Quarterly review of GB pub, bar and restaurant supply

MarketGrowthMonitor

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Site numbers steady as pressures mount

By Peter Martin

Britain's number of licensed premises remained level in the year to September 2017 despite rising challenges for pub and restaurant operators.

Research for this new edition of the Market Growth Monitor from CGA and AlixPartners shows there were 122,783 licensed premises in Britain in September—a very modest drop on the total three months ago and a likewise modest increase of less than 0.1% on the tally in September 2016.

This data suggests that while some restaurants, pubs, bars and other licensed premises have been forced to close by mounting costs and other issues, new openings are still springing up to take their place. Most of these have been restaurants, whose numbers increased by 1.6% in the 12 months to September. By contrast, Britain's number of drink-led pubs and bars has fallen by 2.3% over the last year.

It has been a difficult year for many licensed operators, with several key input costs rising. Food costs have increased sharply over the course of 2017, thanks in part to the weak pound making imported items much more expensive. People costs have risen too, following the introduction of new Minimum and Living Wage levels. Property costs, especially hikes in rates experienced by many businesses, are a third concern.

0.03%
Increase in total licensed premises in the last 12 months

Layered on top of these challenges is uncertainty about the outcome of the government's negotiations to leave the European Union, and the knock-on effect on migrant labour in particular. Consumer confidence has remained patchy, and the sector's own optimism has been dented too. CGA's Business Confidence survey in November revealed that just 30% of leaders felt optimistic about prospects for the eating and drinking market over the next 12 months.

But despite all these negative factors, the Market Growth Monitor shows that many operators are still in expansion mode. Growth is most obvious in the casual dining space, where there is a steady flow of new openings from small to medium multi-site groups, and a constant influx of new and dynamic concepts. Franco Manca, Wahaca and Giggling Squid are just three examples of mid-sized brands that have been rolling out new openings at a good pace over the last few years.

1.6%
Increase in restaurants in the last 12 months

Some bigger names, like Nando's and Wagamama, continue to expand fast too. But other top-tier brands are finding trading increasingly tough, thanks to the double whammy of soaring costs and intense competition from casual dining upstarts.

On the pub and bar side, there is a distinct split in the fortunes between venues focused on food and drink. Among food-led pubs, there was a modest 0.9% decline in numbers in the 12 months to September—and over a five-year measure, their total has actually risen, by 5.3% to more than 18,000. The number of drink-led pubs, on the other hand, is 2.3% lower than it was at September 2016, and it has tumbled by 18.3% over the last five years. Drinking pubs and bars can still do very well if they provide a distinctive offer that responds to demand for on-trend drinks like craft beer and gin, especially in London and other big cities. But these Market Growth Monitor figures show that other drink-led community pubs continue to close at a steady rate.

Our Monitor also indicates an ongoing migration of licensed premises to town and city centres. The number of licensed premises on high streets rose by 0.6% in the 12 months to September, while the total in suburban areas fell by exactly the same proportion. Liverpool (8.5%), Southampton (8.3%) and Manchester (7.8%) were among the city centres seeing notable growth.

REGIONAL SHIFTS IN LICENSED PREMISES

Region	Total Sites	Act chng. vs last year	Act chng. vs. 5 years ago	YoY% chng. vs. last year	% chng vs. 5 years ago
Anglia	9,289	-57	-187	-0.6%	-2.0%
Central	16,137	11	-463	0.1%	-2.8%
Granada	15,658	100	-675	0.6%	-4.1%
London	23,379	-109	739	-0.5%	3.3%
Meridian	11,693	-38	-23	-0.3%	-0.2%
Scotland	11,275	54	41	0.5%	0.4%
Tyne Tees	5,641	75	-	1.3%	0.0%
Wales	6,797	-11	-274	-0.2%	-3.9%
Westward	11,855	24	-339	0.2%	-2.8%
Yorkshire	11,047	-14	-408	-0.1%	-3.6%
North England	32,346	161	-1,083	0.5%	-3.2%
Central/Wales	22,934	-	-737	0.0%	-3.1%
South England	32,837	-71	-549	-0.2%	-1.6%

Source: CGA Outlet Index

AlixPartners view

By Paul Hemming
Managing Director, AlixPartners

"2017 has already proved to be a challenging year for operators. The last twelve months have left the industry battling unprecedented levels of competition, unrelenting price pressures, and an evolving retail market. As a result, casual dining chains have seen relatively little new investment activity, with many operators instead focusing on trimming tail sites from their estates. Quoted UK operators have also been feeling the pinch, judging from the recent string of profit warnings.

"Despite these negative headwinds, small and growing innovative businesses continue to thrive across the country. From a transaction perspective, the freehold pub market (in contrast to casual dining) has seen a raft of recent M&A activity as investors search for lower risk freehold-backed yield. We expect the move towards pub assets to continue. Although it is clear the casual dining market has matured, the reality is tired offerings that fail to evolve will have a limited shelf life in any environment. For emerging operators with a differentiated, consistent product, there will still be ample room to blossom."

AlixPartners when it really matters

A tale of two cities

London is by far the most important British city for restaurant and pub operators, with more than five times as many licensed premises as any other city centre. But Market Growth Monitor data reveals it is a market of sharp contrasts, between the core of the capital and its outer regions.

CITY BY CITY - CHANGE IN LICENSED PREMISES

City Centre	Total Sites	YoY% change vs. last yr	% change vs. 5 yrs ago
Bath	194	3.7%	13.5%
Birmingham	365	3.7%	10.3%
Bradford	107	9.2%	15.1%
Brighton/Hove	366	-1.9%	7.0%
Bristol	170	3.0%	5.6%
Cambridge	137	-1.4%	7.9%
Cardiff	220	-1.8%	17.0%
Chester	147	2.1%	1.4%
Coventry	109	-0.9%	0.9%
Derby	118	0.9%	-4.1%
Dundee	107	-7.0%	1.9%
Edinburgh	519	3.0%	11.9%
Exeter	128	4.1%	11.3%
Glasgow	513	1.2%	9.9%
Gloucester	72	1.4%	-7.7%
Hull	135	1.5%	3.1%
Leeds	341	1.2%	20.5%
Leicester	229	0.9%	11.2%
Lincoln	102	-2.9%	-2.9%
Liverpool	408	8.5%	25.2%
London	3288	1.2%	10.4%
Manchester	622	7.8%	24.9%
Newcastle	397	3.1%	15.7%
Norwich	185	1.6%	9.5%
Nottingham	298	2.8%	3.5%
Oxford	128	1.6%	1.6%
Peterborough	63	5.0%	-1.6%
Plymouth	180	-1.6%	-5.8%
Portsmouth	38	-2.6%	-11.6%
Sheffield	202	1.5%	-3.3%
Southampton	130	8.3%	20.4%
St Albans	73	-2.7%	-3.9%
Stoke-On-Trent	68	1.5%	-8.1%
Sunderland	99	-2.9%	-3.9%
Swansea	131	4.0%	6.5%
Wolverhampton	78	4.0%	9.9%
Worcester	115	7.5%	12.7%
York	270	2.7%	19.5%

Source: CGA Outlet Index

In inner London, the number of licensed premises has increased by 0.8% over the last year—but in outer London it has fallen by 0.9%. Both trends have been driven by restaurants, whose numbers in inner London rose by 3.1% in the 12 months to September, but fell by 0.3% in outer London.

Central London growth is being fuelled not by big brands but by small and medium-sized managed restaurant groups. In inner London, the number of restaurants managed by small groups has soared by nearly 75% in just five years, while the number of sites from medium groups has virtually doubled. In stark contrast, the number of restaurants managed by large groups has fallen by more than a tenth.

0.8%
Increase in licensed premises in inner London in the last 12 months

This shows how new restaurant concepts are flooding into the heart of the capital, and how many of these new arrivals are going on to roll out multiple sites. It reflects consumers' insatiable demand for something new: fresh and differentiated concepts rather than established brands. In inner London now, small groups account for 60% of all managed restaurants; large groups run just 23% of them.

But the splits are totally different in outer London. Here, small groups operate only 30% of all managed restaurants, while large groups run 53%. This shows that big brands are most popular in suburban areas, where concentrations of families and lower-earning professionals are much higher.

As anyone who has eaten out in central London recently will agree, there is a remarkable variety of eating out options in the capital. Market Growth Monitor data shows there are 244 different restaurant brands in inner London now—compared to 109 in outer London.

This rich diversity, coupled with relatively high incomes in the capital, means people use restaurants much more often in London than in other cities. CGA's BrandTrack consumer data shows that nearly seven in ten London-based consumers now eat out at least weekly—20 percentage points more than the next most frequent region, and a 15 point increase in just five years. Eating-out has become deeply entrenched in London's psyche.

It is young adults who are leading the way in this trend. With plenty of disposable income in their pockets, 25 to 34 year-olds are more frequent eaters out than any other age group—even more so than 18 to 24 year-olds, who, at an earlier stage of their careers, are more likely to feel the pinch of London's high rents and prices.

Londoners are also much more promiscuous in their use of restaurants. They have visited an average of 4.6 new brands over the last six months, BrandTrack data shows—nearly twice as many as the 2.5 new brands experienced by people living outside of the capital. They are also much more likely to visit new places based on recommendations from friends.

INNER V OUTER LONDON: GROWTH OF MANAGED RESTAURANTS BY GROUP SIZE

Location	Group size	Growth in last year	Growth in last five years
Inner London	Small groups	7.9%	74.7%
	Medium groups	19.3%	94.1%
	Large groups	6.7%	-10.7%
Outer London	Small groups	18.9%	65.0%
	Medium groups	2.8%	25.4%
	Large groups	4.5%	12.7%

All of this means that London has tended to trade better than most other parts of the country in recent years. Coffer Peach Business Tracker data reveals a 2.2% increase in the like for like sales of leading managed pub and restaurant groups in London over the last 12 months—double the rate of 1.1% outside the M25. And new openings are set to continue in hotspots like the City, where the City of London Corporation has reported a record number of applications for alcohol licences this year.

But growth in London comes at a cost. Rents and rates have risen to eye-watering levels in many parts, especially the West End. Food costs are rocketing, people costs are higher, and Brexit is casting a long shadow over hospitality's workforce, which depends heavily on EU migrants. But with so much competition in the eating-out scene, securing consumers' loyalty might be the biggest challenge of all. London's battle for market share, already intense, is going to get even fiercer in 2018.

About the AlixPartners CGA Market Growth Monitor

This quarterly Monitor provides a snapshot of pub, bar and restaurant supply in Great Britain. All the data is drawn from CGA's Outlet Index, a comprehensive, continually updated database of all licensed premises. For more information about the Monitor, data or more granular analyses of locations or types of businesses, contact Jamie Campbell, CGA director, jamie.campbell@cga.co.uk The Market Growth Monitor is delivered in partnership with AlixPartners, the leading global financial advisory firm. Contact managing director Paul Hemming, phemming@alixpartners.com.

AlixPartners when it really matters | CGA PHENOMENAL DATA. EXPERT INSIGHT.

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