



# Navigating the COVID-19 Economy

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A Guide for Food Wholesalers

## FOOD'S NEW NORMAL

It's no secret that the coronavirus pandemic has upended business activity across industries. Of all verticals, though, the food industry is experiencing some of the most challenging opposing trends. On the one hand, restaurants – the industry's largest consumer – are operating at an all-time low. Meanwhile, food retailers have gone through periods where they can't seem to keep products on the shelf.

While some restrictions have eased since the initial pandemic response, the uncertainty about subsequent waves means a flexible strategy is necessary to achieve corporate objectives. At times, food wholesalers will need to pivot their strategy and switch their focus to restaurants and bars, many of which will not make it through the pandemic. At other times, a focus on adjacent industries may yield much-needed revenues. Today's market dynamics make it more imperative to segment this customer base by risk profile so that sales, marketing, and finance functions can take action.

Here's some food for thought for food wholesalers:

- How much of revenue is at risk, given the current customer base?
- To mitigate this risk and continue to drive profitable growth and revenue assurance, what actions should be taken to:
  - Prioritize collections on previously delivered orders
  - Vet customers before approving new orders
  - Strategically define an ideal ongoing market mix as the situation continues to evolve
  - Fill sales pipelines with leads in current and adjacent industries

## QUANTIFYING THE IMPACT

Forced closures, restrictions on indoor dining, limitations on outdoor seating – these are just a few of the factors that have hit restaurants hard and will likely persist for some time. But how can you identify the restaurants that are at the greatest risk of being impacted? The D&B COVID-19 Impact Rank Index<sup>®</sup> was designed to answer that very question. Based on a collection of proprietary and exclusive data, including location, business health indicators, supply chain analysis, and other activity signals, the index assigns a percentile score to each individual restaurant, indicating its likelihood of being impacted by the crisis.

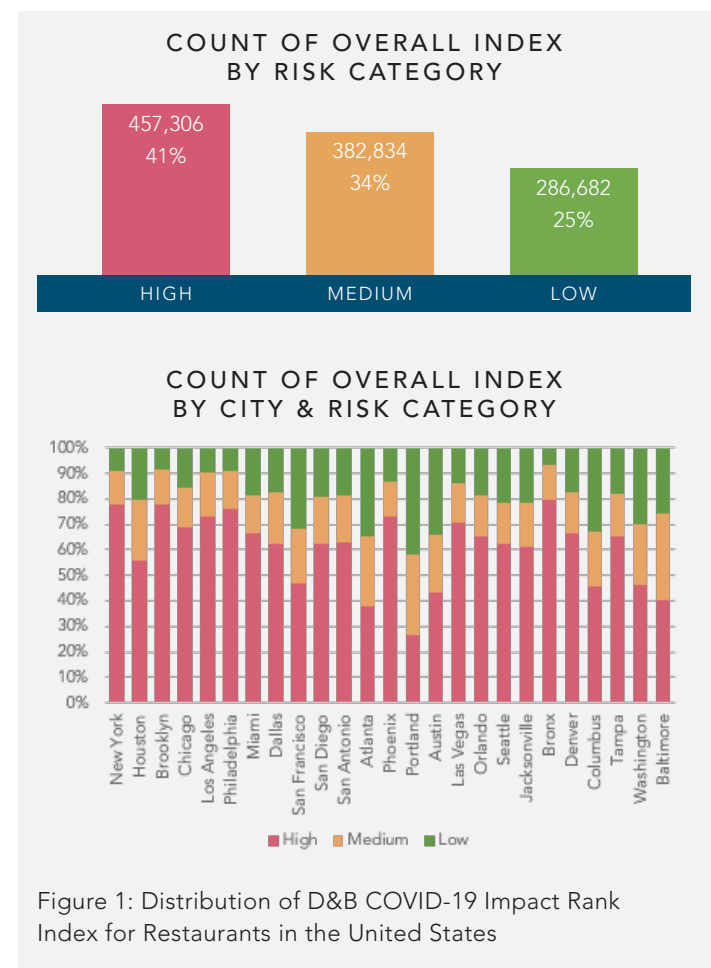


Figure 1: Distribution of D&B COVID-19 Impact Rank Index for Restaurants in the United States



## CASE STUDY

In order to illustrate the approach to answering the five questions described above regarding impact and growth, let's consider restaurants and bars in Los Angeles, California.

As shown in Figure 2, foot traffic at restaurants and bars in Los Angeles decreased 78% from March 3 to its lowest point on April 6. This required a pivot by food services companies to consider marketing to different channels, such as grocery stores, in order to make up for lost revenue from their target customers. With restrictions starting to ease, foot traffic at bars and restaurants has recovered 37% from the lowest point but is still down 66% from pre-COVID-19 levels.

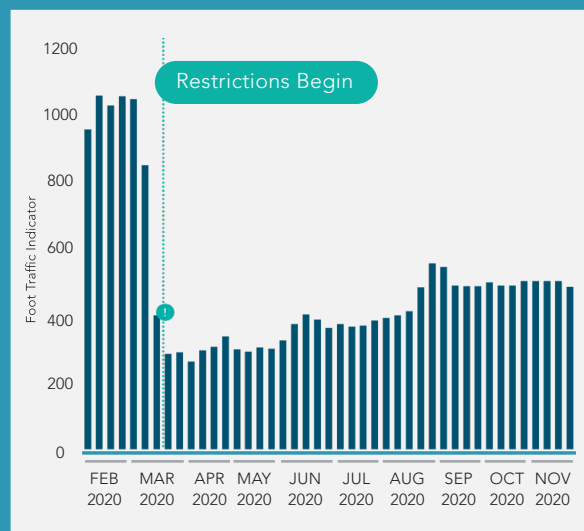


Figure 2: D&B Foot Traffic Indicator for Restaurant and Bars, by Week, in Los Angeles, CA

This slow recovery will allow food wholesale companies to gradually pivot back to supplying bars and restaurants. But how should companies approach this adjustment? Let's refer back to our initial questions.

## HOW MUCH OF OUR REVENUE IS AT RISK?

Dun & Bradstreet analyzed the top 10 industries that food wholesalers primarily sell to and segmented those businesses using the D&B COVID-19 Impact Index to understand the risk profile of these subsegments.

The number of businesses in Los Angeles that may be high risk according to our index is shown in Figure 3, which shows that 72% of restaurants in the Los Angeles area fall in this category. Layering the D&B COVID-19 Impact Index with predictive cash flow measures across all customer markets around the country can allow wholesalers to assess total revenue risk and help make judicious decisions about credit and collections for existing customers.

SIC DESCRIPTION	COUNT OF OVERALL INDEX	% OF BUSINESSES IN HIGH RISK CATEGORY
CIVIC/SOCIAL ASSOCIATION	3,412	11.20%
GENERAL HOSPITAL	263	80.61%
HOTEL/MOTEL OPERATOR	1,016	74.31%
MEMBERSHIP RECREATION CLUB	380	82.11%
RECREATION SERVICE	1,113	82.57%
RELIGIOUS ORGANIZATION	3,932	6.08%
SKILLED NURSE CARE FACILITY	119	38.66%
DRINKING PLACE	777	75.80%
RESTAURANT	9,434	72.71%
RETAILER OF GROCERIES	1,545	27.18%

Figure 3: Top 10 Customer Industries



## WHAT ACTIONS CAN BE TAKEN TO MINIMIZE IMPACT?

### 1. PRIORITIZE COLLECTIONS

Since we expect many restaurants will not be able to survive prolonged COVID-19 restrictions, you should consider taking steps to prioritize collections efforts for those most likely to default on financial obligations. Here again, the COVID-19 Impact Index and the Foot Traffic Index may provide early warning signs. In addition, traditional credit scores (D&B PAYDEX® score, D&B® Delinquency Predictor Score, D&B Financial Stress Score®) and business performance-related scores (D&B Viability Rating®, Dun & Bradstreet Material Change) may bring additional perspective. Segmenting your customers and applying or evaluating different treatment strategies toward collections can lead to enhanced efficiency in receivables management and help reduce days sales outstanding (DSO).

### 2. VET NEW CUSTOMERS BEFORE APPROVING NEW ORDERS

Understanding the payment behavior and risk profile of any potential customers is key to maintaining healthy profitability and cash flow. COVID-19 has put a financial strain on many businesses, which may have to default on their payments because they are close to insolvency. Although this step is especially critical if targeting didn't leverage risk-based factors, most onboarding processes require a manual credit review before large orders can be released. This allows additional elements to be evaluated, helping minimize credit risk exposure. Predictive analytics used to assess this impact for decision-making in regard to credit originations can allow you to limit exposure.

### 3. STRATEGICALLY DEFINE ONGOING MIX AS RESTRICTIONS AND IMPACTS SHIFT

Consider targeting adjacent markets that have historically been less of a priority; these may have become better fits in the current market dynamics. In the above example, the quick pivot to retail grocery outlets allowed companies to fill revenue gaps and reduce reliance on restaurants and bars that have been harder hit by the pandemic. Leveraging the Foot Traffic Index and the COVID-19 Impact Index can help identify which additional adjacent industries remain or become more attractive as the situation continues to evolve.

### 4. FILL SALES PIPELINE

Once a strategic customer mix is defined, wholesalers can begin to fill the sales pipeline. Referring back to the example in Los Angeles, and Figure 4, there are 1,125 potential leads (385 + 740) in the grocery store subsegment. To fill the sales pipeline with only quality prospects, though, this list should be filtered to minimize risk using standard credit data as well as current COVID-19 Impact and Foot Traffic indices. To capture organic growth, advanced scores such as the Viability Indicator and Growth Trajectory can be leveraged to identify prospects with high growth potential. Finally, for an even more targeted list, a look-alike profile based on any existing clients within the new segments could be built. Once the target population is identified, the next step would typically involve obtaining contact data to enable reaching these companies through a sales and marketing campaign.

SIC DESCRIPTION	TOTAL LOW - MEDIUM	TOTAL	% LOW - MEDIUM
CIVIC/SOCIAL ASSOCIATION	3,030	3,412	88.80%
GENERAL HOSPITAL	51	263	19.39%
HOTEL/MOTEL OPERATOR	261	1,016	25.69%
MEMBERSHIP RECREATION CLUB	68	380	17.89%
RECREATION SERVICE	194	1,113	17.43%
RELIGIOUS ORGANIZATION	3,693	3,932	93.92%
SKILLED NURSE CARE FACILITY	73	119	61.34%
DRINKING PLACE	188	777	24.20%
RESTAURANT	2,575	9,434	27.29%
RETAILER OF GROCERIES	1,125	1,545	72.82%

Figure 4: Filling the lead pipeline with over 11,000 companies having low to medium D&B COVID-19 Impact Index Risk in Los Angeles.

To schedule a consultation session with a subject matter expert, please reach out to your Dun & Bradstreet Client Director or one of the authors of this paper.

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