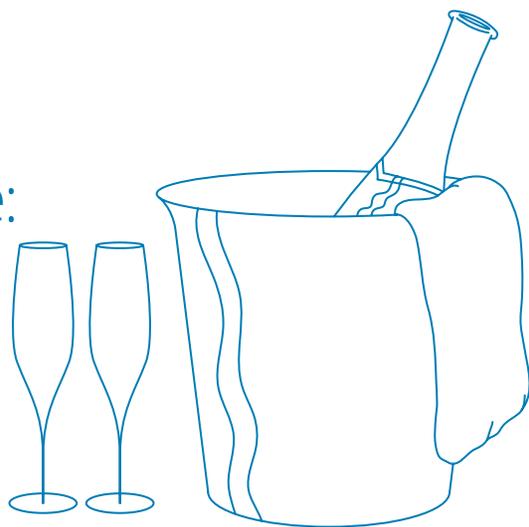


Diving deeper into leisure:

Eating and drinking out



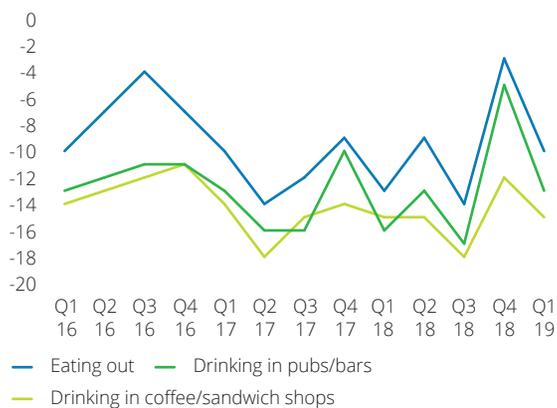
In the future the eating and drinking sector needs to focus on addressing key operational challenges, such as tackling the cost pressure and talent issues, while investing in the experiential side of their offering.

Ups and downs

In our first *Passion for leisure* report we outlined that in the post-recession recovery period leading up to 2016 eating and drinking out shifted from being an indulgent, occasional leisure activity to being a frequent, habitual one. As consumers enjoyed more financial flexibility they were happy to spend money on making everyday life more convenient and enjoyable. Eating and drinking out was part of that. The uptick in demand attracted investment into the sector, provoking the development of a wider range of brands across all market segments and rapid expansion in the numbers of establishments in each segment. The market very quickly became saturated.

In 2017 many businesses in the sector started to struggle as the squeeze on consumers' disposable budgets made them more cautious about eating out. As consumers spent more carefully and there was oversupply in the sector, consumers could be more selective. This all contributed to pressure in like-for-like sales and profits. As discussed in our *Changing tastes* report, pressure on margins started to rise, reflecting broad economic trends, including rising labour costs, higher business rates and increasing food costs, exacerbated by a weaker pound following the EU referendum.¹ This has contributed to a number of closures across the sector.

Figure 1. Net spending on eating and drinking out
% of consumers spending more in the category in the three month period



Source: Deloitte Leisure Consumer

Back in vogue

Consumer demand has recently been improving and our data shows that intentions to spend in Q2 2019 were more promising than for any equivalent period in the past three years. Particular growth areas have been health-orientated offerings, including vegan food or non-alcoholic drinks. Similarly, venues with a focus on convenient use of technology, whether for pre-ordering or payment, have been popular. Also, grab-and-go concepts have continued to flourish as the on-the-go culture has become embedded into everyday life, particularly in larger cities.

Time to tackle the big issues?

While demand has recovered, operators continue to struggle with some fundamental challenges. Talent is in short supply and turnover is high. Additionally, reducing immigration could have a major impact on the sector. For instance, ethnic food restaurants might be challenged if the flow of foreign chefs reduces further.

The sector will therefore need to work urgently on addressing the longer-term issue it faces: How can it make itself more attractive as a career option for younger people? And how can it raise its productivity and train its staff effectively as a sector?

Similarly, the eating out sector is still grappling with the disruption created by the emergence of the food delivery operators and identifying the best model to be able to benefit from the growth of in-home leisure. Though takeaway portals charge a commission that reduces their margin casual dining businesses recognise that the portals can help them to achieve incremental sales growth and also add value in terms of improved brand awareness and loyalty. In future the delivery companies could potentially become bigger disruptors in the restaurant sector, capturing significant value – beyond the delivery. Therefore companies that find ways to connect directly with their 'delivery customer' and create reasons for them to come to their restaurants instead are likely to benefit the most. Failure to do so could result in customers being captured by the delivery operators and margins being squeezed.

However, the most important success factor for restaurants and bars in the coming years is the quality of the overall experience. Restaurants, bars and pubs cannot achieve growth by just offering food and drink. They need to be able to impress consumers so that they come again. Creating a well-rounded experience is key to achieving customer loyalty and therefore continuing to grow more sustainably.

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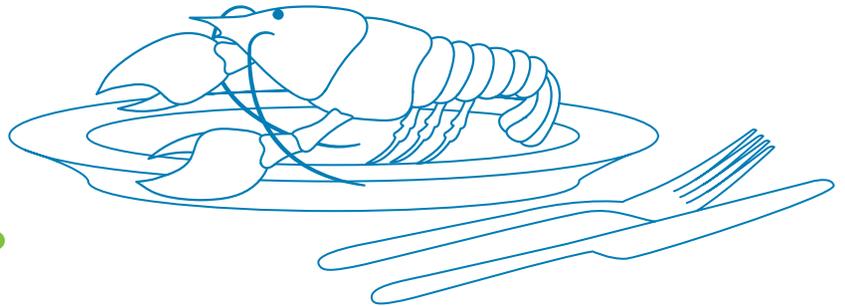
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Endnotes:

1. Changing tastes: The UK casual dining market. Deloitte, 2018. See also: <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/ConsumerIndustrialProducts/deloitte-uk-casual-dining-market.pdf>



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