Reflections on Foodservice

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Foodservice post the Great Reset will be smaller.

We need to adapt to begin to rebuild

My premise: The foodservice industry will be fundamentally changed. Digital and data will drive the new smaller foodservice world. Non-value activities (friction in the supply chain) will be reduced or eliminated; all activity should focus on helping the operator.

Reflections on foodservice - a follow up to my Great Foodservice Reset hypothesis

First, thanks all that read and those that reached out to my initial Great Foodservice Reset Hypothesis: https://bit.ly/2HdFdZa

Hard to believe it was 6 months ago, and we are still in the throes of the dilemma.
It has been said that Covid 19 has advanced the foodservice industry 10 years in six months, if so, what has/will change?

I admit I am not a scientist so I will leave what could have happened in Sweden or Italy to those that have the statistics. I want to take a frank look at where foodservice is headed and the implications for the entire supply chain.

"Everything, I mean everything, is going to be repriced and thought through. You cannot take anything for granted. Inflation numbers and measures are going to be warped for at least a few years. We are using old tools to measure a new economy. We are going to have to develop new models to appropriately analyze the world we now live in. -John Mauldin

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A quick look the current state:

Let us start with the **consumer**, due to 24/7 sensational TV (I cannot call it news- more pandering) the consumer is afraid to go to a restaurant. Added to that workers are stranded at home, colleges, and universities as well as K-12 are distance “learning”. How this will impact society is a question for another time but needless to say human desire for companionship is suffering and will have long term societal implication.

For the foodservice operator however, the implications are now! Add to the Corona issues we layer on top new social concerns creating unrest in urban areas. No wonder the consumer does not want to eat out!

Next up the ladder is the **non-commercial** side of foodservice; it has been decimated. 30-50% declines depending on the category. Many K-12 programs, including those in most major cities, are converting to remote learning, so how will the free and reduce lunch students cope? Are the working-class parents to stay home? For the more affluent citizens this is not a major issue more of an inconvenience but for those without means this is a Hobbesian choice.

College & Universities are also reducing their dining options or not opening campuses at all. No attendance at sporting events compounds the problem. So, if you are a contract feeder, you need to reduce or eliminate staff to survive.

The rebates that the major (actually all) contract management organizations have relied on are gone as are the volumes that commanded better pricing from distributors and manufacturers Can Health Care and Senior living keep them afloat?

How long will government mandates stay in place? We will discuss how this impacts distributors and manufacturers further on.

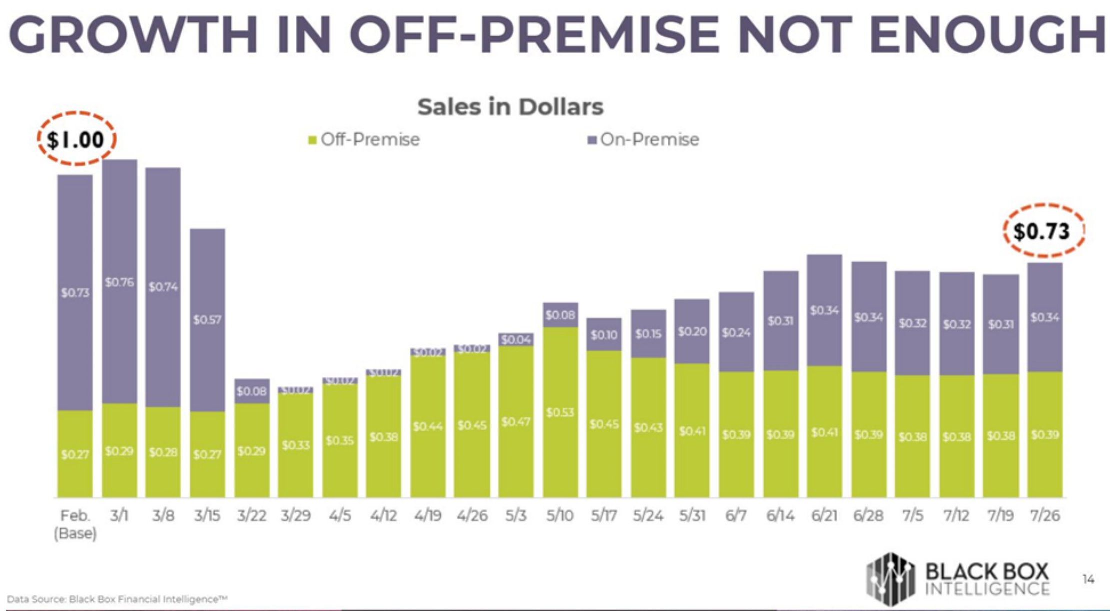
A day does not go by without the announcement of a **restaurant (or chain)** closure. Chains are not exempt, McDonald’s closed 200 recently, Burger King and many other followed. If chains cannot make it the independent operator is also in peril. States open and retrench, change the rule of the game at will. Staffing is a concern with both the fear of in-restaurant infection as well as the ratio of guest count to staff.

Meanwhile the cost of cleaning is exponentially higher, and it still may not be enough for the consumer.

When the guests do come in social distancing of tables and masks make the dining experience less than enjoyable. Menus are both smaller due to supply (and demand) with higher prices to try and make up for the capacity constraints.

Urban operators whether chain or independent, especially in major cities, face both the lack of office workers during the day and business travelers at night, neither of which show any signs of coming back. Now add in the protests/riots and even city dwellers are “gun shy”. If this is not enough, operators in college towns will see diminished students returning and no Saturday crowds for football games.

Here is a look at the current state of restaurant sales (non-commercial actually looks worse):



In addition, there is an overlooked divergence in operators as seen below:

SEGMENT		COMP SALES July 2020
LIMITED SERVICE 0.7%	Quick Service	+6.7%
	Fast Casual	-5.4%
FULL SERVICE -26.4%	Casual Dining	-21.2%
	Upscale Casual	-31.3%
	Fine Dining	-34.1%
	Family Dining	-36.7%

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Foodservice Manufacturers and Distributor tend to look at the foodservice industry holistically, yet the market is really divided between operators with the size and homogeneity of menu that can impose on both producers and distributor a 3PL type model with brand labels and specs.

The second group comprising of independent restaurants, regional chains and certain non-commercial operators have the potential to thrive, as consumers post the Great Reset, look to go" back to the future" with local, neighborhood and authentic dining- according to Foodable. This is the channel that needs the most help.

So, what can the Distributor and Manufacturer do?

For **Distributors,** the first imperative is to survive! With the crisis passing 6 months that is not an easy prospect. The yo-yo effect of states changing their minds on what and how business can open is creating havoc.

Next, Distributors should determine who are their best customers (Statistics courtesy of Bruce Merrifield)

1. 10-20% of your customers yield all of net profits
2. One out of five, big-margin-dollar customers are astonishingly unprofitable due to the fulfillment costs associated with too many deliveries and small-dollar picks.
3. The bottom 50% of active customers typically yield about 5% of the margin dollars, but account for 18-to-25% of all transactions. Fulfillment costs exceed margin dollars resulting in a significant loss.
4. The total margin dollars for an order ***and*** the activity-cost dollars for an order are both critical to end profitability.
5. Your best customers (those with high, average, margin-dollars per order) are essentially subsidizing the bottom 50% decreasing your net profit.

There is an opportunity to reset this supply chain and develop better customer relationships to your advantage, to everyone's benefit.

Unbundle services, service the customer as they want to be serviced, but only if they pay for it.

Do they want a DSR and are they willing to pay?

For profitable customers, develop a stronger relationship by showing them where they can save on price by understanding your cost true drivers.

- How many cases on the truck?
- How often do they really need that truck to stop?
- And how fast do they pay their bills?

Perhaps having a DSR is more valuable than an extra drop. Things to think about in this new world.

For the 50% that are eating into your net profit, develop a web-based order tool that will allow them to create their own discounts by more cases on the order, less stops or quicker paying of invoices.

Now let us take a look at **current and new sources of revenue**.

Is the current earned-income model sustainable or even desirable?

What real value does the manufacturer derive from the traditional model? What if there was a something you could offer the manufacturer in return for even greater compensation than you earn today?

Real time data!

So where are we today? How did we get here? And what does today's tech really enable in terms of raising the value of the distributor and customer in the eyes of the vendor community?

Data is only useful once it is analyzed. And it can only be analyzed after being turned into structured data.

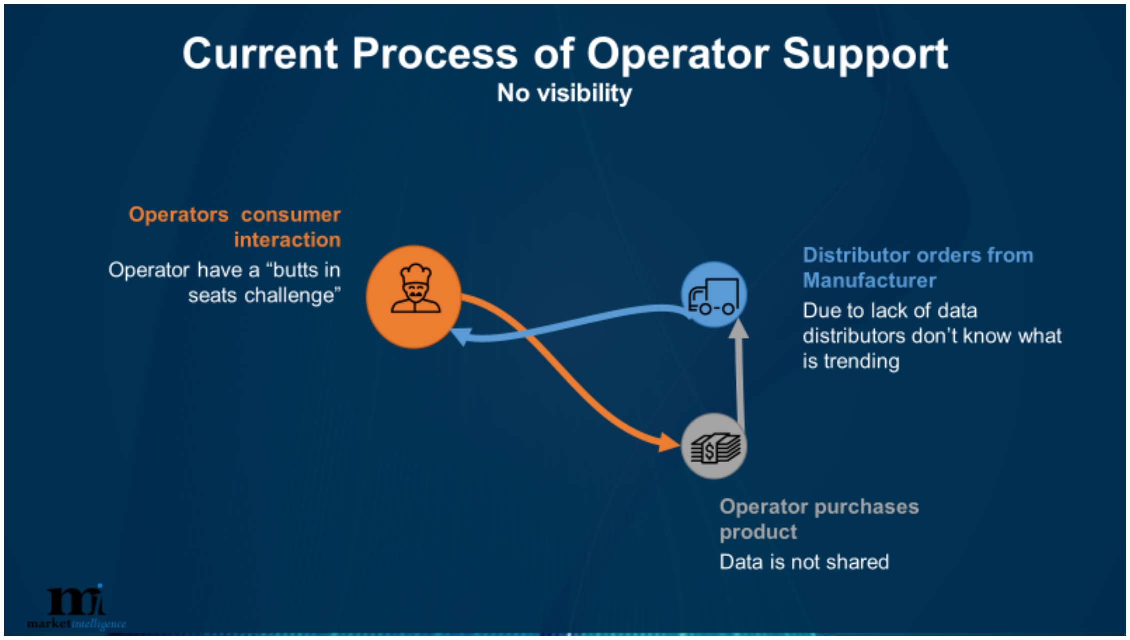
What we are seeing now is a complete change in how all this data is handled.

The real value will be converting “big” data to **small data**. Actionable for the distributor and operator as well as sales reps.

In short, the world has moved to digital, distributors have the greatest source of real time operator data outside a restaurant's POS.

This data can be incredibly valuable to all parties, especially manufacturer partners.

Here is our current environment:

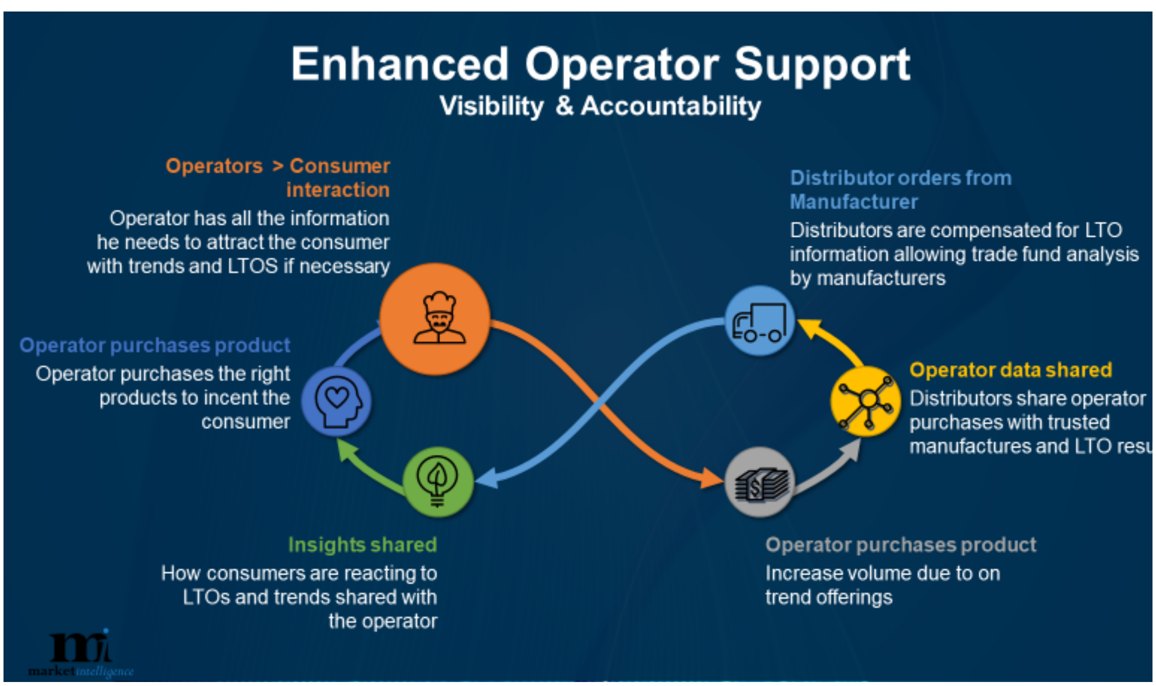


Manufacturers could combine their entire distribution base data with market insights from 3rd parties and other sources to provide the operator with the most current trends data.

Restaurateurs, especially independents cannot afford Datassential or other industry sources, however an alliance of distributor and manufacturer partners can.

Allowing the operator to maximize each guest visit.

And how the use of a distributor's data can enhance the operator's experience



As far as trade funding, there has to be value for all participants; allowing manufacturers access to data will drive value throughout the supply chain:

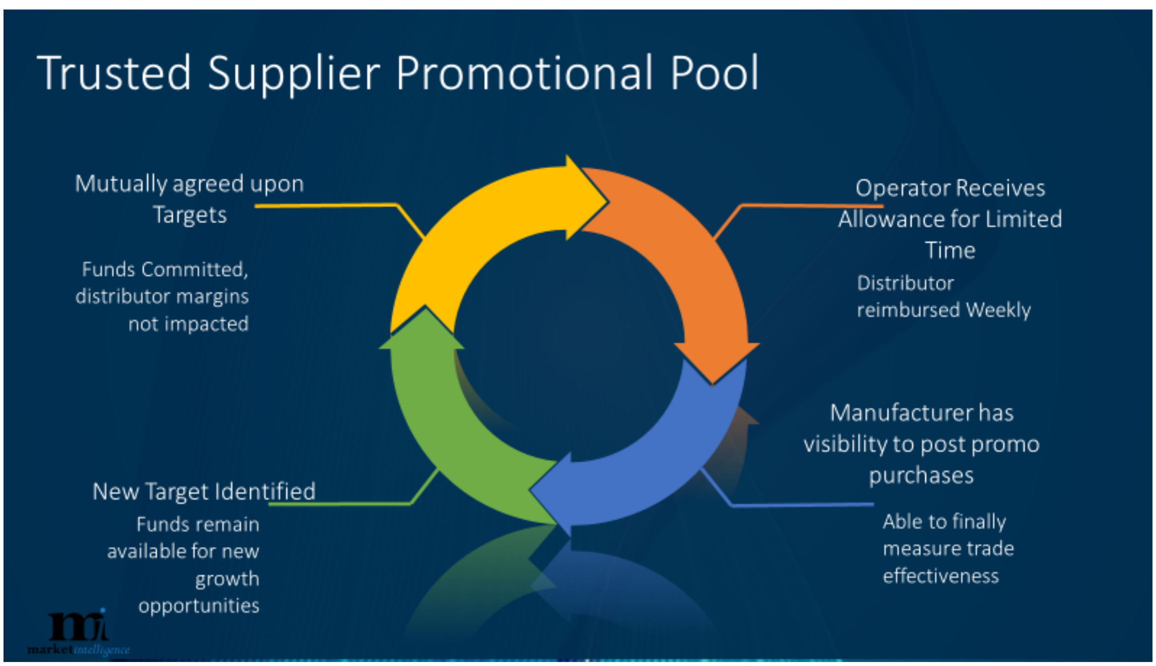
- **Distributor Buying Groups could transform into Data Aggregators for their members and vendor partners**

- **Real time depletion data can automate the reorder process and eliminate non-value added purchasing roles, increasing in-stock and turns**

- **Armed with true operator data, distributors and their trusted manufacturer partners can provide operators with alternatives to Group Purchasing Organizations (GPOs), perhaps a version of *Amazon Prime*, by providing restaurants the flexibility to order the SKU's they want (versus ordering only those items that are pre-negotiated with a manufacturer) Manufacturer incentives can flow directly to the operator without the GPO "admin fees".**

- **An added benefit is quicker repayment of deviated prices as data is provided daily, thereby reducing the lag time and increasing accuracy**

In addition, manufacturers could provide a pool of funds to be used in conjunction with the distributor to help operators via Limited Time Offers or new product intros.



For the distributor, a tool to help profitably grow their business, for the manufacturer ability to measure the impact of trade funds as they can view retained customers post the promotional period.

Manufacturers are facing a new paradigm.

Chains will increasingly have a greater share of their volume with a net pricing model and store brands.

The Contract Management organizations' volume will be greatly diminished as work/study at home will continue to be a factor.

Distributors will reduce their skus and sales forces to reflect the smaller foodservice world.

The traditional value and supply chain will need to be replaced. If not a new entry with a frictionless supply chain will emerge.

As stated above what is the value received by the manufacturer for earned income?

What percentage of the funds spent with the GPOs actually create new business or even reach the operator location?

The future for foodservice is in utilizing data that has not been available to manufacturers today, distributor sales data. Convert the "buy side" earned income model to a "sales side" data allowance. Use the capabilities of existing technology to convert the data from big data to **"small data"** that can be shared with both the distributor partner AND the operator to create a virtuous cycle to increase consumers choosing foodservice first.

Eliminate unnecessary steps and take out costs, with real time operator data:

- No more double dipping the distributor's invoice can only show one price (no duplicate GPO claims)
- Distributors potentially will earn more based on actual sales versus filling warehouses
- Pay on actual vs 3rd party reports
- No administrative fees
- Bifurcate agency commissions, a much higher rate for actual new sales and lower for legacy sales
- Distributors & Manufacturers need to rethink their **Go-To-Market** approach.

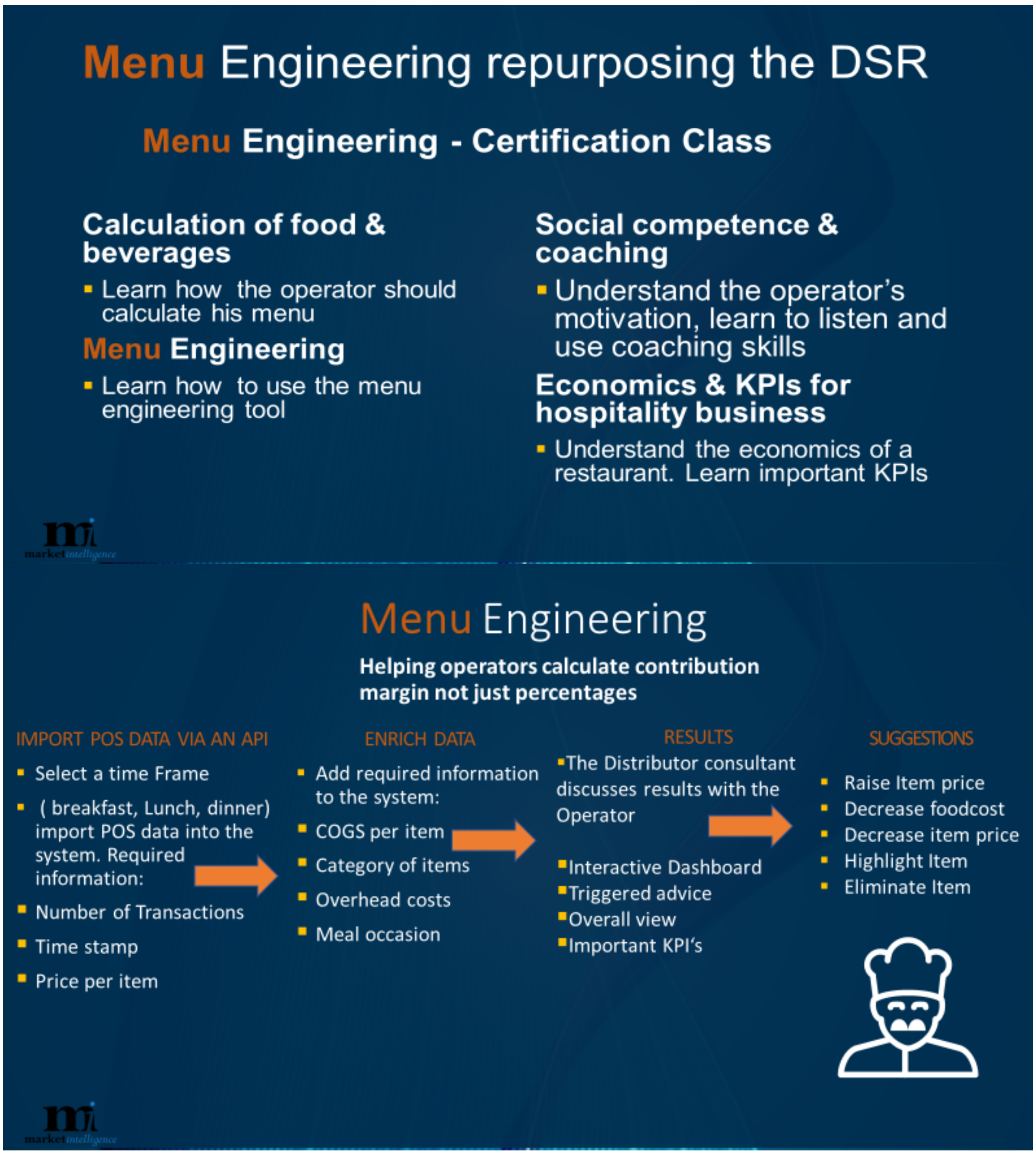
As outlined in the previous hypothesis:

- Operators have embraced online ordering and like 24/7 access to information
- Many of the "old school" operators are throwing in the towel; the new operator is used to Amazon and iPhones as ways of not only ordering but also gathering information
- Operators will not be comfortable with a sales rep coming in the back door- can a virtual experience replace the role?

For Distributors, they have already culled the herd of DSRs, those that remain can be repurposed.

Agencies have reduced staff as well. Does it make sense to add head count in a smaller foodservice world or move to a hybrid model of digital and traditional sales calls?

Here is an example from Europe providing a value-added service to the operator:



Manufacturers need to develop a flexible approach as well. Can they use an uberized approach to agencies?

Can they combine sales forces with one or 2 complementary manufacturers (except for National Accounts) to drive street sales?

Could Manufacturers use Re-distributors to manage distributor relations?
Utilize properly developed digital tools to connect and educate the operator or group of operators.

Can smaller manufacturers rely on their partner distributors' DSRs to drive volume?

The Menu engineering example above can become a digital sales tool helping the operator become more successful.

At the end of the day for foodservice to prosper we need to:

- Remove non-value added activities
- **Focus on helping the operator to drive consumer activity**
- Utilize technology to inform and educate
- Pay for performance

If you would like to explore any of the concepts outlined above, please contact me:

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