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Serving the future

CAN THE CATERING INDUSTRY ADAPT TO THE POST-COVID WORLD ?



Contents

EVOLUTION OF THE CATERING INDUSTRY	2
Main constraints and challenges in the industry	2
Evolution driven by technology and new consumption modes	7
THE NEED FOR CHANGE HAS BEEN BOLSTERED BY THE PANDEMIC	12
Impact of the pandemic	12
Focus on telecommuting	14
Bolstering changes in consumption modes	22
DISRUPTION: POSSIBLE PARTNERSHIPS AND TRANSACTIONS	24
New entrants	24
Opportunities in a post Covid-19 world	27
CONCLUSION	32

Until the pandemic, catering was a EUR 230 billion industry dominated by four traditional players. It was already facing multiple headwinds such as tougher regulations, quality and health requirements and most notably financial dynamics that mar their margins.

The main business driver of catering is the ever growing expectations of consumers. In the last decade, incumbent companies initiated diverse operations mainly driven by digitalization to boost their performance and address consumers' needs. Despite their efforts, their transformation is still slowed down by their substantial size and what we call "the burden of tradition".

Then along came Covid-19, bringing the industry to a near standstill. It has slashed demand and hammered caterers' revenues. The shift to home working, one main feature of the pandemic, has handed an advantage to other food services actors, such as food retailers and delivery companies, who are now challenging traditional caterers. The fact that this shift may become mainstream in a post Covid-19 world could destroy 20% of the traditional catering business. It is to say the pandemic has bolstered the need for incumbent companies to rewrite their business model in order to keep up faster with consumers' desire of increased convenience and healthiness.

In a more competitive environment, adapting to the "new normal" will involve an intensified focus on employee dining experience. We see multi-channel offers, with an intensified focus on delivery and digital solutions, as a model proving successful. The opportunity is for catering companies to progress internally and more efficiently through partnerships, acquisitions, working with small agile FoodTech start-ups and devising more flexible business models. There's huge untapped potential for all food actors to reach new markets.

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Evolution of the catering industry

Main constraints and challenges in the industry

“Unappetizing prospect ...”

The global food services market is valued at some EUR 230 billion¹ with almost half of it outsourced. It is dominated by four players, Aramark Corporation, Compass Group plc, Sodexo SA and Elior SA, which together account for over 30% of the industry and have a well-established presence in many countries. They are key contributors to the global economy and have an important social role as they employ a huge workforce. Compass and Sodexo, for example, employed 600,000 and 470,000 employees respectively in 2019.

In 2020², Fortune Magazine listed Compass as the world’s 8th largest employer.

Incumbent catering companies face several dynamics that challenge their performance. On average, their organic growth fluctuates around 2% and 3%, although market leader Compass was able to achieve 5% organic growth over the past five years. For the leaders of traditional companies, it is crucial to focus on internal revenue-generating opportunities to develop sustainable strategies that will stimulate enough organic growth to cover their operating costs. The traditional catering business model is built upon cost management as it takes important volume to amortize fixed

costs and have a better leverage over suppliers.

The two largest operating expenses for these companies are labour costs and raw materials which represent, respectively, 45% and 35% of their revenues on average. These costs continue to pressure their relatively low margins. Wages are driven up during both inflationary and non-inflationary periods, and food supply prices fluctuate depending on factors such as the economy, inflation and harvests. Compass, however, has been able to achieve better margins than its peers because of the purchasing power of its GPOs. Logistic costs throughout the supply chain are another key part of operational expenses as they directly

affect production costs. This is why catering companies seek to improve their bottom lines by sourcing and purchasing food from local markets.

To make significant performance gains and thrive in an industry where consumer behaviours and modes of consumption change quickly, catering companies also need to become more agile. Consumer preference is a key driver in the catering business, as it shapes future trends. In recent years, growing awareness of the importance of nutrition on health and wellbeing, coupled with concern about the environmental and social impact of food has led to the growth of vegetarian, flexitarian and other diets. Consumers are also looking for more convenience and flexibility in food consumption and want digital solutions to improve their catering experience.

However, focusing on innovation and value creation to keep up with new trends in an agile organization is the behaviour of a start-up rather than an incumbent. Established companies typically take time to drive significant change, mostly due to their size and capital requirements. Spending on transformation initiatives has driven capital expenditures among incumbents from 2% in recent decades to 3.5% of revenues today. But despite their efforts to keep up with industry trends, incumbent catering companies are often held back by the burden of tradition.

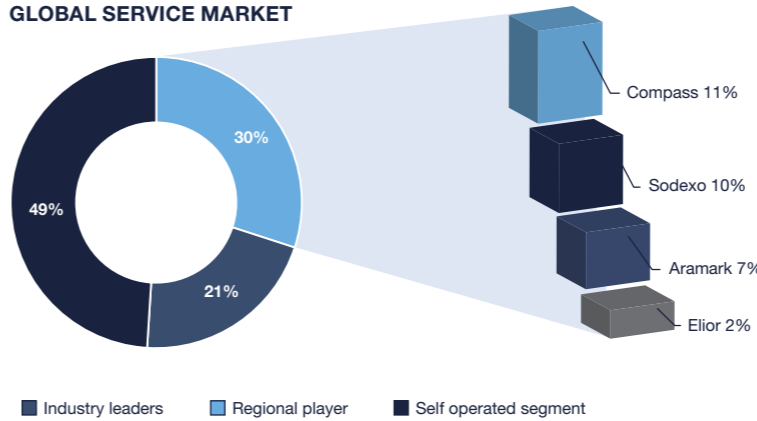
They also face tougher environmental and sanitary regulations regarding the safety, sustainability and nutritional quality of food supply. As an example, the EGalim legislation implemented in France in late 2018 included several measures

for catering: preventing food waste; forbidding the use of plastic; including at least 20% of organic products and at least 50% of high-quality sustainable food³. According to the Food and Agriculture Organization of the United Nations, food waste accounts for one third⁴ of all food produced for human consumption in the world and is estimated at 5% of the procurement costs of catering companies. Reducing waste also has economic advantages, as it represents nearly USD 2.6 trillion dollars⁵ in annual costs savings. Their substantial purchasing scale and responsibility towards environment protection compels catering companies to minimize and even avoid food waste.

¹ Bryan, Garnier & Co ests.
² Fortune Global 500 2020 | Fortune Magazine | August 2020
³ Les mesures de la loi Egalim concernant la restauration collective | Pascal Xicluna / agriculture.gouv.fr | January 2020
⁴ Global food losses and food waste – Extent, causes and preventions | FAO | 2011
⁵ If we had to pay the bill to nature, what would food waste cost us? | FAO | September 2014



FIG. 1: THE GLOBAL FOOD SERVICES MARKET IS DOMINATED BY TRADITIONAL PLAYERS



Source: Bryan, Garnier & Co ests, Company data



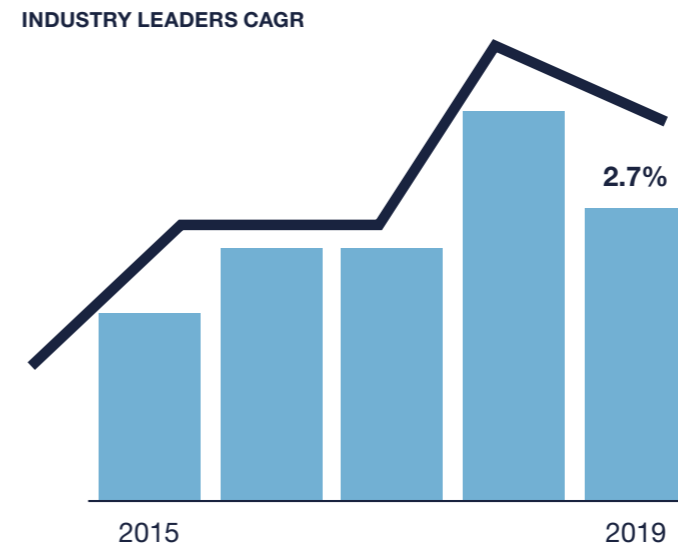
FIG. 2: MAIN CATERING COMPANIES HAVE A SIGNIFICANT SIZE AS THEY EMPLOY MASSIVE WORKFORCE

2019 WORKFORCE



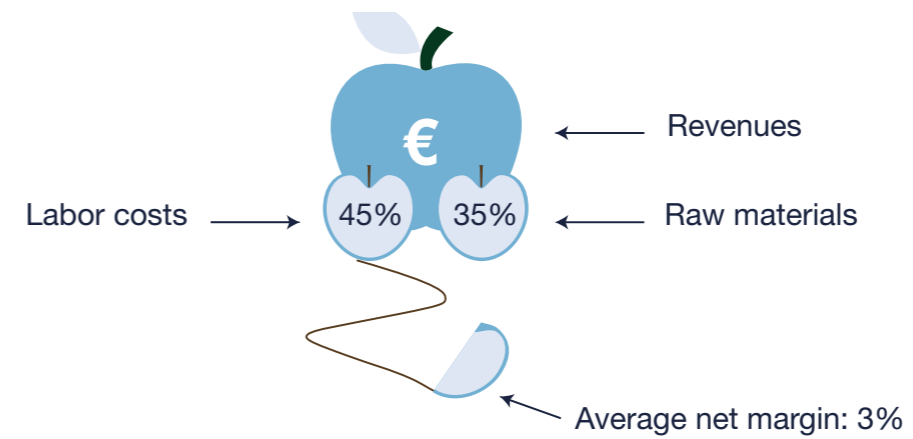
Source: Company data

FIG. 3: ON AVERAGE, THEIR ORGANIC GROWTH VARIES BETWEEN 2% AND 3%



Source: Bryan, Garnier & Co ests, Company data

FIG. 4: CATERING BUSINESSES EXPERIENCE MARGIN PRESSURE MAINLY BECAUSE OF RISING RAW MATERIAL PRICES AND LABOR INFLATION



Source: Bryan, Garnier & Co ests, Company data



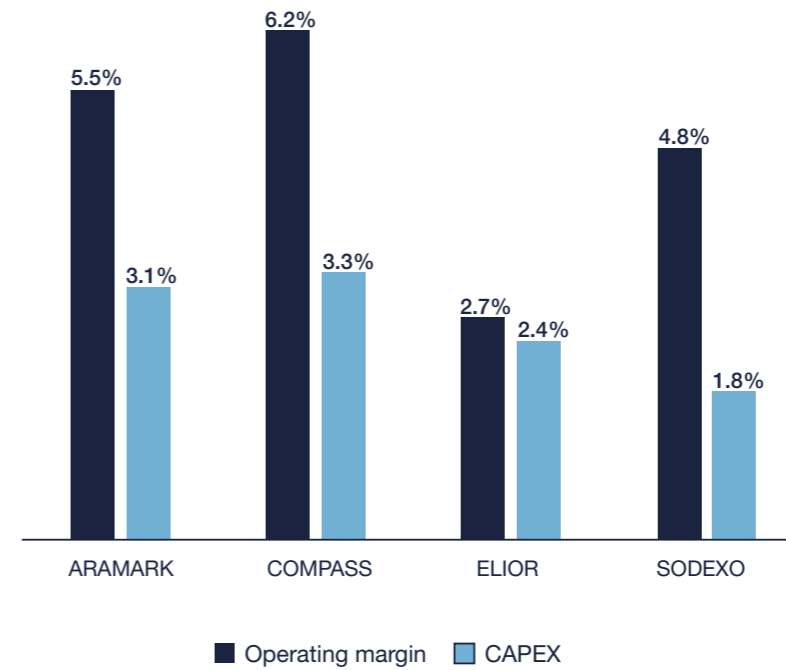
FIG. 5: THE TRANSFORMATION OF INCUMBENT CATERING COMPANIES IS SLOWED DOWN BY THE BURDEN OF TRADITION



Source: Bryan, Garnier & Co



FIG. 6: OPERATING MARGINS ARE STILL RELATIVELY LOW ALTHOUGH CAPITAL EXPENDITURES AS A % OF REVENUES ROSE FROM 2% TO 3.5% ON AVERAGE IN THE PAST DECADE



Source: Company data



Evolution driven by technology and new consumption modes

“... until technology got its seat at the table.”

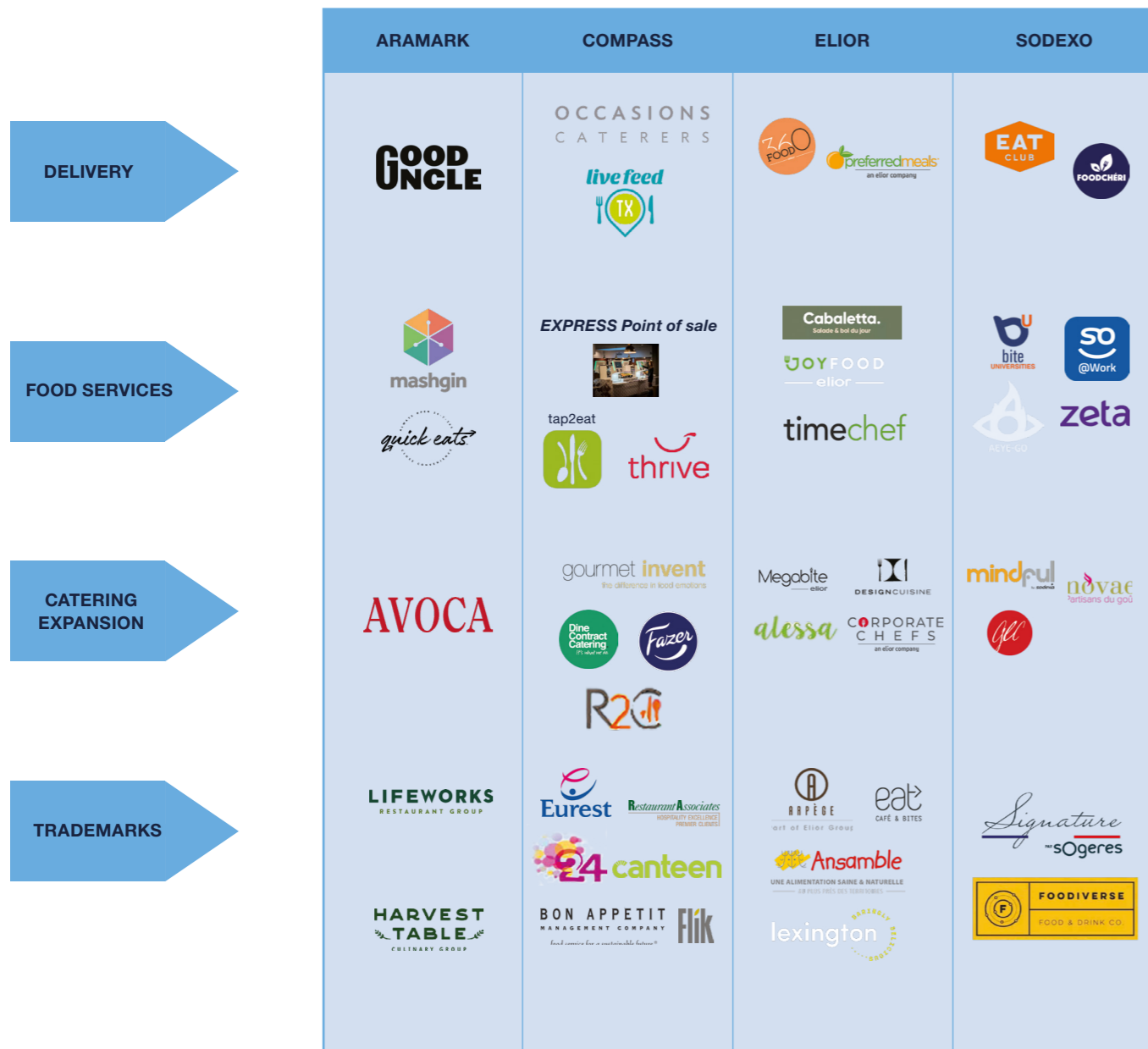
Before the digital revolution, traditional catering companies were eager to promote growth and customer retention. Aramark, Compass, Sodexo and Elior jumped on the digital bandwagon to address some of the key challenges around changing consumption habits and preferences, especially those related

to convenience, health and wellness, and sustainability.

To transform traditional canteens, in particular in the B&I segment, catering companies launched their own digital initiatives as well as acquiring and partnering with start-ups and developing franchise brands agreements. Today’s corporate canteen offers more designed spaces, more flexible opening hours, more meal options that fit different diets, micro-market solutions and digitally enabled services that simplify and improve the dining experience.

Digital solutions have also enabled catering companies to improve their end-to-end procurement, to get to know customers better and to manage food waste and restaurant traffic more efficiently. Technology has also enabled streamlined payment processes and better menu displays. With the increasing focus on convenience, we have also seen the rise of alternatives to traditional canteens with the growth of take-away, fast casual meals and food trucks.

FIG. 7: THE WILL TO RETAIN CUSTOMERS DROVE TRADITIONAL COMPANIES TO EXTEND THEIR SERVICES



Source: Company data

FIG. 8: INCUMBENT COMPANIES DEVELOPED SOME FRANCHISES WITH WELL-KNOWN BRANDS



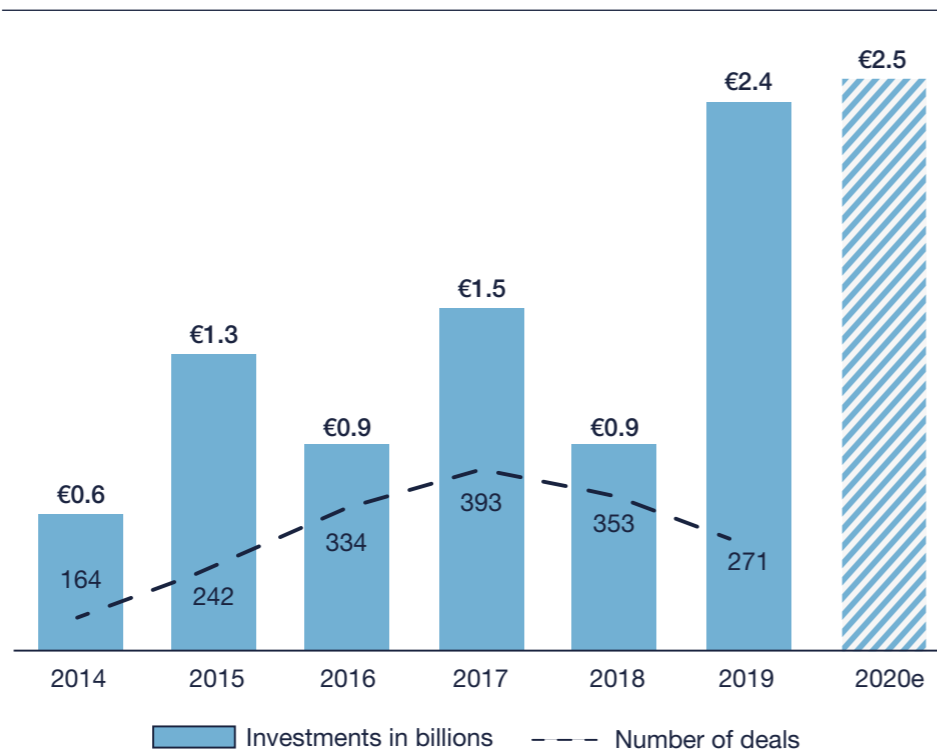
* Non exhaustive list

Source: Company data

Incumbent catering companies have reliable assets to boost their productivity and innovation, and therefore maintain their leadership. These include central kitchens in strategic locations and other business segments such as facilities management and offsite services.

- Elior operates in more than 100 central kitchens worldwide, with a significant footprint in the US, and has a production capacity of approximately 105 million meals per year⁶.
- Compass owns approximately 70 central production units to deliver meals to its catering sites.
- Sodexo is a leader in providing benefits and rewards services that include digital payments and voucher solutions.

FIG. 9: INVESTMENTS IN EUROPEAN FOODTECH ROSE FROM €0.6 BILLION IN 2014 TO €2.3 BILLION IN 2019



Source: 2020 State of European Foodtech report – Investments in European Foodtech 2014-2019 | Digital FoodLab | April 2020

However, technology has opened up the market to new entrants, mostly FoodTech startups. These are gaining momentum because they can address changing client needs more quickly in a dynamic environment and they are able to serve less than 150 catering trays to small dining sites like SMEs, which is usually not the case for incumbent catering companies. In 2019, investments in European FoodTech startups skyrocketed, amounting to EUR 2.3 billion.

FoodTech startups offered a more convenient approach to catering with the introduction of digital canteens. These “canteens 2.0” offer ready-to-eat meals or snacks with healthy and fresh ingredients that are stored in a smart fridge and replenished each working day. Another model for online canteens is the delivery of dishes to workplaces. Online delivery platforms have seen a tremendous growth in recent years, estimated at 15-20% per annum⁷. According to the 2020 State of European FoodTech report, investments in delivery startups

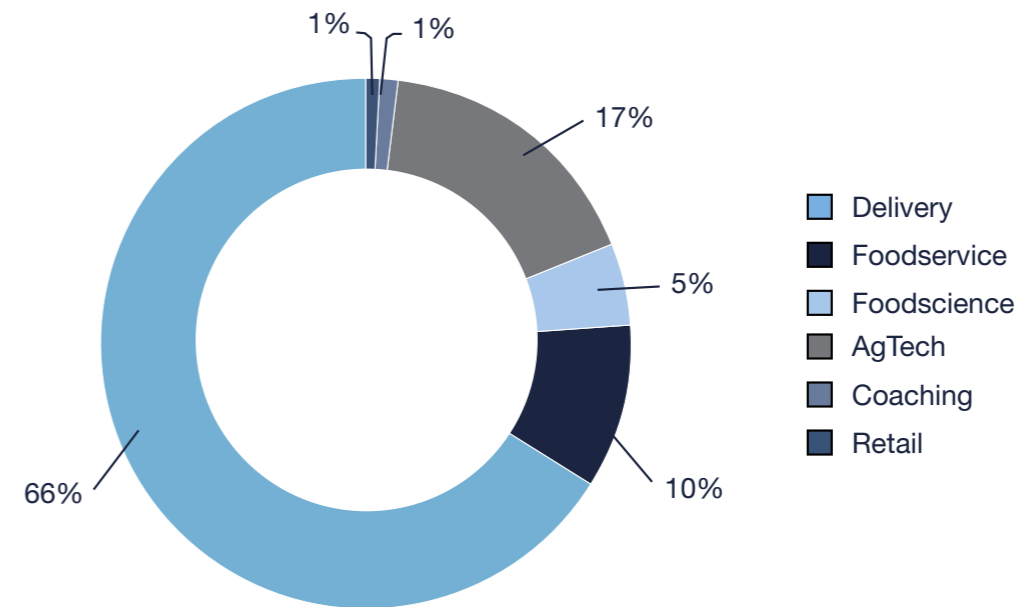
accounted for 66% of FoodTech investments in Europe, amounting to EUR 1.6 billion.

Today, this growing strength is supported by the recent emergence of new trends such as “dark kitchens”, which are used to create new brands for delivery-only purposes, meal kits adapted to home quantities and

marketplaces that include farm-to-home and store delivery. The innovations and expansions of FoodTech start-ups are a spur for catering companies to accelerate their digital transformation.



FIG. 10: DELIVERY STARTUPS ARE ATTRACTING A LARGE SHARE OF FOODTECH INVESTMENTS



2019 Investments breakdown by category

Source: 2020 State of European Foodtech report – Investments in European Foodtech 2014 - 2019 | Digital FoodLab | April 2020

6: Rapport d'activité 2017 – 2018 | Elior Group
7: Bryan, Garnier & Co ests.

The need for change has been bolstered by the pandemic

The pandemic brought the industry to a near standstill. The abruptness and extent of the outbreak accelerate the need for changes that were already taking place in the industry. The challenge for incumbent companies is to adapt quickly to changes and anticipate clients' needs, mostly by using digital solutions. The main risk factor for these companies is their substantial size, which raises concerns about transformation speed and execution.

Impact of the pandemic

"But that was until an unexpected guest appeared ..."

All catering companies were harmed by Covid-19. Demand was severely hit as most schools, universities and offices were closed. Shutting down catering sites caused a slowdown in

activity and therefore revenues⁹. The education and business & industry segments were the most impacted by the decline in volumes.

Catering companies also experienced rising delivery costs along with procurement problems. Reduced workforce and logistics capability caused suppliers to increase raw material prices, putting pressure on margins just as revenues dried up. Unpredictable levels of footfall at sites made stock management difficult. Catering companies also had to re-organize their working space to comply with social distancing and sanitary measures. As a consequence, caterers had to lay off employees and put in place a team rotation system.

- **Sodexo:** Q3 2020 revenues were down 30%, compared to the previous year. Revenues in the education segment suffered a 54%

decline, while B&I segments lost 29% of their revenues.

- **Elior:** Third quarter revenues declined by 46.4% compared to the previous year and the impact of the crisis was estimated to EUR 756 million on consolidated revenues for the nine months period. Revenues in the B&I and education segments were down 62% and 54% respectively in the Q3 2020⁹.
- **Compass:** Organic revenue declined by 44% in Q3 2020 and by 14% for the nine months of fiscal year 2020¹⁰.
- **Aramark** reported a USD 256.4 million loss in its fiscal third quarter of 2020, representing a 46.3% decline compared to the previous year¹¹.

⁹ Sodexo Q3 Fiscal 2020 Revenue Impacted by COVID-19 | Sodexo SA | July 2020

⁹ Revenue for the first nine months of fiscal 2019-20 | Elior Group | July 2020

¹⁰ Q3 Trading Update | Compass Group | July 2020

¹¹ Aramark Reports Third Quarter Earnings | Aramark | August 2020

Despite the hit to the food services segment, business lines such as facilities management and off-site services were more resilient to the pandemic, enabling companies to offset poor performance in the catering business. Sodexo launched "Rise with Sodexo", Aramark introduced the "EverSafe Proprietary Platform" and Compass announced its "Compassion" initiative in the midst of the crisis. These initiatives are suites of tailored services to help corporations to address health and operational challenges in their efforts to reopen their businesses. Facilities management services provide a key revenue source for large caterers but in this era of digitalization, these models will also need some rethinking.

Possibilities for providing value added services in the traditional catering model are now limited by the pandemic, which highlighted the industry's shortcomings. The pandemic's effects will drive the transformation of the catering business, particularly in the business & industry segment with the advent of teleworking.





Focus on telecommuting

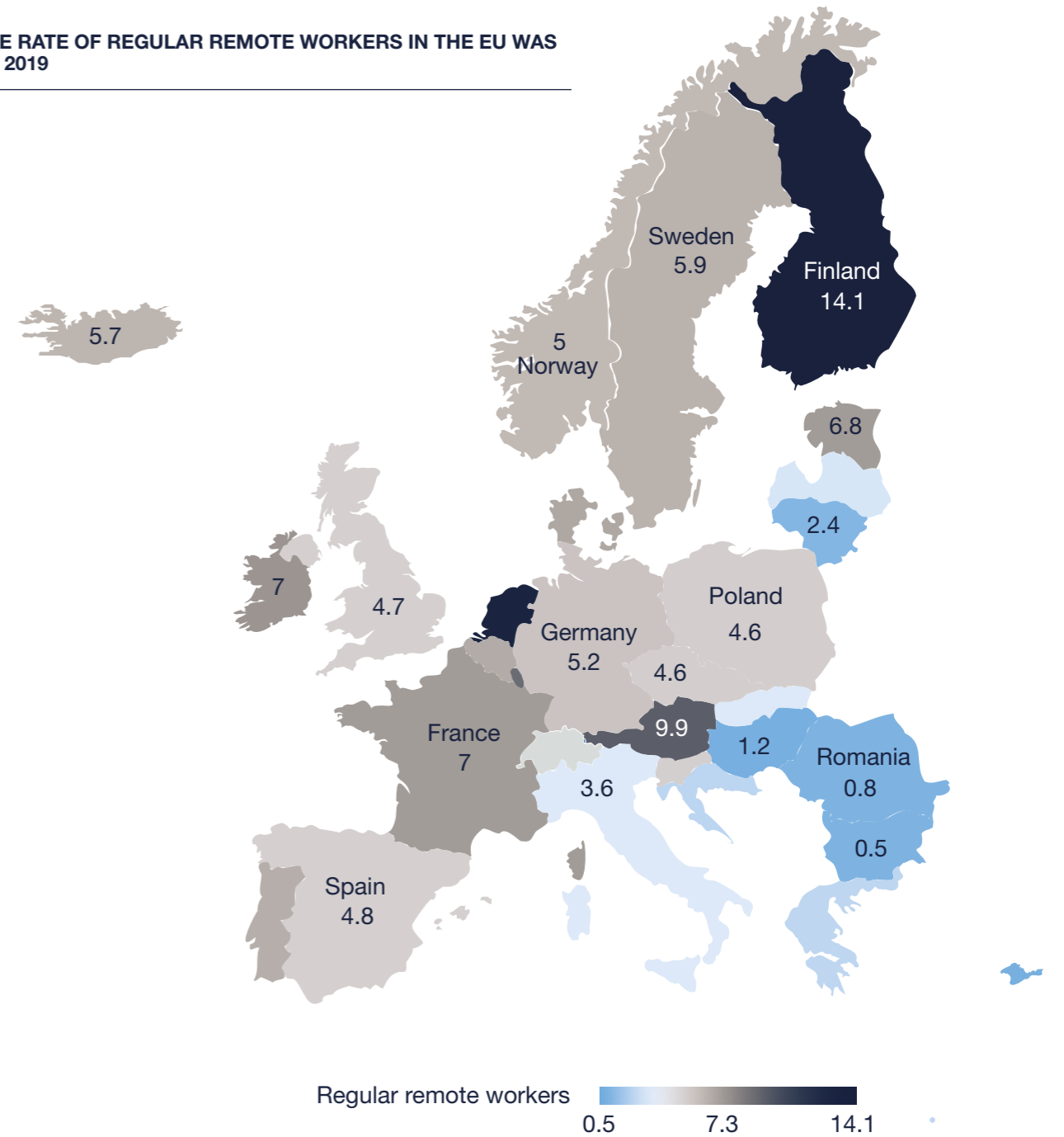
“...Turning the spotlight on home-working”

Before the pandemic

Telecommuting has been a growing trend in Europe since the 2002 framework agreement regulating this practice. Based on a study conducted by Eurostat, 5.1% of the European workforce was regularly teleworking in 2019, a proportion that has been more or less stable for the past 10 years. The percentage of occasional remote workers in 2019 was 9.7% in the EU, up 3.9% on 2018.

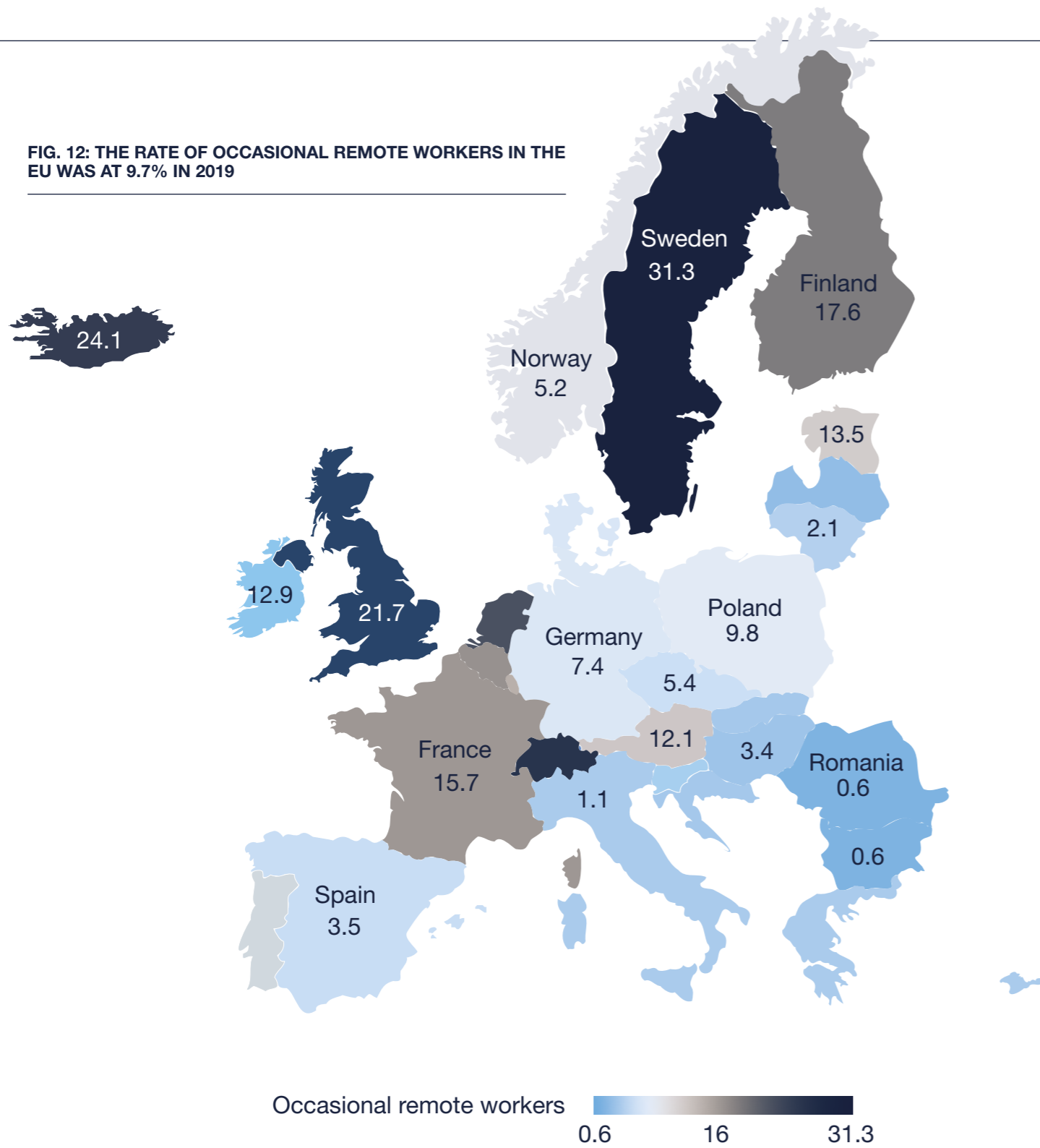
Telecommuting has been adopted at each country’s own pace: it is more developed in northern Europe than in eastern European countries. Differences arise mainly from the industrial structure of countries and their level of digitalization.

FIG. 11: THE RATE OF REGULAR REMOTE WORKERS IN THE EU WAS AT 5.1% IN 2019



Source: Eurostat database | September 2020

FIG. 12: THE RATE OF OCCASIONAL REMOTE WORKERS IN THE EU WAS AT 9.7% IN 2019



Source: Eurostat database | September 2020

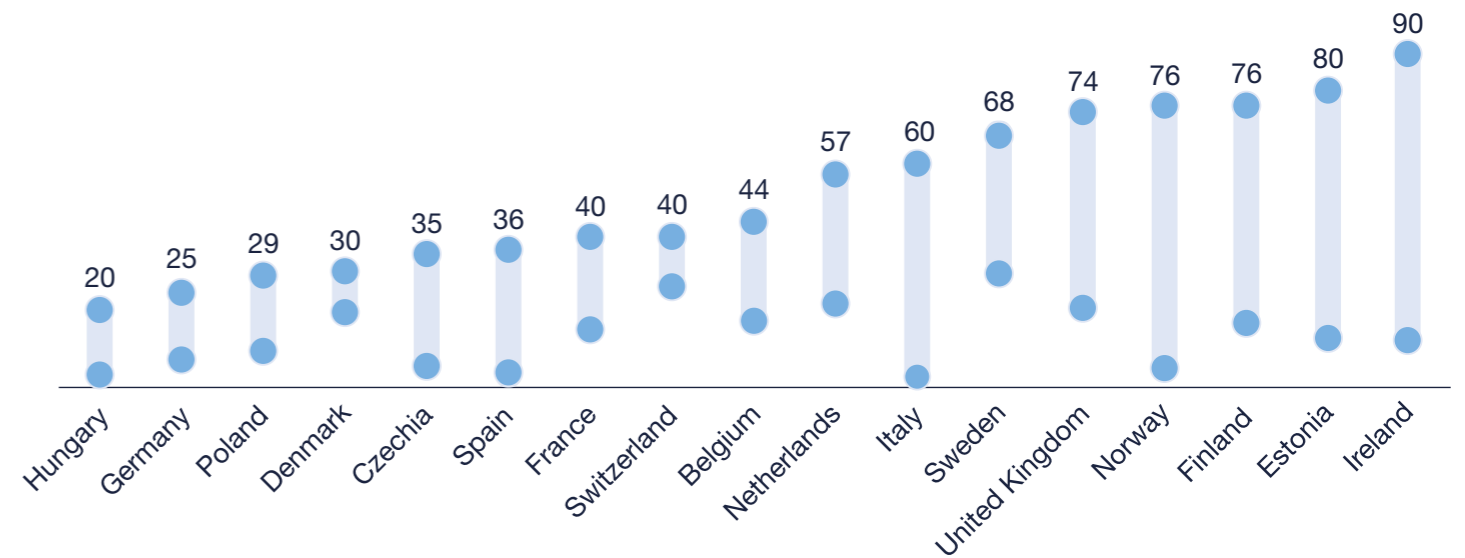
During the pandemic, during the lockdown

Lockdowns made teleworking essential for companies to remain operational. In the thick of the pandemic, Europe registered on average 38% more remote workers than in 2019. The lockdown has seen the number of teleworkers rise from 15.7% to 40% in France, from 21.7% to 74% in the UK and most notably from 1.1% to 60% in Italy.



FIG. 13: ONE FEATURE OF THE LOCKDOWN IS THE RISING SHARE OF REMOTE WORKERS, UP 38% ON AVERAGE COMPARED TO 2019 FIGURES

TELEWORKING DURING THE LOCKDOWN



Source: Countries with the most people now working at home | Nicole Robinson | May 2020

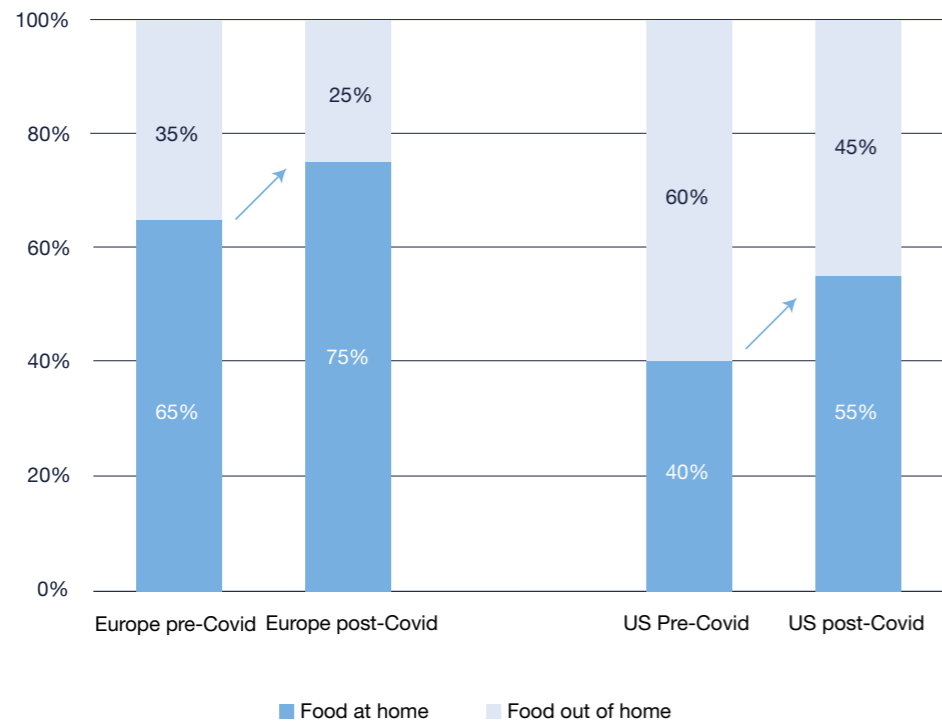
The lockdown has increased the share of food expenditure on at-home consumption, caused not only by pandemic measures but also by a perceived need to eat more healthy and immune-boosting products. The growth in at-home dining will become permanent after the pandemic, outpacing out-of-home food consumption. In fact, at-home food

consumption is expected to rise from 65% to 75% in Europe and from 40% to 55% in the US.

Lockdowns also highlighted the rising appetite among food retailers to expand beyond their stagnating core business. According to a report by IRI, the catering industry lost 100 million meals every week during the

lockdown in France. 70% of this loss was transferred to food retailers, which corresponds nearly to EUR 280 million per week, or EUR 2.24 billion for the entire lockdown period.

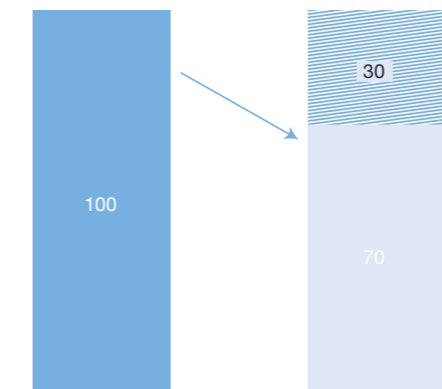
FIG. 14: AFTER THE PANDEMIC, THE INTEREST FOR AT-HOME FOOD CONSUMPTION IS EXPECTED TO RISE BOTH IN EUROPE AND IN THE US



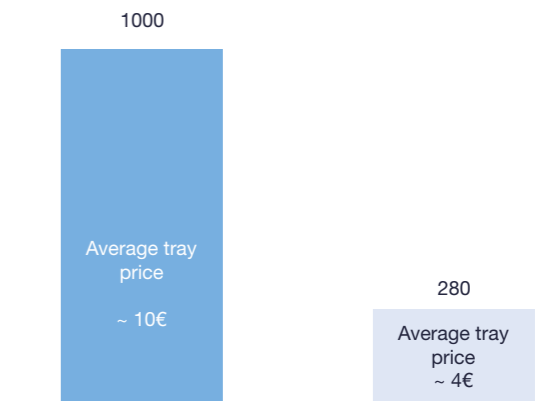
Source: Piper Sandler 2H Consumer Outlook Survey | HelloFresh and Piper Sandler | August 2020, Bryan, Garnier & Co ests.

FIG. 15: THE LOCKDOWN FOSTERED THE EXPANSION OF FOOD RETAILERS TO THE EXPENSE OF THE CATERING BUSINESS

TRANSFER OF MEALS FROM CATERING TO FOOD RETAIL (IN MILLIONS)



VALUATION OF MEALS TRANSFERRED FROM CATERING TO FOOD RETAIL (MILLIONS €)



Source: Impact de la fermeture de la restauration | Information Resources Inc. (IRI) | 2020

This shift generated 10%¹² additional growth for French food retailers and allowed them to more than offset the consumers downtrading. These companies are becoming structural challengers for catering companies, as the rise in at-home food consumption is an opportunity for them to capture new market share in a stagnating environment.

During the pandemic, after the first lockdown

Teleworking decreased after the lockdown. In France, a survey by YouGov showed that the number of

teleworkers decreased by 12%; in the United Kingdom, the figure is 6%¹³.

However, governments still want businesses to work remotely as much as possible to reduce the risk of transmission. Some are doing so, while others adopt hybrid or rotation systems. Countries are still subject to evolving lockdown measures as the spread of the virus continues.

¹² Bryan, Garnier & Co ests
¹³ Le télétravail a beaucoup reculé malgré la persistance du coronavirus | Les Echos | August 2020



After the pandemic (perspectives for the catering industry)

Recent statistics and trends reinforce our idea that in the post-Covid-19 world, there is momentum for long-term changes in telecommuting. According to the 2020 State of Remote Work, 98% of interviewees want to continue to work remotely for the rest of their career¹⁴. Employees nowadays consider this practice as being the “new normal”. Employers recognize the advantages that come with telecommuting, in particular better employee productivity, time and resource savings. Teleworking leaves more money in the hands

of employers and employees as they save on transportation, rent, office space, equipment and current expenditures.

Of 317 CFOs and finance leaders interviewed on March 2020 for the Gartner CFO Survey, 74% intend to move at least 5% of their workforce to permanent teleworking¹⁵. Some companies have already announced remote work plans:

- Both Google and Facebook plans to move to telecommuting until summer 2021, while Twitter employees will likely continue to

practice teleworking for the rest of their careers¹⁶.

- In France, PSA employees will work at offices for less than 1.5 days per week¹⁷.
- Natwest, Metro Bank and Virgin Money have asked employees not to return to their offices until 2021 at the earliest¹⁸.

¹⁵ CFO Actions in response to COVID-19 | Gartner Finance | March 2020
¹⁶ Facebook joins Twitter in telling employees they can work from home forever | Sissi Cao / The Observer | May 2020
¹⁷ PSA va généraliser le télétravail dès la rentrée | Lionel Steinman / Les Echos | July 2020
¹⁸ Le très lent retour au bureau dans les banques de la City | Alexandre Counis / Les Echos | September 2020

There's a need for catering services to feed the increasing number of nomadic workers, as home is not the only off-site location they work from. There's a rising popularity in “third” places, such as co-working spaces and coffee shops. Leading European countries based on their share of the total number of co-working spaces in the world are: UK (5.08%), Spain (4.57%), Germany (3.85%), France (1.65%), and Italy (1.45%).

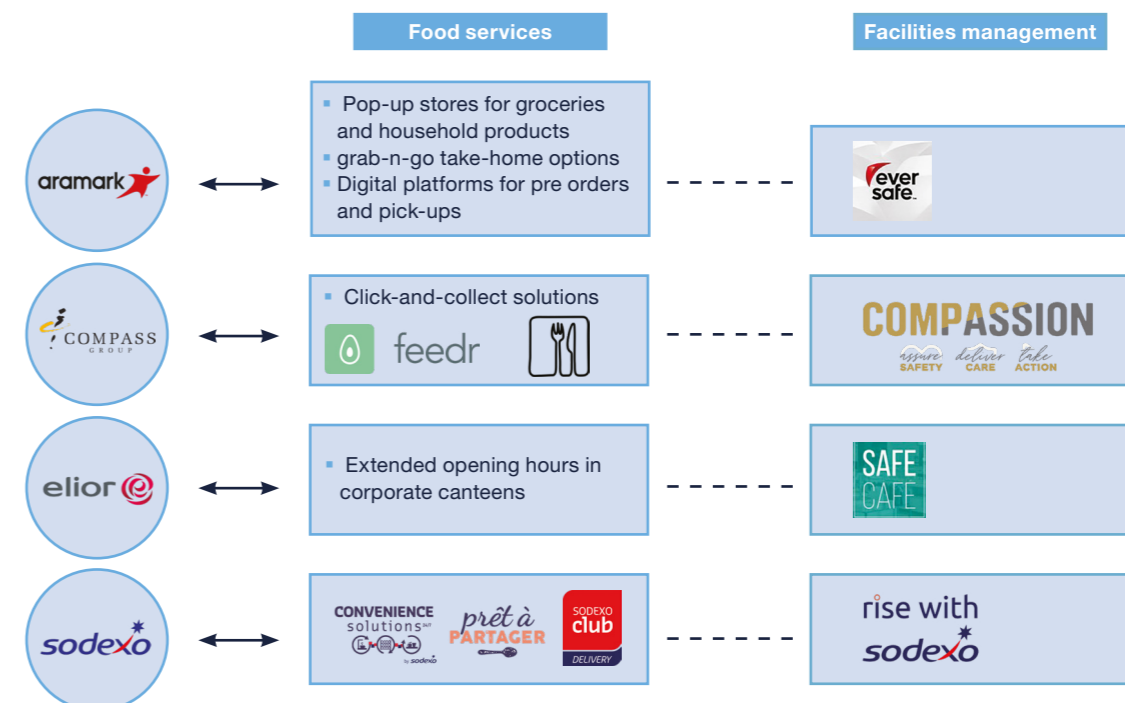
If the teleworking bandwagon picks up speed, catering sites will be hit by significant traffic decline, as on average, employees will be working

from home at least one day per week. With 150 catering trays per day being the breakeven point for most kitchens, at least 10% to 15% of on-site kitchens would have to close down. This would imply that 20% of the market disappears and will lead to more competition in the biggest catering sites.

At the start of the pandemic, incumbent catering companies aimed to adapt to the new situation either by launching new initiatives or by reinforcing existing ones both in food services and facilities management services.



FIG. 16: IN THE MIDST OF THE PANDEMIC, TRADITIONAL CATERING COMPANIES PROVIDED VARIOUS SERVICES TO ACCOMPANY THEIR CUSTOMERS



Source: Company data, Bryan, Garnier & Co

Bolstering changes in consumption modes

Adapting to the “new normal” : Now, food should go from kitchen to customer

The pandemic is accelerating the speed of change in consumption and customer behaviour, highlighting the needs for convenience and transparency in terms of food quality and safety.

Growing health concerns and the changing environment are making consumers more aware of nutrition, driving increasing demand for healthy food and immunity-boosting products. Customers want caterers to provide more details about food sourcing, nutrition information and allergens and they want it to be easier to order and to pay, with interactions driven by technology.

The road ahead for the catering business involves developing multi-channel offers. For business & industry customers, especially white-collar workers, the footprint is no longer limited to the office building. The focus should therefore be to relocate catering sites according to customers’ convenience. Catering services should be able to provide the type of food employees want at a reasonable price, and get the food to them wherever they are.

This transformation of the catering business needs to be conducted through digitalization: it is the vital tool for managing and predicting customer flows, consumption, resource use and logistics.

Digitalization and the rise in teleworking have further blurred the boundaries between food sectors such as catering services, food retail, online delivery and snacking. Now everyone competes in the same market and the objective is to increase margins and growth, mainly by adapting quickly to consumers’ needs.



Disruption: possible partnerships and transactions

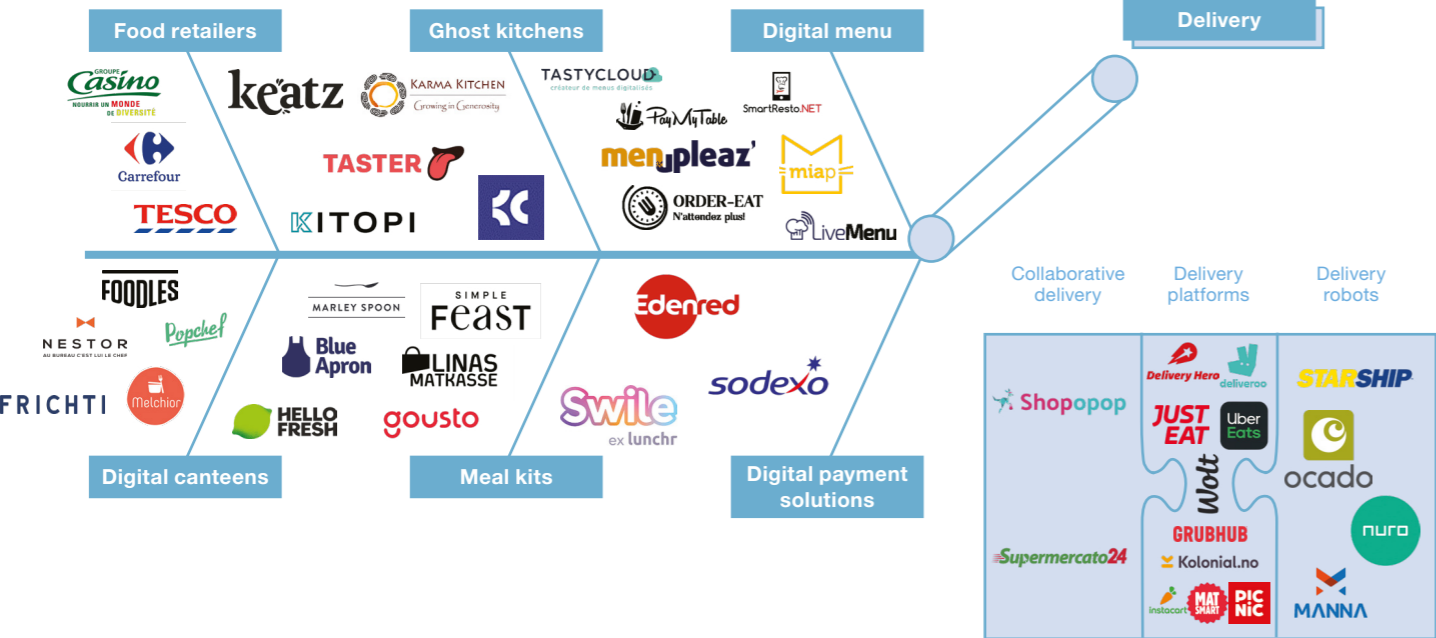
New entrants

New players take a bite of the industry ...

Alternatives to the catering model offered by traditional companies have recently emerged. A number of start-ups are already thriving in different sectors of the food industry.



FIG. 17: NEW ENTRANTS TO THE FOOD SERVICES MARKET ARE FLOURISHING



Source: Bryan, Garnier & Co

The main reason for their success is their ability to adapt quickly to changes, respond to specific needs and serve niche markets. During the thick of the pandemic, the main catering companies lost some EUR 25 billion in value while FoodTech companies captured EUR 34 billion of value.

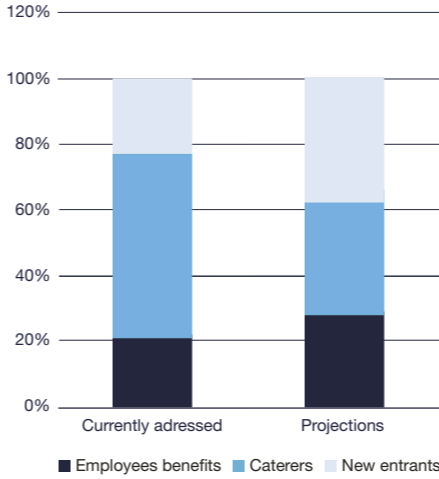
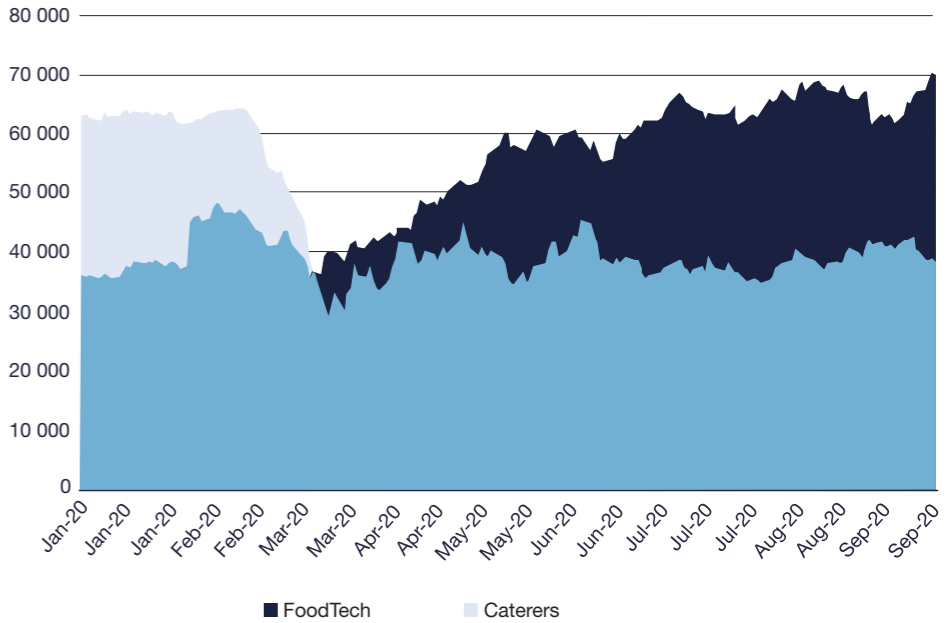


FIG. 18: THERE HAS BEEN AN IMPORTANT VALUE TRANSFER FROM TRADITIONAL CATERING COMPANIES (- €25 BILLION) TO FOODTECH START-UPS (+ €34 BILLION) IN LESS THAN SIX MONTHS



Source: Eikon, Bryan, Garnier & Co estimates

The new environment strongly drove demand for the following:

- Smart catering fridges and vending machines: automated machines designed to store hot meals, fresh and frozen food, snacks or beverage and provide it to customers after payment has been tendered.
- Ghost kitchens: also referred to as dark, virtual or cloud kitchens,

these facilities sell meals through delivery only.

- Meal kits: subscription-based program service that sends portioned ingredients to customers for them to prepare according to a specified recipe.
- Meal delivery.
- Grocery delivery.



The common denominator in all these alternatives is delivery.

There's an insatiable appetite for meal and grocery delivery. Developments in the field have allowed the expansion of a new generation of collaborative delivery platforms, with delivery robots in sight for the longer term. Several transactions in the delivery sector have

already involved partnerships and acquisitions with cloud kitchens, meal kit companies, catering marketplaces and digital canteens.

However, it's hard for traditional players to implement delivery services because they have not solved the financial equation of the "last mile" delivery. This is why

incumbents have not taken over the delivery sector: start-ups are keener to take this challenge on.

FIG. 19: THERE HAS BEEN NOTABLE TRANSACTIONS IN THE EUROPEAN FOOD SERVICES MARKET IN THE PAST FIVE YEARS

DELIVERY	PERIOD	STARTUP	CATEGORY	INVESTOR	TRANSACTION	DEAL VALUE
	Jan-20	Déjbox	Digital canteen Delivery platform	Carrefour	Acquisition	Undisclosed
	Mar-18	Quitoque	Mealkits	Carrefour	Acquisition	Undisclosed
	Jul-19	City Pantry	Catering marketplace	Just Eat	Acquisition	£16M
	Oct-19	Szopi.PL	Groceries delivery	Supermercato 24	Acquisition	Undisclosed
	Nov-19	Pizza Portal	Delivery platform	Glovo	Acquisition	€30M
	Seb-19	Foody	Delivery platform	Delivery Hero	Acquisition	Undisclosed
	Feb-19	Frichti	Digital canteen Delivery platform	Cantine 2.0	New service	NA
	Dec-19	Instamaki	Cloud kitchens	Glovo	Acquisition	€8M+
	Dec-19	Honest Food	Cloud kitchens	Delivery Hero	Acquisition	Undisclosed
	Jul-20	Instashop	Groceries marketplace	Delivery Hero	Acquisition	\$304M
	Apr-20	UberEats	Groceries delivery	Carrefour	Partnership	NA
	Apr-20	UberEats	Mealkits - delivery	Casino	Partnership	NA
	May-20	Deliveroo	Groceries delivery	Leclerc	Partnership	NA
	Jul-19	Glovo	Groceries marketplace	Carrefour	Partnership	NA
	May-20	Deliveroo	Groceries delivery	Casino	Partnership	NA
	Mar-18	Monoprix	Groceries delivery	Amazon	Partnership	NA

Source: 2020 State of European Foodtech report – Investments in European Foodtech 2014 -2019 | Digital FoodLab | April 2020

Opportunities in a post Covid-19 world

“... forcing catering companies to operate faster and differently ...”

In a post-pandemic world, caterers should rethink their business. The traditional catering business model generally relies on volumes and implies feeding a huge number of people in an allocated dining area and at low prices to remain competitive. This model is now strongly threatened by social distancing and teleworking. Catering is now shifting from a B2B to a B2C model. In the business &

industry segment, the focus should be intensified on the employee experience, with corporate catering defined as a Business-to-Employee (B2E) model. Either way, C, the consumer, or E, the employee, becomes the central point of the new catering model and dictates its needs.

There are several business opportunities to exploit in order to unlock growth. A rash of consolidation in the global food industry is likely to occur as we expect vertical and/or horizontal expansion of food service companies through acquisitions and partnerships. Traditional catering

companies should develop a model that nurtures start-ups, so they can adapt quickly to changes.

In the race to capture share in the catering market, we see three key food supply facilities: catering companies' kitchens, the ghost kitchens developed by more specialized players and what we call "back-store kitchens", the excess real-estate in retail stores.



▪ **Catering kitchens**

Catering kitchens include both central kitchens and on site corporate kitchens, which are key assets for catering companies. Central kitchens have a significant production capacity and their strategic locations allow them to distribute food to multiple dining sites and customers. However, central kitchens are largely dedicated to serve the education and healthcare segments with menus that are in general standardized, which makes it more difficult to satisfy corporate consumers in terms of options and flexibility. To that extent, corporate kitchens, which serve more

diversified meals, could largely open up to the outside world, which would allow them to respond to the current challenges. To explore new business opportunities for those kitchens, caterers could expand click & collect options for both on-site employees and external workers, partner with delivery start-ups, develop their own delivery services or rent less productive kitchens to other food entrepreneurs.

▪ **Ghost kitchens**

The rise of food delivery has been accompanied by an expansion of dark kitchens. Many restaurants

became dark kitchens overnight during lockdown, preparing meals for delivery only. Delivery companies also launched their own dark kitchens (i.e. Deliveroo Editions and Frichti) or acquired existing ones to develop new brands. We believe dark kitchens will continue to gain momentum, as they represent a more viable option to physical restaurants that are likely to suffer from low occupancy as the pandemic continues. However, efficient and optimized delivery is crucial to the success of this concept.

▪ **Back-store kitchens**

We define “back-store kitchens” as the excess capacity or unproductive floorspace of food retail stores that could be converted into kitchens facilities. Transforming this real estate efficiently would allow food retailers to develop their snacking offerings and on-site restaurant businesses, and to expand to delivery services.

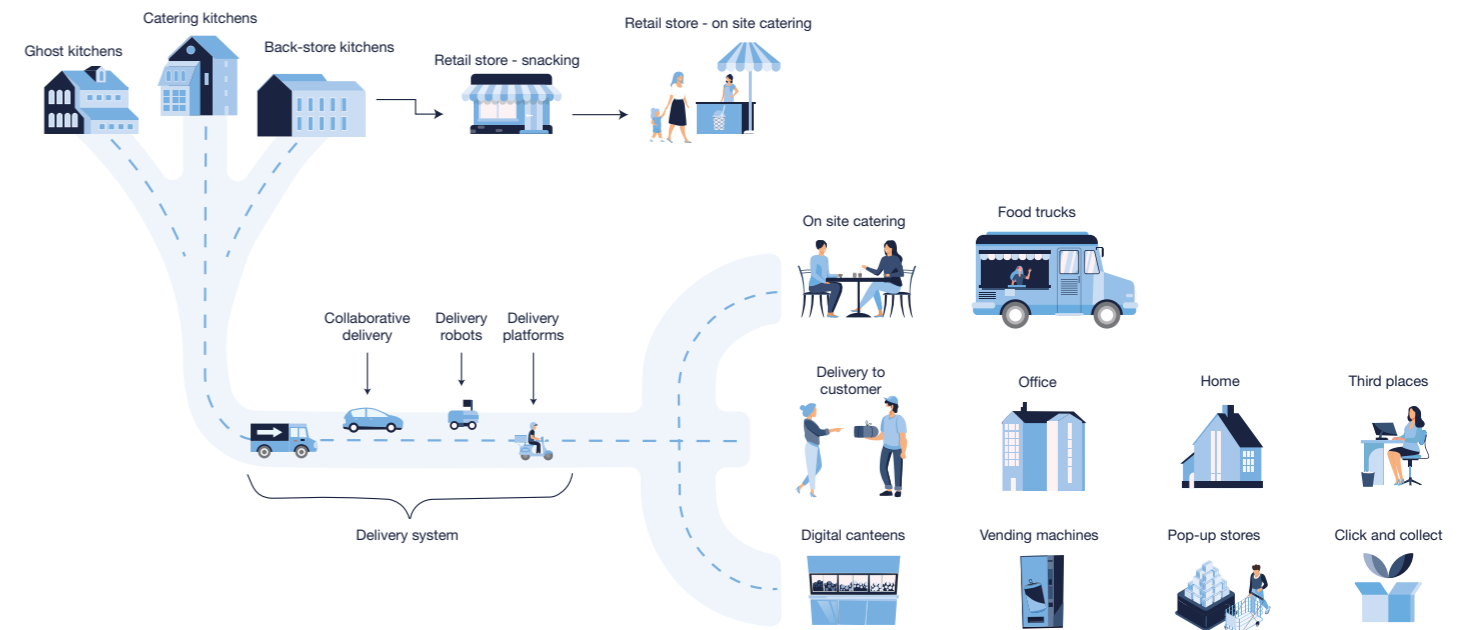
Multi-channel offers are what’s needed to breathe new life into

the catering model. The fuel of the model’s success is delivery.

Restrictions caused by social distancing measures will reduce the number of seats available and cause a re-organization in on-site dining areas. It is therefore important to reinvigorate catering sites by transforming the unoccupied space into grocery pop-up stores or convenience stores or by installing vending machines or smart fridges as a way to develop digital canteens.



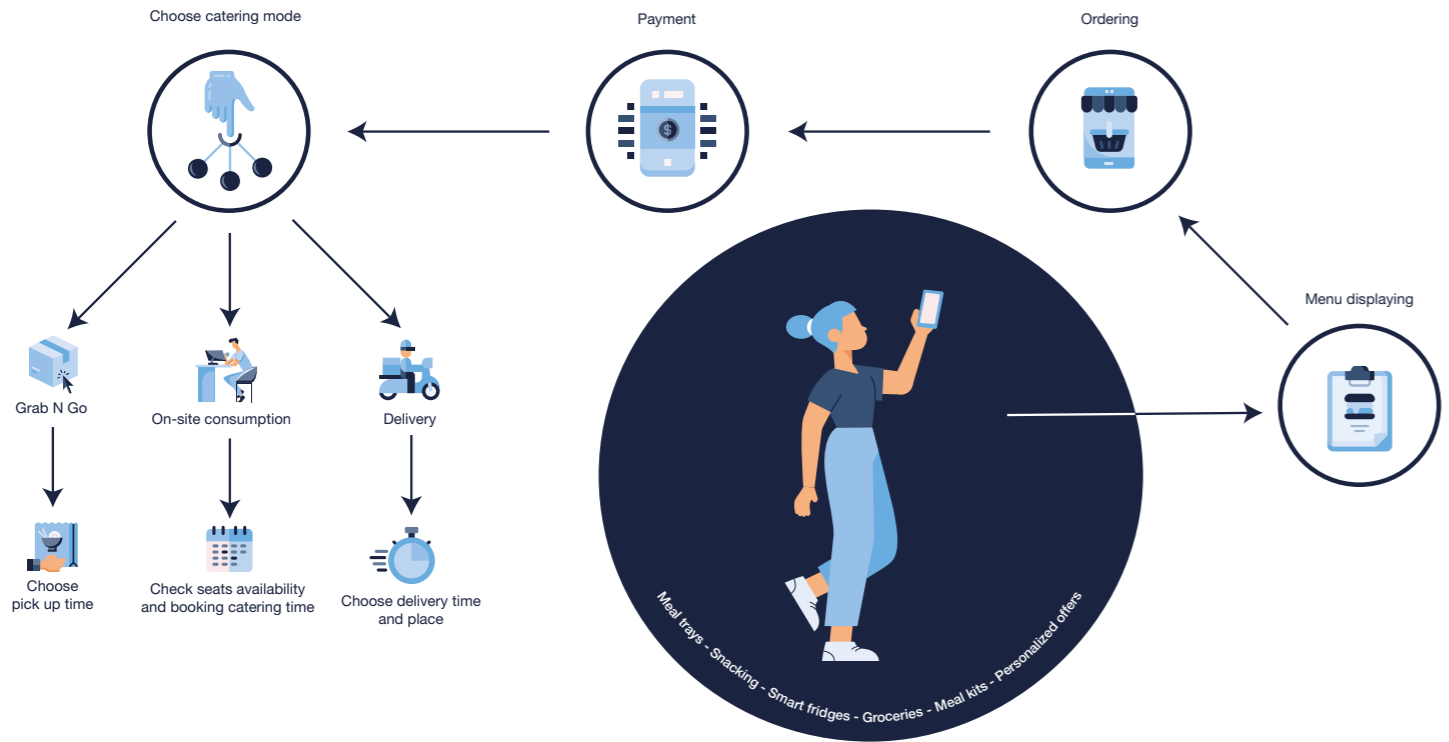
FIG. 20: IN A POST PANDEMIC WORLD, DIGITALIZATION AND MULTI CANAL OFFERS ARE THE KEY RULES TO THE EXPANSION OF THE CATERING BUSINESS



Source: Bryan, Garnier & Co

Digitalization along the entire food industry value chain will create substantial gains for food players, with potential to improve supply chain optimization, inventory management, food waste and customer flow management. And it will improve the dining experience by integrating mobile solutions in every step of the customer journey.

FIG. 20: THE NEW CATERING BUSINESS MODEL IS EXPECTED TO BE MORE CONSUMER CENTRIC



Source: Bryan, Garnier & Co



Conclusion

“ ... to satisfy everyone’s appetite.”


There are several benefits to transforming the catering business. It will unlock growth potential, capture cost and revenue synergies, and increase operational efficiencies.

For traditional catering companies, there are many opportunities to improve performance and prioritize revenue-generating operations – through internal initiatives, partnerships and acquisitions and by leveraging small players’ expertise and agility. A more flexible business model is a prerequisite for incumbent companies to maintain their leadership position and competitive advantages. A more decentralised organisation will also allow them to have greater segmentation and autonomy. The crucial element in the new model is the ability to quickly adapt to changes by offering multi-channel solutions to consumers.

For new players in the food services industry, enormous untapped potential remains. Strategic partnerships would allow them to reach larger markets in addition to serving small to mid-sized enterprises. Rapid digitalization offers a different approach to catering and will satisfy consumer demands for convenience, food safety and nutrition.



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Adapting to the **new** normal
requires **devising** more **agile**
business models.





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