



RESTAURANTS AND BARS REPORT

A FOCUS ON THE FUTURE | JANUARY 2017

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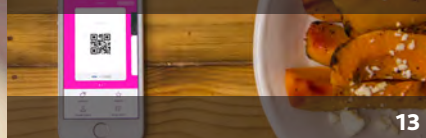
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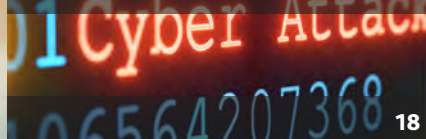
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INTRODUCTION

Welcome to the January 2017 edition of BDO's restaurants and bars report.

As we enter 2017 we can reflect on a year past of political upheaval and increasingly challenging trading conditions albeit with a much needed positive end to the year.

Unfortunately, the year ahead promises cost pressures right through the P&L as well as operational challenges with regard the availability of people. There is little doubt that 2017 will be a difficult year to navigate, but that will present opportunities to those with flexibility and rigour in their operations and finances. One of the key areas that can provide an opportunity for progress is technology and it is on that area we have chosen to focus for this edition.

We begin the report with our usual economic update, outlining how consumer confidence and trading conditions have been affected by inflationary pressures, real wage increases, market factors and, of course, technology and looking ahead into what 2017 might bring about.

We then take a closer look at the deal activity in the year past and what that might indicate for the year ahead with a summary provided by BDO's M&A team.

With the growing utilisation of mobile as a means to channel, sell and to drive loyalty in the industry, Michael Rolph CEO at mobile

payment company Yoyo Wallet talks to BDO about the opportunities for operators to invest in this technology and where the industry might go next.

Mobile technology and online payment offer a number of opportunities for the sector, and property firm Fleurets provide an overview of how contactless payment and the introduction of competition from companies such as Uber East and Deliveroo is changing the face of restaurants and bars on the high street.

We can't consider the opportunities through technology without considering the risks and BDO technology specialist, Steve Rumble discusses the pitfalls to be aware of and what the board agenda should look like with regard cyber threats. We also have an article on the apprenticeship levy and the issues to think about ahead of its introduction in April.

We conclude by predicting the key market trends for 2017.

We hope you find this edition an insightful read, and as always would love to hear your views. We wish you all a very prosperous 2017.

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THE TRADING ENVIRONMENT: ECONOMIC OVERVIEW

SLOWER, STEADY GROWTH PREVAILS

UK economic growth has slowed in the last year. Yet as manufacturing and construction have struggled at times, services have gone from strength-to-strength such that GDP growth has been steady in 2016. In the three months following the EU referendum the economy expanded by 0.5%, better than the 0.3% that some analysts were predicting.

In the July-to-September period the services sector grew by 0.8%, while construction contracted by 1.4% and industrial production fell 0.4%, with manufacturing output down 1%. However, construction, manufacturing and the services sector all reported positive growth at the end of 2016. However the strength of the post-referendum economy has come as a surprise - albeit a pleasant one - to economists, the Treasury, Philip Hammond and Theresa May. While the present chancellor abandons George Osborne's deficit targets and prepares to navigate the huge uncertainties that lie ahead, he will be conscious of the fact that it is only a matter of time until people realise their wages are not growing as fast as prices, and some companies inevitably rein in investment, while tax revenues have been lower than expected.

Expectations are that the government will chart a course of limited fiscal stimulus. It is committed to spending on infrastructure projects in an attempt to "future-proof" the economy over Brexit, perhaps to the tune of £15 billion, with pension fund-backed investments, ready-to-go road and rail projects and cyber security likely to feature.

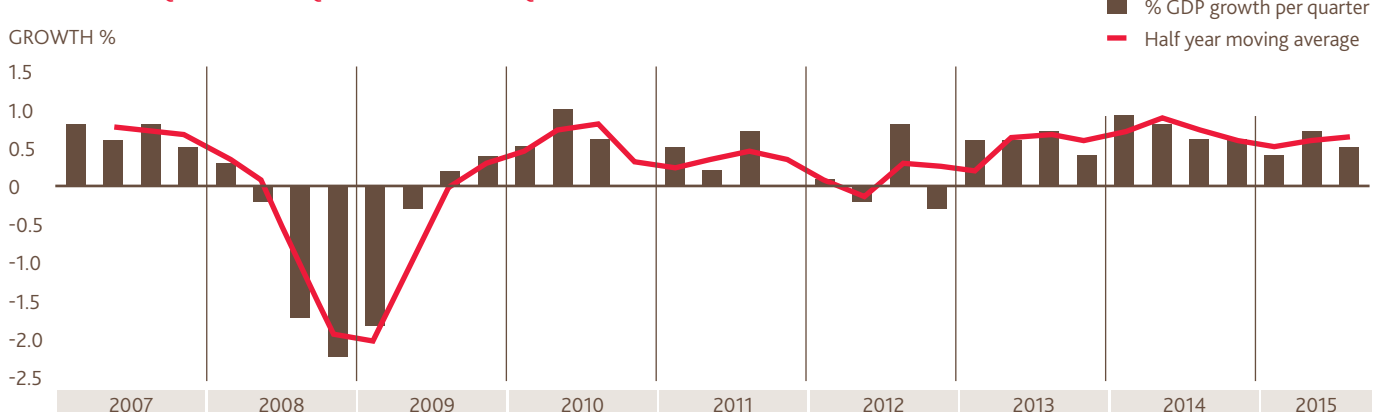
A key objective for the chancellor as he sets the budget for the nation will be to ensure that he has sufficient reserves to inject emergency stimulus should the encouraging growth seen since the referendum retract. Careful budgeting, ongoing fiscal discipline and investment in infrastructure that will aid growth, will be critical as the Government aims to boost productivity.

"Uncertainty" is the watchword heard from the Treasury in determining how economic conditions will unfold in 2017. The objective for Mr Hammond's Autumn Statement was to prepare for the worst. As parliament debates the manner of triggering Article 50, a hard Brexit would have significantly different effects on the UK economy than a deal for certain industries to stay in the single market and customs union, such as automotive and financial services. While

the UK has retained its triple A rating, credit ratings agency Moody's has said that failure to secure a good trade deal with the EU could lead to a ratings downgrade for the UK. Meanwhile the victory of Donald Trump in the US Presidential Election may prove to be good for the UK if Trump holds true on his indication that he would fast track a trade deal between the US and the UK. However, Trump's election would have less positive ramifications for the UK if he carries out some or all of his campaign threats to global free trade. A great deal of uncertainty still remains.

Doomsday warnings about the immediate effects of Brexit have now proved to be inaccurate. Initial indicators suggest that the UK economy made a strong start to the fourth quarter as the services sector activity rose at the fastest rate since January. The Markit/CIPS services purchasing managers' index (PMI) rose to 54.5 in October, from 52.6 in September. The result was well above the 50 level that divides growth from contraction and higher than economists' estimates of a fall to 52.4. As manufacturing and construction appeared to be picking up, the economy started the fourth quarter growing at a pace of 0.4%.

GDP GROWTH QUARTER-ON-QUARTER 2007-2015 Q3



SOURCE: ONS



In November the Confederation of British Industry (CBI) announced that it expects the UK economy to expand by 1.3% in 2017, down from growth of 2% that the business lobby group forecast in May. The CBI cited higher inflation and weak business investment in the wake of the UK's Brexit vote as factors contributing to the downward revision. However, also in November, the Bank of England held interest rates at 0.25%, ruled out any future rate cuts in the short term, and significantly revised up its predictions for growth to 2.2% in 2016, and 1.4% for 2017. Despite the potential embarrassment at the U-turn, many have had to revise their understanding in light of such uncertain times. Nissan for example was one of the firms that spoke out against a UK departure from the EU, but following the flurry of positive post-Brexit economic indicators, it has announced significant further investment into the UK.

CONSUMER SPENDING POWER AND THE SPECTER OF INFLATION

Consumer spending has continued to be a crucial element for driving the UK economy. That is all well and good providing that it is not fuelled by savings or increasing levels of debt taken on while interest rates are low. According to the Bank of England, credit card lending rose by £500 million, at an annual growth rate to 8.4% in September, while other loans and advances to households rose by £900 million. As inflation continues to rise off the back of the depreciating pound, the risk of a false economy of spending increases.

Data from the Office of National Statistics (ONS) suggests that retail spending has grown significantly since the financial crisis, due to inflation and low interest rates. However, the difference in growth between in-store sales and online sales is significant.

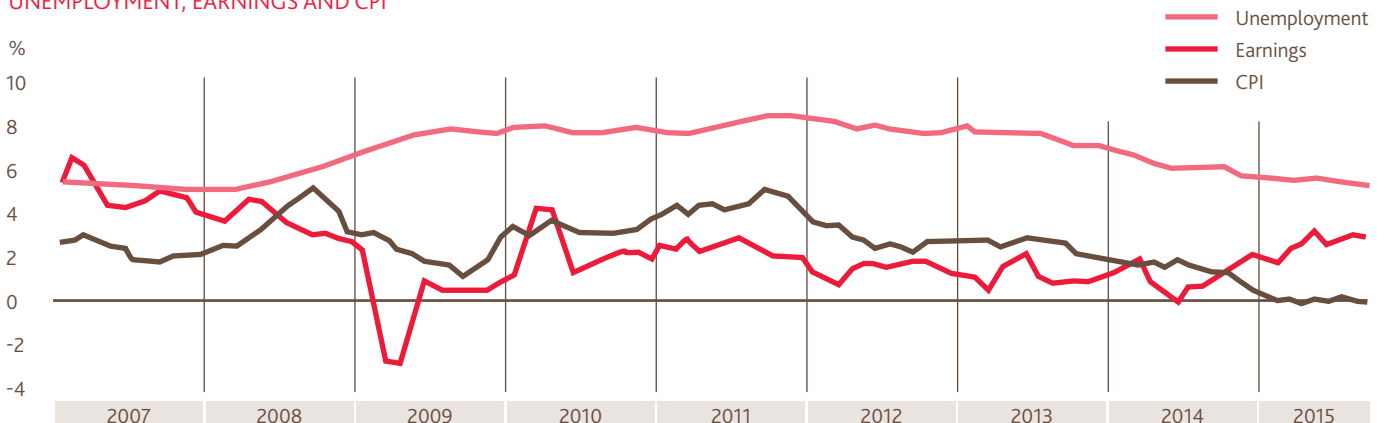
Figures published in the BDO High Street Sales Tracker - our measure of sales on the high street from leading retailers - show that only January and October yielded total in-store like-for-like sales growth in 2016.

However, the October uplift of 0.7% was notable, coming after the EU referendum result and indicating that consumers are still spending in-store despite the uncertainties that lie ahead next year.

Meanwhile average online retail LFL growth for 2016 was at a healthy 18.4%.

With October and November seeing a strong start to the crucial fourth quarter, Christmas sales were disappointing with December falling into the negative and purchasing power is likely to be hit further next year when prices inevitably rise.

UNEMPLOYMENT, EARNINGS AND CPI



SOURCE: ONS

THE TRADING ENVIRONMENT: ECONOMIC OVERVIEW

The spending spree is essential for retailers whose margins have been hit in a competitive climate of discounting ahead of inflationary pressures for those who were slow to hedge against a falling pound.

Mortgage lending has remained well below levels seen before the financial crash. However, according to the Bank of England, mortgage lending also picked up in September, with the number of mortgage approvals reaching 62,932, up from 60,984 in August and higher than the 61,500 City analysts had been expecting. The short term consumer confidence in personal finances is warranted.

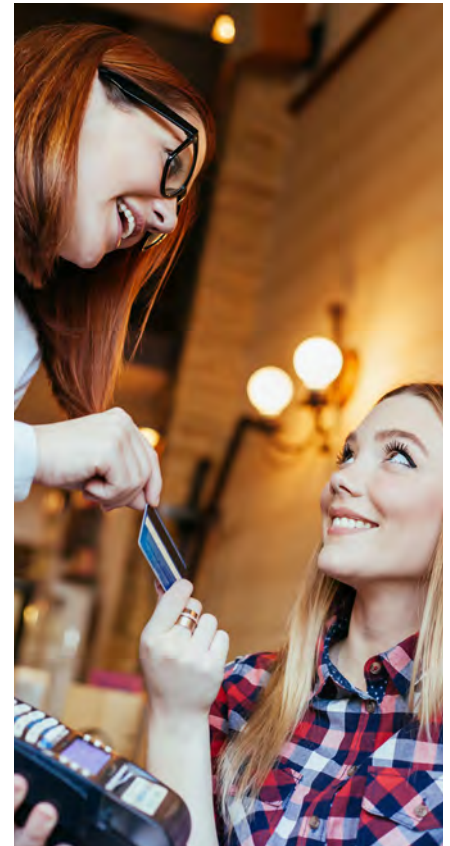
The falling rate of unemployment in the last year, initially spurred by part-time workers and the self-employed, developed into a fully-fledged success story when it included full time workers. In the summer, a report from the Department of Work and Pensions (DWP) suggested that the average income before housing costs has reached a historic high of £473 per week.

While wages tanked following the financial crisis, they have continued to recover, if slowly.

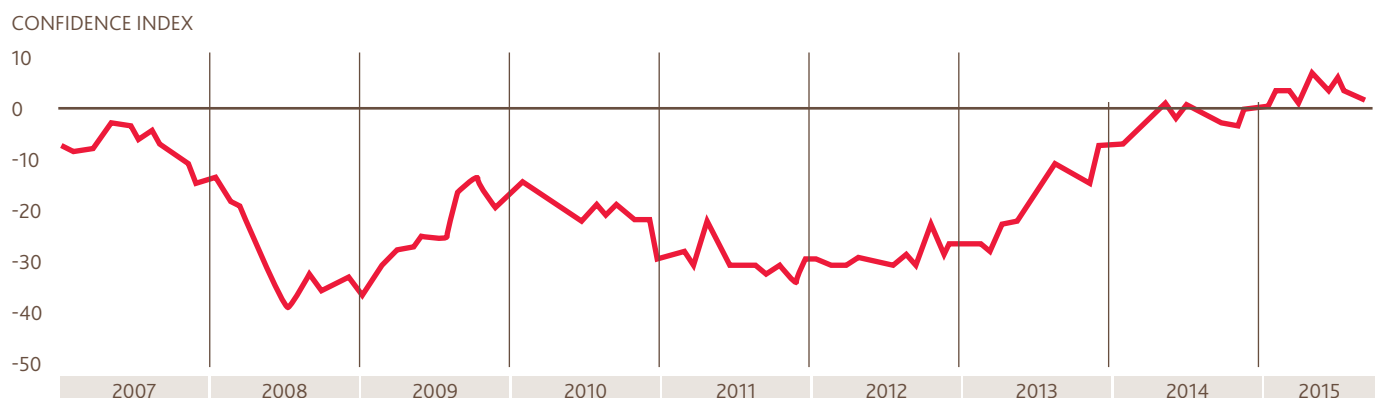
However, as the rate of falling unemployment begins to slow, a key threat to economic stability is inflation. Having trended at relatively low levels since the financial crisis, largely fuelled by a strong pound, competition between large supermarkets and tumbling oil prices, it is little wonder that consumers found their mojo through this period.

However, inflation has been marching north throughout 2016. The Consumer Price Index (CPI) ran at 0.6% in both July and August, rising to 1% in September, the highest since November 2014, when it was also 1%. The main upward contributors to change in the rate were rising prices for clothing, overnight hotel stays and motor fuels, and prices for gas, which were unchanged, having fallen a year ago.

In November the Bank of England raised its inflation forecast for 2017 to 2.7%, almost triple its rate in September, while the CBI has predicted a rise of 2.4%. As the pound falls and prices rise, the threat emerges that hiring will fall and consumer spending will be curbed as corporates tighten their belts and households see the value of their pay diminish as imports become more expensive.



CONSUMER CONFIDENCE 2007 - 2015 YTD



SOURCE: GFK CONSUMER CONFIDENCE INDEX



CONSUMER CONFIDENCE

All the time wages have grown, employment has been rising and inflation remained low, consumers have been confident about personal finances and have been content to spend. Yet spending habits have been changing, with the continued growth of non-store sales and consumer contentment to spend on homeware and lifestyle items, but a fickle approach to fashion. While high end fashion retailers continue to perform well in-store, some of the mass appeal brands have suffered significant losses in a year where big names have gone to the wall.

While a recent study from Barclays suggested that 64% of consumers still prefer to spend in a physical store, 83% were intending to shop online at an internet only retailer in the next year. Shoppers also have a strong appetite to see better technology on the high street, with 57% reporting that they would be more likely to visit stores kitted out with "smart" fitting rooms or virtual reality.

Two-thirds said they wanted to see more touchscreen technology, and it is only a matter of time before contactless card and mobile payments become the expected norm.

Those retailers and leisure operators who correctly attune their products, services and customer experience will reap the most significant rewards.

However, the high street has been robustly challenged in the last year by the behemoth supermarkets offering palatable fashion lines and cutting into the market share of traditional fashion retailers. Equally, an appetite to forgo spending in shops in favour of spending on leisure activities has courted the attention of the pound in the pocket.

Yet regardless of healthy spending levels and where the consumer is focussing spend, overall confidence has remained reserved. After starting the year with confidence up by +4, confidence remained flat at +0 for February and March according to the GfK consumer confidence index.

Since April the index has remained in the negative as the EU referendum hove into view, crashing to -12 in July. However, since then overall confidence levels have somewhat recovered, posting -1 in September, a return to the pre-election levels and dropping to -3 in October as consumers keep an eye on the unfolding effects of Brexit. The sense is that the immediate fallout from the Brexit vote has been less radical in effect than many expected or predicted, despite the falling pound. Yet as inflation bites, wages potentially begin to shrink, and further possible repercussions via the election of Donald Trump, consumer confidence may well begin to wane. While the effects of this may not be felt at the end of 2016, it is likely to bite in 2017 as prices rise, with the inevitable pinch impacting consumer confidence.

Short term business confidence has somewhat reflected consumer confidence in personal finances in recent times.

A recent survey by Lloyds Bank indicated that business optimism had risen to a new high of 13 points in October.

THE TRADING ENVIRONMENT: BUSINESS CONFIDENCE

The survey suggested that a net balance of 37% of UK firms expected business prospects to improve. The result was the strongest seen since the EU referendum.

With a low pound boosting export potential and lending to small businesses rising at its fastest rate since 2012 in September, SMEs have reason to be optimistic.

Data from the Bank of England showed that credit for SMEs showed signs of picking up in September, rising by £842 million, a 2.1% increase compared with the same month last year and the fastest pace of growth in at least four years.

However, businesses are acutely aware that while the short term ramifications of Brexit have been manageable to-date, the outlook is creating nervousness and even pessimism for some.

The latest Global Business Monitor for Bibby Financial Services shows confidence dipped slightly among UK SMEs after the vote to leave the EU. Bibby found that smaller companies in the UK were caught in a "pincer movement" by cash-flow concerns and rising costs, causing nervousness about growth prospects. Research by NGA Human Resources and Moorepay suggested that pessimism was split between more optimistic larger companies and SMEs who overall were more pessimistic.

The results suggested that 56% of large businesses expected the vote to leave to have a positive impact on them, compared with 35% of small firms. A quarter of SMEs believe that the economic situation will worsen after the UK leaves the EU, while 79% of large companies say they are ready to embrace the opportunities presented by Brexit. At least to this point, a question of scale does appear to be impacting sentiment. However, it is still early days and the survey data is mixed. According to a survey by Opinium, SMEs are more optimistic than before the EU referendum.

Only 18% believe there will be a recession, compared to 28% when questioned in May.

While some surveys suggest that there is uncertainty, there is no questioning the resolve of SMEs to embrace the opportunities that Brexit will bring, and also how far Government will need to go to ensure that it is playing its role in supporting a section of the business community that is forecast to grow its contribution to the economy by 11% from 2015 to 2020 - with SMEs currently contributing £196 billion.

According to a study by Hampshire Trust Bank and the Centre for Economics and Business Research (CEBR), SMEs across the top 10 UK cities are forecast to contribute £217bn to the UK economy by 2020.

Ensuring vibrant trading conditions for that community will be a key metric for measuring the success of Government economic policy.

TRADING CONDITIONS

While the economic picture of the future remains dependent on a range of factors yet to unfold, one certainty is the consistent growth of the restaurant and bars sector.

The growth has not been seamless, with April and May both retracting into the negative in terms of like-for-like sales, but to September the average LFL rise for 2016 has been 0.5%, with September itself posting a Brexit defying LFL rise of 1.8%, and total sales of 5% as compared to September 2015.

The results are impressive, particularly as the Rugby World Cup was kicking off in September last year, giving pubs a considerable boost.

Unseasonably warm weather through September and October, while hurting sales of winter fashion lines, has boosted pub and restaurant sales and the UK consumer has shown no sign since the EU referendum of curbing spending in pubs and restaurants.



While the pound remains weak, foreign tourists, such as those from China taking advantage of "Golden Week", have helped to boost sales, particularly in the capital. The fall of the pound has meant that a visit to the UK from China is 20% less expensive now than before the Brexit vote.

However, the strength and depth of the September sales growth is highlighted by the fact that they showed a bigger increase outside of the M25, where LFL sales were up 2.2% compared to a 0.9% rise in London.

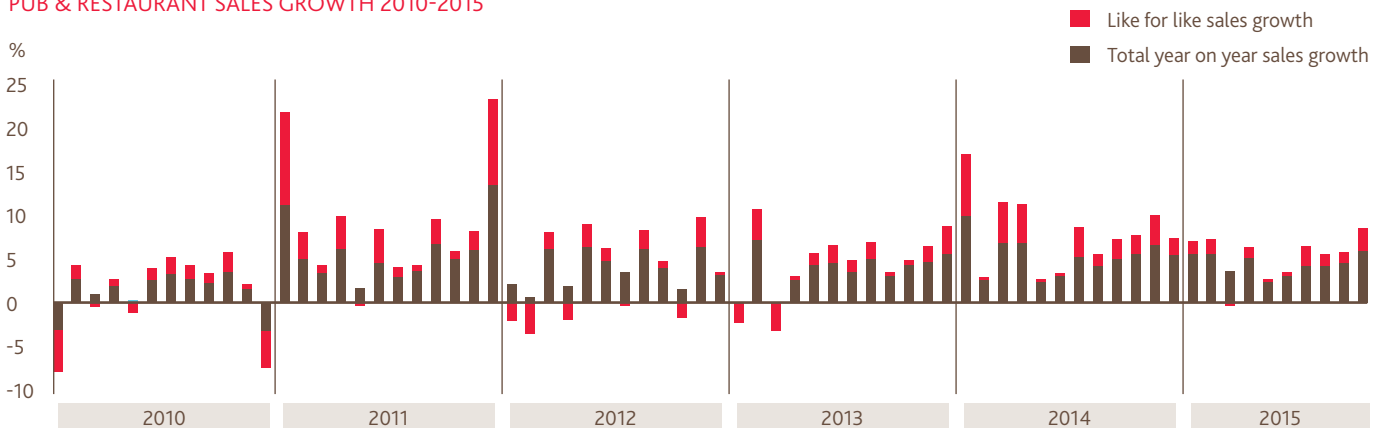
However, the broader context also reveals a raft of ongoing challenges for the industry. Pubs and bars face stronger competition than ever from supermarkets as well as cheaper restaurant brands, falling alcohol consumption, regulatory red tape, the introduction of the National Living Wage in April, rent rate, beer duty and operational cost challenges. The whole sector faces challenges across the P&L in terms of national living wage increases, rent increases, supplier price hikes and a softening at the top line.

While pubs and bars have long been diversifying their product ranges, particularly with a shift to offering more food options, competition has intensified. Market share remains low with the four largest pub and bar companies having a combined market share of 26.7% in 2016-17.

Whilst the sector have experienced a reduction in the volume of sales, the value of sales has risen through the introduction of craft beer and speciality drinks; particularly gin.



PUB & RESTAURANT SALES GROWTH 2010-2015



SOURCE: COFFER PEACH BUSINESS TRACKER

THE TRADING ENVIRONMENT: ECONOMIC OVERVIEW



In 2016 it has been private equity that has fuelled much of the consolidation and acquisitions of pubs, bars and restaurants. In January Equistone Partners Europe picked up a majority stake in Gaucho Grill Limited; in June the management of pub operator, New World Trading Company, acquired the company in a management buyout backed by Graphite Capital Management LLP; in July Penta Capital acquired a majority stake in Seafood Pub Company Limited; LDC Managers picked up salad and soup bar chain, Vital Ingredient; Hawthorn Leisure, backed by Avenue Capital Group acquired 11 pubs from JD Wetherspoon, including The Picture Palace, Enfield, and The Auctioneer, Blackpool; meanwhile in September Kings Park Capital gobbled up 7Bone Burger Co.

While private equity has always had an appetite for the strong cash flows of pubs and restaurants as a means of paying down the interest on loans used to leverage out the businesses, corporate consolidation has also been evident in 2016.

For example, famous Brands of South Africa snapped up Gourmet Burger Kitchen Limited in September, and Giraffe Concepts Limited devoured Ed's Easy Diner Limited in October. As consolidation in the pubs and restaurants sector has slowed to October 2016 (as compared to last year), the overwhelming number of bars and pubs operating in the sector are small, with an estimated 70.3% of businesses employing fewer than 10 staff.

However this group continues to diminish as many have been hit by rising costs, increased regulations and changes in drinking habits. The rising demand for craft beers has allowed (particularly wet-led) pubs and bars to claw back some of the encroachment from the supermarkets, a trend that particularly favors pubs not linked to a brewer, in that they are able to offer a very broad range of beers. Such diversification has also seen a wider range of ciders and improved wine selections forming part of the offering.

While the longer term effects of the EU referendum may well dent consumer confidence and spending power, a departure from the EU would also serve to cut much of the red tape from Brussels that the industry is subject to.

As a very well established industry, the next year will clarify how far consumer spend in pubs, bars and restaurants is hard wired into the UK cultural DNA, having outperformed retail in 2016.



A DYNAMIC ENVIRONMENT

The restaurants and bars industry has long been viewed as slow to the party when it comes to technology. However, the expectations that customers have for technology to be a part of the experience, long before they even enter an establishment, means that technology is no longer just a nice to have.

Recent studies have shown that venues are investing more in this area. To-date, investment has chiefly targeted CRM, loyalty, mobile apps and digital ordering. However, despite a step-up in technological innovation, obstacles such as managing legacy systems, justifying ROI, a lack of IT budget and qualified staff and of speed in delivering projects have hampered the advances. The industry still needs to invest further in technology and qualified personnel if it is to reap the future benefits of cloud-based, customer-focused technologies.

While the naysayers are correct that sophisticated technology alone isn't a guarantee of success, it can be the key difference in creating loyalty and reaching out to a world where client engagement may begin while people are still sitting on their couch at home.

The national living wage came into force in April 2016 putting pressure on restaurant and bar businesses who previously paid the majority of staff the National Minimum Wage (NMW).

According to a poll conducted by the Association of Licensed Multiple Retailers (ALMR), the legislation has already increased wage costs and dented profits.

At a time when Brexit means that the industry is sailing into uncharted territory, with the prospect of the cost of imported goods set to rise significantly against competition from the buying power of the supermarkets, the industry is also looking at additional costs in the form of a second increase in the National Minimum Wage, an additional 6% rise in the National Living Wage, the Apprenticeship Levy and an increase in business rates.

Inevitably some of this pressure will be passed on to the consumer, with companies such as Whitbread (owner of Costa and Premier Inn) and Mitchells & Butlers (which owns All Bar One, Browns and Harvester) suggesting that they will raise prices and aim to increase consumer spending via tactical price opportunities.

While the industry as a whole has continued to enjoy positive LFL status and a better than expected run since the EU referendum vote, the consumer confidence that has fuelled that climate is fragile and the spending pattern is not consistent across operators.

Despite the inevitable pressures and uncertainties that the industry faces over the year ahead, it has performed well.

In other words, despite the external pressures, it has been the sustained and robust appetite of UK consumers to spend their disposable income on leisure and hospitality that has helped to maintain that momentum.

It will become increasingly important that operators maintain a diverse product offering, manage strategic pricing with dexterity, manage staff rotas efficiently to maximise profit at busy times, and ensure that they are not left behind as the industry increasingly embraces the opportunities offered by technology.

LIGHT BITES:



GROWTH PREVAILS

to the surprise of economists, in the three months post-referendum the economy grew by **0.6%** - double what was predicted.



CONSUMER CONFIDENCE IS STRONG

37% of businesses expect prospects to improve in 2017, a post Brexit high



CHALLENGES EXIST IN 2017

Outside of Brexit uncertainty are Rent reviews, the National Living Wage and competition from supermarkets and budget brands

M&A DEAL ACTIVITY

THE YEAR IN REVIEW

2016 has been an eventful year in the Restaurant and Bars sector. Despite some strong headwinds, a steady flow of deal activity has continued over the last 12 months. BDO BDO M&A specialists Tom Barnard and Eleanor Mouldsdales take a look at the deals that shaped 2016.

The year kicked off with Equistone Europe's c£100m acquisition of a majority stake in Gaucho and sister brand CAU from ICG, broadening the investment group's exposure to the UK consumer market. It's the second time Equistone has taken a slice of Gaucho - having sold its original stake in 2006.

Other headline deals included Boparan Ventures' acquisition of Vivek Singh's The Cinnamon Collection - a testament to the continued popularity of Indian cuisine in the UK and LDC's Vital Ingredient MBO which could signal the start of a period of consolidation in the healthy grab-and-go market.

Yellowwoods owned Gourmet Burger Kitchen sold to South African based Famous Brands for £120m, an exceptional price for arguably the original burger success story and a great demonstration that trade exits still exist!

In the world of pubs and bars, Caledonia announced the £118m MBO of pub and brewery operator Liberation Group and Eclectic Bar Group completed an £18m reverse takeover of Brighton Pier Group plc in a move to reinvent its student offering and keep pace with changing market conditions.

Living Ventures staged one of the more notable exits of the year with its £50m sale of the pub and restaurant business New World Trading Co to Graphite Capital following a period of rapid expansion. A great price paid for yet another fantastic brand created by Living Ventures and hot on the heels of the Gusto and Alchemist deals that completed in 2014 and 2015.



Small operators have embraced alternative means of raising finance and brand awareness. According to analysts at AltFi, crowdfunding represents close to 16% of all UK seed and venture funding. As a route to raising capital it can be swift and effective - BrewDog's ambitious pledge to raise £25m in a year and Porky's £100K in a day. As exciting as it is, it's not for the faint hearted. Delivery service Pronto raised over £800K via the Seedrs platform to fund a meteoric expansion plan only to be crushed under the weight of competitors Uber and Deliveroo. Given some of the punchy valuations being placed on crowdfunding platforms of late, it will be interesting to see how easy it will be for businesses raising finance this way, to exit when the time comes.

Challenging market conditions have meant that the overall pace and appetite for deals in 2016 lacked some of the lustre of the previous few years. A trend towards frothy valuations has given way to a more moderate approach and some high profile sale processes have fallen short of expectation.

In February Rutland Partners announced that Pizza Hut UK, the franchise chain purchased from Yum! Brands for £1 in 2012, was on the market. Rumours of considerable interest abounded on the back of an extremely impressive turnaround and an approximate sale price of £150m was mooted. However, perhaps as an indication of things to come, the sale was deferred due to declining market conditions. Ed's Easy Diner, initially touted for c£90m, aborted an 18 month long sale process after garnering interest from several PE bidders. Performance issues and a far too aggressive rollout weighed heavily on the business which was eventually acquired, in a pre-pack deal, by Boparan ventures for £8.75m.

Appetite for UK consumer stocks was hit by the referendum in June and a series of take privates has left the listed leisure sector looking comparatively depleted. Nonetheless, there were one or two successful IPOs in the sector during the year including Tony Kitous' Comptoir Libanais under parent company The Levant Restaurants Group, which has since expanded to 15 sites.

Other businesses were forced to put their IPOs on hold due to market volatility including Stonegate Pub Company, rumoured to be valued at £1bn, pub operator Upham Group and Des Gunewardene's restaurant group D&D London that missed out on a £100m share listing on the back of market uncertainty.

Krispy Kreme UK also abandoned its planned £200m flotation, opting for a successful private sale to its US parent company instead.

As we approach 2017, the restaurant and bars sector faces a barrage of challenges. The double whammy of Brexit and a controversial US election result this year has taken a toll on business confidence. Simultaneously, import and labour costs are rising. Skilled labour shortages would be exacerbated by new immigration controls while rising rents (not just in London), business rates and apprenticeship levies all take chunks out of profits - particularly impactful for the leisure sector as valuations tend to be based on turnover.

Of course there is room for some upside - increased demand from 'Staycationers' due to consumer uncertainty and an influx of tourists and investors from abroad taking advantage of the weaker pound. US based Stellex Capital backed Dominion Hospitality's recent acquisition of pub and hotel operator the Chapman Group, for an estimated £30m, is the kind of cross border deal that has become more attractive to overseas buyers looking to enter the UK market.

Private equity still has money it must spend and continues to dominate the buyer pool in the casual dining, bars and pubs sector. Typically, sensible gearing ratios and grounded multiples mean that the sector should be relatively resilient in the face of economic upheaval. The most innovative brands that can differentiate themselves, despite the difficult market conditions, will attract healthy valuations.

Concepts offering specialist cuisine and a better consumer experience appeal strongly to millennials, are expected to see more rapid growth and are therefore a prominent feature on the private equity radar. All day offerings - including brunch,

carefully conceived sister concepts that broaden appeal and retail partnerships that make economical use of footfall and space are some of the ways that businesses are maximising profits.

Following BC Partners' £250m acquisition of Cote last year, the French brasserie has been extending its reach through a number of strategic acquisitions including Richard Caring's Jackson & Rye and Limeyard.

Meanwhile, massive institutions like M&B and The Restaurant Group are looking to consolidate and refine their portfolios to compete with more nimble rivals - perhaps a strategy adopted by JD Wetherspoon who recently offloaded 11 pubs to Avenue Capital Group backed Hawthorn Leisure.



Technology continues to be a game changer and diversifier across most industries. In a year when UK tech enabled food delivery service Deliveroo's revenue is expected to reach £130m, it's clear that the restaurant and bars sector is no exception. Just Eat added £3.5m to payment solutions app Flypay's investment pot as part of a wider campaign to stay ahead of the competition through innovation. So far the company has dedicated 10s of millions in an array of techy features to satisfy its 16.6 million users. Tossed, Nando's, Wahaca and more recently McDonald's are among the businesses attracting publicity - and investor attention - for creative thinking when it comes to technology.

The popularity of grab-and-go has created a UK industry worth over £16bn - expected to grow by 34.8% in the next 5 years, according to IGD. Contemporary grab-and-go sushi outlet Wasabi has followed in the footsteps of Leon and Itsu in securing a bank loan from HSBC of £25m to fund further expansion.

Vying for position in a competitive market, new arrival Corazon is proof that London's love of Mexican food is still strong. The taqueria concept is rumoured to have received backing from a number of high profile sector investors including Hawksmoor chair Karen Jones.

BGF backed Giggling Squid is still dominating the casual dining Thai restaurant scene in the UK and founder Andy Laurillard has expressed his intention to consolidate the market. Busaba Eathai has made headlines with some exciting performance of late and the Thai Leisure Group is undergoing a consolidation exercise before launching another round of expansion after its brand re-shuffle.

The coffee specialists market is buzzing and continues to interest investors. Easycoffee, the low cost, no frills coffee outlet is rumoured to have received hundreds of

approaches from hopeful franchisees after launching this year and joins new healthy lunch concept Zucla, fresh from a successful crowdfunding campaign of its own, in promising £1 coffees to customers used to paying a premium.

Burgers are definitely back - not that they ever left. Mega burger franchise Five Guys has rolled out 0-58 UK sites in 3 years while Honest Burger has just opened site number 17 following Active PE's investment last year. Leisure specialists Kings Park Capital announced that they've taken a stake in US comfort food specialist 7Bone Burger in September after Byron Burger received a £12m funding round from Santander and RBS. Relative newcomer Patty & Bun has also secured £2m in growth funding from New World Private Equity.

The Chinese takeaway market is being shaken up by innovative brands finding new ways to deliver traditional cuisine in minutes. Josh Magidson's Zing Zing raised a record breaking 457% of its target on Crowdcube's crowdfunding platform, to end up with £1.6m in return for 30% of the business. Beechbrook Capital's £7.5m loan to Chinese Takeaway chain Hotcha will be used to help the business fulfil co-founder James Liang's ambition of opening 1,000 sites in the UK.

The healthy eating megatrend, that has been gaining momentum in recent years, remained strong in 2016. Pod, Chop'd, Abokado, Fuel and Tossed are leading healthy trend brands with roll-out potential. Having recently appointed ex-Benugo MD Shane Kavanagh as CEO, Cruush may well prove to be one to watch next year. Whitbread's acquisition of a 49% stake in Healthy Retail Ltd - otherwise known as Pure, is one of many expected by the market. Joe & the Juice also announced that US based General Atlantic made a

strategic growth investment in the company - joining existing investor Valedo Partners as a minority shareholder. Fragmented and crowded, this market is ripe for consolidation as we move into 2017.

2016 ended with a flurry of sector activity. ECI Partners sold its stake in catering specialist Rhubarb to Livingbridge, generating a multiple of 3.1x cost to investors and a 32% IRR. The much talked about sale of Loungers to Lion Capital for a reported £137m also took place in late December. Loungers have been incredibly successful in filling the gap between pubs and coffee shops with its casual all day offering proving highly attractive to consumers. The deal demonstrates the continued demand from private equity firms for differentiated, quality and scalable casual dining brands.

Over the next 12 months we expect deal flow will continue at a healthy pace with more emphasis on value as investors refuse to overpay in a challenging and competitive environment. Innovation, flexibility and creativity will be rewarded. We look forward to 2017 and what we expect to be another active year for hospitality M&A.

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MAKING MOBILE PAYMENTS RELEVANT FOR RETAIL

INTERVIEW WITH MICHAEL ROLPH, CPO YOYO WALLET

Yoyo Wallet is Europe's fastest growing mobile wallet, integrating mobile payment, automated loyalty and a channel to market. Launched initially at Imperial College London and with roots in universities and corporates, Yoyo Wallet has recently made significant steps onto the high street announcing partnerships with Planet Organic and Caffè Nero.

Co-founder, Michael Rolph, talks to BDO's restaurant and bars team about the need for more than just a mobile payment facility, how retailers can utilise the technology already out there, and what's next for mobile platforms.



MICHAEL ROLPH
CEO, YOYO WALLET

Q: Why does Yoyo Wallet exist?

I come from a payments background, so have been acutely aware of the industry's desire to make mobile payments work. For me, though, mobile payment isn't solving a problem for retailers or consumers, it's actually just mirroring existing contactless payment.

At Yoyo we ask 'how do you make mobile relevant for retail' rather than 'how do you make payment relevant for mobile' - we start with the operator, and that's an important distinction.

The result is a platform that adds genuine value to the retail experience for both retailers and consumers. Yoyo provides a payment, loyalty and engagement platform. For the consumer we provide a mobile wallet - Yoyo Wallet - as well as powering a retailers own branded app.

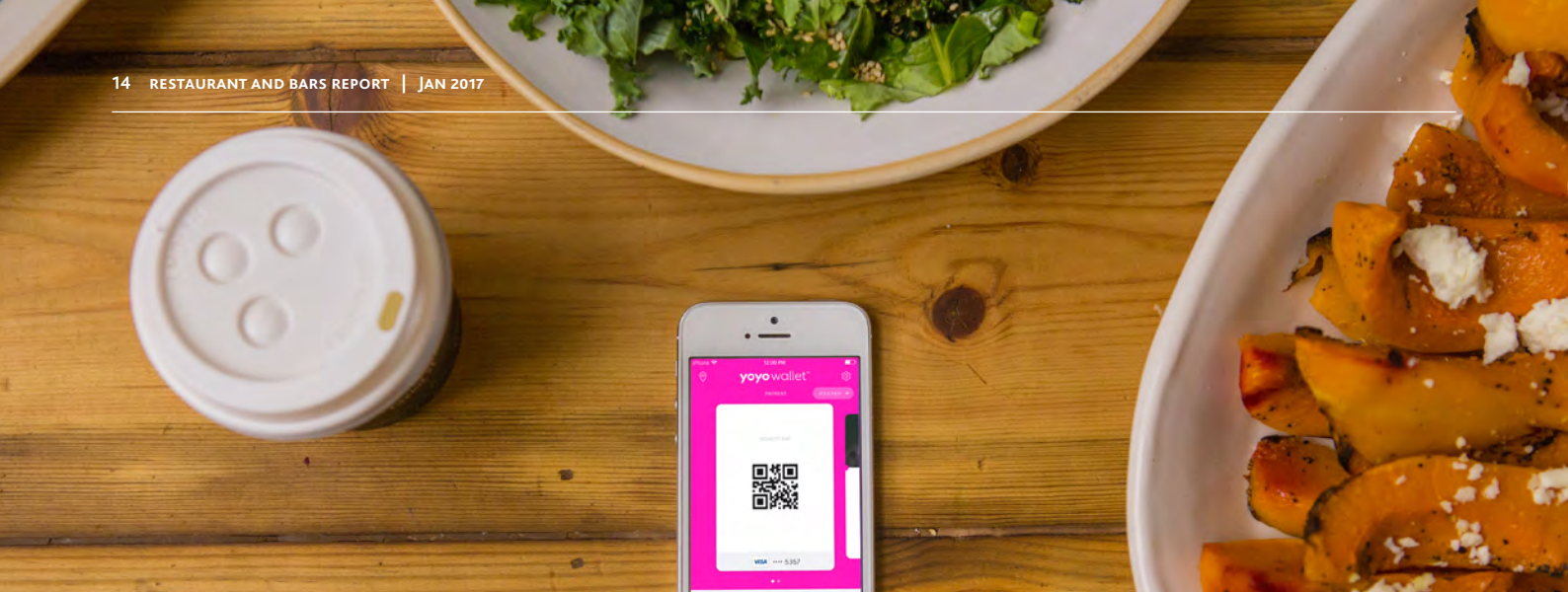
What makes us really unique though is we are able to match customers to their basket data. This is captured through Yoyo Engage, our insight and campaign tool. This allows retailers to understand their customers based on their profile, preferences and behaviour and segment them around any

purchasing variable. From here, we help retailers create personalised mobile-first campaigns designed to further business goals. No one else in the world can do this.

Q: Why does this work so well for restaurants and bars?

Yoyo is ideal for food and beverage retailers. Naturally they have a high returning customer base but it's a highly competitive market. A focus on helping retailers in this space get to know and to retain their loyal customers is key. Knowing where a customer is and what their preferences are allows retailers to utilise mobile to better their understanding of what that customer has bought, and also to predict what they could buy next. Where purchasing has a clear pattern, we can think creatively about how to market our clients and get the right message to consumers at the right time.

We see massive changes in behaviour in this vertical, particularly in pre-ordering. That's why we have also built the pre-ordering functionality that allows customers to order and pay ahead for collection as well as seamlessly collect their loyalty points and stamps.



Q: How is Yoyo Wallet thinking differently to other mobile platforms in the market?

We know it's about building a better value add experience - why else would a customer change their behaviour?

Ultimately the payment is the least interesting aspect of mobile. For us, payment is an enabler for value-add features. That means automated loyalty, an instant itemised SKU-level receipt, order ahead, as well as personalised communications about relevant offers based on that customers preferences and behaviour.

We know that the constant challenge in a rapidly progressing, technology-led world is to maintain sales volumes, as a first step. Then, from there, it's about growing sales and improving margin.

We also believe that whilst there are plenty of retailers who can justify their own branded app, the majority of consumers do not want multiple retailer apps. That's why we have built Yoyo in a way that can power retailer own apps as well as provide an open marketplace wallet - Yoyo Wallet.

Q: What's the future?

I'm a big believer in historical trends, and in a digital world, aggregators work. We have to listen to consumers who want simplicity, and in this case, to see all of their options on one screen. Aggregating different environments in one app to make it easy for the customer to spend, capture loyalty and receive offers across all of the retailers that we shop with.

Consumers don't belong to a single operator. Loyalty depends on whether or not you do a good enough job with the last interaction with your customer, or between the last interaction and next decision to spend to convince them that it should be with you. That's the definition of loyalty; to convince the customer that they have a lock in with you based on experience, service and the product. Mobile might not make you more competitive, but if you don't adopt it and lead with it, it becomes a disadvantage and your competitors who do adopt the latest technology will start to increase their market share.

In order to utilise this technology going forward brand managers need to think about how they can have their own user experience but also work in an aggregated model. How we use our wallet will continue to change and retailers will need to create unique brand experiences whichever environment they're in. At Yoyo we strive to give the retailers what they want, which is unique brand engagement, and the consumers what they need, which is one simple destination wallet to use in multiple places.

Q: Many retailers have already invested in mobile and online platforms to find that they are not future proof - what's your advice to them?

Yoyo Wallet!

Retailers have to understand how their features intersect with the existing and established consumer behaviours. A common mistake is placing too much emphasis on features that live in isolation, away from any existing consumer action or requirement.

At Yoyo, we pride ourselves on building features that leverage off and improve the existing experience. Stores have always received money and given loyalty, now it's just done more quickly and simply, with far more value being drawn from the exchange.

Q: You've said above that experience is key, what do you see the next big advancement being to optimise user experience?

I think that there are two trends that will be unlocked through mobile wallets.

The first is social commerce - the ability for someone to make a purchase because they saw a link through Facebook or Twitter - which we are already seeing, but can be better utilised. The second is artificial commerce; recognising patterns and automatically predicting what should come next. If we can see that someone always purchases a latte at 8.30am, let's not wait for them, retailers could send them a notification at 8am with the option to purchase their latte and a simple 'yes' button.



We already use pre-ordering, and now we're thinking about how we improve that experience at the margins so we can predict what the consumer wants allowing them to flow seamlessly through their day of purchasing using a mobile platform.

We can also utilise the social elements of mobile platforms. One experience that we've built is the function to be able to announce where you are to others. If you're in a coffee shop, you can let others know, and provide the option to pick up extra drinks for those back in the office.

Q: Clearly mobile in retail is developing quickly, are consumers changing retailer behaviour, or are retailers and developers leading the way?

It's retailers and technology companies who change behaviour by providing a new way to do things. Retailers have come a long way in their quest for constant competitive advantage and are therefore responsible for changing consumer behaviour. Technology isn't your competitive edge over time, but it provides an advantage in the short term keeping you in line or at the forefront of change. Anyone who isn't sure of how to utilise this should be talking to companies like Yoyo who can guide them on how to do this, or how to do it better.

Q: There's a lot of talk within companies about the 'millennial', is this your focus, or to you see mobile platforms as being for everyone?

I think that there are two main groups to focus on - firstly, the millennials. Yoyo was developed in universities and continues to roll out new ones each month.

We believe that those students using Yoyo already will grow with us. Facebook showed that this was a good place to start and we're doing the same thing quite successfully. Millennials take up new technology quickly, but they don't see it as a change.

This age group have always had mobiles and will grow up knowing that payment comes from your mobile device which is what makes this technology a long term investment, the culture is changing.

We also target those already in the corporate environment.

Clearly there's a difference between millennials who expect payment to come from their mobiles and of older generations who have been used to other methods of payment.

However, it's this generation that we've found to be the most adaptable.

That particular demographic have seen the move from analogue to digital and the introduction of e-commerce, they might perceive this type of development as change but they embrace it.

Q: Why should payment be a priority for operators?

I tend to look at things as if they're broken, even if in other people's eyes, they seem to be working perfectly.

Payment is a perfect example of this. On the face of it, contactless is a frictionless, complete process for everyday users. But taking a wider view and viewing the end-to-end retail experience, not just the payment itself, changes the perception and shows how much value add is being left on the table unused.

Q: As an entrepreneur, moving into a start-up, if you could go back and give yourself a piece of advice what would it be?

Get on with it. If you have an idea and you spend more time thinking about it than you do making it happen, it's a waste. I also think it's good to embrace naivety and making mistakes. In this industry you need to be resilient and you frequently have people telling you that you're wrong.

If you see a world a certain way, you have to embrace that and articulate why you want to drive something in a different direction. The best way I've found of doing that is by creating a story and with that a following. If you can find a way to communicate what you do through a story that people can relate to it and be inspired by your vision.

RESTAURANT TECHNOLOGY

We are undoubtedly living in a world where speed and convenience are more important than ever as we seek to fit more and more into our days, and in increasingly busy lives our perceptions and requirements of the eating out market have evolved; the ways in which we order food, where and when we eat it and how we pay for it.

Rosie Hallam is an Associate with Fleurets, leisure property specialists. Based in their London office, Rosie undertakes a range of professional instructions on all types of licensed and leisure properties across central London and the south of England. In this article she discusses the risks and opportunities of technology in the restaurant and bars industry.





THE FUTURE OF EATING OUT

It feels like the use of contactless payment cards is a relatively recent phenomenon yet the reality is that contactless cards have been in circulation since 2008 when Barclaycard first introduced them.

The use of contactless payment has been of benefit to the leisure sector, speeding up the payment process, and it seems a distant memory of when you would stand impatiently waiting for someone to sign for a card payment.

Chip and pin was a big step forward, contactless has helped progress this even further, especially with the increase in spending limit from £20 to £30 per transaction. According to an article in Big Hospitality earlier this year, the increase in spending limit along with the number of outlets offering contactless payments helped contribute to a 104% increase in such payments in restaurants and 188% increase in pubs and bars in 2015.

Technological advances such as this, as well as the likes of Apple Pay and Android Pay, are helping make payment for a whole range of everyday items easier and faster. New apps are being released on what seems an almost daily basis and yet, as with contactless payment cards, this is nothing particularly new. Indeed, OpenTable, arguably the best-known booking website, recently celebrated its 8th app-birthday.

Interestingly, in some parts of America it is now possible to use the OpenTable app to do everything from booking the restaurant to paying the bill whenever the customer is ready, removing the need to wait for the bill to be presented. It does make you wonder whether the role of front of house staff is becoming partly redundant.

In a time when operational costs are increasing, whether as a result of rent rises, the upcoming business rates hike, the introduction of the National Living Wage or the recent fall in value of the pound, introducing this technology in the UK could be a way of reducing wage costs which are frequently one of the biggest costs in running a leisure business after property costs.

There is also a concern that where operators are not able to absorb these increased costs that it will end up being passed on to the customer. The popularity of eating and drinking at home may consequently become preferable to eating out in an effort to save money.

Home delivery has been long established but the likes of Uber Eats, Amazon and Deliveroo are taking this to the next level, enabling restaurant food to be delivered to your front door. I suspect that the eating-in market is set to grow strongly. Indeed, according to the Telegraph website, revenues for Deliveroo were set to hit £130 million in 2016, reflecting annual growth of 1,000%!

As explained by co-founder, Will Shu, in an interview with Wired.co.uk, Deliveroo's concept is about improving the range and quality of home delivered takeaway food. It is about engaging with existing restaurants which don't provide a takeaway service and providing the facilities and technology to do so.

When an operator signs up to work in partnership with Deliveroo, they are supplied with a tablet computer which interfaces with the Deliveroo app and technology and also syncs with the couriers who have the app on their Android or iPhones. The restaurant operator retains control over the use of the service, so when the restaurant is busy and they can't or don't want to provide it, the tablet is turned off and the restaurant disappears from the list.

With Deliveroo proving so popular, as well as an emergence of other eating out alternatives such as private dinner parties at the home of a chef, are we about to see a decline in the numbers of people eating out and will this result in a fall in demand for physical restaurants?

With visitor numbers in London reaching a record level of 31.5 million in 2015, I somehow doubt this and according to the Guardian, spending on restaurants, hotels, attractions and retail saw a rise of 35% since 2010 to bring this to £15bn. The Guardian has also reported that 2015 saw a net increase in new restaurants across the UK of 1,770, with 100 in London alone.

Take the tourists out the equation, and even for normal workers and residents, eating out is a forum for meetings, enjoyment and a social activity. What I suspect is more likely is that we will see an increase in the number of production kitchens for restaurants and a shift away from the consumption of traditional takeaways to the better quality restaurant delivered food. As techcrunch.com highlights, Deliveroo have already recognised the need to help restaurants in meeting increased demand by setting up their independent off-site production kitchens, aptly named RooBoxes, enabling restaurants to expand their coverage to wider geographical areas and with lower start up costs than would perhaps otherwise be the case - albeit there will of course still be a cost in return for using one of these RooBoxes. At the same time, this is benefiting Deliveroo in expanding its own coverage. In turn this should also be a benefit to the property sector, alleviating land and property pressures in existing centres and building industry in more out-of-town areas.

It will perhaps only be when we see the statistics for 2016, a year when the likes of Deliveroo, Uber Eats and Amazon really took off, that we can assess the true impact they have had or are having on the eating out sector and the leisure property world.

AN INCREASING FOCUS ON SERVERS

PROTECTING YOUR BUSINESS FROM CYBER THREATS

With the continuing development of technology as an opportunity for retailers to engage with customers, it's no surprise that mobile devices and cloud-based platforms have produced a source of security break for the sector.

Steve Rumble, BDO partner and technology specialist, discusses the practical ways that restaurants and bars can mitigate cyber risks.

Scenario: The phone rings, 'we are under attack; they've sabotaged our core infrastructure, encrypted our strategic systems and stolen our customer database. They want £5m to return things to the way they were and go away...'

Sadly, this is not an uncommon threat, and this is becoming the 'good to bad' scenario facing organisations around the world.

In the industry, the motivation behind cyber-attacks and the sanctions for businesses are well known, but less talked about are the practical steps you can take to protect your business from their financial and reputational threats. This diagram illustrates some of the areas that management should ensure are high priority on the board agenda.

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The threats restaurants and bars face...

- Internal theft
- Opportunist attack
- High value data
- Organised targeted attacks
- Persistent advanced attacks
- Insider knowledge
- Increased sanctions of information commissioner
- Increased volume and sophistication of attacks

Possible channels that might be used...

- Malware/email
- Known techniques – script injections...
- Social engineering
- Mobile devices – weak channel
- Latest tools – ransomware

So your response should be...

- Design of infrastructure - defence in depth
- Deployment of tools
- Get the basics right – 80/20 rule – educate your users
- Cyber security strategy
- Intelligent threat assessment & Data analytics

Your board agenda should include...

UNDERSTAND THE THREATS

- Crown jewels - identify your assets
- Threat intelligence - understand methods of attack
- Vulnerabilities - risk assessment and the doomsday scenarios

PREVENT / PROTECT / DETECT

- People - educate them
- Processes - good hygiene factors, are your systems effective?
- Technology - network segmentation and deployment of tools

RESPOND / ASSURANCE

- Response plan - do we have one?
- Safe tests - pen testing, social engineering, attestation

Like most risks, the cyber security challenge is a business issue and Boards ought to be informed, educated and comfortable that they have the right understanding of the scenarios they face, the level of controls in place to manage the risks and the action plan required to minimise the emerging exposures.

If you do not feel that you have a strong grasp of this agenda, then it's important to act now to these threats which are significant, will not disappear in the medium term and can be extremely disruptive if an attack occurs. Our cyber team advises business on how best to protect themselves from imminent cyber threats.

AN INCREASING FOCUS ON SERVERS

THE APPRENTICESHIP LEVY

It seems that with the introduction of pension auto-enrolment, the national living wage and the constant balance of retaining an appropriate distance whilst ensuring compliance on tronc arrangements, staff costs have been high on the F&B agenda for some time.

The introduction of a new tax, the Apprenticeship Levy, from April 2017 seems set to ensure that this trend continues for a while at least.



The Government's stated objective and the underlying reason for introducing the Levy is to create 3 million new apprenticeships by 2020 to help address the UK's shortage of skilled labour. The Levy will apply to all UK employers but with an annual tax free allowance of £15k, it will only be payable by those with a pay bill of £3m per annum or more. The tax will initially be charged at a rate of 0.5% and the monies raised will be used to fund new apprenticeships.

As this funding will be made available to all employers, it is a good idea to consider at an early stage how the Levy charge may impact your pay and training budgets. This is because while funding will be available to you to fund all training which qualifies on a standard apprenticeship framework, any bespoke training geared to your house or brand requirements is unlikely to qualify for funding. If you are a business which has to pay the Levy to HMRC, you will undoubtedly want to maximise the amount of funding you can access.

Many hospitality businesses have set up their own in-house training academy. It is important to be aware that unless your academy is listed on the Skills Funding Agency's "Register of Apprentice Assessment Organisations" as an approved training provider, you will not be able to access Levy funds to pay for the training delivered by your in-house academy.

Despite the fact that April 2017 is only a few months away, the tax legislation is still in draft and (at the time of writing) the Skills Funding Agency have not released details of the new standard apprenticeship frameworks. It is therefore fair to say that many employers are struggling to redesign and refresh their training strategies for 2017/18 and future years.

The following summarises what we currently know about how the Levy is expected to operate but we anticipate further developments before it commences in April 2017.



THE BASICS

The Levy will be charged on an employer's 'pay bill' which is classified as the total earnings of the workforce in its entirety which are liable to employer Class 1 NIC. For Levy purposes, the employer is the organisation that has the Class 1 NIC liability and the Levy will be collected and paid over to HMRC via the payroll under the Real Time Information (RTI) regime. Continue to be vigilant if you have a tronc arrangement as if HMRC successfully challenge this, not only would Class 1 NIC be payable but the tronc distributions would form part of your 'pay bill' and therefore will be subject to the Levy.

This is just one of the complications to be considered when calculating your Levy payments. A monthly, cumulative, calculation and RTI submission is required, so if you have multiple payrolls operating on different pay cycles you will need to ensure that your internal systems and controls are robust and that all items subject to Class 1 NIC (e.g. pecuniary liabilities, equity awards for key employees, certain termination payments, etc.) are incorporated.

As mentioned above, the annual tax free allowance of £15k will remove any liability for those with a pay bill of £3m or less. However, the allowance will be applied on a cumulative basis and so at peak season you may find you need to make a Levy payment which can be clawed back in later months once your pay bill drops to general levels.

CONNECTED ORGANISATIONS

There is also a need to aggregate pay bills with any organisations connected to you for Levy purposes when you consider the £3m threshold test. Once you have established which organisations you are connected to, the next step is to agree how the £15k annual allowance will be split between you. However, providing you have separate PAYE references,

it is understood that each organisation will be able to access funds for qualifying training.

Another practical consideration for connected organisations is that once the "connected" test has been established at the start of the tax year, the position is upheld for the whole tax year. Therefore, if there is any M&A activity during the year, both organisations will be treated separately for Levy purposes in accordance with the position logged at 6 April.

COMPLIANCE AND ANTI-AVOIDANCE

The draft legislation includes a range of anti-avoidance measures designed to ensure employers pay the correct Levy and do not introduce arrangements to reduce or avoid it. That said, if an organisation has or seeks to implement a salary sacrifice or flexible benefits arrangement as part of its reward and remuneration strategy, this would not be viewed by HMRC as avoidance. However, if the sole purpose for introducing such an arrangement was to reduce your Levy liability, it may well be viewed as an avoidance measure.

WHAT CAN BE DRAWN DOWN FROM A DIGITAL LEVY ACCOUNT?

The Government is forming an Institute for Apprenticeships (planned to be fully operational by April 2017) to monitor and decide how Levy funding is spent.

To date, we know that it is intended that all employers, whether you pay the Levy or not, will be able to access funding for apprenticeships - most via a digital account, which will enable you to see your Levy contributions and/or how much apprenticeship training you may purchase with a registered training provider. It should be noted that the amount of funding an employer may spend on each apprentice will be capped.

The Government has stated that employers paying the Levy will receive a 10% top-up to their monthly contributions in respect of the proportion of their employees living in England (only) to spend on apprenticeship training.

The DfE and the Skills Funding Agency (SFA) are working to establish what types of training will qualify for Levy funding. It is likely this will include courses under an approved UK Government statutory apprenticeship standards framework but this may be broadened to include other recognised training.

Whilst the Levy applies to all UK employees, Levy payments will be split across the devolved nations according to where employees live. So if you have employees in England and Wales, for example, you will need to apply to the SFA to draw down from your English digital account, and then potentially make a separate application to its Welsh equivalent, if that is the stance that the Welsh government choose to take.

Different rules are likely to apply across each of the devolved nations. To date only the Scottish government has made any public comment and this was to advise that they are running a separate Consultation for Scottish employers to consider how best the Scottish Levy allocation might be spent.

NEXT STEPS

In conclusion, while payments for the Levy will not start until April 2017 and the legislation may still change, you would be strongly advised to examine the impact of this new tax on you from both a Finance and HR Training perspective.

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OUR TOP 10 PREDICTIONS FOR 2017

1. CORPORATE ACTIVITY IS STRONG BUT DRIVEN BY TRADE ACTIVITY

There will be a greater difference between winners and losers as the multiple cost pressures facing operators start to bite and that will lead to some cannibalisation within the sector.

2. THE CHANGING FACE OF LIKE FOR LIKE REPORTING

2017 will see menu price increases to tackle cost pressures but they are unlikely to be big enough to cover the total amount. This means a focus on like for like sales growth alone risks leading to poor decision making and margin erosion. As such a greater focus on total sales levels and EBITDA growth will be key.

3. SIGNIFICANT PRESSURES ON SUPPLIERS

While suppliers to the industry will be passing on costs as best they can, there is likely to be a raft of renegotiations on pricing and this is likely to lead to at least one key supplier running into significant financial difficulty, in turn leading to supply issues.

4. E-SERVICE GOES MAINSTREAM

2017 will see the ability of consumers to order, tailor their meal, provide feedback and pay by using their own mobile technology in large mainstream operators.

5. THE RISE IN DESTINATION VENUES

There will be an increase in the number of venues which provide multiple food offerings under one roof (or lack of roof as appropriate).

6. DELIVERY MODEL EVOLVES

While operators work out whether delivery providers are a necessary evil or a value enabler, the employment issues faced by the current providers as well as the development of hub kitchens will lead to operators re-evaluating their relationship with delivery models.

7. BREXIT LEADS TO BEST OF BRITISH FOCUS

Brexit will be a focus of media attention for the majority of the year and with it an opportunity for operators to play to a British theme - be it provenance, value or national pride there is value to be exploited.

8. COFFEE SHOPS GET HUNGRY

While coffee shops are a key area of likely growth, a significant step forward will be made in their food offerings will be necessary or we will see the rise of new entrants who can grow very rapidly to challenge the current market leaders.

9. INCREASED FOCUS ON PREMIUMISATION

Drink outstrips performance of food over the last 18 months driven by lower volume sales at a higher price through craft beer and premium gin and mixers. This trend looks to continue to other spirits and premium specials on menus.

10. FLIGHT TO VALUE

As menu prices increase consumers, who are still used to seeking offers and underlying discounting, will become more picky about where and when they eat. Operators will focus on tailoring discounts but also on set price menus (and extending relevant operating hours), increasing ranges of specials and loyalty programmes.

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