



THE WAVE OF CHANGE IN THE  
FOOD & BEVERAGE INDUSTRY IN  
THE WAKE OF THE CORONAVIRUS

TRENDS & PREDICTIONS  
FOR THE FUTURE OF THE  
INDUSTRY

**MARCUM**  
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*Presented by*  
Marcum's Food & Beverage  
Services Group Leaders

**April 23, 2020**

[marcumllp.com](http://marcumllp.com)

## TODAY'S SPEAKERS

AGRICULTURE / AQUACULTURE	MANUFACTURING	DISTRIBUTION	RETAIL	EATING/DRINKING FACILITIES
				
<b>Lou Biscotti</b> National	<b>Lenny Gordon</b> Southern California	<b>James Aspromonti</b> NY Metro	<b>Patrick O'Reilly</b> New England	<b>Natalie Verbanac</b> New York City

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## AGRICULTURE & AQUACULTURE

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### MAJOR IMPACTS

- 50% of grown food previously went to restaurants, stadiums, schools and universities, theme parks, hotels and airlines causing a downward spiral in crop and livestock prices.
  - Farmers plowing back thousands of acres of already harvested products.
  - Corn sales down 15% with ethanol sales down, 40% due to decrease in driving.
  - Dairy farmers dumping thousands of gallons while milk sales are down 34%.
    - WSJ: 7% of all U.S.-produced milk dumped in last week.
  - Meat and pork plants closing (Tyson, Cargill, JBS) with meat sales are down 30%.
  - Sanderson Farms breaking excess eggs but fresh chicken sales are up 46% and cooked chicken sales are up 28%.
- Seafood sales experiencing major issues especially scallops and lobster.
  - 68% of sales were previously to food service.
  - Sales are down 95%.
  - Lobster prices down 33%.
- This is all complicated by the shortage of labor (immigrant workers) and trucking (which is overwhelmed).

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## MAJOR SHIFTS

- Farmers shifting sales direct to retailers and away from food service, restaurants, etc.
- Farmers are also shifting sales direct to consumers:
  - CSA's (Community Supported Ag Boxes) are taking "local" to a new level.
  - Consumers' emphasis on cooking at home.
  - On line farmers markets.
  - Wheat is hot as a result of more bread and pasta sales.
  - Other hot products include peanut butter, rice, dried beans, water, pretzels.
  - Shift from perishables to non-perishables
- Logistics is a big concern - how to get products to the consumer?
- Food banks are full but have shortages of frozen and surplus dry goods.
- Farmer's Markets shut down by some local governments creating concern for farmers who depend on these markets for a lot of their sales.

## SAFETY

- Adding washing and sanitizing stations in the fields.
- Screening and distancing workers.
- Tyson is using infrared body temperature scanners.

## GOVERNMENT ASSISTANCE

- Over \$9B in aid.
- Relieving the specific industry revenue threshold for those with 500 or less employees.
- Initiating the interview waiver for H2A visa employees.

## THE NEW NORMAL

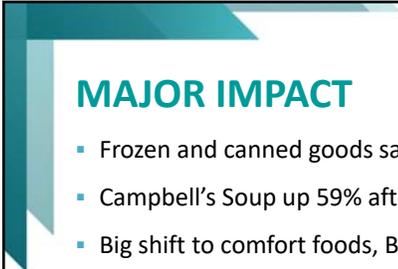
- Online sales will increase.
- Distributors will get squeezed.
- Plant based foods are a question mark - up or down remains to be seen.
- Eating at home will increase from previous levels.
- Certain products will be more popular than in recent past.
- Prices and sales will take quite a while to come back as cannot shift quickly.



# MANUFACTURERS

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## MAJOR IMPACT

- Frozen and canned goods sales way up.
- Campbell's Soup up 59% after years of declining sales.
- Big shift to comfort foods, Big CPG companies sales are up.
- Recent emphasis on sustainability has lost momentum in favor of the certainty supplies and to control the spread of the virus. Discontinuance of re-usable shopping bags is causing a surge in plastic bag demand.
- Workforce impacted for manufacturers who have foreign production facilities in China, Italy, and other locations.
- Companies are adjusting their operations to meet increased demand.
- Buying teams shifting focus away from traditional negotiations toward ensuring adequate supply of in-demand products.

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## MAJOR SHIFTS

- Warehouse, grocery, and delivery workers are striking in hopes of better wages and, especially, working conditions.
- Some workers are demanding “combat pay” for being exposed to the public. These demands are on top of “minimum wage” increase already in many states.
- This at the same time as these positions are increasingly subject to automation and AI products to improve automation continue to advance.
- A completely automated retail supply chain from warehouse to grocery or restaurant to home is increasingly coming into view, though it will likely be several years before all the pieces are fully in place.
- Enhanced quality control by the FDA

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## SAFETY

- Retailers and manufactures are beginning to use body temperature scans before allowing employees to work.
  - Some large manufacturers are using walk-through infrared body temperature scanners to allow for mass screenings.
- Limiting person to person contact/proximity inside the food facility is critically important.
  - Social distancing during shift changes
  - Meals/Snack/Break Rooms
- Disinfect Everything! - Finding ways to minimize common surfaces employees need to touch:
  - Use auto open doors or encourage bumping doors open with hip or using foot on kick plate.
  - One of my clients that sells bug repellent solutions and applicators has pivoted to sell their “fogger” applicators for large area disinfectant/sterilization solutions.

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## GOVERNMENT ASSISTANCE

- FDA suspends some inspections in response to the COVID-19 outbreak.
  - Most foreign inspections postponed through April, with inspections outside the U.S. deemed mission-critical considered on a case-by-case basis.
  - When FDA is not able to physically inspect foreign-produced FDA-regulated products or manufacturers, it will employ other tools that have proved effective in the past, such as:
    - Denying entry of unsafe products into the U.S.
    - Physical examinations and/or product sampling at borders
    - Reviewing a firm's previous compliance history
    - Using information sharing from foreign governments as part of mutual recognition and confidentiality agreements.
- Food and beverage industry workers are deemed essential to critical infrastructure.
- USDA looking into enhancing enforcement of Country of Origin labeling down to the ingredient level of processed food.

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## THE NEW NORMAL

- Tracking Cash Flow DAILY - not weekly, not monthly.
  - Daily – many already do this but now it is mandatory for survival.
  - Cash is KING and ingredient vendors and co-packers want to limit collection risk.
  - Smaller companies are losing out on production because those suppliers are diverting their capacity to the “sure thing” of larger customers who are more likely to pay their bills.
- Global supply chains that function locally.
- Combining supply chain concepts of “design everywhere, produce everywhere” with “deliver personalized products fast, in a sustainable and affordable way for the mass market”.
- Within the supply chain, Information Resources Inc. (IRI), Chicago said the number of product choices consumers have going forward may be limited as manufacturers focus on production of top stock-keeping units to meet demand.
- Food and beverage “stockable” items IRI predicts will continue to be popular are shelf-stable and frozen food items, sports drinks and water.

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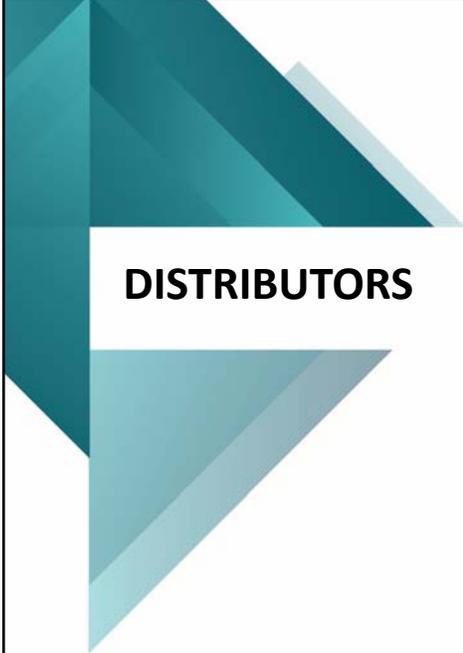
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## DISTRIBUTORS

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## MAJOR IMPACTS

- Food distributors and wholesalers redirecting truckloads of food from shuttered businesses toward grocery stores.
- Distributors that were selling primarily to restaurants now need to alter how they are packaging in order to sell to retailers.
- Baldor sales to food service was 88% of volume now down to 3%
- Distributors can't work remotely and social distancing creates labor challenges. Risk of Covid-19 creates challenges for workers.
- Customers began hoarding in case of stay at home orders.
- Increased demand on consumer packaged goods such as food, beverages and cleaning products.
  - Strong demand from Walmart, Costco and supermarkets to keep up.
  - Offset by decrease in restaurants, airlines, sports arenas and casinos.

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## MAJOR IMPACTS

“Hospitals began to run out of masks for the same reason that supermarkets ran out of toilet paper — because their “just-in-time” supply chains, which call for holding as little inventory as possible to meet demand, are built to optimize efficiency, not resiliency.” – *Farhad Manjoo*

- Just-in-time (JIT) inventory systems not built for resiliency:
  - Large companies such as Walmart have sophisticated JIT systems. When the supply chain is disrupted shortages on shelves are created.
- Food waste has become an even bigger problem in recent days due to the shift in the supply chain away from the foodservice industry due to the pandemic. Distributors of perishable goods are having challenges.
- Logistics challenges to supply the demand.

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## MAJOR SHIFTS

- International Food Services Distributors Association (IFDA) and FMI launched a matchmaking partnership connecting foodservice distributors with excess capacity to assist food retailers and wholesalers that require additional resources to fulfill needs at grocery stores, which are experiencing skyrocketing demand.
  - Sysco (a leading supplier to food service industry) made a deal with Kroger ( a major retail grocer) to allow furloughed workers to temporarily work at distribution centers.
- Greater need for warehousing space, cold storage and refrigerated trucks to handle demand.
- Many distributors will further diversify products and suppliers to guard against shortages.
- Packaging design changes to accommodate direct to consumer and from restaurants to grocers.

Fast Casual. (2020, March 23). Restaurant food distributors estimate losses of \$24B in 3 months. Retrieved from <https://www.fastcasual.com/news/restaurant-food-distributors-estimate-losses-of-24b-in-3-months/>

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## MAJOR SHIFTS

- Seafood companies may be looking more to freeze dried.
- Shift to more sophisticated technology with visibility through supply chain and minimum quantity on hand.
- Larger companies such as General Mills are trying to skip lines in supply chain and bypass distributors for items such as Cheerios and flour and shipping direct to store warehouses.
- Shift to direct to consumer.
- Industry experts say that distributors have turned themselves, in effect, into a club store like Costco that offers home delivery.
  - Some food distributors who normally sell to the hospitality industry have begun selling meat and produce directly to consumers.
  - Drivers who unloaded a thousand dollars' worth of fresh meats and vegetables at restaurants now deliver to homes and apartments with much smaller orders — some as low as \$70 — with no delivery fee.

## SAFETY

- The challenge is meeting demand while protecting workers and complying with social distancing.
- Amazon building own lab to test workers for Covid-19.
- Large meat plant closes after 293 employees test positive for coronavirus – Virginia-based Smithfield Foods.

*“The closure of this facility, combined with a growing list of other protein plants that have shuttered across our industry, is pushing our country perilously close to the edge in terms of our meat supply. It is impossible to keep our grocery stores stocked if our plants are not running. These facility closures will also have severe, perhaps disastrous, repercussions for many in the supply chain, first and foremost our nation's livestock farmers.”*

*– Smithfield President and CEO Kenneth Sullivan*

## GOVERNMENT ASSISTANCE

- Food and Nutrition Service (FNS) ensuring children and those in need have food during the public health emergency with guidance and waivers related to:
  - **Child nutrition programs.** Local schools setting up pickups for bag lunches.
  - **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).** Special allowances being made to allow substitutions to food in packaging as a result of supply.
  - **Supplemental Nutrition Assistance Program (SNAP).** Workfare program
  - **USDA Food Programs.** Disaster distribution which provides boxed lunches direct to households. Additional funding to states to allow for more distribution to food banks.
  - Marcum has run many other webinars related to the various provisions under the Cares Act and SBA programs.

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## THE NEW NORMAL

The nation's 15,000 food distributors — companies that supply restaurants, fast-food outlets, campus dining halls, airline caterers, arenas, stadiums, school cafeterias with everything from meats to produce to paper goods — have found their once-bustling warehouses have ground to a near halt as many of the nation's estimated 660,000 restaurants closed or doing takeout-only business. — *pressconnects.com*

- Restaurant suppliers opening up to the public to keep their business alive.
- Suppliers who grow or catch specialty foods that are not typically seen in grocery stores have greatly relied on the restaurant industry. Now they are looking to market direct to consumers.
- Continued direct to customer.
- Focus on ecommerce.
- More robotics and technology in the future.

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Danovich, Tove. (2020, March 24). Restaurant Suppliers Are Opening Up to the Public to Keep Their Businesses Alive. Retrieved from <https://www.eater.com/2020/3/24/21192437/suppliers-sell-direct-to-consumer-as-restaurants-close-coronavirus-delivery-pickup>

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## RETAILERS

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## MAJOR IMPACTS

- Grocery retailers are experiencing soaring demand on certain product categories, with an over 50% increase in comparison to Christmas peak.
- On line grocery sales up 192%.
- Pick-up and delivery options are overwhelmed.
- Meal kit companies seeing a surge (Blue Apron stock up 400%).
- A huge spike in demand for longer-life products has cannibalized the sales of fresh fruits and vegetables.
- Big box retailers are struggling with some supply chain disruptions, lower shopping capacity, and are currently at capacity for delivery.
- Employees are being given higher wages and bonuses during the crisis but they are also becoming unhappier, getting sick, and cause labor unrest.

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## MAJOR SHIFTS

- Stockpiling in the long run will cause sales to decrease below historical “normal” forecasted levels as consumer’s focus on reducing their “home inventories” before making further purchases.
- Retailers who offer a quicker home delivery service and free returns are gaining advantage over others. Now is the time to roll out e-commerce.
- Bans on plastic bags are lifted while reusable shopping bags are now being banned.
- Coronavirus drives purchases of comfort food according to NY-based Nielsen.
  - Sales of cookie variety packs are up 20.3% for the latest week ending March 7 vs. the same week the previous year.
  - Salty snacks such as pretzels (14.8%), cheese snacks (11.5%), popcorn (9.5%) and pita chips (6.1%) are also up for the latest week over the previous year.
  - Sales of certain long shelf-life products are skyrocketing. Dried beans (62.9), rice (57.5) and powdered milk (126.3) are all up significantly from the latest week ending March 7 vs. the same week the previous year.



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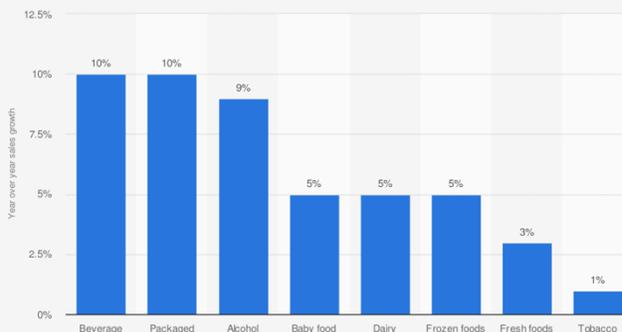
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## CHANGES IN SALES OF GROCERIES OVER PRIOR YEAR

This statistic depicts the increase in dollar sales of edible grocery categories in the wake of the coronavirus outbreak in the United States in March 2020.

Beverages and packaged food increased by around 10 percent compared to the year before. In contrast, sales of fresh foods and tobacco only increased by 3% and 1% respectively.

Changes in dollar sales of edible groceries due to the coronavirus pandemic in the United States in March 2020, by category



Source: IRI © Statista 2020

Additional Information: United States; IRI; Week ended March 8, 2020



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## SAFETY

- UFCW union urging CDC to issue standards that protect frontline workers in grocery stores, pharmacies and food processing plants — and the U.S. food and drug supply chain — from coronavirus.
  - Many states issuing executive orders regarding maximum number of shoppers in stores and social distancing requirements.
    - Five customers per 1000 square feet
    - 1 family member only
    - Employees stationed at front of store to clean carts and keep track of customers entering and leaving the store
  - Change.org online petition to standardize safety precautions for grocery workers during Covid-19
- Management is starting to take employees' temperatures at the beginning of the shift using contactless thermometers.
- Addition of Plexiglas barriers to separate customers and employees.

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## GOVERNMENT ASSISTANCE

- SNAP: Many states approved by USDA to issue emergency allotments for SNAP (up to \$15.5 billion in funding).
- Continuation of Business Loans: FMI notes that under Title IV the grocery industry will be eligible for money under several provisions.
- CARES Act fixes the QIP drafting error that was in the Tax Cuts and Jobs Act.
- Temporary allowances for labels going to retail issued by the Food Safety and Inspection Service.
- US DOT issues national emergency declaration for commercial vehicles delivering relief in response to coronavirus outbreak.

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## THE NEW NORMAL

“To put this in perspective, for the average citizen out there, about half of their food dollars are spent in grocery, the other half is spent in food service— restaurants, bars, etc. Virtually 100 percent is now being borne by grocery.” – *Ted Balistreri, co-owner of Sendik’s Food Markets.*

- People are buying more items and shopping less frequently.
- Gaps in the supply chain will narrow as sales level off and shoppers buy only what they need.
- Contactless or “cashless” transactions as much as possible.
- Food delivery, click-and-collect, online shopping and home delivery are all expected to increase as consumers avoid going to areas where there may be large gatherings, according to Information Resources Inc. (IRI), Chicago. The market research company said click-and-collect and home delivery must be every retailer’s business priority.

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## EATING AND DRINKING FACILITIES

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## MAJOR ISSUES

- Facilities that are designed for dine-in are suffering.
- Temperature control for delivery and pickup is important for safety and quality.
- Proper packaging - including wrapped cutlery.
- Safety measures for employers - employees to wear face masks, gloves, etc.
- Facilities that change to delivery/online ordering now are paying commissions to delivery services and online applications that are increasing costs.
- Marketing costs and change in menus.
- Bankruptcy filings and permanently closed businesses.

## MAJOR SHIFTS

- Drive-thru may become a standard. Delivery and curbside takeout more common.
- Facilities that are designed for take-out or that are ghost kitchens seem to be doing well (pizza, for example). Ghost kitchens will continue to grow.
- Pollo Tropical, Subway, and Panera Bread are among many restaurants offering fresh, ready-to-cook items and groceries.
- Delivery services like Door Dash and Grub Hub are dropping commission rates for small restaurant brands to help independent restaurant partners through the end of May.
- Companies changing plans for remainder of 2020- canceling capital expansions.
- Getting food to seniors – Grubhub partners with 24 Hour Home Care to connect older adults with on-demand food delivery services.
- Philanthropic acts are emerging- Celebrity Chefs donating meals, grants provided for workers.

Business Wire. (2020, April 10). Pollo Tropical® Launches Pollo Pantry Offering Fresh, Ready-to-Cook Items. Retrieved from <https://www.thestreet.com/press-releases/pollo-tropical-reg-launches-pollo-pantry-offering-fresh-ready-to-cook-items-15289982>

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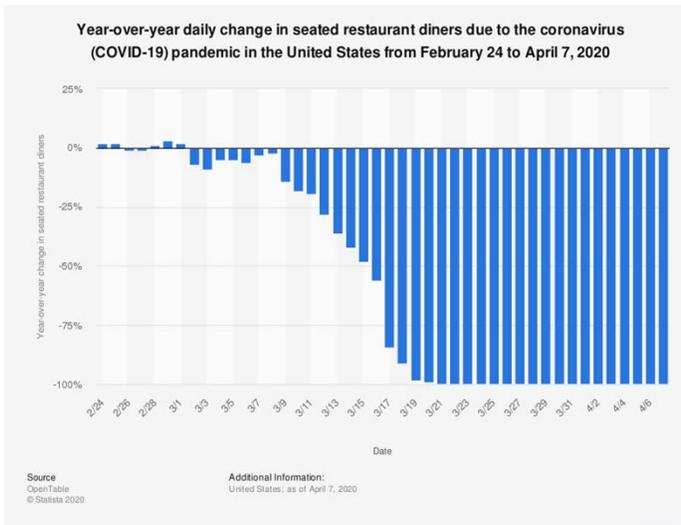
## FACTS AND FIGURES

- \$800 billion in total US Restaurant Food and Beverage Sales
  - 16 million employees in US Restaurant Industry.
  - 1 million US restaurants.
- 150,000 – 500,000 independent restaurants that employee up to 8 - 10 million people are expected to permanently close.
- Per the National Restaurant Association - As of April 16, 2020 - \$100 billion in revenue losses and an expected additional \$225 billion if closures remain for another 90 days.
- 8 million estimated unemployed ( approx. half of the industry).

## CHANGES IN RESTAURANT DINERS OVER PRIOR YEAR

The coronavirus (COVID-19) pandemic is causing increasing damage to the United States' restaurant industry. Due to measures of social distancing and general caution in public places, consumers have been dining out less and less.

Year-over-year decline of seated diners in restaurants in the U.S. was a staggering 100% on April 7, 2020.



## CONSUMERS ORDERING ONLINE FOOD DELIVERY

March 2020 survey of consumers in the U.S.: 41.7% = if confined to their homes during the coronavirus, they were likely to purchase restaurant food delivery online.

Bars and restaurants are forced to shutdown due to health and safety concerns. Many smaller establishments have pivoted to local food delivery services.

Online initiatives: buying vouchers or ordering food online.



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## SAFETY

“There is no evidence to suggest that food produced in the United States can transmit COVID-19.”  
– Current guidance from the Food and Drug Administration

- Several infectious disease experts whom NPR spoke to concurred that research hasn't turned up any evidence of COVID-19 spreading through food.
- The FDA has produced guidance on food safety and COVID-19. The only significant change from standing guidance before the pandemic is the recommendation from the FDA to maintain a 6-foot distance between food workers when possible, to reduce the risk of transmission among them.
- Management is starting to take employees' temperatures at the beginning of the shift using contactless thermometers.
- Addition of Plexiglas barriers to separate customers and employees.

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Kritz, Frank. (2020, April 8). How Safe Is It To Eat Takeout? Retrieved from <https://www.npr.org/sections/health-shots/2020/04/08/824903487/how-safe-is-it-to-eat-take-out>

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## GOVERNMENT ASSISTANCE

- Payroll Protection Act (PPP) requirements may prove difficult for restaurant and bar owners.
- FDA relaxes restaurants' menu-labeling rules during coronavirus crisis.

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Rigio, Andrew. (2020, April 3). No Seat At The Table For Restaurants: CARES Act Leaves Hospitality Industry Hanging. Retrieved from <https://www.forbes.com/sites/andrewrigio/2020/04/03/no-seat-at-the-table-for-restaurants-cares-act-leaves-hospitality-industry-hanging/#6b42983d4558>

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## THE NEW NORMAL

- According to the LA Times, reduced tables, temperature checks, disposable menus might be the 'new normal' for reopening restaurants in California.
- Social distancing is among the biggest changes including reducing the number of tables.
- State mandated health checks of employees may also be issued.
- Experts predict customer Temperature checks, fewer people allowed in a restaurant and the decline of crowded bars and even intimate dates.

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Snyder, Garrett. (2020, April 14). Reduced tables, temperature checks, disposable menus. California officials outline 'new normal' for reopening restaurants. Retrieved from <https://www.latimes.com/food/story/2020-04-14/california-reopening-restaurants-coronavirus>

Gillan, Jeff. (2020, April 14). The New Normal: How coronavirus will change local restaurants. Retrieved from <https://news3v.com/news/local/the-new-normal-how-coronavirus-will-change-local-restaurants>

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## RELIEF PROGRAMS FOR THE FOOD & BEVERAGE INDUSTRY

There are several financial assistance programs specific to the Food and Beverage Industry both for owners and employees:

- Multi-State Programs
  - Restaurant Workers Community Foundation COVID-19 Relief Fund
  - James Beard Foundation Food and Beverage Industry Relief Fund
  - USBD Emergency Fund
  - RWCF Crisis Relief Fund
  - OFW Emergency Fund
  - CORE Gives
- State Programs
  - Visit [www.restaurantbusinessonline.com/Operations](https://www.restaurantbusinessonline.com/Operations) for State specific resources.

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US Chamber of Commerce Foundation. (2020, April 16). Financial Assistance for Small Business. Retrieved from <https://www.uschamberfoundation.org/article/financial-assistance-small-business#pennsylvania-wisconsin>

Restaurant Business. (2020, March 26). A State-by-State Guide to Covid-19 Resources for the Food and Beverage Industries. Retrieved from <https://www.restaurantbusinessonline.com/operations/state-state-guide-covid-19-resources-food-beverage-industries>

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## QUESTIONS?



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