

## Hospitality sector must continue to innovate, says Horizons, as trading set to toughen in year of austerity

The UK hospitality sector faces its biggest challenge yet as 2012 brings a fourth year of retrenchment, with consumer confidence worsening and unemployment set to rise, warns leading foodservice consultancy Horizons.

With a year of austerity in prospect, the country's 260,000 eating out establishments, which generate around £42bn-worth of sales per year, will have to work even harder than last year to tempt people to spend their money on eating out.

Since the downturn began many eating out establishments have boosted customer levels by extending opening hours and offering new services such as breakfast, mid-morning coffee, afternoon tea - and even home delivery.

Others have provided free wi-fi for customers, revamped their interior design, invested in staff training and introduced new styles of dishes such as sharing plates, smaller portions and healthier options.

A raft of new concepts have also emerged on the high street, as small, fledgling chains fill gaps in the market and create new areas of business, many taking advantage of cheaper high street rents. A common theme amongst the new brands is good quality, healthy food-to-go with Mexican and Japanese cuisines proving particularly popular.

As a result the foodservice sector overall has proved remarkably resilient, with just a handful of high profile business failures since 2008.

However, as the downturn continues, Horizons warns that 2012 is likely to be a worse trading year for eating out than 2011, despite the influx of visitors generated by the Olympic Games in London and the Golden Jubilee.

‘Although the number of corporate failures in the UK eating out sector has been fairly small, balance sheets have been stretched during 2011 and it will not take much to see the rate of failures rise, probably as early as the first quarter,’ said Horizons’ managing director Peter Backman.

‘High street restaurant operators will continue offering customers discounts, meal deals and money-off vouchers to improve traffic, which will depress their profit margins, although the anticipated fall in food costs this year will help counteract the cost of discounts.

‘The Olympic Games are likely to bring an uplift in sales for some foodservice outlets - most notably those with contracts at Olympic venues. However, operators outside the Olympic venues could see visitor numbers drop. If the UK sees 10% fewer visitors this year, compared to a normal year, the UK eating out market will be £100m worse off,’ added Backman.

Horizons notes that consumer spend fell in 2009 and 2010 and last year was worse, with signs that the market fell in both nominal and real terms. Horizons estimates that the foodservice sector was down 3-5% in volume for 2011. The average price paid by consumers fell as a result of discounting and consumers selecting cheaper menu options and foregoing starters, desserts or side dishes. ‘However, the UK’s foodservice industry is particularly good at reinventing itself and adapting to change,’ said Backman.

‘The businesses that don’t embrace change are those that will suffer this year, but outlets that adapt to the demands of the new consumer by offering something different, focussing on good quality for a reasonable price, are those that will survive the year ready to focus on growth when consumer demand improves.’

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#### Editor's Note

Peter Backman is the managing director of Horizons, the analyst and specialist information consultant for the foodservice and hospitality sector. Peter is an expert on the structure and dynamics of the foodservice sector, and its supply chain, in the UK and across Europe. He has been involved in foodservice, as an analyst, researcher and consultant, for almost 30 years.

Horizons helps its clients make better business decisions by providing accurate and detailed information about the foodservice market, its trend, and opportunities. The company provides consultancy services, workshops and statistical information based on its model of the sector and database of key accounts across Europe.

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