McKinsey & Company

Retail Practice

Reimagining European restaurants for the next normal

To win in the next normal, European restaurants will need to embrace innovation in their channel strategy, menu offerings, and business model.

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Six months into the COVID-19 crisis, European restaurants are reopening amid challenging conditions such as infection waves, mandated reductions in seating capacity, and consumer safety concerns.

One thing is certain—the market will not go back to how it was before the pandemic. Already, we're seeing consumer preferences and behaviors change. Consumers are showing greater focus on value-for-money and more interest in restaurants that offer healthy food options. And while there was an increase in home-cooking during lockdown and in the desire to order food for delivery or pickup, we are now seeing fast-food sales picking up again. In Germany, for instance, where recovery has been relatively strong, 100 percent of restaurants are taking reservations for diners.[1] As these changes continue evolving, restaurant owners are rightly asking, "How do I need to change to succeed going forward?"

Our research and analysis of the European restaurant industry unveils three innovation areas that will set restaurant leaders apart as consumer and market dynamics change: channel strategy (particularly online ordering), menu optimization, and new business models.

Adapting channel strategy

The pandemic has accelerated the use of digital channels—such as online delivery, click and collect, and contactless ordering—but it has also changed eating habits and overall consumer lifestyles.

Changing consumer eating habits and lifestyles

Global lockdowns have accelerated one pre-pandemic trend: staying in is the new going out. Data from ordering player Deliveroo reveal that Friday and Saturday night orders are up 36 percent across Europe compared with pre-lockdown numbers and are likely to continue in this fashion for at least the near term. In France, orders on those same days of the week were up more than 16 percent; in the United Kingdom, they were up more than 40 percent.[2]

While working from home may negatively affect restaurant foot traffic, especially in office-heavy areas, it can also create new opportunities. During April, May, and June, delivery firms reported a 50 percent increase in breakfast orders and an 80 percent increase in lunch orders.

Growing digital ordering and delivery

Despite the existing prevalence of delivery, countries across Europe saw some consumers use delivery for the first time amid the pandemic: France saw 1 percent of consumers try restaurant delivery for the first time, Spain and the United Kingdom saw 3 percent, and Germany saw 4 percent.[3] Those same countries saw an increase in online food delivery from existing users as well; for example, Germany saw 13 percent of consumers use online delivery more often. According to McKinsey's recent consumer sentiment survey, across Europe, approximately 35 to 55 percent of existing consumers intend to continue using delivery more in the future.[4]

Given that higher delivery volumes are likely to endure, restaurants may need to reassess which delivery model to adopt. They have a range of options, including owning delivery logistics but using an existing marketplace-style platform; using an integrated marketplace-logistics provider; or owning both the delivery portal and the logistics. Moreover, delivery-only kitchens (also referred to as "cloud," "dark," or "ghost" kitchens) offer the possibility of delivering to customers without the costs of a physical restaurant. Selecting the right delivery option, however, will depend on a combination of factors, including delivery economics, speed, menu type, and the number of local customers.

Restaurants have also seen an increase in click-and-collect ordering. While some consumers are

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[1] "The state of the restaurant industry," OpenTable, updated July 22, 2020, opentable.com.
[2] Analysis of data comparing February 2020 with May 2020.
[3] "Global surveys of consumer sentiment during the coronavirus crisis," McKinsey.com.
[4] "Global surveys of consumer sentiment during the coronavirus crisis."

accustomed to preordering coffee via an app, they may not be familiar with ordering food in the same way. However, since March—when lockdown orders went into effect—preordering at restaurants has understandably taken off. In response to this trend, US restaurant reservation start-up Tock (now present in major European cities such as Berlin, London, and Paris) created Tock To Go, an app that allows consumers to preorder meals for a future time and date. This flexibility helps restaurants spread peak-hour orders and optimize fulfillment capacity while providing a safe and hygienic payment option.

Enhancing the dining-in experience

Recent McKinsey research found that during the global financial crisis of 2008, restaurants that were leaders in customer experience delivered approximately three times greater cumulative return to shareholders.[5] Our experience suggests that in the context of the current pandemic, customer experience leaders are also likely to do well, albeit they will need different features and skill sets. Indeed, restaurants are gathering data to help with planning and tracing, and to minimize staff interaction. Effective use of that data may allow restaurants to improve the dining-in experience for consumers. For instance, before a meal, restaurants can target nearby consumers by personalizing digital offers or promotions. After the meal, restaurants can engage consumers via feedback requests or with a rewards program.

Restaurants are already reconfiguring their physical spaces so their dine-in experience can accommodate mandated physical-distancing requirements for reopening and can address consumers' concerns about hygiene and safety.[6] Many restaurants have also started offering in-app ordering for table service—early indicators suggest this not only augments safety measures but also increases order sizes. Other restaurants are finding ways to improve ventilation and make dining more private, such as by installing plexiglass or other kinds of separation between tables. A recent OpenTable survey indicated that 77 percent of UK consumers believe that these measures are important in helping them feel safe when dining in.[7]

Optimizing menu offerings

As restaurants navigate reopening, some may need to optimize their menus to respond to current consumer preferences toward health and sustainability and their increased focus on value for money. According to a recent McKinsey survey, 25 percent of consumers say they have made changes to their diet over the past three years to align with their priorities around wellness and sustainability. The food industry is taking the hint: in 2019, nearly one in four new food-product launches in the United Kingdom were for a vegan product.[8]

Food trends

One of the most consistent long-term food trends has been the increased visibility and consumer demand for sustainable and perceived-healthier food. Restaurants are continuing to react and better meet consumer expectations in this area. For example, in January 2020, UK-based restaurant chain Pho was already introducing all-vegan menus based around THIS, a plant-based meat substitute product.[9] Restaurant players that get ahead of these trends will likely widen their appeal—though they should also strike a balance between offering more choice and managing costs and complexity.

In addition, Deliveroo has seen an increase in orders for treats (desserts), especially items that are more difficult to replicate at home. How much of this trend will continue once Europe enters the next normal—and consumers have less time to cook their own meals at home—remains to be seen.

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5 *Customer Experience Performance Index*, Forrester, November 2007, December 2008, January 2010, forrester.com; Rachel Diebner, Elizabeth Silliman, Kelly Ungerman, and Maxence Vancauwenberghe, "Adapting customer experience in the time of coronavirus," April 2, 2020, McKinsey.com.
6 Stacey Haas, Eric Kuehl, John R. Moran, and Kumar Venkataraman, "How restaurants can thrive in the next normal," May 19, 2020, McKinsey.com.
7 OpenTable Blog, "New OpenTable feature spotlights safety precautions at restaurants," June 10, 2020, blog.opentable.com.
8 "Plant-based push: UK sales of meat-free foods shoot up 40% between 2014-19," Mintel, January 17, 2020, mintel.com.
9 Laura Nightingale, "Pho Guildford adds meat-free substitute to vegan menu that looks, feels and tastes just like chicken," *SurreyLive,* January 19, 2020, getsurrey.co.uk.

Regardless of how consumer trends evolve, it is critical that restaurants take the time to understand their customers and invest in meeting their needs, whether via a delivery or dine-in environment. Delivery players also have a vital part to play in this landscape as they have oversight on how the market is changing. As online delivery players continue to aggregate data on consumer food preferences, sharing this data with restaurant partners could help support a two-sided marketplace model.

Made for delivery

In addition to meeting growing demand for online delivery or pickup, restaurant owners will need to consider creating products that travel well and developing packaging that preserves their quality. For instance, restaurants may need to aerate French fries and pack liquids into properly sealable containers to ensure the food can be transported well.

More than 30 percent of negative consumer comments received by Deliveroo in 2019 featured a negative sentiment toward order accuracy, and 23 percent mentioned food temperature. Restaurants need to ensure that they can fulfill orders accurately and keep them fresh to avoid damaging brand equity (which for dine-in can be resolved). Making menus delivery friendly may be a no-regret move—in line with adjusting to meet consumer preferences.

Value for money

As the economic consequences of the pandemic take hold, there is increasing evidence that consumers are becoming more focused on getting value for their money as discretionary income decreases. McKinsey's recent UK customer sentiment survey shows that 37 percent of respondents agreed or strongly agreed that they are holding off on making planned purchases due to their current economic situation, while 35 percent of respondents said they expected spending on food takeout and delivery to decrease over the next two weeks.[10] While this is an

exceptional consequence of the current recessionary macroeconomic conditions, it is likely that consumers' cost consciousness will persist. Consider that 76 percent of Spanish households and 55 percent of German households expect a substantial impact on their finances beyond August and September 2020.[11]

To reach beyond their existing customer base, restaurant players (and delivery partners) could consider collaborative ways to provide value to the consumer, as well as to identify potential joint promotion strategies to secure new shopper loyalty. Delivery players are providing promotion tools that enable restaurant partners to offer discounts to consumers on specific days or for select menu items. Furthermore, borrowing the move from luxury fashion brands, high-end and Michelin-star chefs are now making lower-price menu options available through apps and websites.

Exploring meal kits

Cooking at home has increased as a result of lockdowns, and a significant share of consumers—ranging from more than 12 percent in France, to more than 24 percent in Germany, to more than 34 percent in the United Kingdom—intend to continue doing so after the pandemic subsides.[12]

Restaurant players could tap into this trend by offering their own meal kits to confident home cooks, perhaps helping them experiment with special ingredients or cuisines. Companies such as Berlin-based HelloFresh show the potential for growth; its 2019 sales increased more than 40 percent to €1.8 billion, and its share price more than doubled since the start of 2020. UK-based Gousto had to stop accepting new customers for a time to fulfill the sharp increase in demand from existing customers; currently it is delivering four million meals to 380,000 households across the United Kingdom monthly.[13] Many restaurants have been offering their own versions of meals kits; for example, one London restaurant chain offered

[10] "Survey: UK consumer sentiment during the coronavirus crisis," June 26, 2020, McKinsey.com.
[11] "Global surveys of consumer sentiment during the coronavirus crisis."
[12] "Global surveys of consumer sentiment during the coronavirus crisis."
[13] Ingrid Lunden, "Gousto, a UK meal-kit service, raises another $41M as business booms under lockdown," TechCrunch, April 16, 2020, techcrunch.com.

nationwide delivery of DIY kits for its signature burgers. While meal kits have been more of a niche proposition historically—even in the more mature UK market, only 7 percent of diners under the age of 35 use meal kits—the high growth in recent months (and the investment flowing into meal kit companies) points to the clear potential.

Reinventing the business model

The pandemic has accelerated disruption across the food value chain from grocery retailers partnering with delivery platforms to restaurants and cafés partnering with grocery retailers to stock meal kits, bags of coffee, and other items. Furthermore, many foodservice wholesalers are strengthening their logistics capacity to launch direct-to-consumer services. In addition to optimizing go-to-market and menu offerings, restaurants will need to react quickly to adapt their operating model to the new environment.

Dine-in footprint

For many restaurants, the foundation of growth in the next normal may lie in streamlining operations. In recent months, many high-profile players have already announced closures of physical locations. Alternatively, many restaurants could review their rental agreements and even consider relocating to more residential neighborhoods versus staying in locations close to workplaces. Google mobility data from late June show workplace foot traffic down 20 to 35 percent across France, Germany, and Spain compared with January; residential mobility, however, is up 5 to 7 percent over the same period.[14]

Fewer numbers of dine-in customers may also enable restaurants to reconfigure their space (by creating a drive-thru or delivery lanes) in ways that are less labor intensive. Costa Express's self-serve coffee bars, for instance, illustrate how a contactless and automated service can retain some of the experience of a barista-brewed cup of coffee.

Delivery-only model

A large influx of venture-capital investment into funding "dark" or delivery-only kitchens (that is, a shared workspace-style solution to kitchens) is rapidly boosting their growth and offering a radically different operating model for restaurants to consider. In 2019, for instance, US-based CloudKitchens recently raised $400 million, and in 2020, Portugal-based start-up Kitch secured investment in delivery-only kitchens.[15] Deliveroo has vertically integrated and expanded its virtual restaurants (Deliveroo Editions) to 925 locations across Europe. While business models vary from monthly subscriptions to commission, food-service players that use virtual kitchens typically benefit from reduced staff costs by as much as 75 to 80 percent as a result of not having table service, using shared dishwashing, integrating with various delivery platforms, and benefitting from faster delivery (therefore increasing freshness).

Dark kitchens also provide underutilized restaurants and chefs a cost-effective way to scale and experiment with new cuisines. And virtual restaurant start-ups in Europe have the potential to be 100 percent delivery and serve multiple cuisines from the same location. One prominent example is Paris-based start-up Taster, founded in 2017, with operations in London, Madrid, and Paris. The company rents space from dark-kitchen providers—such as London-based Karma Kitchens—enabling it to produce a wide variety of cuisines across six distinct brands.

Meanwhile, delivery can be managed using third-party platforms, as in the case of Taster. With advanced preparation and algorithm-based sales forecasts, Taster claims it can turn around orders in as little as three minutes compared with 15 minutes at a traditional restaurant. Berlin-based start-up Keatz has followed a similar path to Taster by offering multiple cuisine types, such as Mexican and Korean.

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[14] Community Mobility Reports, Google, updated July 21, 2020, google.com.
[15] Alicia Kelso, "Former Uber CEO's CloudKitchens got $400M in funding from Saudis," *Restaurant Dive*, November 8, 2019, restaurantdive.com; Charlotte Tucker, "Lisbon-based Kitch seals €1 million to build delivery-first virtual kitchens," EU-Startups.com, May 20, 2020, eu-startups.com.

Over the past two years, it has raised $20 million in funding and has so far expanded across Germany, the Netherlands, and Spain. However, Keatz operates its own dark kitchens and is investing in robots to automate its operations.

Innovate partnerships

Before the pandemic, M&A and partnerships in the food-service space were largely focused on achieving economies of scale or expanding a customer base. Now, however, restaurants are pursuing innovative partnerships more broadly, including partnering with delivery platforms or even car rental companies for delivery, joining with multiple food brands in sharing one or more dark kitchens and partnering with grocery retailers (such as for meal kits). As a result, restaurants can offer different cuisines to customers via local delivery, thus reducing delivery time and costs—critical benefits as restaurants experience economic pressure due to shutdowns.

The B2B food delivery space is also experiencing significant M&A and consolidation activity as many corporate catering companies scale back their catering operations amid office closures. In response, large corporate catering or wellness companies are acquiring organizations that have technology and capabilities that allow them to be flexible, providing food to customers at home while also meeting consumer trends. For instance, food-service company Compass' acquisition of Feedr in March 2020 means Compass can now benefit from Feedr's mobile ordering and pre-pay technology, providing corporate consumers safe and flexible payment options. And Sodexo's strategic acquisition of FoodChéri in January 2018 gave Sodexo access to FoodChéri's virtual restaurant (that is, a restaurant with a menu but without a dining space). Further, FoodChéri can provide food options in line with emerging consumer trends (such as healthy, environmentally conscious food), and in return Sodexo can help FoodChéri expand its customer market.

The increasingly critical role of digital channels and consumer data are likely to result in increased convergence between B2B and B2C dining thereby increasing competition between previously very different food players while increasing the potential for broader partnerships.

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As Europe settles into the next normal, its restaurant industry will continue to face several challenges and significant financial stress. However, the players that will emerge stronger are the ones that make bold and decisive moves to innovate their channel strategy, menu offerings, and business model to build resilience in the long term.