



## INDUSTRY SNAPSHOT

# COVID-19: 10 Trends Impacting the Food & Beverage Category

Many disruptive trends in the Food & Beverage sector were already unfolding as COVID-19 emerged, but the pandemic has accelerated these trends. New technologies, products, or services that typically took years to develop, are now coming to market in weeks.

Companies recognize the importance of taking more risks knowing that doing nothing is the greatest risk in the “new normal,” and ultimately, the post-pandemic economy. As we finish up what will certainly be an unforgettable year, we wanted to share our Industry Snapshot on how the COVID-19 pandemic has reshaped the Food & Beverage landscape.

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### The Restaurant Experience

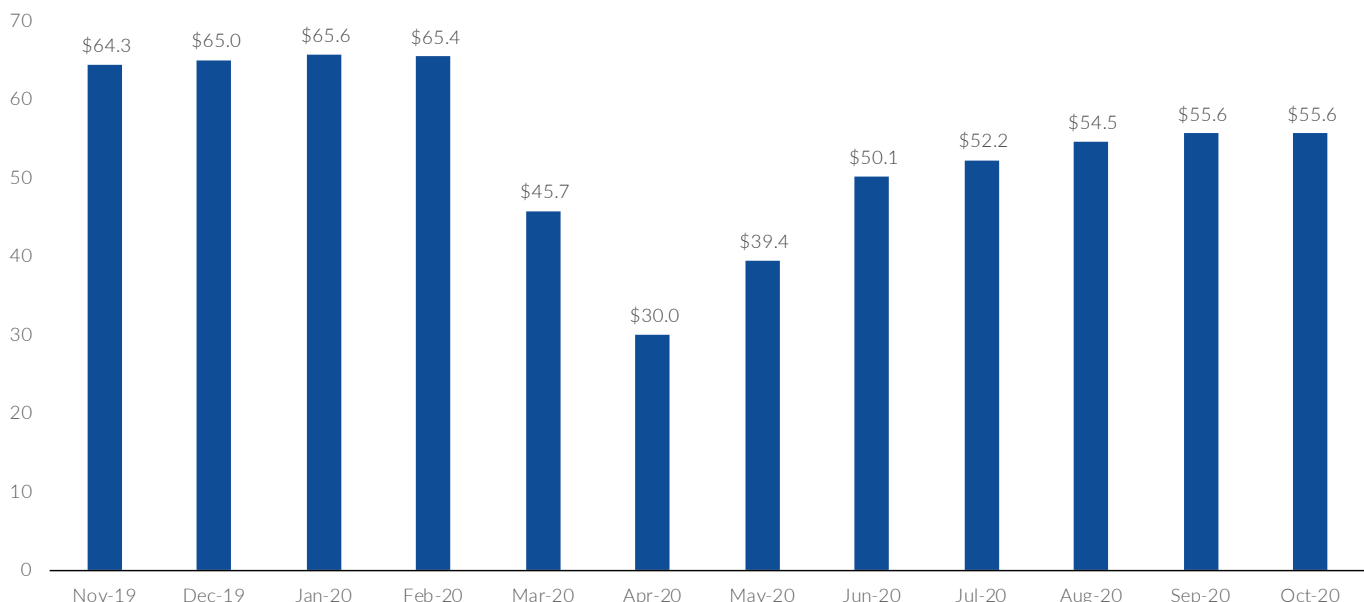
The first few months of COVID-19 devastated the foodservice industry as many restaurants were forced to temporarily suspend indoor dining. Although many restaurants re-opened their doors during Q2/Q3-2020, several states have imposed those same initial restrictions in Q4-2020 to combat the rise in COVID-19 cases. This start-and-stop recovery has had a larger negative impact on those businesses that heavily rely on indoor dining. Many restaurant operators have improved the guest experience through several health and safety measures so that customers are confident with takeout or delivery. However, the sector is still down ~15%<sup>(1)</sup> since February and the overall recovery for casual and fine dining is projected to take several months, or potentially even years (depending on which economic scenarios emerge). In a recent survey,<sup>(2)</sup> 80%+ of consumers reported medium to high anxiety levels about returning to casual or QSR restaurants vs. just 38% and 16%, respectively, reporting medium or high anxiety for fast-food drive-through.

How can restaurants thrive in the current environment when they cannot rely on indoor dining to return to pre-crisis levels? It starts with investing in the entire customer experience and expanding off-premises solutions. While a restaurant's existing business model should still include on-premises dining (where available), operators that find creative solutions to engage with the customer will thrive in the new normal. A few examples include:

- Optimize the carryout, curbside, and drive-through operations
- Deepen customer relationships through direct digital communication and loyalty programs
- Create a robust app to streamline the ordering process (e.g. contactless payment)
- Develop new packaging to help keep food warm when it leaves the restaurant
- Leverage "ghost" kitchens to function as a hub for online delivery or catering orders

#### TOTAL RESTAURANT SALES<sup>(1)</sup>

(\$ in Billions)



(1) U.S. Census Bureau; Figures are Seasonally-Adjusted.

(2) McKinsey & Company 2020 Contactless Journey Pulse Survey: Restaurants.

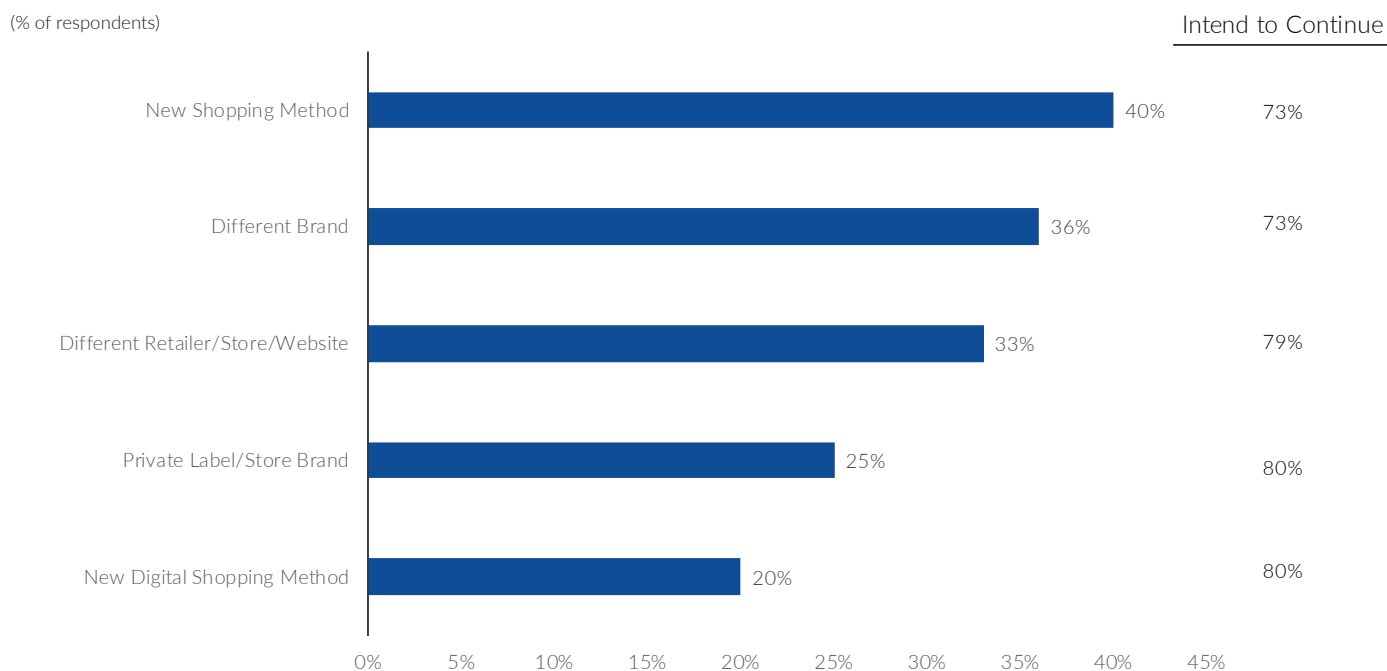
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### Declining Customer Loyalty

At the start of the pandemic, grocery stores across the country struggled to maintain sufficient inventory for its customers, leaving retailers with empty shelves and temporary stockouts. A combination of supply chain disruptions and a demand surge for certain essential products shattered brand loyalty, forcing consumers to experiment with other brands. The two largest initial beneficiaries of this shift were big Food & Beverage brands, which had fallen out of favor in recent years, and private label, which historically has a strong track record during economic downturns. This transformation started as a result of sheer availability, but has evolved into an increased emphasis on value and convenience.

Consumers are not only switching brands in 2020, but retailers and channels as well. Since the start of the pandemic, ~75% of consumers have tried a new shopping behavior and roughly the same percentage of consumers intend to continue to incorporate those behaviors into their routine.<sup>(1)</sup> This phenomenon provides a significant opportunity for companies to exploit the increase in customer trials. The ability to cater to these new brand purchasing behaviors will separate the winners from the losers regardless of the pace of the economic recovery.

#### CONSUMERS WHO HAVE TRIED A NEW SHOPPING BEHAVIOR SINCE COVID-19 STARTED<sup>(1)</sup>



(1) McKinsey & Company COVID-19 U.S. Consumer Pulse Survey.





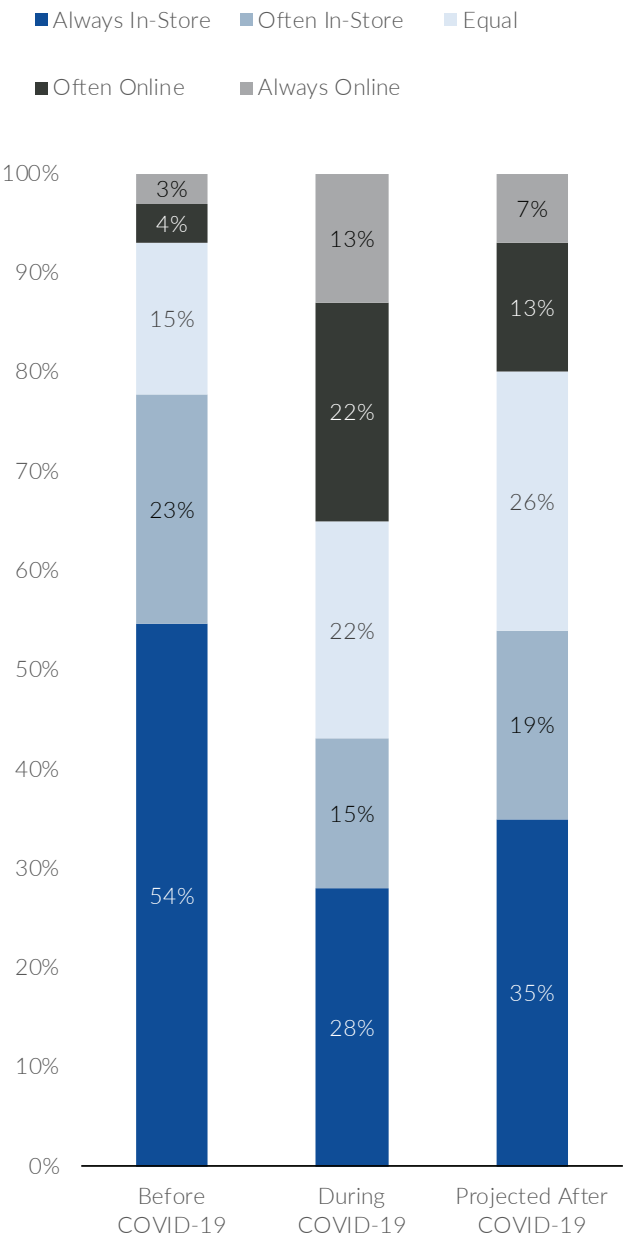
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E-Commerce Migration

The response to e-commerce has been universally felt across all demographics. Confined to their homes during the initial stay-at-home orders, consumers adjusted many of their traditional purchasing habits and converted to digital shopping, both in total amount and frequency. In a recent study which surveyed shoppers in the U.S., U.K., Brazil, France, and Germany,<sup>(1)</sup> 7% of consumers always shopped online (or did so often) before the pandemic. However, over the past several months, consumers became more familiar with online, and the ability to shop 24/7, easily compare prices, save time, and, maybe most importantly, without leaving the home. As a result, one year from now, 20% of those same shoppers anticipate that they will always shop at that rate. This fundamental shift in purchasing patterns during the pandemic has accelerated the shift to e-commerce and pushed the industry forward by five years.<sup>(2)</sup>

Large retailers, including Walmart and Target Corporation, both of which have already embraced an omnichannel approach, stand to benefit from previous investments in e-commerce grocery. Walmart offers grocery pick-up and delivery services while Target recently launched grocery pick-up and delivery, partnering with third-party Shipt. For those retailers in the early stages of developing or refining their online platform, it will be critical to invest in dynamic pricing tools and adopt an automated, science-driven approach to pricing. Shoppers have differing price sensitivity to products sold online vs. in-store so a one-size-fits-all pricing strategy should be discouraged to ensure each product is priced and promoted appropriately across all channels.

SHOPPING OCCURRING IN-STORE VS. ONLINE BEFORE, DURING, AND AFTER THE PANDEMIC<sup>(1)</sup>



(1) EnsembleIQ Survey.  
(2) IBM's U.S. Retail Index.



## 4

### CPGs: Direct-to-Consumer

Over the past few years, several consumer packaged goods companies (“CPGs”) have been developing more effective strategies to sell through and compete with Amazon.com. Steep competition from retailer and digitally native brands have also impacted CPGs’ share of the consumer wallet. The direct-to-consumer channel (“DTC”), a platform typically reserved for start-up brands, allows CPGs to circumvent the traditional retailer route and own the customer relationship. CPGs have direct access to collect customer data (e.g. social profiles, psychographics, and demographics) and personalize the customer experience. Enhanced margins are also an added benefit, although the retailer still provides tremendous scale.

While some companies launched their DTC platform pre-pandemic, including Nestle’s KitKat chocolate brand, the COVID-19 crisis has accelerated those strategies with many companies coming online in recent months. In Q2-2020, The Kraft Heinz Company launched its first DTC business line for baked beans and soups. Pepsi Co. announced the launch of two new DTC websites—PantryShop.com and Snacks.com—in May. Both sites were developed 100% in-house in less than 30 days, leveraging teams across multiple functions. In the foodservice channel, Cracker Barrel Old Country Store recently launched an online store while Sysco Corporation has been offering “Stock Up” events where consumers can purchase a range of restaurant-quality food products as well as non-food items over the internet and pick up their orders at a local warehouse. Manufacturers will have to adjust their supply chains to manage the DTC platform, including warehousing, packing, distribution, and delivery. Out-of-stocks, shipping delays, or damaged goods can severely impact the customer experience and brand equity. Thus, CPGs need to ensure they have the right infrastructure and logistics in place to support their platforms.

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### Return to Processed & Frozen Foods

Prior to the pandemic, consumers were increasingly avoiding processed and unhealthy foods in favor of high-quality, organic, fresh, convenience, and new flavor profiles. Consumer purchasing behavior was shifting from the center-of-the-store to the perimeter of the store and more food was also being consumed away from the home (or at least not prepared at home). However, consumer attitudes and behaviors driving growth in those product categories fundamentally changed at the onset of the pandemic.



Product categories perceived as less healthy or fresh are now experiencing a reversal of fortune as consumers have been placing a greater emphasis on food safety and shelf life. Households are now relying on processed and/or frozen foods as it is easy to prepare, achieves the benefits of shelf life, and reduces the number of shopping trips to limit exposure. Consumers have expanded their palate for frozen vegetables, frozen and prepared meals, bakery, canned fruits and vegetables, and easy-to-cook products and the largest food manufacturers have taken notice. Many food manufacturers have expanded their presence in the frozen food market, including Nestlé, Kraft Foods, Kellogg, General Mills, and Aryzta, among others. Whether it’s a surge from returning buyers or first-time buyers, data suggests that this demand will continue beyond the crisis and require increased cold storage and shipping capacity across the U.S. Those companies with trusted brand staples and more family-style packaging, supported by a robust supply chain, will be the most successful.

## Meal Kit Popularity

Meal kit usage exploded during the first few months of the pandemic when restaurants shuttered and consumers were forced to eat at home. Unable to dine in at restaurants, consumers shifted spending to the grocery store. However, many food retailers struggled to keep their shelves stocked so consumers turned to other options. Meal kits, which send customers pre-portioned and sometimes partially-prepared food ingredients and recipes to prepare homecooked meals, provided an attractive alternative for the consumer. Meal kits allowed the consumer to stay at home and maintain control over their meals without sacrificing the perceived quality of restaurant-prepared meals. Since early 2020, meal kit companies have all reported a sharp increase in demand, which has attracted new competition into the market even as stay-at-home orders eased in Q2-2020. To offset the decline in on-premise dining, chains such as TGI Friday's, Shake Shack, California Pizza Kitchen, and Dunkin' Brands, all launched various kits to bring the "restaurant experience" back home.



While all these service providers continue to experience strong demand during the pandemic, customer retention going forward remains uncertain. Will these companies be able to adapt to the post-pandemic world and a market no longer being held captive vs. earlier in the year? Customer retention and growth could become more difficult as providers will have to balance pricing in a world with families experiencing economic hardship vs. the high marketing costs associated with building the customer base.

MEAL KITS PRICE PERFORMANCE IN 2020<sup>(1)</sup>

(market-weighted return)



(1) Source: S&P CapitalIQ; includes Blue Apron Holdings, HelloFresh, and Marley Spoon.

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## Acceleration of ESG

Historically, organizations viewed sustainability as one piece of their overall mission. However, roughly two-thirds of respondents in a recent survey of consumer product and retail industry executives revealed that sustainability initiatives are increasing total revenue.<sup>(1)</sup> Products carrying a sustainability claim have continued growing during the COVID-19 crisis, capturing a 17% market share during 1H-2020.<sup>(2)</sup> This trend builds on 2019's 16% market share across all CPG categories. Despite sustainability-marketed products representing less than 20% of the market, they delivered 55% of the market growth from 2015-2019.

Furthermore, ~80% of consumers are changing their purchase preferences based on social responsibility, inclusiveness, or economic impact and ~2/3 of consumers will be more cautious about the scarcity of natural resources due to the COVID-19 crisis. Younger consumers as well as those with higher incomes and education levels were most likely to make sustainability a priority. Issues consumers listed as most important include:

- Minimizing negative environmental impact
- Commitment to renewable energy
- Reducing waste
- Minimizing exploitation of natural resources
- Minimizing carbon footprint

Those younger consumers, which primarily include Millennials and Gen-Z, now represent ~45% of the U.S. population.<sup>(3)</sup> Understanding their priorities will be critical for Food & Beverage companies as those demographics will have tremendous buying power over the next several decades.

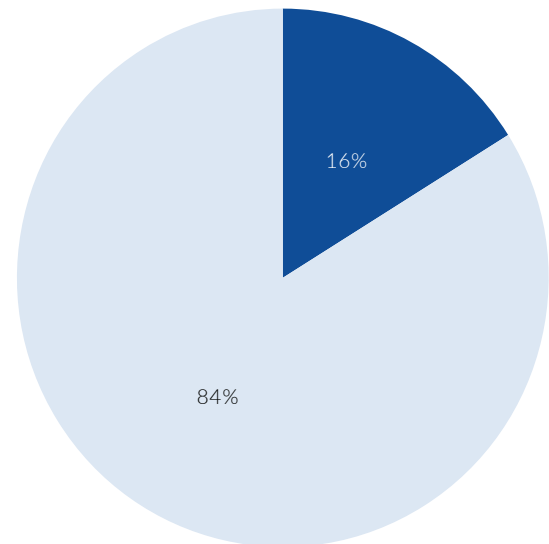
(1) Capgemini Research Institute, Sustainability in Consumer Products and Retail Survey.

(2) NYU Stern CSB Sustainable Market Share Index (2020).

(3) U.S. Census Bureau.

\$ SHARE OF MARKET<sup>(2)</sup>

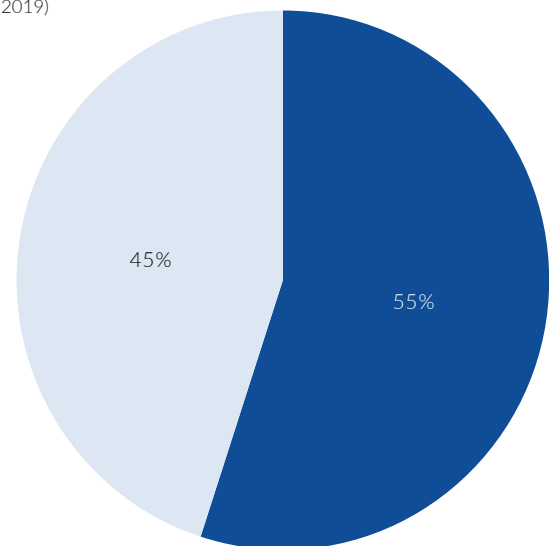
(2019)



■ Sustainability-marketed Products  
■ Conventionally-marketed Products

\$ SHARE OF MARKET GROWTH<sup>(2)</sup>

(2015-2019)



■ Sustainability-marketed Products  
■ Conventionally-marketed Products



## Emphasis on Employee & Consumer Safety

Prior to the COVID-19 pandemic, food safety concerns typically centered on food contamination, foodborne illnesses, or product traceability – all levels of the food chain that primarily handled the cleanliness of the manufacturing / process equipment or supply chain. This year, that definition has expanded to include worker and consumer safety as companies implement new safety protocols to protect the spread of pathogens during the pandemic.

Retailers are cleaning more frequently, especially in high-touch areas like:



Shopping Carts



Freezer Door Handles



Restroom Surfaces



Self Checkout Kiosks

Grocery stores have created “one-way” aisles to limit foot traffic in each aisle as well as placed signs on the floor at checkout to encourage social distancing. Restaurants are providing digital/online or disposable menus and other foodservice items (e.g. utensils, dishes, napkins, tablecloths, etc.), limiting capacity, prioritizing outdoor seating, or even modifying their layout to limit the spread of the virus. All these strategies will build consumers’ confidence in the system and help companies gain an edge vs. the competition as the economy continues to recover into 2021.



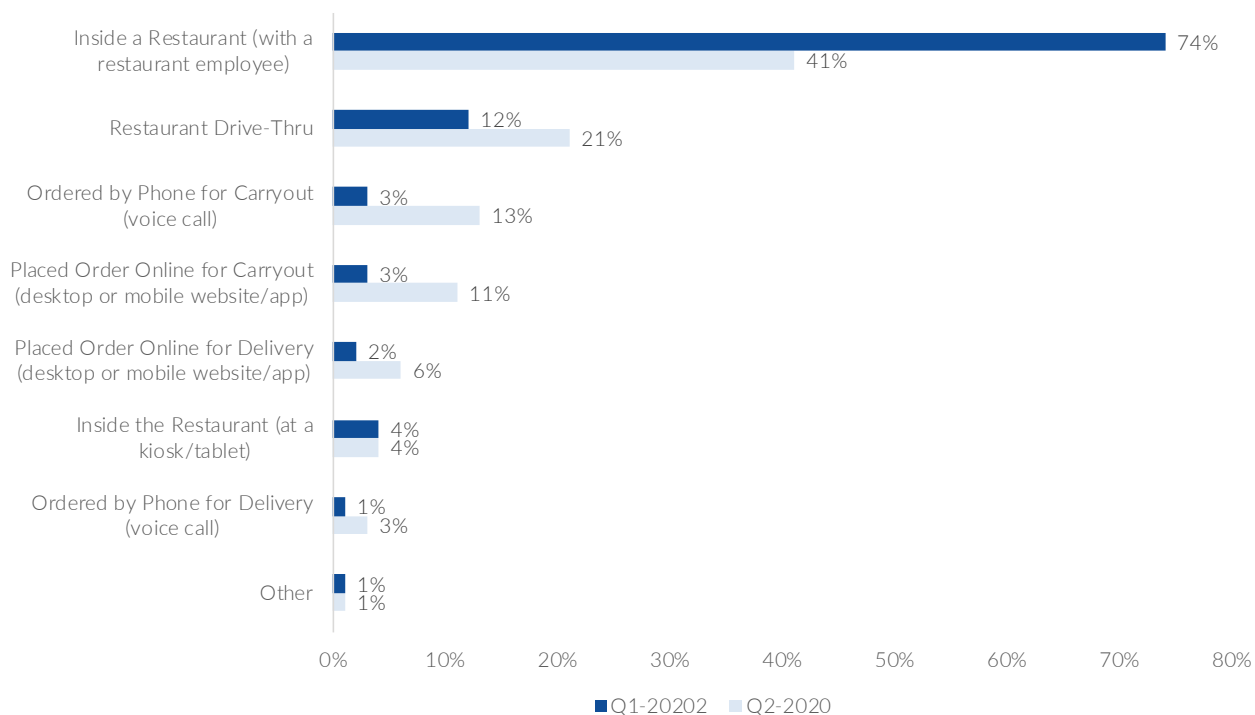
## Touchless Technologies

Contactless technologies have become one of the safest and most efficient options in the age of social distancing. This trend had been on the rise for the past few years, but since the start of the pandemic, the technology adoption curve has accelerated exponentially. These new technologies are reshaping the industry and improving the customer experience. Consumers are increasingly using apps and contactless ordering platforms to expedite the ordering and payment process while restaurants establish designated pick-up areas to facilitate curbside pick-up. In Q1-2020, 74% of diners ordered inside the restaurant with a restaurant employee. That figure dropped to 41% in 2Q-2020 whereas online ordering jumped from 5% to 17%.<sup>(1)</sup>

Food & Beverage companies are also incorporating contactless technologies to better serve the consumer. The Coca-Cola Company launched a touchless fountain experience that can be used with a smartphone for contactless pouring. Consumers can choose and pour drinks without having to download an app – the phone camera can be used to scan a QR code on the display, which connects to the cloud and brings the Coca-Cola Freestyle user interface to the phone. Contactless technologies are transforming other high-touch areas of the restaurant, including condiments, as ~50% of consumers say that low or no-contact food preparation is the most important contactless experience at restaurants.<sup>(2)</sup> For example, touchless condiment dispensers were recently launched to eliminate the need to touch a dispenser as consumers can simply use motion activation to dispense condiments without any contact.

### HOW DINERS ARE ORDERING DURING COVID-19<sup>(1)</sup>

(% of respondents)



(1) Technomic Ignite Consumer Brands Metric Data.

(2) Datassential, COVID-19 Report, Here I Come, May 2020.

Indulgent Cravings

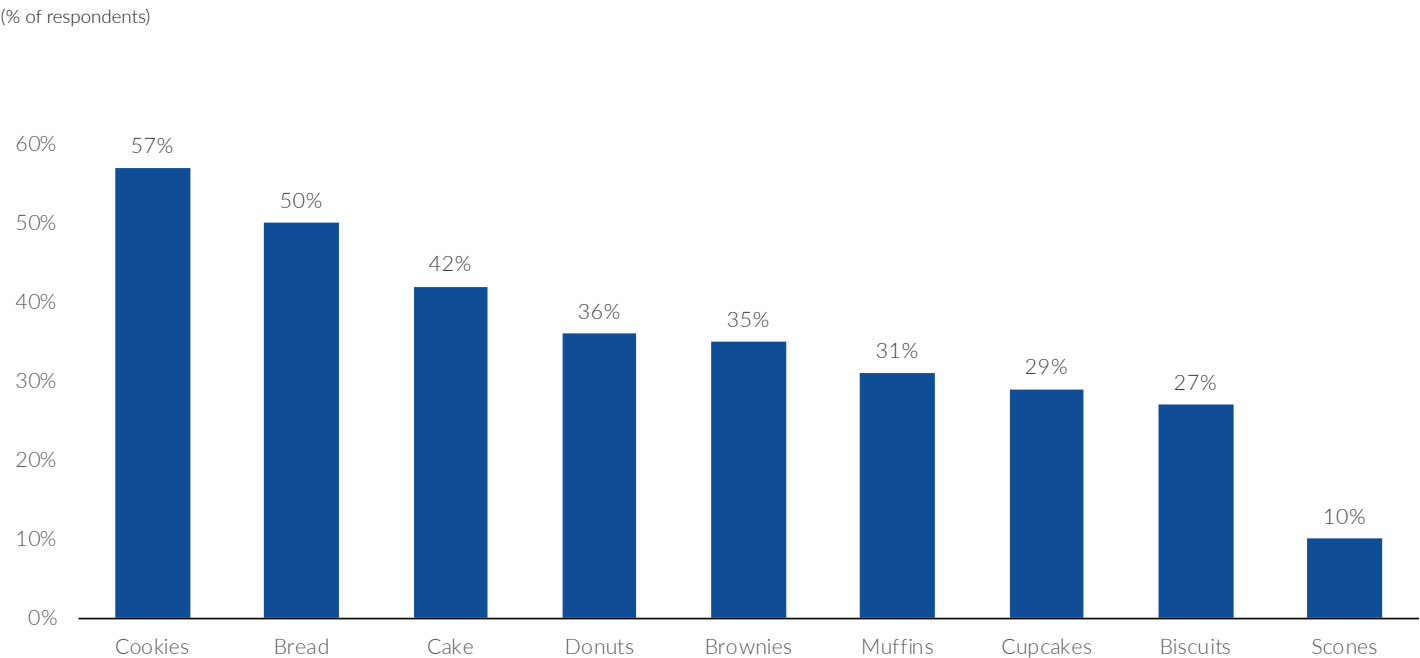
Leading up to the pandemic, consumers had been snacking on both indulgent and healthy snack foods, driven by the trend for convenient, time-saving solutions, such as “grab-and-go” options. Many snack foods had already generated strong growth in 2019, but the pandemic accelerated that growth. Cravings for comfort foods and indulgent items to cope with the anxiety of the pandemic has led to an 8% increase in snack food consumption.<sup>(1)</sup> Consumers are also stocking up on larger quantities of groceries and spending more time in the home.



According to a recent survey,<sup>(2)</sup> baked goods are also gaining popularity with ~30% of consumers eating more baked goods over the past six months. Interestingly, the more snacks foods consumers have in their home, the more frequently the item is consumed. This trend could be particularly valuable to restaurants exploring other alternatives to increase their average check size. ~75% of consumers would like to be able to purchase bakery items to take home from restaurants and enjoy later.

Snack foods have historically been more insulated from market cycles than the broader Food & Beverage category as consumers seek comfort and enjoyment during downturns. In the near-term, overall volumes are expected to remain elevated although consumers could increasingly focus on value in an environment with low economic growth.

BAKED GOODS CONSUMPTION DURING COVID-19<sup>(1)</sup>



(1) NPD's Snack Food Behaviors in Challenging Times.

(2) The Harris Poll, 2020.

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