Perspectives for Foodservice in Europe

13th July 2022

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The Situation in Europe

No More Restrictions — But Issues Remain

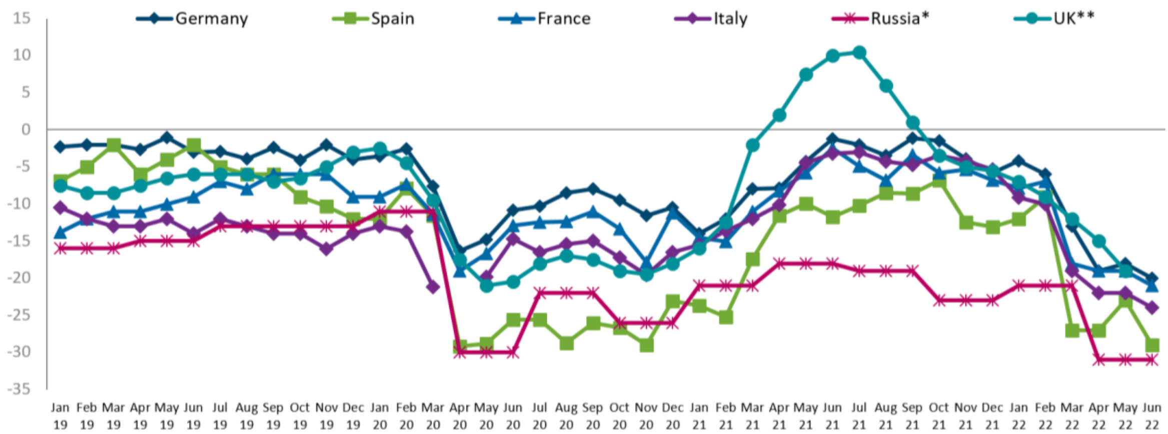
The restaurant industry is no longer restricted by any major governmental legislation and can operate again without limitations, masks, vaccination checks, or other pandemic-related precautions. So far, so good on that front, but the industry faces other problems instead. Even before the pandemic, there was a shortage of industry workers that led to some restaurants closing for one or two days a week or reducing opening hours. And workers have come to expect higher wages. Supply chains are disrupted, leading to short supply, the absence of some products, or a price explosion. Energy prices are strongly increasing, related to the Ukraine war. As a result, prices are increasing on all fronts; consumers are concerned about the war as well as its overall economic and social impact in Europe.

And even though consumers' mobility is increasing again, as more people return to their workplaces and get more active in their private lives, for a third of Europeans, COVID-19 is still a concern. They are not visiting restaurants without limitations and fears.

Consumer Confidence Weakens Again

Whilst consumers across all European countries felt much less pessimistic toward the first half of the 2021, since October 2021, all countries including the U.K. again have declined in this regard. With the outbreak of the Ukraine war, the consumer confidence level has further decreased, now below the worst levels from during the pandemic. The effects of all those worries add up to a very pessimistic future expectation for consumers in Europe.

Consumer Confidence Index in Europe

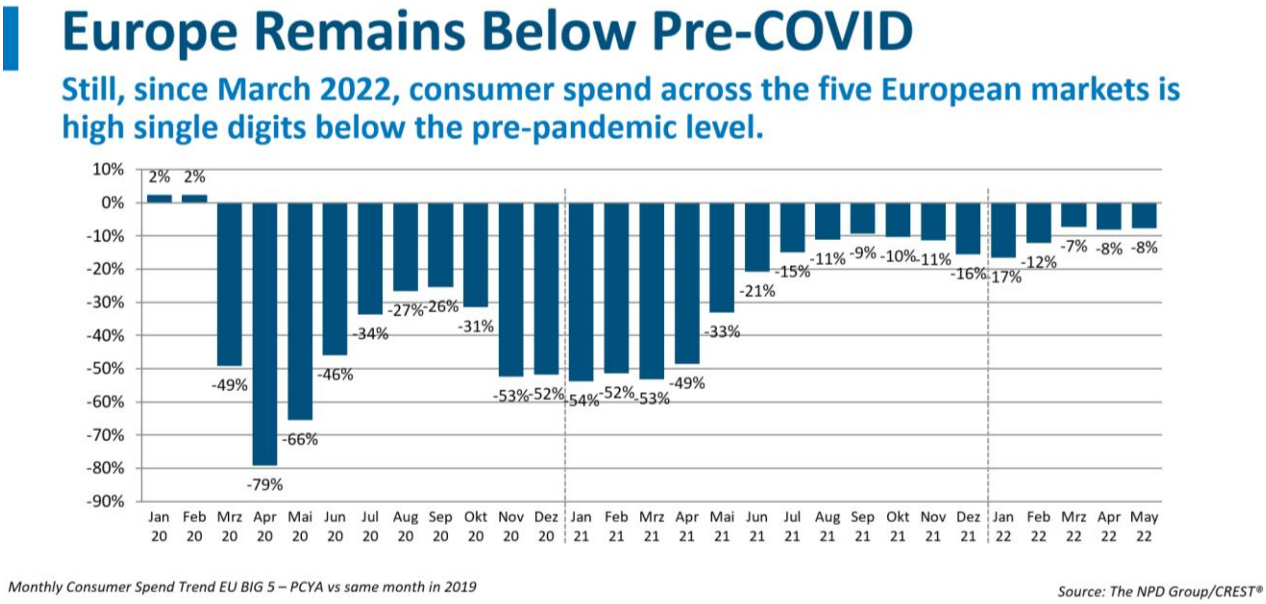


*Source: European Commission / * Russia: Trading Economics / **UK: OECD – re-scaled to fit other countries*

The foodservice industry is known to be especially sensitive to changes in consumer confidence. It is not only about whether people have money, it's also about their willingness to spend.

Industry Recovery Stuck

As of May 2022, the foodservice industry was still far away from its 2019 levels. During the last three months, there was no further recovery. Consumer spending remained at -7%/-8% below pre-pandemic levels. There were certainly strong improvements over the previous year, when most European countries were still in various stages of lockdown. And the situation also improved compared to the winter months early this year, when the decline versus 2019 was still in the low double digits. Expectations for recovery were high, with the return to the workplace and a more mobile lifestyle but concerns about the economic situation and pricing hampered that anticipated growth.



Growing Eater Checks Offset Visit Declines

Rolling up the first five months of the year among the Big 5 European countries, consumer spend was down by 10% compared to the same period before COVID-19's onset. But that is only one part of the story. That measure is strongly pushed by increasing eater checks. Those were 9% above the 2019 level, partly offsetting the stronger decline in visit counts, which were down 18%!

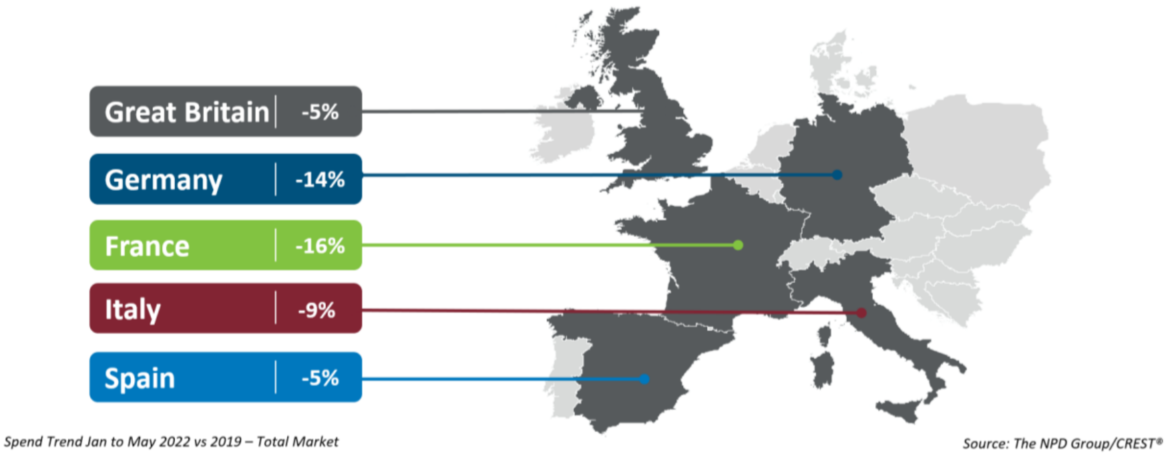
That eater check growth was not solely driven by price increases. Technically it can be affected by people buying more products and upgrading to more premium products, but it is also a function of the change in the mix of dayparts, service modes, and visit situations.

Different Pictures by Country

The situation varies by country. Great Britain and Spain showed stronger performance during the first five months of 2022 compared to the rest of the Big 5. Both still lagged behind 2019 levels for the first five months of the year, though they were operating at 95% of total market spend levels. By contrast, Germany and France remained double digits below 2019 performance. France was at 84% and Germany at 86%. The core reason for these differences is restrictions on the industry in Germany and France for the first months of the year. Italy came in somewhat in between at 91% of the YTD 2019 spend level.

YTD May 2022: Still Below 2019

All countries are still below 2019 but the levels remain different.

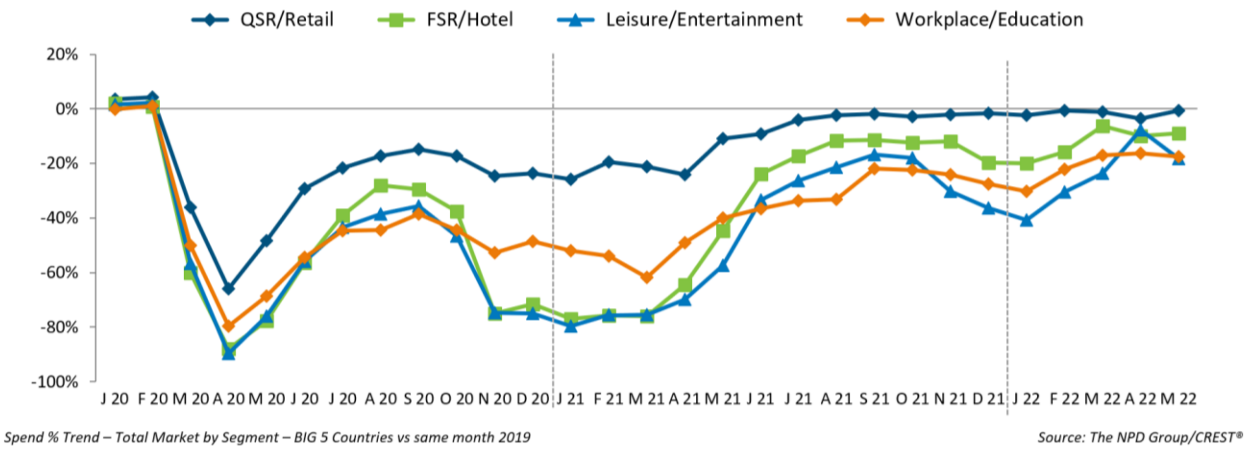


It is a Story of Different Segments

Whilst we are seeing differences among the countries, it is even more a story of different market segments. The quick service segment, including retail and convenience stores and their foodservice businesses, remained the stable part of the market. Since mid-2021, they operated at near 2019's spend levels. However, even more than for the total market, traffic declines have been offset by growth in average eater cheques. Full service restaurants (including hotels), as well as the leisure and entertainment segment, have fallen victim to restrictions including reduced capacity, mandatory masks, tests, vaccinations, and even full closures of indoor dining. The workplace/education segment has experienced the slowest recovery and likely has the toughest outlook.

QSR Remains the Stable Segment

Mostly on-premise driven segments and workplace/education has been volatile and keeps overall spend below pre-pandemic level.



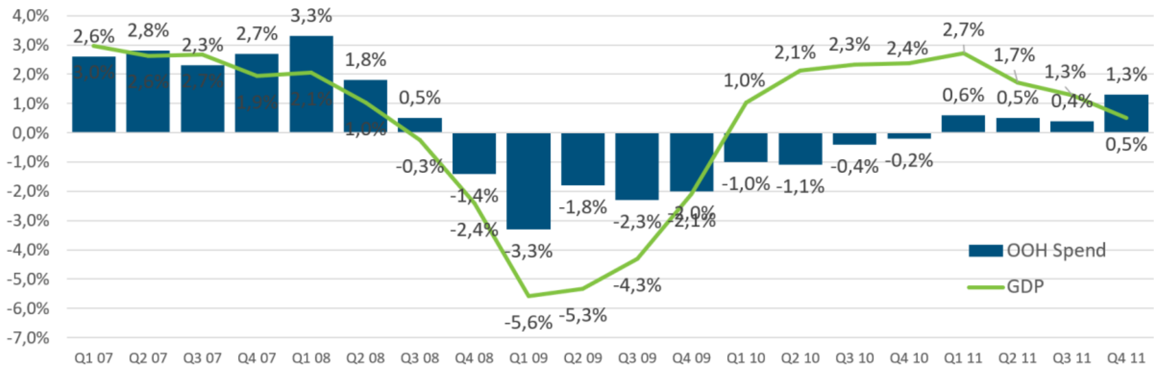
How the Current Situation Compares to the Crisis in 2008 – 2009

Consumers Cut Back Softly

During the financial crisis in 2008 – 2009, GDP declined by 5,6% during the worst quarter (Q1 2009), and we saw a total of six quarters with GDP declines; in Q1 2010, the situation bounced back again. Consumers started to cut back on their restaurant expenditures with a slight delay and somewhat softer spending. They only reduced their industry spend by 3,3%, however, it took nine quarters for the bounce-back to happen.

Consumer Spend Trends BIG 5 EU

Whilst the restaurant industry remained more stable than GDP on the downturn, OOH spend remained flat in the early days of the recovery.



BIG 5 Europe – Total Market Spend percent change vs year ago

Source: The NPD Group/CREST, OECD

Today's situation is somewhat different since it is not only economic uncertainty that impacts consumers. It is paired with continued concern about the pandemic and strong price increases when eating away from home. In addition, restaurants themselves are facing challenges of disrupted supply chains and finding enough staff to run their services.

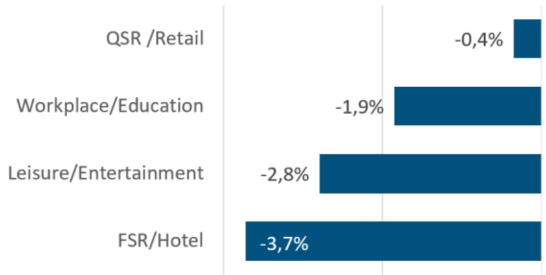
Segments with Different Performance

Back in 2009, the industry showed that even in tough times it can be fairly robust. However, its segments were hit differently. Even if no one really benefitted from the crisis, the quick service market managed to hold its consumer spend at least stable. On the other hand, full service restaurants lost close to 4% of their sales, more than any other segment. The other segments performed in-between: workplace/education was down2%, and leisure/entertainment was down 3%.

Within each segment, we have seen a fairly wide spread between the best- and worst-performing chains and subsegments. The core question was whether a business would benefit or suffer from consumers **trading down** and if the core business was in an area where it was easy to **trade out**.

Impact on Different Segments

During the financial crisis in 2009, QSR remained stable whilst consumers mostly cut back on Full Service Restaurants.



BIG 5 Europe – Total Market – Spend Trend by Segment 2009 vs 2008 in %

Source: The NPD Group/CREST®

Trading Out

During the financial crisis in 2008 – 2009, we observed a set of specific situations in which consumers skipped the restaurant industry and instead prepared something by themselves. Workday lunches and dinners were hit the hardest back then. Here are details about these situations and whether we expect them to be drivers in the tough times expected to come:

- **Brown-bagging for workday lunches:** Especially for their work lunches, consumers brought their lunch boxes from home to avoid spending larger amounts of money in restaurants or cafeterias. This trend is not expected to be seen again during the coming tough times. In times when working from home has proven to be possible and energy – especially gasoline – prices are up, workers are likely to stay and work from home and therefore skip their work-related meals and snacks completely.
- **Cooking for dinner at home:** The industry lost dinner visits since in more cases, consumers decided to cook themselves at home, especially during the week or for convenience dinners, and less so when it was about socializing with friends or family. This may be another easy way to cut expenses and therefore save money, so it is likely to appear again. This time it may also impact delivery services negatively. Back in 2008 – 2009, they were still a place where people traded down to, but the real savings can be made when people prepare their meals at home themselves — and consumers also have more time to do that now.
- **Business demand suffering:** Companies cut down more strongly on their expenses, such as travel and entertainment costs, and restricted expenditures that way. Private demand was less strongly affected. Given that business expenses are coming from a very low level in 2020 – 2021 due to the lack of business travel and other entertainment of customers or employees, there might not be too much savings but it is expected to be one driver of decline.

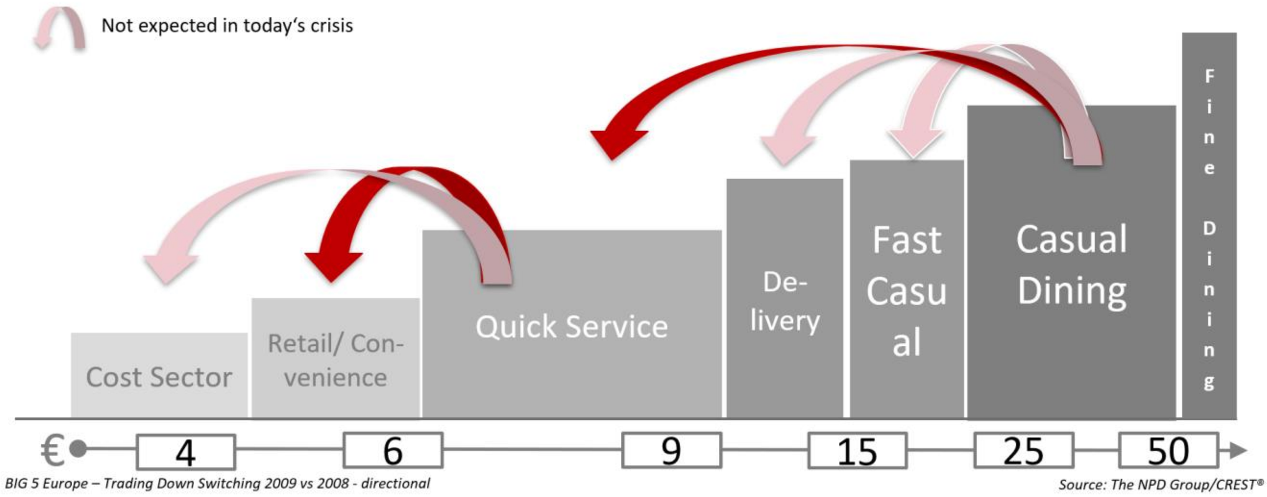
Trading Down Expected

During the financial crisis in 2008 – 2009, consumers not only traded out of the industry, we also saw them trading down. People still visited the industry but adapted their visits to keep their expenses somewhat flat and therefore manage their wallets. They used a series of techniques for that:

- **Skipping add-ons:** Consumers skipped add-on products such as desserts, starters or a second or third beverage. Their incidence declined. Therefore, the average eater check declined due to fewer products being purchased. This is expected to happen again when wallets are managed more intensively. Especially in a market with more take-out transactions and at-home consumption, we may start to see more meal-blending, when parts of a meal are self-prepared and only the difficult parts come from restaurants.
- **Using price promotions:** Consumers sought price promotions, and operators delivered. Deal rates increased by 2 percentage points. However, this did not lead to lower eater checks; instead, it led to upgrades and consumers picking larger products or quantities at similar prices. This will certainly be used when the industry starts to offer discounts again. A smarter way to leverage consumers' price sensitivity might be to focus more on combo meals or other types of bundles, since these give shoppers a highly perceived price-value ratio.
- **Switching to lower-priced channels:** Gradually, we saw shifts from higher-priced channels to their lower-priced neighbors, especially from casual dining into fast casual, delivery, and quick service, and also from quick service into the retail/convenience and workplace channels.

Trading Down Effects in 2009

To manage their wallets, consumers switched into lower price segments.



In today's environment, a trading-down effect is likely happening, but it is expected to occur somewhat differently than we saw in 2008 – 2009. Fast casual and delivery may not benefit as much from consumers trading down from casual dining places as they did in 2009. The potential saving in fast casual is fairly small, and with their premium product ranges, quick service places have become a viable and much cheaper option. Delivery benefitted from the pandemic and is strongly focused on the dinner time for consumption at home. Starting to prepare dinners themselves, consumers are expected trade out rather than down. Therefore, quick service might benefit from a potential trading-down effect from casual dining. But the segment may also lose on the lower end into retail. Workplace cafeterias are not expected to be a source of loss, given the work-from-home options many workers have gained though the pandemic.

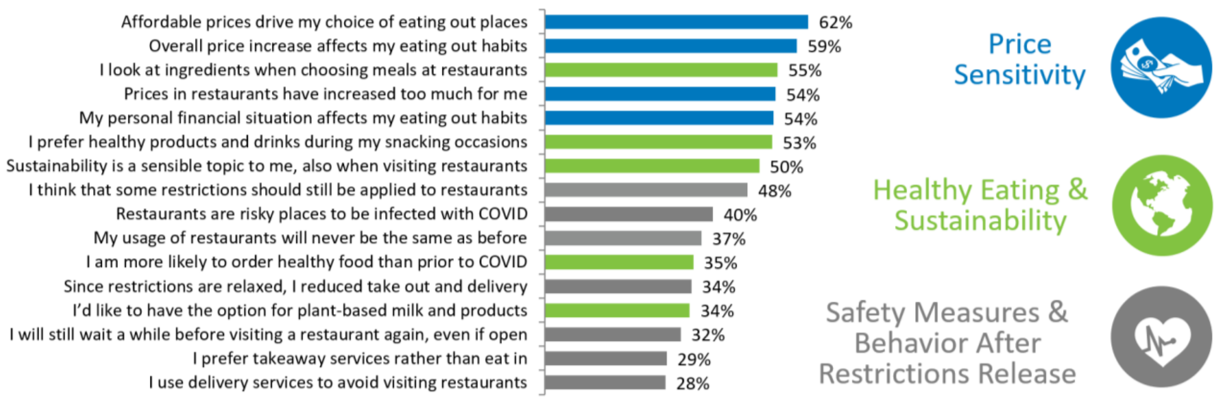
Overall, **value** will become the hot topic again and — as in 2009 — more decisions are likely to be made based on price. Families and lower-income groups, the target groups that were most vulnerable, are expected to change their behavior most strongly.

Current Visit Drivers

Consumers' interest in sustainability existed before the pandemic, and it has strongly accelerated over the past two years. Across all European countries we track, the statement consumers most consistently agree with is that restaurants should increase their focus on sustainability. Seven out of 10 guests agree it is of top importance!

In April 2022, sustainability was surpassed by price as a key driver affecting eating-out habits and restaurant choice. Safety measures also still play an important role when consumers make their foodservice decisions. Around 60% of consumers say affordable prices and price increases affect their eating-out habits and impact their choices of where to go.

Drivers of Restaurant Usage



Think about eating out of home. How much do you agree or disagree with the following statements regarding restaurants, fast food places, pubs/bars, cafés, coffee shops or canteens? % Totally and Somewhat Agree

Source: The NPD Group/Foodservice Uncertainty Impact Survey, BIG 5, April 2022

In our Foodservice Uncertainty Impact Survey in April/May 2022, almost eight out of 10 consumers claimed they noticed price increases in restaurants and a good five out of 10 said they prices had 'increased too much for me,' indicating price increases will impact their eating-out habits. A third of consumers declared their willingness for trading out, meaning they would use the industry less intensively and cook or prepare things themselves. But about every other shopper claimed to use trading-down techniques to manage their bill, fighting against tight budgets and price increases.

Aspects of sustainability and healthy eating choices have slightly lost importance for consumers but still rank very high on consumers' minds. More than half of all consumers across the Big 5 European countries claimed they carefully look at the ingredients of what they eat and seek for healthy options — about a third more than prior to the pandemic. And restaurants must act sustainable when they want to attract visits.

At the same time, concerns about safety related to COVID-19 still play a role in the minds of shoppers: Four out of 10 still consider restaurants risky places to be infected, 8 percentage points more than in the fall of 2021. A third said they will wait before visiting restaurants as they used to do in 2019. As a result, a fair portion leverages take-out or delivery options instead of eating on the premises. Therefore, the opinion of a significant amount of the population is that some restrictions should still be applied to eating-out establishments.

Looking at the U.S.

Older Gen Zs Are Entering Peak Restaurant Usage Stage, But Their Use is Significantly Less Than Previous Generations at Their Age

The oldest among Generation Zs are 18 to 24 years old, an age group that, historically, is entering the heaviest restaurant usage stage. Still, history may not repeat itself with this generation. Twenty years ago, when Gen Xers were young adults, they averaged 284 visits per person a year. Millennials, as young adults, were impacted by the Great Recession, causing a cutback in 40 restaurant visits per person a year versus their older Gen X counterparts. Gen Z young adults, whose outside recreation, like restaurant visits, was thwarted by the COVID-19 pandemic, made 218 annual restaurant visits per person the 12 months through February 2022, 66 visits less than Gen Xers in 2002, shown by our recently released report, Winning Gen Z Consumers.

The pandemic isn't the only factor keeping Gen Zs from restaurants; they have more interests vying for their dollars than previous generations. Apparel, footwear, beauty, and technology are among the categories on which young adult Gen Zs spend their money. The report points out that many apparel brands have successfully tapped into Gen Z values, like diversity and empowerment, and, as a result, have gained a larger share of their spending.

Increased spending on categories like apparel and overall inflationary pressures have heightened Gen Z's price sensitivity. Half of the Gen Zs surveyed for the report said higher menu prices had impacted their restaurant visits. Price is the most important attribute among consumers 18 to 24 years old when choosing a restaurant. Student loan debt because of the forbearance of government-backed student loans hasn't factored into Gen Z spending but will once the forbearance lifts.

"Restaurant operators and their manufacturer partners must quickly adapt to how Gen Z consumers think and feel," says David Portalatin, NPD food industry advisor and author of Eating Patterns in America. "An understanding of which menu items to emphasize, the food attributes they seek, menu innovations that appeal to them, and their preferred advertising platforms will help you win the favor of this valuable generation."

Spring Break and Pent-Up Demand Help to Advance Recovery of Lodging and Recreation Foodservice

Spring Break 2022 was a stark contrast to two years ago at the height of the pandemic. Travel sources reported spring bookings up 134% from 2021, and the World Travel & Tourism Council projects, travel and tourism will reach pre-pandemic levels in 2022. As a result of more travel and tourism and the release of pent-up demand, case units shipped from broadline foodservice distributors to lodging and recreation foodservice outlets increased by 47% and 46%, respectively, in April compared to a year ago. Despite the growth, lodging foodservice case shipments in April were down 13%, and recreation shipments were 6% below the pre-pandemic level in April 2019.

Large metro areas, like New York City, Chicago, and Los Angeles, recovered some of the lodging foodservice case shipments lost during the pandemic in April. Case units shipped from broadline foodservice distributors to lodging foodservice outlets in the New York City metro area increased by 127% in April compared to a year ago, although still 27% below the pre-pandemic level in April 2019. The Chicago metro area realized a 127% lift in lodging case unit shipments, 30% below the pre-pandemic level. Los Angeles lodging foodservice case shipments increased by 124%, 9% below shipments in April 2019. Among the metro areas that have fully recovered and are now above pre-pandemic levels are Austin, Texas; Charleston, S.C.; El Paso, Texas; Las Vegas; Nev.; Nashville, Tenn.; and Savannah, Ga., based on our SupplyTrack®, which continually tracks shipments and dollars from broadline foodservice distributors to commercial and non-commercial foodservice outlets.

The recreation foodservice venues that fully recovered in April from pandemic losses are amusement parks, stadiums/ballparks, bowling alleys, and fairs. Broadline foodservice case shipments to stadiums and ballparks increased by 106% in April compared to a year ago and were 18% above where they were in April 2019. Amusement parks increased foodservice case shipments by 35% in the month compared to last year, which was up 23% compared to April 2019. Foodservice case shipments to bowling alleys grew by 30% in April compared to a year ago and up 11% from the pre-pandemic level three years ago. Fairs realized an 83% jump in foodservice case shipments this April over last year, up 9% from April 2019.

"With more consumers vaccinated and comfort levels higher, Spring Break 2022 made progress in recovering from the last two years," says Tim Fires, president of NPD's SupplyTrack®. "If the momentum continues throughout the summer as AAA and other travel-related groups predict, foodservice distributors and manufacturers can expect a higher recovery rate for lodging and recreation this year."

Where This Information Comes From

Our CREST® consumer panel tracks foodservice markets across 12 geographies worldwide every day. Our representative samples allow us to understand size, structure, and trends in the market and its channels and chains. CREST reveals 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 data about food and beverage purchases from thousands of scanned 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 jochen.pinsker@npdgroup.com.

What is New on Our End?

We have added new analysis tools for our clients and partners, including a scenario-planning tool to explore anticipated performance of the market and its segments and product groups during the months ahead. It aims to identify what will be important in the next phases of business recovery and how the market may look when we reach the new normal. Some of the driving factors that impact the scenarios are featured within this report.

To feed our understanding of when and how consumers will return to the market in the weeks and months to come, we have also run consumer sentiment studies in the European markets we cover.

How to Manage the Months Ahead

We want to help you understand what you need to know and prepare for what is to come, acknowledging that many aspects are still uncertain. We would be pleased to talk you through our expectations, what it all means for you, and how you can leverage our insight to come out of the pandemic in a strong position. Let us know if you would like to schedule a conversation.

Stay safe!