PepsiCo Foodservice Insights

COVID-19 INSIGHTS

The Digital Landscape

SEPTEMBER 3, 2020

Jaime Friedman
Director, FS Consumer Insights

PEPSICO foodservice

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+

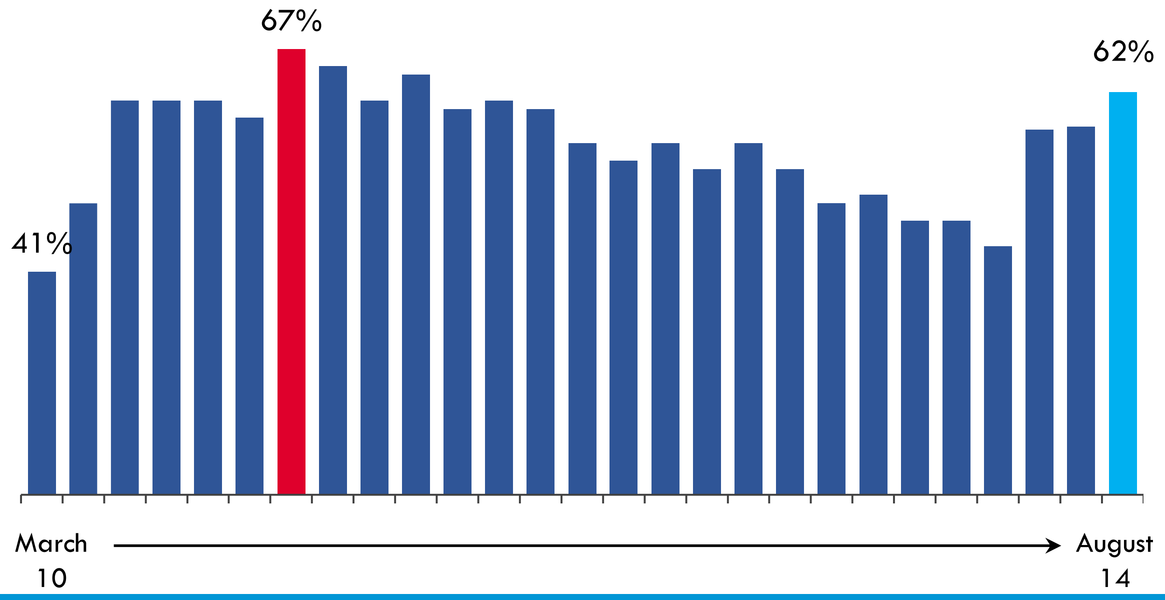
New behaviors form if finances, desire, and/or opportunity dictate; old behaviors return otherwise

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

The Pandemic Persists

States across the country including some of the hardest hit, like FL & NY are hitting new milestones

- **New US COVID cases are the lowest they've been in 2 months**
  - FL recorded lowest one day case count in six weeks
  - NY recorded lowest one day case count in 6 months
- **But, consumer concerns have crept back up near levels not seen since the height of the pandemic**



COVID-19 contact aren't the only factors weighing on people's minds

Source: NYTimes Interactive Reopening Map, Datassential – Report #31

Foodservice Landscape: Trend Tracker

DINE

- **NYC** has **extended legislation capping aggregator fees** for restaurants at 20%
- **300+ restaurants in NYC** have joined a lawsuit **suing for $2B** in damages relating to the **ongoing indoor dining ban**
- FSR giants like **Dunkin', Domino's & Chipotle** are swallowing up real estate of closed independent restaurants

PLAY

- **The NFL** is set to kick off regular season games on September 10th, with **7 teams** even **allowing a limited number of fans** to attend
- **Regal Cinemas** began welcoming guests back on Aug. 21, and announced more reopenings this week in NJ, MD & CA, just in time for the long awaited release of Tenet on Sept. 5

TRAVEL

- Last week, **American Airlines** announced plans to cut 40K jobs in Oct when federal aid runs out
  - 19K through furloughs & layoffs, remaining 21K thru buyouts & retirements
- In attempts to bring back flyers, **Delta, American Airlines & United** have permanently cut change fees for all domestic travel for premium or standard economy tickets

Source: Black Box Consumer Intelligence, week ending Aug 9th*

Foodservice Landscape: Trend Tracker

WORK

- **Frito Lay** HQ in TX joined **PepsiCo** HQ in NY in transition towards an agile workplace
- Foodservice business units are weathering the storm differently:
  - **KO announced** restructuring of business, cutting down to 9 BUs from 17 – process includes staff buyouts & layoffs
  - **The Cheesecake Factory** restored corporate salaries to pre-pandemic levels & re-hired 41K previously furloughed unit level employees

SHOP

- **Whole Foods** may be going cashierless, potentially adding tech currently utilized at Amazon Go stores as early as Q2 in 2021
- **Walmart** will roll out their new subscription service, Walmart+ on Sept. 15th. Membership costs $98/yr or $12.95/mo, with benefits including unlimited free shipping, cashierless Scan & Go payment options in stores, and fuel discounts.

The arrival of digital in the restaurant industry transformed the food service marketplace. The COVID pandemic has only accelerated the adoption of digital among consumers. PepsiCo Foodservice Consumer Insights, in partnership with PepsiCo Digital Labs, has been following digital since its earliest inception. We examine changes in the overall digital landscape, and strive to understand the consumer behaviors driving these changes

The Digital Landscape

Raluca Corobana
Sr. Manager, FS Insights

Karen King
Manager, FS Insights

Lydia Gau
Manager, FS Insights

Amy Edler
Sr. Analyst, FS Insights

PEPSICO foodservice

Today's Agenda

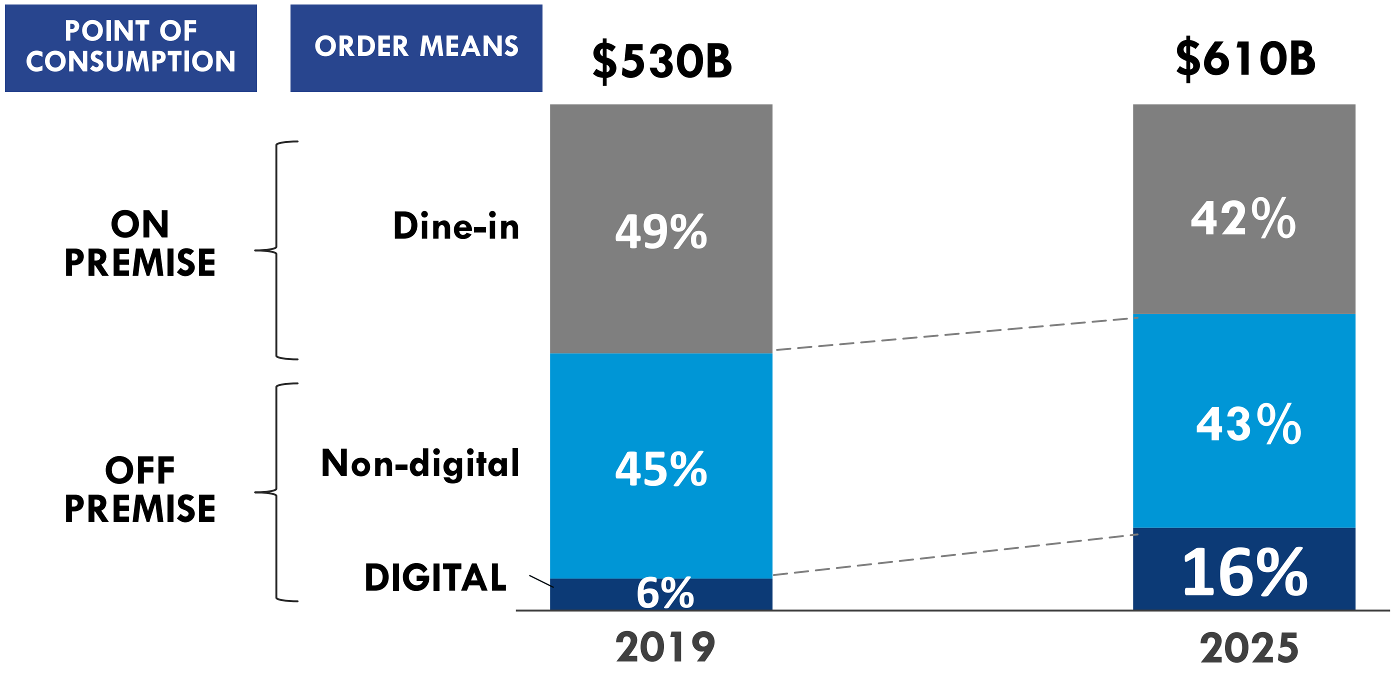
DIGITAL LANDSCAPE: 3RD PARTY AGGREGATORS

Trends we're currently seeing in digital ordering & delivery

SIGNALS OF THE FUTURE

A look into the future of what may happen in delivery

Accelerated by COVID, online food delivery is rapidly changing the U.S. Foodservice Industry



Total F&B Restaurant (RSV)

Note: Updated according to 'managed crisis post-COVID scenario; Channel sizing includes all food, non-food and non alcoholic beverages retail sales values; includes center of plate food as well Source: Technomic, NPD, BCG analysis; 1: Source – NPD (FY2019) ; includes all bev. exc. tap

NEW CHALLENGES FOR OPERATORS

Margin pressure: Increased costs (packaging, delivery, etc.) along with high 3rd party aggregator fees

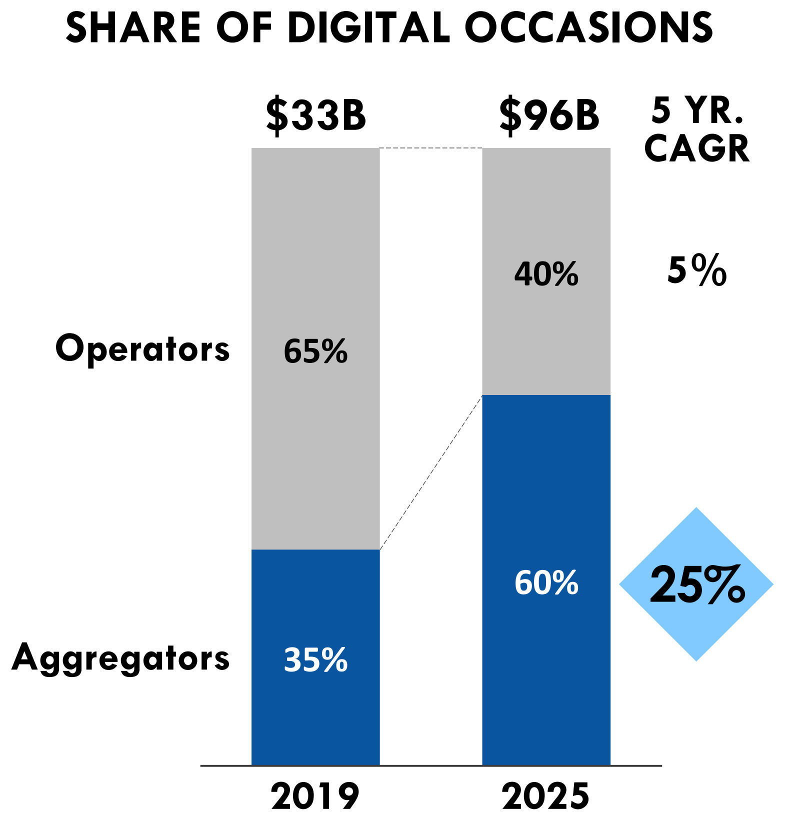
Evolving technologies: Increased complexities, constant changing landscape (complicates partnership)

Lower incidence of High-Margin Categories: Low beverage attachment in delivery

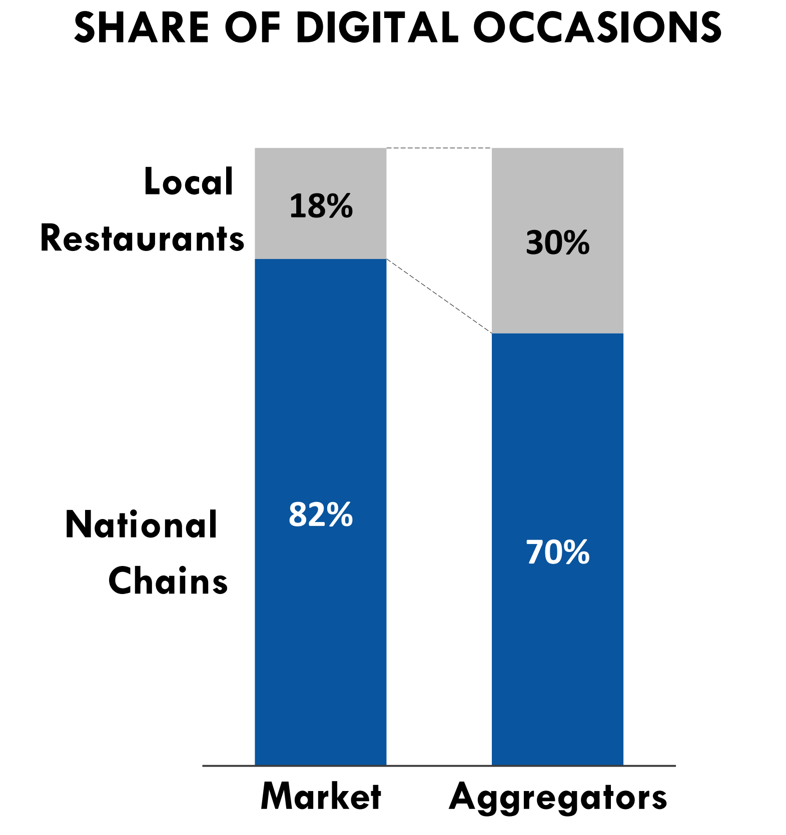
54 INDEX TO ON-PREMISE

Aggregators play an increasingly critical role in the digital restaurant landscape

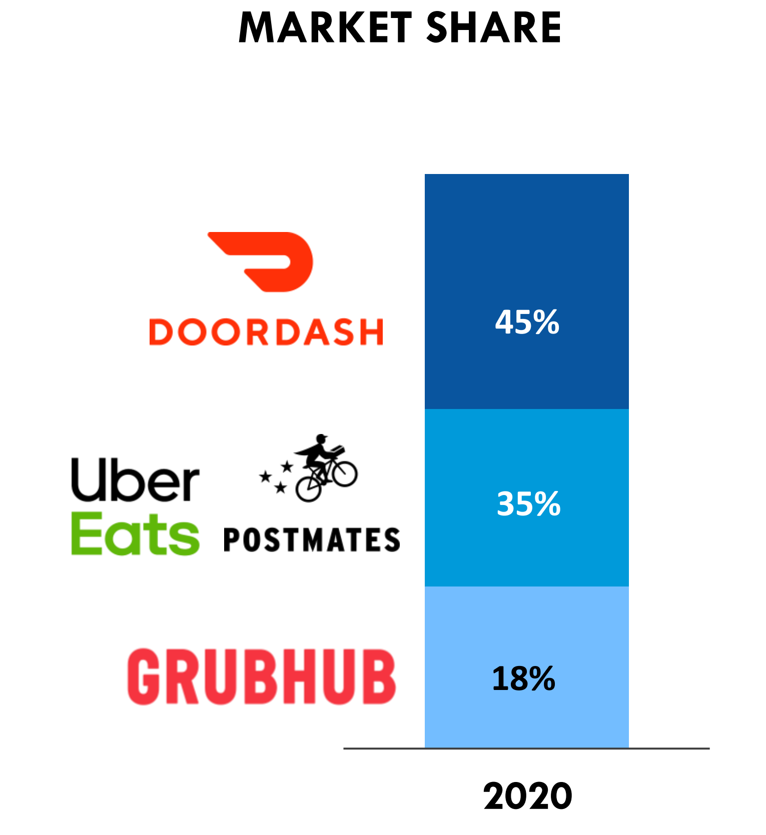
AGGREGATORS ARE PROJECTED TO OUTGROW OPERATORS…



…AND PLAY A BIGGER ROLE LOCALLY



WITH COMPETITION SHIFTING



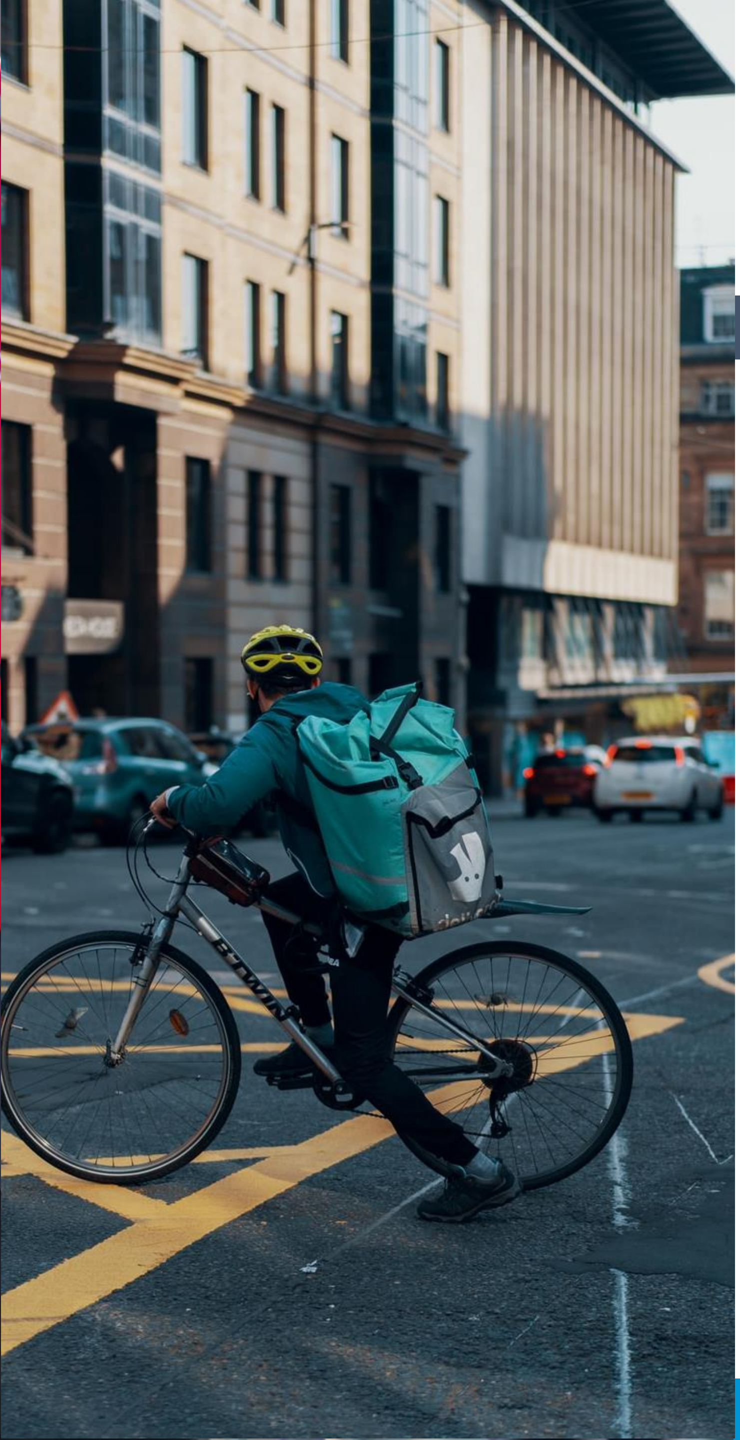
Digital Foodservice:
Aggregator Trends

Here To Stay

Spend Trends

Aggregator Attraction

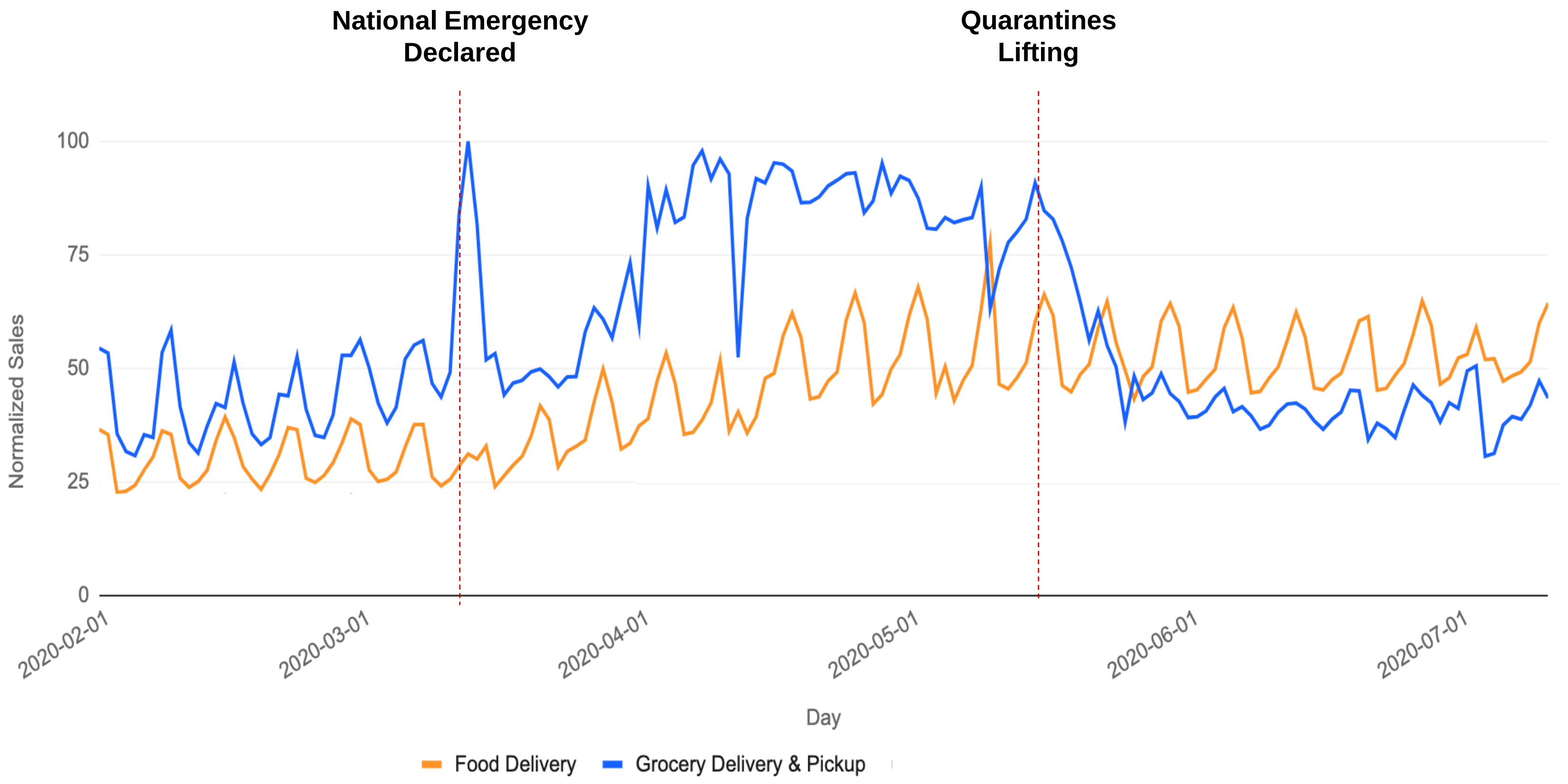
Takeout Take-off



Here To Stay

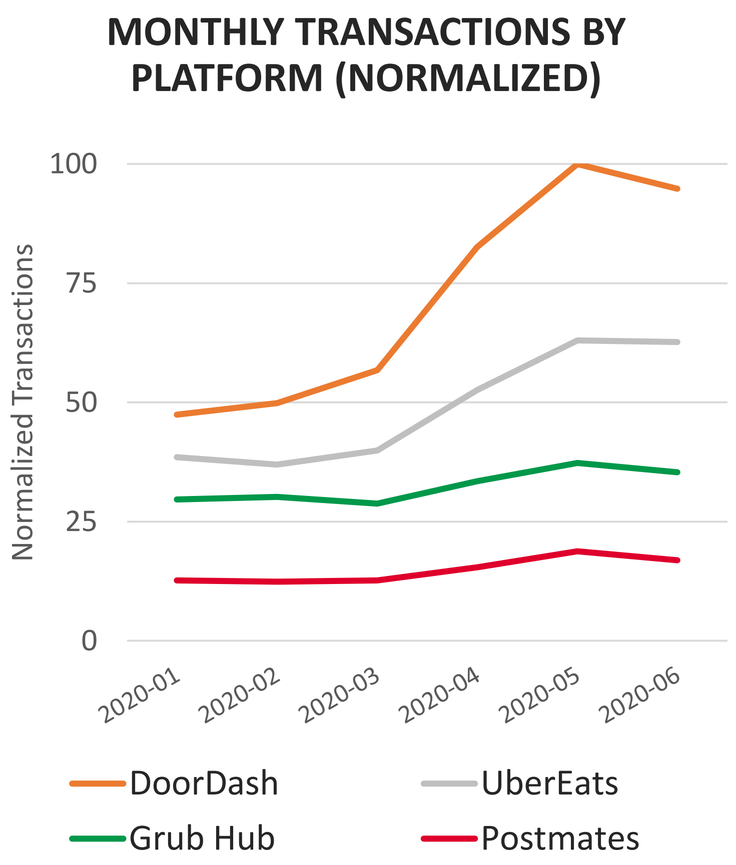
At the height of COVID, growth in digital grocery outpaced foodservice, but FS has maintained consistent growth while grocery has dropped off

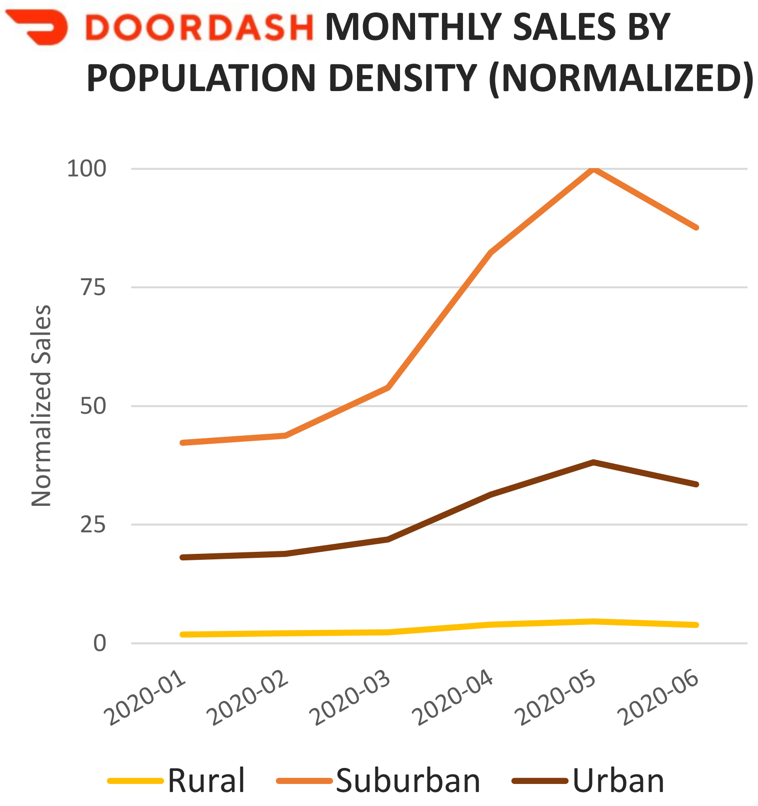
FS DELIVERY SALES REMAIN HIGH, GROCERY RETURNS TO PRE-COVID LEVELS



Source: Edison Trends

While most aggregators have focused on urban markets, Doordash has won the suburbs

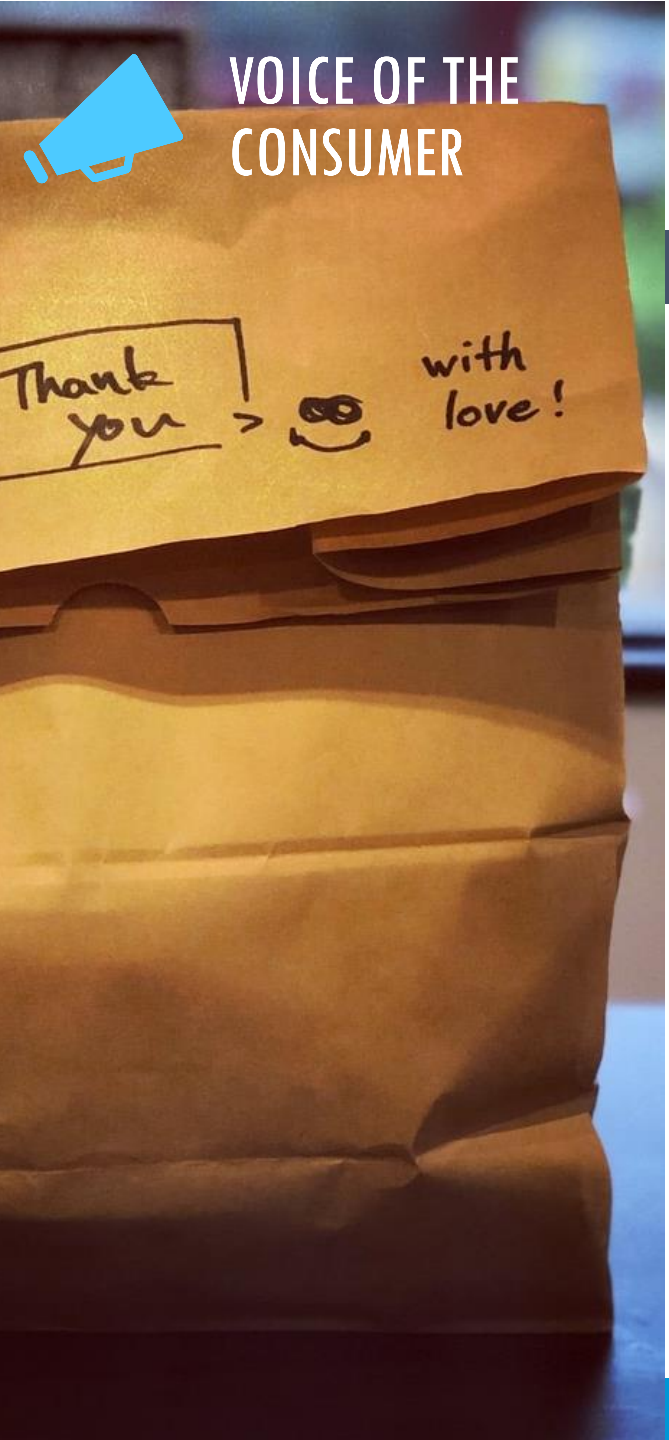




➢ **From Jan to May, DoorDash sales were up 110%; market share grew from 42% to 47%**

Note: Doordash includes Caviar; Grub Hub includes: 'Grub Hub', 'Seamless', 'Eat24', 'Yelp', 'Tapingo', 'Foodler'.

Source: Edison Trends



VOICE OF THE CONSUMER

Although ordering direct from restaurants is preferred, user intent is similar for both methods

RESTAURANT DIRECT

54% of consumers prefer ordering **directly from restaurants**

78% of consumers say they are very likely to **continue using restaurant apps** to order

Consumers are happy with the…

- ✓ Accuracy/customization
- ✓ Avoiding middleman
- ✓ Supporting local business

But there's room for improvement with…

- × High delivery fees
- × Long wait times

3RD PARTY DELIVERY

20% of consumers prefer ordering **on 3rd party apps**

69% of consumers say they are very likely to **continue using 3rd party apps** to order

Consumers are happy with the…

- ✓ Deals
- ✓ Variety
- ✓ Contactless Delivery

But there's room for improvement with…

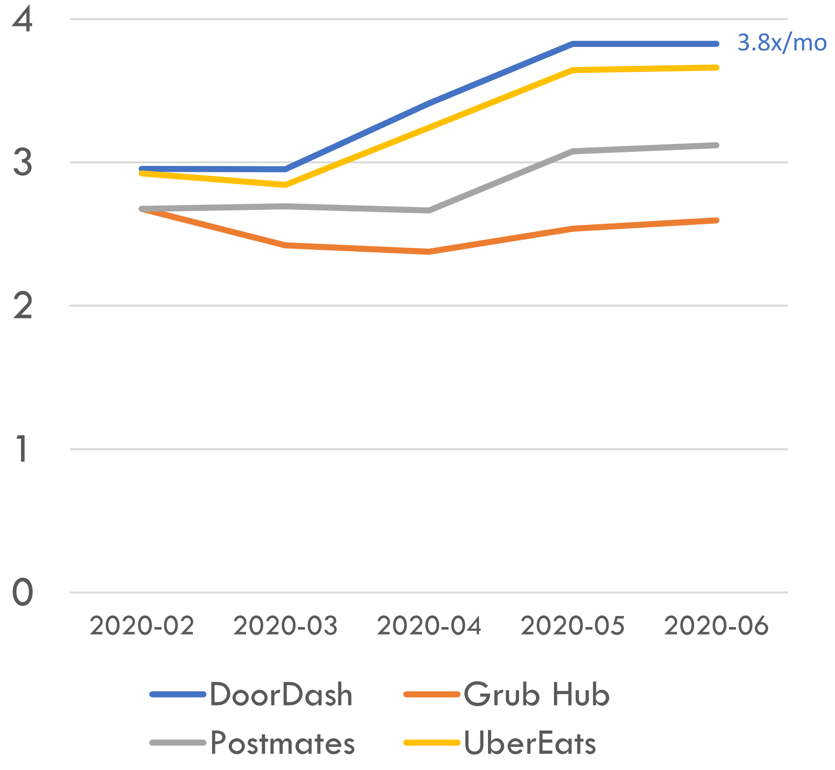
- × High delivery fees
- × Long wait times
- × Less order accuracy

Source: C-space FS Community, 8/29-30/2020

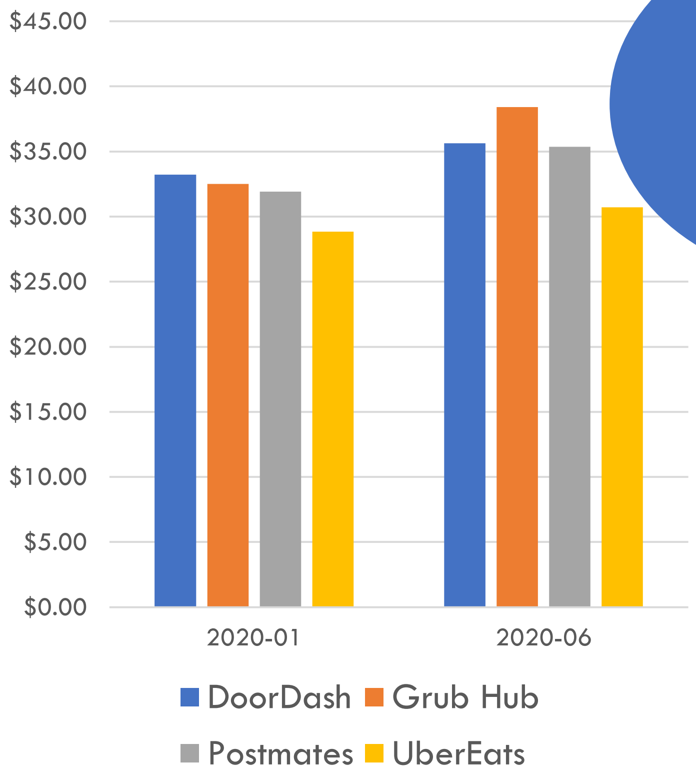
Spend Trends

In addition to driving penetration, aggregators have increased frequency & spend…

MONTHLY AVERAGE ORDER FREQUENCY BY PLATFORM



WEEKLY AVERAGE ORDER VALUE BY PLATFORM

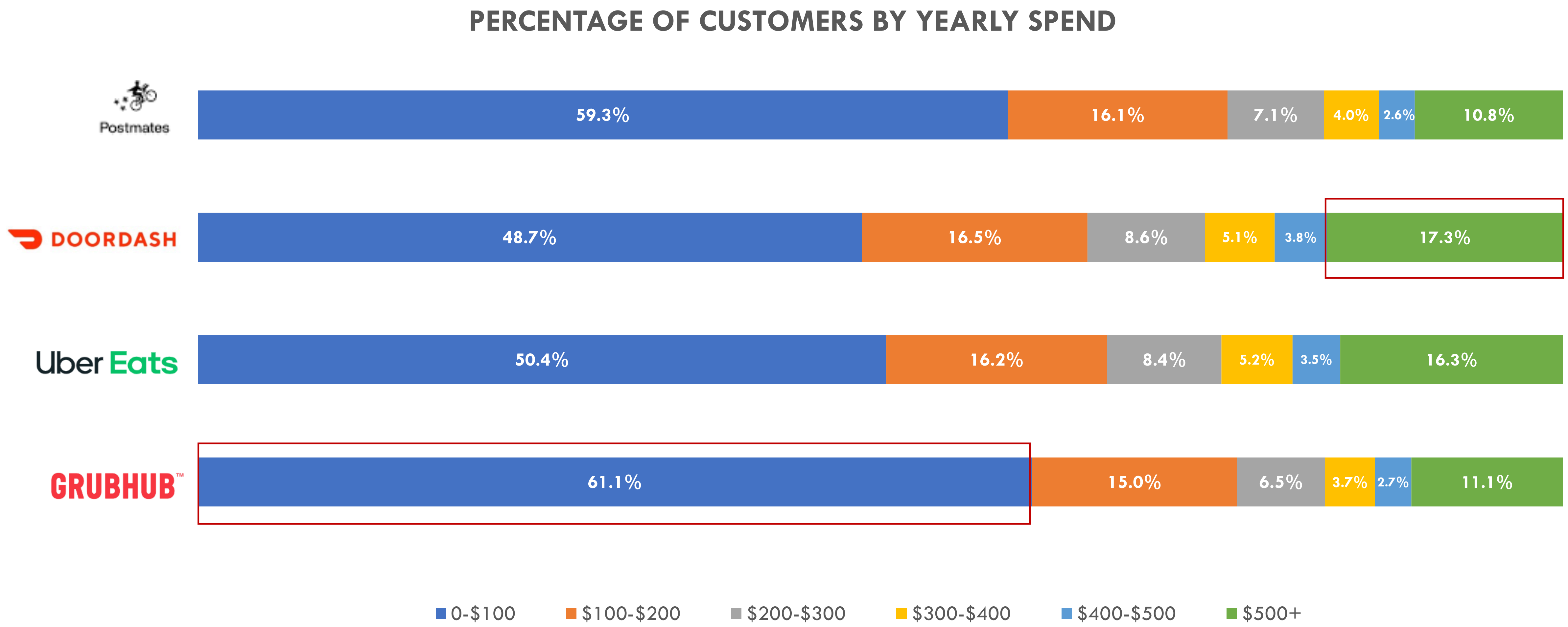


Tipping is up since COVID, across platforms

Based on a 6-month cohort of Edison users, excluding panelists who joined or left the panel during the period of analysis. Sales are calculated as the sum of order values, including tip, taxes, and fees. Grub Hub includes the following merchants: 'Grub Hub', 'Seamless', 'Eat24', 'Yelp', 'Tapingo', 'Foodler'. Doordash includes Caviar.

…but not all aggregators enjoy the same spend

GrubHub consumers spend less on a yearly basis while DoorDash has the highest percentage of big spenders



Based on a 6-month cohort of Edison users, excluding panelists who joined or left the panel during the period of analysis. Sales are calculated as the sum of order values, including tip, taxes, and fees. Grub Hub includes the following merchants: 'Grub Hub', 'Seamless', 'Eat24', 'Yelp', 'Tapingo', 'Foodler'. Doordash includes Caviar.

Source: Edison Trends

AGGREGATOR ATTRACTION

VOICE OF THE CONSUMER

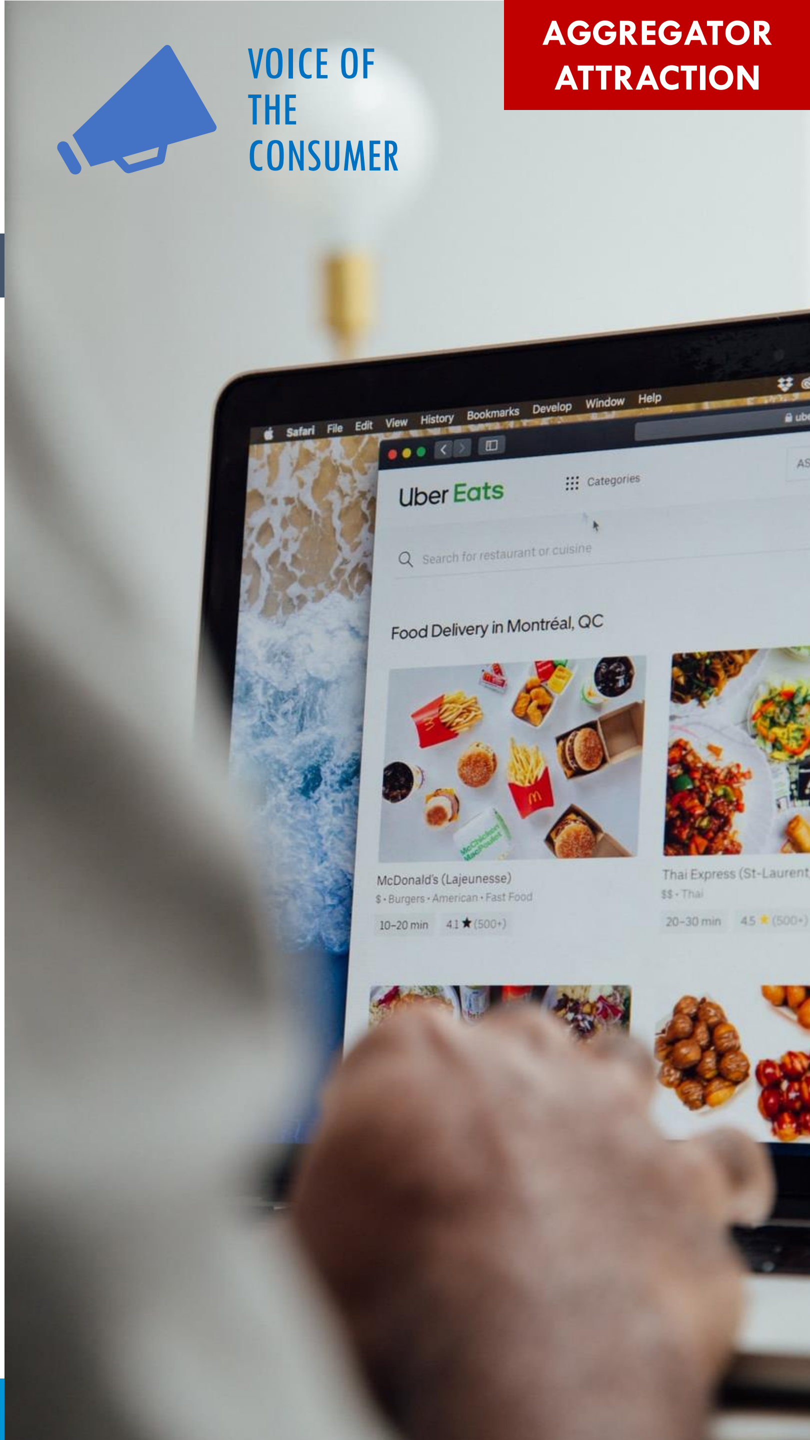
With consumers choosing app last, discounts, price and loyalty play a big role in differentiation

CONSUMERS' THOUGHT PROCESS FOR TAKEOUT OR DELIVERY

Food type	Restaurant	Ordering app	62%
Food type	Ordering app	Restaurant	14%
Restaurant	Ordering app		14%
Ordering app	Food type	Restaurant	6%
Ordering app	Restaurant	Food type	4%

"I decide what I'm craving, then I look at who's got it, then I look at who has the best-looking menu and I order from them."

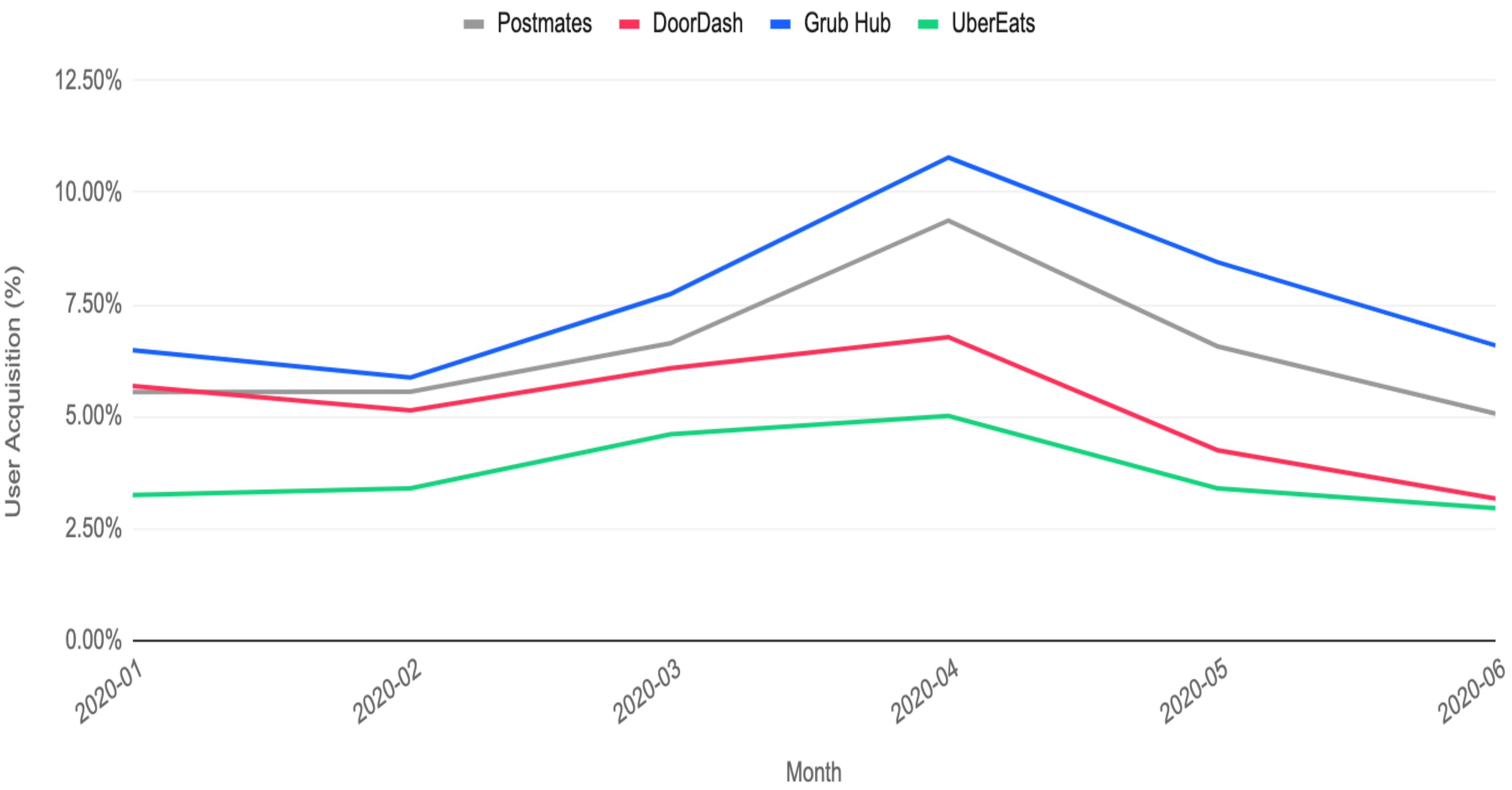
Ordering app = delivery service app or direct order from restaurant website or app



Source: C-space FS Community, 8/29-30/2020

With customer acquisition peaking, loyalty will be the new battle field

MARCH/APRIL NEW USERS RETURNING FOR A 2ND PURCHASE



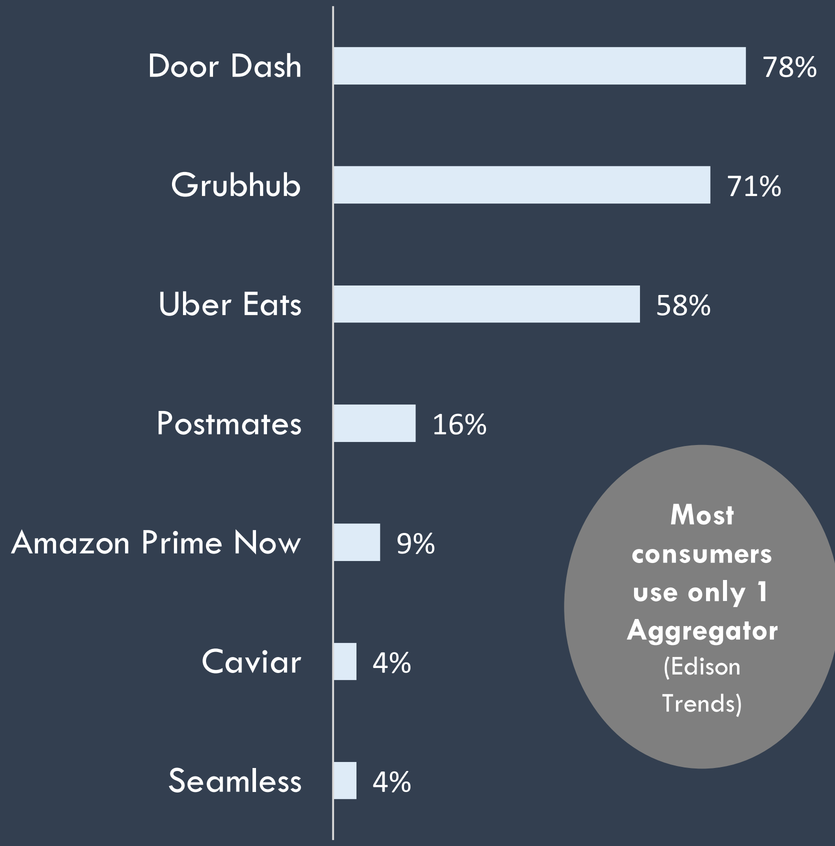
Based on a 12 month cohort of Edison users, excluding panelists who joined or left the panel during the period of analysis. New users are those who are placing their first order with a particular merchant and who have not placed an order with a given merchant for at least 12 months. Grub Hub includes the following merchants: 'Grub Hub', 'Seamless', 'Eat24', 'Yelp', 'Tapingo', 'Foodler'. Doordash includes Caviar.

VOICE OF THE CONSUMER

While consumers have many apps available, they generally use just one

AGGREGATOR ATTRACTION

3RD PARTY APP USAGE



Most consumers use only 1 Aggregator (Edison Trends)

Each brand offers unique benefits to its users

DOORDASH

Customer service and availability

- *"They usually have free delivery promotion plus if I ever had a problem on the past, it was fixed immediately, I was fully refunded and also given credit for next purchase…amazing customer service"*
- *"Door Dash, because it's reliable..."*
- *"Door Dash. Many food and restaurants options are available. I love in a smaller town and most restaurants are using this app."*
- *"Door Dash is convenient and there are so many servers in the area we have very little wait time."*

GRUBHUB

Deals/promotions and variety

- *"Best discounts/coupons"*
- *"I think GrubHub usually sends a weekly coupon out for $10 off which we do use and they seem to go to all the restaurants we like"*
- *"GrubHub usually once a week it's easy and they have the restaurants we like on there"*
- *"Grubhub has a wide variety of restaurants to choose from."*

Uber Eats

Options and delivery service

- *"It's got the most options"*
- *"It's the fastest and best app"*
- *"Uber eats it's easy and works in a pinch"*
- *Uber eats has the most convenient delivery"*

While delivery will continue to be relevant to consumers, aggregators face serious headwinds

Aggregators struggle with profitability

In arguably the best market conditions aggregators are not profitable

- Grubhub is only aggregator to break even in Q2 2020
- Even at the peak of the pandemic, Uber Eats continues to struggle to be profitable
- Discounts attributed to customer acquisition costs leave aggregators operating at a loss

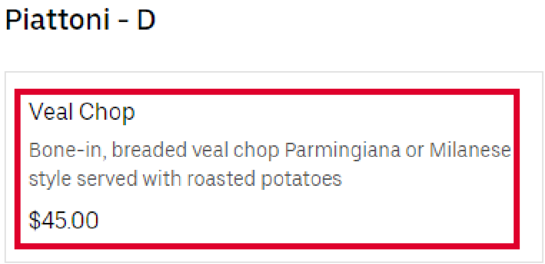
Delivery fees are still considered high

In-store price

Delivery price


PIATTONI

EGGPLANT PARM Parmigiano, San Marzano Tomato Sauce, Mozzarella, Basil, EVOO	$21
CHICKEN MILANESE Arugula, Grape Tomatoes, Red Onion, Parmigiano, Aged Balsamic	$26
CHICKEN SALTIMBOCCA Prosciutto Di Parma, Melted Fontina, Asparagus,	$29
VEAL CHOP Parmingiana Or Milanese Style	$36
BRAISED SHORT RIB Creamy Polenta, Sautéed Spinach, Natural Jus, Parmigiano	$29



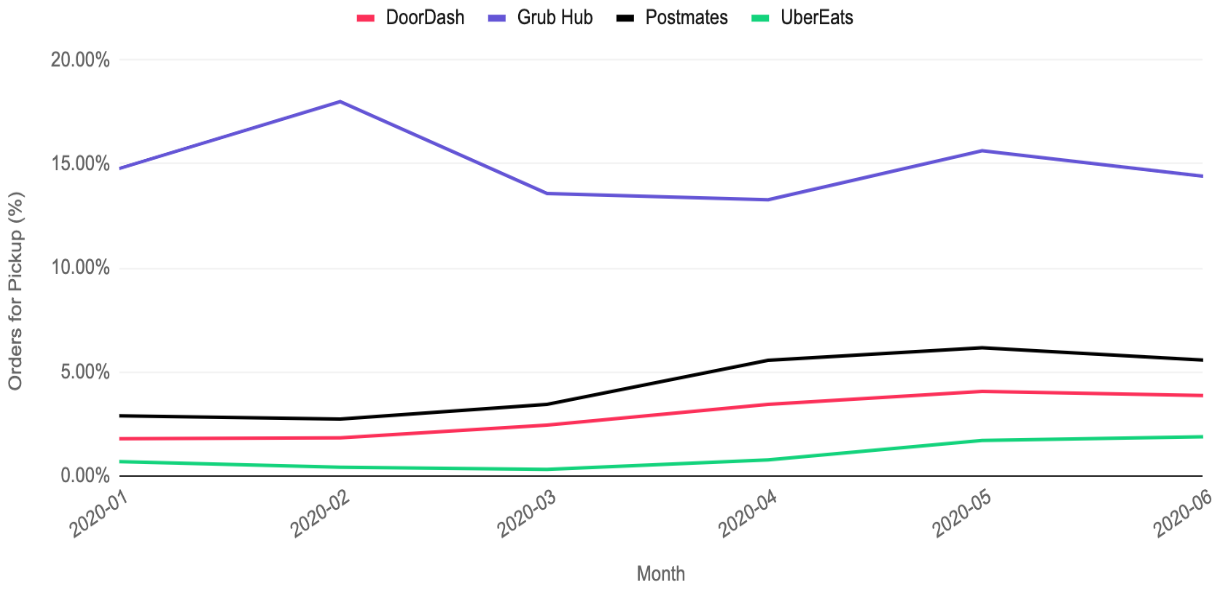
High delivery fees is the #1 barrier to ordering delivery

- Consumers are suing the largest aggregators in California over the high charges of delivery fees
- During COVID fees were capped in some locations
- Operators are increasing pricing on aggregator menus to make up for high aggregator take percentage

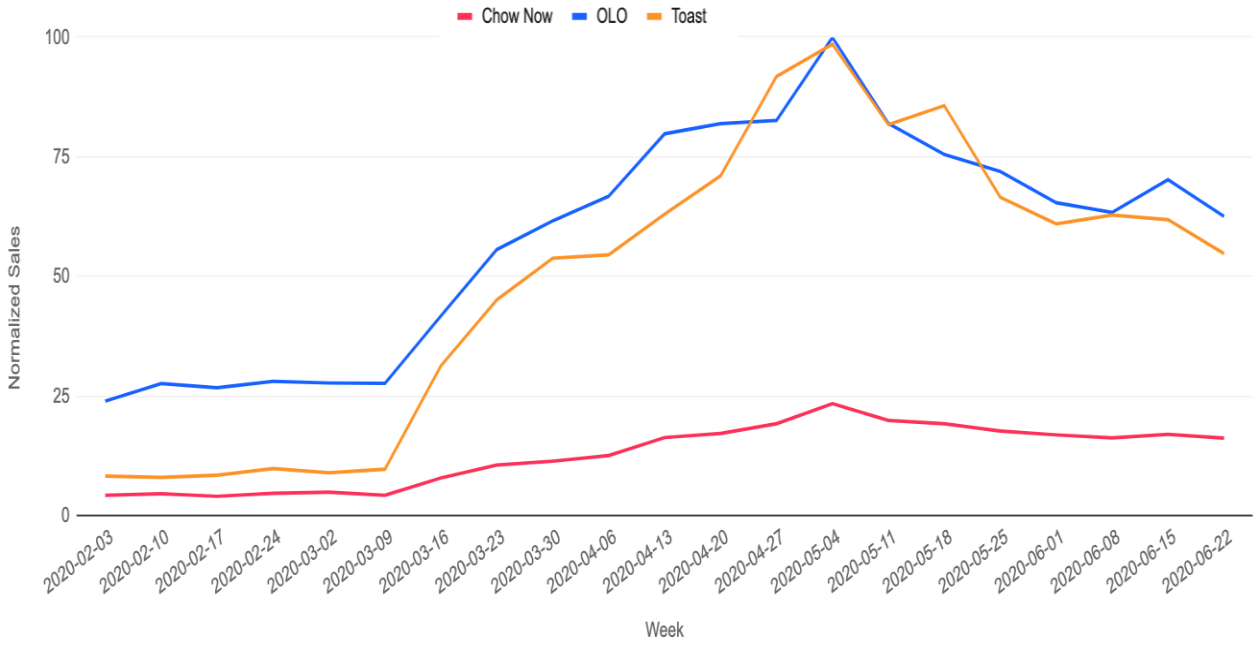
Takeout Take-Off

Customers increasingly utilize digital pickup, driving the success of take-out first platforms

PERCENTAGE OF TRANSACTIONS FOR PICKUP BY PLATFORM



NORMALIZED PICKUP SALES BY ORDERING PLATFORM

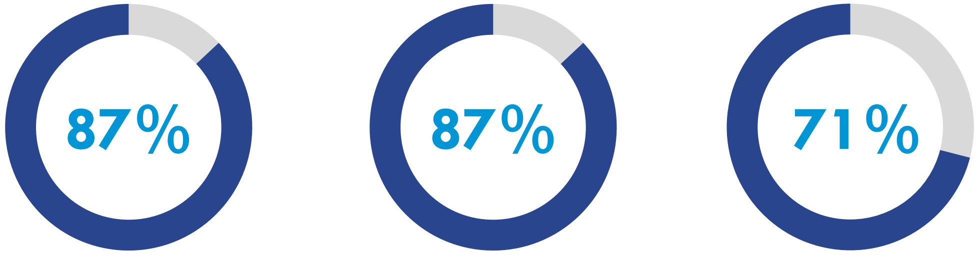


Source: Edison Trends

Takeout wins to save on delivery fees or as an excuse to leave the house

TAKEOUT TAKE-OFF

Unsurprisingly, consumers choose to order delivery or takeout out of convenience:



It is convenient

I don't want to cook

I don't have time to cook

However, consumers choose takeout over delivery to:

- ***Save on delivery fees***
- *Have an* ***excuse to get out of the house during Covid***
- *Are already out an about*

"Delivery fees are sometimes too expensive."

"I don't want to waste extra money it costs to get it delivered when I can just go get it myself."

"Sometimes it's nice to get out of the house, even for a few minutes. During Covid, I have not been in public unless it's to get takeout."

Source: C-space FS Community, 8/29-30/2020

Implications/Digital Landscape

1. Digital ordering has made significant inroads, and is expected to continue to grow share
2. Though consumers show a slight preference for restaurant apps, being online is really what matters most
3. Given restaurant brand is #2 in the decision hierarchy (after cuisine), important to stay top-of-mind with your consumers
4. Given no delivery fee, and people strapped for cash, ensure Take-Out infrastructure is in place
5. As user acquisition plateaus, differentiation will be critical to retain and grow loyalty
6. Further consolidation of delivery companies likely, with competition coming from local markets and restaurants

SIGNALS OF THE FUTURE

“There are decades where nothing happens, and there are weeks where decades happen. – Vladimir Lenin

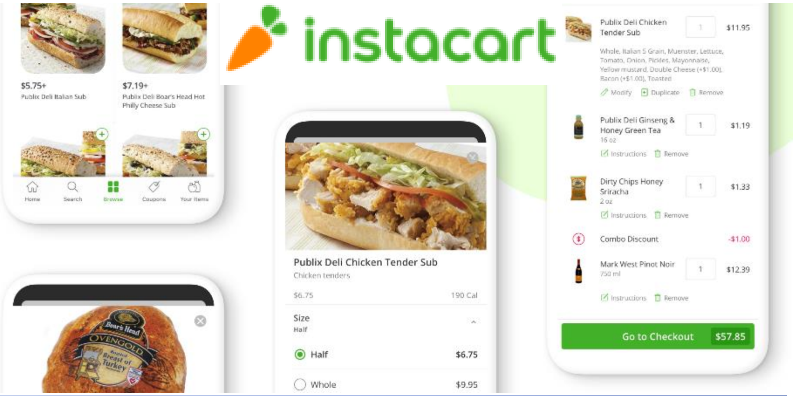
Retail / distributors encroaching in FS space…

Distributor going DTC

- Sysco pivoted to capture revenue opportunities:
  - Helped restaurants repurpose as 'grocerants'
  - Created platform Sysco@HOME for consumers to order groceries directly

Distributor launches Ghost Kitchens

- US Foods launched a playbook to guide operators in setting up a ghost kitchen in "a matter of weeks"
  - No physical space needed
  - Includes "proprietary technology" to identify the most successful ghost concepts, digital marketing support, menu creation/recipes



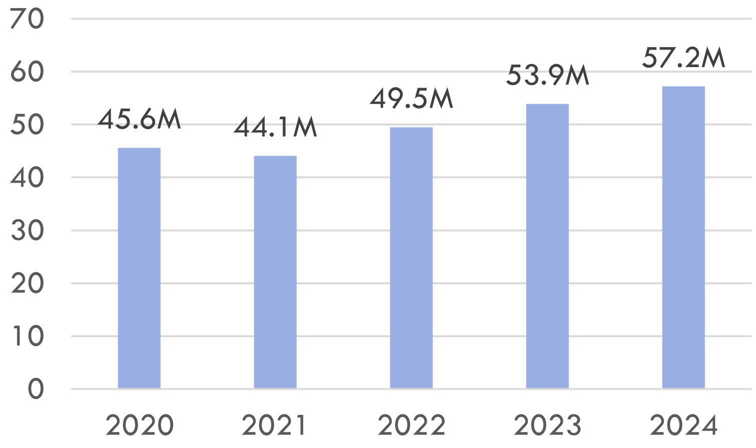
Instacart offering meals

- Instacart Meals launched to capture opportunity in meal occasions
- Made-to-order food represents as much as 15% sales of company's grocery retail partners – has highest margins of anything sold in store

...and aggregators encroaching into retail and restaurant space

With consumers using delivery apps on the rise...

US Smartphone Food Delivery App Users (Millions)



...aggregators are expanding services to take advantage

DOORDASH **Grocery** – to deliver from grocers in CA and Midwest

DOORDASH **DashMart** – to deliver from C-stores (7-Eleven, Wawa, etc.)

Uber Eats acquires Postmates – to grow grocery delivery

Several aggregators (DOORDASH, Postmates, Uber Eats) are opening **ghost kitchens, virtual restaurants, virtual food halls** using their amassed data to make bets based on consumer preferences

Source: eMarketer Aug 20, 2020; Business Insider Intelligence

Food delivery evolves: new avenues

Recreate food hall meals: mix and match

GrabKitchen in Singapore aims to digitally recreate the open-air food court: offering a myriad of cuisines from one location

- Users can combine from menus across multiple restaurants for delivery
- Local restaurants can test new menus and concepts

Food delivery to expand lifestyle brand

Cure.Fit, a health / fitness start-up in India, expands its business by responding to its consumers interest in a healthy diet

- Eat.Fit delivers on-demand Fit Curries, Weight Wise breakfast bowls and DIY smoothie kits
- Whole.Fit is a marketplace for better groceries and dining from local vendors and brands

Source: LSN Virtual Kitchen Market, May 2020

Food delivery evolves: upping the experience

DOORDASH +

Enhancing remote restaurant experience

Doordash recently sponsored a set of Snapchat filters inviting users to immerse themselves in virtual versions of popular chains

- Users can take a selfie superimposed in a restaurant interior or use their camera to explore virtual spaces
- This builds on Doordash's Lunchroom program: providing video chat backgrounds and curated Spotify playlists for restaurant partners

Recreating social experience

In Singapore, restaurant Saint Pierre curates and delivers an 8-course bento experience

- Recipients have the option to join a Zoom session with other diners
- Chef guides diners through each dish and answers foodie questions

> *"We enjoyed food, catching up with each others' lives and by the end of our meal, it almost felt as though nothing had changed. – Jocelyn Tan, Lifestyle Asia writer*

Source: LSN Augmented Restaurants, Aug 22 2020

However, with advances and focus on digital – may lead to 'digital divide,' leaving some segments behind

For some consumers, access is limited

21 Million consumers don't have access to broad band internet

- Rural and low income users have limited or no internet access, impeding their ability to engage with delivery
- 77% of low income users visit fast food restaurants at least once every three months

Boomers forgotten

Boomers targeted by just 5-10% of marketing spend

- Boomer spending is expected to increase over the next 15 years to $4.74trillion

Boomers are fully digital

- 33% of tablet users are boomers

Boomer Digital order growth out paced other demos

- 65+ increased ordering by 428%
- 55+ increased ordering by 200%

Source: CNET, FSR Magazine

Technology will continue to drive innovation and new business models in the future

	Current Trend	Implications for Aggregators & Food Delivery
Apps for Healthy Eating	Covid has accelerated consumers' demand for apps to access: • healthy meals, • foods catering to allergies, • nutrition experts	Digital platforms can become a tool to educate consumers on food choices, while also directly providing meals
Virtual Reality	Whole Foods is producing a virtual reality purchase experience without goggles to recreate the in-person experience: more visually impactful vs. normal eCommerce	Recreating a familiar setting (i.e., visualization of menu boards), esp. for vulnerable population is an attractive option for those who may have difficult grasping new technology concepts
Drones for Delivery	Companies (i.e., Amazon,) are banking on drones to deliver items more quickly - evolving the future of eCommerce	This technology will create opportunities for food delivery to ensure social distancing and efficiency while removing the cost of paying drivers

VOICE OF THE CONSUMER

"To make me order delivery and takeout in the future, I want…

"healthier options", "more healthy alternatives"

"a seamless process", "more intuitive app design", "a simple interface"

"faster delivery", "more accurate timing on delivery", "more contactless delivery"

Source: Euromonitor, Healthy Eating Post-Covid, Aug 2020; GlobalData Tech Solutions, Aug 25 2020; C-space FS Community , 8/29-30/2020

Implications/Signals of the Future

1. Blurring lines force increased competition across food service and retail channels
2. Ghost kitchens will push boundaries, allowing new entrants and new formats into the market
3. Delivery experiences will continue to evolve, not only leveraging the lack of boundaries, but celebrating them and reaching diners in new ways
4. As delivery expands, a niche opportunity may be available to communicate with those who may not be on standard digital platforms
5. Advances in technology from other sectors will soon transfer to food service; expect the pace of innovations to be quick in this space

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 ***Raluca Corobana, Karen King, Lydia Gau, and Amy Edler.***

PEPSICO foodservice