



Rabobank

Talking Points: Covid Conversations

Five Takeaways

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Summary

For this month's Talking Points, we discuss five interesting subjects that have emerged from the many conversations we've been having with our networks over the past few weeks:

- 1. What We're Not Talking About** – All the trends we were talking about, such as plant-based and premiumization, have taken a back seat to more pressing concerns. Will we ever return to them with the same vigor?
- 2. No One Knows How This Is Going to Play Out** – It is an alphabet soup of future scenarios, from the optimistic V-shaped recovery to the more pessimistic W- or L-shaped one.
- 3. Waking up to Food Insecurity** – With our pantries stocked and foodservice largely shuttered, consumers are now thinking about how they interact with food differently.
- 4. Revisiting Supply Chains, Revisiting Efficiency** – Resilience, robustness, and/or redundancy seem to be on everyone's lips when discussing the future of the food system.
- 5. Who Gains and Who Loses From All This Disruption?** – Much will depend on just how sticky all our new shopping and eating habits become. Will we retain our love for home baking, or will the decades-long push for greater convenience come back to the fore?

Covid Conversations

We hope you, like us here at Rabobank, are successfully exploring and adapting to new ways of keeping in touch and engaging with your colleagues, friends, and network as we remain hunkered down and housebound during these abnormal times. Zoom, Hangouts, Skype, BlueJeans, Teams, FaceTime anyone?

In this note, we share five things that have come up in the conversations we've been having with people in our networks. These are all topics we will no doubt return to and dig deeper into in future editions, but for now, we are just putting them out there.

1. What We're Not Talking About

In last month's edition ("What a Difference a Month Makes"), we essentially parked many of the trends and themes we had been talking about, reserving judgement for when (or if) we return to them. Judging by our conversations, it seems most of you, like us, feel any talk of trends will, in the short to medium term, be overshadowed by the 'whatever it is we are all going through' right now. I, for one, have gone a whole fortnight without discussing plant-based foods, much to the amusement of Rabobank North America CEO Paul Beiboer. As more than one of you has pointed out, not only have a lot of consumer

habits come to a screeching halt, in some cases we are in full reverse. For those who are spending more quality time on Netflix, it seems like we are in an episode of *Stranger Things*, in an upside-down world where everything is the reverse of what we are used to. Or we have all been transported back in time to the 1970s, to some golden era of packaged foods of canned soup and cornflakes.

2. No One Knows How This Is Going to Play Out

We have all heard this frequently from colleagues, the media, as well as CEOs who are pulling guidance on their companies' future performance because in their words, "we just don't know" and "there is enormous uncertainty." As a senior executive said to me recently, "straight line forecasts are useless, mainly guesswork at this stage. Instead, we are scenario planning." So right now, we have an alphabet soup of future scenarios, from the optimistic V-shaped recovery to a more prolonged U-shaped one, but hopefully not a W-shaped double-dip or an L- or Z-shaped one. In many ways, the future is as uncertain as it ever was. Arguably, what has changed is our renewed realization of the complexity of the world and our own vulnerability to that complexity.

3. Waking up to Food Insecurity

That brings us to the third point. For the first time since the Great Recession – possibly the first time in a generation – the wider population is experiencing, to varying degrees, food insecurity. I am certainly not trying to equate some middle-class angst over not getting that coveted delivery slot at Whole Foods Market or Peapod to the rising number of people on food stamps (SNAP). There were 37 million back in January, so the number is probably approaching 50 million right now given that at least 26 million people have requested unemployment benefits since the start of the pandemic.

With our pantries stocked and foodservice largely shuttered, consumers are now thinking about how they interact with food differently at a time when access to food can no longer be taken for granted. We are all eating at home more, so it makes perfect sense to keep a bigger inventory of food at home. But like those extra rolls of toilet paper, a full cupboard of food also acts like a security blanket. Think of canned soup as the equivalent of cash in your portfolio. Take a look in your kitchen and cupboards, and see how much more food you are now keeping, or try ordering a new freezer from Best Buy. There is a three-month waiting list if you can get on it.

4. Revisiting Supply Chains, Redefining Efficiency

Everyone seems to have their own preferred R-word about the supply chains right now, such as the need for building in greater resilience, robustness, and/or redundancy to withstand any future shocks. This is a topic we will no doubt return to in a future edition (including a wider one on deglobalization and the need for greater self-sufficiency). As people push back from the existing lean 'just in time' models, a reworked broader definition of what it means to be efficient might emerge. Surplus capacity, fewer mega-production plants, and higher inventory levels might arguably no longer be seen as wasteful but as essential to do things well in a crisis. Though Wall Street, which typically has a short-term focus, might need to be persuaded of the need to retain a standing arm of geographically diverse food production and processing facilities for a once-in-a-lifetime event.

5. Who Gains and Who Loses From All This Disruption?

The final area of focus for a lot of conversations has been around the future winners and losers from all this disruption to the food system. According to the latest government data, foodservice sales fell by about one-quarter last month, and food retail sales rose by a corresponding amount, which on face value suggests some seamless channel switching has been going on. Sadly, nothing could be further from the truth.

[Rabobank has described the disruption](#) being played out in industries ranging from pork and the wider animal protein industry to fruits & vegetables, dairy, and so on as the foodservice market has vanished and production facilities have closed down as workers fall ill. In foodservice, which used to consume about half of every dollar spent on food, eight million restaurant employees in the US have been laid off or furloughed, according to National Restaurant Association estimates. That is about two-thirds of the total number employed and almost three times as many as those who work on farms in the US.

On the other hand, it is very much 'game on' for large food companies and retailers, as the world tilts in their favor for the first time in many years. It may be a bit of a "false dawn" for these guys, but all our new shopping habits and other behavioral changes are likely to become stickier and more entrenched the longer this situation continues and the recession bites. Will we continue to enjoy all this cooking from scratch, or will the decades-long push for greater convenience remind us why we outsourced half our food dollar to foodservice and our bread baking to Bimbo Bakeries, Pepperidge Farm, and Flowers Foods?

One final comment. With the level of disruption we are witnessing, we can expect to see a host of new startups emerge to try to tackle some of these problems. As an example of that, only last week Food-X, the NYC-based incubator, launched its latest cohort of startups, all working on "offering solutions to the weaknesses in the food system revealed by Covid-19." I think we can expect more examples like this in the coming months.

Imprint

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