

A **ROUNDTABLE** DISCUSSION

# REINVENTING FOOD AND BEVERAGE

## AN INDUSTRY RESPONDS TO COVID-19

While the larger, long-term impact of COVID-19 is yet to be seen, the food and beverage industry's response thus far may be one of the biggest stories of our time. In what's been described as a case history of reinvention, restaurants, grocery stores, food companies and other businesses have adapted to keep up with demand, while implementing new ways to protect workers and customers. Amidst Illinois' shelter-in-place order, four executives on the front lines shared their insights with Crain's Content Studio.

### What's the biggest challenge currently facing our nation's food and beverage industry, and how should it be addressed?

**Antony J. McShane:** The obvious is coronavirus, and addressing it will require businesses to maintain clientele and valued employees until there's some semblance of a new normal. They'll need to find creative ways to maintain revenue, minimize variable costs wherever possible and develop or support charitable efforts that benefit employees and their families—Lettuce Entertain You Enterprise's Employee Emergency Relief Fund for its employees is a prime example. Other restaurants are offering patrons the opportunity to purchase items previously provided at no charge—such as bread baskets—or extra items like carryout desserts and put the proceeds into similar funds. Those programs strengthen the bond between patrons and the businesses'

extended families. In turn, that builds brand loyalty, which can only help businesses weather the storm.

**Patrick Wartan:** The biggest challenge for food and beverage businesses right now is to process the volume of information and adapt rapidly and effectively. Though restaurants were permitted to open their outside dining areas on May 29, and assuming the current dates under the Restore Illinois plan remain true, the earliest restaurants can reopen their dining rooms in Illinois is June 26. Forgivable loans received under the Paycheck Protection Program will likely be exhausted by then. In the meantime, restaurant costs will continue to accrue with no ability to pay such costs and it's likely that many restaurants will not survive. In my opinion, the sooner the state permits restaurants to open with a limited capacity, the sooner they will be able to assess, retool their operations, and start generating

the income necessary to bring their employees back to work and start to pay down their fixed costs.

**Glen Clarke:** The change in the consumption location away from restaurants has driven dramatic increases in some categories and declines in others. Given the pace of change, these shifts have caused supply shortages and overages, especially by channel. While we've been impressed with the swift moves of some companies—foodservice providers offering consumer memberships and reallocating resources to repack goods for retail applications, and restaurants opening with marked waiting spots and delivery partnerships—we believe that diversification across all channels will be necessary in the next 12 to 18 months to survive.

**R.J. Melman:** For restaurants, the biggest challenge is how to survive at limited capacity. We're a creative

group of entrepreneurs and we'll figure out how to operate in this new world. However, there needs to be a solution—possibly from the government—to make up for the decline in occupancy. One solution would be a recovery plan with ongoing benefits, such as rent relief, to help restaurants sustain business once they're able to open.

### What are some best practices for food and beverage companies looking to support their employees during this time?

**Melman:** There's no one-size-fits-all in this environment. Everyone is in a unique and different economic situation as well as under different regulatory environments based on where their business is located. What I believe everyone can do is to always remember to act with kindness. Do the best you can do, and be thoughtful, honest and human in your communications with your employees.

that they feel compelled to come to work when they shouldn't. Darden Restaurants, for example, reportedly accelerated its sick leave for as many as 180,000 employees who previously didn't have it. Mental health is also an important component as the pandemic drags on. Providing subscriptions for mindfulness apps can be helpful. To help furloughed or laid-off employees, many hospitality businesses have reached out to their loyal patrons to help provide financial assistance to their community of employees.

**Wartan:** Many businesses started employee relief funds on fundraising platforms. While well-intentioned, businesses should consider the potential risks and consequences, such as adverse tax treatment of the distributed funds. Also, employers should be mindful in their distribution of the funds, as they could be subject to claims of discrimination. As employees return to work, food and beverage businesses need to follow CDC guidelines to develop hygiene and social distancing

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-PATRICK WARTAN

**Clarke:** Many companies have provided both compensation and benefits increases as well as changes to daily protocols to ensure safety. Examples include increased pay, sick leave and childcare; increased sanitation with hourly and nightly cleanings; increased protective equipment; multiple shifts with fewer employees to encourage physical distancing; temperature checks upon entrance to work; and contactless delivery.

**McShane:** Providing the safest possible work environment with the most stringent sanitizing and social distancing procedures is critical. Increasingly, hospitality companies are providing employees with paid sick leave to lessen the likelihood

policies and focus on enforcing those policies. Employers also need to make their employees feel safe by clearly communicating company policies, then providing training; this helps employees feel safe and confident when they come back to work. Additionally, employers should try to be respectful of schedules and not overburden their workforce. And if a particular employee doesn't feel safe returning to work, the employer should inquire whether the employee has a heightened consideration per the CDC, state, local authority, or the American with Disabilities Act.

**How should grocery stores and restaurants be evaluating their delivery services?**



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temperature checks prior to entering buildings, and hourly and nightly cleanings are just a few examples.

**Melman:** The National Restaurant Association has done a great job publishing guidelines and resources that restaurateurs and hospitality groups can easily access. Larger hotel chains and restaurant groups have also shared a wealth of information on their plans. This is making it a lot easier for people to reference, even for the restaurant owners who may not have the infrastructure to do the research themselves.

**Wartan:** We'll likely see a wave of increased food safety regulations as a result of the pandemic. High sanitation standards are certainly important, but so is educating the public to instill consumer confidence. Industry trade associations should be prepared to launch education campaigns explaining what Illinois, Chicago and other municipalities have done and how the trade associations' members have specifically addressed these health standards.

**What does support and relief look like for catering companies, event venues and festivals?**

**Clarke:** Until we can have gatherings with 10 or more people, these companies will likely be the hardest hit. All of these organizations are looking for local support by streaming online events, rescheduling instead of refunding

**Wartan:** Currently, delivery services are largely unregulated. As we move through the new normal, I believe we're going to see government regulation relative to the fees charged by third-party delivery services and increased sanitation requirements for drivers. Some jurisdictions may impose third-party delivery fee caps, while others may require more transparency in the fees assessed to both the restaurant and the customer. We may also see jurisdictions requiring all delivery drivers to pass a health sanitation course prior to being permitted to make a delivery.

**McShane:** An important element of evaluating delivery services is simply the degree to which they keep businesses in touch with their existing customers. Revenue and incremental profits are important, of course, but maintaining market share and brand consciousness will be even more important over time. Those factors will create a foundation on which businesses can return to some semblance of new normalcy once things open up. Businesses that are unable to withstand the epidemic will create a vacuum in which those that have survived can expand.

if the answer is no, then you shouldn't be doing it. Finding the best solution for your individual business is what's most important.

**Clarke:** Historically, investors have viewed heavy exposure to delivery services as a margin detracting activity in businesses that have historically already had thin margins. During and after COVID-19, we believe investors will require businesses to have in-house or third-party partnerships, much like the movement toward omni-channel retail presence. The key will be the store's or restaurant's ability to showcase that its delivery provides a net gain in total sales, which it can prove by tracking and showing a range of customer-specific statistics for its in-store versus online shoppers.

### How can companies best place their brands in front of consumers in the current e-commerce/pickup/delivery environment?

**McShane:** It's crucial that services such as virtual restaurants, carryout and delivery be marketed through individual consumer-focused Internet and social media

**“TO STAY FRONT OF MIND WITH CUSTOMERS, BRANDS NEED TO MEET THEM ACROSS MULTIPLE CHANNELS... AS WE'VE SEEN WITH CONSUMER PRODUCTS, BRANDS THAT RELY ON JUST ONE CHANNEL WILL LIKELY SEE WEAKENING RESULTS AS COMPETITION INCREASES.”**

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**Melman:** Like anything you do within your business, if you find that delivery isn't economical, you shouldn't be doing it. I'd suggest taking a hard look at the numbers and evaluating your services from the standpoint of whether it's additive to the business you're already doing and

channels. While many businesses are already using these methods, it's time to double down. Also, making a product's packaging more durable and reusable once delivered and sanitized can maintain brand consciousness in our sheltered and socially distant lifestyles.

**Clarke:** Now more than ever, brands need to focus on their respective marketing strategies. As more brands migrate to online delivery, food and beverage marketing trends will follow other consumer products in terms of increasing competition and waning customer conversion. To stay front of mind with customers, brands need to meet them across multiple channels, such as Instagram, TV, Uber Eats ads, print ads, email promotions and more. As we've seen with consumer products, brands that rely on just one channel will likely see weakening results as competition increases.

**Melman:** The biggest thing currently is to be flexible with your

messaging. What may have worked before this pandemic may not work now. You need to ensure that you're giving consumers relevant information that they can use, such as which restaurants near them have carryout and delivery available. Things are changing rapidly, and being flexible—not only in your messaging but with everything you're doing—is the key to success.

### How is the industry addressing sanitation concerns?

**Clarke:** Companies are going to new lengths to support the health and sanitation of its workers and products. Protective eyewear, masks, social distancing in plants,

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events, and generating cash through sales of gift cards, merchandise and “on the go” meals.

**Wartan:** The outlook for catering and event companies is bleak and there’s not been much economic relief offered to them. Even after restaurants are permitted to reopen, people will be reluctant to attend big galas or conferences. Though forgivable loans under the Paycheck Protection Program were available for event businesses, many were unable to obtain such loans and will not survive, given that the demand for event-related businesses will significantly lag behind other food and beverage businesses.

**What does the short-term, mid-term and long-term recovery look like for the industry?**

**Melman:** In the short term, recovery for the restaurant industry will consist of simply getting dining rooms open. What happens in the next six to 12 months is going to be monumental for the industry’s survival. The second part of recovery will require living in a world where your business can survive with the new level of volume, whatever that means. We understand that restaurants likely won’t open at

full capacity, so we’ll need to figure out how to sustain business with a reduced custom volume. Long-term recovery will involve figuring out what works in this new world, so restaurants can be healthy, sustainable, profitable and great places to continue to work.

**Wartan:** The short-term recovery will be a scramble with businesses trying to pivot to retool their business around each phase of the city or state’s reopening plan. They’ll need to quickly adopt and enforce new employee policies and procedures, while possibly also securing new talent if their workforce has moved on or is no longer interested in working in the industry. In the mid-term, absent another large stimulus program, food and beverage businesses are going to struggle. Many will go out of business amidst a stack of unpaid bills as consumer demand decreases due to safety concerns. Looking ahead, we predict a strong long-term recovery for brands that can ride out for the next couple years, including large-scale growth and acquisitions for well-capitalized brands.

**Clarke:** In the short term, we’ll continue to see rapid changes in the supply chain that attempt to normalize for new consumption

patterns. After that, mid-term adoption of e-commerce pick-up methods will certainly drive long-term changes in consumer behavior and, ultimately, contribute to the brands that succeed. Food and beverage has lagged behind its peers in e-commerce, and we see this as the step-change movement that will remain post-COVID19 cure. Brands that win in the long term will understand how to best manage the consumer lifecycle—discovery, conversion, repeat, promote—in the new world.

**McShane:** Survive, stand, walk . . . expand. This question reminds me of the ESPN 30 for 30 program

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-R.J. MELMAN

on the improbable run by the North Carolina State basketball team to win the NCAA Championship in 1983. It was named after the school’s legendary coach Jim Valvano’s mantra for the tournament, “Survive and Advance.”

**As the country reopens, how can companies use their brands to keep and build market position?**

**McShane:** The best and most cost-effective customer to obtain is the customer you already have. Accordingly, now is the time to go all-in on loyalty and frequent customer programs. New monthly

from, how it’s made, and why companies have made the decisions that they’ve made, including what they’re doing to reduce COVID-19 risks. Brands should continue to innovate and pivot during each phase of the pandemic. We’re seeing restaurants convert to grocery markets and have tremendous success. Similarly, we’re seeing restaurants with Michelin stars really excel with approachable takeout options.

**Clarke:** Brands that manage through this difficult time in the near term and continue to focus on food and beverage trends that we expect to continue will likely have more shelf space, digital eyes and less competition as the “losers” shake out.

**What impact did the Paycheck Protection Program (PPP) have on the industry?**

**Clarke:** Until June 30, it’s too early to tell. But for the most part, reaction from business owners has been mixed due to the complexity, the underlying uncertainty of what will be considered eligible and the fact that the PPP’s \$349 billion initial allotment was out of money by the time many of the smaller players could even apply.

**Wartan:** It was a good first step, but unfortunately, it didn’t account for the unique challenges of the food and beverage industry and, thus, additional relief will be needed. One major issue is the timing of the use of the loan proceeds. To qualify for forgiveness, PPP loan borrowers are required to deploy 75% of the loan proceeds for payroll expenses and 25% for certain permitted expenses such as rent, mortgage interest payments, utilities, and interest on pre-existing debts within eight weeks of first receiving the funds. This creates an inherent problem for restaurants and other businesses that have ceased operations due to the government-mandated shutdown, as those businesses are forced to deploy the loan proceeds prior to opening rather than saving the funds for expenses they will undoubtedly need to reopen the business.

**McShane:** The impact of PPP loans has been largely dependent on what segment of the food and beverage industry a business occupies. Food manufacturers, producers, suppliers and business with a strong online/e-commerce presence have been able to use the loans to pay their employees and operate as they adjust to serving consumers directly and moving to new business models. Restaurants are another story, when you consider the impact of the stay-at-home order, the status of their businesses and the prospect of limited operation when

membership services, for example, present an opportunity to raise revenues and solidify customer loyalty. Brands known for their excellence in quality, consistency and services—and therefore, cleanliness and reliability—occupy a position of strength that can be exploited. Conversely, it’ll be difficult to launch a new and unknown brand, either as a new business or service, or an extension of a well-known and established business. We expect that when customers order in or venture out, even as the economy re-opens, they’ll reach for the brands they trust and will be averse to new, untested brands and products. This suggests a time for retrenching around brands with established customer bases.

**Melman:** We’ve been around for 49 years and are at an advantage by having not only a robust online presence, but also loyal guests who’ve been dining with us for years. Prior to the pandemic, we also had established delivery and carryout programs in place, which definitely gave us a competitive advantage in this environment. The more infrastructure you had previously around things like delivery, the more advantages you’ll have going forward.

**Wartan:** Customers want to know where a product’s ingredients come

### ABOUT THE PANELISTS



**GLEN CLARKE** is a managing director in the consumer and retail group at Baird—a multinational independent investment bank

and financial services company—where he also leads the firm’s food and beverage practice. He has more than 20 years of experience providing corporate finance and M&A advice to food and beverage companies across a variety of industry verticals. Previously, he held management roles with KeyBanc Capital Markets, Duff & Phelps, and Brown Gibbons Lang & Co.



**ANTONY J. MCSHANE** is a partner at Neal Gerber Eisenberg, one of the largest single-office law firms in the nation. He is the founder and former co-chair of the firm’s intellectual property practice group, and is a member of its hospitality practice. He manages the daily intellectual property

demands of Fortune 500 companies, hospitality businesses, sports franchises, social media and tech companies, entrepreneurs and other growing enterprises.



**R.J. MELMAN** is president of Lettuce Entertain You Enterprises (LEYE), an independent, family-owned Chicago-based restaurant group that owns, manages and licenses more than 130 establishments in Illinois, California, Maryland,

Minnesota, Nevada, Virginia and Washington D.C. Since joining LEYE in 2001, he has held various roles and consulted on restaurant projects outside of the company. With his siblings Jerrod and Molly Melman, he has created and opened more than 13 restaurant concepts.



**PATRICK WARTAN** is a partner and chair of the food and beverage group at Taft Steffinius & Hollister LLP, a full-service law firm with offices in Chicago

and throughout the Midwest. With a background in the foodservice industry, he counsels multi-unit restaurants, hotel developers and food and beverage consumer brand companies on day-to-day legal needs, including financing arrangements, food and liquor licensing, M&A, real estate and general corporate governance in jurisdictions nationwide.

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they do open. While a restaurant may have been able to pay employees during that eight-week period, the restaurant still may not survive if it can’t safely open in reasonable time at a consumer level that generates a profit. A reduction of the 75% payroll requirement for forgiveness could help restaurants and other smaller food businesses cover other expenses like rent with their PPP loan.

**What opportunities has the country’s response to the pandemic created for the food and beverage industry?**

**Melman:** It certainly created an opportunity for some restaurants to get off of third-party delivery platforms and operate to-go through their own websites and channels, which I think will be a lasting change. Additionally, people in

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the restaurant industry are truly questioning every part of the technology stack that exists within their restaurants, understanding what’s essential and what isn’t moving forward.

**Wartan:** Well-capitalized, strong brand name players will survive and prosper because of greatly reduced competition. There likely will be

significant M&A roll up across the industry. For restaurants in particular, a number of choice locations with existing built-out kitchens will be available, and will drastically lower the cost of expansion. Landlords will likely have no choice but to accept reduced rents on these spaces. There’s also an opportunity for trusted service providers or trade associations to develop “certified COVID-19 compliant” designations where they can inspect the facilities and the practices of a location, and then issue a certification indicating compliance so customers have confidence that safety standards are being met.

**Clarke:** There’s a generation of foodies and restaurant goers who learned new cooking skills during the pandemic and who will likely keep cooking at home more frequently

**Wartan:** We’ll likely see systemic increases in food safety and sanitation regulations across the board, but on the flip side, we’ll also see governmental agencies being more flexible on business operations. In other markets, we’re already seeing cities close off streets to create more al fresco dining space, and some cities and states—but not Illinois yet—are relaxing liquor laws to permit delivery of pre-mixed cocktails. Additionally,

food and beverage businesses will likely start to rethink space planning and architecture. Prep or service stations in restaurants may be further separated, and a dedicated delivery/to-go area may be further isolated from the rest of the premises. Lastly, we’re going to see some lasting simple hygienic behavioral changes, like not putting the receipt in the bag with open food and prohibiting the cashier from swiping a credit card and then scooping fries.

**Clarke:** Many of the consumer trends that existed prior to COVID-19 will likely become more pronounced. Examples include the “barbell effect”—flight to either better-for-you or indulgent brands—continued movement toward value and private label brands as a recession looms; and safer, more sanitary packaging.

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**Looking to the future, what major changes to the industry will we likely see?**