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Prepared Response

The coronavirus derailed progress in the retail foodservice department earlier this year—where can grocers go from here?

By Wade Hanson and Jennifer Strailey



Supermarket foodservice has been on a wild ride of late. The department has gone from predictable to reinvented to total disruption in just a few years. In June 2018, when *Winsight Grocery Business* and sister company Technomic Inc. first presented the results of our annual State of Retail Foodservice survey, category growth had slowed, but by late 2019—thanks to a focus on innovation—the future of supermarket foodservice was once again bright. This success was short-lived, however, as the global coronavirus pandemic derailed the category, forcing reduced offerings and deli closures.

In presenting this year's annual retail foodservice survey results, Chicago-based Technomic expertly frames where the category is

now, how it got here and where the focus will need to be as grocers strive to reimagine and rebuild in 2020 and beyond.

As recently as 2017, any examination of the supermarket foodservice business was relatively straightforward. Nearly any grocer selling quality, reasonably priced prepared foods to shoppers was likely to be experiencing moderate to substantial growth in this part of the store. Most grocers, therefore, envisioned foodservice as being a long-term winning proposition worthy of investment.

Fast forward to 2019 and many of these once-mighty departments were experiencing a downturn in performance. Exposure to more inventive or

convenient food-away-from-home options (such as food halls and third-party delivery) led to a more demanding consumer who had begun to indicate that supermarket foodservice had not kept pace in comparison to the innovation they were seeing elsewhere.

A Healthy Start to 2020

The 2.2% real growth rate of supermarket foodservice in 2018 was a five-year low for the business. With consumers questioning innovation and value more than past years, many grocers were left to rethink food and beverage offerings, service models and in-store merchandising programs. By most accounts, 2019 became a year of reinvention. And the efforts

taken in 2019 were being positively received by the shopper. As a matter of fact, at the end of 2019, Technomic was projecting that 2020 real growth would improve to 3.6% (or nearly 1.5 points above 2018).

While supermarket foodservice performance saw smaller growth rates since 2017, certain banners outperformed, particularly grocerants with elevated menus and amenities.

Technomic uses a tiering system to distinguish between how different banners are positioning themselves with respect to prepared foods. Those with the most advanced foodservice programs saw the most growth. (See table on page 4 for abbreviated tier descriptions; tiers are based on metrics and observation.)

Tier 1 stores, the Foodservice Specialists, saw 2017 to 2019 growth rates nearly 2 points higher than the industry average. These banners distinguish themselves through the introduction of innovative—and often globally inspired or healthy—prepared items.

It was particularly encouraging that consumers ended 2019 with a very high perception of the supermarket foodservice experience. Eighty-six percent of prepared foods users indicated they were completely or somewhat satisfied with their foodservice experiences at their primary grocer (see chart on page 6). Grocer efforts in 2019 had resonated and put the channel in a good position

entering 2020, especially with men and older shoppers.

COVID-19 Kills Self-Serve

According to a majority of grocers, their foodservice departments were off to a strong start in 2020 based on January and February results. Then COVID-19 disrupted American society, including grocery. An immediate impact on the business was that 11% of grocery stores closed their prepared foods department completely (based on an April/May 2020 Technomic survey of 162 grocers). And of those remaining open, 81% reduced prepared foods

offerings in some way—most often the closing of self-serve stations.

As grocery sales and traffic exploded in the center store, prepared foods sales fell off for a number of reasons: closed departments, fewer offerings and prepared foods not being available via delivery services, among others.

Outside of the obvious closures of most self-serve stations, other offerings became more limited. Only 72% of major entrees (pizza, chicken, beef, etc.) were available as stores reduced the number of items available for reasons of safety or the need to streamline. That said, 99% of grab-and-go

merchandisers remained open and a vital part of the perimeter.

Supermarket Foodservice Tiers*

Technomic uses a tiering system to distinguish between how different banners are positioning themselves with respect to prepared foods.

Tier 1 **Foodservice Specialists**

Foodservice Specialists blur the line between supermarkets and restaurants. Gourmet menu items, customization, limited table service, a warm atmosphere and restaurant-type amenities likely exist. In-store preparation via skilled culinary professionals is also indicative of Tier 1.

Tier 2 **Destination Supermarkets**

Destination Supermarkets have a comprehensive perimeter that offers extensive choice across cuisine types. The perimeter sometimes contains made-to-order stations, cafe-type seating and well-trained service. These stores tend to show a continued emphasis on being a full-line grocer, supplemented by a dynamic prepared foods program.

Tier 3 **Standard Bearers**

Standard Bearers have generally shifted focus away from meats and cheeses to ready-to-eat or ready-to-heat meals. In most cases, shoppers have access to foods spread across grab-and-go cases, self-serve bars and the chef case. There may be some basic in-store seating, but service and customization of foods is limited.

Tier 4 **Essentials**

Essentials, while still emphasizing sliced meats and cheeses, typically offer customers several hot meal alternatives as well as a ready-to-eat cooler selection. Essentials are least likely to prepare foods in-store and are most likely to rely on manufacturer-branded products.

*Technomic segmentation
Source: Winsight Grocery Business June/July 2020

2021 and Beyond

Even before the pandemic, grocery banners were identifying ways to best address challenges in the prepared foods department to support a future rebound in growth. The most commonly cited concern for the foreseeable future? Labor. And while the COVID-19 challenges are top of mind, labor will remain a core pain point in the long term.

Pre-COVID-19, the primary labor concerns cited by supermarket executives were recruiting qualified employees; retaining qualified employees; training employees; labor costs; and escalating minimum wage.

These challenges will have grocers reexamining several aspects of their operations, including production practices. Over the past two years, there has been a rise in the use of commissaries/central kitchens, as well as an increase in manufacturer-supplied products. In-store preparation and/or finishing has declined because of the costs and complexities involved. This is true across all four tiers of supermarket foodservice.

But the preexisting challenges facing grocers will now be combined with the challenges introduced by the pandemic. Safety and cleanliness will move to the fore. Value will be critical with so many shoppers

hurt by employment circumstances. And quality, innovation and, of course, labor, will be major considerations.

In retrospect, 2020 and 2021 may be seen as years when the COVID-19 pandemic forced grocers into many short-term changes to ensure the health of their shoppers while also incorporating long-term changes to secure and rebuild the future of their foodservice programs.

10 Signs of the Times

To adapt to the crisis, grocers found themselves making operational changes within their departments. While a continuous process of reevaluating necessary changes is expected by virtually all grocery executives, Technomic's supermarket survey showed that as of mid-May, the top 10 adjustments made by grocers included:



Adoption of masks by prepared foods employees



Frequent sanitizing (often every 30 minutes)



Introduction of more pre-packaged items



Application of social distancing stickers across perimeter flooring



Closing of self-serve stations



Requiring more frequent hand washing and/or sanitizing



Sealing of pre-packaged meals



Closing of fountain and/or coffee stations



Reconfiguring of back-of-house to ensure foodservice worker stations were six feet apart



Installation of plexiglass or plastic dividers between employees and prepared foods shoppers

Prepared Foods Satisfaction

(1,000 prepared food shoppers — November 2019)

Overall

86%

Male

88%

Female

83%

18-34

81%

35+

88%

PRE-PANDEMIC

SINCE MARCH 2020

86%

users of prepared foods indicated they were satisfied with their grocery foodservice experiences just months before the pandemic.



11%

of grocers closed their prepared foods departments completely.

81%

of those grocers remaining open reduced prepared foods offerings.

72%

of main entrees are available.

99%

of grab-and-go has remained open.

Source: Technomic

The New Future of Retail Foodservice



Technomic Principal **Wade Hanson**, who specializes in retail foodservice, talks consumer confidence and creative new solutions with

WGB's Meg Major and Jennifer Strailey.

Retail foodservice has been severely impacted by COVID-19. What is your overall take on next steps on what promises to be a long and winding road to recovery?

Wade Hanson: One of the most important things that grocers will need to do over the months ahead is study the new needs of the shopper. Coming out of the pandemic into a recession means consumers will have value concerns. They will have a startling number of

new visual cues they will be looking at to assure quality and cleanliness. And how they balance the concepts of “fresh” and “safety” will evolve. Grocers will have to plan for the purchase decisions of consumers to be very different. Understanding what is driving decisions and how you can positively influence perceptions will be essential.

The ongoing pandemic presents retailers with a whole new set of challenges for the category in the realm of department layouts and merchandising strategies to properly ensure safe social distancing. Do you think this will have lasting effects on retail foodservice floor plans of the future?

Without question. Safety considerations and shopper considerations will be major influencers in determining what the floor plan of the future turns out to be. Certainly, self-service stations of all kinds are under scrutiny. Consumers are already questioning these setups and indicating a low level of confidence that their health can be protected without significant changes. On the restaurant side of the business, we have seen Souplantation, a buffet style operation, close its doors and other buffet chains reconfigure to enable staff to serve guests. Likewise, salad bars, hot bars and soup stations are examples of areas that stores will readdress in some form or fashion. We are sure to see some creative new

solutions coming out of the pandemic.

What retail foodservice items/categories do you recommend that retailers invest in going forward?

Center-of-plate items will always be critical, namely proteins. And grab-and-go items will take on greater importance as shoppers may be more comfortable with sealed, convenient items rather than made-to-order foods (which had been on the rise pre-COVID-19). But it is important to note that often shoppers want solutions more than any specific category of food. Grocers will benefit from having bundled solutions available that combine multiple menu parts. And grocers

should attempt to better communicate how the shopper can achieve a complete solution in the prepared foods department rather than let the consumer assemble an ala carte meal without support.

Given the present dynamics in foodservice, what do you consider to be the biggest opportunities for retailers on the horizon?

Retailers need to recognize just how significantly the pandemic has affected parts of the traditional foodservice business—both restaurants and noncommercial operators. Tens of thousands of restaurant closures and a monumental drop in traffic for certain noncommercial operators (especially colleges, hotels, businesses and recreation venues) will present grocers with opportunities to

attract new customers or existing customers for new meal occasions. Marketing prepared foods solutions outside of the store via a variety of means will be highly important for grocers.

Delivery has leapfrogged from the backburner to the front for all facets of grocery. What is your take on how influential—or not—delivery will be for the retail foodservice category in the near and long term?

Delivery has been a growing force across foodservice for the past several years. The rise of third parties such as Uber Eats, Grubhub and DoorDash was transformative. Consumers could get what they wanted, when they wanted it. And it was an additional means of reaching new customers for many operators (though many

headaches came along with that). But the pandemic has developed a delivery comfort and reliance within consumers. Ordering food and beverages from all different types of operators and retailers has become normal.

Online ordering of groceries has also surged over the past few months. Online grocery shopping had only been adopted as a normal practice by a small minority until recently. Now, many consumers express that they will not go back to in-store shopping.

Grocers will need to focus on better and more efficient ways of getting prepared foods to be part of the delivery experience. A lack of doing so will stunt sales in the department.

What would you envision to be the best thing you could

tell us a year from now about supermarket foodservice?

The COVID-19 crisis was not a function of economic challenges or a lack of consumer demand for foodservice. The crisis was not rooted in fundamentals. So there is hope that foodservice recovery will occur at a faster pace than in an economy-sparked recession. In a year, it would be great to objectively look at the channel and say, “2020 was really difficult, but sales have bounced back considerably.” Technomic has projected that while 2020 supermarket foodservice will likely be down by double digits due to the pandemic, 2021 could see shoppers surge back to prepared foods leading to growth of 15% or more in 2021.