Food and drink chain struggles in 2018

Mobile ordering, powered by preoday

Index

Note from Preoday

“If the earth rumbled beneath the feet of the British restaurant industry in 2017, in 2018, it started to shake.

The first quarter of the year saw a host of chain brands publicly admit their struggles. The Italian restaurants seemed hardest hit with Jamie’s Italian, Carluccio’s, Prezzo and Strada all announcing diminishing profits and venue closures. Outside of the Italian segment, Byron Burger and Chimichanga (owned by the same company as Prezzo) threw up their hands in distress; in fact, every one of Chimichanga’s locations shut up shop in April. So is this the end of the crisis? If not, which brand will be next to announce closures? If the reports are anything to go by, it could be The Restaurant Group, which owns Frankie & Benny’s, Garfunkels and Chiquito.

With each announcement in the media, the story behind the closures has seemed to evolve. From Brexit to property prices and then customer confidence, the different views have led us to question the truth behind the headlines and carefully prepared company statements. We know what’s being said publicly, but could insiders within the industry shed a brighter light on the difficulties? At Preoday, we set out to investigate, asking professionals in the food and drink service industries for their opinions while also conducting a comparative consumer survey. The results are revealed in the following report and may not be quite what you expect....”

Nick Hucker,
CEO, Preoday

On food chain struggles

69% of food and drink service professionals say Brexit is 'more of an excuse than a reason' for chain struggles

The shadow of Brexit

Total pre-tax profits at the top 100 restaurant chains fell by 64% in the past year, from £345m to £125m. In early 2017, Jamie's Italian blamed rising costs, partly as a result of Brexit, for the closure of six of its branches.

Oliver's statement was backed by accountancy firm, Moore Stephens, which claimed in late 2017 that 20% of the UK's restaurants were at risk of closure thanks to Brexit. But then the message began to change.

As the full extent of the restaurant chain's issues became clear in 2018, Jon Knight, CEO of the Jamie Oliver Restaurant Group said that the chain had become "complacent" and failed to innovate in the decade since its launch.

So which was it? Brexit, or a lack of innovation? Or, indeed, might it be poor property choices, as discussed in The Guardian and suggested by Simon Stenning of the MCA at The Casual Dining Show in February this year? Given that Jamie's Italian wasn't alone in its worries, could the issues that had impacted it be behind the woes of other brands too? We decided to ask professionals from the food and drink service industry what they think the truth is - and then compared this to the opinion of consumers.

We started by asking the professionals if they agree that Brexit is 'more of an excuse than a reason' for the struggles of chain restaurants, pubs and bars: 69% said they did. Consumers concurred; just 18% believe Brexit the main reason for restaurant struggles.

With their position clear, we delved further.

"As every restaurant owner knows, this is a tough market and, post-Brexit, the pressures and unknowns have made it even harder."

Jamie O

Tough competition

What did the professionals see as the number one reason for the general struggles of chain restaurants, pubs and bars? More than a third (38%) said the biggest problem was that there's too much competition. Other reasons scored much lower. In second place were not having an understanding of customers (9%) and increasing rent (9%). Poor property decisions received just 3% of the vote.

Competition is certainly high, in late 2017 it was reported that since 2012 a net average of 743 new units have opened per year, and that in the preceding 12 months that figure had nearly doubled to 1,333, an increase of 44%. Prime pitches in key locations such as Liverpool One and Birmingham's Bullring can now command huge rents, up to and beyond £55 per square ft. At the time of the study, the MCA warned that the number

of sites risked outstripping demand. It seems that prediction is reaching fruition.

While competition is seen as the major problem of the industry as a whole, we found our respondents' answers changed slightly when we asked them to reflect upon their own businesses. We asked them to voice their own key concerns for the coming year and found that the cost of labour scored highest, with 58% expecting to be troubled by it in the coming year. Industry competition was still cited by 56% of respondents while consumer confidence was selected by 35%.

What does this tell us? Well, aside from the fact that Brexit is not nearly as concerning to food and drink service professionals as early reports led us to believe, not all businesses associate their biggest issues with the rest of the market. Just 5% identified the cost of labour as the number one reason for struggles in the wider industry, yet it was the most popular response when considering their own business.

The price of labour

The problem of increasing operation costs (including labour) is compounded by its occurance in a market where consumer confidence is purportedly low. UK consumer spending dropped to its lowest level in over five years during the first quarter of 2018 according to Visa's UK consumer spending index; household spending was down 2.1% compared with a year earlier.

From April 2018, 2 million British workers received a pay rise of at least 4.4%, increasing the minimum wage from £7.50 per hour to £7.83 for over-25s. The increase amounted to more than £600 per year per full-time worker on basic pay - that includes most waiting and kitchen staff in the industry.

"The market has slowed down this year, this subdued growth coming as the industry faces multiple headwinds," says MCA market analysis manager Peter Linden. "If we think back to the inflation rate of 2.7%, what this effectively means is negative volume growth."

In short, if the annual growth in consumer spend has reduced, but the cost of running a food or drink business has gone up, profit rates are bound to fall.

Some chains have been trying to offset the issue. TGI Friday proposed redistributing 40% of service charge payments paid on credit and debit cards to back-of-house employees, including kitchen staff, in lieu of a wage increase. This idea, perhaps unsurprisingly, hasn't been taken well. But given the evidence, it is likely that TGI Friday is simply looking to avoid falling into the same traps that others have already succumbed to.

Do labour costs lie at the heart of the problems faced by the industry? Perhaps, but the blame doesn't lie there alone. Before drawing final conclusions, we want to share some further results from our consumer panel.

On what customers really want...

More than half of restaurants think customers are looking for a unique experience - they're wrong

Experience is everything - or is it?

The rise of the 'experience economy' is frequently referred to as one of the most important, current, global trends in marketing. Everyone from retailers to restaurants have been listening to this and looking to offer something 'different' to attract customers. Whether it's a robot waiter, interactive dining tables or a kooky menu, the sense that a brand needs to stand out from the crowd in order to beat off the competition is pervasive.

But is it really what bars and restaurants need to do to attract spenders during a time of market crisis?

We asked consumers what elements they look for when choosing where to eat out and found that a great menu (91%) came out on top. The menu was followed by a closely related factor - the quality of the food (85%). Placed third was the presence of friendly and helpful staff (66%).

Despite this, when we asked them to identify the number one reason for selecting a venue, staff gathered just 3% of the vote, behind price (5%) and a place they frequent and trust (5%). The menu remained the most important feature with a huge 42% of respondents choosing it.

What of the unique experience that has been gaining so much attention? Just 21% look for this when deciding where to eat, though 29% would like a place with an 'independent feel'. A tiny 2% identified it as the most important aspect of their choice.

On what customers really want

What do the professionals think?

How does this measure up to with what professionals in the food and drink service industry believe?

It's reassuring to see that the professionals understand the importance of their menus and food quality, though when we asked them what consumers look for in a place to eat, food quality (69%) scored higher than the menu itself (63%).

At odds with the consumer perspective is the focus on a unique experience - professionals ranked this as the third most important feature for consumers (54%) before having a great staff - less than half identified this as a key need (46%) for customers choosing where to eat.

Could restaurants be getting sidetracked from what really matters to their customers? Rather than focusing on providing them with something different, perhaps businesses should be aiming to juice up their menus and train staff to provide the experience that will keep customers coming back for more?

It should go without saying that a restaurant, bar or pub should never take customer service for granted, and our research confirms that it is a core factor of customer satisfaction. A well-trained waiter will speak to customers politely - and in a style that reflects the business brand. They go out of their way to provide them with a special service and might even remember customers that visit regularly. Customers that come into contact with that waiter will enjoy their experience, they will retain fond memories of your business and will make repeat visits.

Are these choices reflected in consumers' favourite restaurant chains?

Testing the needs and demands of customers against their favourite food and drink venues, we asked our consumer panel to tell us their favourite food and drink chain. The most popular response was TGI Friday's, followed closely by Wagamama and then Zizzi - though it should be noted that an equal number of people claimed to dislike or not have a favourite chain, as those that selected TGI Friday's.

What is it about these brands that appeals?

What is it about these brands that appeals?

wagamama

Latest Results

8.2% jump in UK like-for-like sales in the third quarter. Total turnover increase of 12.5% to £72.1 million in the three months to January 28

- Fast-paced without feeling rushed
- Accessible asian food options
- Popular signature dishes
- Modern feel
- High-street locations

What is it about these brands that appeals?

Latest Results

TGI Friday has suffered in recent months. In 2017 it was reported like-for-like sales (with 2016) had dropped 2.7% - a marked decline given the 1.1% rise in 2015 - although total sales rose 7.7% to £211m. Management has said actions are being taken to stimulate demand for its offering and these have started to work with like-for-like sales in recent months rising again.

- ✓ Focus on excellent waiting staff
- ✓ Personalised loyalty programme
- ✓ Straightforward menu (currently being revamped)
- ✓ Fun, uncomplicated brand
- ✓ Cross-generational appeal

Latest Results

The Azzuri group owns Zizzi, it saw a 10% increase in turnover to £249.3m for the 53 weeks to 2 July 2017, compared to the 52-week period the year before (running up to 26 June 2016).

- Great vegan and gluten free menus
- High-street locations
- Good quality ingredients
- Refurbished sites
- Proactive to consumer trends

On technology

70% of consumers want restaurants to take their money, not aggregators

Consumers love convenience. It's clear that with costs abounding, food and drink establishments need to do everything they can to boost their revenues and trim their fat. With more businesses investing in mobile and online ordering technologies - whether it's through an aggregator platform, or an own branded app - we decided to explore this technology's impact on food and drink chains' bottom lines.

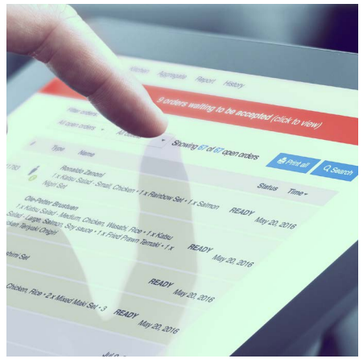
We started by consulting consumers on their use of digital ordering platforms. A significant 74% told us that they order food online or through a mobile app. Breaking this down further, 30% said they use aggregators while 23% go straight to the restaurant to order - 21% will look at both options and decide at the time.

The truth is revealed

It may not be a huge surprise that aggregators come out on top (though not by much) - their convenience is clear, but do consumers know that many aggregator sites take a cut of the revenue from each of the orders? What's more, do they care?

We filled our panel in on this information and then asked whether they'd still prefer to use an aggregator platform; 70% now said they'd rather order direct, preferring that their money goes straight to the restaurant, not a third party. Only 15% said they didn't really care how much money the restaurant received from their order.

This is key. It shows that with simple education, consumers



would be willing to change their ordering habits. It also demonstrates that they do care and want to support their favourite brands. Given how much revenue some venues lose to third party platforms, this finding could be significant. Let's look closer.

How much is too much?

We asked our professional panel whether they were already offering their customers the option to place an order online or via a mobile app; 44% said they were and 27% were using a third party service or a combination of third party and owned.

Of those that offer an owned, or third party, service, more than two thirds (68%) are paying some form of commission - 25% are paying more than 20% per order!

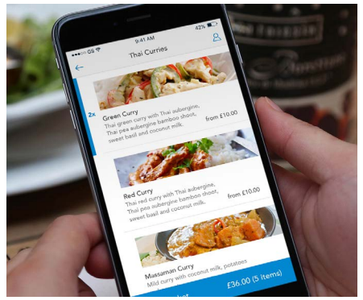
We then asked what they thought of the fee they were charged - 82% said it was too high (33% said far too high and not worth the cost). Only 12% said it was about right, and 4% claimed their fee was cheap.

Breaking free

Their thoughts align with those of the consumers. So, if a business is paying around 20% per order, and they think that is too high, and its customers would rather place their spend with the business direct - then we have to ask: why not cut out that middleman? Why not use a technology that doesn't stand in the way financially, or in regards to customer data (a point we will come onto in the next section of this report)?

As 38% of our professionals said, once you've started using a third-party ordering technology, it's difficult to break away. The same number admitted they would rather their business had its own ordering website/app than use a third-party provider. In fact, only 14% thought that it's better for a brand to have a third party app than use its own order or delivery app.

At Preoday, we can offer guidance on making a move to your own branded ordering app or web portal. We have a marketing team that is expert in helping clients make their platform a success, and a customer support team primed to support businesses through every step of their journey.



If you're one of the pubs, bars or restaurants looking to break away from its third party provider and set up its own platform - without any pesky commission fees - get in touch for help and advice, now.

On data analysis

71% of restaurants/pubs/bars with access to customer data, use it to improve their marketing.

The final part of our professional survey dealt with the use of customer data.

Of those that offer customers an online or mobile ordering service - whether own branded, or through a through an aggregator, a significant 44% do not have access to their customers' data.

This is concerning. Capturing customer data is the first step in the process of engaging with them, and the long path to generating loyalty and repeat business. At a time when the wider market is struggling, superior marketing and a personalised service can play a significant role in customer loyalty, and therefore, revenue.

Data and marketing

We next asked those that do have access, what they are using the gathered data for, and were pleased to note that 71% are making use of it to improve their marketing.
Knowing how to enhance marketing through data is important; data provides a measure of how your customers think, feel and behave. If you want to know how well your customer base has taken to a new dish, you just need to check the data. If they haven't picked up on it, you can decide whether to ditch it or put extra marketing emphasis behind it. And that's the point. Data tells you about your business and helps you make informed business decisions with greater ease.

Data and menus

Marketing aside, 48% of the respondents said they use their data to improve their menus and operations, 46% apply it to their loyalty programmes and 23% make use of it for stock control and forecasting.

Casting your mind back to earlier parts of our research, you will recall that 91% of consumers look for a great menu when choosing where to eat out. At that time we also asked them what it was about a menu that appealed. More than half (57%) said it was the variety while 44% referred to the descriptions used and 26% were drawn in by the format and appearance.

Data can be used to decipher the most popular items on a menu, the average spend for customers per course and even how choices change according to the season and around events. It's great that 48% are using their data in this way, but it means 52% are not and could be losing customers - most of whom, we've shown, are judging them by their menu.

While data can help you optimise your menu content, it isn't the only way to make it appeal. There's a wealth of psychology behind menu success, and it's a topic we have discussed before. If you're interested in how you can used psychology to enhance your menu, read this article from our Chief Operating Officer, Matt Graywood.

Data and loyalty

As 46% of our respondents have realised, data can also play a significant role in the success of a loyalty programme. In addition to getting a better understanding of who each customer is and how they spend money, aggregated data can also help you run a loyalty scheme more efficiently. For instance, if you see that one of your locations has a drop in sales every Monday, you can offer your loyal customers a discount for that particular location at that specific time of week.

There are many applications for insight gained from customer data, but at its most basic, that data helps a business get to know its audience and build a relationship based on exactly what the customer wants. It should be no surprise then that 43% of our professionals said they believe third party apps - many of which withhold customer data - interfere with the direct relationship between a restaurant/bar and its customers

Something every person at Preoday is passionate about is data; we are proud of the data we help our clients gather on their customers and how our technology lets them analyse it for use. Unlike online ordering companies that keep customer data from their clients, we see it as an essential part of our service and believe it helps grow successful businesses. Without it, how can a restaurant, bar, event venue, theatre or stadium get to know its customers better and - therefore - grow its takings?

The truth of food and drink chain struggles

From the insights gathered during our research, it is clear that the question of the UK's food and drink chain struggles cannot be solved with a single answer. Nonetheless, readers may note a divergence between where consumer interests lie, and where chains believe them to be.

One thing we can say is that Brexit is not the industry destroyer we've sometimes been led to believe by the press. Costs in general - and specifically labour costs, may well be. While the price of labour is going up, and cannot be avoided, businesses need to focus on off-setting the impact by giving customers enough of what they want to bring them back to their tables - especially in this time of low consumer confidence. We cannot assume customer loyalty or count on the frequency of their custom, we must engineer it.

How to do that? The unique experience, so often played up in the media as the main attraction for a number of new and successful businesses, may not be so significant for the wider market. And, while the customer is still keen to be given special treatment by staff, there's a concern that this knowledge been lost or forgotten by those in the industry. Thankfully, both parties understand the important of food quality and the menu - the question is, how to make that menu reflect exactly what the customer wants.

The rise of online and mobile platforms for food ordering and delivery, such as Just Eat and Deliveroo, has been well documented in the press and is helping chains fulfil more orders, but are these technologies helping or hindering business profitability? With high commission fees, businesses could be losing out on substantial income. And, given consumers would prefer their favourite brands took home their money (rather than aggregators), there is strong argument for businesses to explore the benefits of their own branded platform. The data that is collected through owned platforms (but often withheld by third-party aggregators) can also enhance the aspect of the dining journey most appreciated by customers - the menu.

To conclude, while moving forward with new technologies such as mobile ordering is important to modern consumers, chains need to get their basics spot on - promoting singular customer service values and menus that attract the right audiences. To survive, businesses need to keep these goals in sight and not be distracted by novelty concepts - and they should make the most of the data gathered by their technologies to help them do so.

About Preoday's food and drink chain research

Preoday's report reflects the anonymised responses of 476 consumers and 205 professional respondents based in the UK. This report does not document the thoughts of every food or drink chain in the country, but the size of the study, along with the variety of respondents, results in a representative view of industry trends.

Preoday is a robust digital ordering platform that helps food and retail businesses around the world open new revenue streams and improve relationships with customers.

Preoday enables businesses to offer branded online and mobile pre-ordering facilities to customers purchasing food, drink and merchandise. It provides a white-label service to businesses ranging from restaurants and cafes to corporate caterers, theatres and stadiums.

Preoday works both directly with businesses and partners including resellers, technology providers and ticketing agencies.

Reasons for choosing Preoday:

- Have total control over customer service including delivery deals and menu creation
- Never pay excessive costs. Preoday is 0% commission and charges a flat monthly fee
- Acquire new customers and make existing ones more loyal
- Reinforce your brand identity
- Gain complete access to customer data

Want to know more?

Check our Resources page regularly to access fresh and useful content.

To ask us a question, arrange a demo or get a quote for your project please get in touch and a member of our team will be in touch very shortly.

For more information, visit www.preoday.com