FOODSERVICE Updated 2025

# Digitalized, Democratized & Disrupted

Research & White Paper by

The Hale Group

September 2020

## INTRODUCTION

The purpose of The Hale Group's white papers is to offer a strategic planning narrative and framework i.e., the situation analysis for the practitioners operating businesses in the foodservice ecosystem. A starting point for foodservice manufacturers to formulate their success model in the envisioned future operating environment.

In 2017, The Hale Group published *Foodservice 2025: Digitalized, Democratized, Disrupted* presenting their point of view on the future foodservice industry operating environment, examining how these shaping forces would transform the business practices in the foodservice industry. **IT WAS A CALL FOR PREPAREDNESS.**

*Foodservice 2025* was a follow-on to a previous white paper entitled: *Foodservice 2020: Global, Consolidated, Structured* that successfully identified future trends a decade out and their impact on organizational competencies, strategies, and structures. **IT WAS A CALL TO ANTICIPATE AND RESPOND.**

The original *Foodservice 2020** and original *Foodservice 2025** are still on target and relevant; however, the COVID-19 pandemic continues to send shockwaves around the globe and presents an existential event for the foodservice industry. Given this never-been-seen before situation, The Hale Group has updated *Foodservice 2025* through this lens.

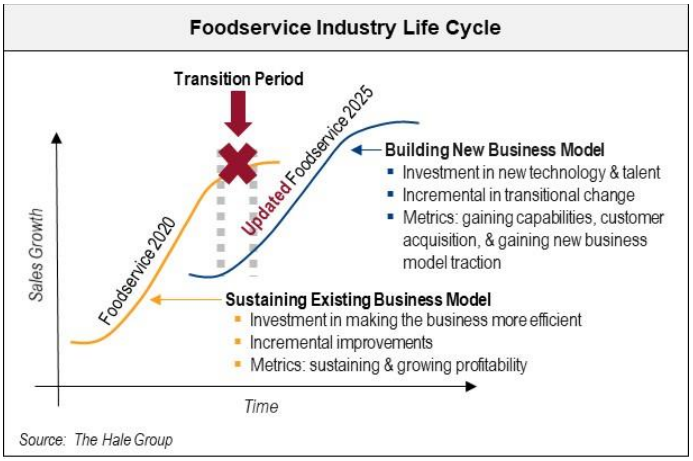
The **Updated *Foodservice 2025*** white paper presented here adds significantly to this future-looking body of work by offering a more granular view of the requirements for success. **IT IS A CALL TO SAY 2025 IS HERE NOW. IT IS A TIME TO REIMAGINE, RESET AND REENGAGE**.

*These foundational white papers are available on www.halegroup.com under "Thought Leadership."

## A CALL TO ACTION: TRANSITION NOW TO A REIMAGINED WAY OF DOING BUSINESS

At the conclusion of the original *Foodservice 2025*, the message was a call to action to prepare for 2025. Migrate from the existing demand creation model, to a more balanced technology-enabled model. The message was *preparedness and migrate.*

That is not the message of the **Updated *Foodservice 2025***, because 2025 is here today. The COVID-19 pandemic has caused the industry to leapfrog from the 1990s demand-creation model to a radically different approach to business development and sustainability of the business. The message is transition now to a reimagined way of doing business.




COVID-19 has acted as an accelerant. The Original *Foodservice 2025* The Hale Group envisioned is here today. ***It is the time to reimagine, reset and reengage with new focus, tools, capabilities, and practices.***

## PREAMBLE

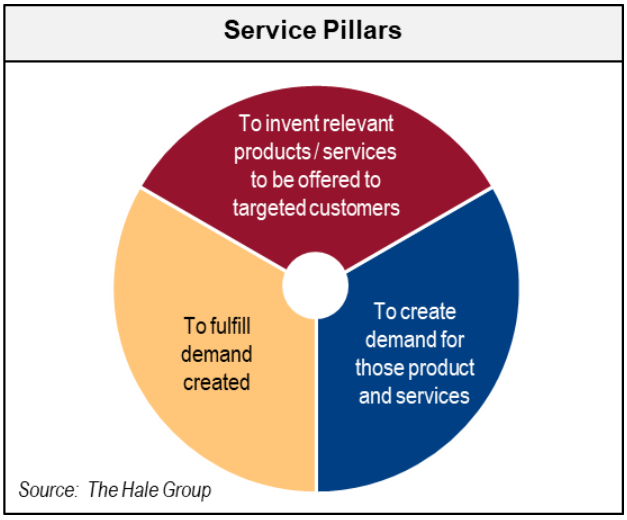
**Updated *Foodservice 2025*** briefly recaps the original 2025 findings but the focus of this white paper is to build on the original body of work and consider:

1. What behavioral changes will the consumers express having lived through the pandemic?
2. What impact will the economic crisis created by COVID-19 have on the structure, nature, and operating practices of the industry?
3. Given the original 2025 was developed in 2017, what other factors should be considered in updating and redefining a future strategy?

There is little question the COVID-19 pandemic will have a lasting impact on the U.S. foodservice industry. Most notably, COVID-19 has acted as an accelerant, and the *Foodservice 2025* The Hale Group envisioned is here today.

## SCOPE & BRIEF OUTLINE OF THE UPDATED *FOODSERVICE 2025* JOURNEY

Virtually all organizations providing a set of services or products to a marketplace have three major undertakings to serve their customers / users / clients:




This white paper (and the previous *2025* and *2020* white papers) focuses on the demand creation aspects of an organization. While clearly other elements such as supply-chain are impacted as well, that is a topic for a future white paper. Also, it should be noted the primary audiences of this white paper are the manufacturers providing products and services to the foodservice operator.

This white paper will take you on a journey. It starts with the conclusions of **Updated *Foodservice 2025*** at a high level and then travels through each of the shaping forces – *Digitalized, Democratized and Disrupted* – taking a deeper dive into the research and data behind The Hale Group's conclusions. At the end of this journey, there are recommended next steps on how to make a successful transition and priority areas to consider for transitioning now.

**UPDATED *Foodservice 2025:***
**Still digitalized, democratized, and disrupted . . .**
**BUT so much more.**

## CONCLUSIONS OF UPDATED *FOODSERVICE 2025*

While the conclusions of the original *Foodservice 2025* published in 2017 are still on target, based on our research and analysis over the last three months The Hale Group has concluded that 2025 is:

- **Still digitalized,** but the impact of digitalization anticipated to take place in the industry will be sooner than previously expected; and, the impact on the industry practices will be far deeper and broader than first thought.
- **Still democratized,** but consumers "wants" are more clearly expressed, less tolerant of poor execution, and more home based. Several trends that were evident before the pandemic have been accelerated and their expected impact will be more pronounced as consumers shift how they use foodservice providers.
- **Still disrupted,** but the anticipated change will, again, be accelerated. The industry structural change will be more rapid and more apparent; and there will be greater stimulus of alternative practices and business models to support the foodservice operator community sourcing products and services.

It is worthwhile noting the conclusions presented in *Foodservice 2020*, the early work of The Hale Group, are still operative as well and should be part of any strategy development efforts by manufacturers. The 2020 conclusions were and are:

- There has been **significant consolidation of operator purchases** through chains and aggregators, i.e., GPOs, COOPS
- The business relationships between seller and buyer are increasingly **governed by structured agreements, i.e. contracts and structured programs**
- Successful commercialization practiced by manufacturers will be the result of a **more analytical, targeted, structured, and measured approach**

Essentially, *Foodservice 2020* concluded: With the rise of purchasing aggregator organizations (chains, GPOs, COOPs, governmental entities), there would be greater consolidation of operator demand, resulting in manufacturers realizing they serve fewer buying entities, controlling more purchasing volume per entity, offering lower margins and contractually committed to that business for longer periods of time. This produced a significant shift in power and purchasing leverage practiced by the operator communities. These conditions stand and will be a part of the industry fabric of the future.

## DIGITALIZED

TECHNOLOGY AND INTERNET CONNECTEDNESS WILL PLAY A CENTRAL ROLE IN THE FOODSERVICE BUSINESS… SPECIFICALLY THE BUSINESS DEVELOPMENT AND COMMERCIALIZATION PRACTICES ASSOCIATED WITH DEMAND CREATION AND CUSTOMER RETENTION WILL RELY HEAVILY ON TECHNOLOGY-ENABLED APPLICATIONS AND PRACTICES

### Brief Review of the Original *Foodservice 2025* Findings

The original *Foodservice 2025* recognized technology would play a leading role in how business was conducted between trading partners. *Foodservice 2025* found:

1. As **consumers relied on their mobile devices and its empowering capabilities** to interact and transact with its foodservice operators it would leave a data trail.
2. **Capture and use of consumer data:** provide deeper and more actionable insights for operators and their vendor community to act on; and
3. **This data will be analyzed to enable operators and their business partners to build more effective responses:** a more analytical, targeted, structured, and measured approach to business

Further, the findings forecasted data analytics as the new value-added service offered by manufacturers for their strategic and key customers.

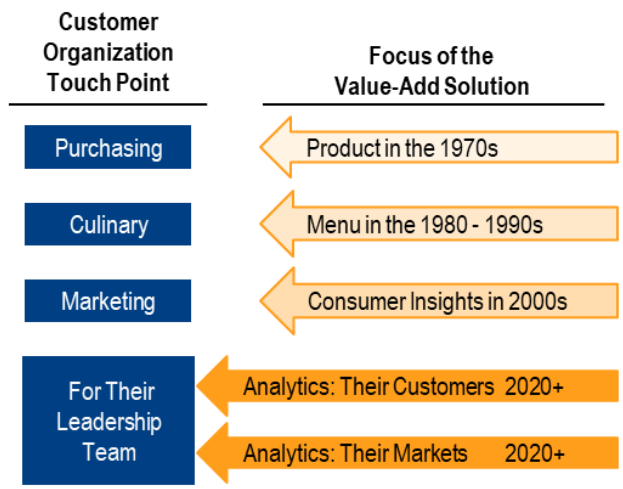
**Change Agents**

- **Analytics**: the new value-add . . . it starts with data
  - Data sources are abundant…operator, consumer, distributor
  - Data turned to insight and intelligence
  - Insights & intelligence to be far more directed in opportunity selection & developing structured, actionable approaches to demand creation
- **New Analytics**: attack all aspects of the business
  - Consumer-based ➡ understand behavior, usage, decision-making
  - Customer-based ➡ understanding their usage, and opportunities
  - Category-based ➡ understanding competition, share gain opportunities
  - Market-level ➡ understanding dynamics, geographic opportunities

*Source: The Hale Group*

The new value-added approach will gain traction as both trading partners recognize the mutual value of a more analytical, directed, and structured approach to the business and business decision making. These value-added services have been beneficial in the past and analytics will be no different. Consider the evolution over the years:

**History of Vendor Provided Value-Added Services**




*Source: The Hale Group*

So, the findings and predictions of the original *Foodservice 2025* are still valid and operative. However, given the COVID-19 pandemic, we can expect a significant increase in the value and impact of digitalization on the industry's operations and practices.

### The Updated *Foodservice 2025* Digitalization Findings and Forecast

As mentioned earlier, there is no question digitalization will overtake the foodservice industry and do so sooner and far more broadly than first expected. Digitalization and technology will be critical to all demand creation associated activities…

1. **Original 2025 too narrowly expressed impact and timing of digitalization,** focused on enabling analytical approach to the business, still valid, but…
2. **Digitalization will affect all aspects of the demand creation models,** sales, marketing, customer service, relationship development (as well as supply-chain*)
3. **Successful deployment of digitalized models** will be a balanced approach of technology / digital and human touch

**Surely technology and digitalization will have a profound effect on supply-chain effectiveness and efficiencies, but that will be the subject of a future white paper.*

This white paper considers some of the ways technology/digitalization will affect the operating practices associated with commercialization efforts and processes and points to other sources of information for further exploration on those not covered here.

Examples of tools and apps successful foodservice manufacturers will aggressively deploy in their digitally-enhanced approach to business development include but are not limited to:

- Increased reliance on "digital sales calls" balanced with human touch
- Improved account management and program implementation
- Marketing automation tools for lead generation, and qualification
- Content development and dissemination for customer engagement and business building
- Connectedness & data capture enable insights & actions
- eCommerce platform performance
- Analytics to identify opportunities and challenges
- Improved customer service and responsiveness

We will explore a few of these digital and technology enabled approaches to get a flavor of what is to come.

The information used to create this map describing this balance is based on recent research McKinsey & Co.* completed and published. It is not choosing between **technology or human touch;** but rather, it is applying **technology and human touch** in a properly balanced way.

The buyer is increasingly doing the exploration and discovery phase of the process on their own using available digital content and resources. Other research confirmed this shift of most B2B buyers, over 80%, have already done their homework and know what they want to purchase before ever reaching out to talk to a rep from the manufacturer or distributor. After deciding or narrowing down what they want, then the buyer will contact an expert for input to confirm or alter their going-in bias.

The "Demand Creation" phase of the journey is focused on working with strategic / key customers to build strategies and programs to drive greater demand and consumption of the now menued products.

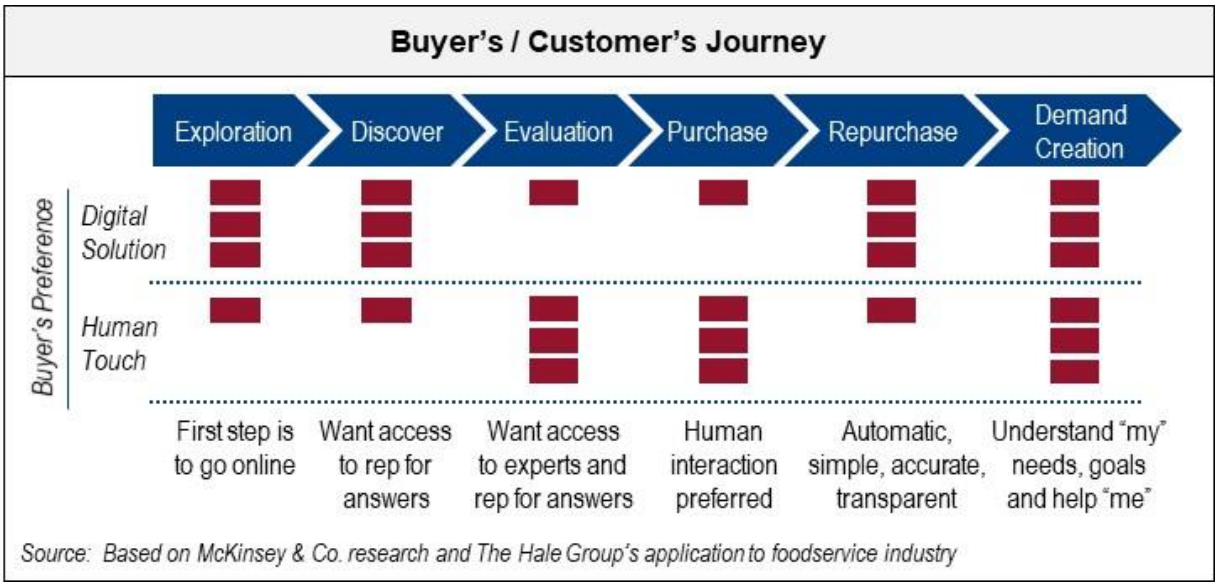
Within this context of the B2B buyer's journey, we will explore a few examples of digitalized / technology-enabled tools and applications.

* McKinsey & Co. Articles (available online)
The Secret to Making It in the Digital Sales World: The Human Touch
What the Future Science of B2B Sales Growth Looks Like

**The B2B Buyer's Journey**

Before looking at some digital and technology-enabled commercialization tools and approaches, it's helpful to map the journey of B2B buyers as they go about finding relevant products / services / solutions.

This map highlights the role of digital, virtual and technology in the B2B buyer's journey as well as the continued importance of the human touch.



## Digital / Virtual Sales Calls

Digital sales calls have replaced in-person sales calls as the pandemic continues and restricts face-to-face sales calls and presentations; and, it seems to be working for the most part. The pandemic accelerated what was anticipated to happen gradually over a longer period. Use of video conferencing, supported by Skype, Zoom, Microsoft Teams, etc., has filled the gap. Buyers and sellers have accepted this form of "selling" which has been required and reinforced by the COVID-19 crisis.

1. **Less Face–to-Face:** Technology-reliant meeting and communication
2. **Customers more accepting:** McKinsey & Co. research found B2B buyer prefer online calls and presentations for most, but not all, needs
3. **Efficient and effective:** For most interactions, technology-enabled meetings / interactions are as effective in getting business conducted and concluded, though not as effective for strategy formulation sessions

Digital sales calls require thoughtful and pre-planned attention to be successful. For example, Quality Digital Sales Calls…

1. **Have a clear, customer-relevant objective**
2. **Are preplanned and organized**
3. **Make materials / samples available before the call**
4. **Capture outcomes, follow-up, requests, and next steps in CRM system**

In some cases, the calls are scripted and can be used with multiple customers who have the same or similar characteristics in terms of segments and/or menu-type for example. In a recent conversation with the head of a sales for a large manufacturer, he mentioned that millennial buyers in particular prefer a virtual sales call over a face-to-face sales call for most business needs and this is also borne out by the McKinsey & Co. research.

## Ongoing Customer Engagement

While sales calls are important and a key event, the question then arises: How do sellers cultivate ongoing, meaningful engagement with customers to stay in touch and constantly build/strengthen the relationship. The answer is meaningful content pushed out to the customers on an ongoing basis through direct to customer communications, social media, and other platforms.

**Content is KING!**
**This is central to the engagement process.**

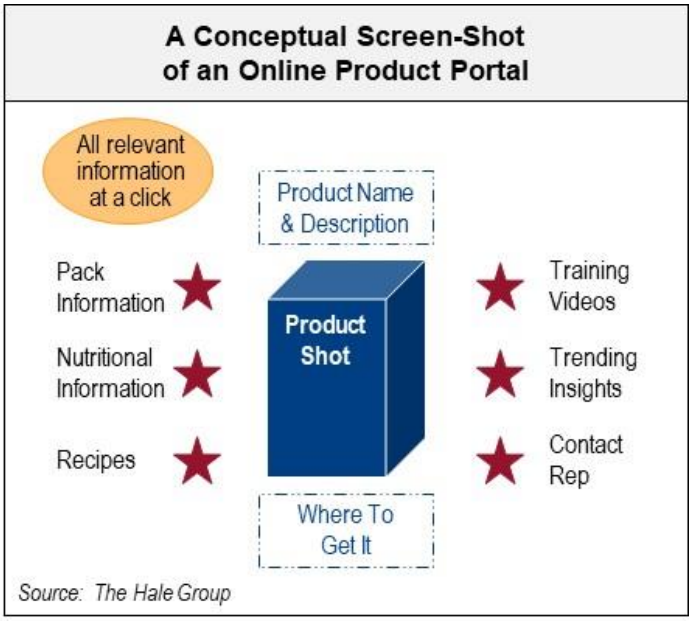
Customer engagement is built around demonstrating to the customer you have mutual interests. You understand the customer is looking for insights to remain relevant to the consumer and how to improve their business situation. For the content to be meaningful and effective, it must be:

1. **relevant to their business**…thus segmented content, occasion and/or menu
2. **help customers improve their business situation**… financial situation, customer satisfaction, and / or level of safety
3. **easy to access, absorb and put into action…**clear, mobile-compatible, not dense, easy to grasp, point to other relevant info

Content is best when it is customer-centric and mutually beneficial. Nonetheless, generating impactful content requires a significant investment of time and resources to continuously create, manage, and update this relevant digital content for customers. Content will play a key role in the future state commercialization and business development model.

## Freestanding Sales / Marketing Digital Tools

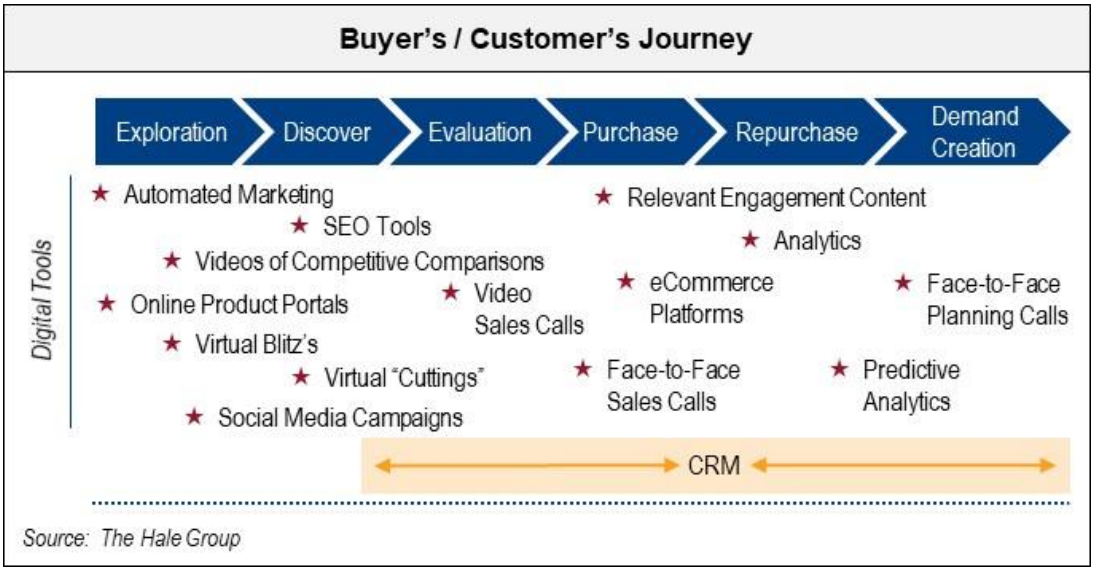
Another digital tool is an online product portal that lives on manufacturers websites, or on distributors' platforms and eCommerce platforms – any of the platforms attracting operator's eyes. These product portals are accessible to customers and potential customers to complete the exploration and discovery phases of their "buyer journey". It is a self-contained buyer's aid and helps operators to access a wide range of information. These portals are not unlike the Amazon "enhanced" formats offered to manufacturers / sellers on their Business Platform, or on Cheetah Technologies ordering platform (an innovative foodservice distributor).




This graphic is a conceptual view of a design for an online product portal. They can be constructed to be segment specific as well. There can also be an icon that links potential buyers to existing user reviews of the product. Essentially, the manufacturer can provide a 360 degree look at product portfolios with one or two clicks.

## Digital / Technology-Enabled Tools and Solutions Across the Buyer's Journey

There is no lack of tools and technology-enabled solutions to aid the manufacturer in making the transition from face-to-face and human touch activities in support of commercial processes and business development, so that digitalization and technology can enhance and support the business building efforts. Surely, other industries and companies have adopted the digital approach to business building. Some of the tools and solutions available today include, but are not limited to:




Top of mind for the foodservice business leadership will be where to start and how to prepare the organization to accept and adapt to new ways of conducting the business-building tasks. Change management and managing the "transition process" will separate those who are successful in this endeavor and those who struggle to compete.

## Summing Up Digitalized

The use of technology and digitalized solutions in support of the manufacturer business development strategies is here, not in 2025. The COVID-19 pandemic has fast forwarded what would have taken several years to gain traction. It is highly unlikely we are going back to legacy business development processes that do not incorporate technology-enabled practices and processes.

Successful manufacturers will not look back to what was, but rather, look forward to new, improved practices that fit the new norm.

- Digitalization is here, not waiting for 2025
- Foodservice manufacturers should recognize and not migrate *but move* to a balanced technology, human touch model
- A recommendation: **accelerate transition to a digital new model**

## DEMOCRATIZED

INFORMATION AVAILABILITY, TRANSPARENCY AND REDUCED ROLE OF GATEKEEPERS WILL GIVE POWER TO "BOTTOM-UP" VERSUS "TOP-DOWN"

### Brief Review of the Original *Foodservice 2025* Findings

The original 2025 said…"it starts with the consumer". This was referring to the notion the consumer has voice, which is quickly amplified through mobile devices, technology and social platforms providing connectivity.

The original 2025 picked up on this embedded power of the consumer's connectivity:

1. Consumer power has been unleashed with technology, connectedness, social media platforms

2. Consumer's relationship and interaction with foodservice operators is digital.

3. Consumer's heightened expectations of their foodservice providers, coupled with their amplified voice, will determine the winners and losers.

4. Consumers expect restaurant quality foods "anything, anytime, and anyplace".

The findings presented in the original 2025 still stand and are operative. However, it should be noted the original 2025 did not speak to the industry outlook in terms of consumer's spend on foodservice-sourced meals and snacks. The unstated assumption, in the original 2025, was the foodservice industry sales at the consumer level were not expected to grow to any extent, but rather remain flat to slightly up…no significant contraction in size of the industry was anticipated. The operative assumption then was it would be a "zero-sum-game".

### The Updated *Foodservice 2025* Democratized Findings and Projections

Clearly the world has changed in terms of consumer food spending patterns since 2017 and even since 2019. The COVID-19 pandemic has shifted consumer's spending to favor grocery stores and at-home eating. While it is not certain the degree to which this major shift in spending their food dollars at grocery stores and at home eating will be the future-state case, for the foreseeable future it is expected the foodservice industry will be smaller than it was in 2019 and occasions will be more home-based.

- Further adoption of technology by consumers and operators enables greater online interaction and now can conduct business "touch-free", "no-contact" through the entire transaction from order to pay to pick-up or delivered

- Rapid growth of drive-thru, take-out, pick-up and delivery is profound and long-lasting

- Consumers always expected safe food, now it must be clearly expressed in tangible ways so consumers can be assured it of its safety

Again, while the future is uncertain, The Hale Group's view of the future for the foodservice operator industry is based on the following assumptions:

- **Consumer behavior changed during the COVID-19 pandemic;** on-premise occasions viewed as a higher risk situation than off-premise options

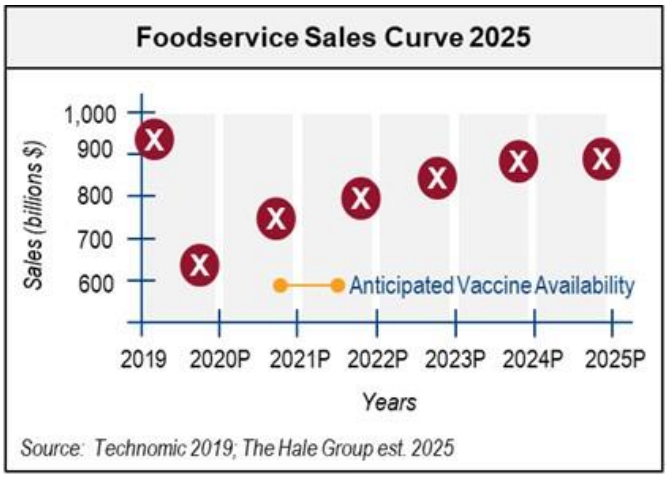
- **A challenging consumer economic situation** offers a drag on eating-out in the close-in recovery years

- **Consumer traffic at sit-down restaurants was not growing before the pandemic,** the propensity to increase these dine-in occasions in the future is not evident

- **Off-premise occasions will benefit** from the current and near-in-future consumer preference for the safety and convenience of at-home eating

- **There will be reduced full-service restaurant dine-in** capacity as weaker chains dissolve or rationalize their system; and a significant number of independents cannot sustain their operations during this "shut-down" period

Given these assumptions, the consumer will return to 2019 foodservice usage levels but will do so slowly over a four to five-year period. In The Hale Group's view, it will not be a "snap-back" or "V-shaped" recovery as some have predicted, but rather a grow-back by gaining consumer trust, confidence and overcoming the recognition at-home eating is far more pocket-book friendly. Economics will be a factor for the close-in years. So, The Hale Group's projected narrative is expressed in the chart below.




Not all segments will be impacted in the same way or to the same degree as the pressures and circumstances vary by segment. The following two charts portray how The Hale Group foresees the impact on the various segments. Please note, as the COVID-19 pandemic continues and new factors come into play, manufacturers can go to Datassential's website and access their THE FOODSERVICE COVID IMPACT MODEL It's an easy to use model to forecast an individual company's anticipated sales impact by segment and roll it up to an annual impact. As conditions evolve, manufacturers can see the likely impact based on new scenarios. Currently, The Hale Group's most probable outlook for commercial foodservice operators is shown below.

**2025 Forecast of Commercial Foodservice Sector Sales (billions $)**

| Operator Type | Sales 2019 $ | Sales 2019 % | Projected Sales 2025 | % Change 2019/2025 | Rationale |
|---|---|---|---|---|---|
| **Total** | **$629** | **100%** | **$592** | **-6%** | **Change in behavior** |
| **LSR** | **303** | **48** | **326** | **+8** | **Off-premise growth** |
| Fast Cas. | 60 | 10 | 69 | +15 | Off-premise growth |
| Fast Food | 243 | 38 | 257 | +6 | Off-premise growth |
| **FSR** | **278** | **45** | **226** | **-19** | **Cost & satisfaction** |
| Mid | 48 | 7 | 32 | -30 | Closures & trends |
| Casual | 199 | 33 | 170 | -14 | Closures & trends |
| Fine | 29 | 5 | 24 | -17 | Closures & costs |
| Bars | 48 | 7 | 40 | -16 | Closures & trends |

*Source: Technomic 2019; The Hale Group est. 2025*

Those commercial operators with the off-premise options will fare better than those with an emphasis on dine-in occasions, both near term and longer-term. Further, the decline of on-premise occasions will suffer, but this is not "new-news". Full-service restaurants were in a slow decline before the pandemic; the pandemic simply accelerated a trend started a decade earlier. Having said that, as pointed out in the original 2025, the micro-chains, multi-unit full service restaurants that provide quality, interesting and engaging offerings with a sense of local heritage, i.e., "my neighborhood restaurant" will still gain share going forward. It is about quality of the food and the personalization of the experience that makes the difference.

As for the non-commercial foodservice segments, they too will take a long-term hit on sales and occasions. However, different segments will be impacted at different levels.

**2025 Forecast of Non-Commercial Foodservice Sector Sales (billions $)**

| Operator Type | Sales 2019 $ | Sales 2019 % | Projected Sales 2025 | % Change 2019/2025 | Rationale |
|---|---|---|---|---|---|
| **Total** | **$309** | **100%** | **$279** | **-10%** | **Change in behavior** |
| Retailers | 72 | 23 | 80 | 16 | Off-premise growth |
| Travel/Leisure | 105 | 34 | 80 | -23 | Reduced travel |
| B&I | 17 | 6 | 13 | -24 | Work at home |
| Education | 42 | 14 | 38 | -10 | College losses |
| Healthcare | 32 | 10 | 32 | 0 | Little change |
| Vending | 25 | 8 | 20 | -20 | Fewer on-site workers |
| Other | 16 | 5 | 16 | 0 | Little change |

*Source: Technomic 2019; The Hale Group est. 2025*

The total foodservice operator industry will contract due to changes in behavior and economics…

**2025 Forecast of Foodservice Industry Sales (billions $)**

| Operator Type | Sales 2019 $ | Sales 2019 % | Projected Sales 2025 | | % Change 2025/2019 |
|---|---|---|---|---|---|
| **Total** | **$938** | **100%** | **$871** | **100%** | **-8%** |
| Restaurants | 629 | 67 | 592 | 68 | -6 |
| Non-Commercial | 309 | 33 | 279 | 32 | -10 |

*Source: Technomic 2019; The Hale Group est. 2025*

While there will be a "grow-back" period over the next few years, it is anticipated foodservice industry sales will not grow back to 2019 levels in the timeframe covered by this white paper. Nonetheless, as COVID-19 is contained and vaccines allow greater freedom to move about and engage in economic activity, there will be winners and losers.

- **Operator winners surviving 2020 pandemic:** well capitalized, high performers and with loyal customer following

- **Manufacturers will find heightened competitiveness to retain and gain share**

- **Manufacturer winners:** well capitalized, strong value proposition and delivers on the promise…trusted

Among the winning concepts, QSR and Fast Casual benefit from convenience, value, and the ability to provide meals for home / family. Already in 2020, major fast casual operators are committing to build their new and replacement units with drive-thrus as part of their concepts that previously did not have a drive-thru as a major element. So, the share of occasions that are off-premise occasions in the QSR and Fast Casual segments are certain.

**QSR Restaurant Off-Premise Occasions Projected to 2025**

| | 2015 | 2019 | 2025(P) |
|---|---|---|---|
| Total QSR Occasions (billions) | 46 | 47 | **51** |
| % Off-Premise Occasions | 71% | 71% | **75%** |
| % Carry-out | 36 | 35 | **35** |
| % Delivery | 3 | 3 | **6** |
| % Drive-thru | 31 | 32 | **34** |

QSR* *occasions* will grow, as consumers embrace convenience and search for value; and, off-premise will be the growth driver in this segment of the business.

*Source: NPD 2015-2020; The Hale Group est. 2025*
**QSR includes Fast Casual*

The full-service restaurants will also witness a shift in their dine-in versus off-premise traffic. Again, the consumer desire for "restaurant quality foods / meals" for at-home consumption will favor the to-go demand.

**FSR Restaurant Occasions Projected to 2025**

| | 2015 | 2019 | 2025(P) |
|---|---|---|---|
| Total FSR Occasions (billions) | 14 | 13 | **11** |
| % Off-Premise Occasions | 18% | 20% | **30%** |
| % Carry-out | 15 | 17 | **24** |
| % Delivery | 1 | 2 | **5** |
| % Drive-thru | 1 | 1 | **1** |

Overall occasions have and will decline, but the consumer will still access "restaurant quality" meals for home consumption... ghost kitchen will be one source.

*Source: NPD 2015-2020; The Hale Group est. 2025*

Manufacturers must recognize the changing marketplace landscape and modify or reimagine their focus, strategies, tactics, and practices.

- **The operator marketplace will contract** in terms of number of units and sales as will their purchases of goods and services. Focus will also change in response to consumer demands for to-go offerings.

- **Manufacturers should revisit opportunity selection,** i.e. where they focus their resources. The decision regarding where to marshal resources should be strategic and an organizational decision vs. individual decision process.

- **An intentional segment-by-segment and occasions-based approach to business development and business retention** calls for a reimagined, reset, and reengaged strategy.

  The marketplace is democratized meaning the consumer has, and will have, an outsized, direct and immediate impact of determining trends and the winners that have a sustainable presence in the market.

# DISRUPTED

TECHNOLOGY, ECONOMIC PRESSURES, NEW BUSINESS MODELS, NEW ENTRIES WILL RESULT IN MARKET STRUCTURAL CHANGES AND DISRUPTION TO TRADITIONAL ROLES, RELATIONSHIPS & BUSINESS PRACTICES

## Brief Review of the Original *Foodservice 2025* Findings

The disruption of the foodservice industry will be driven by technology, economic pressures, new business models, and new entries. The result will be market and industry structural changes and disruption of traditional roles, relationships, and business practices. Industries other than foodservice are experiencing disruption and foodservice will not be the exception.

In the original *Foodservice 2025*, the disruption identified was centered on two industry areas:

1. **Original 2025 foresaw the omni-channel revolution**, further penetration of foodservice occasions by retailers and other non-traditional players, and that is still an important trend shaping the future of the industry; and,

2. **Disruption of the foodservice distributor community was identified;** however, the scope of change has defined the issue to "foodservice distribution", rather than just "foodservice distributor"; and, that is still an area of significant disruption not in 2025, but today. Clearly, COVID-19 pandemic has accelerated and broadened the disruptive forces.

In terms of the disruption of the foodservice distributors, the original 2025 identified several vectors causing disruption…

- ❑ Consolidation of the operator demand… fewer, bigger operators or surrogate buyers, i.e. GPOs, chains and multi-unit and these surrogate buyers negotiate directly with manufacturers on product pricing absence the presence of distributors in these negotiations.

- ❑ Changing needs of the distributor's customers from wholesaler to logistics role; since product and price were determined in negotiation separate from the distributor, the distributors were then negotiating with the these surrogate buyers on the fee to handle the logistical aspects of moving cases the last mile to the foodservice facility.

- ❑ Economic pressures created by shrinking trade income; new pricing model, i.e., fee-per-case versus a wholesale type mark-up; lower cost e-commerce models compete.

- ❑ Manufacturers shifting focus from the distributor to operators since the operator is the final arbiter of product selection and actual rate of consumption / amount purchased; thus, operator-focused programs and resourcing against operator-purchasing surrogates has taken greater prescient over distributor-focused resourcing.

These conditions still hold true, but market contraction and new competitors will accelerate distributor contraction and consolidation**.**

## The Updated *Foodservice 2025* Disruption Findings and Forecast

The findings of the original *Foodservice 2025* still hold true, but the disruption will be accelerated and far broader than originally thought. COVID-19 has exposed the industry to tremendous economic pressures. Again, the original 2025, did not anticipate the extreme contraction of the industry sales that it is witnessing.

### Omni-Channel as a Disruptive Force

The Original *Foodservice 2025* identified the phenomenon of omni-channel as a disruptive force to the legacy foodservice operator structure and size. Essentially, legacy foodservice operators would be challenged by others positioned to satisfy the consumer's desire for "restaurant quality" foods prepared for immediate consumption i.e., foods prepared away from home. Foodservice options were available in multiple, if not all, major food channels i.e., grocery, C-stores, club stores, as well as legacy foodservice. Given an updated review of the omni-channel phenomena, the conditions favor further and rapid expansion of "prepared food away from home" sourced from non-legacy foodservice providers The greater desire for home-based occasions but prepared away from home foods allows grocery and C-stores to further their capture of these occasions. Added to the grocery and C-store expanded participation are ghost kitchens. Ghost kitchens provide foods prepared away from home for delivery from a non-store front unit.

These non-legacy foodservice solutions will take share from the foodservice legacy players.

### "Last Mile" Foodservice Distribution Disrupted

The topline overview of the foodservice distribution space will witness the following conditions:

1. ***The broadline distributor sector will undergo faster, significant consolidation***

2. ***Systems-type distributor will gain favor with major chains***
3. ***Cash & carry type outlets will morph their concepts as operator landscape changes***
4. ***New distribution models will enter and take share***
5. ***eCommerce will continue to evolve into a mainstream route to market***
6. ***Direct-to-customer will be in the mix***

The overall structure of foodservice distribution sector is presented below.

**Foodservice Distribution Sales Projected to 2025**

| Distributors | Estimated Sales 2019 (billions) | | Projected Sales 2025 (billions) | |
|---|---|---|---|---|
| Broadline Distributors | $160 | **64%** | $139 | **58%** |
| • National | 91 | **36** | 98 | **41** |
| • Super Regional | 34 | **14** | 22 | **9** |
| • All Others | 35 | **14** | 19 | **8** |
| System Distributors | $31 | **12** | 30 | **13** |
| Specialty Distributors | $29 | **11** | 22 | **10** |
| Cash & Carry | $32 | **13** | 23 | **10** |
| New Models | nil | | 6 | **3** |
| eCommerce | **nil** | | 15 | **6** |
| **Total Distribution** | $252 | **100%** | $235 | **100%** |

*Source: The Hale Group estimates*

The overall contraction of the foodservice industry coupled with new ways to move products the last mile to operators changes the nature of foodservice distribution.

Each segment of distribution has its own story.

## Broadline Consolidation

Broadline foodservice distributors represent the largest sector of the distributor industry with over 60% of all consumable products sales to foodservice operators. They serve large and small operators; operators in all segments of the business from restaurants to health care segments; providing an extensive range of products and product categories.

The broadline segment of distributors has been consolidating for many years at a slow but steady rate. This consolidation accelerated over the last year and is expected to continue over the next year or two at an accelerated rate due to economic pressure created by the pandemic.

This recent economic pressure crafted by an extreme drop in operator demand, distributor sales, along with accounts receivable problems, low levels of efficiencies in the warehouses and in the delivery function. Liquidity pressures will cause independent and privately held broadline distributors to consider their strategic options going forward…take on significant debt; look for a white knight buyer; redefine the industry and / or audience served; shrink to a profitable / sustainable level; or, close the doors.

Meanwhile, the three publicly held broadline distributors appear to have the access to capital to stabilize their situation and provide a bridge to industry's recovery.

The Hale Group view of the broadline sector is shown below.

**U.S. Broadliner Sales Projected to 2025**

| Distributor | U. S. Sales in Billions 2019 | U. S. Sales in Billions 2025 (P) | Share (%) 2019 | Share (%) 2025 (P) |
|---|---|---|---|---|
| 1. Sysco | $41.0 | $44.0 | 57% | 70% |
| 2. U.S. Foods + Acq. Of FSA | 27.0 | 28.0 | | |
| 3. PFG + Acq. of Reinhart | 23.0 | 26.0 | | |
| 4. GFS | 13.0 | 16.0 | 21% | 16% |
| 5. Reinhart | 6.1 | – | | |
| 6. FSA | 3.2 | – | | |
| 7. BEK | 4.2 | 4.0 | | |
| 8. Maines | 2.5 | – | | |
| 9. Shamrock + Acq. FSA/Boise | 3.3 | 2.2 | | |
| 10. Cheney Bro. | 2.2 | 1.5 | | |
| **Total** | **$125.5** | **$121.7** | 78% | 86% |
| **All Broadliners** | **$160.0** | **$139.0** | 100% | 100% |

*Source: The Hale Group estimates*

The broadline distribution sector has already, as of mid-year 2020, undergone significant consolidation. Reinhart acquired by PFG; FSA acquired by US Foods; Maines went into bankruptcy; and most recently, Cheney Brothers received financing from Clayton, Dubilier & Rice (a private equity group who had previously partnered with KKR to acquire US Foods and then, take it public).

So, the survivors of this current situation are the three publicly held broadline distributors and other majors with the capital and risk profile to weather the crisis. These major broadliners are still key industry players, but time will tell. Further, our model sees the "Bigs" taking share over the next several years and continuing to consolidate the broadline distributor space.

The characteristics of the "Big Three" broadline distributors will include:

- ***Highly centralized operating practices and associated organizational structure***
- ***Bifurcated Mission: efficient last mile distributor; and branded marketer of their exclusive brands***
- ***Financially focused which will drive behavior***
- ***Adaptors of technology, streamlining, rationalizing, and negotiation expertise***
- ***No longer foodservice-centric; operate in multi-channels; now, retail and foodservice have collided***

As mentioned above, the "Big Three" will all emphasize and prioritize their exclusive brands and private label product above the manufacturers' brands whenever or wherever possible. The distributors labels provide a higher margin than manufacturers brands for these distributors; so, economics will drive this behavior.

The expectations for the future are distributor labels will be a major competitive factor. If distributor labels are, as reported, over 40% today among the "Bigs", then the question is what will their share be in 2025?

The Hale Group believes technology and the adoption of advanced logistics systems and practices will be a major competitive factor going forward. There is a great deal going on in logistics space to improve efficiency, reliability, and safety; the foodservice industry will recognize this and adopt these practices. Adoption of technology will be a major factor in determining winners and losers…

**Technology: A Competitive Advantage**

| Technology Considerations | Enablers |
|---|---|
| Connectivity | Cloud computing and storage |
| Inventory and network optimization tools | Robust IT infrastructure |
| Sensors and automatic identification | Willing and committed trading partners |
| Automation and robotics | Reconfigured supply-chains |
| Predictive analytics | Etc. |
| Mobile technology | |
| Autonomous vehicles | |

*Source: The Hale Group*

It takes significant capital and vision to adopt and deploy technology; and it takes high volumes moving through a warehouse to capture the value of technology. As these distributors invest in technology, they will need trading partners willing to invest in their own supply chains, so there is a "systems-gain" and a return on investment realized by both.

There is also a **cautionary tale** that goes along with the restructuring of the broadline distributor sector. History tells us as industries consolidate and big powerful players emerge, they tend to turn inward, become insular and make decisions that serve them well versus their customers and their trading partners. Examples of this phenomena include, but are not limited to: A&P in the grocery industry in the 1960s and 70s; General Motors in the auto industry in the 1970s and 80's; IBM and DEC (Digital Equipment Corp) in the computer equipment industry in 1980s and 90s; Amazon in the retailing space in 2000s and many more. Having the "power position" can create an inward focus; and, as the "power player" phenomena takes hold, it in turn stimulates innovation in business models and solutions by would-be competitors offering a more user-friendly solution.

With regards to the broadline distributor situation and outlook, there is another area the manufacturers should pay attention to over the next few years and beyond. During this pandemic, broadline distributors have reduced, furloughed and let-go-of many, if not virtually all, their sales representatives. Even before the pandemic, the role of the distributor sales rep was shifting due to the changing customer mix of distributors and a reduced role of sales reps was serving a shrinking share of the distributor's business. Historically, manufacturers would train, incent, and influence these distributor sales reps to have a bias toward the manufacturer's products over competitors. Again, while that was waning before the pandemic, it is now questionable how many of those sales reps will be returning.

Therefore, manufacturers will need to take greater responsibility for the presentation, sale and fulfillment from factory-to-table as the distributor sales reps go away for the most part.

Bottom line, the number of players in the broadline distributor sector will shrink and the Bigs will get bigger. If the power of these large distributors will be exercised, the manufacturer and operator communities will look for alternative routes to market. Thus, greater innovation will come into play.

## New Distribution Solutions

New entries into the market will include eCommerce, subscription distribution, custom distribution systems, and direct-to-customer:

1. ***Certainly, Amazon has entered the foodservice space, and they will not be alone***

2. ***Cheetah is an example of subscription distribution, as they gain traction others will follow***

3. ***Disintermediation using technology to deconstruct the order to fulfillment process***

4. ***Some manufacturers are experimenting with direct to customer models***

5. ***Building a custom distribution also a new option***

6. ***Redistribution has a larger role***

Let us review a few of these options.

- **Amazon** has a foodservice team and business that continues to grow and improve its position in the foodservice industry as a credible supplier of goods.
  - *New and expanded foodservice leadership team*
  - *Now it could be the 50th largest foodservice distributor with $100 million sales*
  - *Recruiting manufacturers – building product portfolio*
  - *Establishing a beachhead with an "Edge Strategy", i.e., not the center of the plate but around the edges.*
  - *However, the Amazon business platform is simple for customers / operators to use, but quite complex for the seller to effectively use, i.e. to optimize the platform performance without "Amazon-Savvy" expertise*

  Amazon and Amazon-like sites are now gaining more traction in the foodservice distribution ecosystem and will continue to grow. It would not be surprising for Amazon to make a "fulfillment acquisition or partnership" to remove the barriers of the "last mile" to the operator with a full bundle of products required by operators.

  The growth and acceptance of eCommerce is not lost on the two largest broadline distributors. Both Sysco and US Foods mention eCommerce platforms as an area of attention. A recent survey conducted by Food Marketing Solutions, the respondents (which were primarily manufacturers) thought US Foods was the most technology progressive of the top seven broadline distributors. It is expected all the large broadline distributors will be investing in eCommerce platforms over the next several years.

- **Cheetah Technologies** based in California is a recent startup with a new foodservice distribution model. It offers operators and manufacturers a new route to market and in a unique way. To understand Cheetah's approach to foodservice distribution, recognize it is essentially a "technology company" applying its technology to food distribution.
  - *Targets smaller independent operators*
  - *Uses propriety technology to enable operator customers to explore, order and pay for products*
  - *Stocks 3000 SKUs in their owned and operated DCs, and offering another 10,000 through a redistribution enabled program*
  - *Operator customers pay a subscription fee of $399 / month for 9 deliveries per month*
  - *Manufacturer vendors control pricing and promotion of their stocked products, and have full access to their customers and customer information*

  Cheetah, backed by venture capital funding, uses proprietary technology to take orders from its operator subscribers. Up until recently, Cheetah would take the order and then, picked the order at a Restaurant Depot and delivered it to their customer. Cheetah was essentially using Restaurant Depot as its "warehouse".

  Cheetah has since outgrown the Restaurant Depot based sourcing model and recently built and now operates three DC's (two in California and one in Dallas, Texas.) The pandemic has presented a real challenge for Cheetah in its start-up mode and the plan for opening a Dallas warehouse has been shuttered for the time being.

  This is a new distribution model powered by technology and an innovative approach to addressing long-standing pain points for operators. Cheetah's approach to distribution has resulted in reduced friction and full transparency. It will be surprising if this model does not gain share.

- **Disintermediation Using Technology.** There are new solutions for foodservice sellers and buyers to interact and transact. Examples include:
  - ***simple*** which is a marketplace platform that allows sellers to create and operate on *simple's Marketplace* platform. Sellers can directly contact operators to interact, negotiate and transact.

- ***Codify***, a data-driven, supply chain facilitator brings sellers and buyers together and provides a fulfillment solution. Data and technology are the focus, making it possible to connect and coordinate a new way for operators to source products.

- **Other Routes to Market Appearing in the Marketplace.** There are other ways operators and manufacturers are finding to buy and sell supplies, respectively. Some operators such as Dunkin' and Dominos use captive distribution systems. Other operators such as In & Out Burger have outsourced their distribution system to logistics providers such as J.B. Hunt.

  There are manufacturers of shelf stable, low bulk and high value products who are experimenting with direct shipment to operators. While this is not widespread in the foodservice industry, the recent "direct-to-consumer" activities in the consumer-packaged goods industry have triggered some manufacturers to think about how it could work in foodservice. This would allow manufacturers to have greater control and insights into operator use and greater control of fulfillment.

## Foodservice Distribution Disruption…So What?

Foodservice distribution will be undergoing significant change and accelerating the rate of consolidation. At the same time new distribution options will emerge as the industry moves into recovery mode; therefore, implications for manufacturers and operators include:

1. **Market contraction means the "Bigs" will become more powerful** and exert their power position; therefore, for manufacturers brand strength and being viewed by operators as trusted partners to gain stronger "pull-through" will be critical
2. **With more distribution options**, **it calls for an intentional distribution strategy**, not necessarily doing more of the same; manufacturers should stay close to innovators to understand their model and partnering possibilities.
3. **Manufacturers must take more responsibility than ever for demand creation** and fulfillment from plant-to-operator to win; distributors will be focused on their priorities. Given the new technology-enabled options for reaching and influencing the operators, manufacturers should be bold in the adoption and use of technology to build / strengthen relationships and demand for their products. This means going well beyond a website that is little more than a product catalog, and instead using websites as dynamic working platforms.

Technology will provide manufacturers and distributors with the ability to expand their reach and influence exponentially. While reach and demand creation is a key part of growing the business, a reimagined "last mile" distribution and fulfillment strategy is critical. If frictionless fulfillment is not coupled with the demand creation, the efforts are for naught.

## NEXT STEPS

As stated at the outset, the message is transition now to a new way of doing business. The COVID-19 pandemic has caused the industry to leapfrog from the 1990s demand-creation model to a radically different approach to business development and sustainability of the business. It requires balancing the human touch with technology-enabled tools and processes. It will demand talent with future-state capabilities. It is not anticipated foodservice manufacturers will add to their head count to meet these new needs, but rather transition those who adopt future-state skills and behavior and add new talent where there is a gap.

## Making a Successful Transition

Transitions are hard and usually not linear in nature since the major requirement of transitions calls for new behavior and adopting a new mindset. To successfully transiton…

- **Gain consensus around the transition required** because a new way of conducting our business is upon us;

- **Create a transition plan to** identify where to start, new processes, best practices and the new behavior desired…constantly communicating…we are not going back to the old ways

- **Deploy and implement the new ways** with clear measurements of success and the practices associated with "change management", i.e., over communicate and stay close to the organizational pain points.

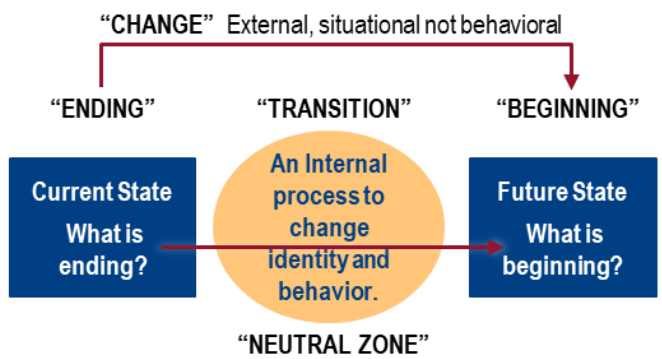
Transition and change are not the same thing and understanding the difference is critical for organizations. The simplest way to explain the difference is to say change is external & mechanical while transition is internal, cultural & behavioral.[1]

In this context, when organizations consider changing it normally means to: restructure, move, shift, and to migrate from one set of practices to a new set of practices, from one way of organizing to another way of organizing. Change is external: moving the pieces around.

Transition, on the other hand, is internal: cultivating a new mindset, a new way of showing up to the customer, and new behaviors. Transitions create their own set of issues such as confusion, and the loss of identity based on the ways individuals and teams have always done things and their "way of being" with and relating to their customers for example.

With every transition, there is an "ending", "neutral zone", and a "new beginning". It is important to define what is being left behind and where you are going; and, it is in the neutral zone between the ending and beginning where the transformation happens and when the organization is most vulnerable. The confusion and discomfort of letting go of the old when the new is not fully formed, causes organizations to rush through this time or avoid it all together and push through. Organizations need to navigate the neutral zone with great awareness and constant communication.

**The Nature of Change Versus Transition**




*Source: William Bridges*

Without completing the transition i.e. intentionally navigating the neutral zone, the changes do not accomplish what was intended; the changes don't stick. Ironically, avoiding the transition only prolongs the discomfort. The cycle repeats and you start over making more changes and facing consequences such as losing talent and/or finding it harder to attract good talent given the confusion over what is happening inside the organization.

## Transitioning to the New Way of Doing Business

So what is on the list of areas / functions where a transition is required given the new market reality. In our view they should include, but not be limitied to:

1. **Technology and digitalization integrated with the human resourcing** of the orgainzaiton will be a critical determinant of success over the next few years and beyond…

   - At the operator level, technology will be the primary interface between operator and their customer… the consumer. The use of technology enables greater understanding of their customers, their usage patterns, and preferences, and allows for better responsiveness and satisfaction. This data allows operators to engage their strategic vendor partners' help in building greater value for the operator's customers. Operators are already using technology-based apps to help them improve the operations of their concepts.

   - At the distributor level, applied technology enables supply-chain optimization, efficiencies and greater connectivity with its trading partners and frictionless transactions to mention just a few benefits.

   - At the manufacturer level, it enables manufacturers to reimagine and reset their demand creation models…we are unlikely to go back to the 1990's models.

2. Given the contraction of foodservice demand over the next three to five years, manufacuturers and distributors should take this moment to reimagine and restructure their orgainzations in terms of capabilities and right size. The need to ***right size and right resource*** will be required over the next year, so the time is now.

3. The foodservice service industry will emerge from the pandemic different than it entered it. The consumers' patterns and preferences; the operators' delivery of their menu and services; the operator segments that will not fully recover to what they were in 2019; the restrictions of product flow in that last mile of distribution – all add up to a different landscape in the future. This will require suppliers of products and services to reassess and reimagine the opportunities selected for targeted business development efforts and resourcing. Given the importance of the rethinking and resetting of ***opportunity selection and targeting*** and potential realignment, the

[1] Transitions versus change is a concept based on work of transition expert, William Bridges.

selection process should be an intentional and strategic level decision, not an individual sales driven decision.

While there is uncertainty associated with the future condition of the foodservice marketplace, The Hale Group's point of view is that some things are not uncertain.

- The foodservice industry will have greater reliance on technology and digitalization as part of its business practices.
- The consumer's voice will be a powerful force in the decision of what, when, and how they source fully prepared snacks and meals and will be enabled and amplified by the mobile technology devices.
- The structure of the distribution community will change because of economic pressures.

These changes are not waiting for 2025; change is here and the transition to new models and methods begins today.

**Please reach out – let's have a discussion about your future.**

Contact:
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**Also, ask about The Hale Group's "Mapping the Transition" Strategy Planning Process. Let us help you initiate and/or navigate your transition.**