

Case Study: A fast-food business fighting to survive Covid-19

Amaka Metu,

University of Sheffield International College.

<https://www.linkedin.com/in/amaka-metu-ab2748a1/>

Introduction

In January 2020, BBC announced the first two cases of Covid in the country. Pano Christou, the chief executive officer of Pret A Manger, sat in his London headquarters office, considering a proposal on his desk, should Pret offer a £20 flat fee on coffee subscription. Out there, the Covid-19 case was getting more extensive than we expected; Christou had accepted it. Boris Johnson, the British Prime Minister, announced the first lockdown measures on the 23rd March 2020. People started distancing from one another, and no one was sure where and when they could be stricken. More than 13,500 staff worldwide were self-isolated at home. Urban professionals started working from home, and the fast-food business had shut down. Christou was at the forefront of the effort to save a billion-pound fast-casual chain restaurant, Pret A Manger. Nobody could guess that a pandemic that started in Wuhan city in China would snowball to strike the rest of the world. Everyone had been rattled by the rate of spread of the pandemic- Covid -19. Christou needed to act fast to save the business.

Company Background

Jeffrey Hyman founded Pret A Manger and opened its first store in London in 1983 but lasted for 18 months. The company was bought over by two friends Julian Metcalfe and Sinclair Beecham, in 1986 and had since been a thriving business. Clive Schlee came back to the UK after 17 years in Hong Kong and wanted to settle down. He met Metcalfe in 1997, who offered him the position of CEO of the company. Earlier in 2008, Bridge End PLC¹ and Goldman Sachs bought €500 million stakes in the company. Schlee had held the position until 2019 and was succeeded by Christou. Christou, 42, an average height British male with well-groomed dark hair, came from a modest background and was brought up by his parents, whose families originally came from Cyprus and Naples. He studied business and finance at Kingston University and attended a program in advanced leadership at Harvard before he became the CEO. He started working for Pret for 19 years as an assistant manager and other positions before being made the chief operating officer. He had prided himself as an enthusiastic leader who could change the company.

Products and services

Pret bubbled as friends and professionals flocked to have decent fast-casual meals. Freshly made sandwiches were served in all stores. They maintained their kitchens in the stores to make the sandwiches closer to being done to their customers. Assorted sandwiches

¹ Bridge End Plc is an investment company based in London

differentiated by different vegetable fillers, chicken and fish, were also served. Besides, they served 100% organic coffee, teas, milk and milk alternatives. Organic foods had been linked to well-being. More people embraced it because studies showed it added a positive dimension to their physical, intellectual and emotional well-being. Also, there was a perception that the positive effects increased organic foods prices in the market. Various customer demands became important in differentiating prepared lunch such as restaurant going professional, fast-food customers, and the brown bag set. The brown bag set was served to customers who had decided that spending a few minutes in the store for their information-sharing sessions, which took place over a 60-minute lunch, was worth it. Pret understood that their products were highly perishable, so they maintained zero to landfill policy.² Also, Pret had earlier on sign up for the Public health responsibility deal in 2011³A follow up on the government white paper on health policy.

Fast-casual food industry (see also exhibit 1 and 2)

Pret A Manger fell within the fast-casual restaurant's sector. They offered consumers freshly prepared, higher-quality food in an informal setting, with counter service, which kept things speedy. Pret had positioned itself as a food retailer that sold coffee and sandwiches. Other offerings included salad, soup, sushi, desserts and fruits. This approach had attracted many customers to them. The fast-casual restaurant industry had evolved and known for its responsiveness to innovative change. Prominent players in the sector included McDonald's, Subway, and KFC. However, as a fast-growing sector, Brexit and the pandemic impacted the industry and had slowed it down. At Pret, 65% of staff came from the European Union, Andrea Wareham, Chief People Officer (CPO), told BBC. The study by Deloitte in 2017 showed that the industry was affected by many factors, which included a desire for healthier eating, informal and experiential dining experiences, and increased consumer focus on food provenance and sustainability (see exhibit 1). Although, in the UK, the Brexit deal, which lingered for more than two years, had affected the industry

Additionally, the pandemic situation had reduced UK consumer confidence to its lowest. The Financial Times (FT) reported that due to lockdown, consumers were particularly pessimistic about the financial situation reflecting high uncertainty over jobs and business survival, which meant weakening spending. However, the use of digital technology had increasingly affected the restaurant's operations. Ordering using the mobile phone had been made accessible through apps, self-service kiosks and contactless payment options. Social media such as Facebook integrated with ChowNow and Netwaiter companies to facilitate such payments through its platforms where businesses on Facebook had their customer place their fast food order. Android pay and Apple pay had played a similar role. Many people relied heavily on it when the government announced the first lockdown to book their food and had it delivered at their doorsteps. The sector had also responded quickly for the chains to survive.

² Zero to landfill policy meant that no trash was sent to landfill.

³ The public health responsibility deal requires organisations to commit to improving public health by protecting the population from serious health threats.

Culture

Wareham (CPO), who joined the company from Arthur Anderson consultancy firm, recalled in an HR magazine interview in 2015, 'We needed to put in place guidelines, processes and people standards. We had the most amazing culture but needed to structure it as we grew'. She recruited for behaviours and had accepted that it might not work in various regions outside the country. Pret's culture was one where putting in the right word as you serve customers matter. Simple words like 'have a nice day' and wearing a smile all day can truly make a customer's day. Other unwritten cultures included things they resented, such as employees thoughts of working for money only. They wanted their staff to be that jolly good fellow at all times, creating a sense of humour and fun while serving customers. 'The first thing I look at is whether the staff are touching each other' Clive Schlee, former chief executive of Pret, told the Telegraph in March 2019. 'they needed to be smiling, reacting to each other, happy, engaged' However, Schlee's sense of culture 'touching each other' was dangerous for Pret due to the rapid rate of Covid infection, if this was continued.

There was a strong sense among staff that they were not selling their product only, but the sale was underpinned by human feeling and body language. Mystery shoppers⁴ They drove this practice further when they visited the shops, and where they ended within positive reports, the entire staff got a bonus for the week. Workers who went the 'extra mile' got a further £50 in cash and shared it with their colleagues.

Accidental deaths

In July 2016, 15-year-old Natasha Ednan-Laperouse died after eating a Pret A Manger baguette containing sesame seeds, to which she was severely allergic. The item did not have any allergen advice on its wrapper. At the time, there were no legal requirements to have whole ingredients labelling on products. The second fatality involved Celia Marsh, 42, who died on 27th December 2017 after eating a vegetable flatbread containing a yoghurt that was supposed to be free of any dairy products but was contaminated with dairy. UK government became concerned about the activities of the fast-casual food industry. There were investigations and court cases, and in 2019, Natasha's law was passed requiring full ingredient labelling on all prepacked foods. Pret had made some changes and started full ingredient labelling on all freshly made products so that customers were aware before purchasing any of their products. The incidents garnered public attention and were not to be forgotten easily.

The pandemic strikes

In March 2020, the UK government accepted that the pandemic had gripped the country. Although around the world, pharmaceutical companies, in collaboration with researchers, were actively researching a cure. Notable among these companies include AstraZeneca,

⁴ Mystery shoppers were paid consumers hired to shop in stores and collect data.

Pfizer, BioNTech and Moderna. There were ripple effects in the industry. 'I have been part of Pret for 20 years, and it has been a great growth story, then within a week and a half, it kind of goes like this, I think we need to take risks', Christou said, making a dramatic downward movement with his hand in an interview with Harry Wallop, Guardian news. Uncertainty filled the air; during the pandemic, person-to-person interaction had been limited, especially in larger cities with denser populations. As a result, many people who could do so opted to escape the cities for more remote locations to work virtually. However, Christou was keen on making sure that if people were not going to Pret, then Pret could come to them. 'If we sit and wait for things to change, that is a bigger risk than going out there and being bold', he said.

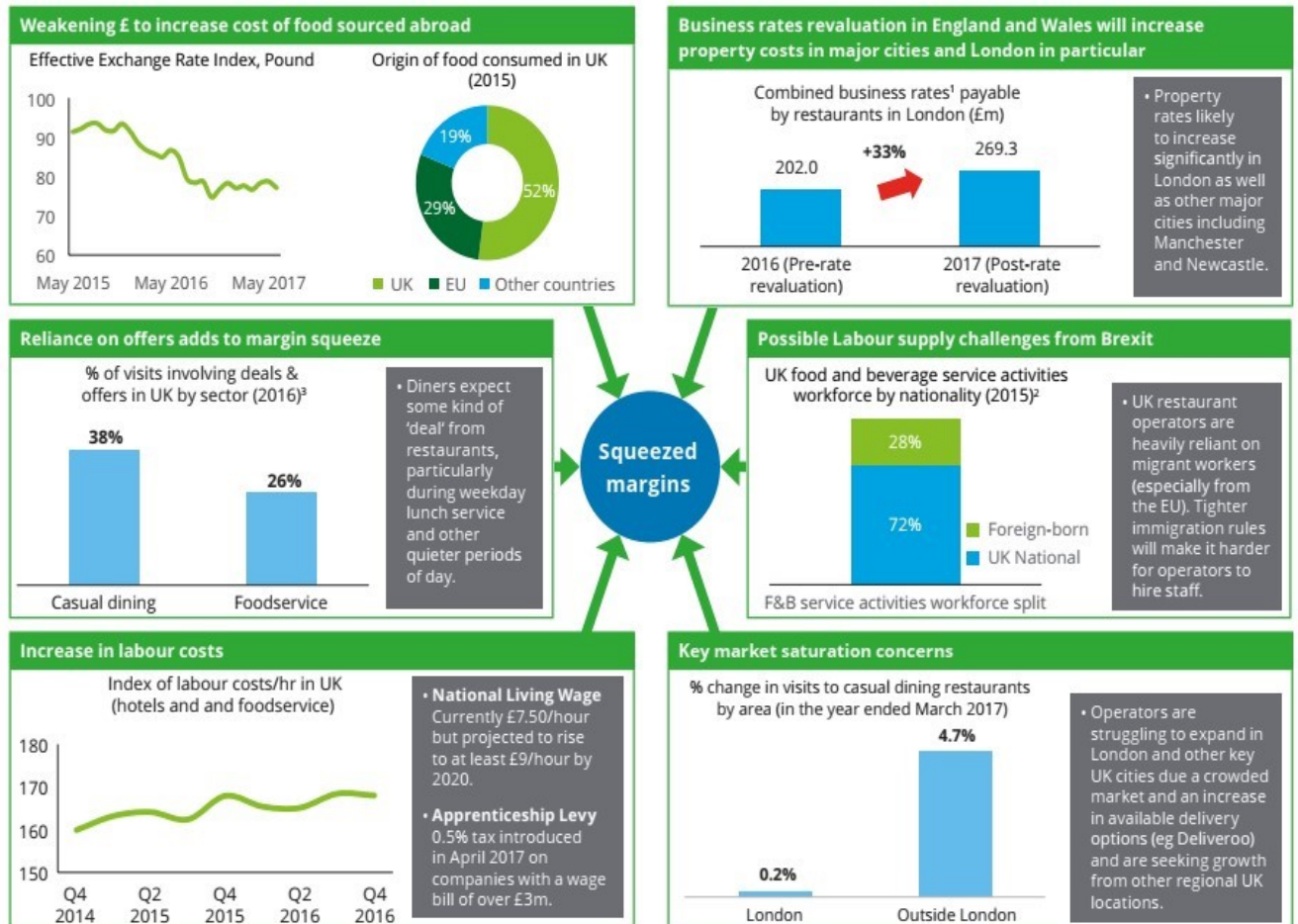
In May 2020, Pret opened blended coffee sales on the Amazon platform. Three of their popular blends such as classic blend, espresso beans, and Peruvian ground coffee. On 27th August 2020, Pret announced in the FT; it laid off 2,890 staff, nearly a third of its UK workforce and more than its original plan for 1,000 redundancies. It also said that 28 London stores were expected to close. 'We have not done a great job in marketing Pret outside of London,' Christou said in an interview with the FT. However, Briony Raven, female, Pret's UK food and the coffee manager, noted that Pret had launched a £20 monthly subscription service on 8th September 2020, offering up to five drinks a day in a bid to get customers back to stores following a sales slump due to the pandemic. The subscription aimed to allow customers to buy up to five drinks each day to attract more people and was an in-store monthly subscription. As the pandemic raged on, businesses were unsure when they will be fully open. Was the in-store subscription idea the right decision?

It is hard to tear a business model that made you successful overnight to draw a new one, 'successful business, great culture, we are struggling', Christou admitted in Economist Sept 2020. Pret had struggled to pay its rent. In a letter to landlords, they settled to pay 30 per cent of its rent bill as it battled losses each month because of the pandemic. According to Christou, 'sales were running at less than 20 per cent of normal levels despite efforts to reduce its costs, including executive pay cuts'. Pret had felt Brexit impacts, two deaths, a legislature, a pandemic, all coming in succession; the business had not been as usual any more. It was a critical time for Pret; how should Christou turn it into an opportunity? What if the pandemic crisis lasts longer? When Pret considered re-opening lockdown, what if another person was dying, this time from Covid-19 contracted in one of the restaurants? How would the £20 coffee flat fee benefit the business?

Exhibit 1: Key Trends in the fast-casual meals sector

Key trends impacting the sector

Margin pressures are mounting on casual dining operators largely as a result of rising labour costs, higher business rates and increasing food costs (exacerbated by a weaker pound following the EU referendum)



Source: ONS; NPDI; Mintel; FDF; DEFRA; CVS; Telegraph; The Migration Observatory; 'UK food industry fears Brexit exodus of EU workers', FT (February 2017)

Note: 1) Combined business rates payable for 2017 is based on average combined business rate payable by 7,105 restaurants operating in London during 2017; 2) Based on 2015 Labour Force Survey published by ONS; 3) Based on a Mintel survey of 1,840 internet users, aged 16+, who eat at casual restaurants.

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