



Mitigating the impact of COVID-19: Guidance for Hong Kong retail businesses



In recent weeks, the ongoing COVID-19 pandemic and its local resurgence has caused major disruptions for Hong Kong's retailers, causing many to rethink their future operating strategies. Ensuring business continuity during these turbulent times means developing a **multi-faceted contingency plan**. In this context, it is never too late to start thinking about the key measures that might be required to address the issues your business will be facing, or to consider the various options that are available to directors and management.

Below are some of the factors that businesses need to take into consideration when developing business continuity plans:



Five focus areas for retailers



Shoring up cash reserves

Hong Kong's retailers, particularly those with large physical footprints, are rethinking their current cash positions and trying to assess how they will continue to pay bills as the downturn in demand continues for a prolonged period of time. In particular, retailers should be taking a close look at their current and predicted liquidity profile and assessing any changes in their working capital dynamics or short term cash forecasts. The value of maintaining a 13-17 week rolling cash flow forecast has never been clearer.

Given the industry's high dependency on cash to pay for stock, real estate and – importantly – staff, many retailers are now also talking with policymakers to see how they can influence and take advantage of any hardship funds, rental renegotiations and rate holidays.

Many retailers are also now reviewing their overall financial stability under a variety of different scenarios and, if required, engaging with lenders to refinance loans or amend financial covenants that may be impacted.



Protecting your people

The COVID-19 outbreak has already led to a number of workplace shut-downs and quarantines. Retailers must have a plan that ensures the safety of employees, while also trying to maintain business as usual. Beyond simply creating a crisis communications plan, retailers should be thinking about how they will manage their workforce under various different scenarios.

China's experience has demonstrated how innovative companies can address these challenges. During the height of the outbreak there, grocery store operators temporarily hired thousands of restaurant employees who were idle due to restaurant closures to help meet spikes in demand. Other companies have been moving employees around their organisations to fill gaps and relieve overworked departments.



Managing demand fluctuations

While some retailers are seeing demand fall away and customers shift channels, others are facing unprecedented spikes in demand. Grocery retailers, in particular, are dealing with significant out-of-stock situations on many key products as consumers stock up on supplies perceived to be essential. The ability to predict and manage demand has never been more important.



Thinking about longer-term supply challenges

While grocery retailers are trying to manage significant supply challenges due to consumer panic buying and resulting stock-outs, most non-food retailers are not yet feeling the full impact of supply disruptions.

Drops in demand coupled with long lead-times and inventory warehousing means that short-term supply is generally not a problem. That said, as the situation evolves, we may see significant variations in the magnitude and timing of supply chain disruptions across geographies and subsectors. Retailers should be talking to their key suppliers to assess their risks, identify any indirect exposures and create contingency plans.



Talking to customers

Retailers should also be thinking about the impact these massive changes will have on their customers and customer relationships. How will you maintain trust in your brand and your products and services? How will you reset expectations? And how will you generate customer experience in the future?

In this environment, as retailers look to the future, shoring up the customer relationship is going to be just as important as shoring up the bottom line.

The long-term social, economic and health impacts of the COVID-19 outbreak are still unknown. As governments around the world respond to this developing crisis, retailers need to be thinking about all potential scenarios and planning accordingly. However long this situation lasts, it is clear that the global response to this virus has fundamentally changed the reality for retailers.

It's time to face that fact and start adapting.

Retail contingency planning timeline during a crisis situation

0 – 4
weeks

- **Understand the key risks across your operations and supply chain**
- **Mobilise teams to firstly navigate crisis response; and secondly focus on supply chain assessment and risk management**
- **Make sure your governance is in place to rapidly make key decisions**

1 – 3
months

- **Plan mitigation actions across operations and supply chain**
- **Ensure communications are made with principal customers and stakeholders**
- **Review and assess what impact this will have on workforce planning and management**

4+
months

- **Create an agile and visible global supply chain**
- **Understand and deploy digital and process automation to mitigate the impact of disruption**
- **Develop and implement enhanced risk management practices**

Observations

- Manufacturing closures in China
- Increasing public health requirements
- Suppliers invoking force majeure
- Additional border checks resulting in delays
- Congestion at seaports and airports
- Reduced outbound capacity out of China leading to increase in prices
- Labour shortages impacting productivity

Business continuity checklist for retailers



Suppliers

- Do you know who your key suppliers are and where they are located? Do they have contingency plans in place to ensure the continuation of supply? Do you have more than one supplier for key products?



Physical logistics

- Have you considered your supply routes? Have you spoken with your logistics providers to understand any potential impacts and how they propose to mitigate against them?



Contracts

- Have you reviewed your contracts with key customers and suppliers to understand liability in the event of supply shortages? How will you respond if suppliers invoke force majeure clauses?



Inventory

- Have you assessed your inventory cover? Will this start to affect your availability, if so when?



Customer loyalty and demand

- How will you set expectations with customers? How can you recover the experience in the future?
- How will you maintain trust with your customers and assure them that your product(s) and service(s) are still safe?
- How will a drop in demand impact your cost base and profitability?



Awareness & Communications

- Do you have a communications plan?
- Have you communicated with the relevant customers, employees and suppliers?



Workforce availability

- How will you deal with the impact on your workforce? Should the outbreak persist for the longer term, do you have a plan to manage your workforce?
- How can you ensure the safety of your employees whilst trying to maintain business as usual activities?



Technology and system resilience

- Have your third party IT suppliers been impacted? Will this impact your service level agreements (SLAs) and system support?
- Does your technology allow you to reduce travel and enable remote working?
- Do you have the ability to track shipments in real time and therefore manage customer expectations?



Commercial plans

- How will your change plans and programmes be impacted? Will project deadlines and investments need to be delayed? What impact does this have on your strategy?



Board governance

- As travel bans are enforced, how will this impact your board governance and the way you run your business? Do you have the technology in place to support remote working?



Cash flow

- Have you reviewed and revised cash flow, working capital management and inventory forecasts alongside supply and demand predictions?



Financial stability

- Do you have access to adequate funding under banking facilities to manage through potential challenges and/or need to engage with lenders to refinance facilities or amend financial covenants that may be impacted?



Global Trade and Protectionism

- Are you aware of government mitigation plans which could impact your supply chain?
- Do you have any domestic alternatives for suppliers?
- Have you factored in quarantine delays for raw materials?



Public health requirements

- Do you have dedicated resource(s) reviewing public health requirements and ensuring that you stay compliant?

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