RESTAURANTS AND BARS REPORT 2021

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AN OUTLOOK FOR RECOVERY

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CONTENTS

THE RESTAURANTS AND BARS REPORT 2021

Without a doubt, this year's topic of COVID-19 plays a huge part in our report. However, rather than focusing on the doom, gloom and obvious impact to the sector, we focus on what owners and operators of restaurants and bars can do now and in the future to minimise the impact of the pandemic in order to prepare for the 'new reality'.

We are delighted to have two guest writers; Mark McCulloch, Founder and CEO at Supersonic Inc. who shares his tips on what marketing teams can do to set a business up for long-term success. We also have Max Tucker, Director Analytics – EMEA from Fourth who discusses how to use big data and analytics to make informed decisions.

From our resident BDO experts, we share an insight into how the restaurants and bars market performed last year and what's expected this year; restructuring options for hospitality; tips on how to correctly file for a CJRS claim; and steps on how to be in the best shape possible for when restrictions are lifted.

A WORD FROM MARK EDWARDS

PARTNER AND HEAD OF RESTAURANTS AND BARS

Welcome to the 2021 edition of our annual Restaurants and Bars report; your guide to understanding changing consumer behaviour and trends in the sector.

COVID-19 has led to our sector being forced to close, reopen and close again. Operators did their best to adapt to the situation utilising various Government led support schemes, exploring delivery models, sharing unique recipes and even changing their supply chains to help with PPE.

While a third national lockdown is evidently necessary to keep people safe, the next few months are going to be incredibly difficult for the hospitality sector. The Government's announced grant funding this year does provide a much-needed lifeline but this support must be extended beyond front-line venues, to the vital supply chain they depend on. We also require the continued support of the Government to avoid mass evictions from premises, a continued reduction (or preferably removal) of business rates for the 21/22 year and the continued reduction in the rate of VAT. It is clear that some consumer habits will have changed permanently and as businesses look to rebuild, we fully expect operators to look at reduced labour costs, more flexible property costs and the use of technology as priorities, while a sharper focus on menu and customer offers will also be essential.

I wish every operator the very best for 2021 and look forward to seeing the innovation and creativity that our sector encourages at times of adversity.

MARK EDWARDS
Partner
Head of Restaurants and Bars

ECONOMIC OVERVIEW

2020: RECORD ECONOMIC CONTRACTION AND RECORD GROWTH

In Q2 2020, the UK experienced the largest quarterly contraction in GDP since the Office for National Statistics (ONS) began its records. This fall of 20.4% was an effect of the COVID-19 social distancing measures and public restrictions.

Lockdown regulations eased in Q3 and, as a result, GDP grew comparatively by a record 15.5% from July-September.

July showed the largest increase of 6.3% due to pent-up demand, where accommodation and food services had the most significant contribution. Growth slowed in August, but was still led by food services owing to the Eat Out to Help Out Scheme and by accommodation with the 'staycation' boom. September showed GDP growth of only 1.1%, driven by professional, scientific and technical activities.

Despite this partial recovery, GDP results for 2020 Q3 still remained 9.6% lower than 2019 Q3.

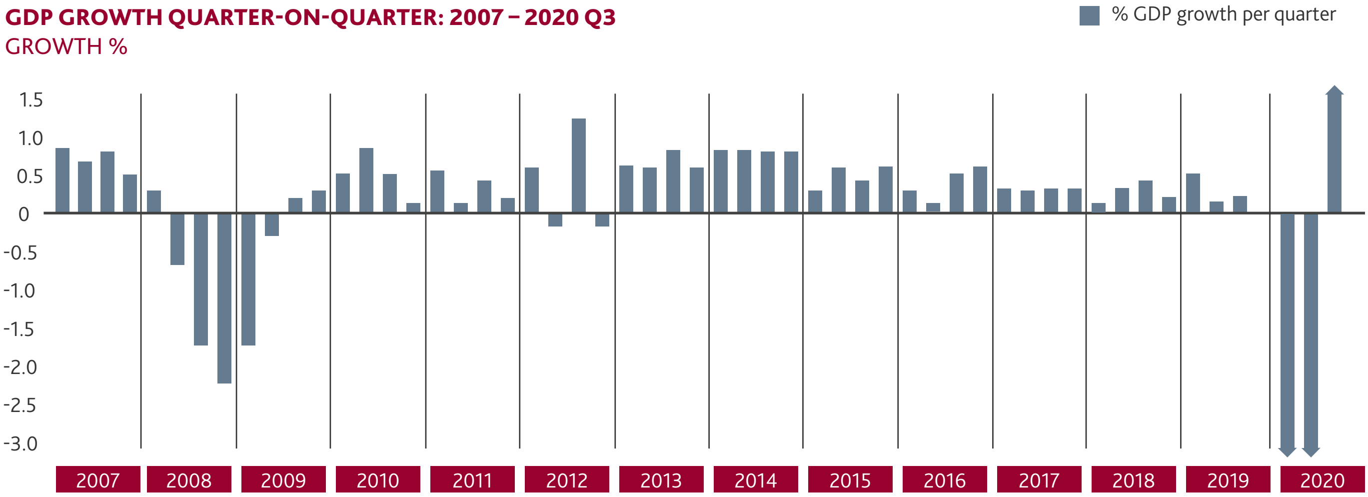
Similarly, output in services, production, and construction grew by a record 14.2% in Q3, following massive contractions in Q2. Services drove the rise with 30.7% growth in wholesale and retail trade, together with the reopening of car showrooms. Like GDP however, output levels are still lower than pre-COVID-19, with accommodation and food services at 29% below Q4 2019 levels.

Expenditure levels also remain low; while private consumption rates have increased, business investment has not recovered in this climate of uncertainty.

Although unemployment was at its lowest in 45 years in Q3 2019, employment rates dropped hugely in Q3 2020 from 76.3% a year earlier to 75.2%. The unemployment rate was at 4.9% of all people aged 16 and over, 1.2% higher than a year prior. This was coupled with a record number of redundancies: 370,000 from August-October, increasing across all regions of the UK.

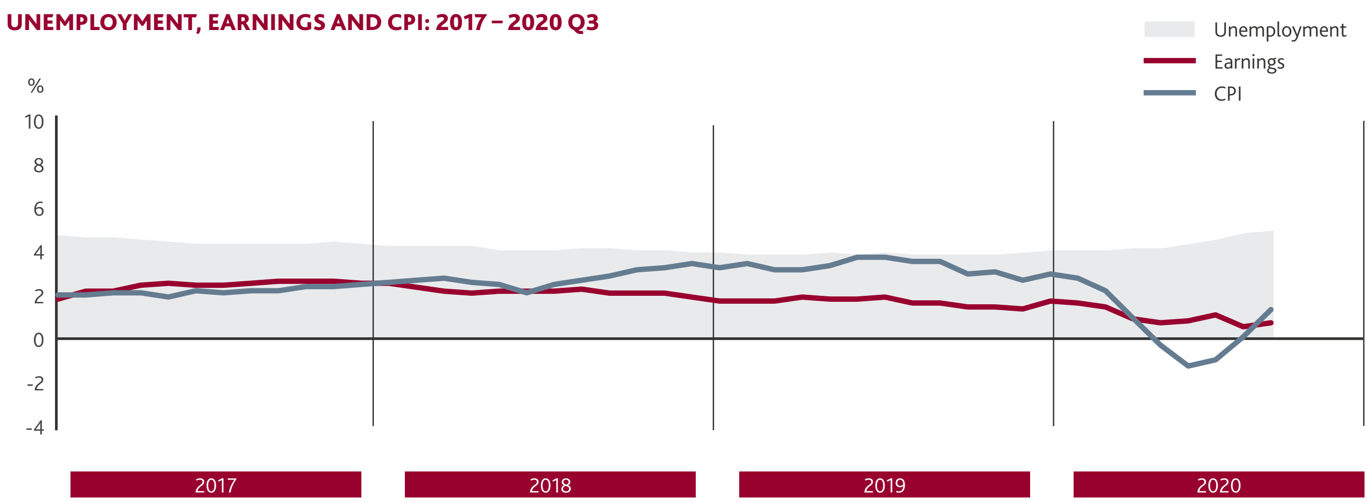
GDP GROWTH QUARTER-ON-QUARTER: 2007 – 2020 Q3

GROWTH %



N.B. The extremities of the 2020 figures are unable to be represented fully on this graph.
Results are as follows: 2020 Q1: -3.0%, 2020 Q2: -18.8%, 2020 Q3: +16.0%

SOURCE: OFFICE OF NATIONAL STATISTICS (ONS)



SOURCE: OFFICE OF NATIONAL STATISTICS (ONS)

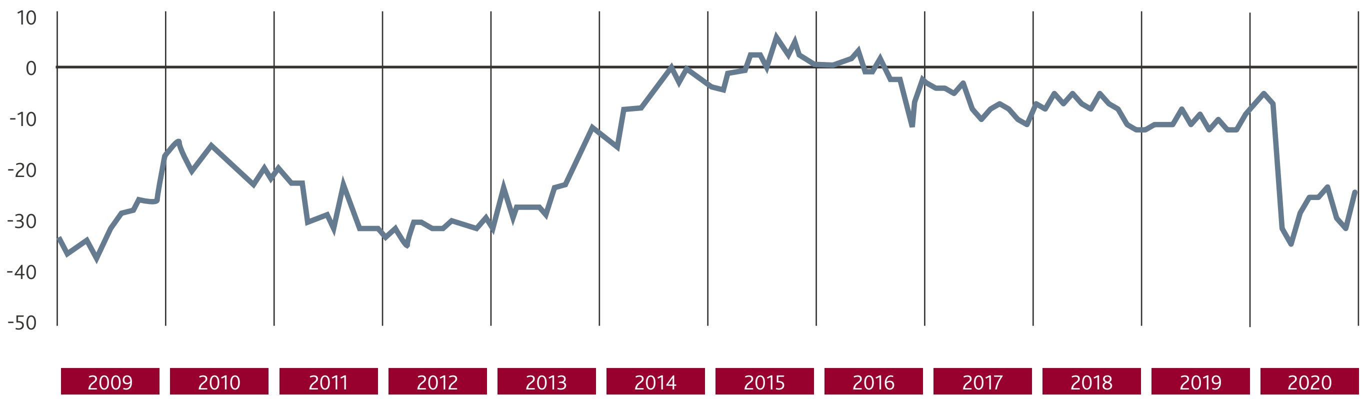
ECONOMIC OVERVIEW

Continued

CONSUMER CONFIDENCE UNDERGOES BIGGEST DROP IN 45 YEARS

The COVID-19 lockdown measures in 2020 brought about the biggest nose-dive in consumer confidence in 45 years. According to GfK's Consumer Confidence Index, figures fell from -9 in March to -33 in April and -36 in May, despite the clamouring for home office equipment. The following months showed marginal improvements as Government restrictions loosened, up to a peak of -25 in September; this was largely because consumers felt more optimistic about the general economic situation. Customer sentiment then worsened again in line with the second-wave lockdown, but rose back up to -26 in December as news of a vaccine broke.

CONSUMER CONFIDENCE: 2009 – 2020 YTD
CONFIDENCE INDEX



SOURCE: GFK CONSUMER CONFIDENCE INDEX

TRADING CONDITIONS: **THE NUMBERS**

TOTAL SALES **-79.0%**

PUB TOTAL SALES **-85%**

RESTAURANTS TOTAL SALES **-65.9%**

TRADING CONDITIONS SPIRAL DOWNWARDS

According to Coffer Peach Business Tracker, there was a robust start to 2020 for the food and drink industry, with total sales sitting 4.7% higher in January than a year earlier. At the end of March, the sector had reached a 4.1% year-on-year decline, before total lockdown mid-month due to COVID-19.

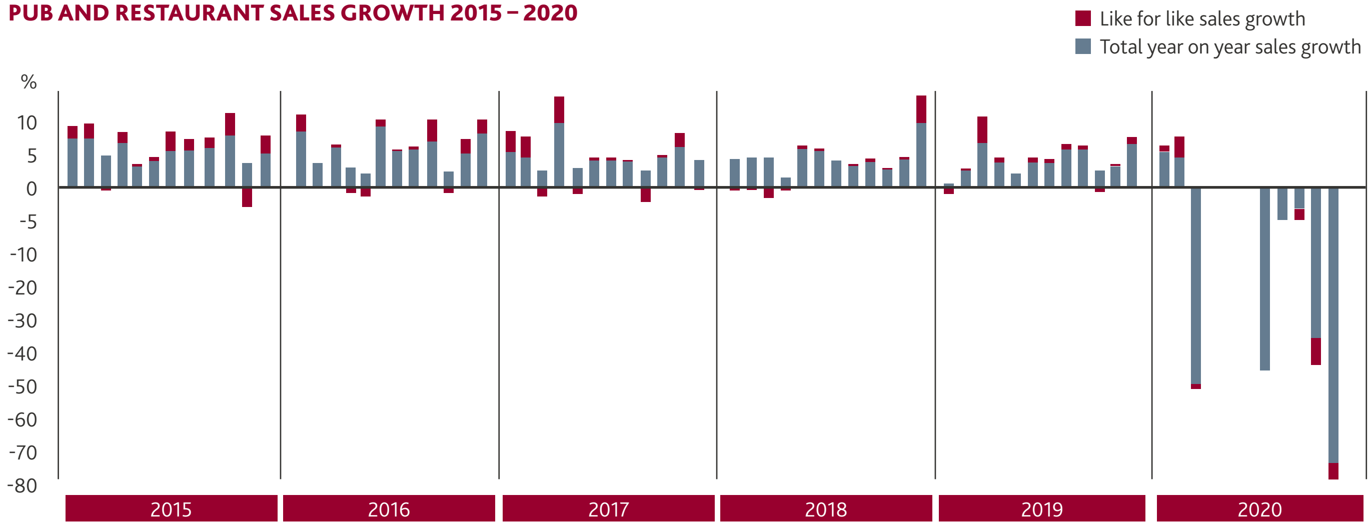
After the lockdown lifted in July, restaurants were slower to recover than pubs, with 36% versus 94% reopening respectively. Instead, delivery demand was high for restaurants and became a vital contributor to sales.

The Government's Eat Out to Help Out Scheme encouraged growth of food-led businesses in August, enabling the UK's management pub, restaurant and bar groups to rebound to 2019 levels. Recovery of the London market was significantly weaker than that of regional areas.

Despite this positive spell, trading took a turn again in September with the implementation of further COVID-19 restrictions; sales were -21% year-on-year in September and -33.9% in October. Full closure of licensed premises in November dragged numbers further down to -43.7% while in December many areas remained in Tiers 3 and 4. Also at the beginning of this year the UK entered a third lockdown, meaning enforced closures continued.

Looking ahead, the Bank of England states that households have saved £100bn during 2020, meaning consumers could be eager to unzip their purses in 2021 once the vaccine has been fully rolled out and the third wave of lockdown restrictions are eased.

PUB AND RESTAURANT SALES GROWTH 2015 – 2020



N.B. Due to the volatile trading of 2020, data for the months of April-July is unavailable.

SOURCE: COFFER PEACH BUSINESS TRACKER

M&A MARKET OVERVIEW

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2020 has been a year like no other. COVID-19 devastated the leisure and hospitality sectors around the world, with the majority being mothballed by Governments for months at a time.

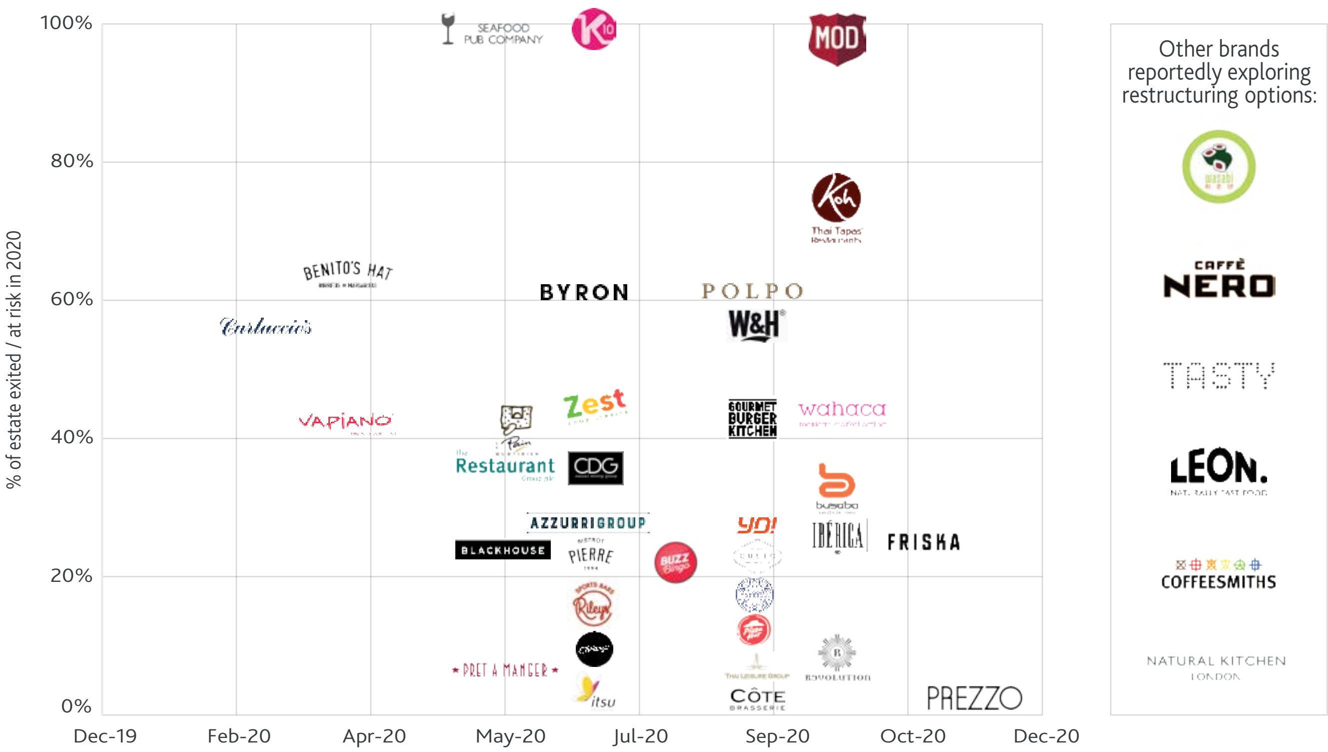
Though furlough, March CBILs, April CLBILs, Eat Out to Help Out and business rates and VAT relief schemes offered a temporary lifeline to UK hospitality operators, many felt this fell short of what was needed. Operators begrudgingly considered restructuring options and often settled on running a CVA programme that compelled landlords to support the sector by cutting rent obligations.

The Restaurant Group, Pizza Express, Côte, Azzuri Group and Pizza Hut restaurants were but a few of the high profile brands that were forced to rationalise their operations in 2020.

Financial stress was not limited to operators. Eviction moratoriums introduced in March (currently extended to 31 March 2021) effectively disarmed landlords. According to Re-Leased this, coupled with operators conserving their cash, resulted in only 67% of Q1 2020 rents and 68% of Q2 2020 rents being paid within 60 days of them due. Landlord's own cash flows were strained and the impact of this was seen in the most notable collapse of the shopping centre giant Intu in August.

In Q2 2020, brands were changing hands at 1x– 2x pre-COVID-19 EBITDA multiples. However, this was short lived as the easing of trading restrictions and hopes of a vaccine fuelled consumer, operator and investor confidence.

FIGURE 1: PROPORTION OF ESTATE EXITED OR 'AT RISK' FROM RESTRUCTURING PROGRAMS IN 2020



It's no surprise that M&A activity in 2020 was dominated by distressed transactions. The opportunity for investors was clear; brands that survived 2020 would benefit from a reduced competitor landscape (with The Restaurant Group estimating 30% of branded casual dining locations nationally will never reopen), landlords accepting reduced rental terms and new sales channels to consumers opening up.

In recent years, EV/EBITDA multiples for restaurants and bar brands have typically been between 7x – 8x but COVID-19 changed things overnight.

As brands battled to adapt to trading restrictions (often with less than 48 hours' notice) investors lined up to scrutinise business plans and cash flow forecasts. Shortfalls in cash and uncertainty over future trading caused EV/EBITDA multiples to fall to 1x - 2x in Q2 2020.

For example:

- Food and beverage specialist Ranjit Boparan, who was active throughout 2020, acquired 30 of Carluccio's sites for a 1x EBITDA multiple (£3.4m total consideration/c.£100k per site) in May. Boporan went on to acquire a further 35 Gourmet Burger Kitchen restaurants in October for £6m/£170k per site
- In July, Epiris acquired 150 Bella Italia, Café Rouge and Las Iguanas restaurants from a pre-pack of 240 site Casual Dining Group sites for c.£18m/£120k per site. Epiris also committed £25m of additional capital to help manage the impact of COVID-19. The group subsequently rebranded to 'The Big Table'. Total funding to acquire the best performing sites equated to 2x EBITDA
- In the same month, TowerBrook acquired Azzuri Group, which operated 225 Ask and Zizzi restaurants, for c.£70m/c.£310k per site
- Following a CVA process earlier in the year, RD Capital Partners acquired 10 Chilango stores out of administration in August for a total consideration of £1m/£100k per site
- September saw Partners Group acquire 98 Côte restaurants for c.£55m, with c.£15m understood to be a capital injection. Côte generated a 2019 pre-COVID-19 EBITDA of c.£18m. The deal represented a 3x EV/EBITDA multiple.[1]

For investors, this presented an opportunity to make more than 3x money in approximately three years providing the funding of cash losses didn't drag on too long, subsequent lockdowns wouldn't require additional cash injections and an exit multiple of 6x– 8x could be unlocked by 2023. Furlough was another complexity with the current support being re-assessed on 21 January and many expecting it to be phased out over several months.

1. Note: EBITDA multiples have been determined using the latest available pre-Covid Company EBITDA

M&A MARKET OVERVIEW

Continued

The quick-service restaurant (QSR) sector, by accidental design, was well placed to navigate its way through H1 2020. In H2, both franchisers and franchisees looked to deploy their growing cash reserves to accelerate growth across multiple channels.

In April, whilst the majority of the UK hospitality sector closed, QSR brands such as McDonald's, KFC and Burger King started to re-open, prioritising drive thru formats.

Consumers quickly flooded back, relishing the opportunity to enjoy their favourite fast food treats from the comfort of their car. Multiple brands saw weekly like-for-likes recover to 100% and surge north of 150%. According to The NPD Group, between September - November 2020, there were >121m visits to drive thru restaurants representing a 14% increase on the prior year - treating occasions to break the monotony of lockdown were noted as being one of the main drivers. In some cases, the police were called to manage traffic jams that were forming out of drive thru lanes.

An interesting insight into the future of the drive thru segment may be found in the US which saw an equivalent 4.7 billion visits between September – November. If UK consumers continue to gravitate towards drive thru formats and habits become entrenched, the opportunity for the growing segment is clearly vast.

Banks and investors have long recognised this resilience and ability to recover quickly, noting that QSR is often the last segment to experience any distress during a turndown and one of the first to recover. In addition to drive thru formats, the early adoption of technology, well developed delivery propositions and access to significant above store operational synergies have made the sector particularly resilient to pandemic pressures.

Brothers Mohsin and Zuber Issa, founders of EuroGarages and backed by TDR Capital, have been highly acquisitive throughout 2020 – accelerating their strategy to pivot operations from being a petrol forecourt operator to a 'food on the go' food and beverage specialist:

- In March, EuroGarages (EG) acquired the largest KFC franchisee in the UK and Ireland, the Herbert Group, which operated c.150 sites
- In October, it announced the £6.8bn acquisition of ASDA from Walmart, capitalising on its retail experience and available synergies to beat Apollo Global Management
- In November, Mohsin and Zuber sold part of their equity stake in EG to Abu Dhabi Investment Authority and two Canadian pension funds (Alberta Investment Management Corporation and PSP Investments) at a valuation of £15.2bn
- In December, EG submitted a bid to acquire 650 site coffee chain Caffè Nero ahead of the planned CVA process; though this was rejected by shareholders and the company approved the CVA.

Operators such as Chopstix, Tim Hortons and Taco Bell have also accelerated growth both organically and by on boarding new franchise partners with development rights.

It's clear that the resilience of QSR brands and white space for growth has caught the eye of investors. Operators often operate multiple brands across the UK, providing additional avenues for growth whilst unlocking enhanced above store efficiencies. Private equity has a track record of success in the sector from Rutland's investment in Pizza Hut to Alcuin making 13x return on their investment in Krispy Kreme in 2016.

We expect M&A activity across the QSR sector to increase significantly in 2021 as both operators look to put their capital to work and investors seek existing platforms primed for growth across multiple brands.

M&A MARKET OVERVIEW

Continued

With monthly cash burns of up to £40m, pub groups have sought financial support from existing shareholders, banking partners and Government COVID-19 relief schemes to shore up their balance sheet and maximise their free cash positions.

Turning to the pub sector, in our 2020 Restaurants and Bars report, we discussed how the year was defined by several 'mega deals':

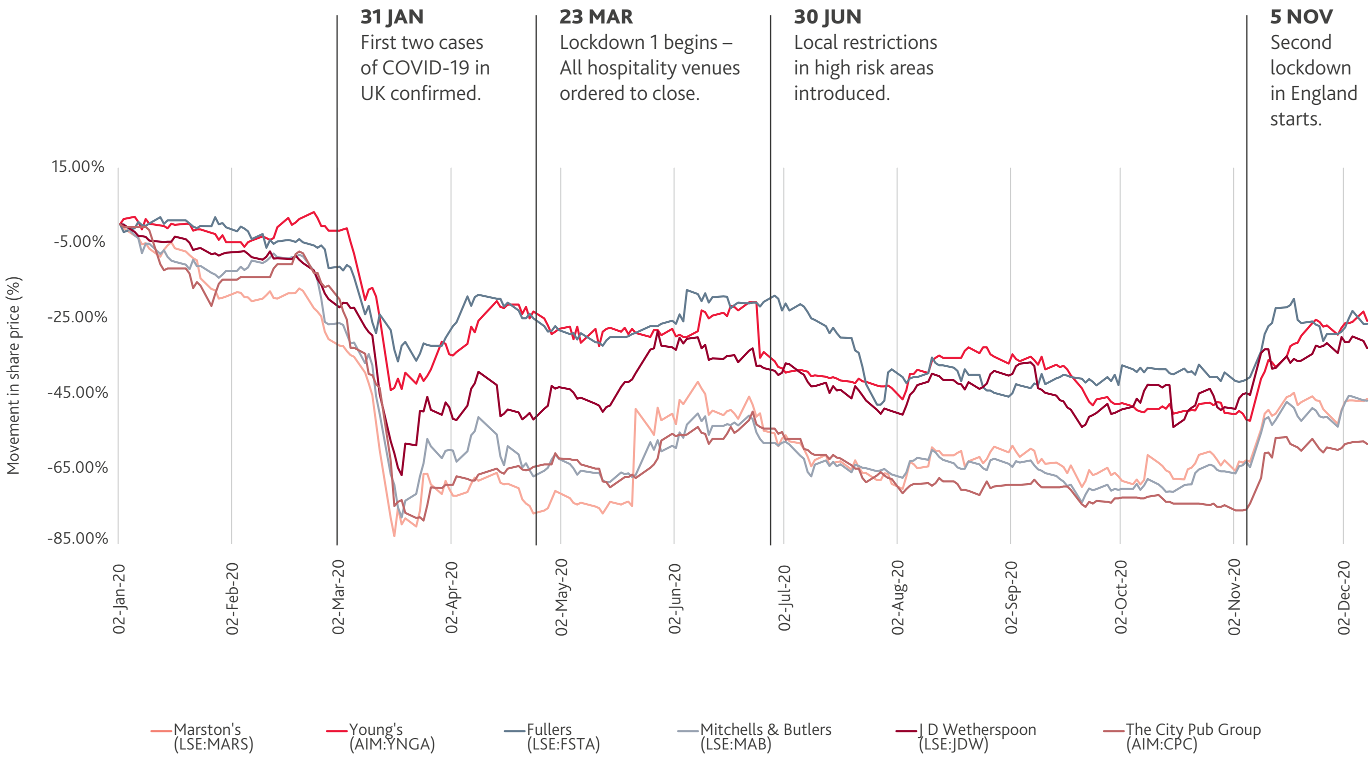
- Stonegate (backed by TDR Capital) acquired Ei Group in July for £3bn, making it the largest pub operator in the UK with more than 4,400 sites
- Similarly, CK Asset Holdings acquired 2,700 Greene King pubs and two breweries in October for £4.6bn; a c.51% premium to the closing share price prior to the announcement which in turn caused other pub operators' shares to increase c.20%.

Trade players such as Punch, Mitchells & Butlers and The Restaurant Group were also rumoured to be looking for acquisition opportunities. Young's was the only group bucking the trend, choosing to focus on refurbishing their estate starting with Redcomb pubs.

2020 kicked off with an air of positivity. The Competition and Markets Authority gave Stonegate the green light on its acquisition of Ei (provided they disposed of 42 pubs to address competition concerns) and Marston's, as part of a wider initiative to reduce their net debt to less than £200m by 2023, announced the sale of 29 pubs to Hawthorn Leisure in January.

This optimism was short-lived. As the pandemic reached the UK, and the hospitality sector was forced to shut up shop, share prices started to tumble, reaching their lowest point since the 2008 Great Financial Crisis. Pub groups with a predominantly freehold estate (Fullers and Young's) fared best with share prices supported by their underlying assets. Mitchells & Butlers, whose estate is more than 80% freehold and long leasehold, saw a significant fall in their share price as nervousness around their significant levels of debt rose (c.£1.8bn as at September 2020). Fullers and Young's, in contrast, report total borrowings of £205m and £163m.

FIGURE 2: SHARE PRICE FLUCTUATIONS OF LISTED PUB GROUPS IN 2020



M&A activity within the pub sector appears to be hotting up in 2021. The next few weeks will be of particular interest for those following Platinum's pursuit of Marston's - where their third offer at a 19% discount to the company's pre-Covid share price being turned down. Equally, Rooney Anand's opening moves with his £500m war chest will be one to track in 2021.

In response to restrictions, Stonegate, Greene King, Fuller's, Mitchells & Butlers and Young's quickly mobilised to lobby the Government for enhanced sector support whilst launching their own initiatives for their publicans. A few of particular interest include:

- Mitchells & Butlers, who operate c.1,750 pubs, bars and restaurants held a 'significant cash position' of £133m in September 2019. The company quickly extended their liquid cash position to c.£250m providing sufficient liquidity for their downside scenario which assumed no sites would open before October and a return to pre-COVID-19 trading being no sooner than July 2021. In November, the group announced that it had total liquidity of £225m, made c.1,300 redundancies in Q4 and had a monthly cash burn of £35-40m
- Stonegate quickly provided rent reductions, trade credits and suspended the annual price reviews for tied drinks in April. To fund these reliefs, Stonegate looked to their investors and successfully raised £950m in senior secured loan notes and a further £120m in share placements
- Greene King also offered rent reductions during lockdown periods of up to 90%, launched a 'Partner Support Fund' and began one-to-one discussions with their 975 tenants to understand their respective financial exposure. As at October, the group had provided more than £25m in support to tenants and pledged to replenish stock where it had expired during lockdown.

Although this year began with another national lockdown, 2021 will hopefully stand in stark contrast to 2020. A rebased rental market and an increase in available sites may prove too attractive an opportunity to miss. Rather than waiting for cash flows to rebound, operators may seek external investment to capitalise on market opportunities. We expect the QSR sector to be particularly hot in this respect.

SURVIVING FOR RECOVERY, THRIVING THROUGH OPPORTUNITY

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In response to the global pandemic, the hospitality sector has spent the past ten months having to react to the ever-changing trading conditions imposed by the Government. Business managers and owners reacted swiftly by taking the grants, relief and funding/lending available to them. However, without revenue to build the war chest necessary to see a business through the winter months of January and February, many pre-pandemic successful businesses are facing the prospect of not being in a position to reopen when restrictions are lifted.

Those businesses that have sufficient available liquidity are likely to bounce back, with many analysts predicting a short term mini-boom when restrictions are lifted. This may cause its own issues with insufficient capacity, exacerbated by any ongoing social distancing measures. However, businesses are likely to need to adapt their operating models for both the medium and long-term.

Businesses which are over-geared with significant debt service costs and underinvested sites may find their ability to bounce back restricted.

Those businesses that survive will be fighting for the attention of the consumer. Consumer habits and attitudes are likely to have changed. Taking time to reconnect with the consumer to understand their requirements will enable businesses to identify how they might differentiate their offering and effectively adapt their business practices. This can be done in a number of ways including through social media, online surveys and real time feedback. There is likely to be a flight to quality, with the risk that some brands will disappear if they do not connect with their customers and secure brand loyalty.

We are likely to be living with social distancing for many months to come and the use of technology will become more prevalent: checking in on arrival, ordering and payment.

These are likely to become the new normal at least in the medium term. By adopting such technology businesses are likely to improve operational performance and profitability, however, adopting new technology always comes with an additional cash cost.

Many businesses will have undertaken a full operational review at the outset of the pandemic. Now is the time to undertake a further review to identify whether it is possible to make the business leaner and more efficient, particularly around a hospitality businesses three major cost groups, food and drink for resale, staff costs and property.

It may be possible to renegotiate supplier terms or consider alternative suppliers to improve performance. However, given the uncertainty of what future trading may look like, and the number of variables an operator will have to deal with, it may be sensible to maintain existing supply chains and goodwill as is for time being. Given the challenges that the food and drink suppliers have suffered themselves, it may be challenging to negotiate reduced prices and extended payment terms.

The fact that a Brexit deal was agreed at the end of 2020 is good news for the hospitality sector. This should help the supply chain, particularly food ingredients and wine imports arriving from the EU with limited interruption.

Businesses should consider developing multi-skilled employees to improve efficiency and reduce cost. Key site staff including managers and assistant managers appear to have been sheltered by the furlough scheme and remain available to hospitality businesses once they can reopen operations. However sites in university towns which rely heavily on students as part of the workforce may struggle in the short term should universities be forced to close again.

For many businesses in the sector one of the largest costs will be that associated with property. There have been calls for the extension to the business rates relief in the retail and hospitality sector which is due to come to an end on 31 March 2021. Open and honest communication with landlords is key. Many landlords will have their own financial obligations to meet.

Landlords have had restrictions placed upon them regarding the enforcement action they can take and it remains to be seen as to whether these restrictions will be lifted in the short-term. Renegotiating lease terms with a landlord may not be simple. Should landlords agree to reduce the ongoing future rent payable, landlords will look to amend other terms of the lease, such as the extension of the lease term and build in the recovery of the rent they have forgone in 2020 into the extended lease. They may also look to remove tenant break clauses or build in a profit participation clause.

Businesses should closely observe the hospitality market in the UK and overseas, learn from their competitors and identify the best ideas that can be adopted in their business and spot the pitfalls to be avoided. An agile management team will react and respond to the changes in the customer attitudes. It is likely that we will see more focus on our local communities and live our lives within a smaller radius at least until travel is on the agenda again.

A critical point for restaurants and bars will be when a normal trading environment emerges and how that will impact their underlying cash position, particularly when creditors attitudes begin to shift from being supportive to looking to reduce their exposure. Ultimately, successful businesses adapt and there will be significant opportunities post the pandemic for profitable, invested business which have the correct funding structure and the right customer offering.

HOW TO MAKE YOUR RESTAURANT & BAR BUSINESS BOOM IN 2021

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BIO

Mark McCulloch is one of the leading food, drink and hospitality brand and marketing minds in the world.

Mark has over 20 years brand, marketing, digital and Social Media experience holding senior positions at Lastminute.com, Barclaycard, YO! Sushi and Pret A Manger. Mark co-founded Brand and Marketing agency WE ARE Spectacular Ltd in 2012 and now runs Premium Brand and Marketing Strategy consultancy Supersonic Inc. based in London and Brighton helping C-Suite level Marketers and Executives amplify their business across multiple sectors.

As a marketer, it is always better to look forward than to look back and there has never been a time where that has been more relevant than now. So thinking about the year ahead, what should your marketing team or you as a marketer be looking at doing in 2021 and beyond? My advice would be to follow the nine steps below to help you, not only move your business forward, but help you leapfrog the competition, putting you in a much more solid position (no matter what the world throws at you in the near future) and set you up for long-term business success.

1 DEFINE YOUR BRAND DNA

This is the only first step you can have, as without this you are building your brand and company on a very rocky ground. If you do not understand your brand then how can your customer, teams and partners understand it? If you think you 'have it down' then you may need to think again as most don't. You, your teams and your partners need to be able to state consistently how your brand is:

- Summed up in two-four words, your role statement/positioning
- Your Unique Selling Points
- Your values (which lead to your brand personality and tone of voice)
- Your target audience
- Their motivations for using you
- Your 'what is it'
- Your definitive brand story.

Plus, they need to believe in your Vision and Mission which must be defined too. Not every brand needs or has a purpose. Don't force it, as you will get found out for making this up.

2 BRAND DEVELOPMENT

Once you have defined your brand and all of its constituent parts you should then check in on your brand look and tone of voice. Do they align with your brand DNA? If not, you must develop your brand look and tone to align with and reflect your brand DNA. What world would your brand live in, how will your brand stand out and what iconic brand codes could be used such as colour, accent, phrase, figurehead, attitude, philosophy etc.

3 BRAND STRATEGY

This is the big one. You need to either enlist a brand specialist or use someone with brand strategy experience in your team to create your brand strategy that should be your bible forevermore. The first year is the hardest, but after that, you are simply building upon it. Bear in mind that for a true brand strategy to take hold, it takes faith, time, agility and patience. You need to spend your time choosing what you think is the most correct brand strategy from all of your insight on your brand, past performances, who you are targeting and how you stand out from the competition in the market. This should be a two-speed plan that also thinks about your brand health and brand building activity for the long-term and sales for the short-term.

Contents of your brand plan should be as follows:

- Breakdown of year zero (a look back at this year) including the must haves of your performance vs SMART objectives, financial performance, nice to haves of sales funnel breakdown/performance and brand tracking of your brand perceptions (both positive and negative - all brands have both)
- Insight from all past research you have immersed in
- Market segmentation including value of segments and what segments you will target (not all)
- Brand tracking for the year ahead
- Target audiences and sales funnel breakdown (Awareness to Consideration to Conversion to Repeat Business/Net Promoter Score)
- Brand DNA and brand codes.

4 DEFINE YOUR BRAND CODES AND USE THEM AGAIN AND AGAIN AD INFINITUM

I wanted to stress this part, choose your four to six brand codes in line with your defined brand DNA. You need to choose these, stick by these forever and plaster these over everything. Brand codes could include a colour (eg Coca-Cola red), your product's shape (Coca-Cola bottle), your brand DNA (Coca-Cola is all centered around refreshment and/or a sound associated with your brand (Coca-Cola's sound of 'ppfffttt' as it opens and the cold dark liquid fizzing as it hits the ice)).

Set yours and make a promise to yourself that you will not stray from your brand code, never get bored of these and no matter how many new marketers and agencies come in, do not move away from there. They should be able to work with these and build these over time. Rethink your marketing agency or marketing director before you rethink your brand codes. You do need to make sure you have strong ones in place though, but once that work is completed, it should be set in stone.

HOW TO MAKE YOUR RESTAURANT & BAR BUSINESS BOOM IN 2021

Continued

5 DON'T GO TO TACTICS TOO SOON

The mistake too many people make is they get far too tactical too early. Make sure you savour in swimming around in the strategy stage for a while before getting tactics. Tactics are easy and plentiful, strategy is like catching lightning in a bottle. Spend 80% to 90% of your time on the strategy. It is worth it.

6 MARKETING PLAN

This is a reminder that there is only one strategy - your brand strategy. Everything else is a plan. In your marketing plan you want to have the following:

- Market Orientation: is your product and offering truly centred around the customer and a true market need?
- Market Research: gather insight of what your consumer needs and their usage. Also what their attitudes are to you, your competitors and the category as a whole
- Segmentation: segment the total market
- Targeting: which audiences and segments do you wish to target? Clue: The most profitable ones that your brand fits the needs of
- Positioning: how do you position your brand/product/service against each target group
- Product Development: what do you need to develop/create to meet your customer needs. This will be continuous
- Distribution: how can you get your brand/product/service to the maximum number of people. Online and offline, physically and virtually
- Pricing: rather than guessing or just being competitive against your competitors, there are proven pricing models that work and will keep you out of a race to the bottom on price, leaving money on the table or charging too much. Seek these out
- Integrated Marketing Communications: create your Media Plan and Creative from Market Research Insight.

7 OWNED, PAID AND EARNED

Please always keep this in mind when you are looking to spend money on marketing. First, squeeze as much as you can out of your 'owned' marketing channels such as your website, email database, in venue posters, point of sale, social media organic posts (no ad spend) and promoting through your network.

Then from your media plan look at what 'paid' advertising activity you should be doing to give you more reach and awareness than just preaching to those subscribed to your 'owned' channels. 'Paid' channels would include digital, social and all other types of advertising, sponsorship, events and direct mail, amongst others.

Lastly, there is 'earned' media and this is activity such as PR and word of mouth in real life or in social. This augments and amplifies all of your promotions through your 'owned' and 'paid' channels. 'Owned' gets you so far, 'owned' and 'paid' gets you further, but 'owned', 'paid' and 'earned' all being aligned and working together will get you the closest to meeting and hopefully beating your objectives set.

8 FOCUS ON RETENTION

This is simple. Focus 80% of your team, effort and budgets on retaining your customers. Flip your usual marketing approach on its head. How can you nurture them? Create and grow a loyal customer base of raving fans who become your mobilised army of advocates. Focus here and you will benefit greatly.

9 HARNESS THE POWER OF INTERNAL AND EXTERNAL COMMUNITY

One of the main trends of the year ahead is communities will connect and thrive. Make sure that you are creating and growing meaningful communities with your teams, your customers and at a local level (even if you are a global brand). Facebook will be one of the areas to grow your community as it increasingly becomes a community site for your nearest and dearest including your groups of like-minded people where you share similar interests.

There is a bigger weapon to use in the fight for awareness, views and sales - this is your team. Work with them to be your champion where they are happy to post positive images, videos, text and content about your brand on their channels (whether they use their own personal channels). Or if they decide to be @brandbetty (putting your brand first and creating Betty a branded account) vs @cocktailbetty (a less obvious and more influencer like handle) vs @bettybrown (personal page already established).

Before you do all of this of course, the main themes for 2021 will be as follows in terms of your focus and communications to your current and future customers during the next 12 months:

A) Safety: Your customers need to keep seeing what measures are in place to keep them and your teams safe. They will not come and see you otherwise.

B) Quality: You really need to be offering something of quality (or incredible value). So many habits have changed where customers will now not choose the muddy middle. Either you are of incredible quality (quick, tasty and convenient) or a real treat - something they cannot replicate at home.

C) Craveability: You have to have something on your menu, drinks list, in your service/environment or about your brand that people would dream about, walk over broken glass for or wear you as a badge of honour. Ask yourself honestly, do you have that? Truly? Really really? As very few do. If not, make it happen as soon as you can. If you do have this, then this is what you lead all communications with like Burger King would do with The Whopper, Hawksmoor would do with Shaky Pete's Ginger Brew/ steaks cooked to perfection/mac and cheese/sticky toffee pudding/Rolos or as Brewdog do with Punk IPA and being one of the most Innovative companies on the planet. What's your 'thing'?

D) Availability: This is the change that Restaurant and Bar businesses will see forever. You need to be available in any way that your customers and the consumer at large would want you. That means table service, click and collect, delivery (last mile, national, international), home kits, virtual events, cookbooks, your ingredients in supermarkets, Amazon shop and even orderable by voice through smart speakers.

I wish each and every one of you well in 2021. Go for it!

BDO are proud sponsors of the Mark McC
Supersonic Food Marketing Podcast

In 2018, Mark began podcasting and his Supersonic Food Marketing Podcast which has reached number 20 in the iTunes business charts and is a regular Top 100 podcast. Listen to the podcast.

HOW TO GUIDE THE RIGHT DECISIONS WITH CLEAR INSIGHTS

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The concept of harnessing and interpreting the large volume of data that a business generates to drive better decision making has been around for some 20 years. But the hospitality sector has been slow or otherwise unable to take advantage. While some chains with a sophisticated IT infrastructure are seeing the rewards, others are only now beginning to dip their toes in these unfamiliar waters.

With the convergence of analytics software, cloud computing and mobile devices, the benefits of 'big data' are more accessible now to just about everyone in the business. But it's not enough to just have the data. With so much information available, it needs to be aggregated smartly and concisely. Otherwise, many operators will end up spending all their time collating and combining data to create KPI reports instead of uncovering trends and acting on valuable insights.

These are uncertain and unprecedented times for the hospitality industry. Restrictions and new health and safety operating protocols to ensure the hospitality industry can operate safely throughout the COVID-19 pandemic have weighed heavily on operators and resulted in increased costs, fluctuating demand and reduced occupancy, covers and revenues, making it ever more challenging to operate profitably. In order to get ahead and to stay profitable, the key is to fully understand your business so you can make well-informed key decisions.

This begins with understanding the numbers. Of course, success in hospitality has always depended on quantitative measurement. How much did we sell? Which sales channel is performing best? What's our gross profit and which way is it moving? What's happening to our staffing costs and how quickly are they rising?

Based on years of experience, most operators have had a reasonable idea of the overall picture but a 'reasonable idea' isn't enough. With increasingly narrow margins, businesses can't rely on 'guestimates'. The savviest operators understand the power of seeing the full picture. By knowing exactly what's going on, they can make informed decisions, adjust course where necessary and better predict the future.

By digging deep into their business insights and their customers' behaviour, they are equipped with what they need to adjust pricing, adapt menus, review purchases, change or better manage suppliers, improve employee training, set more accurate schedules, and so on. Leveraging data is the key to success.

ABOUT FOURTH

Fourth provides end-to-end, best-in-class technology and services for the restaurant and hospitality industries. Their procurement, inventory and workforce management solutions, coupled with the industry's most complete data and analytics suite, give operators the actionable insights they need to control costs, scale profitability, improve employee engagement and maintain compliance. Since its merger with US-based HotSchedules, Fourth serves more than 7,000 customers across 120,000 locations globally.

Fourth works with multi-national companies in the hospitality industry, including Fullers, Gaucho, Hilton, Krispy Crème, Leon, Café Nero, Soho House, Subway, Strada, Wagamama and Stonegate.

For more information please visit their website here.

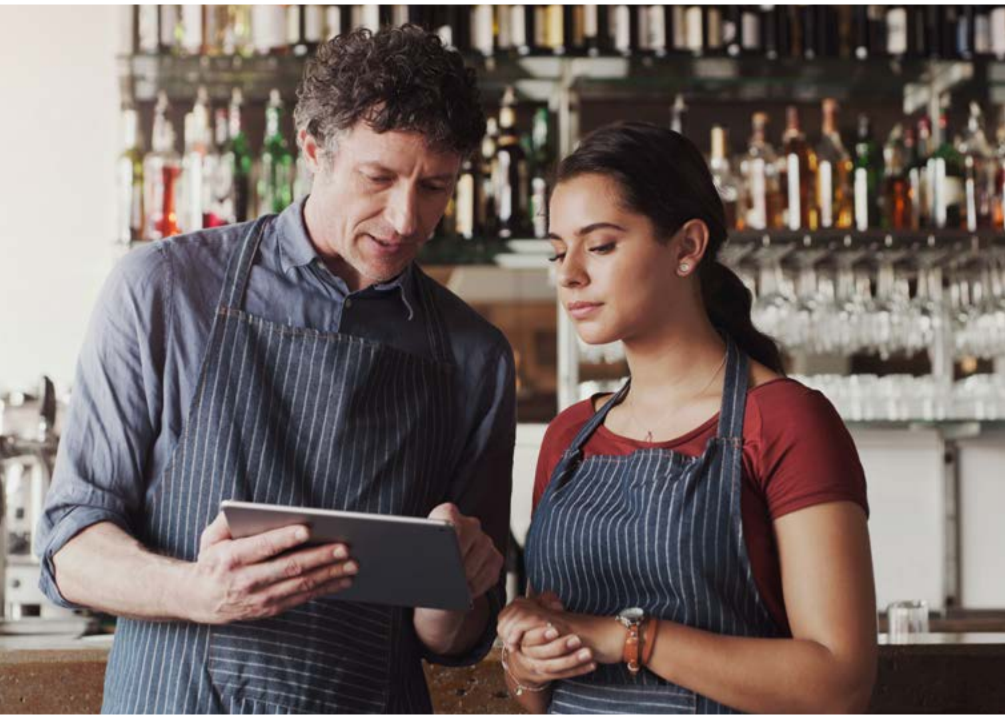
For Social Media details please find these below:

- Twitter
- Facebook
- LinkedIn.

HOW TO BEST USE THE MOUNTAINS OF DATA AT YOUR FINGERTIPS

Drowning in data can be just as bad as not having enough. Many teams end up operating in silos, working off whatever data feels most relevant for them.

For the hospitality industry especially, being able to tap into a wide variety of data sources – and, critically, integrate them – yields significant and almost immediate benefits. After all, it is impossible to see the whole picture when only looking at a handful of puzzle pieces. Since manually correlating this data is both time-consuming and prohibitively expensive, the right tool is critical for success (and sanity).



By using technology to quickly collate, analyse and understand huge amounts of data from different sources, you can transform the customer experience and operate more efficiently. What kind of data are we talking about? Just about anything a hospitality business generates, including the well-known such as Point of Sale (POS), inventory, reservations and staffing data but also industry trends, weather, national and local event information, guest and employee feedback including reviews, footfall data as well as competitor analysis.

Collating the valuable and relevant information is the key here. And the biggest challenge to organisations optimising their insight strategies. The end goal is, and should always be, to provide a holistic view of the operation. This can allow you to understand your business in minute detail and uncover causation previously deemed unpredictable. For example, by combining scheduling data alongside transactional POS and customer feedback, management can look to understand the impact that scheduling correctly or incorrectly has on customer spend and experience.

This understanding can be transformed into action by using data effectively to better schedule employees and focus on the areas of customer feedback that need attention leading to an improved customer experience and therefore increasing the likelihood of increased spend and improved frequency of visit. Being able to find insights in your business, and take informed action as a result to make significant improvements, can keep you going in the tough trading climate we find ourselves in. To learn more about Data and Analytics in your hospitality business we've created a detailed whitepaper to guide you through the process. Download it here.

ARE YOU FILING YOUR CJRS CLAIMS CORRECTLY?

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Further to the recent Government announcement that the Coronavirus Job Retention Scheme (CJRS) will be extended until April 2021, many employers decided to re-furlough significant numbers of employees, particularly those in the hospitality sector which has been forced to shut for much of the lockdowns and tier system introduction. When the scheme launched, the initial focus of HMRC and the Government was to deliver financial support but with the scheme having been re-opened and the percentage increased back up to 80% pay, attention is now shifting onto the detail of claims made with HMRC and reviewing claims to ensure they are accurate.

In September 2020, HMRC announced they would be enquiring into what they considered high value and/or high risk claims and initially wrote to 27,000 claimants. HMRC estimated that the error or fraud rate in the furlough scheme could have been between five and ten percent, which at the time meant between £1.75 and £3.5bn. As the scheme has been further extended beyond the initial expected end date of 31 October, the potential amount lost due to error or fraud has increased and further claimants have since been contacted.

Given the short timeframe of introduction and the complex nature of the CJRS claim calculations, it is unsurprising that errors and over and underpayments have occurred. This has included changing contribution percentages as well as the difficulties of weekly vs monthly pay periods and where pay periods overlap different months. Attention has now shifted to reviewing previously submitted claims to ensure these were correct, identify any potential errors and take the correct remedial actions, as well as making good these amounts with HMRC.

HOW CAN ERRORS OCCUR?

The main area likely to result in errors is the reference pay used to calculate the CJRS claim. While regular salary forms part of the reference pay, discretionary pay such as tips or commission do not.

Whether pay was discretionary or not could be a matter of interpretation leading to some employers taking a position which may not be what HMRC concurs with. Furthermore, for those on zero hours contracts, the calculation of reference pay was even more complex as it required a comparison with equivalent pay before furlough or the average pay since April 2019.

The number of hours worked for the purpose of calculating the claim also presented an issue and whether the employee worked during the furlough period added further complexity. In the first stage of the CJRS, furloughed employees were not able to work although there were some exemptions, for example in relation to training and directors performing statutory duties. A potential error could have resulted around misinterpretation of the guidance so that furloughed employees worked in addition to training or employers did not properly track which employees returned to work.

While the introduction of flexi-furlough in the second stage of the CJRS addressed to some extent the issue of the employee being able to work during a furlough period, alongside the introduction of flexi-furlough also came changes to the level of wage claim the employer could make, decreasing from the initial 80% (capped at £2,500 per month) to 60% (capped at £1,875) by October, as well as the covering of employer NIC and pension contributions ceasing in August.

Under the third stage of the CJRS in place since 1 November the wage claim cap has returned to 80%/£2,500 but still without the employer NIC/pension contributions. Errors may therefore have arisen in terms of claiming the incorrect level in force at the time, the incorrect rate of employer's NIC or mistakenly claiming employer's pension contributions when in fact the employee had opted out.

WHAT IF MY CLAIM IS INCORRECT?

Due to the timeframe of implementation and the complexity involved, it is inevitable that mistakes can and will occur. HMRC has already begun trying to tackle incorrect and potentially fraudulent CJRS claims. Given the potential amounts involved, a significant and increasing amount of HMRC resource is focusing on this area of reviewing and correcting claims made. Even companies with large HR departments are expected to have made errors, due in no small part to the often complex calculations and definitions of what constitutes 'wages'.

WHAT STEPS TO TAKE NEXT?

It is important to look back at previous CJRS claims submitted, particularly periods covering when scheme changes came into force and the formulae used to calculate the relevant reference pay and what amounts factored into this calculation.

At BDO we have been helping many clients across the restaurants and bars sector to review their CJRS claims, including those where HMRC have opened active enquiries into claims or where the client has decided to voluntarily repay some of the funds received. It is therefore important to take pro-active steps to review your own calculations, so that if an error is identified, any amounts can be made good with HMRC on a voluntary basis, to avoid any potential penalty or interest issues.

The new CJRS legislation also includes powers to publicise defaulters online and to pursue company office holders where businesses become insolvent, with joint and several liability.

If you would like to discuss any of the points raised above, please reach out to your BDO contact, who can put you in touch with our Employment Tax team to discuss how we can help.

RESTRUCTURING OPTIONS FOR HOSPITALITY

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Many businesses in the restaurant and bars sector will likely exit lockdown with over-leveraged balance sheets and restricted access to liquidity requiring them to restructure.

A popular tool prior to the COVID-19 pandemic for restructuring a business with a significant leasehold estate was a Company Voluntary Arrangement (CVA), which enables a company to make proposals to its unsecured creditors to compromise their claims. However, in the past year there has been an increase in the number of Pre-pack Administration sales whereby the company is marketed via an accelerated M&A process with the business sold immediately upon appointment of Administrators. As mentioned in the previous M&A article, examples of this being the sales of Carluccios, Le Pain Quotiden, Azzurri Group and Bryon to name but a few. The reason for this could be a perceived stronger negotiating position with landlords following an administration although control of the business may no longer sit with the prior directors.

The main liabilities on the balance sheets of businesses in the sector will be the build-up of rents arrears, debts to HMRC and secured lending which may include CBILS, CLBILs or bounce back loans. The treatment of certain debt due to HMRC changed with effect from 1 December 2020 whereby the Crown Preference was restored in relation to certain taxes including PAYE, VAT and employee National Insurance Contributions. The reinstatement of the Crown Preference may impact on the number of CVAs approved where there is significant HMRC debt as you cannot compromise a preferential creditor's claims without their consent. HMRC in our experience take some persuading to compromise any claims. Their position as we come out of lockdown, and as the confidence in the economy is rebuilt, will be followed with interest.

Newer options for hospitality can be found in the new The Corporate Insolvency and Governance Act (known as CIGA for short) which came into effect on 26 June.

This legislation was fast-tracked as a result of the pressing need to support UK businesses in light of extensive COVID-19 disruption. CIGA introduces a number of powerful measures to improve the potential for distressed companies to survive, stabilise and prosper:

Protection from creditors for viable companies: A standalone moratorium that leaves the directors in charge of delivering a solution (under the supervision of a qualified 'monitor') while providing a standstill from a wide range of historical obligations. The key issue for moratoria in the hospitality sector is that certain liabilities including rents need to be paid as they fall due during the period of the moratorium.

A new debtor-led compromise procedure: The 'restructuring plan', modelled on a scheme of arrangement with scope for greater flexibility, including the power to prevent dissenting creditors if certain circumstances are met from obstructing a viable restructuring.

Protection from supplier disruption: A prohibition on termination clauses being triggered by the new moratorium, restructuring plan or other formal insolvency proceedings.

These reforms represent the biggest change to the UK's restructuring and insolvency legislation since the Enterprise Act which came into force in 2003. The measures go to the heart of many of the components of a successful turnaround, including encouraging early engagement with stakeholders and an acknowledgement that reaching out for support should not mean having to give up control. The new moratorium allows strong boards with credible plans to act early and drive company rescue, supported by turnaround professionals with valuable situational experience.

The greatest barrier to an optimal outcome is often 'runway'. The new measures afford companies enhanced scope to develop and deliver structured turnaround plans with an increased opportunity to drive operational and financial restructuring.

The most high profile use of the new legislation case in the sector is that of Pizza Express. Here a restructuring plan effected a major financial recapitalisation and de-leveraging, together with a CVA to effect an operational restructuring of its leasehold liabilities.

More widespread use of the new legislation was likely delayed as a result of the Government's continued support measures, particularly with regard to the restrictions on actions by landlords. However, as we exit lockdown more business owners will need to explore all options available to them which will likely vary dependant on the specific circumstances of each business but may well include one of the tools introduced by CIGA.

BDO SECTOR EXPERTISE

RESTAURANTS, BARS AND PUBS

BDO's national restaurants and bars sector comprises of industry specialists across audit, tax and advisory and offers clients expertise that is focused on their business and resolving unique challenges that arise within this sector.

BDO is recognised as the leading adviser to the restaurants and bars sector, blending sector knowledge and experience with practical advice which is aimed at making a real difference to our clients' success.

With a focus on the economic engine (mid-market) and private equity, we frequently advise entrepreneurial businesses as they grow and offer commercial insight that is founded on sector expertise.

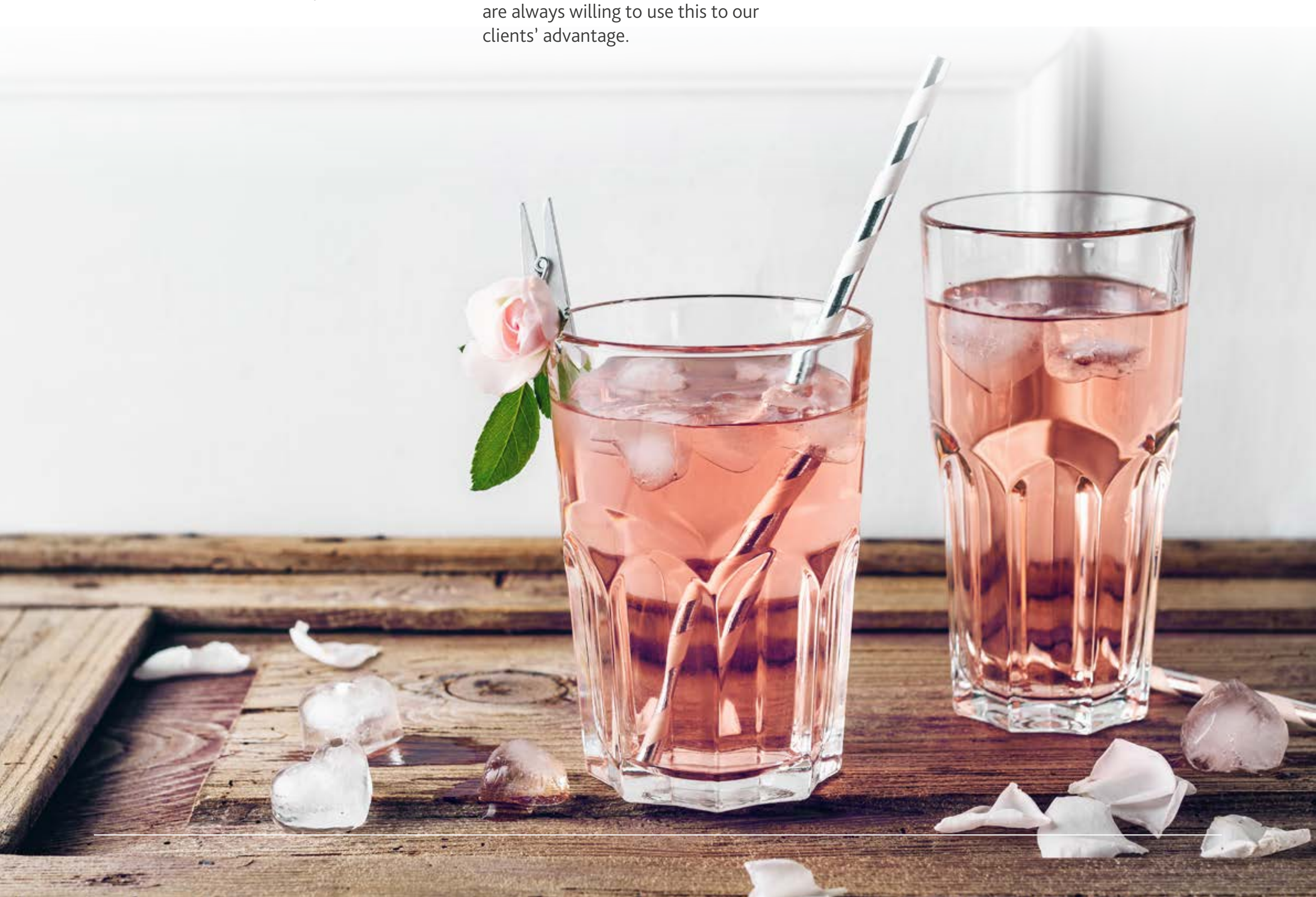
We know who is doing what in the market, we are able to benchmark our clients' businesses and provide information on current trends and issues over and above our competitors.

With our dedicated transactional team, bolstering our audit and tax services, we are able to advise restaurants and bars throughout their full life cycle.

As thought leaders across the sector, we offer commercial and technical updates, specifically tailored to restaurants and bars including our annual Restaurants and Bars Report. We also have a well-established network in the industry that spans finance directors, suppliers and advisers, and we are always willing to use this to our clients' advantage.

RETAIL, LEISURE AND HOSPITALITY EXPERTISE

As well as restaurants and bars, BDO has expertise across the retail, hospitality and leisure sectors with industry focussed teams across retail, hotels, travel and tourism, betting and gaming and professional sports. BDO has a breadth and depth of expertise across each of these industry segments, and we provide business and risk assurance, tax planning, corporate finance assistance, performance improvement advice and personal wealth management to our clients and have a thorough understanding of the sector. We hope that you enjoyed our report and for information on our sector credentials or to receive our thought leadership reports in relation to any of these areas, please get in touch.



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