

# *PepsiCo Foodservice Insights Briefing* **Update on Work & Dine**

February 12, 2021



Jaime Friedman  
Director,  
FS Consumer Insights



Nina Guest  
Sr. Manager,  
FS Insights



Ashley Dodge  
Manager,  
FS Insights

# A Changing Tide at a Critical Time

COVID-19 deaths and hospitalizations have fallen,  
-20% and -25% respectively



- Over 46.3M Americans have received at least one dose of the vaccine, representing 67% of the total doses distributed according to the CDC
- Biden administration finalizes deal for +200M doses
- The CDC has endorsed a recommendation of doubling up on masks, suggesting two could shield wearers from up to 90% of virus particles
- The RESTAURANT Act of 2021 was introduced to Congress after receiving bi-partisan Senate support, which would create a \$120B relief fund
- C.D.C. listed foodservice workers as essential & eligible for vaccine
  - Eligible in phase 1C, the NRA advocating to be moved to 1B
  - Vaccine distribution ultimately up to state & localities to decide
- The House Education and Labor Committee advanced a piece of their COVID-19 relief proposal that calls for a \$15/hr minimum wage
  - **85%** of operators say they'd be forced to **increase menu prices**
  - **62%** of operators said they would **eliminate jobs**

## Foodservice Implications





# WHERE ARE WE NOW?

## WORK CHANNEL

WORK



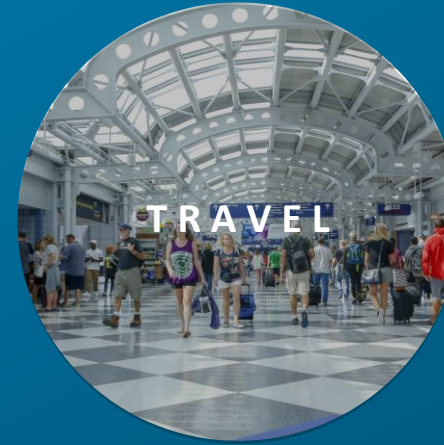
DINE



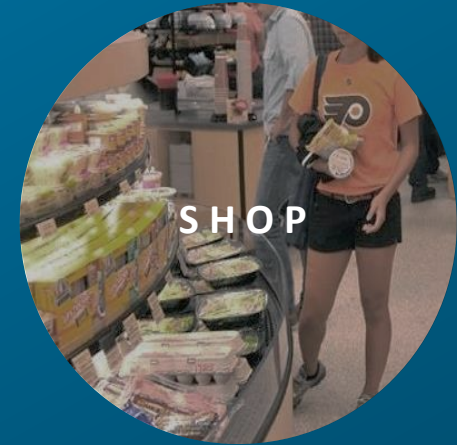
PLAY



TRAVEL



SHOP



# Workplace & Schools will continue to feel COVID impacts into the future

## CURRENT STATUS

### 2020 SEGMENT GROWTH

(Real) (% Change in Retail Sales Equivalent)

**B&I**  
**-50.7%**

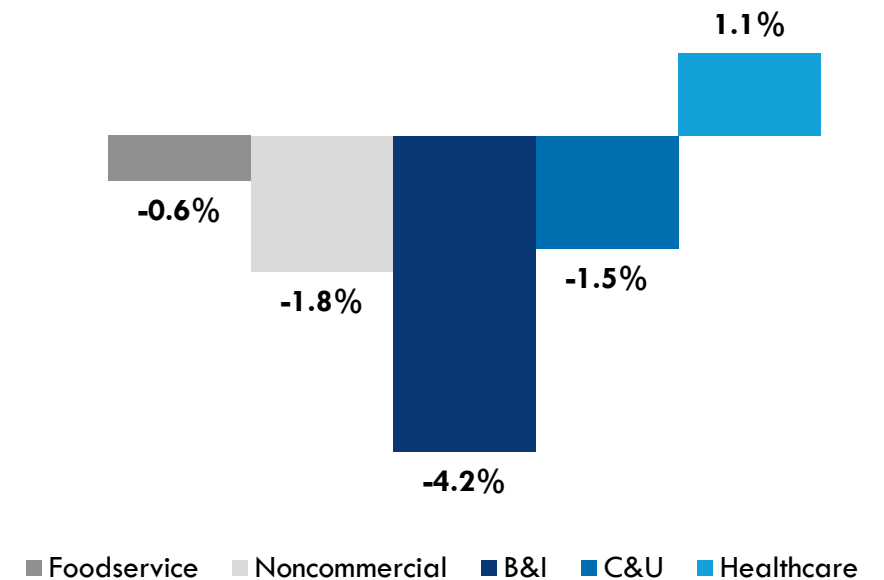
**C&U**  
**-45%**

**HEALTHCARE**  
**-9.5%**

## MOVING FORWARD

### SEGMENT CAGR 2019-2025

(Real) (% Change in Retail Sales Equivalent)



# Despite increase in productivity, WFH is taking a toll on consumers

More people than ever are still working from home, though most expect to return within six months

**46%**

say WFH positively affects their focus and attention on their work

**75%**

of employees in the United States report symptoms of burnout

I'm not sure how much longer I can keep going like this.

## Artifacts of a WFH Life:



### Surfacing new vulnerabilities & bonds

- Co-workers are being more vulnerable, sharing the more personal parts of their lives – children, pets, homes – with coworkers
- Virtual communication is leaving some feeling new anxieties, exacerbated by job security concerns



### Increased social anxiety

- The 'Groundhog Day' effect of spending so much time at home is leaving some consumers more stressed about what they'll talk about with people once in-person again



### Greater attention on balance of responsibilities at home

- Nearly 4 in 10 (39%) working mothers report that it's harder now to balance work and family responsibilities (vs just under 3 in 10 (28%) working fathers)



### Relocating & leaving cities

- Nearly a quarter of consumers have moved since the pandemic began, with permanent moves are mainly driven by Millennials & Gen Z
- 48% of moves are away from urban areas



# Bringing people back

## Consumer desire for flexibility is here to stay...



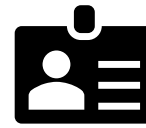
**54%**

Would want to work from home after COVID-19

WHAT THEY WANT TO CONTINUE POST COVID-19

- ✓ Continued flexibility to choose hours & location
- ✓ Opportunities for greater in-person connection with their co-workers
- ✓ Ability to dress more casually for work

## ...and Operators are adapting



**69%**

of CEOs are planning to downsize their office space



**86%**

moving forward, employees will work between one and four days at home

## OUTLOOK

**1 in 4**

Americans will be working remotely in 2021

Estimated

**20-30%**

of office workers are projected to WFH permanently post COVID-19

Up from under 10% pre COVID-19

By 2025, 36.2 million Americans will be working remotely, an 87% increase from pre-pandemic levels

# The New Realities for B&I

## Companies will need to revisit benefits & invest in at-home technology for employees

With a decreased need for fewer people in the office most of the time, there's greater emphasis on making the regular transition from in-person to WFH more seamless.



provide wifi hotspots & internet solutions to ensure connectivity required for videoconferencing & collaboration



Revisit benefits to include things like stipends for home office setup (ergonomic chairs, monitors, etc.), increased meditation/therapy options, meal deliveries, or even unlimited PTO



Invest in new ways to keep employees engaged and feeling connected to each other while remote

## Physical offices will be hubs for collaboration and inspiration

### Prioritization of spaces for team meetings & collaboration

"More spaces for collaborating. Less individual desk space"

"Would love to see **more team-oriented spaces** like a table, screen, and partial privacy that a team can use and have **informal meetings instead of everything requiring a conference room.**"

### Addition of greater team bonding & connection spaces



Addition or expansion of **designed eating, drinking and physical activity centers** to make time on-site more valuable

### New layouts driven by safety

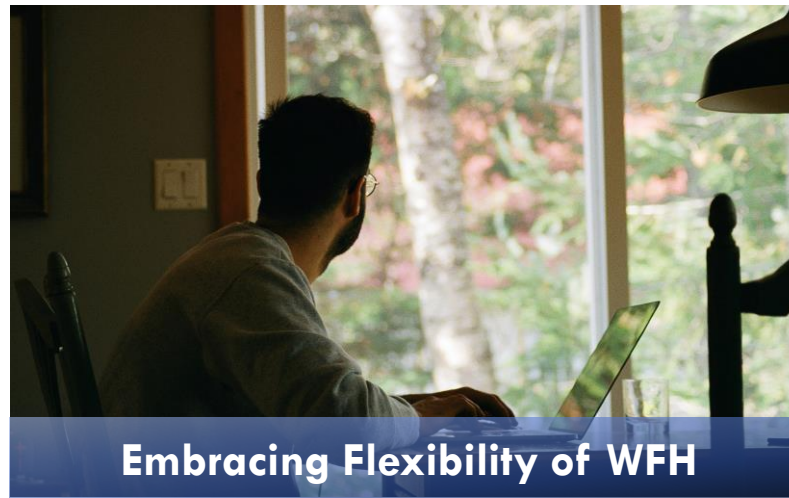


**Decreases in open office plans, sufficient spacing between people & desks**, perhaps even fixed furniture  
Food & snack areas also poised for change with **individual packaging at coffee and snack stations**

# Redefining Benefits



- Employers have begun sending employees care packages to keep teams and coworkers feeling connected while at home



- PwC introduced new benefits to provide increased flexibility.** Examples include:
- Ability to move to a **part-time or 4-day week**
  - **Sabbaticals:** a six-month leave of absence at 20 percent of normal pay
  - **Protected hours:** Set hours of the day without meetings or assignments
  - **Back-up care & tutoring support:** \$2,000 in child or elder care reimbursement, discounts on tutoring, nanny placement and college admissions support.



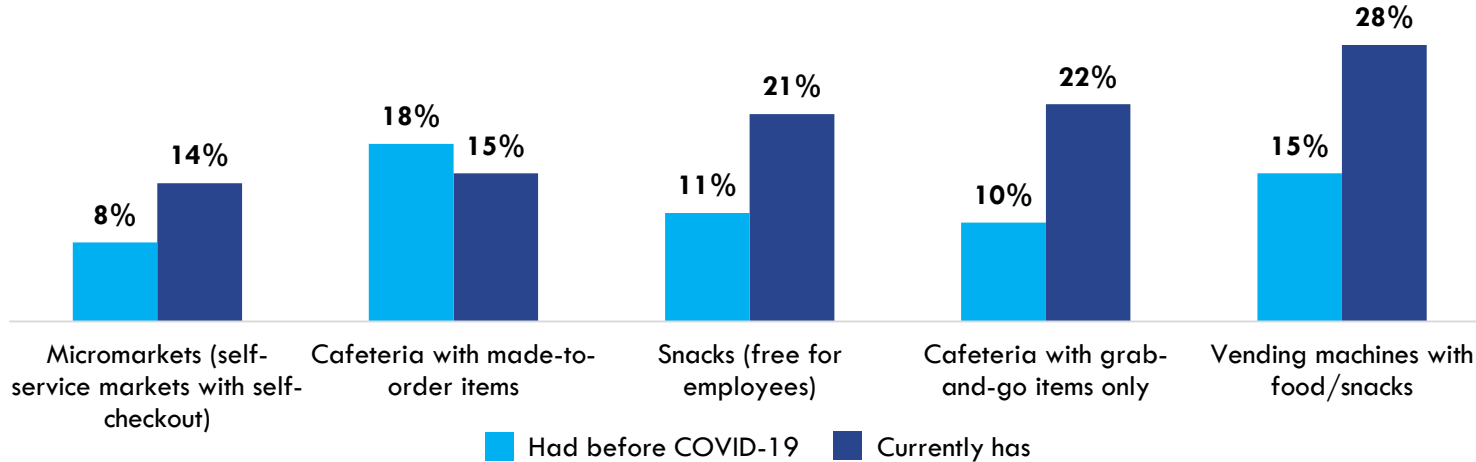
- **Facebook Menlo Park** plans to launch an on-site hotel. The proposed hotel will be five stories tall and will contain a restaurant.
- **American Airlines** is building a \$250 million hospitality center at its headquarters, which will include retail and hotel space, as well as dining areas and a tavern.



# Impact on B&I Foodservice

Grab & go solutions growing since COVID-19 on-premise, while WFH driving AFH spend

## B&I FOODSERVICE AVAILABILITY



## AVG WEEKLY AFH FOODSERVICE SPEND



**\$184.20**

Work from home

**\$150.00**

Work away from home

**\$108.20**

Unemployed



# How B&I Operators are adapting



- **Sodexo** recently announced its acquisition of Nourish, Inc. and the expansion of its Good Eating Company platform to North America
- Nourish is a commissary kitchen offering 25 cuisine types and a focus on seasonal, global, plant-forward dishes
- Powered by Sodexo's mobile app, users can place an order for pick-up at their office or delivery to their home



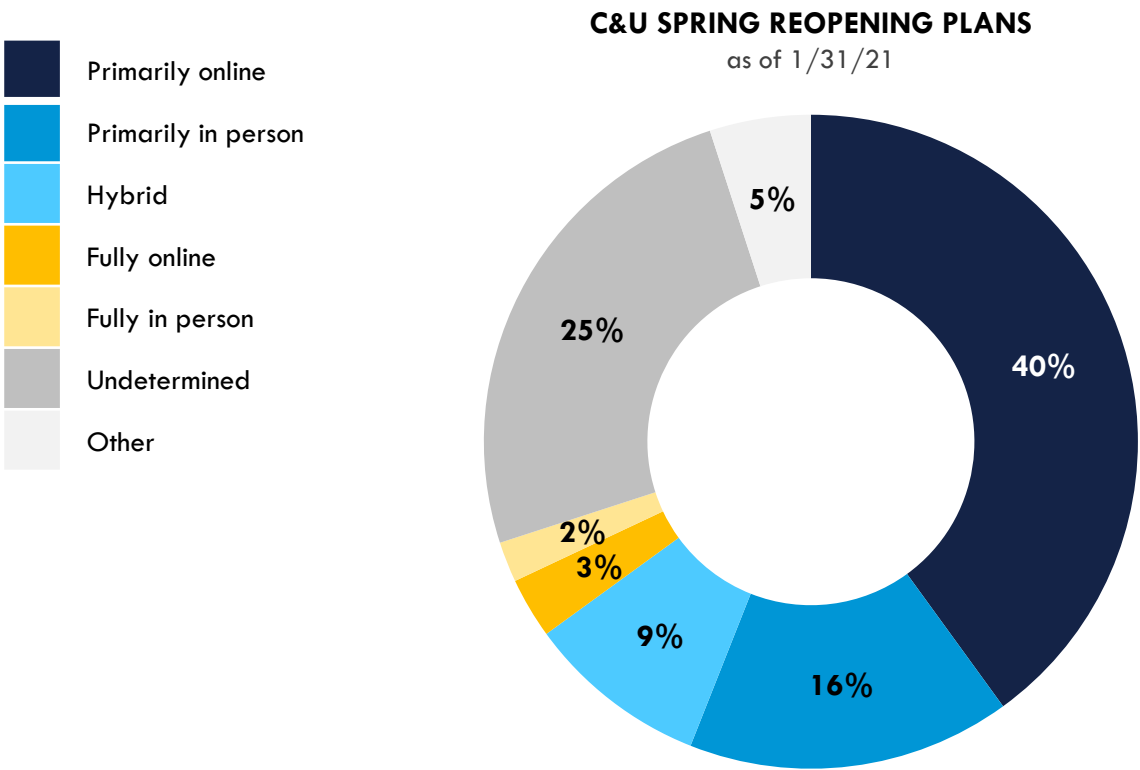
- **AVI Foodsystems**, is partnering with Fifth Third Bank on a daily free meal program employees who work onsite in the company's support services complex
- Grab-and-go, custom-prepared choices, snacks, and beverages are also available at onsite cafés & micro markets



- Home-meal-delivery company **Freshly**, recently piloted a program for businesses to provide delivered meals to employees working from home to replace the workplace café

# The Spring semester remains mostly virtual as new COVID-19 variants emerge

Out of nearly 3000 colleges, 3% are fully online, 2% are fully in person



## More change for C&U this Spring:



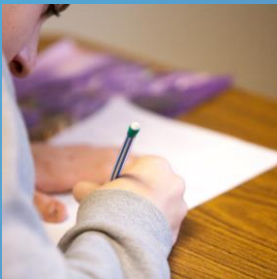
**Spring Break will likely be canceled**  
Similarly to how C&U adapted fall breaks to reduce students traveling to and from campus, some are considering canceling spring break in favor of sprinkling in days off throughout the semester



**Financial Aid further in flux**  
With many families experiencing continued financial impact as a result of COVID-19, there may be opportunity for increased financial aid



**Athletic programs likely won't go on as planned**  
While some high-profile sports (i.e., College Basketball) might be able to go on with COVID-19 protocols, smaller programs will likely not play at all

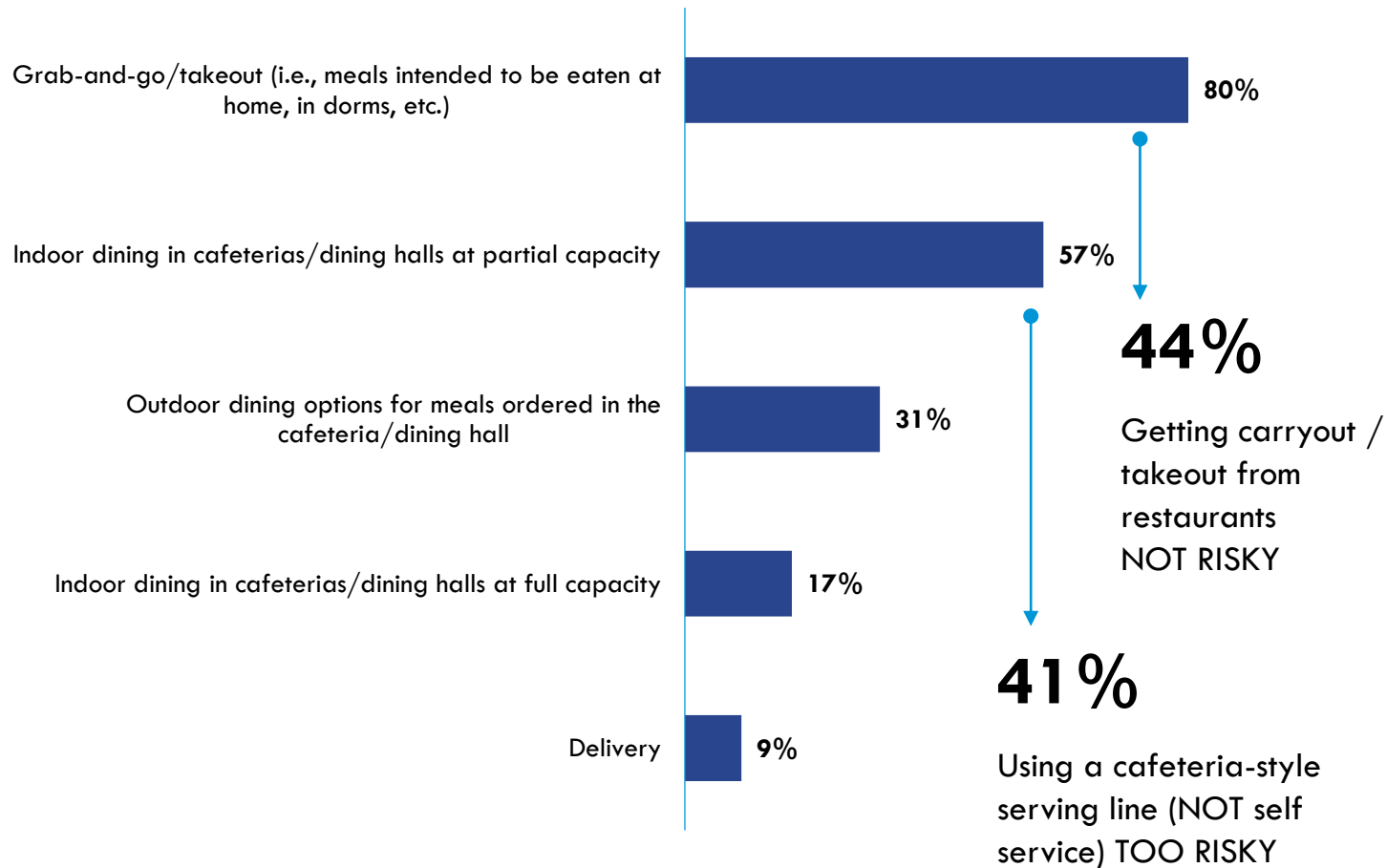


**Early signals of decreased applications for Fall semester**  
In addition to application deadlines being extended into the new year, initial CommonApp data suggest fewer low-income students submitting applications



# C&U operators prioritizing Grab & Go & slimmed down on-premise

WINTER 2021 C&U DINING EXPECTATIONS



## Operators are building on Fall Semester learnings for the Spring



Photograph courtesy of Creighton University

In the fall, **Bryn Mawr College** had created a unified menu for dining halls to avoid crowds at one location for a specific dish. This spring, they're introducing a wider variety of meals and the ability for students to digitally reserve meal times for any meals (up to 6 days in advance).

**Colorado State University** is switching back to a build-your-own model (ability to choose sides & amount of items) following a focus on pre-packaged foods in the fall.



Photograph courtesy of Colorado State University

## Digital & Off Premise remain a space for experimentation & growth



**Indiana University at Bloomington** leveraged Grubhub as a way for students to order meals from campus dining locations

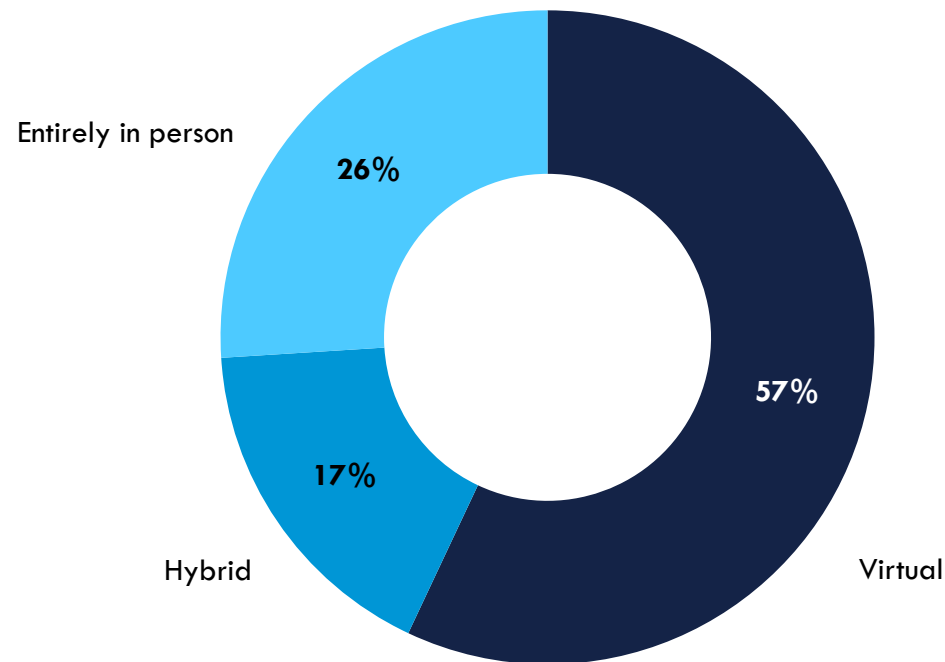


**Jersey Mike's** opened it's first ghost kitchen at **Rider College**

# While in-flux, K-12 remains mainly virtual

HOW ARE YOUR CHILDREN CURRENTLY  
ATTENDING SCHOOL?

11/4-11/7/21



Parents are feeling the stress of K-12  
virtual learning:

Over

**1 in 3**

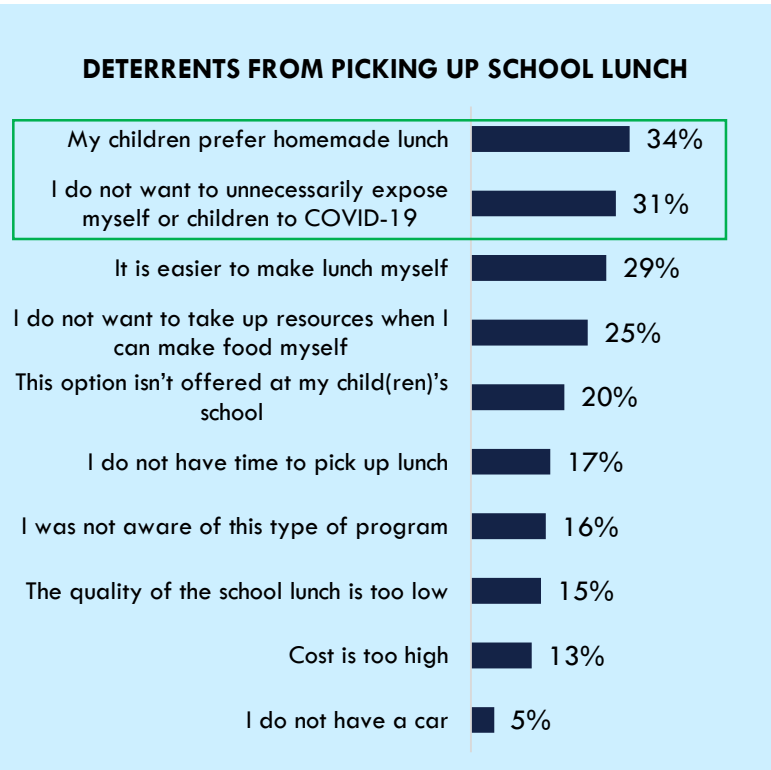
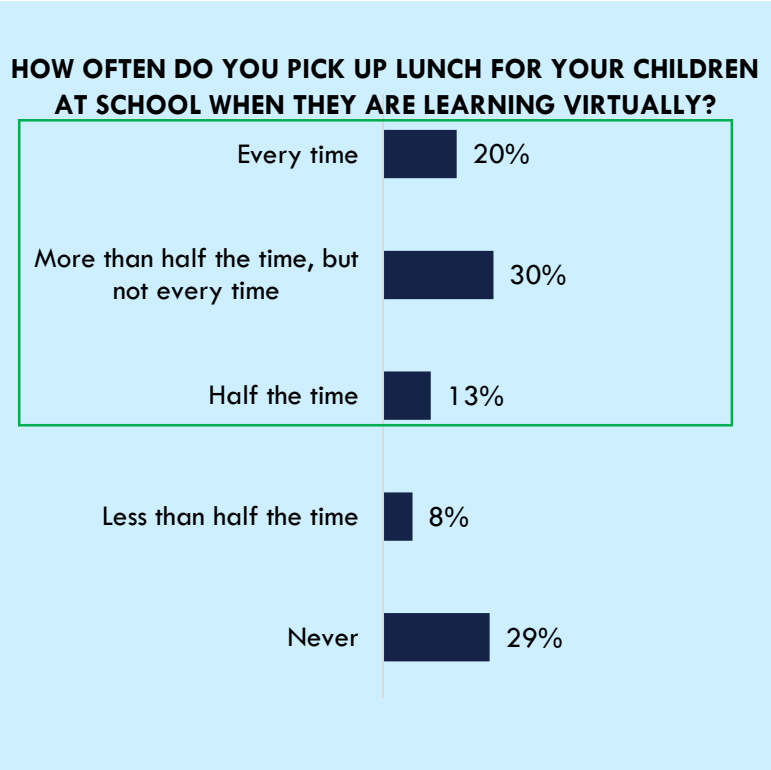
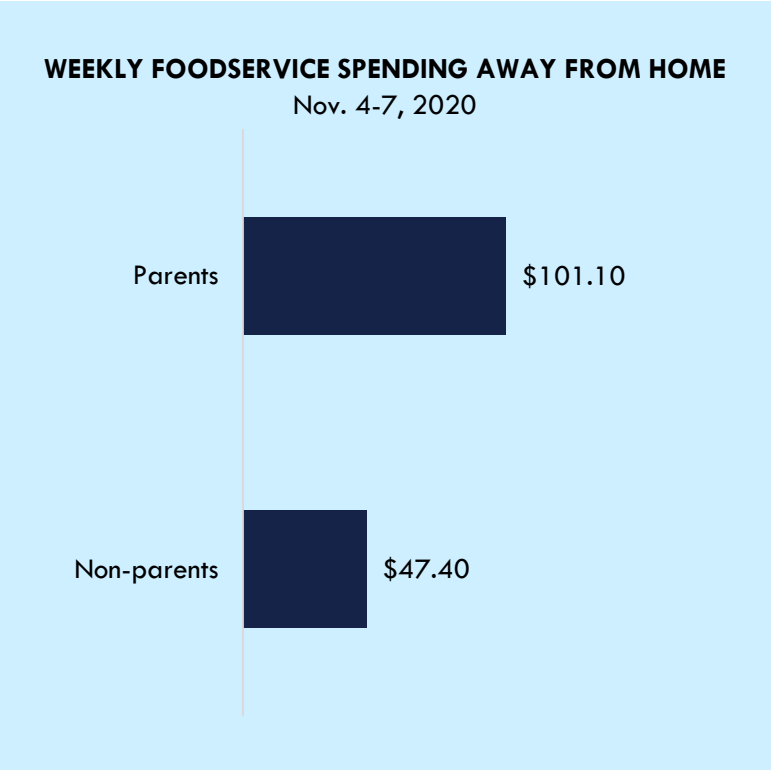
of parents **worry about the effect COVID-19 will have on their child's education**

**39%**

of parents say they're **experiencing more stress in regards to managing their child's education** compared to past years

# Parents are seeking help sourcing meals

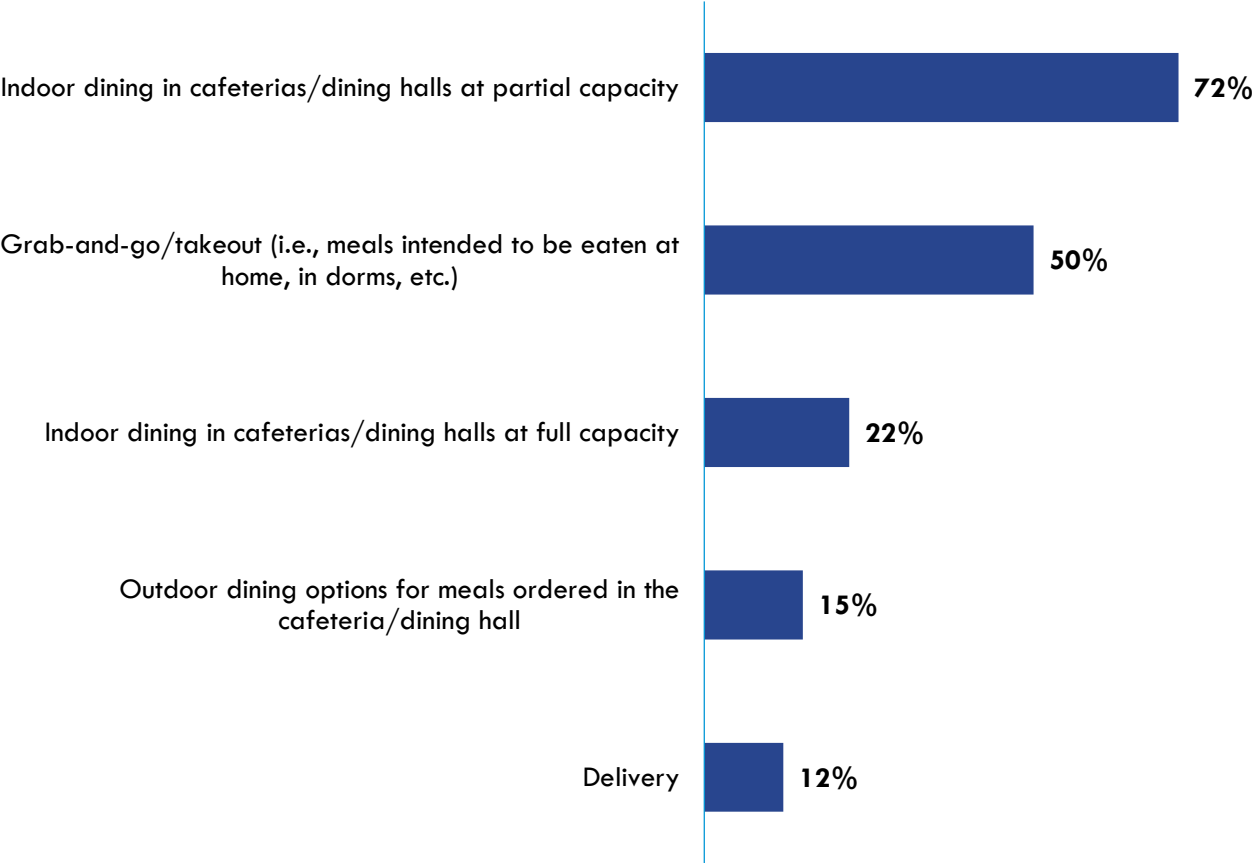
73% of parents with school-aged children are ordering third-party delivery monthly





# This winter, K-12 foodservice is mainly driven by limited in-person or pick up

WINTER 2021 K-12 DINING EXPECTATIONS



**Broward County Public Schools** district continues to offer grab-and-go meals for breakfast and lunch every Tuesday and Thursday. Students or parents can pick up multiple meals at a time and those not eligible for free or reduced meals are able to pre-pay online.



At **Northern Lehigh School District** in Saltington, Pa., staff members put motivational sayings in grab-and-go bags as a way to engage and maintain connections with students while at home.



# Healthcare recovery nuanced, while new foodservice solutions gain traction

While elective procedures resuming has contributed to signals of recovery, there continues to be uncertainty around:

- ❑ Timing of hospitals loosening restrictions on visitors
- ❑ The long-term impact of telehealth



## TAKE HOME MEALS

At Penn State Health in Hershey, Pa., the Metz Culinary Management team has developed a take-home meal program to serve various-sized families as an additional revenue stream



## GRAB & GO HERE TO STAY

Grab & Go Meals and Markets at OSU Wexler Medical Center have received positive feedback from staff, addressing a key need for convenience



## ADOPTION OF DIGITAL

Morrison Healthcare launched InstaEat for mobile-ordering, slowly expanding to include breakfast and lunch for pick up. Expansions into evening meals, 24 hr service and delivery are in the works

Photograph courtesy of UK Healthcare

# IMPLICATIONS

1. **WFH and flexible schedule are here to stay to some degree moving forward.** Operators should continue to expand offerings to meet these needs, including using food & beverage to keep teams connected.
2. **Parents are actively seeking meal solutions during this time.** Operators should consider exploring meal solutions beyond just a singular employee, broadening to meal kits and bundles.
3. **Operators are looking for ways to liven up streamlined menus.** Suppliers can provide additional support through product innovations & greater variety to change up menus without added operational complexity.





# WHERE ARE WE NOW?

## DINE CHANNEL

WORK



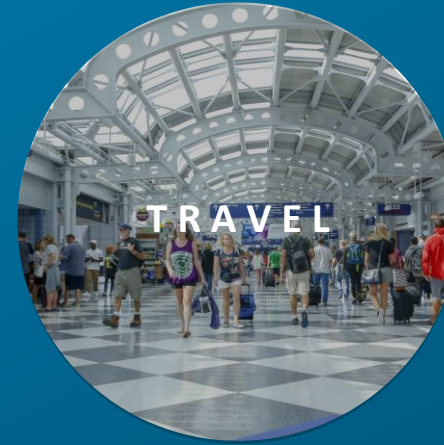
DINE



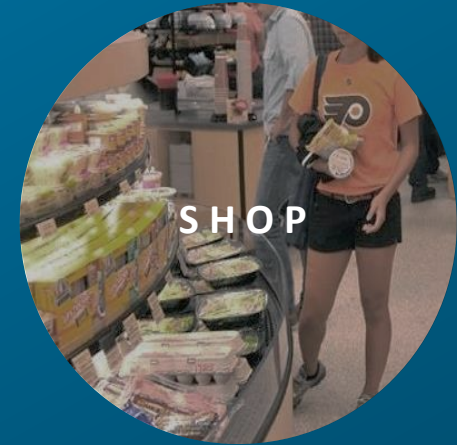
PLAY



TRAVEL



SHOP



# Limited-Service Restaurants are expected to recover more quickly than Full Service

## CURRENT STATUS

### 2020 SEGMENT GROWTH

(Real) (% Change in Retail Sales Equivalent)

#### FAST FOOD

-9.4%

#### FAST CASUAL

-14.2%

#### MIDSCALE

-48.2%

#### CASUAL DINING

-34.6%

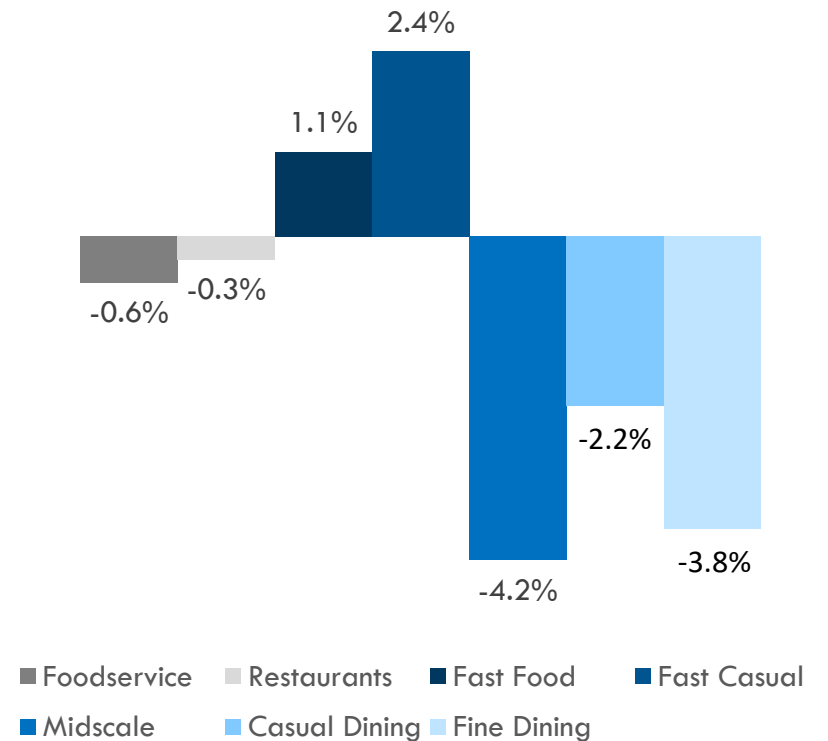
#### FINE DINING

-51.6%

## MOVING FORWARD

### SEGMENT CAGR 2019-2025

(Real) (% Change in Retail Sales Equivalent)



# While Total US restaurant sales in 2020 decreased significantly, consumers still have strong engagement with restaurants

## -19.5%

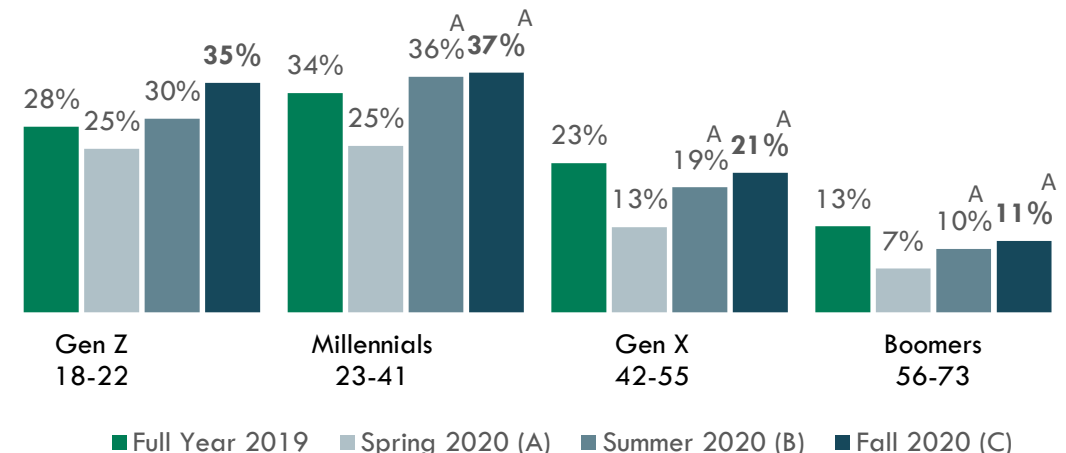
Estimated sales decline in 2020, bringing restaurant sales down to \$517 billion from \$642 billion in 2019

Restaurant sourcing has increased since the beginning of the pandemic among all generations and remains most popular among Gen Z and Millennials

Usage is changing due to COVID impacts, restaurant sourced occasions:

- Are less likely to take place alone, **more group/family**
- Are **less spontaneous**, with less than 1/3 being decided upon less than an hour before eating
- Are fulfilling a broader range of need states, ranging from **convenience**, fresh and less processed and **positive nutrition**, to premium attributes such as **local**, **seasonal** and **global** flavors
- Are more reliant on delivery services, with **availability of food delivery services** becoming a much more important attribute vs. prior

OCCASIONS THAT TOOK PLACE OR WERE SOURCED FROM A RESTAURANT  
BY GENERATION





# Most Foodservice locations have stayed open through the pandemic

More than half of operators have stayed open entirely, while others claim varied closures. Unfortunately, there have been some casualties as well, with over 8% of restaurants permanently closing in 2020 and 30+ chain bankruptcies.

### Operators Report on their Status:

	TOTAL	Restaurants	On-Site
Closed completely at first, then re-opened and have been open ever since	24%	24%	23%
Stayed open at first, but have since closed completely	1%	0%	2%
Have closed and re-opened multiple times since the start of the pandemic	14%	16%	11%
Have been closed completely since the start of the pandemic	5%	2%	7%
Have stayed open (in some way – takeout only, etc.) since the start of the pandemic	56%	57%	56%

### Cumulative Restaurant Closures as Measured by Datassential:

	Temporarily Closed	Permanently Closed	Total Closed
May 6	8.2%	3.3%	11.5%
July 13	3.1%	4.5%	7.6%
Sep 23	2.9%	5.0%	8.0%
Jan 29	2.6%	8.8%	11.4%

30+

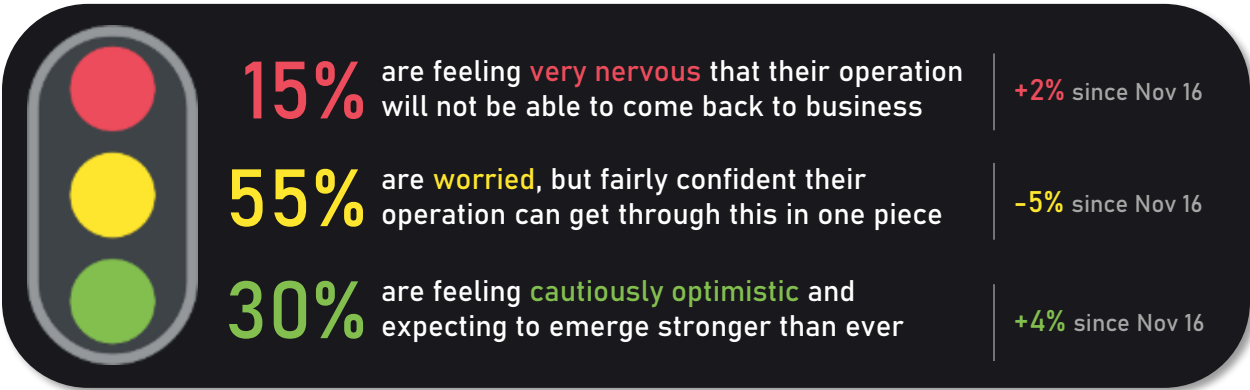
Notable Chain Restaurants are/were recently involved in Bankruptcy filings, many citing COVID-19 impacts

# But Foodservice Operators remain concerned

## Operator worries about surviving this crisis are increasing slightly

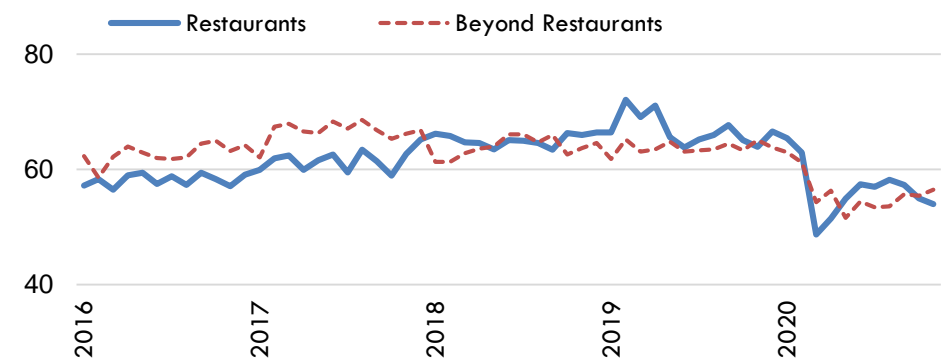
As COVID cases begin to rise again, and some cities and states start to reinstate dining restrictions, operators are more worried compared to last month. Though worries are increasing, most operators remain fairly confident or cautiously optimistic that they will be able to survive this crisis.

Those operators that are most nervous are in segments that are being hit the hardest by COVID, including B&I and lodging.



## Operator sentiment on operating conditions saw some recovery in the latter part of 2020

FUTURE EXPECTATIONS INDEX



\*100 = Ideal business conditions. Operator expectations reflect anticipated future business conditions in 6 months.

*\*Foodservice Operators are surveyed to gauge their sentiment and expectations regarding current and expected business health conditions across a variety of factors which are aggregated to create the Index seen above.*

# Operators are looking to suppliers for support

## OBSERVATIONS

**Many operators are emotionally and financially stressed as** they are trying to figure out how to drive sales in a COVID environment

**Customer needs are changing,** and many are trying to brainstorm ways to meet these needs



## KEY CONSIDERATIONS

- If sales have severely decreased, **operators are looking for help and devising ways to drive business**
- Operators are grateful for **support that eases operations in any way possible** from both their suppliers and corporate HQ's (if franchised)

## OPPORTUNITIES



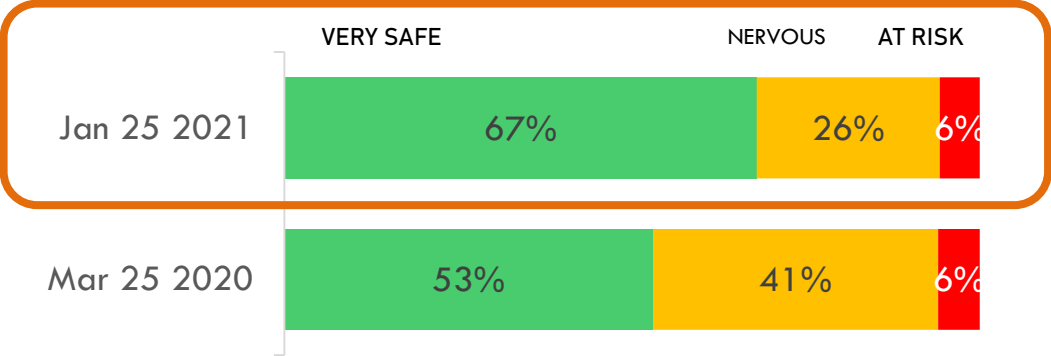
**EASE STRESS** this could be through extending expiration dates, rebates, marketing support, insights into how to drive beverage sales, creating ways to offer fountain beverages in a contactless and safe environment

**UNDERSTAND** that many customers have shifted to off-premise, and offer packaging, promotions, marketing that speaks to this change



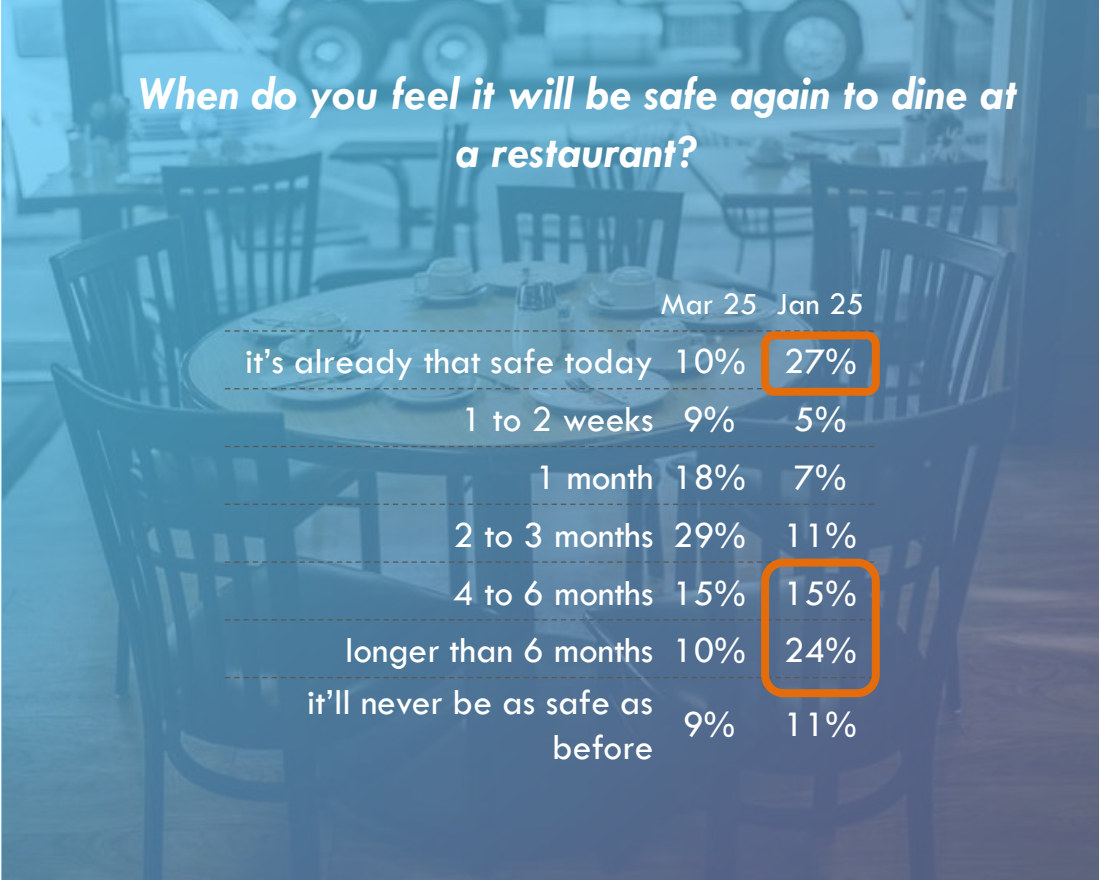
# Consumers also show concerns but are less nervous than before

Unease has started to subside among consumers getting food from a restaurant



**ATA** *Consumer expectations for dining out in the next six months swing positive —as net 9% of consumers think they will eat out at restaurants more frequently than they are today*

While some consumers feel dine-in is safe today, others feel it may take 4-6 months or more



# January saw rebounds in dine-in occasions, guest sentiment strong

## OpenTable Reservations indicate an increase after a dip in December

U.S. restaurant “diners” for the month of January was down 57% y-y compared to December at -62%, November at -52%, October at -40%

The slowdown in November and December was likely due to rising COVID cases and increased state/local restrictions, plus lack of outdoor dining in the winter months. The January data also highlights the impact of states/cities starting to loosen restrictions on restaurants

Despite the decrease in traffic in *December 2020*,

### Guest Sentiment Increased

*Ambiance/cleanliness and Service*  
specifically showed improvements year-over-year

Consumers are staying engaged & sharing great local outdoor winter dining spots on social media



Instagram  
*‘@warmspotsny’*  
features ratings for both level of warmth and vibe



Instagram  
*‘@covid.date.spots’*  
has details on outdoor covering type, heating, & reservations

**3 in 10**

Consumers intend on dining out at a restaurant for **Valentine’s Day** (17% outdoors, 15% indoors)

# Who's Winning?

Restaurants that were well positioned in drive-thru or digital/delivery had better performance vs. competition

*Fourteen QSR operators increased traffic vs. the prior year  
Throughout the pandemic there were two subchannels that consumers turned to more than others - QSR Chicken and QSR Pizza/Italian*



**QSR PIZZA**



**ZAXBY'S**



**QSR CHICKEN**



**QSR BURGER/SANDWICH**

*Three FSR chains grew share of traffic in the latter part of 2020, due in part to increased deal activity*



**BUFFALO  
WILD  
WINGS**  
WINGS. BEER. SPORTS.





# Consumers plan on utilizing Independent restaurants more this year

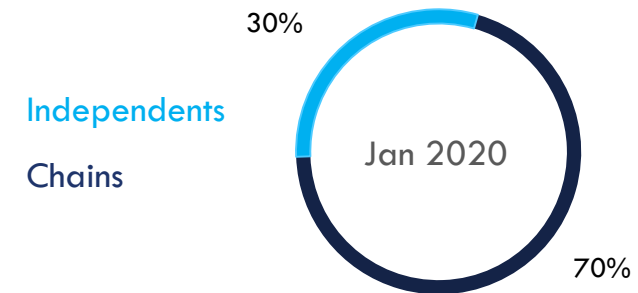
## Visiting Independent Restaurants vs. Chains

- Consumers say they are visiting Independents more than Chains, but Chains are still a bigger piece of the pie
- Restaurant traffic to Independents has increased over the COVID timeframe (Dec vs. Mar), overcoming impacts of closures and perceptions of safety
- Consumers (net) are planning on utilizing both Chain and Independent restaurants more in 2021, though they intend on increasing their utilization more at Independent restaurants vs. Chains (25%, 21% respectively)
- Consumers most often say supporting local businesses as the reason for planning to increase purchases there
- Better Food Quality is the #1 reason for Chain visits and #2 for Independents

**31%**

of consumers SAY they are visiting Independent Restaurants MORE than Chains;  
Agreement increases among higher income consumers due to the impact of a higher price perception

### Share of restaurant traffic



# Continue to prioritize Off-Premise, as the Homebody Economy rises

Take-Out & Delivery have seen rapid increases in use & adoption in 2020; This will continue into 2021

## Take-Out & Drive-Thru:

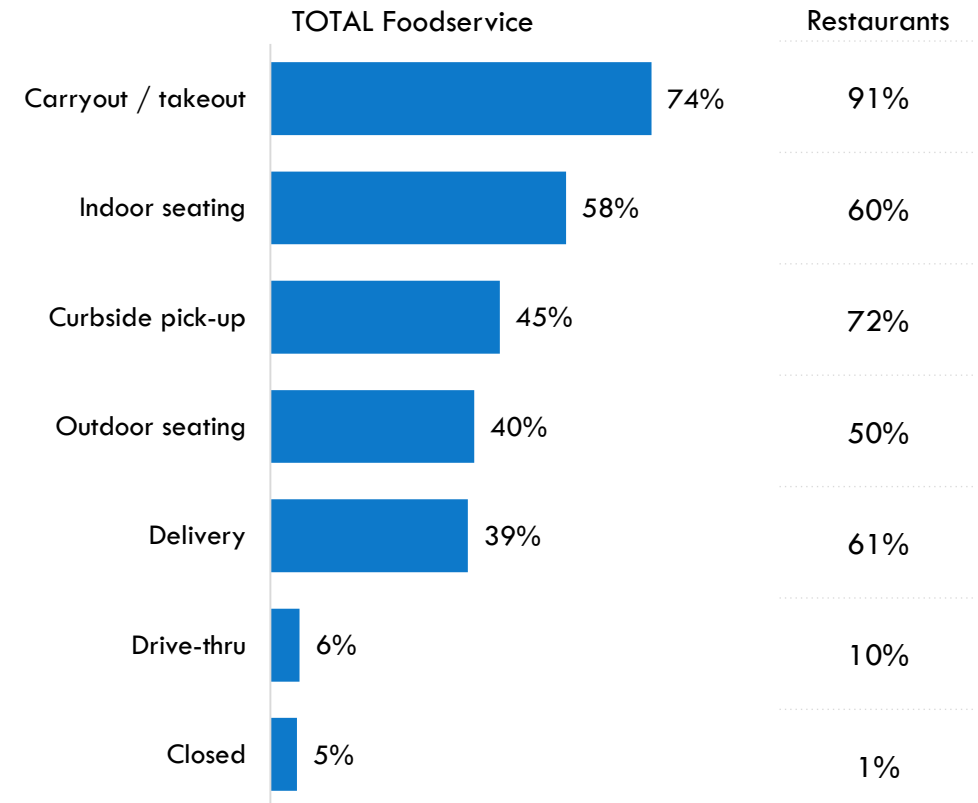
- **13%** of consumers noted that their **take-out/drive-thru usage has increased** because of COVID
- Over the next 2-3 months, **22%** of consumers think they will get **take-out or drive-thru from restaurants more frequently** than they are today

## Delivery:

- Delivery usage remains strong - **21%** of consumers say their usage of **restaurant delivery has increased** due to the pandemic
- **19%** of consumers expect to **order delivery more often** over the next 2-3 months

Most Operators are relying on Off-Premise as additional weather and COVID restrictions impact business

## Which services are you currently offering to patrons?



# More Virtual Restaurants are popping up to fill demand spaces

Even more new Pick-up/Delivery-Only and Virtual Restaurants from both chains and independents are being created to develop brands in new markets, often highlighting popular comfort foods like chicken wings/tenders & burgers, etc.



**Chipotle Digital Kitchen** – New prototype allows for location flexibility with its smaller footprint, focusing pick-up/delivery of digital and catering orders



**Denny's** – Testing two new virtual brands focused on burgers & melts, plans to roll out widely in early 2021



**Wow Bao** – Expanding rapidly from its just 12 physical locations, fast-casual Asian chain Wow Bao will add more than 100 delivery-only locations this year via a partnership with Franklin Junction digital marketplace



Chicken Wings & Tenders – **Brinker's** *It's Just Wings*, **Applebee's** *Neighborhood Wings*, **Bloomin' Brands** *Tender Shack*, **SPB Hospitality's** *Twisted Tenders*, **Smokey Bones'** *The Wing Experience*, **Lazy Dog's** *Jolene's Wings & Beer*, **Michael Mina's** *Tokyo Hot Chicken*



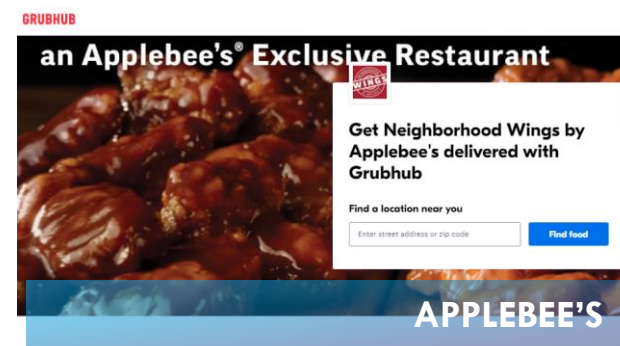
CHIPOTLE



DENNY'S



WOW BAO



APPLEBEE'S



# Operators must innovate to boost lowered beverage consumption

Innovation is a key tactic to entice consumers to purchase instead of turning to the fridge, such as:  
Specialty drinks, combos/bundles, specials, and family-size beverages



Consumers purchased **3.3** beverages on average per week in 2020, down from **3.8** in 2018

*“Beverage sales are phenomenal and 95% of what we sell are combos. Now that we have such a variety of beverages, people always buy one.”*

*- National QSR Chain Operator*

To fit with current operational needs, beverage innovation must also consider ease of execution, utilizing existing or minimal new ingredients for simplicity

## Marketplace examples:



New Taco Bell Midnight Berry Freeze – Launching early 2021



Dunkin Super Charged Coffee – 20% more caffeine



Starbucks – Honey Almondmilk Cold Brew – Expanded non-dairy



Applebee's \$5 “Snowy Sips” Margaritas – Monthly value offer

# New offerings signal trends at national chains

## New Items

### MORE CHICKEN SANDWICHES

- **KFC** is rolling out a new, premium chicken sandwich
- **McDonald's** is adding 3 new chicken sandwiches in Feb
- **Shake Shack** introduced its Korean-inspired chicken sandwich
- **Chick-fil-a** introduced Grilled Spicy Chicken Deluxe Sandwich as an LTO



### PLANT BASED

- **Chipotle & Freebirds** introduced Cauliflower Rice as a base option
- **Pizza Hut** debuted 2 pizzas with Beyond Meat sausage crumbles
- **Dunkin'** offered a LTO Southwest Veggie Power Breakfast Sandwich with a black bean patty



### KETO, LOW-CARB, HIGH PROTEIN

- **Subway** has new Protein Bowls
- **Fazoli's** permanently added low-carb flatbread and gluten-friendly pasta to the menu
- **El Pollo Loco** added Pollo Fit Bowls with a protein focus



### QR CODE MENUS

- Printed Menus gave way to QR Code menus as a contactless solution in pandemic times
- Advantages of lowered printing costs, ability to quickly change menus, more accurate orders, speed in payment will drive continued usage in the future

## Signals

### RESTAURANT BRANDED FOOD

- Restaurants pivoted to many alternative revenue streams during COVID, including selling homemade pantry items and sweet goods
- This will persist in 2021 to generate incremental revenue and positive brand extensions to existing businesses

### OUTDOOR DINING SPACES

- Consumers embraced outdoor dining as a safer alternative to dine-in in the latter part of 2020
- Depending on municipal regulations, these new patios on sidewalks, parking spaces and other places may become a fixture for comfort and pleasure



# DINE IMPLICATIONS

1. Continue strong execution & communication of safety measures to **reassure consumers that are still nervous about restaurants**
2. Especially in Independent Restaurants, evaluate any guest pain points and **remove barriers to visitation** as much as possible to capitalize on positive consumer sentiment
3. **Optimize off-premise services** to build loyalty with consumers that will endure into the New Normal
4. If operators have not done so already, **begin re-filling the innovation pipeline** with thoughtful items, balancing persistent constraints and guest desire for novelty





# *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.

