



Food for thought

What the takeaway and delivery boom means for restaurant operators

July 2021

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Introduction

A flavour of the market

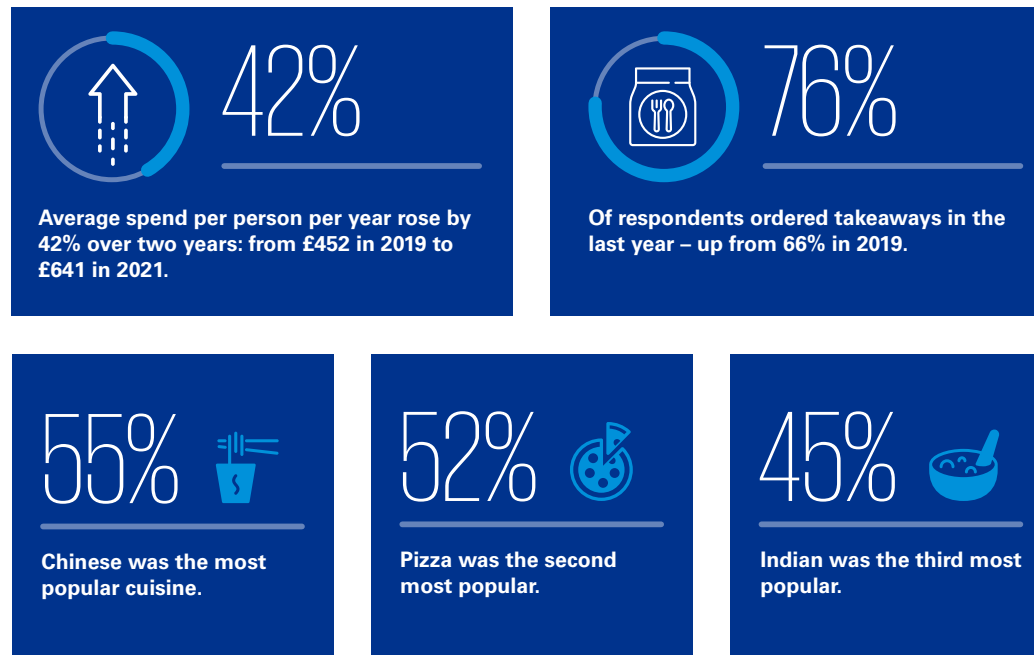
Back in 2019, KPMG decided to gauge the UK's appetite for takeaway and delivery. At the time, we knew the market was growing due to multiple drivers: aggressive expansion by the delivery apps; the convenience factor; and of course, the 'treat' factor.

Yet, while we found the channel in robust health, there was still huge untapped potential.

A third (34%) of respondents told us they hadn't ordered takeaway in the past year. And those that had were willing to order more if they were given healthier meal options and more environmentally friendly packaging and delivery.

Then came 2020 and the COVID-19 pandemic.

The closure of restaurants for much of 2020 (and into 2021) was an existential threat to many operators, but a positive tailwind was huge growth in demand for off-premise consumption. According to our survey:



Fortunately, the hospitality sector is steeped in customer-centricity and innovation and, through necessity, has condensed a decade or more of innovation into less than a two-year period.

Businesses have adapted in a plethora of ways. Changes to the physical footprint have been important and well publicised (as evidenced by the multitude of Company Voluntary Arrangements) but successful operators have also learnt to capitalise on the channel-shift to at-home consumption.

Very importantly, according to our survey, this growth in at-home consumption looks set to sustain as we emerge from the pandemic:



“Innovation and adaptability have been instrumental to operators' ability to capitalise on booming demand for takeaway and delivery.”

Will Hawkley, Global Head of Leisure and Hospitality, KPMG

So where should restaurant operators go from here?

As the economy opens up again and consumer preferences change, there are some key strategic decisions to consider:

- 01** **Getting the right channel strategy.** How can operators best position their businesses for post-COVID-19 consumption patterns? Channel optionality has increased with the rise of delivery and takeaway, dark kitchens and drive-throughs versus more traditional channels.
- 02** **Working with third party platforms.** Should takeaway and delivery be operated in-house, via a platform or both? Is it optimal to run a multi-platform or platform-exclusive delivery proposition?
- 03** **Differentiation - standing out from the crowd.** How can operators continue to distinguish their offering amongst the wider competitor landscape that arguably exists for delivery? Do the differentiation strategies that worked for in-store consumption still work for at-home consumption?
- 04** **A geographical approach to brand building and accessing customers.** Lockdowns have dislocated locational consumption patterns. Which geographies and site formats will best position operators to capitalise on the post-lockdown recovery? How can the increase in delivery be leveraged to expand geographical footprint and penetration?
- 05** **The importance of knowing your customer:** Customers and their preferences have always evolved, but has the pandemic accelerated previous trends?

// **The sector is going through a major shock. Given the current capital constraints, operators will need to make a number of choices. They'll need to build on their strengths to forge a competitive advantage; identify significant investments of time and money; and find ways to improve operational performance. At the same time, they must keep a careful eye on risk mitigation."**

Sean McGill, Director, Strategy Group, KPMG in the UK

In this report, we explore how customers attitudes to off-premise consumption has changed, especially as a result of the pandemic. And we examine them through the lens of a few of the sector's lockdown success stories: Côte Brasserie and Pizza Pilgrims.



Will Hawkley

Global Head of Leisure and Hospitality
KPMG in the UK



19%

Of respondents had tried takeaway from a pub or restaurant that previously only offered eat-in.

17%

Had ordered meal kits from restaurants or recipe boxes from a dedicated provider since the start of the pandemic.

61%

View the restaurants they ordered takeaway from positively and will visit them in future.

Usual method of ordering



Phone

2021 - 39% 2019 - 43%



Third party

2021 - 37% 2019 - 34%

01. Getting the right channel strategy

Once the pandemic is finally behind us, we'll have a better idea of the long-term direction of travel for the dining sector.

But our survey results suggest that embracing multi-channel by offering the right mix of eat-in, takeaway and meal kits, promises enormous growth potential. Reverting to pre-pandemic operations and channel-mix is unlikely to be a recipe for success.

It is also important to determine the role delivery can play in the business. It's normally a useful channel to help support the growth of evening day parts. There are a number of operators, 'Grab and Go' operators especially, that may not have a menu designed for evening consumption. These operators will need to consider widening their ranges.

Having a takeaway service can dramatically reduce cap ex and op ex spend compared to opening new outlets. It enables companies to target new areas as they test products and assess the potential of new markets. And it allows them to gather valuable data on customers' tastes, needs and preferences – which is crucial to building long-term relationships with them.

Ultimately, a successful delivery operation will mean additional revenue sources – creating a bigger business. That could mean the difference between single and double-digit valuation multiples in the eyes of investors.

Many of the larger dining chains had embraced takeaway and delivery before the pandemic, enabled by the expansion of the delivery platforms. But for smaller operators and high-end offerings, the decision to keep a delivery service might not be so straightforward. Their takeaway and delivery propositions may still be in their infancy, having been hurriedly launched during lockdown. Some will have been using their redundant restaurant kitchens to meet takeaway demand.

Whether or not operators are new to takeaway and delivery, determination of the optimal, profit enhancing, channel mix is complex with an interplay between financial, operational and brand and customer considerations.

Operators will need to grapple with:

- How is pricing and product architecture adapted to offset delivery platform commissions? Are takeaway and delivery sales accretive or cannibalistic, and how does this balance vary by geography and day-part?
- Where are the returns on finite resource (cash, management bandwidth) greatest? How should these resources be prioritised?
- What is the right operational infrastructure? What is the right mix between existing kitchens, dark kitchens, central kitchens? What is the impact on staffing and staff rotas? Are the EPOS and ERP systems fit for purpose and harnessing requisite data?
- And, of course, what does all this mean to the customer? Does the channel mix play well with the brand, offering and customer experience?



Investors are attracted to the growth potential of successful multi-channel operators and reflect this in their valuations. It will be interesting to see if successful new direct-to-consumer (D2C) channels can be built and, if so, whether this moves valuation multiples towards the frothy pure-play D2C valuations currently being achieved."

Jonathan Brierley, Transactional Services Director, KPMG in the UK

Côte Brasserie

Dining out while staying in

As the UK went into lockdown, Côte Brasserie quickly pivoted into home delivery to replace its restaurant takings.

The upmarket chain launched an online ordering service, offering fresh produce boxes, and some of its most popular menu items prepped to be finished at home.

These provided a rich experience: a sense of dining out while having to stay in. Customers loved it – so much so that the company is continuing the delivery option now that its restaurants have reopened.

The success of the delivery proposition has done more than shore up Côte Brasserie's revenues during a market shock. It has significantly boosted the chain's brand equity. In 2020, the company jumped an impressive 139 places in **KPMG Nunwood's Customer Experience Excellence rankings**, entering the top 10 for the first time.

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The shift towards takeout and delivery is quite staggering and likely to be permanent."

Andy Hornby, Chief Executive Officer of The Restaurant Group

A pub's perspective

At the start of the second lockdown, The Wych Elm in Kingston had everything in place to begin offering delivery and click-and-collect.

Licensee Michael Pearson explains: "We reduced our trading hours, and focused our takeaway service on Friday and Saturday evenings and Sunday lunchtimes. Then we directed people to our website to place orders, via our Instagram and Facebook pages and an e-shot to our database of 4,000 customers."

The pub's takeaway offering found a ready audience. The team was soon serving up to 200 meals on Sunday afternoons alone; delivery and click-and-collect sales peaked at £5,000 per week.

With the gradual lifting of restrictions from spring 2021, customers have returned to the pub, cooling demand for takeaway. But as Michael points out, continuing to reach customers during lockdown raised the venue's profile within the local community.

"We've gained many new customers, who never knew we existed, or weren't aware of the quality of our food. It's not been all bad!"





The share of takeaway orders made by phone hasn't shown much of a decline - 43% in 2019, to 39% in 2021.



Ordering a takeaway via a third party app increased from 34% in 2019 to 37% in 2021.



Of orders are still placed directly with restaurants, either by phone or using the venue's website.



Of respondents say easier-to-use delivery apps would encourage them to order more takeaway in the future.

02. Working with third party platforms

In the era of Uber Eats, Deliveroo and Just Eat, establishing a takeaway offering means deciding whether to partner with a third party delivery platform and which one to go with.

The obvious advantage to working with a third party is that they manage the logistics and transport. That saves upfront investment, operating costs, and the hassle of running the delivery arm. Plus, third party platforms provide the opportunity to reach a new and expansive customer base. Having a presence on more than one platform is also an option.

But of course, there are the platform's commissions to pay – and using them also costs customers more. Plus, operators lose access to that all-important customer data.

When deciding which platforms to order from, survey respondents said delivery fee is the most important consideration (42%). This is followed by delivery time (38%), any available discounts codes and offers (30%) and the ease of using the app (23%).

Over a third of respondents (37%) prefer to use a third-party website or app and perhaps unsurprisingly, 18-34 year olds said they prefer to opt for third party delivery sites with over half (54%) ordering this way compared to just 20% of those aged 55+.

Restaurant operators need to consider the following when selecting a platform to go with:

01

What are the delivery fees for the customer and are they relative to menu prices? For example, a £4 delivery fee on a £6 lunch order might be off-putting when targeting the 'working from home' lunchtime market.

02

Does the platform have a minimum order amount? A top tip for operators is to review their customer data to see if orders are primarily for one person. If that's the case, a high minimum order amount could prove unfavourable to those ordering one meal.

03

What's the cost to the operator to appear in 'Features' and 'Top picks' on the platform? A marketing budget to increase visibility on the platform needs to be considered in addition to basic fees and commission.

04

Is there merit in using more than one platform to reach the target customer base? Operators can also turn apps off when at capacity or to test where the most orders are coming from.



05

What locations do the third party platforms operate in?
Do they have the right reach?

06

Where an operator wants to do the delivery part, can the
third party platform offer a payment only option?

07

Which platforms are competitors using?

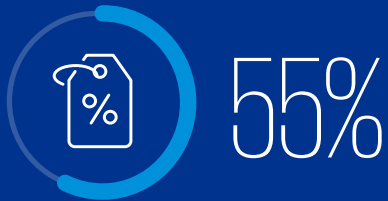
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Customers want easy-to-use platforms – what are third
parties doing to improve and invest in their experience?

03. Differentiation – standing out from the crowd



When selecting a restaurant for takeaway, 65% of respondents said quality of the food was the most important factor in their decision making.



Followed by 55% who said price.



Consider the delivery fee before buying

Our survey suggests that growth in takeaway consumption will sustain, which will surely continue to bring more entrants into the market. But as people are eating out again, might demand go the other way, leaving more operators competing for less business?

Either way, restaurants will need to ensure that their propositions stand out from the crowd. That will require a clear understanding of their brand's strength, and just how far, and how fast, it can be stretched through takeaway and delivery.

It will also demand innovation. Operators will need to identify where they can innovate to differentiate and where their offering and brand can be stretched through new product development:

Brand positioning. How are top listings on the delivery apps secured? How will they be positioned versus key competitors? What are the discounting and promotional strategies of the platforms and do they benefit or damage the brand? How can they drive a positive association with their brand? During the pandemic, for example, providing free drinks and snacks to NHS staff struck a chord with the public.

Product quality. Does the product travel well and delight the customer? What is the maximum delivery radius whilst maintaining speed and quality? How can the product and the packaging be adapted? How is product quality maintained in the hands of a third party? How are issues resolved and who is at fault (platform versus restaurant)?

Price. Can platform commissions be offset by differential delivery pricing? What is a consumers' expectation for delivery fees in an Amazon Prime world? How is this applied across the menu? How are competitors pricing and where will your delivery pricing position you from a brand and value perspective?

Menu. How far should menus vary between channels? Some dishes travel better than others, but no customer wants to find their favourite dish missing. Should menu development be split by channel?

Brand trust. Whilst quality and price were consumers' top purchasing criteria, there are many more and consumers want to engage with brands they can trust, increasingly from an ESG perspective:

- In a delivery-world an operators' people are less visible but remain fundamental. Have operators looked after their staff in the pandemic? Are tips making it through to the staff? Does an operators' responsibility extend into third party delivery providers?
- What is the environmental footprint across the supply chain and to the consumer? How does delivery packaging and mileage impact?
- Consumers increasingly want more health-conscious eating and drinking options. How can operators help customers make informed decisions? Partnerships with, for example, fitness and lifestyle apps, could become the norm.

Personalisation: Delivery gives unique insight into a customer's tastes, location, spending patterns and much more. Customers increasingly expect personalisation, and if operators get that the share of wallet and customer loyalty will increase. But how is this best achieved, especially when customers may be intermediated by a delivery platform?

New product and service development. If the structures of serving a customer on-site are removed and a more holistic approach to servicing a customer is implemented, what does this mean for the product and service? This was perhaps exemplified during the pandemic with the advent of D2C meal kits, but what further consumer needs can operators address? Subscriptions drive customer loyalty – and regular revenues. Recipe boxes and meal kits work well as subscription offerings, and proved popular during the pandemic.

Pizza Pilgrims:

Delivering growth

February 2020 saw Pizza Pilgrims' busiest ever week. Three weeks later, its 15 restaurants across London were all closed.

Like all operators, co-founders Thom and James Elliot found themselves searching for strategies to sustain the business when lockdown hit. They soon began delivering takeaway, but wanted to offer their customers something more.

That's when James came up with the idea of posting pizza ingredients out for people to cook at home in frying pans.

A few weeks of experimentation and testing later, Pizza in the Post was born. "It was a real Petri dish moment," Thom recalls. "Nobody had done this before."

Fast-forward to lockdown number three. The firm was taking 10,000 postal orders a week by February 2021, effectively selling 20,000 pizzas (each order is for two). Before the pandemic, its pizzerias had been selling around 35,000 a week.

"Pizza in the Post carried us through lockdown," Thom enthuses.

Differentiating by experience

He attributes the product's success to getting the customer experience just right.

"We do the hard work in our kitchen, but customers still have enough to do to really savour the 'finishing-line moment'. Getting that balance right is essential: we found the sweet spot."

The Pizza in the Post experience has certainly struck a chord. In fact, it took Pizza Pilgrims' London-based brand to the world. Cannily, the company offered to rate customers' efforts on Instagram – generating 800 posts a day at its peak, including from celebrities like the Spice Girls.



PIZZA PILGRIMS

Future strategy

Given its success, Pizza in the Post will remain a central part of the business's proposition going forward.

Thom points to the 70% of postal orders that come from outside London – remarkable for a chain that's never had an outlet outside the capital. Stopping now would cut the business off from those customers.

It would also miss an opportunity to find locations for potential future restaurant outlets.

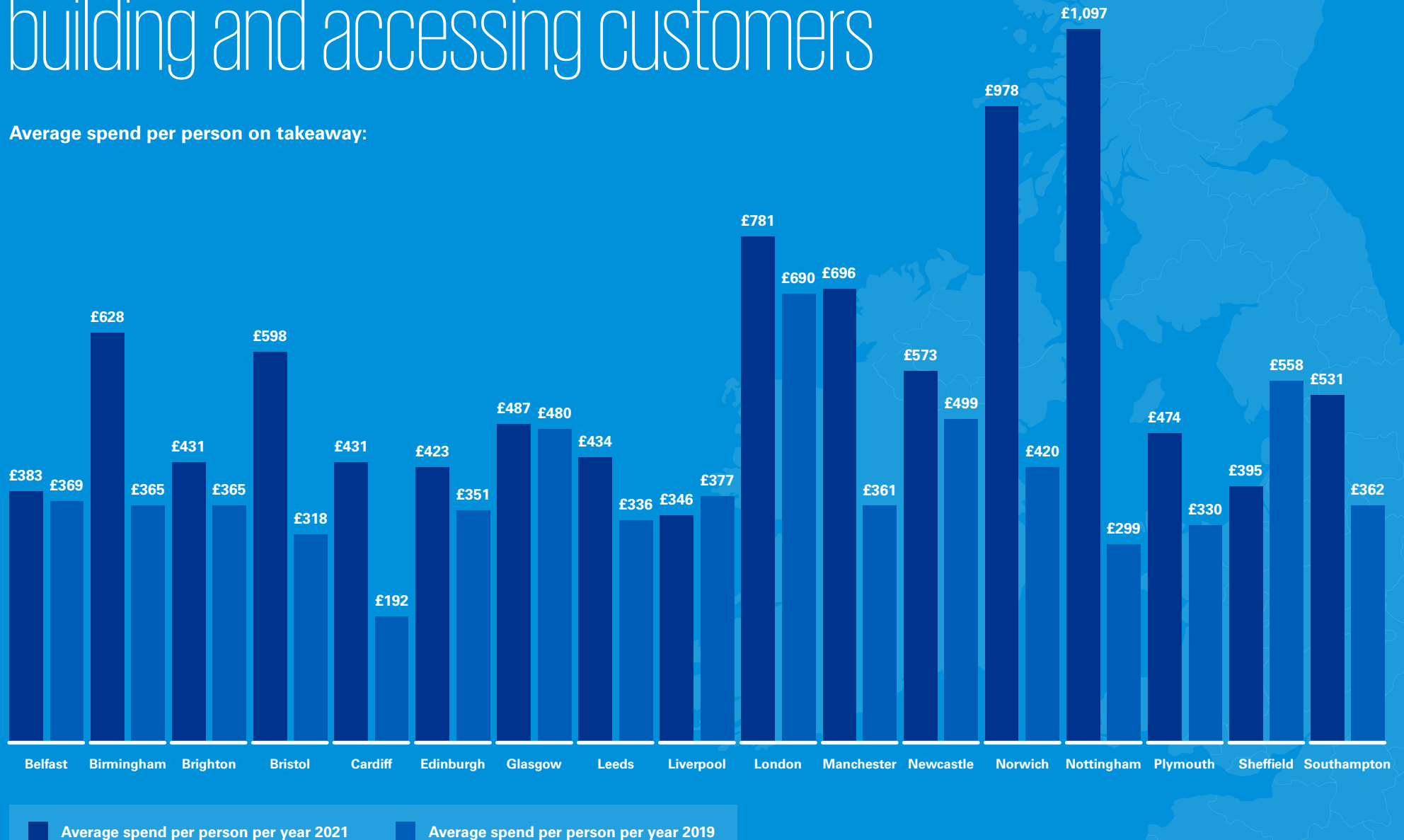
The customer data collected from Pizza in the Post has helped the firm identify demand hotspots. "Site selection in the casual dining sector still involves a lot of gut feel," Thom says. "The data we have removes that. Knowing you already have customers in an area is invaluable."

The offering has also driven opportunities to trial more revenue models and routes to market. A subscription service is available to Pizza in the Post customers, and the company is exploring a retail partnership. As Thom affirms, "You have to be multi-channel in today's market."



04. A geographical approach to brand building and accessing customers

Average spend per person on takeaway:



Location, location, location. Site location strategy has been an ever-present conundrum since time immemorial, but how does the increasing prevalence of takeaway and delivery change the calculus?

Our survey found some interesting national variations in how much people spend on takeaway:

- Nottingham residents are now the hungriest for takeaway, paying out just under **£1,100** per person each year.
- Norwich comes in second, at a shade under **£1,000**.
- Even though London lost its place at the top of the spending league between 2019 and 2021, the city remains a hot spot for takeaway consumption. That comes as no surprise as it has the biggest delivery platform penetration. Londoners are third on **£781**, spending only slightly more than in 2019.
- The lowest spend is in Liverpool, at just under **£350** per person – a third of the total in Norwich.
- Belfast and Sheffield are also below the **£400** mark.

There will undoubtedly be small sample-size influences on these patterns, together with the influence of delivery platform footprint expansion. But, nevertheless, it is clear that, in a multi-channel world, location strategy has become more complicated and really knowing your customers and their micro-locational behaviour has become even more important.



37%

When selecting a restaurant for takeaway 37% said proximity to where they live is important.

To complicate matters further, there has been a well-publicised shift in where customers spend their time:

- Working from home has reduced the radius from home. Suburban and local activity has increased and the ‘metropolitanisation’ of hospitality has at least been attenuated if not reversed. Adapting to this trend, and having the flexibility to adapt if people go back to their offices will be key to operators’ success.
- Hospitality closure has pushed entertainment into the home, and consumers have adapted to this.
- Transport modes have changed. Public transport has been swapped for private transport and previous travel-hub hotspots have been usurped by favoured drive through locations.
- Holiday travel is curtailed, with the twin effect of enhancing local dwell-time (and available wallet) and reducing tourist footfall (and spend) in traditional tourist hotspots.

But, offsetting the complexity of the wandering consumer, there are likely to be strategic upsides from increasing takeaway and delivery consumption:

- Customers have been forced out of their comfort zones and been faced with reduced options. New brands will have been found, liked and taken their place in the menu rack.
- Brands that travel well on delivery will have won-out and this brand loyalty is likely to have an ongoing halo effect.
- With increased online penetration, geographical expansion strategies could become less bricks-and-mortar focused, instead with a dark-kitchen point of the spear followed by a bricks and mortar investment.
- Delivery-only brands now have a much larger addressable market.

05. The importance of knowing your customer



39%

Respondents' primary reasons for ordering takeaway are as a treat.



65%

Quality of food is the most important factor when deciding where to order from.



81%

Quality is especially important for over 55s.



17%

Said they would order more takeaway in the future if there were more healthier options.



Health and wellness represents a number of opportunities for brands to differentiate themselves from competitors, win over new and existing customers and attract talent."

Linda Ellett, UK Head of Consumer Markets, Leisure and Retail, KPMG in the UK

Knowing and delighting your customers is the raison d'être of hospitality. Adapting to, and perhaps influencing, the customer has always been essential. But has the pandemic changed what customers want or has it accelerated previous trends? And if it has, how do operators respond?

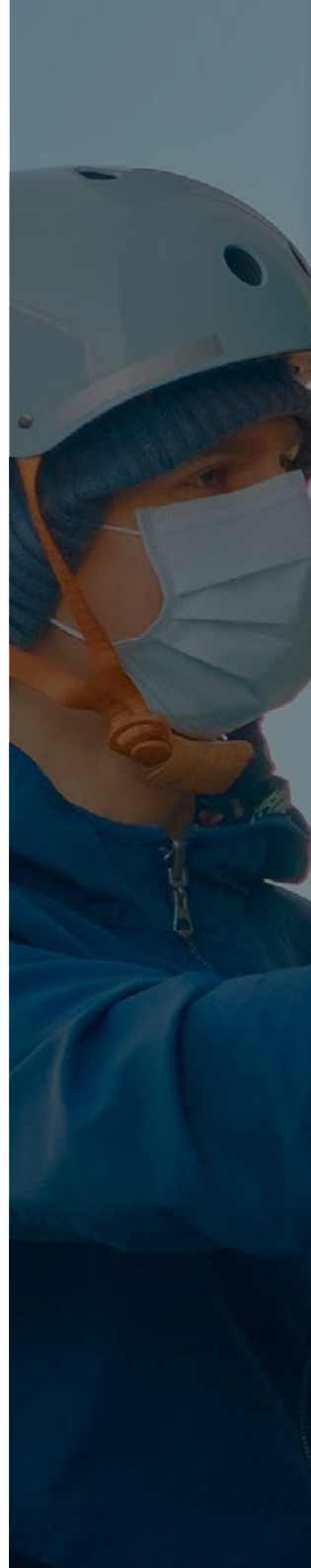
In addition to food quality and convenience, some of the more interesting pieces of insight from our survey include:

- 1 in 5 said they would order more takeaway in the future if there were healthier options and **8%** said if there was better nutritional information. What role can operators play in helping customers make informed choices about a balanced diet? Without doubt, it's key to make it really easy for customers.
- Takeaways are viewed as a treat by **39%** of UK adults, more than as a convenient meal substitution. That means restaurants will need to delight customers not just with the quality of the food, but with the whole end-to-end experience, including ordering and delivery.
- Even though 'convenience' is the second top reason for ordering takeaway, it dropped from **29%** of respondents saying this in 2019 to **17%** in 2021.
- **21%** of younger consumers (18-34) are more likely to increase their takeaway consumption – but are influenced more by discounts and cost. Only **6%** of older customers (over 55s) said they would order more takeaway and they are less price sensitive, and more conservative in their food choices. The customer base needs to be segmented to ensure what matters most to each demographic is amplified.
- **40%** like to stick to what they know when ordering – repeat customers are clearly a core audience.



The first rule of customer experience is to know your customer. COVID-19 has driven new and previously unsurfaced customer needs, behaviours and values which need to be understood to guide future experience design."

Tamsin Jenkins, Senior Manager, KPMG Nunwood Excellence Centre, KPMG in the UK



Trends to watch



Business model proliferation

Home delivery wasn't the only lifeline available to the casual dining sector during lockdown.

Long queues outside drive-through outlets were a common sight during the pandemic. Perceived as a particularly 'COVID-safe' way of obtaining a restaurant meal, drive-through has been hugely popular over the last couple of years. The result has been an ongoing land-grab, as competition hots up between the big fast-food brands for space to expand their drive-through propositions.

Supermarkets have been another route to market for operators. Brands such as Leon, Wasabi and Pret A Manger now sit among the ready meals available in the chilled aisles.

Pret A Manger is also among the chains that have trialled subscription models. In an attempt to maintain footfall, Pret began offering up to five hot drinks per day for a monthly fee of £20.



Ultra-rapid grocery deliveries

The established delivery platforms have been rapidly diversifying into the grocery market over the past couple of years. And they're now being challenged by a slew of disruptive new entrants. Could this prove a new competitive threat to takeaway providers?

It's a sector that's heating up fast – 'fast' being the operative word. A number of firms are now promising delivery within 10 minutes of ordering, eclipsing the half-hour turnaround promised by Just Eat, Deliveroo and UberEats.

This 'ultra-fast' market is already crowded. Start-ups like Getir, Weezy, Zapp, Dija, Gorillas, Fancy, Jiffy and Beelivery have attracted more than £5 billion of funding during the first half of 2021 – much of it from Silicon Valley.

Their operations differ from the big incumbents in an important way: they pick and distribute from their own hubs. Designed for efficiency, these 'dark warehouses' remove dependence on retail partners.

Though they're playing in a different market to meal delivery, there's scope for them to eat into takeaway operators' market share. The ability to get a ready-meal and four-pack in ten minutes, rather than waiting 45 minutes for a takeaway, will surely appeal to some hungry customers.

Where do operators go from here?

Exactly how COVID-19 will impact consumers in the long term is subject to much debate, but there is increasing evidence, including from our survey, that increased home consumption of restaurant products may be here to stay. Wider changes of locational consumption are also likely to remain, to a greater or lesser degree, as we return to office working.

Irrespective of COVID-19, it is clear that operators need to ensure they are optimally adapted to an increasingly multi-channel world. There is no single right answer, with case-by-case decisions to be made. However, it is clear that factors influencing these decisions have changed.

Key takeaways from the report:



Defining your place in a multi-channel world is essential.



The takeaway and delivery channel has huge potential, but unique challenges which require navigation.



Differentiation is more complex when a multi-channel lens is applied.



Geographical boundaries are more blurred and old location strategies may no longer be as relevant.



Knowing your customer has never been as important – if you don't, someone else will.



How we can help



Customer experience strategy



Customer experience transformation



**Advise on target companies
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Growth strategy



Operating strategy and cost



Digital strategy



Advise on innovation tax reliefs



Location analysis and strategy

Get in touch

Please contact the team if you'd like to discuss how we can help you formulate your strategy for success:



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CREATE | CRT136138 | July 2021