

A collaborative report

Springboard / The NPD Group

Eating out report 2019

Ways to grow in a low-growth world.



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Overview

Welcome to the third annual Springboard/The NPD Group's Eating Out report, which aims to deliver insights into the eating out market in the context of the ongoing and emerging trends within the bricks and mortar trading landscape.

Unlike other trading categories, which have seen a diversion of sales from bricks and mortar to online channels of anything up to a quarter of their total sales, the eating out market still largely relies on outlet visits to support sales. Despite its growth, delivery still only accounts for 8% of eating out visits in 2019, increasing from 6% in 2016, leaving 92% of visits taking place within physical outlets.

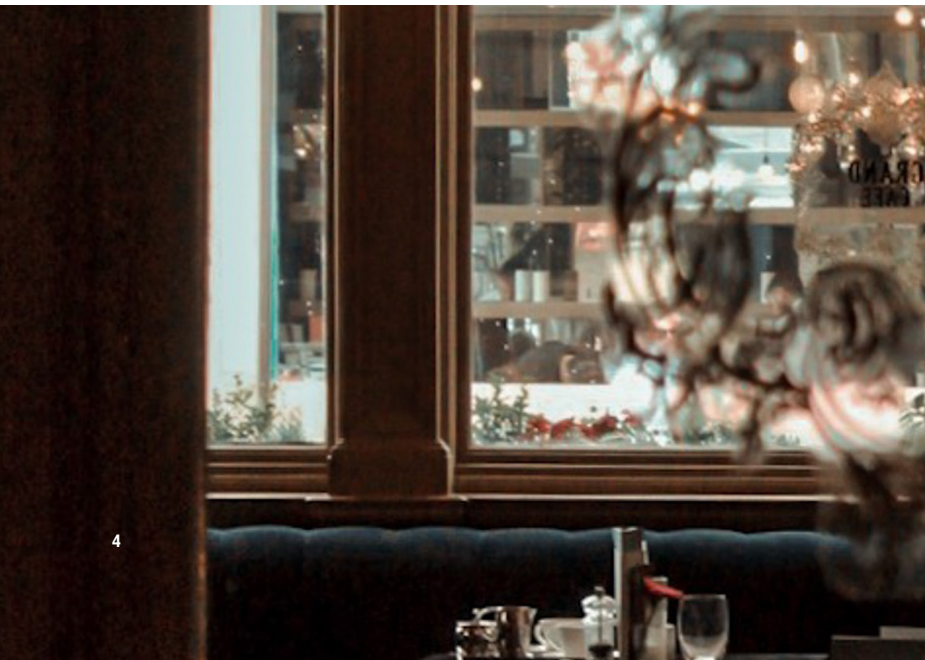
As a consequence of this, the underlying consumer trends that prevail in bricks and mortar remain key to the eating out market. This report is therefore split into two parts: the first part presents the trends in consumer activity that currently prevail in retail destinations and which inevitably impact the eating out market, while the second part sets out the key trends in the eating out market itself.

As there have been two preceding annual reports, this report focuses largely on trends over the 12 months between July 2018 and June 2019, and draws much of its insight from NPD's CREST Panel.

The NPD CREST Panel is a unique data source designed to measure consumer restaurant behaviour, captured through online surveys from a maintained and representative panel. It captures information on almost 100,000 eating out occasions per year across Britain. In addition, data from NPD's recently launched SnapMyEats receipt tracking service has also been used. NPD's SnapMyEats app provides longitudinal insights to better understand category and brand growth drivers.

Where helpful in order to provide context for the past 12 months, reference has been made to longer terms trends.

Bricks and mortar retail destinations



The context

Trends in the bricks and mortar landscape have inevitably been shaped by the digitalisation of society, and the subsequent growth in online shopping.

Over the decade to the end of 2018, online spending increased from representing 4.9% of total retail spend in 2008 to 17.9% by December 2018. Alongside this, has been an underlying structural change in consumer habits, with a huge growth in demand for hospitality and leisure led trips to bricks and mortar destinations, rather than transactional trips focusing wholly on purchasing product that were previously the norm. Consumer demand is increasingly polarised between the demand for convenience – most successfully satisfied via online channels – and the demand for experience.

The outcome of this has been that whilst in overall terms footfall has declined continuously over the past decade, post 5pm it has been far more resilient than footfall over the retail trading period of 9am to 5pm. Springboard identified this trend as early as 2015; given that the majority of stores are closed post 5pm the stronger footfall performance in this latter period of the day compared with pre 5pm was a very clear early indication of the growing demand for hospitality and leisure.

The influence of online channels on footfall is not limited to actual retail spending; many consumers now carry out a large proportion of their pre-shopping research online which means that they do not need to visit as many stores to browse as they once did. Before they even start their trip, consumers have a much clearer idea as to where they are likely to be able to purchase the product they are seeking. Consequently, footfall into stores is also declining, and at Springboard we have seen that this decline has been proportionately greater than the overall decline in destinations.

Inevitably this has created trading pressure for retailers as they have fewer customers each year; this is exacerbated further by the prevalence of discounting as the overall sales value is also declining – for retailers to maintain their sales revenue from year to year they need to continuously sell a greater volume or to increase the transaction value of the products sold, no easy task when consumers are reining back spending and bricks and mortar retailers are faced with intense price competition from online competitors.

The decline in footfall in destinations

Over the past decade, footfall in UK retail destinations has declined by -12.9%, and by -19.7% in high streets; an average drop of -1.3% across all destinations and -2.0% in high streets. Footfall in retail parks actually increased marginally by +8.1% over the past 10 years, and much of this has been driven by landlord led improvements to parks which have included the introduction of hospitality and leisure which, in conjunction with free car parking, have subsequently made them increasingly attractive to consumers.

Consistent with the long term trend in footfall in retail destinations, over the year to June 2019 footfall declined by -1.7%.

This is virtually the same degree of decline as in the year before, which means that footfall has dropped by -3.5% over the two years from 2017.

It is clear from looking at different parts of the day that it has been the retail trading period of 9am to 5pm that has lost far more footfall than the period post 5pm (-6.9% since July 2014 to June 2019, versus just -1.0% post 5pm over this six year period). This is a clear indicator of the demand for hospitality; with virtually all retail stores closed post 5pm the fact that consumers are largely continuing to visit destinations must be driven by other uses such as eating out which of course continue to trade into the evening.

YOY % change in footfall 2008-2018 Total

Average per annum

All UK Destinations

-12.9%

-1.3%

Shopping centres

-16.8%

-1.7%

Retail parks

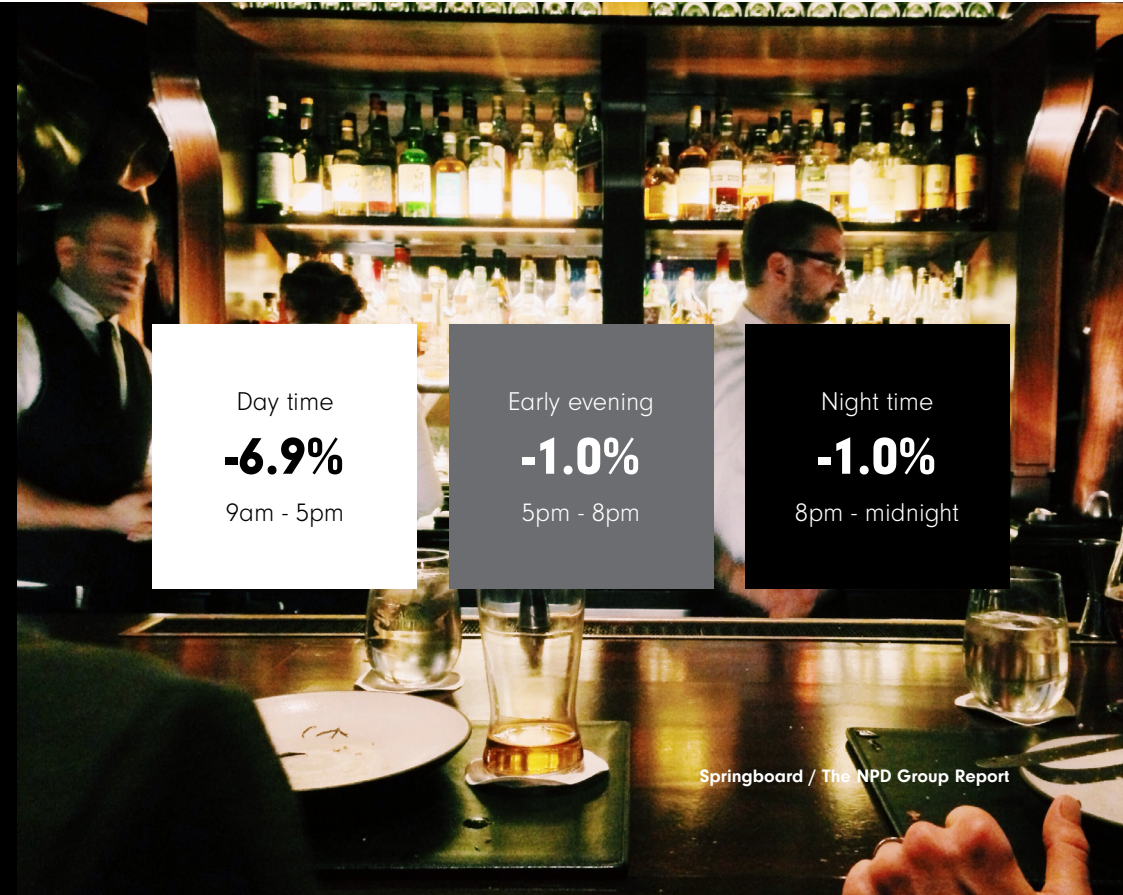
+8.1%

+0.8%

High streets

-19.7%

-2.0%



Day time
-6.9%
9am - 5pm

Early evening
-1.0%
5pm - 8pm

Night time
-1.0%
8pm - midnight

The challenge for stores to retain customers

The decline in footfall has inevitably presented a challenge for retailers as their customer base has been contracting. This contraction has been heightened by the use of online by consumers for browsing, which has meant that footfall entering stores has been declining at a faster rate than footfall in destinations.

This is demonstrated by the Capture Rate, which represents the % of footfall in a destination that enters stores. If stores were losing footfall in the same proportion as destinations then the Capture Rate would remain at the same level. In reality, however, the Capture Rate has been declining each year over a number of years - from in 11.7% at June 2016 to 11.2% in June 2019.

The Capture Rate for the Food & Beverage category has also declined over the period from 2016 - from 19.6% at June 2016 to 15.7% at June 2019. In part this reflects the pressure on footfall in retail destinations, but it equally reflects the impact of the growth of this sector over the past five years.

The rapid expansion of operator numbers over this period has meant that customer demand has been spread more widely, and indicates that whilst there has been a growth in demand for hospitality, this has been outweighed by the growth in supply.

The trading challenges of many operators, and some of the high profile failures are indicative of this, and the slowing in the decline of the Food & Beverage Capture Rate since 2016 (moving from a drop of -1.1% between 2016 and 2017 to -0.7% between 2018 and 2019) reflects that there is now a better balance between supply and demand which should improve the trading longevity of those operators who remain.

UK Capture Rate

Food & Beverage Capture Rate

YE Jun 2016	11.7%	19.6%
YE Jun 2017	11.5%	18.5%
YE Jun 2018	11.3%	16.4%
YE Jun 2019	11.2%	15.7%

Bricks and mortar

Spending – in stores, online and on food & beverage

Overall retail spending has increased marginally over the two years since 2017 (by +1.2%), however, sales actually moved into negative territory over the 12 months to June 2019, decreasing by -0.1%. Online spending continues to increase, although even here the rate of uplift has been diminishing each year with growth that was 2.9% lower in 2019 than in 2018.

This demonstrates that consumers are reining in spending, and this is occurring across both both bricks and mortar and online channels, although the diminution of growth in online spend is also a reflection of an increasingly mature market which does not sustain exponential growth. The other factor that must be acknowledged in

terms of being a pull down on spend is the extent of price discounting by retailers that has occurred; whilst the objective of this is to drive sales, the extent to which is this now present indicates that consumers are becoming immune to its attraction and the increase in the volume of items purchased is not offsetting the loss in value.

This is evident from the BRC sales data, but it is brought into even sharper focus by town centre bricks and mortar sales which have not only declined in each year since 2017, but the rate of decline has accelerated in each year, from -1.3% in 2017 to -1.9% in 2018 and then to -2.6% in 2019.

**YOY % change in UK
retail sales LFL**

**Non-store non-food YOY
% change in sales**

**% Change in bricks and
mortar town centre sales**

YE Jun 2016	+0.3%	+11.3%	+1.0%
YE 2017	+0.7%	+8.7%	-1.3%
YE Jun 2018	+1.3%	+7.9%	-1.9%
YE Jun 2019	-0.1%	+5.0%	-2.6%
Total 2017 to 2019	+1.2%	+12.9%	-5.8%

The drop in consumer confidence

It is widely recognised that consumer confidence is a key indicator of the extent to which consumers are likely to visit destinations and hence to spend – the more confident consumers feel about their personal finances and the economic situation the more likely they are to spend – and there has been a sharp decline in confidence since 2016.

The overall index score, which takes account of consumers' views of both their personal finances and the economy, has declined from +2 in 2016 to -12 in 2019.

In each year over this four year period, confidence amongst consumers has diminished. Indeed, over the 12 months between July 2018 and June 2019 consumer confidence has dropped from an average score of -9 in the first quarter (July 2018 to September 2018) to -12 by the second quarter, which is where it remained at the end of the 12 months.

Source: GfK/NOP Consumer Confidence Survey

Overall index score
Average Jul to Jun

2019

-12

2018

-10

2017

-6

2016

+2



The eating out market



The eating out market

Performance of the eating out market

Eating out visits represent a similar metric to retail footfall, and indicate the number of people consuming food or drink away from home, or the number of consumers having food or drink for immediate consumption delivered to home.

The helicopter view suggests that the British eating out market is struggling to grow. Between YE Jun 2017 and YE Jun 2019 eating out visits declined by -0.1%, which equates to 16 million fewer eating out visits; and this is despite operator expansion, the proliferation of order channels, and average yearly population growth of +0.6%, or +400,000.

On a year on year basis, the trend is slightly more nuanced. In the year to June 2018, eating out visits declined by -0.2%, representing 28 million fewer visits than the previous year. Fast forward a year to June 2019, however, and visits increased, albeit by a meagre +0.1% which equates to an additional 12 million visits.

YOY % change in eating out visits

YE June 2019

+0.1%

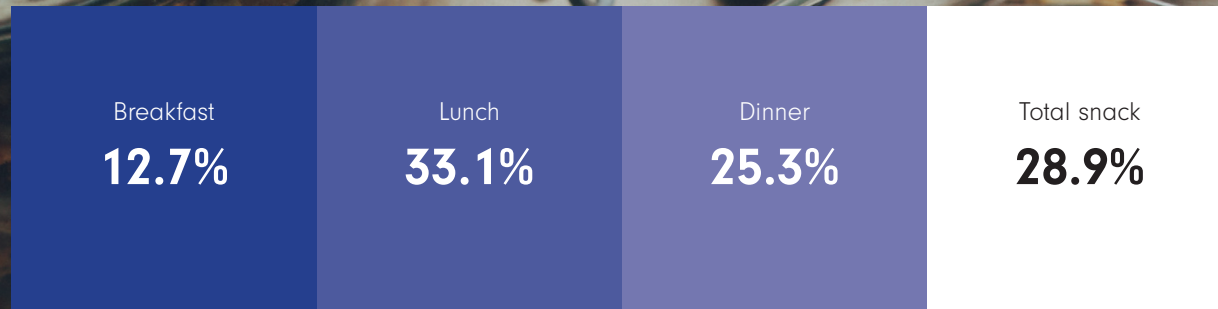
YE June 2018

-0.2%

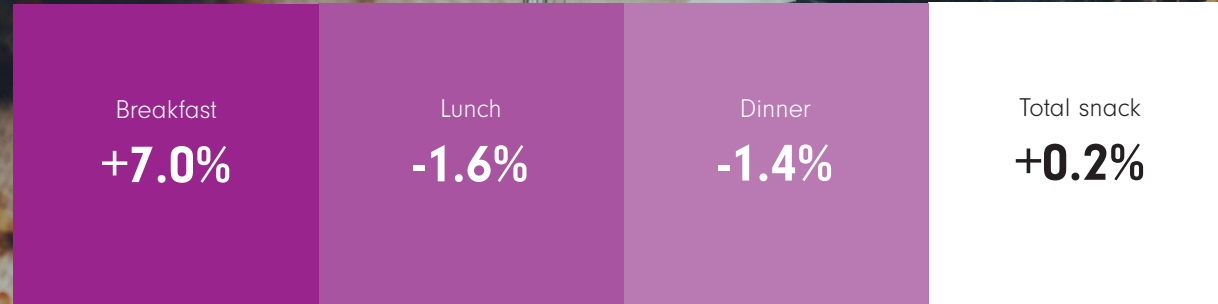
Understanding the eating out market

Visits for lunch, dinner and snacks dominate the eating out market, with breakfast accounting for just 12.7% of visits. However, breakfast has been the only day part within the eating out market that has grown, with a rise in visits of +7.0% over the past two years. Declines in lunch and dinner visits have dragged the overall visit number down, resulting in a marginal decline in visits over the two years from 2017 of -0.1%.

% of total visits YE Jun 19 vs YE Jun 17



% of growth in YE Jun 2019



The eating out market

Eating out market: Health check - the one year view



Day parts

Breakfast

Consistently the fastest growing day part in the market.



Lunch

The largest day part but growth remains elusive. A key battleground for operators.



Dinner

Even with growth in delivery, dinner visits have been in decline.



Snack

Adult-only occasions are declining and snacking visits involving coffee are sharply down.



Arrows relate to visits growth/decline between YE June 2018 and YE June 2019

Eating out market: Industry segment health check - the one year view

Quick service restaurants

QSR has benefited from consumers trading down to cheaper market segments.



Pubs

Independent pubs are still struggling, with nearly a quarter of UK pubs having closed since 2008.



Casual dining

Predominantly mid-market branded restaurant chains and despite difficulties for several operators, others have performed well.



Travel & Leisure

Includes a variety of eating out outlets including hotels, in-store restaurants and bars & clubs. Hotels, in-store restaurants and specialist ice cream shops have all grown visits.



Non-commercial

Includes workplace, university/college contract catering & vending. All segments are in long-term decline as the commercial eating out sector attracts greater number of consumer visits.



Full service (excluding casual dining)

Mainly independent or small-chain full service restaurants, which have struggled to innovate as branded chains have upgraded their offering



Arrows relate to visits growth/decline between YE June 2018 and YE June 2019

The eating out market

Digital & non-digital. A tale of growth and decline

The digitalisation of society has profoundly impacted the foodservice market. Digital visits - when food is ordered via an app, online, or via instore digital ordering screens for immediate consumption - now represent 8% of the eating out market.

Digital visits have grown by +15% in the year to June 2019 and by +59% since June 2016, and digital foodservice spend has grown almost twice as fast as non-digital spend since 2016. Spend via digital channels per person is 11% higher than non-digital, as AI technology has made suggestive selling easier.

By contrast, non-digital visits - which include established order methods such as via a walk-up counter, via wait staff or even through a phone call - have declined by -2.4% since June 2016. This decline is in stark contrast to +1.8% growth in the preceding three year period.

Delivery is the largest segment of the digital market and visits have grown by +71% since 2016.

% of total
digital visits

Digital Delivery

56%

Digital Collection

19%

Digital Instore

25%

The eating out market

Delivery continues to thrive

Delivery foodservice visits have increased from 6% in 2016 to 8% in 2019, boosted by the growth of digital technology.

Whilst driving additional sales, delivery also means additional trading complexity for operators which has led to the creation of delivery-only kitchens - "dark" kitchens - with over a thousand in Britain.

With 65% of delivery visits occurring at dinner, the channel is strongly associated with evening meals. Driven by technology, the rise in in-home entertainment subscription services like Netflix and Amazon Prime and a desire to save money, consumers are likely to 'cocoon' more and eat more meals at home, not just at dinner. This suggests that delivery has ample room to grow at other times of day, particularly given their modest shares of the delivery market.

% of total
delivery visits
YE June 2019

Lunch
11.2%

Breakfast
6.7%

Dinner
65.4%

Total Snack
16.6%

Customer service and technology

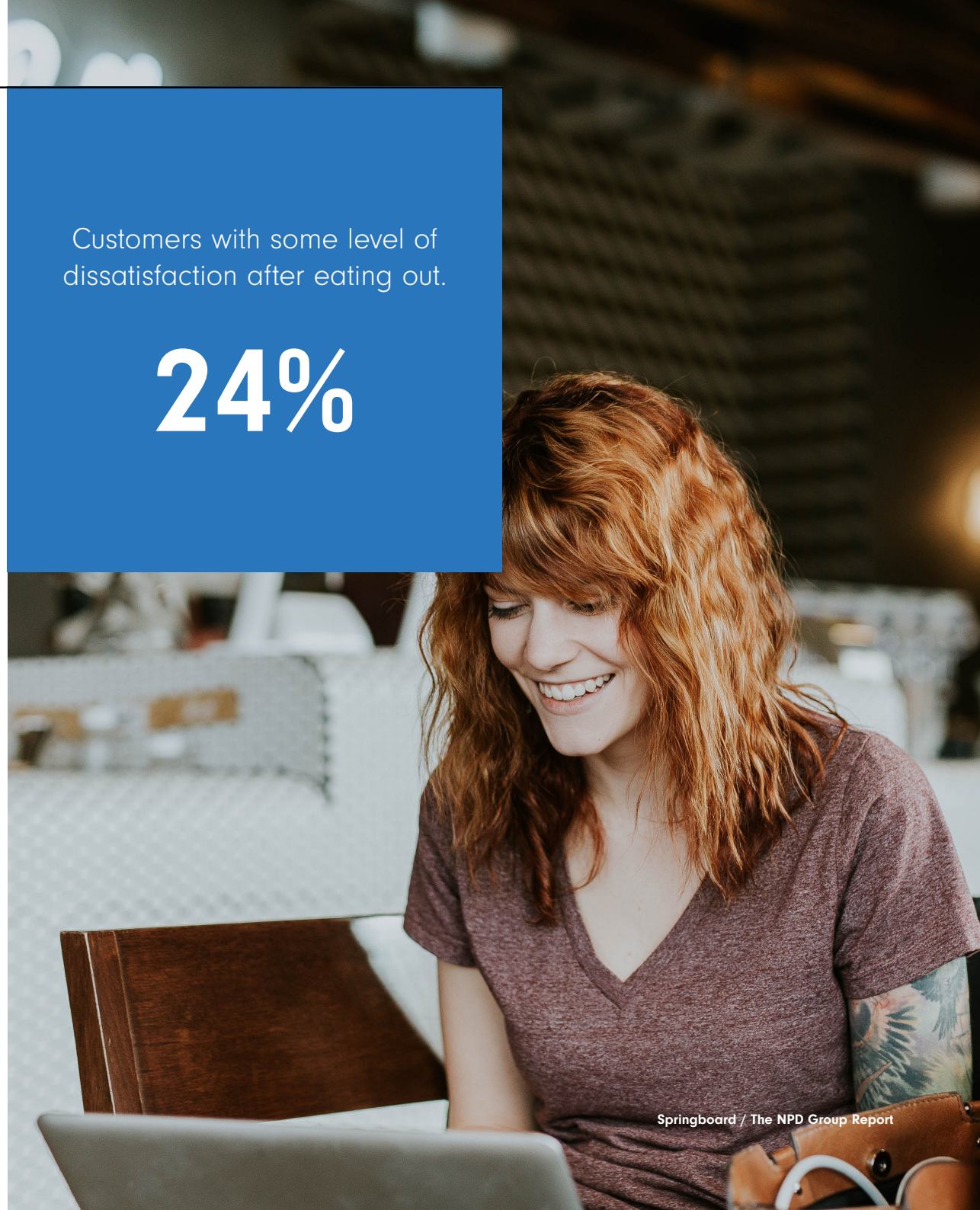
Compared to more established trends in foodservice, automation remains very much in its infancy. However, many kitchen and back of house operations are likely to become increasingly automated in the coming years, cutting the cost of production and freeing up foodservice staff to interact more with customers.

CREST data shows that a quarter of all eating out visits leave customers with some level of dissatisfaction, so improved service will enable operators to better satisfy increased customer expectations, and to maintain, or grow, market share.

Delivery visits mean that the final interaction a consumer has with a brand is increasingly via a helmeted delivery driver, which could be a third party. As such, it is essential to consider ways to make these interactions memorable otherwise customer loyalty will remain at risk.

Customers with some level of dissatisfaction after eating out.

24%



The eating out market

Lighter and healthier consumer demand

Consumer demand for lighter or healthier meals away from home is on the rise, and is being reflected in increased spend.

Consumers citing demand for a lighter/healthier meal as being a reason for choosing a foodservice destination has increased by +22% from 2016.

Data from NPD's SnapMyEats consumer app shows that consumers ordering vegetarian meals typically spend almost 20% more per trip than consumers that eat a varied diet.

More widely, increasing numbers of operators are aiming to differentiate their offer on the basis of being more eco-friendly; some by striving to be as close to carbon neutral as possible, while others are reducing the use of single-use plastics and recycling as much as possible.

From 2016 customers demand for lighter / healthier meals from a foodservice destination.

+22%

How best to plan for success

With Brexit uncertainty lingering on into 2020, the British eating out market is likely to see visits growth remain under pressure. NPD's Foodservice Outlook is predicting that eating out visits will marginally decline by -0.1% by June 2020, before slowly recovering in 2021.

As such, operators will need to innovate to maximise future growth opportunities. As well as the increased use of technology and a greater emphasis on customer experience, an ongoing focus on value and, increasingly, healthier menu options will be necessary to satisfy consumer demand. M&A and CVA activity could increase as many segments within foodservice remain fragmented and under severe cost pressure.

With slow-growth set to remain an ongoing feature of the eating out market it becomes more important to focus on the three opportunity areas of value, convenience and health and quality.

Focus on value

- Remain prudent on pricing, while looking for other ways to offer value
- Use technology to encourage additional purchases
- Enhance customer service to maximise frequency of visit and market share

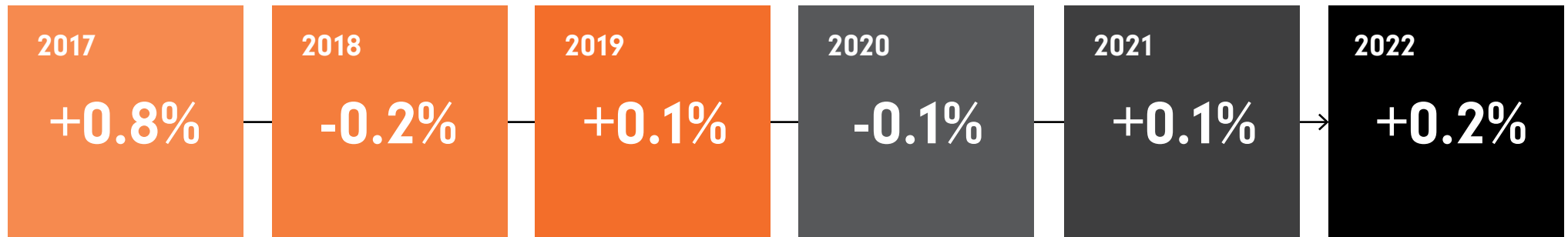
Remain convenient

- Become a multi-channel operator, focusing on both off premise & digital technology
- Offer consumers a seamless experience across all channels
- Delivery will remain important and click and collect apps will grow

Target health and quality

- Attract new buyers by widening menu choice to include non-meat options
- Core menu items to continue to have a role, but add a twist, or tell a story

Total food service visits year on year growth



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