



the hospitality index report

August 2020



deliveroo

Resilience, resourcefulness and the way forward for the Australian hospitality industry

If there's one thing 2020 has demonstrated, it's the perseverance of Australian restaurant, cafe and hospitality venue owners. Despite a year that began with the devastation of the bushfires and the resultant decline in tourism, the majority of restaurants still went into 2020 confident they could expand their business.

Then COVID-19 hit. Since March, restaurant owners have had to navigate both a health crisis and an economic crisis. While nine in ten hospitality businesses stayed open throughout the national lockdowns, this came at a significant cost. Restaurant owners introduced new revenue streams like delivery, take away, alcohol with food orders and ready to heat meals. They were also forced to apply for government support and had to reshuffle their staffing, with a staggering 77% now employing fewer staff.

Given the enormous change our industry has undergone over the past few months, it is not surprising that most restaurant owners believe it will get worse before it gets better. As individuals, they believe there will be much pain in the short term, though they're hopeful and optimistic about conditions in a year's time. While optimistic that their own business prospects will improve, they are less confident in the future of our sector, with fewer than four in ten restaurant owners feeling positive about the future of the hospitality industry.

It's understandable that the hospitality industry is feeling this way today. Restaurants are facing a slowing economy and reduced consumer spending, limited dine in capacity and rising produce prices. There is still a lot of uncertainty about when we will 'get back to normal', and what this new normal might look like.

The reality is that it's unlikely we'll ever go back to what was considered normal just a few short months ago, but this presents new opportunities. Australia's hospitality industry is rising to the immense challenge of COVID-19. Businesses across the country are changing the way they operate to ensure they not only survive this crisis, but can thrive in the future. This pandemic has accelerated macro trends that were already in motion such as high-end dining at home, contact-free delivery and the increasing role of technology in the hospitality customer experience, and many businesses are planning to permanently adopt the new revenue streams introduced during the lockdowns.

At Deliveroo, everything we do is in support of a thriving and dynamic hospitality industry - for restaurants, riders and customers. In order to have the greatest impact, we recognised the need to understand how our industry has changed in the past few months, and create a benchmark for the vitality of our sector. We hope that the Deliveroo HospoVitality Index Report provides valuable insights into what changes are needed and how our sector will continue to adapt, and we're committed to capturing and sharing these insights over the coming years.

Ed McManus, CEO, Deliveroo Australia



executive summary

The Deliveroo HospoVitality Index is a biannual survey of restaurant owners to understand their business confidence, views of the sector, the challenges they face, how they've responded to COVID-19, and their plans for the future. Here are the topline findings.

vitality confidence score

Only 39% of all restaurant owners surveyed are feeling positive about the future of the sector, versus 30% who are feeling pessimistic - a net balance score of +9.



top challenges



21% of all restaurant owners said they didn't know at what stage they would be able to trade profitably and be viable within the Federal Government's 3-step Framework for a COVID-safe Australia

new opportunities to leverage technology

Almost half (45%) of restaurants said the greatest opportunities lay with further developments in the digital ordering and food collection process, and more than half (51%) agreed that post COVID-19, food delivery will play an even larger part of their business than before.



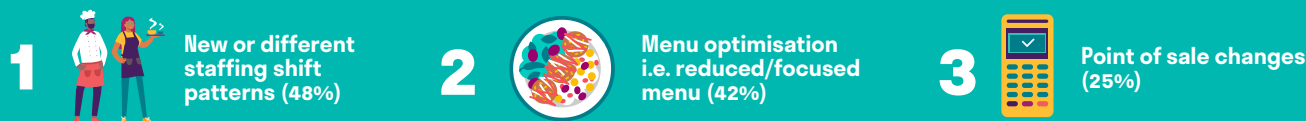
pivot to new revenue streams

Nine in ten restaurants that introduced new ways of making money during the COVID-19 lockdowns said they would maintain some or all of these revenue streams into the future.

The most popular revenue streams that will be kept post-COVID-19



new ways of working



top 3 government policies to support the industry

The majority of restaurant owners believe Australian governments should tackle tax relief as a priority, followed by payroll tax and penalty rates, to assist the recovery process.



part one

the current state of play of the restaurant industry in Australia

Reflecting its diverse population and vibrant, global culture, Australia has one of the most exciting food and restaurant industries in the world. However, the start of the new decade has been fraught for the industry with major bushfires sweeping across regional Australia impacting consumer confidence and a global pandemic impacting the business confidence and operations of tens of thousands of independent, family owned and franchise restaurants and cafes across Australia.

The emergence of the COVID-19 virus and subsequent global pandemic in the first half of 2020 resulted in economic lockdowns across Australia that have been devastating for the food and hospitality industry.

With these events top of mind, the purpose of this report is to understand what the future of the hospitality industry looks like in Australia, to establish a benchmark for us to understand how the sector is managing resilience and to start to chart its recovery over the coming years. We have asked questions to seek to understand how the industry views its business prospects, the challenges restaurant owners are facing and the changes they have made to survive through the pandemic. We have also sought to understand what changes will be adopted permanently in the future to track how the sector will change over time and to explore the role that government policy can play in enabling the recovery process.

Answering these questions about the future of the hospitality sector in Australia requires appreciating and understanding the unique situation the industry is in today.



Monday 23 March 2020 marked a traumatic day for Australia's hospitality sector, when all restaurants were required to close to in-dining trade.

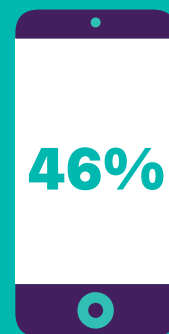


9 in 10

(91%) Australian restaurants remained open and operating during the national COVID-19 lockdowns, which included thousands of restaurants across the country that pivoted from dine-in trade to offering takeaway and delivery for the very first time.



51% of all restaurant owners surveyed started offering takeaway



46% turned to delivery platforms

This demonstrates an incredible determination to remain open and in business in the face of the potentially catastrophic closure of dine-in trade.



“Covid is going to stay... we have to find a way to keep going.”

Small, independent, open throughout COVID-19 - Queensland

Even so, many of these restaurants are facing some of the most challenging economic and trading conditions in living memory. Among all restaurants surveyed, more than two thirds (68%) told us that the reduction in dine in capacity was their biggest challenge alongside a slowing economy (68%). Looking at the restaurants that are usually either primarily or substantially reliant on dine-in trade, this rises to more than three quarters (78%).

top 5 challenges



Slowing down national/local economy
(68%)



Reduced dine-in capacity
(68%)



Less overall consumer spending
(64%)



Produce prices increasing
(60%)

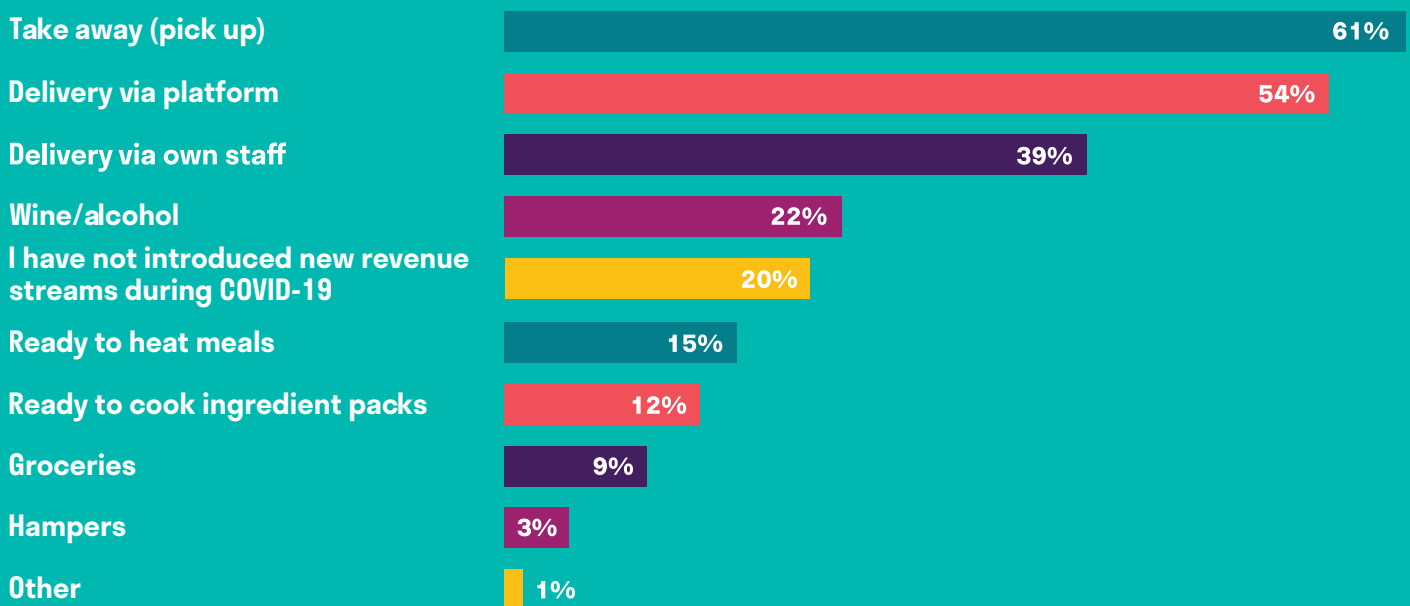


Costs associated with social distancing
(50%)

In Victoria, there was a notable increase in fears about dine in capacity after 8 July, when large parts of the State re-entered a strict lockdown, resulting in many restaurants once again being forced to close their dine in areas. Among restaurants surveyed before the second lockdown was implemented, 68% rated reduced dine in capacity as one of their biggest business challenges right now, in line with the national average. However, in restaurants surveyed after 8 July this increased to almost three quarters (73%).

To offset this, of the dine in restaurants that remained open in some capacity during the national lockdowns, most told us they introduced a range of new revenue streams to attempt to compensate for at least some of the financial impact they suffered. Sixty one percent of primarily dine in restaurants began to offer take away food for pick up, and almost a quarter (22%) began to sell alcohol for consumption off premises. Home delivery also expanded, with more than half of the primarily dine in restaurants starting to deliver meals through third-party platforms such as Deliveroo (54%), while many also utilised their own employees (39%).

new revenue streams during COVID-19 (primarily dine in only)



Other challenges include the associated reduction in consumer spending (64%), product price increases (60%) and costs associated with implementing social distancing guidelines (50%).



Smaller restaurants that employ 5 or fewer employees appear to feel particularly vulnerable.

70%

of these small businesses express fears about lower consumer spending, compared with 55% of larger businesses that employ 6 or more staff.

The larger restaurants - of six or more staff - said they were most concerned about the reduction of dine in capacity, reflecting the higher stakes with having to adjust to their new circumstances and the closure of larger sized venues to patrons.

All of this has resulted in a climate in which only 39% of the restaurants surveyed said they felt positive about their own business prospects today. With the COVID-19 situation far from over as of mid-2020, many restaurants appear to have adopted a 'wait and see' outlook, with a third (34%) feeling neutral about their business prospects today.

Most worryingly, more than a quarter (26%) of Australian restaurants feel their financial and business outlook today is bleak. The net balance score of +13 reflects the number of restaurants who are positive, minus those who are negative and sets a firm benchmark for future reporting.



39%

have a positive outlook



28%

have a negative outlook

=

+13

net balance score

part two

pivot or perish, adopting new ways of working

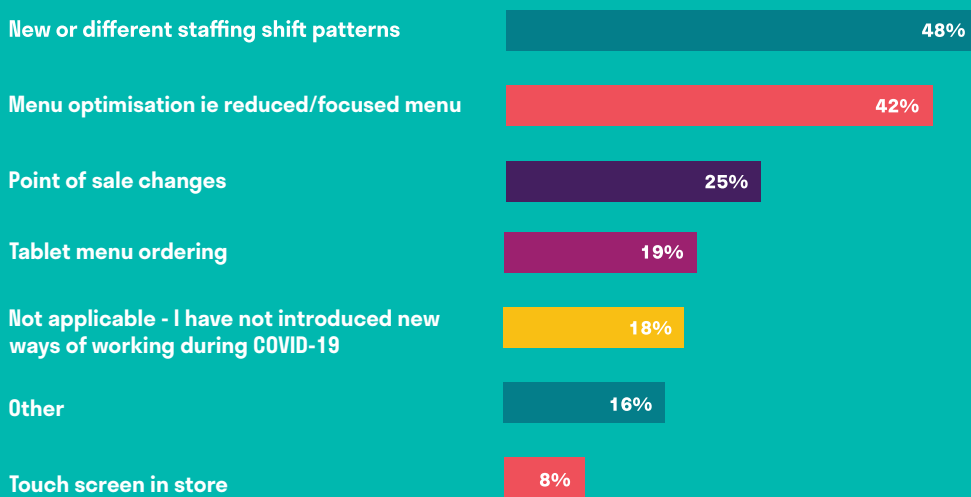
The COVID-19 pandemic has forced many restaurants across the country to adopt a range of innovative and different ways of working and making money, in response to both the immense economic pressures and heightened hygiene and safety demands now placed upon them. Exploring the ways that restaurants have sought to survive during the pandemic highlights trends that may have a long-lasting impact on the future of the restaurant industry in Australia.



More than four in five (82%) restaurant owners who stayed open during the lockdowns told us they have adopted some new ways of working; whether it be new processes, systems, or technology.

Faced with a significant reduction in business due to the sharp decline of dine in trade, just under half of restaurants (48%) instigated new or different shift patterns for their staff, while a similar number (42%) reduced or focused their menu to cut costs while still meeting the needs of customers.

new ways of working during COVID-19



The lockdowns forced many businesses to find new ways of getting food to their customers. Many restaurants surveyed established some form of delivery service during the lockdowns, either via delivery platforms (46%) such as Deliveroo or by utilising their own staff (31%). Many used both a platform and their own staff to reach their customers, underlining the importance of accessibility and home delivery throughout the national lockdowns.

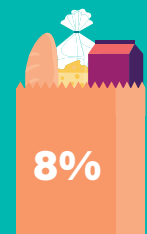
A new market emerged for



ready to heat meals



ready to cook meals



groceries



“As more customers become reliant on food delivery, our market demand has and will shift...”

Small, independent, open throughout COVID-19 - Queensland

While COVID-19 presented similar challenges to all restaurants, these challenges tended to manifest in different ways for different types and sizes of restaurant. Unsurprisingly, larger restaurants employing 11 or more staff (65%) were notably more likely to have implemented different staffing and shift patterns than those with 5 employees or less (42%).

Similarly, many restaurants that operate primarily as dine in businesses found themselves with a surplus of product, notably alcohol. As many states relaxed alcohol licensing laws during the lockdowns, many of these restaurants began to use their excess stock to generate revenue by selling to customers - who had placed food orders - for consumption off premises (22%). This was not a clear trend among restaurants that already functioned as a takeaway and delivery business before the lockdowns (3%).

Of the restaurants that introduced new ways of making money during the COVID-19 lockdowns,

9 in 10



(90%) said they would maintain some or all of these revenue streams into the future.

The most popular being:



take away meals for customer pick up

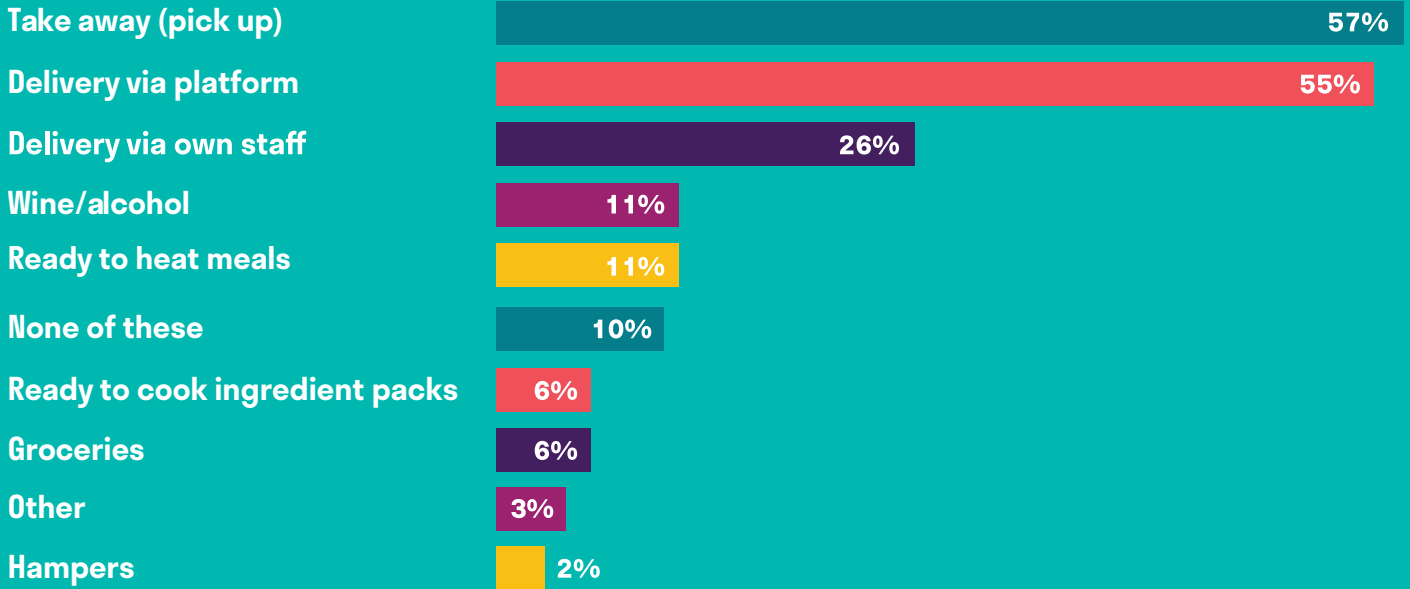
57%



home delivery through a third party delivery platform

55%

post-COVID revenue streams



part three

support for the restaurant industry during the COVID-19 pandemic

The second lockdown in Victoria has demonstrated that the COVID-19 situation will not remain static, and for the foreseeable future many restaurants across Australia may find themselves in the situation where they are unexpectedly forced to once again quickly alter business models and practices to align with the latest hygiene and safety directives.

We asked restaurants at which step within the Federal Government's *3-step Framework for a COVID-safe Australia* they felt they would be able to operate successfully and be profitable. Nearly one fifth (19%) told us this would be possible within Step 1, where premises are able to open and seat up to 10 patrons at any one time, while maintaining an average density of 4 square metres per person. Given these strict conditions, there was a clear distinction between primarily take away (30%) and dine in restaurants (11%) with regards to the expected feasibility of Step 1.



More than a quarter (27%) of the restaurants we spoke to expected to successfully operate and be profitable within the conditions of Step 2, where restaurants are able to seat up to 20 customers at a time. A similar proportion (28%) believed however that they would only be able to achieve profitability by Step 3, where up to 100 people may dine in a restaurant or café, while still maintaining the 4 square metre rule. As expected this was particularly apparent for larger businesses with six or more employees (36%) and for restaurants built primarily around dine in (38%).

3 step framework profitability



step 1 - 19%
Up to 10 patrons
seated at one time
(4 m² per person)



step 2 - 27%
Up to 20 patrons
seated at one time
(4 m² per person)



step 3 - 28%
Up to 100 patrons
seated at one time
(4 m² per person)

Only 5% of restaurants said they were fully operational and profitable throughout the COVID-19 lockdowns. Disconcertingly, **21% of all restaurant owners said they didn't know at what stage they would be able to trade profitably and be viable**, demonstrating just how vulnerable many businesses are feeling.

Challenging trading and economic conditions have made the Australian food industry – like most industries across the country – heavily reliant on a range of support measures throughout 2020. Most notably, about two thirds (65%) of the restaurants we spoke to told us they had applied for the Federal Government’s JobKeeper subsidy, announced in March 2020.

JobKeeper access



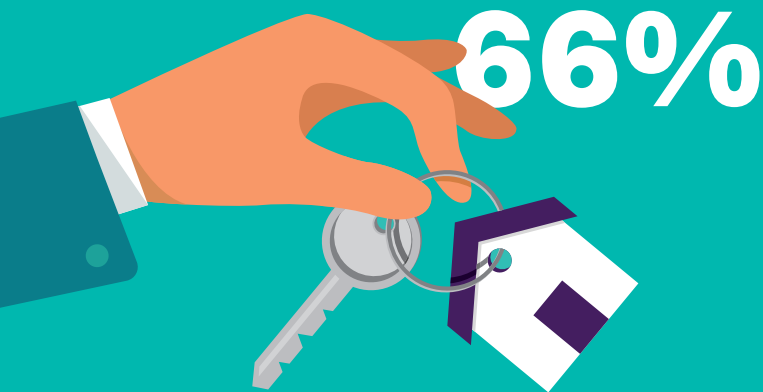
This subsidy supports eligible businesses across Australia with a payment of \$1500 per fortnight for every eligible employee, providing a vital lifeline for cash strapped businesses. Of these restaurants that applied for JobKeeper almost half (44%) told us they would not have been able to do so without this lifeline, demonstrating just how vital JobKeeper was and remains to the hospitality sector and to the entire Australian economy.



have only been able to keep trading due to JobKeeper

Nevertheless, more than three quarters (77%) of the restaurant owners we spoke to told us that since the COVID-19 lockdowns, they now employ fewer staff than they did before.

Additionally, nearly half (49%) of all restaurants surveyed applied for other forms of government grants and support, of which nearly three quarters (74%) were successful.



Beyond support provided from the various levels of government, two thirds of restaurants have sought a form of rental relief as a result of COVID-19.

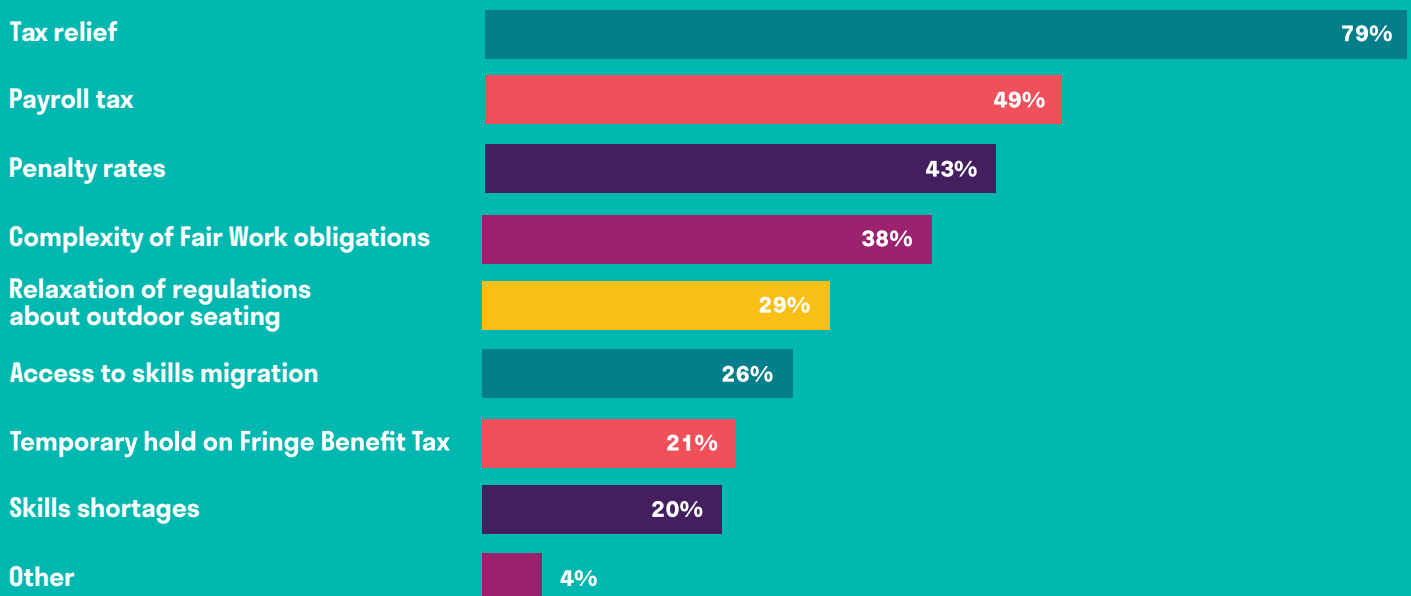
Among larger businesses with 6 or more employees, this rises to almost three quarters (74%). However, only one third of restaurants (35%) told us they had been successful in negotiating either rent relief from landlords, or in finding other forms of debt relief from creditors, reaffirming the precarious financial position many restaurants currently find themselves in.

Given how important these different levels of support have been to restaurants across the country, when considering the future of the sector in Australia, 2020 has demonstrated that having a clear and transparent understanding of the ongoing support available to struggling restaurants will be vital.

The survey findings show restaurant owners are fearful of whether they'll get through the next three months and small businesses in particular are feeling the strain, with just 30% optimistic about their business prospects in three months' time. While government intervention and action has been helpful and used extensively, the hospitality sector is clamouring for more support.

Moving forward, restaurant owners told us that the top three policy areas where they would like to see action from Australian governments were tax relief (79%), payroll tax (49%) and penalty rates (43%). Also on the priority list is reducing the complexity of Fair Work obligations (38%), and 29% of restaurant owners said relaxing the rules around outdoor seating would be extremely helpful. A quarter (26%) of respondents said improving access to skills migration was also necessary to help with their recovery plans.

government action



part four

a vision for the future

Looking ahead from the immediate future to a time post COVID-19, we asked restaurants what new ways of working and technological advancements they believe will potentially have the biggest impact on their businesses.



post-COVID technological advances



20%

improved data insights to manage marketing

18%

more advanced online booking

13%

food technology to create new menu items to meet changing consumer diet preferences

4%

other

It is unsurprising that many restaurants focused on innovations that would enhance the ordering and delivery process, potentially through delivery platforms such as Deliveroo, which would benefit both restaurants and customers. Almost half (45%) of restaurants said the greatest opportunities lay with further developments in the digital ordering and food collection process, and more than half (51%) agreed that post COVID-19, food delivery will play an even larger part of their business than before.

As restaurants return to dine in, they are seeking ways to ensure staff and customers feel safe, social distancing guidelines are maintained and patrons can still have a great experience. In-app ordering and QR code links to menus are at the forefront of this technological innovation. Victorian restaurant owners (50%) prioritised digital ordering and collection processes in store as most important, notably higher than both NSW (40%) and Queensland (39%).



“Smooth ordering and timely pickup can make or break a customer’s experience”

Large, independent, Queensland

Many businesses (20%) are also calling out for ways to gain further insights and data from their consumers in order to inform their commercial and creative decisions, and their marketing strategies.



"...I would like to understand more about my customers to message and market to drive them to the venue..."

Mid-sized, primarily dine-in, Queensland



"...Data [that] gives concrete indication of changing customer behaviour"

Large, dine-in, Victoria

Beyond technology, many respondents reflected on the changing and evolving consumer tastes and demands as both an opportunity and a challenge. Post COVID-19, 42% of restaurant owners are looking towards understanding and, where plausible, embracing the latest food trends to continue to draw in new customers.

"You need to change to attract the same and new people. Keeping the same food/menu will make people go somewhere else. People like new concepts and new ideas..."

Small, dine-in restaurant, closed during lockdown, NSW



There is no doubt that the hospitality sector is very resilient; restaurant owners are innovative and prepared to adopt new practices, and they are cautiously optimistic about the future. While business confidence today is low, and there is much still unknown about the true impact of COVID-19 on our restaurants and cafes across Australia, more than half of restaurant owners surveyed (51%) said they feel more positive about their business prospects in 12 months' time.

Confidence in their own business prospects is tempered with a view that the hospitality industry will experience tough times for many years yet. Only 39% of all restaurant owners surveyed are feeling positive about the future of the sector, versus 30% who are feeling pessimistic - a net balance, or Vitality Confidence score of +9.

How businesses are feeling about the future of the hospitality industry



As a point of positivity, the sunshine state of Queensland is feeling far more optimistic than Victoria (49% versus 31%), however it can be assumed that positivity is related to which stage of the recovery process a state is in. Should a state revert to Stage 3 lockdown, as was the case at the time of the survey, this could change the mood of optimism.

We will continue to track how restaurants are faring as they recover from the pandemic and seek to understand how they are navigating the new world over the coming years.

How businesses are feeling about their own business prospects



methodology

The data cited in this report was collected via an online survey administered by YouGov, the international research and data analytics group. The online survey was conducted between 25 June and 15 July 2020.

The online survey was distributed to 8,755 Deliveroo restaurant partners across Australia. Emails were sent to partners to invite them to take part in the survey and provided each with a unique survey link. Reminder emails were sent weekly. The final sample for the survey was 504 Deliveroo restaurant partners. Of the 504 respondents, 216 were from Victoria, 181 from New South Wales, 69 from Queensland and 38 were from other states and territories.

At the conclusion of the survey, partners were asked if they wanted to opt in to participate in a prize draw, where 8 individual respondents were selected at random to win \$1000. This draw was managed and administered solely by Deliveroo.

Of those surveyed:

88%
independent restaurants

7%
franchise restaurants

5%
chain restaurants

46%
of all restaurants are primarily a dine in restaurant, with take away and food delivery options

32%
say they are half (dine in) and half (take away/delivery)

21%
of restaurants are primarily a food takeaway and delivery with limited or no dine in

55%
of all restaurant owners surveyed have 5 staff or less

