

Retail@Colombia

The consumer, politics, the country's economy and Covid 19 a challenge for retailers.

October, 2020

A collaboration between



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Introduction

Read our retail insights in *Retail @Colombia*, where you'll find the results of our thorough analysis of the retail market in Colombia before and after COVID19, and the measures the Government has taken to keep the economy afloat. We include some risk factors that should be considered in addition to new trends that are here to stay in the industry and will be key to strengthening your business and helping it ride-out the storm.

Indicators



Inflation
1,97%
(July, 2020)



GDP
-15,7%
(Second quarter,
2020)



Unemployment
20,2%
(July, 2020)

Retail in Colombia 2014-2020 Relevant statistics



Annual Compound Growth 2015 - 2019 (constant values)

2,5% 12 largest retailers in
Colombia (excluding Hard
Discount)

5,0% 250 world's largest
retailers*

4,9% 10 world's largest*



Net Profit Margin

-0,07% of 12 largest
retailers in Colombia,
excluding Hard Discount.

-1,87% including Hard
Discount

3,0% 250 world's largest
retailers*

2,5% 10 world's largest*



Hard Discount

Hard Discount stores
moved from 1.9% of sales
of the 15 largest in 2014 to
23% in 2019.

Data from Deloitte's Global Power Of Retailing 2020 Report, which measured the world's 250 largest retailers for the 2018 fiscal year, which closed in September 2019.

Retail before and during Covid19 durante la

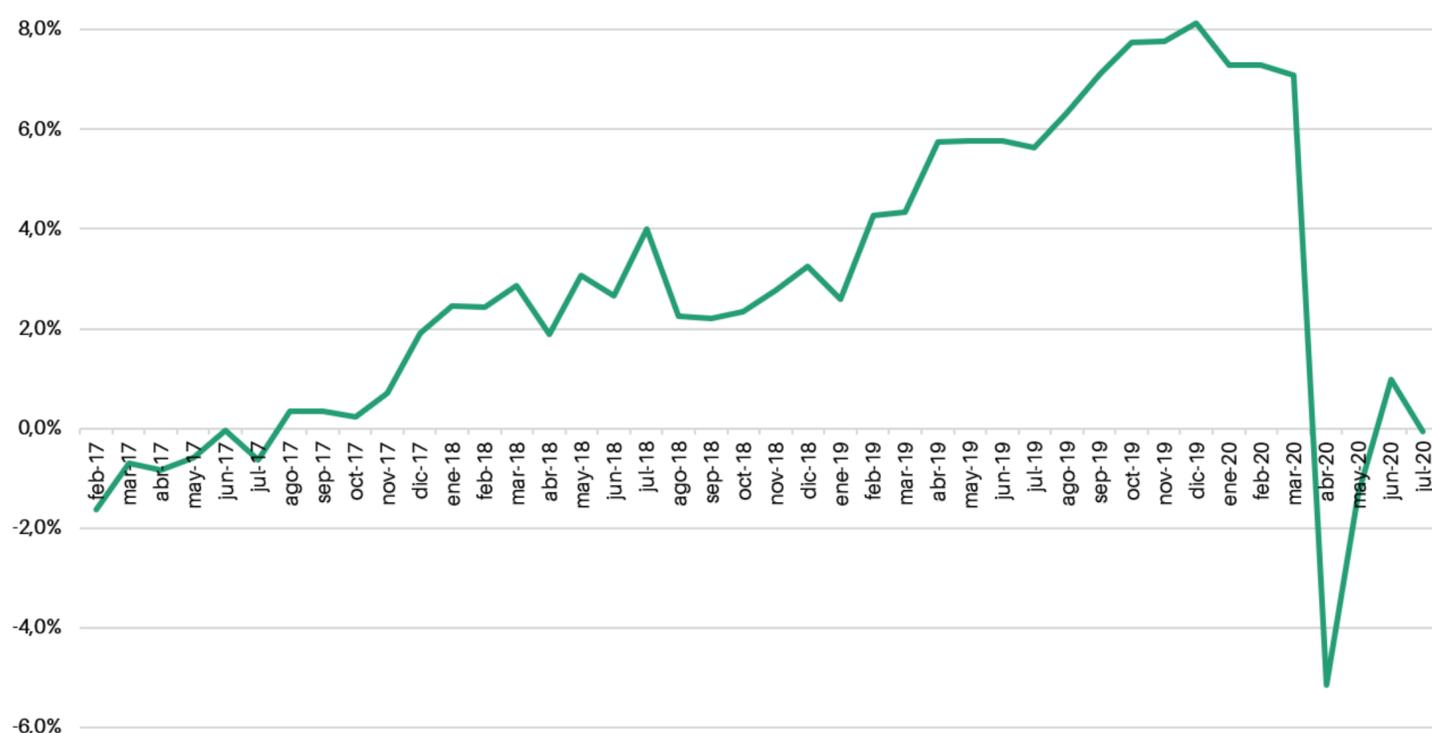
In the household consumption report in Colombia, Gastrometría Raddar reports that the household consumption - which showed a consistent upward trend since January 2017 - grew on average 7% during the second half of 2019, reaching 8.1% at the closing of the year in December, a record high for the past 20 years. However, a study we conducted recently (1), reveals data that enables us to understand what this behaviour really means for the main retail players in Colombia.

"The household consumption - which showed a consistent upward trend since January 2017 - grew on average 7% during the second half of 2019, reaching 8.1% at the closing of the year in December, a record high for the past 20 years. 2019 y cerró el año con un 8,1%, su pico más alto en los últimos 20 años"

When analyzing growth in real terms during the past five years of the 15 largest Colombian retailers (10 in food and beverages, 3 in pharmacy and 2 in home-improvement) we found that a significant share of consumption growth is being captured by D1, Ara and Justo y Bueno. These three Hard Discount stores closed 2019 with total sales amounting to COP\$10.430.188. D1 growing 6.7 times in its 10 years of operation, Ara 6.0 times in its 4 years of operation and Justo y Bueno 6.7 times in its 3 years of operation. Pharmacies such as Copidrogas, Audifarma and Cruz Verde also show positive numbers with compound annual growth rates of 6.1%, 16.4% and 19.5% respectively between 2014 and 2019.

Meanwhile, the figures of the largest and well-established food and beverages retailers, like Almacenes La 14, Cencosud and Éxito, have stagnated and decreased. The case of Almacenes La 14 is quite telling, for the same period it shows a compound annual decrease rate of -10.5%. On the other hand, home improvements retailers Sodimac and Falabella, show a compound annual growth rate of 2.0% and 2.6% respectively. These percentages are still far from the 5% minimum growth rates evidenced in different retail companies at international level, many of which will soon compete in the Colombian arena. (See graphs).

Graph 1. Real growth in household spending compared to last year (Raddar Gastometry)



(1). To know more about the study write to jaimeeduardo@zawadzko.com

Graph 2. Variation of sales (Hard Discount) in constant values

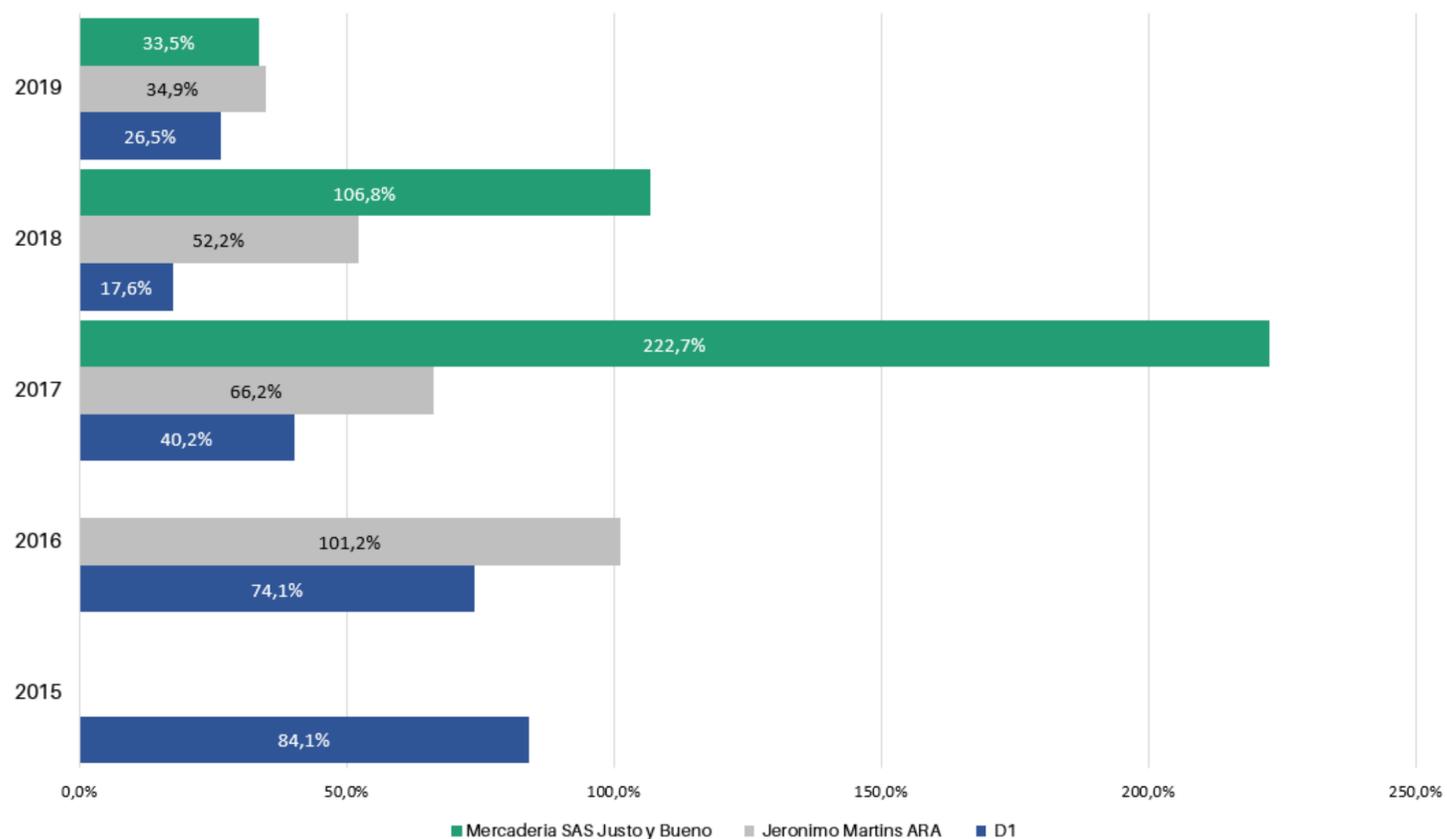
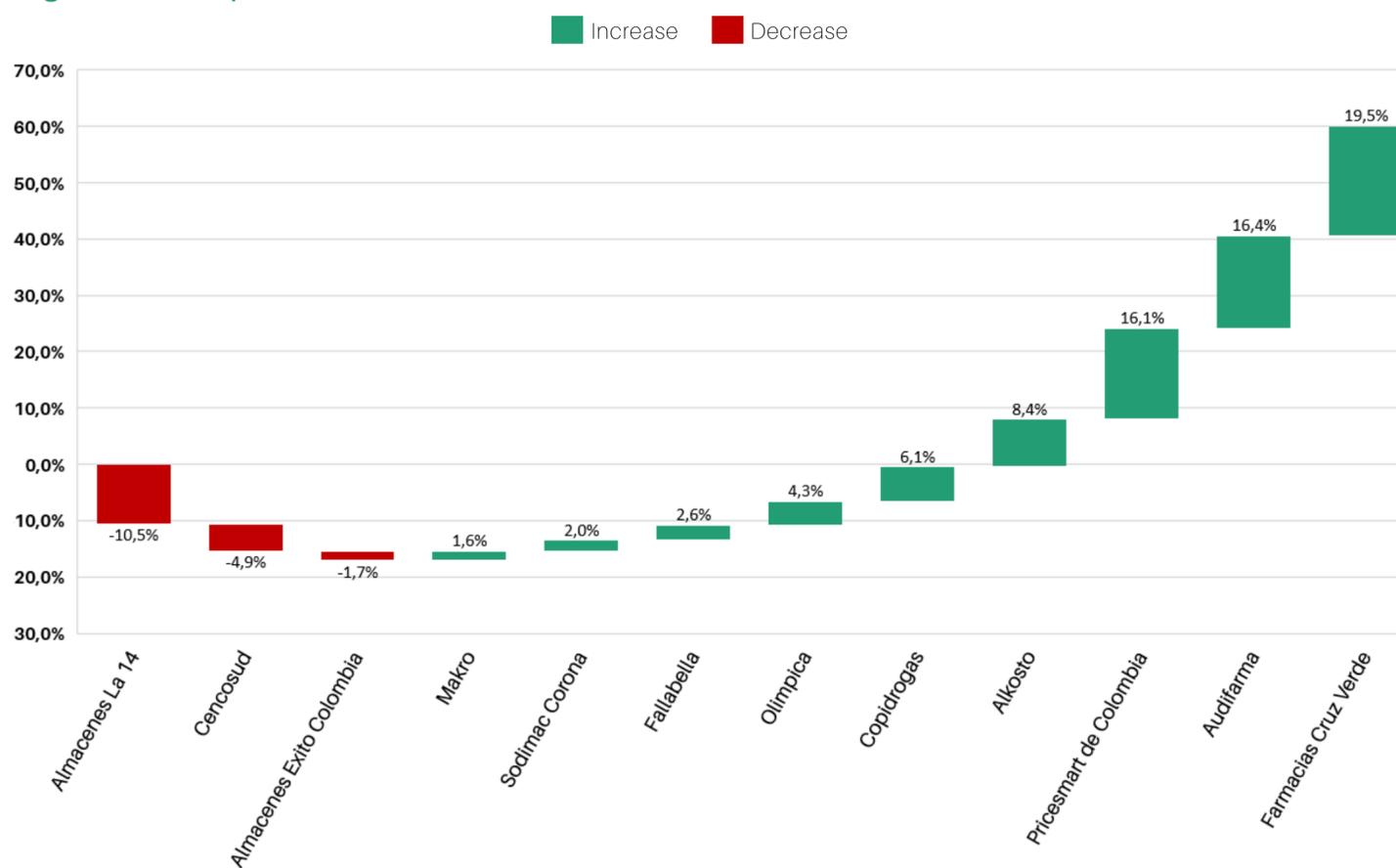


Figure 3. Compound Annual Growth Rate (2015-2019)



This data clearly evidences that additional expense noted by Raddar's report is not going to traditional players, but rather to the innovative proposals of hard discount companies and also, to pharmacies such as Farmacias Cruz Verde that in 2019 grew 34%. The above is the result of all these new proposals that reached the market offering a more attractive alternative to buyers, while traditional retailers are comfortable in their dominant positions harnessing the power they had yesterday and resisting to undergo the necessary changes to reach customers who have adopted new consumption practices. Since options - in products as well as in purchase channels - have increased, consumers now have the power to reprimand brands that seldom listen to them or make no effort in catching up to their needs: convenience, saving time in the purchase process, access through digital platforms and shared values. As of December 2019, among the 15 companies, we would like to highlight the actions undertaken by Grupo Éxito on their quest to adapt to digitalization, omnichannel and personalization of the purchase experience with pilot programs that were soon replicated like Carulla Fresh Market and Éxito Wow stores; meanwhile, Alkosto and Ktronix have made an effort, although less robust, to enhance their digital platforms, which in turn allowed them to react in the midst of the pandemic, offering free two-day deliveries in Bogotá.

"The arrival of large retail players in recent years, has invigorated and diversified the local market, opening new spaces for foreign direct investment"

Also, the arrival of large retail players in recent years, has invigorated and diversified the local market, opening new spaces for foreign direct investment. Before COVID-19, Colombia was positioning itself as one of the best destinations for the development of the retail industry thanks to several differentiating factors with respect to the reality of neighboring countries. Among them, we would like to stress: the growth of the middle class and the economy in recent years, a market with close to 50 million people in 71 cities with over 100,000 inhabitants, political stability and consumer performance. The retail sector in Colombia has made significant progress resulting from less regulations vis-à-vis other markets such as Europe.

Table 1. The 10 largest in the world - Compound Annual Growth Rate (2015-2019)

	AF* 2001 (Ranking)	AF* 2018	AF* 2018 Sales (US\$M)	AF* 2018 SalesVar (US\$M)	AF* 2018 NetProf margin (US\$M)	AF*2013-18 SalesVar CAGR**
1.	Wal-Mart	Wal-Mart	514.405	2,8%	1,4%	1,6%
2.	Carrefour	Costco	141.576	9,7%	2,2%	6,1%
3.	Ahold	Amazon	140.211	18,2%	1,0%	18,1%
4.	Home Dept	Schwarz Group	121.581	7,6%	N/D	7,1%
5.	Kroger	The Kroger Co.***	117.527	-1,2%	2,5%	3,6%
6.	Metro	Wallgreens Boots Alliance	110.673	11,7%	3,8%	8,9%
7.	Target	The Home Depot	108.203	7,2%	10,3%	6,5%
8.	Albertson's	Aldi Group***	106.175	3,2%	N/D	6,7%
9.	Kmart	CVS Health Corporation	83.989	5,8%	N/D	5,1%
10.	Sears	Tesco PLC	82.799	11,3%	2,0%	0,1%
	The 10 largest		1.527.139	6,3%	2,5%	4,9%
	The 250 largest		4.744.012	4,1%	3,0%	5,0%

Explanatory notes: *Fiscal Year Oct-Sept; ** Oct-Sept, **CAGR-Compound Annual Growth Rate; ***Estimated figure as of Sep 2019
Wal-Mart has been a leader for the past 23 years
In the last 15 years only 3 remain in the top 10
Amazon has climbed 155 positions in the last 15 years
Growth rates have declined but not in the top 10

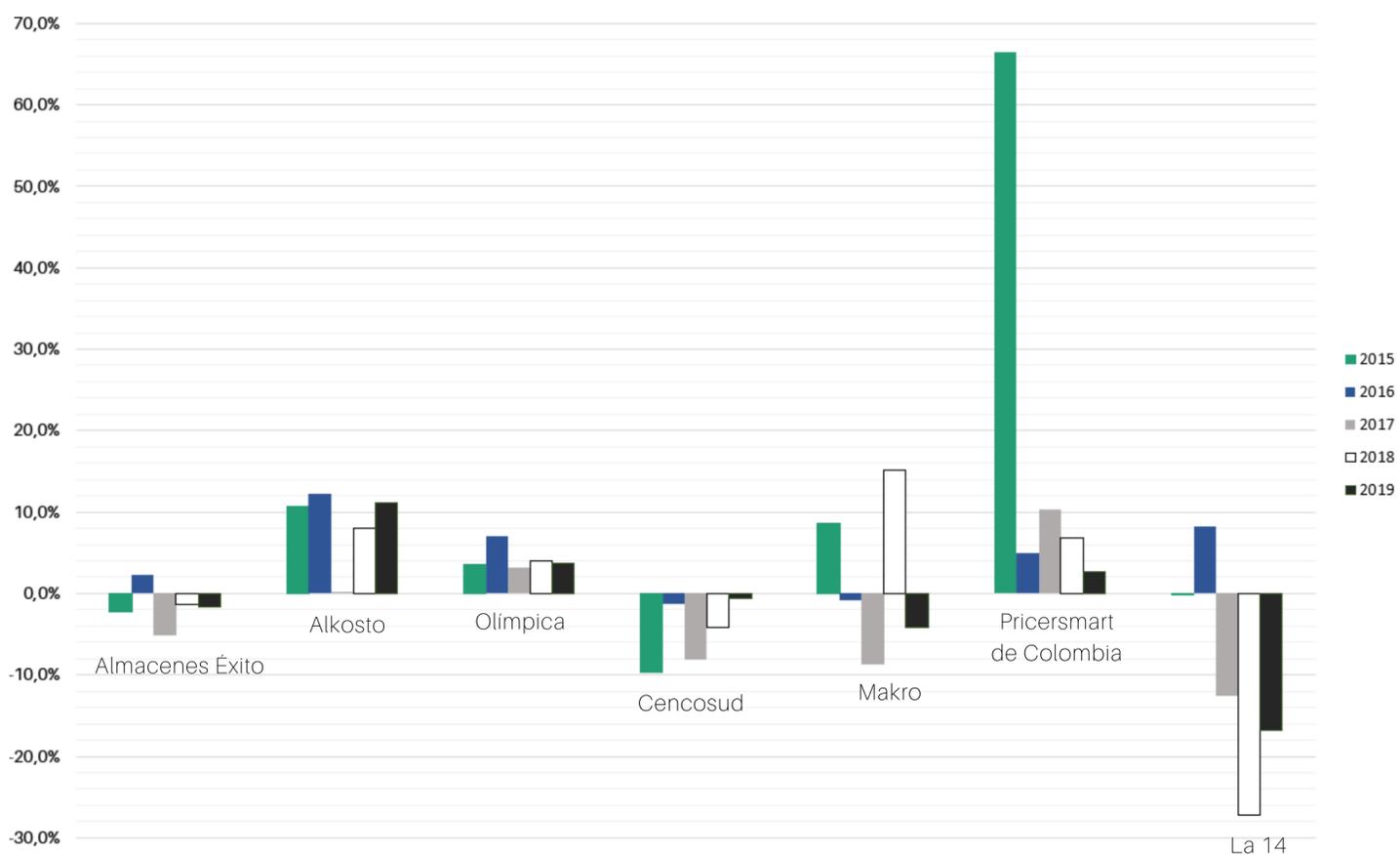
Colombia and its economy received a significant blow from the pandemic, according to the IMF the country's economy will have contracted by 7.8% at the end of 2020. In June, DANE reported a 19.8% unemployment rate after May's historic high of 21.4%. Now, in the Consumer Opinion Survey conducted by Fededesarrollo, the result was 32.7% in July showing a slight increase compared to the preceding month. Just as in other countries, the pandemic and its consequences caused consumption to shift and accelerated some retail trends, already under a consolidation process from previous years and the transformation not only became urgent but immediate. In their [Retail report](#) published in August this year, McKinsey states that by some estimates, for example, "we have vaulted 10 years ahead in consumer and business digital penetration in less than three months" and that "Immersed almost exclusively in the immediacy, convenience, availability and safety of digital experiences for those twelve weeks, consumers reset their expectations and preferences, and forced retailers to change their trajectory priorities and operating model".

"Before the crisis, there was evidence that the times when growth was based only on physical stores, were giving way to "Bricks and Clicks"

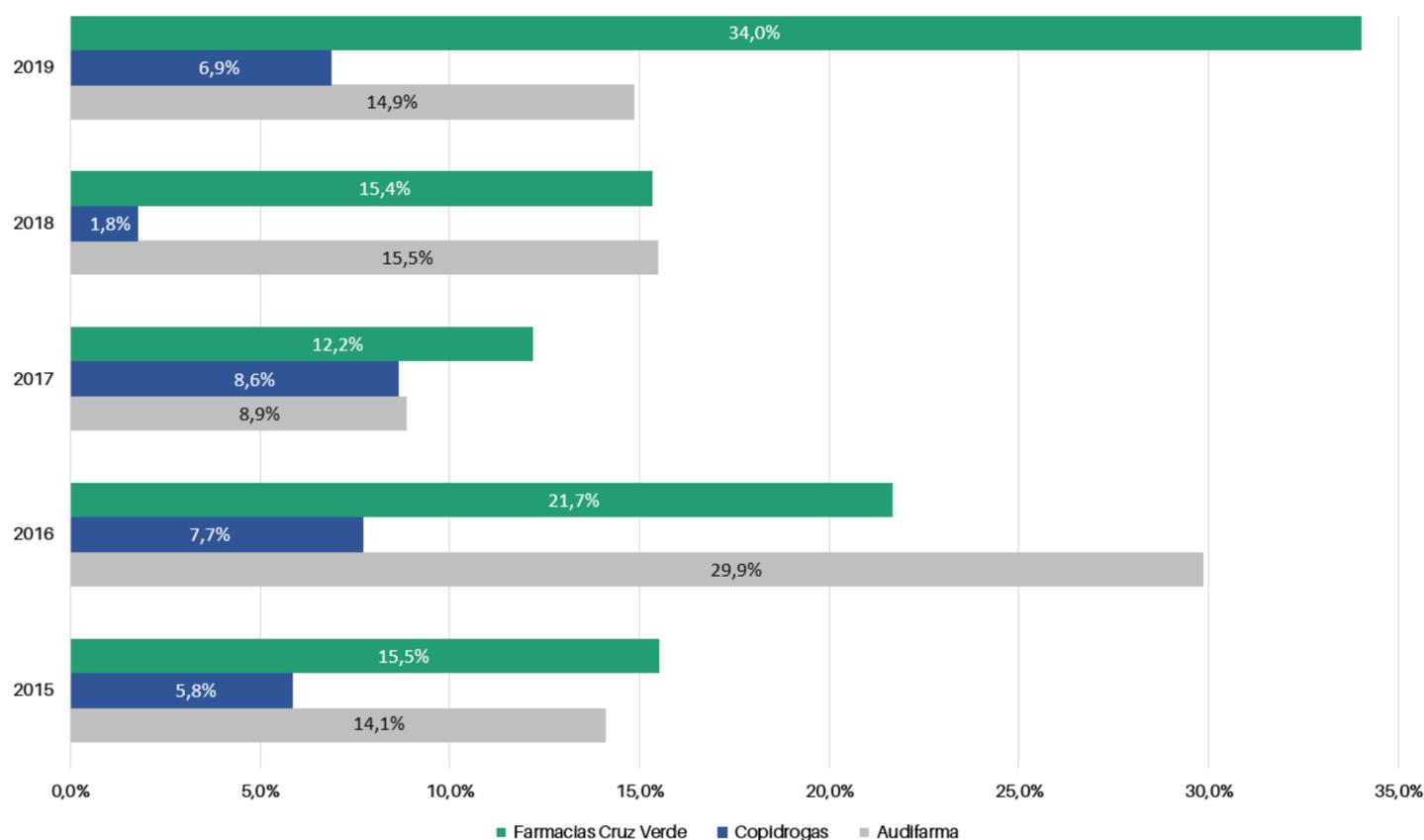
Also, in its most recent report on trends, [KPMG](#) suggests that the situation generated by the pandemic has increased four consumer trends, which were already setting the pace in the retail sector.

The first trend that we highlight is the evolution of the retail business model. Before the crisis, there was evidence that the times when growth was based only on physical stores, were giving way to "Bricks and Clicks", a combination of channels that allows the experience at the physical store to be supplemented with tools of the brand's digital ecosystem and vice versa, bringing down barriers between these two spaces. Also, while walking through a physical store we can use apps that help us find what we are looking for or make pertinent recommendations, and when we buy on-line we can use curbside pickup or attend training sessions on how to use a specific product. As a customer, we live in constant synergy between the physical and digital worlds and we expect brands to follow suit.

Graph 4. Annual growth of food and beverage retailers in constant values (2015-2019)



Graph 5. Variation in pharmacy sales in constant values



This trend vaulted with the onset and expansion of COVID-19, a virus that compelled a large chunk of the world's population to comply with some form of confinement, thus making the situation of physical stores very uncertain. Since the beginning, the latter has been established as the foundation of the retail experience, so the implications are significant and the need to streamline the omnichannel system becomes paramount. Businesses wanting to thrive amidst this crisis need to understand that the customer increasingly wants to see signs of a series of skills that go beyond delivering their value proposition with a specific product. Nowadays they must comply with on-line delivery, home delivery, and data analysis, among others. Also, and considering the current situation, they are forced to focus on their business fundamentals (buying and selling), so they will tend to partner with new businesses to fulfill those additional needs. We're not only talking about improving digital channels, but harnessing the omnichannel system, because as restrictions loosen, people will want to go back to stores, but under different conditions, than they did before and they will no longer limit their experience with the brand to a transaction but will rather want to experience it and learn about the values it upholds.

"Businesses wanting to thrive amidst this crisis need to understand that the customer increasingly wants to see signs of a series of skills that go beyond delivering their value proposition with a specific product"

The second noteworthy trend relates to the importance that purpose and values of businesses have gained among buyers. According to [a study published by Edelman in 2018](#), 64% of consumers worldwide state that they would boycott a brand or buy its products based solely on where the brand stands on a specific political or social issue. In the survey, consumers believe that brands are a more powerful source for societal change than governments. "It's no longer a question of whether to, but how to take a stand. A brand must understand its audience and think long-term so the stand it chooses authentically connects its values to those of its costumers," said Amanda Glasgow of Edelman. This trend, which has been growing for a few years now, is reinforced by the socioeconomic crisis the world currently experiences.

Pursuant to KPMG's trends report, consumers have begun to judge their brands by their actions and purpose from the wake of the crisis and have let them know, with their buying decisions, that they want businesses to share and represent something that is valuable, something that goes beyond the products they sell or the dividends they generate. As a result, this crisis represents a huge opportunity, not only for companies to remind in their statements what their values are, but above all, to make sure their values are reflected on in each one of its processes, decisions and actions. Those who are consistent in this regard are most likely to be rewarded with customer loyalty.

The third trend is rethinking about the cost of doing business. If before the pandemic, the need to eliminate costs in retail business was already noteworthy, it has now become increasingly relevant, and so has the need to resort to methods other than the conventional ones. The use of new technologies to enhance and automate the operation and achieve greater efficiency in the value chain, inventory, shipping and reception has become essential. At a glance however, streamlining the operation to reduce costs may seem as pertaining to the "back office" but it's important to understand how such an effort renders results beyond just savings: when retailers begin to include AI engines to determine their prices, they enhance their value chain by thinking about actual demand and are able to align their management with their human teams and IT systems, not only will their business become more profitable, but at the end of the day, they will positively impact the customer as they ensure availability of products and fair prices in a seamless operation, among others.

"IA tools will be vital to have data that, in turn, enables assessing very closely their assets and identifying profitable ones, hence improving the decision-making process"

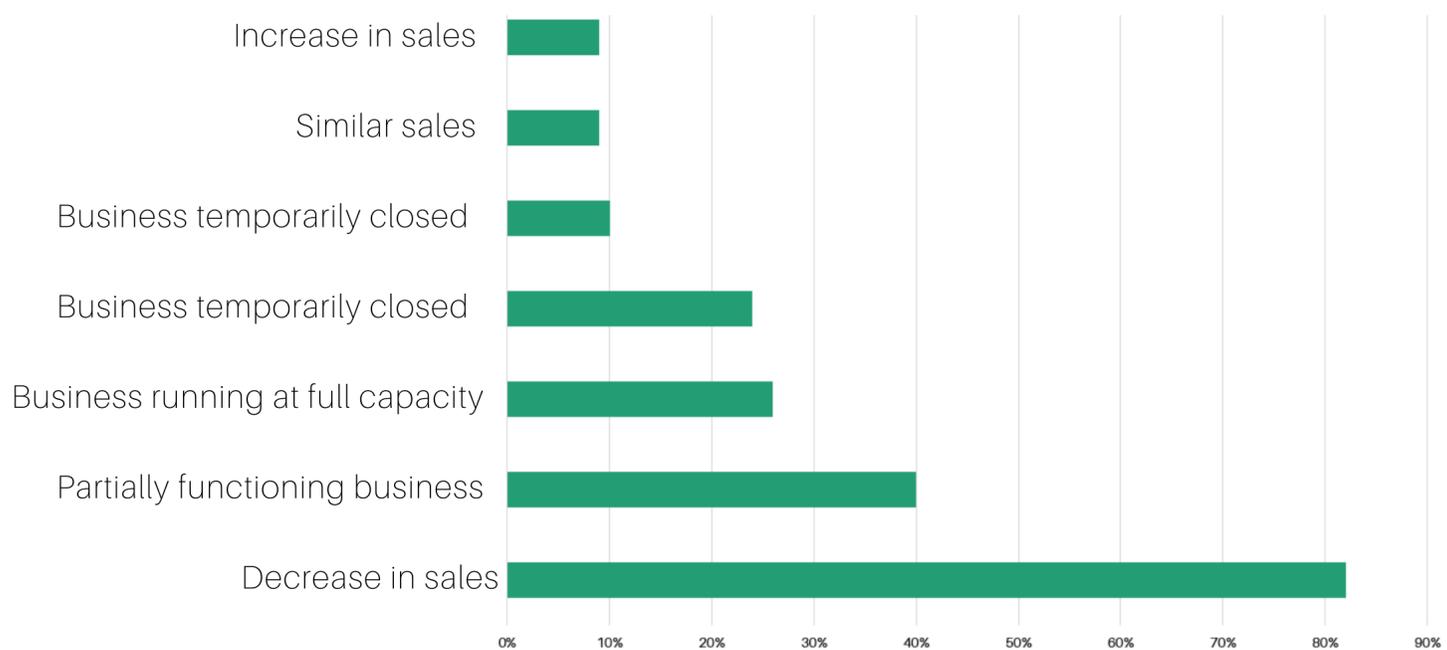
IA tools will be vital to have data that, in turn, enables assessing very closely their assets and identifying profitable ones, hence improving the decision-making process. Furthermore, such data will be valuable when offering customers highly personalized experiences. On the other hand, employees' role will no longer be limited to filling shelves and operating cash registers, but rather, in each interaction with the customer, they will embody the brand's purpose and become true agents of the buying experience.

Lastly, the fourth trend relates to the fact that consumers' decisions will be under scrutiny. Until quite recently, supermarkets enjoyed a broad offer of products; today, consumers concerned about shortage of essential products have changed their expectations and expect supermarkets to reduce their offer from a large range of products, to fewer high-demand products. The above will lead to a significant increase in supply chain and working capital efficiency, it will reduce costs and leave customers more satisfied. At the same time, retailers must fine-tune or improve loyalty programs, transcending the traditional points system to create unified and specialized rewards programs that enable them to bring together a variety of products and services to build consumer loyalty. In turn, this will allow businesses to deliver value and be more relevant as they explore new ways to gather and analyze data.

The Colombian Government's response to the retail sector amidst the pandemic

The arrival of COVID-19 and the subsequent confinement measures to mitigate the spread of the virus have had a negative impact in the operation of many retailers, in a sector upon which millions of people depend, -either as direct or indirect employees-, and in spite of the fact that a few retail businesses have been able to operate through e-commerce, which has provided them with the necessary resources to stay afloat, others had to halt their activities, which reduced cash-flow to a minimum leading to massive lay-offs and even permanent closure of many businesses. According to "*La bitácora económica de junio*" (June's economic roster) of the National Retailers Federation (FENALCO - for its Spanish acronym), 82% of their affiliates reported a decrease in sales, 10% have closed their businesses permanently, and only 26% are in full operation.

Graph 6. Business situation as of June 2020 (FENALCO)



The foregoing is the result of hurdles placed by the banking sector to facilitate access to financial aids. Banks, as agencies responsible for conducting the necessary studies and disbursements of monies of the financial aids provided by the Government, play a fundamental role when talking about the recovery of economic activity. However, since they were not prepared to face this type of crisis, banking institutions have placed all sorts of obstacles and unnecessary delays in delivering those financial aids, worsening the outlook for the sector's economic recovery.

As mentioned in [our report](#) on the financial sector informe sobre el sector financiero, financial entities have no understanding of their role in the pandemic and are unable to show generosity and empathy to citizens in their response to this crisis. Notwithstanding the above and despite the Government's strategy to use National Guarantee Fund FNG (for its Spanish acronym) to cover the risk of non-payment to Banks, delays in delivery and the fact that the number of applications is much greater, has left many businesses without access to this subsidy. The Government is taking on the risk because if, despite the loans, businesses are not able to thrive and are unable to pay their loans, he will have to respond for such guarantees, which may mean an increased fiscal deficit in future years.

Such financial aids are part of a series of measures implemented by the National Government intended to mitigate, to a certain extent, losses incurred by businesses and help them to continue operating. These actions are aimed at granting tax and financial benefits to all sectors of the economy, but especially, to those businesses that have been most affected by the pandemic. Following is a list of some of these measures:

"These actions are aimed at granting tax and financial benefits to all sectors of the economy, but especially, to those businesses that have been most affected by the pandemic"

- Financing 40% of the minimum salary to all workers of companies showing a 20% reduction in invoicing vis-à-vis the previous year. ([Decreto 629 de 2020](#)).
- Changes in the tax calendar, whereby, among other things, it extends the term to file tax return ([Decreto 520 de 2020](#)).
- Flexibilization in the payment of June's premium to workers until December 20 and the possibility of making such payment in three installments until such date ([Decreto 770 de 2020](#)).
- Flexibilization of working schedule, from midday to midnight for companies with reactivation of activities permits and that comply with biosafety protocols.
- The creation of "The Confidence Line" (*La Línea de Confianza*), to guide businesspeople on the processes to be undertaken for biosafety protocols required to reopen their businesses and regain productivity.
- The creation of the platform "Colombia Sigue Adelante" (*Colombia continues thriving*) so that businesspeople may learn about measures, actions and protocols issued by the Government.
- Creation of the special guarantee program "Unidos por Colombia" (United for Colombia) whereby financial solutions are provided to capital loans.
- Using National Guarantee Fund (FNG) to ensure up to 80% of the non-payment risk, so banks may expedite and expand bank loans to inject capital to businesses.
- Decision of the Financial Superintendence of Colombia to agree on new conditions to sound loans with companies, without affecting their ratings ([Circular Externa 007 de 2020](#)).
- Three days without VAT (19 June, 03 and 19 July) to incentivize purchases and reinvigorate the economy ([Decreto 682 de 2020](#)) (2)

These measures have not sufficed to meet the objective of rescuing businesspeople and traders whose reality only worsens as time passes, unveiling the need to increase the amounts of such aids and consider the growing need of businesses requiring a subsidy/aid.

(2). However, the third day without VAT was suspended by the National Government ([Decree 1044 of 2020](#)) due to the mobility restriction measures dictated by some local governments. And the day and the way in which the last day of this policy will be developed is still being evaluated.

Our thoughts on the Day without VAT

To date, only two of these three dates without VAT have been carried out, not as initially planned by the National Government, and indeed they have reinvigorated retail businesses; total sales of these two dates amounted to over COP\$9 trillion, equivalent almost to 1 point of GDP. In addition, and to avoid large crowds seen on the first date, during the second date the sale of a series of products could only be conducted on line, which led to July 3 being the largest e-commerce day in the country's history, showing that businesses have progressed towards virtual sales.

Although the first two dates were proven useful to momentarily invigorate the national economy, it is important to consider that these days without VAT do not generate a real solution to boost the sector in the medium and long term (and this could even be considered a populist measure seeking immediate solutions to cheer-up a few). Here are some reasons that counterbalance the initial enthusiasm:

Negative consequences of days without VAT

VIRTUAL INFRASTRUCTURE

Despite the progress made by merchants to move sales to digital channels, the massive virtual queues that were presented are proof that companies must improve their online processes in terms of connectivity and network reach.



MORE INDEBTED

Most of the purchases were made by credit card, which means that Colombians bought in debt in times of a general decrease in income.



HIGH VAT

The important influx that the measure raised shows that the current VAT (19%) is too high.



IMMEDIATE ACTION

The measure did not solve the basic problems, since the increase in sales does not have any impact on the medium and long term recovery. Besides, most of the products acquired (technology and appliances) have a relatively long useful life, so the increase in sales will not be sustained over time.



VIRUS SPREADING

From June 19 to July 15 the increase in infections was 313%. Experts said that the days without VAT coincided with the times when crowds should be avoided the most.



The third date – initially foreseen for 19 July – was finally postponed by the Government as a response to quarantine measures focused on specific areas in the city and country, and due to the fact that the spread of the virus has increased, consumers are reluctant to leave their homes and spend the little money they have. We believe that postponing was the right decision and that it is an opportunity for stores to rethink their infrastructures considering two fronts: definition of effective biosafety protocols and improvement of virtual platforms.

The way these measures will affect the country's weak fiscal standing is yet to be seen. However, the two days without VAT show a promising balance for retailers and it is expected that together with the steady reopening, they will help boost other sectors of the economy in addition to supermarkets and pharmacies that have been driving retail performance during the crisis. However, the fiscal balance of the Day without VAT is not at all positive, according to José Andrés Romero, director of Dian, the country stopped receiving around COP\$130 billion on account of taxes during these two days, in which around COP\$9 trillion reached retailers of all sorts. In addition, most products sold during those two days were imported household electrical appliances and entertainment products that do not contribute with significant margins to local stores.

In spite of warnings from expert epidemiologists, the Government decided to move forward the date without VAT, advertising it as a final lifesaver for traders at large. Some Government critics have mentioned that the Day without VAT accelerated the spread rate of the virus and the rate was then revised by retailers on the eve of the second Day without VAT. Based on the foregoing, surely, during the pandemic - they will leverage on the two previous dates and hopefully there will be a positive balance for the retail sector. We can also state that after complying with all biosafety protocols, some mayors of smaller cities have given the go-ahead so that many stores may restore productivity.

"It is likely that in the short term the trade sector will focus on adapting its physical infrastructure to provide safety so that visiting buyers wont fear being exposed to the virus"

On the other hand it is likely that in the short term the trade sector will focus on adapting its physical infrastructure to provide safety so that visiting buyers wont fear being exposed to the virus. Meanwhile, in the medium and long term, investment will be destined to improving the virtual consumer experience and building trust on e-commerce. Thus, it is very likely that small companies that were lagging behind in the virtual plane, now will adopt this modality, whilst large businesses will improve their virtual e-commerce tools to widen capacity. In this regard, some cities like Bogota, are implementing **virtual** tools to help small farmers establish a direct contact with a greater number of buyers.

Retail today: A climate of distrust

A study published in June this year by FIP, Reconciliación Colombia, USAID and ACIDI/VOCA suggests that Colombians are experiencing a profound distrust crisis in the country's institutions, including businesspeople. They refer to a survey undertaken by CRC and Centro Nacional de Consultoría revealing that, although in general terms they acknowledge efforts of businesspeople and perceive businesses as a symbol of personal realization, citizens criticize their behavior: 78% of people surveyed stated that the business world is plagued with corruption, 63% believe that State and businesses have partnered up to defend their interests, and when asked about if Colombians thought it was possible to count on their business leaders in moments of crisis or emergencies, only 34% agreed. According to the study, "people are aware, in general, that businesspeople contribute to social issues, but have doubts regarding their commitment when faced with significant challenges". This trend is further confirmed with a second measurement of the Reconciliation Gauge, which indicated that 83% of those surveyed hardly trust, if they do at all, in the country's business leaders and, Gallup's December 2019 measurement revealed that, for the first time since 1994, the percentage of surveyed people had a negative image of the business sector, exceeding the percentage of those who still hold a positive image.

"Colombians are experiencing a profound distrust crisis in the country's institutions, including businesspeople"

In February this year, Revista Dinero published an article that gathers results of a series of studies showing the distrust crisis in institutions, which is gaining strength among Colombians. They cite, for example, a study prepared by USAID and ACIDI/VOCA according to which almost 91% of people surveyed distrust the National Government, 82% communication media, 62% the Army and 78% distrust their neighbors. Some of the possible causes of this crisis are: the huge inequality that persists in our population, the recently established middle class who is at risk of going back into a situation of poverty and large corruption scandals that increasingly flood the pages of national media. This trust crisis merits attention for it may entail serious consequences for our society. Studies of renowned authors such as Sunnie Gilles and Simon Sinek, have shown that human beings go into "protection mode" when we feel that our survival is at risk and this makes us less innovative, creative and resilient. Conversely, when we trust and feel supported by our peers we can commit to causes that may otherwise seem impossible and then we are able to accomplish any mission, despite the difficulties we may encounter.

Buyers and their habits

Furthermore, from long before the pandemic we were insisting on a transformation that the retail sector is facing globally as a response to consumers, that thanks to technology, consumers stopped being subjected to buying only what they would find on big-box store shelves or even having to go to the supermarket. Buyers today are more savvy and this has made them change the way they decide how and in what they will spend their money. If making an effort to understand consumers was seen as a good strategy before the pandemic, now it is a matter of survival. An article published by Portafolio in May, showed some changes that generated by the COVID-19 crisis that are already noticeable according to the study EY Future Consumer Index: "around 33% of consumers will reassess the things they value most and 25% will pay more attention to what they are consuming and the impact it may have on our planet. As a result, in this first stage of the crisis, fashion related businesses were significantly impacted, while the consumption of basic needs products has increased." It means that other than the changes that were taking place before, there is now an urge or need among consumers to be more selective when deciding how to spend their money.

This is further confirmed, for example, by [Mercado Libre's report](#) on consumer behavior during the pandemic, which shows that its buyers demand now more products related to health and prevention – in a first stage –, and fitness and entertainment – further along the pandemic –, while the demand of some traditional categories such as footwear, clothing and accessories, vehicles and smartphone accessories was negatively impacted by the pandemic.

The pandemic has meant a huge change in the habits of Colombian consumers, which has had a series of impacts in different sectors. For example, a [recent study](#) by BBVA Research reveals how Colombian households have adapted their expenses. Purchases in supermarkets and pharmacies have driven consumption during quarantine. This has also meant significant savings in items such as clothing, dining out, entertainment and of course, travel. The foregoing suggests that not all workers will be affected, nor all sectors, indeed there will be a great deal of losers, but some will manage to strengthen their position once the crisis has settled.

Operational costs for businesses

We need to be aware that the changes these trends demand take a toll on the operation of business owners or managers, as in many cases it implies having to bear costs that in the past they could have ignored. Today it's not enough to comply with regulations; businessmen are required to walk that extra mile in order to connect their values with the customer's and fulfill sustainability, social justice and urban impact expectations, among others. Furthermore, a world where the client is constantly comparing prices and brands began to compete with distributors trying to see who provides the best option that aligns to the quality-of-life, their purchase power and their taste, is ultimately a world where margins tend to plummet. Everyone is gaining increasingly less by doing the same they did before, as a result of new competition, global competition or by simple pressure from the consumer.

"Today it's not enough to comply with regulations; businessmen are required to walk that extra mile in order to connect their values with the customer's"

This new arena compels brands to reduce their costs to continue being competitive and generate profitability to their shareholders, but to do so, they need to transcend the conventional way of exerting pressure on vendors and begin to automate their processes, use AI to predict demand and streamline significant costs they incur in with their current supply chain (3).

(3). Through Align+, a tool that we have developed with Colombian partners through which we intervene in the management systems of different companies, we are able to impact profitability and customer service simultaneously, optimizing the operation based on profitability.

Mitigation measures and retail sector behavior: an outlook for future risks

Since quarantine started and once President Duque declared the economic emergency, he has governed by means of decrees which, although intended to improve the current situation, have not offered a medium or long term solution. During this period, Congress has not exerted decisive political control and, [as mentioned](#), it is highly unlikely that in this new legislature Duque encounters hurdles to manage the crisis. Notwithstanding the above, opposition will continue a thorough follow-up to such decrees and their effectiveness, which will in turn lead to increased tension and will be used as material for political campaigns in the next presidential election.

The opposition won't be the only one challenging the Government. Social unrest due to the limited scope of aids, corruption cases and economic indicators which have plummeted, will only forebode the return of demonstrations once people can take to the streets again. If the economy does not thrive, lay-off and wage reductions will continue being the only resources businesses have to remain afloat, which increases the likelihood of facing strikes in which people demand companies to respect labor rights and the government to provide additional aid. However, and considering past experiences, these strikes might generate traffic jams in the cities and further slow-down the performance of the economic activity, which in turn, could worsen the already precarious situation of businesses in the country.

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One may find a solution with respect to the obligations to which the retail sector is subjected within the problem itself, The banking sector and the Government must implement a flexibilization strategy to allow businesses to continue working, preserving employment and paying their debts. Financial entities must show their will to help and reframe their role to overcome this crisis by being more flexible as regards loan conditions, granting grace periods, extending expiry dates or reducing interest rates, thus contributing so businesses will have the required working capital to operate during the crisis, and in time, they may begin to pay their dues. There is a tremendous risk that financial liabilities will lead businesses to file bankruptcy, especially those businesses that are currently experiencing havoc amidst this crisis. Similarly, the Government must rethink its new fiscal calendar providing companies with extended terms to pay their taxes without arrears.

Contrary to the possibility of reducing the tax burden on businesses, there is a growing feeling that a proposal of [increasing the tax base of individuals](#). Once we overcome the COVID-19 crisis, the Government will need a new tax reform to increase collection in the short and medium term, hence la [Asociación Nacional de Instituciones Financieras \(Anif\)](#) proposed taxing the entire family food basket with a 19% tax rate and increase the taxable base on income tax to individuals, with which, according to Anif, they could collect over COP\$20 trillion. The population at large has expressed their concern with these proposals and their implementation could entail serious consequences to the current Government's political party – Centro Democrático – during the next election, as voters would be inclined to punish the party giving their votes to left-wing parties.

The political game would be governed by the discourse of the moment, where the profound gap between the majority of the population and the business/commercial sector could lead to populist proposals obtaining greater approval in the next election period.

On the one hand, if the government increases taxes to individuals, voters will opt for a candidate whose campaign is based on increasing the tax burden on businesses and not on individuals. And on the other hand, the implementation of such proposal would put at stake the trust of local businesspeople (who could obtain a relief amidst the crisis if the taxable base is reduced) and foreign companies when seeing the lack of support to the sector from the government, may decide not to invest in the country, which would in turn have a negative impact and could jeopardize the long term development of the retail sector in Colombia.

Large retailers have continued to thrive due to sound financial structures that have allowed them to access significant bank loans. Meanwhile, small and micro businesses, and the so called "corner stores" seldom obtain loans due to the greater risk perception they have from the financial sector. In spite of the amount of resources available for micro-loans that could extend among this population, but the high interest rates and the lengthy disbursement processes discourage small and micro businesses to look for loans before formal financial entities and decide to resort to loans from informal lenders which leaving them highly indebted, and for which they sometimes pay interest rates even higher than usury rates. As a return, the new regulations on payment terms to vendors, by means of "Fair Payment Terms Law", seems like a good start to acknowledge the increasing need for cash that small and medium businesses have and thus reduce the asymmetry when compared to big box stores. It may well be possible that the successful implementation of this measure could encourage new regulatory initiatives seeking the efficiency of the sector and expediting the flow of money in the entire value chain. With this new panorama, the Government will need to find a strategy enabling it to address both large retail companies as well as micro and small and medium size businesses, to ensure, not only satisfying the interests of foreign companies but also driving local economies.

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Last but not least, one of the main risks facing the re-opening and recovery of the retail sector, is the division and constant clashes among some local governments - especially Bogota - and the national Government. The mandatory isolation policy in Colombia came to an end on August 31, after 156 days of quarantine. The National Government and local governments are moving to a new prevention and containment model for Covid-19: selective isolation. However, to the extent spread rates do not change significantly, these tensions could unleash tensions again regarding the uncertainty of the productive sector. It will become necessary for Mayors' offices and the Government to find common ground and reach agreements for a progressive, constant and uninterrupted reopening of the sector, so the economy may move and improve the conditions of citizens that are now having to choose between going out, risking the virus, to obtain some money or staying at home, protecting themselves from the virus, but remaining unable to make ends meet.

Conclusions and proposals

We would like to point out the link that exists between the retail sector and the economy in the current situation, but also, in the political scenario for the upcoming years. The sector must understand that it is part of the social fabric of our society and it depends on consumers and their preferences to succeed and become aware of the fact that their role is important to face the crisis and that leaving things to chance or to others through national guilds, could entail unknown consequences or reputational crisis in the near future.

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According to [Harvard Business Review](#), "businesses with a culture of putting their employees first, listen to their main allies and focus on serving others" may have greater possibilities of facing the current negative economic cycle and overcoming the crisis. To gain confidence and loyalty of its buyers, retail companies must:

Join in solidarity with the challenges of society

Future consumers are observing the behaviors of businesses during the pandemic, and it is likely that this could become a significant factor that affects, disgraces or improves the reputation of retail companies in the short term. The perceived kindness or cruelty of their main stakeholders and employees during the pandemic will be a determining factor for customers once the crisis has been overcome.

Look out for the long-term impact,

of their brands and reputational image – particularly when their executives or brand communications convey opinions linked to a political ideology. Instead, brands would be better off focusing their political agenda on getting actively involved in movements or activities seeking to tend to the current situation and generate positive societal changes. The significant number of social problems the country is experiencing, including poverty, inequality, gender inequality, discrimination, deforestation and degradation of the oceans and the environment (among others), offer broad opportunities to contribute to overcome the crisis and positively impact society in the long term.

Anticipate regulations

Social unrest that led to protests in November 2019 is still latent and will further deteriorate if the country's condition continues to worsen. Huge social inequalities that in addition, have been exposed by the pandemic, will lead to additional reforms in the productive sectors that could also affect the retail sector, for example, regulations to expedite payment to vendors, or even the application of fines for big box stores that do not fulfill regulations in force. Similarly, and [as we have mentioned](#), high interest rates of the financial sector and the behavior during the crisis could cause major regulations in the sector, unless the latter is able to show greater understanding and empathy towards difficulties with its small businesses' clients. Before seeking a guild lobbying strategy to stop or hinder the implementations of these regulations, the retail sector should anticipate regulation establishing best practices with vendors to avoid the social unrest from translating into more aggressive regulatory actions.

Live and communicate their purpose

Brands should be aligned with ethical and moral standards of buyers, and not only with respect to the care of the environment and relationship with employees as was the case before the pandemic.

Now buyers may also want to learn the values of businesses from which they buy and know how they uphold those values in society and what they are doing to counteract the effects of COVID-19 in the economy and society. They want to know, for example, if and how they are caring for their employees, vendors and customers and how their business culture is reflected in each one of their products and actions.

Today there is no difference between what is physical and digitaly

The digital experience must have the best of the physical experience (speed, ease of payment, quality of images, etc.) and the physical must have the best of the digital (product availability, descriptions and prices for all SKUs and references, etc.) and all contact points with customers must be brand experience locations.

Media is the new store

The current situation has made it almost impossible to visit most physical stores, and even when they are able to do so, it's likely that buyers will try to avoid them as much as possible. Thus, brands have been compelled to strengthen their digital presence, turning their digital site into their showroom. Media published by the brand and shared with audiences are now the store while customers buy their products through Instagram, Whatsapp and Facebook or responding to newsletters, for example. With these alternatives in place consumers are taking a step forward towards their convenience and they will not want to go back. As reactivation begins in physical stores, it is likely that consumers could ask themselves whether it is really necessary to go to a specific place (i.e. having to deal with traffic in Bogota) when they can get whatever they want without leaving their home. Stores need to flirt with their customers, offering them a lot more than simple transactions by creating experience centers where buyers are able to interact with brands and learn a lot more about their purpose and values.