FUTURE RESTAURANT ROUNDTABLE, 6 JUNE 2019

Delivery disruptors, declining footfall, rents, oversupply and Brexit were just come of the issues discussed at the Future Restaurant roundtable hosted by Board Technology Providers. Key figures from the restaurant industry gathered at Fortnum's in London, with consultant and author Peter Backman, creator of Future Restaurant, to share and debate the factors that are shaping and influencing the future of restaurants.

The agenda and content of the roundtable was set by the participants with each of them laying on the table the key challenges that they face over the medium to long term.

DELIVERY DISRUPTORS

"Uber's mission is to eliminate the need for car ownership… it feels like Uber Eats and Deliveroo want to eliminate kitchens." COO of a fast casual chain

Perhaps not surprisingly, delivery is the hottest topic. The disruptors – specifically Delivery and Uber Eats rather than Just Eat whose model is not yet predicated on last mile delivery –- are unquestionably putting increased pressure on operators, fuelled in part, by their ability to attract visitors to their apps, rising from the many millions spent on high profile advertising and marketing.

Some operators, especially those within the low-spend QSR (quick service restaurant) and fast food segments, however, are able to share some positive opinions regarding their working relationships with these aggregators: in some cases some customers spend, on average, over 80% more when ordering online or through an app, compared to walk-up transactions. This means that operators such as these are able to hike their prices by nearly a third to cover the aggregators' commissions. More premium operators, however, generally have no such luxury.

In fact, operators are significantly frustrated about aggregators - from concerns regarding the algorithms they run, that seem to favour operators who give the best margins, to the observation that a queue of drivers at the front of an establishment (waiting to collect numerous orders) affects and de-values the experience for customers who are eating in. Operators fear losing control, which arises from a lack of relationship with the customer and minimal control over the experience and service they receive.

There is a strong feeling that, if restaurants stand any chance of operating at all profitably in the delivery segment, eventually, the cost for the convenience of delivery will have to fall to the consumer.

DECLINE IN FOOTFALL

"Are we seeing the collapse of retail as we know it?"

The rise in aggregators corresponds with a decline in footfall, which formed the next topic of discussion. With the eating out market facing the same fate as many other retail markets, caused primarily by the disruptive shift to online rather than in-store sales, there is unanimous agreement that retail and the high street as we know it, is collapsing. Despite being able to deliver an experience that can't be delivered online, the dining out sector, unlike the mainstream goods retailoring sector, is still declining in footfall. Ups and downs in footfall come with the territory in the eating out market but the general consensus is that the casual dining industry's best years were 2010-2012 and most are sceptical of any improvement in the short-term.

CUSTOMER EXPERIENCE IS STILL PARAMOUNT

"All I want is for my staff to deliver consistency, consistently."

Customer experience is more important than ever before anther customer's in-store experience is seen to be hugely important, and this is especially important in the context of the increasing shift to online ordering e and in-home consumption of "restaurant" meals.

One of the key issues raised by the increasing use of aggregators, and of possibly greater importance than the high commission rates, is the creation of a distance between operator and customer. This "distance" is expressed in several ways that arises from the fact that once the rider has collected the order, there's an immediate release of control by the restaurant. As just one example, there is the impact on food quality, in transit (perhaps the food is too shaken about or the temperature is lowered too much), therefore the operator's relationship with the customer is damaged; it is not the relationship with the aggregator that suffers.

It is of paramount importance for operators to consider the impact of delivery on the food and the experience on the whole journey from in-store kitchen to the customer's dining table.

A huge part of the customer experience, for many operators, is consistency in terms of food quality, and customer interaction with app and with the rider. When it comes to customer experience and satisfaction, consistency is largely more important than factors such as regularly introducing new items to the menu.

The interaction with waiting staff is cited as a significant part of the restaurant eating out experience and it is clear that this is something that can't be replicated at home.

Looking ahead to the future and it's thought that introducing new technology doesn't automatically improve the customer's experience; the use of digital tables (where customers are shown the menu on the table, select what they want, and a member of staff brings it to them) is felt by many to be impersonal and would be unlikely to inspire loyalty in the full service restaurant customer. Conversely, McDonald's has shown that ordering via a kiosk need be no barrier to growth and even an improvement of the way that the customer views the experience.

It is thought, however, that technology has the potential to vastly improve the payment process for customers.

BREXIT UNCERTAINTY

Those around the table felt that Brexit was partially to blame for the decline in footfall but unanimously agreed that economic certainty isn't enough to stop people eating out altogether.

The main impact of Brexit for the restaurant sector is the decline in workers from the EU. As an aside it was noted that that there may be less of a problem in low spend, 'food-to-go' brands over traditional restaurants, since they may be seen to offer a more secure employment future through being less impacted by the current fall (in footfall and revenue).

Other factors that are being impacted by Brexit are food costs (although this is less of a problem than it was) and the sheer time needed to think about, plan and prepare for what is at the moment an unknown outcome.

The main burden of Brexit for the restaurant sector is being borne by food distributors, who are spending tens of millions of pounds in some cases and whose planning abilities will come under the spotlight once Brexit is in place (assuming that it is),

GOVERNMENT, LABOUR AND RENT

"There's a lot of empty buildings on the high street… but that doesn't change the rent."

The cost base is a huge concern. The rise in living wages and "upwards-only" property rent is outpacing the revenue being brought in and this has been reflected by the number of empty buildings that line many of today's high streets.

One business leader described the rising costs associated with staff as "fatal" and said it would only get worse over the next five years.

There is also a fear that, based on the current performance of the casual dining industry, private equity firms won't want to play in the space and investment – and therefore growth and innovation – will be stifled.

Government policies were also discussed, with leaders arguing that the current policies suggested by the Labour party would be hugely damaging to operators. There is genuine concern that a policy to make collecting tips illegal, will force many independents go out of business.

IS OVERSUPPLY OVER-HYPED?

"If someone zigs when everyone else zags, they'll be successful."

New ventures are clearly in decline. One leader around the table quoted a 2% decline in new restaurants opening in the last five years and pointed out that this underlined the effects of the current oversupply in restaurant options and continued with the observation that the this rate of decline is still inadequate to make any real difference to the overcapacity . A counter argument was that this issue was being given as an excuse by operators facing declining sales for other reasons and was 'over-hyped' by the press.

There appears to be an industry cycle: over-supply, followed by collapse (with the innovators being those likely to survive), followed by market recovery and then with growing oversupply, the cycle continues. Some are drawing parallels to the pub industry a few years ago, citing that operators need to be quick to adapt to changing customer behavior and demand.

There was collective agreement that those taking risks in the short term ("zig when others zag") improve their chances of success; consumers want new and innovative offers, and the current crop of investors may be more willing to back such businesses. The divide between "winners" and "losers" is becoming more apparent by the day; having a strong brand, with a unique

offering, delivered with professionalism or panache or both are the major differentiators between failure and success.

Larger organisations also face the prospect of more mergers and acquisitions in the near future as investors seek to improve profits by costs, and with the possibility of removing another layer of over-supply.

FURTHER READING / LISTENING, RECOMMENDED BY ATTENDEES

BOOKS:

- *First You Write a Sentence: The Elements of Reading, Writing… and Life*, by Joe Moran
- *Prisoners of Geography*, Tim Marshall
- *Principles: Life and Work*, Ray Dalio
- *Show Me the Numbers: Designing Tables and Graphs to Enlighten*, Stephen Few
- *Damaged Goods: The Inside Story of Sir Philip Green, the Collapse of BHS and the Death of the High Street,* Oliver Shah
- *Bounce: The Myth of Talent and the Power of Practice*, Matthew Syed
- *Homo Deus: A Brief History of Tomorrow*, Yuval Noah Harari
- *Restaurants Also Serve Food*, Peter Backman

ARTICLES:

- 12 Principles of FP&A (Strategic Finance)
- Hotels Versus OTAs: Who Is Winning Over Millennial Travelers? (Forbes)

PODCASTS:

- *Masters of Scale*, hosted by Reid Hoffman

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