

Coronavirus Impact on the Foodservice Industry

What's Working & What Will Become Part of the New Normal

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Change is upon us. Innovation, creativity and reinvention describe how operators are reacting to the COVID-19 crisis. While not everything being tried is working many of the promotions, programs and changes are gaining traction. The question for all of us is this - Which of these new operator actions will stay with us and how will they change the industry?

Ultimately the consumer is driving many of these operator actions. As the Foodservice industry comes fully back on line, consumer behaviors, needs and reactions will dictate much of what operators do next.

As we look further into the impact of the Coronavirus on the Foodservice industry, what's working for operators and what will become part of our new normal is the subject of this white paper. How are operators addressing consumer's fears about minimizing contact? What are they doing to drive traffic and boost sales? How are they supporting their employees through these challenging times? Which of these initiatives will continue into our new post-COVID Foodservice environment? These are some of the questions we answer here. Plus, we will look at how operators' mindsets and approaches to business will change, and how their expectations of suppliers will change.

We believe it is helpful to spend time looking forward because predicting the long-term impacts of this crisis can help us better prepare our companies, processes, portfolios and employees for success.

These are unprecedented times and we expect some significant revolutions in how operators conduct business. We are all looking forward to "coming out the other side", let's now look forward to what might change.

What's Working and What Will Become Part of our New Normal

We have organized this white paper into eight "What's Working" themes followed by a list of implications and predictions on how each will impact our new normal. Our themes range from how operators are communicating with their patrons, and what they are saying, to new back-of-house operational procedures, their use of technology, new employee programs, new financial management practices and their interactions with suppliers.

1. Aggressive Merchandising & Promotion Tactics - Simply stated, operators are pulling out all the stops to hold onto traffic and maximize their revenue. We are seeing extreme discounting of up to 50% off menu items and creative merchandising offers such as "Buy one hot meal and get one cold one for tomorrow" and new bundling offers such as Date Night Meals that include ingredients and directions for preparation and Three Course Meals that include a ½ price bottle of wine.

Free delivery is another popular tactic as many people don't want to go out in public unless absolutely necessary. New on-premise signage is popping up to remind consumers that "We're open" and "Curb-Side-Pick-up" is available. Pre-COVID, an empty parking lot meant the location is closed. Now we look for other signs that identify that we can stop and get something to eat.

Challenged by the dramatic decrease in traffic, some operators are testing new bolt-on business models to keep the cash coming in, including Express Grocery and Farmer's Market offerings. Subway, Panera and Sysco have all launched grocery programs. Now you can pick-up milk, bread and toilet paper with your foot-long sub!

Other operators have launched support programs to help their local communities and people out of work, furloughed and the elderly.

As we look forward, we predict some of these new tactics will remain and expand while others will not. Necessity is the mother of invention and it will be exciting to see how the industry evolves its merchandising and promotions going forward. Here's what we see happening.

Looking Forward: Implications

1. **It's not all about price** - Price will not be the only critical element to entice a consumer to come to a restaurant. Consumer's will evaluate options and experiences based on a broader set of criteria with greater emphasis on ease of ordering, pick-up and delivery options, food safety and sanitization.
2. **Telling a real story** - When a story is told about a restaurant's brand or a specific menu item, it needs to be real, authentic and resonate with the consumer. Consumers may become less accepting of marketing "fluff-messaging" and look for fact-based points of difference.

3. Community activism – Community support will take on greater importance moving forward and consumers will look for more than simple sponsorship of the local baseball team. Our collective COVID experience has spawned a greater sense of community and businesses that find a way to tap into that and make it part of their DNA will experience greater consumer loyalty.
4. Family meals - Family meal bundles will become a standard for many brands, but it will be limited to the most popular items. Operators will innovate and test more ways to make it easier to order for more than one person and to order so that you have built-in leftovers.
5. Curbside pick-up and delivery of two-three course meals - Fine dining and polished casual will accelerate their investment in take-out to grab their fair share of this growing market. The challenges with take-out that have hampered them in the past, including the inability to control food quality and presentation, the lack of personal table-side service and the lack of the dining room experience, will be addressed and overcome.
6. Meal Kits - Kits will become part of more restaurant brands, and even non-commercial operations "new normal". Meal kits provide the consumer with the opportunity to save money and have fun creating and cooking their favorite foods from their favorite restaurants.
7. Groceries at Foodservice - Express grocery will remain, to a limited degree. The Grocerant trend, Foodservice and prepared meals in grocery stores, has been fueled by convenience and that same consumer need should translate in reverse. If executed and promoted properly, operators in all segments can take advantage of this. Sale of proprietary restaurant items like sauces, breads, frozen soups, beverages, seasonings and even branded napkins can drive revenue. If a consumer is having supper delivered or picked-up, why not make it easier for them add on some of the restaurant's signature items and grocery staples.
8. No more free delivery and lower 3rd party delivery fees covered by operators - Free delivery will go back to regular cost. This is a cost that operators cannot absorb indefinitely. Curbside may pick up steam as an alternative to higher delivery charges. As for 3rd party delivery fees, we predict fee structures with Grub-hub and Uber-eats will change. They have been punitive to the operator and will be renegotiated.

2. New No-Touch Food-Safety Protocols & Services – “No-Touch” and “Frictionless” are now terms we have all adopted. Minimizing contact is top-of-mind for consumers and operators have come up with creative and effective ways to enable this and to send clear visible clues that sanitization and distancing is top-of-mind, such as gloves, masks, floor stickers and parking cones to maintain distance while standing in line. Consumers don't see these as an inconvenience, but as a thoughtful and appreciated gesture.

With the focus on off-premise sales operators have had to figure how to make curbside pick-up, take-out and drive-through more “frictionless”. We're seeing credit-card swipe machines stuck out the drive-through window on a pole and having your order handed to you in a plastic tray to maintain a safer distance.

Front of house sanitization and no-touch protocols have also been widely adopted. Mask wearing is becoming standard and shielded face coverings and plexiglass walls are being adopted in front of cash registers and at drive-throughs. McDonalds just announced all store staff will be wearing gloves and masks, both for their safety and for patron's peace of mind. Government regulations on mandated use of PPE is also expected.

Tamper-proof packaging has become a must-have and operators have either bought better packaging or adopted home-made solutions using tape and staplers. Some operators have also included safety instructions that come in the take-out bag and provide safe-handling tips.

Moving forward we see some of these tactics and protocols remaining with us. Some may only be short-term as “transitory comfort practices”, and others will evolve and become part of our new post-COVID reality.



Looking Forward: Implications

1. Frictionless curbside pick-up - Curb-side pick-up will become part of virtually every full-service operation. Apps will allow for ordering, payment, communication and pick-up with the goal of zero contact between patrons and staff.
2. Frictionless drive-through - Similarly we predict wide-spread adoption of greater no-touch protocols for QSR and ultimately Fast Casual drive-through. These will include ordering on an app and driving through, no-touch payment at the window, improved window-side sanitization practices and continued use of gloves.
3. Overt employee sanitization practices – New and expanded sanitization standards for employees will be put in place. Simply having a sign that says "employees must wash hands" will not be good enough. In our post-COVID world we will see overt cues of safe-handling/no-touch protocols such as broad use of latex gloves and mandatory use of masks, expanded dining room and bathroom sanitization practices, and new cleaning products that make it easier and more effective. There will be signs on tables and doors communicating these practices. Consumers want to see these and smart operators will go out of their way to make sure they do.
4. Mandated sanitization practices - Of course the government will help and launch new sanitization and safety protocols. These could include requirements for operators to spray down their restaurants on a regular basis with a hi-grade disinfectant similar to what the airlines are using. We may also see regulations for glove usage as well as new training requirements for employees on sanitization and food handling.
5. Self-serve anything will become a safety issue – Existing self-serve condiments, beverages, and touch-screen ordering platforms will need to be modified. We will likely see beverage machines either go back behind the counter or be redesigned to be no-touch. Buffets and salad bars will be re-thought or disappear entirely. Portion control condiments will see greater adoption and these will be kept behind the counter and added upon request. Anything that more than one patron touches will either be regularly sanitized or removed.
6. Sick employee protocols - New rules for what constitutes being sick will be commonplace and managers will be required to keep an eye out for signs of employee illness. What was allowed in the past will no longer be acceptable. Short term some operators will mandate employees to have their temperatures taken before their shifts begin, as Yum brands recently announced.
7. Tamper-proof packaging - It goes without saying that packaging needs to change. This will be one of the greatest areas of immediate operator investment which will be fueled by consumers' willingness to pay for it. We may also see restaurants itemize on the bill "+\$1.50 for tamper-proof delivery packaging". Delivery packaging will become a differentiator and part of an operator's brand experience and no longer be viewed as a cost to be minimized.

3. Focus on Simplifying Operations – In tough times we tend to step back and regroup. Over the past few weeks we've seen a number of changes and new programs designed to simplify the restaurant operation. One of most common simplification actions has been a forced one. Closing the dining room. With operators losing their dine-in business and consumers still looking for "safe" restaurant food there has been an obvious and expected increase in take-out, delivery and curbside pick-up. For operators who previously had never offered these service or had not focused on them, the current Covid crises has forced experimentation in these areas with mixed results.

Another area of significant simplification has been with the menu. A limited menu that focusses on the most popular sellers allows customers to quickly make a decision and order. It's also easier and faster to produce with a limited staff so orders can be executed quickly without mistakes. Reducing the menu has also led to a reduction in the number of skus in the kitchen which has made it easier to manage inventory and place orders for ingredients. After years of menu expansion and kitchen complication perhaps a period of "regrouping" will lead to good things.

As we move forward, Foodservice operations will be simplified to make them safer, require less labor, require less space and be more efficient overall.

Looking Forward: Implications

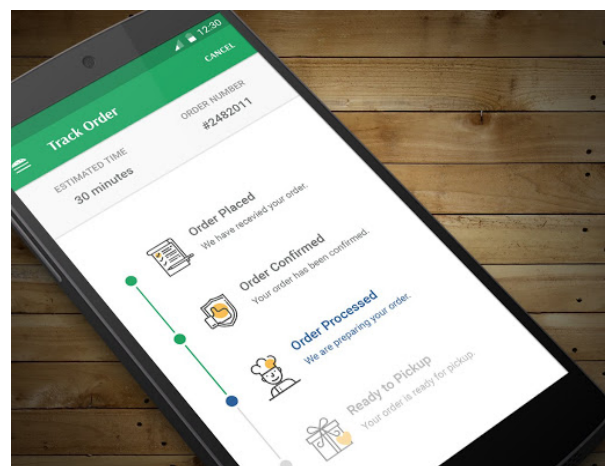
1. Restaurants will go back to their core menus - We predict that a “back to basics” approach will become the norm. Menus will be reduced. Well thought out differentiation will still be crucial to success, but innovation stage-gate hurdles will be stricter. Innovation will need to drive traffic and incremental revenue not simply be content for the next commercial.
2. Reduction of skus - Paring down skus that are used infrequently will make it easier on purchasing, receiving, and storage as well as reduce waste. It will make the operation more productive and reduce labor needs. Operators will make each product coming into the kitchen work harder, such as through the use of bold flavors and flexible-use ingredients that can be incorporated into multiple recipes and creative LTOs.
3. Peeling off of staffing layers - Foodservice employees in larger operations have become specialized in their roles and we anticipate a move back to “multi-taskers” who are well trained to handle multiple roles. This will allow an operation to run leaner and provide more flexibility in staff scheduling.
4. Practical packaging – Effective, safe, multi-use take-out packaging will take the place of cheap packaging. We see the dimensions of great packaging being expanded from - priced right + sustainable + functional, to also now include tamper-proof.
5. Comfort food innovation - Consumers retreat to comfort foods in difficult times. Moving forward they will continue to crave these items, but we see this as an opportunity for operators to be creative in a simpler way. Similar to the innovation explosion we’ve experienced with hamburgers and more recently with mac & cheese, other comfort foods will be turned into successful, yet simple, innovation platforms.

4. New App Modifications & New Technology – Although we are only weeks into the COVID crisis we are already seeing some operators using technology to address the situation. One of the fastest tech fixes has been updating apps and websites to communicate with consumers. In some cases, we have also seen new functionality around ordering, pick-up, delivery and community support. But these are only the quick fixes and barely scratch the surface of what post-COVID technology can assist with.

Over the past decade there has been an explosion of new technology for restaurants from ordering, to production, to inventory, to staff scheduling. Looking forward we expect tech companies to play a key role in helping operators manage the challenges of safety, sanitization, distancing and no-touch.

Looking Forward: Implications

1. New app functionality - We can expect to see a flurry of new app functionality to help consumers research and track their new post-COVID Foodservice buying criteria, from sanitization and no-touch protocols, to curb-side delivery, to menu bundling services, to Foodservice grocery shopping options and community support programs. For employees, we can expect new sanitization and food handling training functionality and health and sick-day trackers.
2. Self-serve ordering terminals - We live in a touch screen world. In the short-term consumers will likely continue to wear gloves or use a napkin or their sleeve at order touchscreens or self-service drink dispensers, but in the long-term there will need to be a no-touch solution. We expect new technology such as facial recognition and voice-driven solutions to be eventually adopted.
3. Consumer order tracking - Our collective obsession with tracking orders will be amplified by our new compulsion to know who has touched our food. We can expect to see Amazon-like tracking come to Foodservice delivery and curb-side orders along with video of our food being prepared. Consumers will want more. Order tracking communication will be more common, detailed and required.
4. Sanitization tracking - Consumer's appetites for information on an operator's sanitization practices will be greater than expected. Accessibility to data about what operators are doing related to sanitization and



safety will become a necessity. Tools to track this data and communicate to consumers via apps, websites and in-restaurant trackers will become commonplace. Simple cues to show consumers that they are safe, like table tent that reads “*this table has been sanitized*” will become expected and appreciated.

5. Embracing Employees Differently – The COVID crisis has brought employee support to the forefront of restaurant management priorities and in an industry with more than 13 million workers this is a meaningful area of focus. Short term, we have seen a number of new initiatives and programs to help those laid-off and furloughed including extended health benefits, free meals and assistance in finding work at nearby grocery stores or QSRs that are seeing additional take-out and delivery traffic. For those still working, some companies have increased wages to compensate for the risks they see in continuing to work in this environment. And for those workers who are infected and or exhibiting symptoms, some employers are offering 2 weeks of isolation pay.

As we look ahead, these new employee programs could signal a broader cultural shift in employee engagement for the industry that could have long lasting positive implications. Employees will be treated differently. Money alone will not drive loyalty. Culture will become a differentiator.

Looking Forward: Implications

1. An entrepreneurial approach to employee engagement - Many companies have built leading class employee engagement cultures. We predict this will expand and become a more common area of investment for both chains and independents. The programs we’ve seen launched over the past several weeks will be the start of a new era in entrepreneurial employee engagement. It will be about the team and that includes CEOs & other executives actively visiting locations and role modelling the culture they want to create.
2. Hiring and keeping the best - Attracting and retaining great employees will be even more crucial in an environment that requires expanded sanitization and food safety protocols and in operations that require fewer staff that need to know and do more. The COVID situation may create a short-term labor surplus but hiring the best will be even more crucial. As revenue growth allows, we expect to see expanded benefits and perks offered, such as broader healthcare, daycare, free/discounted employee meals for off-shift hours and family take-home meal discounts. Wages will go back to being based on skillsets, handling multiple stations and reliability as opposed to simply a way of attracting and retaining people.
3. Being scorecarded by employees - While employees always have opinions of their employer, in our new post-crisis world we can expect to see staff scorecarding current and potential employers on their sanitization and safety practices. This could be a real determining factor in where people choose to work. There is a limit to how much risk people are willing to take. Operators would be well served to consider the attractiveness of their work environment from a potential hire’s point of view.
4. Team building through community outreach - This began with the COVID crisis, but we expect this to continue to evolve. Team building will include company sponsored team and individual out-reach by employees to food banks, blood drives, retirement homes and other local community and charitable causes.
5. Coming to work sick - In the past, coming to work when you were sick was a viewed as a demonstration of commitment. This will change and going forward it will be perceived as irresponsible. New policies will be published that clarify what sick is. Managers will be trained in how to enforce these new “go home, stay home” sick mandates. In the short term we may see managers taking the temperature of employees before they can start their shifts. PTO will need to be modified and the government may step in with guidelines for managing this.



6. “Key employees” - As anyone who has managed a team knows, you rely on your best people. We see this practice becoming more formalized through titles, wages and benefits because having a core group of highly trained, experienced and trusted employees will become even more crucial to success in our new post-COVID normal.
7. Shared employees - Crisis causes us to rethink how we do things. The idea of shared employees, while not new, has been adopted recently through necessity, and it works. Moving forward we see the practice of holding “two-jobs” becoming formalized. No longer will staff need to hide their other job or work around two over-lapping schedules. This will also lead to better partnerships between non- competing restaurant operators and other retailers.
8. A safe working environment - Safety, sanitization and “no-touch” is not just for the customers. Foodservice employees have the same fears and needs and therefore employers must invest in their safety and comfort also. Creating a safe environment for staff will be crucial to attracting and keeping people. Conducting on-going training, the continued/mandated use of gloves and masks (at least in the near future), creating “sanitization experts”, and managers communicating and role-modelling these new protocols will become the norm.

6. New Streams of Revenue - Facing the reality of no dine-in business, operators have ventured into many new areas of revenue to keep the lights on. Creative approaches to new revenue sources have been tried with various degrees of success. Post-COVID we expect that innovation and experimentation in this area will continue. One popular strategy has been to extend service into new dayparts for concepts that previously relied on limited meal periods. For example, dinner only full-service dining that focused exclusively on dine-in has extended hours to promote both lunch and dinner curbside and delivery.

As mentioned earlier, selling groceries is another new service we've seen companies like Panera and Subway announce. This started out as an opportunity to provide consumers with some of the basics, such as toilet paper that were sold out at supermarkets and expanded to include other stocked and proprietary items.

Looking ahead, new streams of revenue will be necessary to make up for lost sales, a potentially slower ramp up in sales, and to be better prepared and help cushion revenue in case of another crisis in the future.

Looking Forward: Implications

1. Adding dayparts - We predict more operators will look to expand their daypart footprint, but still do so without complicating their menus. With many restaurants closing around them the opportunity to “fill the gap” might be an added incentive. Concepts that rely on one daypart will expand hours. Fringe dayparts such as early morning, mid-morning, late afternoon and late evening will be tested with limited menu offerings but could drive significant sales in time periods that traditionally had little to none.
2. Revenue beyond dine-in - Curbside delivery and drive-through. This has been a trifecta of survival during the crisis and will play a crucial role for restaurant and non-commercial growth moving forward. This will involve investment and renovation for some operations and the added critical success factors of premium tamper-evident packaging and a minimal-touch process.
3. Groceries - Selling groceries at a restaurant is a new concept for most consumers. We predict this will continue but in a careful way that drives revenue with existing customers. Operators will continue to sell their proprietary sauces and dressings along with a limited selection of other items, primarily pulled from the inventory they buy for the restaurant, but the full-on mini grocery store is not practical.
4. Meal kits - We predict that meal kits from restaurants will gain traction because they can also drive a larger check. For savvy Foodservice marketers, helping consumers host dinner cook-parties with their favorite restaurant meal kits could become a hot new trend.
5. Ghost kitchens - We expect to see an expansion of the “Ghost kitchen” concept as they are driven by delivery and are frictionless, cashless, lower investment and require cheaper real estate. We will likely see innovation into hybrid-ghost-concepts that include double drive throughs and curbside pick-up, where ordering and payment is done prior to arrival.
6. Proprietary products - Proprietary products will be promoted as add-ons for the consumer. This is not just bottled dressings and hot sauces, but proteins, breads and other items that a brand is known for and that

customers can easily use at home. It's a logical bolt-on revenue stream for any concept that has equity in a product or menu item.

7. Interacting with Suppliers and Distributors – Over the past 10 years we have seen the industry move to greater collaboration between chains, distributors and suppliers and expanded adoption of joint business planning and category management practices. Savvy suppliers and chains have embraced customer-supplier segmentation models and collaborative innovation approaches for their highest value “strategic” relationships. The COVID crisis has demonstrated the value of those collaborative business relationships that enable faster sharing of inventory, production and sourcing data, faster identification of risk and more streamlined communication across multiple functional contacts.

Our current environment has put tremendous pressure on operators as well as the entire Foodservice value chain. Operators are turning to their distributors and suppliers for more than just help on supply chain management. In many cases, trading partners are more effectively working together during the crisis to their mutual benefit. Clearly this will have longer term ramifications, as crises typically do uncover who your true friends are.

Looking forward, we expect that the value of collaborative supplier relationships will only be amplified coming out of this current crisis. Those that have been there for the operators will be rewarded. Those that have not been should expect less.

Looking Forward: Implications

1. “Best-in-class” partnerships - What is a best-in-class supplier? However you define this today, your definition must evolve as operator expectations will likely increase. Independents are under tremendous pressure to survive and will not have time for suppliers and distributors that are not meeting their expectations or not being responsive. For chains, we can expect them to lean more heavily on their top 5-10 suppliers and to further refine their expectations, access and reciprocating value for these strategic relationships.
2. Collaborative innovation - Operators don't need to do it all themselves and those that have been, may be more open to working with distributors and suppliers in our new post-COVID world. With smaller teams, operators will have added motivation to seek outside support on innovation, testing, cost savings ideas, recipes, and promotion and merchandising support. In our new world of collaboration, we will see greater trust, shared risk, and acceptance of what win-win needs to be.
3. Flexible, quality ingredients - Operators will become more flexible in their use of ingredients as they will need to find a way to reduce skus and simplify menus. Manufacturers and distributors can help. Operators will be looking for flexible, high quality products at a good value that they can use to develop profitable items for LTOs and specials.

8. Tighter Financial Management - The reality of facing a dramatic drop in revenue with no clear end in sight has resulted in significant financial hardship for the industry. Operators have cut, reduced and re-worked costs and pulled every revenue lever they can think of. But, during times of crisis, we are forced to dig deeper into the financials and make tough choices that we would not have otherwise made. From crisis comes trial, and from trial comes learning. Better ways to manage our finances are tested and operators that make it to the “other side”, will incorporate these learnings into better financial management.

For many independents and small chains cash flow is king. Although paying last month's bills with this month's revenue is not an ideal model it has been the reality, for many. This has left them with little room to maneuver during the crisis.

Moving forward the approach to restaurant financial management will change. CFOs will take on an even greater role and expansion and investment plans will be postponed and reassessed until revenue, cash flow and expenses are where they need to be.

Looking Forward: Implications

1. Labor adjustments - There will be a hard look at labor costs where excess layers of specialists will be eliminated, and staff will go back to wearing multiple hats. Productivity and efficiency will be paramount. We predict that doing more with less will be the new operations mantra, but in order to do that, operators will need to simplify their businesses.
2. Changing footprints - We predict restaurant footprints will get smaller and greater space will be devoted to serving off-premise orders. Space costs money and rent and renovations are not free. Restaurant designs will need to become adaptable. Change is inevitable. A burrito station today needs to be able to be transformed to an Asian station without disruption.
3. Real estate - Good real estate has been difficult to attain, and brands have been overpaying. Moving forward there will be opportunities to pick-up restaurant locations that have closed and have quality buildouts. Rents on empty locations can be negotiated and therefore the financial model will become more favorable.
4. More efficient floor plans - Part of the new financial model will be more efficient floor plans. One reason we have seen unit expansion plans curtailed is because of the need to rethink store designs and layouts. Floor plans need to consider new safety and queuing needs, expanded take-out, drive through and curbside pick-up space and less crowded dining rooms and do so in a more compact space.
5. Retro-fitting existing locations - COVID has changed the game when it comes to self-serve stations, ordering systems and curb-side pick-up. This will be a monumental challenge for restaurants to address moving forward. The degree to which existing units will need to be modified and retrofitted is still unknown.
6. Differentiation re-defined - Differentiation will remain critical to success, but it will not be through menu breadth. There is too much added cost in the supply chain and kitchen complexity. Instead, differentiation will be based on value, experience, exploration, convenience and safety.

Change is upon us and operators are responding, and with help from manufacturers, distributors, associations and agencies the collective innovation, creativity and reinvention will lead us to a new and exciting future. We are all looking forward to “coming out the other side” and embracing our new normal.

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The International Food Manufacturers Association (IFMA) works to improve industry practices and relationships while equipping every foodservice manufacturer with the tools to navigate their future with confidence.