



Retail Store Catering

SixthSense™

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Introduction and Scope

As people find their finances continuing to be squeezed they have to make savings where they can. Consumers have become much more price aware since the beginning of the recession and are increasingly comparing prices, especially online. Supermarkets have responded by presenting their customers with their own price comparisons in-store, to help shoppers make informed decisions. This does not extend, however, to their in-store catering outlets and many shoppers try to save money by resisting the temptation for a coffee and a bun whilst shopping.

But people do have to eat and hungry children are no joy to shop with, which explains why supermarkets are the favourite destination for families with children to eat lunch whilst shopping.

It's not just lower prices consumers want – it's more choice and healthier choices too. For foodservices providers the challenge remains to provide good quality food but at low prices. Another trend is towards locally sourced food. Whilst working with local providers presents foodservices companies with excellent marketing potential, and savings in distribution costs, local growing and breeding conditions are very variable.

A short period of relative price stability could change as the effects of a prolonged drought in many areas of the UK are felt and livestock breeders are keeping an anxious eye on a new threat to their livestock in the form of the Schmallenber virus which is already affecting the birth of this season's lambs and may yet affect cattle and pigs, pushing meat prices up and making it much harder for UK producers to compete with cheaper imports.

Retailers are varied in their approach to providing cafés and restaurants in their stores. For some they represent an important revenue stream but for others they are very much a secondary consideration with, understandably, primacy given to their core business. Many outsource the entire management of their cafés and restaurants to outside suppliers and some work in partnership with food wholesalers. But there is an opportunity here for foodservices companies to work with retailers to encourage more shoppers to visit the store cafés and restaurants to the benefit of retailer, supplier and customer.

This report looks at shoppers' experiences of in-store cafés and restaurants, how much they typically spend and their preferences by retail outlet type. It also shows what would entice people to visit in-store cafés and restaurants more frequently. Spoiler alert: lower prices come top of the list but there are other factors that consumers would consider.

Definitions and methodology

This report looks primarily at consumer tastes when visiting the cafés and restaurants situated within shops and supermarkets, whether these be store-owned and managed or concessions. Over 2,000 people in the YouGov online panel were surveyed over the period 26-30 January 2012. The vast majority of these – over eight in ten – had eaten in-store during the last two years.

Survey participants were asked about the following types of retail outlet cafés and restaurants:

- Bookshops
- Clothing stores
- Chain department stores, such as Debenhams and John Lewis
- Garden centres
- Home supplies and DIY stores
- Independent department stores
- Upmarket department stores
- Supermarkets.

Additional research has been drawn from a wide range of industry sources and store brand managers.

Report Summary

People still go shopping, but they have to make savings where they can and this generally means cutting back on eating whilst they are out shopping. Lower prices are by far and away the most likely enticements to encourage people to spend more on food in shops' cafés and restaurants, but they also want more choice and for many this means healthier choices.

Money-off vouchers for the café given with other store purchases would be popular and foodservices providers, working with retailers, could do more here to give people what they want and reduce the risk of wastage when offering new (healthier) recipes.

Some store cafés are less popular than others. Home supply and DIY store cafés are visited less frequently than others. Of course people shop less frequently in these stores, but of those who do around half have a drink there, but fewer than two in ten have anything to eat.

Consumer behaviour

People are not particularly interested in special treatment. Very few would welcome special previews with drinks and food at the shops they go to, nor would store-card holders be particularly interested in a VIP area just for them at the café. What they do want is better service and clean tables.

Some types of retail outlet do much better than others when it comes to the take-up in their cafés and restaurants. Supermarkets head the table when it comes to hot lunches, and bookshop cafés are a particular favourite of students. But chain department store and garden centre cafés are popular, especially among older age groups.

By and large consumers are happy with the choice and service they receive in store cafés and restaurants, although a significant number think the food could be more interesting. Some stores, especially the more upmarket department stores, are going some way to addressing this through partnerships with chef-led restaurants, but there is some way to go before the majority of in-store catering moves beyond the baked potato or tuna salad sandwich. If there is any complaint in the choice of food it is in hot food.

Market assessment

In-store cafés and restaurants are dependent on the ability of the stores themselves to attract customers. And the financial crisis has seen a big downturn in the retail sector, with many well-known chains going into administration and town centres everywhere seeing more and more boarded up shops, to the point where the Government called in the 'Queen of Shops', Mary Portas, to assess the situation and make recommendations for breathing new life into town centres. The Portas Review, published in December 2011, has many ideas for regenerating town centre shopping, many of which revolve around the idea of community. With approval for bookshops selling coffee, Portas would like to see more shops centring their services on customer need.

The British Retail Consortium (BRC) remains gloomy, noting a continuing downward trend in sales with retailers that are already discounting heavily having to rethink their business models. If foodservices companies can find a medium between Portas' enthusiastic vision for a community-led future for the high street and retailers' grim reality of discounted prices and zero sales growth perhaps they can prise open an opportunity that will benefit themselves, retailers and shoppers.

Barriers to growth

Legislation

Food supply in the course of catering is standard rated for VAT. This is not always visible to consumers who balk at the higher prices they are asked to pay when eating out, especially if they compare them with supermarket prices.

The rise to 20% VAT in early 2011 meant an immediate increase in the price of food and drink at all retail food outlets, but a fall in inflation one year on (down to 3.6% in January 2012 from 4.2% in December 2011) has helped to keep prices steady.

EU Welfare of Laying Hens Directive

Under the European Directive 1999/74/EC, all laying hen cages now have to be of the enriched variety that provides improved welfare conditions for laying hens. Most UK producers have already conformed and as yet the directive has had no impact on egg prices. However, there are concerns in the industry, and perhaps among some consumers, that egg products (as opposed to whole eggs) may contain egg either from producers outside of the EU or unscrupulous producers within the EU who continue to use the old battery-style cages.

As consumers do have concerns regarding animal welfare, the Directive has been welcomed throughout the industry and once the initial costs have been absorbed the financial impact of refitting cages will lessen.

Competition from independents

The trend towards locally sourced, locally produced food has encouraged independent retailers to work with local independent foodservices companies to provide in-store catering. Whilst major foodservices companies are more interested in working on a wider scale, the ability of independents to understand and respond to local conditions in their menu offerings, provide special offers and offer superior levels of service are welcomed by consumers. It is this ability to move quickly that could see independent caterers with a fresh innovative approach growing and competing for larger contracts.

Competition from established companies

The challenge for all foodservices operators is to provide fresh, healthy, tasty food, quickly prepared and served and delivered at competitive prices. Large organisations with buying power, experience and efficient delivery systems are always going to be able to win contracts on price, particularly if they can demonstrate the provenance of the ingredients they use. Having won the contract to work with a retailer, companies work hard to retain that contract.

However, these same companies could perhaps be hidebound by their traditional approach to foodservices and lose contracts to smaller newer companies with a completely fresh approach to giving customers what they do not yet know they want.

Need for investment

Retailers need to make every inch of their space pay and expect their foodservices partners to deliver the same kind of profits as any other in-store concession or product line. For new food concessions this may mean upgrading existing café and restaurant spaces, resulting in a financial commitment that will mean the food proposition has to be right.

Future direction

Margins are being squeezed by high food and fuel prices, and footfall in retail areas, beyond traditional seasonal shopping boosts, is largely unpredictable. Internet shopping, accounting at present for around 20% of retail sales, is forecast to grow, which means fewer visits to in-store cafés and restaurants. Foodservices providers are already looking at how they can adapt to these changes, as are local chambers of trade and retail consortiums and even the Government, which engaged its own shopping czar, Mary Portas, to report on the state of UK town centres. The answer lies in all concerned taking a much more innovative approach to engage consumers and to offer them a better shopping experience than they had before the economic downturn if they are to be lured away from their online ordering and back to the high street.

Online engagement

The increasing power of the Internet to influence consumer behaviour is not to be underestimated. Consumers are becoming used to shopping around for the best prices and online social networking allows them to post and read opinion. If the food is considered to be poor quality and not good value for money, unhappy customers will use their social networks to tell others. Research for this report found a number of message boards where customers complained about poor service and uncleared tables, especially in supermarket cafés, and for every complaint there were several who agreed.

Foodservice providers can use this resource to engage more closely with consumers, working with retailers to provide information on menus and to offer incentives. The increasing use of smartphones also provides an opportunity for retailers and contracted foodservice operators to engage directly with shoppers through signalling food specials, offers and even table availability as they browse the store, either online or on the high street.

Fresher, higher-quality food but at affordable prices

With much media attention being given to the problems that foods high in fats, sugars and salts create, consumers are also becoming more aware of the benefits of eating fresh food, especially locally produced food. However, they do not want to pay more for it. Working with local producers enables foodservices companies to provide seasonal, and therefore lower cost, food with lower transport costs. It also provides them with a marketing angle which will resonate with customers who are keen to believe they are contributing to the local economy through their food choices.

Drivers of Change

Economic impact on consumer spending

With consumer confidence still low, shoppers are curbing their spending as never before and if they can make savings whilst out shopping they will. Often this means cutting out treats such as stopping for a coffee or snack at a store café or restaurant, or spending as little as possible there.

Increasing demand for fresh, healthy, locally sourced foods

Despite making reductions in their food spending, consumers are increasingly health conscious and looking for more nourishing fare which contains less fat, sugar and salt.

High-street brands are already reformulating many of their products to address this, but the trend for locally sourced fresh ingredients goes beyond this.

Foodservices providers can increase sales through paying attention to these trends, and working with local suppliers can market products, especially snacks that will satisfy demand. And they can do this in the confidence that visitors to in-store cafés have already made the choice to eat there, rather than in any of the fast-food brand cafés and restaurants in the shopping area.

The 2012 London Olympics are providing opportunities all across the hospitality spectrum to promote British goods and services. Food is no exception and an increased emphasis on locally sourced foods in shops' and stores' cafés and restaurants is likely to boost sales.

The store approach

In-store cafés and restaurants are an important part of the retail offering for many stores, increasing dwell time and contributing to turnover. Debenhams' cafés and restaurants, for example, contribute 5% to total turnover. This chain manages all of its catering in-house, although its food supply is outsourced. A rival chain, House of Fraser, works on a concession model and works with Café Nero for its catering offerings. A store-by-store approach is taken here, with another catering partner, San Carlo, opening its Cicchetti Italian restaurant at its Manchester store, following the success of Yo Sushi! operating within Manchester's branch of the upmarket chain store, Selfridges.

Waterstones, the leading bookshop chain, outsources all of its café management to Whitbread subsidiary, Costa.

Costa also operates at branches of Tesco, Homebase and WHSmith. Sainsbury's, in contrast, manages all of its cafés and coffee bars in-house.

This mix of outsourcing and in-house management means that the experience for shoppers is very variable and stores need to examine how much their cafés and restaurants contribute to customers' experience of their stores and what they can do to improve that experience to gain greater customer loyalty.

There are some sectors that are missing out on the benefits a well-run café can bring, most notably the home supplies and DIY sectors. It is here where outsourcing to a capable foodservices provider could be of advantage to the stores, increasing dwell time and providing a competitive advantage through an extension of their services.

Similarly, clothing stores have been slow to understand the advantages a coffee shop could provide, allowing friends and family a comfortable place to wait whilst the shopper selects and tries on clothes.

Despite the presence of branded coffee shops, cafés and restaurants in high streets and malls, retail stores offering their own in-store customer cafés could increase their sales; nearly a fifth of people tend to buy more from stores where they have had a drink or something to eat. And nearly a third buy something from the café even if they don't shop in the store, which effectively extends the store's selling opportunities. Money-off vouchers could work this way too – with special offers on items for those spending over a certain amount in the café.