The Long-Hauler Effects of COVID on Retail Allocation

We have all heard the term long hauler as it relates to COVID and people's health, but the pandemic also impacted the health of the retail Allocation process. With much of the labor force mandated to work from home, many people chose to relocate causing a shift in demographics. Many more consumers adopted online shopping and have not looked back. But the increase in online shopping has created a large increase in returns, which now is a new frontier for retailers to also manage.

Add to that the disruption in the supply chain, and the Allocation process is even more challenged. With the complexities of location/store changes, supply chain constraints and supply/vendor changes, retailers can no longer rely on history and Allocation methods used prior to the pandemic. The need for advanced retail Allocation tools, smarter Allocation methods and improved processes and systems plays a crucial role in a retail business' success.

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A Shifting Demographic

COVID not only impacted people's physical and mental health, but also their decisions on where they wanted to live and work. The 2021 report, Pandemic population change across metro America, from Brookings.edu, speaks to the population change across Metro America. Published during the height of the pandemic, it describes accelerated migration, less immigration, fewer births, and more deaths and the impacts. As we all know, there was a tectonic demographic shift out of major cities and into rural and suburban areas. Now imagine the effect on communities, infrastructure and businesses in those cities losing residents, as well as the effect on the areas in which they moved. The impact on retail stores being no exception.

Prior to the pandemic, retailers and Allocators spent decades gathering and analyzing data, grouping and normalizing information to better understand markets and specific demographic needs. And through the years they have become quite adept at doing so. System trends were used to create "ideal" Assortments and allocations. Post COVID and amid the dramatic demographic shift, stores find themselves no longer following their "normal" sales patterns. For example, locations and stores that once may have catered to a largely female clientele may now find themselves with more male shoppers. Stores may now need a different size scale or are requesting a completely different assortment based on "new" customer profiles.

What are Allocators to do? As a company's retail Allocator, the goal is to get the right product, to the right place, at the right time. But what happens when the demographics and needs historically used are no longer true? That is the question, and the challenge retailers and allocators now find themselves struggling with. Sadly, that is not the only major challenge allocation teams are now facing. Supply chains are causing other headaches.

Supply Chain Disruptions

A January 2023 article from CNN titled Covid Broke Supply Chains. Now on the mend, can they withstand another shock? does an excellent job explaining how all supply chains have not yet normalized. This in turn translates to many company Allocators having to contend with making tough decisions on where and how they distribute goods while trying to preserve margins for product that was stuck on containers past their season. Pre-COVID norms of 6-8 weeks of supply averages had no issues being met with consistent supply, but with limited goods. What should be the updated standard? And is that standard set to all locations or do Allocators need to rebalance stores based on new post-COVID characteristics?

If changing demographics and a disruptive supply chain is not enough to manage, there is even one more complexity that some retail Allocation teams now have to contend with – new suppliers and vendors.

This NPR podcast headline grabs attention and is spot on when it comes to another Allocation challenge: Why 'Made in China' is Becoming 'Made in Mexico'. The podcast explores how suppliers are setting up shop in Mexico to close the freight lag and high shipping cost gap. This can have an impact on inventory cycles, prepacks, size scales and vendor set ups. While these moves will help to close the inventory gap, it can also mean that companies will have to re-configure inventory positioning, vendor assortments and supply channels trickling through to Allocators who will need to manage these changes.

Additional COVID Impacts to the Bottom Line

While Allocation is seeing the impact of COVID, it does not stop there. The backlash is putting strains on other areas like Merchandise and Financial Planning. Profits and channel sales have seen equally disruptive repercussions.

With unpredictable inventory flows; maintaining gross margins and profit levels has been challenging. Retailers with an overabundance of inventory have been pushed to resale inventory to discounters, eroding their own profits. Others in need of products have opted to either vertically integrate to create their own products or work with vendors to create private label goods gambling on future margins.

Online sales saw their highest levels during COVID. Post pandemic, this trend continues to put pressure on retailers to manage in-store returns and retail spaces appropriately. Companies have been forced to clarify and alter return policies especially around products/goods purchased on-line. With less in-store sales and increasing retail space rents, some retailers have been propelled to close non-profitable locations and stores.

The Future of AI is Here

If you had the ability to visit this past year's NRF or have heard of ChatGPT- you would know that Artificial Intelligence is here. Major retail software vendors are diligently and quickly working to incorporate these advancements into their software package offerings. These advancements would help current retailers to predict "what-ifs" scenarios, forecast lost sales, create intelligent size models, and generate "smarter" predictions around sales and inventory. These AI engines will easily digest lower levels allowing Allocators even more visibility into each store/location's DNA allowing for optimal allocations. For long term growth and profit, companies will want to invest in this technology just as quickly as it is available.

Software and Improved Processes to Help Drive Allocation

Today's robust retail Allocation software and the increasing use of AI provides businesses with more efficient processes for creating and executing retail Allocation plans. Improved control of merchandising selection, deeper analysis and reporting features lend improved insight into the Allocation process. Consumers are expecting seamless, personalized and value-driven shopping experiences. Having the right mix of products available at the right time continues to be one of the best ways for retailers to earn their customers' repeat business.