


## UPDATE: OVERVIEW

Since our last Covid-19 report (5/25/20) the U.S. economy has been phasing in the reopening process with states structuring the particulars to their own requirements. There has also been a surge in reported Covid-19 cases which has caused many states and businesses to pause, adjust, and reassess their reopening plans and implementing new restrictions.

From a 50,000 foot view, the reopening of the economy trajectory looks more like a flattened “W” =  rather than the “U” or “V” recovery many forecasted.

A good many restaurants are beginning to show positive SSS trends. Admittedly, these are mainly QSR restaurants and those Fast Casual restaurants that have Drive Thrus and delivery business channels in place. But, in general, all restaurant sectors have been showing steady SSS improvements since the abrupt closures of March 2020. This does not imply things are back to normal or even approaching any semblance of normalcy. Most will admit that there will not be a return to the “traditional” normal. The economy, society, businesses, restaurant industry, and the consumer are all going through a paradyme shift.

## INDUSTRY

The Crisis has revealed many weaknesses within the restaurant system: weak financial model with precarious margins, financial re-engineering, thin cash reserves, increases to debts without matching increases to profits, serious long-term labor issues (mainly a shortage of quality people), oversaturation of restaurants, many chains out of step with actual customer expectations, and a fragile, rigidly structured supply chain system just to highlight a few of the major issues.

There have been approximately 35,000 permanent restaurant closures since March 20, 2020 (per the National Restaurant Association) with an additional 80,000 closed temporarily. As the economy began the reopening process in May, the temporary closures shifted and essentially, 30,000 restaurants reopened in the last 68 days. Unfortunately, the number of closures is expected to rise due mainly to financial needs: over-leveraged operators who have exhausted any cash reserve or their inability to continue “floating” on cash flow, with current sales trends unable to meet breakeven point; coupled with this as the number of Covid-19 cases rise and new restrictions are being implemented. The percentage of dine-in sales during reopening has decreased (according to Blackbox Intelligence July 12 survey). Dine-in sales were 61% in Full Service and Casual Dining; but, since the resurgence of the Crisis they have decreased to 48%. This will contribute to more bankruptcies and closures. Alarmingly, bankruptcies have occurred among several chains and large franchise groups like Krystal Burger, Garden Fresh Restaurants, and large franchise groups like NPC and American Blue Ribbon Holdings to name a few.

Another report conducted by Compass Lexicon revealed 85% of remaining Independent Restaurants could permanently close without federal aid. The IRC (Independent Restaurant Coalition) is hopeful the new stimulus package (due out Monday, 7/27/20) will contain the \$120 billion Restaurant Stabilization Fund that would help this group.

Aaron Allen published a great article in June on “Restaurant Bankruptcies” where he applied the “Altman-Z” score to 46 publicly traded restaurant chains. The results were astonishing - 65% of the chains are “at risk” for bankruptcy.

According to Restaurant Dine (July 22, 2020) and confirmed with our contacts, a vast majority of franchisors have been working closely with their franchisees to adapt to the market changes due to the Covid Crisis. This is a major positive in the expanse of negative news.

The National Restaurant Association’s recent survey found 75% of operators (independents and chains) do not expect to turn a profit within the next 6 months. But, the survey also found 53% of operators are confident they will survive. Most operators are nervous, very concerned about the current situation and their future; but are showing a resolve to survive by adapting and being innovative to embrace different ways of doing business.

The industry as well as the economy is on fragile footing. Another potential shutdown would exacerbate the reopening process undermining a significant portion of positive gains. A full shutdown would be catastrophic. Unfortunately, restaurants will only continue to struggle; especially with the correlation between an increase in Covid-19 cases with consumers interest in restaurants, bars, and night life.

## CONSUMERS

Consumers continue to be more influenced by mindset than age, income, or gender; especially regarding exiting “Shelter at Home”. In a Psychographic Study conducted by Lisa Miller of LWM Associates, her findings compliment our previous consumer categorization (see Covid Report #7) and provides additional insights into each section. Below is a brief comparison of consumer mindset categories regarding venturing out.

Least concerned	Little to no concerns	CRCR	15%	
	Out the door first	LWM	16%	
Moderately concerned	Varying degrees but plan to get out	CRCR	70%	} 70%
	Out there but taking it slow	LWM	29%	
	Wait & see	LWM	17%	
	Anxious, will wait	LWM	24%	
Very Concerned	Primarily those most vulnerable	CRCR	15%	
	Very anxious (it will be a while)	LWM	16%	

Ms. Miller’s latest poll (June 8, 2020) shows the trajectory of consumers in all groups (except the very anxious) willingness to venture out has increased. This correlates with Datassentials poll (June 9, 2020) which shows of the “very concerned” consumers 48% were willing to eat out. However, the LWM study is not current and we mention it here as a matter of reference and broader description of consumers’ current attitudes regarding venturing out and will provide updates when available.

The latest survey by Datassentials (July 17, 2020) shows a steep negative change in consumers not willing to eating out, 52% (up 5 points since June 9). This is due to the new surge in reported Covid-19 cases. The survey also reported a significant increase in the overall level of concern on July 17 was 58%; up from 44% on July 15.

Consumers are increasingly expressing an aggressive attitude toward getting out and regaining their mobility. The drive to be free of household restraints and boredom has increased as evident by how many people can be seen on local roadways with no destination in mind – just the gratification to move about freely.

Masks, for the majority, are becoming acceptable much like removing shoes when flying (a required behavioral change brought about by 9/11). The burden and restlessness brought about by the Shelter at Home requirements has also effected another change to consumer behavior – Brand Loyalty isn’t as important anymore. McKinsey Survey (7/18/20) found 75% of consumers have changed their shopping behavior mostly due to limited access or availability. This is a contributing factor to shifts in the priority of Brand Loyalty. Not to say Brand Loyalty is not important; it’s just that the meaning has changed in the eyes of the consumer.

Consumers seek displays of customer safety and well being first and the broader new definition of value (see our Covid Report #8 dated 5/25/20) than price, quality, or dollar value – undercutting Brand Loyalty.

The Shelter at Home created more freedom for consumers to shop around, evaluate, and compare products and experiment with other brands that meet these new shopping parameters; thus, brand allegiance is being compromised for new product explorations and new expectations regarding trust.

An interesting survey by IPSOS (7/21/20) found that 74% of U.S. consumers believe U.S. consumers are hindering a proper and effective recovery by not adhering to proper safety protocol – wearing masks in public and practicing social distancing. Another finding from the IPSOS Survey was public trust in official health information sources has dropped 15 points since April to 65%.

Datassentials recent survey found 78% of consumers do not know who to trust anymore about the pandemic due to all the mixed messaging from scientists, physicians, public health experts, and public officials.

To Be Continued . . .