

FOOD IN THE PANDEMIC: EXPERIMENTING AND ADJUSTING TO ATTRACT CUSTOMERS



CONTEXT & DYNAMICS

***The pandemic has advanced** the experimentation period of the Great Restructuring, a period of fundamental disruption of existing business models, and it has accelerated changes being made in the food industry. After doing the usual things businesses do in any recession (cutting costs and offering discounts), industry players have started trying real innovations. We have noticed this in three areas: online sales (including direct-to-consumer, or D2C, sales); delivery, drive-through and pickup operations; and a few unique ways to sell. As businesses become more innovative and individuals become more creative, all in their responses to conditions imposed on them by the novel coronavirus, the long-term effect of society's encounter with the pandemic could well be an innovating force for changing ways of operating.*

IMPLICATIONS

- Food industry survivors of the pandemic will be among the most innovative, flexible and adaptable enterprises.
- Farmers, product producers, restaurants and groceries are entering a period of major change, and markets will favor those who create new ways of doing things at prices that meet the new sense of value of reassessed consumers.
- The spreading appeal of food mobility – that is, the ability to shift food to places where customers are – could be one of the critical consequences of the pandemic to the food industry.
- Thriving farmers will diversify their operations, adding to traditional crops and livestock by incorporating, among other things, direct-to-consumer sales and media products.
- Delivery, while popular, will need to adjust pricing and hiring practices to survive the pandemic.
- Consumers, rather than large enterprises, move to the center of the food industry's farming, distribution and retail operations, which could put pressure on margins in some areas.
- Supermarkets face more competitors, including fast food and direct-to-consumer producers, squeezing already thin margins.
- Increasing investments in technology across the food industry make enterprises more and more competitive.
- Contactless shopping and payments increase in use during the pandemic and remain popular afterward because of convenience.
- Online shopping increases, putting pressure on smaller brands seeking market exposure.



Food In Uncertain Times

Food and water sustain life, and Americans spend two percent of their entire lives walking grocery aisles, choosing from among 32,000 distinct products to keep themselves alive. Yet, in the current pandemic, such necessities can become scarce, over-produced or a healthcare problem. While stories of farmers dumping milk, slaughtering chickens and hogs and plowing under fields of ripened crops made news, demand for charitable food assistance jumped by 60 percent and donations decreased, leading to the closing of many food banks across the country. At the same time, the Centers for Disease Control and Prevention (CDC) warned Americans that eating in restaurants and bars increased their risk of exposure to the coronavirus. As a result, demand for frozen foods jumped 30 percent, sales of shelf-stable prepared meals shot up 93 percent, grocery sales overall increased 30 percent in March over one year earlier, and home delivery of food spiked 63 percent in March, the first month of the country's lockdown. (*Ad Age*, 9/21/20; *Pymnts*, 9/11/20; *New York Times*, 9/29/20 and 10/4/20; *Fox*, 5/7/20)

These kinds of sometimes contradictory and confused reactions to food needs in the pandemic have made life difficult for anyone in the food industry, whether they are operating restaurants, food production and distribution or groceries. For instance, through June 30, average comparable store sales at 22 major

limited-service restaurant chains declined 8.6 percent, while in the same time frame, comparable sales at 21 full-service restaurants dropped 54 percent. (*Nation's Restaurant News*, 8/17/20)

The first response to such declines is, of course, to reduce costs. Many restaurants closed outlets, with large fast-food companies, such as McDonald's, Pizza Hut and Dunkin' Brands, shuttering hundreds of units. Coca-Cola joined other companies and cut thousands of jobs,

eliminated products such as Tab and reduced its number of business units, while Kraft Heinz, among many food producers, announced plans to remove \$2 billion from its operating costs. Meanwhile, Frito-Lay, General Mills, Conagra, Kellogg's and Campbell's all reduced the number of stock-keeping units (SKUs) they provided, especially by cutting new products. Taco Bell, McDonald's and other fast-food establishments removed several food items from their menus, to lower cost and to make selections easier, thereby decreasing the time between ordering and picking up food in drive-through lanes. (*CNN*, 8/28/20 and 9/3/20; *Wall Street Journal*, 9/15/20; *Nation's Restaurant News*, 8/17/20; *Washington Post*, 9/1/20; *New York Times*, 10/17/20)



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To attract customers, companies returned to another tradition: discounts. With the \$600 weekly addition to unemployment money going away, companies realized that consumers would become even more cautious with their spending. Several stores started reporting increased sales of store brands at the cost of national brands, and as a result, Kellogg's and Kraft Heinz announced plans to bring back coupons and other discounts. Stop & Shop, a Massachusetts-based grocer,

recently started offering three-day sales and running an eight-page flyer of coupons and discounts. (*Wall Street Journal*, 8/27/20)

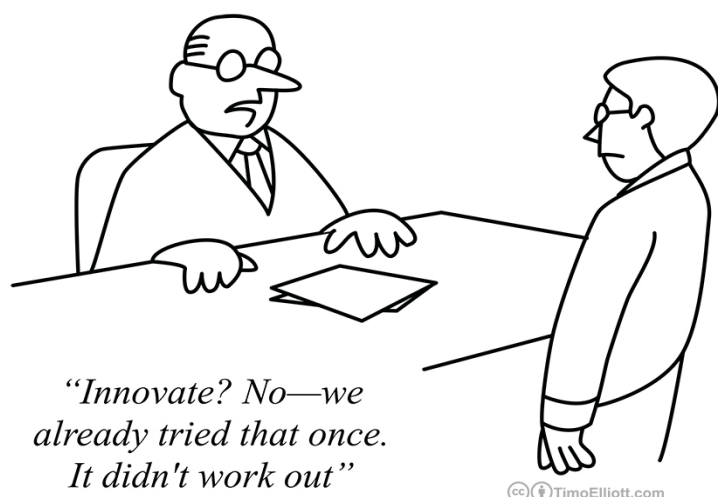
After reducing costs and cutting prices, what does a company do to adjust its operations to align with emerging and endlessly changing pandemic-induced realities? Moreover, should it prepare for another realignment after the pandemic, or will the new realities prove to be a new set of conditions that will outlast COVID-19?

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direct-to-consumer, or D2C, sales); delivery, drive-through and pickup operations; and unique ways to sell.

Online Sales (Including D2C Sales): In recent years, physical stores have been forced to adjust to the reality that customers are getting comfortable buying products online, but the lockdown conditions of the pandemic have accelerated that growing level of comfort. In fact,

21 percent of consumers have tried online grocery shopping since the pandemic started. For instance, Albertsons, the grocery chain, in its first quarter, which ended in June, experienced a 276 percent increase in all online sales, and profits at the company, which also owns Safeway and Vons stores, surged 93 percent year-over-year. (*Pymnts*, 7/27/20; *Supermarket News*, 10/16/20)



Try This, Then Try That

As we have written elsewhere, an essential part of the Great Restructuring era of American business is experimentation, trying new approaches and new processes, and if they do not work, then trying something else. COVID-19 has accelerated the need for experimentation in order to find a way to survive and perhaps thrive in the constantly changing marketplace (see [inF 1201](#)).

The food industry has been undergoing its own era of restructuring, with the expansion of popular farmers' markets and food trucks, changes in menu items at restaurants, new products and new technological processes on the farm and new logistics applied to distribution. The coronavirus has pushed the pace of these kinds of changes, and that has accelerated changes in certain food industry arenas: online sales (including

◆ Digital sales at Chipotle Mexican Grill jumped 216 percent and accounted for 61 percent of total sales in the second quarter. (*Pymnts*, 9/11/20)

◆ Online grocery sales across China, France, Spain and the United Kingdom represented 12.4 percent of overall sales, up from 8.8 percent for all of 2019. (*Digital Commerce 360*, 7/20/20)

◆ In the U.S., online grocery sales have increased from around three percent of overall sales prior to the pandemic to between 10 and 15 percent since. (*Financial Times*, 6/2/20)

◆ Prior to the pandemic, Salata, a Houston-based fast-casual restaurant chain, made 13 percent of its sales through digital contacts; as of mid-July, the number had increased to 30 percent. (*Nation's Restaurant News*, 8/17/20)

While margin squeezes have been felt across much of the food industry, some companies, especially those in food production and distribution, have decided to exploit digital communications, bypass retailers and sell their goods directly to customers. In the U.S., direct-to-consumer sales, which sat at \$6.9 billion in 2017, are on pace to push \$18 billion this year. (*eMarketer*, 4/3/20)

◆ PepsiCo started selling boxes of snacks and drinks, including Tropicana fruit juices, Cap'n Crunch cereals and Quaker granola bars directly to interested customers through its PantryShop website.

◆ A Pepsi sister site, Snacks.com, offers consumers more than 100 Frito-Lay products, such as Doritos and Tostitos chips.

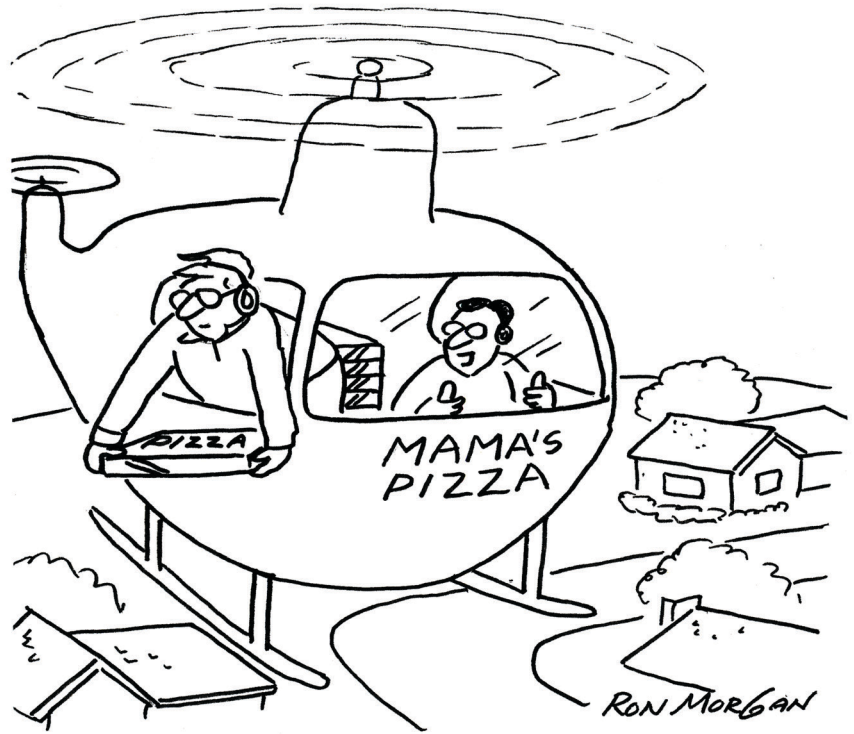
◆ Just as Dollar Shave Club and Harry's, both online-only enterprises, upset the market for men's razors, online-only companies, such as Magic Spoon, a cereal start-up, promise to disrupt the food business.

◆ Heinz to Home is offering three different packages of food items, such as one with baked beans, spaghetti hoops and tomato soup, for roughly £10 in England. Kraft Heinz, based in Chicago, says it is considering making such D2C packages available in more countries. (*Financial Times*, 6/2/20)

Delivery, Drive-Through and Pickup Operations: These kinds of business operations were available before the pandemic, but the spread of stay-at-home orders accelerated the adoption of such services. For instance, in August 2019, 16 million households used grocery delivery as well as curbside and in-store pick-up services. One year later, despite supermarkets remaining open as "essential businesses," 38 million households had tried home-delivery, more than doubling the business. Whole Foods, which is operating under the assumption that delivery and pickup will outlast the pandemic, announced plans to build a satellite warehouse in Brooklyn (NY) just to facilitate online orders and delivery. "When things return to normal," explained Whole Foods' CEO John Mackey, "there will be a lot of people who don't go back to shopping in person." (*Pymnts*, 9/11/20)

◆ Doordash, the delivery service, started online convenience stores of its own, delivering food within 30 minutes from its own distribution centers.

◆ Doordash, Postmates and Uber Eats, among others, have all signed deals with 7-Eleven, Circle K and Casey's General Store to deliver food from the convenience stores. (*Bloomberg BusinessWeek*, 8/31/20)



"154 Madison...get ready...there it is."

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"The definition of convenience," explained 7-Eleven's chief operating officer, Chris Tanco, "has rapidly changed during this pandemic. Delivery expansion is here to stay." Because delivery services add to the price of ordered food, convenience stores might soon be using their own drivers, something Casey's has been doing for pizza delivery.

Fast-food restaurants have been redesigning their facilities to make it easier and quicker to place an order, pick up that order and leave. The new Burger King "next level" design has upstairs indoor dining, but more important, it includes a three-lane drive-through. It will feature on-site mobile ordering and delivery to customers' cars, and pickup lockers for orders placed online. McDonald's and Taco Bell have each streamlined their food-making processes, shrinking the time from order to pickup from four to three minutes. McDonald's is mounting digital ordering boards that can change items listed on menus during certain times of the day. Meanwhile, Shake Shack is following Burger King's lead and including three lanes at the company's first drive-through. (*Nation's Restaurant News*, 9/21/20; *Fast Company*, 8/28/20)

◆ Given that 80 percent of its orders were to go, while only 60 percent of its stores included drive-through services, Starbucks added curbside pickup in its parking lots. Taco Bell is offering the same thing with its “bell hop” service. (*Fast Company*, 8/28/20)

Unique Ways to Sell:

The pandemic has brought both troubles and opportunities to most food establishments, whether restaurants, grocery stores or producers. While some have the resources to change their operations and expand services, other businesses do not have that many resources available to them. And so, restaurants and some producers have ceased operations altogether. But some enterprises have become more innovative in the way they attract customers.

◆ Farmers who have lost their markets to changes in food networks have turned to the media to make money. They create programs for YouTube and other sites to depict the rural ideal of bucolic fields of grain or meadows with grazing animals, all meant as “food” for the rural dreams of an eager urban audience. “I’m selling a lifestyle,” one such farmer explained. “Our farm product is education and entertainment.” In Vermont, roughly 50 farmers are making their living through programming rather than through actual farming. “The storytelling part is what I’m good at,” admitted one producer. “I’m not that good at the farming part.” Such idealized rural imagery has become known as “farm porn.” (*New York Times*, 8/9/20)

◆ Food trucks were becoming ubiquitous prior to the pandemic, but now restaurants, which are suffering with capacity limits to their indoor dining areas, have started to equip their own trucks and send them into their communities. “With 80 percent of the workforce at home, we’ve lost our lunches,” explained one restaurateur. “So [we] reinvented the wheel; everyone’s going to the [homeowners’ association] and bringing the food to the people.” (*NBC Today*, 10/5/20)

◆ Arby’s, the national fast-food chain whose slogan is “We have the meats” is extending that message and selling its sandwich meats by the pound. Packaging three different meats – roast turkey, ham and corned

beef – Arby’s is essentially competing with delicatessens and supermarkets. Meanwhile, Panera has started to sell groceries in its stores, while Shake Shack and Chick-fil-A have started offering complete meal kits to be prepared at home. (*CNN*, 9/5/20)

◆ Cheetah, a wholesale grocery delivery start-up, has found a more direct way to supply food to the needy: It is placing stocked refrigerators in neighborhoods where food supplies are needed, creating community-based free-food facilities. “It brings the food donation all the way down to the individual,” offers Na’ana Moran, cofounder of the grocery. The company restocks the refrigerators each week and allows anyone who needs food to help themselves. (*Fast Company*, 8/24/20)

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The Food Industry, Revised

As the food industry was gradually working its way through its own period of restructuring, the pandemic hit, and the spreading infections and the accompanying stay-at-home orders actually ended up accelerating experimentation across the industry. From farmers, who have become media players, to producers,

who have become e-commerce entrepreneurs, to grocers, who are delivering to online customers within two hours and on to restaurateurs, who are becoming retailers – all of these enterprises are experimenting with various add-ons and changes to their traditional processes.

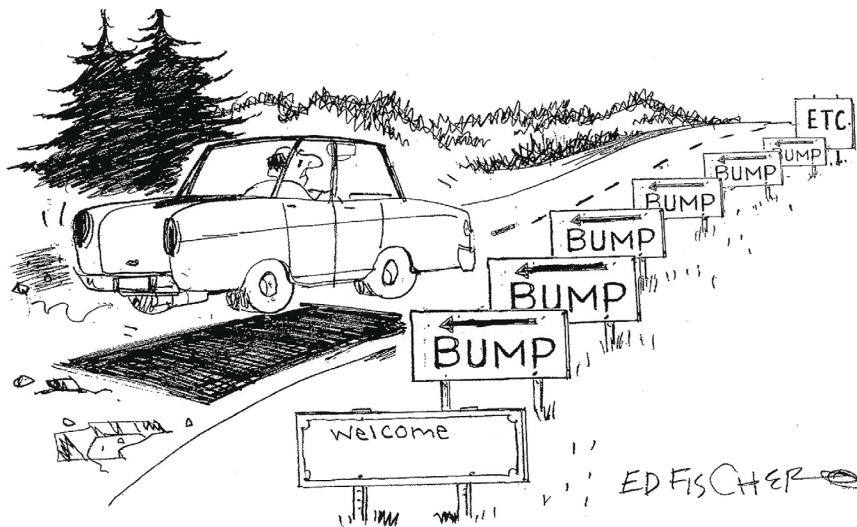
Experimentation and the Great Restructuring will continue through the pandemic and afterward. Some of these experiments will be able to outlast the pandemic and continue to attract customers once COVID-19 restrictions are lifted. Coronavirus-

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imposed social restrictions are starting to ingrain certain behaviors in individuals, and some of those new ways of acting will affect the food industry, from exploiting digital shopping to utilizing multi-lane drive-through restaurants.

The pandemic is forcing businesses to be innovative in how they respond to shifting customer behavior. The same can be said of individual behavior. From that perspective, innovation may well be one of the most significant and most durable

effects of society's pandemic experience.



Some of our previous looks at this topic:

inThought - End of 2010s Decade How Did We Get Here? An Assessment Of A Decade Of Inferential Focus-Identified Changes And Where They Are Taking Us

IF 4013 Rethinking Food: Restructuring An Industry From The Farm To The Table, 7/8/19

IF 4006 Growth Versus Sustainability: Real Estate, Land Use And Food Are Caught In The Transition From The Old To A New Grand Narrative, 4/4/19

inF 1201 Restructuring The Grocery Business, 4/10/17