

**FOOD SERVICE: THE
INNOVATION
KITCHEN
FOR CONSUMER GOODS**





Consumer goods CEOs are chasing that secret sauce: disruptive growth.

The issue at hand is that even when their teams create disruptive growth, it becomes simply “growth” over time, as the disruptive effect fades. And the cycle begins again.

An opportunity looms—one that has staying power—in the foodservice sector. Consumer trends toward eating out are based on many factors, only one of which is the foodservice retail wizards working their magic for continuing foot traffic.

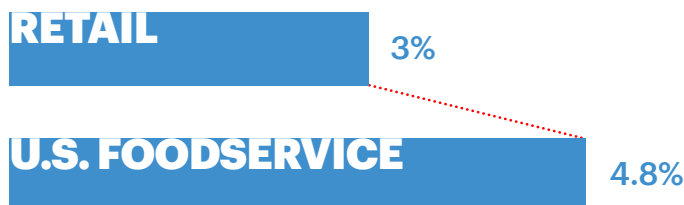
Time-pressed consumers are driving the marriage of foodservice and consumer packaged goods, as they spend 50.6 cents out of every dollar in restaurants¹ and \$731B annually in dining out.² This reality presents savvy consumer goods companies with an opportunity to capitalize on the roles each can play.

With traditional contributors to growth falling flat in recent years, manufacturers are searching for ways to spur innovative growth in new sectors. On the macroeconomic end, slowing growth in emerging markets and increased competition from niche players is eating into revenues.

Changes in consumers' tastes and behavior are also having an impact, namely that the center store is dormant. In a quest for health and wellness, consumers are buying more produce. They are also buying locally and from alternative channels such as Amazon Fresh. In the process, they seem to be led further from what used to be considered center-aisle staples. Millennials, in particular, want product transparency and healthy options, something they have not traditionally been able to find at center store.

FIGURE 1. Growth of foodservice*

U.S. Foodservice sales will continue to outpace Retail sales in 2017



Source: Technomic 2016/17 U.S. Food Industry Universe Forecast.

* Percentages do not include grocerants and prepared foods in grocery stores.

GROCERANTS & PREPARED FOODS ON THE RISE

Grocer sales of ready-to-eat, healthy meals are growing steadily. Fresh prepared foods generated \$15 billion in sales in supermarkets in 2005, a figure that has nearly doubled to about \$28 billion last year, according to Technomic, a food industry research firm.³

As the lines between foodservice and retail food outlets blur, with grocerants alone growing at 30% since 2008 according to NPD, consumer product manufacturers may have found a niche from which they can fuel innovative growth—satisfying not only the customer, but also the shareholder.

Wade Hanson, a principal at Technomic, told attendees of the recent National Restaurant Association (NRA) Show that the annual growth rate for foodservice at retail was 10.4 percent from 2006 to 2015. “Just as a point of comparison, traditional foodservice, restaurants namely, over that same period grew on an annual basis by 2.1 percent. So we’re talking basically about five times bigger in terms of growth for foodservice in supermarkets.”⁴ In dollars, that growth translates to an increase of \$15.5 billion, growing from a \$12.5 billion industry in 2006 to a \$28 billion industry last year.

“What that means is supermarket foodservice is now bigger than K-12 foodservice, bigger than college and university foodservice. It’s as big as all healthcare foodservice put together: hospitals, senior living and so forth.”⁵

Wade Hanson, principal at Technomic

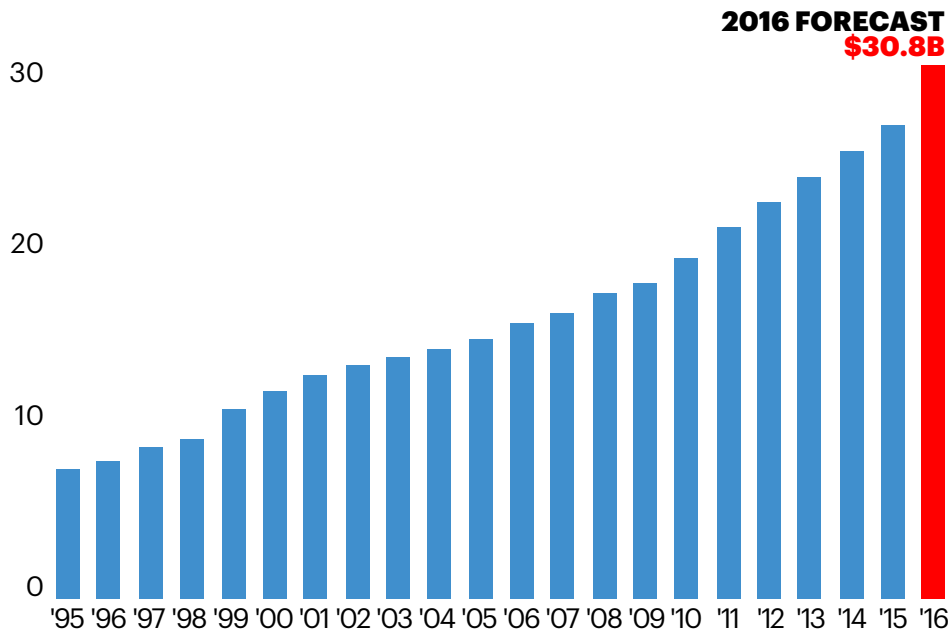
To help share the broad view of this opportunity, Accenture interviewed more than 30 leading foodservices and consumer goods senior executives on what foodservice looks like today, future trends and new opportunities for foodservice by consumer goods brands.

FIGURE 2. Supermarket takeout

Sales of ready-to-eat prepared meals at supermarkets are heating up.

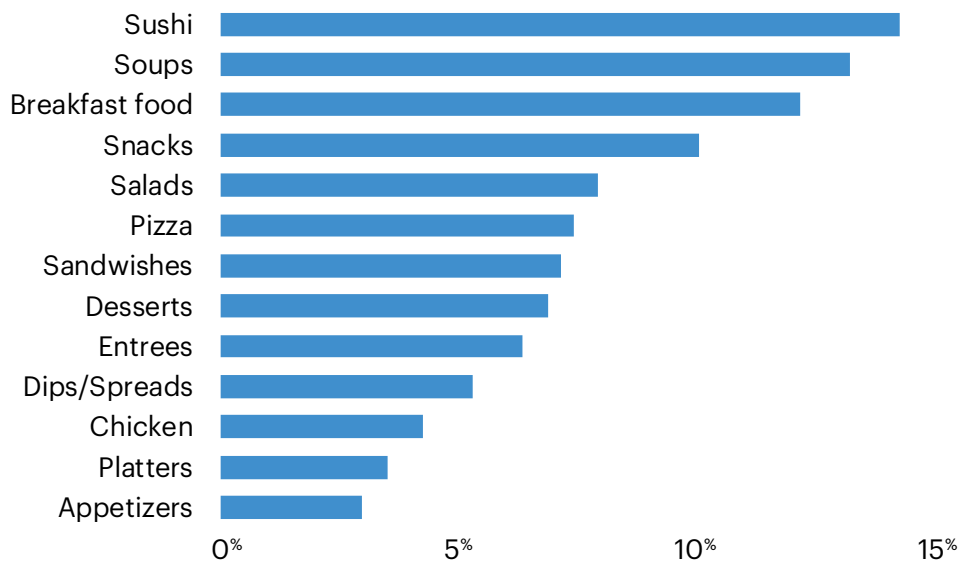
RETAIL SALES OF PREPARED FOODS

In billions of dollars



PREPARED FOODS BY SELECTED CATEGORIES

Change in sales from a year earlier



Sources: Technomic (retail); Nielsen (categories)

SERVING THE NEW FOOD CONSUMER

Before we delve into what these executives shared, Accenture research analysis shows changing consumer preferences and lifestyle, leading to a changing meal scenario.

From taking the work out of grocery shopping through restaurant-quality food at home, CPG companies have plenty of field to play within—and they have really just begun to test their abilities.

As companies develop capabilities to meet changed consumer preferences, they create additional routes to profitability.

Benefits include:

PACKAGING SAVINGS due to foodservice products anchoring production lines, maximizing capacity due to higher volume runs.

DEPENDABLE, REPEATABLE BUSINESS. Repeat orders and order frequency are common due to customer loyalty in foodservice.

A REPRIEVE from the margin compression inherent in the consolidated grocery channel.

GROCERY STORES' WILLINGNESS TO EXPERIMENT. They are seeking new ways to draw in consumers. Some have seen initial success with foodservice and prepared foods, so they are open to the possibilities in partnership—from grocerants to new items.

“The lines continue to blur significantly in terms of where people source versus where they consume.”

Jack Li, Custom Research, Datassential

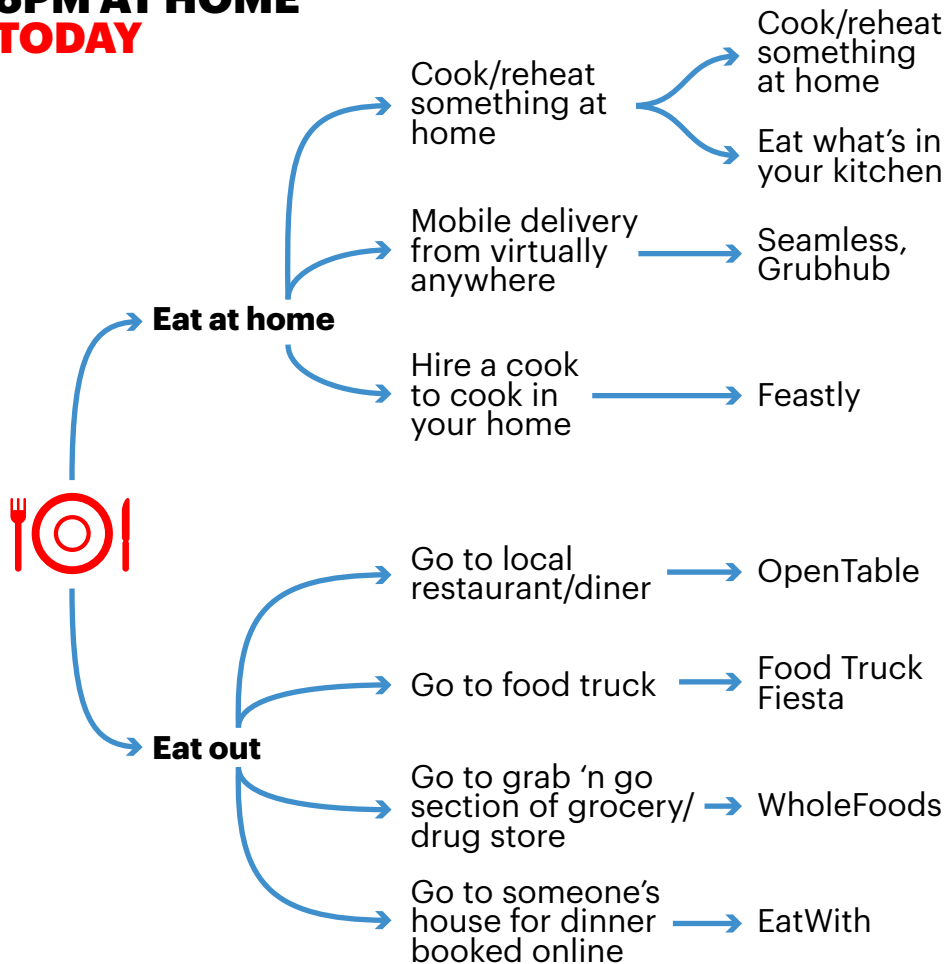
Some companies are already well down the road to foodservice partnerships, working the upper end of the pyramid. PepsiCo scored a huge win with Taco Bell's Taco Loco, using the Doritos product. And Mondelez Oreos are a popular add-in to Dairy Queen Blizzards. Partnerships such as these not only bring in revenue, but extend and build brand reach with new consumer segments.

FIGURE 3. Path to consumption: then and now

**6PM AT HOME
YESTERDAY**



**6PM AT HOME
TODAY**



Source: Accenture
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AN INNOVATION INJECTION FOR CONSUMER GOODS COMPANIES

Foodservice is the birthplace where many new products and trends have hatched—from Tex Mex to buffalo wings. Experimentation is the lifeblood of any foodservice business, where the competition is always looking to one-up each other with a new offering or experience.

While consumer packaged goods companies are now looking to innovate, innovation has not traditionally been their lifeblood in the same way it has for retail foodservice. Experimentation, for consumer goods companies, has tended to come second to giving consumers a reliable product.

From the consumer perspective, experimentation in a foodservice environment comes with less risk—there is no time wasted on the consumer end in preparing a meal. New foods are often offered as samples or freebies to build a customer base.

It makes sense, in an era where consumers are looking for the next new product or experience, for consumer goods companies to help make it happen in a low-risk environment like retail foodservice. Be it an in-store café or partnering with a major food chain, consumer goods companies have a chance to get on the map. Foodservice allows for quicker and less costly test markets with instantaneous results at scale—in 2015 alone, commercial restaurants alone offered 61.4 billion foodservice occasions.⁶

“The decision to purchase versus the decision to consume are no longer disconnected. In foodservice, they are one and the same.”

Brad Spickert, VP National Foodservice & On-Premise Marketing, The Coca-Cola Company

Also, brands are competing against far fewer SKUs in a foodservice environment than they are in a traditional store environment, which works to their favor. Rebates can now be offered via restaurants to encourage greater sales. For instance, Budweiser offers rebates to customers who purchase a beer with their meal. The consumer simply snaps a photo of the meal receipt with a mobile app and a rebate is electronically issued 48 hours later.

From a consumer goods manufacturer's viewpoint, going to market in foodservice also reduces risk because the manufacturer can be a fast follower. Advertising and consumer surveys, along with other pre-work for product introduction can be minimized or eliminated. Producing frozen pizza under the California Pizza Kitchen label or appetizers under TGI Friday's brand allows CPG companies to tap into a pre-existing market. Giving consumers restaurant-quality food in the frozen or packaged aisles allows them to eat conveniently at home. For instance, Olive Garden's Italian dressing can now be enjoyed at its restaurant tables or from the comfort of a consumer's couch, as can select Chili's menu items.

In some cases, CPG companies can be the creator of a new food trend that takes off in restaurants, a la Nutella, which has been in vogue in high-end restaurants as a featured dessert ingredient. Introducing diners in eateries to a product is another effective way to spur new uses for the product. As fewer consumers watch network television and media becomes diluted due to multiple outlets, finding new outlets to reach target audiences is essential.

Introducing products to the foot traffic through a well-established foodservice outlet is an alternative. As one of our interviewees put it: "So, where do you want to spend money in creating some kind of a communication between your brand and consumers? You'd rather do it in this space where—they are there because they choose to be there and they're going to relax—which makes it easier to have an emotional connection." The product advertises itself, in a sense, because consumers can try it with little risk and then tell their friends about the experience via social media, word of mouth, etc.



“So, where do you want to spend money creating some kind of a communication between your brand and consumers? You’d rather do it in a space...which makes it easier to have an emotional connection.”
Roberto Rios, CMO Foodservice, Pepsico

TAKING IT A STEP FURTHER: BRANDED OUTLETS FOSTER A PERSONAL EXPERIENCE

Enticing consumers away from home, branded foodservice outlets give the manufacturer an additional option that offers even greater bandwidth to experiment. To that end, some CPG brands are opening their own cafes and restaurants to rapidly and easily test new ideas or flavors at scale. Kellogg's, Chobani and Nestle are among those who have pioneered this idea. Not only does this give them a rapid and direct feedback loop, it allows consumers a new experience with their brand. And, as consumers lean toward experiences versus products, it allows a product-based company to still fulfill changing needs.

As brands have proliferated and consumers' choices have increased, the connection between the two parties has faltered in many cases. Many CPG companies have become a step removed from the end customer. One senior executive we interviewed detailed how foodservice could help reestablish a connection: "Foodservice is an opportunity for us to build brand because a consumer is making the choice to purchase the brand. That consumer will consume that product immediately. That is more personal than buying something in a store that you will consume at a later date. The immediacy lends an ability to build positive connections for consumers with that brand. The decision to purchase versus the decision to consume are no longer disconnected. In foodservice, they are one and the same."

In opening their own outlets, brands gain this proximity and ability to reconnect. They also achieve access to instant consumer feedback sans distortion because of an intermediary party. Focus group panels and the like can be time consuming and cumbersome, versus hearing directly from consumers in the moment of experimentation.

MOVING FROM TACTICAL COMPETITION TO LONGER- TERM STRATEGIC RELATIONSHIPS WITH TECHNOLOGY

Co-creating new products and experiences for customers with new ecosystem partners brings a win for all sides of the foodservice equation. The manufacturers expand their ecosystem, creating strategic, long-term partnerships. The operators get a boost from the innovative aspects of a hybrid category—restaurant quality food at home or in store to increase in-store traffic. And the consumer gets delightful new products and experiences to tantalize the senses.

In addition, the insights gleaned about local consumer preferences can be shared throughout the entire value chain. Using these insights to better personalize the customer experience, from manufacturer to operator and distributor, means a more targeted offering in store.

When viewed from just one sector, retail or foodservice, companies get only half of the full consumer purchasing preference picture. Combining data from both sectors should give companies an almost 360-degree view of the primary shopper's purchasing habits—allowing for better tailoring in promotions and personalized offers. For instance, knowing Friday night is usually pizza night at Jane Doe's house allows for coupons and in-store grocerant promotions on applicable items, delivered Friday afternoon to her mobile device as she is contemplating dinner.

Chains such as Elephant Bar are using geofencing and beaconing to better target offers to customers on their mobile devices, using past ordering preferences as a guide to entice them to stop in for their favorites.⁷ Consumer goods companies who share in the data that relates to their products tap into an analytics goldmine.

“There are a whole bunch of opportunities to do something that feels more intimate to that local consumer, but not enough chains even now are taking advantage of that. I think it's largely chalked up to it just being executionally difficult to do. But it's worth looking into for the potential payoff.”

Jack Li, Builder, Datassential

Why foodservice? Six advantages

STRATEGIC PARTNERSHIPS

Foodservice creates longer term strategic relationships vs. retail's tactical relationships

TEST MARKETS AT SCALE

Foodservice allows for quicker and less costly test markets with instantaneous results at scale, 61.4 billion FS occasions in 2015 in commercial restaurants alone!

MARKETING MIX ELEMENT

Foodservice creates a more intimate experience for the consumer. As cord cutters explode, foodservice can be an additional channel and point of contact

GROWTH ENGINE

As the center of the store stagnates, food prepared away from home will grow for the retailers, utilizing foodservice products

DEPENDABLE BUSINESS

Foodservice velocity is reliable and dependable, allowing for better production line through-put

INNOVATION SOURCE

Foodservice is where new concepts and trends are created and tested—pepperjack, buffalo wings, sriracha. New products in foodservice usually are 100% incremental vs. retail where cannibalization may be as high as 85%

Source: Accenture interviews/analysis
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HOW LEADING CPG COMPANIES ARE LEVERAGING FOODSERVICE

First and foremost, the leaders are **PUTTING FOODSERVICE ON THE TABLE DURING PLANNING PROCESSES**. It is being placed into the mix by company decision makers.

Second, **INNOVATION IS COMPREHENSIVE VERSUS SILOED** for two main reasons. One, the consumer demands it. The second reason is because when foodservice is put into the mix from the top down, cross-functional teams must work together versus in their own camps. Insights are also shared between internal channels and throughout the ecosystem.

Third, the **MARKETING FUNCTION HOPS ABOARD THE FOODSERVICE TRAIN EARLY**, seeing the advantages to owning the consumer experience and creating a strong brand image with proximity and immediacy.

DIGITAL TECHNOLOGIES & THEIR IMPACT ARE BUILT INTO THE EQUATION FROM DAY ONE. Leaders study how digital can enhance the consumer experience and help the operator, facilitating any necessary changes.

TEAMS UTILIZE FOODSERVICE AS A QUICK & AT-SCALE TEST MARKET FOR INNOVATION, complementing or even replacing other testing methodologies.

FIRST STEPS TO JOINING THE LEADERS

While entering the foodservice arena is a journey, a few first steps will go a long way toward setting your company up for getting the most out of the experience:

1. USE FOODSERVICE AS A WAY TO RECONNECT WITH THE CONSUMER who is rejecting “big” brands. Proximity matters. Work with foodservice operators to understand the trends consumers are following or rejecting; become a fast follower.

2. FOCUS ON THE CONSUMER they don’t care about channels, the person shopping in a grocery store is the same person eating lunch near their office or out to dinner with the kids—their brand impressions translate across the channel. Put the consumer first in innovation. Do not segregate R&D between channels. Instead, innovate with consumers in mind—then figure out how to reach them.

3. MAKE FOODSERVICE AN INTEGRAL PART OF A MANUFACTURER’S OMNICHANNEL STRATEGY.

Consumers want to engage anytime anywhere; foodservice is a key experiential part of that journey

4. REDESIGN YOUR ROUTE TO MARKET at retailers to include foodservice team members. Ensure your marketing team listens to the foodservice team and their operator customers, as they are the voice of the consumer.

5. GO DIGITAL consumers are talking about your brands. Whether as an experience dining out or through retail begin a dialog. Does your website, digital connections view the consumer holistically?

6. CONNECT THE ENTIRE ORGANIZATION on a single CRM platform, single version of the truth—remove the silos.

7. ANALYZE EVERYTHING connect the dots across channels and provide the insights—deliver actionable insights.

As consumer packaged goods companies search for new sources of innovative growth, foodservice should play increasingly on their radar. Given the change in consumer buying and eating habits, catering to a desire for restaurant-quality food with the convenience of at-home dining only makes sense.

Prepared foods are here to stay and a burgeoning area of growth. Designed correctly, CPG companies use their innovative foodservice ideas to drive trends, rather than as just an add-on to a staid stable of products. When that trend-making occurs, the industry then can move the needle back into steady growth mode as consumers respond to the new, the novel and the noteworthy.

“There’s a whole crew that sits on the third floor above me now that's got to be 40 strong, and there's nobody over 25. They are working every aspect of social media . . . and they're responding in real time to anything that comes across [our social platforms], either negatively or positively. And they're having conversations, one-on-one conversations, connecting with the consumer.”

Herb Ring, National Foodservice Director, The Hershey Company

SOURCES

¹ Jack Li, Datassential

² US Bureau of the Census; Technomic Inc.
www.ers.usda.gov/data-products/food-expenditures.aspx.

³ http://www.wsj.com/article_email/grocers-tackle-new-food-safety-issues-as-tastes-grow-for-prepared-meals-1473358150-1MyQjAxMTE2NDA4OTEwODkwWj.

⁴ <http://www.theshelbyreport.com/2016/08/18/examining-the-rise-of-the-grocerant/>.

⁵ <http://www.theshelbyreport.com/2016/08/18/examining-the-rise-of-the-grocerant/>.

⁶ The NPD Group, Inc./CREST© Year Ending May 2016.

⁷ <http://www.mobilemarketer.com/cms/news/messaging/20879.html>.





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