Insights
PepsiCo Foodservice

PepsiCo Foodservice Insights Briefing

Update on Shop

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THE DIFFERENCE A YEAR CAN MAKE…

RESTAURANT CLOSURES – 3/25/2020

STATEWIDE CLOSURES OF DINE-IN SERVICE AND BARS

NO OFFICIAL STATEWIDE CLOSURES

- Two weeks into the pandemic, restaurants and bars were shuttered in all but 5 states

RESTAURANT CLOSURES – 2/1/2021

RESTAURANTS OPEN, NO DIRECT CAPACITY LIMIT STATEWIDE

RESTAURANTS OPEN, 60-75% CAPACITY

RESTAURANTS OPEN, 50% CAPACITY

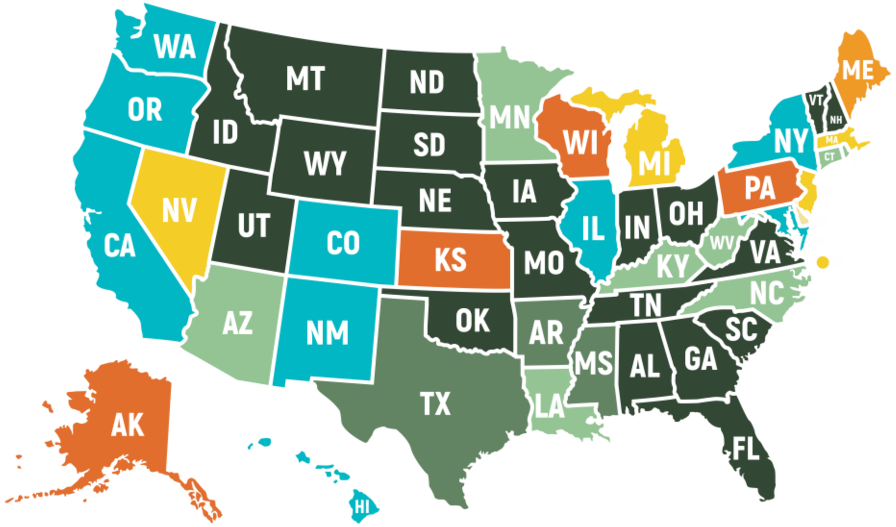
RESTAURANTS OPEN, 30-33% CAPACITY

RESTAURANTS OPEN, 25% CAPACITY

RESTAURANTS OPEN, 50 PERSONS / ROOM

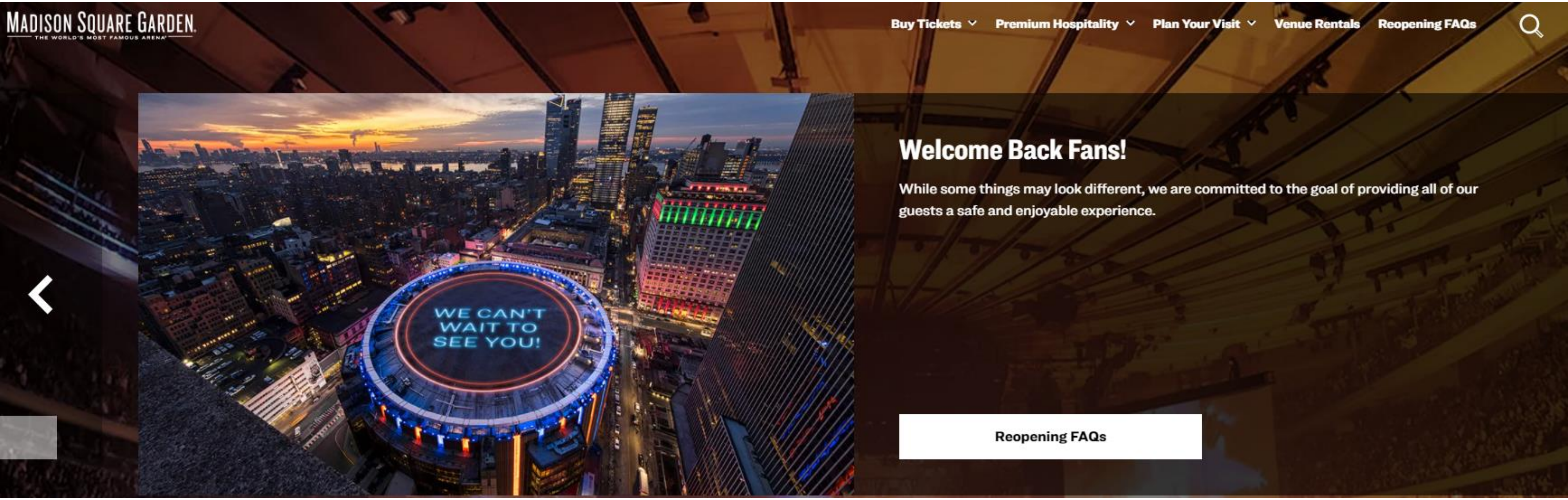
RESTAURANTS OPEN, MISC. GUIDELINES

REGULATIONS VARY BY COUNTY/REGION



- Just shy of a year later, restaurants and bars around the country are opened in some capacity

START SPREADING THE NEWS….



WHERE ARE WE NOW?
SHOP CHANNEL

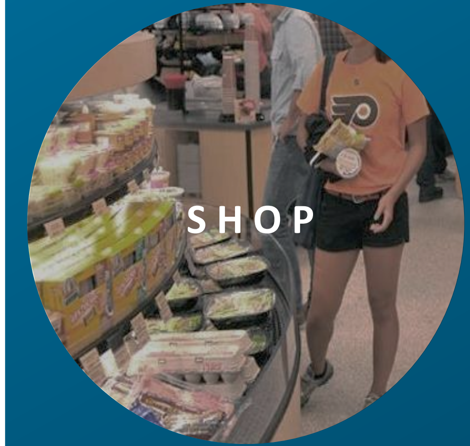
WORK

DINE

PLAY

TRAVEL

SHOP



Today We'll Cover:

- Retail Channel Landscape & Shopper Behaviors
- Update on:
  - C-Store
  - Warehouse Club & Club Cafe
  - Specialty Retail

Retail results and performance were widely divergent in 2020

2020 Retail Successes & Challenges

Shift to Essentials

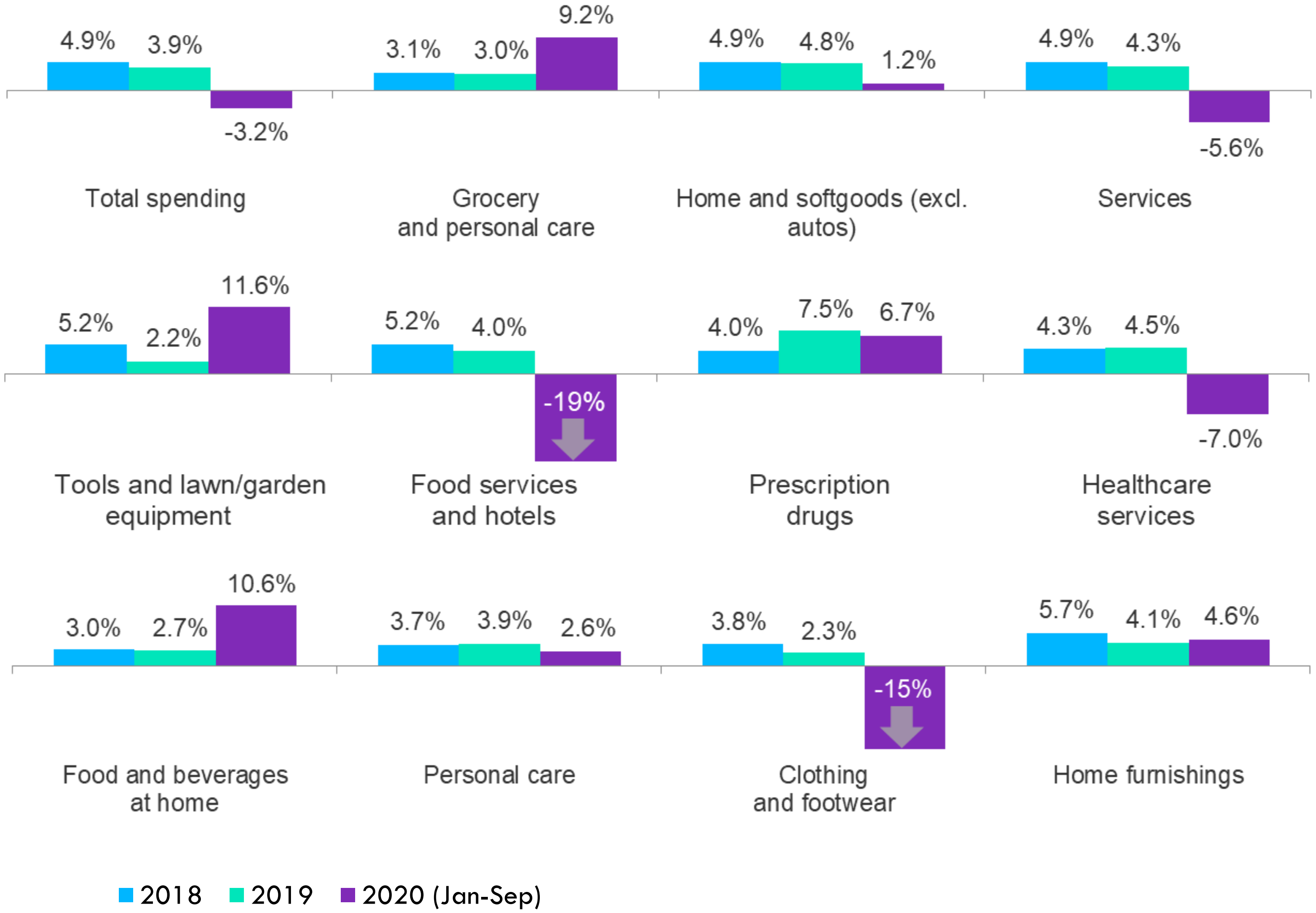
- *Strong performers:* Grocery, mass retail/drug, household essentials & home improvement
- Record-setting growth in some retail segments driven by a shift to life at home & the ability to serve shoppers online amid the pandemic
- Discretionary spending diverted from experiences (e.g. dining & travel) to spending on entertainment, health, comfort, etc.

Away from Non-Essentials

- *Sales Losses:* Discretionary categories like apparel, beauty, home decor & some big-ticket items
- Volatility as non-essential stores closed, & inventory availability fluctuated
- At least 28 mall-based apparel and specialty retailers filed for bankruptcy in 2020

Source: Kantar 2020 Retail Year in Review Jan 2021

Household category spending trends mirror retail results



- Total spending declined for the first time since 2009.
- Grocery/personal care posted strong gains.
- Services were down sharply.

- Home improvement spending surged.
- Food services and travel were hurt most by the pandemic.
- Individuals avoided unnecessary health services.

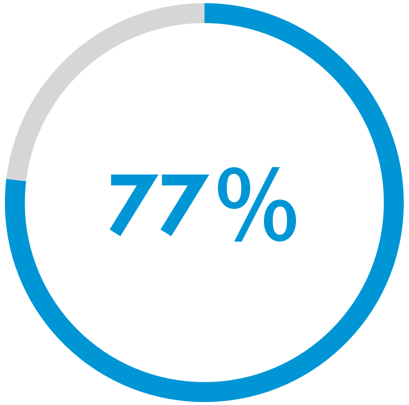
- Food-at-home spending posted double-digit gains.
- The pandemic and recession dampened personal care and cosmetics.
- Apparel spending was hurt by staying home more and the closure of nonessential businesses.

Source: Kantar 2020 Retail Year in Review Jan 2021

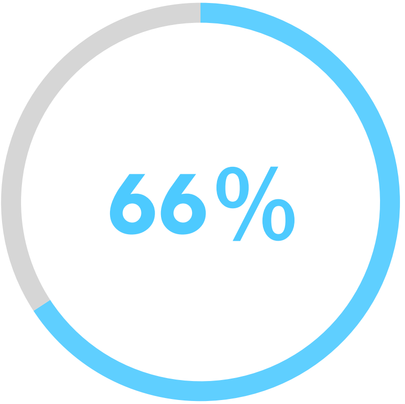
Shoppers looked to get as much as possible out of every retail trip

More desire for one-stop shopping to minimize the need for multiple stops

How COVID-19 Impacts Shopping
(share of all shoppers who agree/strongly agree))



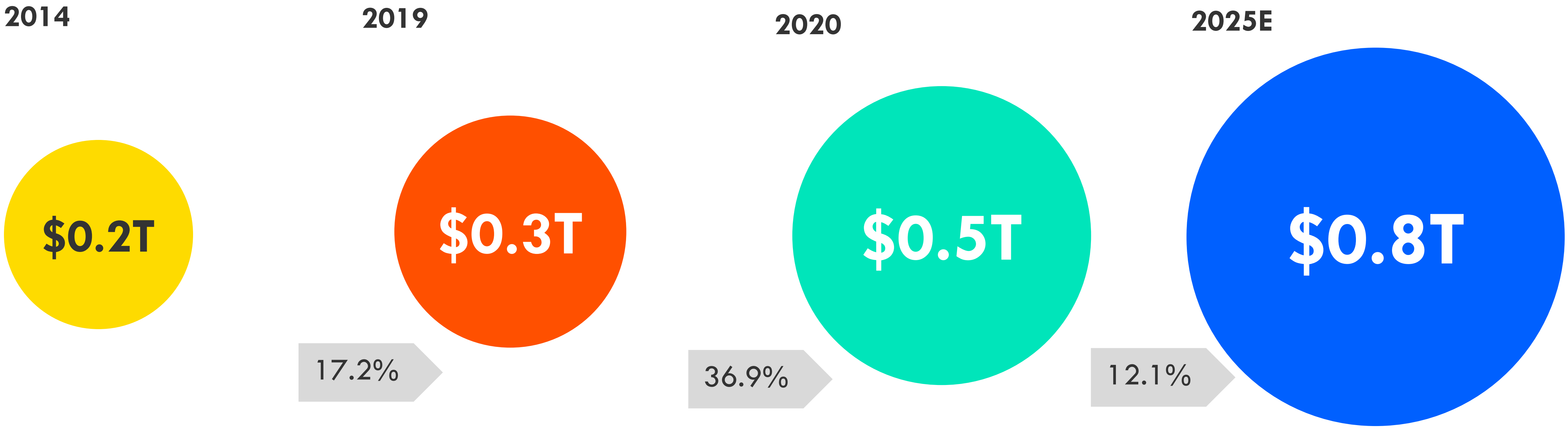
Trying to **minimize the number of trips** I take to the store



Buying more items from one retailer to minimize the number of trips/stores visited

Ecommerce hit meteoric growth in 2020 though will slow in the future

US retail growth: Online sales only



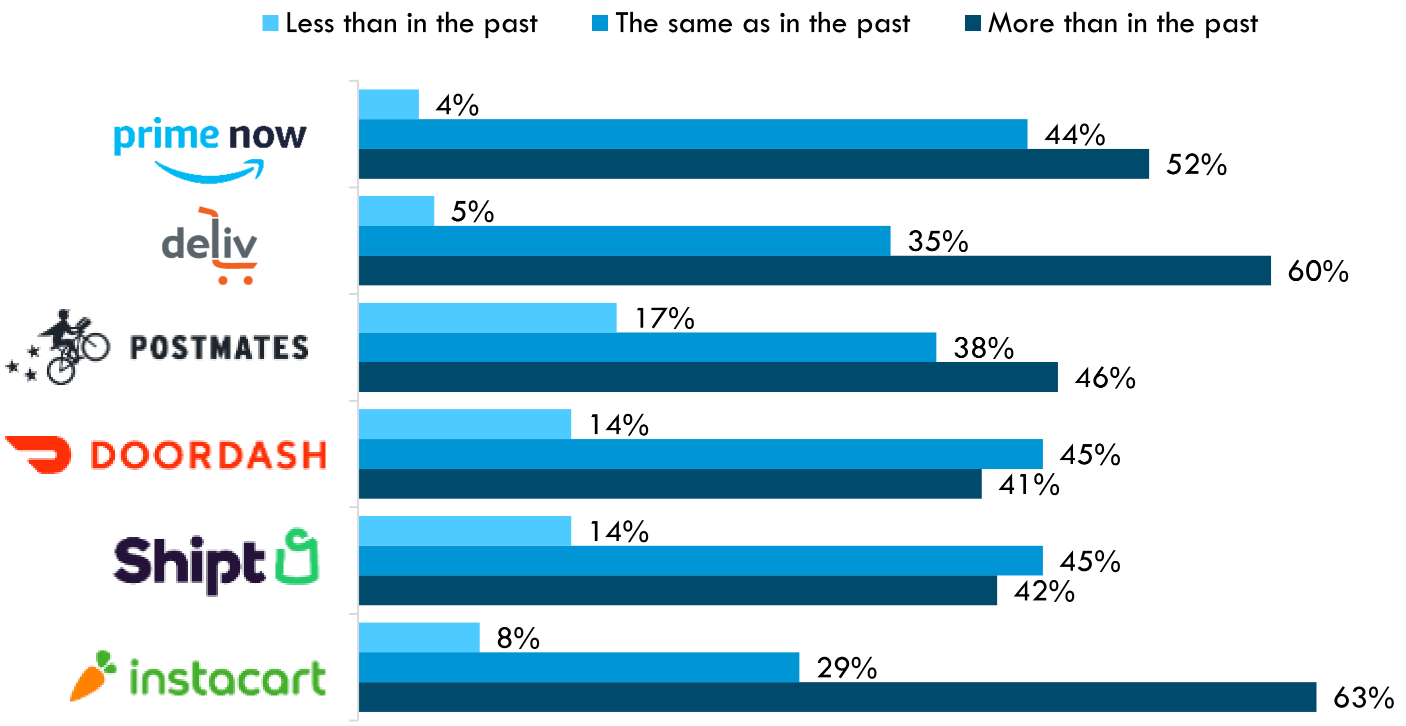
KANTAR US CHAIN SALES (USD)

Arrow represents CAGR for that time period.

Source: Kantar 2021 US Retail Outlook January 2021

Third-party delivery services were a lifeline in 2020, and consumers plan to use them even more this year

Planned Use of Delivery Services in 2021



Note that Deliv, Postmates, and Shipt are small bases: use only directionally.

Source: Kantar 2021 US Retail Outlook January 2021

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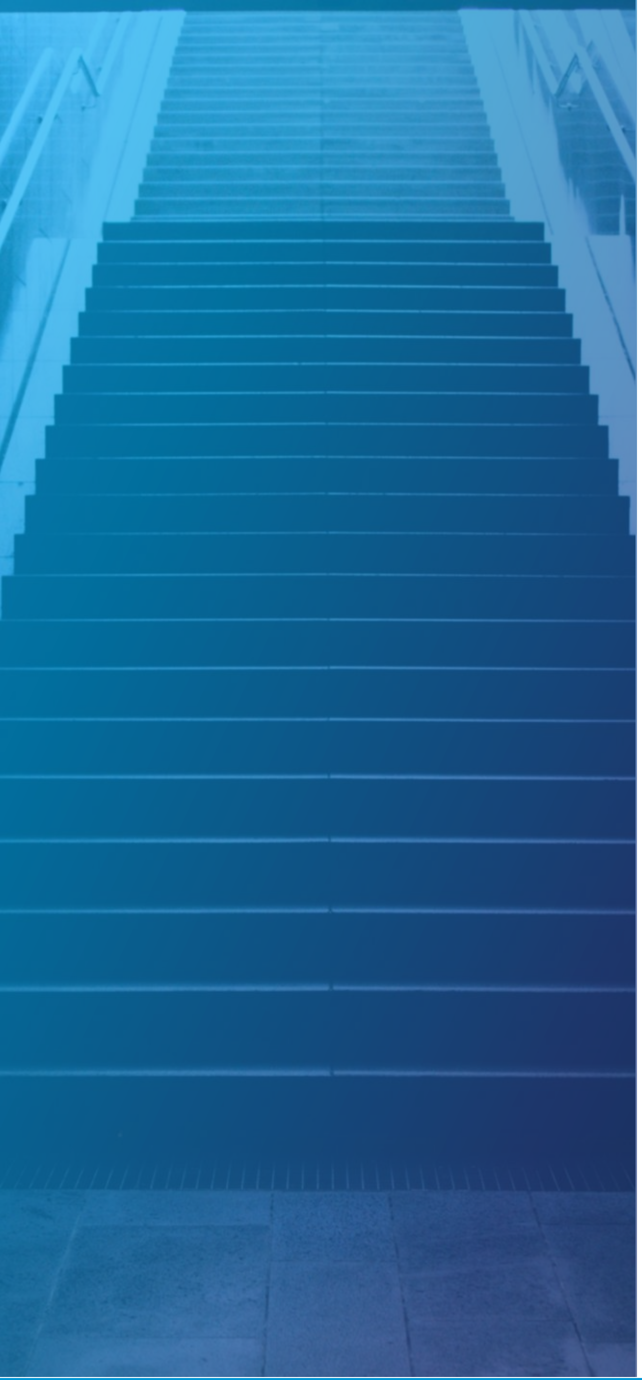
Convenience Store



Convenience Stores are expected to return to growth in the long term

CURRENT STATUS

2020 SEGMENT GROWTH

(Real) (% Change in Retail Sales Equivalent)

RETAILERS
-20.6%

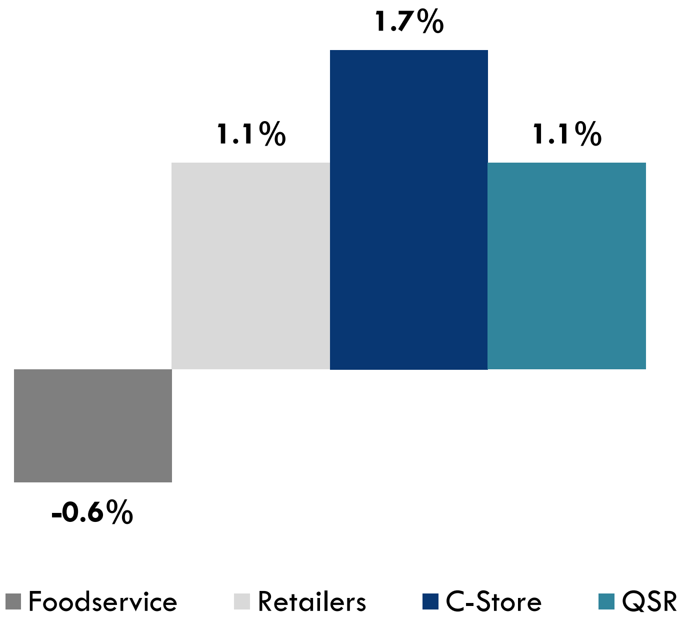
C-STORE
-22.6%

QSR
-9.4%

MOVING FORWARD

SEGMENT CAGR 2019-2025

(Real) (% Change in Retail Sales Equivalent)



Source: Technomic Long-Term Forecast, Technomic Economic Impact Monitor YE

Demand for c-stores on the rise even as safety concerns linger

11%
March 2020

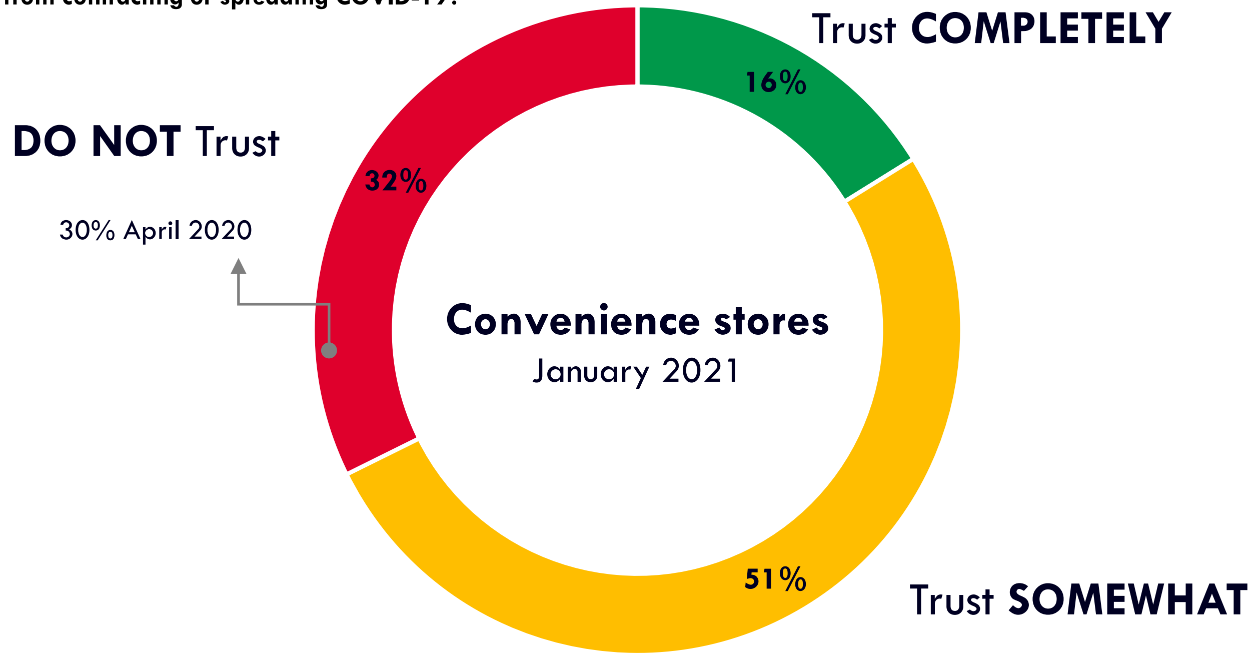
20%
January 2021

most excited to get back to visiting c-stores when coronavirus restrictions ease in their area

More excited than going to food court, splurging on a fancy meal, or watching sports at a sports bar

46% are cutting back on foodservice purchases at convenience stores because of concerns about COVID-19 exposure

over the next few months, how much would you trust the following groups of people or institutions to keep others safe from contracting or spreading COVID-19?



Trips to C&G remain quick and more planned than unplanned

TOP 7 REASONS FOR C&G SHOPPING TRIPS

In and out: already out, on the way to work, when it's nearby, looking for specific items

"I shop in a convenience store for coffee and sodas prior to work or after work. It is very easy to whip in, pick up what I need and be on my way. It is more economical than driving through a Starbucks and tends to be faster than sitting in a long drive through lane."

Planned purchases: fountain/frozen beverages, coffee, more convenient than going to larger store

"Usually I'm just really thirsty and need a snack and the Meijer gas station or speedway is the closest to me so I go down there for what I need"

Unplanned, when in the area: often while out running errands, getting gas, quick

"Get something on the go. Need a quick drink/snack. If I need one or a few items. Spur of the moment. When I am buying gas."

Between stops: for a snack and/or beverage during errands

"Usually when I'm out doing errands, I stop at a convenience store to grab a quick drink"

To get out of the house: especially when C&G stores are close to home

"I go there very often for fountain drinks (several times a week) and walk there to get out of the house."

To break up the day: as a treat, refresher, either while out or at home

"On days I get out and run errands; pay bills; I like to splurge on a beverage to get me through. It typically happens 2-3 times a week."

Something fun to do: refreshing drinks, trip as a family

"We typically fill up once a week for gas and I tend to go in for a quick treat like soda or an Icee. Occasionally on the weekend we'll treat the whole family for icees since it's something we all love."

Source: C Space FS Community n=77

Consumers are looking for a quick, convenient and sanitary trip, now more than ever

Changes in shopping reasons:

Trying to avoid bigger stores:
"I go in stores less frequently, but convenience stores more frequently as I prolong trips to the grocery store for certain items or coffee. They tend to have less people and are less crowded."

Faster trips, more intentional:
"I only go in when I need a meal or snack rather than before COVID when I'd wander and browse"

Changes in shopping experience:

Being more cautious, avoiding surfaces, limiting time in store:
"I'm much more cautious about how I interact with people and surfaces. I always wear a mask and use sanitizer now."

"I run in quickly, touch minimal items and get out of there"

Experimenting with online ordering:
"We've used the online food ordering at Sheetz"

Changes in purchases:

Looking for coffee:
"I am so happy that they brought the coffee back! I was so sad that my routine was shaken up."

Looking for wrapped (sanitary):
"[I am more likely to purchase] pre-packaged items because of safety concerns"

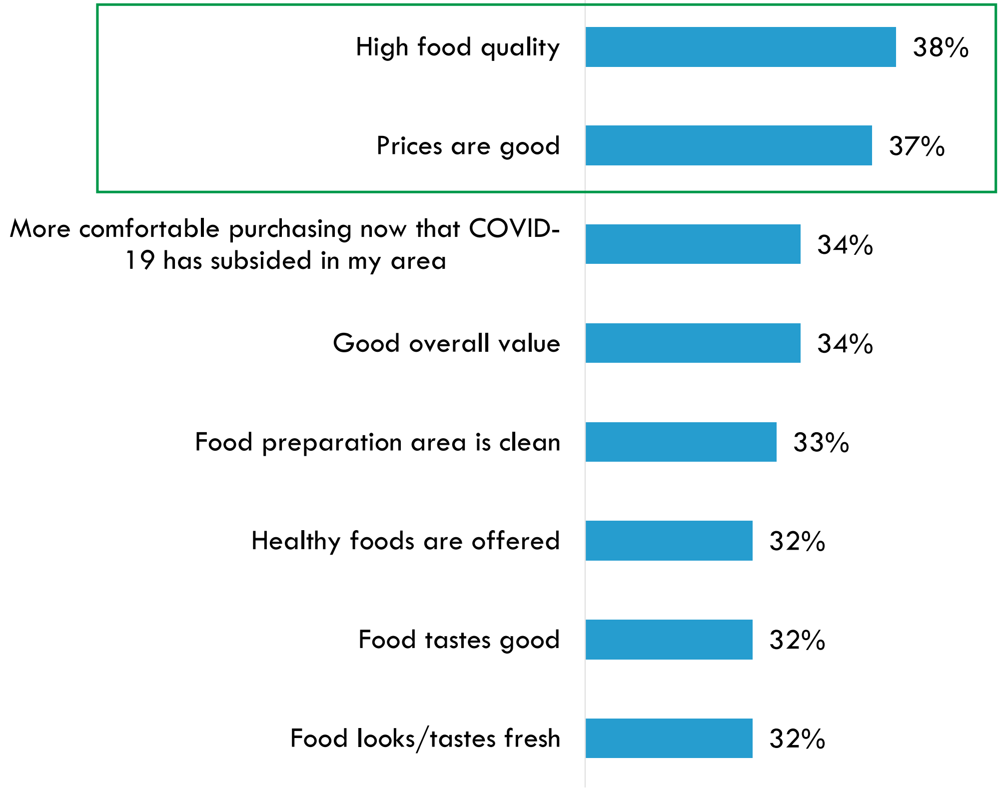
64% say nothing has changed about their reasons, experience, and/or purchases at C&G

Source: C Space FS Community n=77

Quality and price driving increased purchases at C-stores

24% are purchasing foodservice items at c-stores more often than usual

WHY ARE YOU INCREASING YOUR FOODSERVICE PURCHASES AT CONVENIENCE STORES? SELECT ALL THAT APPLY.



Where they're cutting back because of increased c-store FS purchases

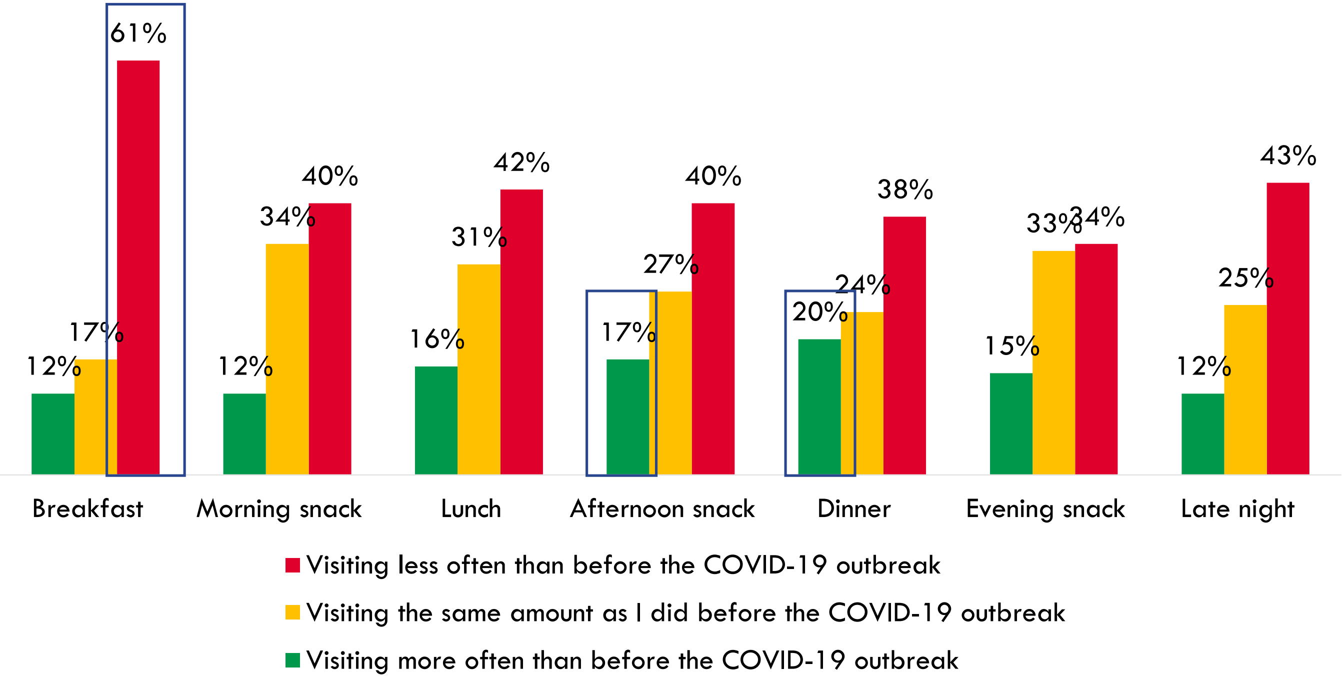
50% Fast food restaurants

50% Coffee/beverage shops

Source: Technomic C-Store MarketBrief Q4 2020

And with WFH projected to stick at some level, adaptation needed for shifting dayparts

With a forecasted 87% increase in WFH by 2025, operators must start planning for the future across shifted dayparts.



Despite increased competition from Wendy's, **McDonald's continues to see sales growth at breakfast**, attributed to **new bakery items and drive thru.**

In addition to further expanding the cadence and availability of its loyalty program, **Dunkin' recently announced a partnership with Farmers Fridge** to boost their salad, bowl, and breakfast grab-and go offerings at select locations.

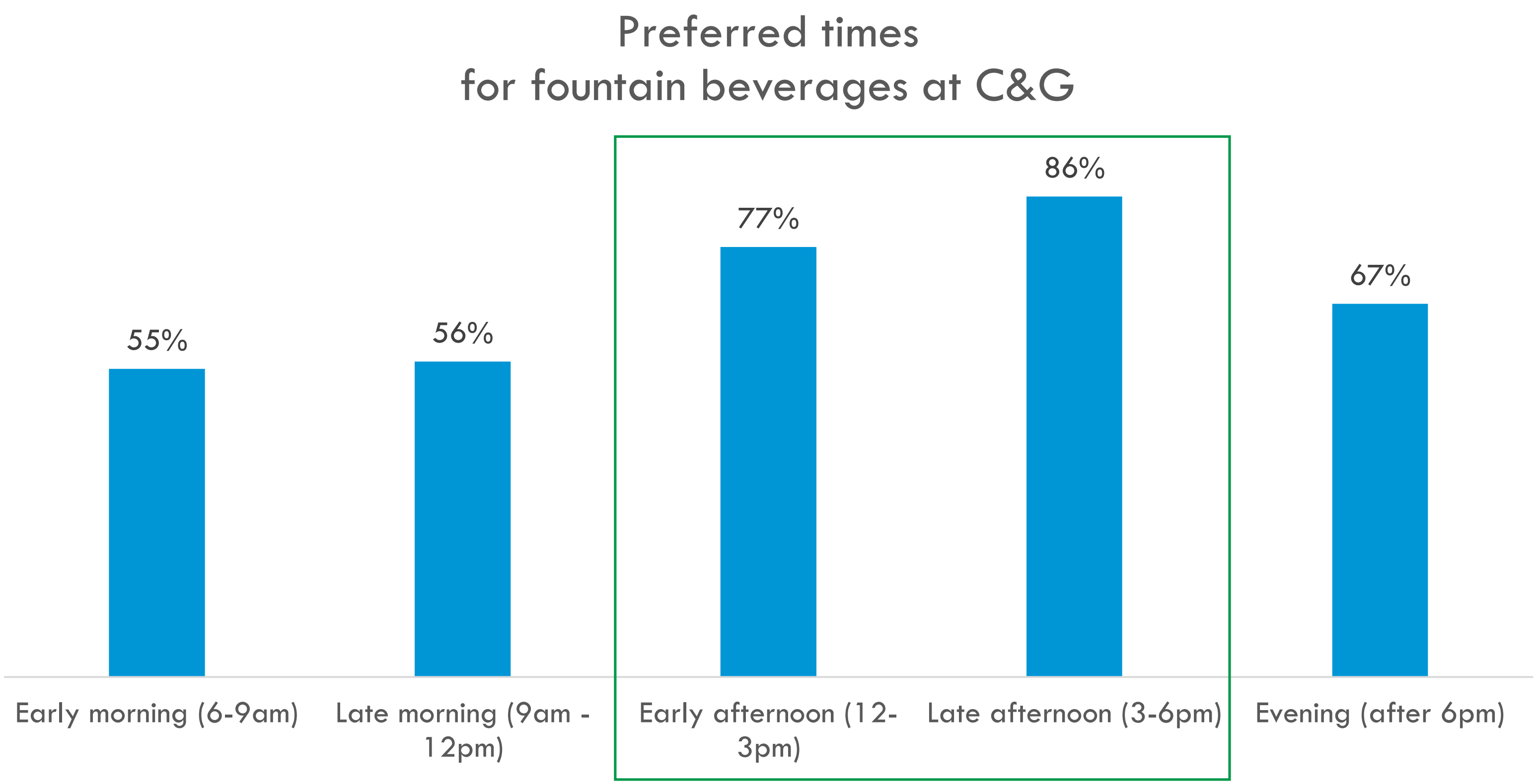
In February, **Wawa rolled out an all-natural Angus beef burger** – the first item of their planned dinner menu. The burger is **already a best seller** at Wawa's recently opened drive thru location.

Combo deals involving a breakfast item and a beverage would prompt **71%** of c-store customers to **visit a c-store for breakfast more often**

Source: Datassential 'Waiting Game' 2/5/21;Technomic C-Store Consumer MarketBrief Q4 2020; Upwork Future of Workforce Pulse Report, January 2021; Technomic C-Store MarketBrief Q1 2020

Images courtesy of McDonald's, Farmer's Fridge, & Wawa

When it comes to fountain, consumers are most often going to C&G in the afternoon



78%

of fountain beverage purchasers will drink them in the car after purchase.

"I usually **stop every morning and get a coffee** before work and then in the **afternoon I stop and get a fountain [drink] and donuts**

Usually, I'm ***out and it's a quick stop in*** *while in the area and I get a snack and a fountain drink.*

I sometimes will ***stop on my way home if I need anything*** *that I may have forgotten or just to grab a pop.*"

C-Store Operators are re-evaluating core offerings to meet new consumer needs

Expansion into QSR territory

Image courtesy of 7 Eleven

27% of c-store visitors would like family meal deals at c-stores

- **7-Eleven opened first Laredo Taco Company Location in Florida** and launched test of new restaurant concept **Raise the Roost Chicken & Biscuits at their Evolution test store in NYC.**

Investments in Contactless

Image courtesy of Circle K

25% of c-store visitors would like mobile/online ordering, 24% digital checkout

- Circle K Announced partnership with McGill University in the **launch of a retail innovation lab** that will serve as a testing ground for new & innovative technologies that will address the future of retail.
- The Lab store **currently offers autonomous and contactless checkout**.

Off-Premise Innovation

Image courtesy of Wawa

30% of c-store visitors would like drive thrus at c-stores

- **Wawa celebrated opening its first drive-thru only store in January,** following the launch of a store with a drive thru window in December.

23% of consumers who are visiting c-stores less for FS are getting delivery from c-store

- **DoorDash is leading US C-Store deliveries as the space soars** and 7-Eleven expand reach to Postmates.

Source: Mintel C-Store Foodservice February 2021; Technomic Q4 C-Store MarketBrief; See presenter notes for links

Fountain beverage purchases remain more functional while Frozen is more emotional

Functional needs over-index for this group, especially quenching thirst as part of the routine, while on the go.

Top 5 Emotional Needs
% occasions/ index to total FS

To energize myself	28%	140
To indulge	21%	99
To put me in a better mood	11%	112
To relax & unwind	11%	71
To let loose	2%	53

Top 5 Functional Needs
% occasions/ index to total FS

Quenches my thirst	47%	125
To replenish myself	20%	105
Is good on the go	18%	161
Is part of my routine	17%	159
Enhances my food	16%	58

SINCE 2018
Emotional needs related to Cups have remained roughly the same. Replenishment, quenching thirst and enhancing food more prominent for Cups purchased at C&G.

Key needs are indulgence, mood uplift or satisfying hunger while on the go

Top 5 Emotional Needs
% occasions/ index to total FS

To indulge	41%	194
To put me in a better mood	16%	156
To relax & unwind	12%	79
To energize myself	12%	59
To let loose	5%	119

Top 5 Functional Needs
% occasions/ index to total FS

Quenches my thirst	40%	105
To replenish myself	21%	114
Is good on the go	21%	185
Satisfies my hunger	11%	126
Enhances my food	9%	30

SINCE 2018
Slushies are consumed less to quench thirst, and more for replenishment and satisfying hunger. Emotional needs of indulgence, mood enhancement and relax & unwind come down; energize grows.

You need a variety of beverages on fountain to address consumer needs in C&G

Craving/Taste

Quench Thirst

Convenience/ Impulse

Energy

Price/Deal

Cola

Iced Tea

Lemonade

Energy drink

Neon

Fruit flavor & lemon lime CSD

A good selection/variety is the biggest purchase motivator for fountain drinks at C&G

71 %	60 %	58 %
would be motivated by good selection/variety	would be motivated by well-known beverages	would be motivated by new beverages

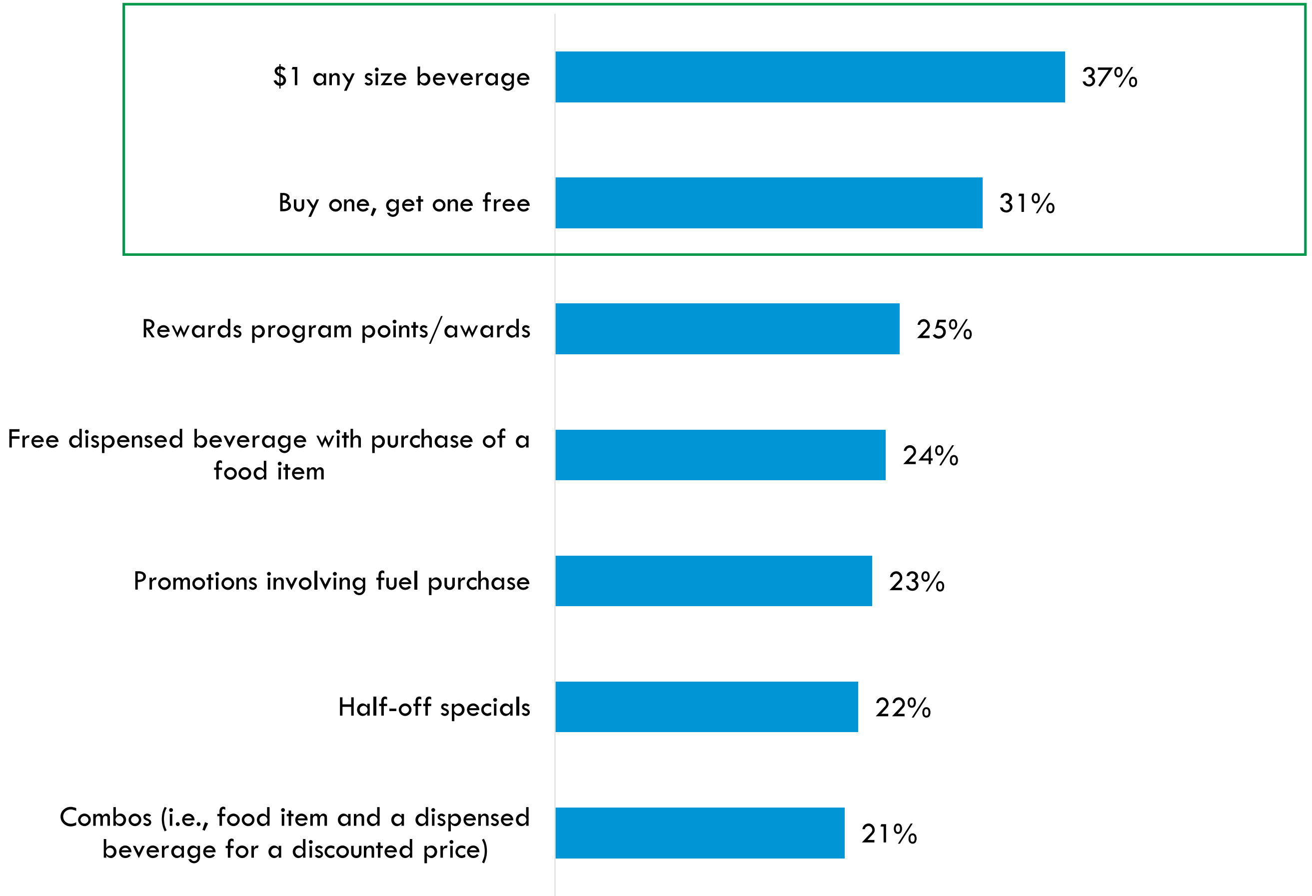
- **Customization:**
  - *"A way to personalize drinks like some fast-food restaurants have where the machine can add flavors and stuff"*
- **Expand flavors:**
  - *"I would have a wide variety of Pepsi and Coke in many flavors including unique ones."*
  - *"I would offer a wide variety of drinks and new flavors."*
- **Expand slushies (including crushed ice and floats):**
  - *"Ice cream machines to make floats. Frozen drinks in every type of soft drink including ginger ale, orange juice, pineapple, apple juice."*
- **Put energy drinks on fountain:**
  - *"I would offer energy drinks. I feel like that would be popular because nobody does it"*
  - *"I would probably offer more sports energy drinks and enhanced water options. I think it's a growing trend that I am following."*
- **Expand diet options:**
  - *"More choices of diet and zero sugar beverages."*

Source: C Space FS Community n=77

Bringing consumers back to fountain is a balance of promotions and loyalty

- ✓ **Reward loyalty:**
  - *“Maybe there would be a happy hour, or you could get punches on a card to get a free one?”*
- ✓ **Offer a combo deal with food:**
  - *“Special deals such as a hot dog/slice of pizza and a fountain drink for a set price”*
- ✓ **Prep for consumers on the go:**
  - *“More secure cups for on the go. Cup holders and accessories for on the go such as straws and spoons and napkins needed”*
- ✓ **Offer safe and sanitary pickup options:**
  - *“Drive through because I'm in my protective gear”*
  - *“I would have pick up refrigerators and areas so it is fast, convenient and safe.”*
- ✓ **Offer big sizes that will last in the car:**
  - *“I really like the one price no matter what size - and I would make all sizes $1.00.”*

WHICH OF THE FOLLOWING PROMOTIONS WOULD CAUSE YOU TO PURCHASE DISPENSED BEVERAGES FROM CONVENIENCE STORES MORE OFTEN? SELECT ALL THAT APPLY.



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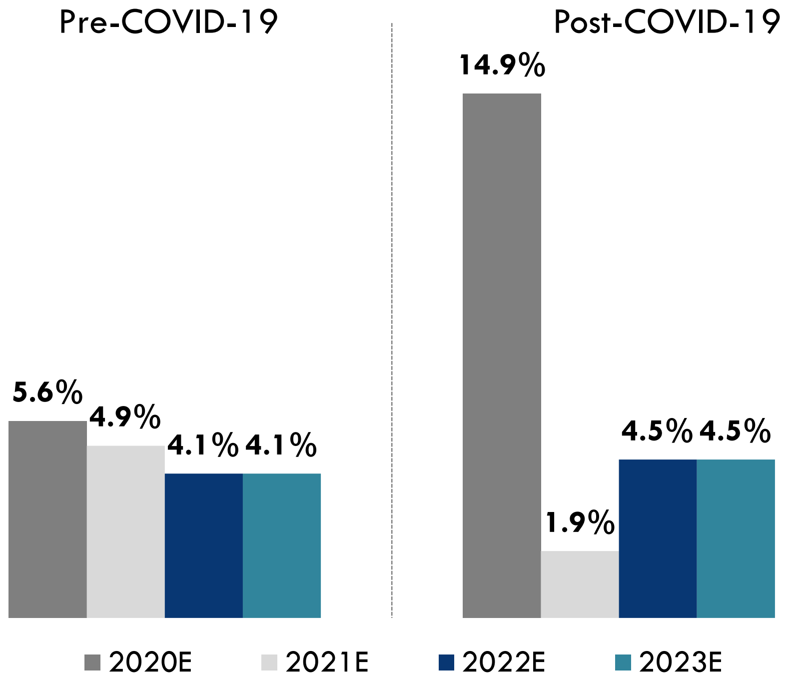
Warehouse Clubs

COVID-19 drove growth in the Club channel, with online projected to grow

Club Channel* Sales Growth

*weighted based on size/share of key retailers



Club Sales CAGR 2020-2025E

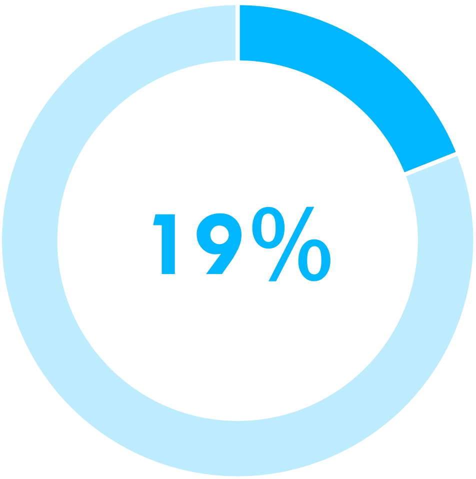
ONLINE
21.4%

IN-STORE
3.4%

Source: Cleveland Research Company Forecasts; Kantar 2021 US Retail Outlook January 2021

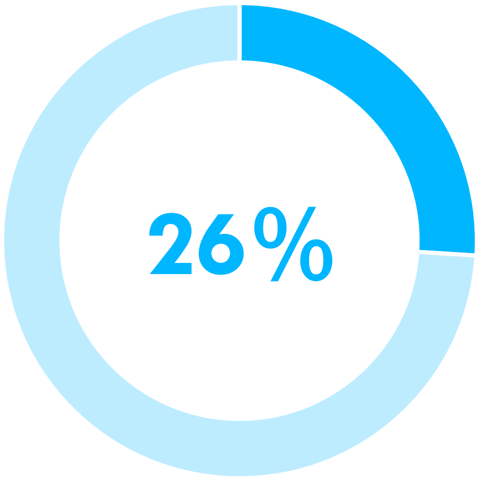
Consumers still mainly shopping in-store, operators evolving both online & in-store

Percent Who Shopped Sam's Club During Past Four Weeks
(among all shoppers)



Shopping Method:
1. **In store**
2. **Via Computer**
3. **Via Smartphone**

Percent Who Shopped Costco During Past Four Weeks
(among all shoppers)

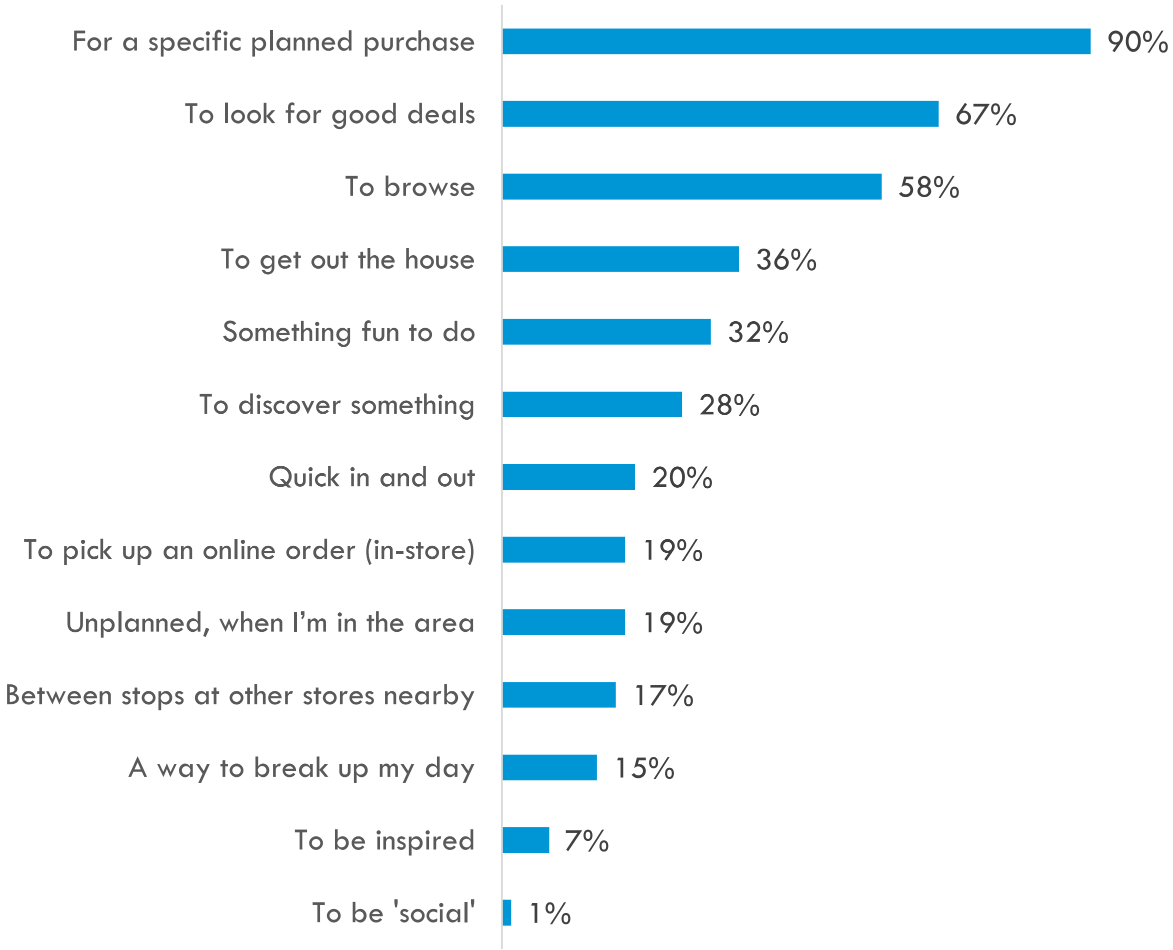


Shopping Method:
1. **In store**
2. **Via Computer**
3. **Via Smartphone**

Source: Kantar ShopperScape® 2020

Trips to Club stores are planned missions for value – big quantities for the best prices

Consumers' trips to Club stores are usually….



Planned purchases: most make a list ahead of time, stocking up on household items and groceries primarily, purchase the same staples, sometimes new items

"I typically shop at these stores once a week (usually on Thursday). I use this time to stock up on items that are low in my household which can range from beverages to cleaning supplies."

Looking for good deals: on items on their list and not, most don't do research ahead of time and just look while they're there, leading to frequent impulse purchasing

"Typically, when we go to Costco we have a couple of items we are going in to get and we look for deals while we are there"

To browse: looking for new items, items on sale, items they hadn't planned to get but will use at home, impulse purchases

"I'm usually on a mission for multiple items. However, I will also browse new items or items on sale. Usually, I end up selecting one new or discounted snack or beverage item to buy while browsing"

To get out of the house: tied to wanting to browse, club stores are often enjoyable and a typical activity for those who shop them

"I live very close to Costco and sometimes I go there just to browse. To see what's new. Other times I run in to pick up an item…"

Source: C Space FS Community n=69

With the fear of exposure to COVID-19, time in club stores and browsing are shorter now

Changes in shopping reasons:

Buying bulk to limit trips and be prepared if items become unavailable:
"…I now like having more volume and backups of things on hand."

One stop shop aspect is more appealing now:
"…since they have a small selection of clothes and electronics, it allows me to get some thing without risking being in multiple large stores."

Changes in shopping experience:

Making lists, being more intentional:
"Less trips and less time to really shop. Making lists much more often"

More ordering online and picking up, less time in store:
"I generally use the app to gather my frequently purchased items. I then decide if I am going to pick them up in store or have things shipped…I reserve my going into the stores for when I need to or want to check out any deals or new products."

Trying to go when it's less crowded:
"I love shopping at Sam's but if I go I try to go shopping during the weekdays when it's not overly crowded & not at peak hours."

Missing sampling:
"There are no more samples out for people to try. I miss this because it helped me try new products."

48% say nothing has changed about their reasons and/or experience

Source: C Space FS Community n=69

Consumers are also being more intentional with their lists, and feeling less positively about the club shopping experience

“

A trip to Sam's or Costco is usually pre-planned so I have time to make a list of what I need. It’s not a store I tend to just run into because it's usually very busy, and I have to make sure I have room in my car and at home for the larger items.

Before Covid19, it was an activity for the whole family. We went on sample days. We got to try new foods, sometimes buying them. We found a product from sampling we have bought for 10 years. Now, it's sad and a chore. I go there and pick what I need and move on. Because of the lack of fun, pick up is easier these days.

”

Source: C Space FS Community n=69

When it comes to the cafés, most are less likely to purchase food and drinks now. That said, safe ordering and the need to quench their thirst are still motivators

Barriers to purchase from club cafés …

× **Trying to minimize time in store:**
"I don't want to eat in the store or spend any more time in the store than is necessary."

× **Café seating areas have been closed:**
"It's a hassle to purchase food now that the food court is closed for dining…It's often difficult to hold a fountain drink while wheeling my cart to the car, and it feels unsanitary to jam my cup in the cart…I [also] don't get a fountain drink since it's easy to spill in my car"

× **Cafés have been shut down or with limited menus:**
"The choices are fewer since the pandemic so I'm less likely to purchase"

× **Don't want to wait in line for food/drink:**
"If there is a line I won't wait now"

× **Tighter budgets:**
"Not a priority when financially on a budget"

More likely to purchase from club store cafés because…

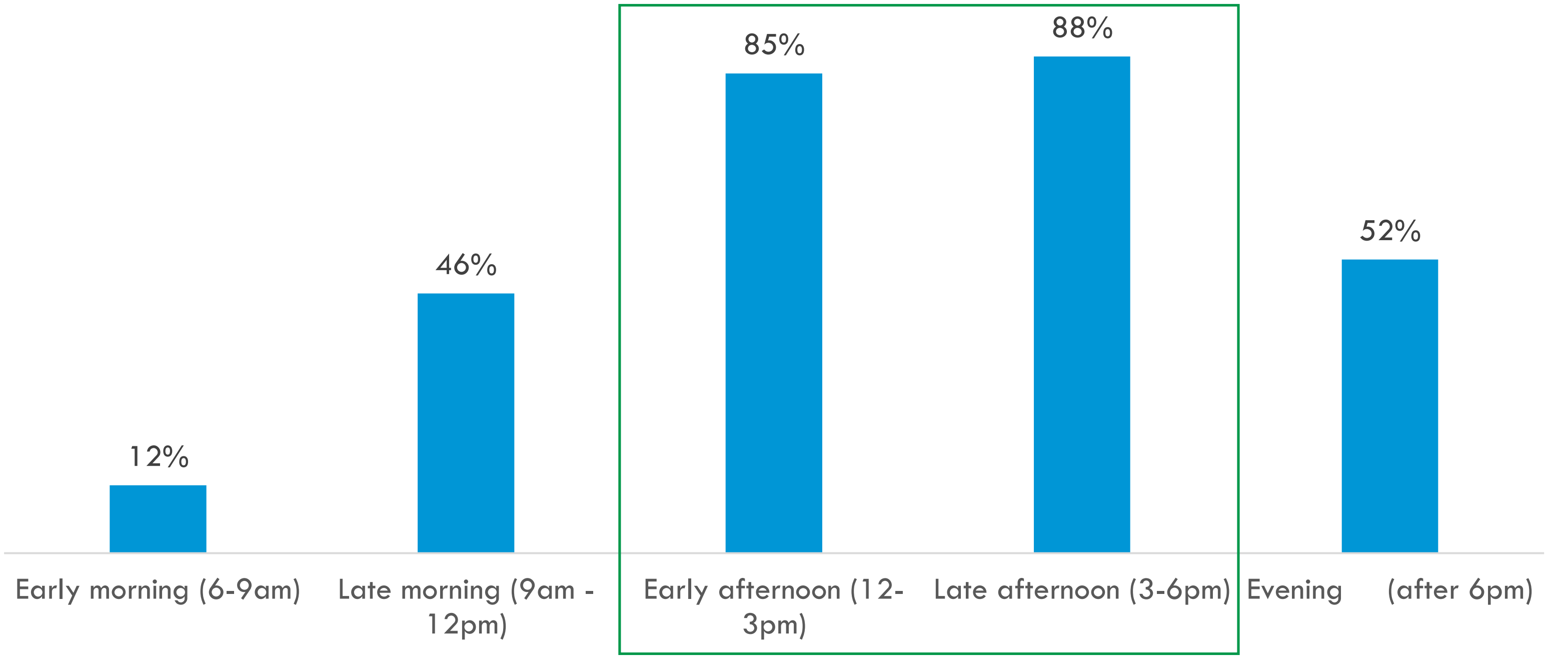
✓ **Individual ordering feels safe:**
"I did not like how at first they cut certain items, but they brought them back and now have individual ordering computers"

✓ **Need to quench thirst:**
"Masks make you so thirsty"

54% say nothing has changed about their purchases at club store cafés

If consumers consider fountain beverages from cafés, it will most likely be in the afternoon, and a quick stop before heading out to the car

Preferred times for fountain beverages at club store cafés



79%

of fountain beverage purchasers will drink them in the car after purchasing at a club store café

"I love being able to get it to go on my way out to have in the car."

"*Like many people, **I spend a weekend morning at Costco…** I'll probably stop at the food court for a slice of pizza or a hot dog and drink.*

***Refreshing after shopping** on the drive home*

*[I'm] **super thirsty after running errands all day**, conveniently located in the store, looks good.*"

Quenching thirst is the most common motivator for purchasing fountain at the cafés

- Craving/Taste
- Quench Thirst
- Convenience/ Impulse
- Energy
- Price/Deal

Iced Tea

Cola

Lemonade

Diet / Zero CSDs

Fruit flavored CSDs

Bottled water

Moving forward, healthy and customized drinks top the list of suggestions for fountain at club cafés

- ✓ **Expand healthy options (e.g., fresh juices, low-sugar options, smoothies, electrolyte water):**
  - *"Healthy juice dispenser no high fructose corn syrup or artificial ingredients*
  - *"I'd like a few more options with reduced sugar. I don't drink soda and the lemonade is very sweet at Costco. I'd like some basic electrolyte water or something with vitamin C."*
- ✓ **Customized sodas, including seltzer:**
  - *"Add flavored seltzer or a drink machine that customizes your drink."*
- ✓ **More sparking water:**
  - *"I want flavored sparkling water to be offered as well as the typical sodas."*
- ✓ **More non-carbonated (e.g., juice, flavored lemonade, kid-friendly):**
  - *"I think more variety might be needed. The only noncarbonated choices are iced tea or low sugar lemonade. The kids would prefer fruit punch."*
- ✓ **Expand slushies:**
  - *"I would offer fountain drinks slushes, coffee, pizza, hot dogs, and burgers."*

A good selection/variety is the biggest purchase motivator for fountain drinks at club cafés

75 %	52 %	56 %
would be motivated by good selection/variety	would be motivated by well-known beverages	would be motivated by new beverages

Source: C Space FS Community n=69

Consumers are also interested in combos with Club Café food staples they crave

Deals please…

74 %

of consumers would be motivated to purchase a fountain beverage at a club store café by a deal (i.e., BOGO, discount)

"Spend $50 you get a free fountain drink. Or buy a pretzel you get a free small fountain drink. You'll have more people want to go to the cafe"

"A free fountain beverage with a hot item."

"Multiple purchase rewards, BOGO offers or combos."

Opportunities to drive fountain purchase:

- ✓ **Serve them the treats they're craving:**
  - *"It would go hand and hand with a little snack as a treat."*
  - *"If they had a variety of choice to satisfy any craving."*
- ✓ **Offer a combo deal with food:**
  - *"Combo offer may be with a pizza slice/sandwich.*
  - *"A great deal to go with pizza or hot dog."*
- ✓ **Pair with a popular food item:**
  - *"Purchasing a hot pretzel with it."*
- ✓ **More healthy options:**
  - *"Organic products at an excellent value."*
- ✓ **A beverage to accompany them on the ride home:**
  - *"Needing a drink for the drive I'm bout to go on."*

Source: C Space FS Community n=69

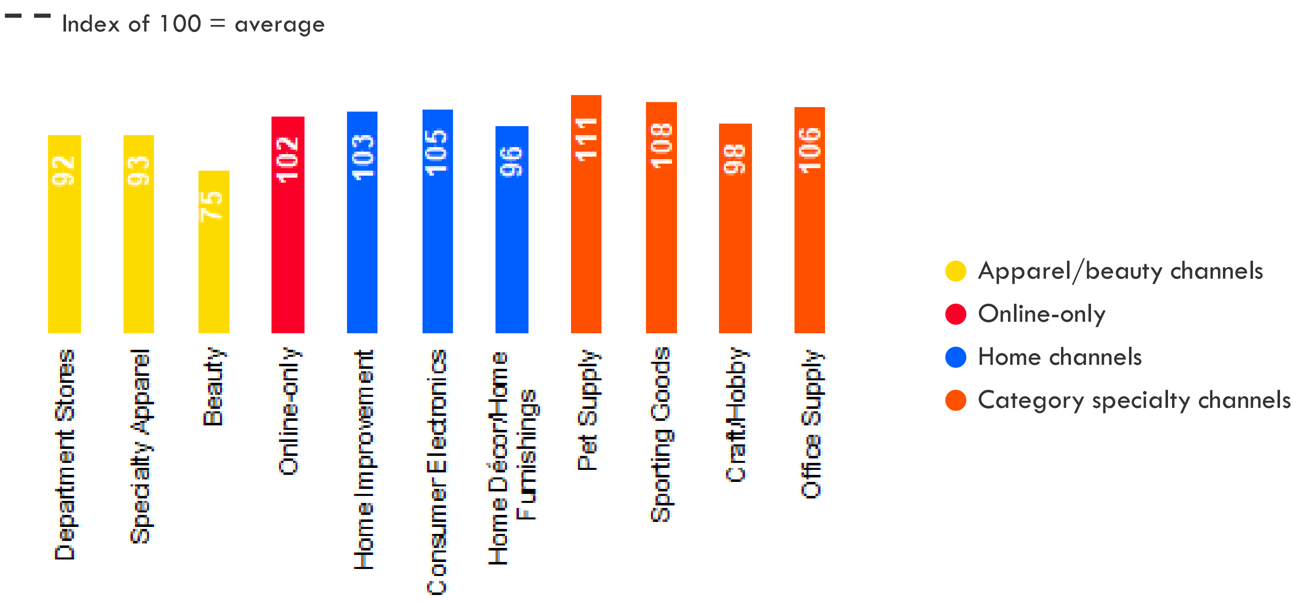
PepsiCo Foodservice Insights

Specialty Retail

In total, Specialty Retail is anticipated to return to growth

Current purchasing behavior shows signs of rebound in 2021

Channels: Past four-week shopping incidence Jan 2021



- Category Specialty channel continue to show strength
- Home improvement ended 2020 as the highest growth channel
- Consumer Electronics has shown strong recent gains
- Apparel/Beauty channels continue to lag, though are improving vs. the early pandemic timeframe

Growth is forecasted, especially online

Specialty Retail Sales CAGR 2020-2025E

	IN-STORE	ONLINE
APPAREL	-0.1%	4.7%
CATEGORY SPECIALIST	1.4%	13.4%
DISCOUNTER	4.3%	12.3%

Source: Kantar Monthly ShopperScape Snapshot Jan 2021; Kantar US Retail Outlook for 2021+

Specialty Retail visits are a mix of planned purchases & browsing; many consumers are more focused on speed, safety, & savings in the current environment

60% say nothing has changed about their reasons and/or experience at specialty stores

Consumers' trips to specialty stores are ….

Browsing is more common at discount and sporting goods stores where needs can be less functional

Changes in shopping experiences:

∆ **Spending less time in stores**

- *"I don't spend as much time in there I was I would like and I don't always look at everything the way I used to and browse casually…I also have to be more cautious of people and avoid areas and aisles that might be a little too congested for my liking"*

∆ **Shopping and ordering online:**

- *"I'll order for pickup so I don't spend time browsing the store anymore"*

∆ **Taking health and safety seriously:**

- *"The stores are now strict and don't let lots of people inside…You also have to stay 6 feet apart and have to be careful with what you touch"*

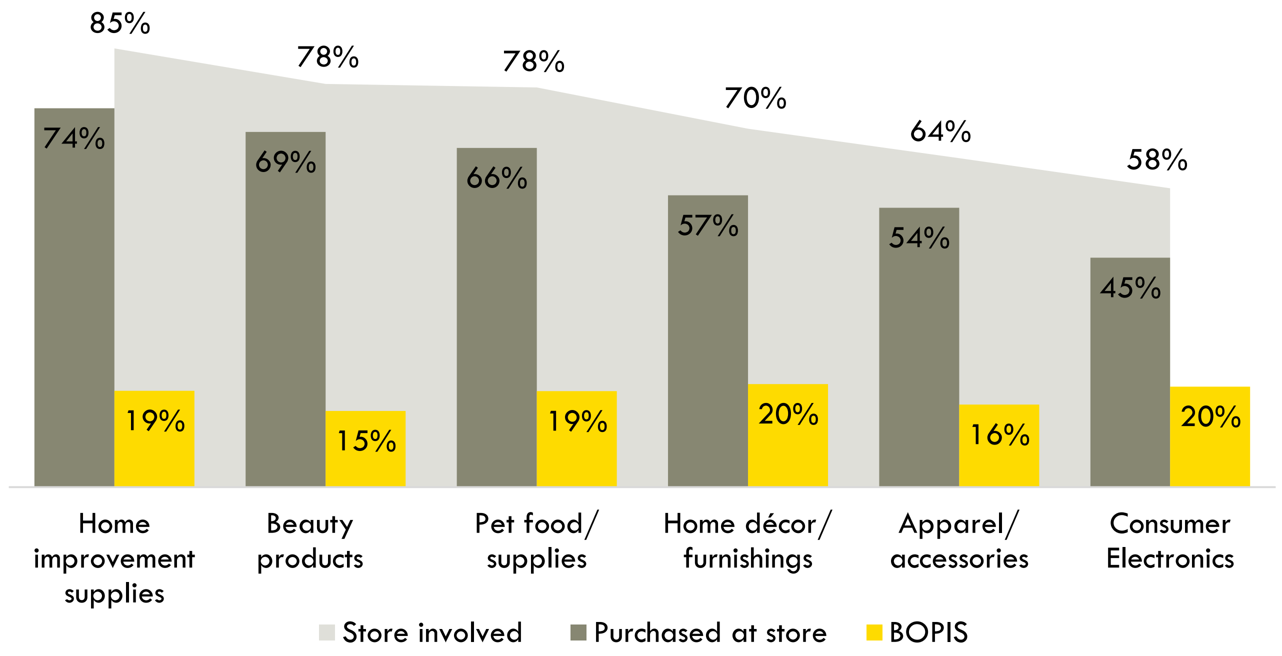
∆ **Less about fun browsing:**

- *"More necessary and less fun trips! Reasons are all need-based now."*

In-store shopping still plays a significant role

Even in highly penetrated online categories, over half of purchases involve the store

Purchases *Involving Stores* for Purchases in Past Few Months
(among shoppers who ever purchase category)



Shoppers are still looking for enjoyment and discovery from shopping

Consumers Over-Index on the following shopping attributes:

- **Like to Discover/try new things while shopping**
- **Important to have fun/enjoy myself while shopping**
- **Think value is about what you get, not what you pay**
- **Like to connect with retailers/brands on social media**

Even click-and-collect shoppers are seek enjoyment, inspiration from in-store trips

Why Click-and-Collect Shoppers Go Into Stores
(among click-and-collect shoppers who at least occasionally go into stores on pickup trips)

To shop for certain products I enjoy shopping for myself	**22%**	**+137%** YOY
To get ideas/ inspiration	**17%**	**+69%** YOY

Read as: Among click-and-collect shoppers who go into stores frequently, sometimes, or rarely, 17% do so to get ideas/inspiration, a 69% increase versus last year.

Source: Kantar The Role of Stores in a Post-Pandemic Environment Dec 2020

Specialty Retailers are focusing on experiences and additional services to drive consumer engagement

Image courtesy of Lowe's

- This Valentine's Day, **Lowe's** offered the chance for a select few guests to take part in a social distanced, DIY splash-painting date night in 10 cities across the US *"In a year where traditional Valentine's Day options remain limited, we are ready to turn Lowe's into the ultimate date night for a few lucky couples… that they never knew they needed"*

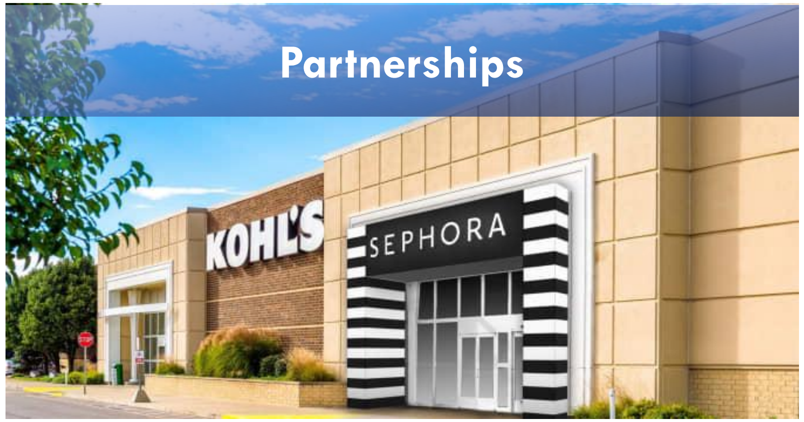


Image courtesy of Kohl's

- **Kohl's and Sephora** are coming together to deliver the ultimate beauty shopping experience in-store and online, with 200 participating stores in 2021

- **Target and Ulta** entered into a long-term strategic partnership to create a "shop-in-shop" experience, debuting at more than 100 locations this year

Image courtesy of World Market

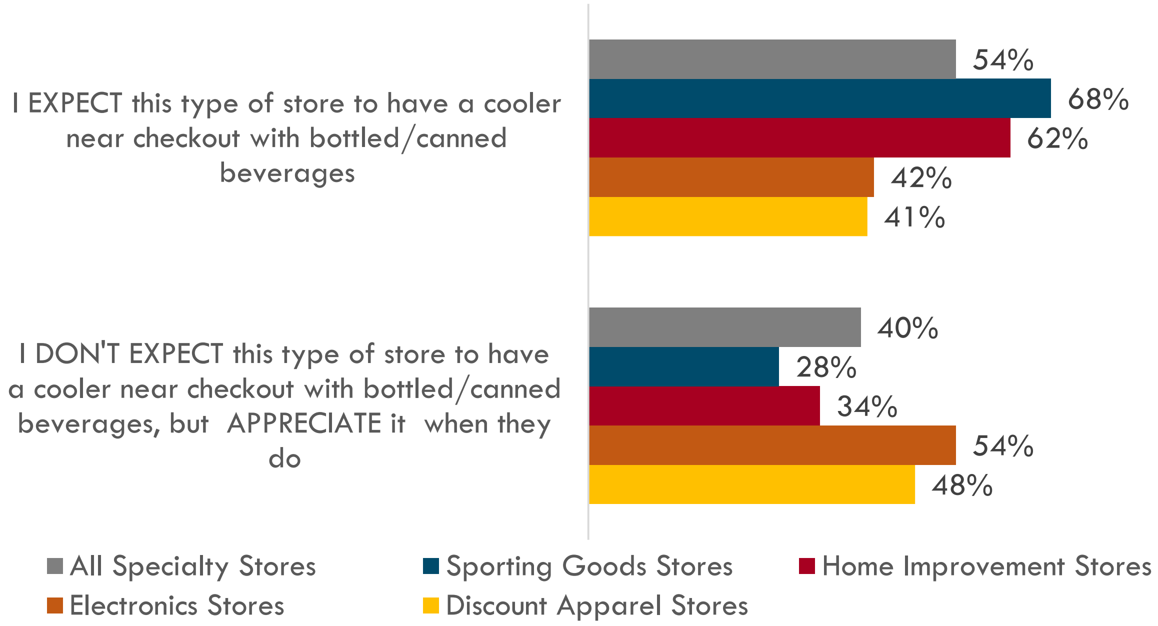
- **Cost Plus World Market** has created virtual Pop-up stores where consumers can browse as if they are in store (e.g. outdoor spaces display shown above)

- **Kendra Scott** Jewelry is offering free 20-minute 1:1 personal shopping sessions via Zoom; stylists can offer style advice, gift recommendations, and more

Consumers expect and want beverages in Specialty Retail stores

Nearly all consumers expect or appreciate beverage coolers at checkout in Specialty Retail spaces

Expectations of chilled beverages near checkout at specialty stores



Consumers are more likely to expect **sporting goods** stores and **home improvement** stores to offer chilled beverages near checkout than other specialty stores

Beverage in Occasions in Specialty Retail

Consumers are most open to purchasing chilled bottled/canned beverages from specialty stores in the **afternoon**

- **Late Afternoon (3-6pm)** is the most preferred
  - Highest within Electronic stores & Discount stores consumers
- **Early Afternoon (12-3pm)** is also a common preference across all specialty retail types

~85% of beverage purchasers near checkout will **drink them in the car** after purchasing at any specialty store

While some consumers are purchasing more beverages at Specialty Retail for convenience, cost and safety are barriers for others

71% say nothing has changed about their purchases at checkout at specialty stores

***More** likely to purchase beverages at specialty stores because…*

- ✓ **It's a treat:**
  "I like to treat myself when I'm out since I don't shop or have pop often"
- ✓ **Time saver:**
  "Typically whenever I stop into a store such as Gamestop, I am on a mission and my time is limited and I will get a refreshment where I can"
- ✓ **One stop shopping:**
  "It's something quick to eat/drink so I don't have to stop anywhere else"
- ✓ **Portable, good for on the go:**
  "They are easy to grab and go when I'm out and about."
- ✓ **Thirst:**
  "The mask dries you out and you're trying to drink more water to keep hydrated and prevent illness"
- ✓ **Catches eye in line:**
  "I tend to look at that area while waiting in line"

***Less** likely to purchase beverages at specialty stores because…*

- × **Tighter budgets:**
  "I want to save my money."
- × **Commonly touched surfaces:**
  "Items that have been touched by others...fear of catching COVID from touching the items..."
- × **Can't drink in the store:**
  "I'm not going to remove my mask to eat or drink in public."
- × **Don't want to wait in line for food/drink:**
  "Less likely to purchase chips or a drink since I want to leave the store as quickly as possible."
- × **Pick-up lines (for orders) don't have beverages:**
  "If I am just doing a store pick-up I go through a different line where I am not near the beverages"

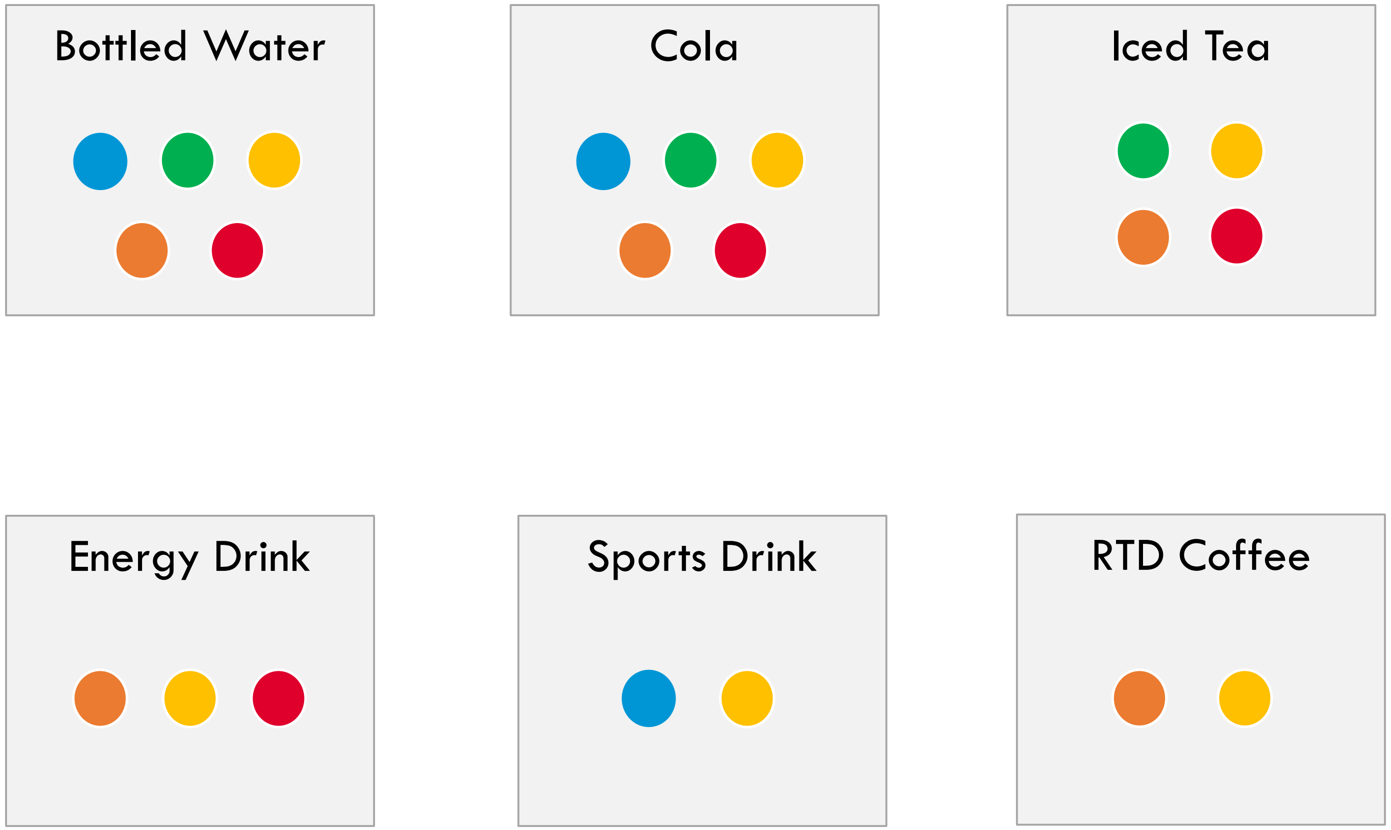
Consumers who utilize online ordering and pick-up in store or curbside mention not having an easily accessible option to purchase beverages

Source: C Space FS Community n=164

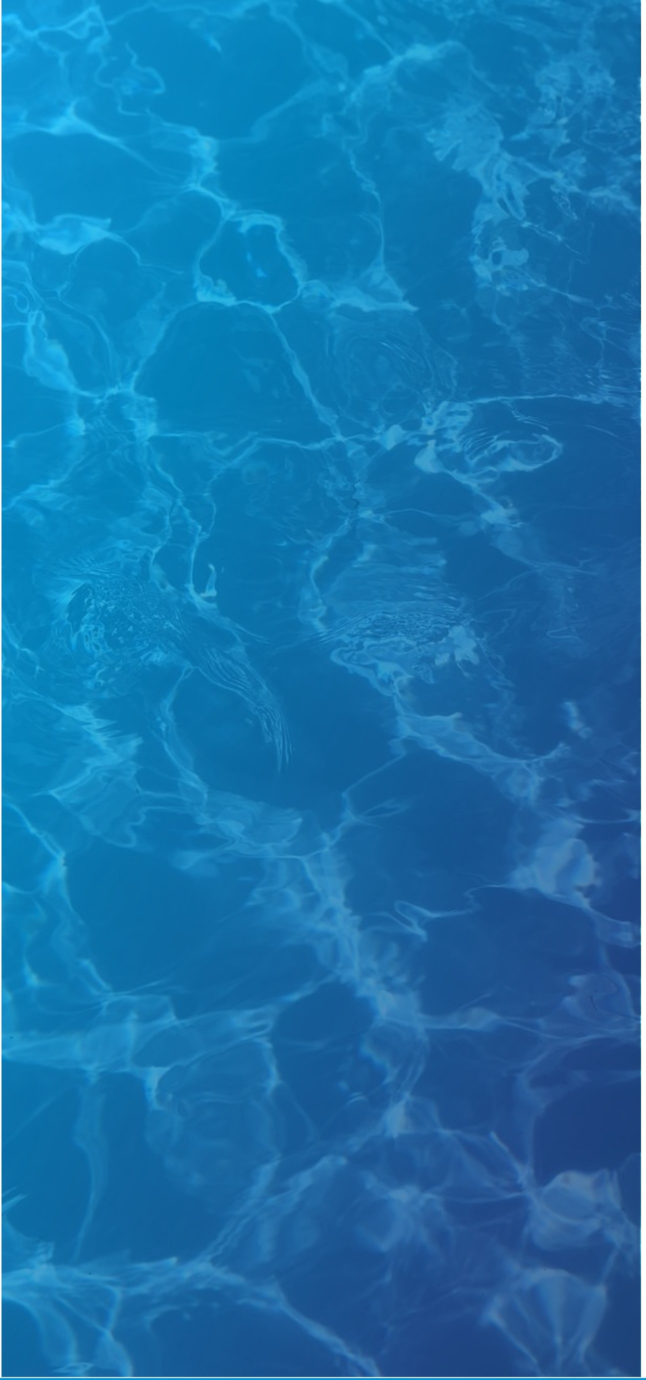
Key Beverages play a role in addressing consumer needs in Specialty Retail

Convenience is the most consistent reason for beverage purchase, followed by **Thirst & Energy**
Bottled water and **Cola** satisfy the most consumer needs, while other beverage types fulfill specific needs

- Craving/Taste
- Quench Thirst
- Convenience/ Impulse
- Energy
- Price/Deal



Source: C Space FS Community n=164



Moving forward, consumers want to be inspired with unique beverages at checkout

- ✓ **Exciting products to try:**
  - *"Having unique beverage flavors/brands."*
  - *"A product or flavor I hadn't seen elsewhere, setting novel."*
- ✓ **Expand energy and sports drinks:**
  - *"Sports drinks, healthier options and soft drinks-a good variety-maybe something upscale."*
- ✓ **Healthier drinks, including lower-sugar sparkling water:**
  - *"Healthy, low sugar and calorie drinks. Healthy juices and sparkling waters."*
- ✓ **Standard variety + specialty sodas:**
  - *"Offer more unique beverages; I virtually always buy drinks at xx for example because they have unique glass bottled root beer and other classic styled beverages. It's different than the normal plain cola I can get anywhere so I get one almost every trip!."*
- ✓ **Cold coffee varieties, Enhanced Water:**
  - *"I really like when they have a Starbucks bottled coffee or electrolyte water. I either want to be healthy or I want something indulgent!"*

Availability & Variety are the biggest purchase motivators for specialty retail

75 %
would be motivated by having the beverages be in a cooler

64 %
would be motivated by good selection/variety

57 %
would be motivated by carrying beverage brands I recognize

Source: C Space FS Community n=164

Consumers also want better deals on beverages

Deals please…

70%

of consumers would be motivated to purchase a chilled beverage at a Specialty store by a deal (i.e., BOGO, discount)

"If I were in charge of the checkout beverage selection, I would offer…

"A sale or promotion - BOGO, anything with straw for my kids."

"A two for one special."

"Cheaper prices, those stores overprice all the beverages."

- ✓ **Better prices:**
  - *"If its not really overpriced I would, and definitely if it was a deal."*
  - *"Some type of special pricing like a two for one or a free bag of chips."*
- ✓ **An add-on that's price right:**
  - *"A deal roped into the purchase I'm already making."*
- ✓ **Pair with snacks to tide shoppers over:**
  - *"If it's something I think I will need to get me thru the day."*
  - *"If I choose a snack to tide me over, I will also purchase a beverage."*
- ✓ **Rewards benefits:**
  - *"Rewards points bonuses, and good prices mainly."*

Source: C Space FS Community n=164

SHOP IMPLICATIONS

1. Strategies should include a full ecosystem view given the inclusion of digital & e-comm in the consumer shopping journey

2. Utilize upsell prompts in digital interfaces or physical BOPIS space (e.g. Beverage coolers, snacks in pickup areas)

3. Routines are permanently changed - consider opportunities to serve up relevant beverage selections at appropriate dayparts through digital touchpoints

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.