COVID-19: FOOD, BEVERAGE & AGROBUSINESS

In the months ahead, the COVID-19 pandemic will continue to bring significant changes, not only to how and where consumers purchase food, but also to how it is processed and distributed. None of this will come without incremental resources and costs.

Growers and packers face unprecedented interruption and uncertainty

**IMPLICATIONS**

“Temporary” loss of foodservice channel and labor shortages have led ag commodity prices and livestock producer margins lower.

Concentration, scale and labor intensity in the meat packing sector make it highly vulnerable to disruption, which is impacting kill rates and overall production.

Seafood currently lacks foodservice demand and prices have plummeted.

Dumping of unsaleable perishables (e.g., vegetables, milk, etc.) at a time supply is tight at retail.

**THEMES TO WATCH**

Need for growers, producers and processors to creatively shift sales directly to retailers and consumers.

Continued consolidation — the clear winners will be those that are relatively well-capitalized and sustain momentum amid pre-COVID headwinds such as trade policy.

Food inflation due to short-term supply/demand disconnect.

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**CHART 1 | YTD Livestock Commodity Pricing Performance**

Source: FactSet.

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CPGs and center-of-the-store items surging

**IMPLICATIONS**

CPGs and their co-packers have responded swiftly to record demand, but not without strain on their supply chains, which are geared toward both retail and foodservice.

Empty store shelves continue to reflect uncertainty and bulk buying behavior for staples and shelf-stable items.

Velocities for conventional items have surged, impacting alignment of demand, store assortment and SKU availability.

Demand for smaller, BFY brands and fresh prepared foods may temporarily lose steam in lieu of lower cost conventional and private label items.

**THEMES TO WATCH**

Processors’ ability to transition foodservice capacity to support retail and DTC demand.

Deceleration in current conventional SKU velocities and a reversion to “premium” and the store perimeter.

M&A interplay between CPGs and smaller, less agile brands that may struggle to keep up with heightened demand.
Food distribution…a tale of two channels

**IMPLICATIONS**

Spike in grocery food sales and sharp drop in restaurant food supply have devastated foodservice distributors that have found it difficult to materially shift sales to grocery

Many distributors immediately turned to DTC strategies through e-commerce and home delivery while dealing with limitations regarding bulk orders, labeling regulations, untapped customer relationships and needed capex

Increased demand for cold storage driven by a (i) surge in online food shopping, (ii) less dine-in/more take-out and (iii) food delivery volume, as well as a logistical need for facilities in proximity to consumers

**THEMES TO WATCH**

Shift in (foodservice) M&A rationales from horizontal integration to channel diversification and value-added capabilities

Investment in automation

Cold storage consolidation to expand and control larger, more efficient footprint

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**CHART 2** | Survey – Have You Purchased Groceries Online?

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<th>No (%)</th>
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**CHART 3** | YoY Change in Average U.S. Grocery Store Sales


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**Retail paradox**

**IMPLICATIONS**

Record sales increases across the store with individual departments reporting mixed results

Online grocery sales increased 37% to $5.3 billion in April (~345% YoY), overwhelming home delivery and curbside pick-up services as consumers seek out contactless and cashless transactions

Supply shortages causing some retailers to set product purchase limits on certain (meat) items

**THEMES TO WATCH**

Sustained reversal of consumer “frequent trip” trend to large-order and online shopping

Retailers rethink physical space to limit foot traffic and optimize velocities

Major differentiator in the next 12 months will be retailers’ ability to serve the omnichannel customer
Restaurants and the post-COVID new reality

IMPLICATIONS
Full service chains and independents designed for table service or dine-in only options are suffering and many have decided to close
Restaurants providing delivery or take-out options are reducing menu complexity to handle shift in demand
Proliferation of “ghost kitchens” and make-shift in-store retail markets to cope with unprecedented negative growth environment
Expected wave of bankruptcies and permanent closures

THEMES TO WATCH
Micro-social media marketing focused on community-based advertising will become a larger focus to drive order volumes and eventual foot-traffic
Rationalization of casual and upscale dining concepts as the landscape shifts to drive-thru and take-out options
Deep-value acquisitions for “idle”, yet desirable concepts that may not have the wherewithal to weather the storm