

PepsiCo Foodservice Insights

COVID-19 INSIGHTS

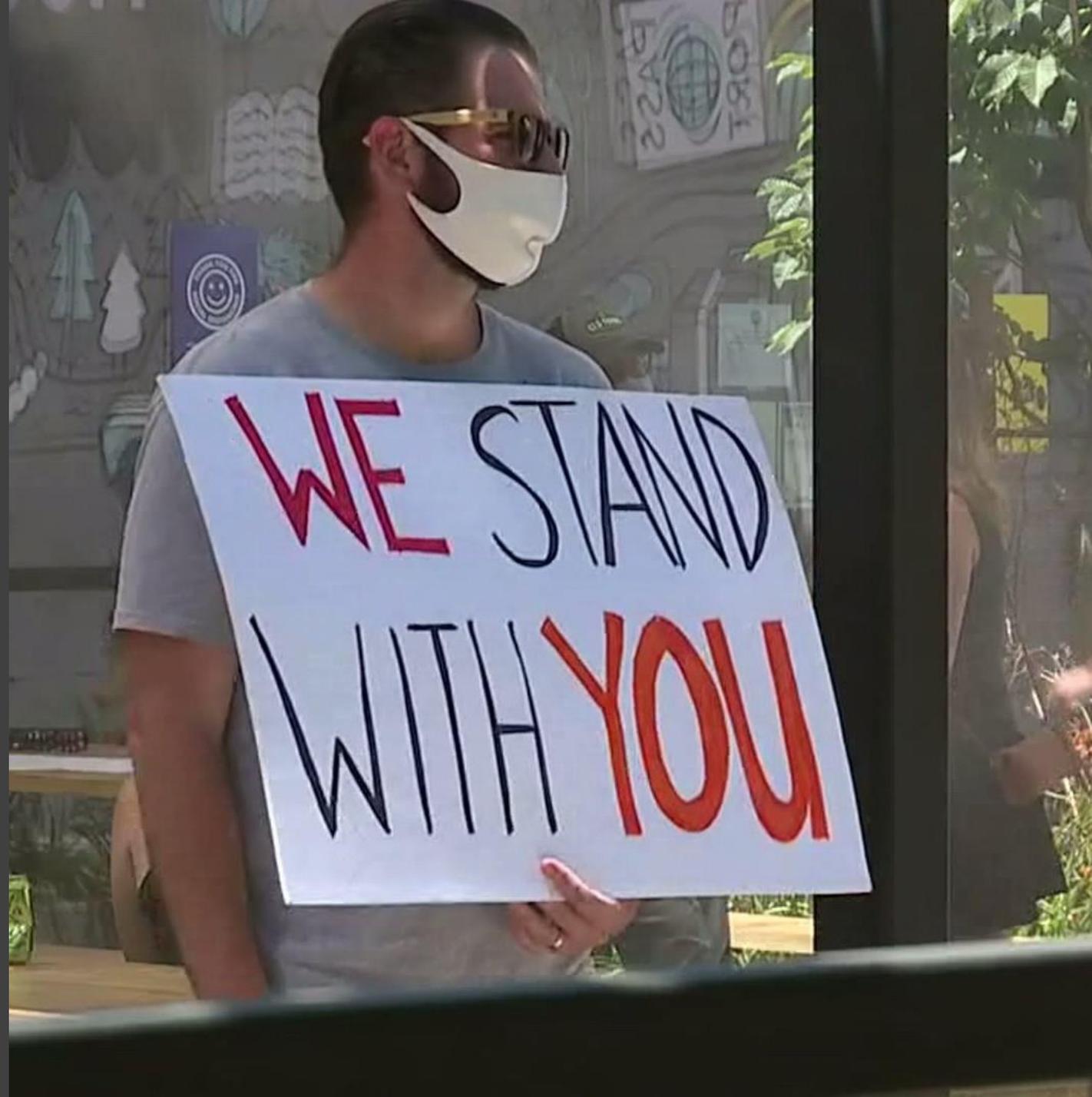
JUNE 12, 2020

June 12, 2020

Foodservice Insights recognizes the turmoil happening in the world around us, and we hope it leads us to a turning point.

As an organization whose primary mission is focused on empathizing with people, our hearts go out to those affected by racial injustice. The cultural shifts taking place leave us all struggling to cope with our own feelings and those of our individual communities.

As the current environment continues to evolve, we will strive to deliver relevant insights that relate to the impact on our consumer and their engagement with the foodservice industry



The protests have compounded COVID concerns

According to Datassential, while the recent protests and rioting have been cause for concern, they didn't completely take our focus off COVID. Instead it left some people, even more worried about the potential for spread in large crowds. For more than half of Americans, coverage of the protests has been a wake-up call.

Regarding the COVID-19 pandemic and how you're feeling about it now, please respond to the following statements

It seems like most protesters were breaking social distance rules	79%
Large protest gatherings will lead to a surge in COVID cases	76%
I'm more concerned about protests / riots than COVID	59%
News coverage of protests is a reminder to focus on things beyond COVID	58%
Other news and events have distracted us from what's more important - COVID	46%
COVID has distracted us all from news and events that are more important	46%
My need to get involved in what's going on is worth a little added risk of COVID exposure	33%
Seeing non-COVID news coverage makes me feel ok to go back to doing "normal" things	30%
It seems like most protesters were following safe COVID practices	29%



We continue to look at the impact COVID-19 across 4 stages:

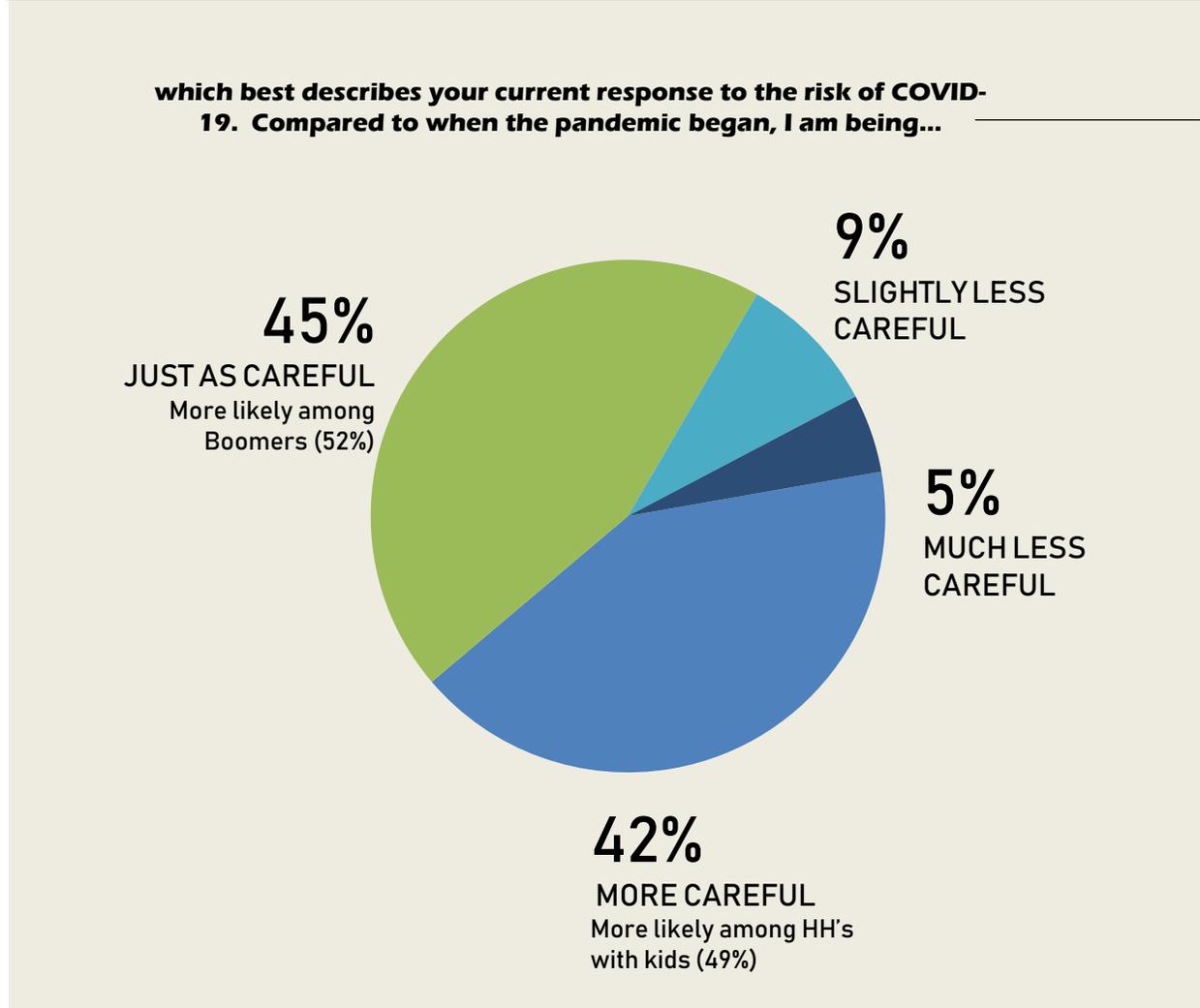
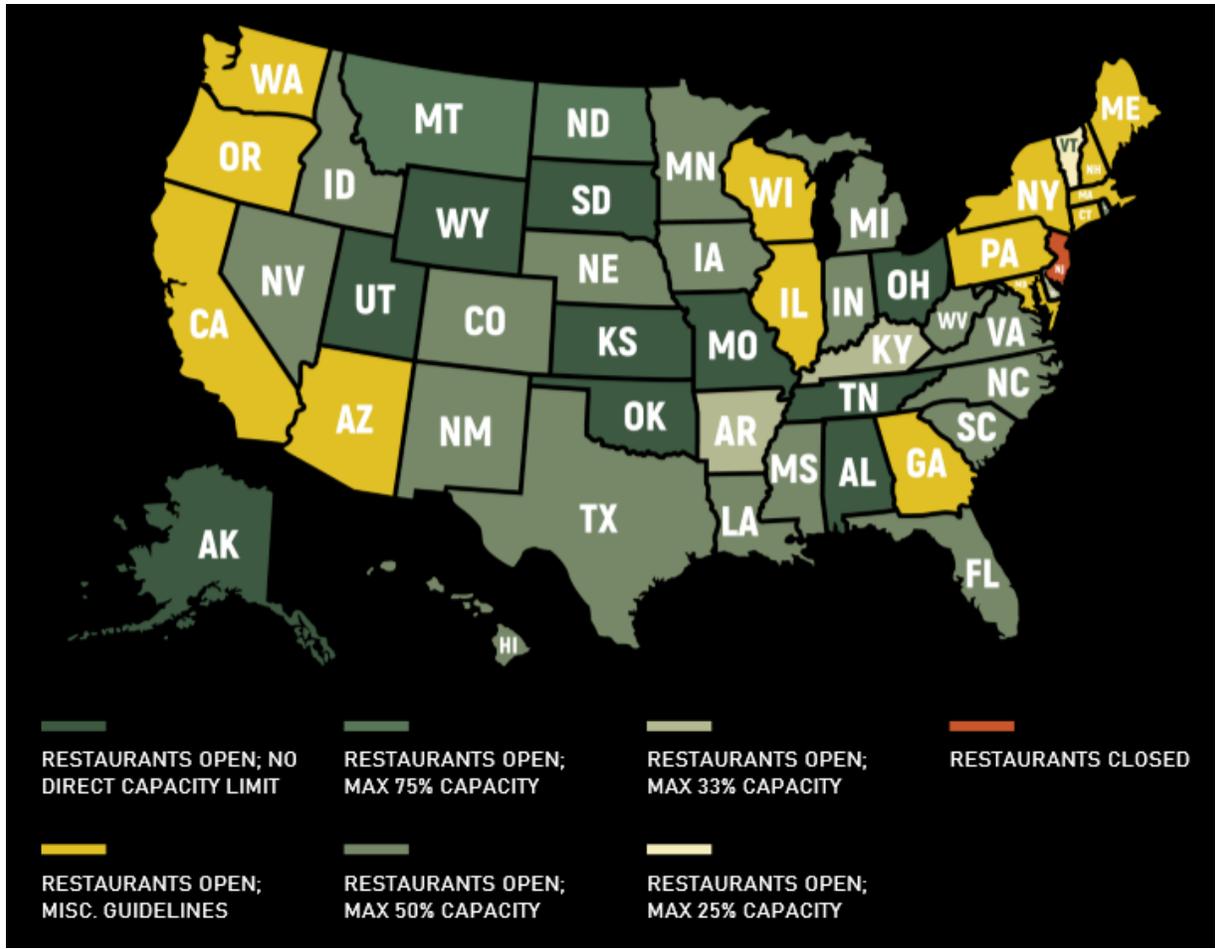


Most states are currently in this stage

Industry Update

All but one state has lifted restrictions for on-premise dining, but dine-in is coming with a multitude of caveats

Despite fast moving re-openings around the country, consumers aren't ready to let their guard down yet...



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GLOBAL COVID-19 UPDATE

With restrictions easing across the globe, most markets are rolling out guidelines for transitioning from Horizon 1 into Horizon 2

PepsiCo Covid19 Horizon Phases

HORIZON 0
Prevention & Preparation



HORIZON 1
Confinement & Cocooning



Most markets are now implementing transition strategies

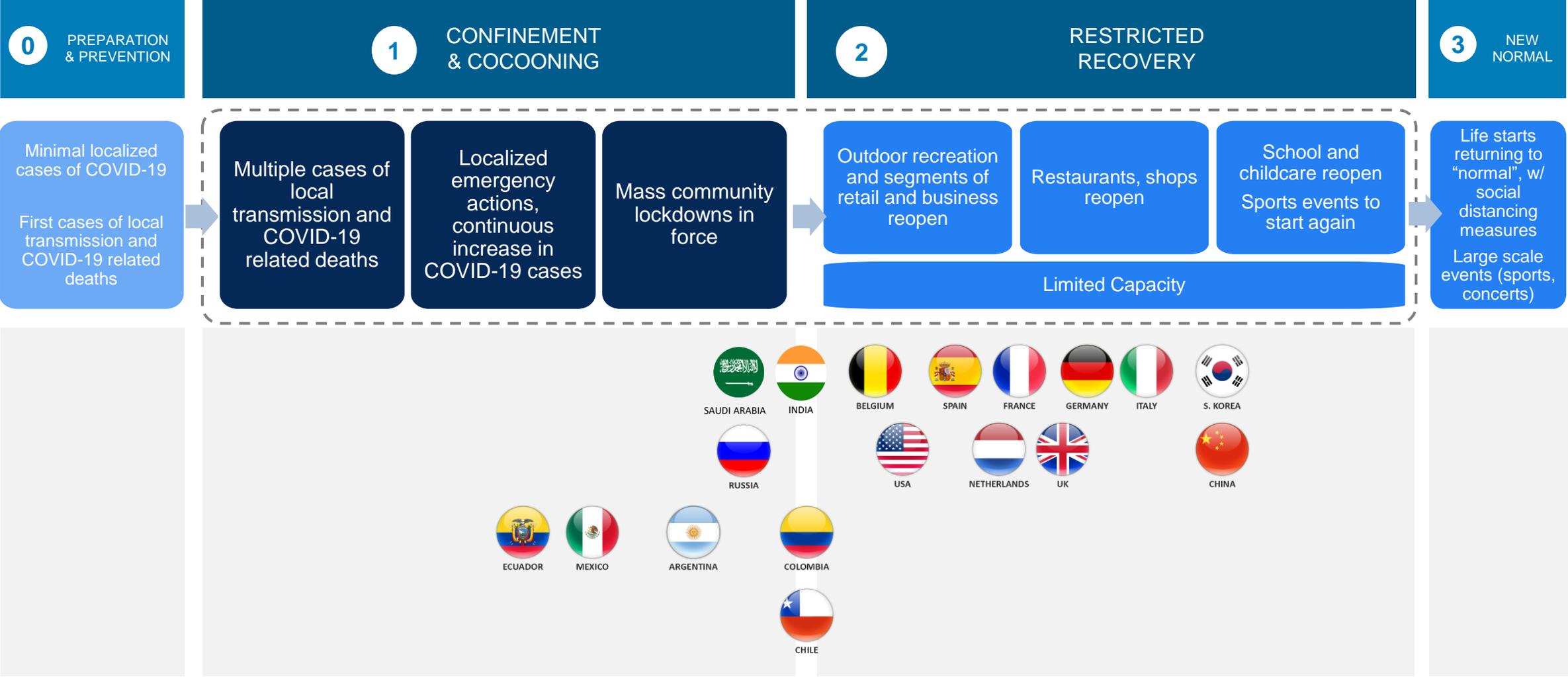
HORIZON 2
Restricted Recovery



HORIZON 3
New Normal



Markets in Asia are much further along in their road to restricted recovery with Latin-American markets lagging behind Europe and North America



Most markets plan to reopen FS outlets from June onwards, followed by tourist attractions, theatres & hotels

Market transition strategies

Market	Transition strategy	May	Jun	Jul	Aug	Sep
	<ul style="list-style-type: none"> US states individually have gradually opened up at different rates depending on number of cases 	<ul style="list-style-type: none"> ▲ May 19: All states reopen partially ▲ May 26: NYSE opens trading floor ▲ May 26: California governor allows hair salons and barber shops to reopen 	<ul style="list-style-type: none"> ▲ June 1: Several states reopened businesses at full capacity ▲ June 8: NYC implements Phase 1 of easing restrictions 			
	<ul style="list-style-type: none"> UK is ready to move into 'Stage 2' of the Lockdown transition strategy 	<ul style="list-style-type: none"> ▲ May 13: Restriction on outdoor activities lifted and workers return to work ▲ May 13: Housing market reopens ▲ May 20: Allows furniture stores to restart trade 	<ul style="list-style-type: none"> ▲ Mid June: Earliest proposed lift on AFH ▲ June 1: Outdoor markets and car showrooms will be able to reopen 		<ul style="list-style-type: none"> ▲ July: Tourist attractions, holiday parks, hotels and campsites to reopen 	
	<ul style="list-style-type: none"> Gradual transition strategy from May 11 onwards after 8 weeks of lockdown. The country is split in two, with 4 " red zones " 	<ul style="list-style-type: none"> ▲ May 11 : Educational institutions to reopen; Shops (not AFH) to open ▲ May 12 : Opens borders to European agricultural workers ▲ May 19: Highest administrative court ordered government to lift ban on religious meetings 	<ul style="list-style-type: none"> ▲ June 1: Beaches and parks reopen ▲ June 15: Borders to reopen with European Nations 		<ul style="list-style-type: none"> ▲ July: Earliest lift on cafés and event venue restrictions 	
	<ul style="list-style-type: none"> Germany has begun opening up, with control of lifting it in the hands of Germany's 16 federal states 	<ul style="list-style-type: none"> ▲ May 3: Nationwide restrictions set to ease ▲ May 4: Government reopens playgrounds, churches and museums ▲ May 16: Bundesliga football matches resumed, the 1st EU league to do so ▲ May 20: German Chancellor urged all 16 states to gradually lift restrictions 	<ul style="list-style-type: none"> ▲ 15 June: Plans to open borders ▲ June 29: Social distancing rules are extended until this date 		<ul style="list-style-type: none"> ▲ August 31: Larger events to be allowed 	
	<ul style="list-style-type: none"> Turkey succeeds in COVID-19 fight and is currently easing more restrictions 	<ul style="list-style-type: none"> ▲ May 11: Shopping malls and barbershops reopened ▲ May 12: Travel restrictions relaxed for nine provinces ▲ May 17: Automotive industry resumes production ▲ May 20: International flights set to reopen 	<ul style="list-style-type: none"> ▲ End May: continue curfews on weekends in 31 provinces ▲ June: Lockdown measures relaxed if recent spike in the cases recedes 			
	<ul style="list-style-type: none"> Tough restrictions in place in Moscow as lockdown being eased in rest of country from 12 May 	<ul style="list-style-type: none"> ▲ May 12 : Earliest lift of restrictions proposed by the President ▲ May 13 : Eases business restrictions ▲ May 31: Lockdown in Moscow extended, with the cases rise 			<ul style="list-style-type: none"> ▲ July 24: 'State of health emergency' will be lifted 	
	<ul style="list-style-type: none"> India not ready to move into transition strategy – will wait until end of month 	<ul style="list-style-type: none"> ▲ May 25: Hundreds of students and migrants boarded flights home when domestic services resumed ▲ End of May: Interstate movement of vehicles to resume with consent of states 	<ul style="list-style-type: none"> ▲ June 1: 200 non-AC passenger trains to start ▲ June 3: Certain foreign nationals (i.e, HCPs, engineers) allowed to enter ▲ June 8: Shopping malls, hotels, hospitality sector, places of worship reopen; curfew at 9pm to 5am 		<ul style="list-style-type: none"> ▲ Early July: Extended lockdown in containment zones; phased reopening in non-containment zones 	
	<ul style="list-style-type: none"> China easing restrictions to allow international travelers 	<ul style="list-style-type: none"> ▲ May 1: Beijing eased travel restrictions on domestic travelers ▲ May 19: Lockdown reimposed in province of northeast China near Russia 	<ul style="list-style-type: none"> ▲ Early June: Essential travel allowed between China and Singapore ▲ June 8: Authorities in China eased international travel restrictions 			

TO ANTICIPATE NEW BEHAVIORS IN RESTRICTED RECOVERY, WE LOOK AT PROGRESS FROM MARKETS ACROSS THE GLOBE



TRAVEL



WORK



PLAY



DINE

Let's take a look at Travel



TRAVEL



WORK



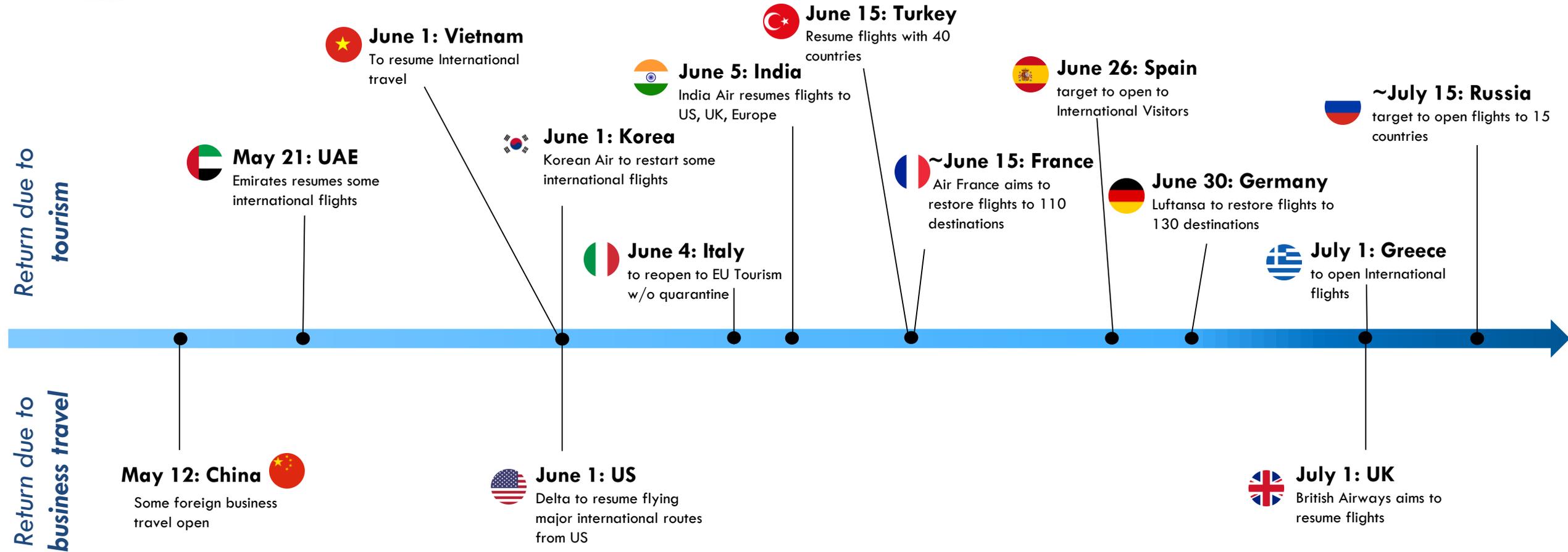
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DINE



Markets are opening up to foreign travel as Covid-19 cases decrease – countries most dependent on tourism returning first





Travel is recovering in China with domestic and leisure travel returning first



Travel Bubbles Created

- Travel bubbles created: **fast-track health / quarantine checks** - cross borders with minimum hassle to promote tourism and business travel¹
- In China, **domestic travel is returning first** (with 92% willing²): travelers are still cautious of air travel, preferring to stay close to home (as car rental reservations rose +10% vs. last year)³



Young Travelers Less Deterred

- **Young, nonfamily segment** resuming travel first (60% vs. 43% last year on first holiday in China following pandemic²): companies engage them through **social media to introduce deals**
 - Livestream campaign by Ctrip founder attracted 1.15 million viewers to promote discounted tourism products; generated \$3.84MM within 1 hour⁴

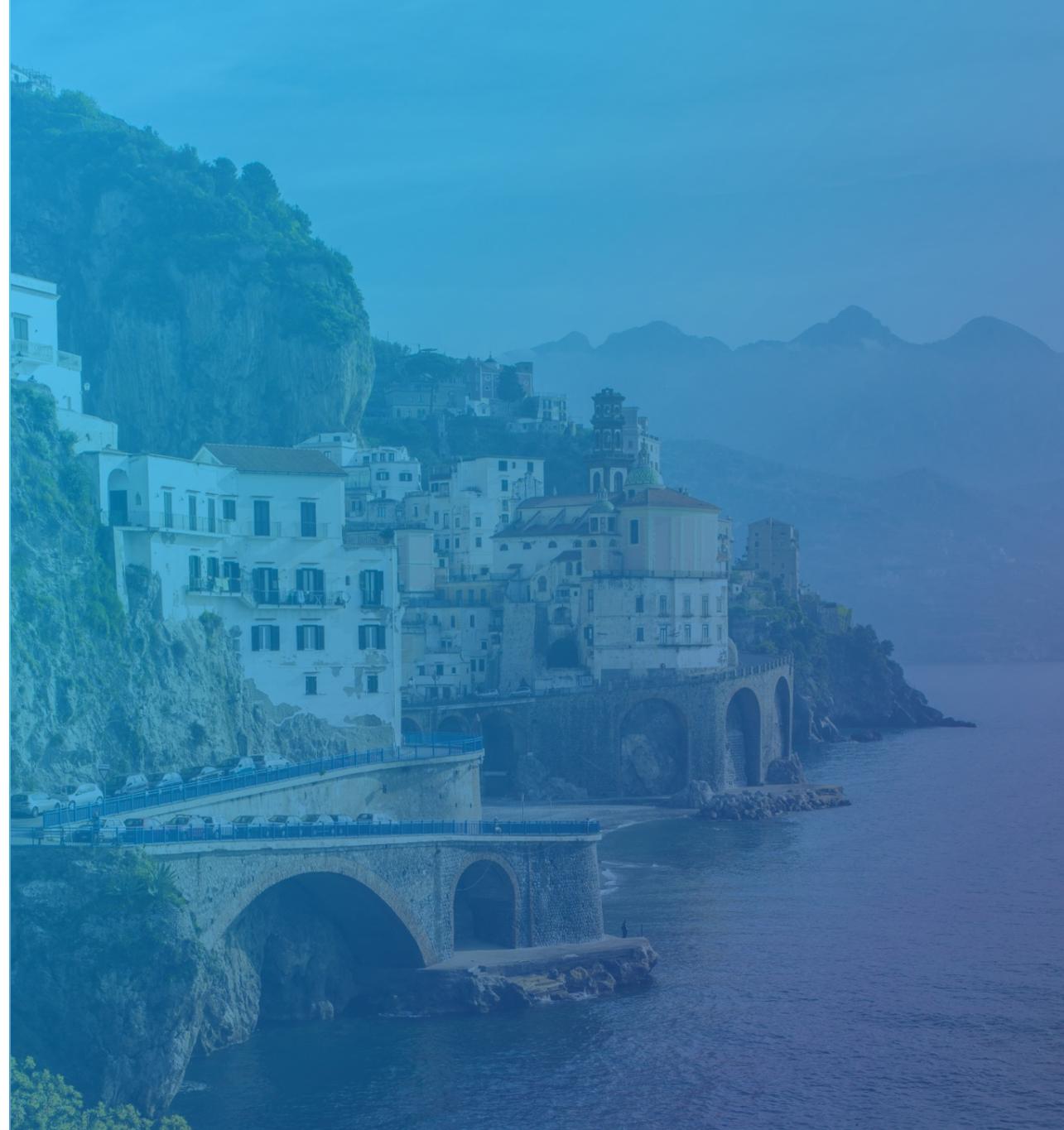


Strict Safety Protocols

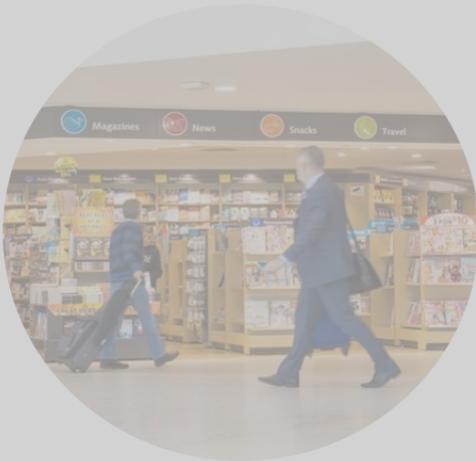
- Airports are implementing safety precautions – i.e., in HK, after landing **takes 8 hours to wait for test results** prior to entering city⁵
- Chinese airlines offer new products, i.e., one-off lounge passes, **extra fees to keep adjacent seats free** for the more safety-conscious³

IMPLICATIONS

- Ease back into operations by redeploying resources to support domestic and regional travel –
 - Lodging incentives like waiving parking fees can encourage road trips
 - Highlight more “off the beaten path” experiences to help people avoid crowds
- Align messaging and offerings with new customer mix: Millennials and Gen Z are leading baby boomers – and have their own expectations, needs and engagement journeys
- To appease those more anxious about hygiene and safety, consider a tiered approach where customers can upgrade to more sterile experience



Let's take a look at Workplace & Education



TRAVEL



WORK



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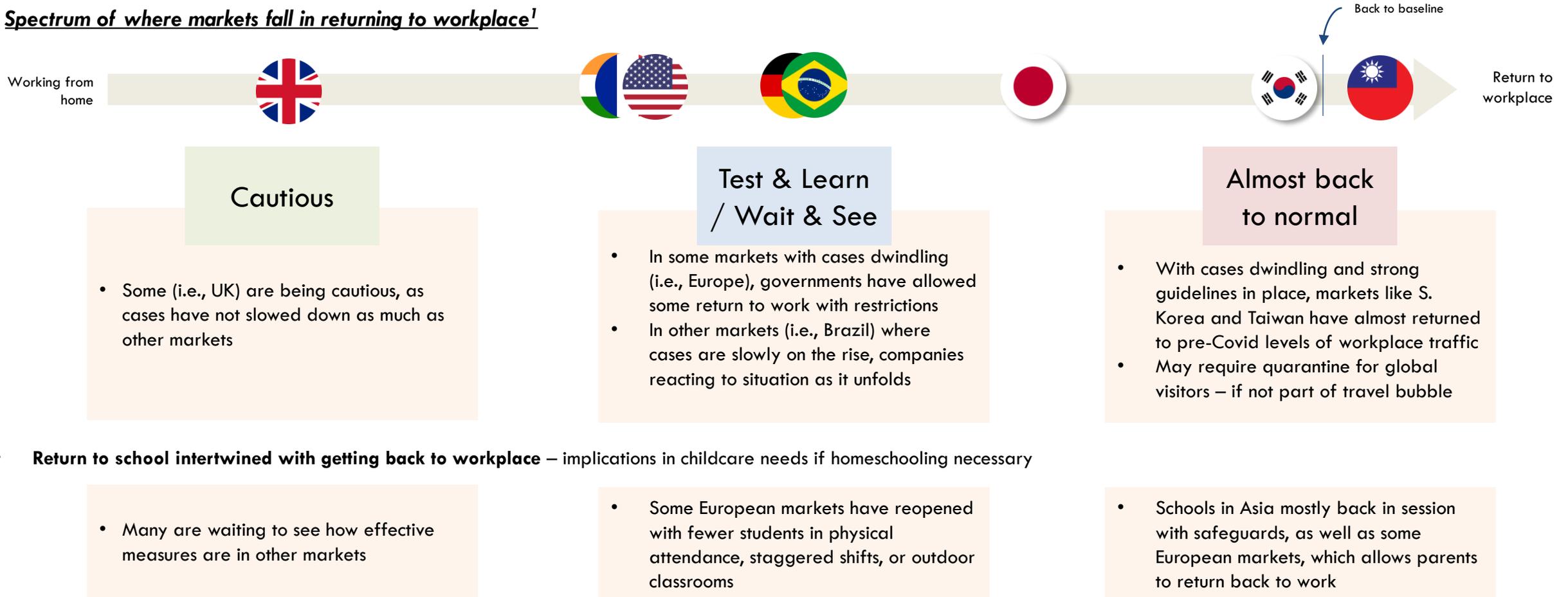


DINE



Return to workplaces depends on the markets containment of the virus and employers ability to implement safety measures

Spectrum of where markets fall in returning to workplace¹





Emerging systems and protocols to prevent virus spread at workplaces and schools in Asia include:

Spotlight on Asia

School Safety Checks

- 1: disinfect shoes
- 2: sanitize hands
- 3: sanitize backpack
- 4: temperature check

Avoidance of Air-Con

Figure:
Sketch showing arrangement of restaurant tables and air conditioning airflow at site of outbreak of 2019 novel coronavirus disease, Guangzhou, China, 2020. Red circles indicate seating of future case-patients; yellow-filled red circle indicates index case-patient.

Based on a study tracing Covid-19 spread through AC in a restaurant³, in China many **companies have decided not to use centralized AC**⁴

- As summer is fast approaching, many are considering fans instead, though still requiring employees to wear masks

Tickets To Ride Elevators

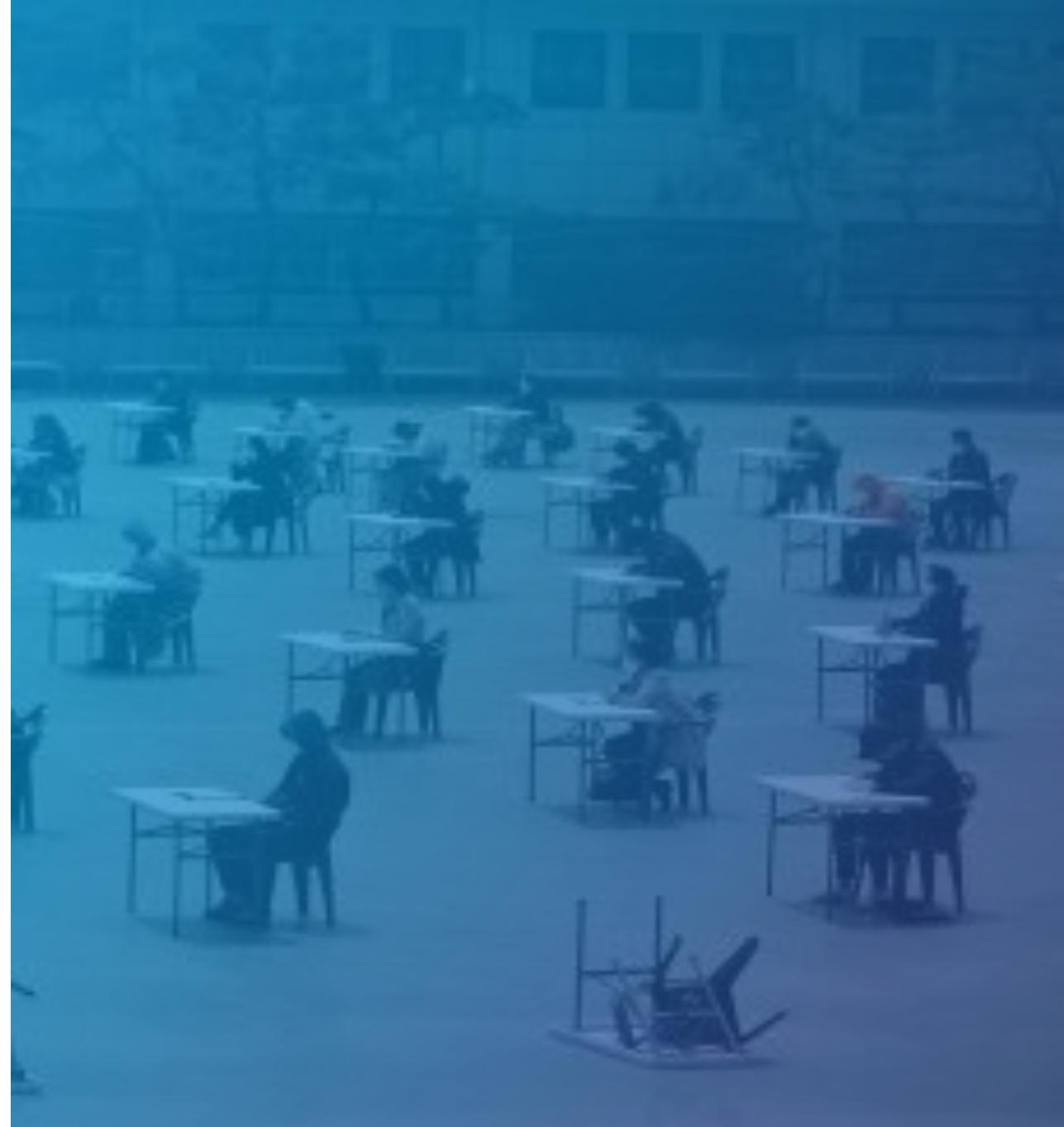
In South Korea, Salesforce employees register their temperature in an app before coming to work

- Prior to commuting, they “check in” on their app, which provides **“a ticket” to ride the elevator during a specific window of time** to avoid crowding

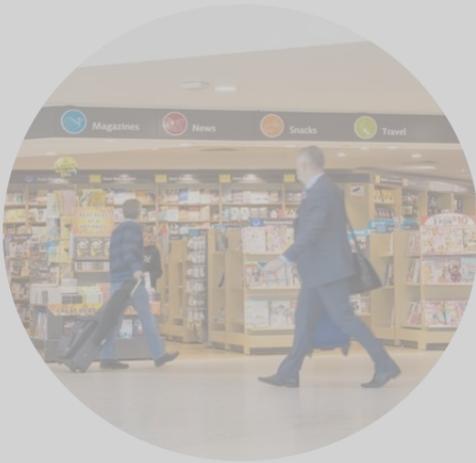
Companies have confirmed providing PPE, **plexiglass barriers** between desks, employees zoned to different parts

IMPLICATIONS

- Routine tasks (i.e., commuting) will be re-examined as ad-hoc and preplanned meetings become a way to prevent virus transmission
 - Analogies from other channels may aid adaptation: reservation systems, booking online, staggered shifts
- Resizing footprint in various areas of the office will impact mealtimes and social interactions
 - Potential for more snacking throughout day to avoid groups taking meals at same time
- Employers will be rethinking lunch, workplace cafeterias
 - Consider unattended retail / Micro Marts to meet safety needs



Let's take a look at leisure and recreation



TRAVEL



WORK



PLAY



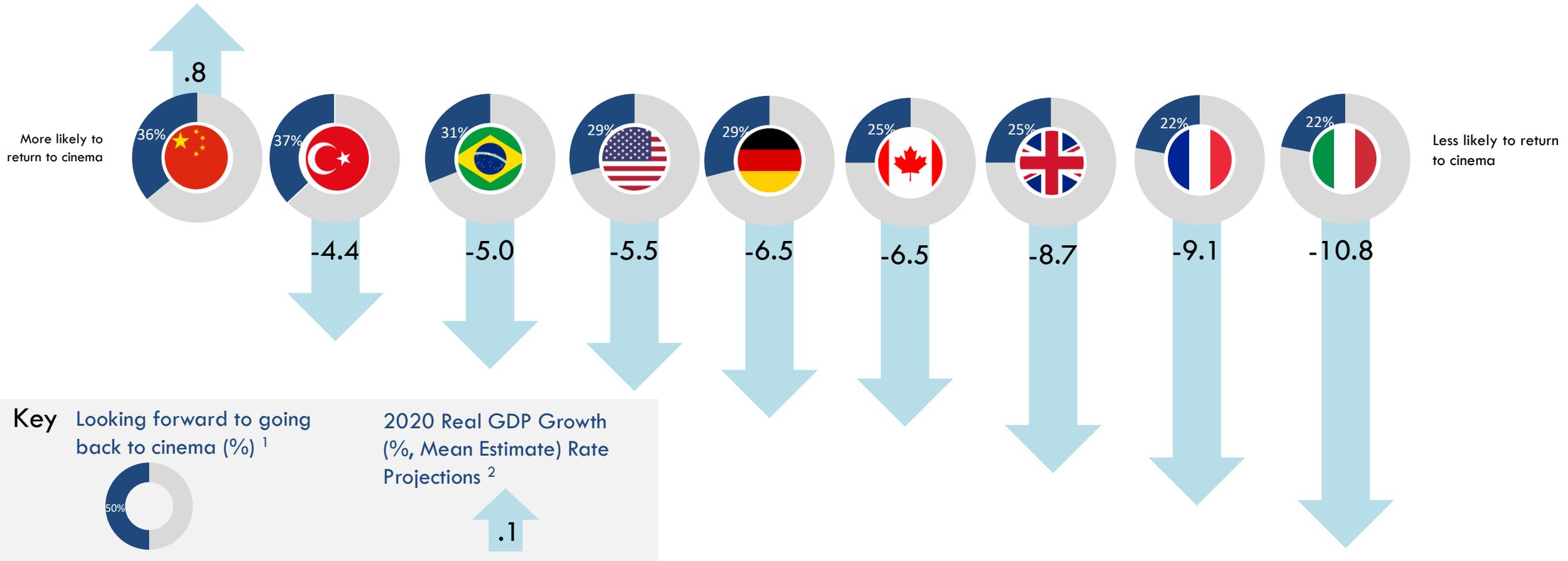
DINE



People's propensity to return to recreational activities shows correlation to their markets' economic conditions

GDP Growth (%) & likelihood of returning to cinema

In markets where GDP contracted the most, people are less eager to return to Recreation venues— i.e., Cinema





For Recreation, simulated experiences and scaled down crowds can be used to entice people until masses are ready to return



Reimagining Stadiums

In South Korea, Hyundai sponsored a **multi-day drive-in concert** – over 900 cars came to listen / participate; although sales were half than a typical concert, still a way to keep consumers engaged

In Taiwan, 1,000 baseball fans will be let back into stadiums (previously, sports were underway w/o spectators)

- Plan to **sell tickets based on 'real name' to easily trace infections** leading back to matches¹



Virtual Experiences to sell future ones

Livestream from destinations (i.e., VR, 3D panorama) has helped with **presale packages** in China²

Alibaba has added 'online field trip' feature to its commercial livestreaming platform³

- While livestream tours are free, some sites have **made money through souvenir sales**



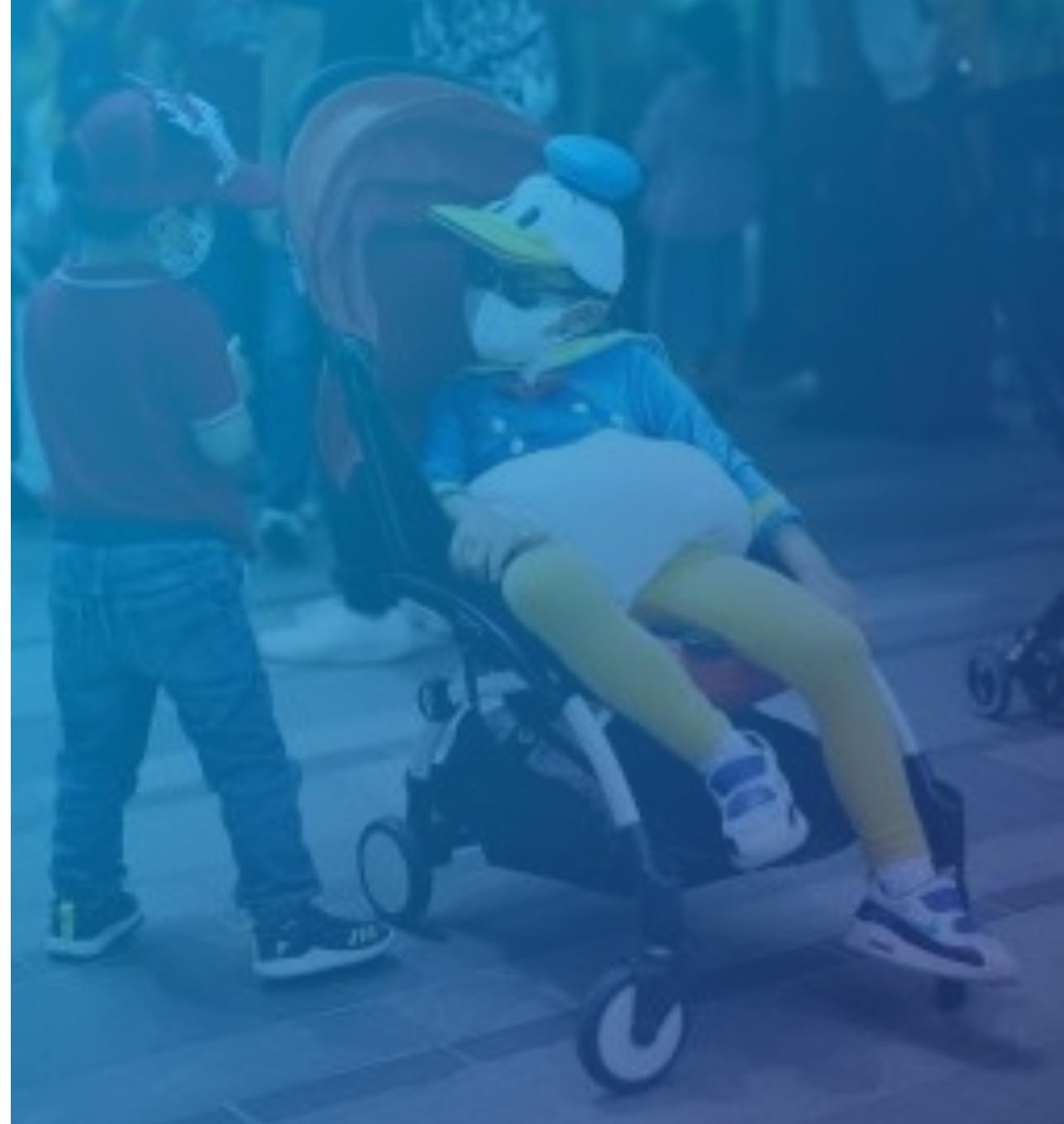
Theme Parks reopening

Disney World in China reopened: **tickets sold out within 3 minutes of soft opening** on May 8 online, even with new social-distancing rules⁴

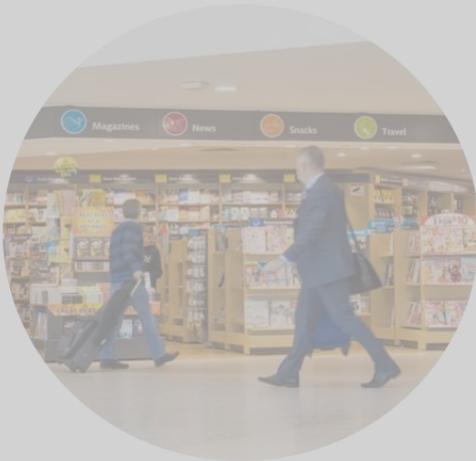
In Japan, amusement parks re-open with new guidelines – **no screaming on rides**, conversations with customer service kept as short as possible⁵; all meant to reassure safety for customers and employees

IMPLICATIONS

- As summer approaches, outdoor venues likely to be sought out first
- Venues not ready to open can:
 - Repurpose idle capacities to meet more immediate needs i.e. ghost kitchens in closed school/stadium/workplace cafeterias
 - Provide virtual or simulated experiences as a gateway to entice/book future visitation
- Entertainment venues will need to demonstrate value to compete with shrinking share of wallet for leisure activities
 - Group packages, waiving booking fees, ticket bundles including meals / snacks, etc.



Let's take a look at dining



TRAVEL



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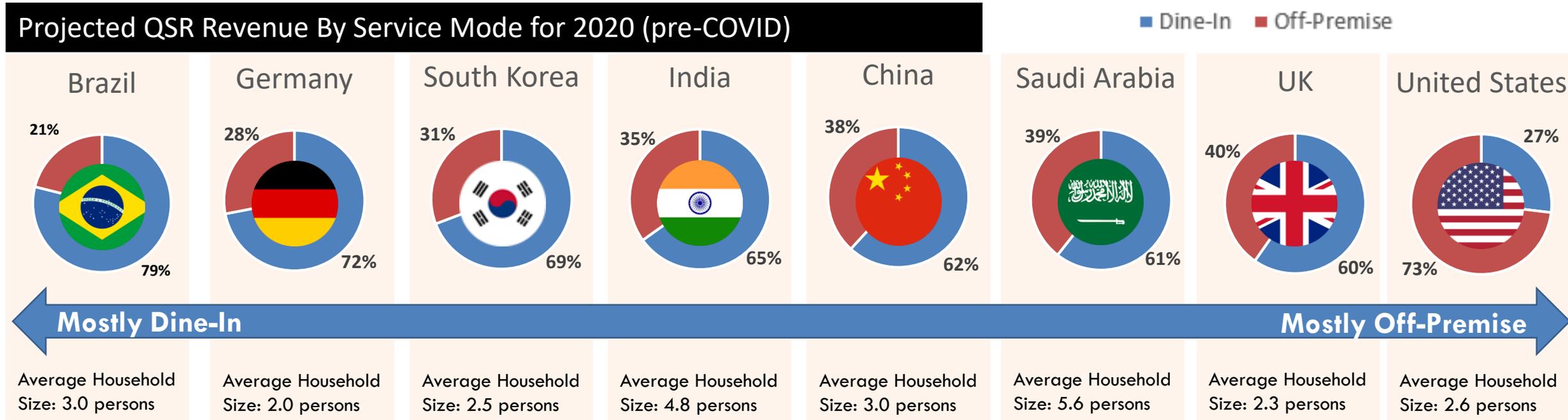


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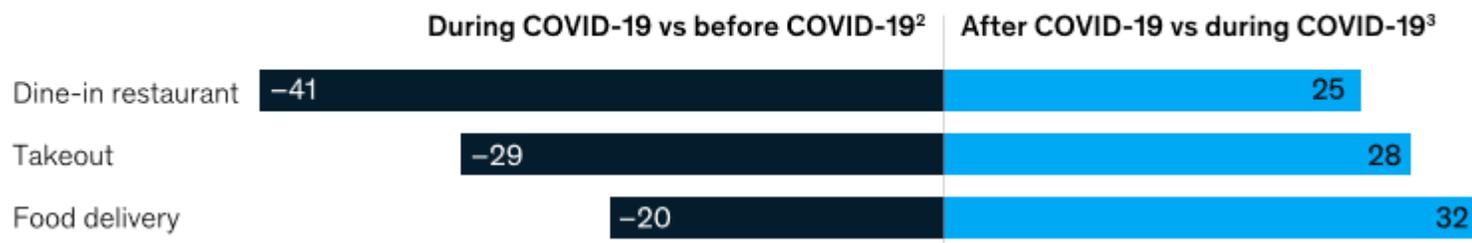


With dining rooms shutdown, delivery and take-away became essential service modes at QSRs – especially for “family meals”

Projected QSR Revenue By Service Mode for 2020 (pre-COVID)



CHINA: Change In Spending Preference (during and post-COVID)



CHINA: Post-crisis spending on dine-in is expected to be remain lower than pre-crisis levels while demand for takeout is expected to return to pre-crisis levels fairly quickly. After the pandemic, Chinese consumers say they will spend more on food delivery than before.



Pandemic Induced Innovations From Asia Include:

Escapist Experiences



Even as lockdowns ease, **international travel remains limited**. Operators are rolling out offerings designed to help consumers experience parts of the world they can't visit.

- In Malaysia, McDonalds launched a series "Discover the World" LTOs featuring foreign flavors

Wishful Wellbeing / Healthy-ish



The onset of COVID-19 drove consumers to seek both better-for-you, as well as indulgent comfort foods. **Plant-based proteins carry at "healthful" halo** and solve for supply-chain issues created by slaughterhouses closing around the globe.

- In China, YUM brands KFC, Pizza Hut AND Taco Bell all added plant-based proteins to their menus

Non-Domestic Delivery

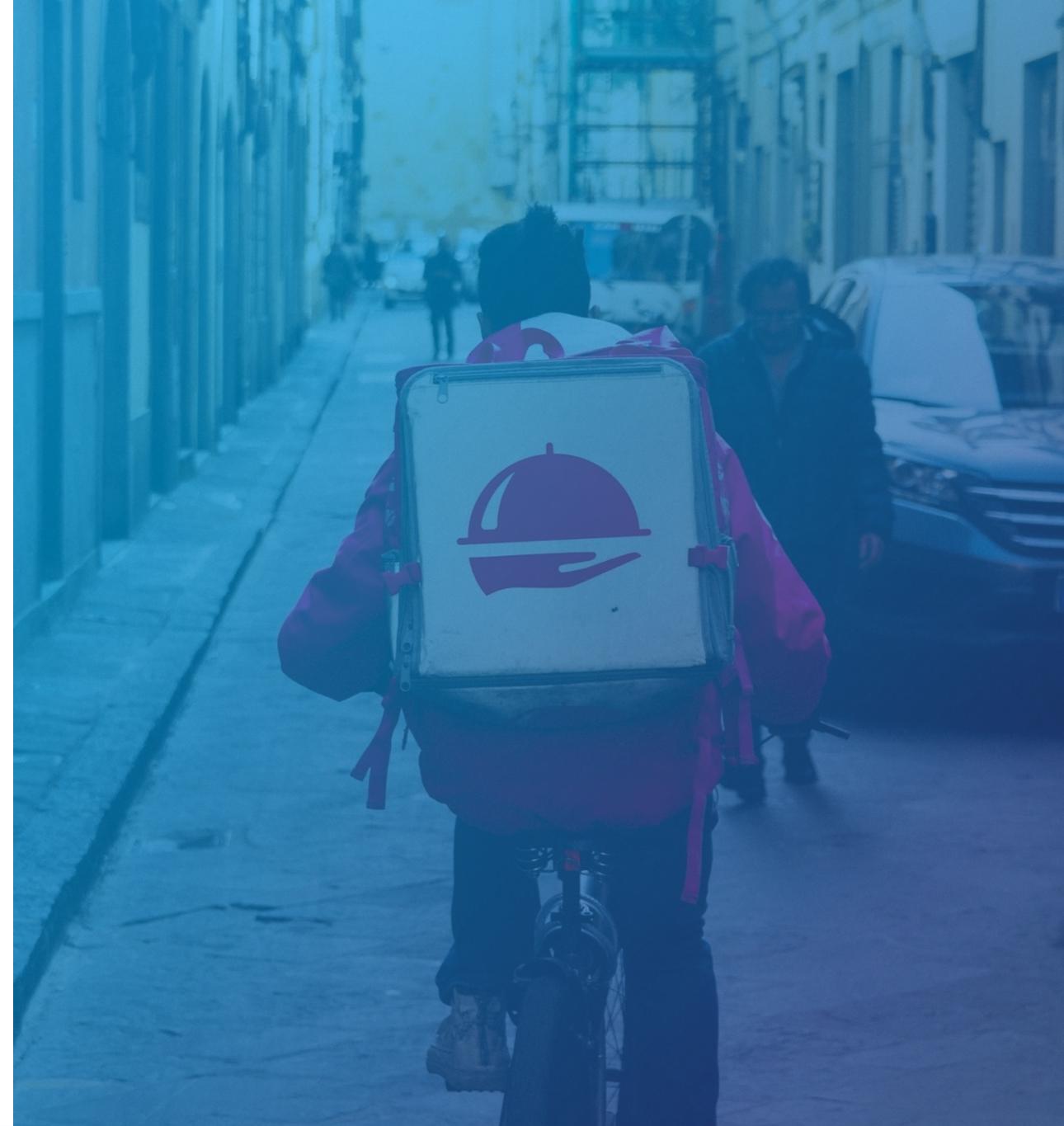


Group takeout orders (office catering) has become a new business for many restaurant chains in China, especially during the COVID-19 outbreak. Even before COVID 53%* of delivery orders in China were made from workplaces and school campuses.

- Feng Shi is recently launched app that allows companies to directly order group meals for employees.

IMPLICATIONS

- Lingered concerns about eating in crowded places means **consumers will likely continue to prefer eating off premise**, at least for a time.
 - Scaling up “group bundles” may be an entry point for B2B catering
 - Reformat restaurants—shrinking seating areas, adding drive-through/take-away entrances.
- Consumers are much more **concerned about what ingredients are in restaurant food**, where it comes from, how it’s prepared, and by whom
 - Increase flexibility, transparency and adaptability of supply chains in order to manage disruption
 - Create new offerings or promotions that give consumers access to experiences not available with current restrictions



The impact of lockdowns was nearly universal, but as markets enter restricted recovery — cultural and contextual nuances become more apparent



Germany hosts the world's first drive-in rave



A Swedish hotel turns its rooms into pop-up restaurants



The American firm behind these customized masks has amassed a long waiting list



A hotel in the Maldives rolls out 'Beach Bubble' perfect for social distancing



Sodexo France repurposes closed school kitchens to start a meal delivery service



Dubai based designer unveils Qworktine pods concept for in-office social distancing

PepsiCo Foodservice Insights

We are in a time of unprecedented change and disruption as a result of the COVID-19 pandemic. While there are more questions than answers right now, we are committed to delivering best-in-class insights and perspectives that will provide a more informed approach as we jointly build plans that can succeed on the other side of this challenge.

Due to the dynamic nature of the situation, this document will evolve as new information refines our hypotheses.

Special thanks for this edition go to Omar Sahi and Lydia Gau.