

► A NEW ECONOMY
PUBLICATION

RESTAURANTS AND BARS REPORT

SUMMER 2017 EDITION



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FOREWORD

Welcome to the Summer 2017 edition of BDO's Restaurants and Bars report.

We entered the year reflecting on the shock of elections and thinking about challenges in the P&L ahead, and unfortunately, the headwinds are blowing stronger as our government looks less secure, our negotiations with the EU less focused, and our top line less certain.

However, the industry is well known for its resilience and without doubt, while there will be significant challenges for all operators, there will also be real opportunities for those who are well focused, funded and can deliver consistently. There are likely to be more sites available than previously with evidence growing that prices are beginning to come down, albeit rent reviews are still painful for a significant number of operators.

We begin with a look at key trends that Boards will need to be thinking about in the year ahead. We then move to our economic update – or more accurately – a reflection on what has happened to the deals market and consideration of investments which have been made and what they tell us about the likely activity over the next 12-18 months.

We then focus on opportunities for operators with an article by BDO's Head of Retail, Sophie Michael, who looks at why collaboration with retailers could be beneficial to operators and certainly a desirable outcome for retailers. Another key area of focus and in our sector, one that is generally less developed than in retail, is around loyalty other than discounting. Ben Pask from Rare:consulting talks through some key themes of loyalty scheme management and some of the pitfalls of managing this badly.

We hope you find this edition an insightful read, and as always we would love to hear your views.



MARK EDWARDS

Partner, Head of Restaurants and Bars

+44 (0)207 893 3742
mark.edwards@bdo.co.uk

BOARDROOM AGENDA

As the sector heads into a far more challenging environment, with cost pressures from every angle, we have looked at the key trends which will shape the industry over the coming year. With Brexit negotiations looming large and seemingly ever increasing uncertainty, being clear on strategic priorities is going to be key to success.

Our sector is well known for its resilience and ability to adapt to challenges, but there will be casualties along the way. Of course, there are also opportunities for those willing and able to manage the increasing risks of operating in the space.



PRODUCT OFFERING

- ▶ Consumers are demanding authenticity of offer and increasingly, an experience. Clarity of offer is key and consistency of delivery is essential for repeat custom
- ▶ Consumers want a luxury experience but in an informal environment, a worldly cuisine choice but with local sourcing, specialist options such as vegan but with a variety of options, convenience but with customisation
- ▶ Pricing is also key. Never has it been truer said that chasing turnover is vanity, and decisions over discounting, special offers and menu engineering will be a key part of strategic thinking.

TECHNOLOGY

- ▶ Many operators have built significant databases of customers but using these effectively remains an art and varies significantly across the sector. Those that can execute this well will benefit over those that cannot
- ▶ Building on the database information, customising messaging and building brand loyalty is going to help differentiation and increase average spend
- ▶ There will also need to be a defensive focus in terms of cyber security. Offering WiFi is a norm, and use of wireless technology increases risks of attack. Whether this be ransomware or data loss, the reputation risk is real and significant

LABOUR

- ▶ There are concerns across the sector, but particularly in London, about the availability of labour as we struggle to continue to attract EU workers. According to the Chartered Institute of Personnel and Development the impact of Brexit is already causing labour shortages across many industries and ours is no different. Recruiting and retaining staff is going to be key but also increasingly expensive
- ▶ In the short term this will cause labour costs to rise dramatically, especially when coupled with auto enrolment increases, the apprenticeship levy and the increases in the living wage. Longer term this will lead to thoughts about how labour efficiencies can be introduced. Innovation in this area will again help differentiate operators' performance against their peers



COST MANAGEMENT

- ▶ As input prices increase, controlling this while maintaining reliability of supply and quality of ingredients is crucial. There is a real challenge here for operators as too much pressure on suppliers could lead to business failures on their part which can significantly impact customer offer
- ▶ We are already seeing operators significantly curtail their expansion plans but more than that, operators that make quick decisions about where to focus management time and effort and so disposing of sites which aren't working should be able to steal a march on those who continue to toil at minimal returns on poor performing assets
- ▶ As some businesses find they cannot cope with the current market conditions, this will mean sites come to market which weren't previously available and potentially at more attractive prices. Operators who can use their covenant strength effectively should benefit from this, and as we predicted in January, we believe property deals will be just as common through CVAs as individual site acquisition in the next year



REGULATORY ENVIRONMENT

- ▶ Normally, the regulatory environment can be delegated away from strategic thinking per se, but with some of the laws and regulations coming to bite this will not be the case this year. The areas of focus in our view are GDPR and the new Criminal Corporate Offence on tax evasion (which can catch offences in the supply chain as well as employee offences)
- ▶ In addition to these groups, particularly those backed by PE houses, will need to plan for any cap on interest deductibility and the potential cash outflow this may lead to



▶ A NEW ECONOMY PUBLICATION

We are living in a time of unprecedented change. Brexit, emerging markets, technology and regulation are changing the fundamentals of the way we live and do business. But with great change there is also great opportunity. A 'new economy' is needed which can help the UK thrive post-Brexit by making the most of its mid-sized entrepreneurial businesses, by balancing growth by sector and by region and by ensuring open and simple access to world markets and global talent.

But we don't have all the answers. We want to kick-start a conversation.

Over the next 18 months we will be talking to industry groups, businesses, policymakers, economists and entrepreneurs to use your ideas to refine our thinking.

We would greatly value your contribution to the debate at www.neweconomy.bdo.co.uk



THE TRADING ENVIRONMENT: ECONOMIC OVERVIEW

SLOW BUT STABLE GROWTH

UK economic growth slowed in the first quarter of 2017. Following the 0.5% and 0.7% growth in GDP in the last two quarters of 2016, the post-European Union referendum depreciation of the pound and rise in living costs finally filtered through to household budgets. As a result, growth fell sharply to 0.2% in the first three months of 2017, 0.1% lower than the provisional estimate of 0.3%. Figures from Eurostat have shown that the UK growth of 0.2% was the lowest GDP rate of growth in the EU in the first quarter of 2017. In the same period, the UK's large continental peers – Germany and France – grew by 0.6% and 0.4% respectively. The fall in the growth rate suggests that the enduring strength of the UK economy is now weakening following the Brexit vote. However, it should also be recalled that growth in the first quarter of 2016 was also just 0.2%. The Bank of England is projecting a growth rate of 0.4% for Q2 2017, such that growth, although slower, is expected to be stable.

The slower growth in Q1 2017 was mainly led by trends in the services sector, which grew by 0.2% compared with growth

of 0.8% in Q4 2016, which suggests a challenging environment for consumer-facing sectors such as retail and the leisure industry. The hurt for the services sector is rooted in the fall of the pound, as a weak sterling has pushed up the price of imported goods, and squeezed the consumer purse. Sterling appreciated by 2.5% between February and May 2017, although it remained 16% below its November 2015 peak. Recent data is more encouraging. For the services sector as a whole, the Markit/CIPS UK Services Purchasing Managers' Index (PMI) for April reported the fastest upturn in service sector output since December 2016. April's result stood at 55.8, up from 55.0 in March, with anything above 50 indicating more responses suggesting growth in business, implying a path to growth.

Manufacturing saw growth of 0.5% in the first three months of 2017. The boost to manufacturing is being driven by export support due to a strong global environment and the depreciation of sterling, though the growth rate has slowed from Q4 2016. The manufacturing sector expanded in March for the eighth consecutive month, but at its slowest rate for four months, according to the Markit/CIPS UK Manufacturing PMI. The

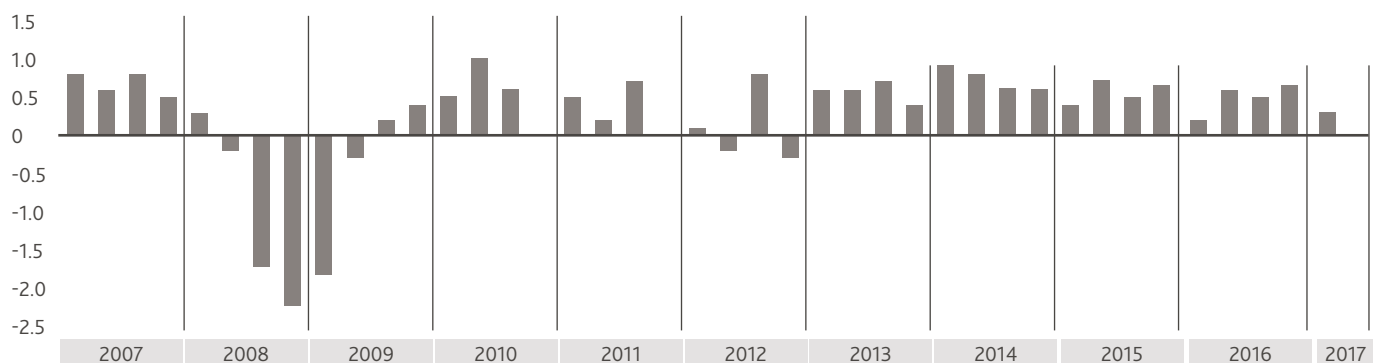
slowdown was mainly attributable to those manufacturers producing consumer goods. The survey showed a result of 54.2 in March, a slight decline from 54.5 in February.

However, despite the threat of the slowdown of the manufacture of consumer goods, the industry remains optimistic. A recent report from BDO demonstrated that 73% of food and drink manufacturers are positive about the future of the industry, with 81% of firms expecting revenue growth of up to 20% in the next year. Indeed, the outlook for manufacturing overall looks to be in good shape. The Q2 2017 EEF/BDO Manufacturing Outlook Report showed that the momentum in manufacturing activity seen at the start of 2017 continued into the second quarter, although at a slightly more moderate pace. 28% of respondents said that they expect to see growth in international orders in the next three months, as opposed to contraction. Interestingly, demand was especially strong in European markets, with 61% of companies saying they had seen a rise.

On the domestic front, a positive balance of 16% of manufacturers reported an increase in orders, which despite being down from 22%, is still encouraging.

GDP GROWTH QUARTER-ON-QUARTER 2007-2017 Q1

GROWTH %



SOURCE: OFFICE OF NATIONAL STATISTICS (ONS)

The Bank of England has also suggested that the positive export conditions should contribute towards a modest recovery in business investment growth in 2017. The bank's agents have indicated that after interviewing 700 UK companies, businesses investment intentions continued to climb higher during the three months to the start of May. The Confederation of British Industry (CBI) has also released figures that showed that new orders at small and medium-sized manufacturers grew in Q1 2017. Hitting a three year high for growth, both export and domestic orders grew in the first three months of the year.

However, the CBI warned that higher prices would be passed on to consumers. The Purchasing Managers' Index (PMI) report from Lloyds Bank, gave England a score of 57.1 for April, its second highest reading since mid-2015, figures which suggested that the manufacturing and service sectors in England rose to a four-month high in the month.

The fact that the UK General Election resulted in a hung parliament, has presented business and markets with a new set of challenges. Investment decisions made difficult by the prospect of Brexit will have to accommodate a new degree of uncertainty. Now that the Conservatives have lost their overall majority and been forced to solicit support from the Democratic Unionist Party (DUP), their strength has been diluted, and Theresa May's authority as Prime Minister diminished. The Conservative General Election manifesto had declared that a strong economy and delivering Brexit were the party's top priorities. The manifesto dropped the 2015 pledge not to raise income tax or National Insurance, but promised to raise the personal tax allowance to £12,500. The threshold for the 40p income tax rate was also to be increased, to £50,000 by 2020. Corporation tax was projected to fall to 17% by 2020, and a full review of business rates was pledged. Other measures included a pledge to balance the budget by 2025 and increase the national living wage to 60% of median earnings by 2020. However, in light of its lack of a

majority the government has been forced to withdraw many of the plans outlined in its manifesto.

While inflation is creeping up and growth has slowed, forecasters do anticipate GDP growth to remain stable in the near term. Much obviously depends on the government's ability to negotiate a satisfactory deal in uncoupling from the EU. The Bank of England has made it clear that "monetary policy cannot prevent either the necessary real adjustment as the United Kingdom moves towards its new international trading arrangements or the weaker real income growth that is likely to accompany that adjustment over the next few years."

The bank does envisage light at the end of the tunnel, a light that is conditional "on the assumptions that the adjustment to the United Kingdom's new relationship with the European Union is smooth, and that Bank Rate follows the market-implied path for interest rates". In other words, a lot is hanging on Britain's ability to do a good deal with Brussels and the wider world, and with as little delay as possible.

THE TRADING ENVIRONMENT: ECONOMIC OVERVIEW

CONSUMER SPENDING POWER AND THE RISE OF INFLATION

In recent years, low inflation and low interest rates created conditions in which UK consumer spending drove the health of the UK economy. That period is now over and those conditions are in a state of transition. The new period that we are now entering amounts to what Mark Carney has called a "more challenging time for British households". The question will be how long the new conditions persist. According to the Office for National Statistics (ONS), UK inflation hit 2.9% in May, its highest rate since June 2013. The result followed a rise from 2.3% in March to 2.7% in April. The May figure is well above the Bank of England's 2% target, and the bank has previously warned that inflation as measured by the Consumer Prices Index (CPI) would peak at just below 3% in Q4 this year.

Despite falls in motor fuel prices, and air and sea fares in May, rising prices for recreational and cultural goods and services (particularly games, toys and hobbies) were the main

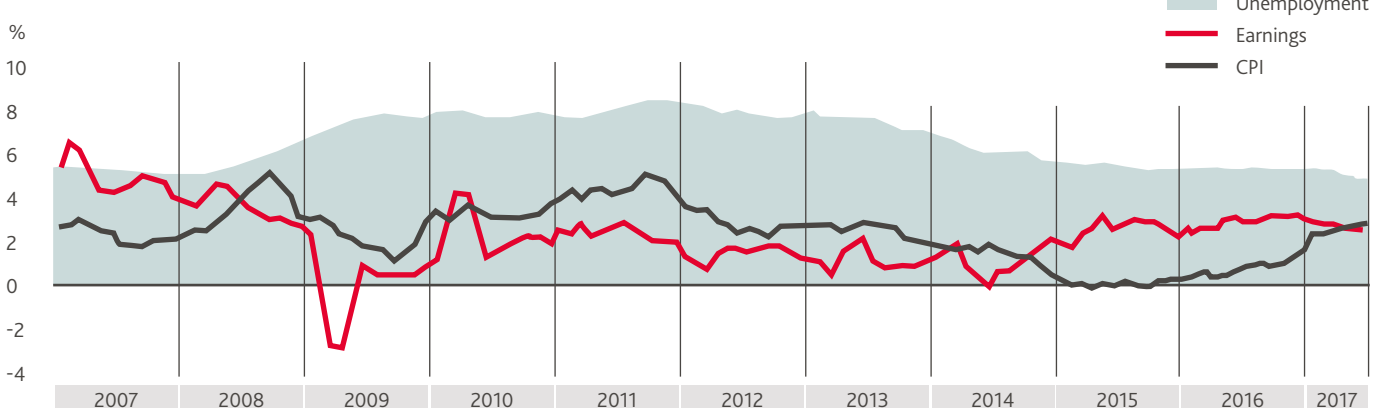
contributors to the increase in the rate. There were also smaller upward contributions from increased electricity and food prices. The Retail Prices Index (RPI), a separate measure of inflation which includes council tax and mortgage interest payments, reached 3.7% in May, up from 3.5% in April and 3.1% in March. While the Bank of England's Monetary Policy Committee voted to hold interest rates at 0.25% in May, policymaker's did suggest that rates could rise sooner than markets think, if the economy grows in line with the forecast. Markets are currently expecting rates to move higher at the start of 2019.

Retail spending has struggled in 2017 to-date. Yet data from the ONS suggested that sales volumes bounced to an increase of 2.3% in April from the month before, and by 4% from April 2016. April's increase contrasted with a dire March when sales fell by the furthest seen for seven years. However, data from the BDO High Street Sales Tracker (HSST) has suggested that the April "bounce" was due to the late Easter and an extremely poor base for April 2016.

Despite seeing a 1.9% increase in in-store like-for-like (LFL) sales, as compared to the same month in 2016, the "bounce" was actually coming off of a base of -6.1% for April 2016, when stalwarts of the UK high street were going to the wall. According to the HSST, April was the only month to that point in 2017 to record positive growth. Total sales for May were down by -1.3%.

Non-store sales remained strong in Q1 2017, up by more than 20% in January and March, but slowing to below the +20% threshold in April and May. The growth rate in Q1 2017 demonstrates that consumers have been happy to spend online, be they domestic shoppers making purchases from the comfort of home, or international bargain hunters looking to take advantage of a weak pound and snap up high end British goods on the internet. However, more recent data points to an overall slowdown in spending that is impacting in-store and non-store spending alike as consumers feel the inflationary pressures that are being passed on from the factory gate.

UNEMPLOYMENT, EARNINGS AND CPI



SOURCE: OFFICE OF NATIONAL STATISTICS (ONS)

Visa announced in June that consumer spending has fallen annually for the first time in nearly four years. Spending fell by -0.8% year-on-year in May, following a 0.3% increase in April, Visa's UK Consumer Spending Index found. It was the first annual fall since September 2013. The fall was driven by a -5.3% annual decline in "bricks-and-mortar" spending on the high street, the quickest decline since April 2012. By contrast, online spending was up by 6.9% year-on-year.

There has also been evidence of a discernible shift in the consumer approach to spending. As inflation further erodes stagnating wage growth, consumers are moderating

spending and purchasing more strategically, with a heightened focus on discounting, on essential items such as food, and, for the time being, on non-essential leisure, health and beauty items. As food prices are subject to creeping inflation, this trend will become further entrenched. Bars and restaurants continued to see growth in consumer spending in the first part of 2017, despite LFLs falling into the negative in March, and Easter weekend this year being a damp squib as compared to Easter last year.

Confidence in the health of the economy will also impact spending based on borrowing of course. The British Bankers' Association said that annual growth in consumer borrowing slowed in March, amid signs that rising prices are biting into consumers' spending power. The BBA said consumer credit grew by 6.1% in March, down from a 6.5% annual rise in February. The Council of Mortgage Lenders estimates that gross mortgage lending for Q1 2017 was approximately £59.1 billion. This was a 4% decrease on Q4 2016, and a 6% decrease on the £63.0 billion lent in Q1 2016. While gross mortgage lending in March was 19% higher than in February, it was also 19% lower than the £26.3 billion lent in March last year. However, the sharp fall in year-on-year lending at least had

been expected, as March last year saw significant rises due to a rush to beat a stamp duty deadline.

Unemployment in the UK fell to 4.6% in Q1 2017, according to the ONS, the lowest level since 1975. However, despite the favourable employment conditions, wages have dropped in real terms for the first time in almost three years. Stephen Clarke of the Resolution Foundation think-tank has suggested that "coming so soon after the big post-crisis pay squeeze, this new phase of falling pay means that this decade is set to be the worst in over 200 years for pay."

A recent survey by IHS Markit has found that Britons are reining in their appetite to spend because of higher inflation and fears of possible interest rate rises. The Bank of England's agents report also said that consumer spending was slowing because of rising inflation. The bank found that "pay awards remained clustered around 2% to 2.5% across the economy", below the present 2.9% inflation rate. The bank has also said that household spending growth is projected to remain weak in coming quarters as rises in import prices continue to pass through. However, while the bank expects wages to remain weak through 2017, it is projecting a longer term growth in wages.

THE TRADING ENVIRONMENT: BUSINESS CONFIDENCE

THE EBBING TIDE OF CONFIDENCE

The extent to which households choose to spend, borrow or save is likely to be significantly influenced by confidence levels. The IHS Markit Household Finance Index for May 2017 found that UK household finances remain under the greatest pressure seen since mid-2014. The survey noted that "UK households remain pessimistic about their financial prospects over the next 12 months." The GfK measure of consumer confidence has recovered somewhat since the low of -12 recorded in July last year, following the EU-referendum. Taking the longer view, the GfK measure has remained a little above its historical average in recent months, suggesting some resilience in consumption growth in the near term. However, as inflation rises further, and real wages stagnate, confidence has been impacted as the index fell to a four month low of -7 in April 2017. An up-tick of two points to -5% in May could denote the sense of an opportunity for a final splurge, but the squeeze in living standards seems certain to register fully very soon. Barclaycard also issued data in April that further indicated that consumers are less upbeat about the near future as inflation bites. The results

suggested that 52% of Britons are more worried about day-to-day living costs than they were at the same time last year, with 74% pointing to the rising expense of the weekly shop. Looking further ahead, 60% of consumers were reportedly looking to make changes to the way they spend, with an increased focus on targeting bargains and discounting, strategies that are already becoming evident.

Across a mixed set of indicators, business confidence has remained fairly weak, though there have been some positive notes. The faltering confidence is a result of businesses continuing to adjust to the transitional phase between the triggering of Article 50, and the successful uncoupling of Britain from the EU with new trade deals in place. The latest ICAEW UK Business Confidence Monitor (BCM) suggests that while businesses are being more confident about the economic outlook, there is still reticence towards making longer-term commitments across a number of areas.

The data suggests that the twin factors of the anticipation of strong export and domestic sales growth for some sectors, balanced by heavy input price inflation,

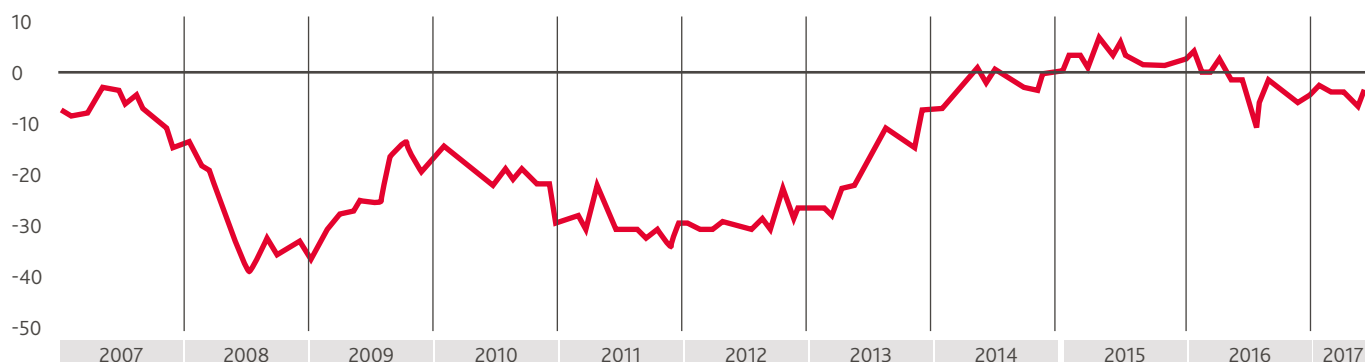
is understandably creating cross-currents for business confidence. In part, the level of business confidence is reliant upon the balance of domestic consumers continuing to spend (while also absorbing increased input costs), and still being able to manage business costs. The result of the cross-currents is a sense that for the time being, businesses are reticent about employment, wage growth and investment in R&D. However, at the end of May the ONS released data that suggested that business investment grew 0.8% in the first three months of 2017, after contracting at the end of 2016.

TRADING CONDITIONS

Despite the significant challenges that the UK economy is facing, and the increasing strain upon consumer spending, sales growth in the restaurants and bars sector has remained robust. In April, collective LFL sales were up by 4.4% compared to the same month last year, according to figures from the Coffey Peach Business Tracker. While the result followed a fairly rare fall into the negative in March (-0.5%), the late Easter was a key factor in the two results. However, trading over the four day Easter

CONSUMER CONFIDENCE 2007 - 2017 YTD

CONFIDENCE INDEX



SOURCE: GfK CONSUMER CONFIDENCE INDEX

THE TRADING ENVIRONMENT: TRADING CONDITIONS

weekend was significantly slower than the previous year, down by -3.8% on Easter weekend in 2016. Within the data it was clear that restaurant chains bore the brunt of the decline in spend. While the weather may have been a factor, the result does raise concerns over a broader slowdown in consumer spending. In May, LFL sales for restaurants and bars combined also slipped into the negative, down by -0.4%. The result raises concerns over a broader slowdown in consumer spending.

Despite the dip in Easter spending, bar and restaurant collective LFL sales growth has been positive in five of the past six months. In the ten full months that followed June's EU referendum result, sales have grown in all but two months, with the declines coming in October 2016 (-1.0%) and March 2017 (-0.5%). While the March downturn can largely be attributed to the later Easter this year, the October figure was partly a hangover from the Rugby World Cup that was in full swing the year before. Given those two anomalies, overall growth has remained robust for now, but May's dip into the negative is concerning given the present political and economic challenges.

On the positive side, the weak pound is certainly helping to boost international visitor numbers and spend. According to the ONS the UK received 2.9 million visits in March, which was 11% higher than last year and a record breaking result for the month. The first quarter of 2017 also set a new record, with visitor numbers up by 7% as compared to the equivalent period last year. The number of visits made for a holiday was up by a notable 23% in March and by a strong 18% for Q1 2017. The good news is that these visitors came to spend, with spending up by 14% in March. In Q1 2017 visitors spent a record breaking £4.18 billion. In the last 12 months to March, spending was up by 4% at £22.96 billion, setting a new record for the highest spend in any 12

month period. As domestic spending slows, it is increasingly imperative that operators tap this important and seemingly growing market. While growth in the number of visits made to see friends and family were also up, it was notable that March 2017 saw a 6% decline in the number of visitors citing business as the reason for their visit.

Despite the positive LFL growth the bars and restaurants industry has produced in the first third of the year, the wider conditions are still beset with challenges. Some challenges are requisite, such as the legislative constraints that the industry has faced. Others are cultural or economic in nature. Taken together, the industry has been served a heady cocktail of challenging conditions in recent times. Increases in beer duty, declining alcohol consumption, and competition from cheap supermarket alcohol have weighed on many operators. However, costs are not simply arising from within the sector. More widely, rising rents and business rates, the apprenticeship levy and uncertainty around EU labour are all set to erode profit margins.

Under this poor mix of conditions there is plenty of scope for operators with too niche an offering, or that are simply inefficiently run, to continue to disappear. Responding to these challenges quickly is essential for staving off the threat of falling profits. For example, Mitchells & Butlers, which reportedly holds an approximately 7.5% market share, announced that pre-tax profit fell by nearly 10% to £75 million in the six months to April 28. The announcement was in context of sales rising by more than 2% to £1.1 billion, and LFLs up by +1.6%.

The results point to the impact of rising wages and food costs. In response to the market conditions, the company has reportedly initiated analysis set to determine whether it can improve its menu and prices, employing external data experts to provide the insights. Meanwhile, JD Weatherspoon, which is thought to hold an approximately 9% share of the market, has reportedly been urging the Government to allow EU workers already in Britain to remain here. Addressing these kinds of challenges head on is the name of the game for staking a claim to maintaining and protecting growth.



THE TRADING ENVIRONMENT: TRADING CONDITIONS

In recent years many pubs have sought to offset the threat of closure by diversifying into providing more food options of course. Such diversification takes many forms, such as converting to gastro pubs at the higher end, or providing a breakfast service in towns and cities. These measures have necessarily been undertaken to offset issues such as rising costs in a number of forms, Government campaigns or regulation to curb binge drinking, and an increasingly health conscious consumer mind-set that is more conscious of the calorie count in the average drink. The restaurant industry is also fighting off strong competition from the takeaway option, while keeping up with the growing consumer demand for alternative options.

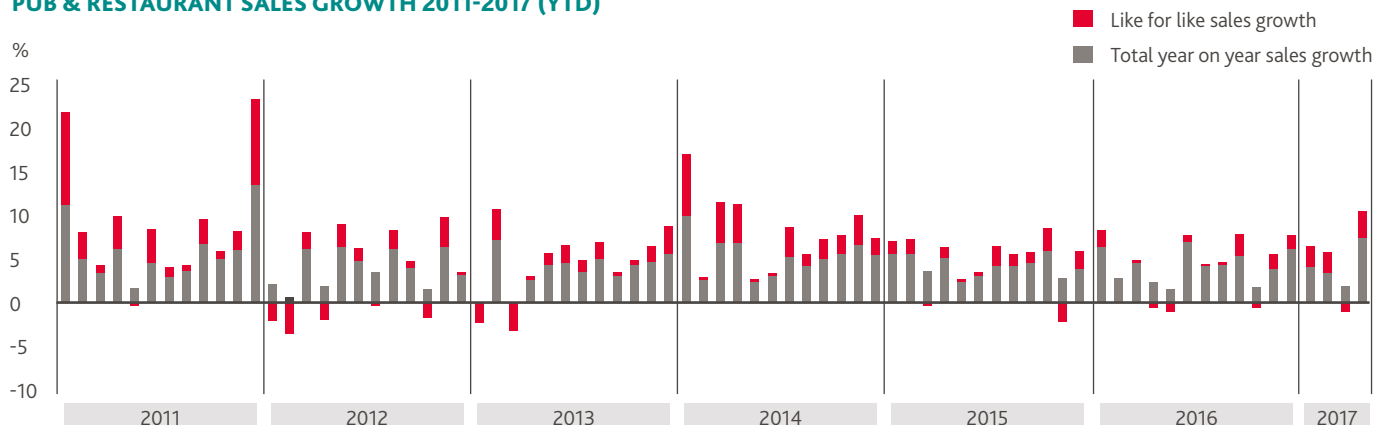
However, following the 2008 financial crisis, it was healthy consumer spending and confidence that helped to underwrite many of the challenges that the industry has long faced. While spending and confidence remained fairly robust in the months following the EU referendum, the anticipated slowdown in the economy, in wage growth, and in consumer spend and confidence in the face of rising inflation, is now starting to bite.

The Bank of England has indicated that the recent rise in inflation reflects the continued pass-through of the recent fall in the sterling exchange rate to consumer prices. The bank believes that the rate of inflation in coming quarters will depend on the speed and extent to which companies pass through rising external costs to consumer prices, together with developments in domestic cost pressures and demand conditions. In other words, the transition is likely to be a bumpy ride, with consumer spending already slowing down. The threat of course is that as rising costs for food and drink impact operators and consumers alike, consumers may opt to eat and drink more at home. However, while the near to medium term environment is likely to make trading conditions challenging for a time, there is light at the end of the tunnel, and all eyes will be on the Government to restore trading and economic stability, and to create an environment for renewed growth in consumer spending.

Until such time, the economic and political landscape, given Brexit and the General Election in the UK, has already seriously impacted M&A within the industry. For

the period of January to 24th May, deals targeting UK pub or restaurant businesses fell to their lowest level since at least 1997. This twenty year low in deal making activity will have an effect on the ability of shareholders to pursue an exit strategy, or to secure private equity backing. It is notable that PE investment has also diminished in the last year. For the market to come back, a more stable economic and political future is a key requirement.

PUB & RESTAURANT SALES GROWTH 2011-2017 (YTD)



SOURCE: COFFER PEACH BUSINESS TRACKER

A DYNAMIC ENVIRONMENT

Despite the political, economic and cultural challenges that the industry is facing, and will continue to face for the near to medium-term, operators are still evidencing a great deal of innovation and dynamism. The diversification of pubs is ongoing, and while consumers are drinking less, those operators not tied to a brewery have been free to explore a wider range of craft beers that recoup a higher premium. The will to innovate also extends to a definite foray into a broader range of ciders and wine lists that incorporate a greater depth of products. In terms of menus, pubs and restaurants alike are experimenting with quickly adapting their offering to keep up with high street trends. Flexing menus to tap revenue streams garnered from consumer interest in products such as street foods, or for small-plate sharing options, demonstrates just how dynamic the sector has to be. With LFL growth for the sector robust, despite the number of niche operators that have disappeared, it is clear that many operators have been dynamic enough to survive and prosper, and will continue to do so.

One factor that represents both a threat and an opportunity is technology. On the one side of this double-edged sword stands the growth of online food ordering via services such as Just Eat and Deliveroo, a clear and present threat to full service restaurants. The popularity of using mobile apps to order food is appetising to an increasingly time-starved consumer base. This particular technology also allows smaller brands to undercut larger, well established restaurant brands. The threat is well understood within

the industry. As such, the other edge of the blade is that a number of established restaurant brands have been able to collaborate with firms such as Deliveroo to offer a delivery service. Thus as pubs and bars further stake out territory in the traditional service restaurant sector, so full service restaurants are also tapping revenue streams from the takeaway market.

In the broader context of the consolidated bars and restaurants industry, technology is still a relatively untapped opportunity. While investment in technology is evident in financial management, food preparation and storage, and electronic order systems, the industry has been slower to leverage it for customer engagement. The issue is partly one of scale. The number of operators offering wireless charge points for smartphones has been increasing, yet smaller operators struggle to access sufficient capital to invest in such improvements. While free wifi is a common occurrence, the opportunity of increasing mobile interaction with customers predominantly remains the domain of larger operators.

Done well, the application of technology should increase the amount of time that the customer is encouraged to stay, and strategically utilise discounts to ensure sustained brand engagement. As other consumer facing sectors, such as retail, make further advances into this area, then the more the consumer is becoming attuned to multi-channel engagement, a process that will continue to drive the expectation for technological engagement. While there is clearly a balance to be struck, it is critical

that operators in the industry fully tap the available opportunities and mitigate the danger of being left behind.

However, while marshalling the competition and technological change, operators have also had to keep an eye on changing consumer tastes, as long established American, Italian and British cuisine competes with demand for Korean, Vietnamese and Scandinavian dining experiences, or demands for gluten free or vegan specialists. Well established, but tired brands are increasingly coming under pressure to adapt to this dynamic market, one which, in terms of taste at least, does make better provision for well run, high growth market entrants.

The months ahead are likely to be bumpy and it appears that it will be some time yet until stability leading to meaningful growth potential can return. Yet growth has been robust in recent months, and opportunities still abound for a dynamic and innovative industry prepared to embrace the challenges and continue to prosper.



M&A DEAL ACTIVITY

With plenty of headwinds facing the sector, 2017 has seen operators navigating their way through rough waters.

Following a number of years of significant M&A activity, 2017, perhaps not unexpectedly, has been relatively quiet as operators and investors have focused on setting themselves up to succeed in what is an increasingly competitive market place.

TESTING MARKET CONDITIONS

The sector at large is facing a number of extensively documented cost 'headwinds' - rents, rates, NLW and input cost inflation. Brands are having to adapt and innovate to continue to be both profitable and attractive to consumers. These cost pressures have left a number of groups requiring 3-4% LFL growth simply to remain flat at EBITDA level. As one senior sector operator commented; "growth is the new flat".

Buoyed in recent years by low inflation and a low interest rate environment, LFL growth is becoming more of a challenge. The LFL slowdown has been observed in the Coffey Peach LFL tracker which has generally hovered between -1% and 2% LFL over the last 12 months. The substantial increase in operators over recent years coupled with a more discerning consumer suggests LFL growth across the sector will continue to be modest and hard fought for over the next 12 months.

It is not all doom and gloom. The sector has faced these sorts of cost pressures historically and proved exceptionally resilient through the last recession. Eating and drinking out has become engrained in the UK consumer psyche. Data released by Barclaycard in June showed an 11.7% increase in spending on dining out with

friends and family throughout May 2017. This was despite an overall decline in consumer spending of 2.8% over the same period, showing that consumers are prioritising the 'experience economy'.

As cost pressures filter through to customers, brands delivering high quality guest experiences consistently and at attractive prices will be favoured. Pressure will continue to be felt by undifferentiated and independent operators. As a result, we expect branded casual dining operators to continue to roll-out albeit at a more considered pace.

THE BOARDROOM

The challenging market conditions have no doubt disrupted even the best laid business plans. We are therefore not surprised to have witnessed changes at the top of a number of well-known brands in the sector this year. Notable board room movements have taken place at TRG, Byron, Wagamama, Wahaca, Polpo, and more recently Pizza Express. New leaders and management teams will be faced with relatively long 'to-do' lists on arrival as plans are drawn up to combat the challenges and adapt to the trends shaping the market.

MARKET WATCH

The sector continues to respond to the demands of the 'millennial'. As a group that is so pivotal to the growth of the casual dining sector, we are surprised by how long it has taken to notice the sub 35 population and for commentators to write about them. These consumers require increasingly personalised and authentic experiences. They are health conscious and more informed than ever about the food and drink they consume. It is not a surprise therefore that the healthy eating trend has continued with MCA predicting that the 'The Food to Go' market will grow by 3.8% in 2017 to a value of £20.bn compared to 1.7% for the wider eating out market.

We expect to see further deal activity in this competitive sector, following in the footsteps of LDC's investment in Vital Ingredient and Whitbread's investment in Pure. As the cost headwinds continue to put pressure on operating margins, we would not be surprised to see some consolidation of this relatively fragmented market.

The 'experience economy' continues to thrive as consumers prefer to spend their disposable income on an entertaining evening out rather than a new pair of jeans. Innovative concepts such as Bounce, Flight Club and Swingers have taken the Capital by storm. Theatrical bars and restaurants such as Inception Group's Bunga Bunga, Manchester's The Alchemist and the recently opened Alberts Schloss, are pushing the boundaries of the drinking and casual dining experience.

There is a strong appetite for Craft, well... anything; from beer to gin to juice - and the cocktail market is no exception. CGA's latest Mixed Drinks Report shows that 78% of British bars now sell cocktails, with penetration of the licensed trade as a whole - including pubs, hotels, restaurants and bars - at 28%, up by more than 4% on last year. Cocktails are also no longer the preserve of female drinkers, with men now accounting for 45% of total consumption.

GAME-CHANGERS

Developing a strong digital strategy is likely to be a key focus over the next 12 months as operators look to drive and sustain profitable LFL growth. Sector heavyweights Casual Dining Group reported a 37% increase in web traffic across all brands in 2016 with online bookings increasing 31% versus the previous year. Capturing data will enable brands to deepen relationships with customers, increasingly personalise their experience and drive customer engagement and loyalty. CGA Peach revealed that 2 in 3 businesses plan to invest in their digital

marketing capabilities to broaden their consumer base in the next year - an increase of 10% YoY. We expect brands to continue to explore new ways of unlocking growth and driving customer loyalty through the development of more sophisticated online strategies.

Convenience is king as evidenced by the continued expansion of the home delivery market. The market, driven by Just Eat, Deliveroo and recent arrivals such as Uber Eats, has created both challenges and opportunities for the sector. In the last 12 months substantial players like KFC, Pizza Express and Nando's have all commenced delivery, following detailed internal assessments and strategic appraisals of the channel.

Speaking to operators, it is clear that LFLs have been supported by this fast expanding channel. Investors are however more alert to unpicking LFL growth into its separate components and really trying to understand whether these sales really are 'incremental'. No doubt the channel will continue to evolve over the next 12 months.

With competition so fierce and customer loyalty so precious, ensuring high quality staff are recruited and maintained is more crucial than ever. This is made all the more pertinent with the lingering uncertainty around Brexit and what it will mean for the large numbers of EU nationals working in hospitality in the UK. The best operators as a result are spending more time and resources on training, supporting and providing real career opportunities to staff. This approach is not only improving staff retention; truly engaged staff will deliver far greater service and guest experiences. Be At One has for a long time shown that investing time and money in training staff and looking after their welfare can lead to excellent guest satisfaction scores and supplier returns.

INVESTMENT ACTIVITY

Large scale M&A has been limited during 2017, with private equity notably more cautious on the sector than in recent years. The challenge of taking a 50 site casual dining business to 80-100 sites is perhaps not as attractive in the current environment as it was a year ago. We are seeing investors increasingly attracted to smaller restaurant brands. Taking relatively new concepts from 10 to 30 sites is certainly being viewed as less risky than trying to grow mature brands from 60 to 100. Investors face a highly competitive environment in their search for the best operators. This was evident in the significant interest generated in the Flat Iron and Caravan processes this year, which secured backing from Piper and Active respectively.

Active's backing of new fast casual concept CHIK'N, demonstrates the investor interest even 'pre-concept'. The increasing popularity of chicken and continued trend towards 'premiumisation' make the investment thesis stack-up no doubt. 2017 has also seen Barworks invest in Indian street food concept Rola Wala and Imbiba invest in private members' club Purple

Dragon. The club caters for the whole family, appeals strongly to consumers and, with only one site open to date, is ripe for expansion. A number of processes have been reported in MCA to be underway. Cocktail bar Be At One, Liverpool based Indian street food concept Mowgli and Bristol based healthy eating concept Friska are all expected to transact in the 2nd half of 2017.

At the larger end of the scale, healthy fast food chain Leon raised a further £25m from Swiss PE firm Spice to assist the business with its plans to expand overseas as well as increase its presence domestically. US based TSG Consumer Partners acquired 22% of Scottish brewery and pub chain Brewdog; a great result for early investors. The value for TSG will be dependent on cracking the US and wider global market.

M&A DEAL ACTIVITY

Continued private equity interest in **differentiated, scalable concepts** with attractive value propositions

Increasing investor interest in **smaller brands with <20 sites** with clear roll-out stories

Increased deal activity from trade buyers looking to **access cost synergies** to defend against operating cost increases

PUBLIC MARKETS

The listed restaurants and bars sector has been closely observed over the last 6 months and investors have made their concerns clear via some substantial share price declines. Lacklustre performance is evidence of the headwinds and challenges facing the sector. The strain has been clearly felt by The Restaurant Group who released disappointing 2016 results and have since undergone a management reshuffle. A number of other public red flags have been raised by the likes of The Comptoir Group, Revolution Bars Group, Tasty, and Richoux. It is not surprising therefore that any planned IPOs, from operators such as Casual Dining Group, Wagamama and the Deltic Group, have likely been put on hold for the time being.

BANKING MARKET

The UK banking market remains generally supportive of the sector, if a little more prudent than prior years. Lenders are clearly putting a greater focus on ensuring strong finance functions are in place and sensible controls are drafted into agreements around the pace of roll-out plans. The level of caution feels sensible and should not restrict well run and managed brands from expanding.

Following Graphite's MBO of the business in June last year, The New World Trading Company secured £23m of investment from Natwest including a £4m capex facility to support the continued roll-out of the group.

Palatine backed Gusto secured £9m from Santander to support a UK wide expansion. Azzurri Group, owners of ASK, Zizzi and Coco di Mama, completed a refinancing and successfully raised £185m of bank debt, indicating the continued appeal of affordable Italian themed food. Relative newcomer OakNorth has been active and supportive of the sector, providing funding to facilitate the roll-out of coffee shop and wine bar Notes and cocktail concept Adventure Bar. Finally, private members' club Soho House secured a £275m debt refinancing deal with Permira Debt Managers to help continue its rapid expansion.



THE NEXT 12 MONTHS

DESPITE THE CHALLENGING CONDITIONS, WE STILL EXPECT TO SEE M&A ACTIVITY OVER THE NEXT 6-12 MONTHS:

- ▶ Continued PE interest in differentiated, scalable concepts will attract the proposition
- ▶ GBP weakness will continue to make UK businesses more attractive to foreign investors. Overseas deals like 2016's acquisition of GBK by Famous Brands may become more common as a result
- ▶ Trade acquisitions could provide access to synergy savings to offset increasing cost pressures and deliver the growth that can't be achieved by existing brands as a result of tapered down roll-out plans. We would not be surprised to see the likes of Azzuri Group, Prezzo, Cote, or CDG acquire other brands
- ▶ Product expansion has the potential to open up new avenues of growth like Azzuri group's acquisition of Coco di Mama and Whitbread's acquisition of Pure
- ▶ Opportunistic site deals may well increase as troubled operators become the pray of well-funded brands looking to expand
- ▶ Mergers whilst presenting a number of practical challenges around independent business valuations and synergy sharing could offer an appropriate solution for smaller operators who could benefit from combining forces and sharing head office functions.

There are a number of attractive businesses expected to come to market over the next couple of years. Artisan bakery Gail's and Caribbean eatery Turtle Bay are at the top of the list of stellar concepts being watched carefully. Vietnamese restaurant group Pho is expected to attract a lot of interest should it come to market and Bill's, following a management reshuffle, will likely consider its options at some point.

The Thai and South East Asian market is active with the likes of Giggling Squid, Thai Leisure Group, Koh Thai, Busaba and Rosa's all looking to lead the category. Japanese staple Ramen is proving popular in London thanks to operators Tonkotsu

and Bone Daddies. Cabana and Fazenda are giving Brazilian food a presence at the table.

Hotcha and Zing Zing are certainly ones to watch. Given the UK's love of Chinese takeaway, both concepts are excited about developing the first branded national Chinese takeaway and are growing quickly.

Adding to the melting pot is a stream of arrivals from the US. Following the success of Five Guys and Shake Shack, MOD Pizza and Wingstop are newcomers to the UK and we wouldn't be surprised to see more follow as UK consumers remain loyal to well-known brands.

There is some good news for listed companies too. Patisserie Valerie is trading well and David Page's Fulham Shore continues to perform, led by the growth of pizza category disruptor Franco Manca.

There will be one sector listing in 2017. German-owned restaurant chain Vapiano has set a price range implying a market value between €512 and €634 million. Trading should start at the end of June.

TOM BARNARD

Director, Corporate Finance

+44 (0)20 7893 3182
tom.barnard@bdo.co.uk

RETAIL AND RESTAURATEURS SHOP 'TIL YOU DINE

Retailers are facing headwinds from both pressures on margins and a squeeze on consumer spending.

Pressures on retail operating margins continue to mount from strategic investment necessary in both IT and logistics, due to changing shopping habits, and from the increasing costs in the national living wage and hikes in property rates. Added to this, the ongoing political and economic uncertainty with the devaluation of sterling and rise in inflation, has the effect of tightening the consumer purse strings with discretionary spend inevitably feeling the initial impact.

Retail continues in its long term decline as a proportion of household spending from over half (52.5%) in 1971 to just over a third (36.7%) in 2015. Whilst this is a reflection of the spiralling cost of living, more recently, leisure and food service expenditure has experienced a resurgence, largely unmatched by the retail sector. In 2015, as retailers saw growth of just 1.6%, consumer spend on eating out at restaurants and cafes rose by 3.4% and 8.9% on leisure activities such as going to the cinema.

Whilst at first glance, retailers and restaurateurs may be seen as competing for the consumer purse, the pressing need to maximise efficiency of physical space, combined with the significant costs of developing a fit-for-purpose modern store, has led to and will continue to lead to both formal and informal partnerships of complementary businesses. Experiential retail is advancing as retailers and restaurants tap into the shoppers' desire for an experience which goes beyond the product purchase, resulting in greater footfall and revenues.

RE-EVALUATING STORE FORMATS - LESSONS FROM THE GROCERS

Kantar's recently published report revealed that the grocery market has grown by 3.7% in the first months of 2017, the fastest rate since September 2013 and valued almost £1 billion in additional sales to the sector. Whilst this growth will in part be as a result of inflation, with so many pressures on investment decisions, grocers have led the way in re-evaluating their store portfolios. Traditional food retailers, faced with increased competition from alternative channels and customers moving away from the traditional supermarket model and the weekly shop, have strived to stay competitive by providing innovative shopping experiences tailored a range of complimentary services in-store. 2016 saw mergers such as Sainsbury's, Argos and Arcadia entering into Tesco to entice the consumer through the doors with wider choice. Whilst many of the big supermarkets have their own long standing cafe and restaurant offerings, brands such as Costa in Tesco and Crussh in Sainsbury's have emerged to further bolster its offering. Grocers have led the way when it comes to diversifying store portfolios, adding fashion, a wider homewares range of brands and casual dining into their stores, in an attempt to retain market share.

Incorporating dining in retail is also longstanding in department stores, whose top floors have frequently been home to their own brand restaurants and cafes. However, more recently, brands such as Joe and the Juice, Caffè Nero, Eat and Yo! Sushi are emerging as part of department store offerings. A recent report from JLL suggested that whilst the profits made by having restaurants and cafes may be minimal, having these options in-store can have positive effects on footfall, dwell time and customer loyalty. Conversely, those restaurant brands can build their customer

base who may be more encouraged to visit the brands' individual high street units. Retail Week reported that within Debenhams, those visiting the restaurants were likely to increase their spend by up to 40% more during their visit.

So what about high street retailers? Experiential retailing has moved beyond product assortment and in recent years we have seen a rise in food and drink within traditional retail outlets. There are many examples of this trend including Burberry's café, Thomas, in their Regent Street Store. French Connection have done the same on Oxford Street. Retailers Oasis and Paperchase have also introduced a café and we expect to see this continue across other brands and locations. When retailers and restaurants collaborate, it provides consumers with multiple reasons to step in-store and vastly increases the time they are there. Whether this encourages them to spend at the tills, to order online whilst eating in the café, or just a meeting point for friends – it can only be a good thing for retailers.

UNLIKELY NEIGHBOURS FOR THE NEXT GENERATION

It is not just in-store that retail and food and drink might work together. The concept is longstanding, particularly in retail parks and shopping centres where brands will choose locations near their competitors to encourage footfall from captive consumers. However, as restaurants move away from food courts and rapidly plug gaps that were occupied by mid-market retailers, the two sectors might benefit from working more collaboratively when choosing where to open their next store.

The growing importance of food service to retail destinations, particularly among certain demographics was highlighted by research commissioned by Global Data which found that choice of restaurant is

**HAMISH MANSBRIDGE**

CEO - HEAL'S DEPARTMENT STORE:

'Heal's introduced The Ambrose Café at our Tottenham Court Road store to be a rejuvenating, creative hub combining co-working space for customers and local residents. We describe it as an oasis of calm for our customers, whether they're shopping with us, working away from the office or reside in the local area. The food is all cooked right here on the premises and the coffee is fantastic! Whatever the reason for visiting The Ambrose Cafe, it builds customer loyalty and increases footfall & dwell time in the store. This is just one of the ways that Heal's is looking outside of the traditional retail model, alongside our in-store events, talks, demos and workshops, to encourage customers through the door and to build the Heal's brand. And our customers love it!'

to expand in popularity and offers both retailers and restaurants and bars with a reason to entice consumers in-store and increase how long they stay, capitalising on this 'experience economy'. Where there is a synergy between the activity and the products, a brand can utilise activities in-store to increase sales and loyalty.

Traditionally, shopping centres have been able to take the greatest advantage of 'retailtainment', with a large and flexible enough shop floor to home retail, food and leisure under one roof. However, there has been a surge in independent retailers doing the same. Lulu Lemon, the athleisure store offers yoga lessons across 345 of its stores worldwide, Hotel Chocolat has opened its chocolate school in the Covent Garden store demonstrating how the chocolate is made, and in a bid to rival Amazon's online sales, Waterstones has featured a bar and pop up cinema in its flagship premises. With the knowledge that customers are choosing to spend more of their disposable income on experiences rather than products, retailers and restaurants should look to see what opportunities that they have to do the same.

Our high streets continue to face increasing challenges such as the uncertainty of the economic and political landscape, challenges to trade brought about by the referendum decision and likely impacts on levels of disposable income for consumers, combined with increasing operating costs. However, what's clear is that shoppers are still spending. Opportunities do exist for retailers and restaurateurs; however, they may have to look in new places and to new formats, to ensure that they reap the rewards. Success in the short to medium term is likely to be had by those who have an exciting and well-designed product range, a willingness to innovate and challenge tradition in an attempt to entice brand loyalty, with an added focus on strategic discounting to ignite spending. Retailers and restaurateurs may well also want to look to further collaboration with those that they may have once considered as competition for the consumer purse.

SOPHIE MICHAEL

Partner, National Head of Retail

+44 (0)207 893 2375

sophie.michael@bdo.co.uk

considered to be very important in deciding where to shop with almost 50% of 25-34 year olds choosing where they eat based on the restaurant's proximity to their favourite shops whilst this proportion drops to 25% for the over 45 year old shopper. Of all regions in the UK, consumers in London were the most demanding with 44.9% prioritising the need for a variety of eateries at shopping locations. Therefore, rather than competing for a share of the wallet, food service operators and retailers can work in tandem with a strong offering to encourage higher footfall and increased dwell times at the shops. As more and more spend shifts online and high streets become increasingly

geared towards satisfying the more limited demands of value and convenience, a strong food service offering is becoming an increasingly important string to the bow of any retail destination.

DESTINATION SHOPPING

Innovation doesn't stop at understanding how retail and restaurants can work together. In 2016, the biggest market growth was seen within the leisure industry; as consumers seem to be opting for experiences over products. However, this segment of the shopper's purse isn't necessarily out of bounds for retailers and restaurants. Destination shopping continues

CASE STUDY: RARE CONSULTING ON TRUE CUSTOMER LOYALTY



Rare: are a full-service customer research & insight specialist, with a global reach. They use primary qualitative and quantitative research to help clients understand what customers want and work in collaboration to build marketing strategies that help create change.

Founded in 2014, Rare have worked with some of the world's better known brands in retail, health & beauty, telco's, insurance, food & beverage and travel.

We interview Ben Pask, Managing Director of Rare.

In this article we will demystify the meaning of customer loyalty, from a customer's perspective, evaluate whether modern loyalty schemes add value and identify the metrics that matter most when understanding true customer loyalty.

WHAT IS LOYALTY?

Broadly speaking, loyalty describes the domain of retaining customer value. Whilst there is agreement on what it is, how it is created is a definition that it is not necessarily agreed upon. Around 20% of marketers define loyalty as a purely transactional phenomenon.

Our own research highlights that this is too simplistic and that customers associate trust, being rewarded and customer experience with brand loyalty, presenting the view that in order to stimulate loyalty, brands need to consider more than behaviour alone.

There are two common approaches to defining customer loyalty. The first is purely behavioural and generally defines customer loyalty in terms of the increased probability of repeat purchase. The second approach takes on both attitudinal and behavioural perspectives and considers how a positive attitude towards the brand can also influence behaviour. Marketers tend to believe that customers want a relationship with their brand and that the better we understand customers with data, the better able we are to fulfil this relationship and increase loyalty.

To make sense of building customer loyalty, a distinction between implicit and explicit loyalty is needed. This process illustrates that a positive attitude must exist for

positive behaviour (e.g. repeat purchase) to take place, and that while rewards can influence this behaviour, they will not drive it alone. Positive attitudes, and ultimately brand loyalties, are driven by shared values, brand trust and perceived quality.

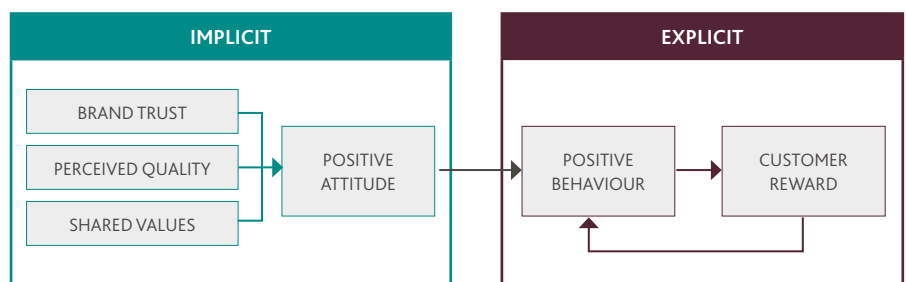
DO LOYALTY SCHEMES ADD VALUE?

If true loyalty exists, then why are there so many unused points on the high street? The Telegraph reported that there are at least £6 billion of unused loyalty points from the top 10 loyalty programmes alone. Why is this the case? Is it because customers don't know what to do with them, or is it because loyalty schemes as we know them, aren't hitting the mark? There is evidence to suggest that the former could well be the case, as around 65% of those who are members of a loyalty scheme, would still shop with the brand if the scheme no longer existed.

Investing in loyalty is costly for business. Last year, \$50 billion dollars were invested in customer retention management (CRM), globally (CMO.com). CRM is big money business; however the research calls into question whether loyalty schemes as we know them are effective at stimulating true loyal attitudes and behaviours.

One of the biggest challenges of businesses is to contextualise the performance against other brands, as often measurement of

A NEW PERSPECTIVE ON LOYALTY



WHAT DRIVES LOYALTY?**1****BRAND
LIKEABILITY**

'I LIKE THE BRAND'

86%STRONGLY /
SOMEWHAT AGREE**2****PRODUCT
QUALITY**'IT HAS THE BEST QUALITY
PRODUCTS/SERVICES'**83%**STRONGLY /
SOMEWHAT AGREE**3****BRAND TRUST**'IT WILL DELIVER ON ITS
PROMISE'**83%**STRONGLY /
SOMEWHAT AGREE

Loyalty schemes is often in isolation, our own Loyalty Experience Index demonstrates that there are learnings across brands and categories, 71% of people are likely to agree that Food and Beverage loyalty schemes deliver on their promise, compared to Supermarkets (61%).

**WHAT DRIVES PURCHASE
BEHAVIOURS?**

From a customer's perspective we know that softer metrics such as trust and experience are important in their definition of loyalty. The top drivers of customer loyalty are likability, trust, quality of service and ease of use. Likeability, being the most influential factor, concerns how our perception of a brand helps us develop an emotional connection. Or, in other words, you have to like a brand and trust them to therefore build true loyalty. This helps to explain why some loyalty mechanisms such as rewards programmes are not perhaps driving customer value in the market.

A key starting point in creating a loyalty proposition is to understand what 'loyalty means' to a brand and to its customers before considering investing in the technological infrastructure behind it.

Delivering on a brand promise relates to consistently create a brand experience that delivers on its expectations, time and time again. Delivering on brand promise is an important aspect to consider. Brands exist in a multichannel world and as instore & online experience increasingly blend together, all touch points, regardless of channel must help support a consistent brand experience. Consistency and authenticity are key.

**STIMULATING LOYALTY IN THE
RESTAURANT AND BAR SECTOR**

Customer experience expectations are set from within and outside of your own category, those working in the Restaurant and Bar industry need to be aware of developments in other sectors.

The internet has provided people with access to a range of brands and role models that were previously inaccessible, this is part can help explain some of the recent shifts in lifestyle choices for younger generations compared to their predecessors. Evidence suggests that inspired by the latest wellness trends, certain tribes within younger generations are actively seeking out lifestyle choices that match their values and

identity, e.g., going on alcohol-free juice-crawls rather than the pub-crawls of old. In a recent study for the premium cocktail industry (Rare: October 2016) we found that the drivers of choice to a venue on a night out are quality of the drinks served, convenience of location and the quality of service provided by staff.

CONCLUDING REMARKS

To succeed, restaurants and bars need to recognise the driver's exceptional customer experience, rather than base a proposition that is focused on price alone. The risk of the marketing industry is to assume loyalty means some monetary return, however our research shows it's more than that.

At a time when consumers have the choice, businesses need to ensure their point of difference resonates in order to engender a sense of loyalty.

BEN PASK

Managing Director, Rare:

+44 (0) 20 7859 4627
ben@rare.consulting

BDO SECTOR EXPERTISE: RESTAURANTS, BARS AND CLUBS

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, 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 restaurant and bars throughout their full life cycle.

As thought leaders across the sectors, we offer commercial and technical updates, specifically tailored to restaurants and bars including our quarterly restaurants and bars reports. 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.

REPORT AUTHORS



MARK EDWARDS

Partner, Head of Restaurants and Bars
+44 (0)20 7893 3742
mark.edwards@bdo.co.uk



SOPHIE MICHAEL

Partner, National Head of Retail
+44 (0)207 893 2375
sophie.michael@bdo.co.uk



PETER HEMINGTON

Partner, National Head of M&A
+44 (0)207 893 2344
peter.hemington@bdo.co.uk



TOM BARNARD

Director, M&A
+44 (0)207 893 3182
tom.barnard@bdo.co.uk



FOR MORE INFORMATION:

MARK EDWARDS

Partner, Head of Restaurants and Bars
+44(0)207 893 3742
mark.edwards@bdo.co.uk

PETER HEMINGTON

Partner, Head of Mergers and
Acquisitions
+44(0)207 893 2344
peter.hemington@bdo.co.uk

CHRIS GROVE

Partner, Corporate Finance
+44(0)207 893 2163
chris.grove@bdo.co.uk

JONATHAN HICKMAN

Partner, Tax
+44 (0)20 7893 2496
jonathan.hickman@bdo.co.uk

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