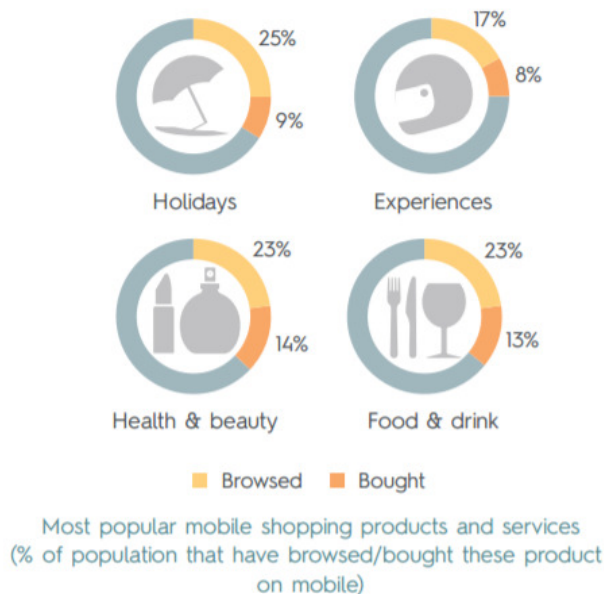**Langton**
Capital Limited

9 May 2017

APPS & LICENSED HOSPITALITY:
Big & Getting Bigger

Having a great App isn't a matter of Life & Death for hospitality operators suggests NRN in the US; 'but it nearly is…'

Apps & Licensed Hospitality:

Introduction:

Apps are important and will only become more so. As the graphic below shows, usage is picking up and we expect this trend to continue. Browsers will become buyers and consumers completely new to Apps will enter the market.

Most popular mobile shopping products and services (% of population that have browsed/bought these product on mobile)

They come in several shapes & sizes. They basically allow for or furnish one or more of the following:

- Information (simple facts through to product critiques)

- Delivery (think couch potato gets hungry)

- Collection (basically click-and-collect)

- Table ordering (above but from the venue to eat in)

- Payment (pretty self-explanatory, avoid queues etc.)

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Langton has been working in this area for some time. We'd love to hear from you. Whether it's a need, a comment or a solution, we'd like to be in touch.

The US is ahead of us. US journal NRN says the App phenomenon is *'arguably…one of the biggest, overall shifts in the way the industry interacts with consumers since the invention of fast food.'*
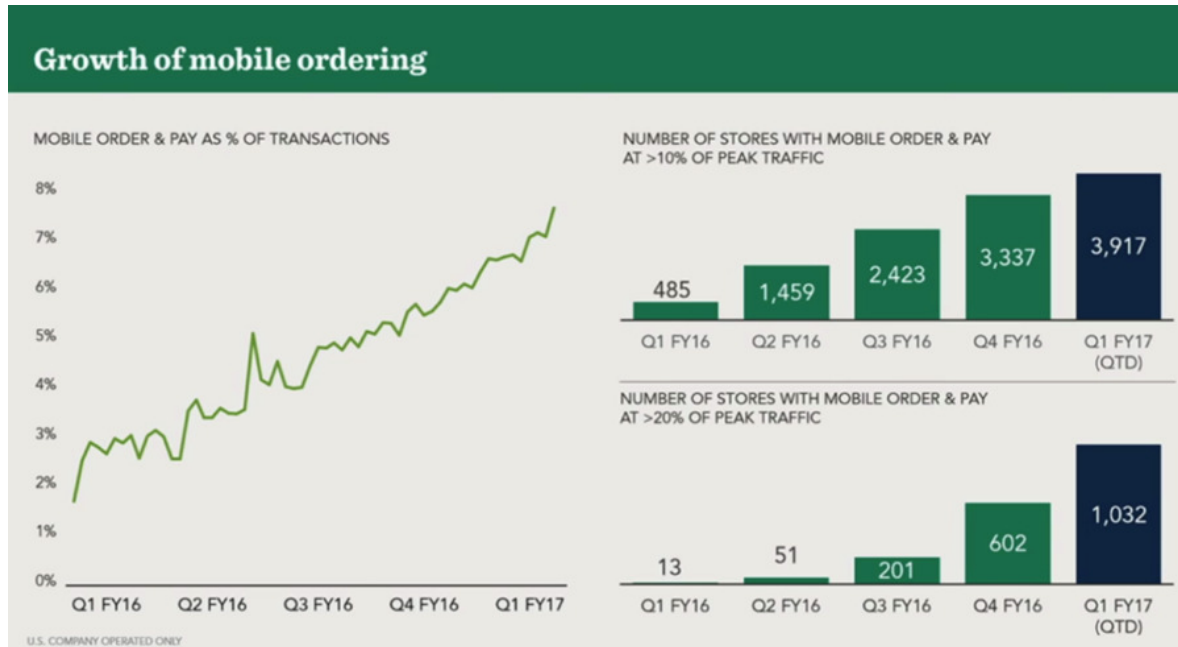
The graphic above shows that the use of Apps in the US has mushroomed over the last couple of years & we expect this growth to continue.

Starbucks, for example, introduced its mobile ordering & payment App in 2015 and has struggled to deal with its success. Business Insider reports 'the crowds of customers waiting for their lattes and Frappuccinos have even started to discourage walk-in customers from entering stores.'

But extreme success should hardly be seen as discouraging.

Baristas may resent being pulled away from a physical queue to fulfil a virtual order but the trend towards mobile would appear to be firmly in place and Starbucks is said to be tweaking store layouts to free up space for pickups.

Starbucks is also reported to be considering adding App-only baristas at busy times and it may remove for-sale mugs and other incidentals to in order to sell more coffee.

In March 2017, the coffee giant announced that mobile ordered (click-and-collect) sales for its Q2 (to end-March) were up to 8% of transactions with mobile payments in total comprising 29% of US sales. The group is reported to be trialling a mobile-only site in its home city of Seattle.

First steps in the UK:

The UK is the leading country in Europe in terms of tech investment. Apps are being developed to cater for mobile ordering-and-click and collect is to be extended to hospitality & leisure.

JDW is first mover in pubs, Costa hopes to be operational this month.

JD Wetherspoon has recently introduced an App that allows customers to order and pay online. This has recently been selflessly road-tested by Langton in York (twice), in London (twice) and in Leeds and our findings, with specific references to the two experiences in York in mid-April, are set out below.

Road-testing a functioning App:

York has two JDW pubs. You know who you are. The parties were for four people (soft drinks & hot meals, total £34.94 over a lunchtime) and for six people (similarly cold drinks & hot meals, total £57.78 in the early evening).
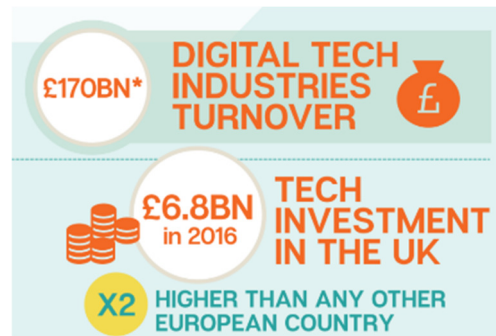
- Downloading the App: Very easy. Even for me.

- Finding the venue: These Apps are intended, we believe, mostly to be used from table. Not least because you must input your table number and you won't know that until you find it the site & your seat.

    o However, should you wish to know where the nearest JDW is and peruse the menu, the App would work very well.

- Finding the meals on the App: OK but the meals are under heading types. There's a bit of scrolling around involved if you want to order salads, a grill, a burger and a pub classic. It's not a big problem.

- Paying: This is ahead of delivery. Not a problem. There shouldn't be any no-shows.

    o Inputting card details was straightforward. One niggle is that the pub takes AMEX but only has a 3-digit security code (OK for Visa & Mastercard but the AMEX code is 4-digit)

    o It does lack something along the lines of an idiot-proof 'you have now paid' feedback. Langton tried to pay twice on both occasions in York. It would have carried on hitting the 'pay' button but for the arrival of the drinks. That kind of proved that payment had gone through. Despite our best efforts to pay multiple times, we were only charged once.

- The delivery: Exceptionally quick. Drinks arrived after two minutes on both occasions. Food arrived after 10 minutes in the first York venue and after 12 minutes at the second (the second was the larger order).

- Food quality: Good.

- Staff interaction: Counter-intuitive that the more pleasant & knowledgeable staff tend to be those at the JDWs of this world, where they don't have tips built into the system. And we don't mean to imply that they are trawling for gratuities. The places where 12.5% is automatically added onto the bill sometimes feature waiters & waitresses who seem to consider themselves to be too good to be working in the venue that's employing them. For some reason in my notes here I have reference to a 'dozy strumpet' encountered at another venue. Unnamed.

- Staff feedback: Langton took the opportunity to grill the staff.

    o Are many people using the App? Yes, more and more.

    o Any drawbacks? Not really. Locals queueing at the bar see staff pour drinks and walk them to table. They get a bit annoyed.

- o Langton comment: It does speed things up. Table turn must be improved. This will only be an issue in busy pubs, of course, but at both venues visited our table was re-seated before we were halfway to the door.

- Overall: Worked well, speeded things up. No bad debts, no fumbling for change or cards, no manning the tills, no queueing to pay; what's not to like.

  - o JDW has beaten the crowd to market.

  - o Starbucks (not the same industry, more grab-and-go) also has an App.

  - o Costa wants one by May.

  - o But there won't be room on the average phone for 200+ Apps, we'll need a couple of consolidators. Think Booking.com or TripAdvisor for the F&B sector.

Apps: they didn't used to exist. but they do now...

Customers, observers, analysts etc. seem to agree that Apps are big & getting bigger. They are here to stay. They are (at least they will become) a necessity rather than a luxury:

- NRN in the US reports it's not much of a stretch to suggest that 'having an effective digital strategy is a matter of life or death for restaurant chains in 2017.'

- In the US, Panera Bread reports that 26% of sales are via digital orders. Heavier digital stores are growing sales more rapidly than those with a lighter exposure

- Chipotle says digital sales are up 53.5% Q1 on Q1 last year

- Starbucks has said it has so many digital orders flooding in that it struggles to deal with them at busy times

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- McDonald's is to expand mobile order and payment to all 14,000 of its U.S. locations by the end of this year. CEO Steve Easterbrook said Apps could generate sales for years & be more important that the introduction of a new product.

- Domino's in the US has seen digital sales increase by 30% over 3yrs.

- NRN says that Apps boost take out spending. Whether they are unearthing eaters who would otherwise have gone hungry or are changing the business of existing customers is unclear. It may be a bit of both. Analysts NPD say that Apps are boosting casual dining spend. NRN says 'even at casual-dining chains, takeout is an increasingly important element. It's the only traffic in that business that's growing.'
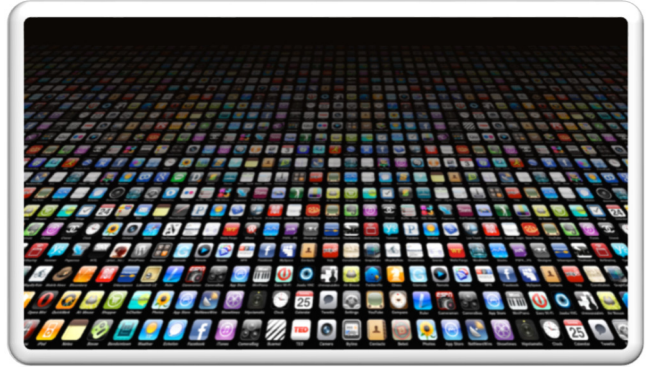
Aggregators matter.

The big boys (think McDonald's, Starbucks, Costa, JD Wetherspoon and a handful of others) can maybe go it alone; but how many Apps do customers really want to have cluttering up their phones?

NRN reports that most individual restaurants 'simply don't get enough habitual business to warrant valuable space on consumers' mobile phones.' A single App for multiple operators (as mentioned above, think hotels.com, TripAdvisor etc.) makes sense.

Too much of a good thing? There will be a role for aggregators

- Travel (larger ticket spend) may be ahead of the game.

- But even here, TripAdvisor, Booking.com and Hotels.com have abrogated the need for would-be customers to have individual Apps for Hilton, Marriott, Holiday Inn, Starwood, Hyatt, Mandarin Oriental, Sofitel, Best Western and all the rest.

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