



# Steve Gotham

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## UK Eating Out market post-Brexit – Implications & opportunities for Irish suppliers

Presented by Steve Gotham, Director of Insight, 22 March 2017

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Launched on the 9 February 2017, this report delivers authoritative analysis, through a combination of quantitative and



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## Brexit – some excessive hysteria ...?

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**“We’ve run out of paper towels – guess we can just use these...!”**



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## Food industry headlines in 2016 ...



### **Economy**

**The era of cheap food and fuel comes to an end**  
Britons are starting to feel a squeeze on their household budgets this week, as a sustained era of cheaper food and fuel comes to an end. The Office for National Statistics (ONS) is expected to say

**Over five thousand restaurant companies risk insolvency as Brexit raises costs**

- Higher costs and stagnating incomes putting strain on businesses

### **Brexit blasts holes in British food industry confidence**

Rising ingredient prices and a fall in product margins since the UK's Brexit vote have seen confidence levels plummet, according to a new poll of food and drink manufacturers... [Read](#)

### **Restaurants**

**Jamie's Italian nightmare (and Brexit's to blame)**  
Jamie Oliver has been hit hard by the Brexit vote, with his Italian restaurant chain, Jamie's Italian, facing a crisis of confidence.

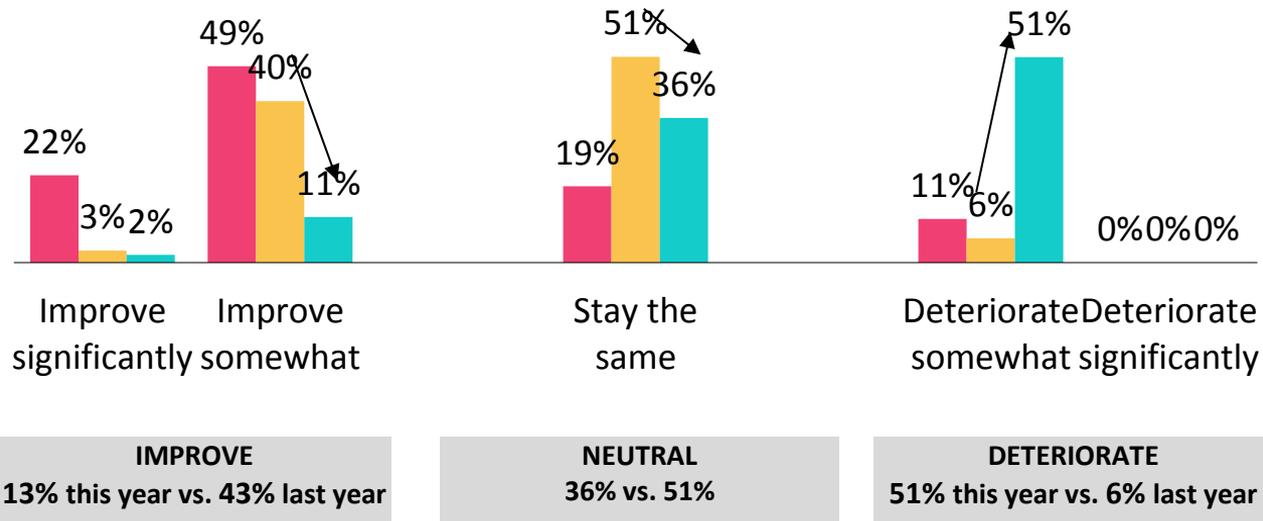
**... but is it all bad news?**

# Senior industry executives envisage trading difficulties over 2017

## Trading expectation for the next 12 months

Single choice, % share of respondents 2014-2016

2015 2016 2017



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## Views on trading expectations for the next 12 months...

*“Whilst I’m positive about the steps we are taking to drive sales I anticipate the macro-economic climate to put increased pressure on the public’s leisure spend. We can get a bigger share of wallet, however the wallet is going to get smaller.”*

– **Divisional director, Leading Pub group**

*“Challenging times for consumer spending and confidence in the economy. Cost pressures and price rises due to Brexit will impact disposable income for the majority of the UK population and whilst our dining out culture is changing rapidly, the choice and quality available will mean every pound will be hard fought for.*

*Disruption to European employment law post Brexit may also impact our business in delivering the quality service and product we aspire too.”*

– **Commercial director, Casual Restaurant operator**

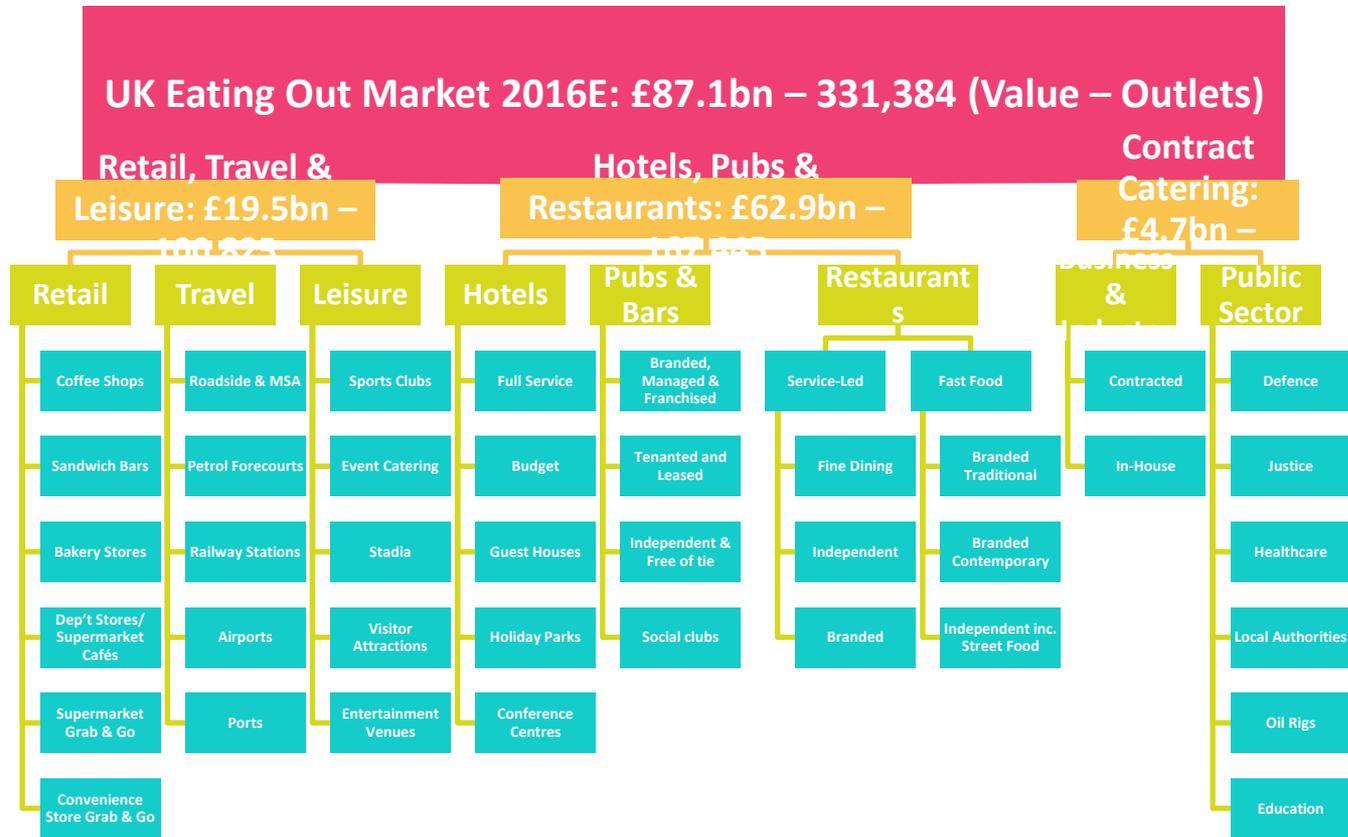
*“2016 has been a tough year with big highs and lows. The big geo-political events are going to have a significant effect on national sentiment and thus our trade. On top of this I can see a big rise in raw cost inflation, pressure on labour margins from NMW increase and apprenticeship levy and also huge business rate hikes. The volatility in trading combined with the headwinds of costs are going to make it a challenging year ahead.”*

– **MD, Regional pub chain**

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## So what do we know?

# UK Eating Out market landscape



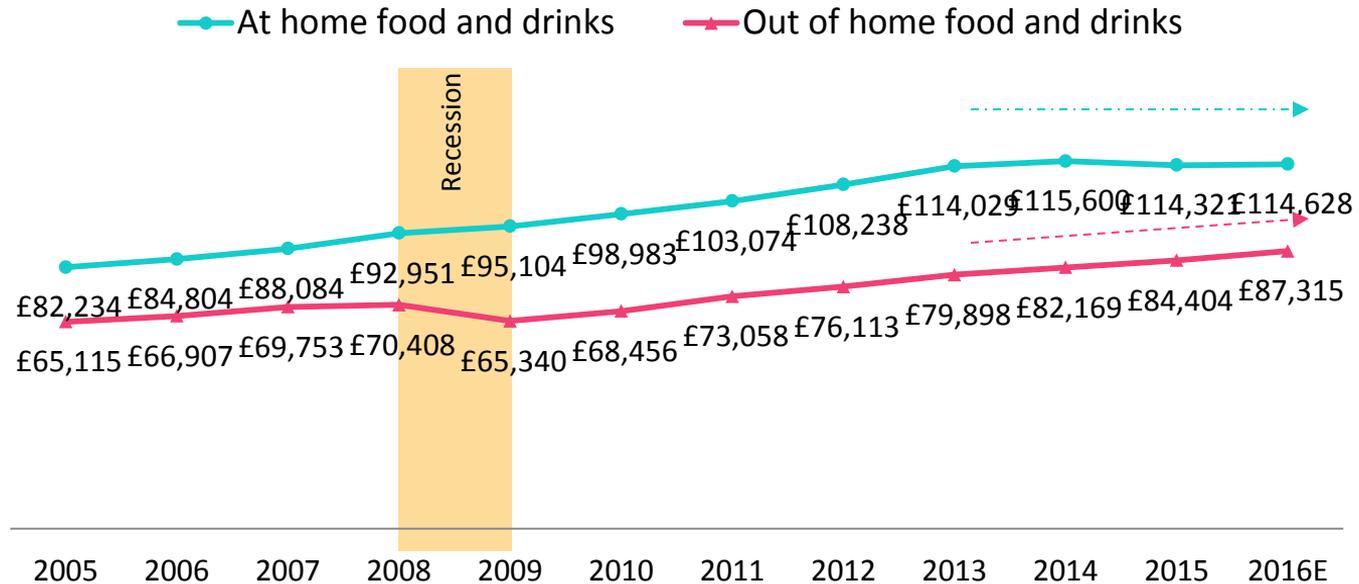
# Total Market: brand market share of visits: Q4 2016 vs. Q4 2015

Top eating out market brands by day-part – % share of visits / pp change vs. Q4 2015

BREAKFAST			LUNCH			DINNER			SNACK			
	Brand	Share	PP Chg	Brand	Share	PP Chg	Brand	Share	PP Chg	Brand	Share	PP Chg
1	McDonald's	15.9%	+1.5	McDonald's	7.8%	+0.3	JD Wetherspoon	5.0%	-0.2	Tesco To-Go	6.1%	↔
2	Costa Coffee	7.8%	-0.6	Greggs	5.2%	-0.7	McDonald's	5.0%	-0.1	Costa Coffee	5.9%	-0.8
3	Greggs	6.3%	+0.6	JD Wetherspoon	4.0%	-0.1	KFC	3.0%	-0.4	Greggs	4.0%	+0.7
4	Starbucks	4.5%	+0.4	Costa Coffee	3.5%	-0.8	Toby Carvery	1.4%	+0.1	McDonald's	2.8%	↔
5	JD Wetherspoon	4.4%	+0.3	KFC	2.6%	-0.2	Burger King	1.4%	+0.2	Starbucks	2.8%	-0.1
6	Caffè Nero	1.9%	↔	Tesco To-Go	2.4%	-0.2	Nando's	1.4%	+0.3	Sainsbury's To-Go	2.3%	+0.1
7	Tesco To-Go	1.6%	-0.2	Burger King	1.9%	-0.1	Domino's	1.3%	+0.1	Asda To-Go	2.3%	+0.5
8	Morrisons Café	1.4%	+0.3	Subway	1.4%	↔	Brewers Fayre	1.3%	+0.4	Co-op	2.1%	-0.1
9	Burger King	1.0%	-0.5	Sainsbury's To-Go	1.1%	↔	Harvester	1.3%	-0.3	Caffè Nero	1.9%	+0.5
10	Sainsbury's Café	0.9%	+0.2	Morrisons Café	1.1%	+0.3	PizzaExpress	1.1%	+0.1	All Bar One	1.3%	+0.3

# Food and drink spend Out of Home vs At Home, 2005-2016, £m

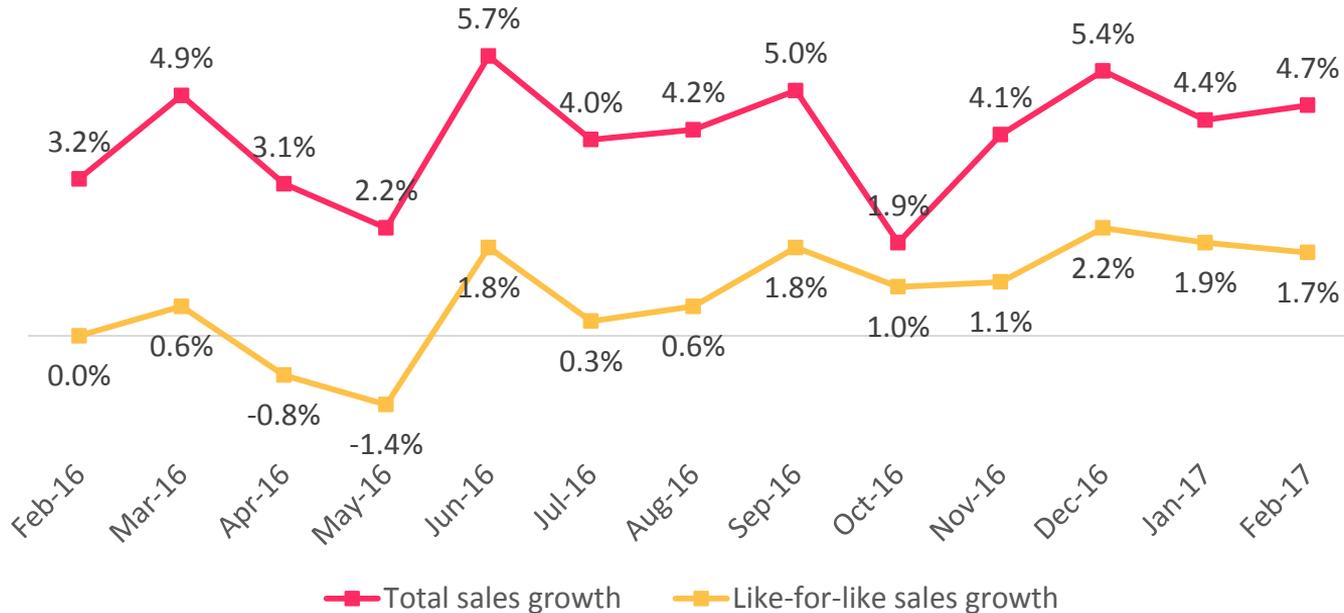
Food and drink expenditure out of home v at home, 2005 – 2016 £million



Source: ONS 2005-2016, current prices, seasonally adjusted; 2016E is estimated based on Q1-Q3 expenditures.

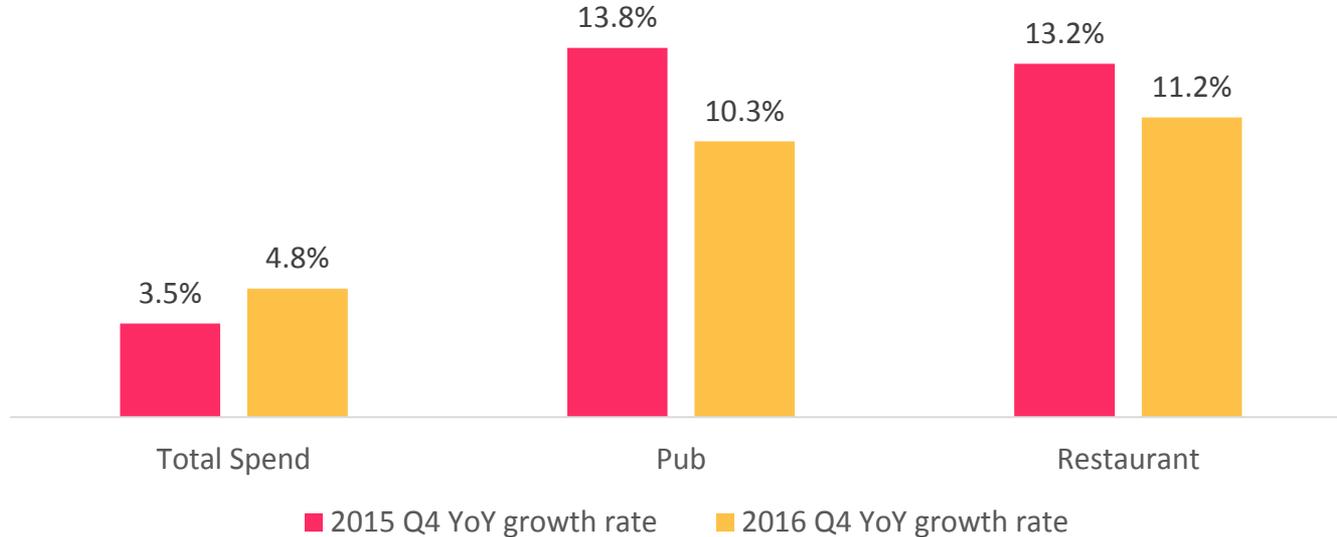
# Coffer Peach Business Tracker

Coffer Peach Business Tracker: Feb 2015 – Feb 2016



# Annual consumer spending growth on Barclaycard – Growing ‘experiential’ economy

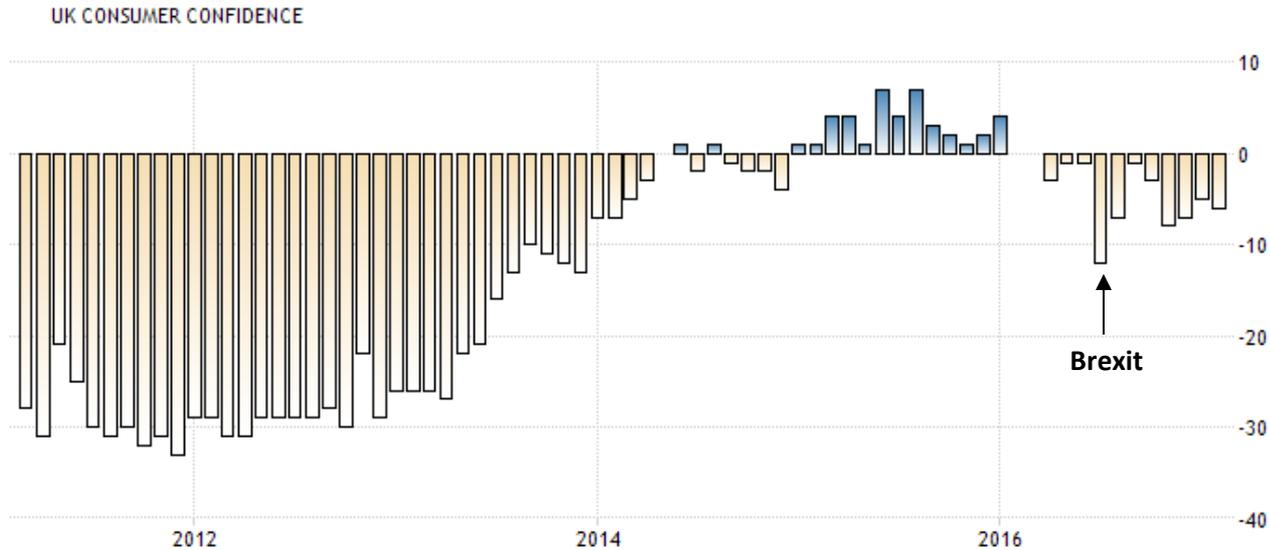
Annual consumer spending growth on Barclaycard, selected segments, Q4 2014/15 – Q4 2015/16



# GfK consumer confidence tracker

**Key message:** UK customer confidence fell post-Brexit, but is far from the low levels seen 4-5 years' ago.

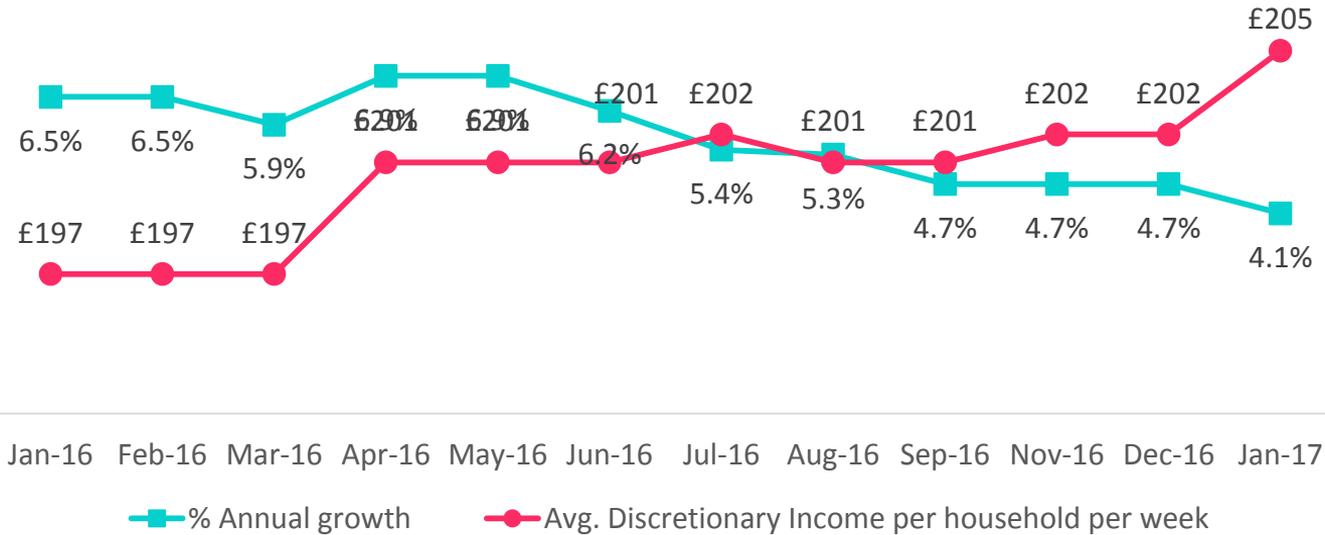
## GfK Consumer Confidence tracker: March 2011 – March 2017



SOURCE: WWW.TRADINGECONOMICS.COM | GfK NOP (UK)

# Asda Income Tracker

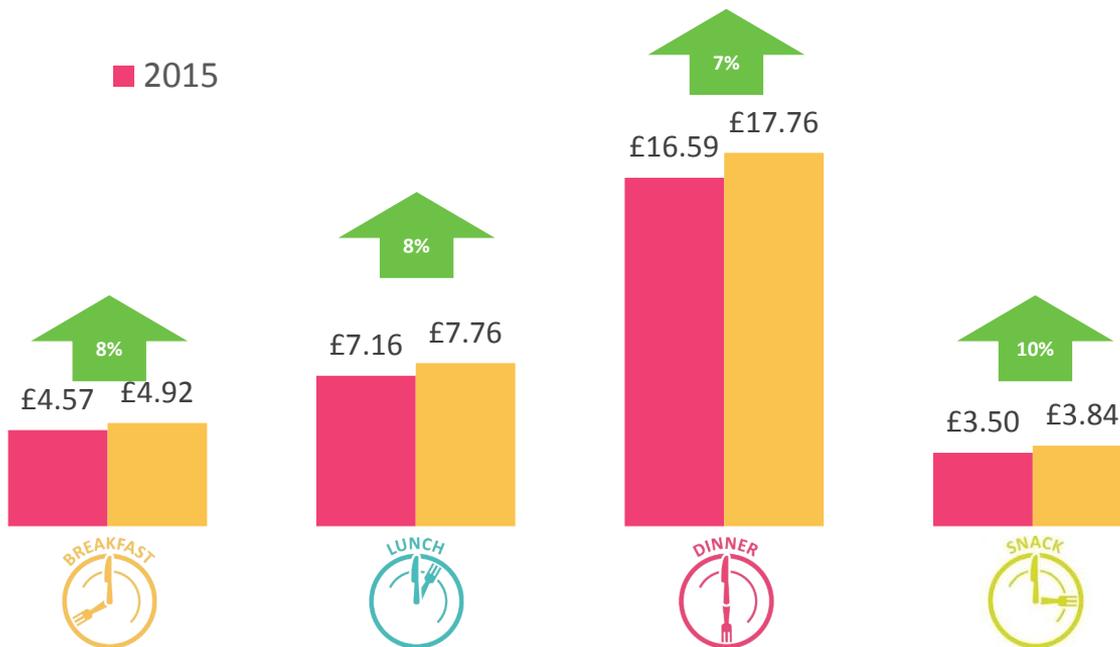
Asda Income Tracker: Growth in average household discretionary income, Jan 2016 – Jan 2017





## Increased average spend at all day-parts from price rises and some trading-up

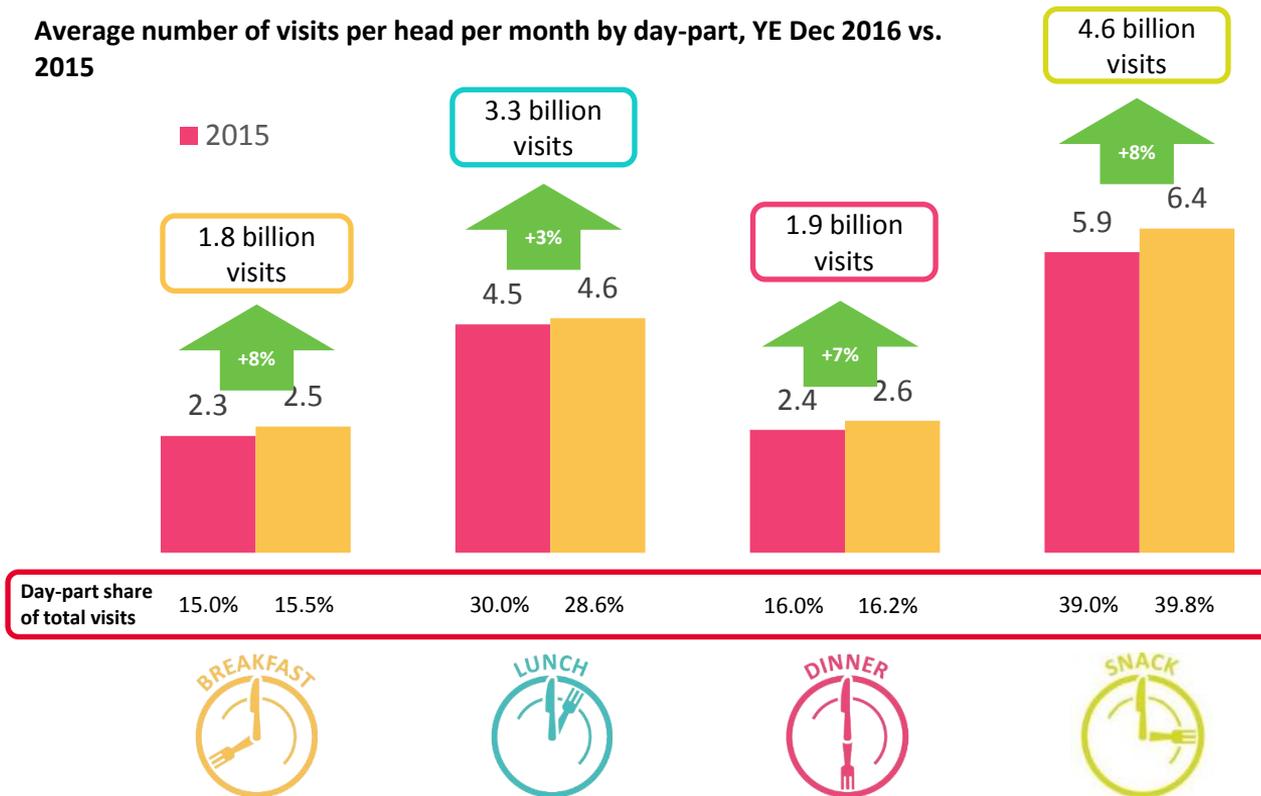
Average spend per head per visit by day-part, YE Dec 2016 vs. 2015





## Visit frequency has risen at all day-parts – year on year

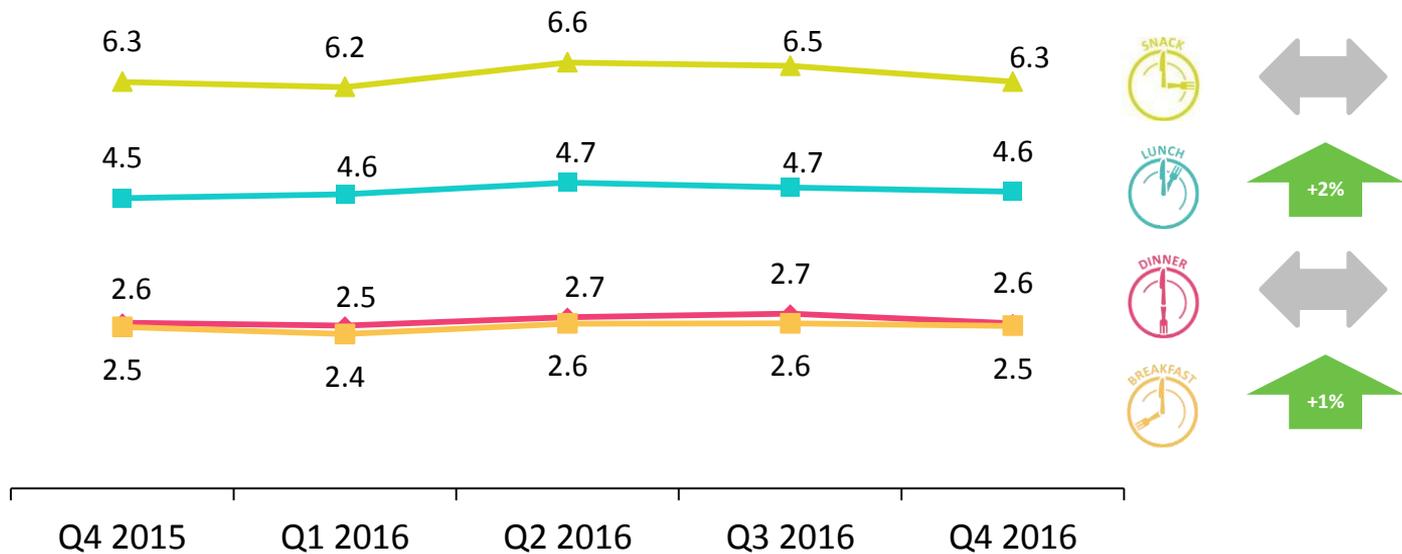
Average number of visits per head per month by day-part, YE Dec 2016 vs. 2015



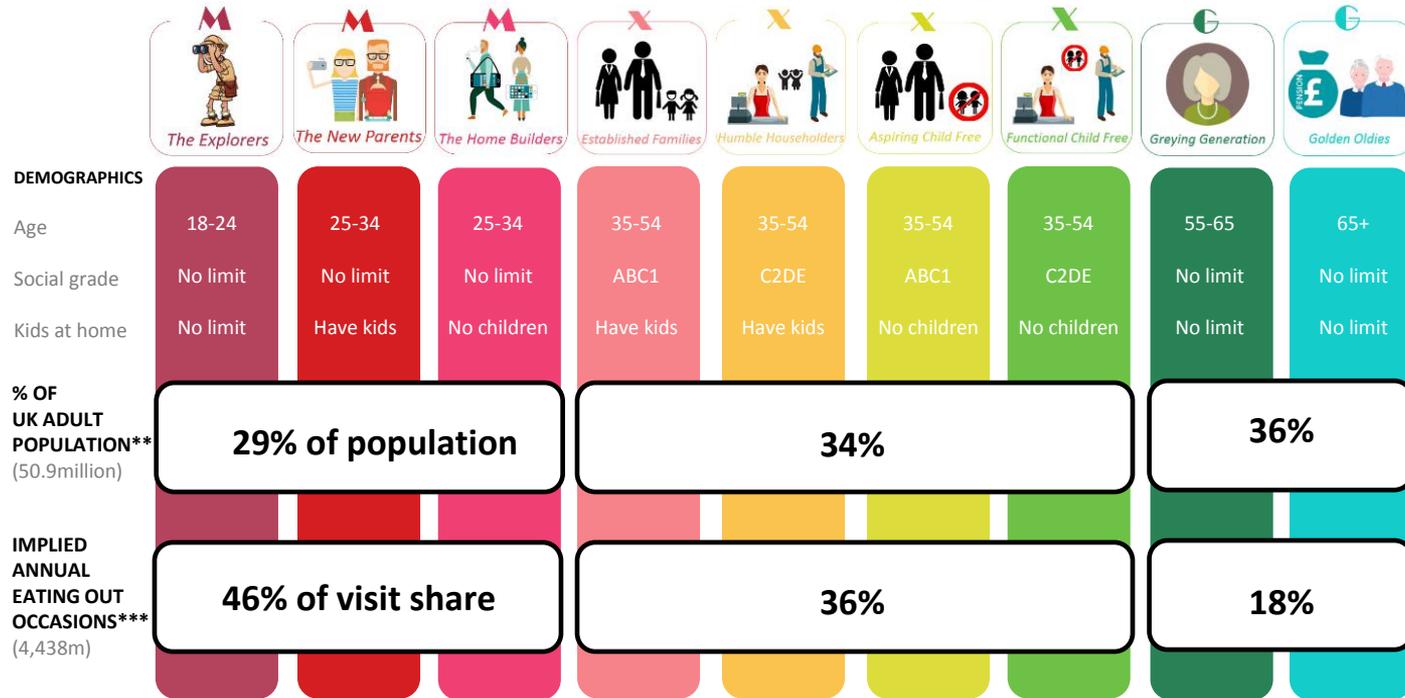


## Visit frequency growth moderating slightly in second half of 2016

Average number of visits per head per month by day-part, Q4 2015 – Q4 2016



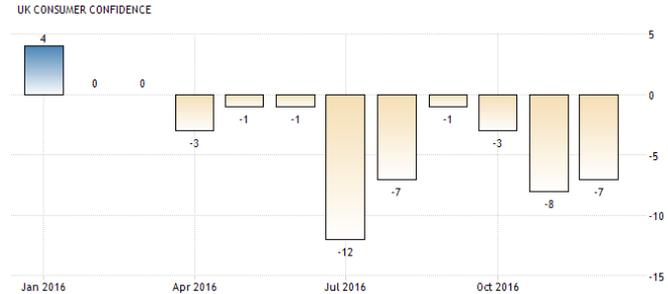
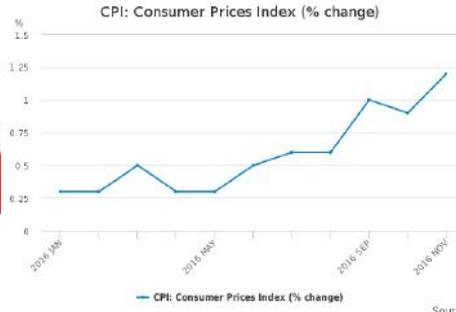
# Customer segmentation – Younger generations are the source of most visits ...



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## Okay, so what do we think is going to happen?

# Post-Brexit – Economic factors and implications



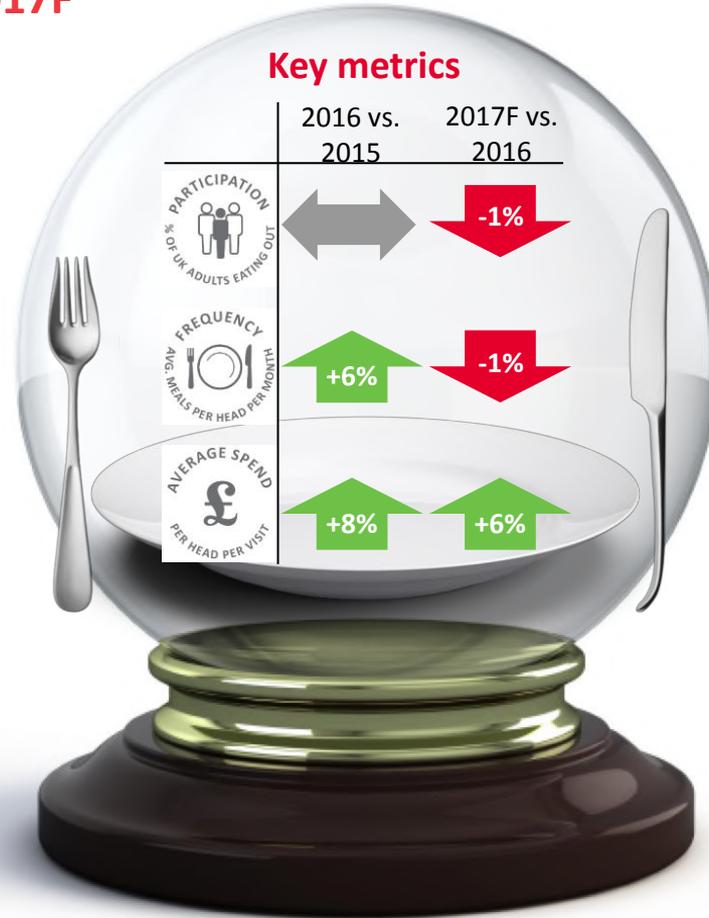
## KEY FACTORS

- Falling value of sterling
- Rising inflation
- Economic uncertainty
- Falling consumer confidence
- Weakening real wage growth
- Rising non-discretionary spending
- Rise in domestic tourism

## IMPLICATIONS

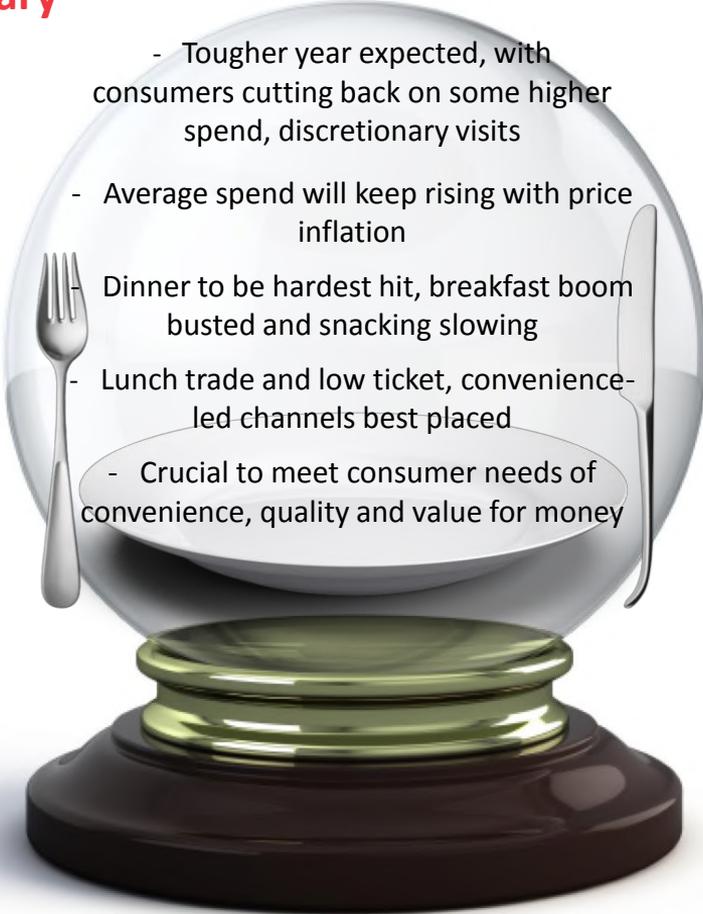
- Higher cost for imported goods
- Increasing importance of cost control and skilful price management
- Growing cost cutting/cost engineering
- Potential rise in promotional activity to drive footfall
- Slowing discretionary spending with growing focus on essentials
- Growing importance of value for money communication
- Locational benefits for attractive tourist locations

# Key consumer metrics 2017F

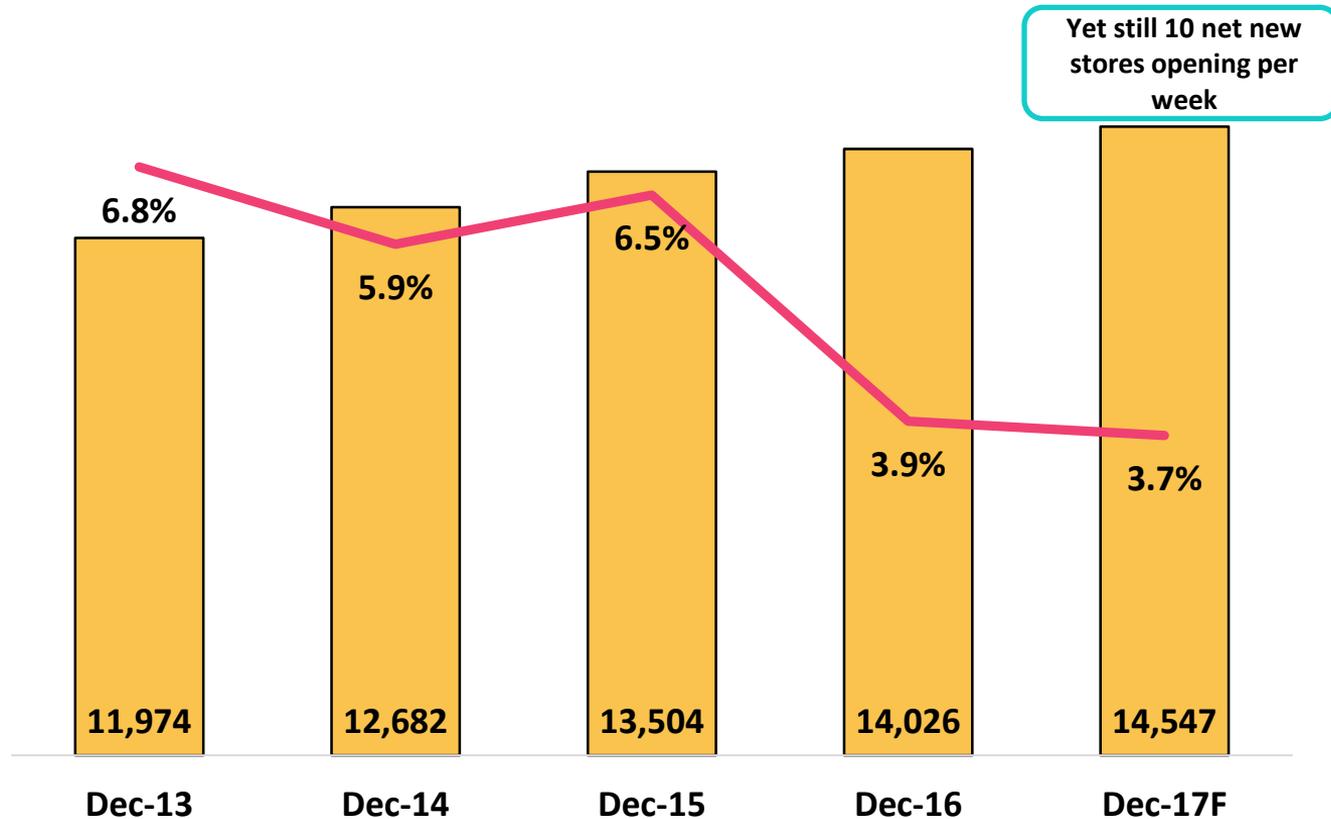


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## Consumer outlook summary

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- Tougher year expected, with consumers cutting back on some higher spend, discretionary visits
  - Average spend will keep rising with price inflation
  - Dinner to be hardest hit, breakfast boom busted and snacking slowing
  - Lunch trade and low ticket, convenience-led channels best placed
  - Crucial to meet consumer needs of convenience, quality and value for money

## Slowing growth set to continue in 2017 from largest 140 leading brands



## Established brands under pressure, but emerging see growth

Several brands slowing expansion



LOUNGERS



But also, several fast growing chains

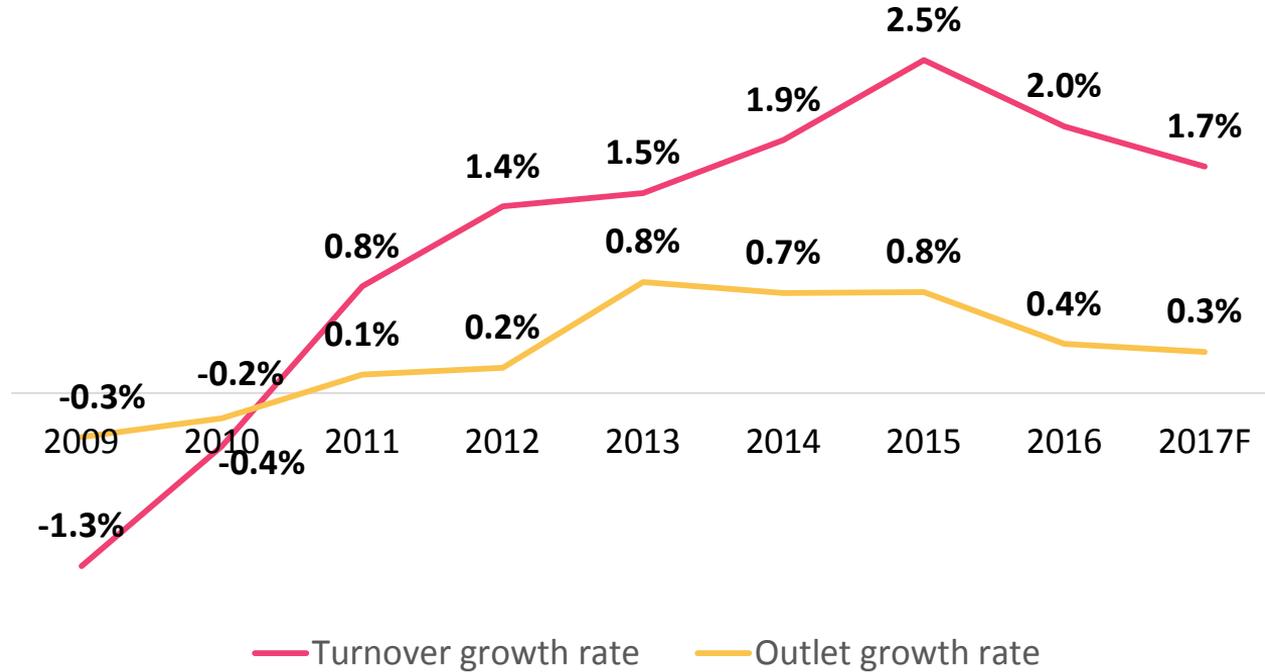
**Turtle Bay**  
Caribbean social

**FIVE GUYS**

**FRANCO MANCA**  
HANDMADE PIZZA

A circular logo graphic for Franco Manca, featuring a stylized pizza or swirl design.

**Total Eating Out market: Outlet expansion under pressure from challenges in property market and scaled-back openings, but market turnover growth expected to continue.**



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## Which channels will grow the fastest in 2017?

### Top 10 fastest growing channels, 2017F, with turnover and growth rate

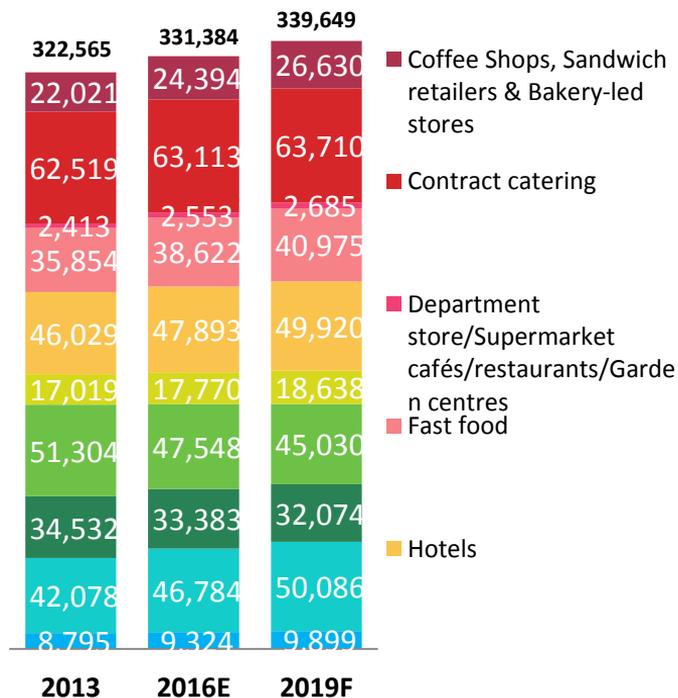
Channel	Turnover 2017F £mn	Turnover growth 16-17F
Branded Contemporary Fast Food	£814	16.0%
Street Food & Mobile Vans	£1,252	14.4%
Branded Delivery-Focused Fast Food	£1,379	8.2%
Budget hotels	£597	4.6%
Petrol Forecourts	£936	4.6%
Managed, Branded & Franchised Pubs	£10,354	4.3%
Convenience Stores	£5,810	4.1%
Coffee shops & Cafés	£4,682	4.1%
Branded Traditional Fast Food	£4,199	4.1%
Branded Restaurants	£5,340	3.7%

Note: Only channels with turnover of £500mn+ are included

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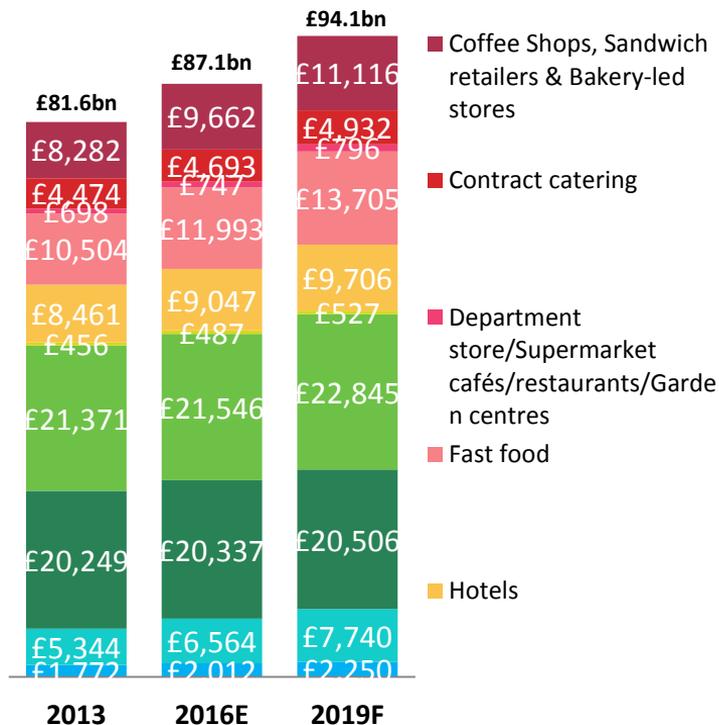
## So where will the medium-longer term opportunities lie?

## Forecast total Eating Out market growth by OUTLETS



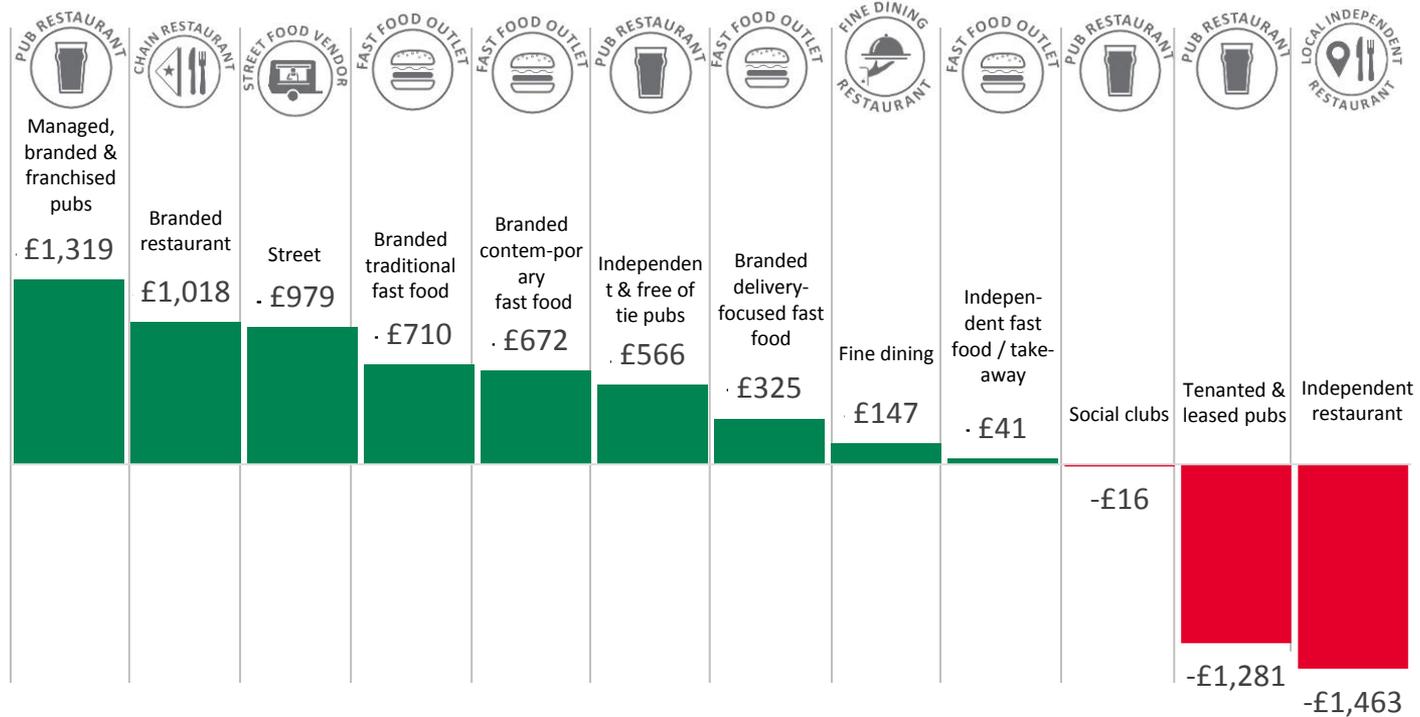
Channel	CAGR 2013-2016E	CAGR 2016E-2019F
<b>Total market</b>	<b>0.9%</b>	<b>0.8%</b>
Coffee shops, Sandwich retailers & Bakery-led stores	3.5%	3.0%
Contract catering	0.3%	0.3%
Department store/Supermarket cafés/restaurants/Garden centres	1.9%	1.7%
Fast food	2.5%	2.0%
Hotels	1.3%	1.4%
Leisure	1.4%	1.7%
Pubs & Bars	-2.5%	-1.8%
Restaurants	-1.1%	-1.3%
Retail grab & go	3.6%	2.3%
Travel	2.0%	2.0%

## Forecast total Eating Out market growth by TURNOVER



Channel	CAGR 2013-2016E	CAGR 2016E-2019F
<b>Total market</b>	<b>2.2%</b>	<b>2.6%</b>
Coffee shops, Sandwich retailers & Bakery-led stores	5.3%	4.8%
Contract catering	1.6%	1.7%
Department store/Supermarket cafés/restaurants/Garden centres	2.3%	2.1%
Fast food	4.5%	4.5%
Hotels	2.3%	2.4%
Leisure	2.2%	2.7%
Pubs & Bars	0.3%	2.0%
Restaurants	0.1%	0.3%
Retail grab & go	7.1%	5.6%
Travel	4.3%	3.8%

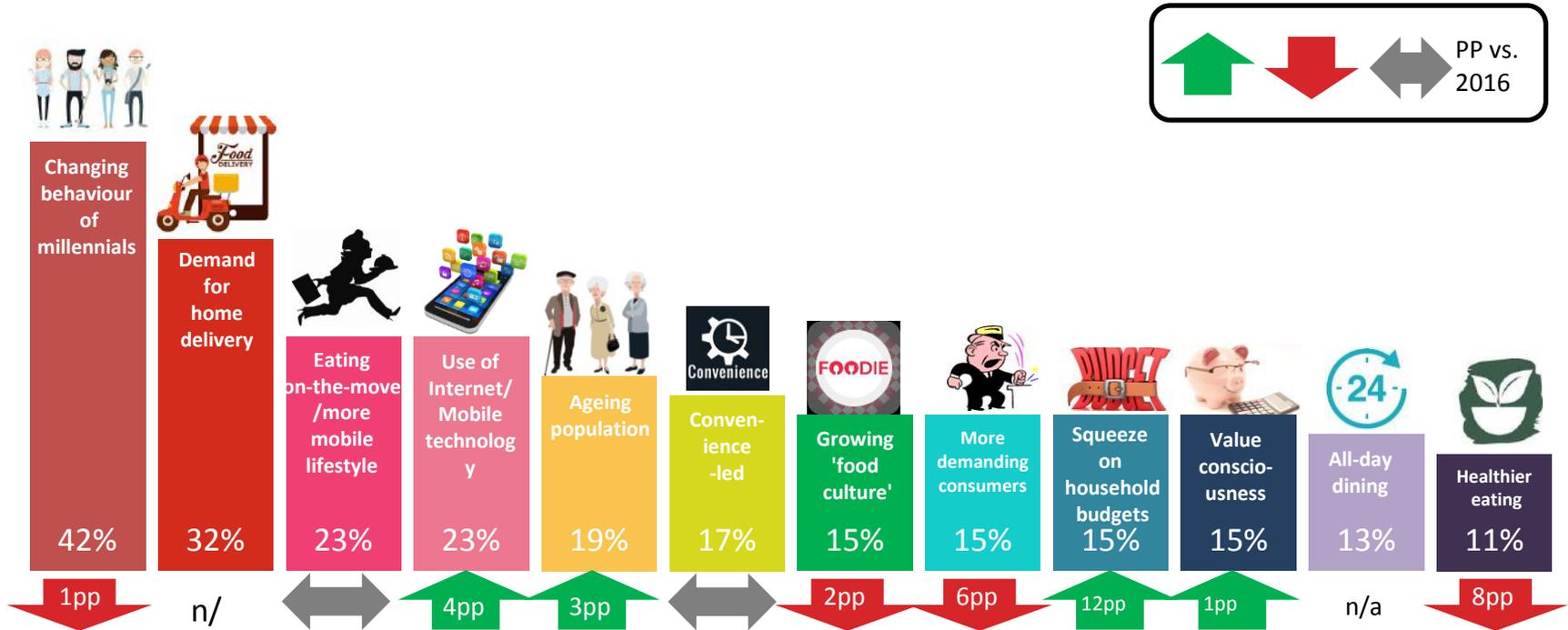
# Winners and losers by channel, 2016E-2020F, £m



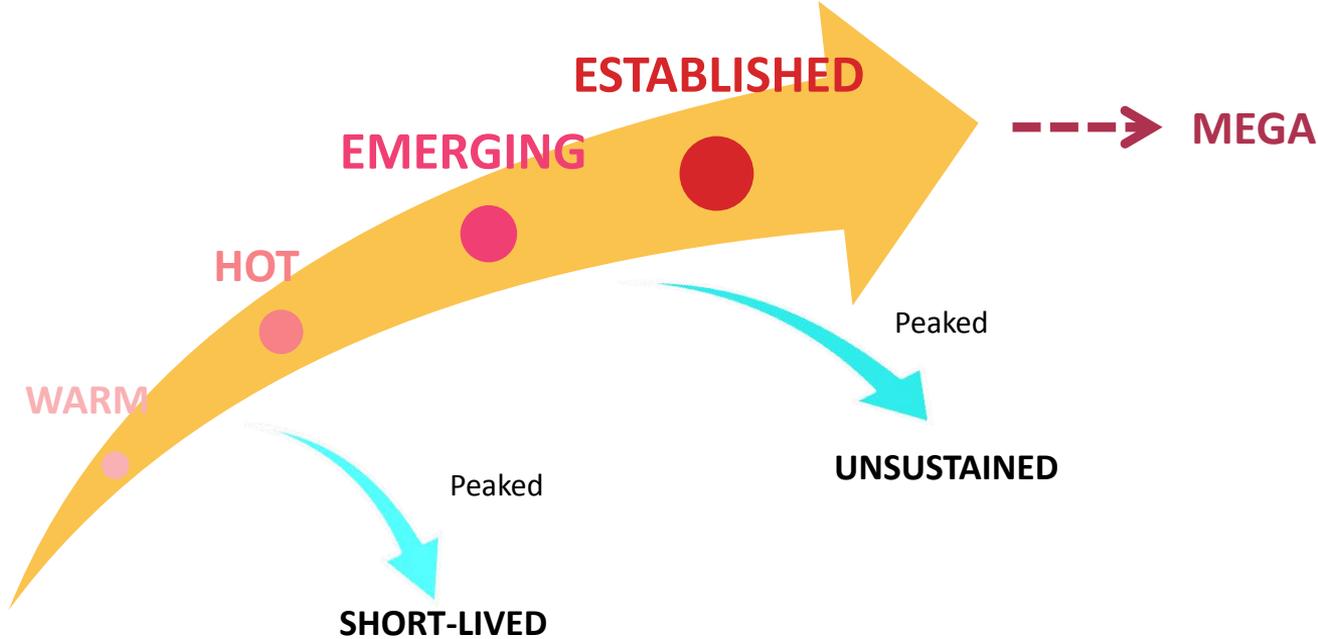
# Most important long-term consumer trends

## Top 12 most important long-term consumer trends affecting the UK Food and Hospitality sector

Multiple choice, % of total respondents, 2017 v 2016



# Trend maturity curve



## Lifestyle trends, 2016

Warm	Hot	Emerging	Established	Peaked
Demand for butter and natural fats	Artisan everything	Adventurousness	All-day dining	Food challenges e.g. Man vs Food
Nostalgic eating	Bar-side dining	Demand for authenticity	Demand for customisation	All-you-can eat buffets
Solo dining	Gastro-tourism	Demand for delivery	Experiential dining	
Zero-waste cooking	Intelligent health	Demand for more late night dining options	Flexitarianism	
	Limited editions	Desire for specialisation	Free-from	
	Plant-based cooking	Meal-time blur	Premiumisation	

# Industry views – Top 5 growth cuisines over next 3-5 years

## Fastest growing cuisines over next 3-5 years

Multiple choice



**1. Healthier eating**



**2. Barbecue**



**3. Premium**



**4. Street food**



**5. Vietnamese**

### MENU IMPLICATIONS

<p>Freshness, naturalism and organic</p> <p>Importance of vegetables</p> <p>Provenance and local sourcing communication</p> <p>Balanced meals</p>	<p>Premiumised barbecue offering</p> <p>Regional barbecue dishes</p> <p>Emphasise 'natural' cooking methods e.g. flame-grilled</p> <p>Smoking and slow-cooking</p>	<p>Provenance and local sourcing communication</p> <p>High quality buns</p> <p>Simple and good, not new and gimmicky</p> <p>Big and bold flavours</p>	<p>Sharing focus</p> <p>Global and fusion influences</p> <p>Accompanying added theatre</p> <p>Big and bold flavours</p>	<p>Street food influences</p> <p>Healthier/lighter focus</p> <p>Bold and spicy flavours</p> <p>Vibrant presentation</p> <p>Lunch and dinner focus</p>
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## To sum up ... Key CHALLENGES for Irish suppliers

- **Tougher trade negotiations with UK foodservice companies facing multiple headwinds – not just Brexit fall-out.** Concerns with rising business rates and property rents, increasing labour costs and intensifying competition – as well as concerns around higher food input costs and reducing availability of quality staff – are impacting on profitability and business confidence.
- **Weakening price competitiveness with relative strengthening of the Euro vs sterling.** There will be more interest by UK operators in sourcing more product locally and regionally.
- **Driving more productivity gains and business efficiencies.** Leaner businesses better equipped to provide support with more competitive pricing.
- **Focusing more attention on securing new UK business partners in faster growth categories and channels.** The market will still be good in parts, so understanding evolving consumer dynamics, tapping into growing trends and demonstrating market insight will all be key.

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## To sum up ... Key OPPORTUNITIES for Irish suppliers

- **Hold the faith – the long term underlying trend is for greater eating out activity.** Eating out has become an engrained social habit and the 'experiential economy' has established momentum and resilience.
- **Pick the right horses – target faster growth channels and operators.** Coffee shops, Fast food (particularly emerging contemporary players) and Retail grab & go are all expected to out-perform over the medium term. And don't ignore leading pub companies and contract caterers as balance client portfolio with larger accounts and more nimble, youthful operators.
- **Target key and emerging trends, not least around healthier eating, premiumisation and artisanal/craft.** Better understand and tap into the 'Millennial' market – they are the most active consumers and setting industry agendas.
- **London market will remain strong.** As will higher footfall locations and busier travel hubs that tap into on-going strength of Food to Go demand.
- **More internationalisation inevitable from UK-based operators.** Overseas expansion will be targeted by a growing number of UK-based operators. Wagamama already has a sizeable international presence, while Turtle Bay and Hawksmoor are just starting out.



**And thanks for listening! - Any questions?**

**For further information, please contact Steve Gotham at:**

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