



COVID-19

Perspectives in Europe

Foodservice Europe

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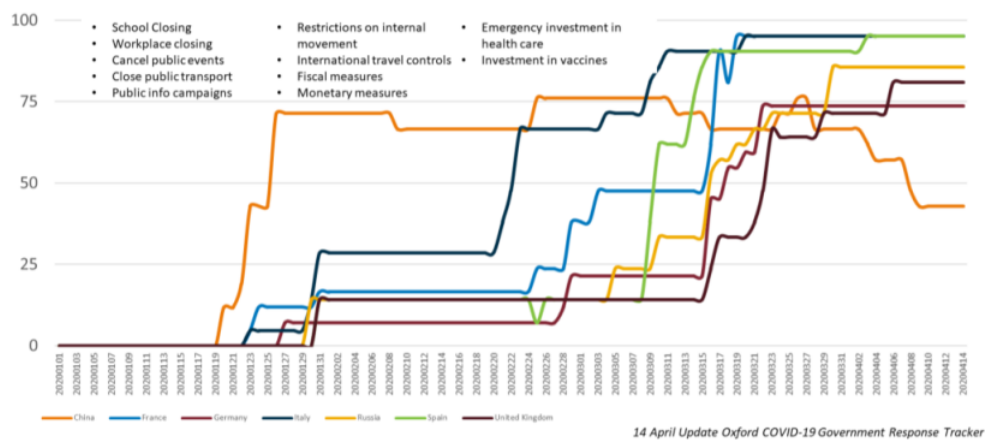
Foodservice Europe

Where we stand in Europe

No recent changes in restrictions

In most of the European countries, governmental restrictions to fight COVID-19 have been unchanged in recent weeks. There continue to be three sets of countries: Spain, Italy, and France with the most restrictions; U.K. and Germany with the least restrictions, and Russia, which came in late, but strong, in between. All discussions have turned toward opening the markets again and slowly relaxing the restrictions, as we saw in China over the last few weeks. However, the foodservice industry appears to be at the end of this list.

Government Stringency Index



Weekly consumer spend by market as we have seen it for the last three to five weeks (depending on the country) also remains fairly unchanged. It is expected to remain at this baseline as long as the restrictions remain and are not relaxed.

- For Germany and Russia, this baseline has been consolidating at around 25% of the total foodservice market spend and around one-third of the visits to remain.
- In France and GB, it is lower, at around 15% of spend and close to 20% of visits.
- In both Italy and Spain — the countries with the highest Government Stringency Index — around 10% of the market spend and 15% of visits are still happening despite all the restrictions.

The majority of the spend and traffic remaining is sourced by those places that still operate. They include so-called retail-gastro-hybrids (grocery stores, bakeries, butchers, delis, gas stations) and their sandwiches, bakery items, snacks, salad bowls, sushi, etc. In addition, delivery services, QSRs (and their drive-thru and take-away offerings), vending machines, and a few others are making this baseline.

This baseline has experienced small uplifts recently because several chains and independents re-opened some of their operations and adapted them to the restrictions. Some organized delivery options, and others started offering take-away or drive-thru.

What is to come for our industry

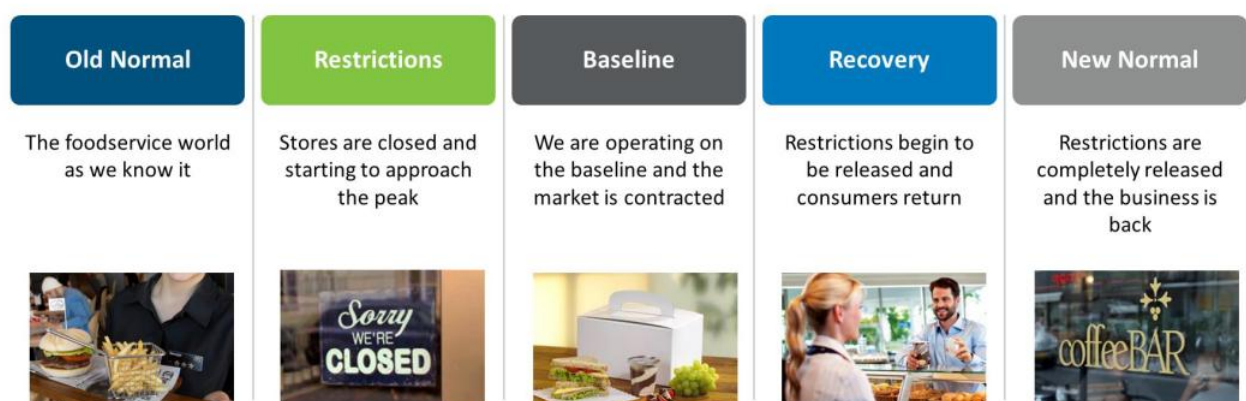
The COVID-19 crisis in five phases

Looking at the foodservice market from a distance, we can split the COVID-19 crisis — and the Year 2020 — into five phases. We started the year with Phase One, pre-crisis level. We can call this phase “the old normal.” With slight differences among countries but everywhere by the end of February or early March, attention on the new virus increased and the first restrictions were implemented. As a result, over a period of just two to three weeks, the foodservice market gradually declined — this was Phase Two. For the last few weeks we have been stuck in Phase Three, where we all have to deal with the restrictions and the industry has reached its baseline, as described earlier.

All European countries are currently in Phase Three. The question is when the first restrictions will be lifted. This will mark the point when we will move into Phase Four, the recovery phase. That will last until finally there are no restrictions and we are back to normal — though it will be a new normal, and it will bring us into Phase Five.

Phases of COVID-19 for Foodservice

As the pandemic moves, consumers and operators move through these phases



The Baseline

Since we are already in Phase Three in Europe, we have acquired some knowledge about it. Earlier we talked about how big this baseline is and which segments are still operating and participating in the market more than others these days. This baseline is between 10% and 25% of total industry revenue and 15% to 30% of industry traffic. Consumers mostly miss socializing and experience; they miss convenience less. If they still use the industry, they stick to the places they know and trust and that are part of their community. It is not the time to experiment with new places, products, or specialties, but consumers are open to try new ordering methods! Across Europe, 12% of consumers have not used delivery services in the past but say they will consider trying delivery during this lockdown. We know that the longer this phase lasts, the fewer the restaurants that will survive. It is time to prepare for Phase Four, when restrictions will be lifted. Unfortunately, we don't know the answer to the key question: How long will the lockdown and restrictions last?

The Recovery

As soon as the first restrictions are relaxed, we will enter into the Phase Four: Recovery. This doesn't necessarily mean there will be fewer restrictions immediately for restaurant operators themselves. But step by step, people will return to a more normal life. In the Recovery phase, they will be able to leave their houses, and stores, schools, and workplaces will re-open — leading to the point where there are no restrictions whatsoever.

- This recovery is likely to be slow. Consumers indicate other things besides restaurants will be top of mind for them when the recovery begins. Restaurants are considered to be risky places where people could be infected, and people prioritize places they know and trust. Overall, even when restaurants are open again, consumers indicate they will wait before eating out again.
- A recovery will be driven by visit occasions. As soon as consumers return to certain situations (e.g., when they return to their workplaces), the connected occasions will return, such as getting a coffee to-go on the way to the office.
- If you supported key workers, built ties with the local community, and created a positive perception of the brand, this is the time when it will be paid back.
- The Recovery phase is a great opportunity to launch or focus on new ordering or payment methods like click & collect, contactless delivery, and payment options.
- In this phase, focus moves from sustainability to hygiene and safety. Packaging doesn't need to be sustainable anymore, but safe. It's a move back from re-using to disposable!

Even though it is unclear when this will happen, it is important that the industry starts preparing for this now!

The New Normal

Once all restrictions are lifted and some short-term concerns are overcome, we will be back to normal. There is reason to believe that this will be a new normal, not just a continuation of the old ways. We certainly don't know when we will enter into this phase and exactly what it will look like, but there are a few thoughts about this phase:

- Where this new normal is will depend on the strength of the economy overall. It depends on whether people have jobs and enough disposable income to afford to use the foodservice industry. But even for consumers who have enough money, their likelihood to spend it in our industry depends on their confidence in the future.
- Over the course of the lockdown and restrictions, everyone has developed different habits and behaviors. Some of those may change very slowly or not at all. For example, if working from home becomes more widespread, this will impact our industry, as well.
- Not everybody operator will make it to this point.
- Problems from the past, such as finding affordable locations and people, are likely not to be issues in the new normal.

This phase will be a mixed bag for restaurant operators and their suppliers. On the one hand, the market may be smaller than it used to be; on the other hand, it may be less crowded and offer easier access for new opportunities.

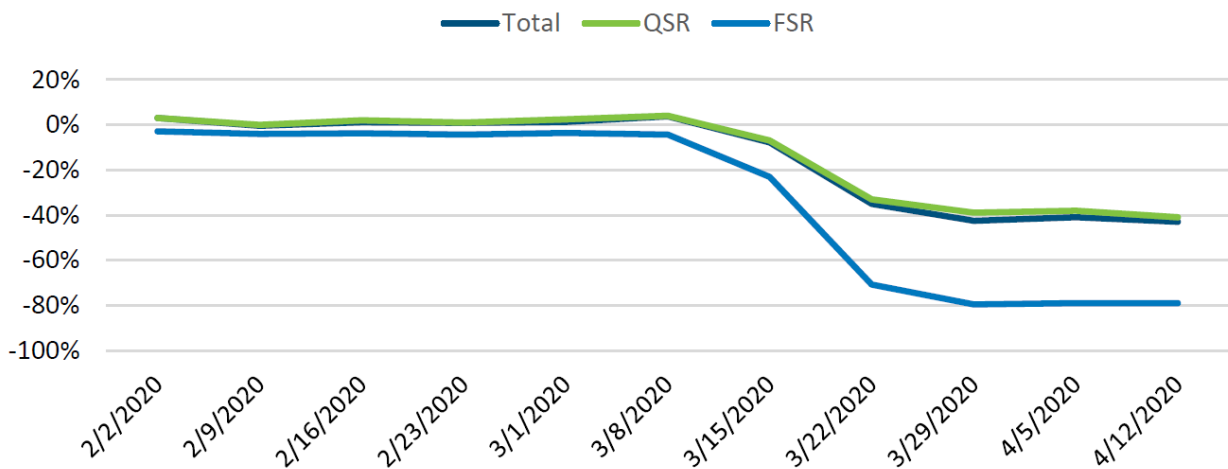
What is happening outside Europe

The situation in the U.S.

The restaurant industry appears to have stabilized around a new, and hopefully temporary, normal. CREST® Performance Alerts for the week ending April 12 shows total transactions were down 43%. This most recent week is an additional decline of two percentage points compared to the previous week. Food Industry Advisor David Portalatin said he hesitates to make a big deal out of this week-over-week decline because he thinks some volatility is expected during a time of unprecedented disruption. With that in mind, there are two major factors that could put restaurants on a gradual downward trajectory:

- Deteriorating economic conditions — With more than 5 million additional unemployment claims in the week ending April 12, we may begin to see consumers hesitant to spend at restaurants, which are much more expensive than a home-prepared meal.
- Restaurant closures — While almost all U.S. restaurant dining rooms are closed, there is mounting evidence that some units are closing altogether. There is no shortage of restaurant locations in the U.S., so much of this business, especially among chains, can presently be absorbed by other locations. But it’s reasonable to conclude that there is a point at which unit closures would erode volume further.

U.S. Restaurant Weekly Transactions PCYA



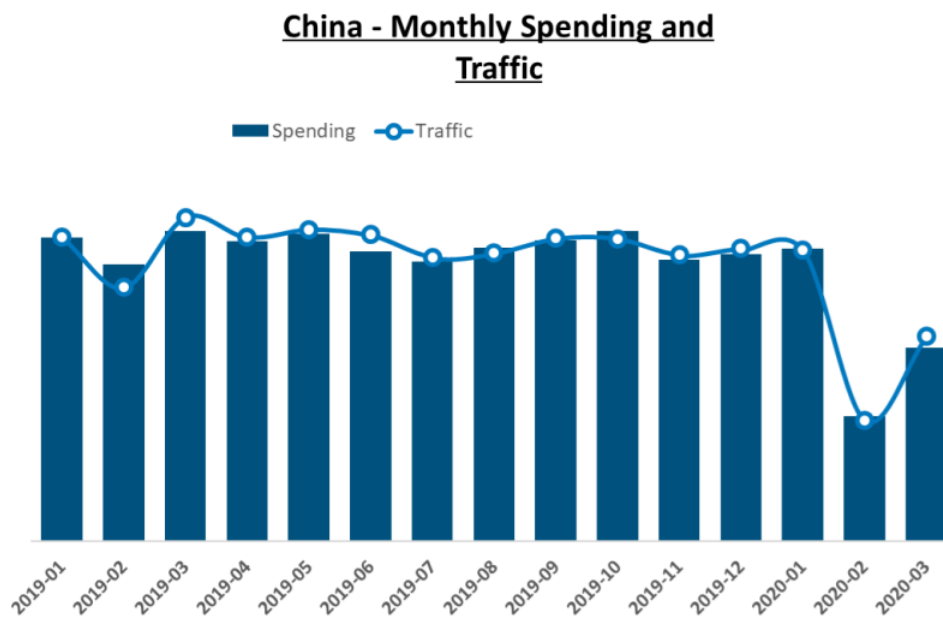
Source: The NPD Group/CREST® Performance Alerts



How is China doing these days?

After the severe impact to the Chinese foodservice market due to COVID-19, with visit and spend decreases of around -60%, during the last weeks, the country entered into the Recovery phase.

Weekly industry spending reported an upward trend over the past few weeks. By the end of March, total foodservice market spend had regained half of what was lost during the toughest weeks of the shutdown. Looking at it on a monthly basis, in February 2020, industry spending was down by -55% vs. the same month in the previous year. The decline in March 2020 vs. March 2019 was only -38%.



Most channels showed a slowing declining rate in March. Leisure channels, such as coffee shops and bakeries, had a quicker revival. Key foodservice chains gradually re-opened both on offline and online platforms. Carry-out and delivery occasions continued to boom with more operators entering the delivery market or expanding carry-out services after the COVID-19 period. With the resumption of work in March, breakfast traffic share increased most of all dayparts, followed by lunch. That proves that the recovery is driven by the occasions and therefore impacts chains, channels, and products that cater to these occasions.

Another interesting perspective is looking at why consumers picked a certain place to eat or drink away from home. During the restrictions, consumers sought health, quality, variety, and trust when considering restaurant services. Speed of service, uniqueness, and price-sensitivity were not as important or ranked as high as before the COVID-19 crisis. However, when looking at the Recovery phase now, people’s interests in food quality and health dropped. Convenience and speed needs increased significantly, and price-sensitivity became more important again. All of this points to a market recovery.



Where this information comes from

Our CREST consumer panel tracks foodservice markets across 13 geographies worldwide every day. Our representative samples allow us to understand size, structure, and trends in the market and its channels and chains. CREST allows us to understand who eats and drinks what, how, why, and at what price. We normally release CREST data monthly, however, during these challenging times, we analyze raw CREST results by week with complete, projected, and more detailed analysis for the month and quarter. In addition, our receipt-tracking tool, SnapMyEats, allows us to better understand markets in Great Britain and France. SnapMyEats delivers granular insights by capturing scanned receipts for food and beverage purchases from thousands of receipts every day.

We will continue to update you with information based on our proprietary data assets and foodservice industry expertise. Remember that your account team is committed to helping you navigate through this uncertain time. If you have questions or if we can support your business in any way, please connect with your account representative or contact me at jochen.pinsker@npdgroup.com.

How to manage the months ahead

We have built scenarios for the months ahead and identified what is important during the next phases — the time when restrictions open up, but also how the market may look when it is back to normal. We are likely facing a new normal.

We want to help you understand what you need to know and do now in order to be prepared for what is to come, even if many aspects are still unknown. We are happy to talk you through our expectations and help you understand what this means for you and how you can leverage this insight to come out of the crisis in a strong position.

Please feel free to contact us.

Stay safe!

