

STANDING OUT FROM THE CROWD

A GUIDE FOR RESTAURANT
ENTREPRENEURS



Hospitality & Leisure
Sector Insights Report



MENZIES
BRIGHTER THINKING



FOREWORD

The UK's casual dining market is changing. Consumers are expecting more than ever from their restaurant experiences and the era of the national chain may be coming to an end.

Smaller players should grasp this opportunity and seek to draw in those customers who may be looking for something a little different. It's an exciting time of change and the money is out there: shrewd business decisions and a willingness to adapt are all that's needed.

Good news is hard to come by in the UK's restaurant sector at the moment, but here's some - consumers are spending more on leisure and restaurants than ever before.

This situation begs a number of questions. With consumer spending in these areas on the rise, why are so many restaurant businesses in the UK struggling? And what can they do to avoid this?

The truth is that despite increases in consumer spending, there has been a significant increase in competition in recent years and a number of restaurants are chasing turnover, without focusing on the gross profit. These factors, combined with increasing cost pressures, have put their business model under greater strain. A period of market adjustment is now needed to address this.

In the meantime, there are opportunities for businesses to develop a business model that is based on a deep understanding of what consumers really want and delivers excellent customer service, in order to secure more of their available spend. By taking a step back to find out more about the target market and implementing a clear and measurable business strategy, restaurant entrepreneurs can stand out from the crowd and steal a march on larger competitors.

The rules of good business remain true of course, but it is also important for new and growing players in the restaurant market to develop a compelling proposition with the pulling power to encourage consumers to spend their money, time after time.



Dave Gosling
Head of Hospitality & Leisure

THE BIG PICTURE

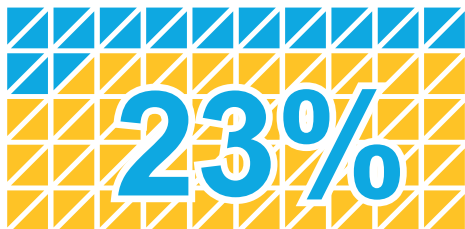
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Hit by increasing labour costs, hikes in business rates and rising food prices worsened by the low value of the pound, it could seem that the odds are stacked against UK restaurants. Attracting the attention of consumers looking to spend their leisure budgets has become more challenging than ever before.

Competition within the space is rife, as formal dining experiences become less of the norm and more unique, fast-paced environments become the preferred option for casual diners. The introduction of online delivery apps, such as Deliveroo and Just Eat has increased competition in the sector, but has also given restaurant owners the opportunity to tap into new markets, if they choose.

This new competition could be leaving some restaurateurs feeling on the back foot. However, crucial to winning and retaining a share of the market is standing out from the crowd.

Key to achieving differentiation on in this fast-moving marketplace is transforming the act of dining out into something different that consumers will relish and want to repeat. Going to a restaurant is no longer just a matter of having a meal, diners are looking for a unique, leisure experience from a restaurant that understands its target market and offers exceptional customer service.



If further evidence is needed of the importance of creating the right dining experience, there is much published research about millennial preferences. In its UK Millennials Report, culture marketing agency, Inkling, discovered that only **23%** of millennials valued goods and material possessions over experiences.

Recent research by Menzies LLP has also shown that 73% of SME owners in the hospitality and leisure space believe that the rules of doing business have changed over recent years, with cash flow difficulties, breaks in supply and a general lack of resources cited as the main changes.

For restaurant entrepreneurs, there is an opportunity to address these challenges and develop a business that taps into growing consumer demand. This should involve giving customers what they want in a fresh and innovative way and adopting good accounting and reporting practices from the start, which could help to avoid the need to restructure to drive efficiencies at a later date. With the right structure in place, the business will be able to scale up more easily.

Keeping an eye on cash management is essential, of course, but by harnessing their innate agility and embracing digital technologies, restaurant entrepreneurs have the potential to accelerate their way to profitable growth and leave the competition standing.

TIMELINE OF TROUBLES

IN THE 2018 UK CASUAL DINING SECTOR



Jamie's Italian was one of the first high-profile casualties of 2018 when in January the business announced plans to close 12 restaurants.

A reported loss of £9.9 million in 2017 fuelled the move, exaggerated by stiff competition in the sector. Jamie's Italian subsequently fell into administration in May 2019.



In May 2018, Carluccio's put plans in place to close up to 30 of its outlets.

Financial struggles caused by evolving diner expectations pushed the chain to make this decision.



Also in May, Byron Burger closed 16 of its restaurants. This was undertaken as part of a business review prompted after poor performance in 2017.



In March 2018, another Italian casual dining chain, Prezzo, announced the closure of a whopping 94 stores across the UK, citing financial pressures as the reason for the move.



In July 2018, Goucho Group announced redundancies of 540 members of staff and the closure of 22 Cau restaurants across the country.

The company's management cited unstable, rapid expansion, poor site selection and oversupply in the casual dining sector as some of the reasoning behind the move.

A RESTAURANT HEALTH CHECK FOR SME'S

Running a restaurant can be incredibly time consuming and it is especially important to take a step back and assess the running of the business.

Whilst keeping one eye on the future, restaurant entrepreneurs must keep stock of day-to-day operations and be clear about what their financial future might look like. Before investing or re-investing their time, energy and money in this highly competitive and challenging sector, they should ensure their business idea is tested robustly from a market and financial perspective.

Committing to any amount of spending can be a daunting prospect, especially in a competitive, consumer driven marketplace, where tastes and preferences are constantly shifting, and costs are increasing. However, by ensuring that critical decisions are backed up by commercial insight and knowledge, potential risks can be mitigated from the outset.

Every restaurateur (no matter how large or small) should ensure their business undergoes a health check to ensure it is capable of delivering sustainable profits:



ASSESS MARKET DEMAND

You have a new concept for a restaurant or eating establishment in mind or are looking to open additional sites. Before ploughing ahead however, it's important to understand whether the idea will work.

Is it what the market wants? Look to your competitors (not necessarily for inspiration) but for a steer on business models and propositions which appear to be working well. Keeping the consumer in mind is critical.

Just because one or two restaurants have proved successful doesn't mean it's time to start planning a nationwide roll out. An organic, well planned growth strategy through a proven model is more likely to bring long term benefits.

Some restaurant entrepreneurs may be tempted to move more quickly. If one venue is performing well, they may see it as a blueprint for carbon copies in other locations. However, as some of the larger chains have found to their cost, a dining experience that works in one place will not automatically pull in the customers somewhere else.



BUILD A DISTINCTIVE PROPOSITION AND KNOW YOUR TARGET MARKET

Sounds easy, but this can be difficult to achieve. Focusing on the 'experience' offered will ensure the venture is on solid ground. What is it that will be done differently? How can this be leveraged to appeal to a specific audience, be this broad or niche?

Having these considerations in mind from the start, when the business idea is being formulated, will ensure that any investment is money well spent and plans won't need to be altered at a later date.



CUSTOMER SERVICE

One of the key areas for restaurants to focus on is ensuring excellent levels of customer service. Although the sector has changed significantly over the last few years, delivering excellent levels of customer service is key and will help secure repeat business, customer loyalty and excellent reviews.



KNOW YOUR KPI's

Once a restaurant business is up and running, decisions should be based on insights derived from accurate financial and operational data. Important data sets to track include:

Sales 📈 It's essential to understand how much customers are spending, when they are spending this money and what they are spending on. Not only does this help in identifying the bestselling products, these insights can ensure staffing levels and rotas are correct.

Profitability 📈 This involves knowing which parts of the menu are the most profitable, and which are not. Depending on what is found, it may be necessary to remove certain dishes, which aren't making the desired profit. While such decisions can be difficult to take, over time this approach will allow efforts to be focused on areas of the business where money is being made.

Gross profit margin/cost of sales 📈 Industry benchmarks can provide useful targets for businesses to meet and succeed. For example, the average gross profit margin achieved is 61%, however, a number of restaurants can achieve up to 70%. Maintaining these margins (without compromising quality) is essential and keeping a close eye on menu planning and costing, reducing waste, portion control and stock management, is crucial.

Wages ➤ Wage bills in the restaurant sector have climbed in recent years, pushed up by increases in the National Living Wage, and auto-enrolment pension costs. Whilst staff are at the heart of any successful restaurant business, it's important that the workforce is structured in such a way that the best possible level of customer service can be provided, whilst maintaining healthy levels of profit and margins.

Rent and rates ➤ Often one of the key factors contributing to struggles within the sector, rent and rates increases can be crippling if they are not planned for. Where possible, rental agreements should be kept as flexible as possible and if cost increases are impacting profitability, it may be necessary to scout out an alternative location or have open discussions with landlords.

Seasonality ➤ It is well known that the restaurant industry is particularly seasonal and many businesses struggle in the first few months of the year. Businesses should ensure that they plan for these difficult times and structure resources accordingly.



STAFF DEVELOPMENT

A number of businesses in the sector spend no resources on developing staff and do not see this as a career opportunity for their employees. Your team are key to the success of your business and both time and money should be invested in them through training and career development.

Staff should be trained and incentivised to upskill and owners should consider sharing sales target, booking summaries and financial results with them.

Interestingly, a restaurant business on Radio 4's Today programme stated that his restaurant sales were at its highest when they invested most in staff development.



HAVE A LONG TERM PLAN

It's hard to know what the future holds, especially in such a fast-paced market, but every restaurateur should have a vision for the future. Goals for achievement should be set and used to formulate a one, two or five year plan. When compiling this plan, it is important not to shy away from asking the tough questions, such as 'how will I know when the time is right to scale up?' And 'are these aims achievable?'



TIME TO REFLECT

Restaurant owners can easily be drawn into the daily running of the business but stepping back and taking an objective view is extremely important. This includes reviewing areas such as cash management practices, reviewing average spend, checking inventory and ensuring that over ordering is not burdening the business with excess stock.

This also extends to knowing when to seek external support, for example enlisting the help of an adviser to help with key business decisions. Putting systems such as forecasts in place can also provide a better understanding of the flow of cash in and out of the business. For example, cash in the till may not translate to good news on the balance sheet, but do you know why?



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Dave Gosling
Head of Hospitality and Leisure



A LEAP INTO THE FUTURE

THE RISE OF TECH

In today's restaurant sector, the ability to harness technology to improve customer experience, or provide valuable business insights, can make the difference between success and failure.


The sector has seen various new technologies introduced recently, including:

- ✦ Booking and ordering systems
- ✦ Stock control and management software
- ✦ Tools for rota organisation and staff planning
- ✦ Marketing tools and data analysis software
- ✦ Integrated accounting systems

Recognising the pulling power of the latest technology, restaurant entrepreneurs have an opportunity to structure their businesses to make it even more convenient and easy to use; meeting the needs of consumers in their local area. For example, online ordering and booking systems are increasingly regarded as essential offerings, as their streamlined functionality has made them the transactional interface of choice for many customers.

The most sophisticated online booking systems go beyond this - offering customers full visibility of which tables are available and greater control of the booking process. For restaurant owners, booking sales data is fed directly into Point of Sale (POS) systems, giving real-time insights into capacity and aiding with food ordering and forward planning. When introducing any technological improvements, it is important to bear in mind that some improvements may be eligible for R&D tax relief and incentives.

Technology is also making it easier for entrepreneurs to manage their businesses by giving them access to real-time financial information and accounting tools. Online marketing tactics, particularly those linked to social media, can also help to raise awareness of a new offering and keep it top of mind.



Restaurant entrepreneurs have an opportunity to embrace technology and leverage it to help meet the needs of consumers in their local area.

For example, online ordering and booking systems are increasingly regarded as essential offerings, as this is the transactional interface of choice for many customers

Nick Farmer
Tax Partner



A VIEW TO THE FUTURE



For existing restaurateurs and new entrants, it is important to look beyond the recent headlines about business failures. Whilst there are risks to navigate, success is possible in this fast-paced and exciting sector.

Making sure you understand what customers really want is a vital consideration before investing in a new concept or planning to scale up.

Once trading, it is also important to perform regular restaurant health checks to ensure the business is on solid and profitable ground. Taking this approach, restaurant entrepreneurs will be able to make more astute decisions and stand a better chance of building a profitable and sustainable business.



For existing restaurateurs and new entrants, it is important to look beyond the recent headlines about business failures. Whilst there are risks to navigate, success is possible in this fast-paced and exciting sector.

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HOW CAN MENZIES HELP?

For more information about conducting a restaurant health check or launching a new concept, contact the hospitality and leisure team at Menzies LLP:



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