FOODSERVICE

December 2017

PROVISION OF A FOODSERVICE VOLUME ESTIMATE

Part of the AHDB role is to address market failure, to fill a gap where an activity that might benefit levy payers is not being carried out effectively, or at all. AHDB Market Intelligence (MI) has created a tool to estimate the volumetric size of the red meat market in foodservice. This market analysis will provide levy payers with an invaluable top-line estimate of the performance of red meat meat in the out-of-home (OOH) food market. Additionally, it allows for a much-needed split in volume sales between retail and foodservice.

Where is the data from?

The NPD Group tracks the foodservice market. The AHDB MI model uses servings data for individual products from the NPD database. This is built on data collected from alternative foodservice data providers. The calculated volumes are based on individual meal servings and standard published portion sizes from the Food Standards Agency.

Information from a range of government agencies has been used to determine the size of public sector foodservice channels that are not covered by NPD CREST (school meals, healthcare, military services and prisons). Assumptions have been made to calculate the proportion of meals served containing red meat.

Foodservice figures are based on NPD CREST standard beef/lamb/pork categories and weight of the cut or product, not the whole meal.

Retail figures have been calculated from Kantar Worldpanel data and include: fresh and frozen beef/lamb/pork, processed products, main meal accompaniments, ready-to-cook items and ready meals which are based on whole-meal weights.

It is important to note that final volumes are calculated estimates and not actuals, so the data should be best used as a guide to trends over time.

CURRENT OVERALL FOODSERVICE PERFORMANCE

The UK economy grew by 2.3% in the year to Q2 2017. The total value of the foodservice industry increased ahead of this.

Total spend: +2.8%

£ 54.4 billion

Total spend gains were driven by good performance for some key metrics: visits and average spend saw encouraging growth.

Total visits: +0.7%

Average spend per eater: +2.1%

Average items per eater: +0.4%

Source: NPD CREST, 52 w/e June 2017 vs previous year

CONSUMER CONFIDENCE

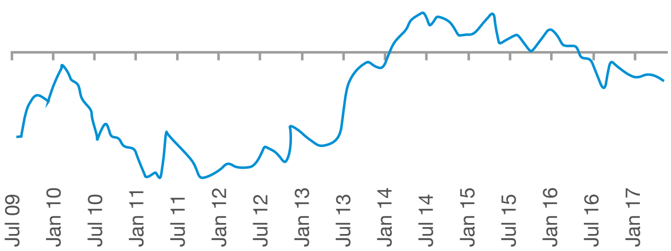
Consumer confidence is an important spending barometer. When it is high, there is a propensity for consumers to spend more, not just on big-ticket items like cars and holidays, but also on things such as entertainment and food out of the home.

When it is low, people tend to spend more carefully. The index currently stands at historically high levels, but is showing a recent downwards trend.

A consistent decline may negatively affect the performance of the foodservice industry. In recent times, when consumer confidence was in growth, so was foodservice.

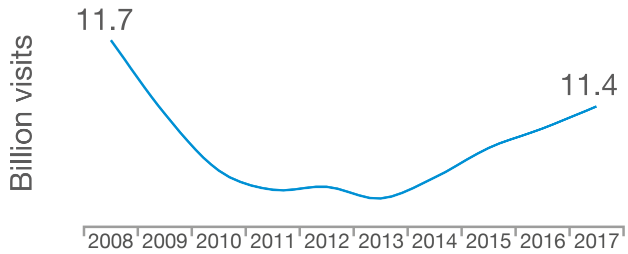
Eating out is a key area for discretionary spend, according to Mintel. When some extra money is available, almost 35% of us will spend it on dining out. Wage growth has been lagging behind inflation through Q2 2017, meaning consumers have a little less disposable income. Further growth for the foodservice industry might be sluggish if these economic conditions continue.

Consumer confidence 2009–2017



Source: GfK/EU

Total foodservice visits 2008–2017

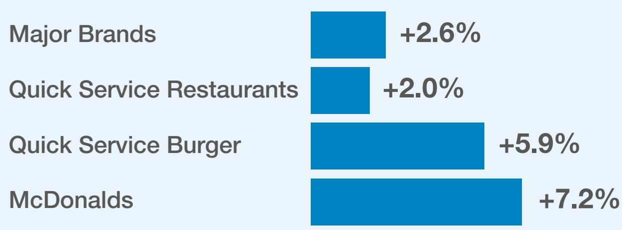


Source: NPD CREST

During the economic downturn which followed the 2008 banking crisis, those eating out did so less often, traded down, ordered fewer side dishes and used deals and promotions more.

There are early signs that some of these consumer behaviours might be returning. The channel that is best positioned to ride this out might be quick-service restaurants (QSRs). They offer out-of-home meals at economical prices and are performing ahead of the market.

Big QSR brands like McDonalds continue to see good growth. Their reach enables quick and effective roll-out of countrywide deals, promotions and loyalty programmes.



Source: NPD CREST, visit change, 52 w/e June 2017 vs previous year

Brexit

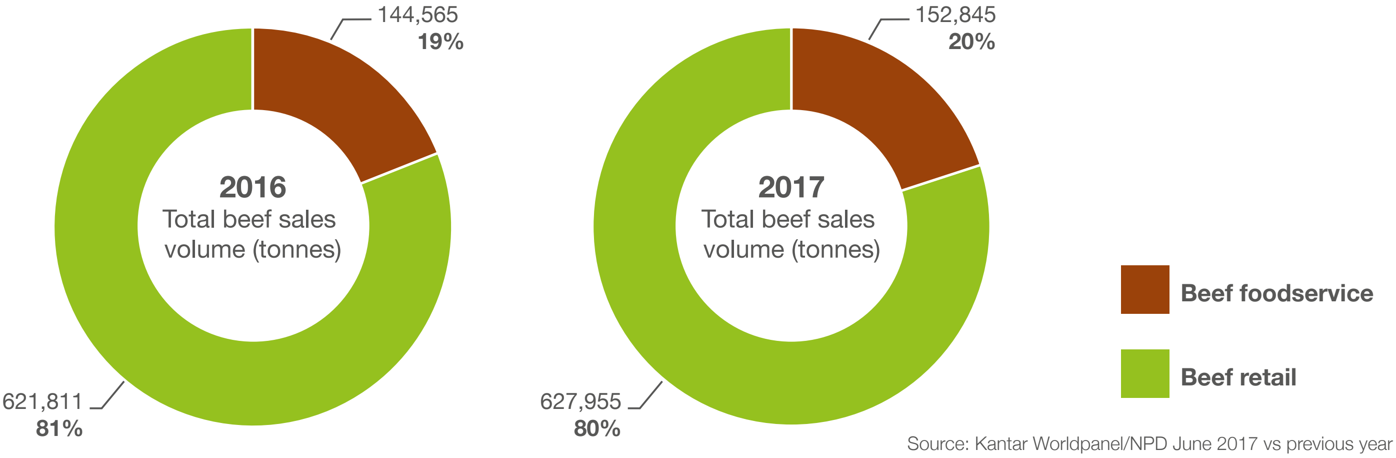
The UK foodservice industry is facing pressure on margins from a number of sources. The national living wage has increased and some employers are required to contribute to an apprenticeship levy. Moreover, the recent business rate review has now come into effect. The biggest barrier to future foodservice growth may be leaving the EU; two widely identified consequences are a potential shortage of labour and possible food price inflation.

A shortage of EU labour and increased dependency on UK workers may result in wage inflation – research has shown 33% of the workforce in the hospitality/foodservice industry were not born in the UK. Defra data shows almost half of total food consumed in the UK to be imported. The low value of sterling and consequent rising cost of ingredients could put pressure on outlets to increase prices. There is, however, a possible opportunity in this for farmers and others in the UK food industry, who may become more competitive.

AHDB is committed to helping the wider food supply chain through Brexit, making it fit for the future. Information on publications can be found at **ahdb.org.uk/brexit**

BEEF

Beef sales volume in foodservice increased by a healthy 5.7% in the year to June 2017.



Source: Kantar Worldpanel/NPD June 2017 vs previous year

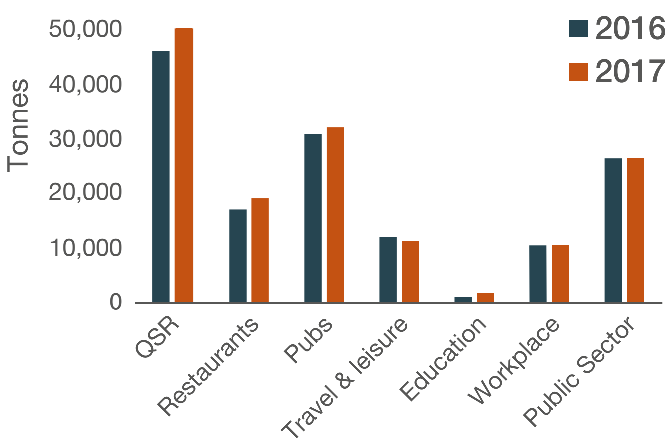
Growth for beef in foodservice is likely to continue

Burgers have multi-channel core menu appeal and beef burgers in particular look set to continue to see the strong sales increases of recent times. Maybe the accompanying dish of the future will be salad though – it's more and more common for all types of outlets, even QSRs, to include a nod towards health in their offering.

QSRs make up over half of all foodservice visits. Any product widely available through this channel is likely to perform well at total market level and burgers can be found in virtually every QSR. The model is a good fit for many current consumer trends: they offer convenience, are economical and ubiquitous in urban areas.

Beef performed best through the Quick Service Restaurant (QSR) channel, but also increased sales in pubs and full-service restaurants.

Beef sales volume by OOH channel



Source: NPD CREST, 52 w/e June 2017 vs previous year

> “The source of growth for beef in foodservice can shift from QSRs to other channels by following the consumer, being authentic and creating a special moment”

Born in the USA – Smoking and firing

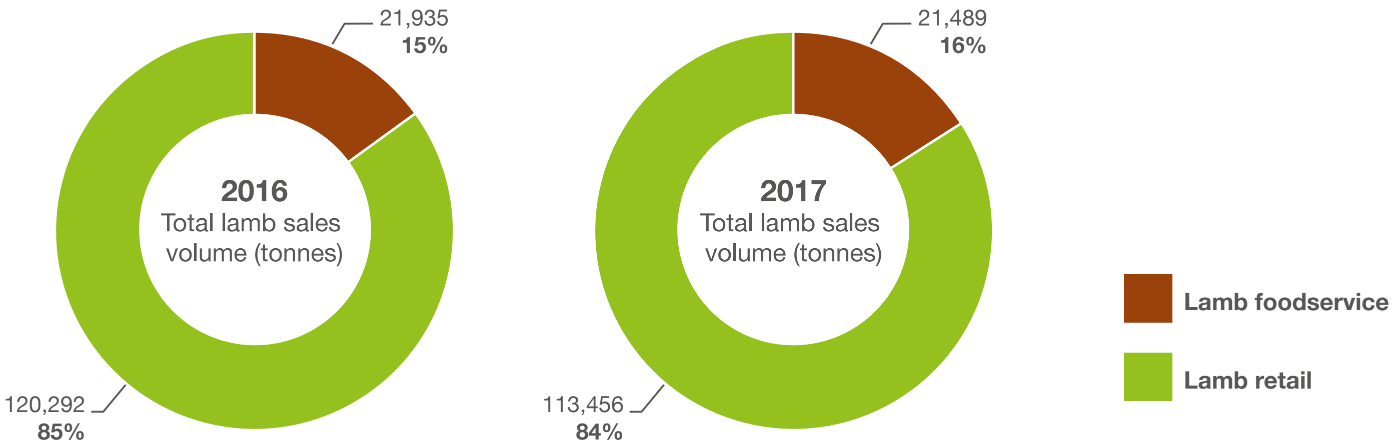
Meat trends that begin in the USA are often influential on the out-of-home market in the UK; slow-cooked 'pulled' meats and gourmet burgers quickly spring to mind.

A good way to grow beef sales in the future might be to look more closely at a trend growing across the Atlantic now – smoking and wood-fired cooking methods. Some restaurants in America are completely replacing their gas- and electric-fuelled kitchen equipment with wood-burning grills and ovens.

This ticks a few consumer trend boxes; beef is grilled over embers of maple or ash wood, which is a renewable fuel, implying the event to be more ethically sound. The preparation style imparts the flavour of the wood into the beef at a time when British diners have never been more experimental. It feels authentic and creates that all-important 'moment'. Diners across all age groups want an experience, especially if the meal is a celebration or special occasion.

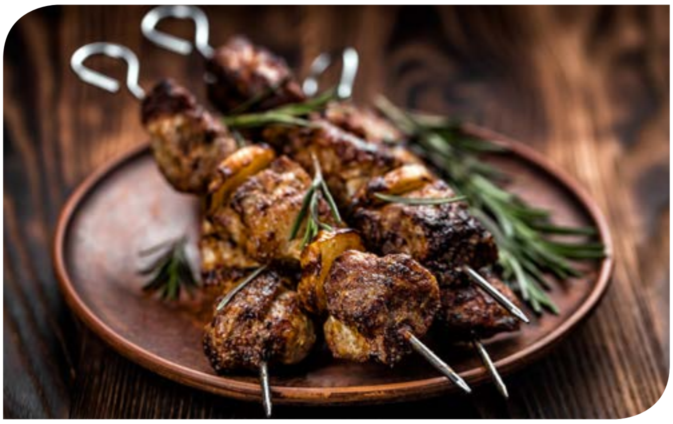
LAMB

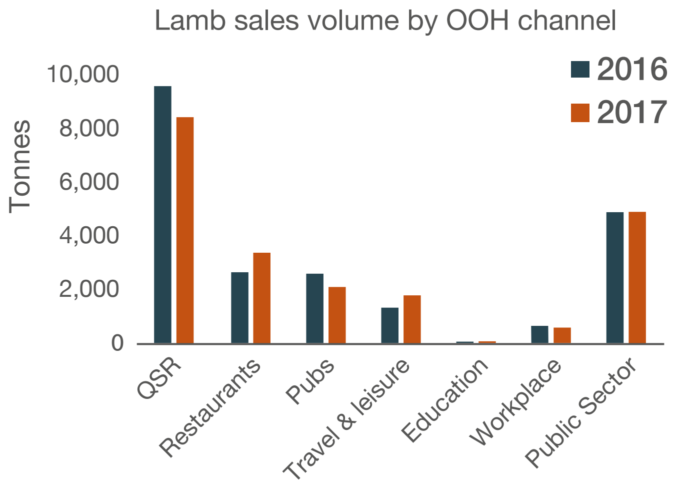
There was fall in foodservice lamb volume of 2.0% over the last year. Retail sales also fell away a little, leaving the retail/out-of-home share almost unchanged.



Source: Kantar Worldpanel/NPD June 2017 vs previous year

The most important channel for lamb is QSRs, where there has been a volume decline in the last year. There was growth through full-service restaurants and travel and leisure outlets.





Source: NPD CREST, 52 w/e June 2017 vs previous year

At a time when there has never been wider and easier access to food from all over the world, there is also a growing consumer interest in food that is not just local, but hyperlocal. Indeed, some restaurants are now serving food produced and grown on site, even in urban locations.

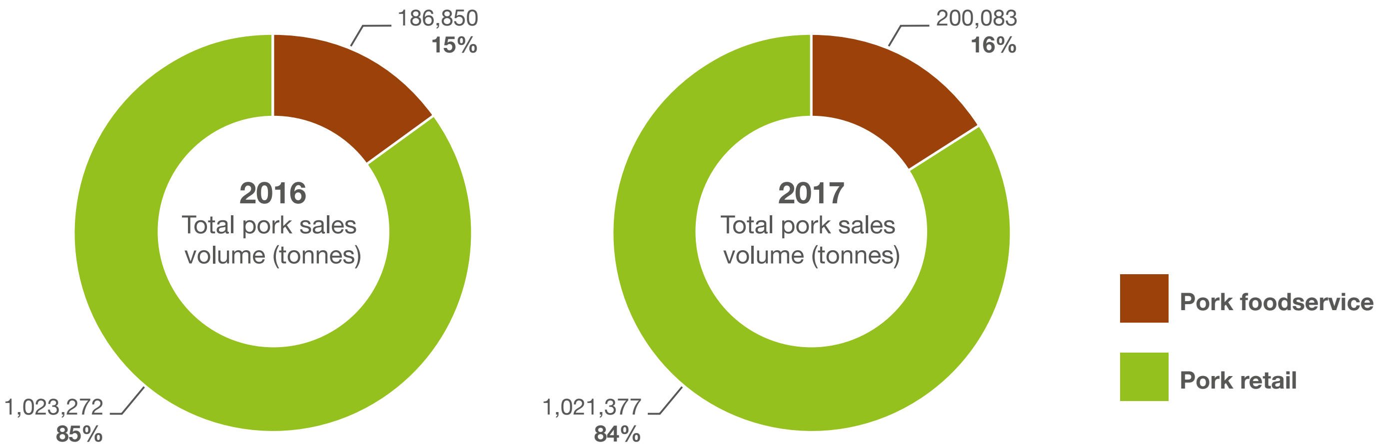
It is not practical or feasible to raise livestock in the same way but some of this feeling of the positivity of local has filtered across product groups. British lamb on menus, clearly labelled, will have diner appeal for local sourcing, provenance and being fresh.

YouGov has identified a strong willingness among the British public to buy British; 73% say they try to do so, if it is available. In the wake of Brexit, this feeling has grown: 23% say that they are more likely to buy British food since the vote. The most important reason given is to provide support to the British farming and food industry. Even allowing for the gap between what people say they will do and what they actually do, putting British lamb on the menu feels like a great idea at this time.

“A good way for lamb to see out-of-home sales growth would be to shout loud about its British, local and fresh background. The story from the farm to the fork, in great detail, should be told”

PORK

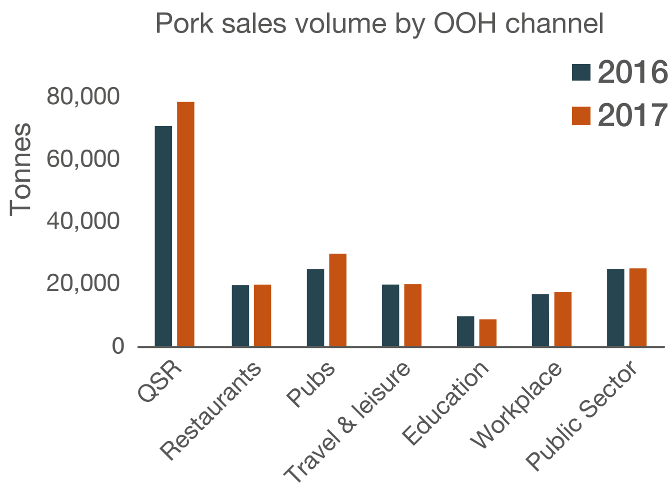
Top-line pork volume in foodservice grew by 7.1% over the last year. Retail sales declined slightly, leading to foodservice taking a bigger share of the total pork market than was held in 2016.



Source: Kantar Worldpanel/NPD June 2017 vs previous year

The performance of the biggest channel, QSRs, is influential on the out-of-home market for all food products and pork is no exception. Growth through this channel will almost certainly lead to top-line growth.

The product that is the biggest driver of growth for pork out of the home is bacon; 121 million more servings were made compared to a year ago. This is equivalent to around 90,000 tonnes. Bacon grew fastest through pub and QSR channels.



Source: NPD CREST, 52 w/e June 2017 vs previous year

Premiumisation

Some pork products could widen their customer base by being positioned as a more premium offering – a good example is hot dogs. London-based 'Bubbledogs' and 'Popdogs' have taken the classic hot dog and remodelled it into a superior and sought-after food item. By being creative with flavours and using a high-quality bun, they attract customers into something that feels worth paying more for.

These hot dogs have crucial qualities that are growing in importance, in particular for millennials. They have a colourful, photogenic 'Instagrammable' presentation and through a wide range of topping options, feel more special and personalised.

Health and well-being

An increasing number of diners are interested in the healthy choice section of the menu. This is on the back of a deeper consumer understanding of how important diet is to overall health and well-being. Pork medallions and fillet are low in fat, high in protein and can fit really well into this menu area.

AHDB is doing work to promote these cuts; more details can be found here at **pork.ahdb.org.uk/pork-promotion**

> "Interest in pork could be enhanced by taking healthy cuts, then using on-trend flavours, rubs or condiments with an ethnic influence or surprise twist"

WHY ARE OLDER DINERS IMPORTANT?

Older age groups are exerting a big influence on foodservice growth. Compared to the same period a year ago, those in the 65 years and over age group made around 36 million extra visits. When combined with growth for other older age groups, this more than makes up for the 58 million fewer visits made by those aged under 24 years.

The importance of this to the industry cannot be understated. While the average baby boomer uses out-of-home channels less frequently, they spend more than twice as much per visit than their millennial counterpart.

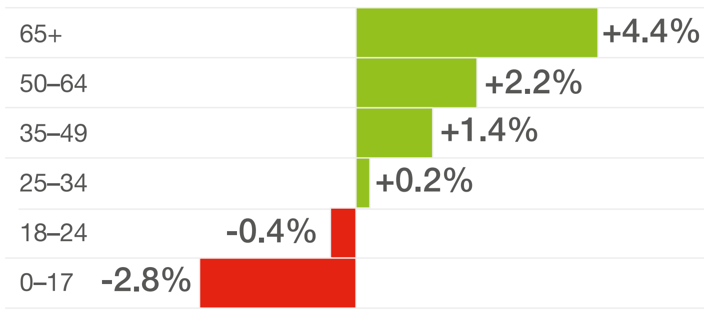
Older consumers are a demographic where further foodservice growth can be found.

It is an age group that keeps getting bigger and bigger. ONS data shows that between 2011 and 2016, the number of over 55s grew by 8.2%. The 2016–2021 increase is forecast to be 9.9%.

Over 55s generally have higher disposable incomes. Mortgages have been repaid, final salary pensions are more common and children have left home.

They currently eat out less frequently than other age groups – 32% of diners aged 16–44 eat out once a week or more, while only 15% of over 45s do so.

Visit change by age – Year ending June 2017



Source: NPD CREST

> Older consumers are a relatively untapped demographic. Their roots are in a time when eating out and eating meat were an infrequent treat. Red meat and foodservice can grow together if their needs are addressed

HOW CAN OLDER CONSUMERS BE TEMPTED INTO EATING OUT MORE?

1. Older people tend to be more price-sensitive, so may be encouraged into eating out more by deals and offers specifically aimed at them.

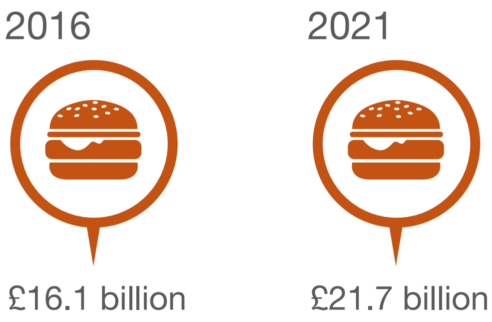
2. YouGov research shows British cuisine is the nation's favourite and 83% of over 55s said they preferred to buy British food where possible. Older consumers can be tempted into eating out more if the produce is British and the menu has a focus on 'Britishness'.

3. They tend to be less experimental than younger consumers, but could be tempted by classic dishes that have been updated with a contemporary feel, or smaller versions of British favourites.

4. Mintel research indicates older people are more likely to be open to set menus at a fixed price. There is a challenge for the red meat industry in having red meat included in these promotions.

FOCUS ON FOOD-TO-GO

Forecast



Source: IGD Retail Analysis, UK Food Market, 2016

The food-to-go industry is evolving and extending its scope. New ways of reaching consumers have been found and specific consumer needs are increasingly being met. But what defines food to go?

1. Products are ordered or bought at a counter and delivered with minimum customer service
2. The product will be a portable, single portion, designed for out-of- home consumption and not served on a plate
3. The packaging will usually be disposable
4. The food may be reheated or assembled, but will not require cooking
5. The item is intended to be consumed soon after purchase

This sector includes specialists like burger, chicken and pizza takeaway shops. Convenience stores and supermarkets are also a big part of this market, along with coffee shop chains.

THREE REASONS WHY FOOD-TO-GO IS GROWING

1. Changes in British consumers' lifestyles

For many, particularly those in younger age groups, time is becoming a scarce resource. There is a growing perception that there is not enough time to do all of the things we want to do. Something that has contributed to this feeling is the increased time that us Brits spend commuting to and from work, and more hours spent in the workplace. Out of this, a desire to allocate less time to chores and more time to keep fit, hobbies, socialising and fun has emerged.

Food-to-go growth signals a way in which time has been reclaimed, with consumers turning to food that can be obtained quickly and easily.

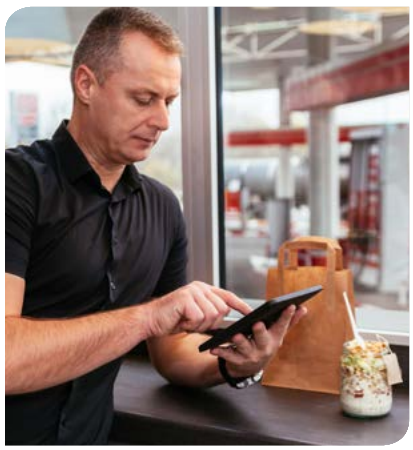
2. Ubiquity

Food-to-go is more available than it has ever been. Boundaries between core site activity and food-to-go are becoming blurred; examples include the expansion of global sandwich chains and high-street bakeries into non-traditional locations such as petrol station forecourts, hospitals and colleges. They have placed themselves where there is footfall, where the consumer is.

In the USA, they are already ahead of this curve and some chains have even introduced concessions in locations as diverse as air force bases and casinos.

Back here in the UK, coffee shop specialists have extended their food ranges to include a hot savoury snack option and some have formed partnerships with bakers.

For a growing number of retailers, an in-store, food-to-go offering gives shoppers the opportunity to complete a top-up or even a main shop at the same time as buying breakfast or lunch. Lunchtime for some is a time for running errands and shopping; buying a meal at the same time is an ultra-convenient solution when juggling other commitments.



3. Healthier options availability

Some consumers may have been encouraged into choosing food-to-go by the rising number of healthy options that are now available. Consumer trends towards trying to eat more healthily and awareness of the effect that diet can have on overall well-being have recently been growing. Additional research carried out by Mintel has shown that eating a healthy lunch makes many people actually feel better in the afternoon and that there is a relationship between 'food and mood'.

The industry response has been to innovate around health in its food-to-go offering: from small, independent sandwich shops through to the world's biggest retail chains and fast food outlets, low-fat, low-calorie and 'Free from' products are now routinely offered.

> "The message is clear: food to go is big and getting bigger. Those in the food supply chain should seriously consider opportunities to work in this part of the industry"

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In his role as Consumer Insight Analyst for AHDB, Stewart uses market data from a wide range of sources, and is responsible for providing analysis and insights on consumer behaviour for the retail and out-of-home food markets. Stewart's background is in market research, working agency-side to help well-known global brands better understand their customers.

AHDB's Consumer Insight team actively tracks, monitors and evaluates consumer behaviour, reporting on the latest consumer trends and picking out what they mean for the industry and agriculture.

Read more on consumer trends on our website **ahdb.org.uk/consumerinsight**
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