

# The Impact Of COVID-19 On U.S. Brands And Retailers



**Jason Goldberg** Contributor 

Retail

*I am a shopper marketer focused on the digital disruption of commerce*



A "Temporarily Closed" sign hangs in the window of Nordstrom Inc. store in the Midtown ... [+] © 2020 BLOOMBERG FINANCE LP

The COVID-19 pandemic continues to force [retail stores to close](#), signaling an unprecedented disruption of commerce. Incumbents rarely do well in this type of disruption. None of the ice-harvesting barons invested in ice factories, and all the ice factories failed to foresee the advent of at-home ice makers.

Retailers and brands face a daunting multitude of short-term challenges around health and safety, supply chain, labor force, cash flow, consumer demand and marketing. Yet successfully navigating these issues alone will not assure a bright future, or any future at all. That's because once we get through this pandemic — and we will get through it — we will emerge in a very different world from the one we left prior to the outbreak.

In order to ensure a future where businesses not only survive, but thrive, it is critical to anticipate what a post-pandemic world will look like, and then begin to transform to

better match this new reality.

What will that new landscape mean for brands and retailers in North America? The post-pandemic commerce world will be shaped by three forces:

- Consumers will have adopted short-term behaviors during the pandemic that in many cases will become permanent.
- Consumers will emerge from the pandemic in a new economic reality, changing commerce behaviors in profound ways.
- A significant consolidation of retailers will fundamentally alter the competitive and partner landscape.

Today In: [Retail](#)



Macy's, Costco, Trader Joe's, Zappos Approaching Return Of Retail From Many Angles

Why We Don't Need A High Street Inhabited By Sports Direct Or JD Wetherspoon

President Trump's "Tariff" Comment Stunned Retail

## 1. Consumer Behaviors During the Pandemic May Become Permanent



Green cold pack tote for Amazon Fresh grocery delivery service, with Amazon logo and text listing ... [+] GETTY IMAGES

## Transition to Digital

Even before the pandemic, the most profound behavioral change in commerce was the shift to digital shopping. Many product categories had already been significantly disrupted by digital over the past two decades (books, entertainment and consumer electronics), while others, like apparel, were earlier in their transition to digital. Most importantly, one of the largest consumer categories, grocery, was still nascent in terms of its transition to digital. According to Nielsen, just 4% of grocery sales in the United States came online in 2019.

The COVID-19 pandemic is rapidly accelerating the transition to digital commerce. As consumers are being asked to practice social distancing, e-commerce orders for groceries and other essentials have become a survival tool for the American family. Many families are trying digital grocery services for the first time. The mobile application tracking company [Apptopia reported that](#) the average daily downloads for popular digital grocery apps Instacart, Walmart Grocery and Shipt have surged since February.

According to data from Rakuten Intelligence, online order volume from full-assortment grocery merchants rose 210.1% from March 12 through March 15, compared with the same period a year earlier.

Households that rely upon curbside pickup or home delivery during the pandemic are likely to continue to use those services once it's over.

This very much mirrors the aftermath of the 2003 SARS epidemic in China. More than 8,000 people were infected by SARS, and nearly 800 died. Schools, factories and shops were closed, and China's bustling cities quickly turned into ghost towns. But the epidemic was also a catapult for digital shopping in the market. Prior to SARS, Alibaba was primarily a B2B e-commerce site doing approximately \$10 million a year in sales, while Jing Dong Trading was a small chain of electronics stores primarily selling through physical markets. Within a few short years, Alibaba and JD.com grew to become two of the largest e-commerce firms in the world.

Potentially mitigating this trend is the fact that that the digital grocery experience is currently derogated due to high demand. Many are finding it hard to secure a delivery slot, product inventory remains in flux, and lead times are much longer than usual. It's also possible that the competition for orders will act as a form of scarcity and make the service even more desirable to consumers. It remains to be seen exactly how these factors will impact the post-pandemic grocery consumer, but what's certain is that COVID-19 has dramatically accelerated the digital disruption of grocery.

This has significant implications for retailers. Due to order picking and delivery costs, digital grocery orders are less profitable than traditional in-store shopping trips. Retailers will need to find ways to improve the unit economics of digital grocery. Further, the digital experience does not lend itself to impulse buys, immediate consumption purchases or new product trials. Retailers will need to invent online means to recreate these traditional behaviors.

## Germaphobia



A hand sanitizer station is seen on Pier 39 in San Francisco, California, U.S., on Monday, March 16, ... [+] © 2020 BLOOMBERG FINANCE LP

The pandemic will likely not end with the eradication of the SARS-CoV-2 virus, but rather due to an abatement of cases thanks to herd immunity, and eventually, a vaccine. COVID-19 or variants could re-emerge seasonally, and an entirely new pandemic remains a possibility. Faced with this new reality, consumers are likely to be more germ cautious than ever before. No-touch deliveries may become the new normal. Bulk self-service food items, communal buffets and salad bars are likely to be less popular. Consumers may be less receptive to in-store food sampling and more hesitant to use public touch screens or keypads. Community play areas may be less appealing. Retailers will need to develop no-touch customer experiences with an emphasis on hygiene.

## In-Homing

Consumers that learned to cook while quarantined at home may continue to do so. Consumers that broke their daily Starbucks habit may not return to it. Those that bought a Peloton bike are unlikely to resume their gym membership. Families that added a streaming media subscription may choose to keep it. A large portion of the workforce may permanently shift from working in an office, to working from home. To the extent these behaviors become permanent, they will fundamentally shift demand for various goods and services.

## Brand Loyalty



TARGET CORPORATION

As grocery shelves for popular items sit empty, consumers brand preference erodes. You may prefer Charmin toilet paper, but when confronted with the reality of not having toilet paper, any brand will do. COVID-19 is forcing consumers beyond their preferred brands like never before. Those consumers could emerge from the pandemic with entirely new brand preferences or lower overall brand loyalty. This was already trending before the pandemic, with exclusive store brands gaining marketshare, but this trend will now be amplified.

## Hoarding Hangover



Man stocks up on toilet paper as Canadians purchase food and essential items in Markham, Ontario, ... [+] NURPHOTO VIA GETTY IMAGES

Several product categories were aggressively shopped as consumers rushed to stock their homes in preparation for shelter in place orders. Some of these products, like toilet paper and cold medicine, are unlikely to be consumed as quickly. The result will be a delayed decline in sales in those categories as consumers work through their home inventory.

## 2. New Economic Reality

It is very possible that the U.S. will emerge from the pandemic in a recession. Morgan Stanley and the Goldman Sachs Group have both [warned](#) of a record plunge in output during the second quarter that could lead to a deeper global recession.

A Morgan Stanley report also projects American gross domestic product to fall at an annual rate of 30.1% in April-June, and that unemployment could average 12.8% over the period. Goldman Sachs is projecting a 24% annualized drop in output in the next quarter.

The Labor Department reported that unemployment claims in the U.S. rose to a record to 3.28 million for the week ending March 20, shattering previous record highs from the Great Recession peak.

Consumer spending is dramatically curtailed during a recession. Not only do consumers become more financially conservative, but consumer credit may become less available and a large cohort may go into default on their debt, dramatically limiting purchasing power.

Even when the economy rebounds, consumers can experience “economic scarring” that lasts far longer than the actual recession. There is substantial evidence that economic outcomes are passed across generations. Economic hardships for parents can mean more economic hurdles for their children. Therefore, a recession should not be considered a one-time event that stresses consumers for a few years. An economic downturn will have consequences for consumer spending for years to come.

In this climate, discount retailers and value-oriented brands stand to win. This will also boost the trend toward value-oriented store brands. Spending will aggregate on need based categories, with discretionary categories declining.

### **3. New Competitive Landscape and Partner Ecosystem**

The economic impacts of the pandemic will not affect all brands and retailers equally. Many retailers enter the pandemic with a weak balance sheet loaded with debt. The economic climate for retailers is so uncertain, that [many are retracting their earnings governance](#), and declining to provide investors estimates for their performance this year. Already by the second week of March, U.S. retail traffic was down more than 30% year-over-year, according to data from Cowen, and if much of America remains shut down, that traffic will continue to decline.

What emerges is a great retail bifurcation, where a few retailers, those that sell high-demand pandemic necessities like Amazon, Walmart and Costco, are relatively not impacted by the economic effects of the pandemic. Online sales at general merchandise retailers climbed 50% on March 13, according to Rakuten Intelligence, which tracks electronic receipts. These retailers are aggressively hiring to meet demand, they are increasing employee pay and boosting their supply chains. These retailers could well emerge with record quarterly growth.

Conversely, retailers of non-essential products that are forced to shut down will bear the brunt of the economic impact. Online sales for apparel and footwear retailers fell 37% on March 11 alone, according to Rakuten. Foot traffic to U.S. stores fell 58.4% in the third week of March, according to ShopperTrak. If the retail shutdown is prolonged, those with the bulk of their inventory trapped in stores and without a strong balance sheet may find they are economically unable to continue operations. Independent businesses may be the

least prepared for a significant lapse in cash flow. JPMorgan Chase estimates that the median independent retailer has a cash buffer of 19 days.

The net result for retail may be that a few retailers emerge stronger than ever, and that many specialty stores and independents no longer exist. This is precisely the scenario that Jim Cramer vocalized on a recent episode of *Mad Money* on CNBC: “Can you imagine what it means for this country to just have three retailers?”

Even well-positioned retailers may find they have to permanently close under-performing stores and take drastic cost cutting efforts to bolster their balance sheets. It’s easy to imagine the U.S. having 20% less retail space by the end of the pandemic.

This dramatic consolidation would result in the surviving retailers having increased leverage over their manufacturer partners. This is a trend that was well underway before COVID-19, as a recent Deloitte study found that between 2017 and 2019 retail had experienced significant consolidation, while consumer package goods had experienced additional fragmentation during the same period. The COVID-19 pandemic will only accelerate this trend.

The combination of these three forces, will significantly disrupt commerce as we know it, but this is still no a retail apocalypse. The COVID-19 pandemic is accelerating the inevitable digital disruption of commerce. Commerce will emerge from the pandemic a vibrant and critical part of consumer life. Some retailers and brands will be more ingrained in the consumers life than ever before. Retail will look and feel very different, but that is not a bad thing.

## [Full coverage and live updates on the Coronavirus](#)

---

### Champions of Success

Our weekly Entrepreneurship newsletter for those who have made it and those who aspire to make it.

Sign up

You may opt out any time. [Terms & Conditions](#) and [Privacy Policy](#).

---

Follow me on [Twitter](#) or [LinkedIn](#). Check out my [website](#).



**Jason Goldberg**

Follow



I am a fourth-generation retailer, who has been helping brands and retailers respond to digital disruption for 30 years. I'm the Chief Commerce Strategy Officer at... **Read More**

[Site Feedback](#)

[Tips](#)

[Corrections](#)

[Reprints & Permissions](#)

[Terms](#)

[Privacy](#)

© 2020 Forbes Media LLC. All Rights Reserved.

[AdChoices](#)

ADVERTISEMENT

---