



# COVID-19 will forever change the foodservice industry

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After speaking to numerous foodservice leaders over the past few weeks, we believe it is helpful to spend some time looking forward because predicting the long-term impacts can help us better prepare our companies, processes, portfolios and employees for success.



These are unprecedented times and if the crisis is the true catalyst of change then we can expect some sea-change impacts on consumer behaviors and expectations. Operators and suppliers will respond and modify their business models for the new post-crisis world. How we plan, how we go-to-market, how we communicate and collaborate and how we interact with consumers is all going to change.

## Consumers

The long-term impacts of the coronavirus on Foodservice consumers will be seen in seven key transitions. Some of these changes are already taking shape as consumers struggle to adjust to their new environment while others will emerge over time as we move to post-Covid world.

Overall, the seven metrics for change include:

1. Increased use of delivery as a percent of total foodservice sales: During the crisis, many consumers have essentially been forced into using delivery services in order to still get restaurant food. Even if they still use drive-through many, who have never tried 3rd party delivery before are deciding to use it. This "forced trial" will result in more consumers becoming comfortable with the service. This higher level of comfort will remain and translate into greater long-term use of foodservice delivery services.
2. Food-safety-first mentality: Consumers are developing a dramatically heightened sense of what they view as safe food handling practices and an increasing desire to know where their food came from, how it was grown, raised and processed. We see this continuing into a post-COVID environment as consumers' focus on how their food was handled has been exponentially amplified. For restaurants, this means consumers will have less patience for employees not using gloves, mishandling of food, as well as associated "cleanliness indicators" like dirty restrooms and over-flowing garbage cans. Additionally, consumers will continue to expect to know more about the source and processing of food prior to it getting to the restaurant.
3. Expanded sanitization behaviors: The increased use of sanitizers, wipes and hand washing will likely continue. More consumers will carry sanitizers and wipes and also expect restaurants to supply them. Self-sanitizing of dining room seating and tables will become routine for many.
4. Curbside pick-up will become more popular: Curb-side pick-up offers the best of all options. It's convenient, the food is hotter and fresher than delivery and there is no delivery person handling it. We see curb-side and other minimal-touch pick-up options increasing in popularity.
5. In-store self-ordering will be reinvented to a no-touch solution: Consumers have been trained to order using digital pads in restaurants. Operators have cut back on cashiers as a result. We are quickly moving to a no-touch world and digital ordering solutions need to evolve to allow this. In the meantime, we will see an array of compensating behaviors, from using a napkin, to a pen, to waiting in line to order through a cashier, all to avoid touching a screen to order.
6. Improved take-out/delivery packaging: The slow crawl to better take-out and delivery packaging is about to change. In our new post-COVID-19 world, packaging will need to be tailored to protect the food's temperature, moisture and presentation. This is a tall order. Operators have been reluctant to use higher-cost take-out packaging because they feel they can't pass the cost along. Consumers are about to demand it and may now be willing to pay for it.
7. Expanded take-out/delivery for fine-dining/chef-driven brands: Chef-driven brands are seeing growth as consumers want, but many of these restaurants have traditionally done take-out poorly. This may change. Consumers' demand for high-end restaurant food will continue, but so will their desire for

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(take-out and delivery. We expect that polished casual and higher-end restaurants will work quickly to expand their take-out and delivery menus, packaging and services.

## Operators

Foodservice operators now have the tall task of adjusting to the behavioral changes that COVID-19 has brought upon the consumer. Some of these adjustments will become more permanent and will force the operator to adapt. In addition, while consumers are struggling to adjust, Foodservice operators will need a seismic shift in their operations, as well in their overall business. We believe there are 13 areas of operational shifts that will occur as operators adjust to the new post-crisis environment.

These target areas are:

1. Industry downsizing: We believe everyone is in agreement that the number of total Foodservice units will decline. Many restaurants are closing or filing for bankruptcy and will not open their doors again. Additionally, chains are closing poorer performing units that simply are no longer viable. We will see an industry contraction in total restaurant units and most likely in the value-chain that supports the industry, including distributors, brokers, service companies and suppliers.
2. Fewer new unit openings: In a post-COVID environment, we can expect to see unit expansion plans curtailed as chains focus on rebuilding their existing business and spend resources on rehiring, marketing and promotions. We should see a renewed focus on optimizing the operation of a concept and see it taking priority over rapid franchise expansion.
3. Segment shifts & recovery: Clearly there have been certain segments that have been extremely hard hit by this pandemic. We see both short-term and longer-term segment impacts as a result. The Cruise Line segment has been the tip of the spear for COVID impact, and almost the entire travel, sports and entertainment segment has been shut down. While some of these segments will recover faster, others, like Cruise Lines, will take longer to rebuild consumer confidence. The K-12 and C&U segments are also largely shut down for the remainder of this school year. While they should see a full recovery, the forced online learning environment could result in expanded use. The impact on enrollment is unknown. Business and institutions have been another hard-hit segment. With millions of office workers settling into working from home, this trend, which was already growing, may accelerate and impact B&I segment volume accordingly/
4. New & expanded sanitization practices: Food safety and sanitization are now top of mind for consumers visiting restaurants and therefore also a top priority for operators. We expect this mindset to stay with many consumers post-crisis. As a result, operators will introduce broader and stricter sanitization practices for food handling and front and back of house sanitization, and as a result, manufacturers in this space will come to market with an array of new products and solutions.
5. Push for greater supply chain transparency & tracking: There was already significant investment in improving supply chain data tracking and transparency, including early testing and adoption of Blockchain solutions. One of the first actions operators took during the Covid-19 environment was to work with suppliers to understand their supply chain and sourcing risks. Moving forward we expect that operators will be doubly motivated to address the shortcomings highlighted through this crisis. We can expect large chains to publish new requirements for sourcing visibility and data tracking as well as demand greater visibility into processing, handling and distribution. We will be moving from a "1 up, 1 down" world to "3 up, 3 down" expectation.
6. Increased domestic/local sourcing: Another change we expect to see is an increase in local and domestic sourcing and a move to less dependency on foreign sources that are now perceived to be riskier. This is good news for domestic suppliers, but they must ensure their portfolios and capabilities can meet the expectations of operators.
7. New standards for maintaining financial solvency: Many operators have financial-pants down, so to speak. In a post-crisis world, we expect many small and medium-sized

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- (p) operators will take a different approach to managing their finances and cash reserves. Banks may change loan requirements and demand additional "crisis-contingency funding".
- 8. Higher wages (potentially) Many operators are already paying workers more during the crisis. Starbucks has raised its wage by \$3/hour and Chipotle just announced a 10% wage hike. These higher wages may be difficult to roll back unless of course increased unemployment levels swell the labor pool. This is a difficult one to predict.
- 9. Fewer SKUS in the restaurant: Simplifying the operation reduces sourcing risks and is simply easier to manage. Moving forward we can expect that operators will seek to "do more with less." Smaller kitchens with less storage to cut back on the restaurant footprint and being able to work with fewer high-quality SKUS that can be developed into multiple menu items.
- 10. More efficient take-out & curbside pick-up: Many operations today have been retro-fitted over the past several years to accommodate the growth of take-out and curbside pick-up. These solutions are in some cases disorganized and not efficient. Given our new "no-touch / no contact" world, we can expect to see new innovative and efficient solutions quickly gain traction. Curbside pick-up will become more popular as it allows the operator to better control the process, and it provides a greater level of customer service, better food quality, and limits consumer-staff interaction. It is also perceived as safer (and more sanitary) than third-party delivery.
- 11. New investment in take-out, drive-through & delivery units: New units being built will be more likely to include a drive-through, designated take-out/curb-side service, and a separate kitchen operation to support off-premise eating. Operators will invest more going forward to ensure they are better positioned to weather another similar crisis event.
- 12. Fast casual app-only drive-thru pick-up: The goal of "No-Touch-Convenience" is one operators must now embrace. Our new world will see more "socially-distanced," convenient, quality-food restaurant - outlets. In these units, consumers will pick-up their orders in a drive-through after ordering remotely on an app. These new units will have no dining rooms and no order windows. There will be minimal interaction, but with better quality. A fast-casual brand will test it and others will follow.
- 13. Increased private equity and multi-concept activity: PE & multi-concept activity will increase as the COVID-crisis pushes some chains to the brink. Those with the financial ability will add brands at a lower cost and turn them around. Chains in financial peril will be bought at bargain prices. Smaller privately held chains may decide to sell because the restaurant business has become too difficult and too risky. PE firms already focused on Foodservice will ramp up their activity over the next year.

## Manufacturers

As consumers and operators shift their buying habits and operational structures, manufacturers must accelerate their focus on supply chain transparency and contingency planning. Operators will be looking for partners who can work collaboratively in a solutions-based relationship. Operators will not have the time or patience to withstand a traditional sales approach by a supplier. Clear expectations will be set, and suppliers will be able to build better strategic partnerships if they are able to meet or exceed these expectations.

Manufacturers and operators must now work more closely together to ensure everyone is safe and protected.

To this end, here are eight key areas that manufacturers can work on moving forward.

1. Greater focus on supply chain & production communication with operators: The COVID crisis has amplified the need for supply chain collaboration and communication between all parties in the value chain. This new higher level of communication is leading to new practices, processes and policies, and there is no reason to think this will not become the new norm going forward. What has been in the past, an "ask-provide dynamic" will see an acceleration to a more collaborative relationship. We should also see a greater adoption of the supplier segmentation strategy that...

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1. "strategic-suppliers" that demonstrate the willingness and capability of multi-faceted alignment with a chain's priorities and goals.


2. Increased focus on disaster planning, contingency planning and risk mitigation related to Unforeseen Industry-wide Issues: Related to No.1 above, a better understanding of supply chain risk and contingency planning has been job-1 in managing the COVID situation. Crisis is the catalyst of true change and therefore we can expect to see new practices put in place around contingency planning. We can also expect to see new senior-level positions created such as VP of Supply Chain Contingency Planning, or VP of Value Chain Transparency.
3. Push for greater transparency and trust in the food supply chain: Over the past several years there has been a considerable amount of investment and energy in improving our food supply chain transparency, largely driven by food safety concerns around E-coli infections related to romaine lettuce. We can expect an acceleration of this investment as the current situation has only amplified consumers' and operators' desire for greater transparency.
4. New product investment in RTU/low-labor/partially cooked/ready-to-assemble food options: Given the tight labor of recent years operators were already moving to lower labor solutions such as buying further assembled menu items, heat and serve products and consumer self-ordering technologies. We've already seen an acceleration of collaborative innovation between chains and their top suppliers. The current situation has only increased consumer focus on the kitchen operation, food handling procedures and restaurant sanitation.

The number of people working in a kitchen is unfortunately linked to consumer's perceptions of food safety and sanitation risk. Consumers are afraid and they ideally don't want to see anyone touching their food. Moving forward we can expect operators to be looking for more solutions that lower back-of-house labor requirements, including partially cooked, ready-to-use, ready-to-heat, ready-to-assemble foods, as well as new technologies that streamline the kitchen operation. Additionally, chains will be open to a higher level of collaborative innovation with suppliers to develop and test new game-changing solutions and technologies.

5. Smaller organizations: With a dramatic decline in sales we can expect to see manufacturer layoffs and furloughs. As companies get used to operating with smaller staffs it is unlikely the same level of employment will be realized in a post-COVID environment. Companies will take their time re-hiring and will be cautious about adding overhead until they see their sales come back and feel the industry has fully recovered.
6. New Product investment in improved take-out/delivery packaging: Operators who were previously slow to adopt higher cost tamper-proof options will now be much more open to them. Tamper-proof, food-safe "clean-packaging" will become the standard and consumers will now accept the higher price that comes with it. Innovative packaging will become a point of difference for operators. Manufacturers working in the packaging space can expect a paradigm shift in how their products are viewed. Take-out packaging that was previously viewed as a cost to be minimized will now be seen as a differentiator to be invested in and promoted.
7. VP of Operator Solutions: Operator expectations are going to change. They are going to expect more from their suppliers in a post-crisis environment and have a significantly lower tolerance for poor support, weak communication and lack-luster follow-up. The word "sales" may become a detriment in a world where operators want help solving problems versus simply being sold something. Manufacturers must adopt a solution-oriented mindset. Operators will be peeling off layers of their teams and time will become a major factor as they begin to wear multiple hats. They will look to suppliers to make up the difference. Those that can will become partners and quickly reap the rewards.
8. Stronger long-term supplier relationships" Looking forward we see operators looking for stronger supplier relationships. Change is expensive and brings risk. Manufacturers with the capability to align with their top accounts will see greater access, loyalty and growth opportunities. Joint

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business planning and collaboration will become more important as operators will value relationships and commitment more than ever. 

In times of rapid and drastic change, those who are quick to adjust will lead the way for the industry to follow. While so many consumers, operators and manufacturers are undoubtedly taking things day-by-day, it's important to remember that we also must look to the future to determine the best course of action moving forward.

*Bruce Reinstein and Tim Hand are partners with Kinetic12 Consulting, a Chicago-based foodservice and general management consulting firm.*

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