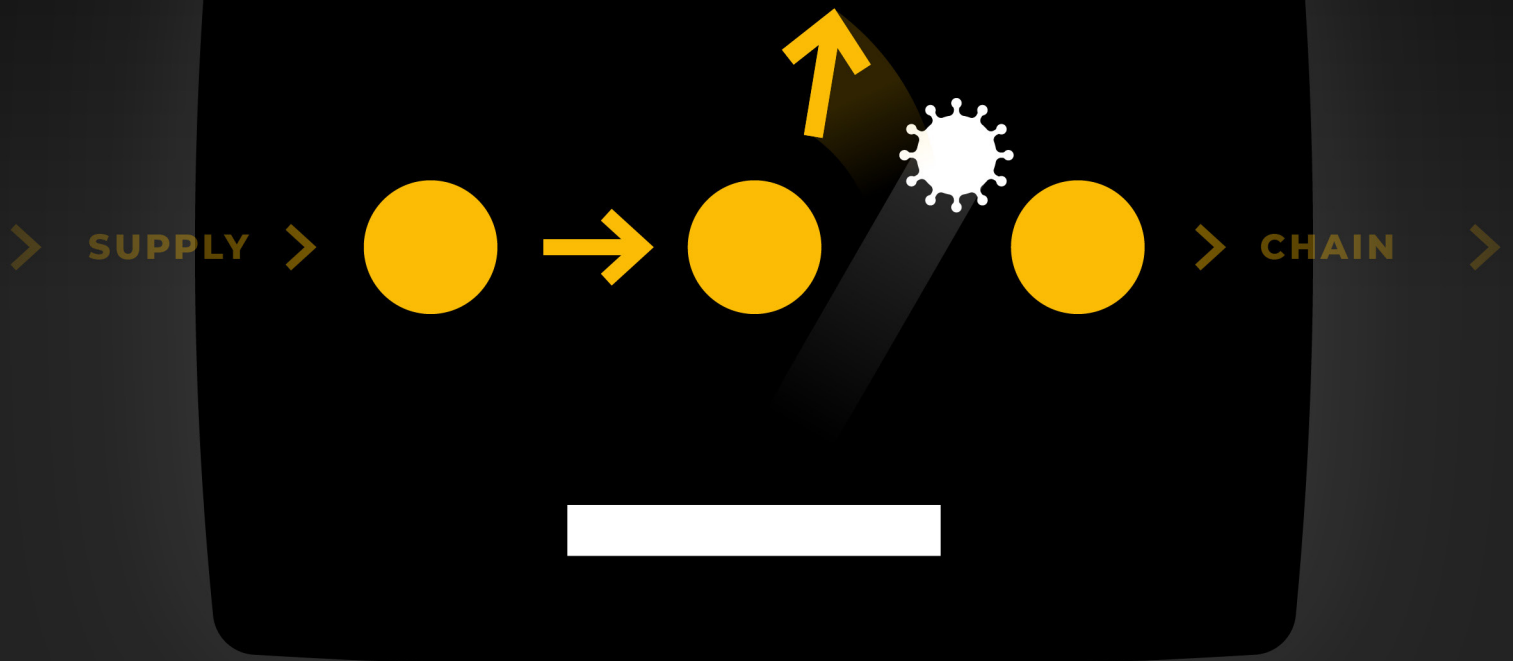# PAN-DEMIC 2020

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Supply Problems and Retail Solutions in the New Normal

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E-BOOK

Supply Problems and Retail Solutions in the New Normal

While the initial shock of a global pandemic is beginning to wear off, the effects of COVID-19 are only just beginning. Online retailers should know what's likely to come next, and how to react to it.

This e-book takes a look at two major COVID-related problems that are just over the horizon, as well as four strategies retailers can use to keep their business afloat as these new challenges rear their heads.

Click a headline to skip ahead:

The Perfect Storm: Two E-Commerce COVID Emergencies Are About to Collide

As if to prove the wisdom in the phrase "this isn't over yet," e-commerce retailers are about to face two massive problems at once: an unheard of amount of deadstock, and a major supply chain disruption (two of them, actually).

Emergency #1: Warehouses Packed With Deadstock

With global lockdowns still far from over and a financial collapse on the horizon, the fashion industry is stuck with warehouses full of Spring clothing they can't sell, e.g. "deadstock."

Many retailers are overstocked, and are cancelling and reducing their purchasing orders. This in turn has affected the brands, who are now overstocked as well. The usual tactic of selling the excess stock to an off-brand discounter like T.J. Maxx is currently off the table (the brick and mortar discounter is still on lockdown, and already has more clothing than they need).

Retailers depend on selling around 60% of their stock at full price, so a warehouse full of outdated product that will need to be discounted to move is a problem. A big one. And of course, it's not just fashion that's in trouble; the

demand for other products has also shifted from original predictions, and many are quickly becoming obsolete.

Production losses are only part of the expense: the storage fees and opportunity costs continue to add up.

# Emergency #2: Supply Chain Disruptions: Now & Soon

While supply chain lengths vary, an end-to-end estimate of 100-110 days serves as a typical timeline. Which means there are orders that started before we even knew what COVID-19 was, that have only recently been completed.

And as we mentioned in the deadstock section, there is no space for these yet-to-arrive-items. If you're having no luck unloading your deadstock through brick-and-mortar stores, it's time to double down on e-commerce. There are a lot of new eyeballs on Facebook right now; if your deadstock isn't moving with your usual customers, try promoting it to these new potential customers. Another idea is to get creative and reframe your campaigns for the situation. Retailers like Nordstrom's are facing the situation head-on with their range of work-from-home apparel.

Unfortunately, excess deadstock is only the first part of the issue. The opposite problem happens next: a massive drop in shipping supply for the

next quarter. How can we tell? Look at the shipping containers. As Q1 ended, we could see a [massive spike in empty containers](#) aboard shipping lines:
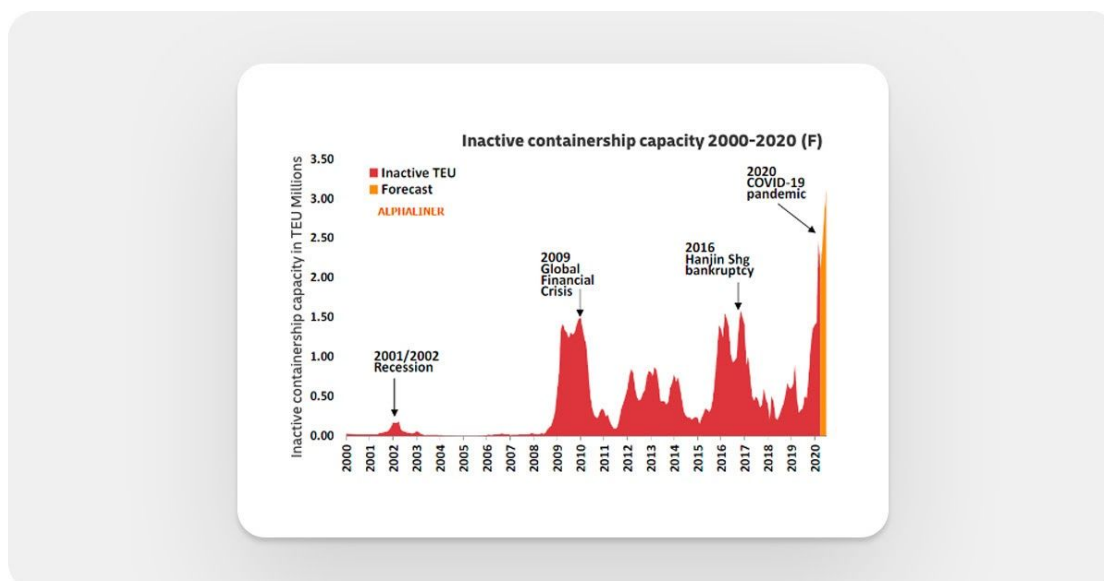
Source: DHL Market Update 2020

The year-over-year difference between 2019 and 2020 is staggering, and it has prompted a strong response from shipping companies.

As we head into Q2, several high-capacity strings (series of ports on a shipping route) will be removed from service completely, and global shipping capacity in general will see a nearly universal reduction. **The worst affected routes can expect a capacity reduction of up to 30%.** This situation is particularly grim for electronics retailers, who will face a shortage of semiconductors, and for any retailer practicing Just-in-Time (JIT) inventory management.

Even if retailers manage to clear their warehouses for Q2, there may not be enough supply available to restock them.

What Does This Mean For E-Commerce Retail?

Immediate Fixes

More than ever before, retailers need to focus on capital efficiency and overall profitability to make it through the next few months. This is a time for survival. By **analyzing product data to find the most profitable items**, then focusing on stimulating demand for those products, online retailers can put up a fight to stay in the black.

Connect your purchasing and marketing departments to ensure that marketers are only promoting the most profitable products. As the current situation calms down, improve this collaboration by connecting marketing and purchasing to the same source of data to prevent siloing. With purchasing working alongside marketing, your company will be able to not only stimulate the demand, but be assured that the demand can then be met.

COVID Profitability Checklist

- Know where your profit comes from. Which items are your bread & butter? What are your top five products in terms of **overall profitability** (including marketing expenses, return chance, and any additional factors)?
- Connect marketing to the data used by the rest of the organization so they can make data-driven promotion decisions
- **Keep your ads running if you can**. There may be less overall demand, but there are also fewer retailers competing for those eyeballs. Plus, you need to sell the inventory you have in order to have cash on hand
- Sell to **new potential customers**; the customers who wouldn't be shopping on Facebook if it weren't for COVID-19.

- Stop promoting products that aren't making money. **A product that sells like hotcakes, but has a slim margin and numerous returns, may end up losing you money in the end.**

The Next Step

Retailers who had [fully mapped their supply chains](#) before COVID-19 will weather this storm best. They are in better contact with suppliers, and can be informed of issues faster. They know which parts of their chain are vulnerable, and can plan ahead to avoid problems, rather than having to rush a solution when a problem becomes apparent.

Mapping the full supply chain is an involved and difficult process, which is why so few companies have done it. A company needs to know, not just their own suppliers, but their suppliers' suppliers. And their suppliers' *suppliers'* suppliers. They should aim to map every tier, all the way down to the raw materials used.

Company alignment and communication is also key to improving capital efficiency. From the Harvard Business Review:

"People from procurement, logistics, and supply-chain financing need to come together to talk about what key gaps (tools, information, people, processes, etc.) need to be fixed to protect the company from disruptive events in the future and how to align the goals of procurement with the overall business objectives."

The future belongs to the companies who understand their supply chain through-and-through, can align their departments around the same source of

data, and know where their profits are coming from and which products perform best in each campaign.

Fixing Fashion E-Commerce: Solutions to Top Problems In the New Normal

It's all well and good to know that danger is on the horizon, but none of it really matters unless you can do something to fix the problem. COVID-19 has created a difficult situation for both retailers and suppliers, particularly those in fashion. McKinsey's State of Fashion 2020 reveals that over 65% of consumers across the US and Europe intend to decrease their apparel spending.

Far from being ready to weather this problem, many companies still find themselves stuck with items they were planning to sell in the Spring we never had. And companies with a brick-and-mortar focus may be in for an extra problem: reports are coming in like this one, which shows that **20% of UK shoppers have no intention of returning to physical stores**, even once the lockdowns lift.

Here are our four favorite ways to deal with our new normal, and make it through to the other side:

Capitalize On Consumer Shifts in Behavior

COVID-19 has pushed everyone inside, and many people are now trying out online shopping for items they previously would have purchased in-store. Across Europe, **13% of consumers are browsing fashion online for the first time**. Make them your new customers!

Apart from running ads targeting your usual audience, try a campaign that excludes the group you normally market to. Focus this campaign on your new potential customers, with exciting promotions and first-time-buyer deals.

Though cash-on-hand may be tight, **right now is an ideal time to advertise**.
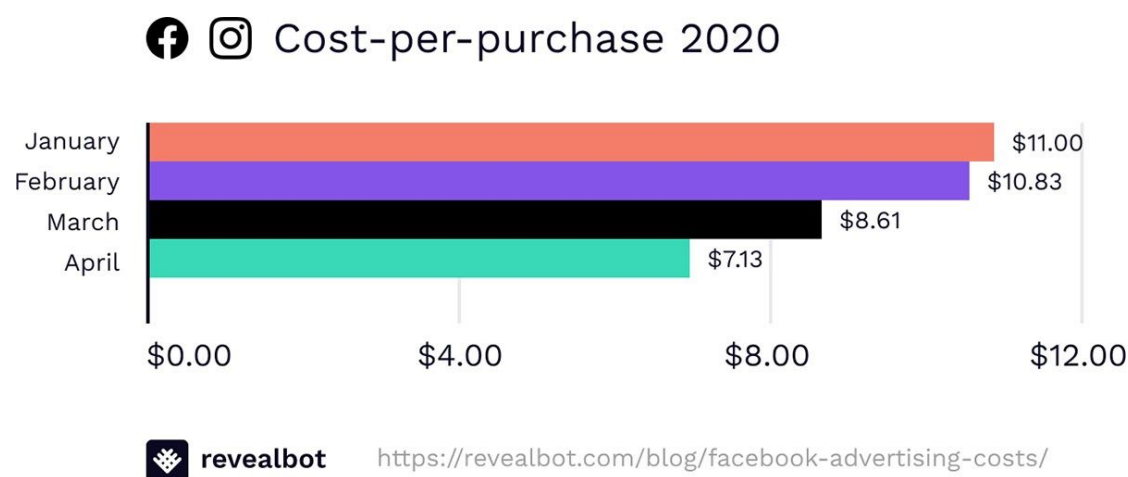
For those advertising on Facebook, the total marketing cost per purchase has decreased dramatically since January, as the volume of ads has dipped during COVID-19.

If you're a retailer with both an online and a brick-and-mortar presence, you can also lead traffic from your site to your offline store through dynamic ads. Run **geo-targeted ads toward consumers in the surrounding areas** of your store(s). You can measure your success based on offline conversions, which can be automatically matched with a customer's Facebook profile if you have their phone number or email address.
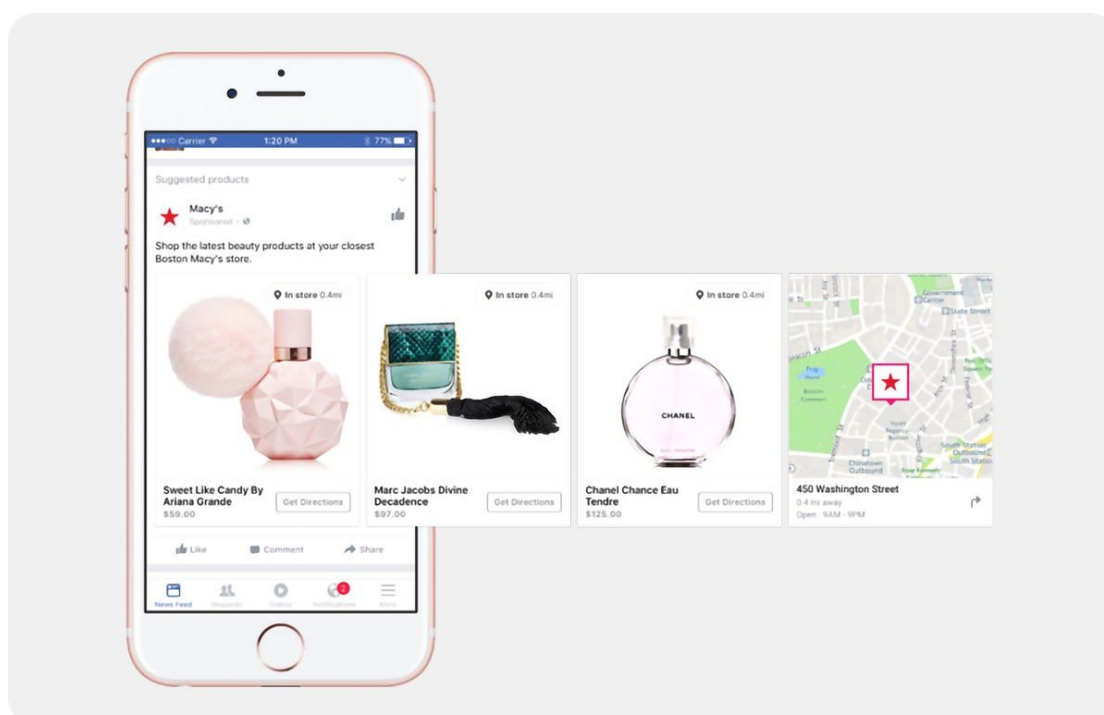
Clear Your Spring Stock

First of all, you should do what you can to clear the deadstock that was once your Spring collection. And do it as profitably as you can.

Some brands have gotten creative with this, putting together timely "Work-From-Home" collections to sell to an audience that is either stuck

inside, or simply spending more time working from home than ever before. It is an interesting strategy but it can work only if your marketing team adjusts the way they promote products - take a look at our discussion of goal-based product groups for Smart Shopping for more details.

Keep Your Discounting as Profitable as Possible

How steep of a discount were you planning? **Cut that discount in half** and put the amount you save toward promotion. Slice a 30% discount down to 15% and make sure your target customer sees the sale item enough times to convert.

Retailers who discount too heavily now are cannibalizing the future of their company.

From McKinsey's State of Fashion 2020:

"...a decade-long build-up of bargain shopping culture will be exacerbated by a rise in anti-consumerism, a glut in inventory and cash-strapped consumers looking to trade down or turn to off-price channels."

We've been inflating discounts ever since the birth of the discount economy, following the 2008 recession. Even before COVID-19 reared its head, discounts were back to 2008 levels. And now consumers expect them.

Italy is already seeing a 20% year-over-year increase in the number of discounted items. Remember: we're not even into Q3 yet! If your discounts are already at their max, then what's the plan for Black Friday?

Invest more into marketing instead: clear your excess Spring inventory, and round up as many new customers as you can.

Remove Small Inefficiencies That Are Holding You Back

"Are you telling me I need to be marketing aggressively, *and* saving money to prepare for the future?"

Yes. Yes I am. But don't worry, you can save that money by eliminating inefficiencies you may not have noticed before; enough to stay cash-flow positive.

- Make sure your dynamic campaigns aren't promoting products with sold-out variants (size, color). If all you have left is a couple lime-green XXXL shirts, then you're wasting budget (and customer patience) by

promoting it. **The social algorithms are tracking interaction, not profitability**. Items that are sold out of most variants tend to be pretty popular, meaning that **they'll be pushed even more.** Here's a way to [automatically exclude these products.](#)

- Track down your items with high return rates, and exclude them from your campaigns. This is another situation where social algorithms can come back to haunt you: Facebook isn't tracking whether or not an item is returned, just if it is purchased. **Those highly returned items are also highly purchased; sometimes the same item is returned and sold again, meaning they may have even more interaction than popular items *without* returns.** And so, Facebook will promote them with extra vigor if you don't exclude them. It's possible to find these items by manually sifting through your data, but ROI Hunter clients can also automatically track and filter out these items with the [Product Insights](#) feature.

- Remarket your products more effectively by excluding the visitors who bounced e.g. left within 5 seconds. Retargeting them will only cost you budget, and may negatively affect the feedback on your ads. Take a look at our [Refine Audience](#) feature for more details on how this works.

- Make sure your Real-Time Bidding campaigns and Google Display Network campaigns aren't running in parallel. You will end up competing with and outbidding yourself for the same users.

- Review the branded keywords you use to ensure you're not spending your budget on words you would rank for organically.

We may still be in the early stages of this global pandemic, but now we have a better understanding of what will happen next. Retailers can prepare for this future by developing a better understanding of their supply chains to ensure they won't be in trouble when it hits a snag.

Beyond that, focus on staying profitable by clearing deadstock, becoming more efficient in processes and campaign creation, and running data-driven promotions.

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