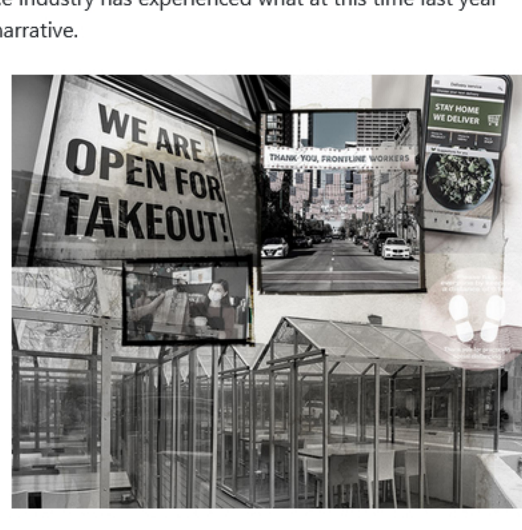
Service Insights

The COVID-19 Crisis: One Year Later

March 12, 2021

What a year it's been. Forced by pandemic-induced closures, capacity restrictions and dramatic changes in consumer behavior, the foodservice industry has experienced what at this time last year might have seemed like an apocalyptic sci-fi narrative.



As 2020 came to a close and with no relief in sight — indeed, with post-holiday surges predicted and now borne out — the National Restaurant Association (NRA) characterized the industry as being in "economic free fall." More than 100,000 establishments closed permanently or long-term in 2020, according to the NRA, with many more predicted to shutter over the winter. The association reports that industrywide sales declined by an estimated $240 billion and more than 2.5 million restaurant jobs were lost.

December, typically a red-hot month for restaurants, was dismal. Black Box Intelligence data pegs it as the worst month since July, with same-store traffic down by 18.6%, 3 points lower than in November, and same-store sales down by 13.3%.

As 2021 takes shape, the search for a landing spot continues, as does uncertainty about prospects for a rapid rebound. As of early February, threats of additional closure mandates and/or prolonged capacity restrictions continued. Outdoor dining, a lifeline in warmer months, was off the table for many operations, and consumers remained skittish about indoor dining.

Data published in late December by Datassential showed that 44% of consumers surveyed felt it would be four to six months before they expected to feel safe dining at restaurants again. That projection could well get pushed back, at least until widescale vaccine distribution has been achieved. That process, in the early weeks of the rollout, was badly hampered by lack of coordination and logistical challenges. And despite the unprecedented speed with which vaccines were developed — or because of it — millions of Americans, according to Pew Research, say they don't intend to get vaccinated or they plan to wait until more proof of safety and efficacy is available.

The relatively good news is that consumers are chomping at the bit to get back into restaurants. NRA research show 83% of adults, and 90% of Baby Boomers specifially, say they're not eating at restaurants as often as they would like. Such pent-up demand bodes well for a strong recovery once the coast is clear.

The foodservice industry, of course, can't wait. And it hasn't. Over the past year, operators and their supply chain partners have pulled off their own Operation Warp Speed. Fundamental industry shifts toward convenience, off-premises consumption and tech-based ordering and paying, all steadily advancing pre-pandemic, shot into hyperdrive. Providing them became not just solid strategy for future growth but also immediate, non-negotiable tactics for survival. Ghost kitchens and virtual restaurants—just budding a year ago as potential game-changers—advanced in mere months what would otherwise likely have taken years. Streamlined menus, pop-ups, QR codes, meal kits, family style meals, subscriptions, virtual cooking classes, grocery sales and alcohol to go all surged as operators scrambled and pivoted to create new revenue streams.

Big Shifts, Fast Tracked

The Grim Reaper's scythe did swing freely over the past year. But closures have largely impacted industry segments that had become bloated with unprofitable, undercapitalized operations and with concepts that failed to remain relevant, notes Darren Tristano, CEO at research and consulting firm Foodservice Results. The dramatic culling, he says, is one of many COVID-19-era scenarios that was underway anyway, albeit at a slower pace.

"We had an oversaturation of restaurants," Tristano says. "Even before COVID-19, population growth and dining occasions at restaurants had been flat. Full-service and fine dining have been particularly hard hit, while to-go-oriented QSRs and LSRs have mostly done OK. My prediction at the start of 2020 was that dine-in occasions would be flat over the next five years and all growth would come from delivery, takeout and drive-thru sales. COVID only accelerated that."

What has changed during the pandemic, Tristano adds, is rapid entry of full-service restaurants, even fine dining, into the off-premises arena. "They've had no choice, and consumers are now getting used to going to full-service for takeout and delivery. That wasn't the case before," he says. "Dine-in occasions will continue to slowly decrease, so for full-service operators to offset those losses, they're going to have to expand or rethink their models."

David Portalatin, NPD Group vice president, agrees the widespread fast-tracked shift to off-premises will continue. "The landscape is going to look different," he says. "Dining rooms will be generally smaller and curbside pickup areas and drive-thrus will trend larger. You've got full-service chains like Applebee's now testing drive-thru windows. And many chains are designing multiple drive-thru lane concepts, including lanes dedicated to mobile order pickup."

While some of the changes induced by the pandemic may fade away once the threat has passed — and Portalatin predicts independents will jump back in and pent-up demand will resuscitate on-premises dining — fundamental shifts in how consumers use restaurants are here to stay.

"There are some things that we cannot know in terms of how this will all play out," Portalatin says. "Are paper menus gone for good in favor of contactless QR codes? Maybe. Will dividers and social distancing disappear? Probably. But that's why we look at what the longer-term trends were, say for five years before all of this happened. Those are the things that, when we see them accelerate or intensify, we can assume will last regardless of what else happens — like ordering through a smartphone and eating at home. That's where the momentum was headed pre-COVID, and we've accelerated those trends five years into the future during the pandemic."

Hard as it is to swallow, after a full year, the virus continues spreading and shifting, keeping health experts' and economists' cautionary refrain of "worse before better" in the national conversation at least a while longer. The pandemic will leave permanent marks — a devastating human toll, as well as a deep global recession from which it could take years to recover. The unprecedented disruption caused to the foodservice industry will continue to pose big challenges and, as the past year has proven, to spotlight new opportunities and strategies needed to emerge stronger than before.

The implications for the equipment and supplies channel are abundant. Here, three industry executives representing key links in the supply chain share insights on the impact of last year, what they've learned and what they think lies ahead.

Erica Monaghan

Principal, 4 Star Reps, Philadelphia

Erica Monahgan

Q: From a reps' perspective, how severe has the pandemic's impact been?

A: Groups whose lines are geared to smaller independent restaurants might be struggling a bit more, but many of our lines are well suited for healthcare organizations, which have continued to invest in facilities. Corporate contract business has remained strong as well. But overall, we've seen more value-engineering, streamlining of menus and operators buying equipment based on need versus want.

Q: What have some of the biggest pain points been?

A: Some factories have been impacted by shutdowns, causing shipping delays. We've also seen challenges in our region as restaurants have scrambled to find outdoor heaters.

Q: How has your own business changed since last March?

A: We invested in some of the things that we've had on our wish list for a while. We've embraced technology, doing video conferences every morning that have actually improved our team dynamic. We achieved Women Owned Small Business certification through the SBA and master level in MAFSI's [Manufacturers' Agents Association for the Foodservice Industry] Technology Certification Program. We partnered with a finance company that offers flexible funding options for foodservice equipment purchases and added a financing page to our website. We revamped our internal communication system and ensured that every team member has the technology they need to work remotely. We added some great new lines. And we say thank you more than ever. We're deeply grateful for the support we received in 2020.

Q: What lessons have you learned, and what is one piece of advice you'd offer others going forward?

A: We all need to realize that we're susceptible to being caught off guard, both personally and professionally. We've learned to be prepared in all ways possible and that planning ahead is critical, as is the way you handle your finances, the way you've planned your business strategy, the way you've cross-trained your people. And the events of the past year have reinforced the importance of picking partners who will be with you in good times and bad. Are they stable? Do they have a long-term strategy? Can they pivot when faced with challenge? Do they make a meaningful contribution to the industry? Do you?

Brad Pierce

President, Restaurant Equipment World, Orlando, Fla.

Brad Pierce

Q: What's your take on how quickly the industry may recover from the damage done this past year?

A: I anticipate we'll have a Nike swoosh-type recovery, but a jagged one — two or three points of recovery for a couple of weeks, a flattening out for a couple of weeks and then a bit more recovery. Overall, it seems attitudes in the industry are much more positive now than in the early days of the pandemic, when it was sheer panic for many. People have realized that they've gotten through this and, while nobody's thrilled with how things are going, we've learned a lot and, at least at our company, are extremely optimistic about the future.

Q: What have been some of your biggest learnings?

A: That people are your most valuable asset. We were able to keep all of our employees working and, as such, capitalize on opportunities that others couldn't. Our team's morale is high, and we've seen how adversity can bring out the best in people. The pandemic has also reaffirmed the importance of selling solutions, not products, and of operating in a fiscally conservative manner. We've always managed our business that way, so we were OK, but it's a lesson etched in stone.

Q: What do you think dealers, more broadly, may have learned?

A: The pandemic has exposed poor business practices, like selling things at ridiculously low margins or even below cost and begging manufacturers and reps for rebates and extra discounts. All of a sudden, manufacturers didn't have the money to give, and a lot of dealers were forced to make cuts. So, while there's nothing to celebrate about COVID, there may be positives that emerge as companies reevaluate and reset their business practices.

Q: Do you see pandemic-induced resets sticking?

A: I'd expect we'll see some of the newer pricing disciplines endure for a couple of years before competitiveness begins chipping away at them again. But my own business faced a major crisis eight years before this one, and I still operate on what I learned from that. Other things, like efficiencies gained through technology, operator shifts to more off-premises sales, and consumers being hyperaware of sanitation and food safety, will definitely stick.

Kirby Mallon

President, Elmer Schultz Services Inc., Philadelphia President, Commercial Food Equipment Service Association, Fort Mill, S.C.

Kirby Mallon

Q: How is the service side of the industry weathering the storm?

A: The first quarter of 2020 was strong, but by April things had gotten scary. Our phones just weren't ringing. Among CFESA members overall, the second 2020 quarter saw the biggest impact to sales, dropping from -10% to -50%, with the median being around -35% from the same 2019 quarter. With an estimated 20% to 30% of restaurants closing, the effect trickles down to all service agents.

Q: How has Elmer Schultz Services responded?

A: We continue to support our independent restaurant base in every way possible, but we've also pivoted to find new revenue streams. We've reached out to segments like hospitals, grocery stores and nursing homes, all considered during the pandemic essential and all of which use commercial cooking equipment. We've also taken this time to invest in training. The majority of our technicians are now master-level CFESA-certified.

Q: Are there ways in which the pandemic has changed the service agent segment more broadly?

A: We've all gotten leaner, which has been a silver lining. Many of us got the right people in the right seats. We reinvested in training and technology. We've gotten better at analyzing inventory, and we've improved our workspaces. And the days of manufacturers telling service companies what they need to stock are now done. We're evaluating our own inventory and deciding what we should stock. We've returned inventory that we don't need, turned it into cash and purchased just what we know we need to keep ovens up and running on an 85% first-call-fix basis.

Q: How's your outlook for 2021?

A: I'm optimistic. I've been at this for 30 years, and in the long-term, this will seem like a blip in time. We just need to put ourselves in the best position possible to respond when customers need us again — and they will. A lot of restaurants are closed right now, and they're full of equipment that's sitting idle. But someone's going to reopen those restaurants, and that equipment is going to need service. The phones will be ringing off the hook, and we're going to be ready.

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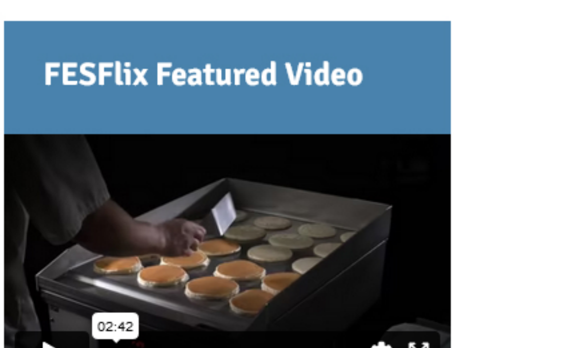

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