Hypothesis on Foodservice post the Great Reset

- Jim-Klass

Overview:

The International Monetary Fund is projecting the coronavirus slowdown to be the deepest since the Great Depression (albeit not nearly as long-lasting), with advanced economies expected to contract by 6.1 percent this year and most emerging economies to shrink by at least 1 percent. The U.S. is facing a 5.9 percent contraction, with unemployment remaining above 9 percent through 2021. The U.K. is looking at a 6.5 percent contraction in 2020

Where will Foodservice (FS) end up?

Consumers - last year (2019) FS consumed $.54 of every dollar Americans spent on food. After the Great Reset (GR) foodservice will have a significantly smaller % due to:

- Higher unemployment will reduce the consumer's ability to dine out as frequently
- A move to working/learning at home will reduce B&I, C&U dining counts
- Unfortunately, the higher % of deaths of the elderly will impact Nursing Home and Extended Care patients
- Consumers will cautiously return, expecting operators to have strict cleanliness measures in place, perhaps quicker outside of population-dense areas, slower in major cities
- Wellness will be a key driver for consumers

- Salad bars and fountain drink stations will be avoided

It will take 3-4 years for FS to be back in the mid 40% range

Operators - The impact on FS operators can't be overstated, yet prior to the GR operator's growth was driven by delivery/take-out, with in-store dining in decline. Without revenue, we will most likely lose 20-25% of units across all segments, except pizza.

"This industry is now going to be led by trust. Not products. Everything is going to be about trust and transparency," Jon Taffer says.

Food-away-from-home accounts for a majority of U.S. consumers' total food expenditures (54%). Full and limited-service restaurants make up 73 % of that spending. Chain restaurants, based on data from NPD, account for a majority of restaurant sales at 60–65%, and a slight minority (47%) of restaurant units. That equates to chain restaurants totaling roughly 25% of all food expenditures.

The remaining 35–40% of units? That belongs to independents, or 15% of total food expenditures. During the crisis, we created an emotional bond with the "local guys," as we see how they are trying to help. This will carry over post GR. Additionally, there is a low barrier to entry for independents. Perhaps they will experience a bit of a renaissance

Certain segments such as buffets basically are gone, self-serv areas (fountain, condiments) need to be redesigned

Once dine-in is allowed, new spacing requirements could reduce the number of tables by 30-40%, thereby reducing revenue at least until a vaccine is widely available.

Since delivery has become the new norm, expect this trend to continue with more **Ghost Kitchens** (mostly in population-dense areas) and Smaller Brick-and-Mortar stores with separate take out space.

How will this shake out by channel:

- **Healthcare and Extended Care** – after the lifting of elective surgery bans, Healthcare should return closer to normal. Extended care will be less due to the dramatic impact on elderly and new requirements that are put in place.
- **Schools** should return to normal quickly and perhaps have some growth due to more students being on free and reduced lunches because of unemployment growth.
- **Contract Management** for B&I – work from home will be more accepted, reducing counts in offices and some manufacturing facilities. Contract Management involvement in multiple channels will present new challenges to growth.

- **College & Universities –** there will be more distance learning, reducing cafeteria counts (impacting off-campus operators as well).
- **QSR** may return to normal quicker but with fewer units and a greater emphasis on Ghost Kitchens for delivery.
- **Casual Dining**, especially chains, will suffer as consumers trade down to QSRs due to un/underemployment as well as residual fear from social distancing.
- **Independents/ Fine Dining –** the bond between consumers and this category should benefit the survivors, but the number of units will be reduced. The ease of entry will allow shuttered locations to open with new entrepreneurs utilizing current equipment**.**
- **Bars & Taverns** will suffer, short term, due to social distancing requirements.

Distributors – with a profit margin of 2% or less and 80% of their traditional base gone, we will see a systemic decline in the number of independent distributors maybe 20%, distributors smaller than $100 Million will be especially hard hit.

Depending on the severity and how long the GR lasts, this could also claim one of the Major Distributor Group, best case some Distribution Center Consolidation. The move to retail won't generate the revenues needed and investors not wanting to continue on in a smaller FS arena.

Distributor Buying Groups will also consolidate as their membership base shrinks. Additionally, they will have to show value to their members. This will be an opportunity to develop a new relationship with vendors, providing visibility and accountability in exchange for funding.

How will operators accept the return of DSRs? Expect a reduction in sales forces as distributors look to reduce costs further. Will relationships still matter? Probably, where the distributor (or agency) provided real help during the crisis. How long that lasts will depend on if the support is on-going.

More distributors will look to understand their cost-to-serve, and contracted accounts will see a rise in their mark-ups.

FS Manufacturers - Many that are Retail/FS will actually thrive, albeit by switching production to their retail lines, putting them in a position to acquire weaker FS Manufacturers. FS 1st Manufacturers (French Fries, Specialty Bakers, etc.) will have a more difficult time as when the market comes back; it will be smaller. Expect some merges and closures.

There will be opportunities for the strong CPG/ Foodservice Manufacturers to acquire weaker competitors, either to grow their business or remove competition.

A new **Go-To-Market** approach will evolve (see Digital). Field sales will become more accountable broker/agencies, paid on measurable performance. Supply chains, as well as how trade funds are spent, will have to be rebuilt and strengthened.

Digital will be the biggest change post-Great Reset.

- **Data** will become the new currency, just amplified, operators, distributors, and manufacturers have data but don't know how to utilize it effectively. Distributors are probably positioned best to take advantage of their data as a source of new revenue from their manufacturer partners. If not, new players will emerge that are willing to collaborate digitally to reach operators and consumers.

- **Consumers** are becoming used to ordering online and will expect to communicate with operators via apps. From fine dining on down, this will be the new way to reach the customer. They will be expecting customized messages that relate to how they dine.

- **Operators** need to figure out how to exist in this new world of data-driven reality. They will expect more transparency in pricing and tailored promotional pricing to help attract the consumer.

- **Distributors** who survive will find that the operators have learned that they don't need the distributor sales rep (DSR) to place orders. Everything they need can be found digitally. In conjunction with manufacturers, distributors can replace the need for GPOs and utilize manufacturer trade funds to incent the right operator at the right time. By doing so, the manufacturer will have a better understanding of what is working at the operator/consumer level, bringing efficiency to the system.

    - Distributors will also need to develop a **"Virtual Trade Show"** to expose operators to new ideas and products; one advantage is for multiple Distribution Center (DCs) distributors. This can be a very efficient technology.

- **FS Manufacturers,** like distributors, will need to reimagine/renegotiate how they Go-to-Market, including compensation and accountability. Perhaps an "uberized" group to promote new products? The distributor will need the manufacturers' help to satisfy the operators' demand and will find a way to collaborate digitally to reach the operator. There will be a shift from buy-side incentives to sell-side incentives with complete visibility. Reaching the operator with a tailored offering digitally on food trends, LTOs, and ways to be more efficient will enhance their vendor/ operator relationship.

- Nonvalue added **Group Purchasing Organizations** will become obsolete; other GPOs will need to show true value to all the trading partners, not just operators, as visibility through the supply chain will provide for more efficient and measurable use of trade spend.

The key for manufacturers will be to focus on the "5 abilities":

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