COVID–19 and the Retail Sector

As COVID–19 spreads and its impact on daily life continues to increase, individuals and businesses need to respond. Businesses should be considering measures to mitigate the risk of infection, assess the potential impact, and develop plans for protecting revenue and ensuring they can continue to operate.

Retailers are uniquely exposed

The retail sector has considerable exposure to the potential impacts of the virus. From dependencies on Chinese manufacturing, complex global supply chains and distribution networks, and in the case of many retailers - a reliance on a large workforce and a direct interface with customers. These factors expose the sector to a unique set of circumstances.

The source of the outbreak, China, and the other significantly affected East Asian countries, have two distinct roles relating to the impacts felt by the retail sector. Firstly, lower labour costs, a different regulatory environment, low taxes and duties, and competitive currency practices create conditions where manufacturing is prolific and agile, and where production accounts for a significant proportion of the local economy.

Secondly, the reliance of many businesses on China in its role as the ‘world’s factory’ has had devastating consequences on global goods supply as, under normal circumstances, China provides the global retail sector with a continuous supply of popular goods and consumables.

Reduction in tourism compounds the impact

In addition, holidaymakers represent a significant, and ever rising, proportion of the world’s tourism industry. In 2018 the numbers of Chinese traveling as tourists was 149.7 million. Of them, more than 75%1 consider retail an important component of any trip itinerary, driven in part by their entitlement to tax free shopping. Their tourism expenditure in 2018 was calculated at $277.3bn.

Bicester Village, a retail outlet in the UK which is popular with international shoppers and renowned for its cut price luxury goods, has experienced an 85% reduction in footfall attributable to coronavirus in the first quarter of 2020². As the virus continues to spread, national governments and businesses are seeking to reduce its impact and improve containment through the introduction of policies and procedures. In addition to this widespread impact, the significant issues seen in Italy, which has now entered country-wide lockdown and where much of the manufacturing associated with the luxury sector takes place, are compounding the pain felt by the luxury goods sector.

Closed until further notice?

Should the situation worsen, it may be the case that shops are forced to close their doors. The distribution centres that fulfil them may no longer be able to if quarantine restrictions are placed upon them following a localised outbreak. Online retailers may also suffer if last mile deliveries are banned due to the risk that they accelerate the rate of infection.

In addition to identifying, quantifying and mitigating the risk associated with business interruption and lost revenue, retailers will also need to consider the impact a reduction in the availability of goods, or goods at a significantly reduced margin will have on the overall sustainability of their business.

Retailers who operate on tight margins are most vulnerable to cash flow shortages. If COVID–19 runs through and disrupts the Easter peak, that may trigger more store closings and could signify the end of the road for some retailers. If the virus runs through until the November peak, it will threaten all aspects of the global economy and it is likely that we will see the end of many struggling retailers.

For further information on the issues covered by this article, please contact an Aon representative from your region.

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Mitigating the impact of coronavirus: what should retailers consider?

- **Review your exposures.** You must understand the main scenarios that could most impact your organisation and invest in response and control measures appropriately.

- **Assess your supply chain and identify back-up suppliers.** It is important to think widely on the issue. For example, is there exposure in the second or third tier of your supply chain?

- **Review your policy for coverage.** If you have no physical loss it is likely that a traditional PDBI policy will provide little or no cover. Seek professional advice if you are depending on insurance as part of your coronavirus risk management strategy.

- **Test your Business Continuity Management plans.** The coronavirus presents a potentially different threat event, impacting a business in numerous different ways and potentially limiting options around recovery if other businesses are also affected, or there are logistical limitations.

- **Communication and engagement with employees.** Make a concerted effort to communicate with employees around good health, safety and corporate procedures in response to the virus. Focus should be on:
  - Promoting good hygiene behaviours.
  - The policy for employees who have travelled to infected areas.
  - The corporate containment policy, e.g. self-quarantining if flu-like symptoms are present.
  - The corporate sick pay policy, absence management and return to work policy as well as the procedures for employees who are at work but unwell.

Please note this document does not contain an exhaustive list of considerations. There are many interconnected risks associated with coronavirus and pandemics. To learn more about some of these risks, click the links below:

Further reading

- **Business Continuity Management for Infectious Disease Threat**
- **Business Planning Checklist: Infectious Disease**
- **Supply Chain Analysis: Checklist for Infectious Disease Threat**
- **Property and Novel Coronavirus (2019-nCoV): Is My Business Covered?**
- **COVID-19: A Health and Benefits EMEA Perspective**

We encourage you to access our coronavirus response site for additional resources to help you respond to this risk.

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