

-- Speaker 0 00:00:03 Welcome to the TradeSecurely podcast.

Speaker 1 00:00:06 Being in retail in the 21st century is not for the faint of heart, like a roller coaster. There is a steady stream of ups and downs, and in recent years, the way customers shop and the way retail operates has dramatically changed. Our retail report from Deloitte had called for a modest acceleration of household expenditures. With retail sales expected to rise by roughly 5% in 2020, and the only real challenge that seemed to be household debt levels and then came COVID-19 and the global shutdowns welcome to the trade securely podcast. I'm Janet Eastman. And this episode, the retail rollercoaster features a panel discussion on the current state of the sector. My guests today are Steven Georgetti. He's vice president and director of information and grading at Euler Hermes North America. Welcome to the show, Stephen. Thanks for having me. My pleasure also joining is his colleague, Matt Cobo, he's vice president and retail industry manager at Euler Hermes.

Speaker 1 00:01:07 Welcome to the show, Matt. Thank you, Janet. Hello and Euler Hermes is a global trade credit insurance provider. So Matt and Steven are going to be providing insights from the provider perspective. Also joining us is Michael Sullo. He's vice-president OneSource Risk Management, Canada. He's a broker of credit insurance and risk mitigation products. His customers sell their products to the retailers. So he'll be speaking from that perspective on the challenges that they're facing. So welcome to the show, Michael, thanks for having an agenda. Okay, so gentlemen, I think probably the best place to start here is with a look at the current state of the sector. So Steven, can you give us an overview of how Euler Hermes is seeing the retail environment?

Speaker 0 00:01:51 Yeah, absolutely. So to say it's been a challenging year for retail, um, is probably one of the biggest understatements you can make. Um, we, we always use the word unprecedented crisis, but I think it is not cliché in this environment. Um, what we're seeing is pretty staggering claims, um, for us, the retail claims are up 111% year over year in dollar 68% in number, um, this besides commodities is one of the most impacted sectors we're seeing from a claims perspective when we look at past dues, um, so our clients are required to submit to us anytime an invoice is 60 days past due, um, and more than \$10,000. So it's a really good indicator of what may come. We don't really see it slowing down that much with the past dues on a six month rolling average basis, still up 18%. Um, and it's predominantly based in the brick and mortar space where you have a 30% increase, um, where we do see some bright spots.

Speaker 0 00:02:54 And I know Matt and Mike will have some perspective on this in a bit is, um, online really is the one bright spot where you see actually decreasing claims. So clearly we're very optimistic with the online retailers. Um, and, and from a future looking perspective, the decrease is pretty substantial. PDRs are down 53%, so some good, um, a lot of bad, but I think we're, we're still right in the middle of it from our perspective. And can you just clarify what a PDR is? Yeah. So as I said, PDR stands for a pass to do report and clients are obligated to submit those to us on a monthly basis. And it helps us to assess the future likelihood of receiving claims and is a pretty good indicator of what the macro and micro environments are doing. Okay. So Matt, from your standpoint, are there any areas that you see particularly worrisome in the retail sector?

Speaker 0 00:03:52 Oh, well certainly. I mean, I think if you, if you think about the retail sector in terms of nonessential and inessential, there's a, you know, government designation, uh, given to a lot of the retailers out there and the non essential retailers where we're just hitting massively, uh, especially the small businesses, if they didn't have an online capability to begin with, they were in a lot of trouble. You know, a lot of companies hadn't made the proper investments leading up to this, and then when the pandemic hit, it was kind of panic mode for them and they've suffered greatly, but it also kind of depends on, on the line of business, of course. So if you've just taken on a central for a minute and think about something like formal apparel, we have less people even leading up to the pandemic --

-- ic. Uh, you know, less people are, are, are, are being formal.

Speaker 0 00:04:34 When they go to work. Now, people aren't really even going to work as much anymore. Uh, large formal gatherings are not really happening, uh, like they once did. So they were there in a lot of trouble. They weren't allowed trouble and they're even more trouble now because you contrast that with another non essential retail like furniture that you know, many of their stores had shut down. If they had a robust online system, they were able to fill a void that a lot of consumers, um, wanted, which was to upgrade their living space. Uh, and if they had, like I said, a good online presence, they were really able to offset a lot of the closures and the brick and mortar stores. And since then, of course, most of them have, have reopened many of their stores and, you know, furniture is actually been a bit of a bright spot.

Speaker 0 00:05:17 Um, but you know, those companies that were hurt, I mean, they had to mitigate as best they could. They laid off a lot of people there, the people took pay cuts. Some weren't paying rent, they were extending their terms, uh, in the fact is that many of them have closed. Some of them closed for good and others are kind of barely hanging on. Now, you contrast that with the essential retailers, they had a huge event. So if you think about grocery stores, big box retail, now there's a huge advantage. And really it was market share for the taking. I mean, the nature of a big box store for example, is you can go in there and of course it's said they sell food, but if you wanted apparel, you could get that or sporting goods or even some, some furniture bids. So they were really opportunistic and the biggest ones, very adept at chipping away at the market share from those smaller specialty retailers or even big specialty retailers that couldn't open. So they just had an amazing advantage. Um, and like I said, if those nonessential retailer didn't have that online presence or it wasn't very sophisticated than it was a disaster form, there really, it's just been a tale to tell two stories here between the essential and non essential.

Speaker 1 00:06:24 So Michael, from your standpoint, as a broker, I'll have the pandemic challenges impacted your customers because I'm assuming that you must have customers that play on both on either side, so essential and non-essential how are they doing as retail suppliers?

Speaker 0 00:06:41 Yeah, I mean, it's, it's like Matt said, there's, there's two sides to this coin, right? I mean, when the pandemic first hit, um, across the board, you know, there were major concerns because of the uncertainty surrounding, you know, the global economy trade, the actual impact of this short term longterm through various sectors across Canada. And given the many clients did have a link to essential services. I mean, this was, uh, an advantage for them being that they were tied into those essential services. So, uh, whether it be direct or if they were tied into that, uh, by the supply chain, uh, now those that were tied into the essential services, their operations did remain or get back up and running fairly quickly. Uh, but you know, albeit at a slower pace for the most part now, for those other clients who were dealing with the non-essential retailers, I mean, the shutdown did have a much greater negative impact and basically halted things for those clients who were major suppliers into those retailers or the brick and mortar.

Speaker 0 00:07:51 Now we have seen that shipments and orders have been at somewhat of a reduced volume, uh, for certain clients, which was obviously tied into the shutdowns and also due to adjustments in, um, if you want to call those, uh, consumer spending habits, right. Uh, there was also, uh, something that we kind of forget to in the equation is that work from home factor, which, you know, had affected a lot of businesses like this was uncharted territory for a lot of companies, was a big shift for people who are now required to work from home rather than their habitual office environments. So this change in work environment also required very quick maneuvering by businesses to make sure that there was as little disruption as possible. Um, on the operational side of things

Speaker 1 00:08:44 On the last trade securely podcast, we looked at how payment practices had changed since COVID, um, how, how long has it taken --

-- for suppliers to get paid? I mean, like you just said that operations got back up and running and they're doing shipments. Maybe they're not as much as they normally did, but they're shipping, but are they getting paid?

Speaker 0 00:09:03 Yeah, that's a great question. I mean, you know, for, for certain sectors, um, like Matt mentioned, uh, let's say for the food sector, uh, that business has been booming and it's been relatively stable for other, I would say sub sectors or retailers such as, you know, brick and mortar. What we have noticed with our clients is that, uh, we've seen requests for, you want to say longer payment terms, which would eventually put more of a strain on suppliers cashflow, right? So we're seeing requests for longer payment terms, extended terms, delays in payments, deferred payments. These are all adjustments, which can be very strenuous for businesses, especially with the rise in insolvencies, in the retail sector. So definitely cause for concern there

Speaker 1 00:09:58 Have retailers seen much of an improvement since things opened up in late June. And I don't know who this would be a question for. Um, you know, just let me know, is it, is it you Steven or would that be you Michael?

Speaker 0 00:10:10 I would leave that to a Steven actually. Yeah.

Speaker 1 00:10:15 Or, or Matt? Yeah, actually, sorry. Don't forget about new John and come on. No, sorry. Sorry, Matt.

Speaker 0 00:10:22 No, no, that's okay. No, that's a good question. I mean, retailers in general, since, since opening up in late June, uh, yes, there has been a surge as it's been a lot of pent up demand. Um, but, but what we're seeing overall is that some of that has, has fallen off. So you have this tremendous surge in June and in July. And some companies were downright bragging about how amazing it was. Um, and the cadence of same store sales growing at an incredible rate. But the fact is that's not sustainable and that we have seen it fall off a bit. Of course it kind of depends on exactly where they are in the retail market space, but you know, there's still a lot of headwinds. A lot of retailers are the lying. Um, went back to school for example. And I know in a lot of parts of the world and, and especially in the us and Canada too, you know, not everyone's going back to school the same way, and that's putting a damper on, on what they usually expect to be their second, most important season of selling behind the holiday. Of course. So, you know, the pandemic has changed the habits. Um, the, the surge was there and in some are still riding it, but it's really important for these retailers to try to find a way to keep that momentum going and really not lose their focus at the moment.

Speaker 1 00:11:41 I guess, you know, when you talk about some retailers like the larger retailers, there are quite a few of them that were struggling even before this, because last Christmas they didn't have that great of a season either. So let's talk about these larger retailers. Some of the department stores, what's their situation like,

Speaker 0 00:11:59 Well, it's really rough for them right now. I mean, a lot of these department stores are, you know, mall based or anchors to these, these stores. And for a long time, uh, just the consumer, uh, evolution and retail evolution. You've had tons of large space, brick and mortar mall type indoor shopping environments. And, you know, those are, are really going away and they were already going away. So this has really accelerated that whole shift. And so many of these department stores are stuck with a huge, huge store footprint. That's just on sustainable and really not a good fit for 2020 post pandemic. So, you know, these retailers are these department stores, especially some of them have gone into bankruptcy. Uh, some of them are, are trying to survive. Some of them all, um, companies are actually trying to buy the retailers are trying all sorts of creative ways to, to save that. But the reality is that no, the old business model of departments towards just isn't what it once was. And really the void has been filled by, uh, you know, some of the larger, big box retailers who can kind of do it all and have a ton of investment for years into their online capabilities.

Speaker 1 00:13:11 Stephen, what does it mean if we lose some of these big retailers?

Speaker 0 00:13:15 I mean, at the end of the day, we shouldn't be surp --

-- rised. Um, cause if we go back in time and look at the evolution of these large retailers filing bankruptcy, you've seen some notable ones pre pandemic. So I think, you know, you'll learn and said, you know, you've seen it widely publicized the retail apocalypse, right? For at least the past three years, from my perspective, this is just accelerating. What would have otherwise have been inevitable? So, you know, I don't think that the world is going to change in a direction that we weren't expecting. Yes, it is accelerating what we would have otherwise have seen, but the push to a higher portion of online, the push to, you know, having more convenience with the delivery services, you see what target is doing Walmart, Amazon, of course. Um, it's really a question of who made the right investments over the past five years to transform their business, to be able to do this in a more dynamic way. Um, but for me, the pandemic didn't necessarily kill the large retailer. It just accelerated what already would have been

Speaker 1 00:14:23 Michael from your standpoint. And I'm sure you've got clients who are selling into some of those large retailers. What kind of advice do you give them, or what kind of questions are they asking you about their situation supplying these people?

Speaker 0 00:14:35 Well, I mean, you know, when we're talking to, uh, clients who are currently selling into these, I mean, the concern is there and, you know, to touch on the point of, of both Steven and Matt, and to put a bit of perspective onto what's going on, Canada, let alone the U S I mean, there have been 22 major Canadian companies who've sought creditor protection in may and June alone, which, from what I understand is almost four times as many as would have occurred under normal circumstances. So, you know, both Steven and Matt, I mean, it rings true when they're saying this is just a, I would say speeding up what was already occurring in the retail sector. And when we're talking about, uh, those Canadian companies, you know, many of these were very well known names. So when you see these names coming through the Newswire, I mean, saying it's a cause for concern, again, is it's an understatement and you know, a lot of clients that we're dealing with are left wondering who's going to be next, right?

Speaker 0 00:15:42 So, so there are heavy concerns, uh, and you know, although not all retail sectors have been effected the same, you know, we do see the concern at large because there are still many unknowns and variables left unanswered, which could, again, you know, affect payment ability going forward even more so than it is now, uh, from the concern standpoint. So, you know, some, some, some clients have been reluctant to ship their standard amounts or larger amounts to certain retail clients. Um, most are taking a more conservative approach to mitigate the potential risks on the flip side of things though, you know, some of our clients who operate in the building materials sector, just as an example, um, who sell to those larger retail outlets, uh, they have seen an uptake in sales over the past few months due to an uptake in consumer spending habits tied into that specific sector. So it's not all negative depending on the sub sector, but I mean, the conversation always stems around the concern what's going to happen to the retail sector in the next, uh, six to eight months, especially after the holiday season that's coming because of what, uh, what happened, uh, last year I would say.

Speaker 1 00:17:10 Yeah. And I guess, well, the benefit that, um, anybody has, who has a receivables insurance policy is that they can go to their broker and their provider and get as much current information as possible because you guys are tracking what's happening all the time. So they're not sitting out there flying blind, like they are getting bits of information to help them make whatever necessary decisions they have to make. Right.

Speaker 0 00:17:38 Exactly. Exactly. I mean, from, from a coverage standpoint, you know, we're, we're definitely not in a soft market right now, given the situation and the retail sector again, as not an, is not the easiest of sectors, especially brick and mortar. So that said that to your point, you know, there are creative solutions that we as specialty brokers can access and provide to our clients in order to bridge the gap of coverage, or actually give additional comfort to their --

-- businesses and provide support throughout these times, you know, at one source, we're always trying to find innovative and constructive ways to work with our clients and the insurance markets provide that support and especially the guidance to clients so that they can continue to trade with confidence and secure their business at the same time.

Speaker 0 00:18:28 Sorry, go ahead, Stephen. Yeah, just to jump in on that. And then Matt, you can, you can go, um, you know, from our perspective, one of the values of course, that, that the insurer or the carrier brings is the monitoring capabilities. And clearly with a team of analysts and underwriters that are local in the market, we have ears and feet on the ground to really understand what's going on. And those sensitive retail risks, we weren't likely ensuring if we did very low levels, we're for quite a while heading into the pandemic. So that's never been an area where we were necessarily worried about because we already knew there was an imminent risk, potentially default it's it's what could be with the strong risks, right? The strong retailers, where all of a sudden they lost 90% of, of their customers, right? So they went from being a risk grade in our, we grade on a scale of one to 10, one being the best 10 being, uh, uh, an insolvent company. So our risk grade one today, tomorrow, are they a six or a seven? Are they, are they potentially going bankrupt? And that's where our value with information comes in to be able to help navigate that for our clients and for our partners, like one source, um, jointly so that we can make the best credit decisions for our joint clients.

Speaker 0 00:19:44 Well, yeah, I was going to kind of basically say what Steve was saying. Um, you know, for the most part, I don't think that many of these bankruptcies took us by surprise per se. Uh, I think that many of the companies that are the worst off obviously had issues going into this whole pandemic period. And there's a couple of common characteristics of a, of a retailer, um, that that's going to be in trouble. And it's usually, if you can see their balance sheet of it's a public company, or in our case, we have a lot of visibility on private companies too. But if you look at their balance sheet, if they're heavily debt Laden, if they're private equity owned, if they had a, you know, difficulty maintaining a positive sales trends leading up to this, if they weren't, if they were a non essential retailer, I think apparel, especially, you know, those are the companies that if you fit that criteria and you really had a lot of debt, um, issues, and, and perhaps at that point, you weren't going to get as much bank support.

Speaker 0 00:20:44 Those are some of the telltale signs of a, of a, that that's going to be in distress and might struggle to get through this really liquidity is so important. So when you think about what's going on in the marketplace right now, and you have access to financial G you have to look at the balance sheet, you have to really try to quantify the liquidity and really make a good estimate to say, you know, how sustainable is this company? How, how long can they absorb what's going on right now? And so it's really uncharted territory that, you know, here we are in September and it's, it's been months now. And, you know, the longer this drags on the more previously semi-healthy companies are going to go start going into distress. So that's the thing that they're worth taking a real close look at. And it does make it a challenge, but it's not usually these bankruptcies usually don't just pop out of nowhere.

Speaker 1 00:21:36 Hmm. So Steven, you had mentioned earlier that you said one of the bright spots that we've seen so far is online shopping and then some retailers that even small retailers that I've seen in the town I live in, they started doing curbside pickup. Um, are these the saviors to retail? Do you think?

Speaker 0 00:21:57 Not so sure. Savior is the, is the right word. I think it's a light, it's a lifeline to get them through is probably the better perspective. I mean, a lot of retailers do this. Sometimes it's very clumsy, um, in, in how it's coordinated. Um, so I would point it as it's, it's the lifeline to better days. Um, but by no means from my perspective, do we see it as a, as a savior for the business

Speaker 1 00:22:24 And the online shopping too? Um, the cost of shipping, if they're absorbin --

-- g shipping costs, that's gotta be hurting because shipping costs can be very expensive, too, right? So online shopping, it has some challenges,

Speaker 0 00:22:40 But when you, when you consider the, the online capabilities of these traditional brick and mortar operators, one thing that you'll hear in, in their, in their investor calls and all that is it really does negatively impact their margins. Cause like you said, John, it does cost more to do that. And nowadays everyone, or most people expect free shipping. So thanks to Amazon, everybody's gotta try to figure out a way to, to, to ship for free. And that puts a lot of pressure on these weaker retailers to step up to the plate and offer exactly what their bigger competitors are doing. And that's sometimes just not, you know, reasonable to do. And quite frankly, they have to end up making a lot of other changes to their logistics and to their cost structure. And so there's a lot of work that goes in for a company to really transform itself, to put an effective digital player.

Speaker 1 00:23:31 So it's not a quick turnaround, it's not a quick fix, like just shift everything, set it up online. Yeah. Yeah. Sorry, go ahead.

Speaker 0 00:23:40 I was just going to say exactly. I mean, if you haven't made those investments now, and then you're realizing you have to do now. I mean, for the most part it's, it's, it's almost too late. It's not too late period.

Speaker 1 00:23:50 Right. Michael, how have your clients adjusted to the changing retail landscape? Have they started selling direct to consumers online and, and things like that?

Speaker 0 00:24:00 Well, interestingly enough, uh, some clients have successfully managed to somewhat diversify their products by actually starting to sell high demand items, which are related to essential services, such as sanitizers masks, face shields, and other similar related products, which they would not have traditionally considered, I guess, before the pandemic. And although these different product lines may be temporary. Uh, from my standpoint, I mean it does show how innovative and creative the entrepreneur can be in these, uh, if you want to call them unique times that we're we're actually faced with, right? So some have also expanded on their direct to consumer sales. Um, if they already had that online presence, because like Matt and Steven mentioned, it's difficult to try and implement that sort of a process because of shipping and all the other bells and whistles that go along with setting up a online sales platform. So most have continued the course, I would say via the bigger names who already have a robust online presence with consumers. So selling into those retailers that then sell on their online platforms that are already robust and solid.

Speaker 1 00:25:20 And have you seen, um, your clients actually going out and looking for new customers because they're concerned about the customers that they have and their ability to pay? I guess, you know, people are always looking for new customers, but you know, as there've been an extreme push to, to find new people to supply to,

Speaker 0 00:25:41 Well, I mean, there's two sides to that coin as well. I mean, you know, taking on new customers does represent additional risks. So in these times I would say it's a mix. So, you know, if the coverage is there and they can sell to those new potential clients, then yes. But there's, there's somewhat of a hesitation, I would say because no one really wants to add more risk in these sectors, especially not if they're selling into brick and mortar. So, you know, new clients are hard to come by number one. And, uh, it's, it's a difficult time I would say to take on new risk in the portfolio, uh, in the retail sector. So it's, it's a mix, we see a mix, but they're focusing on their existing and they want to try and alleviate some of the pressures and stress that, uh, just go hand in hand with dealing with those existing clients.

Speaker 1 00:26:34 Right. So you said something interesting there, how some of your customers had sort of branched out into supplying some of the things that people need for, for, so I gotta ask, um, matters, Steven, what is the cost of these continuing safety measures that retailers have to have the hand sanitizer and the shields and things like that? What's that costing retailers?

Speaker 0 00:26:58 Well it's, of course it's not free, you kn --

-- ow that, but, but I think that most of these, uh, brick and mortar retailers, it's, it's absolutely paramount that they demonstrate a level of commitment to providing a safe shopping experience. So, you know, when you're talking about the plexiglass between the, in the checkout counters or enhanced cleaning for the stores, um, you know, the hand sanitizer everywhere, these are all added costs, but if that wasn't the case, or if somebody goes in there and doesn't get the sense that the company is committed to having a safe shopping environment, it's only going to hurt worse now. And to all of this, those change, those does cost money. It is impacting their, their, um, operating expenses. But a lot of these retailers have, have reduced expenses by giving pay cuts. Like I mentioned earlier, furloughing some employees. So these are definitely offsets, but I don't think it's really driving anybody out of business or anything like that. It's really just their commitment. They need to demonstrate and give confidence to the consumer because without that and people aren't going to be going in the stores.

Speaker 1 00:28:03 So we talked a little bit that when things started to turn around, there was a bit of a surge in people getting back to retail, they were able to get back out into the shops and things like that. So, you know, you said there's been a bit of a pull back on consumer spending and people getting out there. Are we seeing people with all of this money that governments have given them, et cetera, are they getting into deeper personal debt and what is the ultimate impact on the retail sector? If that is the case. And I don't know, is this a question for you, Steven?

Speaker 0 00:28:34 Yeah, I mean, so I think it's quite the opposite, cause I'm in Q2, you know, the ratio of Canadian household debt to income posted a record dropped that ratio dropped to 166.8% from 171.7 from the first quarter. So the question is, what does that tell you? Um, tells you two things. One, the consumer's redirecting, maybe those funds to debt repayment actually. So they're not incurring new debt. Um, but you also have to think about, okay, so with the money they have, how are they redirecting those funds? So many people didn't take vacations. Many people stayed at home for the large part of the summer. They didn't do the activities they normally would do. Um, so where did that money go? Um, but, but if we take a company like Wayfair as an example, right, an online retailer of household goods, 32 results show, top line growth of 84% year over year. So, you know, people are redirecting their funds to household items to see, you know, maybe they're redesigning a room, maybe they're adding a deck on their house. Um, that's where people are really redirecting their money. They're not incurring new, they're redirecting it. Um, so instead of, you know, going on that vacation, they're buying that, you know, coffee table or couch. Um, and that's clearly evident in the results of some of these, again, online furniture retailers, which, you know, really are impressive.

Speaker 1 00:29:57 And Michael has, have you seen the benefit of that to your suppliers?

Speaker 0 00:30:03 I mean, to, to Steven's point, I mean, a perfect example of that, uh, positive impact would be a sector like building materials, you know, or wood products being sold into larger retailers. Those have actually, um, come close to supply, being exhausted, doing to an uptake in demand because people are at home more. And, and from what I'm understanding, they, they want to do more in their home because that's where they're stuck sitting. Right. So, you know, aside from this, that particular sector in the food retail sector, which has seen an update, you know, I think that, you know, the real tasks for all this, uh, for businesses selling into retail, especially brick and mortar, I think will be the holiday season, which is rapidly approaching,

Speaker 1 00:30:58 Right? So is it going to be a bright spot for the retail sector? What do we think I'm throwing that out to anybody

Speaker 0 00:31:08 I can take apart. I can take a stab at this. So I think that is really the big question. Um, you know, as we mentioned before, I mean, this is the biggest, most important, um, season, uh, in the 12 month cycle for the retailers. So, you know, for many of them it's a make or break time and, you know, with COVID, there's a lot of unknown developm --

-- ents, but, but one thing we do know is that, um, some of the late Thanksgiving, uh, black Friday, if you will, you know, in person events, that's not going to be the same, uh, you know, it just, it's just not, it doesn't make sense today. So, so what I think would you're going to see is, is you're going to see cyber Monday, of course, being even bigger than it's ever been. And you're going to see the deals may be coming in even earlier, perhaps earlier in November, maybe even, you know, um, just after Halloween like that period there.

Speaker 0 00:31:57 So, you know, people are going out less, but, but getting back to what Steve said, the, the hope is for a lot of these retailers in the holiday season, except for the people who were more well-heeled and, and, you know, fortunate to, to keep their jobs and not to take cuts, you know, there there's a sense that maybe there will be some, some pretty substantial, big ticket items purchased, you know, whether it's jewelry or, you know, even like a car here and there or something really extravagant. I think that I've heard people call it event spending, you know, where you just kind of like, you know, quarantine yourself for so long and finally, uh, you know, you can splurge on something. I think that's really what they're hoping for, but you know, there's going to, it's going to be a rough for a lot of the smaller guys out there. And, you know, it's going to be very interesting to see into January 20, 21 and beyond, you know, who is going to really come out of this. You know, some people tend to just kind of hang on to ticket to the holiday and, you know, do the best they can with it. But if it doesn't go well, or if it's well below expectations, it's going to be difficult to carry on.

Speaker 1 00:33:03 How do your, your suppliers Michael feel about the upcoming holiday season?

Speaker 0 00:33:09 Well, I mean, there, there is concern there. I mean, you know, as far as inventory is concerned, we haven't seen, um, many suppliers, uh, holding on to much inventory as of late, but that inventory is going to increase as more substantial orders come for the holiday period, which, you know, we're going to see the results of those sales coming through, uh, like mattress mentioned into January, 2021. So, so there, there is concern there as well, even though the holiday season is a peak period for a lot of the suppliers into the retail sector. So the concern is not going away just because it's going to ramp up for the holiday season. I think the concern is actually growing as that approaches.

Speaker 1 00:33:58 Okay. So there's a talk that Canada is in this case shape recovery with some winners and some losers overall. And I think we kind of talked about this a little bit earlier, but what do you think the overall impact for retail and suppliers are going to be in the future? You know, some are going to be with us and some are going to be gone, Steven.

Speaker 0 00:34:17 Yeah. Matt, why don't you go ahead and take this one. Okay. Yeah. I mean, I think what you got is the winners are gonna, you know, have been able to endure all this because they had a compelling business model to begin with. They were, um, you know, probably had a healthy liquidity position, uh, and they had some creative leadership because that's what it's gonna take. It's gonna take the leaders of these companies to, you know, to recognize that in order to survive and in order to thrive, they have to adapt and they have to be nimble. And if they were doing it right the whole time, they were already well positioned to, to make some of these changes. I mean, things will eventually shake out, but there are certain retailers that are going to emerge in this with better, uh, better name and brand recognition.

Speaker 0 00:34:58 And, you know, they're going to be people they're going to be the ones that people think about. There are a lot of retailers that we're receiving business from first time customers, because that's maybe all that was available at the time. So it's going to be important for those types of businesses to really double down on, on just how they, how they interact with our customers and in a safe and effective way. So, you know, they're going to be winners for sure. Um, but it just in any other economic cycle and downturn there, there's going to be plenty of people that you don't care so well. And you know, that, that's what, you know, that's what we're --

-- here for is to try to figure out and identify and flag those companies that we think are in danger about, um, we

Speaker 1 00:35:38 Have some key takeaways from each one of you about what you think we've learned from this, you know, the last eight or nine months. And, and where do you think we're going to go? So, um, do you want to start Stephen?

Speaker 0 00:35:52 Yeah. I mean, I think it's, it's really prudent to evaluate credit risk in this environment, right? So we're not in an environment where you want to take unknown risks. So to partner with, you know, someone like one source and EULAR Hermes, clearly it is a good idea. The other thing is from a consumer perspective, I think, you know, you might be in for a bit of a surprise positively, right? Because what comes along with this, you know, potentially, um, challenging holiday season is probably a heavy promotional period from these retailers. So there will be some good deals to take advantage of from a consumer perspective, but from a retailer perspective, it's going to be, um, I would say the make or break season, you might have some that have tried to honk, hang on, to see if they can make it through this holiday season. Like most we historically would, would see the highest rate of bankruptcies occur in the first quarter. Right. Did the retailer make it through or not? So that will certainly be the case of this year. Um, to what extent we don't know, but it's certainly going to be probably one of the most important retail seasons in, uh, in recent history, I would say.

Speaker 1 00:37:01 Okay. What about your thoughts, Matt?

Speaker 0 00:37:04 Well, I think that when you think about what's been going on and what the consumer's going through and kind of the, you know, some of the economic headwinds that the people are experiencing, um, you know, consumer spending makes up a huge chunk of, of the macro economic environment. So this impact of government intervention, but with, uh, whether it's a us or Canada, you know, it really does provide a lifeline to a lot of people out there who don't have the job they had before, or they had a job in an area that just isn't going to thrive in this environment. So I think it's really important that, that, um, one thing I hear all the time when I talk to private companies is, you know, the, the, the help that's given them that the consumers are still able to spend money there and not just the people that are well off to begin with.

Speaker 0 00:37:53 I think the other things you're going to see is the store footprint is just so, so ridiculously saturated and a lot of parts of the U S and Canada. And I think that obviously there's already been a trend to reduce the store counts. Um, and, and I think that's going to continue. Um, there's a lot of, uh, Deadwood out there and it's going to be cleared away and really that, um, you know, the savings you get from not having to operate those stores, you know, hopefully a lot of these businesses are gonna pour that into, to the online capabilities. And the fact of the matter is that people, consumers are adaptive. I mean, everybody's going to spend money one way or the other. So, you know, it's up to those, those winners in the cake herb scenario to really just dial into the consumer behaviors and really meet their needs. It's gotta be so much emphasis on, um, just providing confidence to them, to their customers that they're the place to shop and, you know, whether it's contactless or online or whatever that they can do, um, you know, a job of it and they're real polished operators in the space.

Speaker 1 00:38:57 Okay. And Michael, from your standpoint, um, as a broker, what are the key takeaways that you have?

Speaker 0 00:39:05 I think both Steven and Matt summed it up, uh, pretty well. I mean, you know, in the current environment, uh, it's, it's basically a tread with caution type of approach, because again, there are, there is a lot of uncertainty moving forward, um, you know, be cautious on the credit decisions that you make, make sure that you monitor get as much information as you can. And, you know, just look at what options are there for your company to, to protect yourself if ever something were to go South above that. I mean, there, there's not much more I can add. It's, it's a difficult environment. The retail space has been difficult for a long time and it continues to be even more so with what's currently goi --

-- ng on. Right.

Speaker 1 00:39:56 Well, it's not over yet, so we'll continue to watch it. I really appreciate the three of you getting together with me to talk about the retail sector and the rollercoaster that we are on. You've provided some really great information for our listeners. So I appreciate that. So thank you very much.

Speaker 0 00:40:13 Thank you, Janet. Thank you.

Speaker 1 00:40:16 You're welcome. Steven Georgetti is vice president and director of information and grading at Euler Hermes North America. Matt Kobo is vice president and the retail industry manager at Euler Hermes and Michael Sullo is vice-president OneSource Risk Management, Canada. And that is our show for today. The retail rollercoaster, the TradeSecurely podcast is brought to you by the receivables insurance association of Canada, whose member brokers and insurers are helping Canadian businesses succeed and grow by enabling them to trade securely at home and abroad. For more information to help you grow your business, you can check out our Twitter and LinkedIn feeds and subscribe and share this podcast. If you'd like with your friends and colleagues through iTunes, Google play and Spotify, and you can download the trade securely podcast streaming up from our podcast page at receivablesinsurancecanada.com until next time I'm Janet Eastman. Thanks very much for listening to the Trade Securely podcast.

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