




Finance & Retail Practice

# How retail finance leaders can protect profitability ahead of the recession

Retailers may resist recession by streamlining their business processes, retaining consumers, and improving profitability.

*By Subu Rao CEO & Founder Discover Dollar Inc*

A photograph of a person in a light blue shirt holding a receipt at a retail counter. The background is blurred, showing other people and store equipment. A dark grey semi-transparent box is overlaid on the left side of the image, containing a quote.

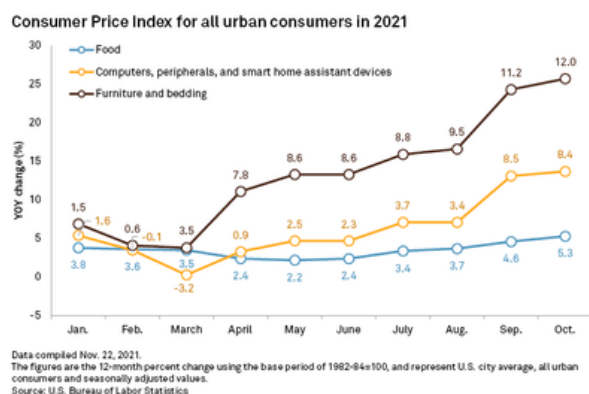
**“With inflationary concerns, if it costs more to produce that good, it’s going to cost the retailer more to buy it from the manufacturer. And then the retailer has to figure out how much of that can I pass on to my customer,”**

Lynn Whitmore, MD Wells Fargo

In June 2022, the inflation rate in the United States reached 9.1%, a 40-year high. Inflation had a significant impact on the retail sector as industry leaders claimed that growing costs had an impact on their operations. When Russia invaded Ukraine, commodity prices increased again, escalating retailers' direct and indirect costs and increasing inflation. Some of America's leading retailers also saw some of their stock values' worst falls since the market collapse of 1987.

Since the economy has begun to open back in recent months, retailers have faced difficulties on both the top and bottom lines due to slow sales growth and shrinking margins. The retailers may experience escalating costs for manufacturing inputs, freight, gasoline, labor, and products, significantly reducing the company's profitability.

The Consumer Price Index shows that U.S. food costs grew 5.3% in the year ended in October. Computers, peripherals, and smart home assistant devices gained 8.4%, while furniture and bedding jumped 12%.



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As a result of record-high inflation, more consumers are searching for bargains; of those who claimed to have switched brands, slightly more than a third stated they chose to purchase private-label goods.

Additionally, Wall Street has shown a lot of anxiety about the prospects for the retail industry. Among the 79 major retailers that released earnings reports between April 1 and May 23 of this year, 59% indicated a reduction in consensus sales projections for 2023, and 71% reported a decline in consensus EBITDA estimates.

On the day they released the results, two-thirds of these firms' share prices dropped. The S&P Retail Composite Index decreased 24.1% from April 1 to May 23, almost twice as much as the S&P 500 experienced.

**If retailers take risky, thought-out actions, they may turn these difficulties into opportunities.** Businesses that do very well during recessions often outperform their competitors over the next ten years. This was seen during the Recession of 2007 to 2009 when the most resilient merchants were able to increase their total return to shareholders by 11% annually through 2018—a rate more than five times greater than that of their competitors. Retailers in the industry must face the new reality of record inflation and develop strategies to maintain their operations, keep consumers, and guarantee long-term development.

However, two years later, Petco is a go-to place for pet owners seeking health and wellbeing. The firm posted a profit of \$159.8 million the previous year, beating the online pet food industry.

New shop designs have been essential to Petco's success. To better serve consumers, the stores and Lowe's launched shop-in-shops earlier this year.

They also bought Thrive Pet Healthcare as part of their effort to put veterinary clinics inside supermarkets. According to Petco, businesses that house veterinary clinics receive a 200–300 basis point increase in comparable store sales.

The retailer's first Neighbourhood Farm and Pet Supply shop in Floresville, Texas, will open on June 17, 2022. The shops will provide goods and services targeted to rural populations, such as farm animal feed and supplies.

### **Subscription models**

Increasing market share via subscription models and fostering customer loyalty may be possible. Additionally, it may increase security and make revenue forecasting simpler.

Vital Care is a freshly launched yearly membership package from Petco. Members of Vital Care get access to unlimited veterinary appointments and discounts on diet and grooming. Petco can increase brand loyalty and repeat business with its subscription service.

Recently, Lululemon introduced a premium membership scheme. Members can access

Mirror, the company's at-home workout platform, for \$39 per month. Additionally, the membership offers discounts, early product release access, and special events.

### **Enhanced supply chain visibility and diversification.**

Retailers can realign their distribution and supply channels to route consignments through less crowded ports and more affordable ocean lanes, place distribution centers in the most advantageous locations that balance labor costs with last-mile costs, and use third-party logistics and supply chain as service providers to reduce asset intensity and distribution overhead.

If retailers have greater visibility into end-to-end inventory, fulfillment costs, and customer experience metrics, they may be able to balance costs and services more effectively.

**"There are certain suppliers that have taken one line, others that are working with us to find ways to reduce costs even in times when costs are going up,"**

*John Furner, CEO of Walmart U.S.,*

### **Keep a watchful eye on receivables**

More clients could attempt to spread out their payments if the effects of a downturn become more widespread. The danger of incurring the expenditure related to payment failures and delays is reduced when CFOs collaborate with a team that includes individuals from the treasury, accounts receivable, and other pertinent activities.

We identified **six actions for retailers and finance leaders to Navigate ahead of a recession** and turn this challenge into an opportunity for the future.

### **Economic cycles: What should CFOs prepare for now?**

In every company, the CFO must work proactively to develop high-resolution insight on expenditure and crucial areas for disruption reaction, such as the relationship between input prices and pricing choices during inflation.

Rising prices, tighter liquidity, and the need to invest in company resilience make cash visibility and management more crucial than ever. Business executives should also measure genuine volume, revenue, and share improvements to determine the business's underlying success.

Effective CFOs drive scenario planning to understand disruptive situations and prepare around uncertainty. It's not about forecasting the future; it's more about visualizing different possibilities and articulating choices. This entails establishing a rigorous set of future scenarios that account for the most critical variables and analyzing the effect of each on future cost structure and margin profile.

Given their unique position, CFOs may boost investor confidence by regularly communicating how cash is managed and spent, how inflation pressures on margins are mitigated, and how volume growth is used to strengthen market position.

CFOs may lead a cross-functional team to implement a recession mitigation strategy.

Including equipping sales teams with the necessary data and script for conveying price increases or surcharges to consumers.

### **Build cash reserves**

Being resilient allows you to access more money faster than competing merchants. They were able to manage the downturn thanks to their war chest effectively. Retail resilience had an 18% growth in cash on hand between 2007 and 2009, while non-resilient saw a flattening.

Additionally, resilient retailers divested more quickly. Before the crisis, retail resilience experienced a share of the change in sales connected to divestitures of 35% compared to non-resilients' 7%. Earlier before the recession, for instance, Yum!

Brands decreased the proportion of their corporate-owned restaurants in the United States from 22% to about 10%, releasing money at the right moment. While some retail non-resilient did make comparable changes to free up cash, they often did so 12 to 24 months after the resilience—during the crisis, when conditions were worse, as opposed to earlier.

### **Increase market share.**

A recession may be the best opportunity to diversify into new markets and forms. Retailers may often lock in better lease terms and cheaper rates.

The future seemed bleak for Petco at the beginning of 2020. The pet shop faced a significant risk of financial default, according to Moody's. The industry had little confidence in its ability to survive when retail traffic stopped due to the epidemic.

## AI-enabled Recovery Audit Solution

With retailers operating on a thin margin of 5 to 6 percent, driving the top line effect would be difficult considering the many factors; however, driving a 3M bottom line impact is similar to driving a 60M top-line impact. The question is how we can drive bottom-line impact.

Several ways can improve the bottom line by implementing pricing strategies and reducing expenditures. Still, one proven method utilized by top retailers such as Target, Canadian Tire, and Lowes was to resolve the income leakage issue in their P2P ecosystem. Even though these businesses have a well-established strategy and the finest experts assisting them, they are unaware they are leaving money on the table.

Companies like Target, Canadian Tire, and many other fortune 500 companies have chosen new AI-enabled recovery providers like discover dollar. For example, Target recovered more than 100 M and achieved 4x ROI, potentially mitigating risk regarding Leakages and overpayments.

Companies can identify immediately, monitor & resolve overpayments & revenue leakages with the support of AI, automation & intelligent alert system features by seamlessly integrating with the complex ERP systems.

***"When Discover Dollar came to us and said they can recover [Multi-Million Dollars of leakages](#), we were very skeptical in the beginning. Around the 8-10 week mark, the Discover Dollar team helped us to recover a couple of Million Dollars by integrating into our complex systems." [\(Click Here to watch Video\)](#)***

*Target - Head of Innovation*

## Recognized for its industry-leading performance



Most Innovative Solution  
Award – SAP



Nasscom Emerge  
50 award



On Going Partnership With  
CDL

### About Discover Dollar

Discover Dollar helps you transform and identify value in source to pay / procurement function that even the most sophisticated solutions couldn't get to before. It's the only way to see what you've been missing. Discover Dollar has saved over a **Billion Dollars** for partners including **Target Corporation, Metro, AB InBev, and other Fortune 500 companies** by solving **overpayments and leakages** problems over the last four years.