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foodservice 

PepsiCo Foodservice Insights

COVID Insights

JULY 10, 2020

After weeks of confinement and cocooning, the country is GRAPPLING with how to move toward a “new normal”

Possible return to restricted living if
COVID-19 cases spike

HORIZON 0
Prevention & Preparation

Feb-Mar 2020



Rapid shift to fear and uncertainty about the seriousness of the virus and how to prepare for “shelter-in-place”

HORIZON 1
Confinement & Cocooning

Mar-Jun 2020 (est.)



Going through stages of adapting to a new, stressful lifestyle and restless for a return to normalcy

HORIZON 2
Restricted Recovery

Jun-Dec 2020 (est.)



Cautiously optimistic and taking cues from others on how to balance our responses

HORIZON 3
New Normal

2021+



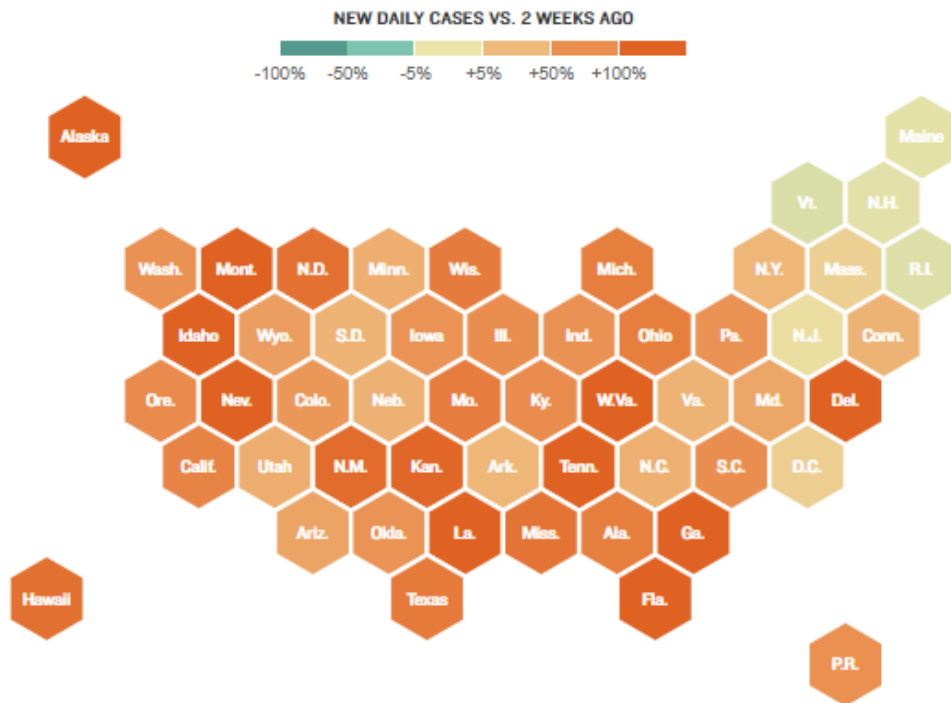
New behaviors form if finances, desire, and/or opportunity dictate; old behaviors return otherwise

Varies by market based on COVID-19 impact, government actions and human response

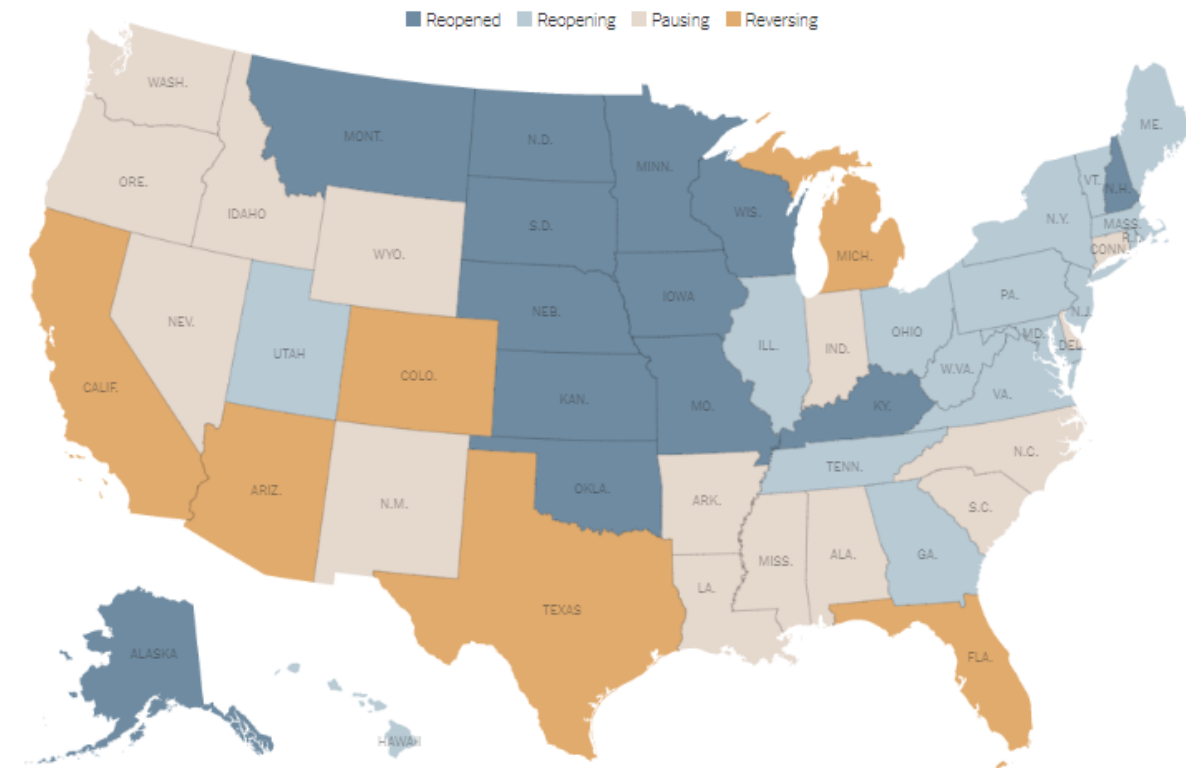
Some states are pulling back on reopening plans as covid-19 cases surge to record levels

U.S. TOPS 3 MILLION CONFIRMED CASES AND CONTINUES TO REPORT RECORD DAILY CASE COUNTS

- Number of **confirmed COVID-19 cases** rising by at least 5% in **45 states**



20 STATES HAVE PRESSED PAUSE OR REVERSED THEIR REOPENINGS



Around the country...

...JULY 4TH TRAVEL VARIED

July 4th travel busier than expected

- July 3rd busiest day for road trips so far this year
- U.S. air travel up 90% vs. last month, but still down 70% vs. YA

States' COVID-19 rates impacted the amount of travel happening

- States currently seeing surges of infections saw travel rates 10% below national avg.
- States with low or decreasing Covid-19 cases nearly doubled rates of travel

...AS CASES CONTINUE TO RISE, STATES ARE RESPONDING

- **Texas** ordered **re-closure of bars & restaurant capacity reduction** to 50%
- **Restaurants in Miami-Dade** County in ordered to **shutter dine-in** services
- Governor of **NJ** signed executive order **mandating face coverings outdoors**
- Arizona orders **gyms, bars/nightclubs** and **entertainment venues** including cinemas & waterparks **to reclose**

...AS FALL 2020 COMES INTO VIEW, SCHOOLS ARE LEFT IN LIMBO

Schools are lacking a clear consensus of what the Fall 2020 school year will look like sparking major debates:

- Some states have announced re-openings plans, but vary widely
- The administration threatens to cut federal funding to schools that do not open in the fall
- Strong backlash to new policies affecting International students, Harvard & MIT suing Trump administration

HOW WILL THESE CHANGES CONTINUE TO IMPACT OUR FOODSERVICE CHANNELS?

Today's Focus:

WORK



- **B&I**
- **Education**

DINE



- **Restaurants**

PLAY



- **Recreation/Gyms**
- **Entertainment/
Cinema**
- **Stadiums**

TRAVEL



- **US Travel**
- **Airlines**
- **Hotels**

Let's take a look at Workplace & Education



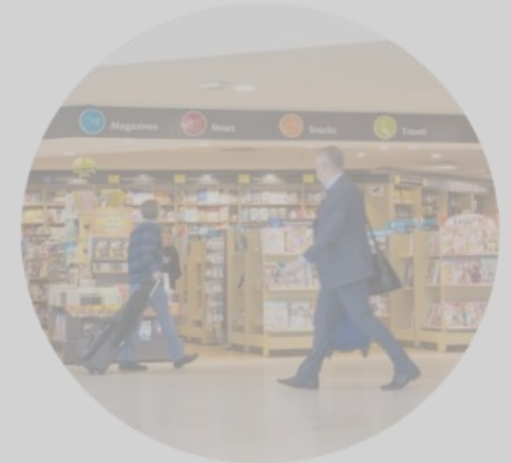
WORK



LIVE



PLAY



TRAVEL

- **B&I**
- **Education**



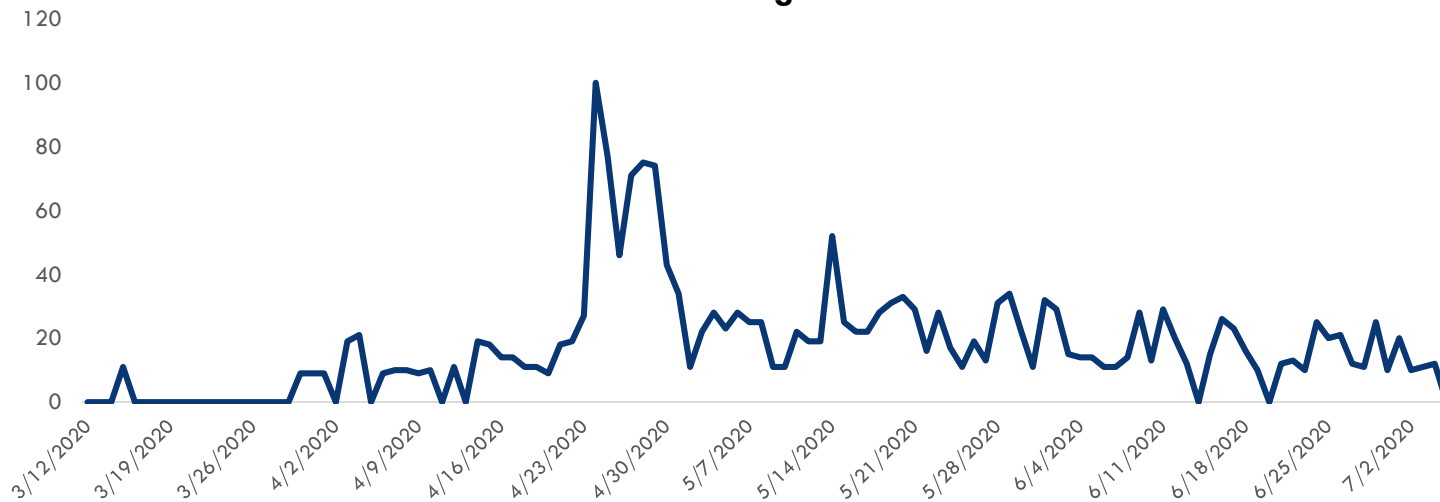
As consumers get more used to WFH, some say ‘pros’ outweigh ‘cons’

1 IN 5 CONSUMERS ARE WORKING MORE SINCE COVID-19 STARTED

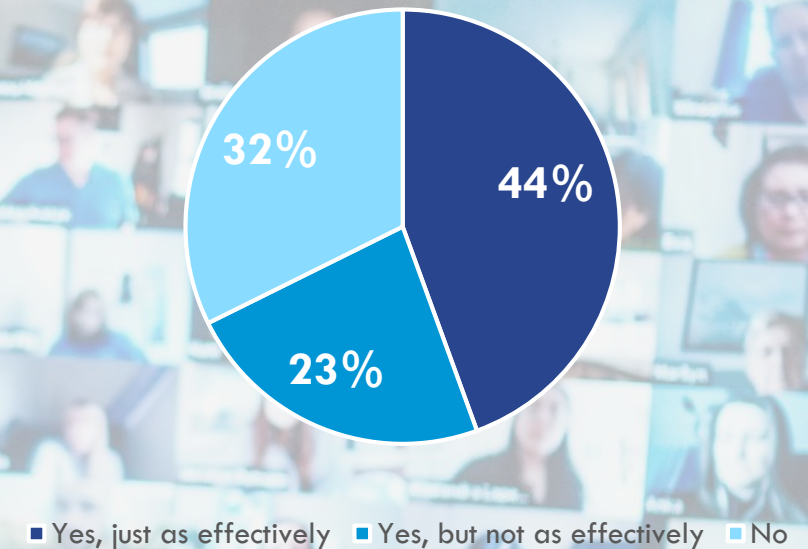
*“Video chats mean we **need to work harder to process non-verbal cues** like facial expressions, the tone and pitch of the voice, and body language; **paying more attention to these consumes a lot of energy...** You **cannot relax into the conversation naturally.**”*

BBC Interview with Professor Gianpiero Petriglieri

Searches for ‘Zoom fatigue’ over time



Of those who can work from home, most report being **MORE** effective



50% 😊
of those who can work from home, have had a mostly positive experience

65% ⚖️
agree they're satisfied with their work-life balance



Offices are starting to reopen...but is it worth it?

AS OF MID-JUNE, ONLY **15% OF CONSUMERS REPORT THEY'VE GONE BACK TO THE OFFICE**

EMPLOYEES AND EMPLOYERS ARE GETTING MORE COMFORTABLE WITH **LONGER-TERM FLEXIBLE SCHEDULES**

ONLY **19% OF CONSUMERS ARE READY TO GO BACK TO THEIR OFFICE IMMEDIATELY AFTER SHELTER-AT-HOME**

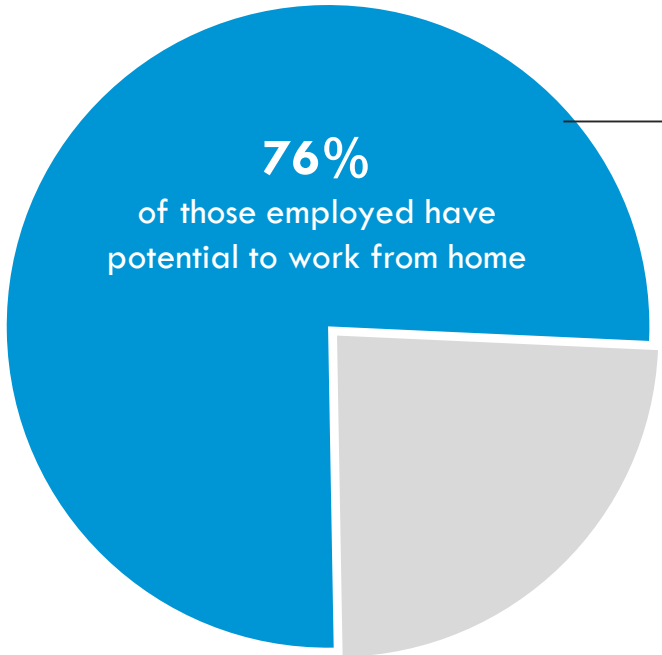


Blue collar workers have returned with distancing & PPE, white collar offices starting to slowly open.



Locations that are open must practice social distancing, extra hygiene, including:

- Mask requirements
- Temperature checks
- Limited occupancy



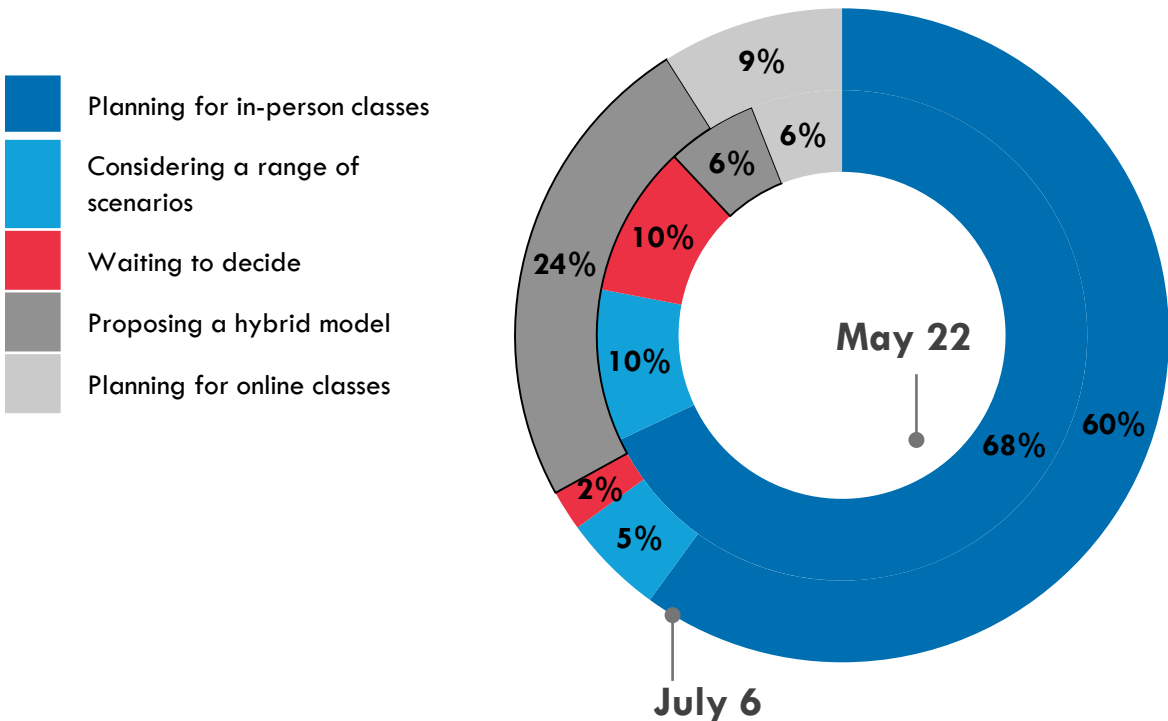
48% think their employer will allow it or already are working from home

75% want to work from home at least some of the time



C&U operators are in the midst of planning for a variety of scenarios...

While most are planning to be in-person in the fall, some are proposing hybrid models



Recent announcements



- Harvard University**
- 40% of undergrads on campus each semester
 - Freshmen will get priority in the fall and seniors in the spring
 - On campus students will live in single bedrooms
 - There will be restrictions on access to dining halls and non-residential buildings.
 - Students will be required to take a COVID-19 test every 3 days
 - Tuition will not be discounted (despite all classes being taught remotely)

- Princeton University**
- 50% of undergrads on campus each semester
 - First-year students and juniors will be on campus in the fall, sophomores and seniors return in the spring
 - Breaks will be shortened to long weekends and students will leave campus before Thanksgiving, having reading periods and exams online
 - In addition to regular testing and requirement of masks, social distancing will be the norm, including that “parties will be prohibited”
 - Tuition will be discounted 10% and most instruction will be remote



Ivy League schools announced the cancellation of all fall sports.



...but long-term headwinds exist for C&U



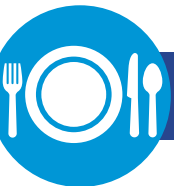
Students Staying Closer to Home

- 49% of the class of 2020 have changed their post-grad plans as a result of COVID-19
- Some state Universities saw spikes in commitments from in-state residents compared to last year
- To save on costs, students and families are considering options such as commuting vs living on campus or starting out at a 2-year school



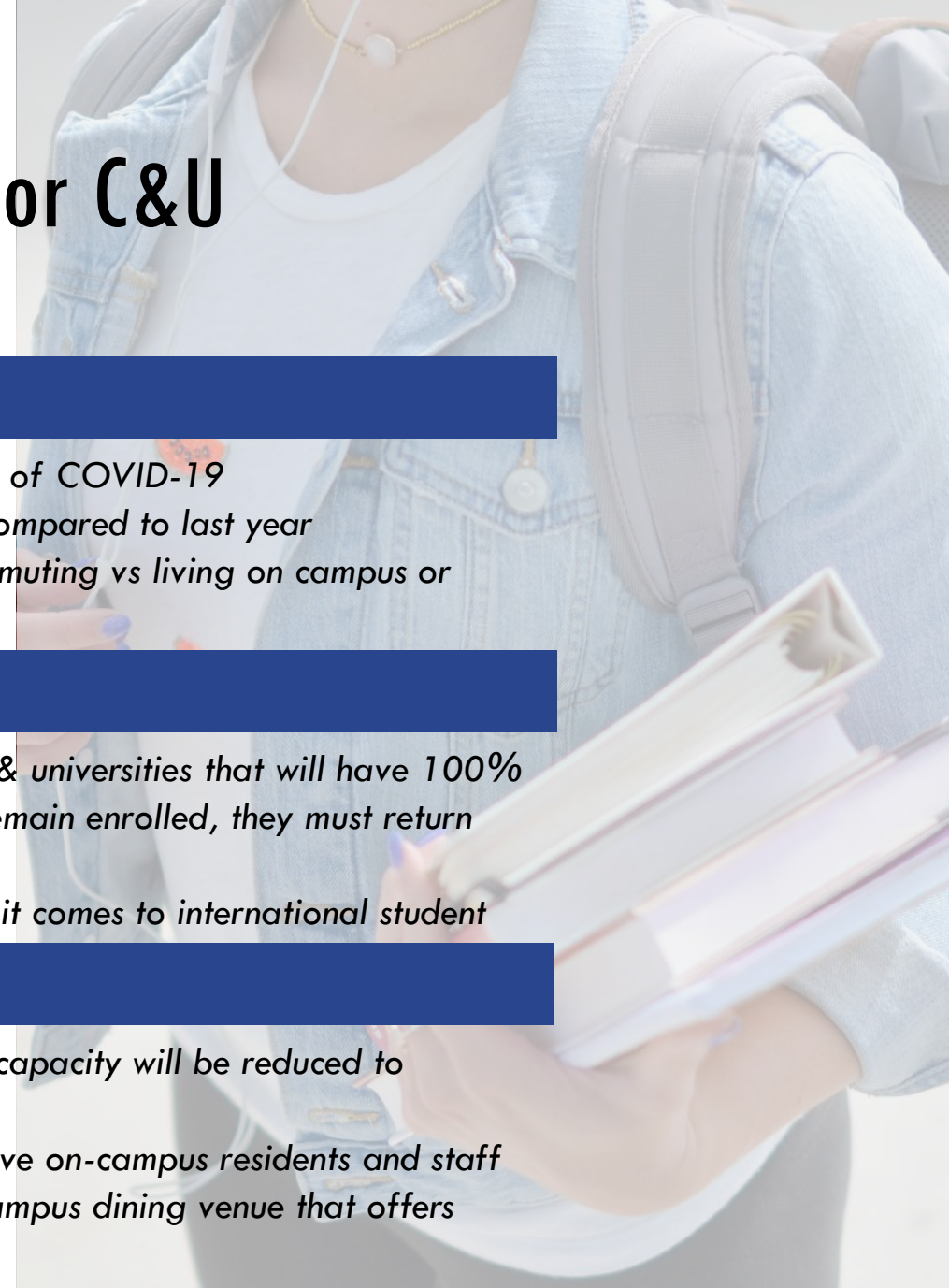
International Student Enrollment Expected to be Lower

- This week, it was announced that International students attending colleges & universities that will have 100% online learning will not be issued student visas. While active students can remain enrolled, they must return home or transfer to school offering in-person instruction.
- Colleges & Universities were already predicting worst-case scenarios when it comes to international student



Dining Halls Changing Roles

- Greater emphasis will be put on to-go and Grab & Go options, as seating capacity will be reduced to accommodate distancing
- Some Colleges & Universities have announced that dining halls will only serve on-campus residents and staff
- 80% of students said they would be more likely to get food from an on-campus dining venue that offers digital ordering and payment options





K-12 school re-opening also on uncertain footing

SOME STATES HAVE REOPENED SUMMER CAMPS

Safety measures a potential indicator of what's to come in the fall:

- ✓ **Fewer campers** allowed per session and those at camp are split into smaller groups they stay with for the session
- ✓ **Social distancing** through plexiglass barriers, marked off personal spaces, assigned seats, and eating meals in shifts
- ✓ **Hand sanitizer** widely available and required upon entry
- ✓ **Daily temperature checks and health screenings** upon drop-off
- ✓ **Designated pick-up and drop-off spots** to minimize the number of people coming in



NBC News



OUTLOOK FOR FALL



Schools aren't aligned on their decisions to re-open

- Some schools will limit in-person attendance to a few days/week, others will leave it up to parents to decide
- The CDC will provide more direction on school guidelines yet won't change them despite Trump claims they're too tough/expensive



Balancing safety with normalcy & peer interaction

- 1 in 5 teachers say they are unlikely to return to school if their classrooms reopen
- Engagement in proper activities, access to right resources, & fear of children falling behind academically are top concerns for continuing at-home learning in the fall.



Increased need for access to free or low-cost meals

- Parents of students experiencing higher rates of unemployment than ever before
- Lunch debt concerns



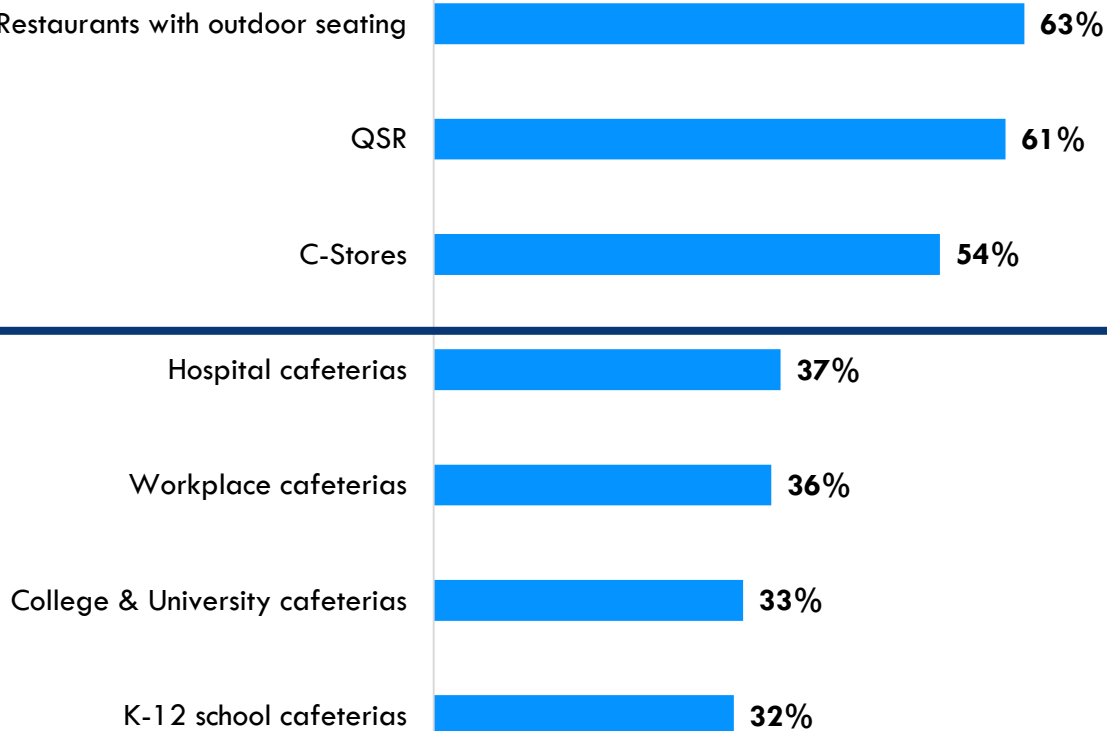
Lunch likely won't take place in the cafeteria

- 69% of K-12 operators plan to have students eat in classroom or at desk only
- 37% are considering shortening school days and eliminating the lunch period for the near future



Overall, consumers have concerns about the safety of Workplace foodservice

CONSUMERS FEEL LESS SAFE RETURNING TO WORKPLACE FOODSERVICE...



% who feel safe going there after
shelter restrictions are lifted

...HIGHLIGHTING A TRUST ISSUE

33% of consumers **DO NOT TRUST** cafeterias (schools, offices, hospitals) to take the necessary precautions to keep them safe

what would need to happen for you to feel safe dining in again?

- ✓ **Spaced out tables** 40%
- ✓ **Employees wearing masks** 39%
- ✓ **All common areas are visibly wiped down regularly** 39%
- ✓ **Restrooms are extremely clean** 39%
- ✓ **Employees wearing gloves** 38%
- ✓ **Sanitizing products provided to customers** 38%
- ✓ **Smaller capacity** 36%
- ✓ **No self-serve buffets** 25%



That leaves Workplace foodservice in new territory

GRAB & GO IS A TOP MENU PRIORITY

MENU FOCUS FOR REOPENING

B&I	Grab & Go	Healthy	Comfort
C&U	Grab & Go	Comfort	Healthy
K-12	Grab & Go	Healthy, Good Supply, Kits	Ready-to-Heat
Hospitals	Healthy	Grab & Go	Comfort



Boston College plans to streamline menus to focus on its most popular menu items, “comfort foods that intersect with ethnic preferences.”



Aramark opened pop-up convenience stores for healthcare workers across the country to serve as one-stop shops for groceries and other necessities.

POST-PANDEMIC NEW SOURCES OF REVENUE



Nearly **9 in 10** will continue meal kits



2/3 will continue to-go family meals



2/3 will continue pantry



IMPLICATIONS

1. As consumers start to return to Work channels for potentially the first time in months, consumers will have a strong need to have safety concerns addressed
2. Operators should consider revisiting the footprint of cafeteria spaces to accommodate for social distancing, desire for grab & go, and growing need for solutions that allow for contactless experiences (i.e., digital order ahead for pick-up and delivery)
3. New product offerings like family meal kits and meals for the next WFH day are potential tactics for revenue



Getting deeper into restaurants...



DINE

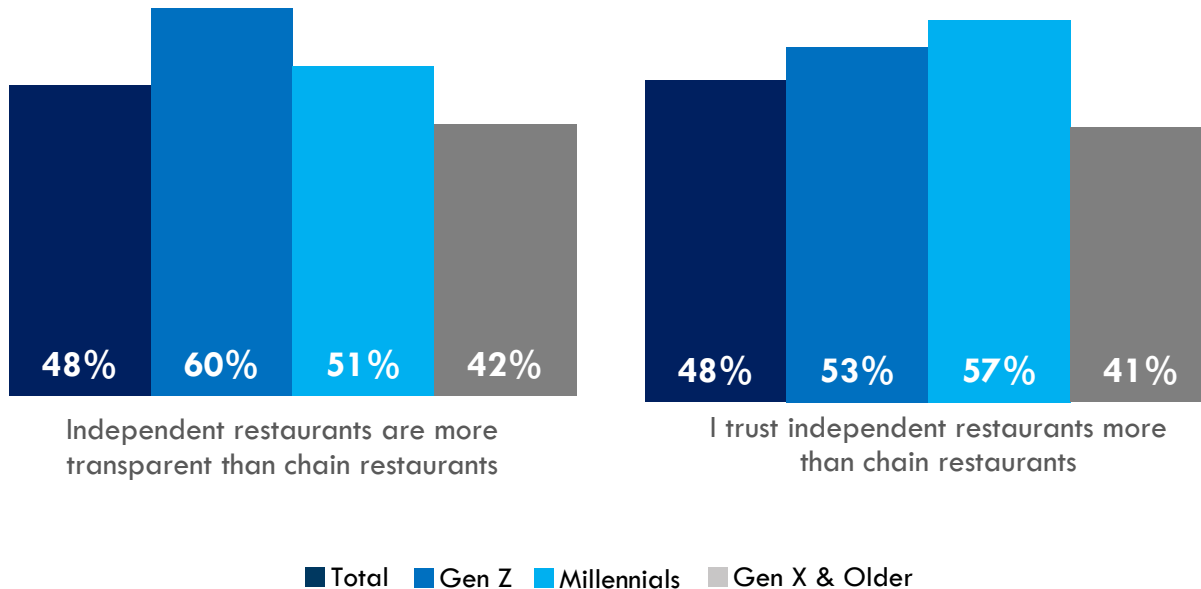
- **Restaurants**



Consumers desire to support local businesses, especially restaurants during the time of COVID-19

YOUNGER CONSUMERS PLACE MORE TRUST IN THEIR LOCAL ESTABLISHMENTS...¹

66% of consumers say they **try to buy from local** companies when possible



...AND ALL CONSUMERS WANT HELP THEIR COMMUNITIES THROUGH LOCAL RESTAURANTS²

62% of consumers

Feel "Eating at restaurants allows me to do my part in helping my community"

54% of consumers

Feel "Eating at restaurants makes me feel connected to the community again"

31% of consumers

Say "Seeing my local community support local restaurants" is one of the most positive food-related outcomes of COVID-19

15% of consumers

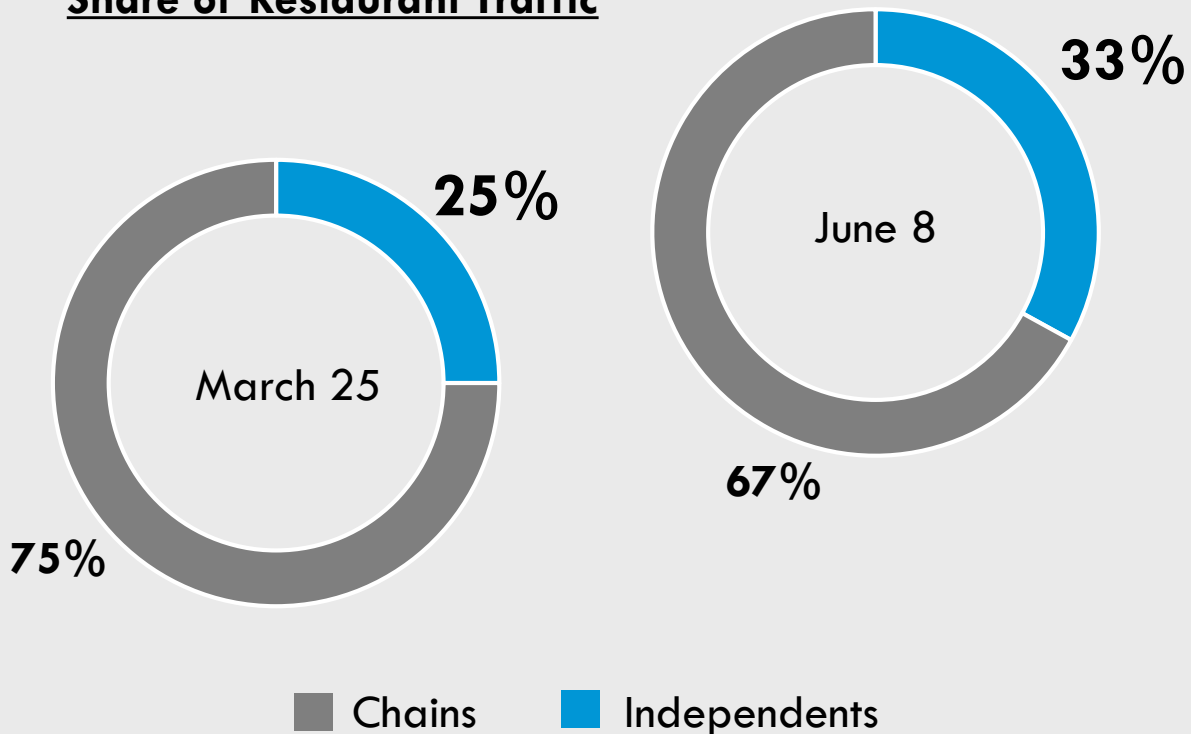
Say "Knowing I support employees in my community" encourages them to visit/order food from restaurants³



Interest in independent restaurants is reflected in a recent uptick in traffic share but some barriers exist

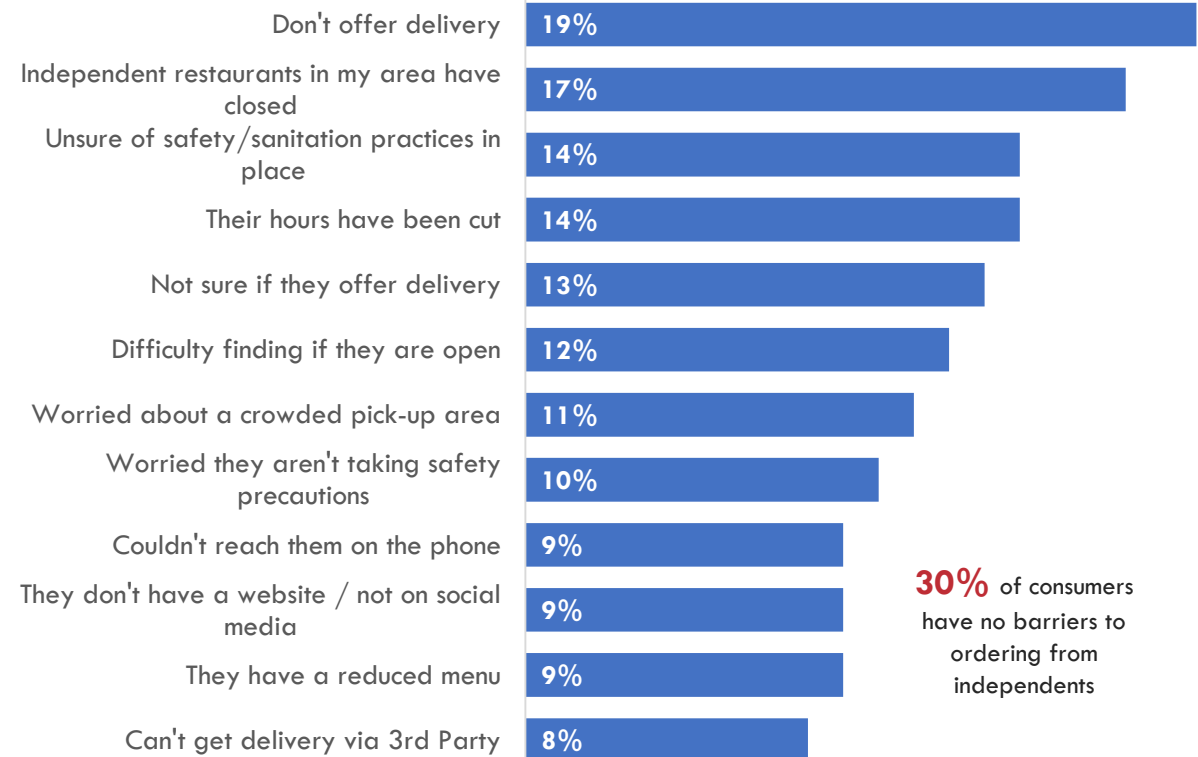
INDEPENDENT RESTAURANTS ARE SEEING AN INCREASE IN RESTAURANT TRAFFIC SHARE SINCE THE BEGINNING OF COVID...¹

Share of Restaurant Traffic



...BUT LACK OF ACCESS CAN KEEP CONSUMERS FROM ENGAGING²

What issues have you had with ordering from independent restaurants during shelter-in-place restrictions?



30% of consumers have no barriers to ordering from independents



Restaurant operators face many re-opening challenges



SPACE & OPERATIONS

- **Physical changes like:** Re-spacing seating, plexiglass barriers, contactless fixtures, air purifiers, removed tabletop items...much more
- **New processes:** reservations-only, virtual queues, ordering process changes, digital menus, etc.



LABOR ISSUES

- Labor pool widened but challenges remain in finding **skilled, long-term labor**
- **Retraining employees** with new processes and training new COVID-related positions
- Creation of a **new work culture** post-COVID-19



SUPPLY CHAIN

- Restaurants must stabilize supply chain in the short term, look to **reorganize operations & supply chain to match new realities**
- **Supply issues persist** as distributors recover from the drop in Foodservice demand & food supply disruptions continue



SHIFTING OPENINGS

- Initial closures caused restaurants to pivot quickly to **off-premise-only operations**
- Re-opening starting with **outdoor dining**, required further adaption
- **Re-closures now looming** may require restaurants to pivot operations again



What does dine-in actually look like in re-opened states?

As the country began to peel back stay-at-home orders and restrictions, operators excitedly re-opened their doors to welcome back guests. What did guests find in their return?

Seating Blocked Off



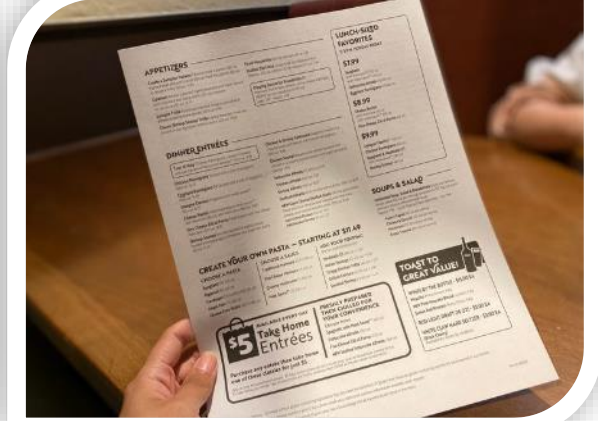
Social Distancing Signs



Masks on Team Members & Guests



Paper Menus



Reservations required

Fewer Customers

Limits on Party Sizes

No Indoor Waiting Areas

Contactless Payment

Individually Packaged Silverware

Noticeable Cleaning & Hygiene

No Salt & Pepper, Nothing on Tabletops

“While everything looked the same at the surface, there were precautions and reminders everywhere that we're still in the middle of a pandemic.”



Restaurants are implementing & optimizing outdoor dining

Outdoor dining has been the first step in reopening around the country.

Many operators did not have an existing or large enough outdoor dining space, causing restaurants to create in-regulation spaces & operationalize very quickly, maximizing the space for revenue & guest comfort

There are many forms based on restaurant locations and layouts:

- Existing Patio Seating
- Sidewalk/Parking Lot Seating
- Open Streets Seating (closed off street areas)
- Pedestrian Plaza Seating (urban areas)

Good

Examples of outdoor dining done properly include safety measures for social distancing & crowd reduction and mask-wearing

Boston, MA



Not-So-Good

Issues arise when outdoor dining leads to crowding/no distancing or mask-wearing;
There are questions surrounding who polices guidelines & varies by location

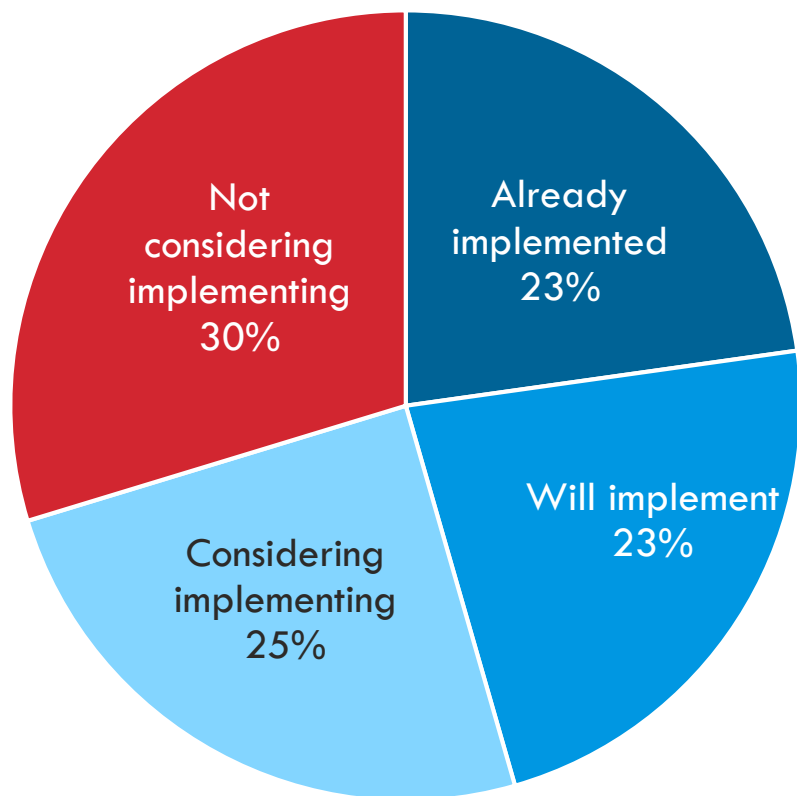
Columbus, OH



In Recovery, operators will balance simplified menus & innovation



PERCENT OF OPERATORS REDUCING THE NUMBER OF MENU ITEMS¹



OPERATOR CONSIDERATIONS



- Restaurants are currently implementing streamlined menus for ops efficiency & service speed, reduced costs/complexity
- In Mar/Apr, Technomic reported fewer product LTOs than normal due to fewer resources for product innovation; Most LTO's were value-based²
- Value LTO's, Family Meals, and Comfort Food will continue into recovery as restaurants try to entice consumers back
- But innovation pipelines remain important, as trends re-emerge post-COVID and consumers seek variety³

Menu Impacts Across the Stages⁴

	Confinement	Initial Recovery	Recovery	New Normal
Menu Actions	Menu Rationalization	Menu Revitalization	Menu Optimization	Menu Reinvention
What's Happening	Menus shrink, with items tailored to off-premise	Craveable, value-driven items prevail	Low-cost, high-profit-margin items that drive check averages	More advanced culinary innovation



Guests will accept short term menu changes, but still want variety from restaurants

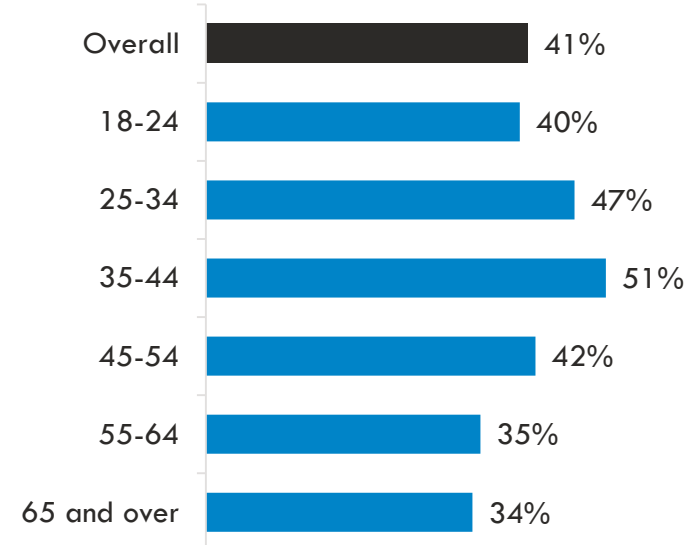
Many consumers are **empathetic** to current operator challenges and will accept some change in the short term

What would you think if your favorite restaurant did any of the following during this period of shelter-in-place restrictions? immediately after?¹

	ACCEPTABLE
Adds many new menu items	84%
Shortens menu to only most popular items	69%
Reduces options / flexibility for customization	63%
Increases menu prices slightly	52%
Offers / sells lower quality alcohol	49%

BUT... Not all consumers feel this way, as some note they would be upset with reduced menu sizes
AND... Consumers will desire variety as we move back into the New Normal

It would be upsetting to visit a restaurant to then find out that their menu has reduced in size²





Catering is shifting to smaller events with individual items

FROM: LARGE GATHERINGS



TO: FAMILY/INTIMATE GATHERINGS

- A majority of catering programs saw significant decreases during COVID-19 due to the cancellation of large group events and workplace shutdowns
- Focus is now on new customers (e.g. families, essential businesses) with a higher number of deliveries with smaller event sizes and lower ticket averages
- Shift from sandwich platters, family-size salads, shared party trays to individually wrapped sandwiches, boxed lunches, individually portioned entrees/sides/dessert to prevent contact and potential contamination at group gatherings; **Strong opportunity to provide individual-size chips as a side for this occasion as they travel & pair well.**
- These shifts require operations & logistics changes, as well as incremental costs such as labor, packaging, and delivery that must be considered
- Potential Future State – Catering “virtual events” is an idea being explored by Panera Bread; creating a singular, private menu that participants can order from at any Panera around the country and have that product delivered at a specific time





The growth in the delivery space is leading to change for both restaurants & 3rd Party Delivery

DELIVERY CONSOLIDATION

NOTABLE MERGERS/AQUISITIONS

GrubHub to merge with European food delivery company Just Eat Takeaway in \$7.3B deal



Uber to buy Postmates for \$2.65B, combining US networks of restaurants & delivery people; separate apps will remain active



DELIVERY NEWS

DELIVERY ONLY/GHOST KITCHENS

Brinker launched national delivery-only chain "It's Just Wings," delivers through DoorDash; Orders fulfilled via Chili's & Maggiano's kitchens

WingStop opened 1st US Ghost Kitchen in Dallas, TX; future goal of digitizing 100% of transactions

REGULATION

NYC, LA, Portland join list of large US cities capping 3rd party delivery fees to help restaurants

IMPLICATIONS

Speculation on long term impact of **delivery consolidation** - Commission fees a big question. Potential for more choices for consumers, more work for delivery drivers. Consumer loyalty to one app/company may increase.

Delivery-Only businesses will continue to grow near term as restaurants fight for survival; Offers flexibility for new & established brands to bring in revenue at a crucial time.

Opportunity in the future of alcohol to-go

Many states relaxed liquor laws as a temporary COVID-19 relief measure, allowing restaurants & bars to sell alcohol to-go, increasing off-premise revenue in recovery & beyond while consumers safely enjoy their alcoholic beverages at home. Now, some are making the changes permanent.

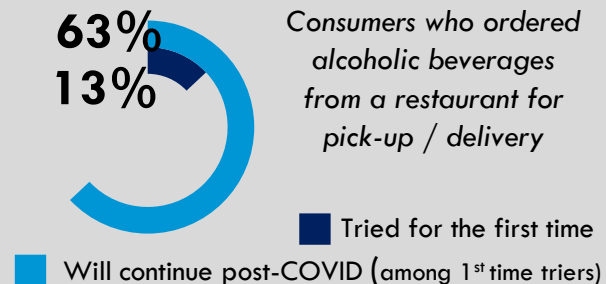
A FIGHT A' BREWIN'

IOWA governor signed a bill into law permanently allowing cocktails to go on menus, **MICHIGAN** extended through 2025.

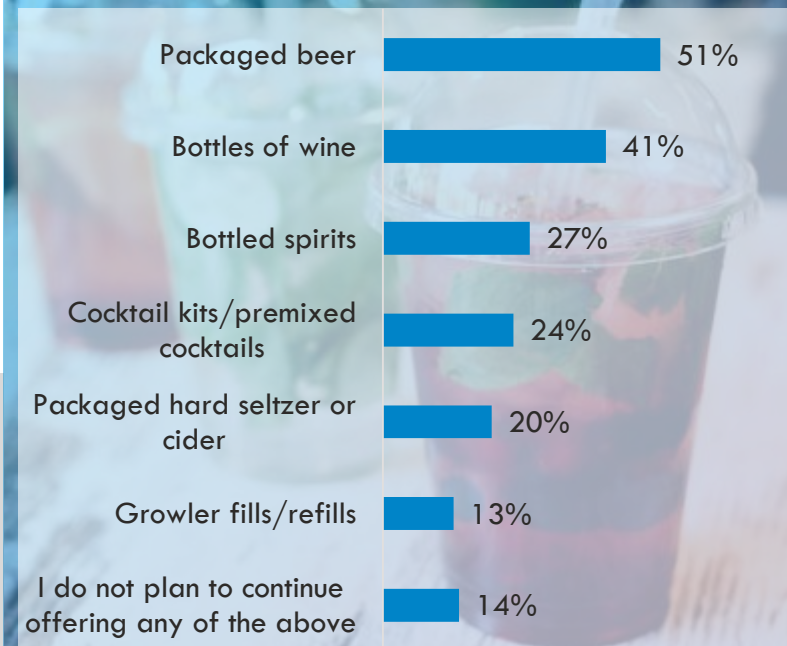
States currently considering making temporary cocktails to-go policies permanent: **FLORIDA, OHIO, OKLAHOMA, TEXAS, DC**

BUT... There is potential legislation opposition from alcohol retailers, as well as groups concerned with upholding alcohol safe-serving policies.

OPPORTUNITY: Retention of the new adopters of alcohol to-go is an opportunity area for restaurants (if permanent). And early indicators show it is incremental to off-premise beverage sales. Innovation and menu planning for this offering could be a differentiator.



% OF OPERATORS WHO EXPECT TO CONTINUE OFFERING THE FOLLOWING ADULT BEVERAGES FOR OFF-PREMISE AFTER BUSINESS RETURNS TO NORMAL²

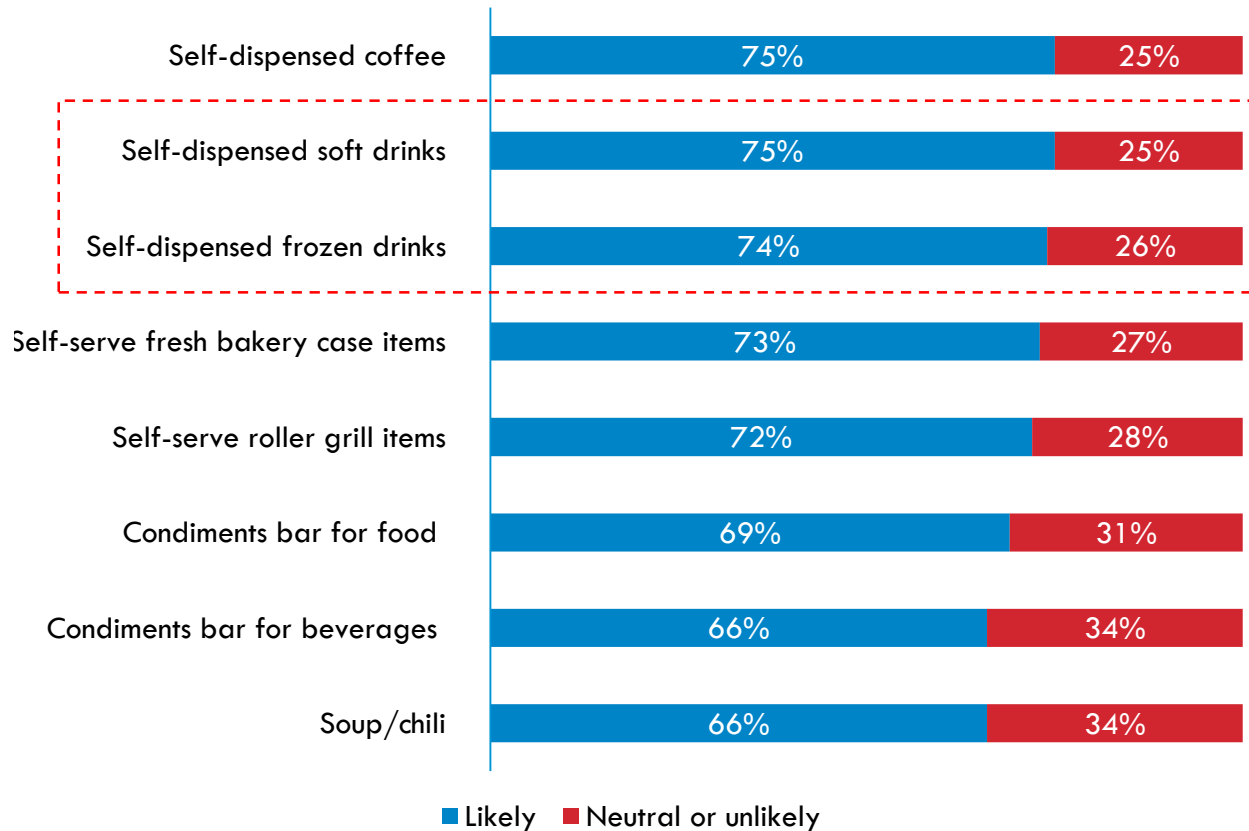




POST-COVID, CONSUMERS WANT TO RETURN TO SELF-SERVE AT C-STORES

CONSUMERS ARE MORE INCLINED TO RETURN TO SELF-SERVE BEVERAGE OPTIONS, BUT OPERATORS WILL STILL NEED TO REASSURE & DRAW THEM IN

% likely to return to self-serve



After closing them in March, **Wawa** has reopened self-serve areas in 60 locations with added safety measures including tissue paper to cover handles & wrapped stirrers.

As a welcome back to customers, **7-Eleven** is offering seven free any size hot coffee and/or any size fountain drinks for 7Rewards loyalty members per day via the 7-Eleven mobile app.





TECH ENABLED SOLUTIONS ALLOW OPERATORS TO STAY ENGAGED WITH THEIR CONSUMERS



**Country Garden –
Robot Restaurant**

- **Country Garden**, a developer in China has opened up a restaurant completely operated by robots, eliminating most human-to-human contact.
- The space is 20,000+ sq. ft., can handle 600 diners at once, and has 200 menu items available within 20 secs of ordering.



**Domino's –
Wedding Registry**

- **Domino's** has unveiled the “Domino's Rain Check Registry” targeting couples who have had to postpone their weddings due to COVID-19.
- Friends & family can send gift card packages to couples who register on the website.



**Chipotle Mexican Grill –
Virtual Farmer's Market**

- **Chipotle** has created an online platform connecting farm suppliers directly to consumers.
- The platform allows consumers to buy items directly from farmers, and was created with the intention of generating a new revenue stream for farmers amid COVID-19.



INNOVATION IS BACK ON THE MENU



- **The Capital Grille** introduced “The Capital Butcher,” offering consumers a way to enjoy their signature steaks at home.
- Consumers can choose from 4 Steak Grille Boxes which include 4 steaks cut daily by the in-house butcher and include a Signature Steak Sauce.



- **Blaze Pizza** introduced a new menu innovation, the Mango White Claw Pizza which was available for one day only.
- Blaze Pizza’s executive chef infused the crust of the pizza using Mango White Claws to replace filtered water in the dough.

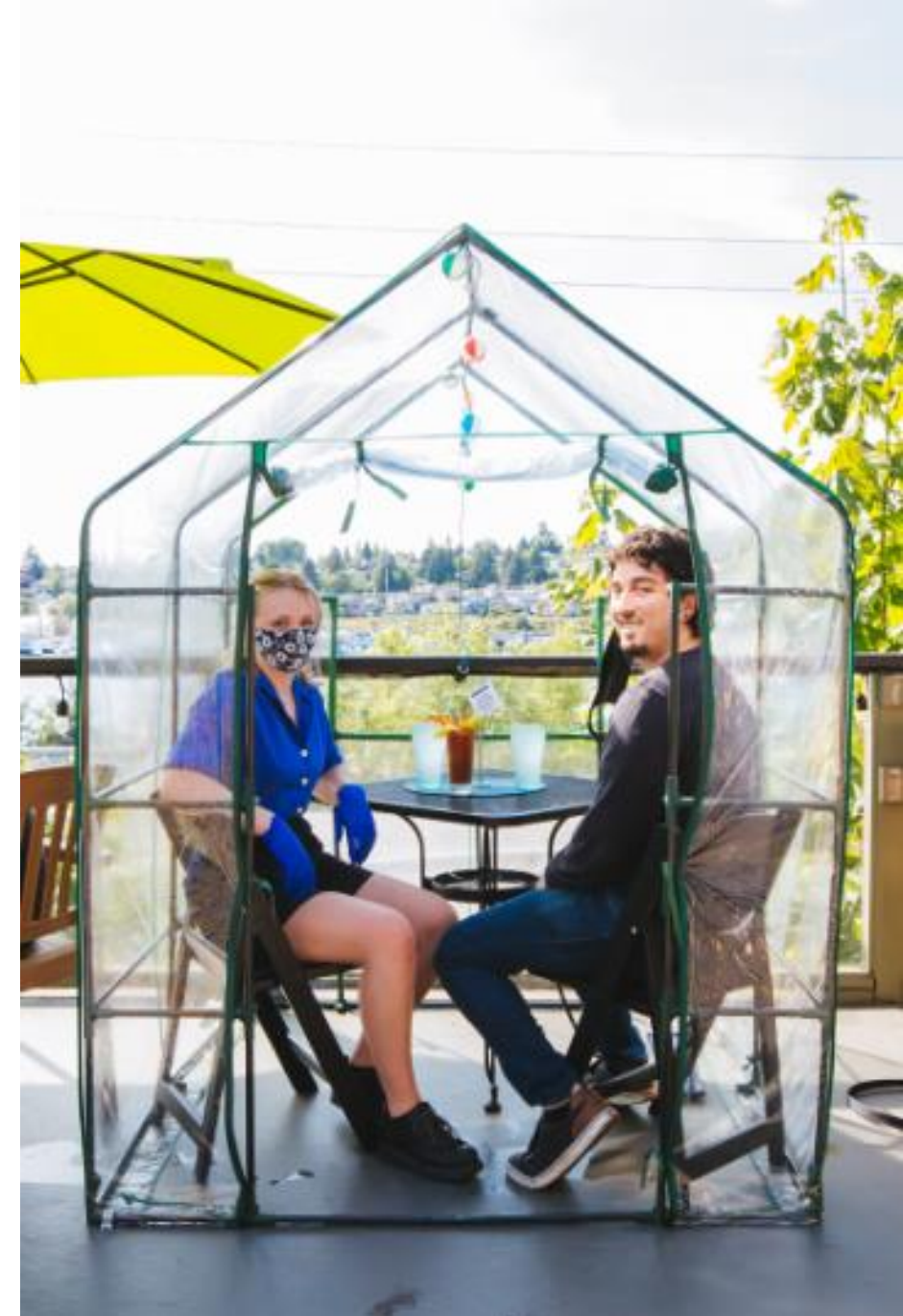


- **Curry Up Now** is hopping on the chicken sandwich bandwagon, launching the Tandoori Fried Chicken Sandwich
- This permanent menu addition features a crisp-fried tandoori-marinated chicken topped with Bombay-dust aioli, pickled onions and a chutney made with curry leaves, pineapple and jalapeno on a brioche bun.



DINE IMPLICATIONS

1. Especially in Independent Restaurants, evaluate any guest pain points and remove barriers to visitation as much as possible to capitalize on positive consumer sentiment.
2. Take care if/when simplifying menus to ensure retention of key guest-satisfying and value-focused items, while filling the innovation pipeline for the New Normal.
3. Focus on off-premise beverage menus, with a mix of non-alcoholic beverage and alcohol to-go (where legal) to maximize revenue opportunities.





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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 **Nina Guest, Ashley Dodge, and Amy Edler.***