



Decoding the post lockdown eating out market: five factors to consider

Whitepaper / September 2020



INTRODUCTION

The coronavirus pandemic has had a catastrophic impact on UK eating out sector. However, pockets of opportunity remain for operators and suppliers to capitalise on, which are outlined in this whitepaper.

Earlier this year, Lumina Intelligence valued the eating out market at £91bn for full year 2019. At the time, outlet growth was flat and we were reporting modest value growth. No one could have predicted what would happen next, whereby much of the hospitality industry was forced to close for several months, resulting in our latest view of a -40% decline for the eating out market for full year 2020.

Now officially in recession, the UK economy will take significant time to recover – most estimates suggest around three to five years – and this will put consumers' discretionary spending in the spotlight. This, coupled with nervousness about returning to venues and social distancing limiting capacity in venues, will limit the sector's revival in the short to medium term.

'Bouncebackability' will depend on channel and location, with continued high levels of home working impacting footfall in city centres, travel hubs and areas reliant on office workers such as business parks. Meanwhile, a desire for minimal contact, speed and value will favour channels including fast food, coffee shops and sandwich/bakery outlets.

We also expect the delivery channel to continue to benefit post-lockdown. The delivery-led chains were well positioned to continue to serve through lockdown and many traditionally dine-in operators have taken the leap to set up takeaway/collection operations whilst they were unable to offer eat-in.

Despite the challenges of the last few months, most consumers have missed going out to eat (86% say they have missed eating out in restaurants) – presenting a big opportunity for the eating out sector to encourage and support consumers back to these venues. The government funded Eat Out to Help Out scheme sought to give the eating out market a much-needed boost through August and will hopefully serve to remind consumers what they have been missing.

In this whitepaper we will help you to navigate the post-lockdown eating out market by outlining five factors you should consider. These are: the impact of recession; increased home working; channel polarisation; the growth of delivery; and changing menu composition

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1. Recession and implications on discretionary spending

Consumers are keeping a close eye on outgoings and a recent focus on in-home consumption could increase price sensitivity when eating out. Further promotional activity may be needed to drive footfall

The UK officially went into recession – defined as two consecutive quarters of economic decline – on 12 August 2020 after a record fall in GDP in April-June. The UK lockdown forced many businesses to close for several months, leading to a huge fall in consumer spending. The economic impact of the virus is likely to be felt for several years and will be defined by cautionary consumer spending and inevitably some operator casualties.

In a survey conducted at the end of June, over 6 in 10 consumers agreed that they were being more careful with what they were spending their money on than before lockdown began. Nearly half of consumers said they are saving more money than they did before lockdown began – arguably this was somewhat easier when most hospitality and non-essential retail outlets were closed and movement was severely restricted, with limited opportunity for discretionary spending.

Whilst we've seen grocery retail sales increase by double-digits through lockdown, overall spending on food & drink has fallen due to the limited options for out of home consumption. This has also been reflected in the performance of those supplier businesses exposed to the on-trade, with alcohol and soft drink companies for instance reporting significant falls in overall trading despite strong uplifts on the grocery side of their business.

Looking forward, this focus on in-home consumption could increase price sensitivity as consumers return to eating out venues. This will have been eased with the government Eat Out to Help Out scheme providing discounted meals on Mondays to Wednesdays throughout August to encourage consumers back

to restaurants, pubs and cafes. However, there is of course the risk that further promotional activity – which is unlikely to be funded – will be needed in order to maintain footfall.

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Nearly two-thirds of consumers reported that they were worried about returning to pubs, restaurants and coffee shops as lockdown ended, although an even higher proportion stated that they had missed visiting these venues. It is therefore key that operators address and provide reassurance regarding the safety of their outlets in order to encourage visitors and realistically those that can afford to offer discounts will tap into an increasingly savvy consumer who will be shopping around for a good deal.

2. Increased home working and the impact on out of home lunch

Nearly half of the UK's workforce continue to work from home, significantly impacting the food to go sector, as business parks, high streets and travel hubs see significantly reduced trade

ONS data shows that in 2019, just under 14% of the UK workforce worked from home, which represented only a modest increase over the preceding ten years. By contrast, our [Channel Pulse](#) data showed around two-thirds of consumers were working from home through the UK lockdown and around 47% are still working from home.

Many workers – and companies – have adapted to working from home and have new routines and processes in place and therefore we expect being based at home will become a more regular feature of working life ongoing. This is supported by our consumer data which shows that over a fifth of workers plan to work from home more in the future.

This has had a huge impact on the [food to go](#) sector, demonstrated in the financial results of the likes of Pret a Manger, as well as those retailers reliant on travel and high street trade, such as WH Smith. Lunch occasions captured through our [Eating Out Panel](#) have fallen by -25% from March-July 2020 as fewer consumers were away from home in the middle of the day.

Throughout lockdown, with advice to 'stay at home', movement was severely restricted and therefore high streets and travel hubs suffered. The anticipated movement towards greater home working will inevitably leave these locations with a lower base of footfall, making rental negotiations pivotal in moving forwards and some previously attractive sites will unfortunately lose some of their desirability, leading to closures.

With challenges comes opportunity and operators reliant on lunch trade will need to consider how to tempt those people local to their outlets in – whether they reside in the area or are there for work – or indeed bring it to them, through delivery services. There could also be a burgeoning 'at home lunch' occasion for those working from home who are looking for variety.

[Click here to book a demo to see our Eating Out Panel product](#)



3. Polarisation of channels in favour of speed and value

With social situations limited throughout lockdown and consumers actively saving, it is unsurprising that those operators that focused on value and speed have benefited the most

The 'bouncebackability' of operators will be strongly influenced by channel and location. As we've already observed in relation to food to go, travel and tourism, work-district and city-centre-based locations are more exposed to the effects of the lockdown – as well as those operators without delivery capabilities. Risk aversion will also have a lasting impact on the foodservice sector, with safety measures in place to prevent virus transmission impacting the very essence of socialising pleasurably. We can also expect weak consumer confidence for the foreseeable future, which will limit discretionary spending.

Retail, travel and leisure, incorporating coffee shops, cafes, sandwich and bakery, supermarket and c-store grab and go, travel hubs, forecourts and venues and attractions, were the fastest growing areas of the market in 2019, benefiting from the on-demand population. Going forward, speed, ease of service, convenient locations and delivery capabilities will all be important credentials.

Limited consumer contact will also be an advantage as the market recovers and hygiene concerns are paramount, benefiting the likes of fast food and coffee shops. Meanwhile, service-led restaurants are likely to be the most exposed to the challenges in the market due to higher costs and weaker consumer demand.

Certainly, through lockdown, consumers have been prioritising convenience/speed and value focused channels over socially led channels. This has been to the benefit of the fast food and supermarket-to-go channels, meanwhile pub

restaurants have seen significant declines – notwithstanding that some outlets in this channel have not yet reopened.

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A recession will further impact consumer confidence and we can expect rising unemployment and job insecurity which will impact household spending power. As consumers carefully manage their non-essential spending, they will be looking to trade down and cut spend. As such, the foodservice industry will have to work hard to lure consumers out of their homes, inevitably benefitting value-led, lower-ticket propositions and/or those operators who offer incentives such as promotions.

That said, as consumers become more confident about eating and drinking out and feel able to enjoy socialising once again, we anticipate a rise in 'special occasion'-led activity. Pre-coronavirus, we were already seeing a market polarisation between quicker, convenience-led solutions and longer, more experiential and immersive experiences – and we expect the aftermath of the pandemic to exacerbate this as those consumers that can afford to, indulge out of home to mark key events and occasions.

The UK eating out market is set to decline 40% in the full year to 2020.

“The coronavirus pandemic and subsequent lockdown have no doubt had a significant impact on the UK eating out market. However, despite the challenges posed, most consumers have missed going out to eat and the government funded Eat Out to Help Out scheme will hope to have reminded them of what they have been missing, whilst providing a much-needed boost.”

4. The growth of delivery

Despite not achieving the anticipated boom at the beginning of lockdown, coronavirus is set to leave a long-lasting legacy on the foodservice delivery channel

Online ordering and delivery is expected to be a legacy of coronavirus, with a permanent shift to online grocery delivery expected – based on both increased supply from retailers as well as increased demand from consumers, many of whom have adopted this behaviour during lockdown when movement was restricted and some were shielding. The use of apps for delivery through coronavirus has accelerated consumer behaviour by “about one to three years” according to Deliveroo CEO Will Shu.

At the beginning of lockdown, demand for foodservice delivery outstripped supply, with major players such as McDonalds closed. According to our [Operator Data Index](#), just 19% of operators were offering takeaway/collection and/or delivery at the end of March 2020. Whilst the delivery-led chains could continue to serve their customer base, those operators who traditionally offered dine-in needed to work out how to adjust their business model to serve a delivery market – in many cases this took some time as they got to grips with logistics and implications of new social distancing and hygiene regulations.

Delivery also had to compete with home-prepared meals as consumers took to scratch cooking and younger consumers in particular turned to recipe boxes as an alternative to foodservice delivery. Expense was also a barrier, securing takeaways primarily as a ‘treat’, which remains the key mission for the channel.

As supply returned to the market (by early June over half of operators were offering takeaway/ delivery), delivery uptake increased, undoubtedly in part as

consumers substituted occasions where they would have previously eaten out. Delivery has also moved away from being limited to a weekend dinner solution, with weekdays and lunch representing an increasing opportunity.

“At the beginning of the coronavirus lockdown period, demand outstripped availability, with major players closing all operations. However, as supply evened out and technology enhanced with new and improved apps, we saw a higher level of uptake for delivery. We forecast this uptake to be retained once the coronavirus pandemic ends.

With more choice and greater use of delivery apps, we can expect consumers to retain a higher level of delivery uptake than pre-coronavirus. Delivery is largely considered a treat and expense is the number one barrier for non-users, so on the speed of economic recovery and therefore consumer confidence will be a key driver for the channel in the coming months. Concerns about reinfection may also benefit the channel for those less keen to go out to eat.

5. Menus: Increased prices, reduced choice

Strict safety measures have added complexity to back of house operations and increased costs. As a result, shorter menus with fewer options have become commonplace, together with modest price rises

The reopening of the hospitality industry from 4 July 2020 required operators to radically rethink their operations in order to adhere to strict safety measures and implement social distancing. These changes added complexity to day-to-day processes such as cleaning schedules, as well as reducing the capacity of venues. Some operators also introduced apps or websites to facilitate non-contact ordering.

Consequently, many operators have reduced the size of their Spring/Summer 2020 menus – by 32% on average vs. Spring/Summer 2019. Making menus more focussed and reducing the number of options makes sense to make back of house operations more straightforward, as well as reducing food costs and boosting margins by cutting the least profitable items from their menus.

Smaller menus could well be a legacy of the coronavirus pandemic, especially for pub operators (where the biggest declines in menu size have been seen). A more focused menu can be more easily tweaked to reflect consumer trends and seasonality, as well as the cost advantages already outlined.

The other significant change highlighted by our [Menu Tracker analysis](#) has been an increase in prices. The lack of trade for many months, together with the cost of implementing safety measures and reduced footfall and venue capacity will put huge cost pressure on operators. Inevitably this will force up prices, proven by our menu analysis which shows same-line dishes have increased in price by 1.5% on average across spring/summer menus in 2020, versus the same period in 2019.

[Click here to watch a short demo on our Menu Tracker product](#)



Decoding the post lockdown eating out market: five factors to consider

1. Recession and implications on discretionary spending

The economic impact of the coronavirus pandemic is likely to be felt for several years, resulting in cautious consumer spending. This – together with habits formed through lockdown when most hospitality businesses were closed – means the focus on in-home consumption is set to continue for some time, benefiting the grocery trade. We can expect increased price sensitivity and savviness as consumers keep a close eye on their outgoings.

Opportunities: Tap into latent demand and reassure on safety to drive footfall. Promotional offers may be needed to lure consumers back out.

2. Increased home working and the impact on out of home lunch

Almost half of consumers continue to work from home and we anticipate that being home-based will be a more regular feature of working life for the foreseeable future. This has had a huge impact on footfall at travel hubs, city centres and business parks, negatively impacting the food to go mission.

Opportunities: Develop solutions for the 'at home lunch' occasion, including foodservice delivery at lunch.

3. Polarisation of channels in favour of speed and value

The 'bouncebackability' of operators will be determined by channel and location – we've already noted the challenges for food to go operators, whilst those with delivery capabilities are better placed. Concerned about virus transmission, consumers' priorities will be around convenience and speed, as well as contactless service. A focus on value is also inevitable as consumers look to cut spend.

Opportunities: Key operator credentials will be value, speed, ease of service and delivery capabilities. In time, we can also expect a rise in 'special occasion' led occasions, tapping into this much-missed activity.

4. The growth of delivery

Demand outstripped supply at the beginning of lockdown, with many major players closed. Delivery then had to compete with upskilled home cooks but as supply returned to the market, delivery became more embedded as a regular treat and we can expect consumers to retain a higher uptake of foodservice delivery than pre-coronavirus.

Opportunities: Delivery could benefit from those who continued to be risk averse and less keen to go out to eat. Operators need to face into value perception as expense is the number one barrier for non-users.

5. Menus: increased prices, reduced choice

Back of house operations have become more complex due to enhanced safety measures and social distancing, resulting in a move towards more focussed menus with less options, which are easier to manage and improve margins. We're also reporting modest price increases which is no surprise following the lack of trade for several months, reduced venue capacity and the cost of implementing safety measures.

Opportunities: Smaller menus could be a legacy of the pandemic, reducing complexity as well as improving margins. Price increases feel inevitable but must be managed carefully to avoid alienating customers.

Get in touch

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