The market and consumer trends shaping the future for UK quick service restaurants

Whitepaper - March 2022

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Introduction

Over the last 18-24 months, the landscape of the UK away from home market has changed significantly. The impact of the pandemic saw restaurant closures accelerate and operators move quickly to introduce delivery capabilities in order to survive.

In contrast, away from home channels that are focused on speed and low customer contact, such as quick service restaurants, food to go and retail have been better insulated to the challenges posed by the pandemic and are experiencing a swifter recovery.

According to the latest Barclaycard Consumer Spending Report, versus December 2019, consumer spend at takeaway and fast-food outlets increased by +62.6% in December 2021. In comparison, restaurants saw a decline of -14.1%.

There is no doubt that risk aversion, caused by Omicron, is the main cause of this shift in spend, but what makes fast-food operators so insulated to the impact of the pandemic?

"The latest Barclaycard Consumer Spending Report shows consumer spend at takeaway and fast-food outlets increased by +62.6% in December 2021"

Avidity has partnered with food and drink insight experts Lumina Intelligence to shine a spotlight on the quick service restaurant (QSR) market. Throughout this whitepaper, we will be sharing insight and commentary on:

1. The size of the UK QSR market
2. The structure of the UK QSR market
3. The market trends shaping 2022
4. Consumer attitudes and behaviours
5. The impact of delivery
6. The opportunity for brands
7. What the future holds for QSR in 2022 and beyond

£13.8bn

The UK fast food industry was worth £13.8bn in 2021, +18.9% versus 2020

The size of the UK QSR market

According to Lumina Intelligence market sizing analysis, the UK fast food industry was worth £13.8bn in 2021, +18.9% growth versus 2020, and consisted of 42,341 outlets, +0.6% on 2020. This follows a decline of -27.7% in turnover in 2020, as the impact of the pandemic was felt across the entire industry.

In comparison to most other channels, the quick service restaurant industry was incredibly well placed to navigate the challenges that the pandemic posed. Whilst the major fast-food operators initially ceased all dine-in, takeaway, drive-thru and delivery services, this did not last long. Major players were back trading within a matter of weeks and remaining open throughout the rest of the pandemic.

This swift recovery is evident within the Lumina Intelligence UK Eating Out Market Report 2021, which indicates that the quick service restaurant channel saw the second fastest pandemic recovery, reaching 86.8% of its pre-pandemic 2019 value in 2021. This is only marginally behind coffee shops, cafés and dessert parlours, which recovered to 87.8% in 2021. However, the value of this channel is significantly smaller than QSR.

The resilience that this industry has shown throughout has been driven by a number of factors.

> **"The quick service restaurant channel experienced the second fastest pandemic recovery, reaching 86.8% of its 2019 value in 2021."**

Firstly, well placed site locations outside of urban town and city centres. During peak lockdown, urban centres suffered significant footfall declines, with many operators looking to more residential locations, as consumers stayed local.

Secondly, the majority of quick service operators either already offered delivery or takeaway services or have a simple business model that allows them to pivot to implement these easily. For example, the majority of fast-food comes packaged whether eaten in or taken away, so the only consideration for operators is getting it to consumers.

Thirdly, quick service operators have a strong presence across all day parts (breakfast, lunch and dinner), so they have the ability to attract sales throughout the entire day.

Finally, the prominence of delivery aggregators, such as Uber Eats, Just Eat and Deliveroo, has made it easier for quick service brands to implement delivery solutions and drive awareness of their outlets to a wide audience immediately.

As the channel looks towards a full recovery in 2022, three key growth drivers that will help achieve this are the continued evolution of location strategies based on consumer locations, including more focus on drive thru and residential areas. Consumer demand for convenient meal solutions away from home and a shift to lower ticket meal solutions as a more affordable eating out experience due to rising pressure on household incomes. Finally, more hot, fresh and healthier options broadening day part appeal, such as vegan and vegetarian solutions.

4 factors driving resilience amongst QSR operators

- **Well placed site locations outside of urban town and city centres**
- **Simple business model that can easily pivot to offer delivery**
- **A strong presence across all day parts - breakfast, lunch and dinner**
- **Aggregators make it easier for QSR brands to implement delivery solutions**

29%

Independent fast-food operators account for 29% of total UK QSR market turnover

The structure of the UK QSR market

The Lumina Intelligence UK Eating Out Market Report 2021 further breaks down the £13.8bn value of the UK fast-food market into five sub-channels; Branded traditional operators, branded delivery-focused operators, branded contemporary operators, independent fast-food operators and street food operators.

Branded traditional operators, such as McDonald's and KFC, is the largest segment of the overall market, with a 38% share – a value of £5.3bn.

"KFC is the only leading fast-food brand that is expected to fully recover from the pandemic and surpass its 2019 value in 2021."

Independent fast-food operators hold the second highest share, accounting for 29% or £4.0bn of the total UK fast-food market. In contrast, independent fast-food operators' share of total fast-food outlets in the UK is significantly higher than the other sub-channels, accounting for nearly two-thirds. This highlights the sheer size and importance of independent operators across the market.

In terms of the total eating out market, quick service restaurants dominate the overall top ten eating out operators in the UK versus 2020. McDonald's remains the number one operator, but behind that there have been some big movers, driven by brands that offer low-ticket, low-contact solutions. Domino's has moved four places to third, KFC five places to fourth, Subway five places to fifth and Greggs two places to sixth. These five brands alone command a combined 10.6% share of the UK eating out market.

Interestingly, when we analyse the top three fast-food brands in the UK – McDonald's, KFC and Burger King - KFC is the only one expected to pass its 2019 turnover figure in 2021. Other fast-food operators expected to achieve this include, German Doner Kebab, Five Guys and Pepe's Piri Piri. Alongside continued physical expansion these brands are more skewed towards delivery and have been able to maintain meaningful revenue streams throughout lockdown periods of the pandemic.

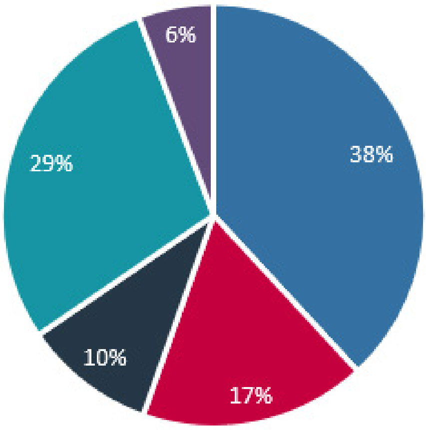
10.6%

The top five UK quick service operators - McDonald's, Domino's, KFC, Subway and Greggs - hold a combined 10.6% share of the total UK eating out market.

When we look at the other end of the spectrum, the [Lumina Intelligence Operator Data Index] identifies the fastest growing brands in terms of outlets. Contemporary fast-food player German Doner Kebab opened +16 sites – growth of +30.8%. The operator has a strong delivery proposition and central sites that are well positioned for consumers looking for food to takeaway. Five Guys was the next fastest growing – up 15 sites (13.3%) versus 2020.

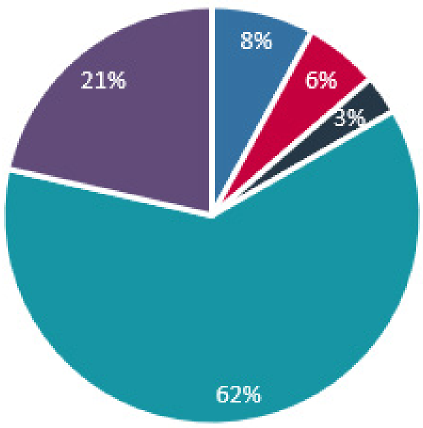
Looking ahead to 2022, these two brands are expected to continue to grow, with German Doner Kebab expected to add a further +11 sites and Five Guys expected to grow by +18 sites or +14.1%.

UK QSR market turnover share, by channel, 2021



Lumina Intelligence Eating Out Market Report 2021

UK QSR market outlet share, by channel, 2021



Lumina Intelligence Eating Out Market Report 2021

The megatrends shaping the industry

The [Lumina Intelligence Menu & Food Trends Report 2021] highlights eight megatrends that continue to be of huge importance to the UK food and drink industry – convenience, customisation, experiential, healthier eating, indulgence, quality-led, sustainability and value scrutiny. Fast food restaurants are perfectly placed to deliver against and adapt to these eight trends.

If we take three of these to look at in further detail – sustainability, indulgence and convenience – we can analyse why fast-food operators are well placed and examples of how brands are already achieving this.

Sustainability

Consumers expect businesses to play a role in the fight against climate change. This can be achieved in a number of ways, such as through packaging, food provenance and meat reduction.

Let's start with packaging. Whether you eat-in, takeaway or choose delivery, fast-food meals quite often come heavily packaged, with each item individually wrapped. However, with very little plastic involved, fast-food brands are able to offer consumers environmentally friendly solutions that can be recycled.

In March 2021, Burger King UK made a commitment to phase out all single-use plastic by 2025, replacing packaging with reusables and recycled or certified plastic-free alternatives. In 2019, McDonald's introduced plastic-free toys in Happy Meals. We've also seen widespread adoption of paper straws to replace plastic ones. Whilst these operators are able to make significant investments in this area, there are huge challenges when rolling out new initiatives across a large estate. Smaller, independent quick service restaurants are well placed to make fast changes in-line with consumer demand and position themselves ahead of the curve.

1 in 4

One-in-four choose a hospitality operator because it has strong sustainability initiatives.

72%

of consumers are actively reducing their food waste

46%

are buying more locally sourced food

Food provenance is another way in which operators can demonstrate commitment to sustainable practices. Nearly half (46%) of UK adults are buying more locally sourced food. Not only does this support British businesses, but it significantly reduces carbon footprint.

Large operators are doing this at a national level, with McDonald's shouting about using 100% British and Irish beef for some time, Five Guys using Scottish beef and LEON sourcing its chicken from the UK – regularly visiting chicken farms to ensure chickens are well looked after and that sourcing has a low carbon footprint. However, local, independent operators have the ability to impact things at a much more regional level and really tap into consumer demand. By using local produce, not just British, operators can showcase their commitment to local communities and other small businesses, as well as significantly reduce their carbon impact.

Moving on from meat, the vegan and vegetarian movement has rapidly gathered pace, as consumers look to cut down on meat consumption, with many taking a flexitarian approach. From a brand perspective, the big fast-food operators have arguably been slow to adapt. However, it is more the contemporary fast-food chains that are creating more healthier, vegan/veggie friendly menus. Leon lists its sustainability strategy as being focused on three specific goals: increasing the number of plants on its menu, renewable energy, and reducing its use of plastics.

This is, of course, something that independent quick service operators have been tapping into for some time, with particular regions across the UK achieving great success. Cities such as Bristol and Brighton are well known for having a strong, innovative and vibrant vegan scene. It's also hard to look past the capital for smaller chains to watch in this space. Emerging vegan QSR concept Ready Burger has recently announced that it is set to open two more sites in London, bringing its total to four. Ready Burger bills itself as "the first value-driven, fully plant-based quick service restaurant in the UK".

Indulgence

The top three food items consumed away from home are chips, burger and pizza, with almost one in three occasions involving chips. Furthermore, 'Treat' is the most common consumer mission for eating or drinking away from home/delivery. Fast-food is synonymous with chips, burgers & pizzas – food that is easy to cook and can be consumed anytime, anywhere.

Whilst a 'treat' to many consumers, might be going to a nice restaurant for a nice meal, fast-food operators can leverage value for money to encourage consumers to treat and indulge, but at very accessible prices from very accessible locations.

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The prominence of the treat mission also correlates with the rise of dessert parlours over recent years. In 2021, the top 10 dessert parlour brands in the UK grew its combined outlet count by +17% in 2021. The dessert parlour channel is relatively contemporary with leading brands not yet totalling over 500 stores. There is lots of growth opportunity for the channel with the model benefitting from low barriers to entry, small unit sizes, franchise models increasing brand awareness through nationwide expansion and a lower ticket offering, attractive to cost conscious consumers.

Quick service restaurants can use this growth to trade-up consumers, particularly through delivery, into categories such as desserts and ice creams, but also drinks.

Convenience

It's quick, easy to find, simple to eat, tasty and operators are using tech to increase efficiency. Netflix, Amazon Prime, Spotify and many more have all contributed to a generation of consumers that expect instant gratification, which, to a certain extent, is what they expect from UK food and drink operators too.

Convenience is at the heart of the fast-food industry. They are placed in convenient locations, it's quick to order and cook and consumers can eat it wherever they want. Furthermore, since the pandemic, we have seen real enhancements that make fast-food even more convenient. Many operators have invested heavily in their delivery and tech capabilities.

According to business leaders from across the UK away from home industry, the use of internet/mobile technology/apps and demand for home delivery are the two most important long-term consumer trends impacting the industry. Many operators are now using digital ordering, whether that be via kiosk, an app or through one of the foodservice delivery aggregators. Five Guys introduced its new Curbside tech, which allows consumers to order via an app and just park up. The food is then brought to the vehicle. Perfect during the pandemic, but also the level of convenience that consumers are starting to expect.

"The use of internet/mobile technology/apps and demand for home delivery are the two most important long-term consumer trends impacting the industry, accorind to business leaders."

The impact of the pandemic on consumer trends

During the pandemic, consumers turned to other channels, as restaurants, pubs etc. were all forced to stop all dine-in operations. During the 12 weeks ending (12WE) 18 April 2021, with the UK in its third lockdown following the festive period, QSR's total share of occasions, brands and independents, rose from 38.8% in the previous 12 weeks to 41.3%.

With restrictions easing, as the UK food and drink sector continues its recovery, we will see a rebalancing as consumers return to their favourite restaurants. However, we do not expect the demand for delivery to wane. There remains a continued threat to city and town centre footfall, locations that have often been desirable for fast-food outlets, with a third (31%) of consumers saying that they plan to visit city/town centres less post-pandemic.

However, there is a huge opportunity for independent operators to gain share and drive sales. 12% of consumers say that they plan on visiting more independent fast-food outlets post-pandemic, with those aged 25-34 years old +33% more likely to agree than the average consumer.

12%

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In general, 47% of consumers like supporting local businesses. Independent operators are much better placed to engage with local communities and really capitalise on this willingness to support. Using social media will be key, but the growth of delivery aggregators has also given consumers greater visibility of the diverse offering of chains and independent outlets in their area.

36%

Independent restaurants and fast-food outlets hold a 36% share of the UK delivery market

The opportunities around delivery

Lumina's UK Foodservice Delivery Market Report 2022 indicates that the market grew +6.5% in 2021 to a total value of £12.6bn. Pre-pandemic, the trend towards delivery was experiencing steady growth, however the impact of the pandemic saw this growth rapidly accelerate, as restaurants were forced to close and the usage and nationwide coverage of delivery aggregators such as Deliveroo and Uber Eats increased. Despite restrictions easing, demand for delivery is not expected to wane, with growth of +5.6% forecast for 2022 – taking the value of the market to £13.3bn.

Foodservice delivery's share of the total UK eating out market is expected to grow +5.1ppts from 2019-2022. Year-on-year share is set to decline slightly in 2022 as the total eating out market recovers past its 2019 value.

Continued growth in the variety of players and propositions, alongside a consumer perception of delivery as a more budget-friendly alternative to eating out amid the cost of living crisis, are expected to be growth drivers for the market.

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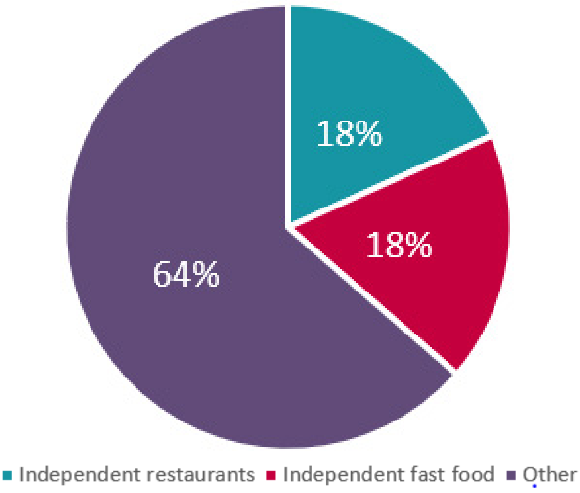
The market is becoming more segmented as channels, including branded traditional fast-food and branded restaurants, continue to roll out delivery and grow market share. Branded traditional fast-food and independent fast-food are expected to lead absolute value growth in the foodservice delivery market from 2019-2022.

Independent restaurants and independent fast-food operators are both forecast to hold an 18% share of the

UK foodservice delivery market turnover share, by channel, 2022E



Lumina Intelligence Foodservice Delivery Market Report 2022

> **"Despite restrictions easing, demand for delivery is not suspected to wane, with growth of +5.6% expected for 2022 – taking the value of the market to £13.3bn."**

total value of the UK foodservice delivery market in 2022. Independent fast-food operators saw a compound annual growth rate (CAGR) of +12.3% 2016-2019 when it comes to delivery alone. For 2019-2022E, this is expected to increase to +17.3%.

Continued consumer uptake of technology, including delivery apps and digital ordering solutions, as well as more home working boosting opportunities for delivered breakfast and lunch occasions are two key important factors set to drive growth over the coming 12 months.

Despite the nature of delivery allowing operators to expand their reach beyond their immediate location, the local, suburban nature of independent operators gives them the capabilities to tap into the opportunities that home working offers.

The growth of aggregators has also given independent operators the platform to drive awareness and reach amongst a much wider audience. However, many independent operators have worked to implement their own e-commerce platforms to avoid the commission fees of the main delivery aggregators. In this instance, operators will have to work harder to increase reach and awareness.

The opportunity for brands

The QSR market represents a massive opportunity for brands, particularly to influence independent and small chains. Here, FMCG brands have a real opportunity for growth; where they can work with operators to increase brand visibility and sales across all outlets and platforms where consumers purchase.

With takeaway and delivery on the rise - including the continued rise of the delivery aggregators like Just Eat, Deliveroo & Uber Eats - brands need to find ways to ensure their products are visible both online and in outlet. They need to convince operators that by adding branded products to their menus in categories such as drinks, snacks, desserts and ice creams, they can upsell to consumers.

So, how do they do that? The answer is simple, but the delivery is not. They need to adopt a strategy to do this on an outlet-by-outlet basis.

The mission

The ultimate goal for brands is to build distribution and presence in the channel – in other words, be more visible in order to sell more products. The delivery of this mission however, takes skill and experience.

To build this distribution and visibility, brands need an outlet contact strategy to engage operators, one outlet at a time. That means getting a team that know how to talk and sell to these outlets on their terms, and at the times that suit them, which is often outside of what's considered a traditional 9-5 operating culture in FMCG brands. A 1:1 approach to engage and educate the owners on the right things to do for their business will ultimately unlock success in the channel.

They might advise them on how to drive visibility of products through their delivery aggregator to increase delivery sales, or encourage them to add POS to their windows and counters, or support them by advising on how to best present menu options & meal deals. The service delivered really depends on the outlet type and the location, so partnering with an experienced agency who can help shape your brand strategy from the get-go and execute it in an agile way is where the gains vary from marginal to astronomical.

Avidity Group Ltd were the first business to break into the QSR sector with a scale sales team, through their partnership with Unilever, which extended into QSR in 2018. With over 4 years of experience in QSR through their McCurrach, Standout and Wave agencies, they have written the playbook on what brands need to do to win in this channel, particularly with independent operators and the delivery aggregators. They've delivered market leading growth for brands like Unilever and most recently, have partnered with Red Bull to launch one of the largest teams in the sector.

> **"Brands need to convince operators that by adding branded products to their menus in categories such as drinks, snacks, desserts and ice creams, they can upsell to consumers."**

To speak to an expert on building your brand's outlet contact strategy in the away from home sector contact:

enquiries@weareareavidity.com

£18.2bn

the estimated value of the fast-food and takeaways segment of the UK eating out market in 2024

Future outlook

Total eating out market growth is expected to accelerate post-pandemic, led by the sandwich & bakery, coffee shop/café and fast-food segments. Service-led restaurants will take longer to recover but growth will improve from pre-pandemic level.

The fast-food and takeaways segment is expected to see compound annual growth of +2.4% between 2022-24. This will result in the value of the segment increasing from £16.9bn in 2022 to £18.2bn in 2024. This will give it a market share of 19% and see it gain the biggest share of the total eating out market to 2024, as it benefits from improving food quality and standards, continued outlet expansion and ability to tap into other routes to market including delivery and drive thru.

In outlet terms, grab-and-go, quick service-led channels are growing share of the eating out market, with smaller more accessibly priced sites available to operators including fast food, sandwich & bakery and coffee shop/cafés.

To summarise, the fast-food segment of the UK eating out market has remained insulated throughout the pandemic, due to its ability to pivot to delivery and low contact nature.

For this reason, it remains well placed to recover quickly from the impact of the pandemic and continue to grow and gain share of the total market.

"The opportunity for brands right now is clear. They must act now to establish themselves in this channel. Growth is only going one way and the brands who don't play in this space put themselves at risk of being left behind. "

The key drivers behind this growth over the coming years are continued consumer demand for convenient meal solutions away from home, greater awareness and uptake of digital technologies among all demographics, more focus on takeaway and delivery and changes in location strategy based on consumer locations including more focus on drive-thru and residential areas.

The growth inhibitors that operators need to keep an eye on over the coming years are the rise in home and remote working, cost increases from obesity strategy legislation, consumer demand for more personalised healthier eating more easily met via home preparation and food and ingredient price rises and fluctuations.

The opportunity for brands right now is clear. They must act now to establish themselves in this channel. Growth is only going one way and the brands who don't play in this space put themselves at risk of being left behind. So, whether you're looking to start a fresh or increase your market share in this channel, now is the time to act.

Find out more

Avidity

To speak to an expert on building your brand's outlet contact strategy in the away from home sector please contact:

enquiries@weareareavidity.com

Lumina Intelligence

For further information about the data and insight presented within this whitepaper please contact:

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