RESTAURANT AND BARS REPORT

DECEMBER 2011

BDO

INTRODUCTION

Welcome to the latest edition of our half-yearly review of the restaurant and bar sector.

In this edition rather than dwelling on the frail economic recovery we focus on growth opportunities. The economy is limping rather than bouncing out of recession, while the Euro crisis could supersede everything, but I still believe the sector has a bright future. So rather than more doom and gloom, we at BDO are turning our minds to some positive thinking.

One of the most exciting opportunities is healthy eating. With the Government now actively encouraging operators to tackle obesity, and nutritional awareness in general on the rise, we have two articles examining these trends.

Building brand value is also another opportunity. Of course, every brand wants to make an emotional connection with customers, but as our article on successful brand building explains this is easier said than done.

Leveraging Wi-Fi can play an important part in this process. The costs aren't high and with 3G networks still patchy it can be a good footfall driver. It also gives an insight into customer online habits. We have a feature on how best to exploit Wi-Fi.

Elsewhere, we consider if a VAT reduction would actually generate significant extra demand and therefore tax revenue, while Evolution Securities review the latest industry trading data.

I hope this edition prompts some thoughts on how we can successfully trade our way out of the current situation - times may be tough but the best and brightest operators will continue to thrive!

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BOARDROOM AGENDA

Concerns about the economy have again resurfaced as the biggest challenge facing the sector. Although clever marketing and brand investment has so far helped many operators achieve remarkably good results, can this momentum be sustained going into 2012?

Economic environment - the bad news !

A rather nasty sense of déjà vu has returned to haunt the economy over the summer and autumn with all the major indicators moving in the wrong direction. From rising unemployment and inflation, to falling consumer confidence and stock markets, there are now heightened worries that the economy could again lurch into recession. This downbeat picture is further complicated by the European debt crisis that has the potential to seriously impact growth and further erode consumer confidence.

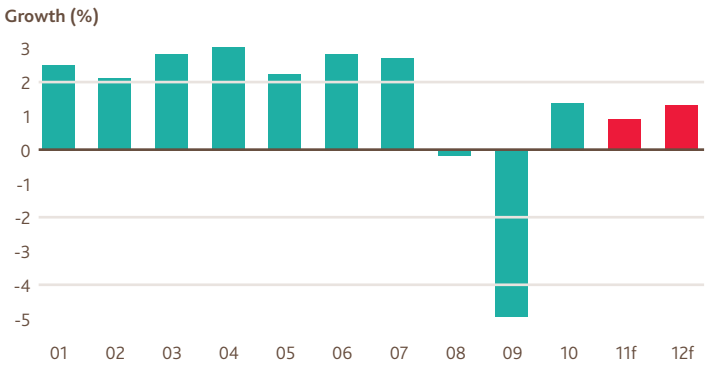
Given this context it is not a surprise to see that in spite of the latest quarterly growth figures, forecasts for next year have been progressively downgraded in recent months. Although the consensus of opinion is that we are probably not heading for a further full recession, most pundits are not predicting much growth either.

According to consensus estimates taken from independent forecasters in October, the economy will grow by just 0.9% this year and 1.3% in 2012. However, 2012 forecasts have recently been downgraded significantly with the Office of Budget Responsibility now expecting growth of just 0.7% next year. Weakness is being felt across the whole economy with subdued demand being witnessed by both the manufacturing and service sectors.

Almost as worryingly as weak economic growth, inflation has continued to climb with CPI inflation hitting a three year high of 5.2% in September, although encouragingly this did fall back slightly in October. Whilst oil prices have fallen by 30% since May and other commodities have also dropped in price, it is unlikely that these falls will feed through into lower inflation until next year. With such high levels of inflation wages have failed to keep pace, which on top of higher VAT and National Insurance, has placed huge pressure on discretionary consumer spending.

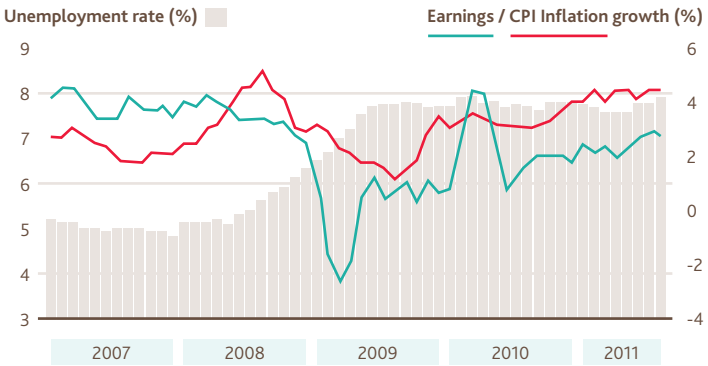
Adding to this downbeat picture, the labour market has weakened in recent months. After being stuck at around the 2.5 million mark for the best part of two years, unemployment rose by over 100,000 during the summer, with over 8% of the workforce now jobless. Moreover, recruitment intentions have decreased relatively steeply with business confidence falling to its lowest level in almost two years.

GDP growth 2001 - 2012f



Source: ONS, HM Treasury

Unemployment, Earnings and Inflation 2007 - 2011



Source: ONS

BDO OPINION

Whilst not actually in recession there are very few other positives to be said about the economy at the moment. Our best guess is that we will just avoid another recession next year helped by easing inflation and another round of quantititive easing. The path to sustained recovery looks a lot more difficult than six months ago, but the restaurant sector remains well placed to ride out any minor bumps in the road.

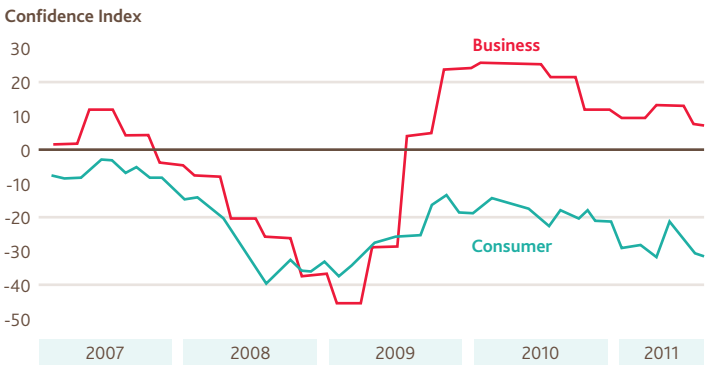
Unsurprisingly, this toxic mix of bad economic news has taken a heavy toll on consumer confidence, which has continued to stay at rock bottom levels. In particular, perceptions regarding the general economic situation have deteriorated with many consumers now actively anticipating another recession.

Reasons to be cheerful

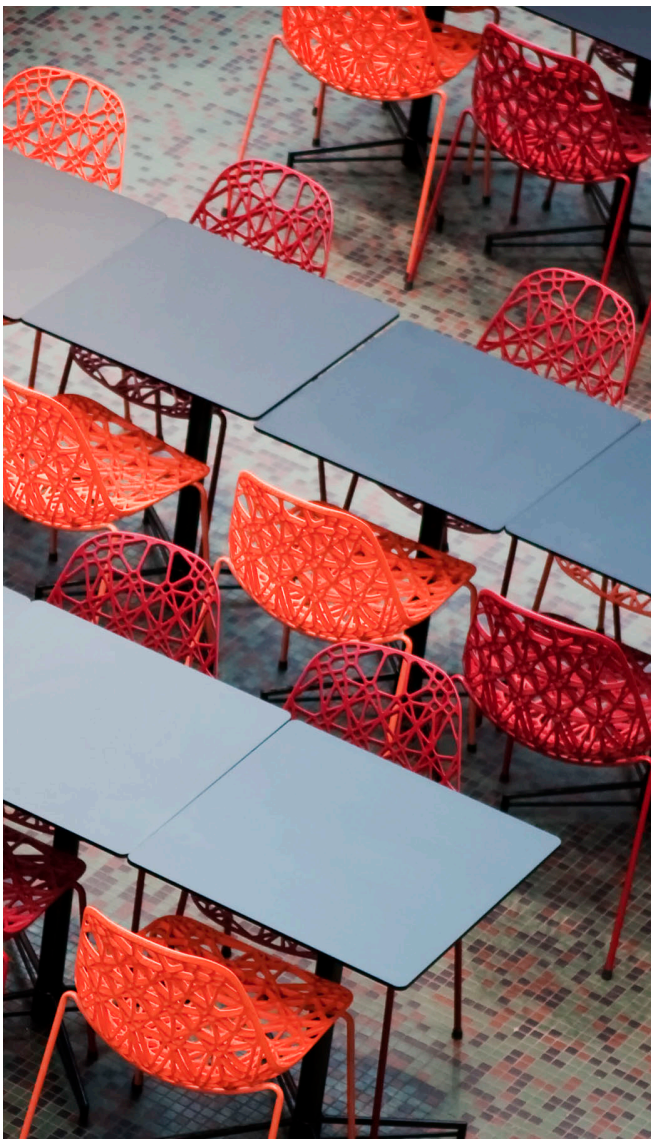
Yet bad as these indicators are, there are still some reasons for optimism. The biggest positive factor is that commodity and fuel costs are falling. This should in theory mean that consumers won't have to devote quite as much spending to fuel, freeing up more spending for discretionary purchases.

Falling inflation should also mean that interest rates will remain low. Furthermore, with the Bank of England restarting asset purchases as well, there are realistic hopes that business lending can be kick started back into life. However, any potential good news these days is tempered with a huge note of caution that the Euro crisis could supersede everything.

Business and Consumer Confidence 2007 - 2011



Source: GfK, NOP, ICAEW



BOARDROOM AGENDA

Trading Conditions

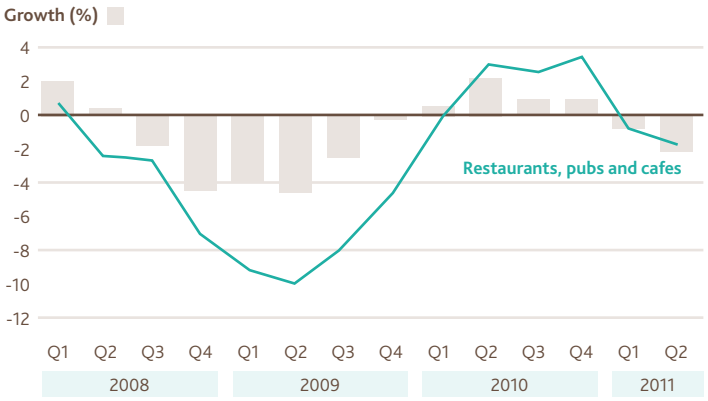
Overall, spending across the sector has gone into reverse since the start of the year reflecting the general squeeze on discretionary consumer spending. Revised figures from National Statistics indicate that spending across restaurants and pubs dropped by 1.5% during the first six months of the year, which was on a par with the general fall in household consumption. Although this decrease was nowhere near the double-digit falls witnessed during the first half of 2009, it was still nevertheless disappointing as spending appeared to be recovering relatively well during 2010.

In response, operators have generally increased the use of promotions with a renewed focus on price. However, we have not witnessed a complete repeat of mass discounting that dogged the sector during 2008/09. Instead promotions have been far more proactive and planned, helped by increased use of social media instruments.

Many operators have also stepped-up brand investment, updating both outlets and menus, while also developing new formats for alternative locations. As a result, market share gains have been made by some operators, particularly the major players.

The other chief factor that has significantly influenced demand in recent months has been the unpredictable weather. Unsettled conditions during July and August largely subdued demand. In contrast, the record Indian Summer conditions witnessed throughout September and early October provided a sizeable boost to many in the market.

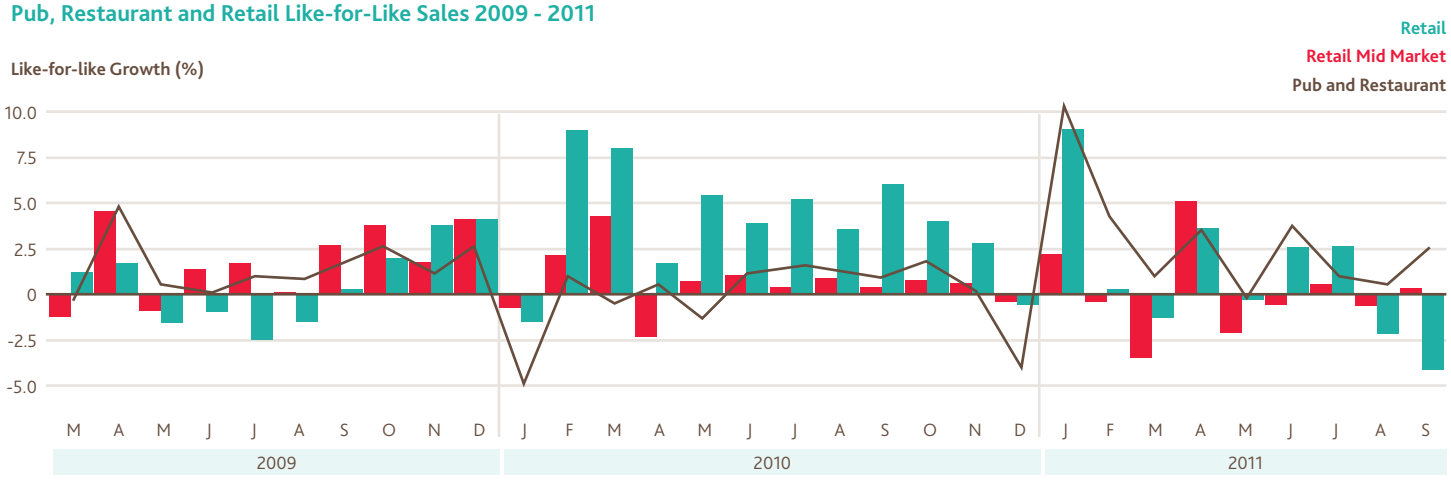
Household Final Consumption 2008 - 2011



Source: ONS

According to survey evidence covering the leading pub and restaurant groups, collective like-for-like sales only grew by 0.6% in August, but jumped by 2.8% in September despite the worsening economic conditions. In comparison, retail spending during both months was barely positive, with mid-market chains suffering sizable like-for-like falls.

Pub, Restaurant and Retail Like-for-Like Sales 2009 - 2011



Source: Coffer Peach Business Tracker, British Retail Consortium, BDO High Street Sales Tracker

BDO OPINION

There is a growing frustration with the Government at the lack of progress it has made on cutting red tape. Although some limited steps forward have been made, most operators have not seen any tangible improvements.

Legislation & Tax

A number of important employment regulations have come into operation over the last six months, of which rules giving agency workers the same basic employment conditions as directly employed counterparts, is probably the most relevant to the sector.

Developments have also occurred in the long-running investigation of foreign satellite football, while the Business, Innovation & Skills Committee has produced a damning verdict on progress towards reforming the beer tie.

Elsewhere, the Government continues to make noises about cutting red tape and has announced plans to sweep away unnecessary restrictions around live events, along with a number of other minor regulations. However, on the big issue of taxation although duty on low strength beer has been reduced, the sector continues to be taxed heavily.

Agency workers

New agency worker regulations mean that after the qualifying period (12 weeks), agency workers must be afforded the same basic employment conditions as they would have received had they been directly recruited. The regulations encompass key terms as pay, bonuses, rest periods and working time and holiday entitlements, but exclude most payments normally associated with employment status, such as pension payments.

Employment law review

The Government has announced that it wants to reform key areas of employment law as part of its review of red tape. It is now reviewing regulations linked with collective redundancy consultation periods, TUPE, compensation for discrimination awarded by employment tribunals and paperwork simplification.

E-privacy

The Privacy and Electronic Communications Regulations have come into force. This directive upgrades rules on the use of online cookies. It requires websites to get explicit consent from web users before tracking their online activity. However, it is unlikely that there will be wholesale enforcement action of the new rules until May 2012 in order to give those affected an opportunity to get their websites in order.

Beer tie

In yet another review of the beer tie, the Business, Innovation & Skills Committee has found that very little progress has been made towards voluntary reform. As a result, the Government is now expected to introduce a statutory code governing the pubco/tenant relationship. Legislation could be introduced within one year.

Foreign satellite football

The European Court of Justice has ruled that restricting the sale of European foreign satellite decoders is unjustified. It also ruled that football was not an art and therefore not subject to copyright law. However, it added that parts of football broadcasts, such as opening credits, theme music and logos were copyrighted. Although it is unclear how this ruling will be interpreted by the UK courts, the Premier League believes that foreign broadcasts in pubs are still illegal.

Special events

Plans to sweep away restrictions on live music and other forms of entertainment have been announced. Under Government proposals most events will be exempt from additional licensing requirements as long as audiences are fewer than 5,000. The proposals are currently undergoing consultation.

BDO OPINION

For all the headline gloom concerning falling household spending, trading levels for many operators have not declined that much. In fact, the major operators have seen trade improve over the summer on the back of brand investment and market share gains.

TRADING UPDATE

It has been a challenging six months for the sector, with trading remaining volatile and difficult to read from one month to the next. Steve Bartlett and Nigel Parson of Evolution Securities share their views on the state of the leisure market.

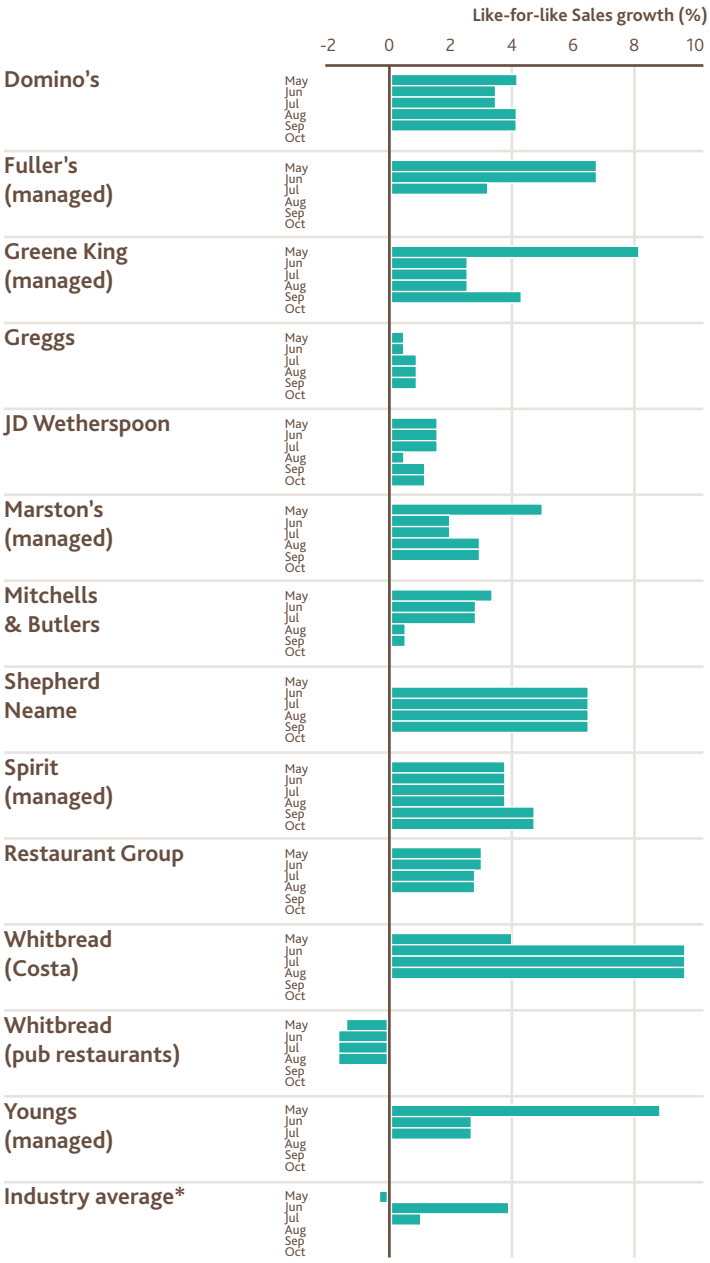
The spring was good (for wet sales), helped by the weather and the Royal Wedding. July, however, was distorted by World Cup comparisons, and August took a hit from the wet weather and the riots as people stayed in to watch the action on Sky News. Summer finally arrived in September.

Still, those operators offering relevant concepts and clear value-for-money propositions continue to enjoy top-line growth. But none has escaped margin pressure owing to rising input costs – especially food/drink (+3% to +4% year on year), minimum wage (+2.8%), utilities and the new carbon tax. The alcohol duty escalator continues to hurt. Tax on beer has leapt 35% since March 2008, with Britons now paying an astonishing 40% of all the beer taxes collected in the entire European Union. These pressures are only partially offset by subdued rents and build costs.

All operators remain cautious about the outlook, especially in the crucial trading period running up to Christmas and the New Year. This year, Christmas Day falls on a Sunday, which is helpful, but New Year's Eve is on a Saturday. For 2012, it is difficult to gauge the potential impact on trading of the European Football Championships and the Olympics.

In the past six months, the All-Share Index has shed 10%, the Travel & Leisure sector 13% and licensed retail 25%. The perceived toxic combination of UK consumer exposure and high debt levels has kept many fund managers sidelined.

Major operator trading performance May 2011 - October 2011



Source: Trading Statements *Coffer Peach Business Tracker

Pubs: what's cooking?

It was an exciting summer from an M&A perspective. Spirit PubCo demerged from Punch Taverns. Piedmont (the vehicle for Joe Lewis) nearly bid for Mitchells & Butlers, but then sailed away. Greene King gobbled up Capital Pubs (much to the annoyance of Fuller's), and Young's pulled out of brewing after selling its 40% shareholding in Wells & Young's Brewing for £15.1m. What is the world coming to?

The bigger, stronger players continue to exploit the market turmoil, flexing their balance sheet muscles and strong cashflow. They've been grabbing up new assets, in many cases paying a premium for anything food- or London-oriented. Greene King has gobbled up Cloverleaf, Realpubs and Capital Pubs. Wetherspoon opened 50 pubs for the year to end-July, and says it plans to do the same again in the new financial year. Marston's ploughs on with its new build programme of 25 new pubs per annum, Mitchells & Butlers has completed 48 conversions and made 53 site acquisitions by its year-end in September. Whitbread plans to open 14 new pub restaurants in the year to February 2012.

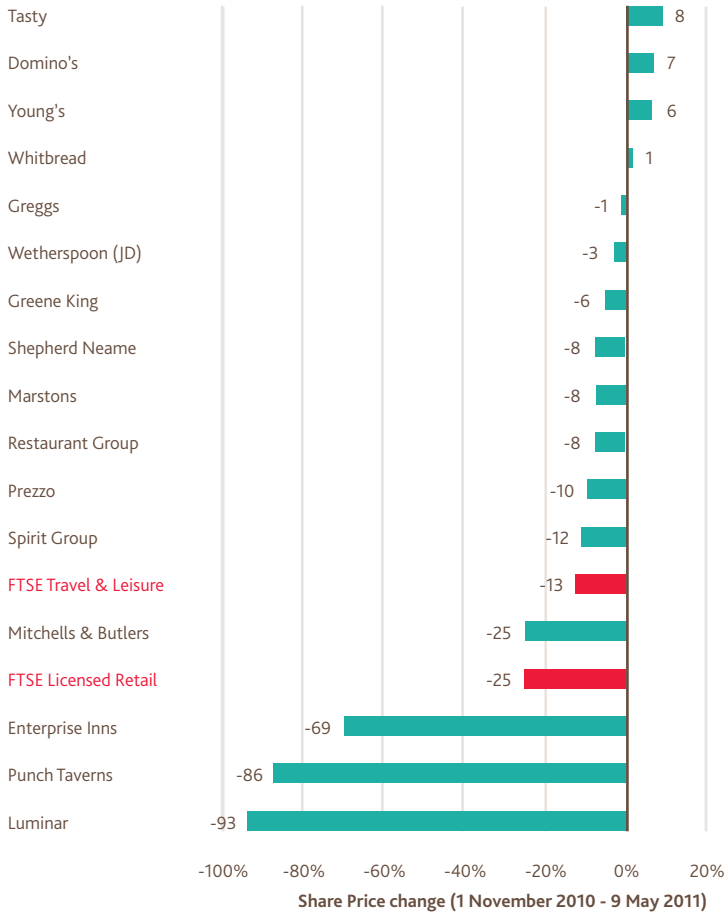
The operational focus remains the development of catering and catering concepts as beer sales continue to fall. On-trade beer volumes fell 4.3% YoY in Q311, despite total volumes rising 1.6%, according to the latest Quarterly Beer Barometer from the British Beer & Pub Association.

In late November, the Government decided not to implement the recommendations of the Business, Innovation and Skills Committee for a statutory code of practice for tenanted pubcos. This was consistent with our view that the Government has little appetite for further involvement in the tenanted pub trade in light of last year's clean bill of health from the OFT and the EU. Instead of the statutory route, the Government has decided to support a self-regulatory package including: (1) a Pub Independent Conciliation Advisory Service (PICAS), (2) a three-year re-accreditation process for company codes of practice, and finally (3) a new pubs advisory service. All this is sensible and pragmatic but the tenanted pubcos need to learn the lesson from the 'close-scare' and (1) ensure that they make this route work and (2) lobby more effectively.

The rate of decline in trading has slowed for many tenanted operators as they have gained a better grip on the issues. We regard Marston's as the savviest tenanted operator – the first to achieve EBIT growth following four consecutive years of decline. The success of its Retail Agreement in stabilising trading in Marston's tail estate was important. We see this initiative as a stop-gap, however, as Marston's waits for better conditions to sell the houses and recycle the capital into the top end of its managed estate, where returns are both higher and more sustainable. Greene King has developed a variation on this theme with the introduction of franchise-style agreements into its core estate.

We believe there is a future for tenanted companies if they can restructure/reduce debt and invest at the right level. The management of Admiral Taverns has been helped hugely by having Lloyds Bank write down 60% of its previous debt which is allowing it to invest in the viable, core pubs. The game plan is similar at Punch - a determined move to focus investment on its 3,000 top-quality pubs by off-loading less successful ones. There are, maybe, as many as 5,000 pubs for sale. Just over half of all pubco disposals sold in the six months to mid-October 2011 ended up for alternative use, according to Fleurets, with residential the most common end-use.

Stock market performance May 2011 - October 2011



Source: Factset

TRADING UPDATE

Restaurants: industry 'sweet-spot'

The casual dining segment of the licensed trade is the industry's 'sweet spot', and those pure restaurant groups having concepts that have real traction with their target customer base have performed well. Furthermore, they typically are unfettered by legacy drinks-led concepts or divisions, which have bedevilled the performances of some of the pubcos. People want to eat out. The market is driven either by being a leisure pursuit or by the basic need to refuel, and is good value when compared with drinking out. What the catering industry has mastered is the most appealing combination of fat, sugar and salt. At the core of any successful restaurant is great food, but what makes it a good investment proposition is the fusion of this attribute with effective site-finding and development skills. As always, the sector has been busy.

In the quoted arena, Restaurant Group continues to open 22-27 units per annum, with the roll-out of new Brunning & Price moving up the menu following the completion of the Blubeckers conversion programme. The Old Hall, Sandbach is an impressive example of the roll-out potential of this concept. Prezzo plans to open 20 units by year-end. It continues to seek a second leg but it is too early to see Caffé Uno as the answer. Elsewhere, a different branch of the Kaye family is busy at Tasty rolling out its Wildwood upmarket pizza brand. Its new Canary Wharf site is well worth a visit.

In the unquoted sector, Gondola has refinanced its £520m of senior debt to mid-2015, dampening immediate talk that one or more brands would be sold. It has also launched a rebrand of Pizza Express with a new logo and black-and-white stripes on all uniforms and crockery. Paramount fell into administration in November, shortly after a second restructuring had been agreed with its banks. Brasserie Blanc was the benificiery of this, acquiring eight Chèz Gèrard sites.

Yum Brands is seeking a single buyer for its UK restaurants to become a master franchisee, with a UK estate comprising 380 restaurants and 320 delivery units. Elsewhere, Jamie's Italian should reach 25 UK restaurants by year-end, and the company plans to ramp up international expansion in 2012. Tragus is planning to overhaul its enduring Café Rouge brand, with the new Villiers Street site being the test. French bistro chain Cote has identified its 30th site in Esher, Surrey.

Westfield Stratford City opened in mid-September with 250 shops and 70 restaurants. In keeping with its sister development in Shepherd's Bush, it is showcasing a number of brand new concepts such as Cabana, Pizza Luxe, Rhythm Kitchen and Indi-Go, as well as brands such as Bumpkin and Wahaca making their East London debut.

Fast Food: making dough

Domino's Pizza continues to generate lots of dough. System sales were up 9.8% YoY for the quarter to end September, with like-for-like sales up 3.9% in 605 mature stores despite tough trading in Ireland. Online now accounts for 47% of UK delivered sales, helped by a new iPad app. Domino's remains on track to open 64 new stores in 2011. It has a total of 702 stores globally, including four in its new target market, Germany.

McDonald's continues to perform well in Europe, with comparable quarterly sales to end-September up 4.9% YoY, helped by a strong performance in the UK. The results have been driven by (1) tiered menus offering premium, core and everyday value selections, plus (2) ongoing restaurant modernisation.

Greggs has entered into a 12-month trial agreement with Moto Hospitality to open franchise stores at two locations. If successful, the number of units could rise to 30. It is also trialling a new coffee shop concept, 'Greggs Moment', in Newcastle upon Tyne.

The rest of the sector: from cupcakes to cocktails

Consumers still want to indulge themselves on occasion, and this involves eating out and buying treats – dubbed the 'cupcake' factor. A key beneficiary of this movement is Costa Coffee, owned by Whitbread, whose profits were up 42% YoY in the six months to end-August on UK like-for-like store sales of +6.7%. Costa opened 167 stores in the period and has just opened its 2,000th store worldwide.

Moving from cupcakes to doughnuts, Alcuin Capital Partners has backed a £25m management buyout of the UK arm of the doughnut retailer Krispy Kreme. It comprises 45 units and 350 cabinets in major retailers. It plans to double in size by 2016 by opening 10 stores a year.

Novus plans to double its 53-strong estate in the next four years and may roll out its recently acquired Balls Brothers brand further. London cocktail-bar Be At One opened its 12th and largest site in Monument in October 2011, with a further two openings planned before March 2012. Piper, the private equity firm, has just taken an £8m minority stake in Be At One to fund the roll-out of further sites. Mark Derry (Loch Fyne and Brasserie Blanc) will join as chairman.

Finally, Luminar has succumbed to the inevitable; falling into administration after the banks withdrew their support. The shares were suspended on 26 October 2011. The dancing is over for this company.

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On 14 December 2011 Evolution Group is due to be acquired by Investec.

VAT IS THE QUESTION

Whilst the previous Government was not averse to a general cut in VAT to stimulate the wider economy – witness the temporary reduction to 15% - is there any political will today to support specific industry sectors by big-hitting rate reductions? More importantly, would a VAT reduction actually generate significant extra demand?

There is a strong sense of injustice in the UK catering sector that a customer can, in many cases, buy a pre-prepared meal at the zero-rate of VAT – completely VAT-free – but a restaurateur serving a meal to a customer at a restaurant must account for VAT at the full 20% standard rate. With increasingly difficult economic times weakening the spending power of consumers, the addition of VAT means the perception of higher cost to the consumer or the restaurateur eating into its margins in an attempt to remain competitive on price.

Vive La France!

Back in July 2009, the French Government took the bold step of slashing the rate of VAT it applied to most restaurant and catering activities from 19.6% to 5.5%. The move put the restaurateur on the same VAT footing as the takeaway sector and recognised the value to the economy of the catering sector and its support for the tourist industry.

It was estimated that the move would cost the French Government between €2-3 billion per year in lost tax revenues. However, this was considered a small price to pay to stave off bankruptcies, improve profitability and encourage investment in the sector.

It is notable that the French Government encouraged the sector to pass the VAT saving on to the consumer and there were certain publicity benefits which businesses that did so were able to use. There were also sector commitments on job creation, training and investment.

Has the measure worked?

A number of studies have been undertaken but it has been difficult to draw conclusions due to the worsening economic climate in the Eurozone. However, there is a suggestion that the sector is doing markedly better as a result of the rate cut than might otherwise have been the case.

Nevertheless, French consumer rights group CLCV has called for the tax break to be scrapped calling it a "proven failure". It has stated that the price cut has not been widely passed onto customers.

Other European examples

A Copenhagen Economics study in 2007 found that *"there is a sound economic argument for (substantially) lowering VAT rates on locally supplied services (and restaurants) as the shift from DIY to formal activity is likely to lead to significantly higher overall productivity and higher tax revenue"*.

Or put another way, the economy will be more productive and the Government will gain more tax revenue if more people are persuaded to eat in restaurants rather than cook their own meals.

The latest European country to reduce VAT on hotels, restaurants and other tourism businesses is the Republic of Ireland, where VAT has been reduced to 9% from July 2011 until Dec 2013. As a result, 11 EU countries now have a reduced rate for restaurant meals.

	Standard rate	Rate for meals in restaurants
Austria	20	10
Belgium	21	12
Bulgaria	20	20
Cyprus	15	8
Czech Rep	20	20
Denmark	25	25
Estonia	20	20
Finland	23	13
France	19.6	5.5
Germany	19	19
Greece	23	23
Hungary	25	25
Ireland	21	9
Italy	20	10
Latvia	22	22
Lithuania	21	21
Luxembourg	15	3
Malta	18	18
Netherlands	19	6
Poland	23	8
Portugal	23	13
Romania	24	24
Slovakia	20	20
Slovenia	20	8.5
Spain	18	8
Sweden	25	25
UK	**20**	**20**
EU average	**20.7**	**15.4**

Some countries have variations for particular items and services, and most countries do not reduce the rate on alcohol with meals

Any chance of such far-sightedness for the UK?

There's no question that the hike in the standard rate to 20% has been painful and has further opened the VAT cost gap between restaurateurs and retail competitors. However, there are still huge hurdles to cross.

With no associated increase in restaurant spending, the loss to the Exchequer would be enormous. This, when considered with the challenge to HMRC's application of the standard rate of VAT to hot takeaway food, might result in any such measure being side-lined until this matter is resolved.

Successive Governments have vigorously defended the UK's right to apply a zero-rate of VAT to many basic foodstuffs. An increase in VAT rate for foodstuffs generally from zero to a positive rate, even 5%, would be a political time-bomb and must be considered highly unlikely.

Any campaign would need to ensure that it included means by which the rate reduction for catering could be achieved without damaging the zero-rate for essentials.

Would the sector actually share in the rate reduction by passing on some or all of the tax saving to consumers? There is little doubt that the sector would be under pressure to share the benefit and not to treat a VAT rate reduction as an opportunity to take more profit, but any cut would only be considered if the Government felt consumers would share in the benefit.

Other solutions

Of course, VAT is not the only tax which impacts directly or indirectly on the sector and it is worth considering whether there is scope to flex other aspects of the tax system as an alternative.

Employment and employee taxes; despite these being based on a largely standard model and rate bands, there are cases where National Insurance, in particular, has been subject to special reliefs to stimulate employment. However, there is no real precedent for an industry sector-based relief and it seems probable that any Government would reject the proposition on the basis that a relief for one sector would give rise to demands for a similar relief from other sectors which feel their cause is equally justified.

However, there is one area where a carefully targeted relief might work and this is in relation to Troncs. Why not a tax relief on Troncs? Clearly, this might not offer the same level of stimulus for the sector as a VAT rate cut, but it's worth consideration.

For most other direct taxation, the scope for relief is limited and, in any event, unlikely to be as far-reaching as the benefit of a VAT rate cut. In certain cases, tax breaks run the risk of breaching EU law by constituting illegal state aid and any Government is going to be extremely cautious in its approach.

If there is going to be any flex in the tax system, the most straightforward approach for the Government would be to look to the VAT system and work within the EU-wide parameters already agreed by the EC Commission. After all, the French did just that!

The restaurant and bar sector has brought about a sea change in the habits of UK consumers with eating out now an established everyday part of how people eat. Surely, it's time for the Government to recognise the growth potential of the sector and unshackle it from the twin VAT burdens of high standard rates and inequity with the retail competition?

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THE ROUTE TO SUCCESSFUL BRAND BUILDING

Nowadays, with so many added choices in the hospitality industry, customers are more critical and sensitive to what they are paying for. In this increasingly competitive sector creating and building a successful brand is fast becoming the most important factor for success. This success in turn leads to improved experiences for your customers, your staff and you.

Brands represent a lifestyle choice and create a whole new identity. Hotel brand experts now aim for loyalty like never before. In today's tough market place it is more critical than ever to build up customer loyalty to your brand.

So what are the things that define a great brand within the hospitality market, how do you build a great brand and why is it so important?

Audience

Firstly you need to know your audience – any messages you send must be prepared and adapted to suit your customer. You must ensure you deliver a clear message which is aligned with your brand vision and make sure it reflects and resonates with everything you say and do.

Quality is a critical ingredient of a good brand. Remember the "core benefits" – the things consumers expect. These must be delivered well and delivered consistently. Statistically, higher quality brands achieve a higher market share and higher profitability than their inferior competitors.

Positioning

Positioning, that is the position a brand occupies in a market in the minds of consumers, is also a key factor in developing a successful brand. Strong brands have a clear, often unique position in their target market. Positioning can be achieved by focusing on all characteristics of the brand, including name, image, service standards, product guarantees, packaging and the way in which it is delivered. In fact, successful positioning usually requires the correct balance of all these things.

Communications also play a key role in building a successful brand. Brand positioning is essentially about customer perceptions – with the objective to build a clearly defined position in the minds of the target audience. Initially, the challenge is to build awareness, then to develop the brand personality and reinforce the perception.

Invest

This leads onto another important factor in brand-building: the need to invest in the brand over the long-term. Building customer awareness, communicating the brand's message and creating customer loyalty takes time. This means that management must "invest" in a brand, perhaps at the expense of short-term profitability.

The hospitality industry is highly intensive and relies on employees to complete sales and provide services to customers. Besides visual production such as food and room setting, many intangible success factors also depend on your employee's ability to deliver.

Guests' satisfaction depends highly on intangible services such as the ambience and service attitude, and these depend greatly on employees' performance. These intangible services make up an important part of a guest experience while visiting the establishment.

Customers use many of these intangible experiences to judge service quality and make a final appraisal of the hospitality organisation.

Presentation

Staff presentation plays a key role in not only communicating the style of service on offer but also offers both wearer and customer an insight in to the brand's culture and identity. Ultimately it supports the confident and consistent communication of a brand through your most valuable assets - your staff.

Your people are your brand ambassadors and this is particularly important in a customer facing environment. First impressions are everything and within a highly competitive global marketplace it's important, now more than ever to stand out for the right reasons. Getting your uniforms right, can offer a business the strength to retain loyal staff who recognise the investment made in their appearance and customers who can fully engage in the brand experience.

Don't forget internal messaging

Finally, management should ensure that the brand is marketed "internally" as well as externally. By this we mean that the whole business should understand the brand values and positioning. This is particularly important in service businesses where a critical part of the brand value is the type and quality of service that a customer receives.

Think of the brands that you value in the restaurant, hotel and retail sectors. It is likely that your favourite brands invest heavily in staff training therefore ensuring all face-to-face contact that you have with the business helps secure your brand loyalty.

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Wi-Fi THE RETAIL WAY

There's no denying that the internet has become an essential part of life both professionally and socially. More people than ever are looking for internet access on the move, whether that's on their laptops, smartphones, tablets or even games consoles. Consumers want, and as a matter of course, have now come to expect, Wi-Fi to be available wherever they are, from coffee shops and hotels to shopping malls and airports.

The power of free

Increasingly consumers believe that as a 'necessary' utility Wi-Fi should be provided in public locations free-of-charge and as a result, across many sectors of the retail market pay-per-use Wi-Fi services are giving way to a free-to-user model. High-street retail giants including McDonalds, Starbucks, Pret a Manger, Pizza Express and JD Wetherspoon all offer a free Wi-Fi service.

But why exactly are retailers prepared to absorb the additional expense of Wi-Fi? Because so many are coming to recognise the power of free Wi-Fi both in terms of providing a service to the customer and for the advantages it holds for the business.

Giving customers what they want

With customers actively seeking out free internet access and many basing their decisions on where to eat, shop and stay on its availability, Wi-Fi is an important consideration for many retail sectors. It can help increase dwell time and spend, increase loyalty and enhance the overall customer experience. However Wi-Fi is not just a tool to attract and retain business – it can enable a better understanding and insight into the customer.

Wi-Fi as a marketing tool

Many retailers are absorbing the additional expense of Wi-Fi and offering it as a free service in return for user information. Customers are asked to provide some basic personal and demographic information on the Wi-Fi 'welcome page'. This data helps retailers to better profile and understand their customers – and is being used as the basis for their marketing and promotional activities.

Some examples of retail sectors where we see this happening include: shopping centres, such as Value Retail's flagship designer outlet centre, Bicester Village; restaurants including Whitbread's chains Beefeater, Brewers Fayre and Table Table; motorway service stations such as Moto; and airports, such as Birmingham and Manchester. All of these are examples of retailers that have transient customers coming in and out of their premises but about whom they have little or no information.

Feel the benefit

Imagine being able to know how many times a customer visits your restaurant, or how long they typically spend in your restaurant. This is the type of intelligence readily available to those retail operators offering a free service in return for customers providing their information. Also, imagine generating thousands of customer email addresses each month, then using that information to develop marketing campaigns, tailoring them based on customer profiles.

In addition to the benefits that data capture functionality can provide, Wi-Fi landing pages can be fully customised to deliver location-based marketing messages and special offers to customers in order to provide that all important personalised retail experience.

Free Wi-Fi has gone mainstream and with consumer appetite only set to continue to grow, the savviest retail operators are embracing it - not just as a way to satisfy a basic requirement but also to better understand and target customers.

Above: An example of a free-to-user Wi-Fi service provided by Value Retail at Bicester Village; in return for providing free Wi-Fi access, customers are asked to complete some basic personal information.

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HEALTH AND OBESITY: A TAXING PROBLEM?

David Cameron is famously a fan of nudging. The prime minister favours the so-called "nudge theory" – using a subliminal carrot rather than a legislative stick – when it comes to encouraging people to do the right thing, such as eating well, exercising and avoiding smoking.

Or so we thought.

Despite being a self-professed follower of the famous theory defined by Richard Thaler and Cass Sunstein, Cameron and the coalition are said to be considering a different tack when it comes to reining in Britain's consumptions of salt, sugar and saturated fat.

England's number one has suggested that the Government may have no option but to impose legislation that serves to clamp down on the more unsavoury aspects of our national diet, as nudging may not be enough to get the job done against ever-rising UK obesity figures, which some experts are calling an epidemic, and at a time when many of our Western neighbours in Europe are looking at similar so-called "fat taxes".

Cameron may have been thinking out loud – and he does have form for shooting from the lip – but latest figures suggest more than 60% of adults in Britain are now overweight or obese, and 28% of children between the ages of two and 10 are overweight or obese. The Health Survey for England – drawing on data from 2009 – suggests that if current trends continue, as much as 60% of the population will be "morbidly obese" by 2050.

Obesity is not just a UK problem. In the past 30 years rising living standards, an ever progressive and systemised food chain plus the partial switch of our economy to service industries (too many of us now sit at desks for a living) across the Western world has also been accompanied by expanding waistlines – we have all literally got fat off the land. Establishing what needs to be done in terms of public policy is something to which all Western Governments seem to be devoting considerable time.

Denmark has become the first Western European country to introduce an out-and-out fat tax. It has imposed a levy of 16 kroner – about £1.90 – per kg (2.2lb) of saturated fat in food products. This will add about 26p to the price of a small packet of butter and about 10p to the price of a burger. At the same time, many other developed countries are readying their own legislation. Hungary has already introduced levies on foods high in calories and low nutrients, while other countries including Australia, Finland, Holland and New Zealand reportedly plan to follow suit. France is set to go the way of some American states in introducing a tax on sugar-heavy carbonated soft drinks.

In the wake of these steps, Cameron has said it might be time that Britain does likewise.

Certainly if there is a link between nutritional awareness and consumption – which seems a reasonable assumption – there does appear a problem. A poll of 3,000 people carried out by Fourth Hospitality has unearthed some rather startling findings, such as the fact that 56% of those polled said that pizza was healthy if it was topped with certain vegetables or fruits (tomato, spinach, peppers, rocket, pineapple). More than 20% of those surveyed thought ham, egg and chips was 'fairly healthy', and over 20% thought that pizza was 'fairly healthy' – regardless of toppings. A third thought sausage and mash was healthy.

What is clear from the research is that while a good proportion of the population were well-enough equipped to answer what were fairly basic questions – albeit with a few anomalies such as the pizza topping poser – a surprisingly high proportion of what was a robust sample demonstrated a real lack of knowledge over what is good for us to eat and what is not. Broadly speaking two-thirds to three-quarters could answer fairly accurately and the rest could not.

At the same time two-thirds of those polled said that restaurants and eating-out groups had their part to play by providing diners with nutritional information.

While the UK's biggest restaurant group McDonald's has followed others such as Harvester, Pizza Hut and YO! Sushi in pressing ahead with calorie disclosure, it is clear that many restaurateurs and multiple-site operators understandably hate the idea of calorie disclosure, especially on menus. A trip to a full-service or casual-dining restaurant is not like buying weekly groceries and for many remains a treat, one that could be diminished or sullied by an overt reminder of how many calories a favoured dish contains. It is not something that many operators believe their customers want.

However, for fast-food companies like McDonald's, which has higher visitor frequency and is more akin to a 'refuel' purchase, there is perhaps a more valid argument on the need for nutritional information. Certainly the fast food sector is seen as a target for the health lobby amid suggestions that the effects of obesity cost the NHS £21.5bn per year. The Royal College of Paediatrics and Child Health says that the consumption of unhealthy food should be placed on a par with smoking and binge drinking in terms of its impact on long-term health. Local authorities are also entering the fray – against the backdrop of a significant local obesity challenge, Oldham is contemplating a fat tax on its 250 takeaway outlets.

With more consumers seemingly calling for nutritional information and both local and central Government paying increasing attention to the nation's waistline, it seems the pressure may increase on food companies to provide both nutritional information and healthier options.

Insights from calorie disclosure on menus in New York and here in the UK suggest that calorie disclosure does impact people's behaviour around the margins – but not as much as perhaps expected – or as much as consumers suggest. In a six-month test at the 181-strong Harvester chain, diners on average purchased dishes with 25 fewer calories.

Any legislative moves to combat health issues and obesity would certainly mark a departure from the coalition's current approach which is based on partnership between public, private and voluntary organisations – and the absences of legislation – as illustrated by the wide-reaching "Responsibility Deal". But what we eat, what we burn off and how the shape of future public health policy impacts the eating-out market is clearly one of the big issues of the day, and one that is growing in importance.

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PUTTING THE WORLD TO RIGHTS: HEALTHY EATING

The founders of two healthy eating chains - Abokado and Tossed - outline how they developed their concepts, what it takes to make a success and where they see the sector heading.

MARK LILLEY Abokado **ML**

VINCENT MCKEVITT Tossed **VM**

The healthy eating sector is emerging as one of the fastest growing categories across restaurant and bars. This burgeoning market has seen a whole host of new concepts established recently on the back of increased demand for healthier fast food alternatives to burgers, pizzas and chips. What's more, with the Government now actively encouraging operators to tackle obesity as noted earlier in this report, interest in healthy eating has never been higher.

Private equity firms in particular have latched onto these trends and have made a number of early stage investments. There has even been talk that the sector looks comparable to how the coffee shop market appeared in the early 1990s.

However, so far operators have largely failed to test concepts outside London. It still remains to be seen if consumers in places like Manchester and Birmingham, let alone Rotherham and Walsall, will show the same level of enthusiastic for healthy wraps and salads as their southern counterparts.

Two operators who are at the forefront of developments are sushi and wrap purveyor Abokado, and healthy salad, soup and stews chain Tossed. We caught-up with the founders of both companies.

How did you come-up with the idea for your concept?

ML: I was inspired by a trip to Australia in 2003. At that time there was very little reasonably priced fresh healthy fast food in this country. My wife and I developed the concept and opened the first store in Covent Garden in 2004.

The business has subsequently grown steadily. We now have nine stores. Over this period demand for healthy food has grown considerably, and we are fortunately riding this wave.

Our food is all made fresh each morning, which is the key to our success. Its sushi, salads, soups and wraps, as well as organic coffee, tea and hot chocolate.

VM: After graduating from university in 2004, I visited America where the healthy eating market is a lot more developed than here. I saw lots of different concepts, including lots of salad bars and the whole made to order salad concept.

I wanted to do a complete healthy eating offering as opposed to just salads. So I took the best bits of healthy eating; wraps, smoothies, soups, stews and pulled it all together under one roof.

We opened our first store in Paddington in April 2005, and we now have eight stores. The latest one opened in Stratford Westfield in September.

In the last five years there has been a wave of healthy eating concepts established. Do you think there is enough room everyone?

ML: Across our core market, which is professional and semi-professional London-based office workers, I think we are going to see continued growth, with healthy eating remaining a primary concern. In many respects we have barely scratched the surface.

Outside London it is quite different and you only have to read the reports on obesity to see the way the market in general is heading. I think there will be a polarisation.

VM: I would say there are not that many healthy eating concepts as such at the moment. There are a lot more fresh natural things going on, with people using healthy on their straplines, but there is still huge scope for growth.

Generally, people are becoming more health conscious. Sitting in offices all day people realise they are not getting enough exercise. They appreciate eating fat stuff is bad and want a healthy eating option.

London is obviously different from the rest of the UK. But offering good quality common sense food – good carbs, good themed protein, lots of fruit and veg – is something everyone understands. What we offer is no nonsense, simple common sense healthy eating, which I think would work outside London as it's easy to understand.

PUTTING THE WORLD TO RIGHTS: HEALTHY EATING

There is a view amongst consumers that healthy eating is more expensive. In your experience, how price sensitive are consumers?

ML: I think there is a perception that to eat healthily you have to spend a bit more, and on the whole I think that is probably fair. We can't compete with the likes of McDonalds on price. But I believe we are one of the few operators in the sector that offers a realistic alternative in terms of value. Our price points start at £1.39 for a Shwrap™, which was specifically designed as an alternative to the 99p burger.

We see a lot of people in our sector getting quite greedy on price to the point where prices have been pushed up so far that you have to spend £6-7 at lunchtime. We have always resisted this. Customers can and do spend that amount with us, but I think we have demonstrated that you can offer genuine healthy food that won't break the bank.

VM: It varies between sites. In the shopping centres you get more weekend customers who are prepared to pay a bit more than the weekday trade. With healthy food you are never going to have an 80% margin business like a pizza place.

Generally, customers are prepared to pay a little more for extra quality if you still offer great value.

How do you promote your business?

ML: Our marketing approach is simple. We produce fantastic quality food backed up by great service and rely on word of mouth for advertising. It may be boring and not very sophisticated but it is really effective. We have a 98% recommendation rate.

We also have a zero marketing budget and have never spent a penny on advertising. I doubt we ever will. Our complete focus is on making the customer experience the best it can.

VM: In terms of marketing, we don't like doing that many offers. We don't have big initial margins to work with in the first place. I guess from a customer point of view they are already getting a great offer from our core products. The real danger with discount vouchers in particular is that customers end up thinking they are getting over charged in the first place.

Do you support moves to get the sector to list calorie information?

ML: I think it is a great idea. It is the right thing to do. Consumers should have access to this type of information. Of course it does benefit us as we have nothing to hide. We have been doing it for years.

Overall, I am not sure it will help consumers as you are assuming they will understand all the information. There also needs to be a bigger education programme outlining the benefits of healthy eating.

VM: We have been putting information on the menus from day one. Should everyone do it across the whole sector, no, but I think the fast casual guys have a real duty to do it. By their very nature people eat in them more frequently.

You also have some brands that try to pull the wool over people's eyes. They masquerade as healthy by using natural terms like free range, but in reality they are not especially healthy at all. You have quite a few brands doing this, which is just confusing people.

Finally, in the next five years where do you see yourself positioned, and where do you think the sector is heading?

ML: I see the sector growing due to greater awareness of healthy eating amongst a more sophisticated or educated type of customer. More operators will appear, but ultimately I see 3-4 key brands dominating.

Our own plans involve opening six stores this financial year to March, which will double the number we had at the start of the year and take us to 12 shops. So far we have opened three, with another three under offer so we are well placed to achieve this. Next year we plan to add at least another six.

Finding sites is a problem but we are seeing that some good retail sites are becoming available. We recently took on a former phone shop after a high street fashion chain pulled out. If that trend continues it is great news for us.

VM: We want to become the number one healthy eating brand in this country. In terms of number of sites - I would think somewhere near 100, about the same size as Eat.

In terms of the healthy eating sector as a whole, I think it will still be niche in five years, but maybe a little more transparent. People are becoming more concerned about what they eat and I can only see that trend accelerating. In this respect we are moving more and more towards America but with some much stronger offerings.

TEN PREDICTIONS FOR 2012

Finally, as we prepare to enter the New Year, our thoughts are turning to the challenges and opportunities that lie ahead. So here goes with some of our ball-gazing thoughts!

1. Tough backdrop but no disaster: although the economic backdrop does not give grounds for confidence, with the sector as a whole unlikely to grow much next year, some pockets of growth will still occur. Eating-out is still fundamentally a growth market, while there are tentative signs that the pub sector is bottoming-out.

2. Major operators become more dominant: smaller unbranded operators will continue to disappear as consumers increasingly migrate towards brands that can deliver consistent value.

3. Food costs: the cost of basic food commodities will fall, but prices are likely to remain volatile.

4. Pub self-regulation: with the Government seemingly ruling-out formal intervention into the pub sector, expect to see further heated arguments as the details of how the new self-regulatory regime get hammered out.

5. Healthy eating: general health issues are likely to remain high-profile with calorie and alcohol menu information becoming the overwhelming norm. Some progress will be made towards minimum alcohol pricing.

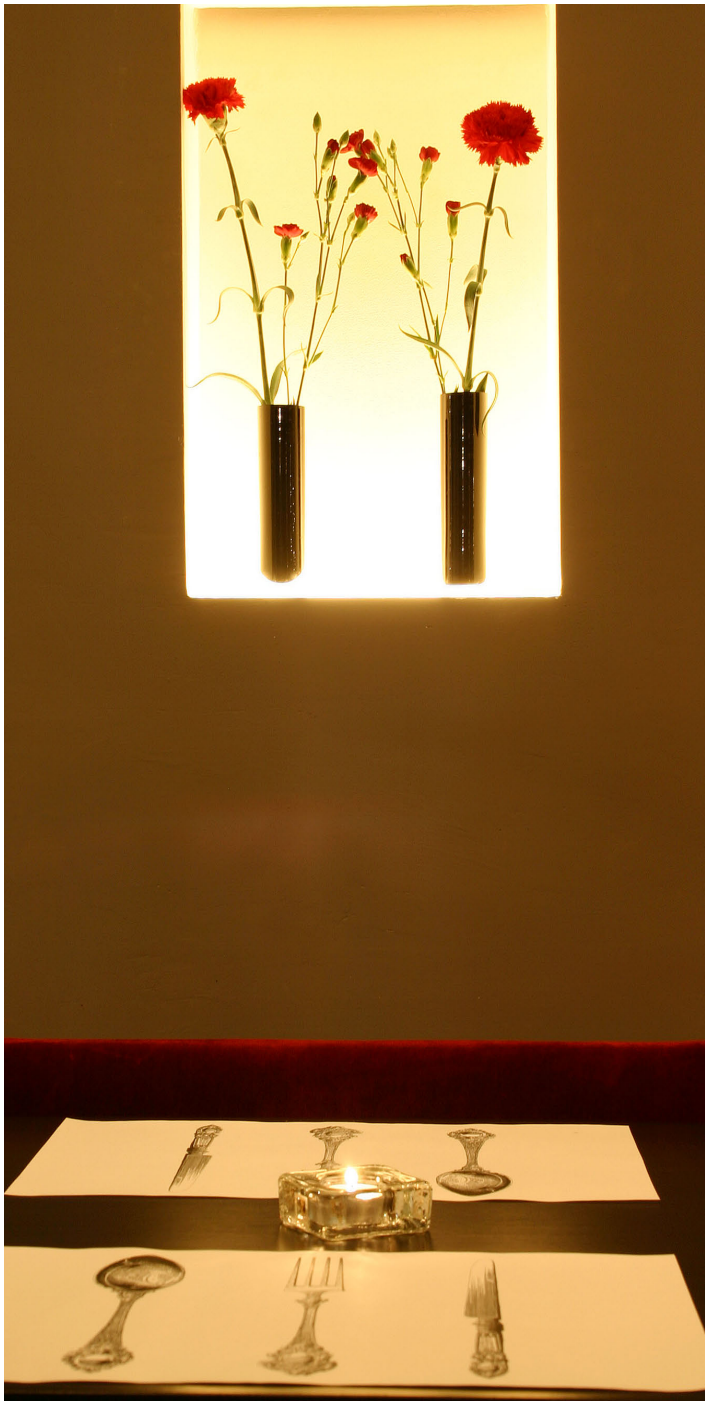
6. Bank led corporate activity: there will be a slow filtering through of M&A activity with banks looking to offload assets acquired during the downturn and realise value, given the weak economic forecasts. The pub sector in particular looks ripe for activity.

7. Brand partnerships: expect to see more tie-ups between brands with the boundaries between retail and restaurants becoming more blurred. In-store food and coffee shops will be used even more by retailers, while casual dining brands will try to place more product lines into supermarkets.

8. Property opportunities: landlords will increasingly offer space to operators in preference to retailers. The use of pop-up and mobile units will rise.

9. Target promotions: targeted promotions via mobile technology will become the most potent sector marketing tool.

10. Olympics: the Olympics will dominate the year. Outside of key London locations trade may well fall during the Games. However, also expect some general halo feel good factor benefit.



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