Restaurants and casual dining: leading the economy out of recession

It has been a tough few years for the UK economy but there’s little doubt that things are finally on the up. Restaurants and the casual dining market in particular have been and continue to be a bright spot. Eating out, it seems, is something the UK population can no longer do without.

The picture is not uniform, of course. There are parts of the country and certain segments of the market that are faring better than others.

That’s why we decided it would be a good time to take stock and ask some questions about where things stand, and where the sector goes from here.

In this, our Restaurant and Casual Dining Insight Report, we have done exactly that. Brought to you by the editorial team at The Caterer, in association with EY, the report contains exclusive research and analysis of the restaurant and casual dining market, looking back over the past 12 months as well as forward to the coming years.

Not only do we look at the performance of various market segments but also what emerging trends and the prevailing economic conditions for the coming years might mean for the restaurant business.

We also take a look at some of the emerging brands that we are likely to see more of in the future, as well as how the managed pub industry is evolving.

EY’s involvement has been key to making this report possible and I am grateful to them for their input and support throughout the process.

I hope it will prove to be useful information for restaurant and casual dining operators, owners and investors across the country, as they help this exciting, vibrant and innovative sector continue to grow.

Neil Gerrard
Restaurants Editor
The Caterer

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Bright prospects

The combined impact of recession, squeezed incomes, rising food costs and the dramatic increase in the number of branded coffee shops have resulted in a challenging environment for the UK restaurant and casual dining market in recent years.

However, despite prominent headlines around the number of pub closures and the restructuring of managed estates, the restaurant and casual dining sector has weathered the recession better than many consumer-facing industries. It is now well positioned to benefit from the improving economy, consumer confidence and spending power.

Indeed, the Greene King/YouGov leisure spend tracker for June 2014 reported that at 40%, eating out achieved its greatest share to date of total UK leisure spend.

Undoubtedly, considerable challenges remain. On the one hand, with consumers becoming increasingly demanding, operators need to step up their game and be more innovative and proactive in their efforts to keep established brands current, adapt to trends and effectively harness social media. At the same time, many parts of the pub sector in particular are still suffering from years of under-investment and wage increases are struggling to keep in pace with inflation.

Nevertheless, we believe that the prospects for the restaurant and casual dining sector are bright, as evidenced by the rapid influx of new restaurant brands and concepts into the UK in the last year or so, and a marked increase in transactional activity in the sector.

Managed pub operators have recognised the need to diversify, and food-led estates have dramatically strengthened their offerings to compete more effectively in the casual dining sector, and in many cases are offering breakfast and coffee as well as the more typical lunch and dinner options.

Additionally, many prevailing market shifts are in the sector’s favour – for example, the rise of online retail and the resulting shift in shopping habits has driven an increase in high street retail vacancies. Much of this space should be attractive to restaurateurs and publicans alike, and should help to create more diversified high streets, in turn driving greater footfall and spending.

Accordingly, we believe now is the right time to launch this Restaurant and Casual Dining Insight Report, highlighting how the very best operators in the industry are looking to grow their businesses and are overcoming the obstacles and challenges posed by such a fast-changing environment.

We hope you will find the articles within this report both useful and informative.

Cameron Cartmell
Sector Leader, Hospitality & Leisure
EY
Casual dining is booming but independents are losing out, with consumers demanding quality, value for money and consistency above all else in 2014. Elly Earls reports

We’re eating out more often, average spend is up in almost every commercial restaurant category and, thanks to our increasing desire for quality, value for money, consistency and social experiences, casual dining is the fastest growing segment in the eating out market.

But it’s not the only one that’s doing well; quick service is growing too, if not quite as fast, while the top end of fine dining has remained recession-proof, although it has had to move with the times. Yet, zoom in on the space in between fine dining and casual dining, and you’ll find independent restaurateurs suffering, with sales, average spend and number of visits all on the decline.

Overall, say commentators, it’s the operators that are responsive to customers’ evolving demands that have come out on top, and will continue to do so.

Casual dining: booming

Casual dining is without a doubt the sector that has caused the biggest stir in the eating-out market this year, drawing an extra 47 million visits each year compared with five years ago, an increase of annual traffic by 11.6%, according to research from analyst firm the NPD Group.

And when compared with the progress of full-service restaurants (defined by the NPD Group as formal/traditional restaurants and those serving Greek, Indian, Japanese, French and Italian food, among other types of cuisine), which have seen traffic decline by 11.4% since year end March 2009, it’s clear where much of their business is coming from.

So why are diners being pulled away from more formal establishments to casual dining restaurants, which in the NPD Group’s terms include operators such as Gourmet Burger Kitchen (GBK), Strada, Carluccio’s and Giraffe?

According to the NPD Group, it’s not just their attractive prices. Indeed, despite the average bill per visit of around £11.50 for a dinner, casual dining’s growth has outpaced the cheaper fast-food channel, where the average spend per visit is much lower at only £5.04. Moreover, casual dining is only slightly more affordable than the full-service channel, where bills per visit work out at about £15.70.

Rather, branded operators provide the best of both worlds, the NPD Group believes – the combination of the ambience and quality of food that a full-service restaurant offers, with the speed and delivery of a quick-service outlet. They’re also good family options, something that’s top of mind for many consumers in 2014.

“Appealing to families has been a key part of the out-of-home market’s evolution,” says Cyril Lavenant, director of foodservice UK at the NPD Group. “Occasions featuring children are driving growth completely, with adult-only occasions in decline.”

Peter Backman is managing director of foodservice market trends and data provider Horizons, which in contrast to the NPD Group, includes pubs as well as branded restaurants within ‘casual dining’, defining it as the segment where customers spend £10-20 per meal. He says it’s the increasing reliability of the branded portion of casual dining that has largely been responsible for its growth. “They provide good value for money but also consistency,” he says.
“You know what you’re going to get.” Andrew Guy, chief executive of Ed’s Easy Diner, agrees. “More and more branded businesses are delivering a higher standard of service and quality of product; therefore they’re more consistent. And they’re growing so quickly simply because the customer feels there’s a sense of guarantee,” he says.

On the other hand, independent operators in the mid sector of the market have not fared so well, with sales, average spend and visits all decreasing. “Sadly, independent restaurants have not been able in the main to identify a really good reason why customers should go to them, rather than a casual dining restaurant,” believes Guy.

Today’s consumer: price conscious and time sensitive

The quick-service sector is also on the up, albeit not quite as fast as casual dining, with 4.2% traffic growth in the last five years, according to the NPD Group. And, says Vida Tayebi, founder and director of fast casual Persian restaurant Dindin Kitchen, this is for many of the same reasons. “Today’s ever-demanding consumer is price conscious and time sensitive, so the sector resonates well with the modern-day consumer,” she says.

“Fast, casual concepts have a quality proposition on food while putting an emphasis on value for money, which is welcomed in the UK’s recessionary climate. “The format is also associated with freshness, with food being prepared freshly or cooked in front of the customer, enabling them to customise their dishes made to

Almost 50,000 pubs in the UK

The latest research from Horizons shows there is a total of 23,514 restaurants (excluding pub restaurants) and 49,953 pubs (including pub restaurants) in the UK. Of the restaurants, around 27% are part of groups and 73% independents, while pubs are split more equally between the two – with 36% of pubs belonging to groups and 64% independent.

Across the UK, the highest concentration of restaurants is in the capital (nearly 6,500, compared with around 600 in Wales), while the North is the most popular for pubs, with more than 13,000 compared with approximately 7,400 in London.

Eating out sales up 2% since 2013

In the year ending June 2014, the eating out market, including quick-service restaurants, retail, casual dining, pubs, full-service restaurants, travel and leisure, and workplace and education catering, was worth £50.4bn, according to the NPD Group, an increase of nearly 2% from the £49.4bn of the year before.

And, taking into account just the commercial restaurant sector, every category experienced growth, apart from full-service restaurants, whose sales declined by 0.8%. The most significant increases came in the casual dining sector, where sales were up 5.5% from 2013, quick-service coffee shops, which experienced a growth rate of 3.7% and pubs, up by 2.9%.

Source: NPD Group
Average spend down for over-50s, up for youngsters

Although overall average spend on food and drink has increased since 2013, consumers aren’t spending as much as they were during the evenings, and the over-50s are spending less, full stop, according to research by the NPD Group.

Overall, average spend per visit when eating out is up just 0.7%, from £4.54 in 2013 to £4.57 this year, but at the younger end of the market it’s increasing much faster; in both the 18-24 and 35-49 categories, spend is up 3.8%. However, those aged 50-64 have cut their spending by 5% on average, while those over 64 are spending 6.4% less than they were in 2013. When it comes to eating out in the evenings, spend is down for everyone except the 35-49 year olds who are forking out on average £6.84 for dinner in 2014 as opposed to £6.58 last year.

In terms of different restaurant types, average spend per visit has risen in every category except full-service restaurants and travel and leisure. While it’s risen relatively slowly in the quick-service sector, with quick-service food up from £4.38 in 2013 to £4.41 this year, the most striking growth is again in casual dining where average spend across the whole day is up from £9.69 to £9.97 in 2014. Even in this sector, though, spend remained pretty much static in the evenings at around £11.50.

Source: NPD Group

order and has thrived due to its diverse audience appeal – from families, to students, office workers and tourists.”

Operators in this space, such as Dindin Kitchen, as well as the increasing number of street food vans that are popping up across the country everywhere from shopping centres to music festivals, also satisfy consumers’ increasing cravings for something authentic and different, Tayebi believes. “The market for new concepts continues to expand with a recent trend in undiscovered cuisines, such as Persian food,” she notes.

Fine dining: doing brilliantly

At the opposite end of the market, fine dining continues to do brilliantly, according to Backman. “They didn’t have a recession; they just carried on,” he says. Yet operators in this seemingly evergreen sector have had to evolve to keep up, says Frances Atkins, co-owner of the Yorke Arms in Yorkshire, which was ranked third in The Sunday Times Top 100 UK restaurants in 2013.

“Casual dining is becoming so good in Yorkshire that fine dining has to work a little harder to produce the same value,” she explains, adding that the style of service customers are looking for has also changed. “As a business, you tend to change with your guests, and the general public is now looking for unobtrusive but attentive service with probably less formality,” she notes. “But the demand for quality is more prevalent than ever and eating habits are also becoming more exploratory, with people wanting to try new things.”

Scott Ashby, group operations director at Gourmet Burger Kitchen, tells a slightly different story, showing on average over-16s ate out 2.2 times in June 2014 versus 1.8 times in June 2013, but average spend per meal over the last year.

More meals out but lower spend

Looking at the market purely from the perspective of customer spend, the latest figures from both the NPD Group and Horizons show average spend across the majority of commercial restaurant categories has increased over the last two years.

According to Horizons, average food and beverage spend per meal (when taking into account restaurants, quick-service restaurants, pubs and hotels) went up from £8.45 in 2012 to £8.70 in 2013, while the NPD Group’s latest research also shows increases in all sectors except full-service restaurants.

Says Lavenant: “Customer spend is increasing every year. Aside from the purely inflationary reasons for this, we have seen customers treating themselves out of home, but cutting out non-essential trips.

“The general public is now looking for unobtrusive but attentive service with probably less formality”

Frances Atkins, the Yorke Arms

“Up until the beginning of 2014, we were seeing a decrease in the number of visits, but an increase in average spend. Now both are increasing as consumer confidence and the economy are recovering. Average spend on an out-of-home visit (all channels) is £4.57, up from £4.33 in 2009.”

Horizons’ latest Eating Out-Look survey of consumers, which took place in June 2014, and uses a different methodology to the NPD figures quoted above, however, tells a slightly different story, showing on average there has been an increase in meals eaten out, but a decrease in average spend per meal over the last year.

“It shows on average over-16s ate out 2.2 times in June 2014 versus 1.8 times in June 2013, but average spend per meal was £12.72 in June 2014, compared with £13.30 a year
before [June 2013],” says Lavenant.

“People are eating more meals out but the average spend is less because the meals tend to be lower priced. This arises because, during the recession, people cut back on impulse things and reserve eating out for a special occasion or a Saturday night. Now, they’re trending back into the idea of ‘let’s just have something’.”

Resolving to customer expectations

Across the entire spectrum, there are a few aspects of the eating out experience that today’s consumers simply won’t accommodate. “Consumers are increasingly looking for both value and quality (or at least the semblance of both) – expecting a lot from their eating out experience,” says Lavenant. “Value here is not referring to ‘cheap’, but a combination of factors such as price, promotions and customer experience. We are seeing customers dropping visits where this is not provided.”

Ashby believes the social aspect of eating out is also becoming more important. “The modern diner searches for excitement, difference and creativity and feeds off the ability to uncover something a little bit new. Restaurants are now both the provider of tasty food and drinks as well as a social experience.”

Jonathan Segal, CEO of international hospitality company The ONE Group, agrees: “Informality, interaction and sociability are all increasingly important; people are looking for an all-encompassing experience, and so the atmosphere, vibe and energy of the restaurant have become as important as the meal and the service.”

“It’s the operators that are nimble and can respond to these changing priorities, he believes, that are succeeding and will continue to succeed in the future – for example, casual dining restaurants. “Where, historically, concepts have been rigid and less versatile, today the casual dining sector is far more responsive to providing what customers are seeking, rather than working to a single classic product,” he says. “This plays to the increasing trend for guests to seek high quality but informal dining occasions.”

Casual dining traffic

Overall, we’re eating out more often, with the number of visits to restaurants in the UK up by 1.3%. Eating out chains are doing much better than their independent counterparts, while casual dining outlets, again, are seeing the most significant growth, and not just over the last 12 months.

According to the NPD Group, while visits to casual dining restaurants over the last year are up 2.6%, traffic has increased (as of the year ending March 2014) by an incredible 11.6% compared with five years ago. That means 47 million more visits to casual dining restaurants now than in 2009.

Back to the last 12 months, visits to chains are up from nearly 5.6 billion in 2013 to almost 5.9 billion in 2014, while visits to independents are markedly on the decline, a decrease of nearly 3%. In fact, across the board, excepting full service restaurants, visits to chains have increased, while the number of consumers visiting independent outlets is down in almost every category, with the only exceptions being quick service sandwich outlets/bakeries and full service restaurants.

Source: NPD Group
The economic outlook

The UK restaurant and casual dining sector is starting to recover but how will the wider economic backdrop affect it in the coming months and years? Bill Fishlock reports

Restaurants and food-orientated pubs have done nicely from the recovery in British consumer confidence over the past 18 months. After a tough recession, business has been brisk at many eating and drinking spots as the stronger jobs and housing markets have encouraged families and individuals to spend more on dining out.

The nature of the recovery is also helping the restaurant/pubs sector. Total incomes are rising through growing employment – which creates more potential diners and drinkers – rather than rising wages, while inflation is being kept in check through an expanding workforce.

Overall employment is up 2.7% on the year while average earnings have risen by just 0.9%. According to the Summer Forecast from the EY ITEM Club – which uses the Treasury’s model of the economy – we currently have the best of both worlds: consumption growth, which is financed by income rather than borrowing, accompanied by low inflation and interest rates.

Spending power
Crucially for the restaurant/pubs sector, consumers are also expected to continue spending more. After a 2.5% rise this year, consumer spending is forecast to grow by 2.3% in 2015, by 2.2% in 2016 and 2.0% and 1.8% in the following two years. A rise in interest rates will act as a brake on demand as higher mortgage payments, particularly for families, will impact on the budget available for treats like eating out. Assuming wage rises remain subdued, the EY ITEM Club forecast interest rates to remain on hold at 0.5% with the first rise coming in the first quarter of 2015. Thereafter, it sees Bank Rate reaching 1.5% by the end of 2015 and 2.5% by the end of 2016.

Yet, the impact of higher rates on the restaurant and pubs trade will not be uniform. Elderly people – a key market for many venues, particularly at lunchtimes – will see an increase in income from their savings when interest rates start rising. Older consumers will also tend to be less indebted and many will be less exposed to rising mortgage rates. The government’s social trends survey shows that 72% of 45-64 year-olds eat out in restaurants, the highest share of any age bracket.

Moreover, even in an era of rising rates, the outlook for the economy remains good. The EY ITEM Club is forecasting UK GDP growth by 3.1% this year and 2.5% in 2015 and at a similar rate for the next three years. The prospects for average earnings are also positive for the dining out sector. The EY ITEM Club expects growth in average earnings to gather pace from 1.6% this year to 3.8% by 2018. As this is faster than the expected rate of inflation, it suggests real wages should continue to grow, providing support for the discretionary spending on which the restaurant trade depends. Record levels of employment and the continuing growth of the population should also help the sector.

The growth of branded dining
Many smaller restaurants and food-led pubs faced leaner times during the recession but the overall market fared better than expected. Today, some 31% of UK consumers eat out at least once a week and comparisons with the US – where spending on eating out is higher per head – suggest there is room for further growth in the market.

Dining out has also become more frequent. According to Mintel’s latest UK Eating Out review, there has been a slight rise in the share of restaurant users who eat out once a week and a dip in the share only eating out every couple of months. Mintel estimates the UK eating out market will be worth £33.5bn in 2014, up from £32.5bn last year.

Nam Quach, head of the leisure sector for lead advisory at EY, said: “Restaurants on the whole have proven to be remarkably resilient in the downturn. Discounting has helped but the challenge now is for the sector to wean itself off this, which will drive up margins.”

The market for dining in the larger branded chains like The Restaurant Group – owner of Garfunkel’s, Frankie & Benny’s and Chiquito – is thought to be expanding at around 10% a year as their popularity, particularly among younger consumers, continues to grow. The Restaurant Group is aiming to grow by around 40/50 new sites a year. JD Wetherspoon, Prezzo and Domino’s have also been expanding.

The UK market for dining across branded chains is thought to be worth around £16.4bn currently, but is expected to grow to £22bn over the next five years. Indeed, recent trading updates from the larger quoted food and pub groups point to buoyant under-
Share prices

Share prices in some of the publicly quoted restaurant and food-led pub groups have been spectacular performers in recent years as branded chains such as Domino's Pizza have established a strong presence and larger pub and brewery groups, notably Greene King and JD Wetherspoon, have taken advantage of scale economies and the growing fashion for eating out. Share prices across the licensed retail sector rose by an average 37% in 2013 and according to broker Numis Securities some 30% of this was due to a re-rating as investors warmed to the sector.

In recent months, fears about higher interest rates have taken some of the shine off the sector although shares prices have risen in response to positive trading updates over the summer. Investor enthusiasm for Domino’s, for example, peaked in summer last year when its shares touched 710p (having climbed from around 160p towards the end of 2008) and they currently trade at 589p.

Simmering anger over VAT on food

The 20% VAT levied on meals bought in pubs and restaurants and on other food services is a major bone of contention for the restaurant and food-led pubs sector.

According to the Jacques Borel VAT Club, a group of 40 firms that lobbies for a lower VAT rate to be applied to the sector, the flat rate puts pubs and restaurants at a disadvantage to alternatives like supermarket ready meals. It argues that if the rate on food services were reduced from 20% to 5%, it would create 290,000 to 670,000 jobs and would actually boost Treasury receipts. A separate campaign by the British Hospitality Association is lobbying for a lower VAT rate for hotel accommodation and tourism.

Supporters of the Jacques Borel VAT Club include Tim Martin, chairman of JD Wetherspoon, and other major pub/brewing groups including Fuller, Smith & Turner, Heineken and Wadworth. The campaign highlights the sector’s potential for creating new jobs, noting that licensed hospitality accounted for one in eight new jobs created in 2011 and one in six for 18-24 year olds. The sector also generated 11.5% of new business start-ups.

The VAT Club also makes its case with compelling overseas examples. When the VAT rate on restaurant meals in France was cut from 19.6% to 5.5% in July 2009, employment in the sector rose by 75,000 over the following two years (although the VAT rate has since risen to 7%). Ireland, Belgium and Finland have all cut their VAT rate on food services, with positive results on trade and jobs.

But there seems little likelihood of the campaigns achieving their goals in the UK any time soon. Despite cross-party support among MPs for a reduced rate during a Commons debate on the subject earlier this year, Treasury minister David Gauke said the government had no plans to introduce a VAT cut for the sector. He pointed to ONS figures showing cutting VAT on food in restaurants, pubs and cafes would cost the Exchequer £9-10b a year. The Labour shadow exchequer secretary also declined to commit to a VAT cut.
New rules of engagement

Social media has revolutionised the way restaurants market their businesses, making engagement rather than discounting a priority. Elly Earls reports

Thanks to the growth of social media and mobile technology, all restaurants now need in order to reach potential customers is a smartphone.

Consumers’ growing love for all things social has revolutionised the way businesses market themselves, putting start-ups and street food vans on an equal footing with the biggest restaurant chains. Money is no longer the key to success; engagement is.

Yet, although the barriers to entry are low, it’s not easy to get social media marketing right, particularly with today’s customers tiring of their Twitter and Facebook feeds being filled with discount vouchers and in-your-face promotions. “It’s really important to remember social media platforms weren’t created for businesses to use; they were meant to connect people,” says Sam Lynam, marketing and digital account director at food and drink PR and marketing firm Sauce Communications. “The most enjoyable feeds are the ones that are the most honest, fun, friendly and informative.”

Hashtag to engage customers

Take Shake Shack, which started embracing social media two and a half years ago. “Since then, we’ve experienced double-digit and even triple-digit growth across several social media platforms including Facebook, Instagram, Twitter, Tumblr, Pinterest and Google+,” says the company’s director of communications Edwin Bragg. This is largely because the team has used social media not to push vouchers, but to connect with its fans.

“The most successful parts of our social media strategy have definitely centred around our fans, with one of the best being #ShackFanFriday, where we repost an image each week that a customer has shared with Shake Shack.”

At Chameleon Bar & Dining, which operates six pubs across Yorkshire and Lancashire, it’s been a similar story.

“Since changing the way we have used social media, incorporating more visual content and including links back to the websites, we’ve seen a noticeable increase in traffic to the websites from social platforms, which we track,” says managing director Phil Strong.

“You can also see far more conversations unfold between users and the sites, particularly in response to images being posted, whether that’s of the food, teams or an event,” he adds.

A picture is worth a thousand words

According to Alexandra Bertram, senior account executive at marketing, PR and communications specialists Custard Communications, images should be a key part of any restaurant’s social media strategy. “Humans respond well to visual stimulation, which is why we’re always emphasising the importance of quality images,” she stresses.

Research published on eMarketer in April this year reported photos achieved the highest rates of engagement on Facebook, accounting for 87% of content shared world-wide, followed by web links at just 4%.

Although, it is important for restaurants to post a variety of content. “General news and events all help spur conversation, which in itself helps sell the restaurant without being too in your face,” says Bertram, adding that, of course, there is a time and place for the hard sell. “We recommend that for every one promotional tweet or post, there are roughly three non-sales-orientated messages to balance it out.”

Don’t underestimate the power of the database

Social media is not the only way restaurants can use technology to engage with and encourage loyalty from their customers. Chameleon Bar & Dining has found that maintaining a healthy database of previous customers for each site and communicating with them regularly is invaluable.

“It’s a great tool for increasing bookings and the traffic to all six pubs’ websites has also risen so far this year by an average of 21% compared with 2013,” explains managing director Phil Strong. “Each campaign sent is linked to Google Analytics and we closely monitor the stories that are most popular with readers.”

At Ed’s Easy Diner, the company’s online Ed’s Club has been phenomenally successful. It now has nearly 450,000 followers online and is adding between 5,000 and 7,000 people a week, according to chief executive Andrew Guy, who emphasises that members of Ed’s Club receive vouchers only a couple of times a year. “The rest of the time, they’ll get Ed’s news, which includes new openings, charity events we’ve held, silly pictures and our monthly Ed’s quiz.”

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Three non-sales-orientated messages for every one promotional tweet, message or post

Money is no longer the key to success; engagement is”
The rise of managed pubs

Pub food has changed beyond recognition in the past few decades to grab a significant share of the casual dining market. John Porter reports

It all began with prawn cocktail, steak and chips, and a slice of black forest gateau – the classic menu choice at Berni Inn, the brand that defined the pub restaurant and gave many UK consumers their first taste of casual dining in its 70s and 80s heyday.

Most of Berni’s sites still trade as pub restaurants, under the names of the brands that followed its lead, such as Beefeater, Brewers Fayre, Harvester, Chef & Brewer and Toby Carvery. Far from being upstarts parking their tanks on the lawn of casual dining, managed pub operators have been a driver of the sector since its earliest days. While the range of choice available to consumers has expanded, the appeal of the pub has never faded.

A 2013 Mintel report found that pubs are the first choice when eating out for 57% of consumers. Horizons data shows that managed pubs accounted for 30.3% of restaurant meals in 2013, up from 23.2% in 2008.

What has changed in the past decade has been the number of pubs offering food, as operators have sought new revenue streams to compensate for declining beer sales and changing customer demographics. On-trade analyst CGA Peach estimates that as of August 2014, 88% of managed pubs serve food and that 70% of people who have visited a pub brand in the last six months did so for a food occasion.

Smaller managed operators such as Peach Pubs and Yummy Pubs find neglected gems suitable for adding a food trade, while concepts such as Mitchells & Butlers’ Sizzling Pubs and TCG’s King’s Feast have successfully added branded food to local pubs.

The growth of pub food

However, the growth of food in managed pubs has not been simply a matter of grafting menus onto previously wet-led businesses. The majority of traditional pubs suitable for a pub restaurant operation had been converted to brands such as Chef & Brewer, Harvester and Hungry Horse well before the smoking ban and recession spotlighted the vulnerability of the old-fashioned boozers.

For the bigger operators, success now comes mainly through engineering their estates. For example, JD Wetherspoon specialises in identifying town centre buildings, most of which were not previously pubs, big enough to accommodate its through-the-day food offers as well as drinks-only customers. Marston’s has built more than 100 new destination pub restaurants over the past five years, many in drive-to sites close to main roads. Whitbread, which once operated one of the UK’s biggest pub estates, has pared back to focus on pub restaurants trading alongside its Premier Inn hotels, with its disposals including a package of 239 pub restaurants sold to Mitchells & Butlers in 2006.

Despite vastly increased choice when eating out, when asked by the CGA Peach Brandtrack survey in April this year which eating out brand they would like to be more local to them, 24% of consumers put a pub restaurant at the top of their list, compared with 55% who wanted a restaurant brand. While Nando’s topped the poll with 8.4% of the vote, pub operator JD Wetherspoon was a close second with 7.6%, with the Mitchells & Butlers-owned Harvester brand third with 7%.

Casual dining brands consumers would like more locally

<table>
<thead>
<tr>
<th>Brand</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Nando’s</td>
<td>8.4%</td>
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<tr>
<td>JD Wetherspoon</td>
<td>7.6%</td>
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<td>Harvester</td>
<td>7.0%</td>
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<td>TGI Friday’s</td>
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<td>Wagamama</td>
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<td>Bella Italia</td>
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<td>Pizza Hut</td>
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<td>Pizza Express</td>
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<tr>
<td>Frankie &amp; Benny’s</td>
<td>3.4%</td>
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Source: CGA Peach Brandtrack April 2014

Major managed pub players

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<th>Number of managed pubs</th>
<th>Including:</th>
<th>Food sales</th>
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<tr>
<td>Greene King</td>
<td>1,000 managed pubs</td>
<td>the Hungry Horse, Old English Inns and Meet &amp; Eat brands</td>
<td>41% (up from 36% five years ago)</td>
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<tr>
<td>Marston’s</td>
<td>500 managed pubs</td>
<td>including Harvester, Toby Carvery and Miller &amp; Carter</td>
<td>58% (up from 37%)</td>
</tr>
<tr>
<td>Mitchells &amp; Butlers</td>
<td>1,700 managed pubs</td>
<td>including Harvest, Toby Carvery and Miller &amp; Carter</td>
<td>51% (up from 41% five years ago)</td>
</tr>
<tr>
<td>Spirit Pub Company</td>
<td>770 managed pubs</td>
<td>including the Chef &amp; Brewer, Taylor Walker and Fayre &amp; Square brands</td>
<td>£278m (year to 17 August 2013)</td>
</tr>
<tr>
<td>JD Wetherspoon</td>
<td>900 pubs</td>
<td>on total sales of £1,280m in the year to July 28 2013, like-for-like sales grew by 3.8%, compared with food like-for-likes up 10.9%</td>
<td></td>
</tr>
<tr>
<td>Whitbread</td>
<td>400 pub restaurants</td>
<td>including the Beefeater and Brewer’s Fayre brands. In the year to 27 February 2014 restaurant sales were £526m, up 3.9% year-on-year</td>
<td></td>
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With pubs accounting for two out of the top three brands that people would like more locally, pub food’s share of casual dining spend seems secure.
Across the country, the UK restaurant and casual dining market is bouncing back and there is a wide variety of brands offering an extensive and diverse range of cuisine styles, each hoping to establish themselves as a national presence. The Caterer team selects 10 brands to keep an eye on in the coming years.

**BURGER & LOBSTER**


The trio were planning a burger restaurant and a separate lobster restaurant concept. They decided to combine the two, importing lobster from Nova Scotia in Canada and Nebraskan beef. The simple format, which allows diners to choose from a burger, lobster or lobster roll, all at the same price, proved an instant hit. The business now generates twice as much turnover and profit as the Goodman steakhouse brand. Bukhov hopes for more overseas openings if the New York site goes to plan, while targeting UK cities like Manchester, Leeds and Birmingham for expansion.

“The best thing about this business is we are able to work with some really great people, some fun personalities and just enjoy the journey really,” says Bukhov.

**Number of sites**: 6  
**Owners**: George Bukhov, Ilya Demichev and Mikhail Zelman  
**Year founded**: 2011  
**Turnover**: £27m (predicted for 2014 calendar year)  
**EBITDA**: undisclosed  
**Average spend per head**: £25-27

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**CAU**

Cau is the more casual, accessible little sister of steak restaurant group Gaucho, having been launched in 2011 by Gaucho owners Zeev and Patsy Godik.

Although it is still owned by Gaucho Holdings and backed by private equity firm ISG, it is operated as a completely separate business. Taking its inspiration from Argentine cuisine and South American street food with Mediterranean touches, the business has seven sites, six in the UK and one in Amsterdam in Zeev Godik’s home country. More are planned, with a site in London’s Wimbledon Village set to open in autumn this year and another in Henley-on-Thames also due to open in 2014.

Next year could see another nine openings as the company spreads north and opens in Liverpool’s Castle Street. It is also expected to open in Bath and Reading as it strengthens its presence in the West, having already opened a site in Bristol this summer.

“We feel the marketplace is there and we can keep growing,” says director Richard Hall. “There is no reason why this can’t be a 30-40 site business.”

**Number of sites**: 7  
**Owners**: Zeev and Patsy Godik  
**Year founded**: 2011  
**Turnover**: £12m (predicted for 2014 calendar year)  
**EBITDA**: undisclosed

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**COMPTOIR LIBANAISS**

Still a relatively young brand, having only been founded in 2008, Comptoir Libanais is far from your average fast, casual dining business. The brainchild of Algerian-born founder Tony Kitous, it offers fresh, colourful, healthy Middle Eastern and Mediterranean food in a relaxed environment.

It was awarded the title of best £10 meal in London by Time Out magazine, and has also been named by the BBC as one of the top 10 healthiest restaurants in the UK. With an average unit size of 100-120 seats, the majority of the meals the business serves are consumed in the restaurants, although around 20% of the business is take-out.

Kitous is convinced there is room for a Comptoir on every major UK high street and plans to open four to five new sites in 2015, and is targeting growth to 50 sites over the next five to six years.

**Number of sites**: 10  
**Founder**: Tony Kitous  
**Managing director**: Chaker Hanna  
**Year founded**: 2008  
**Turnover**: £12.5m (2013)  
**Average spend per head**: £10-12 (lunch)
CÔTE

Mention Côte to your average restaurateur and the French brasserie brand is likely to prompt either outpourings of admiration or expressions of jealousy – possibly both.

Vaunted throughout the sector for its ability to offer high-quality food and service at a keen price point, its co-founder Andy Basadone, who started the business alongside Chris Benians and Nick Fiddler in 2007 with the backing of restaurateur Richard Caring, was last year recognised for its success when he won the Group Restaurateur of the Year Catey at a glittering ceremony at London’s Grosvenor House.

Since then, Caring has sold his 51% stake to private equity company CBPE Capital. CBPE is backing joint managers Harald Samuelsson (above right) and Alex Scrimgeour (above left) to expand the chain, which now has in excess of 50 sites.

With growth of 10 sites a year planned, Côte is now moving beyond its heartlands in London and the South East. Having acquired its first site in the North in York last year, and having opened its first site in Manchester earlier this year, it is well on the way to becoming a brand with a truly national presence.

Number of sites 54
Owner CBPE Capital
Managing directors Harald Samuelsson and Alex Scrimgeour
Year founded 2007
Turnover £64.7m (year to 28 July 2013)
EBITDA £12.8m (year to 28 July 2013)

LOUNGERS

Loungers is one of hospitality’s real success stories of recent years. Founded by friends Alex Reilley, Jake Bishop and Dave Reid in 2002, the business started life as one small Bristol restaurant with just 10 tables.

Fast forward just 12 years and Loungers has now hit 50 sites thanks to a clever business model that involves opening sites in densely populated suburbs and secondary high streets.

These locations – often unfancied by other operators – have become hubs of the local community and Loungers is careful to create venues that feel unique to their local area, giving each a different name.

The businesses are also hard to pigeonhole. Trading all day, they retain aspects of what could be described as a pub or bar, but also function as a café and restaurant, with trained baristas, alcohol and food from a daily rolling menu all on offer. It was this innovative, flexible approach that earned Reilley the title of winner of the Pub and Bar Award at the 2014 Cateys. Along with its premium Cosy Club brand, Loungers already has sites spread across the country.

With the backing of private equity firm Piper, Reilley has ambitious plans for the brand, claiming recently that it can “easily” grow from its current base of 50 sites to 350.

Number of sites 50
Managing director Alex Reilley
Year founded 2002
Turnover £33.7m (year to 27 April 2014)
EBITDA £4.4m (year to 27 April 2014)

GIGGLING SQUID

Giggling Squid, founded by husband and wife team Andy Laurillard and Thai-born business graduate Pranee Laurillard, is one of a number of burgeoning Thai restaurant groups on a mission to create a scaleable brand.

The company started life in 2009 and has since grown to 10 sites, as far south as Brighton and as far north as Stratford-upon-Avon. The Laurillard family hope to hit 18 by the end of next year and have recently switched banks from HSBC to Barclays and doubled the brand’s loan facility to £2m to support its pipeline for the next 18 months.

While not as mainstream as Spanish or Italian food, there are still estimated to be 1,600 Thai restaurants in the UK. Almost all of these are independents, but Andy Laurillard, believes there is space for one or two national operators in the future – this despite the fact it is admittedly harder to hit decent gross profit with Thai food, due to its complexity and use of imported ingredients.

Restrictions on immigration, making it hard to recruit the number of Thai chefs needed to sustain growth, may also act as a business constraint.

However, the Laurillard family are not alone in their quest to create a national brand. Among other growing groups are: Busaba Eathai, founded by Alan Yau and Jale Erentok; Koh Thai Tapas; Rosa’s; and Thai Leisure Group, owner of Chaophraya, which has big plans for its nascent casual-dining brand Thaikhun.

Number of sites 10
Year founded 2009
Founders Andy and Pranee Laurillard
Average spend per head £25 evenings, £12-13 lunch
Turnover +93% on 2013 (amount undisclosed)
Profits +123% on 2013 (amount undisclosed)

Number of sites 50
Managing director Alex Reilley
Year founded 2002
Turnover £33.7m (year to 27 April 2014)
EBITDA £4.4m (year to 27 April 2014)

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SAN CARLO

Founded in 1992 by veteran restaurateur Carlo Distefano, San Carlo has quietly grown to be a formidable force on the UK restaurant scene with 16 UK sites and a number of international franchises in locations like Kuwait City and Bangkok. Distefano, 70, still has the energy of a much younger man and can boast proudly that he still works seven days a week. He jointly runs the business with his son, managing director Marcello Distefano.

The group comprises several different brands. Perhaps best known for its original large-scale San Carlo restaurants that inhabit major UK cities including Birmingham, Bristol, Leicester, Liverpool, Manchester and Leeds, the business has more recently diversified into smaller, more flexible offers like Fumo in Birmingham (which has an emphasis on high-quality drinks, cocktails and small plates), and Cicchetti, which also offers small plates and operates in Manchester, London’s Piccadilly and Bangkok.

And that’s before you mention the likes of the iconic Flying Pizza restaurant in Leeds, acquired by San Carlo in 2011, or the venerable Signor Sassi in Knightsbridge, which has two sister sites in Kuwait.

Another Fumo site is scheduled to open in Manchester – the business’ fifth site in the city – but it is London that the group has now set its focus.

This month sees the opening of Cicchetti in Wellington Street in Covent Garden and the company is on the lookout for more sites in the capital, as well as looking at the possibility of external investment to expand the Cicchetti brand.

**THE STABLE**

The Stable is another young and relatively small brand that has grown quickly and tapped into the shifts in the pub market to offer a concept that is part pub and part casual-dining restaurant.

Founded in Bridport, Dorset, in 2009 by husband and wife Richard and Nikki Cooper and Nikki’s brother-in-law Andy Briggs, it offers freshly-made sourdough pizzas topped with locally sourced ingredients, alongside a wide range of ciders.

Although the business has so far limited itself largely to the South West, with its most recent opening in Falmouth, it has ambitions to move beyond its heartland into London and the South East. That aim looks closer to being realised after Chiswick-based brewer and pub company Fuller’s paid £7.3m for a 51% stake in the business in June.

**SUCHEF**

A very new brand, having opened its first site in London’s St Paul’s in July this year, Suchef is set to launch three more sites later this year. It also plans significant expansion in London next year and has enough investment behind it to target growth across the pond. The brainchild of Anastasia Danilova and backed by a consortium of private investors, the concept claims to be the first to offer sous vide-cooked food on the high street. The brand places a major emphasis on the health benefits of sous vide-cooked meals, claiming the process seals in flavour without damaging “the nutritional element of the food”. In charge of menu development is head of food Bernhard Engelhardt, the former executive chef at Barclays Capital and then the Kia Oval for contract catering giant Compass. He is joined by nutritional therapist Charlotte Watts.

Offering a price point of between £6 and £9, and squarely targeted at the busy office worker, Suchef is set to roll out 14 sites in 2015.

**TORTILLA**

Tortilla, the UK’s largest Mexican fast-casual restaurant business, with a total of 18 sites, was founded in 2007 by American-born Brandon Stephens. New sites are set to open in London Victoria station as well as Richmond, and it is starting to expand outside the M25 with sites in Leeds, Brighton, Southampton and Watford. It has also secured a site at Birmingham Grand Central due to open in 2015.

Tortilla, which counts YO! Sushi chairman Robin Rowland among its non-executive directors, is backed by private equity business and YO! Sushi investor Quilvest and Clapham House Group founder Paul Campbell is also an investor. As a result, Stephens has previously indicated the investors would like to see Tortilla grow to a size roughly equivalent to that of the YO! Sushi business or GBK – around 60-70 units.

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www.thecaterer.com
London property: what now?

As optimism in the economy rises, so do pub and restaurant property prices.

David Harris takes the temperature of the market and asks if London is overheating.

For UK property prices there is London and then there is everywhere else. It is no different for pubs and restaurants, where the last year has seen London prices outstrip the provinces on every measure.

But it is hard to make simple comparisons. In London, almost no restaurateurs own their premises freehold. It’s true that some pubs remain historic freeholds, but most restaurants are leasehold. The prices for both freeholds and leaseholds are sharply up, although the greater number of freehold pubs makes them easier to measure. In the capital, price rises are easily into double digits in percentage terms. For freehold pubs, Simon Chaplin, director at Christie & Co, says that prices are up 29% year on year.

Outside London, price rises are less sharp and less widespread. Just as in the residential market, London is not only more expensive, but the gap is widening. Against London’s 29% increase, Chaplin puts increases at anything from under 2% in Scotland to 15% in the South generally.

Prices for leaseholds are harder to measure because there are so many variables.

Graham Campbell, head of restaurants at Fleurets, says: “There is a bit of a bubble in London, but everywhere else is a bit flat with very little growth in prices.”

The price rises outside London are in exactly the places you would expect: Brighton, the wealthy South East generally and the centre of the big cities, like Manchester, but not in secondary locations like Ipswich or Sunderland or Carlisle.

Simon Hall, Campbell’s colleague at Fleurets who heads up the pubs markets, describes pub prices as “all over the place”. It’s a hot market for some sites, such as the innovative in the capital.

On the other hand, prices remain relatively for sites in their tight target areas.”

These are prices that the North of the country cannot match, but that doesn’t mean that prices won’t rise soon. One of the reasons for the cheapness of pubs in the Midlands and the North is the large number of receiverships and pub company disposals, but with the recovery well under way, those prices won’t last forever.

Is London overheating?

Asking whether the London restaurant and pub market is overheating is not quite the same thing as asking whether prices have reached their peak. Property agents in the sector tend to hedge their bets. Graham Campbell, head of restaurants at Fleurets, says he understands suggestions that London is overheating but immediately adds the proviso that the capital “is an extremely difficult market to predict”, underlining the fact that many agents think London prices have got a little way to rise yet.

He says: “A lot of people are chasing a lesser amount of sites so that’s driving up prices.”

For restaurateurs it is not just rents. In central London, they typically pay a premium over and above rent just to get into their building. In one case, which Campbell recently dealt with, the City of London’s Madison restaurant, the new owner paid £4m of this “key money” to take over the remaining 21 years of a 25-year lease. This is no game for shallow pockets.

Ross Kirton, director of licensed and leisure at Colliers International, adds that London property prices continue to go up because London “offers a unique proposition to operators in terms of affluence and diversity” meaning operators need to be particularly innovative in the capital.
Eric Bellquist is part of the investment team at private equity firm Hutton Collins and sits on the board of Byron, Wagamama and Novus Leisure. He tells Neil Gerrard how he rates the appetite for restaurant businesses among investors.
How easy or difficult is it currently for restaurants to raise money? There is a lot of interest from people generally at the moment to invest in restaurants in all parts of the capital structure. Banks are lending to restaurants, the bond market is lending to restaurants, and there are interested equity parties who want to own restaurants and provide equity capital. Right now, I think it is a pretty good time for restaurants to be raising capital.

How does the situation now compare with a year or two ago? It has been that way for some time. We invested in Wagamama back in 2011 and there was a lot of interest, and in the past year or so there have been a lot of restaurant chains that have traded. We also invested in Byron last year.

Over the last couple of years people have caught onto the fact that every week approximately 30 pubs close in the UK, that the population is increasing and that the population is going to go somewhere. They are increasingly spending more time in coffee shops, gastropubs with good food offerings and casual-dining restaurant chains, as opposed to just going to a more wet-led pub.

Are we likely to see more of the type of private equity deals that you have mentioned in the coming months? PizzaExpress has just completed. My understanding is that Ask and Zizzi are going to be on the market at some point so I don’t see why not. There is also interest in the various Tragus assets like Strada and there were press rumours of one or two others.

We have talked about the backdrop that is creating the demand for restaurants and the market is big enough. The branded segment of the market has been growing straight through the recession, while the unbranded segment didn’t do so well. So, if there are concepts out there where the average spend per head isn’t too high and you are generating decent growth then there could be a lot of interest.

As an investor, what do you look for in a restaurant business when you are considering making an investment? My rule of thumb is that it has got to be differentiated in some way, whether it is Wagamama, which really owns its niche, or maybe the locations, or whatever it is. I prefer not to be at the high average spend end of the market as I tend to think a lower average spend be at the high average spend end of the market. I prefer not to change anything. I would prefer to have a great concept that is being executed by a great management team that needs capital to expand and possibly some of our expertise.

Is there a typical return you look to generate when you invest and how long does it take to realise that return? I would like to generate equity returns as high as possible for our investors given market conditions and the growth potential of a given concept. That said, when we are sitting at board level and approving new sites, we want to see sites that have on average around a 30% simple return on capital.

And how long would you expect it to take to hold a given investment? I think a five-year hold is not unreasonable. The truth is that all these private equity fund structures require you to sell at some point. But I really like what the shareholders of Patisserie Valerie just did with that business. I do not believe they took much money out. These roll-out concepts are great businesses, generating high returns on capital and I would love to hold them forever but we have fund structures that require an exit at some point.

You mentioned the number of closures in the pub market and the fact that the dining-out market is changing, but we have also seen a rise in the number of food-led managed pubs as businesses have adapted to the changing demands of the consumer. How has this changed the eating out landscape? I think the market has changed a lot. That is partly due to so many pubs closing every week but also due to people travelling more, using social media more and being exposed to global cuisines and tastes. I think there was a trend that involved these gastropubs for a while and Rupert Clewley with Geronimo Inns was one of the first ones to do that with scale. He and his wife [Jo Clewely] are clearly a great example of people who came early to the market to innovate in the pub sector and I think there will be others who build on that.

People fundamentally like pubs and want to go to pubs. Pubs are cozy and nice to go to but they are a lot nicer to go to when they have more capex invested in them and when the food is of a higher standard.

What do you make of these alternative methods of raising finance like BrewDog with its Equity for Punks scheme or Chilango with the ‘burrito bond’ that it issued? Is there a potential shift to businesses funding themselves in different ways? I am not too familiar with the exact schemes, however, I understand that some small concepts have raised funds via crowdfunding, which I am not in favour of. From an investor point of view, I think a very attractive way to invest in start-ups is through the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS). I know there are a lot of young, burgeoning restaurant chains that have raised capital in this sort of tax-efficient way for investors.

I think crowdfunding, at what are very high valuations, could potentially be very risky from a less-experienced investor’s point of view. From a start-up or early stage point of view, I would be much more in favour of EIS or SEIS investment schemes to get things going and then after that, once businesses are cashflow positive, they can look at raising some seed private equity capital.

Why don’t we see more publicly listed restaurant companies in this country? Why don’t we see more publicly listed restaurant companies in this country? Will that change in the future? Yes, I think so. In the US, you have branded chains that are public but then you have master franchise companies that might run 200 McDonald’s and 200 Subway stores and they float. Over here, we’ve got TRG and Prezzo and Patisserie Valerie and I think there is probably quite a lot of demand from public equity investors to invest in these.

Fundamentally, the branded restaurant businesses have been growing at a pace that has been outstripping GDP for quite some time and that is going to be attractive for public equity investors. There is also the potential of some of these branded chains expanding on an international level and that may be attractive for public equity investors as well.
The US view

The UK restaurant industry still looks across the pond for developments and new trends. Aimee Harvey, editor of global content at US-based foodservice analyst Technomic, assesses the best US brands and biggest trends.

Technomic’s latest forecast shows sales growing 1% after inflation in 2014, just as they did in 2013. It’s no wonder US chains are no longer showing significant increases in unit counts. American consumers are cautious about spending disposable income on non-necessities. Rising fuel prices and sluggish employment rates have restaurant-goers feeling skittish about spending dollars on dining out. And, in many cases, they see little differentiation between restaurants within a competitive set; as a result, more and more consumers are turning to other forms of foodservice in search of something new. Fresh-prepared foods and ready-to-heat meals from grocers and other retailers are increasing in quality, variety and consumer acceptance.

So for the US restaurant industry, the boom years before the economic recession may not be coming back any time soon. Succeeding as a restaurant supplier or operator today is truly a take-share game. And taking share requires being creative to stand out from the crowd.

Five hot trends to watch

Restaurant operators in the US are pushing creativity and innovation in ways that are geared towards freshness, uniqueness and indulgence, bigger and bolder flavours, and service elements, which are interactive and convenient within the consumer lifestyle.

- **The fresh factor**: Fresh foods communicate a quality message, which is highly appealing to a growing proportion of American restaurant-goers. Fresh ingredients are easy for operators and suppliers to position as being ‘better for you,’ which conveys health and wellness to consumers. Additionally, presenting an array of fresh ingredients for guests to customise their own made-to-order meal heightens the perception of uniqueness. Local and/or all-natural produce, never-frozen beef for burgers, artisan breads for sandwiches all emphasise freshness and quality.

- **Barbecue flavours**: Regional American interpretations of slow-cooked barbecue continue to have broad appeal. The latest tendency calls for barbecue sauces and flavours applied to sandwiches and pizzas, often with barbecue pulled pork as the core protein. Conventional barbecue chains are also exploring the appeal of barbecue flavours in non-traditional handholds that fall outside their typical menu spectrum, like the BBQ Chicken Lettuce Wrap at Lucille’s Smokehouse Bar-B-Que.

- **Customer-facing technologies**: Restaurants are employing new technology to speed service and ‘wow’ guests who expect the restaurants they visit to keep pace with a tech-integrated lifestyle centered on smartphones, apps, internet connectivity and social media.

  More and more restaurant chains are rolling out mobile payment. Others (usually full-service restaurants) have invested in tabletop tablets, which allow patrons to order and pay without help from a server; still others (usually limited-service places) have installed on-site kiosks for ordering and payment to speed up counter service. Some restaurants are experimenting with multiple systems.

- **Hot, peppery and spicy ingredients**: First, jalapeño peppers were all the rage on US menus, which led to chipotle (a smoked jalapeño pepper) becoming a hot trend. Now that chipotle has fully matured into the mainstream, Sriracha, Thailand’s chile and vinegar condiment, has stepped into the limelight. American customers are seeking newer and bolder tastes imparted by peppers and sauces from Asia, Latin Amer-

“Succeeding as a restaurant supplier or operator today is truly a take-share game. And taking share requires being creative to stand out from the crowd”

Aimee Harvey
An Englishman in the US

English-born Jonathan Segal grew his group of STK restaurants in the US before importing the brand to London. He assesses the state of the US market and why he thinks UK operators shouldn’t necessarily assume their US counterparts’ ideas are any better.

The US economy doesn’t know which way it is going. We have a bizarre situation where the stock market is doing crazily well – the other day the Dow went through 17,000. People’s 401ks, the pension plans that operate in America for most Americans, are getting back to where they were pre-2008, and, in addition, recently house prices have continued to rise.

A lot of the household economies that were suffering terribly have bottomed out. So consistent with the way we are in England, we have the feelgood factor. There is no question that over the last couple of years we have seen a rise in America in discretionary spending and that has filtered into the restaurant business. But the market now is reporting a slowing down in discretionary spending, despite the rising stock market. Another thing, which is very alarming and really affects us, is that credit card debt is also on the way up.

The recovery is fragile and every time we see a major economy issue arise – like setbacks in Congress’s attempts to approve the debt ceiling – we just see a complete shutdown in our revenues because everyone panics for five minutes and we then begin that whole process of rebuilding.

When it comes to trends, it is a fallacy that America is any better than the UK in creating concepts or coming up with ideas. I believe some of the best concepts created come out of the UK. However, the US seems to excel at growing businesses at alarming rates, especially in the fast-casual market like Noodles, Zoe’s Kitchen, Chipotle, Potbelly Sandwich Works and Panera Bread. Incidentally, America is also really great on buzzwords like ‘fresh’ and ‘farm to table’. Fresh and freshly prepared seems to be the way forward.

When it comes to fine dining, there are various concepts that expand by city, but there are very few that grow nationally or internationally. Take Hakkasan, Zuma, Roka, STK, and Morton’s for example.

Whether or not it is a byproduct of the recession, people are nervous about high-priced meals so all the fine dining, multiple expansionary group businesses are creating an underbrand. So, for example, STK has created STK Rebel and Del Frisco has created Del Frisco’s Grille. We are going to see an expansion in casual dining before we see a rapid expansion in fine dining and it is going to be in that $40-50 range, which translates to around £25-30 per head.

Fun, novelty foods

Chef Dominique Ansel last year trademarked the term ‘cronut’, which refers to the croissant-doughnut hybrid that shook up the dessert world from his bakery in Manhattan in 2013. Since then, thousands of cronut imitations have popped up across the US, as the hybrid-food trend goes on, for both sweet and savoury foods.

Best-in-class brands

So, which emerging US chains are winning at showcasing the latest trends? There are a few brands that are succeeding with consumers, particularly fast-casual concepts that are marketing towards contemporary, quality characteristics, health and wellness, ‘better-for-you’ foods and social responsibility. There’s also a plethora of emerging chains with fast-casual/pick-your-own/assembly-line service formats à la Chipotle, which are expanding and finding their niche.

Healthy concepts

Hannah’s Brezel boasts that it’s the first fast-casual sandwich concept to focus on organic ingredients, whole grains and green business practices. With the slogan “über sandwich makers,” the Chicago chain offers a variety of made-to-order sandwiches with premium ingredients like grass-fed steak, all served on organic, house-baked pretzel bread.

Fast-casual Modmarket offers healthy options made with grilled proteins, seasonal produce and housemade sauces served up fast in a clean, modern environment. And at fast-casual Sweetgreen, units are made from reclaimed materials, all proteins served are antibiotic and hormone-free, and produce is sourced from local organic farms when possible.

Chipotle-style chains

Eco-friendly Mediterranean specialist Cava Mezze Grill has patrons choose a bowl, pitta or salad, then add a protein, toppings and a spread of hummus or sauce.

Piada Italian Street Food serves customizable piadas (Italian-style flatbreads), pasta bowls and salads. The service style is nearly identical to that of Chipotle, but Piada’s unique meal options, along with its slightly warmer décor, prove this concept has its own distinctive positioning.

PizzaRev is taking Los Angeles by storm. The brainchild of former Clear Channel Music co-CEOs Rodney Eckerman and Irv Zuckermand, it invites patrons to design their own pizzas – from the sauce to the toppings – then bakes them fresh in under three minutes in giant wood-fired ovens.
The way ahead

The Restaurant and Casual Dining Insight Report has aimed to provide a comprehensive overview of how the market looks currently, but what of the future? We ask four experts to talk about how they see the next few years in four key areas

Charles Banks
Co-founder, The Food People

Food trends
We are moving in a neo-global era where chefs and operators have greater levels of permissibility than ever before. The constraints are gone, the shackles are off, the boundaries are no more.

We started to see the ‘hybrid food movement’ develop in 2014 and expect to see it develop further into 2015. Cuisines, food formats, service style all mashed together. Take a cuisine, fuse it with an alternative conventional food format, serve it in a semi-casual environment and voilà, a few examples are Penkul & Banks, Asia meets London, Kimchinary – Korean Burrito’s and Galbi Bros – Korean rice burgers.

British cuisine will still ride high but it’s becoming more ingredient-led, über-seasonal and local all overlaid with a splash of Scandi – more rawness on the plate and a refreshed flavour palette – acids, sours, bitters and smoke. Carrots are the new pork belly, cauliflower the new steak, kale the new burger. Vegetables’ turn from sup-
Vegetables’ turn from supporting players to centre-of-the-plate stars is one of the most salient menu trends of the future,

Charles Banks

porting players to centre-of-the-plate stars is one of the most salient menu trends of the future, across foodservice industry segments. In fine-dining restaurants and casual dining alike, vegetable centric choices will rise in prominence.

The next time you try to grab a table for two at your town’s chicest restaurant, be prepared for a new greeting from the maître d’: “Tickets, please!” We expect to see more fine-dining establishments to eschew traditional reservations for ticketing systems. By employing all-inclusive prix-fixe meal passes to “sell out” dining rooms months in advance it will circumvent the no-shows, which cost businesses and pressurise establishments to raise prices for other diners to recoup their costs.

With regard to trending cuisines, American continues its march with no sign of abating, also Korean together with other South East Asian cuisines as well as Modern Mediterranean. Also look out for Persian, Israeli, German and Austrian – expect to see contemporary schnitzel on menus in 2015.

“Apps represent one of the biggest areas of growth and operators need to ensure they are part of this development.”

Peter Backman
Managing director, Horizons

Technology
The speed of change in technology, for both consumer-end and business-end use, represents a massive challenge to food service operators.

Not only do businesses need to keep up to date, but they need to continue to adapt to consumer’s ever-changing demand for technological advances, and operators also need to find ways to incorporate technology in ways that will enhance their business.

One of the biggest areas of technological change over the next few years will be in booking, ordering and paying, all of which will move towards mobile technology as consumers look to do all these things quickly, efficiently and securely through phones and tablets – and even watches.

Mobile technology is already being used by many (but not yet enough) operators for messaging news on deals, menu changes, availability and opening hours, as well as conveying information like nutritional content, food provenance and seasonality.

Wine lists and menus are being presented in tablet form too – providing the opportunity to move away from printed menus and offer more information as well as being easily updated.

These advances will continue to be rolled out – and perhaps there will come a time when we’ll all look at the menu before we go to a restaurant, choose and book our table, like we do cinema tickets, and order pre-dinner drinks ready for our arrival.

Apps represent one of the biggest areas of growth and operators need to ensure they are part of this development. Like it or loathe it, online reviews will become increasingly important as will apps appealing to particular audiences. Apps will offer restaurants with free tables tonight, with particular dishes, with special deals, where you can take the kids, or pay under a certain price per head – the opportunities are endless.

The continuing emergence of a younger generation, which is coming into the market, will change the technological goal posts. Operators must keep up with this as today’s teenagers become tomorrow’s high-spending consumers. As these people come through the pipeline they bring with them a whole new way of working. Establishments must communicate and build a direct relationship with them on these terms – and keep up with the fast pace of change they will bring.

Mobile communication, particularly in pubs and casual dining, will also extend to table-to-table communication devices in eating-out establishments. How many times have you wondered what someone on another table has ordered? Or wanted to ask whether they’d recommend their dish? Soon we’ll be able to do just that.

Restaurants and pubs will have to stake their place in the mobile world. This is a sphere through which they can convey their business principles, personality and role in the wider community.

Online is becoming the window through which the eating-out audience views your business and it’s a way to create and mould the image you want your business to have. It’s also a platform that operators cannot afford to ignore.
“We must find ways of sourcing the right people to mould into our future chefs”

Julie Proctor
Head of Hospitality, Lifetime Training

The workforce
For some time now the hospitality sector has suffered from a lack of talented chefs who possess the right skills and attitudes to deliver what today’s consumer demands. We must find ways of sourcing the right people to mould into our future chefs.

The reason chef recruitment proves particularly elusive is that chefs need to have such a wide array of technical skills to suit all the latest food trends as well as possessing the softer skills, like creativity, to satisfy presentation requirements which help to re-engage consumers with the food they are eating. It’s not easy finding someone with the necessary skills and passion to fill such a role.

It’s for this very reason that we are currently working with a number of clients in the sector, delivering chef apprenticeship academies. In addition to the standard qualification, we invest time in engaging them in workplace culture, mission and values and operate technical masterclasses and work-shadowing initiatives to ensure these team members have the best foundation possible for future career success.

We’ve also identified specific skills that require some attention... IT and social media is becoming the norm in the restaurant environment particularly with regards consumer communication and promotion so upskilling teams in their IT and digital capabilities should be seen as a must-have to stay ahead of the competition. It’s no longer good enough to hold your hands up and say ‘I don’t understand it’.

For a sector that sees so much change it’s inevitable that teams also need strong leaders at the helm of any business.

“It’s therefore critical that hospitality companies invest in the next generation of managers and leaders who will steer these businesses for years to come. Covering topics like how to communicate across generations and strategic thinking and planning will remain a priority.”

“We expect London to remain a ‘hothouse’ for emerging brands and eating-out trends”

Andy Fyffe
Executive Director, EY

The last word
Through the difficult trading conditions of the last five years, the restaurant and managed pub sector has proven to be resilient and is now benefiting from the upturn in the UK economy. At EY, we are confident we are seeing a sustainable recovery, and, with consumers showing willingness to spend larger proportions of disposable incomes on eating out, we predict the sector is entering a potentially exciting period of growth.

In order to respond to rising demands and expectations of consumers, the industry has become ‘innovation-rich’. Driven by a need to differentiate, there has been significant focus on refining the customer experience, using technology in increasingly different and effective ways and implementation of new service models, with a range of new concepts and brands entering the market.

While the casual and fast-casual dining categories in particular appear to be entering a vibrant phase with a plethora of new concepts and cuisines, the steady encroachment of major managed pub companies into the casual-dining space continues, with these operators introducing restaurant concepts and/or quality food in many of their outlets.

We expect London to remain a hothouse for emerging eating-out brands. However, increasing competition may mean that tactical expansion outside the M25 needs to be a key part of any growth strategy. In order to be relevant nationally, it will be critical to understand what matters to customer groups in specific locations, and have offerings that can be flexed to local requirements.

So what else might happen in the years to come? Could we see a further overhaul of the dining experience as our world and high street changes? What new developments will capture customers’ imagination? Will the focus on healthy eating accelerate and how will this impact what, where and when we eat? How much time will customers have for meal occasions and how will this impact service delivery? How will operators embrace new technology in response to this? Or, as we begin to suffer from technology and sensory overload, will we see the sector go back to basics?

One thing is for certain, operators that are able to adapt to changing market dynamics and customer preferences will be among the most successful.

A clear lesson from many sector developments in recent years is that standing still is a recipe for failure.
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