RESTAURANTS AND BARS REPORT

JULY 2015

INTRODUCTION

Welcome to the summer 2015 issue of BDO's Restaurants and Bars Report.

In our last report at the end of December 2014, we made our Top 10 Predictions for 2015, and I am pleased to say that we did remarkably well in the crystal ball department! 2015 has been another exciting year for the sector, and our predicted growth in alternative funding, cashless payments, delivery models, smokehouses and the rise of the north have all been very welcome – even if our predicted move to the living wage may have caught us all by surprise and be a little less welcome for many operators.

This is a sector that continues to innovate though and to grow whatever the pressures, so after considering the economic environment, we also look at how Be at One have excelled in the late night drinking world, the rise in concepts hailing from Bristol, and the inexorable rise of smokehouse and barbecue concepts in the UK.

Given the recent budget we have taken a brief look at the impacts on the sector, and we have also included an article from a new business providing an innovative way of gaining customer feedback that we hope will be of interest.

We hope you find the content of this edition interesting, and wish you all a wonderful summer.

DAVID CAMPBELL
Partner, Head of Restaurants and Bars, BDO LLP
t: +44 (0)20 7893 3610 | e: david.campbell@bdo.co.uk

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THE TRADING ENVIRONMENT: ECONOMIC OVERVIEW

Economy in Recovery

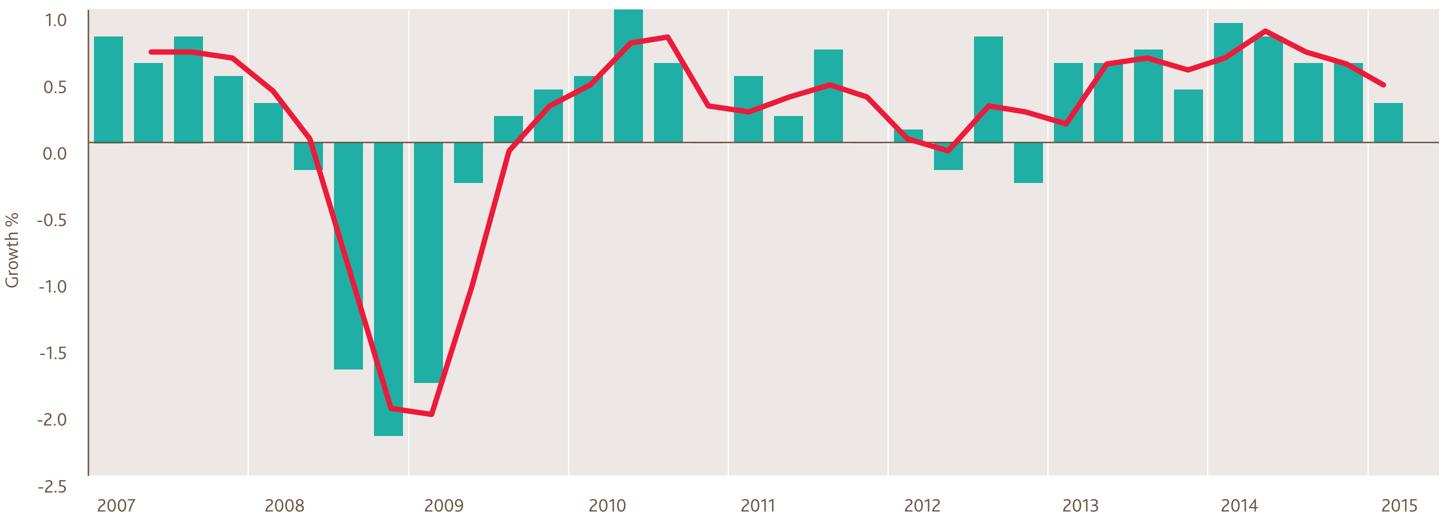
After a reasonable 2013 and a good start to 2014, analysts were hopeful that the recession was firmly behind us and we could look forward to renewed growth. However, Q1 2015 GDP growth slumped to just 0.3% – the weakest growth rate since Q4 2012 (when negative growth was last recorded). Slow construction and manufacturing output were blamed for the slowdown, with services unable to make up for the deficit. Whilst the figures, released just days before the General Election, are hardly a positive sign, analysts are confident the slowdown is a minor blip and, with other upbeat business surveys, growth for 2015 should still be strong.

Furthermore, more positive economic news came at the end of May when the Office for National Statistics revealed that the UK's public sector net borrowing for the year ending March 2015 was 11% less than a year previously – and also that the public sector deficit went down by 26.9% to £6.8bn. According to a Reuter's poll, economists had forecast a shortfall of £8.1bn. Although the deficit has taken longer to clear than the Government had hoped due to the financial recovery taking longer than anticipated, the reduction in borrowing shows the Government has made a step in the right direction to achieving its aim of 4% of GDP in 2015-16. However, there is still work to be done, particularly as the health regulator, Monitor, has just announced that NHS Trusts in England have reported the deficit increased almost eightfold in 2014-5 compared to the previous year.

Concerns were circulating in our previous two reports of a potential interest rate rise hitting consumer spending. However, any concerns about interest rate rises have failed to materialise so low inflation as noted below, and falling petrol and food prices have actually increased consumer spending power over recent months.

Inflation has continued to stay low and, for the first time since 1960, entered into deflation in April 2015. On the face of it, this might be considered a good thing: consumers feel more flush so have more money to spend on items they may have deferred purchasing, and the Government will also get the benefit of not having to spend so much on index-linked benefits. Indeed, on entering this new period of deflation, the

GDP GROWTH QUARTER-ON-QUARTER 2007-2015 Q1

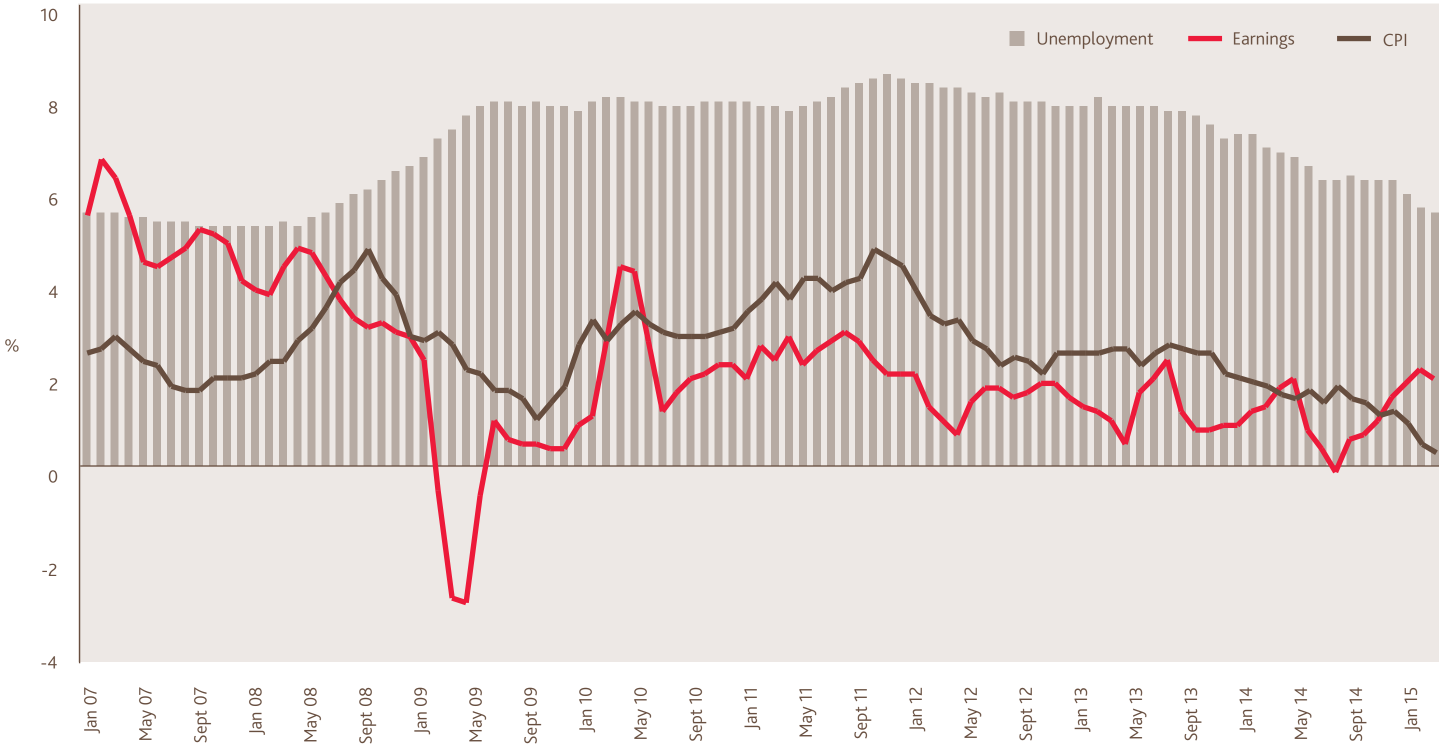


SOURCE: ONS

Chancellor claimed we should "welcome the positive effects that lower food and energy prices bring for households at a time when wages are rising strongly."

All this is true – but the Chancellor may wish to review his definition of "rising strongly". Average weekly earnings grew by just 1.9% in March – a considerable slowdown since December 2014 (+2.1%) and a far cry from the growth rates >6% seen pre-recession in 2007-8. Deflation may have lifted consumer spending power slightly, but the real pay increase is actually less than has been seen over recent months. Meanwhile, an interest rate rise would still seem unlikely in the near term given the economic headwinds the economy is facing such as Government austerity measures, the Greek debt negotiations and the prospect of an EU referendum. Consumer debt also remains high. Most analysts believe the first rise in interest rates will not be until spring 2016 at the earliest.

UNEMPLOYMENT, EARNINGS, INFLATION JANUARY 2007 – JANUARY 2015



SOURCE: ONS

The mixed messages from the CPI and earnings data is translating into a mixed picture for consumer confidence: a year ago, we noted that the GfK/NOP Consumer Confidence Index had seen its second strongest rise since 1977-8. However, the index remained fairly stagnant in the months following this, and actually declined from a score of 3 to 1 in May 2015 which, given the questioning happened mostly during the aftermath of the general election, certainly represents a reserved optimism with the new Government.

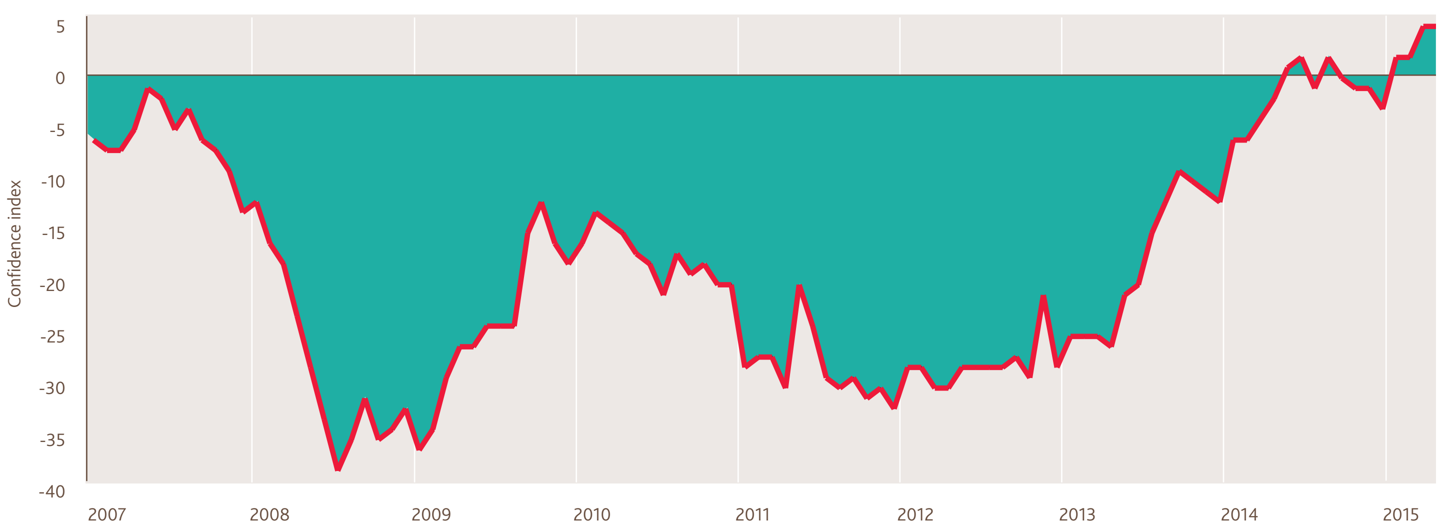
However, whilst consumer confidence may be remaining high, business confidence is still wavering. Confidence is still higher than pre-recession levels, but there was a sharp shift in confidence between Q4 2014 and Q1 2015: whereas 62% of manufacturers were confident that turnover would increase over the next 12 months in Q4 2014, the figure slid to 55% in Q1 2015. For services businesses, confidence slipped from 60% in Q4 2014 to 50% in Q1 2015 – the lowest level since Q2 2013 for both manufacturing and services. The BCC have warned that this could be the first alarm bell in the path of economic recovery, and is a sign that the economy is still too reliant on consumer spending. Nevertheless, whilst business confidence may be down, businesses are certainly not shy when it comes to exporting: the volume index of export documentation (BCC/DHL) stood at 121.43 in Q1 2015 – an increase of 3.4% on Q4 2014, and an increase of 3.8% on the same quarter in 2014. Scotland and Wales were the only areas to buck the trend where the export index was down both on the quarter and the year.

We may have entered a brief period of deflation, and some business confidence indicators are not quite where the Chancellor would like to see them, but with export intentions at an all-time high and consumer spending showing no signs of slowing down, the economy is definitely continuing to move in the right direction. However, whilst continued growth is likely throughout 2015, it still needs nurturing in order to become sustainable over the long term. Capital investment needs to continue to increase, and exporting needs to continue on the strong growth trajectory we have seen over the recent quarter.

Trading conditions

The restaurant and bars sector has continued to enjoy healthy growth for the past three months, although March saw the first decline in like-for-like sales for the restaurant and bars sector for two years showing that the industry cannot become complacent. The Easter break, falling in the final weekend in March but counting towards April's figures, saw like-for-like

CONSUMER CONFIDENCE 2007-2014 YTD



SOURCE: GfK Consumer Confidence Index

BDO OPINION:

Consumer confidence is currently at a near-term high which we are seeing translate into increased expenditure in restaurants and bars. However, the recovery still needs nurturing in order to become sustainable. Deflation might give the impression that prices are cheaper and consumers can spend more, but with wage increases also slowing, and the effects of the Greek debt negotiations and the EU referendum still unknown, the Chancellor's comments that we should "welcome the positive effect of lower food and energy prices" should be viewed with caution. The increased level of exporting is welcome, but the Government needs to keep the export momentum high, as well as encouraging continued capital investment.

sales up by 5.1% year-on-year compared to last year, and Coffer Peach believes that consumers may have held back on spending during March in order to spend over the Easter weekend. Whether or not this is true, however, it should serve as a warning that restaurant and bar owners cannot afford to become complacent after two years of consistent like-for-like growth.

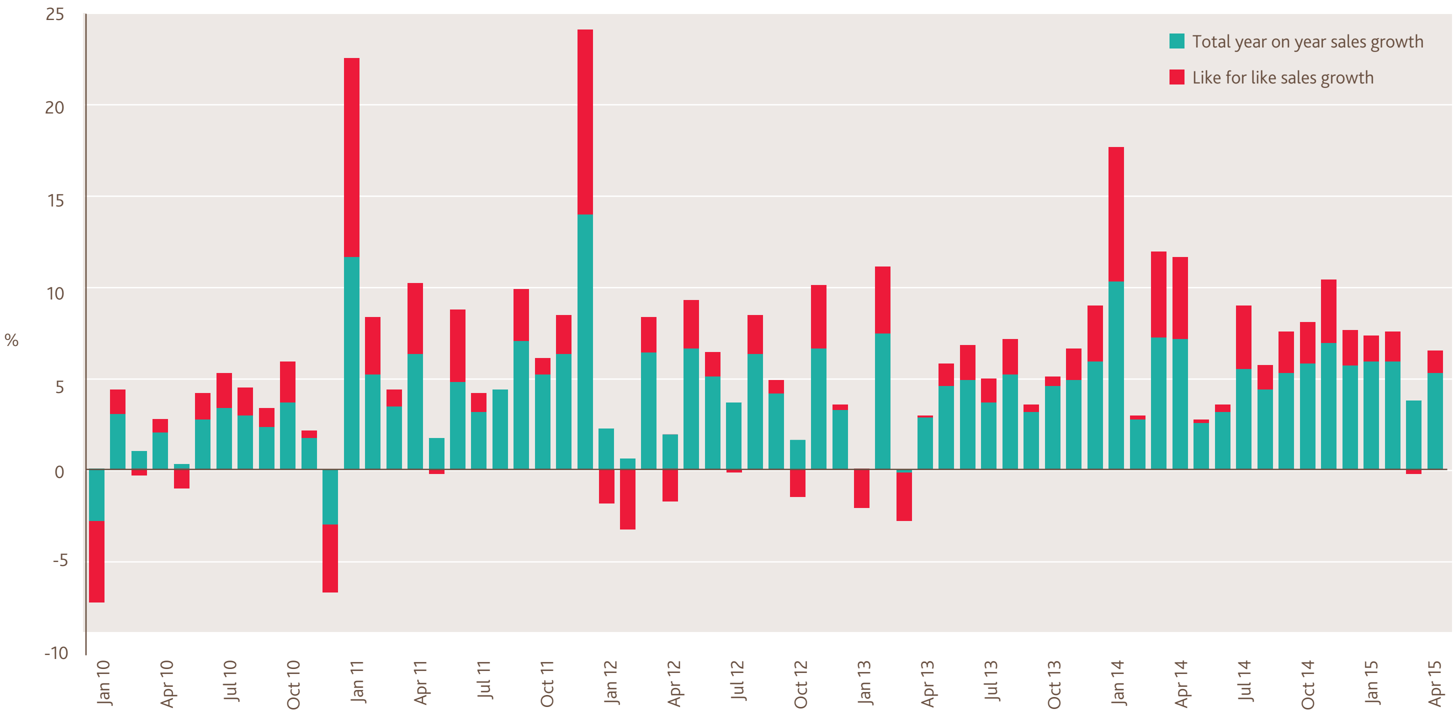
Like-for-likes returned to positive territory again in April, although performance still remained muted given the strong sales over Easter weekend counted in the month's results. Growth within the restaurants and bars sector, whilst still flourishing and growing faster than the rest of the economy, does finally appear to be cooling.

Whilst London is still enjoying the best growth organically (like-for-likes up by 1.4% against growth outside the M25 of 1.2%), an increased focus on opening new establishments away from the capital is having an effect: restaurant brands outside London saw the best like-for-like sales growth in April 2015, with sales increasing 3% compared to April 2014. Whilst this is good news for restaurant chains, it will also be music to the Chancellor's ears in his quest to rebalance growth away from the capital. However, the gap between London vs the rest of the UK is narrowing, and restaurants and bars need to retain their rate of new openings if they are to continue to capitalise on the increased economic focus away from London.

The outperformance of the restaurants and bars sector continues to be echoed by the Visa Europe UK Expenditure Index. Expenditure on hotels, restaurants and bars rose by +7.1% in March compared to the same month in the previous year, and an even bigger rise of +7.8% was recorded year-on-year for April. This compares to overall consumer spending rises of +1.1% and +2.0% for March and April respectively.

Consumers are clearly willing to spend in restaurants and bars, but the post-recession consumer has become far more discerning. Some of the well-known fast food burger chains are losing up to a million customers a year, and some serious innovation to business models is needed to help stave against falling revenues. Customers still want fast food, but from hipper establishments than the traditional fast food restaurant. Current players need to innovate both their menus and their restaurants in order to appeal better to today's consumer – and be better prepared to fight off the competition.

PUBS AND RESTAURANTS SALES GROWTH 2010-2015



SOURCE: CGA Peach

Premium burger chain Five Guys now has nearly 30 restaurants in the UK, and the Colorado-based Smashburger is looking to open 35 restaurants around the UK. Burgers are no longer sold on price, and appearance matters: restaurant chain Chili's recently announced in the US that it is spending $750,000 on an innovative glaze for their burger buns to make them look more appetising when they are posted on social media. However, the premium fast food concept is extending beyond burgers. Kebabs are no longer a commodity item to be purchased after the closing time bell in the pub and are becoming a delicacy; and a new craze for Mediterranean street food, eaten in a restaurant environment, is evolving.

Pubs, many of which had already been forced to innovate to become gastro pubs to cater for the more family-orientated, non-smoker clientele, are now finding casual dining establishments are also impacting on their new business models. Marston's famously invested heavily on making its establishments more family friendly, but has scaled back its planned openings from 25 to 30 a year to just 20 to 25, claiming market competitiveness is the issue. Mitchells and Butlers, which includes Harvester and Toby Carvery within its portfolio, were also scaling back openings. The group reported like-for-like sales growth of 1.7% in the first half but, given consumer expenditure within the wider hotels, restaurants and bars sector has increased by over 5%, it is clear that it does need to err on the side of caution. The Coffer Peach statistics also echo this trend, with sales for casual dining groups up by 8% nationally year-on-year – and 11% outside the M25. Managed pubs could only muster a like-for-like sales increase of 1% in April.

As with burger chains which have been forced to adapt their offerings to cater for the more discerning consumer, pubs are having to address the same trend: customers are now demanding multiple craft beer options, with cheap lager no longer having the pulling factor it once did. To add to the innovation required in product offering pubs are also dealing with fundamental reform in their commercial agreements. The new Small Business, Enterprise and Employment Act will allow tied tenants of large companies to have their rent independently assessed which, in some cases, may be a rent-only agreement. Whilst Camra argues this will ultimately mean the 13,000 pub tenants tied to large pub companies will be able to charge more competitive prices and keep their pubs open, some analysts argue that the opposite is true and pubs will struggle to meet the cost of paying market-rate rents. The British Beer & Pub Association argues that

it could ultimately cost the industry up to 7,000 jobs. Enterprise Inns has already reacted to the new law by selling 1,000 pubs and increasing pubs under its own management from 16 to around 850. It is also considering putting around 1,000 other pubs into a real estate investment trust. Enterprise is the first chain to announce bold plans to help protect itself from financial losses in the face of the new law, and other chains are expected to follow.

It is not just pubs which are being forced to alter their operating model. Coffee shops are also innovating their offerings in the face of increasing competition from casual dining establishments. Pret a Manger has recently started a trial of transforming its Strand branch into a restaurant after 6pm where diners can enjoy a full restaurant experience, including enjoying alcohol with their meals. Starbucks followed suit two weeks later by opening a similar dining experience in its Edinburgh Airport branch. Unlike Pret, Starbucks has said it plans to extend the concept to other cafes with longer linger times if it proves successful. It is clear that McDonalds will have to do more than just offer breakfast items all day (a strategy it is currently testing in its San Diego branches) if it is to continue to attract customers.

In the war to attract new consumers and retain existing customers with more discerning tastes and disposable income, it is clear that pubs and restaurants are having to go beyond their normal strategies. Casual dining popularity shows no sign of slowing down, particularly outside the capital, and it is those establishments which can best adapt to serving this new trend who are set to thrive over the medium term. However, whilst the new Government may help to end some uncertainty, we await to see what, if any, impact the Conservative Government will have over casual spending. Based on the recent Budget (see page 9 for further details), the new Government is prepared to take strong measures that will have real effects on both consumer spending and on the wage costs of businesses in the sector, and the impact of these changes will be a key factor for the continuing success of the sector.

BDO OPINION:

Innovation is a concept which the restaurant and bars sector is having to embrace just as much as the most IP-heavy technology business. Fast food establishments can no longer compete just on price, and gastro pubs cannot rely on family menu options to continue attracting clientele. With expenditure in restaurants and bars increasing more than any other consumer-focused sector, new entrants to the market are launching enticing new propositions to consumers – and shaking up the traditional market considerably. Investing in new menu options and business models is something which cannot be shied away from.


SUMMER BUDGET 2015: THE IMPACT FOR THE RESTAURANTS AND BARS SECTOR

The country was taken by surprise with a shock majority General Election result and the Conservatives wasted no time in announcing an emergency Budget outlining their views and measures.

The Chancellor, in his first Budget under the new Parliament maintained his commitment to the so called triple tax lock which caps the main rates of tax and made some positive announcements for both businesses and individuals. Overall however this Budget will significantly increase tax revenues as well as reducing expenditure on state benefits so, whilst the Chancellor's vision may be "high wage, low tax, low welfare", it is clear that in this first period of Parliament raising the tax take to balance the UK's books is very much on the agenda.

For restaurant and bar businesses the headline grabbing measures of a £7.20 'national living wage' (NLW) for over 25s from April 2016 (increasing to £9 an hour by 2020) and the raising of income tax thresholds may increase consumer spending but will also result in a significant increase in employment costs for many operators. The reduction in the rate of corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 should go some way to offset that for businesses with taxable profits. The increase in the national insurance employment allowance from £2,000 to £3,000 will be a further help to some employers in the sector but won't help larger operators.

Mid-market operators will welcome the fixing of the annual investment allowance for plant and machinery at £200,000 a year from 2016 onwards for the life of the current Parliament. Although lower than the current level of £500,000 a year, this is higher than the previously expected 2016 level of £25,000 and will at least provide certainty to businesses preparing capex forecasts.

There was no progress on the Treasury's much needed review into business rates, which is now not due until December. This was disappointing and means any changes are unlikely to filter through until well into the Conservative's term in office. It therefore continues to be a watching brief and offers no respite to operators feeling the pain of rates set on pre-recession values.

Other key measures introduced include:

- New payment dates for companies with annual taxable profits of £20m or more (reduced proportionately for groups) which will apply for accounting periods starting on or after 1 April 2017. Affected companies will be required to pay corporation tax by quarterly instalments four months earlier than at present.
- The abolition of the dividend tax credit from April 2016 together with the introduction of a new dividend tax allowance of £5,000 and new rates of tax on dividend income above the allowance of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.
- The end of corporation tax relief for goodwill purchased after 8 July 2015 as part of a trade and asset acquisition. Relief had previously been given for these costs as they were written off in line with generally accepted accounting principles (or by election at 4% per annum on a straight line basis).
- Changes to the taxation of corporate debt which are intended to simplify and modernise the legislation as well as making it more robust against avoidance. These measures include welcome new corporate rescue rules to exempt taxable credits arising where distressed businesses are restructured outside of formal insolvency provisions with a view to ensuring their solvency going forward. Favorable amendments are also envisaged to the deemed release rules affecting distressed companies that are party to impaired loans where the terms of the loan are amended.
- A substantial increase in insurance premium tax (IPT) from 6% to 9.5% which will be phased in from 1 November 2015. This will hit businesses bottom line as IPT (unlike VAT) is a 'sticking tax' and cannot be recovered.
- Major changes for non-UK domiciled individuals who will now be deemed to be domiciled in the UK for tax purposes if they have been here for 15 years out of the last 20. In addition, it will no longer be possible for somebody who is born in the UK to parents who are UK domiciled to claim non-domicile status if they leave but then return and take up residence in the UK.
- Confirmation of the previously announced measure to reduce tax relief on pension contributions for additional rate tax payers from 6 April 2016. The annual pension contribution allowance, currently £40,000, will be reduced by £1 for every £2 of income above £150,000 until it reaches the minimum level of £10,000 for individuals earning £210,000. On a more positive note relief from inheritance tax will be extended to include an allowance to cover main residences where they are passed to direct descendants. This relief will be phased in for deaths after 6 April 2017 and will reach £175,000 by 2020/2021. As with the existing nil rate band the new main rate nil rate band can be inherited by the surviving spouse/civil partner when the first spouse/civil partner dies. There will also be rules to prevent those selling their homes to move to alternative accommodation from being penalised. For many couples this will bring the total allowance to £1m fulfilling a long held Conservative promise (being £325,000 existing nil rate band plus £175,000 main residence relief each).

Please visit BDO's website for our in depth budget coverage at **www.bdo.co.uk/budget** and if you have any questions about how the budget affects you please get in touch.

JONATHAN HICKMAN
Tax Partner, BDO
t: +44(0) 207 893 2496 | e: jonathan.hickman@bdo.co.uk

SHAKEN AND STIRRED – BE AT ONE'S RECIPE FOR SUCCESS

Plenty has been written in recent years about the challenge operators have running a late night, wet-led concept, especially as you roll out beyond central London. Developing a brand to succeed in this environment is no easy task and requires precision of concept and flexibility of approach. Here, Steve Locke, Co-Founder of Be At One, tells us how the company have done just that.

Rhys Oldfield, Leigh Miller and I met in 1993 when working at TGI Friday's when there were only ten restaurants in the UK and they were widely recognised for having the best cocktail bartenders in the industry. By 1997, Friday's had undergone a rapid expansion and we saw that bartending there had lost some of the personalised service which had first attracted us. In April 1998, after being refused business loans, we each got a credit card and a car loan and managed to raise £60k. Over the next six weeks, we opened Be At One Cocktail Bar, on Battersea Rise near the Northcote Road junction. The bar was an instant success, and we managed to make back our money within the first year of trading with just the three of us working there.

In June 1999, we committed to a second site in Wandsworth which was twice the size with a restaurant and expensive lease. After two years with limited success, we sold the site as it just wasn't working for us. At the time, it wasn't a great experience for us, but it did give us an opportunity to learn a great deal more about business, albeit the hard way. We learnt to fully understand the factors necessary to build a great bar, the importance of size, shape of building, location and socioeconomics. Up until that point, we had been focused on generating sales, not managing costs.

Fast forward to 2015, and Be At One now comprises 26 bars in seven towns and cities, over 300 staff members and we've seen positive like-for-like growth since inception. In October 2011, we sold a stake of the company to Piper Private Equity. Piper appealed to us because they are a renowned PE company with a track record for helping brands with a strong proposition to grow. They also allow us to run our business without intervention, but offer us great counsel when we need it. Piper's investment has enabled us to realise our vision of growth.

The DNA of Be At One will always remain the same – our three brand pillars are; great drinks, unpretentious service and classic tunes and these cannot be compromised. Beyond this, we believe that our success can be attributed to a few very simple factors, namely; the fact that we are fanatical about service, we can be flexible about unit sizes and licensing and we constantly evolve the brand.

Fanatical about service

The main key to our success is employing dynamic people, training them to a very high standard and rewarding them well. Every bartender, no matter how much previous experience they have, will go through eight weeks of training where they learn how to make the 200+ cocktails on the menu, free-pour, two-handed bartend and product knowledge. At the heart of our great service proposition we use the 5-60-30 rule to encapsulate our service standards. The bartenders acknowledge the guest within 5 seconds, make their drinks within 60 seconds and take payment and give change back within 30 seconds. This is ingrained into every staff member so that our guests can spend time enjoying themselves with their friends rather than waiting at the bar for a long time. Once our bartenders are fully-trained, they have the confidence to make the crucial sales in the service style that goes back to when we were bartending in 1998.

The management team work hard to communicate the focus of the business and will continually listen to feedback from guests and staff alike. All of the Be At One bars are ergonomically set up so that everything is close at hand and the bartenders are trained to use both their hands to make drinks. This means that our bartenders can concentrate on interacting with guests and build regular trade whilst providing consistently-made quality cocktails at pace.

Flexible unit size and licensing

Our original bar on Battersea Rise is one of our smallest at 900 square feet. When it first opened, we had a regular pub license where we had to close at 11pm, which is indicative of the type of neighbourhood cocktail bar that Be At One started out as in 1998. 17 years later, Be At One is now renowned as a late-night cocktail bar and we are now looking at much larger sites with later licenses, with the most recent London site in Greek Street in Soho trading until 3am six days a week over 4,000 square feet. While this bar has seen unprecedented success, we doesn't exclusively look for large venues with late licenses because, first and foremost we operate a cocktail bar business, not nightclubs. The recent successful openings in Milton Keynes and Bath, which have square footages that are similar in size to Battersea Rise, prove that there is a strong market to open smaller units because there is a demand for our style of bar.

We now have eight sites which operate two bars over two levels, the first one of which opened at Monument in October 2011. This was a real game-changer for us, as it made the option of exclusive hire available to guests. We have previously never considered exclusive hire because we don't want to alienate our regular guests by closing our bar to them. The extra bar space has created a corporate revenue stream for the business and also provides the opportunity for guests to hire out their own Be At One bar for the night.

Constant brand evolution

Be At One is not a marketing-led brand, but we strive to stay up-to-date with everything from cocktail trends to being at the forefront of digital innovation within the industry. We are constantly developing our menu, which is our most important piece of point of sale, with the exception of our bartenders, and work closely with suppliers in order to do this. Our award-winning smartphone app now generates almost 10% of our revenue through Appi Hour and is the 16th most downloaded food and drink app in the Apple App store. The app is continually evolving to integrate with all of our systems and keep up with digital trends.

Knowing exactly who our guest is and what they want is incredibly important and our annual guest survey has become an essential element to the development of our sales and marketing strategy. The survey provides valuable insight into who our guests are, what they do, how they use the bars, what they drink and their drinking habits, and helps us obtain invaluable demographic information. Through this, along with regular guest forums, we are able to constantly evolve the brand without affecting the brand pillars.

If you would like more information about Be At One, please contact:

SARAH SWAYSLAND
Marketing Manager, Be At One
t: +44(0) 207 738 2119 | e: SarahSwaysland@beatone.co.uk

CITY FOCUS ON BRISTOL

AS THE INDUSTRY OUTSIDE LONDON CONTINUES TO THRIVE WITH NEW INNOVATIVE BARS AND RESTAURANTS EMERGING ACROSS MANY REGIONS, WE FOLLOW ON FROM OUR RECENT FOCUS ON MANCHESTER TO HIGHLIGHT THE BRISTOL EATING AND DRINKING SCENE.

This year is the 90th anniversary of Mr Brain's Faggots. Back in 1925, Herbert Hill Brain, a grocer from Bristol, oversaw initial production of the pork and liver meatball and Brain's has been producing them ever since.

I'm told that faggots with mash and peas are a real taste of the West Country. Now, I'm not a native of Bristol but, having visited the city numerous times over the last couple of years, I've been wowed and enthused by the food and drink scene without yet seeing or sampling the family favourite. Maybe I'm missing out?

If so, I'm surprised. From what I've seen and experienced, Bristol is a vibrant, buzzing city with a real passion for its food and drink offering. Given the local availability of fantastic produce, perhaps it is no wonder that quality abounds.

That ethos of making effective use of quality, local ingredients seems to be the bedrock of the Bristol food and drink scene. From James Wilkins' Michelin-starred Wilks through the casual dining middle ground to the traders at St Nicholas Market, as well as at the numerous food and drink festivals that take place in and around the city, there is a pride and passion for local produce that gives vibrancy to Bristol that other cities would struggle to replicate.

As Ben Hibbard, Marketing Manager at Bristol-based Boston Tea Party describes it:

"Bristolians have a huge passion for ethics and sustainability, which is something we've tried to reflect in our business. Over 80% of our products are from West Country suppliers and we take the issue of provenance extremely seriously"

While this is a common thread that runs through many of Bristol's success stories, it is not to say that everywhere is the same. Rather, the variety and diversity of Bristol's food and drink scene is one of its key attributes. The aforementioned Wilks and its fellow Michelin Star holder Casamia offer fine dining at its best, but they compete for local consumers' attention with the likes of the meat heavy Grillstock Smokehouse and tapas operator Pata Negra.

True, Bristol (as other cities) does reflect national trends: the inexorable rise of the burger (Atomic Burger; The Burger Joint); the renewed interest in craft beer (Zerodegrees; Beer Emporium); a focus on cocktails (Milk Thistle; Hyde & Co); the popularity of street food events (Bristol Eats; Bristol Food Connections Festival) etc. However, it does so with its own style, verve and attitude. Many of the names listed will be unfamiliar to many readers – which is part of Bristol's appeal and reflective of its innovative spirit and culture. This is a city that not only loves its food but is proud of its people, its heritage and its ability to continually produce new, innovative concepts that cater for a wide variety of tastes and wallets.

It is apparent that there is populous support for independent operators over national chains. This is not to say that the well-known chains are not welcome in Bristol; they are, and many do very well. However, the sense

is that Bristolians will make a concerted effort to be supportive of local independents as they want them to succeed and want to feel part of that success.

Alex Reilley, who founded the 'Loungers' chain with Jake Reid and Dave Read in Bristol back in 2002, is supportive of that notion:

"Bristol remains a strong market for the right brands and has seen a healthy amount of nationals either debut, or planning to debut, in the last 18 months. However, the independent restaurant scene is arguably stronger than a lot of other cities, with Bristol folk liking nothing more than a local underdog."

The interesting thing is that, in supporting a local 'underdog', the people of Bristol have helped concepts such as Loungers to establish a solid platform for growth and expansion away from the city as well. And Loungers is clearly not alone in achieving significant success away from the West Country as well as in it, with operators such as Turtle Bay, Las Iguanas and Boston Tea Party all making an impact well beyond their initial roots.

BTP's Hibbard explains:

"Bristol is a city with a 'can do' attitude and a spirit of encouraging diversity. There is a somewhat bohemian vibe that allows independents to thrive and groups such as Boston Tea Party to develop beyond their spiritual homeland."

Such expansion is likely to continue. The innovative, entrepreneurial culture remains evident, and the likes of Friska, Hotcha and Aqua Group are all beginning to spread their wings beyond the city. Having been heavily involved in transaction activity in the sector over the last few years, we're continuing to see interest from private equity and trade investors in innovative, scalable brands. It would be no surprise at all to see more Bristol-based concepts following in the successful footsteps of Loungers, Turtle Bay, Las Iguanas and their like in making good use of such finance and experience as they look to expand.

Clearly, though, national operators will continue to descend on Bristol. There is a welcoming, inclusive atmosphere which, together with the population's penchant for eating out, means there will continue to be demand. Alex Reilley believes that, due to the locals' support for independent operators, **"often what constitutes a great pitch is difficult to ascertain"**. However, the likes of MEATLiquor (due to open in the city later this year) and others will feel that the general rise in the number of people regularly eating out, combined with the increase in city centre living, means there is more than enough demand.

One such 'outsider' that has made a success of Bristol is the San Carlo Group. Despite sites and brands across the country and no obvious link to Bristol, the Italian restaurant chain continues to enjoy success nearly 20 years after opening in the city. As Managing Director Marcello Distefano describes:

"We are a family business and continue to run each of our restaurants as a family operation. As such, we've managed to maintain an individuality and authenticity that perhaps sets us apart from a standard national chain.

The people of Bristol warmed to us quickly when we arrived back in 1996, and we continue to welcome regular locals as well as new visitors. It is a very welcoming city and the people are incredibly enthusiastic about their food and the dining experience in general. As a result, we always strive to raise our standards – for example, this year we invested another £500,000 in the site. As with anywhere in the country, quality is paramount and Bristol is no different."

Not only is quality paramount but it's prevalent. I have been fortunate enough to sample a great deal of what Bristol has to offer and I always come away buoyed with enthusiasm for the city's food and drink scene. The brilliantly positive attitude that pervades will continue to generate new ideas and concepts, as it has in the past, but it will also continue to welcome those from outside of the city that enrich the already-diverse food and drink culture.

I may never have sampled Mr Brain's faggots with mash, peas and gravy but, despite that, I do believe I've sampled a true taste of Bristol – and I'm keen to go back for more.

KIERAN LAWTON
M&A Director, Corporate Finance, BDO
t: +44(0) 161 817 7575 | e: kieran.lawton@bdo.co.uk

HOT CONCEPTS – SMOKEHOUSE AND BARBECUE

The days when the closest the majority of consumers would get to American dining was munching their way through a hot dog during the trailers in the cinema are long gone. Changes in consumer tastes, coupled with a growing popularity for casual dining, are helping to make the new barbecue and smokehouse restaurants one of the fastest growing categories for eating out.

Casual dining the fastest growth of any other dining sector

The concept of casual dining is seeing the fastest growth of any other dining sector in the UK. Coffer Peach statistics show that the sector grew by 8% national year-on-year between 2013 and 2014, with sales growth outside the M25 at 11%. Some restaurants are fast to react to this trend and are opening new outlets to cater for this kind of diner: Carluccio's has grown its restaurant portfolio by 46% over the past three years, whilst Wagamama has increased its number of outlets by 50%. However, two of the most notable increases are by the long established Frankie & Benny's and Harvester chains. The former increased its outlet portfolio from 197 to 232 between 2011 and 2014 (an 18% increase) whilst Harvester saw its restaurant numbers increase by a fifth to 212. Former family stalwarts such as ASK, Strada and Table Table have actually seen their portfolios decline.

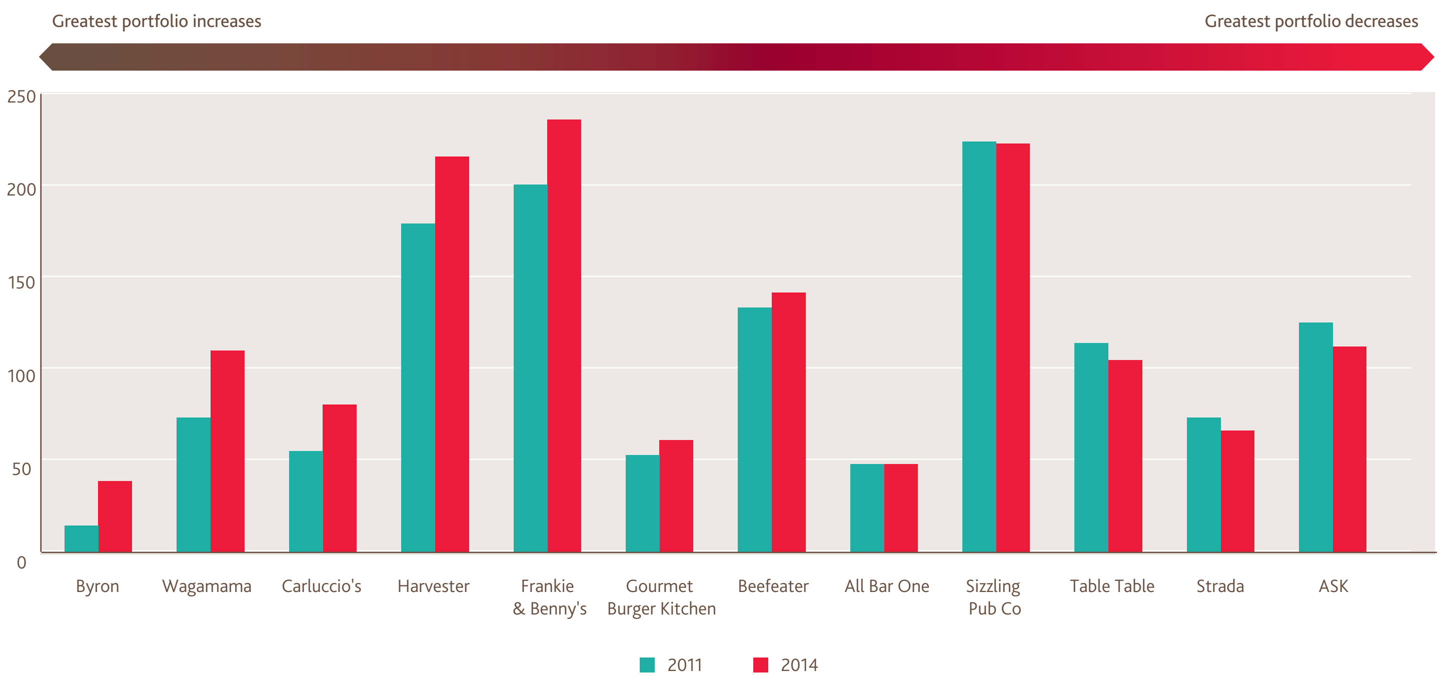
The transition to the smokehouse restaurant

So, why are Frankie & Benny's and Harvester enjoying newfound popularity? Although both chains are benefitting from a well-thought out strategic opening programme, both also feature menus which feature either American or barbecue options: Frankie & Benny's offers various pulled pork options and features choices such as blackened steak whilst Harvester's menus are dominated by pictures of ribs and pulled pork, dripping in barbecue sauce. The concept is even creeping into the ready meal market in supermarkets, with pulled pork and barbecued chicken options now replacing the British classics of chicken tikka masala and sweet and sour chicken.

The evolution of the restaurant menu

The evolution of the restaurant menu provides some insight into changing consumer tastes. If we look at the burger menu at the well-known chain Harvester, for example, one can see that burger options have greatly expanded from the standard beef, chicken and vegetarian options, with the source of meat being displayed prominently on the menu. Pulled pork is now provided as an option in all burgers – a trend which is being seen throughout restaurants.

NUMBER OF RESTAURANTS: 2011 VS 2014



SOURCE: Mintel

HARVESTER: 2010 MENU

Just three burger options are given, with diners having the choice of beef, chicken or vegetarian. There are no options for personalisation, and there is no information provided as to the source of the meat.

BURGERS

All served in a toasted white burger bun with a slice of tomatoe, lettuce and mayonnaise

Crispy Bacon & Cheese Bagel £6.99
Our 100% beef burger topped with crispy streaky bacon and melted Emmental cheese.

Cajun Chicken Burger £5.49
A flame grilled Cajun spiced chicken breast

Lightly Spiced Sweet Potatoe Burger (v) £5.49
Made with sweet potatoes, lentils and chickpeas, with a hint or coriander and cumin

HARVESTER: 2015 MENU

The 2015 burger menu contains various standard burger options, together with a raft of personalisation options and fully loaded standard options. Gone are the days when diners could merely request a slice of cheese or tomato on their burger. Customers can now request toppings of BBQ pulled pork, spicy three bean or guacamole – all options which capitalise on the current Americana trend.

GOURMET BURGERS

All our burgers are served in a toasted burger bun with lettuce, tomatoe and burger source. Serverd with your choice of sauce and a side.

Bacon & Cheese Burger £8.99
Beef 738 kcal / Chicken 678 kcal

Classic Burger £7.99
Beef 589 kcal / Chicken 486 kcal

Butternut Squash and Chickpea 747 kcal (v) £7.99
Squash, sun dried tomatoe, red pepper, chickpea, garlic and a parsley & black pepper crumb

Pork 'n' Chorizo Burger 630 kcal £8.99

Build your own, why not add a little extra for added flavour?

BBQ Pulled Pork 309 kcal or **Spicy Three Bean** 110 kcal £0.99

Fresh Pineapple 27 kcal, **Free Range Fried Egg** 136 kcal, **Bacon** 68 kcal, **Monterey Jack Cheese** 67 kcal, **Guacamole** 68 kcal, or **Jalapeños** 7 kcal £0.49

Extra Beef Burger 370 kcal, **Chicken Breast** 207 kcal or **Vegetable Burger** 467 kcal £1.99

Extra Pork 'n' Chorizo Burger 357 kcal £2.99

HARVESTER FULLY LOADED BURGERS

Can't decide? Why not choose one of our Harvester fully loaded burgers? They come with everything you need, just choose your sauce and side.

The Harvester Beef Fully Loaded £10.99
A beef patty topped with slow cooked BBQ pulled pork, bacon, Monterey Jack cheese 1354 kcal

The Harvester Chicken Fully Loaded £10.99
A chargrilled chicken breast loaded with chorizo pieces, a Padron pepper, Monterey jack cheese & onion rings 1219 kcal

The Harvester Veggie Fully Loaded (v) £10.99
Our Butternut Squash and Chickpea burger topped with Three Bean Chilli, a flamed kapia pepper with Monterey jack cheese 764 kcal

The Harvester Pork 'n' Chorizo Fully Loaded £11.99
A pork 'n' chorizo patty topped with half a gammon steak, slow cooked BBQ pulled pork and a free range egg 1210 kcal

These restaurants are, rather crudely, transition restaurants to the relatively new concept of smokehouse and barbecue restaurants. The public's thirst for the new casual dining style concepts is unrelenting and this, coupled with an enduring love of meat, is helping to propel smokehouse and barbecue restaurants into the one of the fastest growing dining sectors of today.

The barbecue restaurant is now firmly set for growth

Indeed, in the CGA Peach Business Leaders' Survey from February 2015, barbecue was identified as the food trend which would have an impact this year by some 57% of restaurant operators – with cheaper cuts (the second rated option) only identified by 31% of respondents. It is hardly surprising that restaurant operators are springing up to capitalise on this trend – and are able to harness the capital to grow, thanks to financial providers sharing the same view as restaurant operators about the growth potential of the sector. Red's True Barbecue, which began operating just three years ago, has enjoyed impressive success since its first branch opened in Leeds in 2012. The company's growth was supported by the Royal Bank of Scotland, but it has recently secured a £5m debt and equity investment from leading figures in the hospitality industry.

Red's True Barbecue admits that the premium burger concept is one of the major competitors to the barbecue concept and, despite premium burger restaurants been around for a number of years, the cuisine is still seeing strong growth.

Supporting this growth, one of the parallel foods trends of the past few years has been the ethical sourcing of food and drink and the story behind it. The growing popularity of craft beer (which combines naturally with these types of concepts) is one such trend – registrations for Beer Duty increased from 101 in 2010 to 291 in 2013, and 170 new breweries were opened in the past year as the consumer began to become more discerning when it came to beer choice. The trend is now spreading into boutique spirits with applications for distiller's licenses increasing threefold in the past year.

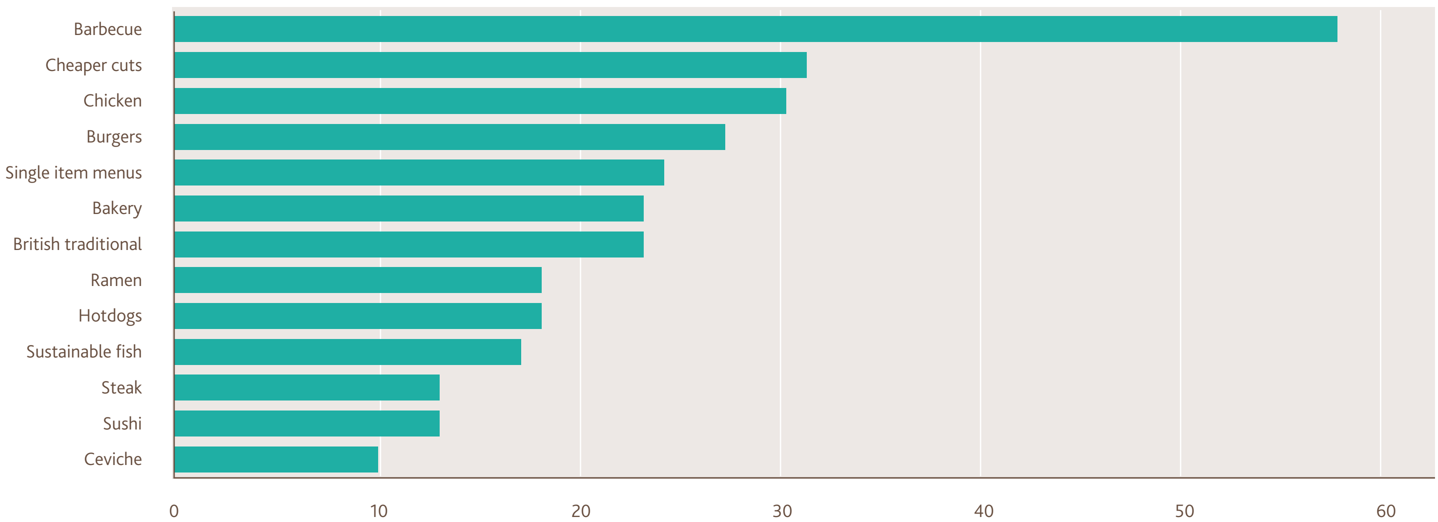
The barbecue/smokehouse concept is seeing a similar consumer switch. The American low and slow barbecue concept is steeped in heritage, and the depth and breadth of the product range holds appeal for young adults who are the key demographic for smokehouse restaurants.

> ***"US low and slow barbecue has huge history and rich stories, craftsmanship and depth of product range and food provenance, all of which are important triggers for consideration and purchase amongst our core audience."***
>
> **Scott Munro**, Co-Founder, Red's True Barbecue

Indeed, the majority of smokehouse restaurant websites have a large section devoted to the history of the restaurant with this playing as an important a part as the menu in the PR strategy for any new restaurants opening.

London based operators including Bodean's and Porky's have enjoyed great success in recent years as the appetite for ribs and US barbecue has grown rapidly.

FOOD TRENDS WHICH HAVE AN IMPACT IN 2015



SOURCE: Operators surveyed in the CGA Peach Business Leaders' Survey February 2015

London has the biggest concentration of smokehouses – but growth is being led from the north.

Interestingly, the growth of the smokehouse restaurant is being led from the north – a trend which is being seen across the UK restaurant industry rather than one which is unique to the smokehouse industry. Whilst Coffer Peach figures show that London continues to enjoy the best organic growth with like-for-like sales growth of 1.4%, there has been a defined move by operators to open new restaurants away from the capital which helped to bring like-for-like sales up by 5.3% away from London.

Blue's Smokehouse, which is part of the PS the Pub Company, is focusing its expansion outside the capital. The company opened its first smokehouse in Bracknell, and a second restaurant in Twickenham in March. The company is currently in talks with investors about opening four new smokehouses in Oxford, Brighton and Staines and is planning to open a new smokehouse in Freith in Oxfordshire in the summer. All four restaurants are outside the capital.

Hickory's Smokehouse, based in and around Chester, received funding from sector investors Piper Private Equity in October last year. Such a deal demonstrated not only that equity investors see growth in the sub-sector, but also that there is strength in concepts developed outside of the capital.

Meanwhile, Red's True Barbecue, which has itself just received equity funding from sector investors, has restaurants in Leeds, Headingley, Manchester and Nottingham but has only recently entered the capital with a site in Shoreditch. Whilst the company admits that London has the highest concentration of smokehouses, the popularity of smokehouses away from the capital is less saturated with significant growth potential.

"London is clearly still in growth and boasts the highest concentration of smokehouses. Outside of the capital, Newcastle, Manchester (Red's opened in February 2014) and Nottingham (Red's opened in January 2015) have a reasonable presence of independent smokehouse restaurants. Liverpool and its surroundings also has its fair share, albeit from one brand."

Scott Munro, Co-Founder, Red's True Barbecue

What's next for the industry?

The sector's growth seems to be assured for the short– to mid-term at least, with the demand for barbecue showing no sign of waning. More players are likely to enter the market, and some of the more well known restaurants are likely to also provide barbecue offerings. However, independent restaurants will continue to thrive in an area which consumers still view as niche, and we are likely to see smokehouse restaurants with an even more specialist offering enter the market – particularly in London – as restauranteurs seek to differentiate themselves from the rest of the market. Recent examples of this include Suvaki in Soho, London and WingsEggs in Fulham: the former claims to be a fast casual Greek grill house concept whilst WingsEggs specialises in chicken wings and egg dishes (as well as craft beers) where BBQ plays a key part.

Some of the better known smokehouse brands are likely to be following in the footsteps of Nando's and Pizza Express and launch sauces and home cook meals in supermarkets as an extra source of revenue. However, launches will have to be made with care: low and slow may not replicate well in a microwave ready meal.

The prospects for the industry are very exciting, and we look forward to seeing the concept continue to grow and thrive as more consumers – and investors – gain an appetite for the low and slow barbecue and smokehouse concept.

MARK EDWARDS
Audit Partner, BDO
t: +44(0)20 7893 3742 | e: mark.edwards@bdo.co.uk

HAPPY CUSTOMERS SPEND MORE

As an opening statement this sounds pretty obvious but at the moment most hospitality businesses – both in the UK and around the world – would struggle to prove or disprove it with any real evidence.

Importantly, the customer feedback tools that businesses currently use don't get to the heart of how the 'average' customer feels. They don't accurately show which elements of the customer experience are most closely linked to overall satisfaction and they certainly can't connect what a customer feels about their experience to what they buy and how much they spend.

This lack of genuine insight stems from the fact that most hospitality businesses hear from a tiny fraction of their customers – often as few as 1 in 1,000. Of the customers they do hear from the majority are motivated to get in contact (or fill out a long survey) because they want to win a prize or because they have had a particularly amazing or terrible experience. This means that they don't hear from the silent majority of their customers, so they find it difficult to trust whether their 'insight' is genuine, accurate or representative.

truRating is changing this by using the point of sale to make it easy for customers to feed back by answering just one, quick, anonymous question each time they pay. By making it so simple, 88% of customers have provided a rating when asked. These volumes mean we can rotate questions to different customers and get a great sense of how customers perceive elements of the experience such as value, service or atmosphere.

Using the payment terminals means ratings can be linked to other information such as ATV and basket contents so a new seam of information linking sentiment and spend becomes available to businesses.

How much difference does satisfaction make?

So just how much difference does customer satisfaction make to average spend? Within the Restaurants and Takeaways sector we have already collected over 163,000 ratings, and we capture feedback from thousands of paying customers every day. It means individual businesses, and the wider sector, can pinpoint just how much satisfaction drives customer spend.

If we simply split our 10 point scale in two, dissatisfied and satisfied, we can start to see below the difference this makes for one example business in terms of spend.

TABLE A

Customer Type	Average Transaction Value
Dissatisfied	£34.46
Satisfied	£38.83

Already we can see a 13% increase in transaction value between our two customer types.

What should I change to get customers to spend more money?

truRating delivers questions across five core categories, Experience (Atmosphere), Service, Value, Product and Recommendability. By looking into the different question categories we can start to understand which parts of the customer experience have the biggest impact on behaviours. So businesses can now understand the factors that are most important in their business in terms of impact on customer spend.

We see a link between all areas of satisfaction and the overall spend but for Restaurants and Takeaways, we have picked out 2 where the link is clearest – service and atmosphere.

Chart 1 below shows the consistent trend that wherever satisfaction is improved spend also goes up. In particular creating a great atmosphere has a significant impact – with those rating a '9' spending £7 more than those rating a '0'. At a more granular level raising a customer from rating a '4' to a '7' creates an average jump in spend of almost £2.50 – which can make a big difference when dealing with hundreds of customers day after day.

For a restaurant with 500 transactions a week, moving your average score from a 4 to a 7, could add nearly £1,200 to the weekly takings – or just over £60,000 a year.

Being able to quantify these trends means it becomes easy to identify an issue and make the business case for change. You can then measure which actions are creating a benefit (before rolling them out if you have multiple outlets).

With the ability to capture a constant flow of customer feedback – including adding 'customised questions' that can get into the detail of specific issues – businesses can test which initiatives improve their financial performance the most.

Some more sector trends

The ratings data also means it is possible to paint a picture of the other factors that are influencing customer experiences and perceptions.

The most difficult day to deliver satisfaction is Friday – especially Friday evenings where satisfaction levels are consistently lower. The other side of the coin is Sunday, where satisfaction levels are pretty much always higher than average. The obvious conclusion is that reductions in trading volumes make for a better all-round customer experience, but this doesn't explain why satisfaction levels are lower on Fridays than Saturdays, when trading volumes are very similar.

When you dig into the data, it becomes clear that value for money and service are the areas that are driving this drop on Fridays – so to maintain levels of goodwill (and repeat visits and spend) a little more thought and effort may be required on a Friday than on other days.

For more details on truRating and how it is helping individual businesses understand their customers better, do drop us a line at hello@trurating.com

truRating

CHRISTIAN NELSON
COO and Co-Founder, truRating
t: +44(0) 7949 768 358 | e: christian.nelson@trurating.com

So who are truRating....

truRating is a new UK based company that is leading a global 'ratings revolution' – where businesses get better information and use this to provide a better experience and improve their own performance.

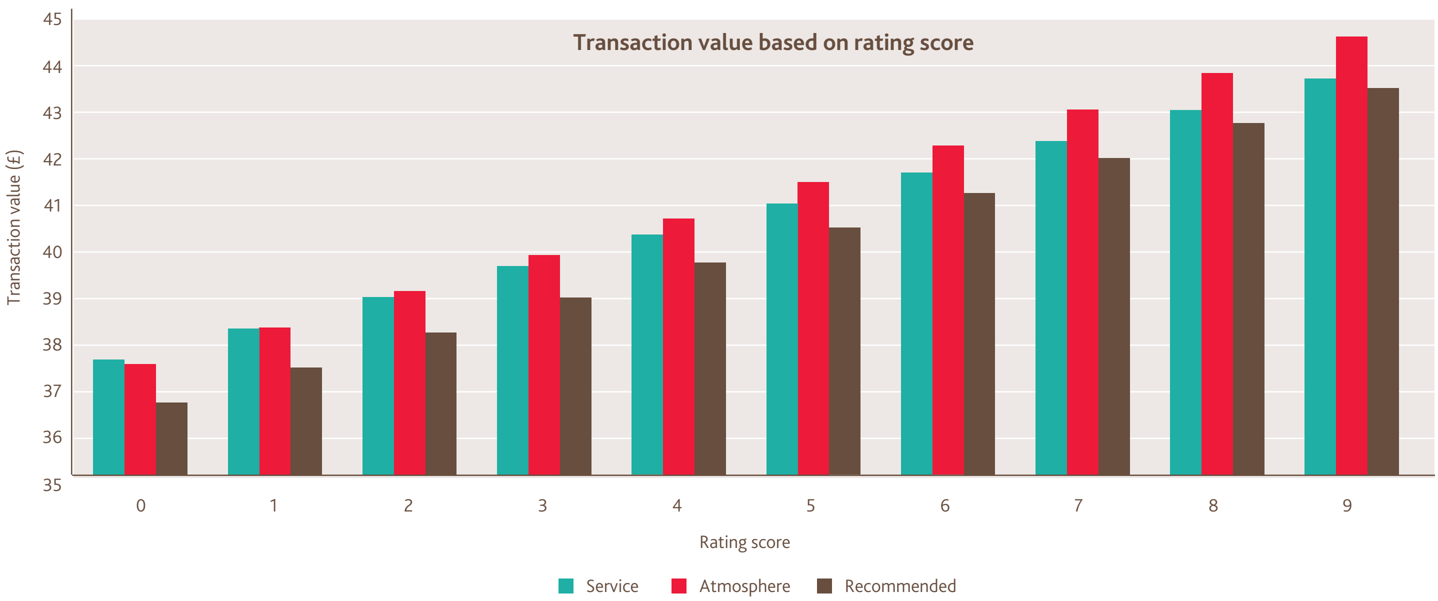
Since launching earlier in the year truRating has collected over 350,000 pieces of feedback from 150 outlets. We go live with more merchants every week and with a host of brand names beginning to collect ratings in coming months we're on track to collate 200m ratings in the UK alone this year.

The system gives every business affordable access to insightful, real time feedback so they can see how they are performing over time, across branches and compared to anonymous competitors.

Businesses can also have a profile page on our consumer facing website – which allow customers to search for recommended businesses using validated ratings they can trust.

> *"..we're on track to collate 200m ratings in the UK alone this year."*

CHART 1: THE RELATIONSHIP BETWEEN SERVICE AND ATMOSPHERE RATINGS AND SPEND



CONTACT

For more information please contact:

DAVID CAMPBELL
Partner, Head of Restaurants and Bars
t: +44 (0)20 7893 3610
e: david.campbell@bdo.co.uk

www.bdo.co.uk