

PepsiCo Foodservice Insights

COVID-19 INSIGHTS

Value Perceptions in Foodservice

SEPTEMBER 22, 2020



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PEPSICO
foodservice A set of small icons representing different foodservice categories: a fork and knife, a glass, a bottle, and a tray.

We Continue to Grapple 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+



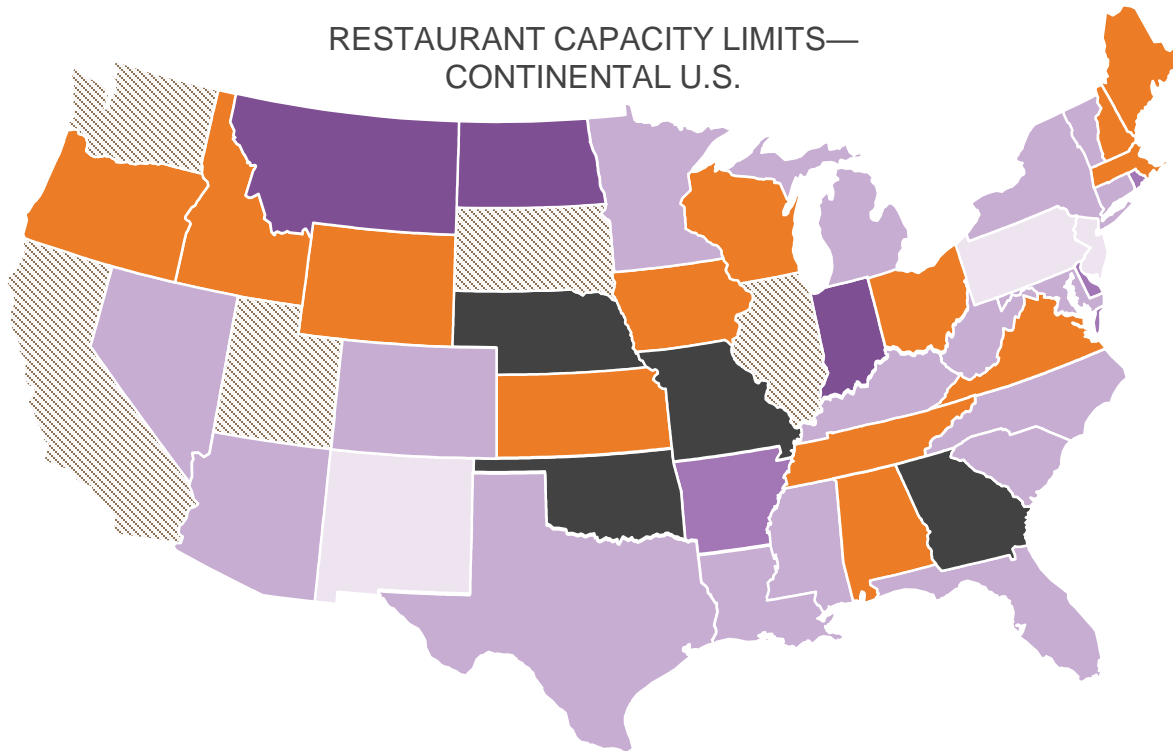
New behaviors form if finances, desire, and/or opportunity dictate; old behaviors return otherwise

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

Winter is coming, and operators are feeling the pressure...

Only four states in the country have no dine-in capacity restrictions

RESTAURANT CAPACITY LIMITS—
CONTINENTAL U.S.



With Summer drawing to a close, and Fall/Winter fast approaching, Operators will face a new set of challenges

Outdoor dining has a lifeline amid COVID-19, especially for states like NY & NJ that, until recently, had outright bans on indoor dining

- On average, full-service operators say 44% of their restaurant's daily sales now comes from on-premises outdoor dining

For states that are allowing indoor dining, social distancing guidelines and capacity restrictions are cutting into operator margins:

- Independent operators report needing at least 60% capacity to stay open permanently

Operators are now tasked to come up with creative solutions that will allow them to extend their outdoor dining season, which in many cases will mean equipment investments:

- **Lumen in Detroit** is utilizing patio igloos which feature space heaters, an electric fireplace, and fresh air circulating through two open flaps in the back of the structure.



Foodservice Landscape: Trend Tracker

DINE



- The **CDC** released a new study **linking spikes in positive COVID-19 cases to bars and restaurants**
 - Many in the industry dispute the findings, claim the study is flawed
- **West Coast** operators are facing new challenges as **wildfires impact air quality**
 - Restaurants in **CA, OR, & WA** forced to **close outdoor dining** as air quality flagged at unhealthy

PLAY



- Due to a lapse in protocol, **a fan in attendance at the Kansas City Chiefs' first game tested positive for COVID-19**
 - **15,895 fans in total** were present, all socially distanced.
 - Thanks to new measures in place to reduce exposure, **only 10 people were identified as needing to isolate** and quarantine

TRAVEL



- **Sales & revenue for future air travel is down** significantly, -66% and -83% respectively, largely **driven by evaporation of business travel**
- CEOs from Airlines including **America, United & Southwest met with the White House** to request an additional \$25B in aid
 - Initial aid provided in March by CARES set to expire on Sept. 30

Foodservice Landscape: Trend Tracker

WORK



- **NYC Board of Ed has pushed back in-person instruction once again**
 - K – 5 & K – 8 schools are delayed until Sept. 29, Grades 8 – 12 until Oct. 1
 - **42% of NYC students have opted in for full remote learning** – city is now saying they are **not adequately staffed** to give all remote students “live” instruction

SHOP



- Iconic retailers **Lord & Taylor** and **Century 21**, already in trouble pre-COVID, have both announced bankruptcies and store closures after 194 years and 59 years in business, respectively
- **Macy’s** has announced the iconic **Thanksgiving Day Parade will be going virtual in 2020** with pre-recorded scenes

Value Perceptions in Foodservice



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Value in the time of COVID-19

Value in Foodservice is a many-layered and complicated topic. With COVID-19, that complexity grows as consumer needs have shifted dramatically in a short time. At PepsiCo Foodservice insights we strive to provide deeper understanding of value as consumers perceive it and the implications for our partners



Today's Agenda

Overall COVID Impacts on Value



Discussion on how the current situation has shifted the Value equation

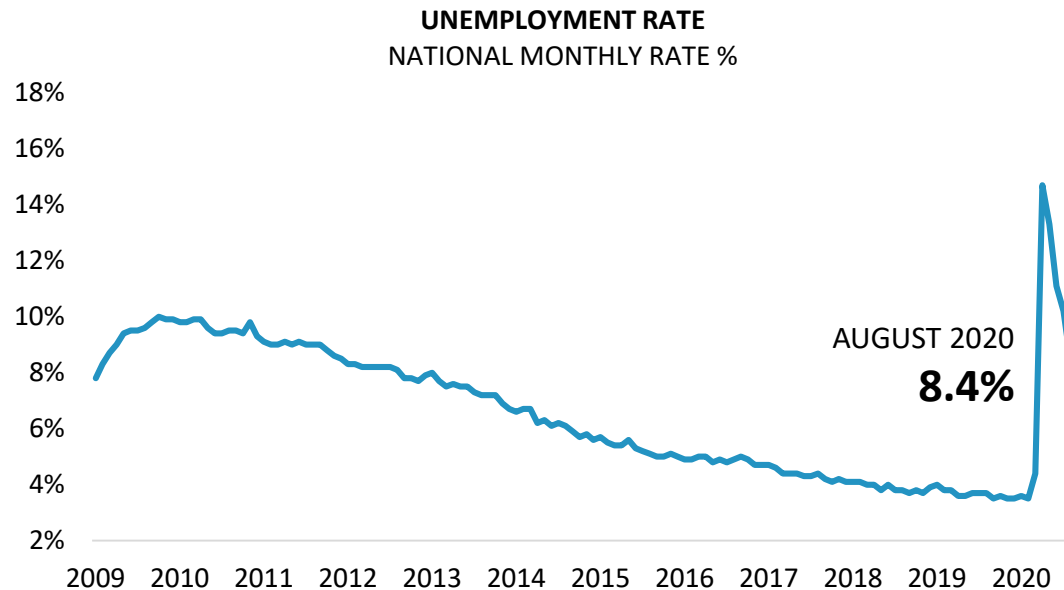
Key Principles for Driving Value in Foodservice



Outlining levers that can be utilized in foodservice to provide value to the consumer

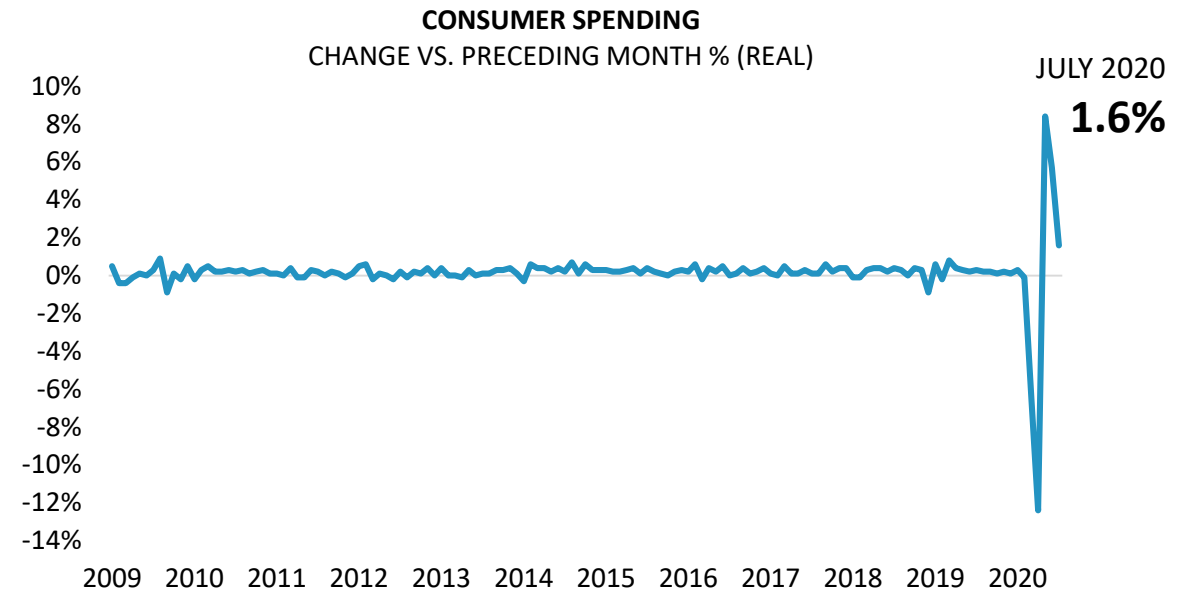
There are signs of a recovering economy

US unemployment rate continues to drop after peak in April



These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the COVID-19 pandemic and efforts to contain it

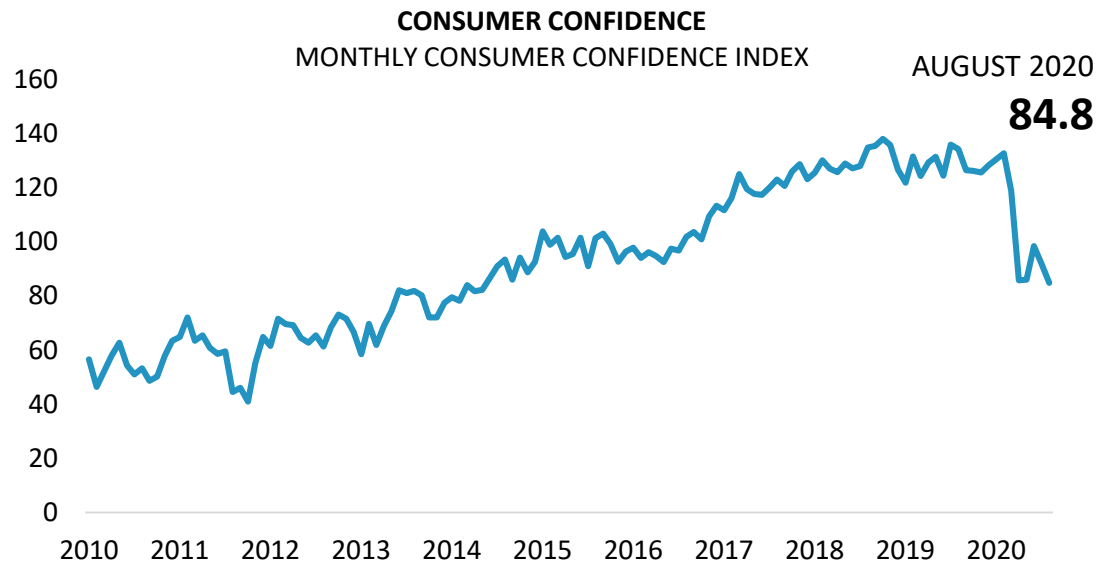
Consumer spending rebounds after a historic drop



The COVID-19 pandemic caused spending to take a dive, dropping 6.4% in March and another 12.4% in April; While not up to pre-pandemic levels, some pent-up demand has been released as restrictions were lifted

But other measures show continued uncertainty

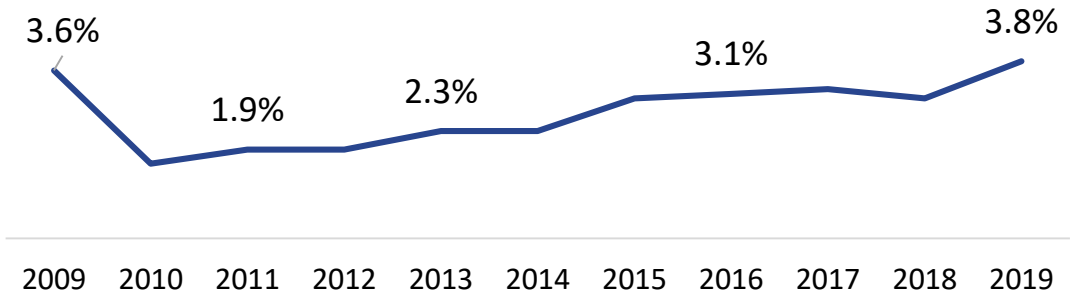
Consumer confidence dips again in August



The current decline can be attributed to consumers' growing pessimism about the current business and job market, their short-term financial prospects, rising COVID-19 cases and election concerns

US Worker wages could take years to recover

U.S. Median Wage Growth



The impact of the COVID-19 pandemic on wage growth is not yet known, but early analysis suggests that the impact could require four to five years for many workers to recover lost wages

While looking to the past for signals, keep in mind that there are differences between the 2008 and the COVID-19 Recession in the U.S.



THE IMPACT TO THE ECONOMY WAS SUDDEN & SEVERE

2020
26.5 M
filed for Unemployment
in 5 weeks



\$2 T Initial gov't stimulus which was partially paid to Americans & small businesses

2008
37.1 M
filed for Unemployment
over 2 yrs



\$2.8 T in stimulus packages over 3 years, paid to large businesses & banks



OUR EVERYDAY LIFE HAS BEEN DRASTICALLY DISRUPTED

2020
US air travel dropped by
95% in early pandemic



In April, **nine-in-ten** people worldwide were living with travel restrictions, businesses were closed, school & worked moved online, etc.

2008
In 2008 & 2009, U.S. Passenger
airline travel demand fell **6%**



No one was living with travel restrictions



TECHNOLOGY HAS ALTERED THE MARKETPLACE

2020
Today, **81%** of Americans own a
smartphone, 96% among age 18-29



\$208.13 B
in mobile commerce sales
in 2018

2008
In 2009, **17%** of Americans
owned a smartphone



\$2 B
in mobile commerce sales
in 2010

Still in the same storm, in different boats

Consumers are widely distributed across the financial spectrum, from both a situational and attitudinal perspective

UNEMPLOYED

Currently Unemployed
Employment interruption
Income loss



EMPLOYED

Currently Employed
No employment interruption
Little/No income loss

FINANCIAL ANXIETY

Make spending cuts
Put purchases on hold
Shift to purchasing essentials



FINANCIAL CONFIDENCE

Little/No change in spending
Make intended purchases
Essential & nonessential purchasing

WEAK FINANCIAL STATUS

Little Discretionary Income
Little/No Savings
Renting Home



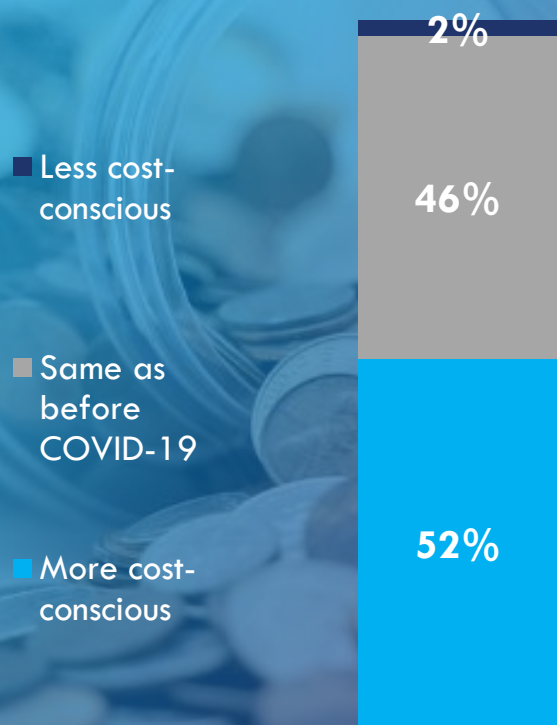
STRONG FINANCIAL STATUS

Some/More Discretionary Income
Some/More Savings
Own Home

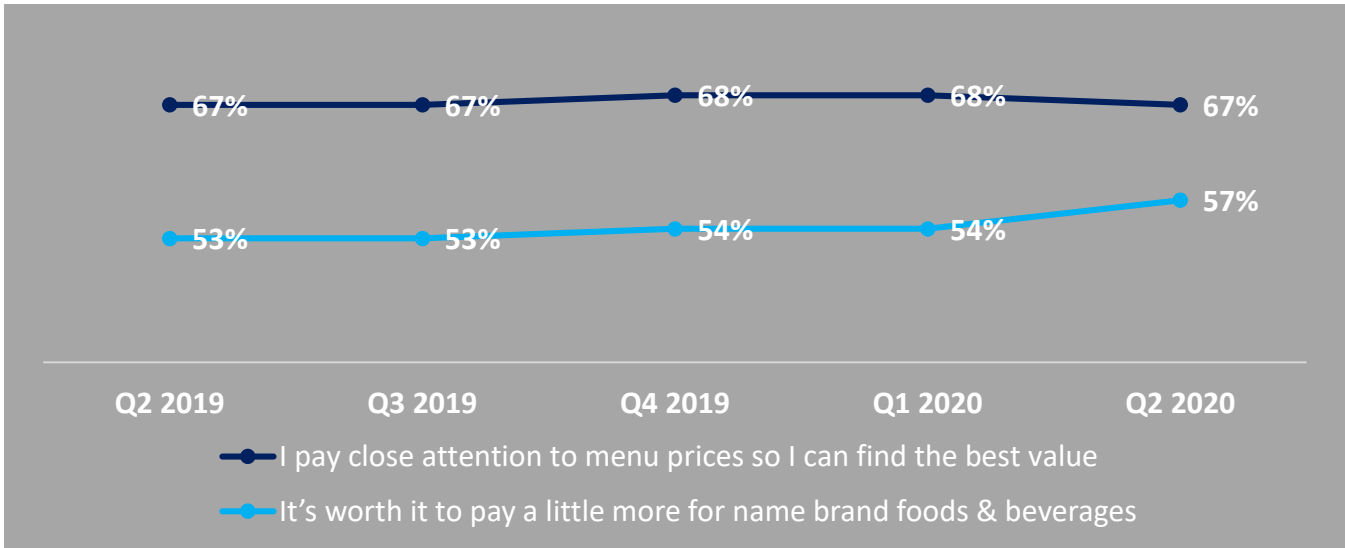


COVID-19 created deep impacts on Value perceptions

IMPACT ON COST CONSCIOUSNESS



The COVID-19 period has had a profound effect on consumers' attitudes, perceptions of value and purchasing patterns for the foreseeable future

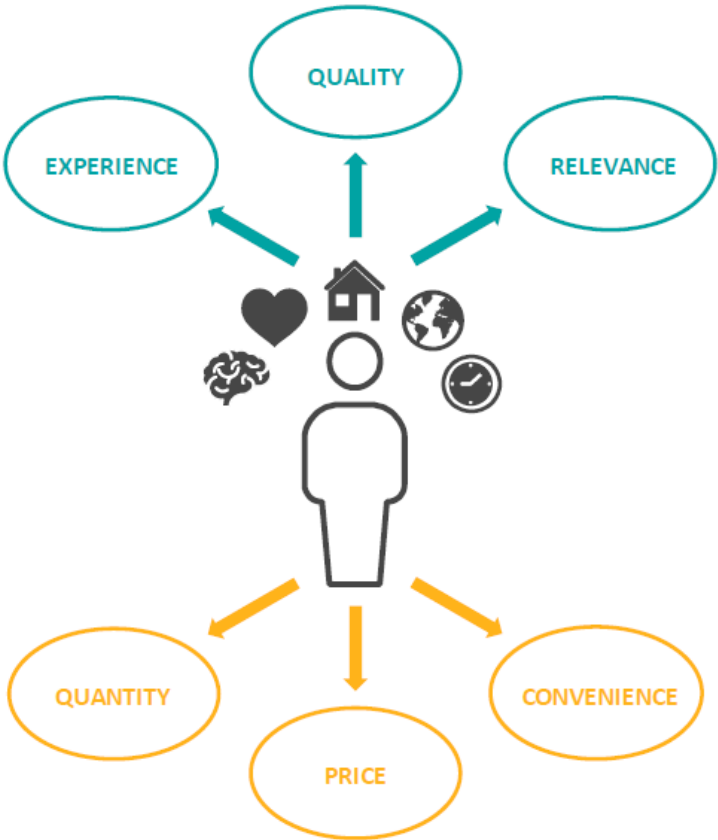


Price remains important, and consumers are putting increased value on trusted foods & beverages, looking for quality, convenience, and comfort in the familiar.

Every purchase consumers make will be subjected to numerous factors

New Value Paradigm

value is subjective: purposeful and emotional



NEW VALUE MODEL

The dimensions in the new Value model often shift in weight/importance, depending on category, context and personal values



Subjective

- Experience
- Quality
- Relevance



Functional

- Price
- Quantity
- Convenience



The modern Value model balances consumer needs for both increased purposefulness and experiential benefits

Subjective & Emotional dimensions increasingly carry greater weight as consumers look to these for product distinctions in determining worth

These factors ladder up to differing behaviors in food spending

How individual consumers have been impacted and their judgements in the context of the new Value equation can lead to both lower/higher spending in various situations



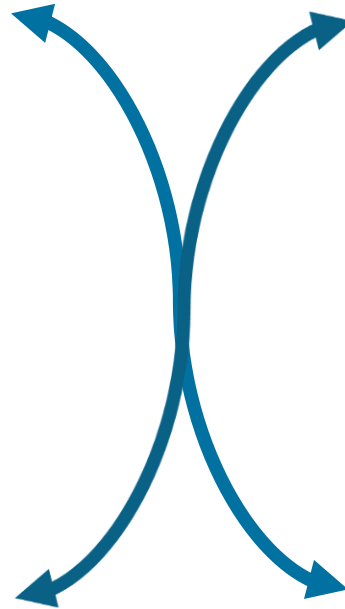
LOWER FOOD SPENDING

- Lowered income = heightened value expectations
- More discerning about where dollars are spent
- More sale/coupon/discount seeking behavior to keep costs down
- Impacts foodservice frequency more than willingness to pay
- Quality expectations in foodservice will be high, despite reduced dining dollars



INCREASED FOOD SPENDING

- Stable income = more disposable income; not spending as much at restaurants, recreation, & travel
- More likely to trade up in certain food and beverage categories e.g. trusted brands, health + wellness
- Foodservice visits may have higher spend as consumers “treat” themselves
- May be more engaged in novelty via LTO or innovation items



VALUE IN FOODSERVICE



Key Principles for Driving Value in Foodservice



Monetary Value

The actual price of items and supplemental deals/promos



Quality

How items deliver on associated expectations of attributes



Service

Ability to address safety concerns & use of technology



Works for Me

Building loyalty by meeting the unique needs of individual consumers



Monetary Value

The actual price of items and supplemental deals/promos

WHAT IT IS

Operators must acknowledge different consumer needs in how consumers are currently looking to spend their money: some need to stretch their dollars further through coupons and deals, while others just want the most for their money.

Over

1 in 4

consumers report **choosing less expensive brands more often** as a result of COVID-19

Price increases of

5-10%

would **discourage nearly half of consumers from visiting** as often

WHO'S DOING IT WELL

Consumers rate **Little Caesars** as a top performer on **prices relative to other, similar locations**



Wawa is a top performer on **ability to provide value through price**



KEY CONSIDERATIONS

- Optimize communications to appeal to deal-seeking and quality for money consumers
- Deals & promotions might temporarily drive traffic, but it's important to not rely on those as the sole value driver
- Have strategies in place if discounting/promos to be a short-term to avoid consumer backlash



OPPORTUNITY

Make 'add-ons' like snack and beverage more accessible through combos and dealing



Monetary Value — Key Tactics

The actual price of items and supplemental deals/promos

Combos Critical to Value

PRODUCT PURCHASE



Combo with
beverage 51%



Meal without
beverage 38%



Meal with
regular
beverage 14%



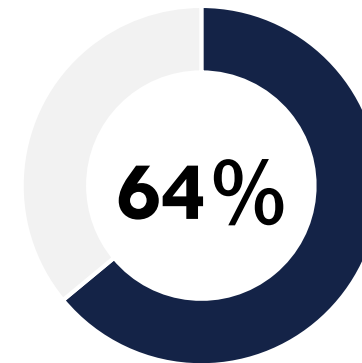
Combo
without
beverage 3%



Beverage only 1%

After basics requirements like location and food choice are met, differentiation principles become critical such as the availability of **combos** and **easy to read menus**

\$1 Drinks simple way to attract customers using beverage; incent to add more items



Of consumers are interested in purchasing a \$1 at QSR locations



62% actually purchase during Dollar Days at McDonald's



Quality

How items deliver on associated expectations of attributes

WHAT IT IS

On top of taste and ability to satisfy a craving, consumers attribute value in food and beverage to the brand/operator itself. They're paying attention to how, if at all, the item meets their expectations.

57%

Of consumers say it's **worth it to pay a little more for name brand** beverages

Over

1 in 10

consumers anticipate being **willing to pay more for health & wellness products** after the threat of coronavirus has passed

WHO'S DOING IT WELL

Raising Cane's Chicken Fingers is a top performer on **ability to provide value through high-quality menu items**



Red Lobster recently debuted the **DEW garita**, the first official Mountain Dew cocktail



KEY CONSIDERATIONS

- Quality of the food and/or beverage purchased needs to be aligned to price
- Attributes such as ingredients and functional benefits have the potential to increase perceived quality
- Trends towards health & wellness put ingredient quality & sourcing in the spotlight

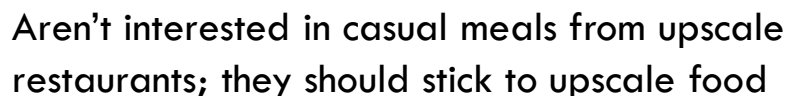
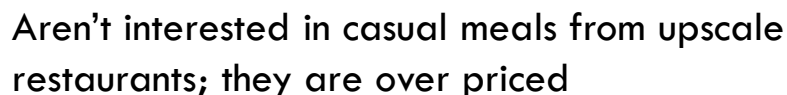


OPPORTUNITY

Reinforce comfort in the familiar through highlighting trusted brands

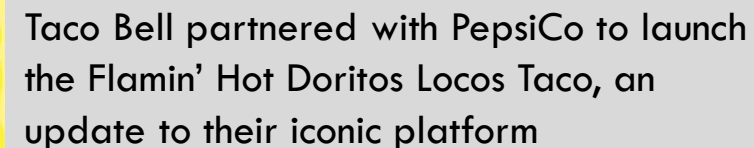


Remember what you are known for

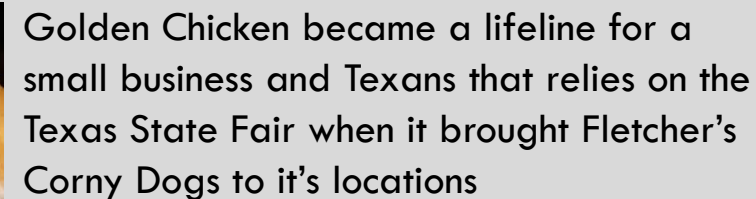


A collection of various objects arranged on a dark wooden surface. In the top left, a small white tag with a black circular element is attached to a string. Next to it is a light-colored square box with a small dark mark. To the right is a dark square box with a small white label. Further right is a small, light-colored bowl. In the bottom left, there is a small white box and a larger, light-colored rectangular box. In the center is a large dark square box tied with a dark ribbon. To the right of this box are two dark bottles and a bundle of light-colored chopsticks tied with a white string.

Don't be afraid to borrow some equity



CHOCOLATE
Caramellicious
CHEESECAKE
MADE WITH SNICKERS®





Service

Ability to address safety concerns & use of technology

WHAT IT IS

Service has evolved to include how an operator has implemented additional safety/sanitation measures. That includes adoption of technology to facilitate more seamless, contactless, convenient experiences.

76%

of consumers say that a **restaurant's cleanliness and food safety procedures will always matter more to them now** than it did before

% who think the following should be a requirement in response to COVID-19

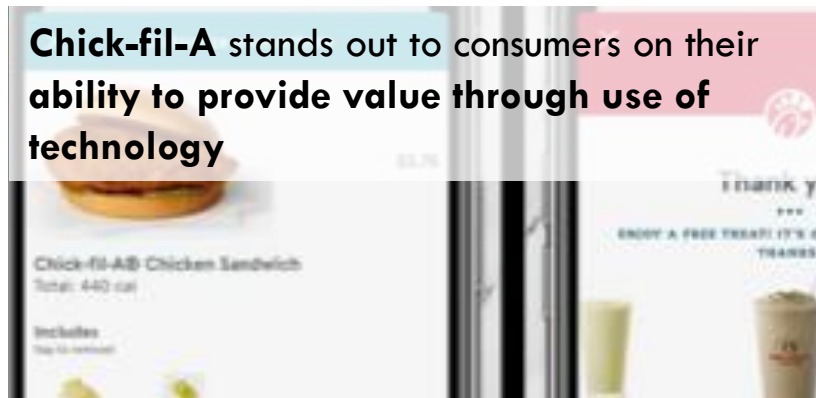
33% contactless payment available

32% mobile payment

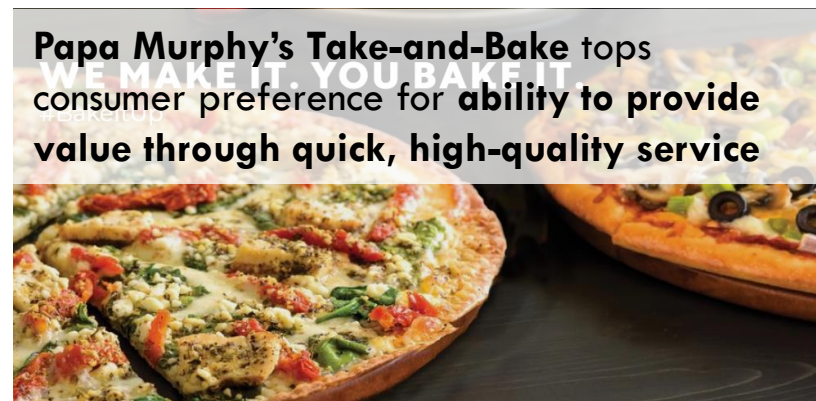
32% mobile ordering

WHO'S DOING IT WELL

Chick-fil-A stands out to consumers on their **ability to provide value through use of technology**

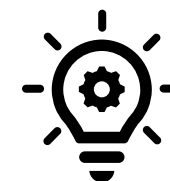


Papa Murphy's Take-and-Bake tops consumer preference for **ability to provide value through quick, high-quality service**



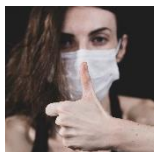
KEY CONSIDERATIONS

- Once table-stakes digital needs have been met, explore how technology can be leveraged to enhance elements such as order accuracy, transparency, and experience
- Ensure consistency of service throughout the digital process, from ease of placing an order to accuracy in estimated delivery/pick-up time



OPPORTUNITY

Leverage technology to build a stronger connection between consumers' orders & the operator

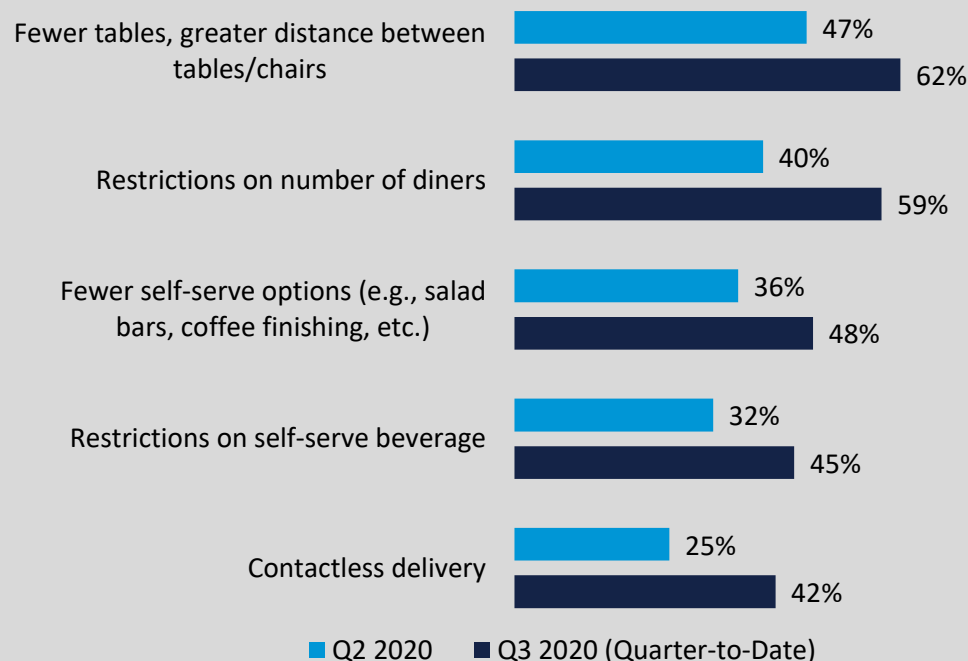


Service — Key Tactics

Ability to address safety concerns & use of technology

Cleanliness needs continue to grow in importance

WHAT ARE CHANGES THAT YOU EXPECT RESTAURANTS TO MAKE SO THAT YOU FEEL SAFE AND COMFORTABLE?



Setting the tech standard

Information is key

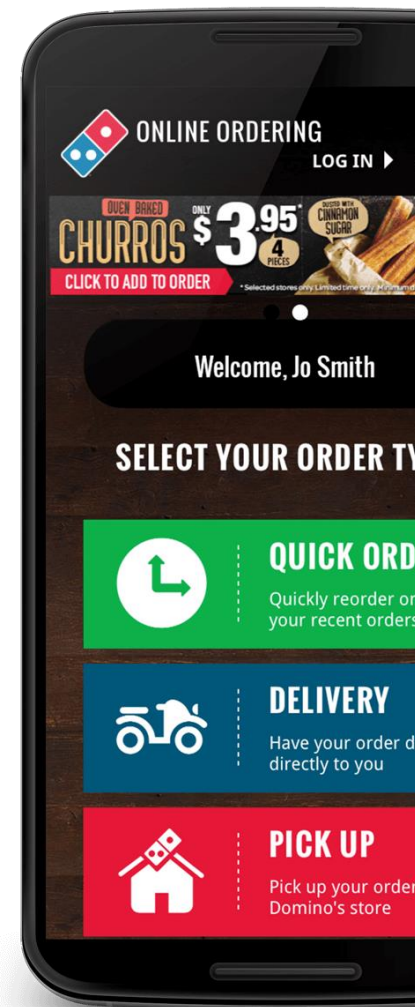
Domino's app allows you to fully track your pizza beyond just the typical pizza tracker. GPS allows you to see when the pizza is at your door for contactless delivery

Zero clicks beats one click

Domino's 'zero click ordering' lets you 'open the app, do nothing and in 10 seconds your favorite pizza is ordered.'

Low-tech works, too

In the last step of the delivery process, Domino's places the pizza on a cardboard pizza pedestal, so you can be contact free, but not grab food off the ground





Works for Me

Building loyalty by meeting the unique needs of individual consumers

WHAT IT IS

Consumers have more options than ever when it comes to how and where to order from foodservice. Building loyalty is essential and operators will need to create flexible programs that fit with post-COVID routines.

1 in 3

consumers are **looking forward to restaurants providing more options** than they have at home

Pre-COVID, nearly

50%

of consumers said they **would be at least somewhat likely to purchase a monthly subscription at a fast-food restaurant** that entitles them to one small item per day

WHO'S DOING IT WELL

Dunkin' has rolled out **Member Appreciation Months**, composed of a variety of deals throughout the week



McDonald's recently launched the **Travis Scott Meal**, based on the rapper's favorite childhood order



KEY CONSIDERATIONS

- Operators must demonstrate an understanding that consumers' routines have shifted post- COVID
- Continue focus on innovation and LTO pipeline to provide value through new and different offerings that can provide social-worthy content



OPPORTUNITY

Introduce opportunities for consumers to breakup the monotony of their week and 'new normal' routines

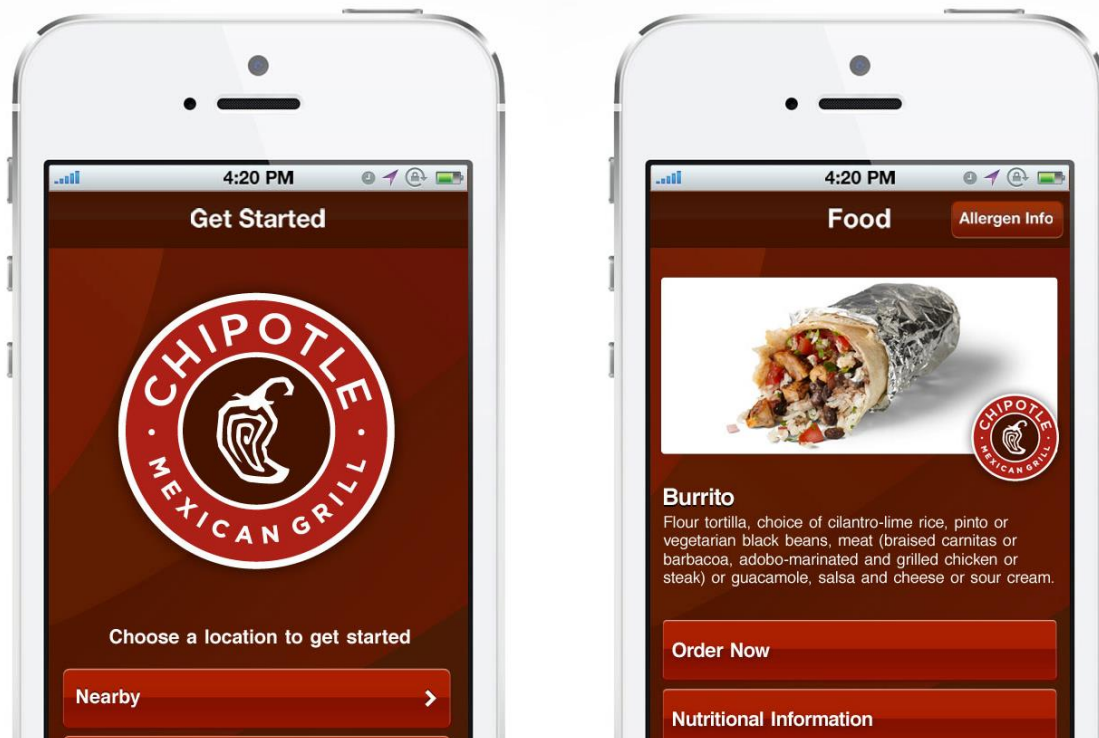


Works for Me – Key Tactics

Building loyalty by meeting the unique needs of individual consumers

Chipotle sees app usage up 480% at peak during the pandemic

Chipotle maintains this engagement through gamifying promotions and deals



Streamlined Menus still need LTOs

#3

Thing people miss about restaurants is the variety they offer

93%

Of operators feel comfort food LTOs have been their most successful offerings since the pandemic



Wendy's revives their pretzel bun with a new build in the Pretzel Bacon Pub Cheese Burger

Implications – Value in Foodservice

1

Support the “balanced barbell” = high quality + competitive pricing options

2

The temptation to cut costs and stall investment in product quality is high, so support operators looking to find the right price/quality mix for their customers

3

Stay away from the discounting spiral

4

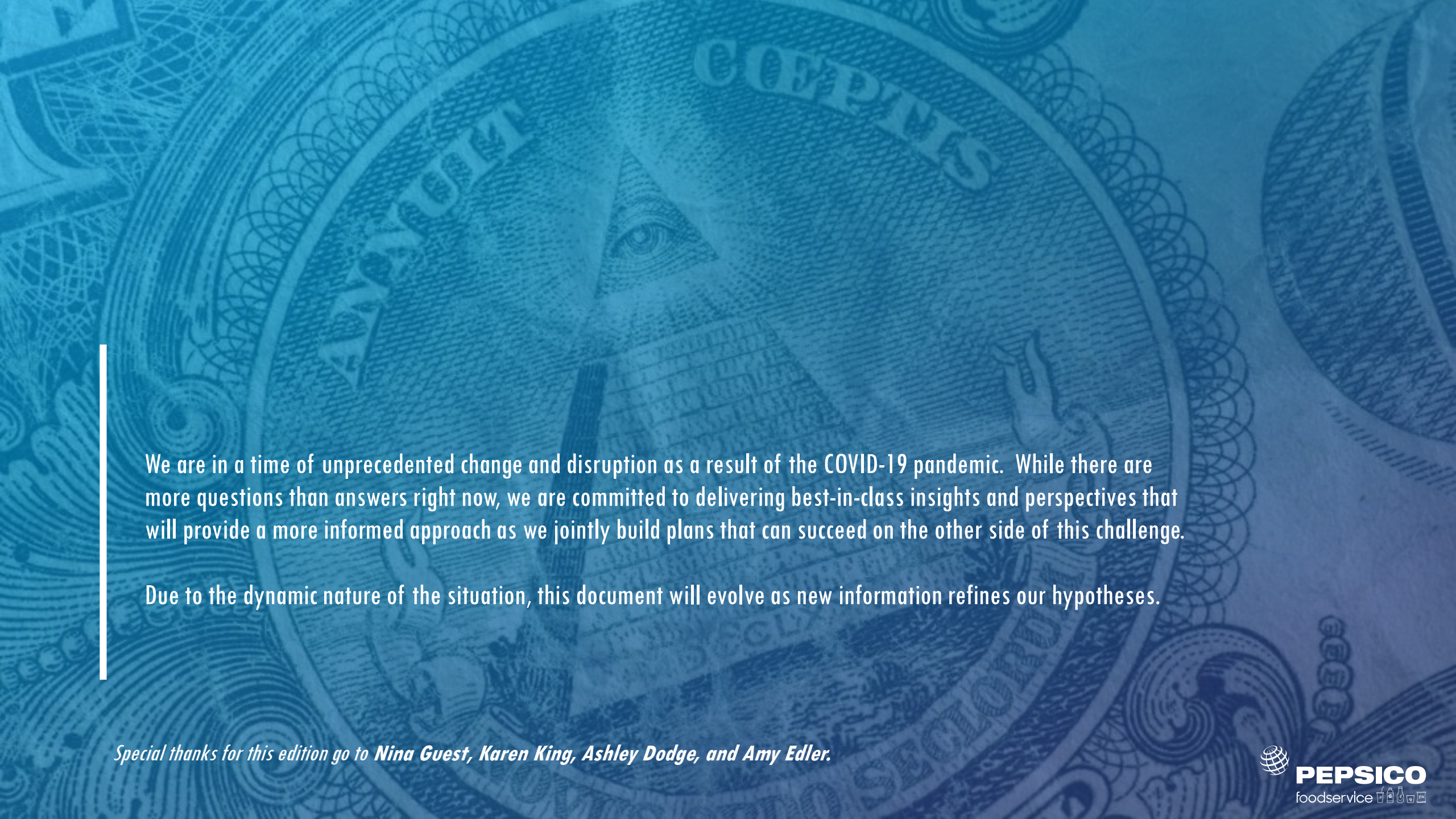
Lean into those qualities and capabilities that differentiate your establishment

5

COVID-19 has created shifts consumer behavior; take advantage of this moment to connect with consumers in a new way

6

Consumers are still interested in new things; while menus may need to stream line, connect with them through LTOs and seasonal items



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, Karen King, Ashley Dodge, and Amy Edler.***



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