Top 10 trends in out-of-home eating and drinking

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Casual dining might have taken a hit, but restaurant owners and industry experts remain largely positive, a recent conference heard.

The KPMG & NatWest Restaurants and Bars Summer Conference brought together industry leaders and experts to discuss some big issues facing this fast-moving sector. Here are 10 of the top takeaways from the event.

1. **The market is tough, but good brands can still thrive** – Setting the tone for the conference, KPMG partner David Campbell admitted it had been a tough few months in the sector. Fierce competition, a sluggish economy, mounting property and people costs, and uncertainty around Brexit have all conspired against businesses – and casual-dining operators in particular, a handful of which have implemented company voluntary arrangements (CVAs) or closure programmes in 2018.

   But despite the doom and gloom, brands with the right offer at the right price have plenty of scope for growth, Campbell added. “It’s clearly been a challenging year for the sector generally, but quality operators have continued to succeed and there are reasons for optimism – the customer has certainly not stopped eating out,” he said.

2. **The economic outlook is mixed** – Ross Walker, head of UK and European economics at NatWest, gave the conference an expert overview of the UK economy and identified reasons for both optimism and caution within the sector. Working in their favour is the fact that corporate and consumer confidence has not been as badly hit by Brexit as some expected, while inflation is on a downward trend and interest rates seem likely to stay low.

   On the debit side of the equation, Walker pointed to predictions of slow economic growth in 2018, high household debt and the possibility of hospitality firms facing labour shortages after the UK leaves the EU. “The shock [of Brexit] wasn’t quite as severe as first thought… but there has been a hit,” he said. “The outlook is a bit hazy, but the mood music is a little better.”

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Deal or no deal, businesses need to get ready for Brexit –

Brexit was a recurring theme, with speakers warning that some businesses were underprepared for the various scenarios after the Brexit deadline of 29 March 2019. Mark Essex, KPMG’s director of public policy, said all restaurant, bar and pub operators should think carefully about contingency plans for any possible problems in food supply and labour. Setting out several possible outcomes of negotiations between the UK and the EU, he said a deal to satisfy both sides was still likely but by no means certain. “The cliff edge is still a possibility... [and] it would be an absolute nightmare,” he added, suggesting businesses should be thinking about how to cope with any food import shortages and ways to retain their best staff.

Restaurants and pubs remain attractive investments – Simon Croft-Baker, MD at Houlihan Lokey pointed out that the volume of merger and acquisition (M&A) activity in the sector has fallen slightly over the past few years. But while caution reigns, hospitality still appeals to investors. “There are clear headwinds, but we need to remember this is a big market – there are pockets of growth out there,” he said. “Premium multiples are still being paid [in acquisitions].” He also noted that several private equity companies have been holding on to brands for longer than might usually be the case, and were waiting for the right time to sell them on. “When conditions improve, we’re going to see a glut of deals,” he said.

Remember that investors value good products and smart teams – Croft-Baker flagged up three crucial factors for success in the out-of-home eating and drinking market: product, service and value. “If those three things are poor, you’re going to struggle,” he said. Investors also like to see experienced, committed management teams, sensible capital structure and well-organised expansion strategies, he added. “Growth and rollout needs to be very disciplined.”

Consumers value simplicity – Pizza Pilgrims co-founder Thom Elliot gave the conference an entertaining case study of his brand’s growth – from a single Piaggio Ape three-wheeler van bought with a credit card and converted into a mobile pizza oven to a chain of eight restaurants – in just six years. “It was a lot of hard work and the learning continues, but it’s been great fun, too,” he said. Research trips of pizza makers in Italy, especially Naples, revealed to Elliott the value of freshness and simplicity. “We learned to keep it simple. That’s what the customer wants – it helps to keep costs down and it lets us focus on doing one thing really well.” “It’s clearly been a challenging year for the sector generally, but quality operators have continued to succeed and there are reasons for optimism – the customer has certainly not stopped eating out” David Campbell, partner, KPMG
Rollouts require strong culture and systems – Before opening new sites, Pizza Pilgrims spent time building back-end systems and investing in finance support, Elliot said. Motivating and incentivising staff was also integral to business growth, he stressed – as was getting advice from investors, non-executive directors and others. “We’ve been like sponges for information,” he said. Pizza Pilgrims is now following a mantra to “roll out with soul,” Elliot added. “We want to grow, but we want to make sure everyone [in the business] is coming along for the ride.”

Restaurants and bars need to value suppliers – A conference panel session on the supply chain hosted by NatWest corporate client director Philip Brown discussed the importance of food producers and suppliers – especially those based in the UK. “A stable and robust supply chain is vital in ensuring a successful restaurant or bar business, and operators should invest accordingly in these relationships – in fact, as much as they would with their best customers,” said Brown.

Jason Wells, founder of the Brew café chain, argued that consumer-facing businesses like his need to pay farmers and other suppliers a fair price. “The sector needs to embrace the UK as a great source of produce and not endlessly cost-cut,” he said. “Everyone is scared to charge the consumer the right price and [instead] chase the costs down. That culture needs to shift a little bit.”

Efficient supply chains need close collaboration – The need for good teamwork throughout the supply chain was emphasised in the conference panel session by Stephen Cropley of Pret a Manger and Andy Foster of Bidvest Logistics, who work together on deliveries to the sandwich chain’s 450-plus stores. “We’re almost like family, and in everything we do we make sure both businesses are benefitting… we’re in partnership for the long term,” Foster said.

Efficient distribution means Pret gets the freshest produce and minimum wastage, Cropley added. “Our shops have very little carry-over from day to day, and if you go into our kitchens at the end of a day you’ll find there’s virtually nothing there. That puts a big pressure on your supply and logistics to get the orders right.”

Restaurant food delivery is booming – The conference concluded with a session on one of the restaurant world’s hottest current issues: delivery. Ali Taranssari, head of key accounts at Just Eat, recounted the remarkable growth of the online ordering platform, which now has 29,000 restaurant partners and nearly 10.5m active customers in the UK, and notched up its 400 millionth order in April.

Just Eat has generated most of its growth via the independent restaurant sector but is now seeking to work with more multi-site brands. Delivery sales are growing at a faster pace than eat-in trade, Taranssari said, but they can add to restaurants’ turnover rather than cannibalise existing businesses. “The size of the pie is increasing for everyone – it’s adding value to restaurants and bringing new customers to them,” he said.

Whether operators like it or not, delivery is here to stay, he suggested. “It’s going to be instrumental to your business – it’s what your customers want.”

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