



LOTTE's Preparation for Rebound in the Post Corona Era

June 3, 2020

The COVID-19 incident in Korea began back in January, and came the first wave of the epidemic in mid-February due to a mass cluster infection. The country was once on high alert as new cases soar above one thousand, and recently spikes are reported in new infections resulting from the relaxed social distancing guidelines. However, the country appears to have brought the spread of the virus under control thanks to an extensive 'trace, test and treat' program conducted by the Korean government and Korea Center for Disease Control and Prevention (KCDC). As of June 3rd, the nationwide infection reach 11,590 with 273 deaths. Meanwhile, 51 cases are reported among 230,000 LOTTE employees across the globe.

LOTTE's response after the pandemic

After the first confirmed case in Korea last January, and as the curve began to rise sharply in February, LOTTE Group deployed a task force to function as a control tower for the affiliates and employees around the world. Their immediate task was issuing and distributing the guidelines with regards to the Coronavirus, and monitoring the damage within the group on a real-time basis. Accordingly, LOTTE was able to react timely and apply appropriate measures to mitigate further risks.

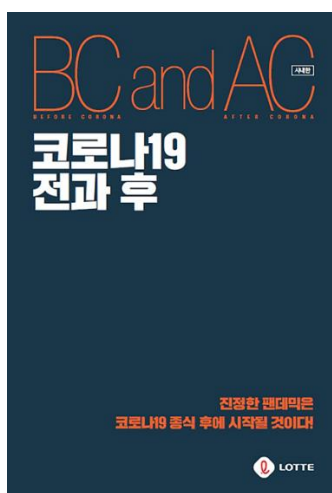
The world is now focused on predicting and responding to the new normal after corona. To analyze new trends in the post corona era and establish corresponding strategies, LOTTE conducted a research utilizing the group's research institutes, LOTTE Academy and LOTTE Institute of Economy and Business Strategy, and also external networks.

At the end of April, LOTTE Academy compiled the results of these studies and interviews from domestic scholars and professionals as a book titled, "BC and AC (Before Corona and After Corona)", and distributed them to all the C-level executives of its affiliates. The objective of this was to provide insights for each of the executives by fully understanding the expected changes, and to help them find out the risks and countermeasures for their business in the upcoming future. The following are some of the key takeaways in this book describing the changes foreseen in the post COVID-19 world.

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- **Characteristics of COVID-19 compared to the past pandemic and economic crisis**
 - Like the past pandemic history, coronavirus will serve as an opportunity to reset politics, society and culture.
 - Expected to cause a combined crisis that coincides with the downward trend of the economy, and to have a shock that is different in size from the recent economic crisis.
- **Political change and its impact on international relations**
 - Political polarization will deepen in each country, leading to a retreat in globalization.
 - Acceleration of reshoring of key components such as strategic materials.
- **Impact on economic sphere**
 - The economy will be transformed into a world of digital transformation in earnest, and the untact phenomenon will be strengthened rapidly.
 - Shared services will inevitably suffer a significant blow until hygiene issues are cleared.
 - Flexible working hours and work-from-home experience serve as a turning point for traditional working environment.
- **Social changes created by technology**
 - Advances in no face-to-face technology companies, which will be linked to a redefining of physical space.
 - Rapid growth in bio-tech investment.
- **Changes in social culture and values**
 - Habits of hygienic life, social distancing likely to continue for a considerable period of time.
 - An increase in conservatism, nationalism, and regionalism.



< A booklet titled 'BC and AC (Before Corona and After Corona)' was handed out to all of the LOTE affiliate's management >



LOTTE's preparation for rebound to correspond with new trend

The most noticeable change since the pandemic is the rapid spread of the untact trend, which has led to a significant increase in online shopping compared to offline. Such untact consumption is expected to have an absolute impact on the retail and F&B markets, and LOTTE is preparing to carry out various measures to take an initiative in these new trends.

LOTTE focused on strengthening the online capabilities of the group's retail domain, and officially launched 'LOTTE ON', an online mall integration app at the end of April. LOTTE ON is a total platform of all seven separately-run online malls, including LOTTE Department Store, LOTTE Mart (Hypermarket), LOTTE Super, LOTTE Homeshopping, etc. Also, as a differentiator with other e-Commerce services in the market, LOTTE ON analyzes purchase data of 360 million members of LOTTE Members—the loyalty program of LOTTE Group—with AI, and provide advanced recommendations tailored for each customer. These personalization algorithms reflect not only online but also offline purchases, to provide enhanced user experience throughout their shopping journey.

As a key competitive advantage in the untact era, fast delivery services along with online shopping, are gaining attention as essential capabilities for retail industry. In this respect, LOTTE Auto Fresh Center, which opened in Uiwang, Gyeonggi Prefecture in March last year, is also expected to play a more critical role in the post corona era. The automated logistics center runs from order to packing in less than 7 minutes, with a total of 19 robots moving at 3.3 m/s, and managing receiving and forwarding of approximately 3,000 SKUs of room temperature stored products. When an order is received through LOTTE's shopping application, the robot first puts the ordered product in a designated basket, which are then moved to a conveyor belt line for adding frozen food and fresh food sequentially. Once all the items are added to the basket then it is moved to the packaging stand where packaging and final inspection is conducted. LOTTE Mart will expand this automated logistics model to major cities across the country to meet the growing online demand.



< LOTTE Auto Fresh Center uses total of 19 robots to pick 3,000 items and put them into 7,200 bins allotted for each online order >

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LOTTE has 15,000 offline store networks in country, and is using them as its delivery hub to gain an advantage over the companies in terms of speed, and to minimize additional investment by utilizing existing assets. Also, LOTTE Mart introduced 'Smart Store' at the end of March, to integrate online and offline shopping experience. The existing delivery can be understood as a 'Reservation Delivery', targeted for customers living within a 15 km radius of the store, which the shopper put in an order with desired timeframe for delivery. Smart Store, on the other hand, is an 'Immediate Delivery' system targeting customers in core commercial area of the 5 km radius, and as a result, customers located within the zone are guaranteed a 2 hours delivery. LOTTE Mart plans to operate two Smart Stores as a start and gradually expand to core regions.



< Smart Stores of LOTTE Mart is providing an 'Immediate Delivery' which enables customers to receive items within 2 hours from order >

LOTTE GRS, LOTTE's affiliate of restaurant business, launched 'LOTTE EatZ', a restaurant delivery app last February. It offers integrated order/delivery/payment services for 5 restaurant brands operated by LOTTE GRS, including hamburger brand LOTTERIA, Angel-in-us (Coffee), Krispy Kreme Doughnuts, T.G.I. Friday's and Villa de Charlotte (European dining). Amid pandemic, self-quarantine and social distancing is driving demand for convenience stores, a typical shopping channel at a close distance from residential areas. In response to this change, 7-Eleven, LOTTE's convenience store business, started a food delivery service last February at 9 stores in Seoul as a test bed, and is planning to expand in the future.

The pandemic has also brought the awareness of personal health and wellness more than ever before. In order to accommodate these health needs, F&B affiliates such as LOTTE Confectionery, LOTTE Chilsung, and LOTTE Food are speeding up their research on new health-oriented functional products. Meanwhile, a novel product was launched to match the new normal trend while wearing masks became a part of our daily life. In April, LOTTE Confectionery presented a new type of gum that does not require spitting out, named 'Flavono Chewing Mint'. The new product is spotlighted as an item that can help relieve bad breath and dryness in the mouth for people having their masks on for hours.

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< LOTTE Confectionery launched a no spitting-out gum 'Flavono Chewing Mint' last April >

The global health crisis has already triggered the landscape transition of the overall business. Retail giant with over 100 years of history being filed for bankruptcy, and the world's most popular car-rental company falls victim to COVID-19 reveals a cross section of the drastic change in the industry being made at this moment. LOTTE recognizes the strong need to redefine the nature of their business according to changes in customer behavior and perception, and is considering a 'Reset' of their businesses portfolio since structural reform is inevitable to adapt to the new era.

Humanity have reached a historic turning point caused by COVID-19. In addition to overcoming the current crisis, LOTTE is focusing its efforts on establishing strategies to cope with the new world after the situation has calmed down. LOTTE Group has been able to rise above numbers of hardships in the past, such as the IMF bailout and the great financial crisis, with the will and spirit of constant challenge. While possessing the 'winning spirit' build up through experience, and continuing to seek and adopt new business opportunities along with the emerging new trend, the pandemic will be a stepping stone for LOTTE to rebound and sustain in post corona world.