reaction

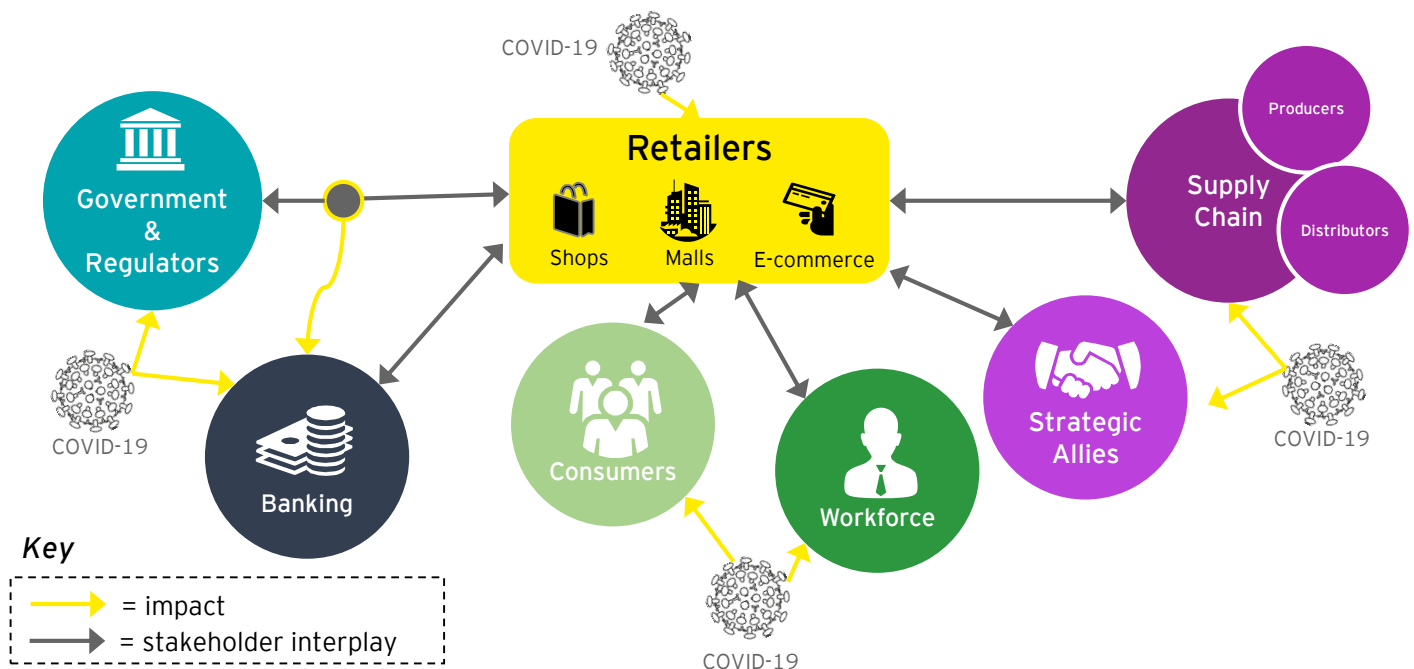
- nF Banks provide flexibility to retailers to defer and/or restructure their debt obligations.
- nF Liquidity injection through interest rate subsidisation for new loans.
- Assist retailers with online banking adoption.

F Specific to Food & Beverage

nF Specific to Non-Food & Beverage categories

Covid-19 impact on Retail sector

Impact on sector ecosystem



Consumers

The consumer or demand side is covered in more detail in the preceding section

COVID-19 impact

- Social distancing and health concerns persist after lockdown ends.
- Economic uncertainty and concerns about job security undermine confidence in personal finances.
- Online channels require consumers to overcome the initial friction of engaging digitally, set up online accounts and become familiar with online payment systems.

Reaction

- Consumers prioritise spending on essentials such as food and health, avoiding discretionary spending, especially on apparel, homeware and electricals (white goods).
- nF As consumers embrace ecommerce, they are let down by long delivery periods in most cases.
- nF Shoppers visit shops upon re-opening and are enthusiastic with purchases but remain cautious in interacting with crowds.

Workforce

COVID-19 impact

- nF Shop closures threaten workforce with salary cuts, redundancies and halt on seasonal recruitments, leading to increase in sectoral unemployment and reduced disposable income.
- F Increased health and safety concerns for employees at essential stores (i.e. food retailers) due to exposure.
- F Staff face difficulties in carrying out normal duties due to health measures in place and new complexity of operations.

Reaction

- Staff apply for employment support schemes, impacting labour availability and productivity rates.
- nF Staff at non-essential retailers consider alternative income sources in order to compensate for the loss.
- Staff undergo retraining to man call centres and delivery fleet.

Supply chain

COVID-19 impact

- Suppliers for food and other necessity products come under severe pressure from huge spike in demand. Overseas distribution is disrupted (severe delays, new routes) and becomes more costly.
- nF Supply chain issues such as delays in production for household appliances, furniture and electronics due to heavy reliance on China for both end-products and intermediate parts.
- nF Due to long-lead times, flexibility to amend, cancel or defer seasonal orders is limited.

Reaction

- Cost-cutting actions by suppliers and distributors, including staff redundancies, price renegotiation and halt in discounts.
- nF Renegotiation of order volumes by some suppliers in non-food sector to ease overstock burden of their clients.
- Adjustment of Working Capital management (change of credit terms, reduction of inventories, etc.)

Strategic allies

COVID-19 impact

- Companies with complementary services to retailers are invited to cooperate as third party providers of online channel provision and distribution/ delivery. This allows retailers to design remote paths to consumers through strategic alliances as a means to mitigate drop in sales.

Reaction

- New B2B clients result in increase in market share.
- Expansion of business plans to include different types of clients, reconfiguration of operations and increase in headcount.

F Specific to Food & Beverage

nF Specific to Non-Food & Beverage categories

Industry Sentiment

EY Survey results

Basis of the Survey

- EY conducted interviews in the period May 11th-21st 2020, with the scope of investigating the actual impact of COVID-19 on the Cypriot Retail Sector.
- Participants were key executives from major Cypriot retailers who provided their views, expectations and sentiment on the impact of the pandemic crisis on their operations and financial metrics.
- Participants were also asked about their views and expectations regarding industry recovery and the measures undertaken by the Government of Cyprus.

1. Business model - "What adjustments did you make to your business model to adapt to the new situation? What adjustments would you have liked to make but were unable to?"

Business model adjustments

Health & safety protocols

- Implementation of enhanced health measures to gain competitive advantage

01

02

03

Operation flexibility

- Embraced flexibility and reconfigured operations.
- Contemplated between forming new strategic alliances vs developing capability in-house.

Deferral of long term plans

- Long-term plans and investments postponed in the face of more imminent needs.

Retailers within international group structures referred to slow decision-making taking a toll on operational agility; in parallel, digital transformation appetite increased.

2. Technology & analytics - "How important is technology and data analytics for your business during these times?"

Low

Medium

High



- Most retailers stated that **technology and data analytics are vital for management decisions especially in times of uncertainty**. While not all have adopted such systems, they all agree that they are the future.
- Though many did not offer omni-channel, the majority of participants had online presence (e.g. for marketing purposes).
- Many increased online banking features to improve cash control and monitoring as well as enable wired and online transactions (both from customers and to suppliers).

“

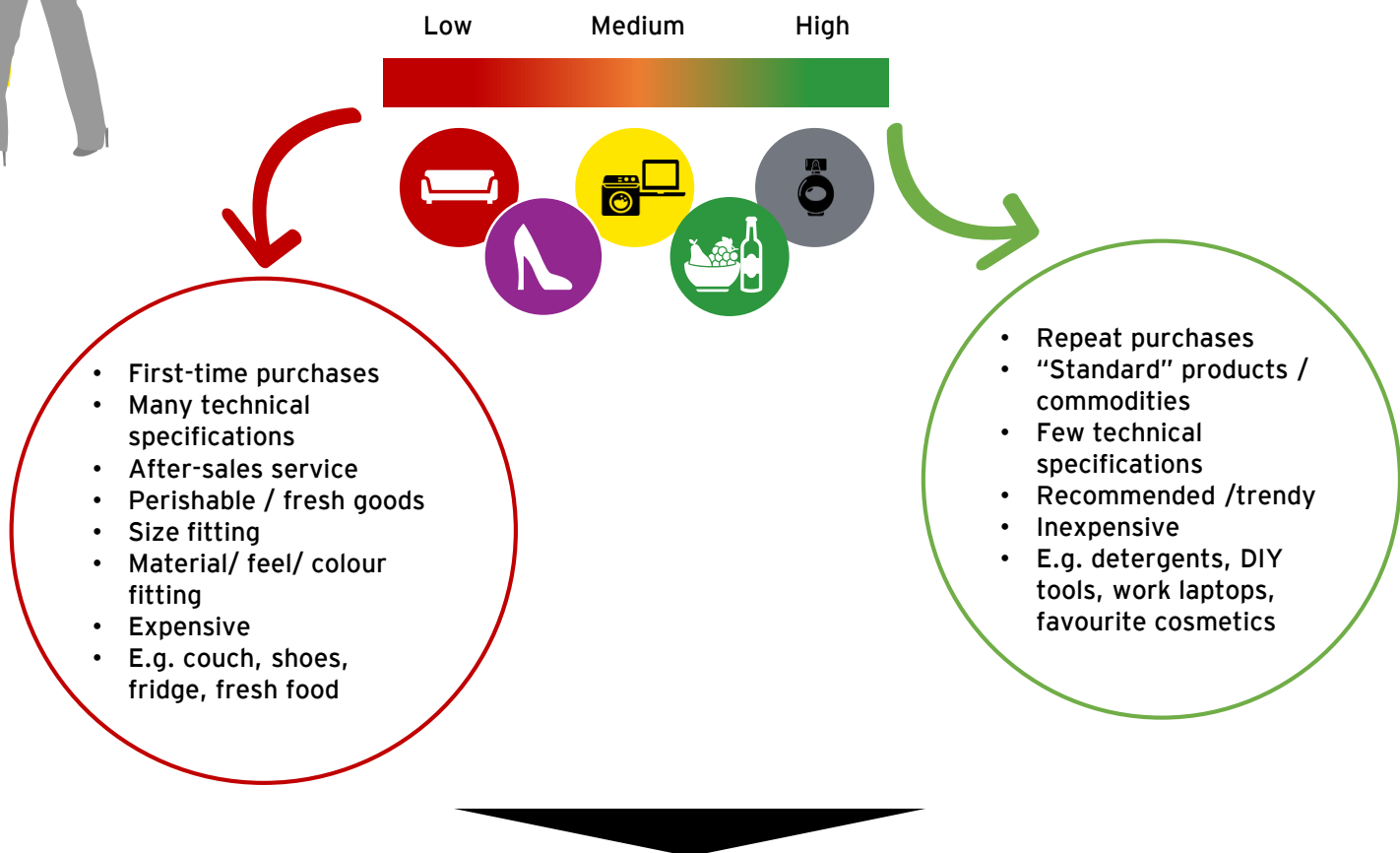
This is a time of disruption; innovate or perish”

3. Consumption channels - "Is the Cypriot consumer ready to embrace alternative consumption channels (e.g. online)?"

Cypriot consumer is getting ready to embrace alternative sales channels, following closely their European counterparts. Hesitance to date emanates from the fact that (i) most companies do not have click & pay platforms yet, (ii) Cypriots regard shopping as a social experience and; (iii) small distances, shop density, high car ownership and low traffic allow for easy access to stores compared to EU.



Cypriot consumer's willingness to switch to online channels



Retailers agree on need to invest in online channels:

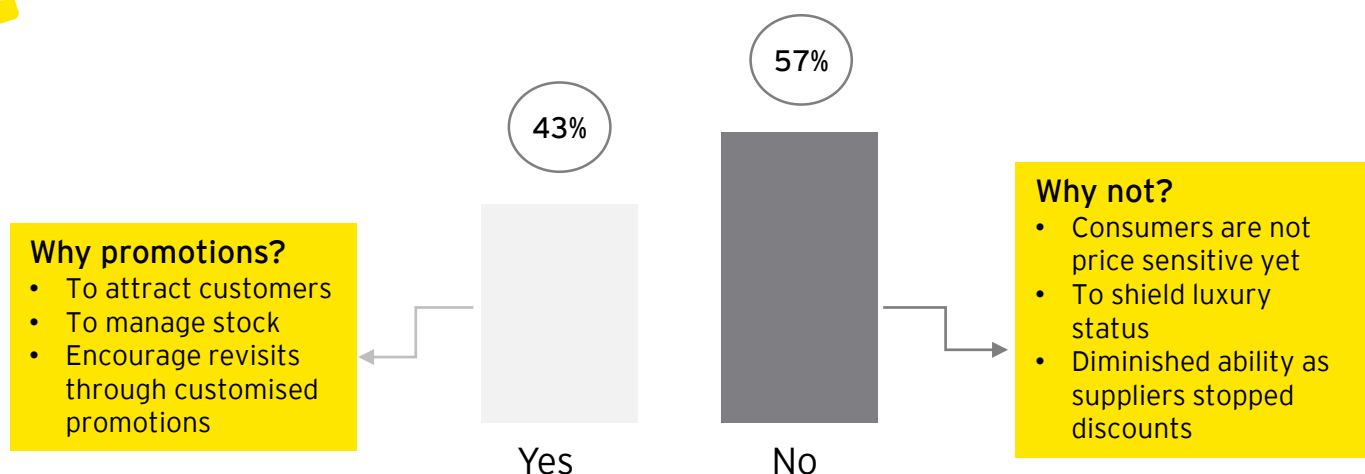
- Cypriot consumers increasingly place a higher premium on omnichannel experience
- User-friendly and functional digital interface is important for informative purposes, product research and transparency
- For business continuity, in anticipation of virus resurgence

Industry Sentiment

EY Survey results

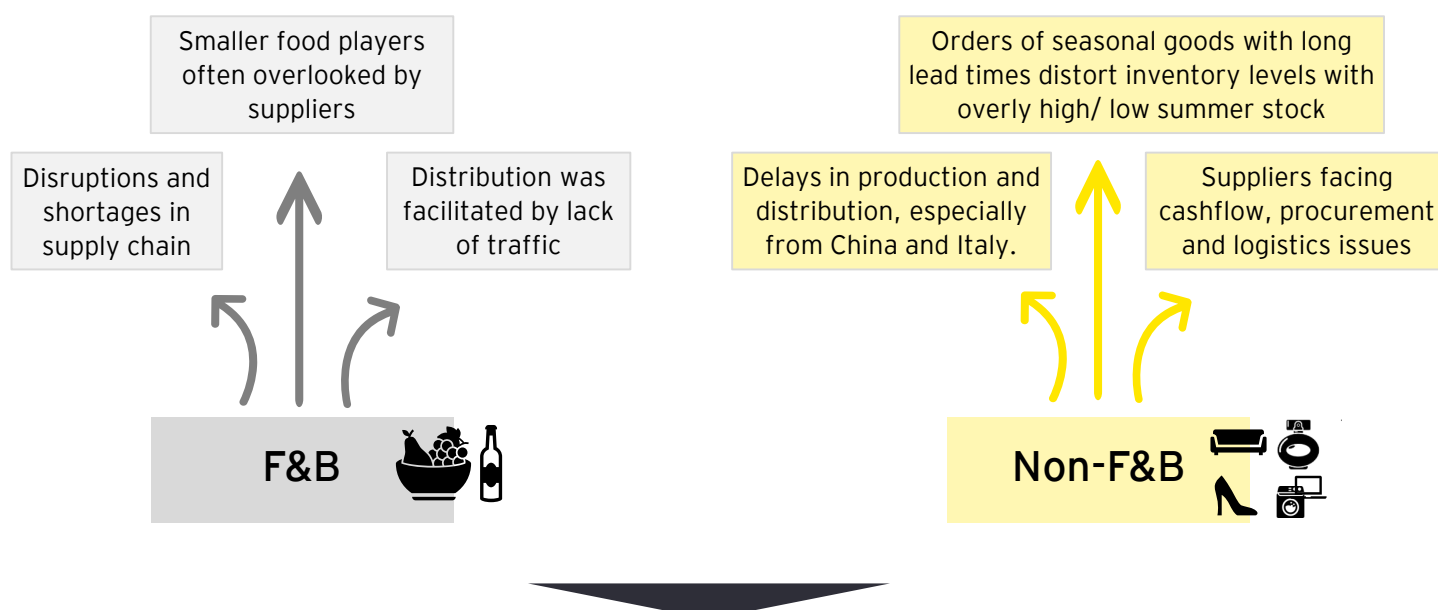
4. Promotions- “Did you make use of above-normal promotions to attract customers during and/ or after the lockdown?”

Capacity and willingness to offer above-normal promotions



*Participants who provided no answer were excluded from the analysis

5. Supply chain – “What challenges did you face along your supply chain and how have these hindered your operations? Looking ahead, will you make any permanent changes to your supply chain model?”



Overall response

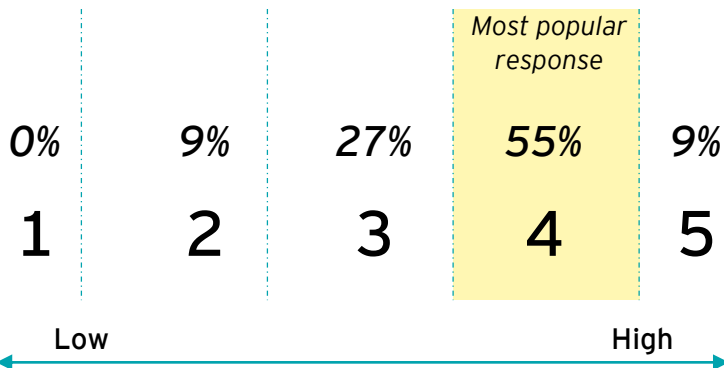
Some retailers are increasing safety stock of imported products and rethinking their supply chain strategy by looking at different products and suppliers within EU and examining the merits of diversification vs higher cost.

Industry Sentiment

EY Survey results

6. Government measures – “How would you rate the government’s economic response to the pandemic? From your perspective, what more would you like to be done?”

Participants’ satisfaction with Government’s support measures*

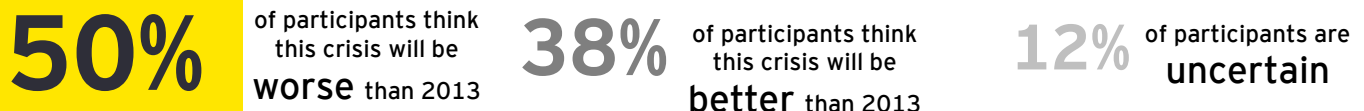


- ▶ Satisfaction with Government’s swift response and determination, in comparison to other countries.
- ▶ Grievances on the delay in supporting banks’ in restructuring debt and tenants in paying their rent.
- ▶ Main suggestions include improvements in employment scheme coverage and relaxing of tax obligations.

*Participants who provided no answer were excluded from the analysis

7. Comparison to 2013 crisis – “How does the current crisis compare to that of 2013?”

Participants’ view of impact on retail in comparison to 2013 crisis*



Respondents’ Rationale

- Halt in tourism deals a direct blow on retail turnover and indirect hit on medium-term disposable income and consumer confidence
- No construction boom to help recovery this time

- Global solidarity
- Swift Government action
- Greater consumer confidence
- Healthier banking system
- More robust businesses and financials

- High uncertainty regarding virus resurgence and unknown recovery of tourism

*Participants who provided no answer were excluded from the analysis

“Each crisis prepares you for the next one; we now stand stronger in comparison to the 2013 crisis”

“The Government can only do so much; it is up to the individual businesses to survive”



“EU supervision and sovereign debt constraints restrict ability to intervene”

“The future will depend on how each business manages to reinvent themselves to address new consumer needs”

Industry Sentiment

EY Survey results

8. Industry outlook - "What is your outlook on the industry and how do you picture the road to recovery?"



F&B

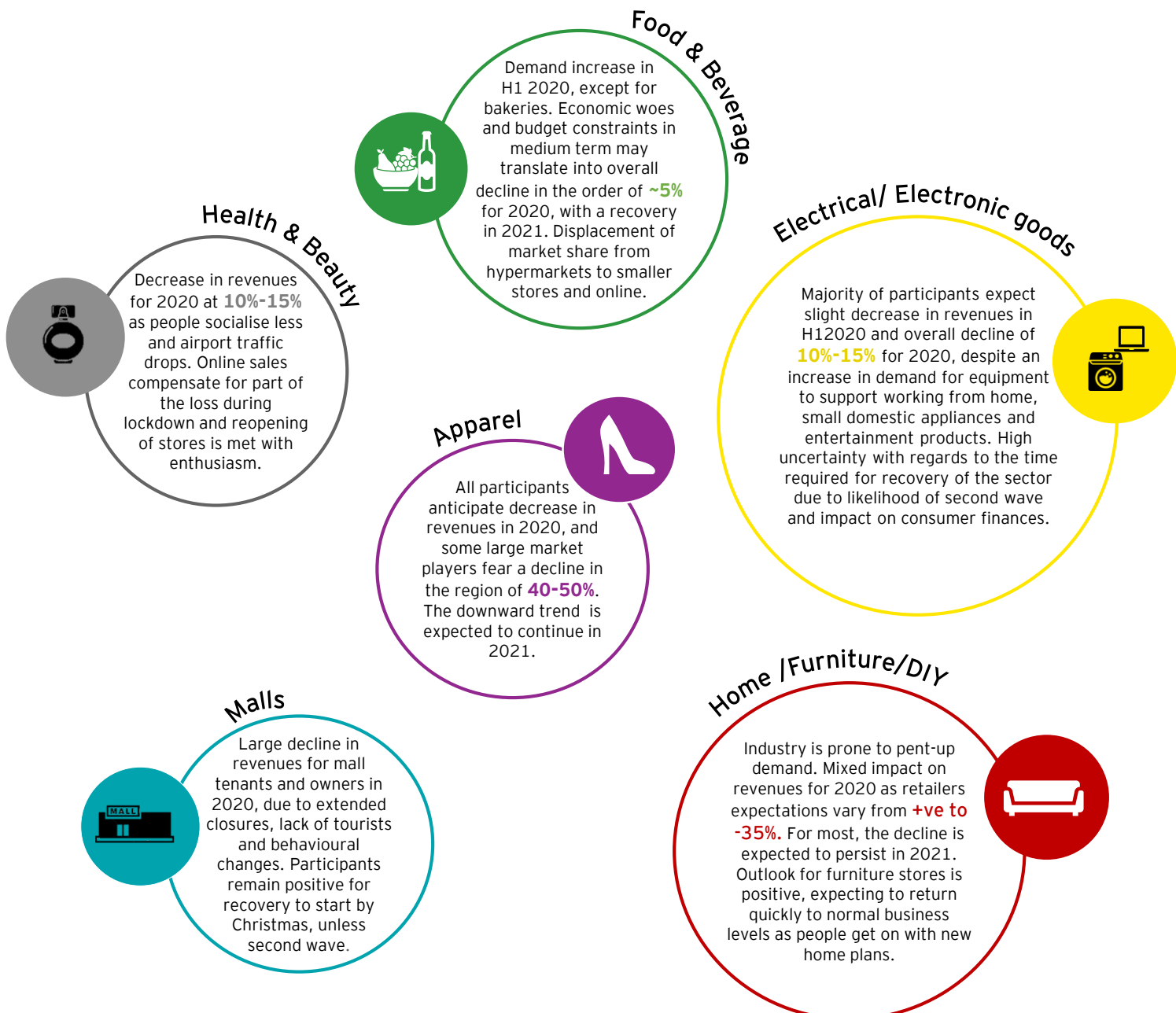
- **Food retailers predict increase in revenues in H1 2020 but expect H2 2020 to be impacted by unemployment, lower disposable income and lack of tourists.**



Non-F&B

- **Projections are mixed, with majority of non-food retailers planning for recession and expecting market consolidation.**

How do revenue expectations compare to actual 2019 levels?

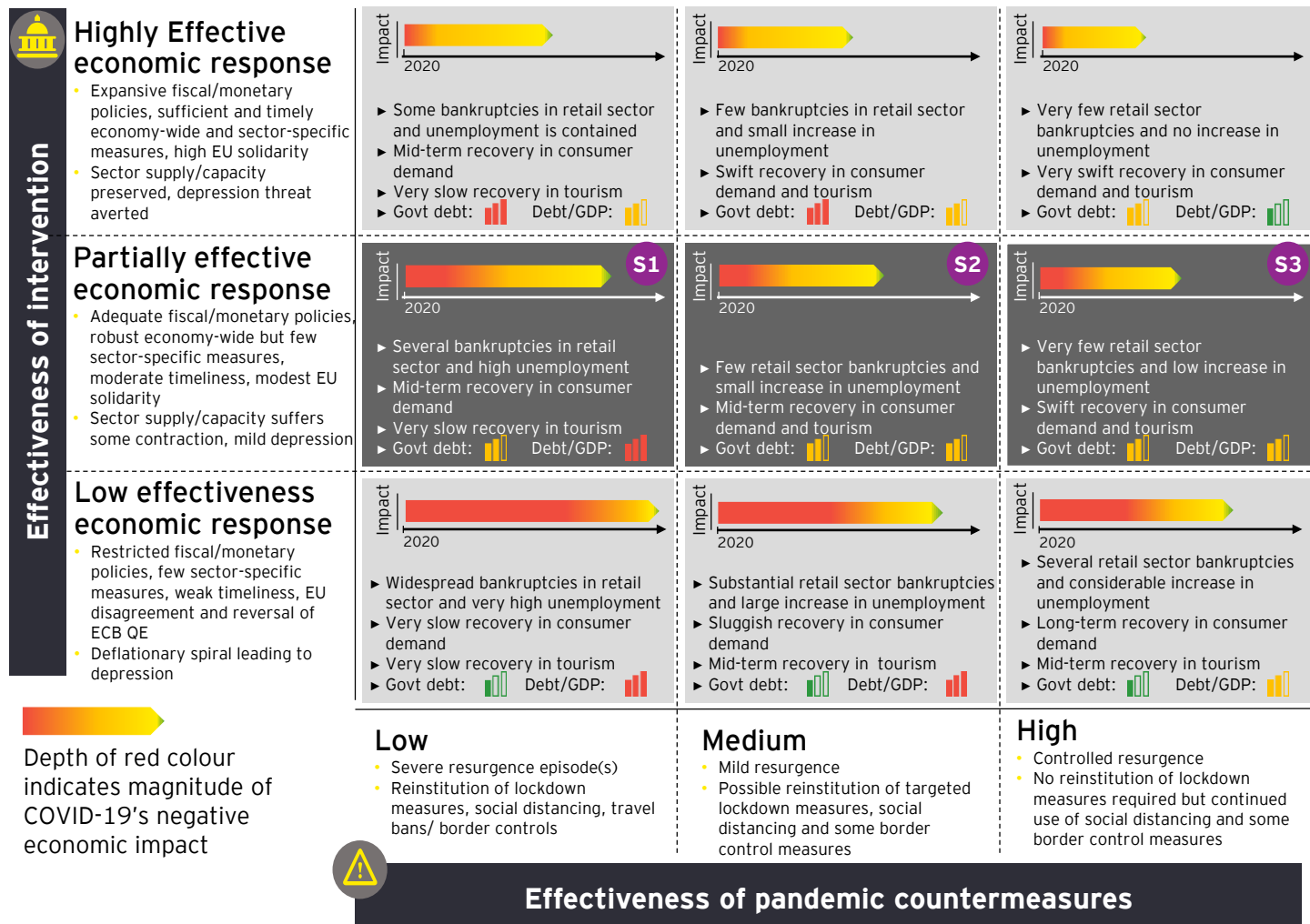


Economic Impact of COVID-19 on the Retail Sector

Key considerations and scenarios

Scenario summary

In the matrix below we recall the economic and fiscal strategies outlined in previous Industry Pulse reports published in April 2020, and look at various possible outcomes of the efforts to control the outbreak* so as to derive various scenarios for COVID-19's economic impact for the retail sector (under the assumption that the pandemic will last for 12-18 months). For each scenario we provide a brief description in the respective matrix quadrant, along with an illustration of the magnitude of COVID-19's negative economic impact and its longevity.



The retail sector horizon and impact is likely to move along the “partially effective economic response” scenarios as presented in the above matrix. In the next section, we analyse the impact of the pandemic on the retail market by considering the potential effect of these specific scenarios on the key segments under review.

* We assume that the Government takes efforts to upgrade and scale-up testing, engage in proactive testing, endorse immunity testing and apply app-based contact tracing as needed in all above scenarios.



Economic Impact of COVID-19 on the Retail Sector

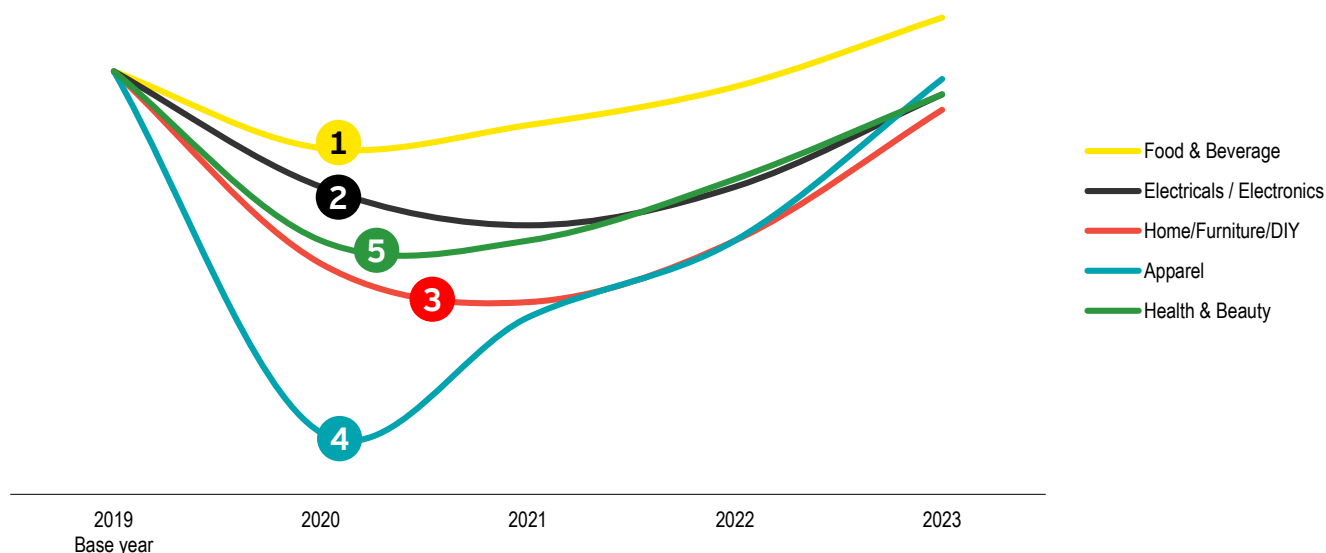
Introduction to scenarios

We adopt three basic epidemiological scenarios to capture the likelihood and severity of wave resurgence, allowing us to estimate the potential impact of COVID-19 on Retail sector performance in the period 2020-2023:

- S1 Scenario 1** - Severe resurgence episode(s) in fall/ winter 2020 and smaller waves in 2021, necessitating new round of lockdown measures.
- S2 Scenario 2** - Mild resurgence and propagation of pandemic waves throughout 2020 and 2021 which, depending on size and health system's capacity, may or may not necessitate reinstatement of targeted mitigation measures.
- S3 Scenario 3** - Slow burn of case occurrence (controlled resurgence) which does not require reinstatement of any mitigation measures.

For each scenario, we use time series data of key macroeconomic metrics* and model the recovery path for each retail segment based on industry sentiment and EY projections. Our model provides annual forecasts for the turnover of each retail segment, under the assumption of partially-effective government response. Below are the results for Scenario 2.

Recovery profile for turnover of retail segments under review



- 1** Displacement from restaurants boosts sales but change in product mix and lack of tourists for 2020. Swift recovery due to necessity status.
- 2** PCs in high demand for work and study purposes in 2020 but sales of discretionary goods and electrical appliances drop. Recession effect persist in 2021. Recovery ensues in 2022 as consumer confidence increases and constructions picks up.
- 3** Home category hit harder than electronics in 2020 since products favour physical evaluation but sales trajectory thereafter coincides with sister category.
- 4** Apparel hit hard in 2020 by closure of shops and malls, hesitant consumers, absence of tourists and promotions to unload stock. Swift recovery as pandemic subsides after 2021, consumer confidence picks up and tourists return.
- 5** Beauty products hit by less socialising and low consumer confidence in 2020. Sales growth in line with economic recovery and tourist arrivals.

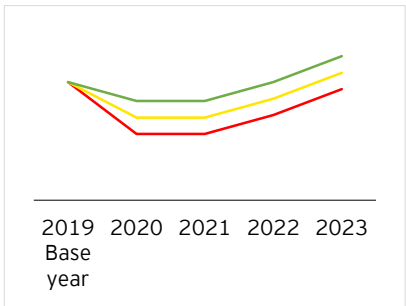
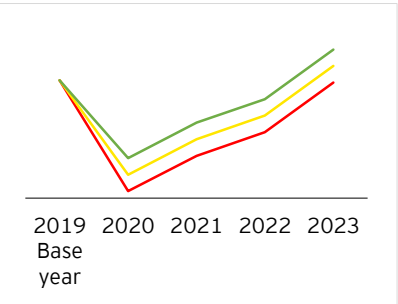
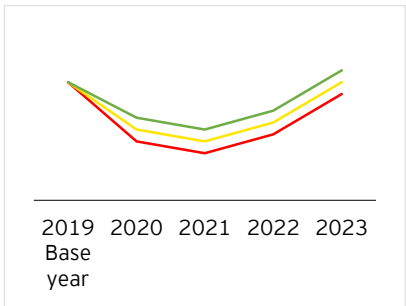
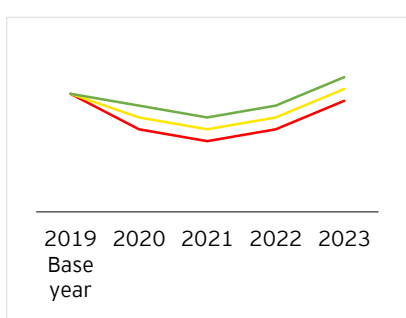
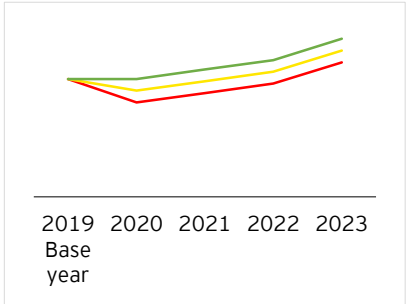
*The key macroeconomic metrics include GDP rate, unemployment, disposable income, revenues from tourism, consumer confidence and construction activity.

Economic Impact of COVID-19 on the Retail Sector

Summary of results per segment

We present the sales forecast of each retail segment over 2020-2023 under each scenario. Key observations:

- Apparel and Health & Beauty products mark the highest volatility and variance between the scenarios.
- Despite relatively limited initial shock, recession and decrease in construction slow down recovery of Electricals and Home.
- Necessity goods (F&B) continue on a modest upward trajectory following the 2020 shock.



Scenarios / Legend

S1

Severe resurgence

S2

Mild resurgence

S3

Controlled resurgence

Disclaimer: The above scenarios are only indicative, based on historical data gathered from CyStat and Eurostat accompanied by a number of assumptions. Assumptions by nature are uncertain and depend on a series of unknowns at this stage. The situation surrounding the COVID-19 shock is dynamic and changing rapidly on a daily basis. As such, the scenarios and models presented should by no means be considered as certain or accurate predictions for the future. They are only provided for discussion purposes.



Retail Sector post - COVID-19

What can change for good?

Industry landscape



The strain on revenues and cash flow brought on by the pandemic will lead to closures of retailers with weak value propositions that have struggled before the crisis. Industry consolidation will ensue, resulting in a less fragmented market

A taste for the omni-channel customer experience



Customers have been forced to try new shopping experiences through omnichannel paths. Online platforms, call centre service and physical stores create synergies for the consumer. The omnichannel experience enhances customer experience by allowing them to browse and learn about products at their convenience, by amplifying the image of the retailer, promoting transparency and building a sense of community

Adaptation of physical retail space



The marked increase in utilization of the digital shelf is set to translate into a drop in physical retail space. The resulting idle retail space is expected to be converted into logistics hubs (big boxes). Demand for industrial units and especially "last-mile" type of logistics centers is expected to increase.

Mindful consumers



Consumers are becoming more mindful about social responsibility and transparency, placing a renewed focus on sustainability, local community, responsible business practices, solidarity and retailers' role as a good citizen. Consumers also increasingly ponder on materialism and over-consumption, hampering trends of fast fashion and indulgent purchases.



Way forward for the Retail sector

Recommendations to government and market participants

Targeted **government measures**, tailored to hard-hit retail segments can support swifter recovery. At the same time, retailers are urged to act on two axes by rigorously **managing their cost position** through operational improvement and by **investing into customer experience**, distinguished service, and omnichannel presence.

“*Never let a good crisis go to waste*”

Winston Churchill

Transformation of operations

- Operations as a driver of competitive advantage, not merely a lever to lower costs.
- Deployment of digital tools and techniques to automate operational processes, leverage IoT and capture insights that fuel quality, productivity and process improvement.
- Scaling of digital operations to increase returns for stakeholders through cost efficiencies, workplace improvement and rationalization.
- Revisiting of supply chain agreements /partners to address short-term uncertainty and longer term concentration risks.

Ecosystems matter

- Finding trusted partners to collaborate and forming strategic alliances that build resilience, especially for smaller participants.
- Building a strategy within the ecosystem where all partners bring unique value for customers.

Government's role as a catalyst to recovery of retail industry

- Adjustment of VAT rate to incentivise consumer spending
- Extension of deferral of social security and VAT payments
- Guidance on rent reductions
- Support for frequent testing of employees

Business model adaptation with focus on consumer

- Shift focus on customers instead of products, so as to respond quickly to demand changes
- Business model adaptation around new consumer needs.
- Deployment of advanced technologies throughout organization to augment customer experience.
- Use of data analytics, customised promotions and proactive marketing.
- Re-training/repurposing of personnel to develop the skillset needed for the new operating model.

CSR & transparency

- Social responsibility and rethinking broader business mission become important.
- Focus on product traceability, local sourcing and fair trade.
- Greater sensitivity to climate change is needed



Way forward for the Retail sector

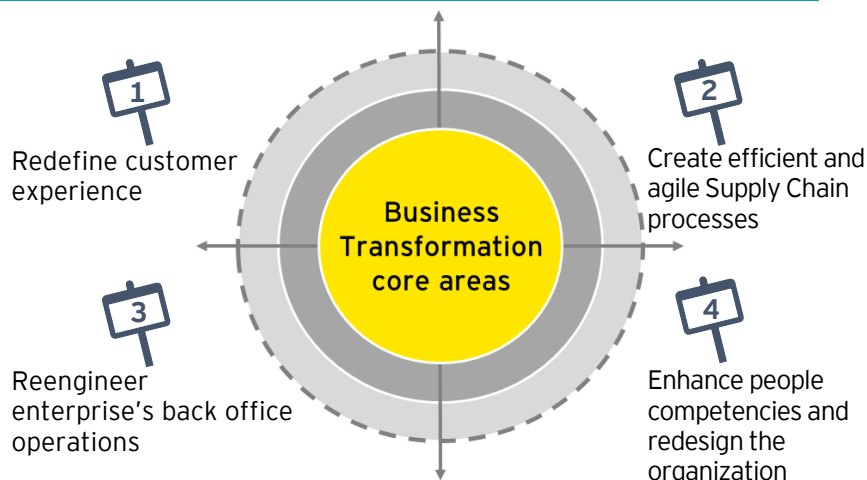
COVID-19 acting as catalyst for technological adoption

Technology has always been a key driver for business transformation. However, the pandemic has accelerated technological adoption by exposing vulnerabilities. Some retailers were more prepared than others, and even if many retailers still entertain doubts about the Cypriot consumer's digital readiness, missing out on the technology bandwagon is no longer an option; it risks the enterprise's ability to survive as well as being perceived as lagging behind the curve.

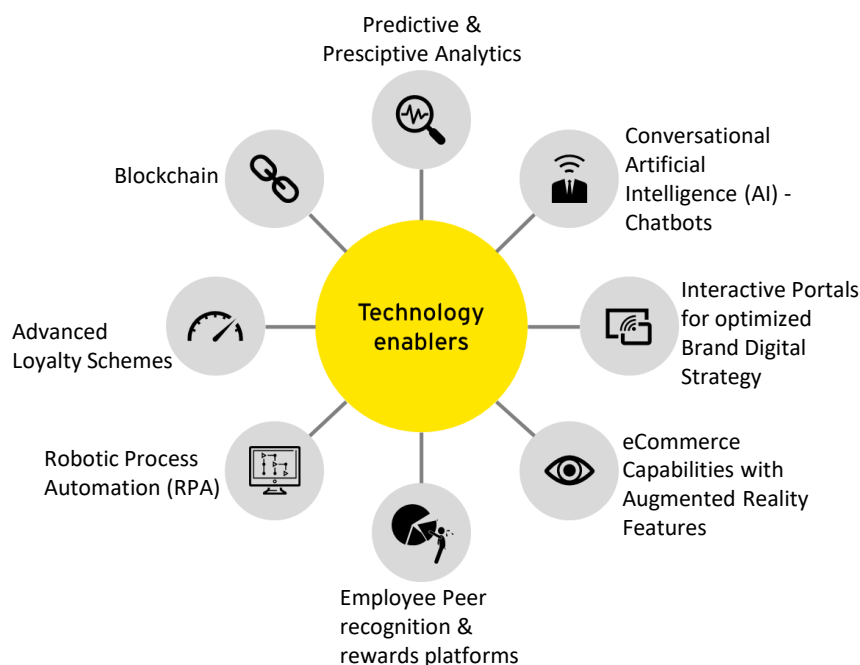
COVID-19 accelerated the need for Business Transformation...



Retailers will now have to accelerate transformation of their businesses in order to get aligned with the altered customer behaviour, the need for cost optimisation and the reformed workplace experience. Thus, Business Transformation should aim at a minimum to **redefine customer experience, create efficient and agile supply chain processes, re-engineer enterprise's back office operations, and enhance people competencies and redesign the organization.**



... and Technology can be used to accelerate Business Transformation



Technology makes accelerated Business Transformation possible. A number of mature and emerging technology enablers are available and can be deployed by retailers in order to obtain tangible results. The era of "doing digital" is coming to an end! Going forward, retailers need to "be digital", which in essence means that corporations need to re-think their business model and embed digital throughout their whole value chain. Such a transformation will enhance customer experience, drive operational efficiencies, and improve the overall decision-making and ability of the firm to adapt to the changing environment. Otherwise, they run the risk of making unnecessary investment in technology that will not yield results.

Use Cases

- Data Analytics with predictive and prescriptive algorithms can collect and correlate information around customer buying behaviour so that retailers obtain a 360 degree view of their customers.
- RPA's (bots) can perform labour intensive, standard and repetitive processes benefiting from the relevant cost optimization.
- Creation of "personas", homogeneous groups of people with similar buying behaviour and not demographic characteristics, could help in running targeted digital campaigns with high success ratio compared to generic social media messages.

How EY can help

Services that bolster your resolve and reshape your future



Short-term cash & liquidity management



- ▶ Analysis of cash gaps
- ▶ Identification of quick wins
- ▶ Dynamic forecasting of cash needs under crisis scenarios and identification of mid-term solutions



Financing options



- ▶ Analysis of financing structure
- ▶ Identification of alternative options
- ▶ Securing non-bank / quick financing



Negotiations with banks



- ▶ Advice with bank negotiations
- ▶ Lenders deck and banking presentation preparation
- ▶ Preparation of financial projections
- ▶ Capital structuring



Independent business review



- ▶ Independent Business Review preparation for your lenders, creditors, etc.
- ▶ Stress testing based on market situation



Working capital advisory



- ▶ Lean organisation and processes optimisation
- ▶ Supply and demand planning
- ▶ Assessment of key Working Capital drivers and cash release opportunities



M&A support



- ▶ Divestment advisory
- ▶ Real-estate sales
- ▶ Quick direct sale process
- ▶ Identification of opportunities



Economic Advisory



- ▶ Economic Impact Assessments
- ▶ Cost-Benefit Analysis
- ▶ Incentives analysis & planning
- ▶ Regulatory economics
- ▶ Competition economics



Corporate Finance Strategy



- ▶ Corporate strategy
- ▶ Value optimisation
- ▶ Investment strategy
- ▶ Feasibility & business planning
- ▶ Portfolio strategy



Retail specific sector expertise



- ▶ Financial, technical and commercial due diligences
- ▶ Business plan preparation and independent assessment
- ▶ Advisory valuations and reviews
- ▶ Strategy
- ▶ Business Process Optimisation and Automation
- ▶ Customer Experience Journeys
- ▶ Customer Data and Behaviour
- ▶ Predictive Analytics
- ▶ Information Management with Advanced Reporting Capabilities
- ▶ eCommerce Capabilities and Go-to-Market Commercial Strategy on Digital Channels
- ▶ Customer Loyalty Programs
- ▶ Intelligent Networks with WIFI Analytics

Services relevant to: Government/Regulators Banks Businesses



How EY can help (cont'd)

People



Stelios Demetriou
Partner / Transaction Advisory
Services Leader

Stelios has over 20 years of corporate finance experience. He advises clients on transactions in the Banking sector and various other industries in Cyprus and South East Europe. During the last years, he has led various financial restructuring projects and NPL deals in the country, worked on IBRs on behalf of banks and corporates and acted as an advisor on government projects.



Thanos Mavros
Partner / Advisory Services, Greece
Supply Chain & Operations CESA
Leader

Thanos has 31 years of strategy & management consulting experience. He has led significant projects at major corporates and public organizations in numerous CE European countries and at major international markets including U.S.A, Russian Federation, Germany, Netherlands and Nigeria.



Charalambos Constantinou
Partner / Advisory Services

Charalambos has more than 15 years of international professional experience in offering advisory services in performance improvement, risk management, and IT advisory to both the public and private sectors



Alexandros Pericleous
Director / Transaction Advisory
Services

Alexandros focuses on strategy and corporate finance. He has helped clients reshape their results through regaining control of their cash and working capital, business planning and review, restructuring, renegotiating debt, and investing / divesting.



Renos Solomides
Manager



Dr. Melina Moleskis
Assistant Manager



Andreas Kyprianou
Assistant Manager



Ani Manoukian
Analyst

Transaction Advisory Services are all about helping our clients get more for their capital. We provide comprehensive guidance on all aspects of transactions - understood as major corporate undertakings outside the ordinary course of operations - from inception to execution. In this way, we manage to support the flow of capital across borders, help bring new products and innovation to market, and enable organisations to reshape themselves for a better future, in a rapidly changing, increasingly digital and disrupted business environment.

Why EY Transaction Advisory Services?

EY ensures the best outcome by combining:

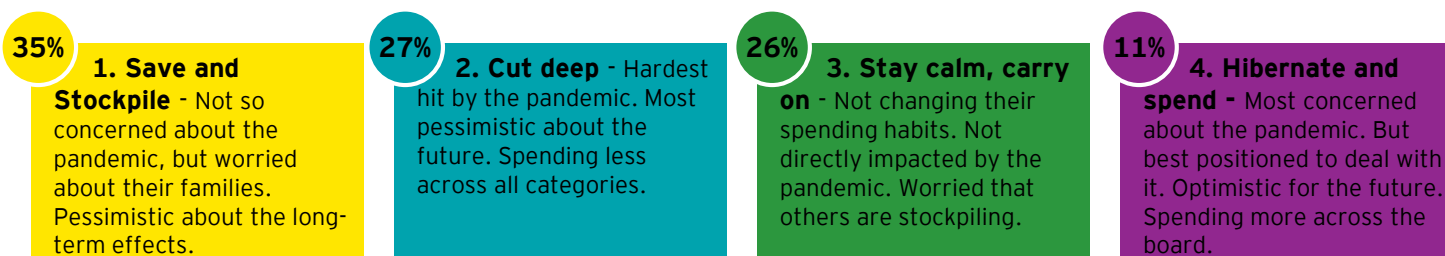
- ▶ A highly experienced and entrepreneurial team
- ▶ Comprehensive solutions
- ▶ International network
- ▶ Sector expertise
- ▶ Digital expertise

Appendix - Future Consumer Index: How COVID-19 is changing consumer behaviours

The EY Future Consumer Index was formed following a survey run in **5 major markets (USA, Canada, UK, France and Germany)**. It was constructed so as to help leaders understand and track emerging consumer behaviours and sentiment around the world. It is noted that some of the behaviours described in the article are already being observed in Cyprus as well. Some highlights of the report are illustrated below.

COVID-19 initial impact on consumer behaviour

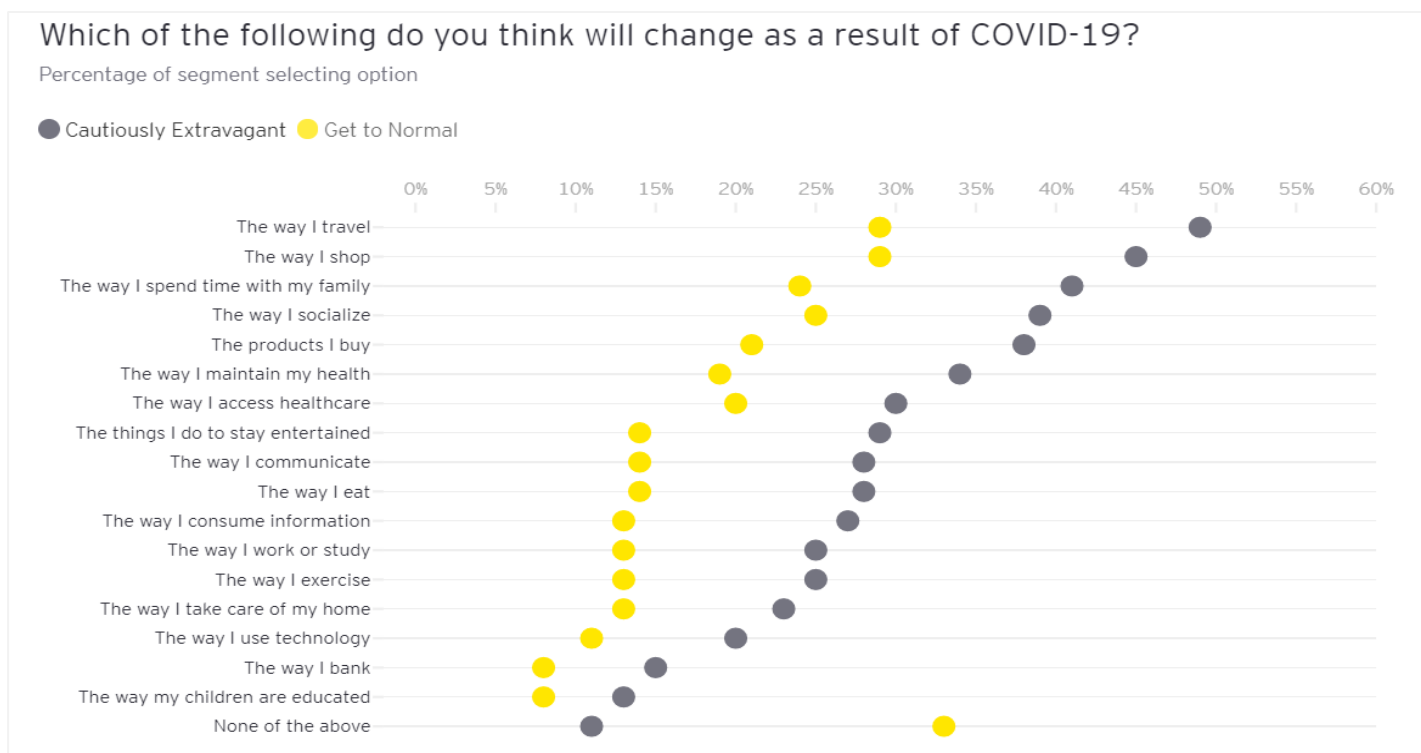
In these early stages of the pandemic, consumers are worried about the health of their families, whether they can buy for their basic needs, and the loss of freedoms we all took for granted. Those common concerns are manifesting themselves in different ways, as consumers adopt new behaviours. Looking across all the Index data, four segments of behaviour were identified:



What happens next?

Looking beyond the immediate effects of the pandemic, few consumers expect to go back to their old behaviours any time soon. As with many of the shocks we encounter in life, people are in a mood to pause and reflect. In these uncertain times, how long this transition will take - or whether different transitions will emerge - remains to be seen. But tracking change as it occurs will help companies stay relevant and plan for the future.

As observed by the survey results portrayed below, majority of people are starting to reshape their everyday lives, with only a few planning to return to the old definition of “normal” in their everyday life.



The article contains additional survey questions and responses that can provide valuable insights on the COVID-19 impact on consumer behaviour. For the full article please use the following link:

https://www.ey.com/en_gl/consumer-products-retail/how-covid-19-could-change-consumer-behaviour.

A follow-up survey was conducted expanding the coverage to China and can be found at the following link:

https://www.ey.com/en_gl/consumer-products-retail/how-to-serve-the-anxious-consumer-after-covid-19

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