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Tuesday 30th June: 3:00pm – 4:00pm CEST:

The Future of Foodservice

James Quincey, Chairman and Chief Executive Officer, The Coca-Cola Company

Chris Kempczinski, CEO, McDonald's

Moderator: Wai-Chan Chan, The Consumer Goods Forum

Wai-Chan began the session by welcoming everyone and going over the Virtual Knowledge Series so far and introducing the two speakers. He then went over how many people are employed in foodservice, observing that it is a big industry that is only growing. His first question was simply, how has COVID-19 impacted the foodservice industry, and if this impact has varied across countries.

Chris stated that the virus has had a significant impact on the foodservice industry, though this does depend on which sector within the industry you're discussing. Dine-in is obviously the most impacted sector, but even QSR has taken a hit.

There has also been a difference in impact depending on geographical location — in Europe, four countries shut down all restaurants for some time, which obviously impacted the sector in a big way, whereas in North America there wasn't as drastic an impact, although dine-in business in North America is still down 30-40%.

Wai-Chan then asked how this situation has impacted employees — if they've been furloughed or found other jobs. Chris reiterated that it depended on what part of the world they were in and the degree of shutdown. Europe tends to have a big social safety net, so most employees stay attached to employers even if they weren't working. In the US, while there's less of a social safety net, the degree of shutdown also wasn't as severe, meaning most restaurants stayed open so more employees were still working. It's a varied situation. For McDonald's, they knew that businesses would be coming back online at some point, so they tried to safely bring back their staff when possible.

James built on this response a bit, pointing out that the more focused on in-house consumption a restaurant was (as opposed to at-home consumption, i.e. takeaway or delivery), the more impacted they were — although, he also pointed out that business in these "away from home channels" is also down.



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Following up on the discussion around the degree of lockdown, Wai-Chan asked if one could look at sales as an indicator of the degree of control over the virus. James responded that whether this was an indicator of control of the virus was a question for public health officials, but that it was certainly an indicator of the degree of the lockdown. Wai-Chan then pointed out that in the US, some states are more locked down than others, asking Chris if McDonald's has seen a correlation between sales and the degree of lockdown, since they're a national brand. Chris agreed with James and noted that McDonald's is a little different from the food service sector in general, since they generally have drive-thru services that have been allowed to stay open.

Chris then discussed the impact of consumer sentiment, stating that in some places, there is widespread consumer concern about the economic impact of the virus and of course for public safety, whereas in other places consumers are less concerned. The overall consumer psychology, both in the US and globally, has an impact on business. Wai-Chan continued on this train of thought, asking if it would be correct to say that there's a correlation between consumer confidence and their feelings about the virus. Chris thought that there is probably a loose correlation, stating that for example, the northeastern US has been more impacted than the southeastern US, which has generally presented less concern over the virus. Business was more impacted in California or Washington state because they had earlier and more numerous outbreaks than states like Utah or Colorado. Consumer sentiment was impacted by how much the virus felt like a threat to their health, as well as the economic condition of their state.

Wai-Chan then brought up a question from the audience, concerning a BBC report about a new swine flu found in China that has "pandemic potential." He asked if their companies are doing anything to prepare for this in any way.

Both Chris and James expressed that their companies have risk management processes, and protocols on how to handle these types of situations. While James admitted that he hadn't yet heard of this potential new swine flu, he pointed out that pandemics have always been around (and that with SARS and MERS, this is the 3rd this century, with an additional three the previous century), and will always come back around. As a business, you have to be prepared for the next event coming from left field.

Chris expanded on this, stating that McDonald's has better learned how to react to a global outbreak due to experiences they've had during this pandemic. Towards the beginning, they had assumed it would be a more regional outbreak along the lines of SARS or MERS, and their degree of concern only changed once the outbreak in Italy started. They have, however, learned things from the COVID-19 crisis that they hadn't learned during these more regional outbreaks, that will inform how they react to any other global outbreaks that may arise.



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Moving forward, now that many countries are coming out of their lockdown periods, Wai-Chan asked where Chris and James have seen resurgences in business — what countries are recovering the best and are there conditions behind that recovery?

From Chris's perspective, two countries that fared well throughout the crisis thus far have been Australia and Japan. He attributed this in part to them being island nations, which made it easier for them to control their borders and lockdown populations. He called them "standout performers," and stated that beyond that, it was tough to say. There may be a country here or there that's doing well, but it also depends on where they are in the cycle and not necessarily anything structural.

James agreed with Chris's point, but also felt it was important to keep in mind that this isn't over yet. He said that China has bounced back quite well, and South Korea has been doing well overall since they got on top of the virus quickly so there wasn't as sharp a decline in business in the first place. We have to get into the mindset that this isn't a storm that passes over and is then gone, but that it will be with us to some extent until there is some sort of treatment or vaccine, so we have to be ready and willing to accommodate fluctuations.

Wai-Chan expanded off this idea of resurgence, asking if they thought there were any particular companies that have recovered fast, and if there's something inherent in those that recover better — are there any trends?

Chris said that a company's recovery starts with the consumer and their confidence in the brand. Companies with strong and trusted brands are going to fare well. McDonald's has built up trust with consumers over 65 years, which has been very helpful. He also observed that the size of the company plays a role, as bigger companies are more likely to have the "financial firepower" to get through a business disruption. He believes that McDonald's and companies like them, that are larger and affordable, are going to fare better than others.

When asked what McDonald's is doing to create that trust, Chris stated that this trust was created before him, and his job is now to maintain and further develop that trust, and ensure that nothing happens to shake the public's confidence in the brand. An example of how they're working to further develop this trust is with human safety standards. For decades, McDonald's has been known for their food safety standards. Around the globe, customers could be confident that the same standards would be applied. Now, they have done the same with human safety standards, which previously had been much more regional. He also stated that now is the time for companies to step up and support their communities, especially since consumers are paying



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attention to what brands are doing now more than ever. If you're not "stepping up your game," that's very risky.

James said Chris was "spot on," and added that another thing that will help companies recover faster is being (or becoming) more "future-forward" with technology. Having tech in-store to help with ordering, digital apps, ways for people to order that are contactless, and overall shifting toward a more digital future will make a difference going forward.

This led into Wai-Chan's next question about consumer behaviour. Right now, consumers don't want to touch things — how do they see consumer behaviour changing going forward, and how do they plan on catering to those changes?

We will definitely be more contactless, said James. That was already underway. In addition, there's been a big increase in e-commerce, people buying things online, and he thinks that a large part of that shift will be permanent. On a similar note, the overall "digital component" of purchasing will be much bigger across all channels.

On the other hand, James said that in-person experiences certainly won't be going away. Humans are social creatures, and not everyone will "sit in their cave and be happy to do everything virtually." People want to be out and about, so those sectors will come back. They won't be quite the same, as people are going to be more concerned about hygiene, but how it's going to change and where the nuances will be is a question to keep in mind.

Shifting focus slightly, Wai-Chan brought up the topic of plant-based diets, asking if plant-based diets will change post-COVID (if they'll accelerate or stay the same), and what other trends are emerging?

Chris anticipates that sustainability is going to become more pronounced post-COVID, as COVID revealed that large natural disasters can have massive impacts across all sectors of the economy, climate change being one of those threats. He sees the current interest in plant-based diets coming more from a place of environmental concern rather than animal welfare as it was in the past, so they believe the plant-based trend is here to stay. He stated that it's a question of when not if McDonald's will get into plant-based — they do best when they can do things "at-scale," so when they can do that they'll join the plant-based market. "When we do, we'll sell more of it than anyone else in the world."

Staying on the topic of "trends" in foodservice, Wai-Chan asked if there were 2-3 trends that would stick post-COVID. Touchless tech, plant-based and sustainability have all been mentioned,



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but are there others? Chris replied that many have probably learned that many things can be done as easily at home as in the office and imagines scenarios where you're in the office three days a week and work from home two days will become more prominent. This will impact the foodservice sector because it may mean less business done during breakfast, with less people picking up breakfast on their way to the office. He also stated that dinner may become more centred on dining at home, with a bigger focus on delivery and takeout.

James agreed, and added that something that will be important for a while is affordability. We're still in the early stages of the economic impact of the crisis, and there may be further waves of outbreaks and government assistance won't last forever and likely won't match perfectly with the end of the outbreaks.

For the final question, Wai-Chan asked about leadership: what have they learned about how to engage with and lead people?

James said that there had been a lot of lessons. He emphasised that it's important to keep in mind that leaders are human too, not automatons, and that authenticity, more communication and allowing employees to receive "transparent leadership from the top" have been very powerful vehicles. He added that having a "growth mindset" and being curious about what was going on was very important, and that some assumptions that had been taken for granted had to be rethought. Finally, trusting employees was vital — he praised his company's employees, saying that they have "great ideas and commitment," and that he has been amazed at their capacity across the system to come up with new ways to keep the business going, as well as ways to contribute to the community, calling it "heartening and very energising".

Chris echoed the importance of authenticity and community and added on empathy. With what's going on in the world right now, between COVID and social justice issues, leaders must understand that our employees are human and may have someone who's sick at home, may have economic loss, and so on. It's important for leaders to be empathetic and understand what people are going through in their personal lives.

He also stated the value in being able to convey optimism and a view of what a better future could look like. In times like this, when people are so focused on challenges and bad news, being able to paint a picture of what a better future could look like and how our companies can be instrumental in achieving that inspires people and makes them feel like they're serving a larger purpose. Larger companies like McDonald's and The Coca-Cola Company have the ability to change the world, which can be very empowering for employees.