

Coronavirus Impact on the Foodservice Industry

THE RESTAURANT OF THE FUTURE 3.0

How Restaurants will Look in the Future



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“The art of life lies in a constant readjustment to our surroundings”

The Restaurant of the Future - Moving forward in the evolving “New Normal”

This Restaurant of the Future 3.0 article looks back at the roadmap from April 1st to September 1st and updates the insights, predictions, and implications that Kinetic12 outlined. We are in the midst of significant change and so evolving our view of the future only makes sense! Kinetic12’s journey began in April when we looked at the projected long-term impacts of COVID-19 on consumers, operators and manufacturers. In our first article on April 1st we wrote:

“These are unprecedented times and if crisis is the true catalyst of change then we can expect some sea-change impacts on consumer behaviors and expectations. Operators and suppliers will respond and modify their business models for the new post-crisis world. How we plan, how

we go-to-market, how we communicate and collaborate and how we interact with consumers is all going to be impacted."

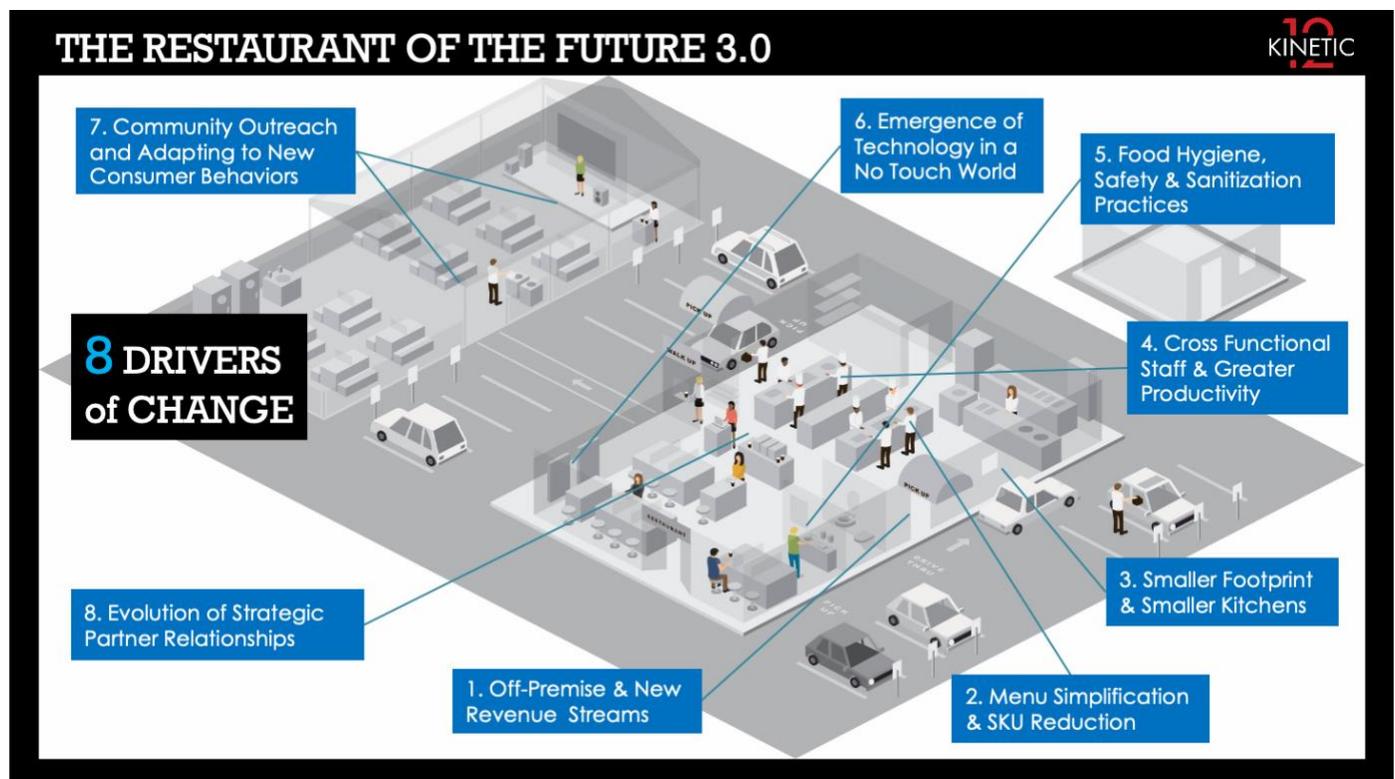
After completing our 8th article, entitled The Restaurant of the Future 2.0, we felt that it was important to tie everything together, but still look to the future.

"The one thing you can never do in the restaurant business is dwell on what you did yesterday."

THE RESTAURANT OF THE FUTURE 3.0

EIGHT DRIVERS OF CHANGE: Here are 8 areas of a restaurant's design and operation that have changed and will continue to evolve and influence the Restaurant of the Future.

1. Off-Premise Growth & the Addition of New Streams of Revenue
2. Menu Simplification & SKU Reduction
3. Smaller Overall Footprints & Smaller Kitchens
4. Cross-Functional Staff & Greater Productivity
5. Food Hygiene, Safety & Sanitization Practices
6. Emergence of Technology in a No-Touch World
7. Community Outreach and Adapting to New Consumer Behaviors
8. Evolution of Strategic Partner Relationships



1. Off-Premise Growth and the Addition of New Streams of Revenue - In mid-April, Kinetic12 published a whitepaper titled: 10 Reasons why Curbside will be the Next Big Thing. We stated, and still believe, "For all types of restaurants, from QSR to fine dining, curbside pick-up has allowed us to order and pay through apps or websites, make a quick stop, pop open the trunk and bring our dinner home. It is convenient, no-touch, safe and hot."

Despite the opening of some dine-in options, growing off-premise sales has continued to be a focus for service and menu improvements aimed at drive-through, curbside, delivery, pick-up, meal kits and more. This investment in off-premise will continue to be one of the driving forces in restaurant design and operation. Consumers will always want convenience and now that more operators have learned how to be successful at off-premise, this will continue into our post-COVID environment.

Expanding dayparts has been another important new COVID-driven stream of revenue for many operators. Off-peak hours are wasted hours. Carefully expanding a menu to stay true to a brand's essence is a logical way to grow with limited investment. Fringe meal periods offer a whole new world of opportunity and we will continue to see operators maximize their businesses in this way.

In a previous article we reviewed the innovative idea called "Curbside Delivery for On-Premise". In effect, this is the opportunity to have an Off-Premise solution that is delivered to an On-Premise dining area. This allows consumers to bypass the server, minimize their touch-points, yet still eat on-premise. Consumers have invented this on their own but savvy operators have recognized it and are promoting it.

The "Virtual brand", or an online-only menu, is another growing idea. Although not invented in the COVID-era, it has gained traction as a new revenue stream. Existing brands can add a second virtual brand or take on the production of another brand to maximize their kitchen utilization. Adding virtual concepts for delivery or pick-up only during unused dayparts makes total sense to not only keep concepts afloat but also to drive new revenue. This virtual-brand idea is something we predict will continue to gain traction post-COVID.

This is only a sampling of several new revenue drivers that innovative operators have introduced. We expect many of these to influence the design and operation of the Restaurant of the Future.

"If a menu item is not portable and does match up to your dine-in standards, don't offer it for off-premise."

2. Menu Simplification & SKU Reduction – In late March, off-premise became the only revenue stream available. Pre-COVID, operators were dealing with intense competition and extremely high expectations from consumers to stay current and to do that menus became bloated, messages fuzzy and ingredients being purchased were one dimensional. COVID forced operators to re-boot and simplify to cut costs. Simplification involves fewer moving parts and the ability to be significantly more productive - which requires less labor, fewer deliveries, lower waste, and improved execution. It also eliminates some of the emotional decisions that create broad and complex menus that are too big for restaurants to execute profitably and consistently and result in too many ingredients that only have one use.

Over the past 6 months, many brands have gone back to basics and are promoting the menu items that their customers love and want to come back for. Using those as the base, they have then carefully innovated. It is simply not prudent to offer menu items that muddy who you are as a concept and that are mediocre in quality, hard to execute, require one-use ingredients and in general, will only drive quick short-term revenue streams.

As we look to the future, simplification will continue to evolve. The added complexity of adhering to safety and sanitation requirements along with providing the multitude of options that customers demand will be the challenge to keeping it simple so operators can execute flawlessly. In-house versus off-premise menus will vary based upon the portability of a product. During fringe times of the day menus will get smaller but the items on the menu will be what the consumer wants. Simplification does not mean lowering standards. Simplification results in improving standards.

"If a product is not good enough, don't sell it."

3. Smaller Overall Footprints & Smaller (Flexible) Kitchens - For months it has been agreed upon that smaller footprints provide better efficiency and flexibility. Flexibility of the physical space will be crucial as operators navigate the evolving new normal. What operators have learned is that just because it worked before does not mean it will work forever. There is risk to putting anything in the operation that does not have the flexibility to be adjusted. That includes kitchen equipment, furniture and in general, how the flow of a restaurant works.

Maximizing space is a must. Casual and Fine Dining, for instance, must make sure that their kitchens are cranking throughout the day. Creative approaches to off-premise and the ability to lean their menu towards QSR and Fast Casual during currently slower or non-existent dayparts is a big part of the Restaurant of the Future. Many casual dining brands are developing new prototypes that incorporate successful elements of QSR and Fast Casual, including drive-throughs and more efficient curbside services.

In addition, rather than having large dining rooms that often sit partially empty, innovative outside seating provides a more flexible approach which limits the build out cost of a restaurant. There are many creative approaches to using under-utilized space as outlined in the Restaurant of the Future 2.0.

Flexibility in the evolving new normal means first sticking to your roots and what your brand is known for and building on those successes while, at the same time, having an open mind to anything that can create the next version of what the consumer is looking for. We believe that the future of restaurant footprints requires collaboration between strategic partners. There is a lot to learn and not a lot of time to learn it.

“If you are not flexible, be prepared for difficult and costly changes in your future.”

4. Cross Functional Staff & Greater Productivity - Most concepts have been battling to get their revenue numbers back to as close to pre-COVID levels as possible. While doing that, they have had to lower their costs and eliminate labor while at the same time making the staff they have more productive. In the evolving new normal every team member that is brought on must have the ability and desire to be part of a team that is cross-trained, certified and adheres to a winning culture.

As we previously outlined “Segmentation of staff throughout the restaurant will be changing. Some positions will remain specialized, but most will require the need for multiple competencies. Imagine a fast-casual restaurant with double drive-thru pick-up, curbside pick-up and limited dine in. Multi-faceted team members pass food through a window, bring food out to curbside or deliver pre-ordered items to a table.”

Operators are rebuilding teams to be cross functional as they adjust to continuing consumer behavior changes. We predict that the Restaurant of the Future will have a heavy focus on improved productivity, less turnover and being able to run the operations more efficiently and with less staff. This assumes that operators will not revert back to bloated menus that are overly complex.

“A team of specialists in the new normal will be costly and inefficient. Winning requires a do-what-it-takes mentality and that is done with team members working in the trenches”

5. Food Hygiene, Safety and Sanitization Practices - It was very clear to everyone when COVID hit that safety and sanitation would be first in the eyes of the consumer. Providing the right message to the consumer was deemed critical, but what operators have learned is that execution is really the hard part. In some cases, as restaurants got busy with outside and dine-in business, their safety and

sanitation standards began to relax. Quality of food and service have always been the key components of a guest experience, so it was easy to make that the priority. In today's world, if the restaurant is not safe, and perceived to be safe by guests, nothing else matters.

"Food hygiene" is a phrase that has gained traction through COVID. It means "the conditions and measures necessary to ensure the safety of food from production to consumption." Once guests have confidence that the food that comes into the restaurant from the source is safe, the consumer's focus is on what happened to "their" food from the point of production in the kitchen to the point that they receive it from an employee. The journey taken by the food has become more complicated, but those brands that can provide comfort to their customers will be the ones that build greater loyalty and frequency. Some customers have dropped their guard because of their desire to be out socializing, but as we move forward, most are going to stay focused on the environment that restaurants are providing to them.

"How do I know that the food that I am consuming was handled and prepared properly so that I will be safe?"

6. Emergence of Technology in a "No-Touch" World - Consumers, pre-COVID, were being trained to order using digital pads and kiosks and, as a result, operators were able to cut back on cashiers for placing orders. The conclusion in April was that we needed to quickly move to a no-touch world and digital ordering solutions needed to evolve to allow this.

The process of going from a touch everything to a touchless world accelerated as a defensive move to support new consumer behaviors and drive as much off-premise business as possible. In reality, no-touch conversation has been bantered around for a while. Robotics and voice and facial recognition were looked at as the future, not as practical solutions for today. The future quickly became the present. It is now time to pivot to the offensive and embrace this technology.

The Restaurant of the Future will continue to require technology to make the customer experience safer, faster, and more efficient. The future may not have anyone taking orders or payments but the customer will still have option to choose what they want, when they want it and then how to pay for it. Restaurant brands have made it easier for the guest to order and pay. With that, the consumer is spending more and frequenting those operations that execute this well.

Of course, technology will continue to evolve. Consumers will not only want to order and pay digitally but receive notifications on the status of their order and have the restaurant know when they are arriving. These are crucial elements of the Restaurant of the Future.

"I am 85 years old and I get curbside every other night for two nights of dinner. Once I learned how to order and pay, I only had to open my trunk and pick-up my orders."

7. Community Outreach and Adapting to New Consumer Behaviors - In Pre-COVID times consumers would travel to try new restaurants and experiences and this is still clearly their preference. In the evolving new normal, consumers have been staying closer to home and frequenting restaurants that they are comfortable with and where they can have a consistent, quality experience in a safe environment.

In Restaurant of the Future 2.0, we saw great potential to drive increased visit frequency and significant revenue by creating an outside seating experience which includes a small stage showing movies, individual entertainer, culinary presentations and more. The ideal outdoor dining room includes flexible seating with tables that can seat six or multiples of two. Guests can order and pay at the table with the table number acknowledged. Orders are brought out to the tables via "Curbside Delivery". Touchless trash, handwash and sanitizer stations makes guests comfortable. Heaters and misters are added to make this area usable most of the year. We see this

creative approach to using outside spaces and providing customers with a great “new experience” expanding in the future.

Supporting local community business will also continue to gain traction. There is great potential for long-term success through community outreach and connection, but only if restaurants flawlessly execute and adjust to consumer behaviors and requirements.

“Most of my guests come from a 3-mile radius around my restaurant. They need to be my focus.”

8. Evolution of Strategic Partner Relationships – It is not just operators that have felt the brunt of COVID. This environment has put tremendous pressure on the entire Foodservice value chain. Operators are turning to their distributors and suppliers for more than just help on supply chain management. In many cases, trading partners are more effectively working together during the crisis to their mutual benefit. Clearly this will have longer term ramifications, as crises typically do uncover who your true friends are.

Driving new revenue streams, decreasing costs, continuing to be innovative and adhering to safety and sanitation protocols has taken a toll. Manufacturers and supplier partners have been working to support their operator partners, but they first needed to know how they could help. That requires communication. The future will require everyone getting better at virtual engagement. It has become part of our world and those suppliers that have used it to solidify and enhance relationships will see great future benefits. Virtual product cuttings, plant tours, operator kitchen tours, new product ideations and much more have made the communication process nimbler. By understanding where operator opportunities are, suppliers have been able to provide the right solutions.

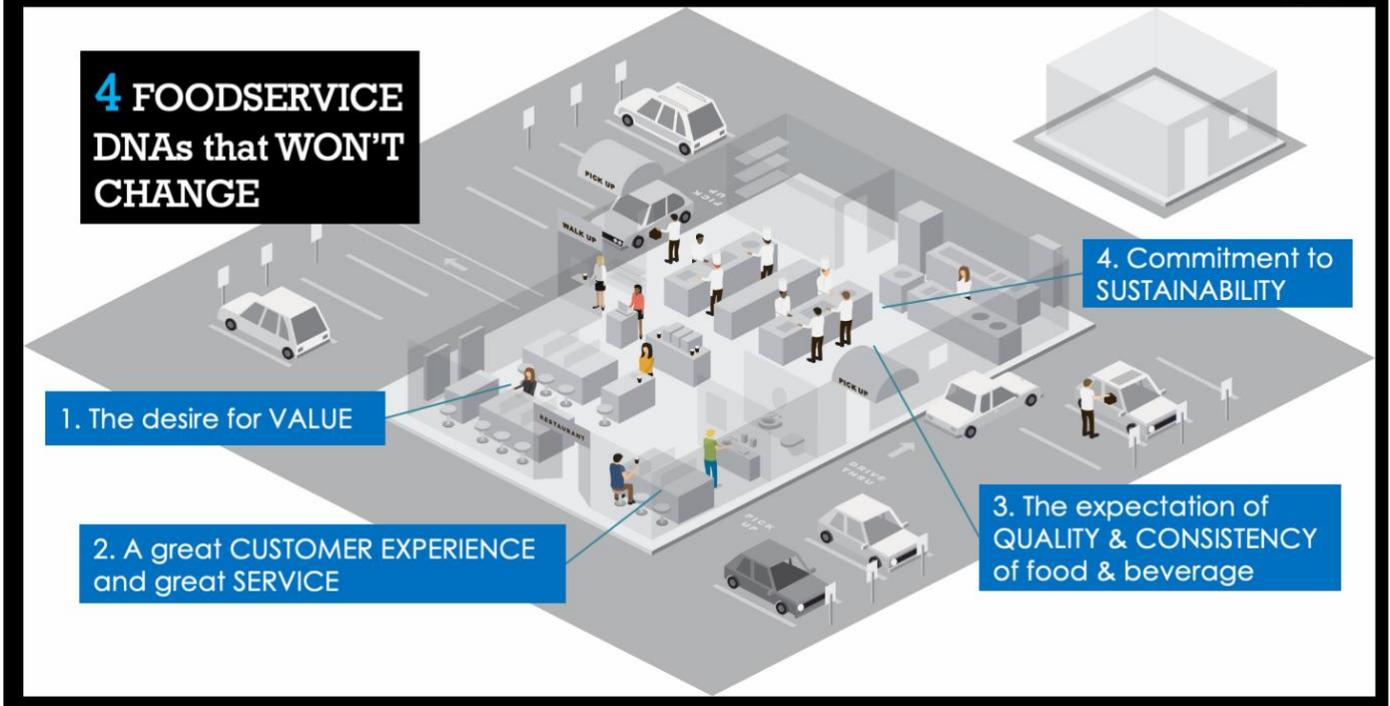
“In many cases, when you pay more for a product, it will save you money.”

We believe these 8 Drivers of Change will shape the future and savvy operators looking to redesign their units, or open new ones, must adopt these elements into their Restaurant of the Future.

THE RESTAURANT OF THE FUTURE 3.0

FOUR FOODSERVICE DNAs THAT WON'T CHANGE: Here are 4 foundational expectations that must be part of the Restaurant of the Future's design and operation.

1. The Desire for Value
2. A Great Customer Experience and Great Service
3. The Expectation of Quality & Consistency of Food & Beverage
4. A Commitment to Sustainability



1. The Desire for Value - Consumers will always want value, but value is defined differently by each person and is not necessarily about the cheapest price. Regardless of the definition, meeting or exceeding expectations is a significant aspect of what the consumer perceives as "value". Some people for instance, perceive a \$50 steak to be a good value if it's prepared to their expectations and the service and experience are on point. Others would say that if the steak does not include a salad and sides then the value is not there. Some consumers simply want deals - combo meals, coupons, bundles, and family meals. These are often perceived as "great value". The many dimensions of value make delivering it tricky for an operator.

A value proposition is a fundamental business principle that involves determining how you, as an operator, are defining value, i.e. low price, large portion size, great service, eater-tainment, the ambiance of the restaurant or exceptional food quality. In the Restaurant of the Future we believe an operator must be clear on their value proposition and then flawlessly execute against it. This may seem like business 101, but pre-COVID, one reason why restaurant turn-over was high is because the value equation was not clearly set and/or delivered upon.

2. A Great Customer Experience and Great Service - Most consumers want some level of experience when they visit a restaurant, both in-house and off-premise. They have clear expectations going to the restaurant of what they want. Consumer's expectations, in most cases, are different. Some people want to be left alone and some want a great deal of attention. Some want to ask for things when needed and some want the staff to ask them. Regardless, the level of service expected is not consistent from person to person.

A great experience to some could simply be flawless execution, such as; ordering and paying from your app, showing up at a restaurant at the agreed upon time and having a team member put the order in your trunk. Others look for the social aspect of restaurants and want to be with friends

and family and experience entertainment and activity. The expectations may be different, but the level of experience must meet or exceed what the guest is looking for.

Looking ahead, experience and service will continue to be a primary driver of consumer choice, loyalty and business success.

3. The Expectation of Quality & Consistency of Food & Beverage - If a restaurant is not able to consistently execute quality they will not remain in business for the long haul. As we look ahead at the Restaurant of the Future, quality and constancy are definitely a must-have part of the DNA. It all starts with having a menu that the team can execute. If the menu has become "everything for everybody" and a sizeable portion of the menu is ordinary, at best, it is time to simplify the menu and reduce the number of SKUS. The other glaring mistake to avoid is cutting portions or reducing the quality of ingredients. If a restaurant is not able to maintain standards of quality and keep it consistent, it is better to remove it from the menu and focus on simplification.

We previously stated that "Simplification involves fewer moving parts and the ability to be significantly more productive." This requires less labor, fewer deliveries, lower waste and improved execution. It also eliminates some of the emotional decisions that create broad and complex menus that are too big for restaurants to execute profitably and consistently and result in too many ingredients that only have one use.

Going to a restaurant is a happy time for a guest. Having food and beverage that is below the standards that they come to expect will result in them going to a competitor the next time. The Restaurant of the Future must have quality and consistency as a foundational operational mantra.

4. Commitment to Sustainability – COVID did put sustainability on the back burner. But this is a short term dynamic because the underlying drivers of sustainability are linked to consumer's demand for safe guarding the environment, a desire to know what they are eating, and a commitment to support their local economy. These goals have not changed.

During the pandemic food hygiene, safety and sanitation moved to the top of the priority list. Consumers want to know that operators are using best practices to keep them safe and that means where their food came from, how it was processed, and what took place inside the restaurant.

Looking forward, we believe that food hygiene will become the 4th pillar of sustainability, along with environmental, social and economic. As a society we have a responsibility to protect the ability of future generations to provide for themselves while we seek to deliver against our own needs, and as a result the Restaurant of the Future will fully embrace sustainability.

The Restaurant of the Future is evolving! It has been five months since we began our COVID-impact assessment articles. Consumer behaviors have clearly changed and are still in flux, and operators have done an incredible job pivoting to support those changes. Suppliers have worked hard to keep up with those changing needs. In Restaurant of the Future 4.0, we will be looking at the changing landscape to include ghost kitchens, innovative technology, virtual communication, the menu of the future, creative approaches to merging brands, versatility and more.

Bruce Reinstein and Tim Hand are partners with Kinetic12 Consulting, a Chicago-based Foodservice and general management consulting firm. The firm works with leading Foodservice suppliers, operators and organizations on customized strategic initiatives as well as guiding multiple collaborative

forums and best practice projects. Their previous leadership roles in restaurant chain operations and at Foodservice manufacturers provide a balanced industry perspective.

Contact us to talk or learn more about how Kinetic12 can support your readiness for the Restaurant of the Future.

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