



FOOD(TECH)

INTERRUPTED

A FIRST LOOK AT COVID-19 IMPACT. IS IT ACCELERATING,
THREATENING OR CHANGING THE FUTURE OF FOOD?

HELLO,
We're DigitalFoodLab.

DigitalFoodLab is the **European FoodTech** insight and strategy **consultancy**.

We are the experts on FoodTech startups and disruption of the food, beverage and retail industries.

We help our corporate and startup clients to achieve sustainable and **higher growth by acting on the best innovation opportunities.**

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REPORT BY DIGITALFOODLAB

This report is our take on the unprecedented **COVID-19 crisis** and its **impact on the FoodTech ecosystem**. Depending on their product or service, startups can be either affected or a solution to the current situation.

As we are still “living” it, this report does not aim to provide a definitive analysis but rather more some insights on what’s happening and how it may affect the evolution of the ecosystem.

We are observing **three broad categories** of foodtech startups when looking at their response to the crisis:

1- **delivery startups**, notably restaurant delivery, marketplaces and meal kits which are **thriving** but are **targeted** by concerned customers by the safety of their workers and the social utility of their operations.

2 - **foodservice startups**, providing hospitality businesses with payment and ordering services. These startups are basically put on hold, some **switching to B2C**, others facing **dim perspectives**.

3 - **direct-to-consumer** food startups for which the situation will really depend on how well funded they already are and how strong their underlying trends were. If everything’s ok for meat alternatives startups, it will be more complicated for far fetched concepts.

Many **entrepreneurs**, no matter how big their startups are, are finding **incredibly positive answers to the current situation**.

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REPORT BY DIGITALFOODLAB

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The new shop is in your fridge

Hi,

Is the kitchen doomed? That's a fair question when we look at the growth of restaurant delivery startups, such as Deliveroo or full-stack delivery ones, such as Frichti or Munchery. When entrepreneurs are not about delivering food, they offer you fresh meals on vending machines (see the infamous [Bodega](#) and the deal below) in your office or train station. All those startups seem to envision a future where we won't have a kitchen but only a microwave to heat up our meals.

If that's a part of the story, it is not complete. Consumers don't want to cook every meal, but they want to cook some of them with high-quality products. There is an emotional connection to cooking and pride you can't have by ordering your meal ready-to-eat. But when consumers want to cook, they want the best product in their fridge right now and not to go to some supermarket shelves.



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FOODTECH DEFINITION

FOODTECH IS THE ECOSYSTEM MADE UP OF ALL THE AGRIFOOD ENTREPRENEURS AND STARTUPS (FROM PRODUCTION TO DISTRIBUTION) INNOVATING ON PRODUCTS, DISTRIBUTION, MARKETING OR BUSINESS MODEL.



MORE?

[All the definitions \(6 categories, sub-categories\) here](#)

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PART I - FOODSERVICE

Startups serving the hospitality businesses are having hard times right now, as most of them bet on independent and small restaurants that are currently closed and terminating their contracts with them.

Most are, however, trying to prepare the future by providing services and resources to their endangered clients.

Part I - Foodservice

Part II - Delivery

Part III - Foodscience

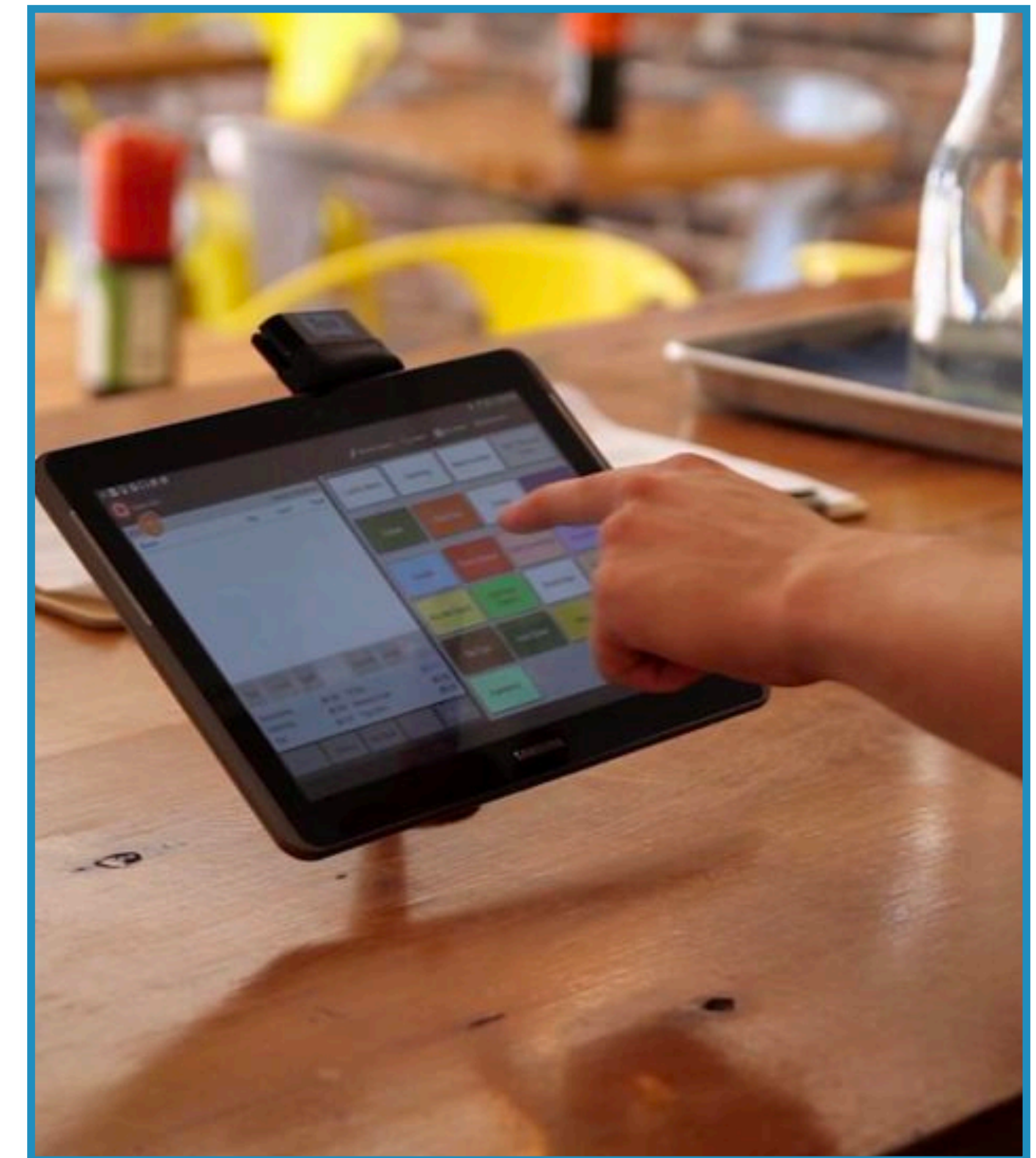
FOOD(TECH) INTERRUPTED - FOODSERVICE RELIEF & RESOURCES FROM STARTUPS

INSIGHT: as restaurants are looking to move online, many foodservice startups are offering resources to help them along the way, from insights and free tools to donations.

EXAMPLES:

- Toast (ePOS leader in the US) launched a fund where users can purchase gift cards for restaurants, which amount (up to \$250k) is matched by the company.
- Deliverect (a Belgium startup developing a service to help restaurants manage their various delivery channels) is waiving its set-up fees during the crisis
- Tiller (ePOS, French-based, present across Europe) provides restaurant managers with useful information such as “can you and how to furlough employees?”

WHY IT MATTERS: Faced to hardship themselves, the startups bet that their reactivity and innovations will help their clients to stay alive and improve their edge against more traditional competitors.



FOOD(TECH) INTERRUPTED - FOODSERVICE

FOODSERVICE STARTUPS IN TROUBLE

INSIGHT: as said above, many foodservice startups whose clients are individual restaurants or chains are in trouble. Indeed, even those working on a subscription business model are facing unwillingness to pay unused services and the fear that many of their clients will not reopen their doors. These startups are adjusting by cutting their staff as we are shifting from a “growth at all cost” to a “profitability above all” paradigm.

EXAMPLES: Yelp furloughs lay off 1,000 people and will furlough 1,100 more.
Toast, the leading ePOS in the US cuts 50% of its staff.

WHY IT MATTERS: the hospitality industry was digitising fast before the crisis, notably for procurement and payment. Even if severely affected, it seems that this ecosystem is particularly resilient. Indeed, notably in payment or HR, most of the startups were already profitable and backed by companies strong enough to help them survive the crisis. However, their growth model may have to change.



FOOD(TECH) INTERRUPTED - FOODSERVICE FROM PROCUREMENT TO E-GROCERIES

INSIGHT: For a few years, the quite conservative business of wholesaling to hospitality businesses has been targeted by new challengers connecting the producer directly to the restaurant. Through their digital marketplaces, they enable more communication and transparency around the product. Faced to a stop of their activities, many of these startups pivoted toward B2C.

EXAMPLES: Choco (German startup based in Paris & Berlin which raised a new \$30m round) with a platform named “Mon marché à la maison”, Pepper (East coast in the US).

WHY IT MATTERS: these new and innovative procurement companies were already competing hard with wholesalers for the attention of furnishers before the crisis. Now, that these have lost their outlet, they are both providing them with some relief by enabling them to sell some products to final consumers and more essentially they are showing their ability to digitise and adapt to any circumstance.

MORE: Techcrunch (Pepper), La Tribune (Choco)



FOOD(TECH) INTERRUPTED - FOODSERVICE FROM RESTAURANT TO GROCERY STORE

INSIGHT: many restaurants have moved their operations to meal delivery, often to discover that serving these new types of customers come with unexpected challenges (such as knowing if your meal is transportable or your pricing adapted to delivery). Others have transformed their restaurants into grocery stores.

EXAMPLES: [Just Salad launched a Meal kit](#), [Panera bread launched Panera grocery](#), [Subway tests its grocery service](#) and more [here](#)

WHY IT MATTERS: Launched by small and large companies, these services go beyond groceries, they maintain and even strengthen the link between these brands and their customers in a time of crisis.



FOOD(TECH) INTERRUPTED - FOODSERVICE RETAILERS SELLING RESTAURANT MEALS

INSIGHT: Some supermarkets have provided another channel of sales to restaurants by enabling them to prepare delivery-like meals and sell them directly on the shelves of their highly visited aisles.

EXAMPLES: HEB, a Texas-based supermarket chain is testing the concept in 29 of its stores San Antonio, Houston and Austin.

WHY IT MATTERS: More than charity, it is again a way to strengthen the link between the brand (the supermarket) and its community, betting on the consumers to remember the good deeds when things get back to normal. It is also a way for retailers to test ready-to-eat meals in their stores before launching into cloud kitchens and delivery.

MORE: [Express News](#)



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PART II - DELIVERY

As key answers to people locked up in their homes, food delivery startups have a better time than others. However, that does not come without some difficulties, from handling the security concerns of clients and workers, to adapting to spikes in demand.

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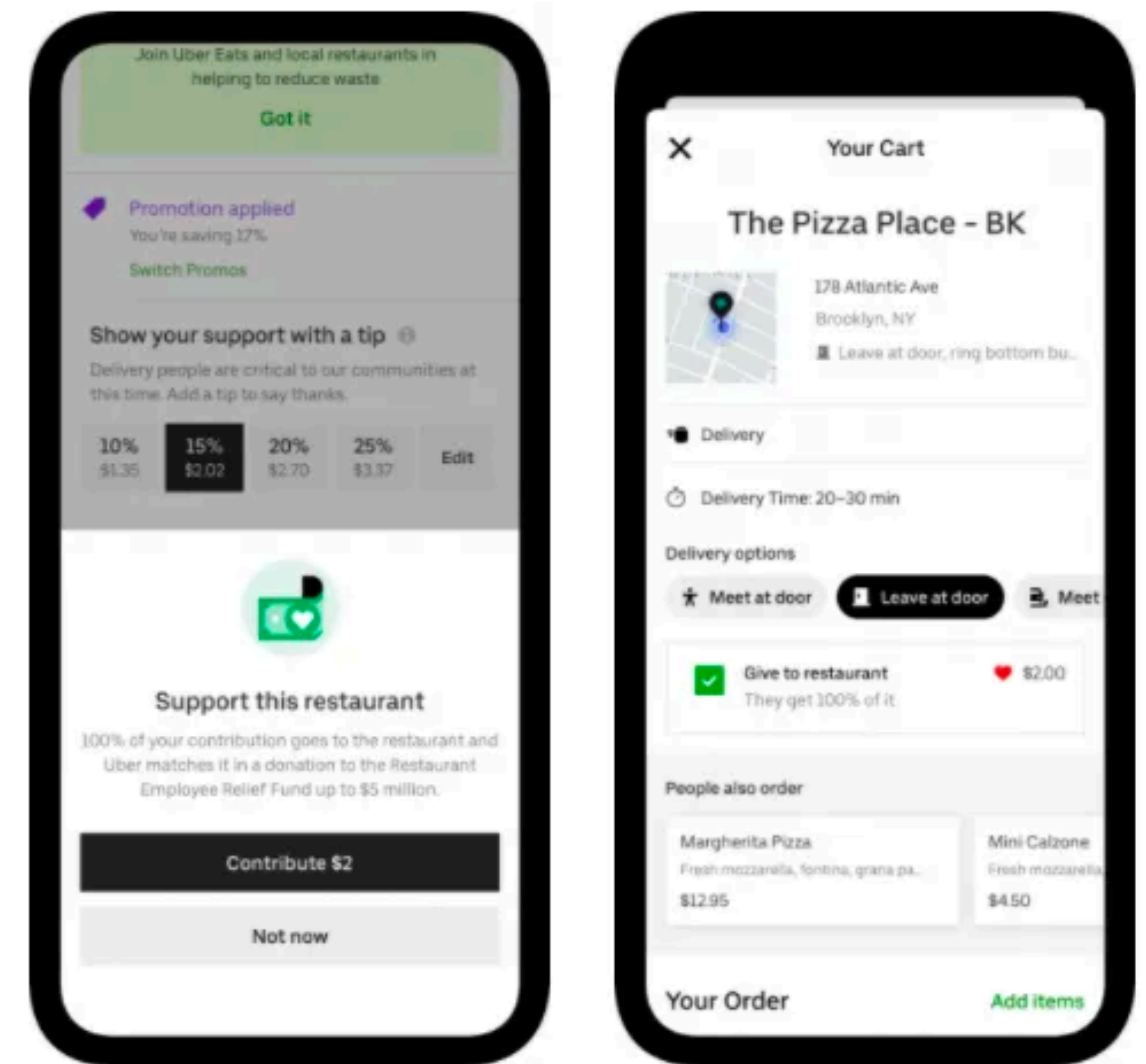
FOOD(TECH) INTERRUPTED - DELIVERY

IS COVID A BOON FOR DELIVERY PLATFORMS? 1/2

INSIGHT: As always with restaurant delivery platforms, it can be hard to distinguish facts. As for other players of the gig economy, these startups also face hatred from many people, now more than ever, for putting their workers on the streets to perform the deliveries (and indirectly for letting restaurant chains operate their kitchens where distancing can be complicated). From this situation results a very tense environment. If delivery platforms seems to observe surge in demands in some countries, it does not appear to be the case everywhere.

EXAMPLES:

- Uber Eats has launched an in-app button to donate to your favourite restaurants. The app is now also featuring various distanced delivery options as “at door” meeting or “leave at door”.



FOOD(TECH) INTERRUPTED - DELIVERY

IS COVID A BOON FOR DELIVERY PLATFORMS? 2/2

- DoorDash reduces commission fees by 50% for restaurant partners (this may represent up to \$100M of commissions injected into restaurants cash flows. Uber Eats does the same in the UK)
- As critiques of restaurant delivery increases, legislators are creating new rules: San Francisco caps the commissions for food delivery apps at 15%
- Restaurant chains, such as Chipotle grow their presence on delivery platforms (here with a US deal with Uber Eats)
- Many consider the ethics of getting food delivered



FOOD(TECH) INTERRUPTED - DELIVERY

MEAL KITS

INSIGHT: Do you remember the time when most (including us) were judging the future of meal kits as complicated, to say the least, due to high acquisition costs and low retention? Things have apparently changed as they are now among the most coveted startups.

EXAMPLES:

- HelloFresh and Blue Apron, once ridiculed for sourcing their products themselves see an unprecedented rise in sales (which they can answer)
- Gousto (UK meal kit) raises \$41m as its business is booming
- Marley Spoon, the (Germany-based) meal kit leader in Australia has seen a 400% of its stock

WHY IT MATTERS?

This crisis is a boon for meal kits with the ability to answer the surge in demand (more than tenfold for some). More returning demand, it is new customers trying the service for the first time. However, the big question remains: will clients stay loyal once things “get back to normal”?



FOOD(TECH) INTERRUPTED - DELIVERY

BOOM IN ALCOHOL SALES

INSIGHT: unsurprisingly, the lockdown has created a surge in alcohol consumption. As many online retailers have a restricted offering, dedicated startups are growing faster than ever.

EXAMPLES:

- drink.ch saw a 300% surge of its online orders
- online cocktail brand Haus announced “the restaurant project” where 100% of the profits made during the pandemic will go to restaurants
- Drizly, one of the leader alcohol delivery apps in the US gets more traffic than ever, sales have grown by 535%!

WHY IT MATTERS: As for meal kits, online sales of alcohol, either through direct ordering or subscription, were not growing fast due to low retention rates. Will consumers keep on ordering through these apps?



The sales growth at Drizly

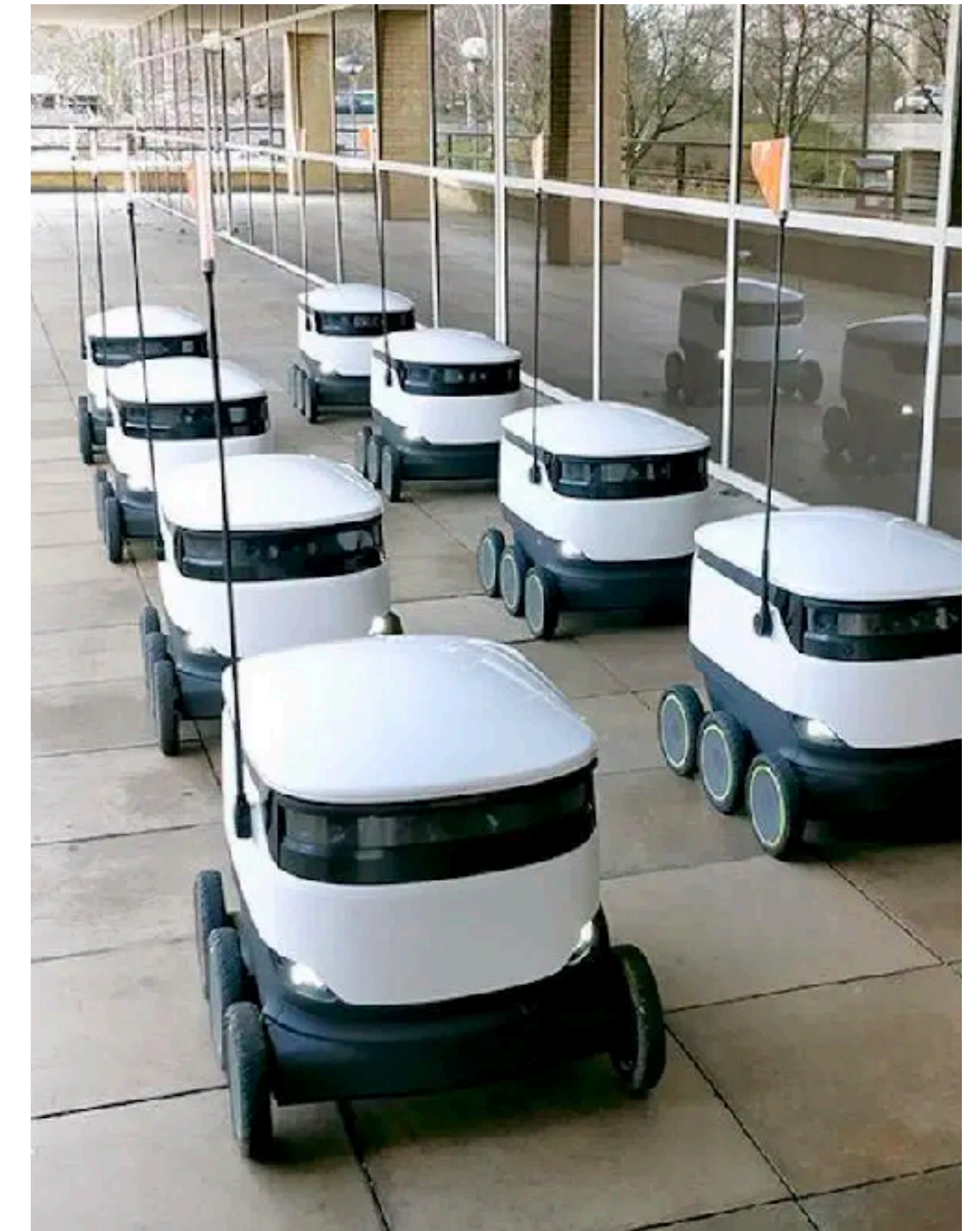
FOOD(TECH) INTERRUPTED - DELIVERY

ROBOTS IN THE STREETS 1/2

INSIGHT: With lockdowns, the rise of delivery was inevitable, but it is often at the cost of social distancing with the delivery drivers. Companies already involved with robots and drones are moving their experiments into the streets at the service of consumers.

EXAMPLES:

- Starship technologies, EU-based, small robots' (opposite picture) were until now only used in experiments in closed down environments such as universities. Since early April, they are in the streets of Temple, Arizona, delivering pizzas.
- Nuro, US-based, grocery delivery autonomous cars', (pictures below) with partnerships with Walmart and Kroger
- Alphabet (Google parent company), drone delivery operation is booming with a doubling of its locations in Australia and in the US (picture below)



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ROBOTS IN THE STREETS 2/2

WHY IT MATTERS: things are moving incredibly fast. Indeed, for those of you following as we do at DigitalFoodLab, all the experiments made in the last couple of years with robots and drones, you were probably frustrated by their slowness. It seemed that political pressure around the jobs of delivery drivers and a somewhat luddite attitude were limiting them. However, many corporates and retailers (such as Kroger, PepsiCo or Sodexo) were already experimenting with the leading startups (Nuro, Starship, Mana among them). It will be interesting to see if these early adopters get a “reward” of their early bets in the form of data and learnings (and then move forward to expand the reach of robotic delivery).



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INSTACART = UBER FOR GROCERIES 1/2

INSIGHT: Instacart, the uber for groceries (that is enabling you to order your groceries to your local supermarket with independent workers going to pick items in the shelves and then deliver to your door) was already growing fast both in terms of revenues and critiques before the crisis. With almost \$1.9 billion (yes, billions) raised, the company partners with a large number of US retailers. Some of them have even abandoned their e-commerce activities. As it was sometimes the case in some city shops, many stores have now more Instacart shoppers than clients, and that doesn't come without its lot of issues:

- new and more complicated operations (new clients, a large number of orders, new workers, empty shelves leading shoppers to improvise on what the client would like to buy instead) lead to a surge in demand for support. Instacart has already gone from 1 to 3,000 support team members and is looking to add 15,000 new people!



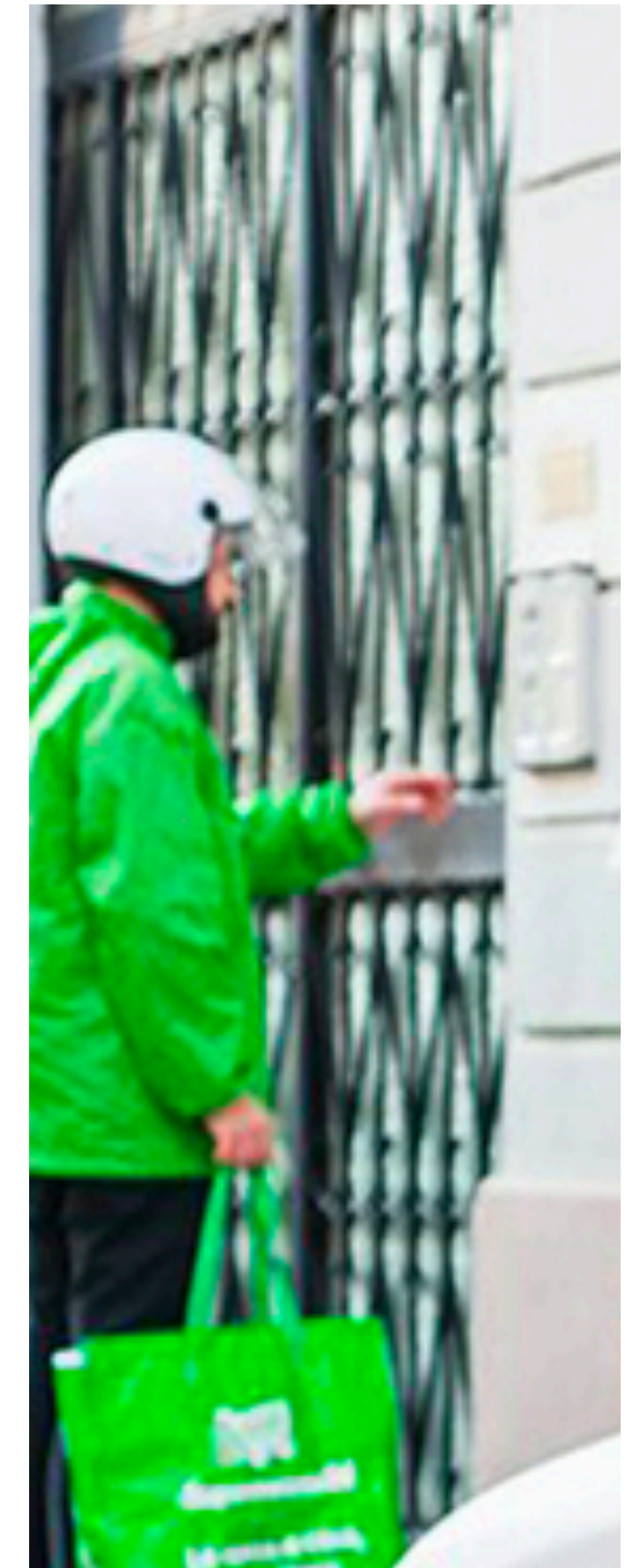
FOOD(TECH) INTERRUPTED - DELIVERY

INSTACART = UBER FOR GROCERIES 2/2

- more and more shoppers (350,000 now, up from 200,000 last year) make the company more visible. After a strike in march due to tipping (the company took a percentage of the tips), there are now concerns about the safety measures taken by the company.

INSTACART IN EUROPE? Instacart has surprisingly very few competitors or equivalents in Europe. The most well-developed is Supermercato24, an Italian startup operating both in Italy and Poland (after the acquisition of its local counterpart Szopi). Compared to “normal” times, Supermercato24 has known spikes of demand ten times higher and is confronted with the same issues as Instacart.

WHY IT MATTERS: Instacart is clearly benefiting from the crisis as more people get to use its services and have the opportunity to compare it with those made by retailers themselves. It is, however getting more and more challenged (as are the other on-demand platforms) on the conditions of work it creates



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PART III - FOODSCIENCE

Innovative products startups' fate can be related to their ability to answer positively to the above three questions:

- 1- have they become a staple food that you don't consider not having on your fridge? (and something that others want to try)
- 2 - do they provide a solution for people cooking more at-home-meals?
- 3 - do they have enough cash to survive the incoming months of potential hardship and rebound?

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FOOD(TECH) INTERRUPTED - FOODSCIENCE

MEAL REPLACEMENT

INSIGHT: With most of the population at home, we see people cooking or get delivered more, while others are looking for cheap and nutritious meals. Meal replacement startups have the right answer to this with their ready to eat bars and drinks, focusing on consumers interested by efficiency and convenience rather than by taste or experience.

EXAMPLES:

- Soylent, the startup “inventor” of the meal replacement category has donated more than 500,000 meals to food banks since the beginning of the crisis.
- Feed is giving meals to hospitals while asking consumers to avoid stocking unduly.

WHY IT MATTERS: meal replacement products found their market before the crisis but remained controversial, to say the least. This will be a booster for their image and could help to boost adoption (we may see some of them offering “lockdown packs” to prepare... just in case of a repeat)



FOOD(TECH) INTERRUPTED - FOODSCIENCE

PLANT-BASED MEAT ALTERNATIVES

INSIGHT: isn't everything about meat alternatives these days? Even COVID-19 is an opportunity for plant-based brands (whom retail sales increased significantly), especially the leaders:

- Impossible Foods enables restaurants across the US to sell its foodservice patties directly to consumers (as we've seen before, many restaurants there have reconverted their space into grocery stores)
- As other foodtech startups will certainly face huge difficulties into raising new venture rounds, it is not the case in this category. In later March, Impossible announced a new investment of \$500M
- Joining many other companies, Beyond Meat donated one million burgers to hospital workers

WHY IT MATTERS: the fact that meat alternatives' sales increased as much as other staple foods in the first couple of weeks of the lockdown is significant. It means that plant-based alternatives have been part of some consumers lives as are other basic products. They are here to stay and will even grow faster as others have finally the opportunity to test them at home for the first time.



FOOD(TECH) INTERRUPTED - FOODSCIENCE

OTHER DIRECT TO CONSUMER FOOD BRANDS

INSIGHT: outside meal replacement and products already sold in supermarkets, other direct to consumer food brands have a very different response to the crisis. They could be separated into two broad categories:

- Staples for cooking at home (from cookware to actual food): these startups have known incredible growth in demand and have to adapt to the demand.
- Luxuries: products “nice to have” but that you may survive without. They have known 2 to 4 weeks of sharp declines in sales when lockdown started. After this initial period, sales began to get back to “normal” levels. It is interesting to see how some are changing their communication to stay relevant.

For all these startups, the real differentiators may be the cash they had before the crisis and their ability to reach profitability in the incoming months. The growth “at all cost” period may be over.

EXAMPLES: Les Miraculeux, a French gummy vitamins startup gave 500 of its sleep and energy packs to medical workers facing COVID-19.



DIGITALFOODLAB WORKS WITH LEADING FOOD BRANDS AND RETAILERS



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GOT A QUESTION?

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