

THE HORECA CHALLENGE

Seizing the On- and Off-Trade Opportunities beyond the Crisis

By David Bedarida, Mathieu Doiret, Lawrence Mills | July 2020

This paper has been written by Ipsos' Food and Beverage Experts and is aimed to present CMOs and CMIIs with a summary of what Ipsos learned about the impact of Covid on Out-Of-Home (OOH) occasions and the scenarios which they deem likely to shape their future.

It also contains our recommendations in terms of consumer and market targeting and segmentation, portfolio optimisation and innovation, channel strategy and communications.

1. A QUICK REMINDER: THE SITUATION BEFORE THE COVID OUTBREAK

A channel accounting for a third of food & drink business

OOH channels accounted for *ca.* 33% of all food and beverage sales in the most affluent markets ([a detailed survey has recently been conducted in the Netherlands](#) – details available [here](#) & [here](#)).

The two occasions which most account for this share are snacking and having drinks: coffee and tea shops were the fastest growing OOH outlets, posting a 5.1% growth rate in 2017-20¹. It is also to be noted that the OOH channel

accounts for a larger share of revenue than of volume in **all** drink categories, which means that profit margins are higher than in supermarkets and grocery channels in general.

But **a major transformation of the foodservice business was already under way before the coronavirus outbreak with [the fast growth of food delivery](#).**

2. WHAT'S GOING ON

The immediate impact of lockdown

The impact of lockdown on OOH's volume share has been immediate (volume will be down 3pts. from 2019 for non-alcoholic drinks and hot drinks in 2020, down 5pts. for alcoholic drinks). *Ca.* 80% of revenue generated by take-away and delivery was incremental to other OOH channels² before the pandemic, but as long as lockdowns were imposed on restaurants and caterers, **delivery actually substituted for the whole foodservice industry.**

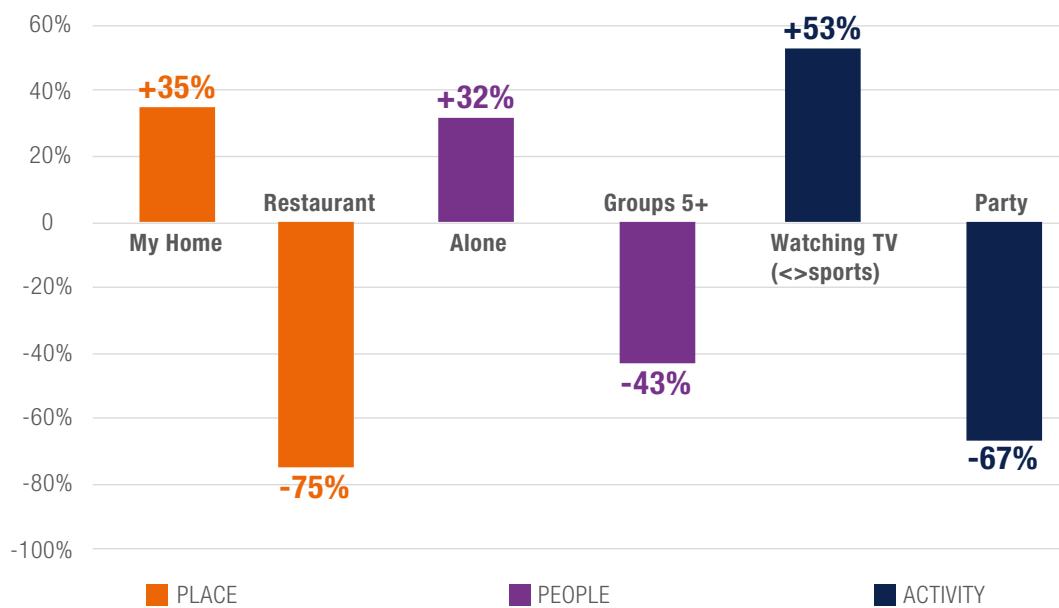
Chris Kempczinski, President, McDonald's USA, remarked [in a 2018 interview with Ipsos](#) that **the counterpart to the rise of food delivery will be new consumer expectations in the restaurants' premises.** This is why restaurants must continue being the preferred option for consumers seeking a particular ability to customize their order ([64% of American consumers think it is a must-have](#)) and to propose a wide selection of menu items (56%).

This too might affect long term perspectives for HoReCa as this industry is very dependent on business-related occasions (travels and lunches) and daily commuting.

Shifting occasions

Not only volumes consumed by channels but also occasions changed dramatically during the lockdown. Ipsos data shows that, in the second half of March, consumers shifted the majority of alcohol consumption to previously untypical occasions: My Home +35% (vs. Restaurant -75%), Alone +32% (vs. Groups 5+ -43%), Watching TV (Non-Sports) +53% (vs. Party -67%).³

Figure 1 % Change in Servings H1March vs H2March 2020 in US



Source: Ipsos Alcohol Consumption Tracker – Scope: US

3. WHAT HAPPENS NEXT

The real challenge now is that Ipsos data suggests that consumers are unlikely to immediately return to pre-outbreak levels of HoReCa and on-the-go consumption as restrictions are lifted since less than a majority would feel comfortable eating in a restaurant in 2020 (36% globally in our [Essentials](#) tracker's May Report).

Cooking no longer a chore

One of the reasons why cooking and dining at home might become lasting habits is that cooking is increasingly perceived as a hobby and not as a chore.

A recent report by Ipsos in the Middle-East and North-Africa observed that people in lockdown were trying and incorporating new foods within their own dishes across the region and are thus [honing their culinary skills](#).

The rise of the home chef

Over the past two years we have already seen the rise of consumers who can be classed as “foodies”. “Foodies are seen as consumers who are deeply interested in exploring the world of food”. Foodies pay a lot of attention to ingredients and authenticity. They like to cook and share with guests as much as they love eating good food. In English-language conversations online we have recently seen conversations around food centre around the theme of [the rise of the home chef](#).

For example, in the US, before the quarantine began, [one in two consumers under 35 said they were going to cook as many meals at home in the future than they currently did, with 39% saying they are going to cook more](#).

Figure 2 Cooking is no longer a chore

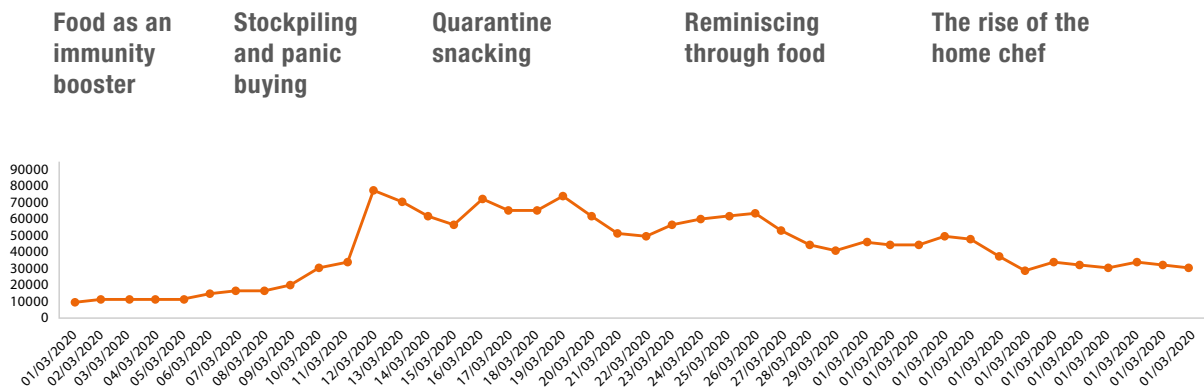


Source: Ipsos, *Five Ways COVID-19 Has Impacted MENA's Food Habits*, June 2020

Healthy eating trends

Another trend which we had also highlighted before the coronavirus outbreak and which is also very likely to remain and, possibly, amplify in the current context, is **the craving for healthier food**. With regard to habits linked to on-the-go and snacking occasions, our *Essentials* May Report shows that more consumers are still planning to reduce than increase their consumption of carbonated drinks vs. their regular buying habits. Conversely, this trend will also likely drive [the growth of non-alcoholic beer](#) and we recently observed that in China concerns about food healthiness might also favour the consumption of more [dairy products](#).

Figure 3 English-language conversations online around food



Source: Ipsos, *The impact of Covid-19 on how we eat, May 2020*

Pent-up demand

From a consumer perspective, one possible scenario is that pent-up demand will be unleashed as soon as consumption occasions are available again.

[Our Affluent Tracker in the US](#) also showed increasing purchase intents due to pent-up demand: in May, 63% of US affluent consumers had planned or rescheduled a trip and their purchase intentions for leisure-related products were on the rise. E.g. 34% planned to buy sporting equipment during/post pandemic vs. 27% pre-pandemic.

An unlikely return to the status quo

Yet, the scenario of a return to the status quo before the end of year 2020 looks increasingly unlikely because of the already tangible impact of the economic crisis prompted by the containment measures that most national and local governments had to implement.

Many lost their jobs, **particularly in the HoReCa sector:** [in April, the leisure and hospitality industry had lost 7.7 million jobs in the US](#), or 47% of total positions, with the vast majority of the industry's layoffs in foodservice.

The impact of a global recession

[In countries where the unemployment rate was already comparatively high before the epidemic, most think that jobs lost during the lockdown won't return anytime soon:](#) 67% in France, 64% in Spain, 63% in South Africa, 61% in South Korea and 60% in Italy are pessimistic about a return to pre-crisis unemployment levels.

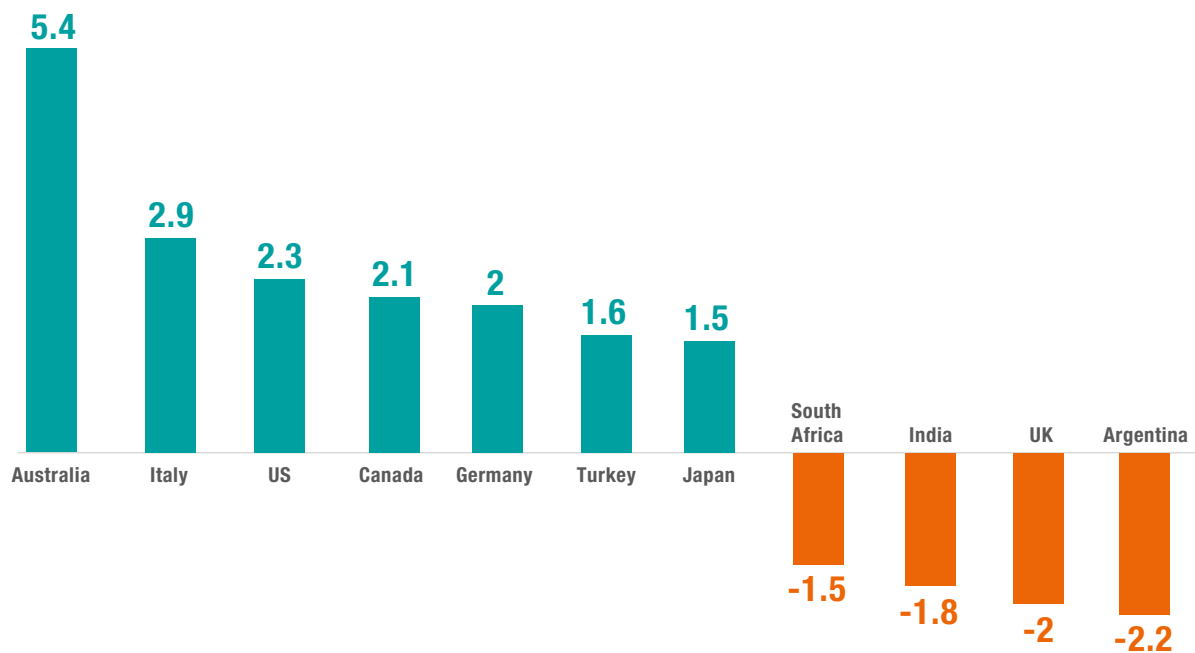
In France, Italy and Spain, government-sponsored furlough schemes have helped maintain households' in-home food and beverage consumption at high levels (because first of stockpiling and then of lunches which were eaten at home instead of at work or school). However these schemes are about to disappear and seem to be unable to affect out-of-home consumption as strongly as they affected in-home consumption as economic morale remains low.

Our latest measurements show that economic confidence is still strongly indexed on the development of the epidemic. [Ipsos' Expectations Index](#)

reveals that, only in countries where lockdown was gradually lifted and the epidemic seems to have been contained, do we see economic confidence is improving from the depressing levels reached earlier in the spring.

[In the 27 countries surveyed every month by Ipsos, unemployment](#) (42%) is now the second public concern after Covid, already ranking first in Argentina, Italy, South Africa, South Korea, Spain and Turkey.

Figure 4 The monthly change in economic confidence between May and June shows it is still strongly indexed on the development of the pandemic



Source: Ipsos Expectations Index, June 2020

Future trade-offs

Affordability and purchasing power will likely affect the trade-offs which consumers will have to make in the months and years to come. The share of discretionary spending going on travelling or eating out could thus be reduced independently of quarantine-related restrictions imposed on them.

What's more, the conjunction of the sanitary and economic crises could imply that the downturn in HoReCa business last far longer than during the previous recession. Companies cut travel costs (also on behalf of reduced CO₂ emissions) and people could be durably wary of travelling and of public spaces, while they will still have to cope with their financial burdens and reduced budgets. **We still cannot take it for granted that a return to pre-Covid levels of food and beverage consumption through OOH channels could be realistically achieved in a foreseeable future.**

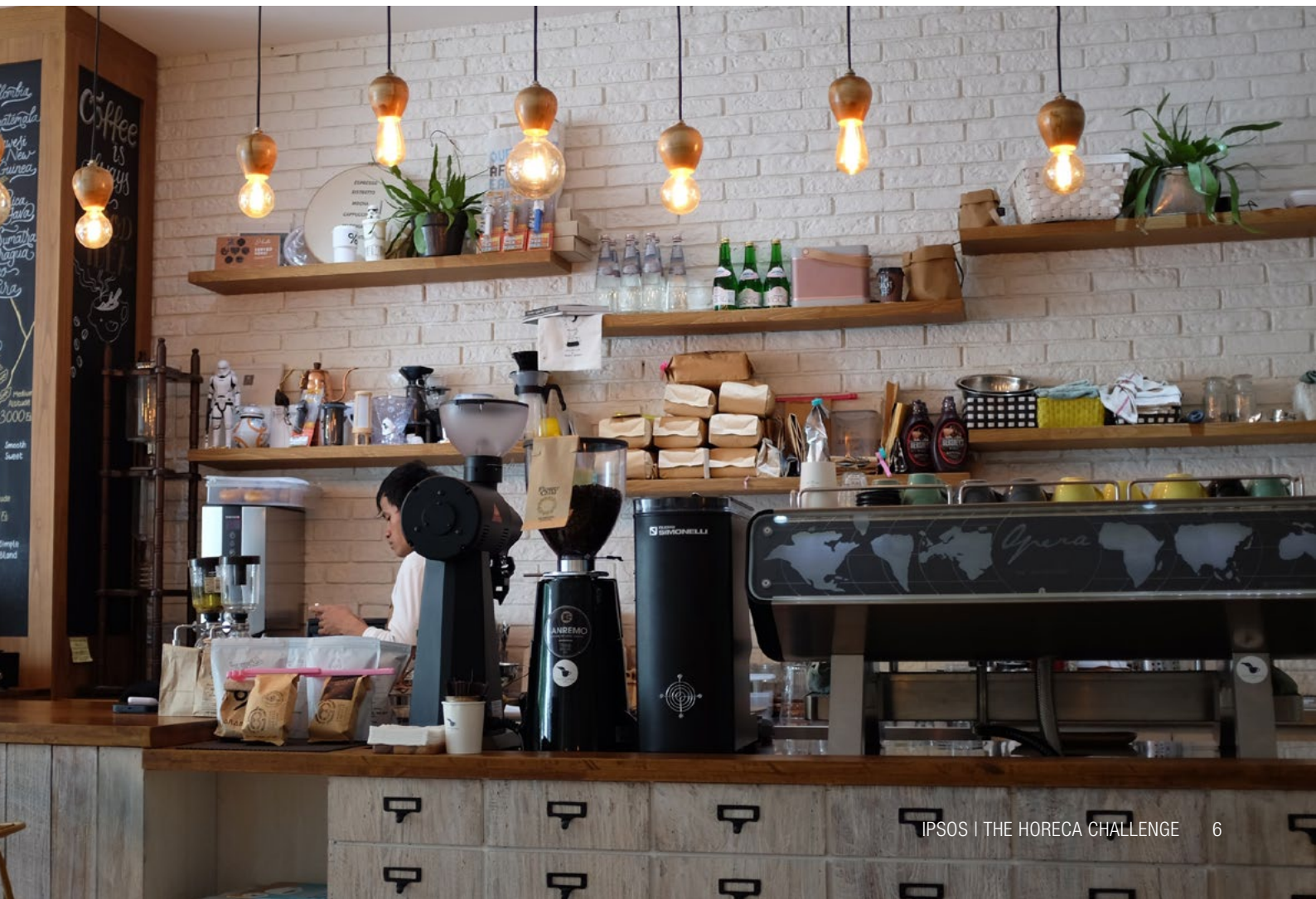
WHAT COMES NEXT?

Suppliers are confronted with several changes that do not depend on them:

1. The lockdown will sooner or later come to an end everywhere, and containment measures will be gradually lifted and removed.
2. But the overall HoReCa supply and demand won't come out of the crisis unscathed and might be durably reduced as the profitability of the foodservice business (and thus its affordability to consumers) will be affected by the costs induced by enhanced safety regulations (social distancing, etc.) and of course the loss of revenue suffered during the lockdown.
3. Delivery and takeaway will certainly continue growing at the expense of on-trade consumption.

There are thus several consequences of the current crisis that brands could consider and address in order to develop their recovery strategies on both the on-trade and off-trade sides of their business:

1. Brands could have a stake in making sure that new habits and routines developed at home during the lockdown 'stick', so that they can reorganise their ranges and portfolios accordingly,
2. New products, services and business models, prices, packaging and formats might also have to be thought of in this new context.



4. WHAT THE FUTURE MAY LOOK LIKE

In order to figure out what may possibly happen in several categories, we can use the example of beer and make a few inferences from it.

The On-Trade to Off-Trade Shift

Indeed, change was on the way in some markets even before the Covid outbreak. Thus, in the UK, [a major switch from on-trade to off-trade has been observed in the past few years](#).

Pre-Covid online sales of alcohol were small and limited mostly to wine, but as IWSR remarked in a [recent report](#), the countries with the weakest eCommerce infrastructures were those where alcohol beverage sales dialled down to zero after the closure of on-trade while craft brewers, more dependent on on-trade than larger ones, tried to find salvation in **D2C and eCommerce** where the local infrastructure allowed it.

UK data also showed that **sales of mini kegs were growing fast**. These were indeed launched several years ago by leading global brands but British [craft brewers too are resorting to them for D2C in a lockdown context](#). New devices are now available which [can turn bottle beer into draught beer](#).

Larger packs

Another trend which emerged during lockdown was a preference for larger packages due to the lower frequency of repurchase. Though package size might appear as a typical example of what should return to pre-Covid levels when lockdown is lifted, one may also assume that habits have been taken, and also that large packs can meet new needs as e.g. party events tend to be more often held off-trade and because value for money is slightly more optimal with large packs.

Beyond the Premium vs. Value dilemma

Premiumisation, which was an important trend before Covid, particularly for categories like beer, might transform into something slightly different after it. Indeed, if off-trade occasions are more frequent and on-trade occasions less frequent, experiences that consumers were seeking on-trade might now be sought more often at home. This means that the range and quality of products available to grocery shoppers probably ought to look somewhat different, redefined by a new perception of what a premium experience could be outside the on-trade channel.

Safety first

Finally, as the economy and businesses continue to reopen, **brands must take steps to ensure consumers feel safe when shopping at their locations**. This will particularly affect HoReCa businesses. The stakes for getting this right are huge — with consumer tensions at an all-time high, organizations might only get one chance. Failure to deliver an experience that meets consumer standards and complies with local and state regulations will be costly and result in [eroded trust, closed locations, and long-term damage to brand's reputation](#).

5. OUR RECOMMENDATIONS: THE OPPORTUNITIES WE SEE

Since Food and Beverage brands will likely have to (try to) compensate a significant loss of volume and even more significant loss of value (because of higher price tags in

foodservice), they thus need to explore new opportunities that they could seize to increase their off-trade business.

These opportunities are:



CONSUMERS & MARKETS

- **Focus on the new rituals that will stick in the future** since the first player who will do that will have more chances to own them
- **Support and invest in local brands** where the localisation trend is reinforced in the post-pandemic context



PORTFOLIO MANAGEMENT & INNOVATION

- **Cross-check segments with distribution channels** so as to push **value brands** where volumes increase (discounters, online)
- **Reposition premium brands** as alternatives to the ones historically consumed out of home (e.g. gourmet and indulgence segments)
- **Rationalise portfolios** (fewer SKUs) with **a focus on profitability instead of volume**
- **Enter new segments and categories** which are less dependent on on-trade occasions



CHANNEL STRATEGY AND COMMS

- **Accelerate the setup of an online D2C offering** with services associated (recipes, etc.) and new subscription-based business models, based on geography or priority
- **Focus on communication cues that make rituals stick**

David Bedarida Chief Client Director, Ipsos Global PartneRing, Food and Beverage sector

Mathieu Doiret Research Director, Ipsos Knowledge Centre

Lawrence Mills Chief Client Director, Ipsos Global PartneRing, Food and Beverage sector

REFERENCES

1. Source: GlobalData
2. Source: GlobalData
3. Source: Ipsos Alcohol Consumption Tracker – % Change in Servings H1March vs H2March 2020 – Scope: US