Source: *The Straits Times*, pB9
Date: 3 February 2021

A brighter year beckons for the F&B industry

Growing acceptance of food delivery and tech, spending on dining instead of travel, and a focus on hawker culture could make 2021 better

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For The Straits Times

To say that 2020 was challenging for the food and beverage (F&B) sector is an understatement, with sales dropping by over 50 per cent during the circuit breaker period from April 7 to June 1.

The combination of closed borders and the ban on dine-in business was extremely difficult for industry players.

But the sector is poised for a strong 2021. Four trends will affect the rebound.

1. The growth of delivery

While it is true that online sales increased dramatically during the circuit breaker, even before that, they had shown year-on-year growth of 40 per cent to 45 per cent, according to official statistics.

This growth more than doubled during the circuit breaker and expanded by around 50 per cent between August and November last year.

While non-online sales increased by about 10 per cent in January last year, they steadily fell during the circuit breaker – not surprising, given the lack of tourists and the ban on dining – but were still down by about 40 per cent until last October.

In two of the consumer studies I did on restaurant delivery in Singapore, over half of respondents had ordered food delivery at least once a week before the circuit breaker.

That increased to more than 65 per cent after the circuit breaker.

The biggest challenge with delivery for restaurants is the associated cost. The typical 20 per cent to 30 per cent delivery commission erodes their already slim profit margins.

Restaurant operators have several options to address this issue: increase prices for delivery items; charge a delivery fee; reduce their cost; or take control over their own distribution.

In both studies that I conducted, Singaporean consumers were accepting of higher menu prices for delivery and reasonable delivery fees. While this is promising for the restaurant industry, higher menu prices and delivery fees by themselves are not sufficient for addressing the shortfall in profit caused by the delivery commission.

Dine-in F&B business is still down by 23 per cent to 24 per cent compared with 2019, but this is not surprising, considering the lack of tourists and the safe-distancing requirements. But restaurant reservation platform Chope noted that bookings last December were 41 per cent higher than in December 2019.

Another promising trend that has emerged is the growth of cloud kitchens.

Cloud kitchens can take many forms. They include proprietary ones such as Kitch! by Les Amis, and SaladStop!; those operated by delivery service providers such as GrabKitchen and Deliveroo Editions; and larger operators such as Smart City Kitchens and TiffinLabs.

Cloud kitchens can help restaurants reduce their costs, streamline their production and, in the case of virtual brands, open new markets. While restaurants would still be subject to the 20 per cent to 30 per cent delivery commission, the impact of cloud kitchens on their cost structure can help increase profitability.

2. Strengthening of hawker culture

The recent Unesco recognition of the importance of hawker culture here ensures that Singapore will continue to protect and support it.

But hawker centres face a number of challenges, including ageing operators and barriers to profitability.

The Government has undertaken various initiatives to enhance hawker culture, including mentoring, digital ambassadors, productivity investments and incentives to adopt labour-saving technologies.

The SG HawkerFest, held last December and last month, highlighted the culture and gave Singaporeans a chance to show their appreciation for hawkers and hawker centres.

And the Hawkers Succession Scheme helps hawkers develop succession plans and pass their expertise on to young hawkers, while digitalisation initiatives help them streamline their businesses and increase convenience for customers.

3. Strong domestic demand

As people cannot travel, owing to Covid-19 restrictions, many residents have additional disposable income to spend. Some are using it for staycations, while others go out for dinner more frequently.

Given that typically, about 25 per cent of F&B revenue comes from visitors, border restrictions have essentially eliminated 25 per cent of possible revenue.

But things started looking up in the past few months of last year.

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But restaurant reservation platform Chope noted that bookings last December were 41 per cent higher than in December 2019.

While not all restaurants – particularly those in the Central Business District – have seen an uptick in demand, even those that do not take reservations report a very strong showing for last December.

I expect that restaurants will continue to experience very strong local demand.

4. Increased adoption of technology

Covid-19 has accelerated the adoption and acceptance of technology in many industries, including the F&B industry.

The combination of the labour shortage associated with border restrictions, the consumer desire for a more contactless experience, growing customer acceptance of technology and strong government support have all contributed to this trend.

Whether it be the digitalisation of hawker centres, improved kitchen technology, QR code menus or delivery enhancements, both restaurateurs and consumers have begun to embrace technology.

This trend had already begun before the pandemic, but Covid-19 accelerated the pace of adoption – which is likely to continue growing this year. I am confident that 2021 will be a much brighter year for Singapore's F&B industry.

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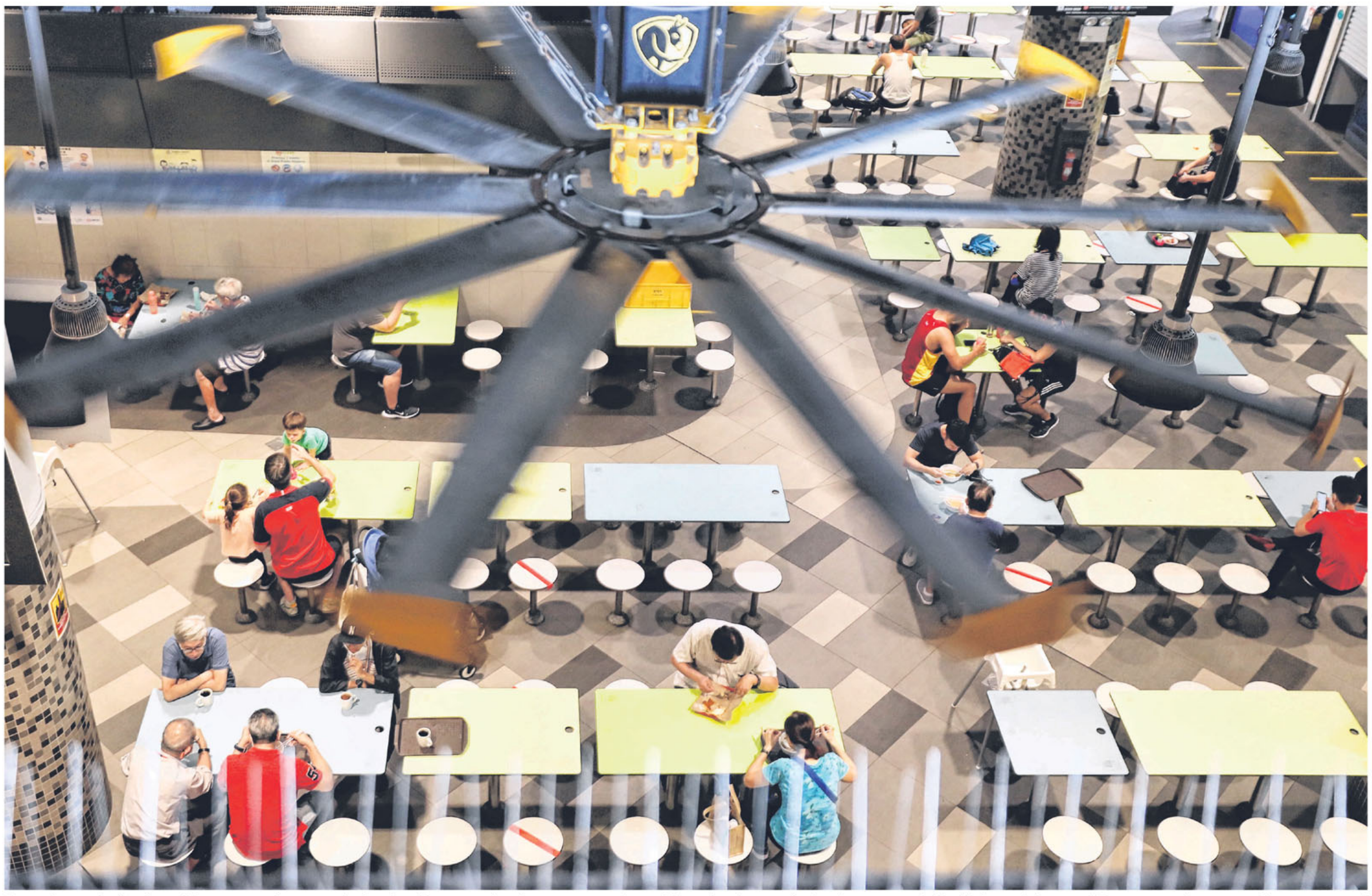

Given that typically, about 25 per cent of revenue for food and beverage businesses comes from visitors, border restrictions have essentially eliminated that possible revenue. But as people cannot travel owing to Covid-19 restrictions, many residents here have additional disposable income to spend, and some are using it by going out for dinner more frequently, says the writer. ST PHOTO: JOEL CHAN