



# The Post-Pandemic Playbook

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In many parts of the country, the foodservice industry is closing in on the one-month mark of being essentially closed down. As the COVID-19 pandemic continues, the damage to the industry is becoming increasingly clear. As of April 10, the damage to restaurants is as follows:

- Dine-in operations at 49 states suspended (South Dakota remains open but has limited group gatherings)
- 94% of operators reporting significant negative impact on sales/traffic
- Restaurant/bar revenue losses that total \$20+ billion through the first quarter, based on Technomic projections

Importantly, while much of the attention has been focused on restaurants, most other foodservice industry segments have been severely impacted as well. A small sampling of that data includes the following:

- 80% drop in revenue per available room in hotels

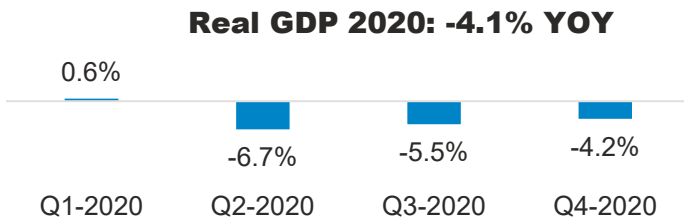
- Convenience stores are mostly still open but have significantly curtailed prepared-food sales and limited dispensed/self-service beverage stations
- A number of major supermarket chains have temporarily closed their foodservice/prepared-foods sections
- Limitations/closures for nonessential businesses (impacting both blue- and white-collar employees) in all 50 states
- Mandated school and university closures in all 50 states, with an increasing number closing school doors for the remainder of the school year.

While acknowledging the clear and ongoing damage to the industry, it's important to begin thinking about how the industry ultimately opens up and what a post-pandemic playbook looks like. What does the restaurant industry look like when this is over? How will other foodservice segments evolve? What does the industry need to do to prepare for this new reality, however and whenever it appears?

The goal of this whitepaper is to evaluate those potential changes and help foodservice operators, distributors, suppliers and others serving the industry to begin developing strategies around the longer-term ramifications of the COVID-19 pandemic. As always, Technomic will continue to update our thinking on the outlook for this industry as the situation evolves.

## Economic Contraction Through the End of the Year

The foodservice industry has largely expanded as the U.S. economy grew. Factors such as rates of employment and income growth all help support higher away-from-home spending. However, with the rapid collapse of the U.S. economy, it's clear that a recession has become likely. As of April 10, Blue Chip Economists forecasts declining economic growth through the first quarter of 2021:



## A Significantly Smaller Industry in 2020

Technomic continues to model growth on a segment by segment basis. Our current industry forecasts have been revised and consider all current industry reporting and research; recent announcements from restaurants, distributors and other entities; and government and economic forecasts for the remainder of 2020 (as noted above).

Given that many unknowns remain relative to the ultimate path to reopening the industry, we have once again conducted our analysis using three different scenarios.

### SCENARIO 1: BEST CASE OUTLOOK

Most shelter-in-place orders across the country stay in effect until mid-Q2 2020, with a rolling regional economic reopening thereafter. We assume a recession in the second half of 2020, as forecasted by Blue Chip; short-term foodservice resurgence due to pent-up demand; and a return to more regular economic activity. It also assumes some localized reactivation of shelter-in-place orders as some limited virus resurgence returns.

### SCENARIO 2: MIDDLE CASE OUTLOOK

This scenario is a midpoint between our optimistic and pessimistic estimates. While we don't refer to this as our "most likely" scenario, it blends the assumptions of our most optimistic and most pessimistic estimates.

### SCENARIO 3: WORST CASE OUTLOOK

This assumes that most shelter-in-place orders exist through the end of the second quarter of 2020. Recessionary impacts will cause continued weakness in consumer spending. More widespread virus resurgence requires regional shelter-in-place mandates throughout the year. Large-scale events and gatherings (e.g., sporting events, concerts, etc.) will be mostly be suspended.

Taking into consideration all of these factors, Technomic's outlook for restaurants and bars, as well as the total foodservice industry, is shown below. As Technomic has gathered more data and observed how the past four to six weeks have unfolded, our range of estimates has narrowed slightly compared to our first forecast issued on March 20.

Please note that Technomic's forecasted Best Case Outlook results in a \$169 billion smaller industry than 2019; this could go as high as \$234 billion in lost consumer spending under the Worst Case Scenario.

### 2020 Forecast Outlook (Nominal Change in Consumer Spending)

	Best Case	Middle Case	Worst Case
Restaurants and Bars	-14%	-18%	-22%
<b>Total Industry</b>	<b>-18%</b>	<b>-22%</b>	<b>-26%</b>
Scenario Industry Losses	\$169B	\$201B	\$234B

## Macro Issues to Watch

Coming out of this pandemic, there are certain trends/issues that will accelerate in the short term and may have longer lasting impact on the industry over the course of the next several years. With the broader outlook still unclear, including the speed with which the industry returns and changing consumer sentiments toward restaurant and foodservice usage, these issues have been identified as potential disruptions that should be included in any company's strategic analysis of potential responses to the pandemic. These macro trends will generally be true across most foodservice sectors and will have impact on not only operators but also will reverberate through the supply chain.

- **Labor**—If, as seems likely, restaurants and hospitality will be one of the later industries to “open up,” the labor challenges (in terms of recruitment and training) that were seen before this crisis could potentially be worse as former employees find other opportunities. In addition, losing key staff to furloughs or layoffs will significantly hinder the ability for a quick startup for many restaurants.
- **Decreased emphasis on customization/made to order**—This will be driven by labor challenges and the move toward low price among many consumers. It seems likely that operators will focus more on grab-and-go and pre-prepared items.
- **Continued investment in off-premise**—This crisis has shown that having any off-premise strategy to diversify risk is a must. Expect more types of operators to invest in off-premise, whether it's takeout or delivery. This may also mean more grab-and-go and packaged goods in segments that formerly would have avoided them.
- **Acceleration of channel blurring**—This crisis has shown that restaurants can function as grocers, and that full-service restaurants can offer more convenience options. Many independent operators are selling ingredients or kits as part of their offering; this may continue as an additional revenue source. The food industry will likely further blur the lines between retail and foodservice, and within foodservice more service options will be found across segments.
- **Reduction (or removal) of self-service**—While the ultimate consumer mindset won't be clear until this pandemic passes, it seems likely that many operators will reduce or remove self-service stations. This includes buffet-style service, self-service beverage, bakery cases, roller grills and even self-service ordering kiosks. While self-service may not disappear completely, changing methods and dispensing styles, as well as a renewed hyper-sensitivity to sanitization to ensure safety, will likely be necessary.
- **Ghost kitchen acceleration**—Today, nearly every restaurant is a “ghost kitchen” that provides only off-premise product. As the industry resets, more companies may decide to eliminate the dining room altogether to capitalize on longer-term, off-premise trends.
- **Procurement models shifting**—Even as revenues have fallen, the profitability model has changed, particularly for many independent restaurants. Expect to see more usage of group purchasing as operators look to aggressively control cost.
- **Renewed interest in single-use packaging**—The trend over the past several years has been toward more sustainable options and banning/ reducing certain types of packaging. Technomic expects to see more focus on “safe” packaging (and overpackaging for off-premise orders). A focus on environmentally friendly packaging may be reduced in the short term to midterm as well, as cost becomes a primary driver for product selection.
- **Streamlined/smaller menus**—As operators streamlined menus during the pandemic, many will likely focus on those items that are revenue and profitability drivers post-crisis.
- **Consolidation**—While this may manifest itself most clearly in the restaurant space, expect to see weaker competitors acquired by or lose out to stronger competitors. This can occur in the foodservice management space, and certain segments like recreation will see a different landscape as operators go out of business, merge or get acquired. Also, expect a number of companies and players to just plain “go-out-of-business.”

## Segment-Specific Expectations

The segments that make up foodservice are varied, and each will see a reopening and subsequent

recovery on different timelines. While many variables remain, Technomic's current thinking suggests that the following should be issues to consider within each segment:

Segment	Potential Long-Term Ramifications
<b>Full-Service Restaurants</b>	<ul style="list-style-type: none"> <li>- 90% or more of full-service units before the pandemic were small chain/independent (i.e., outside of the Top 500). Independent closures could range from 15% to 25% of all locations depending on the duration. Chains could lose 5%-10% of total locations in 2020</li> <li>- Expect further investments in off-premise to diversify risk</li> <li>- Assuming alcohol delivery and carryout regulations remain relaxed, this will likely be an area of emphasis and innovation for many types of operators</li> </ul>
<b>Limited-Service Restaurants</b>	<ul style="list-style-type: none"> <li>- Expect an acceleration of off-premise options, including more investment in drive-thrus by fast casual as well as technology (e.g., app-based ordering, etc.)</li> <li>- Possible re-thinking of certain self-service options</li> <li>- Expect more emphasis by fast casual on alcohol, particularly if alcohol delivery regulations remain relaxed</li> </ul>
<b>Hotel F&amp;B</b>	<ul style="list-style-type: none"> <li>- With banquets and catering representing nearly half of F&amp;B revenue (higher at upscale and luxury properties), hotel F&amp;B will have significant challenges bouncing back until businesses restart larger events and conferences</li> <li>- Lower-cost options, like buffet-style dining, will likely be curtailed. Other areas where consumer concern over contamination exists (e.g., minibars, in-room coffee, etc.) could also be vulnerable</li> <li>- The number of hotels that reopen will likely be smaller by 10%-15%, and the travel sector more generally is anticipated to one of the last economic segments to recover</li> </ul>
<b>Convenience-Store Foodservice</b>	<ul style="list-style-type: none"> <li>- We expect some refocus by c-stores on the fundamentals, including a renewed focus on the grocery/ sundries side of the business.</li> <li>- Within foodservice, self-service roller grills and other self-service stations are vulnerable and could potentially be removed or reduced in number and scope. There are likely to be more c-stores that get involved with delivery</li> </ul>
<b>Supermarket Foodservice</b>	<ul style="list-style-type: none"> <li>- With the short-term acceleration in grocery store sales, expect less focus on supermarket foodservice. It is likely that many self-service models within supermarket will be deemphasized.</li> </ul>
<b>Business &amp; Industry</b>	<ul style="list-style-type: none"> <li>- With an acceleration in working from home (and an uneven return in office workers to their job), business feeding will be slow to return to pre-pandemic levels. B&amp;I is likely to see more prepackaged foods throughout the foodservice areas</li> </ul>
<b>Recreation</b>	<ul style="list-style-type: none"> <li>- This is likely one of the last segments to reopen and will likely underperform for the next several years. Food and beverage will likely be de-emphasized as margin and profitability concerns drive decision-making at many of these types of operators. Consumers' desire for value will be paramount</li> </ul>
<b>College &amp; University</b>	<ul style="list-style-type: none"> <li>- Assuming most universities reopen in the fall (an assumption that is NOT guaranteed), there should be less disruption in this channel compared to others, although there will be a shift in cafeteria feeding to reduce/minimize the risk of unsanitary self-service stations</li> </ul>
<b>K-12</b>	<ul style="list-style-type: none"> <li>- As with colleges, assuming schools reopen in the fall, there may be less disruption to services. However, labor and cost challenges that will fall on school districts from the financial blows cause by this pandemic will cause shifts in purchasing practices and the need to continue to manage and reduce labor. There will also be a likely dramatic increase in the number of students that qualify for free/reduced lunches</li> </ul>
<b>Hospital</b>	<ul style="list-style-type: none"> <li>- Visitor feeding and the hospital cafeterias will gradually come back as the lockdown is reduced at hospitals. However, as in other cafeteria segments, expect changes in service and labor</li> </ul>
<b>Long-Term Care</b>	<ul style="list-style-type: none"> <li>- Given that this segment is largely driven by demographics and population, there will be less of a long-term impact</li> </ul>
<b>Nursing Homes</b>	<ul style="list-style-type: none"> <li>- Similarly, this segment should continue to see stronger than average performance given the demographics and nature of residential feeding in this segment</li> </ul>
<b>Refreshment Services</b>	<ul style="list-style-type: none"> <li>- Anticipate packaged goods to be more in demand, at least in the short term. While vending has gradually been declining, there may be some uptick in sales, and micromarkets will continue to be in demand as unmanned retail can offer better solutions in workplaces and education. Expect slower growth in area like office coffee and pantry services</li> </ul>



# Building Toward a Reopened Industry

The industry will not snap back into place immediately once the all-clear is given. Technomic views the process of getting the industry back on

track as one involving four phases, which we've described below as the "Four S" process of recovery. We believe this framework for analysis should be considered as a starting point for any company building a recovery plan for their business.

	<b>Phase 1. Survival (Containment and Minimization of Damage)</b>	<b>Phase 2. Start (Tiered Reopening)</b>	<b>Phase 3. Strengthen (Industry Recovery)</b>	<b>Phase 4. Surge (Investment and Growth)</b>
<b>Description of Phase</b>	Containment and minimization of damage  Continued enforcement of shelter in place throughout the country as COVID-19 cases plateau and begin to decline	Rolling opening of the economy  Restaurant and hospitality likely to be toward the end of various industries that are cleared to open	Total lifting of all physical distancing measures and a return to "normal" operations	Evaluation of damage done to industry and investment for growth
<b>What the Industry Should Expect</b>	Nonessential businesses remain closed. Likewise, education and travel/leisure segments closed as well.  Closures of operations that are marginally successful or that financially aren't able to maintain business  Low consumer confidence	Slow return to normal operations; employees allowed to return to work  Regions to reopen at different times  Some release of pent-up demand  Likely physical distancing within restaurants and other establishments will limit capacity  Supply chain working with customers to identify products needed for opening  Price orientation for most customers	Consumer confidence returns to visiting restaurants and foodservice  Stabilization of declines and some return to growth (in certain segments)  Stabilization of supply chain  Customers begin some return to pre-pandemic behavior, including some return to travel for both business and leisure	Move from mindset of "firefighting" to one of "rebuilding"  Reorganize and restructure operations, supply chain to match new realities  Diversify business to create resilience in the face of new pandemic/outbreak
<b>Actions for the Industry to Take</b>	Ensure safety of all workers and customers  Continued focus on takeout and delivery options  Menu streamlining and/or rationalization  Evaluate other incremental revenue opportunities to create a bridge toward the next Phase.	Reassurances to consumers on the safety of the restaurant and foodservice industry  Re-staffing, including rehiring and retraining workers previously laid off or furloughed  Ensure product availability in the supply chain required for opening  Menu revitalization	Promotion and outreach to customers to encourage pre-pandemic behavior  Menu optimization  Evaluate how emergencies actions can/should be incorporated into permanent business practices	Obtain a more thorough understanding of current customer attitudes and behaviors—changes that have developed due to the pandemic and are likely to become permanent  Menu reinvention

## Outlook: Technomic's Take

Foodservice, which has been more than 50% of the dollars spent in the U.S. on food and beverage, will certainly see contractions in 2020 and may fall to as low as 40% of the spend by year's end. This would set the industry back to levels not seen since the 1970s as a share of total food and beverage spend. However, Technomic remains bullish on the longer-term viability and resurgence of the industry, as the economy recovers and as consumers grow more confident living in the age of COVID-19.

Given the challenges in predicting exactly how and when the industry reopens, Technomic nonetheless recommends the following to best position companies to be "open for business":

### Operators

- Focus on training staff—Labor will be a key issue and having cross-trained staff that can handle multiple duties will be critical
- Assess and evaluate the menu to focus on items that are most profitable and travel well
- Understand your critical areas that are vulnerable to consumer perceptions of hygiene and work to build contingencies
- Maintain and build relationships with your distributor partners; they will be critical to "opening" the restaurant industry
- Prioritize safety and sanitization

### Distributors

- Develop regional and localized strategies to determine the vulnerability of the business and the likely timeline for reopening
- Evaluate other parts of the foodservice and restaurant business to further diversify your customer base
- Work with operators on payment flexibility, order minimums, etc. Operators that survive this pandemic will look to work with distributors that displayed partnership with them

### Food/Beverage Suppliers

- Have more business flexibility, particularly in areas such as payments, order minimums, etc.
- Innovate around the likely conditions of the "new normal" (e.g., touchless, packaging, off-premise, etc.)
- Provide marketing support for continued investment by customers in off-premise solutions
- Develop business contingencies based on how the chain and independent market could evolve





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