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Introduction

This has been a very busy year for the sector – with battles on business rates, Living Wage, lease reform, apprenticeship levy and the sugar tax.

The challenge on both sides is evidence. We always ask government to show us the scale of the problem, to justify the intervention and to explain the cost impact of the intervention. And politicians rightly ask us to provide evidence of the scale of business concern, of why the alternative or proposed solution will work and, most important of all, of why they should listen. Why is the sector important?

In the battle for share of voice with other equally pressing good causes – insight, intelligence and information are king. And it is why the ALMR CGA Peach new Future Shock research series is so important.

It means operators, politicians and the media have the key facts and figures at their finger tips in an easy to digest, bite size format.

We’re delighted to share with you the second Future Shock report in conjunction with the ALMR and its partners. Eating and drinking out are dynamic and fast changing markets, and ‘Future Shock’ report is designed to help the industry to track its performance whilst shouting about its scale and importance. In addition to CGA’s data sources, we worked closely with the report sponsors and other industry bodies to ensure that we have the most complete picture available.

In this issue, there are obvious political matters that attract unavoidable focus. However, we also looked for areas of opportunity for the market, providing insight into the key market dynamics to allow us to give the most complete and accurate market narrative.

Jamie Campbell
Business Unit Director - CGA Peach

Kate Nicholls
Chief Executive - ALMR
Benchmarking

The ALMR Christie & Co Benchmarking Report is the largest, most robust and authoritative survey of its type in the sector, exploring operational costs and benchmarked KPIs against which performance can be measured and assessed.

Against a post-Brexit background of a turbulent economy, rapid social change and anticipated increases in the cost base, it is vital to have a comprehensive understanding of turnover and operating costs, particularly as we face rates appeals and rent reviews. This report is an invaluable reference resource and is the only one of its kind recognised by RICS and VOA.

However this report is more than just a vital strategic business planning tool for operators, it is also a critical annual health check for the sector as a whole, and here there are some stark messages for government.

Like-for-like growth by market segment

The following key trends have been revealed following the analysis of the 2016 survey:

- Firstly, it is clear that we have an evolving market – there has been little short of a high street revolution in the way in which we go out to eat and drink. This is a vibrant, dynamic and innovative sector, characterised by business start up, SMEs and entrepreneurship. At a time when the House of Lords is looking back at a decade of licensing reform, we can see significant change with food led businesses increasing by more than a third and the emergence of casual dining as the second strongest segment. Furthermore, although there has been decline in community local pubs by a similar proportion, that decline has slowed as it has in the late night market.

- The licensed sector’s resilience is rewarding savvy operators, with like-for-like growth across all segments. Over the last decade there has only been one year of negative like for like growth in 2008/9 and the long term trend is for +4% growth year-on-year. In 2016, across the sector as a whole, like for like growth of +3.1% has been reported which represents growth of 2.3% in real terms excluding inflation, with casual dining, high street pubs and licensed accommodation all comfortably exceeding this sectoral average and almost doubling their reported like for likes year on year.
There are winners and losers, however: last year, casual dining reported 2.2% L4L and this year it is 4%; high street pubs reported 3.7% last year and this year 5%; in contrast food led and community local pubs last year reported 5.5% like for likes, but this year they are flatter at 2.4 and 3% respectively, so there is evidence of market share steal. Nightclubs – which have seen challenging times – significantly improved their performance with their flat like for likes comparing with -3% last year and clearly reaping the benefits of their above average capex.

With CPI actually falling -0.1% over the period and RPI running at +1%, this is a 2% real terms growth. Indeed, if you look back since 2009 when the sector started its road back to recovery, food has seen growth of 56%, high street 35% and community local 23% - with RPI running at 19% over the same period, the sector has comfortably outperformed the economy as a whole.
BUT, there are clear warning signs which government must heed that this is a model under strain. Despite positive growth, the costs of doing business are increasing faster than revenues are increasing and this is putting pressure on already tight margins. Overall operating costs increased this year by 3.3% to 49.3% of turnover on average – and this was fuelled, unsurprisingly, by increases in payroll up 5.5% to 27.8% of turnover. As a proportion of total operating costs, payroll now accounts for two thirds of costs for food led businesses and over half for more wet led. The increase in operating costs was felt across the board but was seen most acutely in labour intensive food orientated businesses – costs of doing business were up 13% in food led businesses, 6% in the high street and late night segment and almost 2% in community local pubs.

![Operating costs as a percentage of turnover](image)

Source: The ALMR Christie & Co Benchmarking Survey

**Evolution of food and wet margins**

![Gross profit margin chart](image)

Source: The ALMR Christie & Co Benchmarking Survey
Brexit means we are heading into unchartered territory; although the markets have stabilised somewhat, business and consumer confidences remain fragile and could yet crash when Article 50 is triggered Spring 2017. The cost of imported goods is already predicted to rise – wine suppliers and food importers are citing a weak pound to justify 5-6% increases in cost of sales and the difficulty of pricing British supplies away from the buying power of the supermarkets means that prices here will be influenced by demand. At the same time, we face significant additional operational costs in the form of a second increase in the NMW in 6 months, another hike in the NLW, a new payroll tax in the form of the Apprenticeship Levy and a significant hike in business rates.

This year’s report already shows that margins are under pressure – particularly food margins suffering where operators do not feel confident in passing on price increases to customers. Across the market as a whole, food margins dropped by over -4% but community locals were hit hardest, with their food margins down -12%. Little surprise then that post rent operating margin saw a squeeze, down 2 percentage points for most and at an average of 11.4%, but falling particularly low to 6.7% for the pub sector, both food led and community local. This margin squeeze is being reported before the full impact of the NLW has taken effect – although many operators made adjustments early – and is very clearly apparent before the next deluge of regulatory costs are set to hit.

The ALMR Christie & Co Benchmarking Survey had just started last time we faced this type of crisis and we can see the effect then of a perfect storm of credit crunch, increasing costs and legislative change (smoking ban). That was the last time the sector showed negative like for like growth and while it was only a one-year blip, crucially what our survey show is that this seismic and sustained shock to the economy had a longer term effect: in short, it created a two year fiscal drag on growth. Time and time again when we look back at our survey data, we can see it took us 2 years after we came out of recession to recover the lost ground in terms of revenue growth, margins and profitability and investment. For example, like for likes were showing incremental growth at or around a long term average of 4%, but having fallen to -2% in 2008/9, it was 2011 before they recovered that and

it was actually 2013 before the high street and community local segments reached their previous forecast track. Similarly on rent, a lagging indicator, rent as a percentage of turnover peaked and took two more years to come off the boil and return to sustainable levels.

April 2017 could be a perfect storm for the sector just like 2008 – but it needn’t be. There is a truism that those who fail to learn the lessons of history are condemned to forever repeat them. What those lessons show is that we need a two year breathing space to manage the challenges of Brexit and economic turbulence to allow us to respond to the challenges of additional costs and regulatory change. Get it right and the 2017 Benchmarking Report could continue to report a robust, resilient and vibrant industry but get it wrong and it is not just our sector which will suffer, it is UK Plc.
Brexit Strategy

The UK voted to leave the EU by 51.9% to 48.9% on 23 June 2016 and Parliament has confirmed that Article 50 will be triggered by 30 March.

Migration dominated the referendum campaign and, as the UK prepares to negotiate its exit, the restriction of labour will continue to be a significant part of the political debate. Get it wrong, and there could be a very real impact on future productivity and growth for the sector.

A VIBRANT AND DIVERSE WORKFORCE
Eating and drinking out is more heavily dependent on migrant workers than other sectors. Across the economy as a whole, 16% of the workforce are non-British nationals. In our sector, that rises to 37% of full time equivalent jobs, or over half the workforce if taken as a simple headcount; in many parts of the UK, that figure will rise to 70-80% of workers.

Specific jobs particularly reliant on migrant workers include chefs (42%), restaurant managers (35%), waiting staff (29%), kitchen & catering assistants (29%), bar staff (13%).

SKILLS SHORTAGES & LABOUR RESTRICTIONS
So, why is there a high proportion of migrant workers in hospitality and why has it been growing?

Since 2011, the UK Labour Market has become more competitive with unemployment halving: today it stands at under 5%. Over the same period, employment in pubs, bars and restaurants increased by 13% and half of all jobs created since the last financial crash have been in the broader hospitality and tourism sector.

As a result, the number of non-British workers has also risen during the same time frame – for hospitality and tourism as a whole, the figure has increased by 46%. Based on current growth projections, it is estimated that the hospitality and tourism sector will need to recruit an additional 220,000 more staff by 2020. It simply will not fulfil its potential without flexible, mobile labour force.

Currently a quarter of businesses in the sector have vacancies which 38% consider to be hard to fill. The most acute occupations to fill continue to be front of house staff (reported by 54% of employers with hard to fill vacancies) and chefs (42%) – there is a clear relationship between the hard to fill vacancies and the percentage of non-British workers employed. There are also regional variations with Scotland (64%) and Wales (78%) reporting the highest skills shortages.

All of the above combines to mean it is becoming harder to recruit: migrant workers are essential to fill the vacancies and sustain the current levels of growth, currently five new restaurants open per week. They are a critical labour pool for many sector businesses, with fewer young people entering the labour market due to demographic changes and a shift towards effective full employment.

A FUTURE MIGRATION POLICY
Eating and drinking out businesses urgently need to know that there will be a migration policy which meets their needs given the significant potential limiting impact on growth potential it could have.

This is threefold: an immediate granting of right to remain for existing workers; an effective, non-bureaucratic temporary right to work for EU workers; and, in the long term, consideration of wider non-EU migration policies and restrictions.
GB OUTLET NUMBERS - SEPTEMBER 2016 VS. SEPTEMBER 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>SEPT 2011</th>
<th>SEPT 2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOOD LED</td>
<td>39,793</td>
<td>45,170</td>
<td>+13.5%</td>
</tr>
<tr>
<td>OTHER</td>
<td>13,148</td>
<td>11,533</td>
<td>-12.3%</td>
</tr>
<tr>
<td>DRINK LED</td>
<td>75,406</td>
<td>66,038</td>
<td>-12.4%</td>
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</tbody>
</table>

LONDON OUTLET NUMBERS - SEPTEMBER 2016 VS. SEPTEMBER 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>SEPT 2011</th>
<th>SEPT 2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOOD LED</td>
<td>10,431</td>
<td>12,060</td>
<td>+15.6%</td>
</tr>
<tr>
<td>OTHER</td>
<td>1,157</td>
<td>1,270</td>
<td>+9.8%</td>
</tr>
<tr>
<td>DRINK LED</td>
<td>11,394</td>
<td>10,158</td>
<td>-10.8%</td>
</tr>
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CGA On Premise Measurement - NOVEMBER 2016

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2015</th>
<th>% Change</th>
<th>2016</th>
<th>2015</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEER &amp; CIDER</td>
<td>£14,114</td>
<td>£13,995</td>
<td>+0.9%</td>
<td>£4,303</td>
<td>£4,150</td>
<td>+3.7%</td>
</tr>
<tr>
<td>SOFT DRINKS</td>
<td>£5,939</td>
<td>£5,709</td>
<td>+4.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPIRITS</td>
<td>£4,251</td>
<td>£4,197</td>
<td>+1.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WINE/CHAMPAGNE</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

LIKE FOR LIKE SALES NOVEMBER 2016 FIGURES

INSIDE M25
TOTAL YoY: 4.4%
L4L YoY: 3.5%

OUTSIDE M25
TOTAL YoY: 4.0%
L4L YoY: -0.3%

Source: CGA Peach Business Tracker

Market Snapshot

GB OUTLET NUMBERS - SEPTEMBER 2016 VS. SEPTEMBER 2011

FOOD LED
- SEPT 2011: 39,793
- SEPT 2016: 45,170
- % Change: +13.5%

OTHER
- SEPT 2011: 13,148
- SEPT 2016: 11,533
- % Change: -12.3%

DRINK LED
- SEPT 2011: 75,406
- SEPT 2016: 66,038
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- SEPT 2016: 1,270
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- SEPT 2011: 11,394
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TOTAL YoY: 4.0%
L4L YoY: -0.3%

Source: CGA Peach Business Tracker
TRADING INDEX - PUB & BAR SALES MIX TO 1st DEC 16

BAR

LAST YEAR

10% 18% 6% 22% 43%

THIS YEAR

10% 19% 6% 22% 44%

FOOD LED PUB

LAST YEAR

3% 9% 6% 22% 60%

THIS YEAR

3% 9% 6% 22% 59%

DRINK LED PUB

LAST YEAR

10% 27% 6% 48%

THIS YEAR

10% 26% 6% 48%

GB

LAST YEAR

9% 8% 7% 29% 46%

THIS YEAR

9% 8% 7% 30% 46%

BRAND TRACK - FULL FAT/DIET REPORTED CONSUMPTION

Drink Diet Cola Only

GB 18-34 35-54 55+ Female Male Student Housewife Retired

37% 24% 40% 51% 42% 30% 20% 43% 56%

Drink Both

GB 18-34 35-54 55+ Female Male Student Housewife Retired

38% 50% 33% 29% 35% 41% 55% 28% 25%

Drink Cola Only

GB 18-34 35-54 55+ Female Male Student Housewife Retired

25% 26% 27% 20% 22% 29% 25% 29% 19%
KEY CHANGES/CHALLENGES IN THE MARKET
Brexit - what will happen to current EU workers?

It’s fair to say that 2016 has been a year full of seismic events. The political landscape has shifted dramatically and as we enter into 2017 the dust is yet to fully settle.

Brexit, of course, has been one of those monumental events and has thrown up many questions. One of which is ‘what will happen to current EU workers’? There is a reported 442,000 EU migrants working in Britain’s restaurants and hotels. If the UK does oppose freedom of labour movement the licensed retail sector could face a staffing crisis, as many of the 94 per cent of EU workers currently employed in restaurants and hotels would fail to meet existing visa requirements.

Areas such as London, which has a greater dependency upon a non-British national workforce, would experience this impact more acutely. In 2015 EU nationals made up 46 per cent of the hospitality and tourism workforce in London. That’s over 412,000 employees who could potentially be lost and would need to be replaced.

This is, of course, highlighting a worst case scenario, something which the ALMR is working closely with the Government to ensure does not happen. Of paramount importance once Article 50 is triggered, is securing the right to remain for existing EU workers and ensuring the right immigration policy is introduced.

However while uncertainty remains, employers can and need to be proactive in order to mitigate these potential issues. Alongside this, the collective industry needs to be proactive in the creation and implementation of effective training, development and succession planning strategies. As a whole we need to communicate how much of a vibrant and dynamic industry we are, and that there are many fantastic career opportunities to be had within the sector.
THE NIGHT TUBE
WHAT’S ALL THE HYPE ABOUT?

CACI analysis highlights the potential impact of Night Tube on London’s late-night economy – assessing the potential of each of the main tube stations, as well as highlighting the way in which increased dwell time could see a dramatic uplift on additional expenditure in the capital.

KNOW WHAT’S COMING TO LONDON - MIND THE GAP
With its 152-year history, the tube is the internal life blood of London, connecting 8 million residents to the collection of villages that make up our capital. Nearly 9.5 million passengers use the service on a daily basis, with over 750 thousand workers travelling from outside the city’s existing network.

The launch of the Night Tube is long overdue. It affects everything from commerce and employment, to property prices and customers’ ability to interact with the market – whether that be shopping, working or simply experiencing the wealth of diversity London has to offer.

THE NIGHT TUBE - ASSESSING POTENTIAL
CACI has gone beyond simply looking at passenger numbers and broader economic factors, and analysed the London infrastructure, employment, and the night-time market potential for licensed multiple retailers.

A study commissioned by Transport for London (Volterra, September 2014) justified the investment in the Night Tube by highlighting the macro-economic benefits to the capital. One of the key conclusions from this report was that 1,700 permanent jobs will be created as an indirect result of the Night Tube. However, the report fails to acknowledge that the majority of night-time economy workers are typically service sector workers – bar staff, waiters, cleaners and hotel staff – with the majority earning a wage that is below the national average.

The issue of unaffordable housing in London and surrounding areas remains prevalent. Even with the introduction of the national living wage this year, service sector workers are still likely to struggle to afford to live a commutable distance to London in order to take advantage of these new job vacancies. CACI research shows that even stations as far out as Zone 4 and beyond, which will form part of the Night Tube scheme, see an average property price of £347,000 within a 15-minute drive from each station.

Which tube stations provide the most potential?
CACI have identified which tube stations have the highest night-time potential, and those which have high potential that have failed to make the cut. To give relativity to their position in the ranking, the score has been compared to the average for tube stations within the night-time economic hub of central London – Zones 1 to 2.

In addition, CGA Peach data not only shows that there are over 3,000 sites within a Victoria, Jubilee or Central line, but also demonstrates the number of sites that stand to benefit from Night Tube, being within 500m within each of the key stations in Zones 1 to 2.

Unsurprisingly, at the heart of the West End night-time economy, Leicester Square, Piccadilly Circus and Tottenham Court Road come top of the table. With Leicester Square alone showing that it has 11.5 times the night-time potential compared to an average tube station, it’s easy to see why it has made the cut and confirms the popularity of this famous area. Further down the leader-board are Bond Street and Green Park, the latter being an important interchange for the night-time tube.

Weekend trade
The growth of weekend trade will likely be substantial and varied, both by sector and location; perhaps the easiest way to demonstrate this is by looking at the humble pint. The average pint in London now stands at £3.92 - the most expensive in the country. If you were to calculate the impact of all our late-night revellers, who are currently leaving on the last tube – if they were to buy just one extra pint, it would equate to a massive £71million pounds worth of additional expenditure for the London late-night weekend economy. Whether it’s that extra coffee, night cap, new jobs or extended theatre performances, the economic potential is huge for the London market.

Now the Night Tube has arrived we will see great opportunity as well as challenges to food and beverage operators in the market. If you are lucky enough to be in a Night Tube hotspot, the questions you will be asking are: Can you afford not to be open? Or are the costs too high to be open for the financial returns? Will it open up a realm of opportunity for new locations to become the place to be seen in the capital after dark? Time will tell... watch this space and mind the gap!

<table>
<thead>
<tr>
<th>Station Name</th>
<th>Night Time Economy Potential</th>
<th>No. Sites Within 500m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leicester Square</td>
<td>11.5</td>
<td>690</td>
</tr>
<tr>
<td>Piccadilly Circus</td>
<td>10.9</td>
<td>558</td>
</tr>
<tr>
<td>Tottenham Court Road</td>
<td>3.3</td>
<td>205</td>
</tr>
<tr>
<td>Liverpool Street</td>
<td>3.3</td>
<td>251</td>
</tr>
<tr>
<td>Bank &amp; Monument</td>
<td>3.3</td>
<td>324</td>
</tr>
<tr>
<td>Oxford Circus</td>
<td>3.3</td>
<td>545</td>
</tr>
<tr>
<td>Covent Garden</td>
<td>3.3</td>
<td>125</td>
</tr>
<tr>
<td>London Bridge</td>
<td>2.6</td>
<td>127</td>
</tr>
<tr>
<td>Victoria</td>
<td>2.6</td>
<td>190</td>
</tr>
<tr>
<td>Bond Street</td>
<td>2.3</td>
<td>208</td>
</tr>
<tr>
<td>Green Park</td>
<td>2.3</td>
<td>193</td>
</tr>
<tr>
<td>Holborn</td>
<td>2.1</td>
<td>116</td>
</tr>
<tr>
<td>Charing Cross</td>
<td>2</td>
<td>301</td>
</tr>
<tr>
<td>King’s Cross St Pancras</td>
<td>2</td>
<td>224</td>
</tr>
<tr>
<td>Goodge Street</td>
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</table>
THE NIGHT TUBE
WHAT’S ALL THE HYPE ABOUT?

CGA Peach Trading Index data highlights how London’s late-night trade has been impacted since Night Tube’s initial introduction on the Victoria and Central lines in August, and tells an interesting story in terms of the way in which consumer interaction with the on-trade already appears to be evolving as a result.

Spirits are the only category to have seen notable growth in the city-centre travel zones; look further afield however, and wine, champagne and soft drinks have also seen an uplift in the wake of Night Tube’s introduction. Furthermore, Trading Index also shows that whilst both have seen an increase in value growth, Fridays are 5.7% ahead of Saturdays (at 9.3% and 3.6% respectively).

The contrasting sales story across each zone is rather telling, and what all of this might suggest is a change in attitudes and habits among younger, inner-city workers living in the suburbs – the late-night revellers. Once upon a time, as a result of travel restrictions, these consumers might have headed straight home to the suburbs after work on a Friday night, and spent their money in the bars and restaurants near-by. Now however, thanks to Night Tube, they have more freedom to drink elsewhere without the concern of catching the last tube; whether that be staying late in the city centre after work, or stopping somewhere half-way (or even travelling further afield). Either way, there is a notable shift in where London consumers have been spending their money in the weeks following Night Tube’s introduction.

However, that is not the only story told by the data. Whilst in general, drinks sales have seen an uplift, this appears to have been at the expense of food sales – concerning for operators when this is where the biggest margins lie.

Although the above data is based only on the weeks since Night Tube was introduced on the Victoria and Central lines, when the service does roll out further, and if these trends continue, it looks like London operators across the board may have some serious thinking to do if they’re to thrive.

<table>
<thead>
<tr>
<th>Station Name</th>
<th>Zone 1</th>
<th>Zone 2</th>
<th>Zone 3</th>
<th>Zone 4</th>
<th>Zone 5</th>
<th>Zone 6</th>
<th>Zone 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer/Cider</td>
<td>-3.8%</td>
<td>-2.0%</td>
<td>-1.7%</td>
<td>-4.1%</td>
<td>4.7%</td>
<td>-4.2%</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Soft Drinks</td>
<td>-0.2%</td>
<td>-0.9%</td>
<td>-13.4%</td>
<td>5.7%</td>
<td>5.1%</td>
<td>-8.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Spirits</td>
<td>12.1%</td>
<td>2.1%</td>
<td>-13.5%</td>
<td>38.3%</td>
<td>47.6%</td>
<td>-25.3%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Wine/Champagne</td>
<td>-2.5%</td>
<td>0.4%</td>
<td>-22.6%</td>
<td>1.9%</td>
<td>13.1%</td>
<td>21.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Total Wet</td>
<td>-0.6%</td>
<td>-2.6%</td>
<td>-8.0%</td>
<td>10.1%</td>
<td>13.9%</td>
<td>-7.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Total Dry</td>
<td>-18.2%</td>
<td>-13.1%</td>
<td>-13.2%</td>
<td>-19.6%</td>
<td>-3.8%</td>
<td>38.7%</td>
<td>11.9%</td>
</tr>
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</table>

Figures based on sites within 500m of a Victoria or Central line tube station, where Night Tube is already in service.

ALMR and CGA Peach Future Shock report - Issue Two
So here we are. The new post-Brexit era has arrived. But has the leisure and hospitality sector experienced any fundamental changes? Can operators point to the referendum result as a turning point in their fortunes? In short, we think not.

Cost headwinds have been building for some time now. The forthcoming Apprenticeship Levy, national living wage increases possibly up to 2020, rising rents nationally and October 2016’s business rates review were all known about well before the June vote. Yes, there were some post-referendum jitters but since then headline demand has remained robust, driven by positive consumer sentiment and base rates moving closer to rock bottom. The latest Coffer Peach Business Tracker results show continued (if slower) like for like sales growth. Competition is intense but that has been the case for many years, particularly in London. Whilst those who rely heavily on produce from the EU have seen margins impacted by the weaker pound, others have enjoyed a welcome boost from increased summer tourist spending.

Uncertainty As The New Norm
What we now have is less a short period of uncertainty, more an overwhelming sense that uncertainty will be the new norm. The government has stated that Article 50 will be triggered in March 2017. However, a long history of politicians delaying on making important decisions has taught us that the likelihood of the UK understanding the full implications of Brexit even by March 2019 is slim.

Uncertainty is here to stay and when we do eventually leave the EU, a dip in consumer confidence is likely and some operators could find themselves exposed. With this in mind, we believe that flexible planning and forecasting will become even more essential to the long term survival and prosperity of businesses in the sector.

We’ll See More Investment In Finance Teams
The humble financial model will need the flexibility to run multiple scenarios catering for the upside, and the worst cases using a range of assumptions. Only then can effective management decisions be made concerning investment, spending, cost cutting, or approving dividends. No operator can get away from this. An all too familiar story is the operator that secured bank debt, over-expanded into locations that were under-researched or were unfamiliar, management become distracted by underperforming sites and trading of the core sites suffered. This is not to say that operators shouldn’t have cause for optimism but with both banks and PE funders becoming more wary about deploying cash in the sector, financial planning has never been more important.

Availability Of Staff Should Also Be High On Everyone’s Agenda
With the government yet to confirm the right of existing EU workers to remain as part of any ongoing relationship with the EU (something which the ALMR has been lobbying hard for), hundreds of thousands of hard working chefs, managers, front and back of house staff have effectively been put on a mass consultation.

A more immediate concern for operators will be keeping managers and staff of every nationality motivated and focused on delivering an excellent customer experience. The national living wage will on the one hand make the UK a more attractive place for EU and non-EU nationals to work. Conversely, the fall in the value of the pound may go some way to negating the spending power of any earnings repatriated overseas. Money is a powerful motivator but those operators who engender an inclusive, positive working environment where communication from the top down is woven into the fabric of the organisation will usually thrive in uncertain times.

The challenges facing the sector are nothing new and we see plenty of reasons for optimism in this new world. The UK is a genuine world leader in leisure and hospitality and first-class operators have consistently proved themselves to be adaptable, agile and resilient in the face of change. This industry is one of the most exciting, vibrant and multicultural in the UK and that is something that operators, employees, investors and politicians should be proud of.
STAYING AHEAD OF THE CURVE
Drinks In Casual Dining...

With 4 in 5 consumers having eaten in a casual dining restaurant in the last 6 months, it’s fair to say that dining out has embedded itself into the national consciousness. Although this is not a new phenomenon (the on-trade has been shifting from drink led occasions to eating led occasions over the last few years) the sector has been energised by an array of new concepts who, collectively are driving growth. Groups like Wahaca, Pho & Franca Manca embody the “new wave” of casual dining that has been exciting young, affluent and cosmopolitan consumers in particular. These smaller groups (typically with less than 25 sites) have collectively grown by 500 sites in the last 3 years – easily outpacing the growth from larger, established eating-out chains in the market.

Despite the cosmopolitan beginnings, these new wave outlets are increasingly not just for the Millennials in London. Our research has shown that managed groups are already looking to regional city centres, suburban high streets and retail complexes for the next wave of site openings, as competition for space within the capital intensifies. By 2020 we anticipate this sub-segment of casual dining to have grown by over 900 outlets, almost doubling in size and becoming more accessible to the GB population at large. We expect these openings to drive visit frequency and spend nationally in the near future which, despite of the influx of new groups, have remained flat over the past twelve months.

With drink and food led occasions overlapping further and further, increasingly consumers are looking for a competent and credible alcohol offer to complete their casual dining experience. The likes of Street Feast have been able to supply both in one environment and we’ve begun to see casual dining outlets up their game in this respect as well. Unsurprisingly, the outlets which have taken heed of this trend and invested in a quality offer are much more likely to have satisfied customers, in-turn leading to higher repeat visits (all important with today’s fickle consumers with large repertoires). Some operators with larger retail spaces have gone one step further and introduced dedicated drinking spaces – keeping in consumers and capturing spend pre and post the eating occasion.

When we’ve spoken to operators about how they choose their drinks, the two most important considerations for them were the taste of the beer and how well it fits with the overall image of the brand. For concepts with a strong ethnic identity, having credible beers with the appropriate heritage and story was key (stocking Mexican beers in an Asian restaurant would be a non-starter for them). When working with these operators, suppliers need to be sensitive to their brand’s requirements and work closely as partners to ensure mutually beneficial outcomes.

Quite simply, operators are looking for collaborative partnerships and for suppliers who are as passionate about their business as they are. Beyond product, the operators interviewed valued supplier expertise for staff training, collaboration on events and unified social media engagement.

These strong supplier partnerships will help facilitate further growth within casual dining. As the new wave brands expand and their consumers become more typical of the average citizen, they should look to broaden their appeal without jeopardising their core principles.

As the audience for casual dining expands and outlets move into more regional locations, the demands on any drinks range will increase. To appeal to this wider consumer base outlets will need to focus slightly less on brands at the cutting edge and add a bit more familiarity to their ranges. Our research on drink formats also highlights that these consumers types will generally have a preference for draught over packaged beer. For those outlets with the space to support a draught tap, careful consideration of a draught offer should be a key part of their drink rangeing decisions. Not only will this bring more accessibility to a drinks range it will also bring any drink offer into the core of any casual dining experience. Unlocking ways to effectively dispense draught beer in smaller outlets will be a key factor in growing total turnover to retailers and to this exciting segment in totality.
#TheNewNightOut

Understanding the role of mobile usage and social media on a night out

A digital night out
We now spend our lives looking down. Not at our feet, but at our phones. Mobile technology has embedded itself into our everyday; and that’s no different on our target’s drinking journey as it plays an integral role in nights out.

The following summary details research commissioned by whynot! thinkpeople into the relationship consumers have with on-trade outlets, and the role and function of digital technology and social media in outlet usage by 20-30 year olds in London and Manchester.

A typical night out with mobile technology
Outlets are at the heart of our targets’ drinking journeys. They first and foremost choose pubs and bars that meet their needs for a drinking occasion, rather than the variety of brands on offer. For a big night out, only the starting point and main event (destination bar) are pre-planned, and what happens in between is much more spontaneous.

Throughout their journey, they’re looking to be informed and inspired about outlet choice. They’re guided by trusted sources and rely on word of mouth, apps, and in-outlet communications to dictate where they go next. They expect outlets to be tech enabled so they can reserve tables, look at photo galleries ahead of their next visit, and have quick and fast access to Wi-Fi to share the night online with friends whilst there.

Two main uses of mobile technology
Currently, mobile is used for two main purposes:

- To discover (3rd party apps and social media)
  - Outlet finder – consumers are happy to receive guidance and are looking for outlet inspiration
  - Maps and Directions – consumers search directions and use maps to get from one pub to another
  - Reviews and galleries – our target are highly visual and rely on word of mouth, preferring to view outlets before going

- To connect (social media apps)
  - To find friends – who are already there, on their way or to connect with those who couldn’t make it out

The role of social media
Social media serves different functions throughout the night.

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<td>Instagram</td>
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<td></td>
<td>• information (address, maps/directions, menus, opening hours)</td>
<td>• in the moment news</td>
<td>• Photos/galleries of punters, drink &amp; food</td>
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It is important to understand the function and value of each platform in order to determine whether it’s right for your outlet and target audience. Always ensure that your online presence is consistent with their needs.
Moments to engage
To effectively engage with your target audience across platforms, it is important to choose your message and your moment to drive outlet usage.

The role of digital technology
There are three key areas in which to engage with your audience. A strong online presence will help attract custom, in outlet tech will help retain them, and tech functionality online and in outlet will help maintain them.

What does the future hold?
Understanding the relationship between consumers’ use of social media and digital technology in on trade outlets helps to ensure operators are communicating on the right platforms and in the right moments, in order to drive outlet usage.

Looking forward, consumers expect engagement with digital technology to increase – in planning, enjoying and remembering their time in the on trade. They envision this to be aided by faster tech and more Wi-Fi equipped outlets, creating a more dynamic landscape.

What is evident is that our target consumers want a ‘pull’ rather than a ‘push’ relationship (where they initiate connection) with digital technology whilst in the on trade.

It is critical to be there in the right moments with the right message when consumers are planning their on trade visits. Consistently delivering this will help drive outlet usage.

Beyond this, operators will need to consider how they can influence consumers in informal settings, before they plan their nights out, and how they engage with them outside of social media and formal channels to be able to break into informal conversations.
The Feedback Economy

Online feedback sites have rapidly become an important tool for consumers to make leisure decisions – from the best place for a celebration to where to get lunch. Barclays’ recent research reinforces this considerable impact on consumer behaviour, particularly among younger people. It suggests that businesses that do not adequately respond to this trend are in danger of missing a vital opportunity to both grow their business and stay ahead of the competition.

The Millennial Effect
According to our survey, 60% of customers said they trust online reviews, a figure that rises to 71% among 18 to 34 years old. Younger people are also more likely to attach importance to online reviews; 29% of those aged 18 to 24 said customer reviews are one of the most important factors when making a leisure decision compared to 18% of those aged 65 and over. Moreover, 29% of 25 to 34 year olds said they look specifically for good reviews to make decisions, compared to 18% across all respondents. These findings suggest that the importance of online reviews is likely to increase over the next decade as these consumers age.

Benefits received by businesses
Of the businesses we surveyed, almost three fifths (57%) said customer feedback has resulted in an increase in customers over the past 18 months, while 70% agreed that published customer feedback attracts more customers to their business than it puts off.

As well as increasing customer volume, online feedback can positively affect customer spend. A study by the Harvard Business School that looked at customer reviews of restaurants in the north west United States found that a one-star increase in feedback ratings on Yelp (with all other factors held constant) resulted in a 5% to 9% increase in business revenue.

There are a number of factors behind this. Online reviews can lead to an increase in both domestic and international visitors. It can also lead to a positive feedback loop where businesses not only benefit from increased capacity but can also encourage secondary spend by providing products and services based on customer preferences.

Online feedback can potentially generate significant increases in revenue. For example, 54% of customers surveyed said they had booked a restaurant because of positive feedback on an online customer review site, and 32% visited pubs and bars for the same reason. They also claimed to spend £47 on average for the restaurant visits, and £35 for pubs and bars.

Online customer feedback can subject businesses to negative reviews – 40% of businesses surveyed say that online feedback had exposed weak points in their business. However, those businesses that can respond positively to negative feedback can reap the benefits by addressing any weaknesses identified and improving the service they provide. Indeed, when we asked businesses how they have changed as a result of online reviews almost 60% said they had become more responsive to customers.

How do you use customer review sites?

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<tr>
<td>I look specifically for good reviews to help me decide where to go and then consider other factors such as cost and location.</td>
<td>18%</td>
</tr>
<tr>
<td>I decide where I want to go based on factors such as cost and location and then check to see if there are any bad reviews that would put me off.</td>
<td>54%</td>
</tr>
<tr>
<td>Neither of these.</td>
<td>8%</td>
</tr>
<tr>
<td>N/A – I do not tend to use customer reviews for services/sites</td>
<td>20%</td>
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Benefits received from customer feedback in the past 18 months

**Current Actions**
Almost all the businesses surveyed said they have processes of some kind in place for monitoring feedback. However, only 60% said they monitor review sites specifically.

When asked what processes they have in place to monitor customer feedback, just under three quarters of businesses said that they talk to customers when they are on the premises. 62% of respondents monitor social media and ask employees about customer feedback and a similar number read online reviews posted by customers. Just under half (48%) of the respondents organise customer surveys and feedback forms to collect customer reviews.

Response times to customer feedback through all channels vary too. Just under half (49%) aim to respond to customer feedback instantly and have staff or a process in place to constantly monitor feedback. This rises to 57% within three working days. Over half (53%) of businesses said they integrate customer feedback into the business while the same number communicate and share customer feedback with others.

Online reviews provide valuable data that helps businesses better meet the needs of their customers. However, 63% of businesses said they deal with customer feedback in the moment and have no long-term record of feedback for particular customers.

**Time to act?**
Our survey shows that less than half (47%) of businesses plan to improve their ability to monitor and respond to online feedback over the next five years, while more than a quarter of businesses (27%) have no plans to make any changes.

Although it could be argued that these businesses may already have good processes in place, the responses suggest that even though most businesses accept that online reviews are an important factor in dealing with customers, most are looking at short-term solutions. A longer-term view would focus on putting solid structures in place to better respond to and manage online feedback over a longer period of time.

Our economic modelling suggests that if the hospitality and leisure sector becomes more responsive to the expected rise in the use of feedback sites by consumers, it could boost the economy by £3.2bn over the next decade. An additional £171m value could be created to the economy from the restaurants and bars, with business more actively responding to customer feedback.

**Summary**
- Online reviews are a key source of reference for a significant proportion of consumers, with 60% stating they trust them – increasing to 71% among 18-34 year olds
- They’re also one of the most important factors in leisure choices
- They provide clear benefits for businesses, with over half stating they have seen an increase in customer numbers as a result of customer feedback
- Studies show that customer feedback can have a positive impact on both spend and revenue
- Negative feedback is an opportunity as much as it is a risk, with feedback used to highlight weak points and enabling businesses to make positive changes; but customer communication is vital

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The Value of Live Sport to a Business

A Sporting Nation
Britain is a sociable nation of sport lovers. For those in the licensed trade, that’s a winning combination.

Millions of people watch sport out of home each month. Licensees of venues showing live sport will be unsurprised to hear that football is the most popular sport in the UK. In the last 12 months, people in the UK viewed football over 228 million times in an out of home venue.

However international rugby, F1, cricket, golf, rugby league, darts, tennis and more are all popular – millions watch at home each week, and millions more enjoy these sports alongside food, beer, good company and a great atmosphere in a pub.

Value of Sport
We know that pubs and clubs can and do capitalize on all this in several ways:

SHOWING LIVE SPORT HAS THE POWER TO DRIVE FOOTFALL, KEEP PEOPLE IN FOR LONGER, INCREASE SPEND AND BUILD LOYALTY.

Driving Footfall
58% of customers watching live sport in a pub go explicitly to watch the game.

That’s well over half of people in a pub during a match who would not have been there if live sport wasn’t being shown. This becomes even more compelling when combined with the fact that they stay for longer as a result.

1. Over 2.3 million adults watch live sport on TV OOH at least once a week. Ipsos Connect Sky Establishment Survey April-July 2015.
3. Ipsos MORI OOH Panel - Jan ’15 Fieldwork dates: 02/01/2015 - 28/01/2015. Unweighted base size: All who ever have a drink in a pub or bar: 2,137
Staying Longer & Spending More

On average, people stay over an hour longer in the pub when live sport is shown. Independent research from MatchPint tells us that people stay for 2:42 hrs vs 1:40 when a match is on.

During this time, staying for over an hour extra, they’re also spending more in-venue and MatchPint also found that people spend more when watching sport vs. non-sports viewing occasions.

Building Loyalty

In addition to spending more and staying for longer, Sky’s research found that people are more likely to come back to a pub that shows live sport.

69% of pub goers say that they return to the same pub to watch live sport – essentially making it their local – so the investment continues to pay returns.

The Appeal of a Pub

So why do customers say they go to the pub to watch live sport and do all those things – stay for longer, spend more and keep coming back – rather than staying at home?

Almost two thirds of those in there to watch sport say they came to the pub for the atmosphere specifically.

Sky’s research with Ipsos Mori found that around half of people also cite enjoying sport with friends as a major reason to come to the pub. Over a third of customers like to watch a match in a pub due to being with other like-minded people there. It’s a unique, enjoyable experience that only pubs can deliver.

With the right planning, marketing and execution, we believe live sport can work for any venue.

In Summary

Pubs remain a core part of the enjoyment of live sport, and sport remains a core driver of business for many pubs. With more people coming in, staying for longer, spending more, and being more likely to return – it’s a brilliant tool to boost business and keep customers entertained, with atmosphere being key in driving value and excitement.

You can make the most of it by tactically planning ahead for different live sports events, marketing them in effective and engaging ways and delivering an exciting match day experience.

Pubs that go that extra mile should see footfall increase, experience higher customer dwell times and overall increases in live sports trade.

4. Average dwell time whilst watching sport is 2hr42min vs. non sport at 1hr20min. MatchPint: Sport on TV in Pubs and Bars: Trends and Opportunities, August 2015
5. MatchPint: Sport on TV in Pubs and Bars: Trends and Opportunities, August 2015
6. Ipsos MORI OOH Panel – Jan ’15 Fieldwork dates: 02/01/2015 – 28/01/2015. Unweighted base size: All who ever have a drink in a pub or bar: 2,137
7. 65% prefer the atmosphere compared to being at home. Ipsos MORI OOH Panel – September ’15 Fieldwork dates: 03/09/2015 - 28/09/2015 Base: All respondents (2,412)
8. 49% like to spend time with friends in a pub/bar whilst watching the match. Ipsos MORI OOH Panel – September ’15 Fieldwork dates: 03/09/2015 - 28/09/2015 Base: All respondents (2,412)
9. 39% of weekly viewers OOH like the opportunity to talk to and watch with like-minded people. Ipsos MORI OOH Panel – September ’15 Fieldwork dates: 03/09/2015 - 28/09/2015 Base: All respondents (2,412)
SOFT DRINKS & THE SUGAR TAX
The War on Sugar
There’s a war on sugar. In the battle to combat rising childhood obesity rates and diabetes, lobby groups and public health professionals have trained their guns on sugar in general, and on fizzy drinks in particular. The health issue is unavoidable. The World Health Organization says the number of diabetes patients worldwide nearly quadrupled between 1980 and 2014.

This war has gone global, from the USA to Mexico and to South Korea, with different legislatures adopting different strategies to address the issue. In the case of South Korea, the Government’s recently stated aim is to “make sure every citizen’s sugar consumption only makes up 10 percent of their daily calorie intake” with a series of new measures that stopped short of imposing a ‘sugar tax’.

WHAT COUNTRIES AROUND THE WORLD ARE DOING TO LEGISLATE AGAINST SUGAR

USA
Berkeley, California was the first American city to pass a soda tax, imposing a 1-cent-per-ounce tax on drinks with added sweeteners. However, this has since been followed by similar proposals being approved by voters in other cities such as San Francisco and Oakland.

Mexico
Mexico has imposed a tax of one peso per litre (roughly 10%) since January 2014. The country’s National Institute of Public Health has since estimated that per capita consumption of sugar-sweetened beverages was lower in 2015 than the pre-tax period of 2007 to 2013.

UK
Jamie Oliver has been a high-profile advocate in the UK, colourfully promising to be a “pain in the arse” with government in his pursuit of a 20p tax per litre of sugar-sweetened drink. He has renewed his campaign, appealing directly to the new Prime Minister.

SOUTH KOREA
The Government’s recently stated aim is to ‘make sure every citizen’s sugar consumption only makes up 10 percent of their daily calorie intake’ with a series of new measures that stopped short of imposing a ‘sugar tax’.

In the USA, until recently the only American city to introduce a soda tax was Berkeley, California, which had imposed 1-cent-per-ounce tax on drinks with added sweeteners such as sodas, and energy and coffee drinks, from the start of 2015. A recently published study claimed a substantial decline in sales of the affected beverages at “greater than expected” levels. Then, on Presidential Election Day, similar proposals were passed by electors in San Francisco, Oakland, Albany and Boulder, following the example of Philadelphia where voters passed a similar measure in June, although that has since become the subject of a legal challenge from the industry.

It’s in Mexico where the national government has resorted to more direct intervention, imposing a tax of one peso per litre (roughly 10%) since January 2014. The country’s National Institute of Public Health has since estimated that per capita consumption of sugar-sweetened beverages was lower in 2015 than the pre-tax period of 2007 to 2013. The average post-tax purchasing decline of 6% was magnified among low socio-economic status households, down -9%. At the same time, reports suggested an increase in purchases of untaxed beverages, driven by growth in bottled plain water.

Jamie Oliver has been a high-profile advocate in the UK, colourfully promising to be a “pain in the arse” with government in his pursuit of a 20p tax per litre of sugar-sweetened drink, set against a political environment which had in recent years preferred industry self-regulation. He renewed his campaign, appealing directly to the new Prime Minister. Although publication of the government’s Childhood Obesity Strategy was delayed, plans are now in place for a levy, to come into force in 2018. Drinks with 5g of sugar per 100ml will attract a lower rate of tax, with those with over 8g per 100ml facing a higher rate - albeit the tax rates are yet to be set. There are already signs that producers and retailers are taking action to mitigate the levy’s effects, through announced changes to product formulation and sizes.

As tend to be the case with public health issues, the debate is contentious and data is often disputed. CGA Peach is in the unique position of being able to ‘triangulate’ behavioural and attitudinal data from consumers, with outlet sales records, and its own industry leader and licensee surveys of business opinion.

This report therefore seeks to provide wide-ranging evidence-based insight on the issue.
What do official health statistics tell us?
A House of Commons Library briefing paper on obesity in early 2016 indicated that 24% of UK adults are defined as obese - close to the median of OECD countries, but well below the rate in the USA. Among children aged 10-11, the incidence is 19%. Obesity is more prevalent among older age groups, and tends to be more common in more deprived, less affluent areas. For example the report showed that the three Clinical Commissioning Group areas with the highest levels of obesity drug prescriptions were Barnsley, Stoke on Trent and Knowsley. The report was unequivocal that ‘children living in deprived areas are substantially more likely to be obese.’

For a detailed breakdown of household expenditure across income groups, we can refer to the ONS Family Spending Survey. Focussing on three relevant sub-categories – ‘sugar & sugar products’, ‘confectionery products’, and soft drinks – is clear that their combined share of household expenditure is highest among the lowest income groups, and lowest among the highest income groups. Other consumer data on hot beverage consumption also shows that the addition of sugar to tea is skewed to the C2DE groups.

In other words, the principal target market for a ‘sugar tax’ will be the lower socio-economic groups, and this is very relevant to a subsequent discussion of consumer attitudes towards the subject.

What do consumers say about the tax?
Public attitudes to health issues are often characterised by a gap between stated intentions, compared to the reality of taking personal action. Also, there is often a willingness to support potential legislation that is more likely to affect other people, rather than the individual concerned. There are signs of both these traits in the evidence from CGA Peach’s consumer research into attitudes to a potential sugar tax.

For the lobbyists, the good news is that when asked if the Government’s announcement of a sugar tax on soft drink products was a positive or negative change, 52% of the public said it was positive, with only 23% stating it was a negative development.

Among the population overall, there’s a clear supportive majority of the sugar tax.

However, positivity was more marked among the ABC1 social groups, and negativity was greater among the C2DE groups. Among those with annual household incomes up to £30k, 48% consider the tax a positive change, but among those with household incomes above £50k, and whose diets are perhaps less likely to be affected, that proportion rises to 61% - again it is easier to support laws that are seen to mainly apply to other people. Similarly for those with degree-level education, 58% think the change would be positive, but among those with educational attainment up to GCSE-level, that proportion falls to 45%.

Support among out of home soft drink users is similar, with 49% saying the tax would be a positive change, although support is higher among consumers of more upmarket categories such as bottled water (54%) and premium bottled drinks (59%), compared to the more mainstream audience for carbonated drinks (44%).

However, is any such change likely to have a material impact on consumer behaviour? The consumer research suggests that not only are relatively few people inclined to say they will reduce their sugar intake, but also that some of the ‘higher-risk’ groups may be less likely to respond in the way legislators and lobbyists would hope.

Only 19% of adults say they are likely to decrease their sugar consumption as a result of this change, although this rises to 25% among parents of children, compared to 17% among non-parents.

However, again the data shows this behavioural response is more likely to happen among the ABC1 social groups, where the incidence of obesity is likely to be lower. Despite the implicit impact from such a tax on household budgets, 63% of adults say they will not change the amount of sugar they consume, rising to 66% among those in the C2DE social grades.

Similarly, the intention to reduce sugar intake is less prevalent among those aged 55 and above, the group shown by government data to be most likely to be obese. Only 14% of the 55 years+ population says it will cut down on sugar as a result of a tax, compared to 29% of 18-34 year olds. This is despite above-average levels of agreement among the 55 years+ population to the idea of the sugar tax, and their above-average levels of concern about sugar in food and drink – again showing that it can be a long way from attitudes to actions.

If we combine both questions, and focus in on people who are positive about the idea of the tax and say they would reduce their sugar intake, their profile is skewed towards young adults, parents, the more affluent, the more highly educated, and those in ‘white collar’ employment. They are also people who eat out more frequently than the average. Conversely, those who are negative about the tax and say they would not reduce their sugar consumption, are skewed to the older and retired populations, and those with lower educational attainment levels.

Among those who do plan to change their sugar consumption, only a minority say they would adopt some specific tactics to do so, particularly in an out of home context. For example, only one in four say they would avoid adding syrups to drinks, and only around 30% say they would check nutritional information on menus. One in five says they would use smartphone apps such as ‘Change4Life Sugar Smart’ and unsurprisingly that is highly age-specific – it largely doesn’t register with the 55 years+ age group.

\[48\% \text{ of households with incomes of up to £30,000 consider the sugar tax a positive change compared to } 61\% \text{ of households with incomes of over £50,000.}\]
Eight out of ten of those people who say they will cut down, are already concerned about the impact of sugar in their food and drink. Demographic and socio-economic differences in the proportion of people who are concerned about sugar intake are slight. So, if most of those who say they would change their behaviour are already concerned about the impact of sugar in their diet, the real challenge for legislators and lobbyists is to reach beyond the converted.

What does market data tell us about consumption?

Although alcohol is far from immune from concerns over sugar levels, the tax debate is currently focussed on soft drinks. This comes at a time when conditions for the soft drink market appear to be favourable, specifically as patterns of alcohol consumption among young adults are changing, sparking interest from AB-Inbev and Diageo, among others, in low-to-no alcohol product innovation.

The ONS Adult drinking habits report, released earlier this year, showed the proportion of adults (16+) who had drunk alcohol in the previous seven days had declined from 64% in 2005, to 58% in 2014. This decline is driven by the younger age groups: 60% of 16–24 year olds consumed alcohol in the previous week before interview in 2005, falling to only 48% in 2014. For the 25-44 age band, the trend is also marked: the comparable figures are 68% and 56%.

At the same time, the proportion of adults who say they are teetotal increased slightly, from 19% in 2005 to 21% in 2014, although among 16-24s, the movement is much sharper, from 19% to 25%. Similarly teetotalism has become more commonplace among 25-44 year olds, moving from 15% to 22%.

In line with those numbers, whilst only 15% of out of home soft drinks consumers say the range of soft drinks is extremely important to their choice of venue, the proportion is highest among 25-34 year olds (22%). It also is higher among social group ABC1, people with children, and those with higher incomes.

Given the increase in teetotalism, and its skew to younger age groups, it would be logical to see signs of growth in sales mix for soft drinks in the on trade. However, the evidence from the on trade over recent years fails to tell a convincing story for the category. But on the plus side, the near-term market opportunity remains significant.

CGA’s Ons Premise Measurement data shows that soft drinks account for only about 15% of drinks sales in the on trade (in the 12 months to mid-June) and that percentage has grown by just 1 percentage point over the last four years, despite the apparent drift away from alcohol among young adults over the same period, and the additional influence of the stricter drink-driving limit in Scotland.

Over the four year period, soft drink volumes in the on trade declined by 0.5%, again according to CGA On Premise Measurement data. However this conceals significant differences between product categories. Within the cola market for example, draught and packaged volumes of diet versions grew +1% over the four year period, as standard variants declined by almost -5%. Despite that, standard cola still dominates the on trade market, accounting for 60% of volume, little changed on its 61.5% share four years earlier.

Focussing on on managed pubs and bars, CGA’s Trading Index shows that soft drinks account for only 13% of drinks sales value. Even in food-led pubs, where the customer is much more likely to be car-based, the soft drink category still only accounts for 22% of drinks value.

It’s a rather different picture in the off trade. There, Nielsen data for the GB Grocery/Impulse market covering the year to mid-June, shows that low calorie variants accounted for 56% of cola market volume, up from 54% two years ago. Similarly there is volume share growth in the period for low calorie flavoured drinks and low calorie flavoured waters, gaining against their standard counterparts.

It is true that CGA’s data shows some of the fastest growth categories in the on trade soft drinks market over this period are healthier options, such as sparkling and flavoured waters, and pure juice – whereas there has been significant decline in glucose drinks, sports drinks and fruit carbonates.

However, even allowing for the indulgence factor in out of home leisure, it is hard not to conclude from these comparisons that the on trade has an opportunity to develop a more interesting, and future-facing non-alcoholic drinks proposition, for an increasingly discerning consumer, and during a time of changing patterns of alcohol adoption and consumption.

This argument is even more valid as the coffee chains make steady advances in the sophistication of their cold beverage offerings.

Perhaps the advent of the sugar tax will trigger a new focus on non-alcoholic product innovation in the on trade, in line with consumer trends. But that largely depends on the operating companies, and we will learn something of their likely near term responses to the tax later in this report.
What is the relationship between consumer attitudes and behaviour?

CGA’s BrandTrack consumer data sheds light on the demography of out of home soft drink consumption, and its association with attitudes towards the sugar tax.

Firstly we can compare the consumer profile of selected category drinkers, revealing the more upscale profile of non-alcoholic cocktail drinkers, and those who drink premium bottled drinks (such as Elderflower Presse), when compared to the more mainstream traditional carbonated drinks category:

<table>
<thead>
<tr>
<th>% of out of home drinkers of each category</th>
<th>Carbonated drinks e.g cola/ lemonade</th>
<th>Diet Carbonated drinks</th>
<th>Fruit Juice</th>
<th>Non-alcoholic cocktails</th>
<th>Premium bottled drinks e.g Presse</th>
<th>Bottled Water</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC1</td>
<td>54%</td>
<td>55%</td>
<td>53%</td>
<td>66%</td>
<td>61%</td>
<td>54%</td>
</tr>
<tr>
<td>Household Income &gt;£50k</td>
<td>19%</td>
<td>21%</td>
<td>18%</td>
<td>22%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Degree Educated (min)</td>
<td>48%</td>
<td>49%</td>
<td>48%</td>
<td>64%</td>
<td>60%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Secondly we can compare headline attitudes to the sugar tax across out of home category drinkers, and again carbonated drinks consumers tend to be less positive about the tax, whereas drinkers of some of the more upscale categories are more positive:

<table>
<thead>
<tr>
<th>Attitudes among out of home consumers of each drink type</th>
<th>Carbonated drinks e.g cola/ lemonade</th>
<th>Diet Carbonated drinks</th>
<th>Fruit Juice</th>
<th>Non-alcoholic cocktails</th>
<th>Premium bottled drinks e.g Presse</th>
<th>Bottled Water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar tax would be a positive change</td>
<td>44%</td>
<td>54%</td>
<td>52%</td>
<td>53%</td>
<td>59%</td>
<td>54%</td>
</tr>
<tr>
<td>Will decrease the amount of sugar I consume as a result of the change</td>
<td>19%</td>
<td>20%</td>
<td>23%</td>
<td>30%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>Will not change the amount of sugar I consume as a result of the change</td>
<td>64%</td>
<td>65%</td>
<td>62%</td>
<td>47%</td>
<td>67%</td>
<td>62%</td>
</tr>
</tbody>
</table>

However, these categories are not exclusive; clearly one consumer can drink across all these categories. To sharpen our view, we can compare out of home cola drinkers who claim they only drink diet variants, with those who only drink standard versions. Diet-only drinking is much more common among older consumers: 52% of those aged 55 and over say they only drink diet cola when out of home, compared to 40% of those aged 35-54, and only 27% of 18 to 34 year olds (and 16% of students). Diet-only drinking is also more prevalent among women (42%) compared to men (30%), and is more prevalent among those in white collar jobs (39%) compared to those in blue collar employment (26%)

In other words, some of the groups that might be more conscious about their health are, unsurprisingly, already more disposed to diet drinks. What we don’t know until the tax arrives, is the extent to which any new product ranges would substitute for diet drinks, or their regular variants. As we hinted at earlier, out of home category user groups overlap significantly: currently one in four carbonated drinks users also consume diet carbonates, and around 40% of out of home diet drinkers also consume carbonated drinks.

To sharpen our view further, we can look at consumers who are more disposed to the idea of the sugar tax as well as being inclined to say they would modify behaviour, and compare them to those who are less disposed to the idea and less likely to change behaviour.

This first, upscale, subgroup is defined as social grade ABC1, also with household incomes of at least £50K per annum, and educated to at least degree level.

The second subgroup is defined as social grade C2DE, also with household income of up to £30K per annum, and with educational attainment no higher than GCSE.

Comparing their out of home soft drink consumption, a key finding is that compared to all out of home soft drink consumers, the upscale subgroup is more inclined to all styles of soft drinks. In other words their repertoire tends to be wider, although they particularly over-index on bottled water, premium bottled soft drinks, and non-alcoholic cocktails. They have the resources to trade up when they want to, and their attitudes may also dispose them towards more contemporary, healthier options.

Meanwhile, the mainstream subgroup is less likely to consume all the styles of soft drinks out of home, in a narrower repertoire more dominated by carbonated (non-diet) drinks and fruit juice. Only one in five soft drink users in this demographic consumes bottled water out of home, compared to almost four in ten among the upscale subgroup. Similarly, almost none of the mainstream subset consumes non-alcoholic cocktails, compared to around 15% of the more upscale subset of soft drink consumers. Mainstream consumers’ consumption is more traditional in nature, more orientated to the kinds of drinks that would attract the tax.

If we compare attitudes to the tax with consumers’ stated behavioural response, we see that the more upscale subgroup views the tax more positively and are more likely to say that they would decrease their sugar consumption as a result.

<table>
<thead>
<tr>
<th>Attitudes among out of home consumers</th>
<th>Total Adults</th>
<th>ABC1 &amp; Degree Educated &amp; Household income at least £50K pa</th>
<th>C2DE &amp; up to GCSE educated &amp; Household income up to £30K pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar tax would be a positive change</td>
<td>52%</td>
<td>64%</td>
<td>45%</td>
</tr>
<tr>
<td>Will decrease the amount of sugar I consume as a result of the change</td>
<td>19%</td>
<td>24%</td>
<td>18%</td>
</tr>
<tr>
<td>Will not change the amount of sugar I consume as a result of the change</td>
<td>63%</td>
<td>52%</td>
<td>69%</td>
</tr>
</tbody>
</table>
To summarise this consumer data, the most at-risk group is less supportive of potential legislation and less inclined to change behaviour, while the least at-risk group, whose consumption behaviour already anticipates the intentions of the tax, are more supportive of its introduction.

Lawmakers face the challenge of not just reaching the target market with the message, but also of persuading them of its merits - before they can hope to see the desired behavioural change.

What do licensees and business leaders think?
CGA has undertaken two pieces of industry research on attitudes to the sugar tax, in a small scale survey among licensees, carried out in April/May, and more recently in its post-Brexit edition of its Business Leaders Survey.

Among licensees, the tax appears to pose a low-level threat. Three out of four of those interviewed believe their sales will not be impacted by the sugar tax, and almost 40% say they will make no changes in response to it. Around 30% envisage passing any price increases on to customers, and only one in seven suggested they would stock more low-sugar soft drinks as a result of the introduction of the tax.

Turning to business leaders - a mix of operators and suppliers interviewed by CGA Peach shortly after the Referendum vote - their view on the merits of the sugar tax are as finely balanced as the Referendum itself. 49% of leaders surveyed consider the tax to be a positive move, 51% say it is a negative move.

A price impact for out of home customers seems likely, because among the operators interviewed, over half of them (57%) say they will pass on costs to customers, a significantly higher proportion than was seen among the licensees.

The most likely effect on stocking policy would seem to be the addition of lower-sugar choices, rather than sourcing cheaper brands, although only 54% of operators say they will look at alternative less-sugary drinks. Only one in six says they will research alternative suppliers for cheaper soft drink options.

However, even though the tax is likely to raise consumer awareness of the subject, and remembering the supportive majority seen in the consumer research, especially among the more educated and affluent, it is worth noting that only 12% of interviewed business leaders in operator companies said they will list the sugar content of ingredients on their menus. This is despite around half of surveyed operating company leaders saying they expect the tax to result in a reduction in consumer consumption of sugar – somewhat optimistic when compared to the only one in five consumers who expect to do so.

In summary:

- The sugar tax has good levels of support, among consumers and operators
- The most supportive and most likely to change behaviour are the more affluent and better educated
- They are not the population most afflicted by obesity, and therefore not the core target market for the tax
- Only a small minority of that core target market seems willing to think of changing their consumption
- Therefore government, health agencies, and operators face a task of influencing and persuasion
- Particularly as operators may be overestimating consumers’ willingness to reduce their sugar intake
- And whilst the on trade doesn’t start from a leading-edge position on non-alcoholic drinks...
- …this creates competitive opportunity for the more imaginative and future-focussed operators
Shaping Choice In The Soft Drinks Category

Opinion by Julian Hunt, Vice President, Public Affairs and Communications, Coca-Cola European Partners

Obesity is one of the really big challenges facing society. It’s an issue that occupies the minds of everybody in the food and drink industry. And as a leading supplier we want to work with our customers across the trade to help consumers make good choices about what they and their families eat and drink.

As a business I would argue that we have a pretty good track record in shaping consumer behaviours. We launched Diet Coke some 30 years ago, before people were talking about obesity, when the debate was about calories and Jane Fonda workouts. We read consumer sentiment: people increasingly wanted a low-calorie options and Diet Coke went from being a tiny part of our business in the UK to being one of our best-sellers.

Since then, most soft drinks manufacturers have been busily reducing sugar in their drinks, responding to shifting consumer demands, particularly in the past decade. And that’s reflected by the market: Government data shows that between 2004 and 2014 sales of full-sugar soft drinks fell by 44 per cent [DEFRA’s Family Food Survey]. And yet, it’s worth noting, obesity rates increased by about 4% over the same period. So it’s pretty hard to argue that soft drinks are the sole cause of obesity or that our category needs ‘special attention’ through a discriminatory tax such as that proposed by the Government.

Further industry research shows that soft drinks contribute less than 3% of the total calories in the UK diet and that the sugar coming from take-home soft drinks purchases has fallen by 16 per cent since 2012.

Why is this change happening? Well, we’re in a very competitive business, and our industry can only win by offering consumers the drinks that they want: constantly innovating to ensure that we provide better tasting, lower-sugar variants, which are widely available and competitively priced.

Here at Coca-Cola European Partners, we have put in place an ambitious sugar reduction strategy with four key pillars designed to allow us to accelerate the work we have been doing in recent years.

The strategy is based on four key themes:

1. **Portion control and smaller packs**
2. **Changing our marketing mix to shift people towards our no-sugar soft drinks**
3. **Continued reformulation across our portfolio**
4. **Innovation that is focused on providing drinks that are low in sugar**
By shaping choice in this way, we expect to reduce sugar in our products by at least 20% by 2020 (the equivalent of 25,000 tonnes annually). And Great Britain is on track to become the first country in the world where no-sugar variants account for more than 50% of Coca-Cola sales.

For the hospitality sector, the changing consumer demands outlined in this ALMR Future Shock report, and the ongoing sugar reduction efforts of suppliers, together represent a massive commercial opportunity.

We know that soft drinks are important for ALMR members – worth more than £4.2bn in sales and growing by 5% a year, according to CGA data. But no and low-sugar products account for just over a quarter of those sales – significantly behind the total soft drinks market where they are nearly half of sales – although they are growing at 4% a year.

Given the other consumer dynamics that are impacting the hospitality and leisure sectors – such as the increase in meal-led opportunities that do not involve a glass of wine or beer or the growing number of consumers who claim they are reducing (or avoiding) alcohol altogether – it’s clear that more could be done to leverage the commercial opportunities presented by soft drinks. But what?

Well from our perspective, it starts with having a credible range of soft drinks on offer and understanding that no sugar alternatives should be a core part of the mix.

Take Coca-Cola Zero Sugar. We have this year invested £10m to change the recipe so it tastes more like Coca-Cola Classic and to encourage consumers to switch to this no-sugar variant. Initial results are really encouraging – the brand is up 63% in value since the summer relaunch – and performing really well. Yet, we still struggle to build distribution in the hospitality sector – still at only 4% compared with 75% for Coca-Cola Classic.

I also think that offering a broader range of no-sugar products will be increasingly important for the trade as it looks to respond to the additional scrutiny it will face following publication of the Government’s Childhood Obesity Strategy. The Government is seeking changes that will have a wider impact than many operators possibly realise – with ongoing pressure around sugar reduction, portion control and more transparent menu information – and providing soft drinks with strong health credentials should be part of any response to this growing challenge.

The Government has now confirmed it plans to press ahead with its soft drinks tax – which will come into force in 2018. While we still think it makes no sense to target the one category already reducing sugar in the diet with such as discriminatory tax, we will now focus on doing what we do best. That’s working on the sugar reduction initiatives that actually make a difference to people’s diets – and providing great-tasting products that we hope will continue to inspire the 46 million people who currently enjoy a soft drink every day.
CGA Peach is the definitive source of insights and analysis for the 'out of home' food and beverage market. Utilising CGA consumer supply and demand data sets, CGA Peach sets the narrative for the industry.

CGA Peach services include:

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AlixPartners Peach MarketGrowthMonitor
BrandTrack
Trading Index
Business Leaders Survey
Pricing Index

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