



Issue 20



AlixPartners

Market Recovery Monitor

Review of GB pub, bar and restaurant supply

MAY 2020

Hospitality resets as COVID crisis takes its toll

By Peter Martin

Britain's hospitality market, which has been brought to a juddering halt by the COVID-19 crisis, will tentatively begin to reboot from July 4.

What shape that process will take now that the Government has given the green light, health conditions permitting, is still unclear. The vast majority (**96%**) of business leaders in the pub, bar and restaurant industry are expecting a phased reopening for hospitality, although only a third (**36%**) believe they will eventually re-open all of their sites for trading.

According to CGA's latest Business Confidence survey of senior executives and entrepreneurs in the eating and drinking-out market, another third (**32%**) are already anticipating the need to permanently close sites, with the same proportion yet to decide on closures.

The poll, conducted at the end of April 2020, revealed that the vast majority (**81%**) of operators are already planning for recovery, with most considering a range of different scenarios, but almost all expect to see a much-reduced market in the future.

Latest figures from the CGA Alix Partners *Market Recovery Monitor* (formerly the *Market Growth Monitor*) confirm that at the end of March this year, the number of licensed premises in Britain stood at 115,108, a **2.4%** reduction compared to March 2019.

Although that rate will accelerate rapidly, the challenge for business owners, directors and planners – as well as industry investors and suppliers – will be to understand not just how long the casualty list will be, but which will be the worst hit areas, what type of businesses are most under pressure and how individual sites will pivot to new styles of operation – and even if there will be opportunities for new businesses in different areas as the landscape changes.

The latest Market Recovery Monitor figures up to March – and the lockdown – provide a starting point, highlighting the parts of the market already in decline, and those that until now were growing.

81% of operators are already planning for recovery



Chains and independents: will the balance change?

In the last year, independently-owned operations have borne the brunt of closures, while group-owned and operated pubs, bars, restaurants and hotels have grown in numbers, backed by corporate investment.

Numerically, the independent sector remains the largest segment of the market, with 74,271 sites, almost two-thirds of the total. But in the last year, numbers of independent food-led businesses, including restaurants and food pubs, fell **2.6%**; drink-led sites, including pubs and bars, were down **1.5%**; and accommodation-led venues numbers dropped **8.8%**. In addition, the leased pub segment declined **5.5%** over 12 months.

In contrast, group-owned and managed sites saw a 1.6% uplift to 21,461. Managed food pubs grew **2.2%**, group-owned full-service restaurants grew **7.6%**, hotels were up **3.9%**, bar numbers grew **13.1%** and even managed community pubssaw a **1.4%** uplift in numbers. The exceptions were in the overcrowded casual dining market, which saw a **0.2%** decline in chain-operated sites, managed high street pubs (down **0.4%**) and chain-owned night clubs (down **1.7%**).

While corporate-investment has sustained growth programmes to date, the COVID-19 crisis has thrown everything in the air. The question is whether the bigger corporate players will be best placed to emerge post-lockdown still in a relatively strong

position? Will independents continue to struggle, or will it be the medium-sized groups, especially in the casual dining arena, that will be squeezed the most?

Casual dining may well be the most vulnerable. The sector, including independents as well as the branded chains, declined **3.1%** overall in the year to March, and with its dependence on retail, business and urban locations, may need longer to recover than other parts of the market. The strength of brands will be tested, and those with a multi-channel approach, including delivery and takeaway, may be the best equipped.

Local pubs and restaurants have also been out of favour, with community pub numbers continuing to decline by **3.7%** last year. But with working from home continuing and consumer research pointing to the public's inclination to return to local establishments before heading back to city and town centres, these businesses may have an opportunity to win back trade.

Based on current Government restrictions, assumptions are that restaurants are likely to open before bars, the suburbs before cities, and independents before chains. Larger sites such as night clubs and entertainment venues have already been told by Government to expect to wait longer before reopening.

INSIDE:

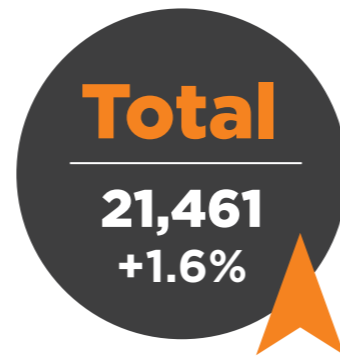
Chain growth + Towns remaining under pressure

Chain growth – the pre-COVID-19 story

(numbers of group-owned and managed locations* as of March 2020, and YoY growth/decline)

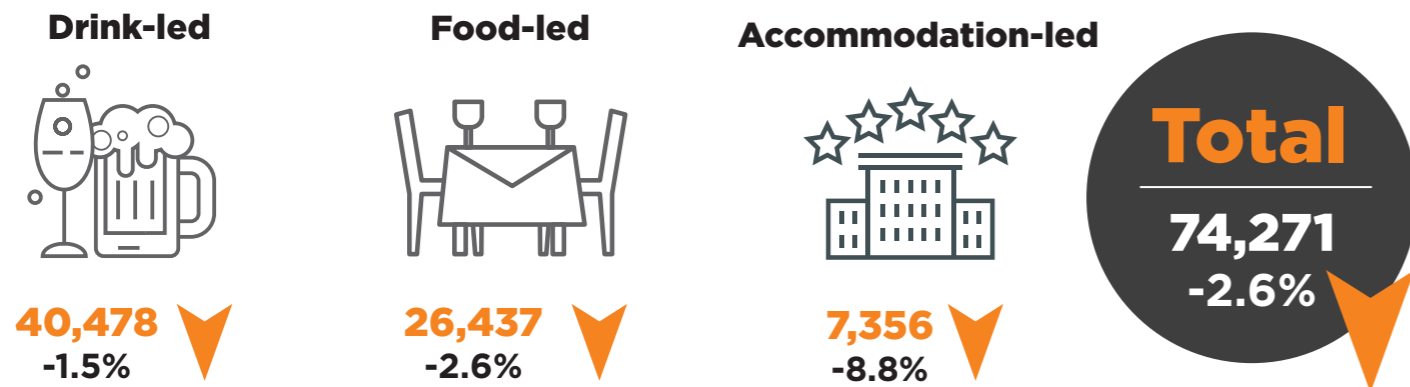
Food pub	4,380	+2.2%
Casual dining restaurant	4,047	-0.2%
Hotel	2,926	+3.9%
High street pub	2,221	-0.4%
Community pub	1,790	+1.4%
Restaurant	1,732	+7.6%
Bar restaurant	1,271	+4.9%

*Main categories only



Independents – how many can survive?

(numbers of independently-owned and operated 'free trade' locations as of March 2020, and YoY growth/decline)



New monthly frequency for the Monitor

How the overall hospitality market reopens will be dependent on a range of factors: Government timetables, support and continuing restrictions; the financial strength of individual businesses; wider economic and business activity; the creativity of management teams; and the willingness of customers to return.

Through our newly renamed Market Recovery Monitor, CGA and AlixPartners will map out that developing recovery

activity, highlighting the areas and types of operations that open and return to business first, which are slower, and which might remain dormant. To do that, once the lockdown is lifted, the Monitor will be published monthly rather than quarterly to reflect the evolving landscape and to give the industry, and individual companies and investors, greater insight to guide its decision-making.

Understanding Market Recovery Monitor: Definitions

'Independent' or 'free' means that the venue is owned and operated independently—the individual owner has full decision-making responsibility for the venue's operation and profitability.

'Group' restaurants are managed sites of operators with more than one location, typically a collection of venues or portfolio of brands. They typically employ a manager to carry out the day-to-day running of the venue, according to the company's specifications and objectives.

'Managed' pubs are managed sites of operators with more than one location, typically a collection of venues

or portfolio of brands. They typically employ a manager to carry out the day-to-day running of the venue, according to the company's specifications and objectives.

'Tenanted' or **'Leased'** outlets are run by individual tenants who pay a tenancy fee or rent to a corporate landlord, typically a pub company.

'Circuit' bars are high-street bars situated on 'drinking circuits' that are typically drink-led but with a food offer and attract a lower aged consumer.

'Licensed' outlets are permitted to serve wine, beer and other alcoholic beverages.

Towns remaining under pressure?

How town and city centres work to recover as workers and shoppers are encouraged to return will be a special focus for the Monitor. Large towns, which collectively have seen a **3.4%** decline in sites in the past year, have fared worse than city centres (down **1.2%**) and small towns (down **2.5%**). The locations already most under pressure pre-COVID look to have the biggest challenges.

City and town trends by type of business

(numbers as of March 2020, and YoY growth/decline)

City	Drink-led sites	18,563	-1.7%
	Food-led sites	17,172	-0.6%
	Accommodation-led sites	2,522	-1.6%

Large Town	Drink-led sites	21,835	-2.9%
	Food-led sites	13,846	-2.2%
	Accommodation-led sites	4,514	-8.8%

Small Town/Area	Drink-led sites	20,830	-2.7%
	Food-led sites	12,108	-1.7%
	Accommodation-led sites	3,717	-3.9%

-1.2% DECLINE
IN SITES IN CITY CENTRES

-3.4% DECLINE
IN SITES IN LARGE TOWNS

-2.5% DECLINE
IN SITES IN SMALL TOWNS

115,108 number of licensed premises in Britain, a **2.4%** reduction on March 2019



Changing shape of the GB out-of-home market

Total site numbers by type of business, and share of market across one and five years

	Tenure	Mar-15	Mar-19	Mar-20	Mar-15	Mar-19	Mar-20
GB	Total	124,411	117,909	115,108	-	-	-
	Managed	19,372	21,127	21,461	15.6%	17.9%	18.6%
	Free	80,213	76,281	74,271	64.5%	64.7%	64.5%
	Leased	24,826	20,501	19,376	20.0%	17.4%	16.8%
Total Eating Venues	Total	45,024	43,746	43,126	36.2%	37.1%	37.5%
	Managed	10,119	11,382	11,659	22.5%	26.0%	27.0%
	Free	29,096	27,131	26,437	64.6%	62.0%	61.3%
	Leased	5,809	5,233	5,030	12.9%	12.0%	11.7%
Total Drinking Venues	Total	67,593	62,784	61,229	54.3%	53.2%	53.2%
	Managed	6,651	6,825	6,777	9.8%	10.9%	11.1%
	Free	42,397	41,081	40,478	62.7%	65.4%	66.1%
	Leased	18,545	14,878	13,974	27.4%	23.7%	22.8%
Total Accommodation-led Venues	Total	11,794	11,379	10,753	9.5%	9.7%	9.3%
	Managed	2,602	2,920	3,025	22.1%	25.7%	28.1%
	Free	8,720	8,069	7,356	73.9%	70.9%	68.4%
	Leased	472	390	372	4.0%	3.4%	3.5%

New categorisations

The new-look monthly Market Recovery Monitor will also introduce a new site categorisation to more accurately reflect the development of operations. This will see the introduction of 'casual dining restaurant' and 'bar restaurant' classifications within the broader restaurant definition, as well as craft bars and street markets being separately recognised. For more details contact **Chris Jeffrey at CGA**, chris.jeffrey@cga.co.uk

Comment from AlixPartners

"The eating and drinking out market faces an uncertain time even when it begins to reopen. While fast food and food-to-go operators are currently leading the emergence from lockdown, those running restaurants and pubs are working hard to find the best way to operate whilst social distancing remains in place.

Many operators have got their tape measures out to assess the impact of social distancing restrictions on operations and capacity. Even with well-configured space, cover counts will be meaningfully reduced and may prompt further questions on whether it is sensible to reopen, or not, from a profit perspective. Location considerations will be another factor - it's easier to foresee rural and suburban venues opening faster than those located in large city centres given there will be a significant period before offices reopen and footfall numbers return to prior levels, particularly where mass-transit is key for commuters.

Restarting a business into a market where demand levels are uncertain and significantly below previous levels is not sustainable without further support from key stakeholders and the Government. While the extension of the furlough scheme is welcome, operators will be working closely with their investors, lenders and landlords to help them navigate this crisis."

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