

Q1 2023

Food & Beverage State of the Industry

the difference is making one

martin.

Introduction



executive summary

The Martin Group's Food & Beverage Team attended a series of International Foodservice Manufacturers Association (IFMA) webinars and the IFMA COEX event in Tampa that covered a variety of topics in Q1 of 2023.

Some high-level takeaways across all sectors:

- Labor remains a significant challenge across the foodservice industry
- Rising food costs are impacting purchasing, menus, and prices
- There is increasing demand for ethnic foods (Indian, Asian, Latin), though challenges exist authentically preparing these items
- Consumer sentiment seems to be mixed with regard to inflation concerns, but many are pulling back spending on restaurants and brand-name food purchases

economic outlook

- After a mini-recession in Q1/Q2 of 2022 the gross domestic product increased 3.2% in Q3 and 2.9% in Q4 of 2022
- IFMA is projecting flat growth for 2023
- Unemployment has stabilized, but the labor market is still very tight, and companies are having a hard time finding and retaining qualified workers, which is hurting growth
- Food costs went down in January 2023 but they are still up roughly 10% compared to 2021
- Grocery stores are having an easier time passing along price increases to consumers compared to away-from-home food because grocery shopping isn't seen as discretionary
- The big three foodservice distributors (Sysco, US Foods, Performance Food Group) are shedding chain restaurant businesses and focusing on independent restaurants
- Top-line recovery is complete from the pandemic but labor remains a primary issue

Q1 2023 Insights





college and university foodservice insights

Ethnic Foods & Trying to Be Authentic with Labor Shortage

- Indian menus are huge (the next Mexican/Italian from an ethnic food standpoint)
- “Not having any food preparation information makes it a certainty we won’t buy it.”
 - Really important for staff, since inexperienced cooks can’t prepare newer ethnic foods authentically and a lot of operators lost veteran people to the Great Resignation
 - Inserts in boxes, QR codes, webinars all help



college and university foodservice insights

- Most would rather buy something speed-scratch that's authentic then try to make it from scratch and fumble it
 - C&U consulting with local Indian restaurants, for example, on preparation
 - Ethnic foods NEED to be authentic from manufacturers
- Recipe development is also helpful - anything that can reduce the stress on staff and make their lives easier
- Students are adventurous with ethnic foods, especially if there is transparent information about them



college and university foodservice insights

Plant-based Is Everywhere

- Must have at least one plant-based option for students at each location on campus
- Students don't want to do anything harder to get plant-based, vegan/vegetarian foods compared to mainstream dishes; they need to be available everywhere, just like all other foods
- Plant-based options must be value-based in price



college and university foodservice insights

- Eating plant-based food is also part of students' commitment to affecting climate change
- People should be able to enjoy plant-based because it is delicious, not just because it is labeled as such
- Vegan/vegetarian foods must be appealing on their own merit – operators need to “mainstream” these items
- Need to segment audiences appropriately because people's tendencies are so different: especially flexitarians, vegans, vegetarians, etc.



college and university foodservice insights

Additional Gen Z Food Trends

- Gen Z cares about their health
- Social justice is important – if factories have immigrant workers or not
- The way people survey doesn't always resonate with behaviors that operators are seeing
 - Essentially, some people will survey that they want to see more plant-based, when they are answering that on behalf of others who they know who may eat such foods, not themselves. Sometimes this can skew answers



college and university foodservice insights

- Gen Z is interested in laboratory-created foods, somewhat surprisingly given their interest in authenticity and wanting to know the environmental impact and labor origins of everything
- There is a huge plastics reduction initiative coming in New York, and likely other states as well. So, college dining halls will be relying more on washable dishes
- Preorder/to-go was big during Covid but has fizzled significantly. Gen Z wants to be back in person because they feel like they missed out on the college experience for two years



elementary and secondary foodservice insights

- There is still a lot of scratch cooking in schools
- Schools often need to pick items that are versatile and quick/easy to make
 - Still facing supply chain issues from vendors (not necessarily because of the manufacturer)
 - Very hard to do anything on the fly (legal/contractual issues when items are not available)
 - Struggle finding a balance between feeding kids with what food/ingredients they want to use AND what is available
 - Vendors can help by offering options when something is not available to make it easier for schools to pivot, showing what they do have or what is popular in other markets
- Districts have to budget in Q1 for the next school year. They need to rely on trends, but forecasting is tricky post-pandemic



elementary and secondary foodservice insights

- There is less labor right now and districts struggle with how to staff their kitchens
 - Using other “roaming” staff to cover kitchen/cafeterias
- On the horizon: Will there be a time when there is a universal free meal program for all students? Some states are looking at it, so this is on the radar
 - This may need to be through a national/federal program.
- Districts looking more and more to:
 - Culturally diverse menus within USDA regulations
 - Locally sourced ingredients
 - Cross-utilization of staff

Proposed Changes to K-12 Dietary Guidelines

10%

per year that sodium limits will be reduced beginning July 1, 2023 through the 2029-2030 school year

- USDA is proposing significant changes to K-12 dietary guidelines that will mean a lot of current products don't comply
- Phased approach starting in Fall 2024 through Fall 2029, meaning manufacturers don't have a lot of time to adjust
- Still a ton of ambiguity and unanswered questions (such as whether artificial sweeteners count as added sugars) to be confirmed with the USDA
- By Fall 2024, schools will need to offer products that are primarily whole grain
- Limits likely to be placed on flavored milks, potentially banning them in K-8
- Added sugars to be limited in breakfast cereals (6 grams per ounce) and yogurt (12 grams per 6 ounces) by Fall 2025
- 5% ceiling on non-domestic commercial foods that a school food authority may purchase per school year
- Ban lifted on hummus, so it will be allowed as a snack



healthcare foodservice insights

- Inflation and rising costs are forcing constant analysis of how to lower meal costs
 - Rising interest in plant-based options (as well as meatless and lower-cost proteins) has helped with meat costs rising
 - Chefs meet with residents/patients to ask their input on menu items
 - Continuing to focus on better-for-you options
- Failed effort to return to bulk condiments; patients still want individual packets



healthcare foodservice insights

- Increased demand for grab-and-go hot items
- Interest in catering is approaching pre-pandemic levels
- Hiring and retention concerns continue to be an issue
- Still trying to recover from COVID-19 pandemic: not all residents have returned to dining halls
 - Concerns about mental health and loneliness based on isolation continue

Supplier X Operator Partnerships

20%

average increase in COG for restaurants, so their No. 1 focus is improving margins

Operators are looking for more market insights, menu inspiration, and food education from their suppliers – collaboration that can help them do their jobs easier and make their menus more in tune with customer trends

- Manufacturers can help them:
 - Assess if menu prices are too low
 - Consider variations in their product mix
 - Reengineer or consolidate menus
 - Help use technology better
 - Incorporate customer loyalty programs

- K-12 foodservice leaders want to expand what their segment looks like, pushing beyond traditional menu options – and they're looking for suppliers and manufacturers to help them shake things up
- When considering how many children many of these larger districts are feeding, they could be viewed as the biggest restaurant chain in their region
- C&U recognizes it can be very challenging to navigate their systems, so they're working on better systems to provide insights to suppliers to help optimize these partnerships around more strategy

Third-Party App Conundrum

Restaurants are struggling with third-party apps because they drive traffic and can introduce them to new audiences but the margins are lower and they compete with their own first-party apps and ordering platforms

10%

year-over-year
increase in third-party
restaurant app usage

46%

of users only use 1
restaurant-related app
per month

62%

growth year over year
for category leader
DoorDash

3.5

average restaurants
viewed per user delivery
app session

Third-Party App Conundrum

66%

of users agree it's important that delivery apps treat restaurants well

40⁺%

of users don't know third-party delivery apps take a percentage of restaurant sales or charge higher delivery or service fees

50%

of people don't know which restaurant they want to order from or how much they want to spend when opening a delivery app

Restaurants Driving Customer Engagement

67%

of restaurants surveyed will offer fewer limited-time offers due to menu simplification efforts

- Digital exclusive ordering offers opportunities to test innovative items with smaller volume, react quicker to trends, create app value and connection, and excite customers*
- Orders for paper and disposable products are surging (48% of operators say they're buying more than last year) as delivery and off-premises orders continue to rise*
- Loyalty programs offering rewards drive customers online and in-store^
- "Sustainability has changed from a nice-to-have to a mandate that permeates each company's values and mission." – Bernice Radaideh, Bank of America
- This answers an interest from customers, especially Gen Z, but the challenge lies in communicating it authentically as a differentiator

Menu Evolution in 2023

Labor remains a challenge, so full scratch is going to be less and less common, even at fine dining restaurants*

Restaurant ordering focuses on buying products that are versatile, affordable, available, and desired by their customers*

68%

of operators are satisfied with a more simplified menu*

58%

say changes they're making to their menus are here to stay*

32%

prefer restaurants that feature new or innovative flavors and ingredients^

SOURCES:

* IFMA CPP 2022

^ TECHNOMIC 2022 MULTICULTURAL TREND CONSUMER REPORT

Menu Evolution in 2023

80%

of restaurants are purchasing more or the same center-of-plate items*

48%

of consumers enjoy trying different foods^

85%

of menu changes were based on restaurants' own ideas, versus those coming from manufacturers and suppliers*

SOURCES:

* IFMA CPP 2022

^ TECHNOMIC 2022 MULTICULTURAL TREND CONSUMER REPORT

Consumer Sentiment

77%

of 18-34-year-olds
are concerned or very
concerned about their
personal finances*

84%

of those 35+ years old
are concerned or very
concerned about their
personal finances*

31%

increase in check size
for 18-24-year-olds,
highest among all ages^

29%

would no longer order
from a restaurant that
raises prices more than
\$2 per entrée&

SOURCES:

* TECHNOMIC Q1 2023 CONSUMER AND OPERATOR OUTLOOK REPORT

^ TECHNOMIC IGNITE CONSUMER

& TECHNOMIC Q4 2022 CONSUMER AND OPERATOR OUTLOOK REPORT

Consumer Sentiment

83%

of customers have in the past few months noticed price increases at a restaurant they visit regularly. As a result:

53%

are cooking more at home

38%

are seeking more deals

32%

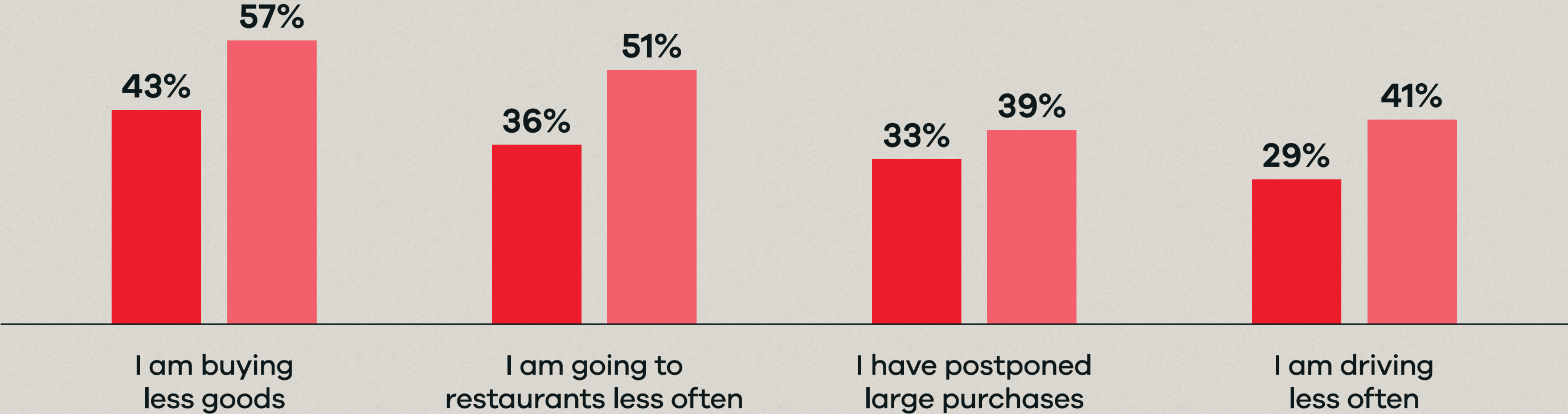
are ordering less expensive items

41%

are reducing frequency

Consumer Sentiment

Inflation's Impact

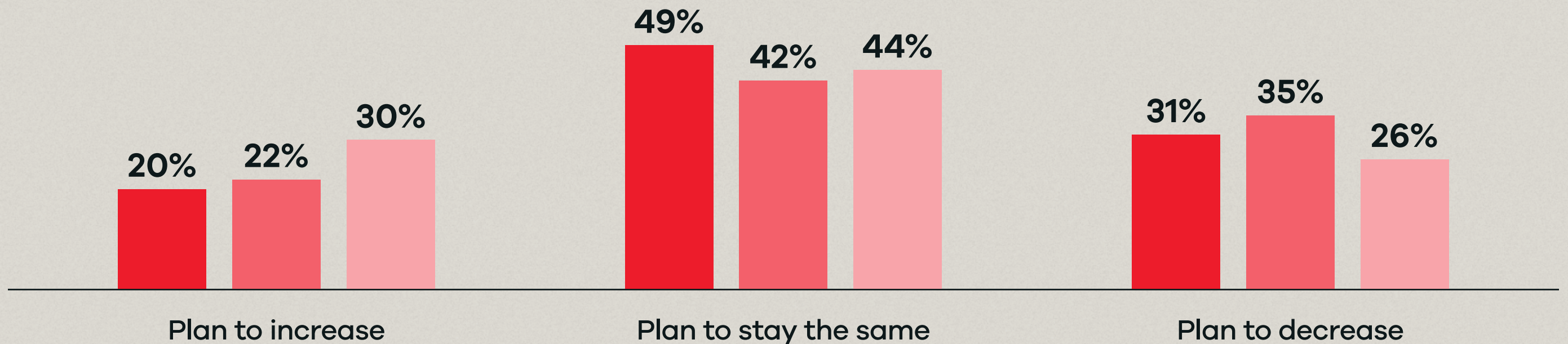


BASE: 1,000 CONSUMERS AGES 18+ PER YEAR
SOURCE: TECHNOMIC Q1 2023 CONSUMER AND OPERATOR OUTLOOK REPORT

■ 18-34 ■ 35+

Consumer Sentiment

% who expect to increase or decrease restaurant usage in next three months



BASE: 1,000 CONSUMERS AGES 18+ PER YEAR
SOURCE: TECHNOMIC Q1 2023 CONSUMER AND OPERATOR OUTLOOK REPORT

■ Q3 2022 ■ Q4 2022 ■ Q1 2023

Trending Foods in 2023

Asian and Latin American cuisines continue to dominate the trends. Here is a list of hot menu items and ingredients that are gaining popularity with customers:





Additional Resources

index

Webinars Attended:

- Impact on Foodservice Manufacturers From Proposed Changes to K-12 Dietary Guidelines (3.23.23)
- IFMA Vision 2025 - Trends Driving Segment Change (3.16.23)
- Broadline Foodservice Distributors' Quarterly Performance Review (2.23.22)

- Restaurant Foodservice Leadership Council Looks Ahead to 2023 (2.7.23)
- Looking Ahead to 2023 with the Healthcare Foodservice Leadership Council (2.2.23)
- Looking Ahead to 2023 with Elementary & Secondary Leadership Council Confirmation (1.31.23)
- Looking Ahead to 2023 with College & University Leadership Council Confirmation (1.26.23)

Events Attended:

- IFMA COEX, March 5-7, Tampa

Additional Insights from The Martin Group

Lessons From The Martin Group's Food & Beverage Month

Keeping customers happy during economic hardships

Growth lessons for consumer packaged goods brands

Recruiting for the world of food & beverage

Our food & beverage experience

Top packaging trends for 2022

Thank



You