MEASURING PERFORMANCE IN A PANDEMIC

Why “Like” is not “for Like” in Retail

Hunter Williams
As the world gratefully closes the book on 2020 and looks to 2021 with anticipation, executives in retail find themselves scratching their heads about one specific challenge the year is sure to bring. Much is still uncertain about 2021, but those in retail know one thing for sure — “like” will most certainly not be “for like”.

In retail, much is measured and planned using last year’s performance as the reference point. Year on year performance, with “like for like” adjustments to reflect changes in store footprints, maturity and scope of business are core to any management discussion. Promotion calendars are often planned with “whatever we did last year” as the starting point. Discussions around purchase orders for seasonal products often start with the question “last year, did we order too much or too little”? Market analysts and shareholders are accustomed to looking at year-on-year earnings growth. All these standard ways of thinking mean little or nothing when “last year” was so chaotic.
RETAIL SALES IN TURMOIL

When the lockdowns in response to the COVID-19 pandemic began, retail sales across categories were thrown into turmoil, and until the echo of the pandemic fades away, retail executives and stakeholders will need to think more broadly about how performance is measured in the sector. The challenge will also be quite different from one segment of the retail industry to another.

Grocery sales saw unprecedented surges in March (around +30%, measured year-on-year), driven by worried shoppers stockpiling for an uncertain future. The following months saw a prolonged plateau, driven both by channel shift from restaurants and changes in underlying consumption patterns. This means that come March, grocers will face an “impossible” comp challenge. The stiff headwind will linger for the rest of 2021, because over time restaurants have reopened and consumers have become more willing to order-in or dine-out. From a big picture perspective, the pandemic reversed a decades-long trend toward more out-of-home spend on food and beverage. A resumption of the long-term trend, perhaps catalyzed by a release of “pent up demand” for restaurant dining once vaccinations are widely distributed, means top line growth could be challenging for grocery as a whole for quite some time to come.

Exhibit 1: Grocery Stores Year Over Year Change
Advance Retail Sales (not seasonally adjusted), %

Source: Federal Reserve Economic Data
The story in the apparel sector will be the inverse. As a “non-essential” sector, brick and mortar sales effectively dropped to zero during the early periods of lockdown. In-store traffic has remained depressed and online sales have only partially compensated. We know from consumer research that consumers had been increasingly shopping for apparel in an omnichannel way — gaining value both from in-store browsing and the convenience of online ordering. For a year, their ability to enjoy that option will have been limited. The challenges of “last year thinking” are also being keenly felt in assortment building. The pandemic has changed what people wear, not just how much they buy. Most famously, as work from home and “Zoom casual” have been embraced, formal shirts have fared better than formal bottoms. “Talking about people [using] Zoom, and doing those types of conferencing, we're seeing increased sales in tops, but not bottoms”, Dan Bartlett, Walmart's executive vice president of corporate affairs, told Yahoo Finance. As more people embraced outdoor activities over the summer, hiking and outdoor wear saw surges as well. As a result, when the “long haul to normalcy” is complete, apparel retailers will have the wind at their backs. Comp'ing last year’s performance will be a breeze when workers returning to the office find that the “COVID nineteen” they packed on during 2020 means a new wardrobe is required.

Specialty retailers in arts and crafts or hobbies will be riding a seesaw during H1. Early closures resulting from “non-essential retail” cut deeply, but once the sector ramped-up ecommerce capacity and shoppers embraced buy-online/pick-up in-store, they were able to recover quickly. On top of that, many people took the opportunity of extra time at home to pick up a new activity, craft or hobby, and made sure the home they were now spending so much time in was well-decorated. As a result, comping in this sector will start the year “easy” and get harder and harder as the year progresses. Executives need to remember not to panic as comps get more and more challenging over the year, especially when 2021 holidays come around.

In home goods and durables, the challenge will be prolonged. When people realized they were going to spend more time at home indefinitely, they decided it was worth spending money on. Buoyed by stimulus checks consumers bought new sofas, renovated their kitchens and upgraded their televisions. Unfortunately, given the durable nature of these purchases, this means that the comp challenges will linger for quite some time. The family who “pulled forward” the purchase of a new sofa won’t be purchasing another for quite some time. The sun room will not need to be converted into a home office again. Home renovation projects that had been on “the list” have now been ticked as “done”. While the largest portion of the surge in grocery sales in 2020 was shifted from one channel to another, much of the surge in durables and home spending was a shift from the future into the present. And the piper will need to be paid. That implies a headwind for LFL sales growth that could potentially linger for years for impacted product categories with the longest lifecycles.

The impact flows upstream from retailers to brands and manufacturers. Rui Barbas, Chief Strategy Officer for Nestlé USA, noted in a recent interview with Oliver Wyman “Like for like comparisons do not apply to 2020, and they will not apply to 2021 or 2022”. He highlights the need to approach financial budgeting in different ways, emphasizing scenario thinking and agility.
SEPARATING SIGNAL FROM THE NOISE

So how will the industry respond to these challenges? First, they'll want to put 2019 comparisons next to 2020, almost across the board, and back out direct COVID-19 impacts where possible, to separate the underlying signal from the noise. They will also want to be transparent and remind stakeholders and markets about the limitations of “Like For Like thinking” in 2021, and keep a close eye on cost lines that are typically monitored as a percentage of sales.

For those with the wind at their backs, the challenge will be not to get lazy and remember that your competitors are enjoying the same tailwinds you are. You may be comp’ing well and still losing share. Those facing difficult comps will be considering how they can “bridge” the gaps. Traditionally, promotions have been the go-to lever to pull when sales are needed urgently. But pulling that lever too often can create problems of its own, and shoppers are not responding to promotions in exactly the same ways as pre-pandemic, so retailers will want to be armed with the best analytics possible. Where top-line gaps are impossible to bridge, retailers may look increasingly toward cost management as a way to narrow the bottom-line gap. The clients we have been supporting in managing their business through the pandemic are now turning to us to help manage its second-order repercussions in the months (and years) to come.
Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

For more information, please contact the marketing department by phone at one of the following locations:

**Americas**
+1 212 541 8100

**EMEA**
+44 20 7333 8333

**Asia Pacific**
+65 6510 9700

**CONTACTS**

**Sirko Siemssen**
Global Retail & Consumer Goods Practice Leader
sirko.siemssen@oliverwyman.com
+49 89 939 49574

**Maria Miralles**
Retail & Consumer Goods Practice Lead, EMEA and LatAm
maria.miralles@oliverwyman.com
+34 615 036 406

**Frederic Thomas-Dupuis**
Retail & Consumer Goods Practice Lead, North America
frederic.thomas-dupuis@oliverwyman.com
+1 514 3507208

**Pedro Yip**
Retail & Consumer Goods Practice Lead, Asia
pedro.yip@oliverwyman.com
+852 22011705

**Ronan Gilhawley**
Retail & Consumer Goods Practice Lead, Australia
and New Zealand
ronan.gilhawley@oliverwyman.com
+61 410 668440

**Rainer Muench**
Retail & Consumer Goods Practice Lead, Germany
rainer.muench@oliverwyman.com
+49 89 939 49461

**Nordal Cavadini**
Retail & Consumer Goods Practice Lead, Switzerland
nordal.cavadini@oliverwyman.com
+41 44 553 37 64

**Coen De Vuijst**
Retail & Consumer Goods Practice Lead, The Netherlands
coen.devuijst@oliverwyman.com
+31 20 541 9790

**Salim Poonawala**
Retail & Consumer Goods Practice Lead, France
salim.poonawala@oliverwyman.com
+33 1 45023660

**Duncan Brewer**
Retail & Consumer Goods Practice Lead, UK
duncan.brewer@oliverwyman.com
+44 20 78527760