

The Future of the high street



A McDonald's view





JOHN PARK - CFO,
UK AND IRELAND,
MCDONALD'S

“

The past two years have been incredibly challenging for all of us. As we look to the future, the structural challenges facing our high streets are clear.

At McDonald's, this has caused us to think deeply about how we can play an even more active role in helping high streets thrive. We believe that despite the challenges they face, our high streets have the perfect opportunity to rebuild, with a combination of community spirit, political will, and support from the private sector.

Our presence on the high street has been a fundamental part of our success in the UK and we strongly believe high streets will continue to play a critical role in our everyday lives.

However, we recognise that high streets will need to change to meet the needs of our communities moving forward. To ensure we stay relevant and can meet the demands of customers in future, we are taking steps to review and refresh our high street estate.

This includes the most ambitious redevelopment of our restaurant estate in the last decade. Our Convenience of the Future programme will see us reimagine each restaurant to make our customers' McDonald's experience quicker, easier, and more convenient. From redesigning our kitchens and being smarter about space, to better integrating our digital channels with our physical restaurants, we're looking to elevate every aspect of the restaurant experience for our customers and crew.

We are always open to collaborating with national and local stakeholders as we do so, using the data and insights we have gleaned, so that together we can ensure high streets remain a central part of our communities.

”

This report is split into three sections:

1

Our insights

An overview of what we have learned about the future of the high street through our work over the last two years. Specifically, our data analysis and research over four distinct time phases from pre-COVID through to long-term future patterns.

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2

What British high streets of the future may need to look like to thrive

From our learnings, what we believe British high streets need to do, look and feel like to appeal to high street users in a post-COVID world.

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3

Developing our Future High Street Strategy

What we, as a key high street business, plan to do at our own restaurants to ensure they meet the needs of customers and also help the high streets within which they are situated thrive.

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Introduction



9.2k

Annual net reduction in no. of high street stores in 2019



-30%

No. of visitors and workers in May 2021 vs Nov 2019 compared to a reduction of -11% for surrounding areas



62%

Proportion of the Public in 2020 that felt the high street had been neglected

High streets across the UK have been struggling against structural headwinds for several years prior to 2020, as evidenced by an increasing number of vacant units on streets that were once at the heart of communities. COVID-19 had the potential to further threaten high streets by accelerating trends such as online shopping. However, many view the pandemic as offering a moment-in-time opportunity to make major changes and turn around the fortunes of the high street.

At McDonald's, we believe there is an opportunity to renew our high streets. However, it will require considerable investment and planning from both the public and private sectors. Initiatives like the government's high street support strategy and the work of the High Street Task Force are an important start. Post-pandemic, there is the opportunity to drive change within the high street, bolstered further by the recent budget's commitment to the Future High Streets Fund. We have written this document to help inform the decisions that local politicians and council officers across the country are making about their high streets as the economy reopens.

McDonald's, along with its network of local franchisees, has a shared interest in seeing British high streets thrive. Our Future High Street Strategy will form the foundation of ensuring restaurants can meet the challenges of the evolving high street environment.

What data did we use?

Using an innovative combination of people movement cell tower data from Telefonica, local socioeconomic demographics, and internal restaurant-by-restaurant metrics we have been able to build a unique view of two things:

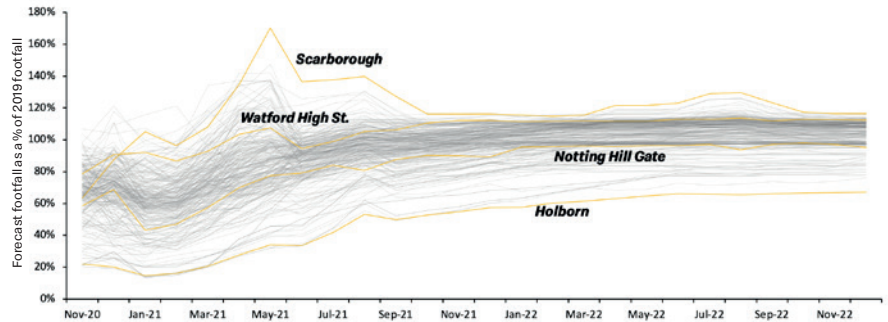
1

The likely future footfall per restaurant, using a combination of people movement cell tower data and over 50 local socioeconomic datasets. Cell tower data is split into three time periods i) pre-pandemic, ii) post-Lockdown One footfall recovery and iii) recent footfall data up to May 2021.

2

Other factors which affect restaurant success, including the ability to convert footfall into sales and historic sales trends.

Figure 1. Restaurant-by-restaurant forecast footfall as a % of 2019 footfall for 254 of McDonald's HS restaurants (supporting data available for all 412 restaurants)



Through our access to Telefonica data, we are able to leverage a vast quantity of footfall data in our research. Source: Telefonica cell tower data and Teneo analysis

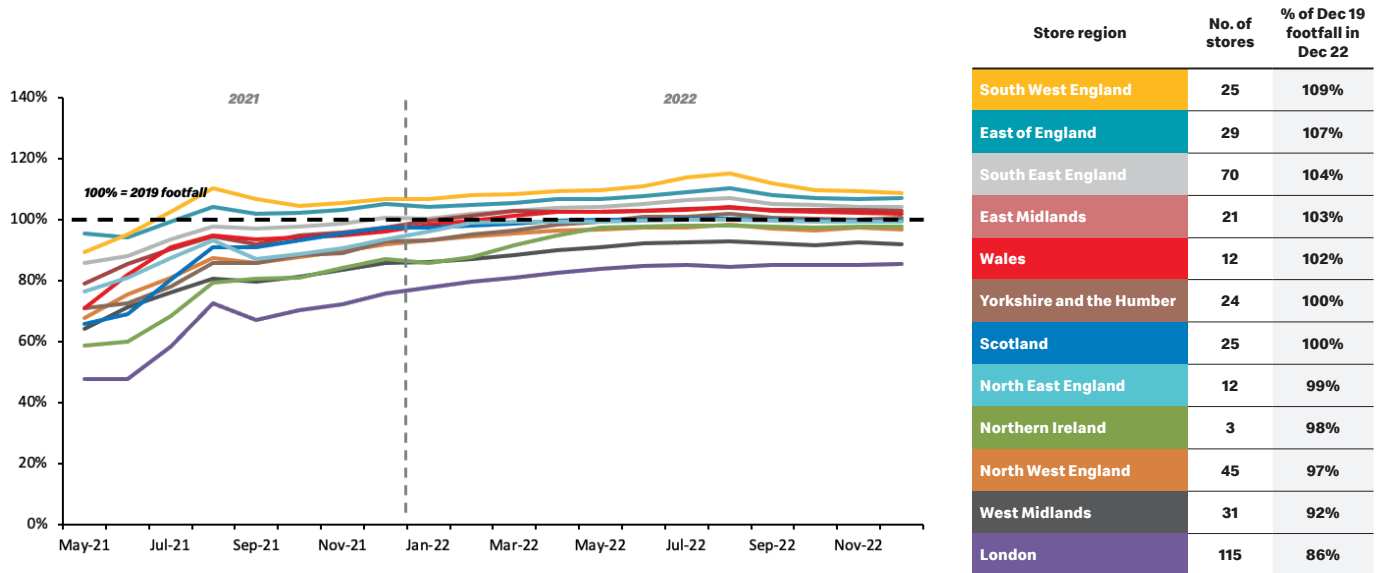


We have forecasted how busy each high street with a McDonald's presence will be and how footfall recovery will vary between areas. Not only have we developed a strong understanding of what is required across our 412-restaurant high street estate for it to succeed in the future, but also, and more importantly, **what British high streets of the future need to look and feel like to meet the needs of the modern-day consumer.**



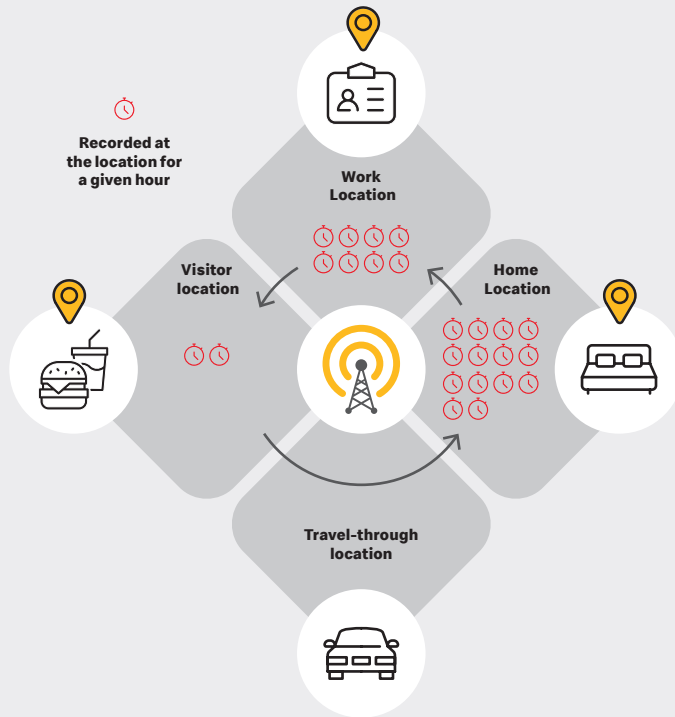
The people movement data collection process is summarised to the right.

Figure 2. Forecast footfall as a % of 2019 footfall by region, all areas in which there is a McDonald's high street restaurant



The forecast shows London will be the most severely hit from a footfall perspective and a number of other regions are unlikely to recover footfall by the end of 2022. Source: Telefonica cell tower data and Teneo analysis

Fundamentals of people movement data (fully anonymised and in line with usage by Cabinet Office)



Mobile phone masts are contacted by mobile phones whenever it requires signal



The location (MSOA) can be determined through triangulation via different towers



If a user 'dwells' within the MSOA for over 20 mins (actual methodology is more complex), they are **recorded**



This process is done for every user to give total 'people counts', the data is then anonymised through rounding methods

Section

1

This section outlines what we know about consumer behaviour on the high street before, during, and after the pandemic

Our Insights

We have built a detailed view of the likely footfall at every high street in the UK with a McDonald's restaurant in order to develop a strategy to protect and grow our estate. Prior to 2020, there were a number of behavioural trends impacting customer preferences, including a gradual increase in online shopping and a desire for more experience-led high streets. Many of these underlying trends were accelerated by COVID-19, with changes that might have taken years now happening in months, such as working from home, remote conferencing, and the digitalisation of retail.

In the next twelve months, recovery is expected to be uneven in the wake of two years of restrictions, driven by unpredictable consumer behaviour and inflation affecting parts of the population differently. With this in mind, we have split this section into four core phases, though it should be noted that some trends are assessed in more than one section as they evolve and play different roles at different times:

Four core phases



Pre-COVID

(PRE-MAR 2020)

We first outline those trends which were at play before the outbreak of COVID-19 in early 2020 and the impact they were having on the high street



COVID

(MAR 2020 – DEC 2021)

Next, we look at the impact of the pandemic and how government and society responded



Medium-term

COVID-driven (2022)

We then explore what the next 12 months may look like as the restrictions ease and the UK economy continues its recovery, with a particular focus on short-term erratic behaviours



Long-term patterns

(2023 AND BEYOND)

Finally, we explore the long tail of accelerated and new consumer behaviours likely to persist in the long term, and what this means for the high street

Pre-COVID phase

(pre-March 2020)

We have identified 11 trends that have shaped the high street narrative in recent years:

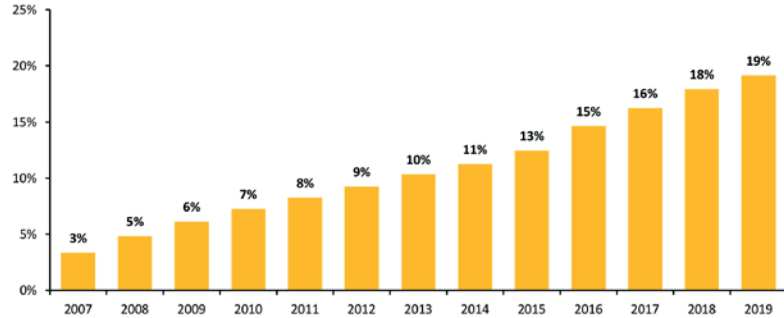
1-11:



1 Increase in proportion of retail shopping conducted online

There was a gradual increase in the proportion of consumers that were fulfilling their retail needs online, driven by convenience and improved technology, leading to fewer transactions taking place on the high street and footfall declining.

Figure 3. Online fulfilment as a proportion of total retail sales, 2007-2019



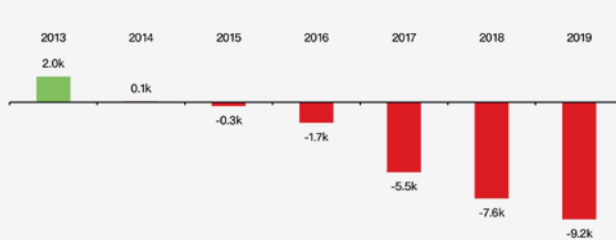
Online total retail sales (including food and non-food) as a proportion of total retail were gradually increasing year-on-year. Source: ONS Retail Index



2 Increased store closures

The decline in footfall contributed to a vicious cycle of reduced investment. Lack of investment created a poorer customer experience, making consumers more likely to shop elsewhere. Inevitably, this led to increasing closures, a trend that was gathering pace throughout the previous decade.

Figure 4. Annual net change in number of high street stores



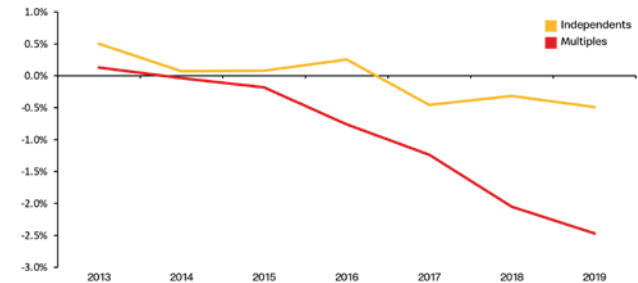
By the end of 2019, there were 24k fewer stores on UK high streets than in 2016. Source: Local Data Company



3 Independents faring better than chains

Local, independent stores fared better than chains, driven in part by the rise in social media allowing these types of businesses to create and keep a personal connection with their customer base. This in turn has driven some high streets to become more reflective of their local communities.

Figure 5. Estimated % change in occupied units by business type (UK), 2013-2019



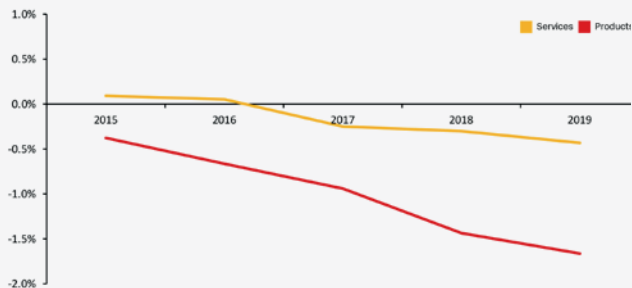
Chains were increasingly more susceptible to store closures than independents. Source: Local Data Company



4 Consumer preference for services over products

Stores serving products were more susceptible to changing shopping habits than services. With a growing desire for high streets to become more experience-led, offering consumers amenities they could not purchase online, settings such as beauty salons, cafes and workspaces all benefitted.

Figure 6. Estimated % change in occupied units by category (UK), 2013-2019



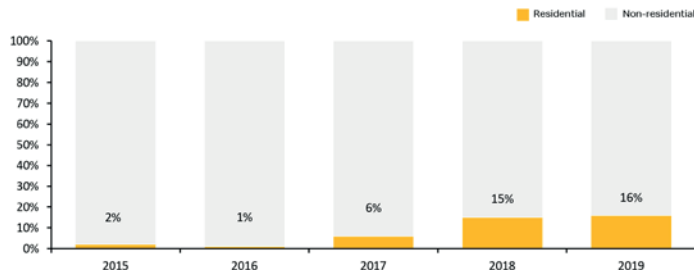
Chains were increasingly more susceptible to store closures than independents. Source: Local Data Company



5 'Residentialisation' of the high street

More people were living closer to or on high streets than ever before as empty units were converted to houses or modern apartment blocks to help solve the housing shortage.

Figure 7. Redevelopment on the high street by type, 2015-2019



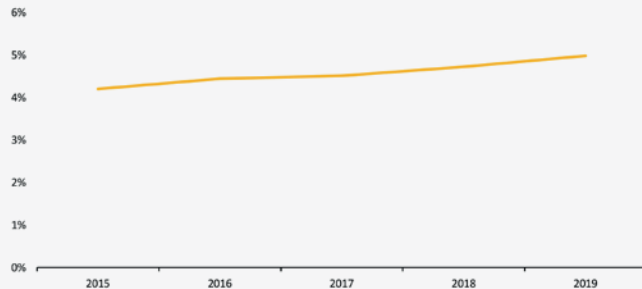
High street redevelopment was becoming increasingly more residential towards the end of the previous decade. Source: ONS



6 Evolving working patterns leading to less sustained footfall

A shift away from traditional working patterns through increased flexi-time and working from home, made easier by technological enhancements, meaning urban city centres were losing passing trade from commuters.

Figure 8. Percentage of people in employment who work mainly from their own home, 2015-2019



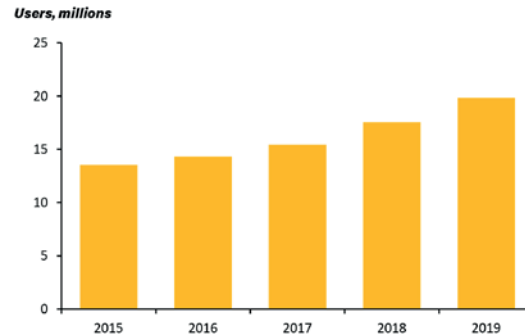
The proportion of UK workers working mainly from home was steadily increasing in the five years to 2019. Source: ONS



7 Proliferation of delivery services changing the use of the high street

A gradual increase in food delivery demand, driven by disruptive companies including Deliveroo and UberEATS making the process of ordering and delivering food more convenient for consumers and businesses.

Figure 9. UK food delivery app users, 2015-2019



The number of food delivery app users in the UK has been gradually growing over the past five years. Source: Statista



8 Increase in park and ride facilities changing the way we travel to the high street

An increase in park and ride facilities outside of urban areas of city centres to ensure high streets and routes into high streets were less congested.



9 Transportation hubs becoming more retail focused and competing with high streets

Large rail and bus stations were increasing their commercial footprint as they looked to take advantage of their captive audiences, providing competition to high streets.



10 Limited central government policies to address some of these challenges

Successive governments have grappled with the high street revival challenge with little success at a national level, with many suggesting the current business rates model does not work. Devolution has led to some local governments making positive strides, however funding challenges have restricted progress.

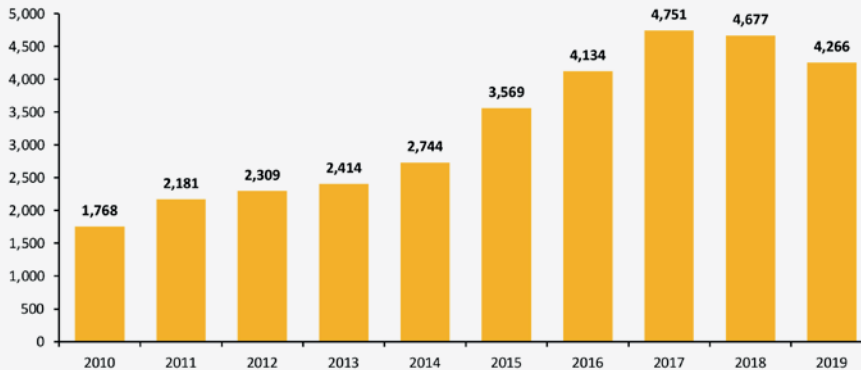


11 Largely longer-term declining social environment on high street

Many high streets saw a downturn in cleanliness and appeal, driven by both an increase in antisocial behaviour and rough sleeping, coupled with the knock-on effect of diminished footfall leading to reduced investment.

Figure 10. UK rough sleeping numbers, 2010-2019

Number of rough sleepers



The number of rough sleepers in the UK had been on an upward trend in recent years. Source: Gov.UK

PRE- COVID
PHASE SUMMARY :

Before COVID, the UK high street was in a long-term, structural decline, with decreasing footfall leading to increasing closures coupled with limited government support

COVID phase

(March 2020 – December 2021)

The pandemic caused a nationwide seismic shock; this was particularly felt by high streets that saw little to no visitors due to lockdowns and safety concerns.

Through the use of people movement data (see page 7 for more details) and secondary research, **we have drawn out six key patterns that have impacted high streets:**

1-6:

1 High street footfall significantly suppressed

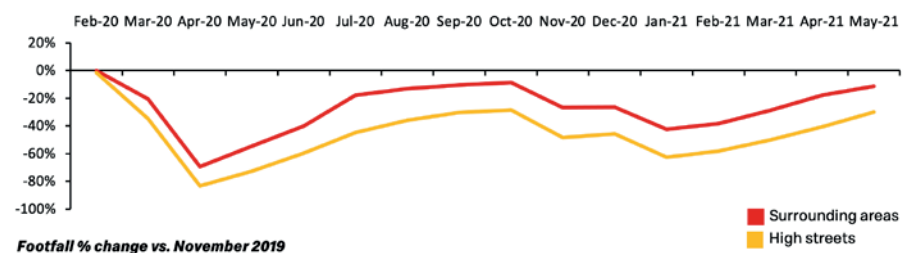


Driven by lockdowns, COVID has led to periods of complete suppression in footfall.

However, in the months following reopening from Lockdown One (June – Sept), it was evident that high street footfall was disproportionately lower than in other areas relative to

pre-COVID levels. Figure 11 shows that high streets faced greater challenges than surrounding areas, and whilst not uniform across all regions or areas (the trend was more common in larger, urban areas), it is a sign that this trend in footfall may have been accelerated by COVID.

Figure 11. Percentage change in visitors and workers vs. November 2019, high streets vs. the Local Authorities



High streets have experienced greater sensitivity to the pandemic compared with their surrounding areas. Source: Telefonica cell tower data and Teneo analysis

2 Less peaky daily profile driven by home working

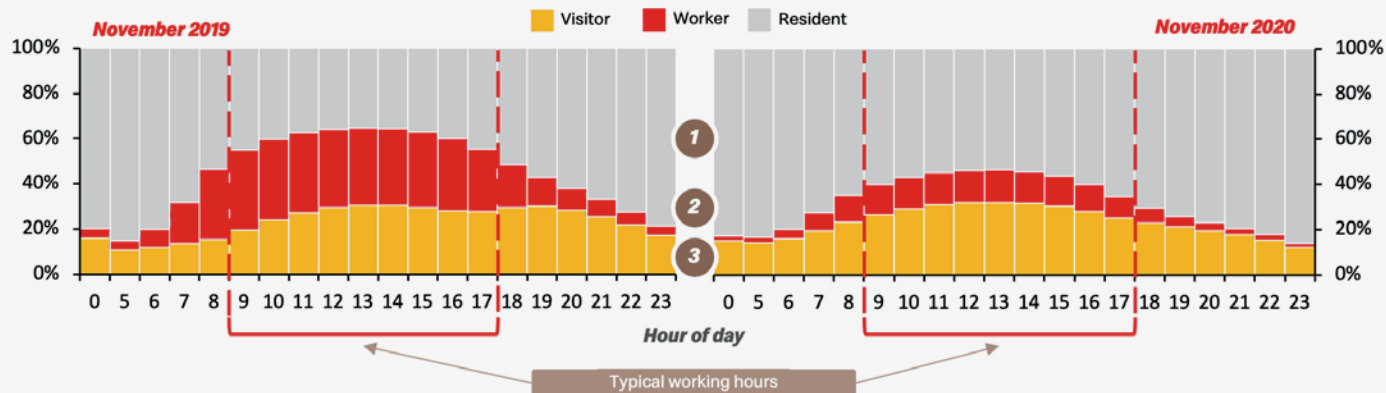


The pandemic has significantly impacted daytime behaviour, a trend that has been magnified by nationwide government ‘work from home where possible’ messaging.

As shown in Figure 12, the proportion of workers at its peak during typical working hours of the day in November 2020 was significantly below that of November 2019 (14% vs. 36%).

Should working patterns shift towards flexible working in the long term, which we would expect to some degree, some high streets in white collar or commuter areas could see their footfall significantly depleted at key dayparts. As an example, our Telefonica data shows that Fleet Street, a white collar area, is expected to only reach 80% footfall by the end of 2022 when compared with 2019 data.

Figure 12. Proportion of people classified as visitors, workers and residents in areas with a McDonald’s HS restaurant at each hour of the day, November 2019 vs. November 2020



COVID has changed the way people behave during the day, with November 2020 data showing a much lower percentage of workers seen.

Source: Telefonica cell tower data and Teneo analysis

3 Regional variances in footfall suppression

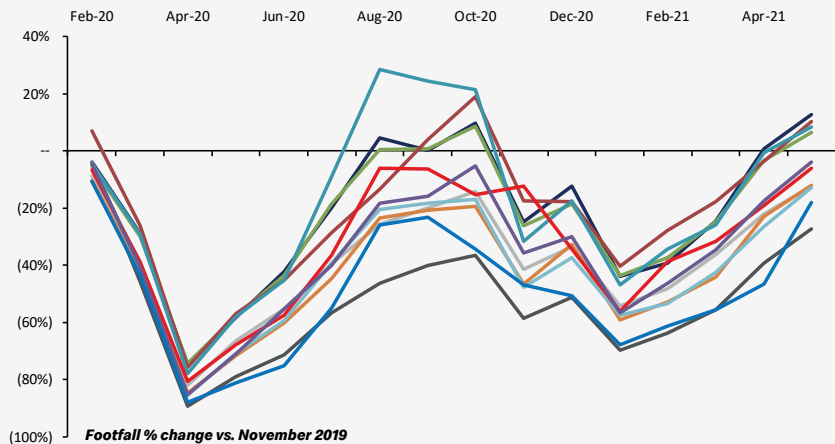


Following Lockdown One (March 2020 - June 2020), the return of footfall was not evenly distributed across regions.

Areas such as London saw significant decline in footfall relative to 2019, whereas areas like the South West and East of England

saw a rapid return of footfall. These trends were driven by rural and coastal staycations and white-collar workers moving out of cities. Data in May 2021 appears to show a similar trend to what was seen following Lockdown One.

Figure 13. Percentage change in visitors (not worker or residents) vs. November 2019, split by region



Store region	May 21 vs. Nov 19
East of England	13%
East Midlands	10%
South West England	8%
South East England	7%
North East England	(4%)
Wales	(6%)
North West England	(12%)
West Midlands	(12%)
Yorkshire and the Humber	(13%)
Scotland	(18%)
London	(27%)

There is significant regional variation in the visitor footfall recovery. Source: Telefonica cell tower data and Teneo analysis

4 Significant government support for high streets

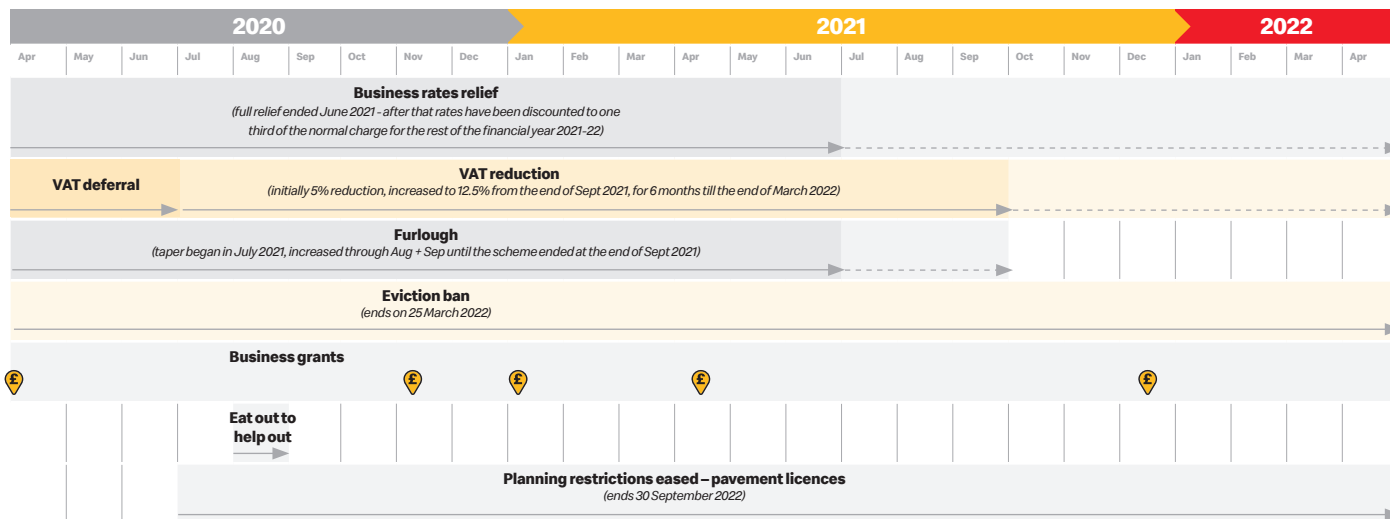


While many high street businesses struggled materially over the course of several lockdowns, there was an over-indexing of support to protect jobs and stave off closures.

We welcome the government’s high street strategy and the work of the High Street Task Force. However, the level of government

support seen during the peak of the pandemic was not sustainable, and the reintroduction of taxes will be required to begin to pay down the large public debt accrued over the past two years. The winding down of these schemes will further compound the challenges facing high street businesses as we all adapt to a ‘new normal’.

Figure 14. Timeline of government support for high streets



Source: Teneo analysis

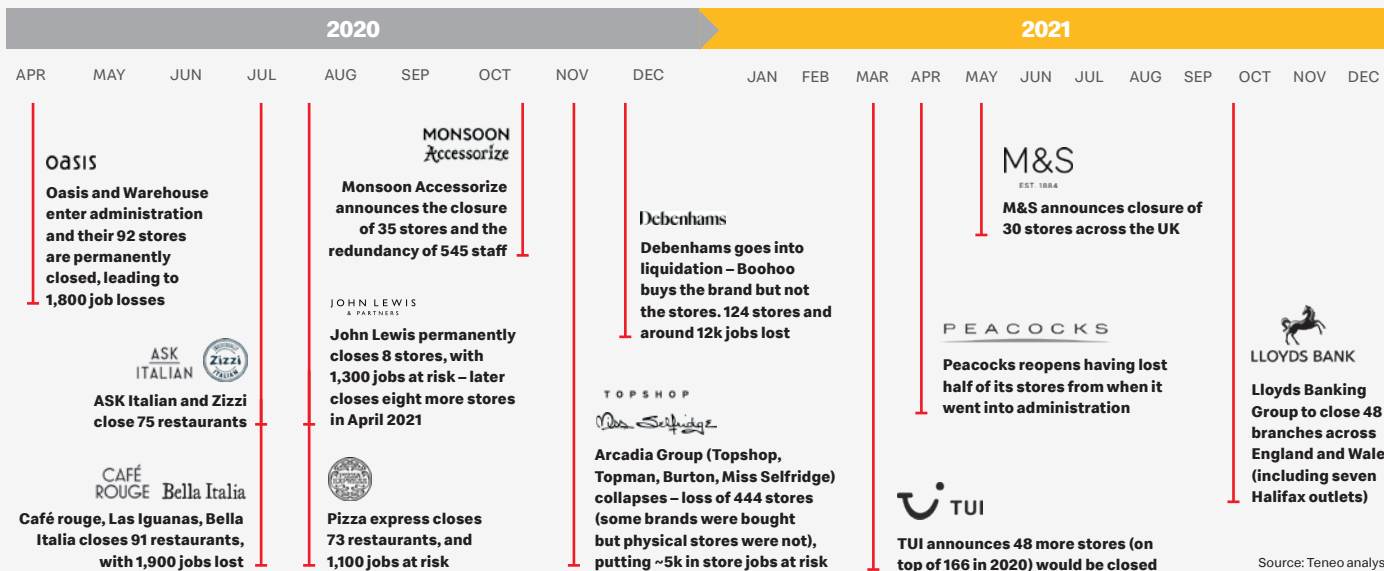
5 Increased unemployment and closures



While many closed retail businesses have been acquired, the future of the brick-and-mortar elements of these businesses remains unclear.

Boohoo acquired the Debenhams, Dorothy Perkins, Wallis and Burton brands but not their physical stores. Similarly, ASOS bought Arcadia's Topshop, Miss Selfridge and HIIT brands but not their stores, leaving thousands unemployed. While the picture in the second half of 2021 was rosier, many brands continued to struggle.

Figure 15. Timeline of notable high street closures



Source: Teneo analysis

6 Local and community spirit coming to the fore



The pandemic was notable for moments of national togetherness and displays of community spirit, particularly during the first lockdown.

The abiding images of last year were of Clap for Carers and Captain Tom Moore fundraising for NHS charities. This sense of community spirit was in evidence when 750,000 volunteers signed up to support the NHS in April 2020 – three times more than the government's target.



COVID PHASE
SUMMARY :

COVID has had a mostly negative impact on the high street, with periods of suppressed footfall; while there has been support from the government, this hasn't stopped a number of large brands having to end their high street presence



Medium-term COVID-driven phase (2022)

As restrictions have lifted, we have seen a desire to return to office-working and booming customer demand for leisure activities, improving the outlook for high streets.

The next year should be treated differently from the following years, with some of the trends we are observing unlikely to be permanent, but instead falling away as we continue our return to pre-COVID normality. **We have identified three medium-term COVID-driven behaviours:**

1-3:

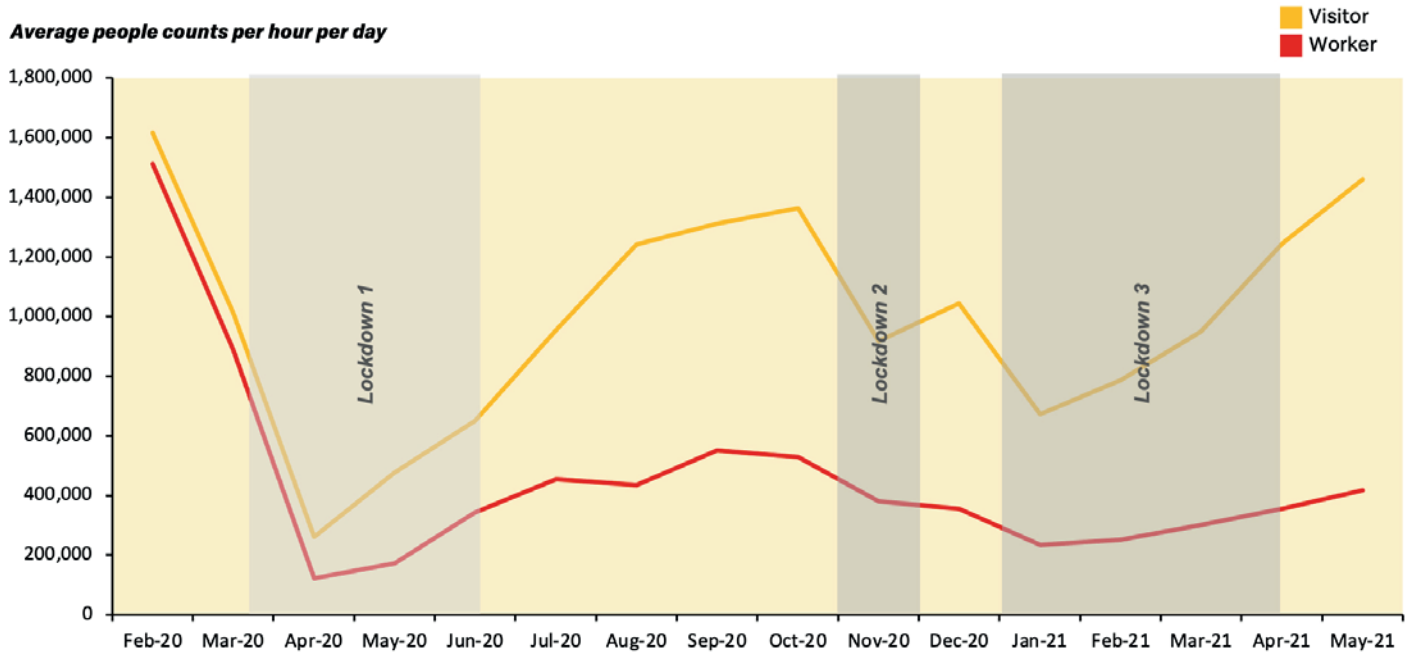
1 Latent demand for social activity

Despite the persisting anxiety around certain activities for some people, many – particularly the young – are pushing for a return to normality in their workplace and social activities.

We saw demand growing rapidly for leisure following the end of Lockdown One in mid-2020. Visitor footfall returned much faster than worker footfall, which saw only minor upticks in the summer months. There was a similar surge in July 2021 (after the easing of restrictions) and, most recently, in January 2022 following the Omicron surge. This unwinding however was not uniform across the country, with smaller, less metropolitan towns and suburban areas seeing strong rebounds, but inner cities, struggling to return to pre-COVID levels.



Figure 16. People counts in areas in which there are McDonald's high street restaurants split by visitor and worker, Feb 2020 – May 2021



While there was strong recovery of visitor footfall following Lockdown One and Lockdown Three, this was not true for worker footfall.

Source: Telefonica cell tower data and Teneo analysis

2 Staycation boom

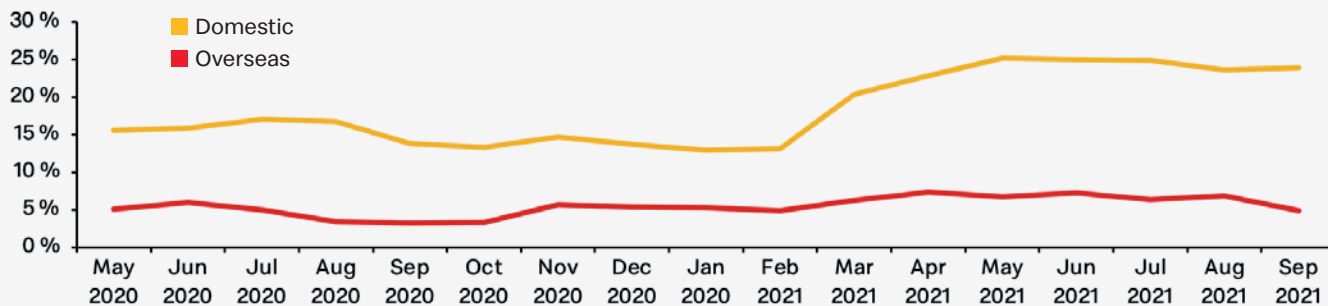
Beyond the latent demand for leisure activities, there has also been a shift in interest away from overseas travel in favour of domestic trips, as people sought summer holidays without the trouble and uncertainty of travelling abroad.

The UK's successful vaccine rollout since the start of 2021 meant the UK was 'out' of the pandemic before most other countries. This fuelled an increased desire for domestic travel. This increased demand for domestic tourism is likely to continue throughout 2022 despite international travel restrictions having recently been

eased, by both the UK and other countries. The cost of testing for the unvaccinated, uncertainty around future COVID variants abroad, and the ongoing cost-of-living crisis are likely to continue to dampen the desire for a summer abroad in 2022.

Throughout the pandemic, many more Brits have increased their domestic holidaying relative to normal than they have for overseas trips (see chart). This gap widened over 2021, suggesting that the increased interest in holidays in Britain will persist.

Figure 17. Percentage of survey respondents agreeing that they will take more domestic / overseas overnight trips in the next 6 months than normal



Throughout 2021 and in the run-up to 2022, the gap between the proportion of respondents who believed they were likely to take more domestic trips in comparison to overseas trips has widened. Source: Visit Britain



The impact of this is likely twofold:

1

High streets in rural, staycation locations could see a boom in footfall as Brits flock to these areas in search of something that resembles a 'normal' holiday experience.

2

High street footfall in areas that rely on international tourism is likely to be suppressed by the lack of inbound travel. This compounds the challenges that high streets in major cities like London and Edinburgh face as they have already seen reduced footfall relative to other parts of the country.

85% of holidaymakers were planning to take a break in the UK in 2021



3 Return to the office



There was a limited return to the workplace when restrictions in 2020 were lifted. However, in 2021, unlike the period following Lockdown One, many businesses began to promote a return to the workplace. Employees themselves were also increasingly keen to spend time in the office. The Omicron wave paused this momentum temporarily, but we have already seen signs of a strong return to office-working in early 2022 even if, in many cases, only on a hybrid basis.

Not all companies are following suit though, with primarily digital organisations creating permanent WfH environments. Meanwhile, many companies are experimenting to find the right mix between working remotely and on-site, which may result in office-working policies being relaxed.

There have been, and there are likely to continue to be, regional differences in the return to the workplace. London, for example, is likely to lag behind suburban areas and smaller regional centres, especially given the prevalence of commuting via the London Underground.





“

We believe that the future of work is flexibility. Whilst the majority of UK employees want to be on-site some of the time, they also want the flexibility of working from home a couple of days a week”

RONAN HARRIS,
VP AND MD OF GOOGLE
UK AND IRELAND

MEDIUM-TERM COVID-DRIVEN
PHASE SUMMARY :

These positive behavioural patterns should help lessen the impact of reduced government support in the short to medium term. It will be crucial to capitalise on the opportunities provided by the upcoming year so that high streets are well-positioned to counter the negative long-term trends covered in the next section, some of which have already begun.

Longer-term patterns

(2023 and beyond)

Beyond the immediate changes in behaviour as customers continue to enjoy the lack of COVID restrictions, there is little doubt that the events of the past two years will have impacted – both positively and negatively – the long-term behavioural patterns of UK consumers.

Some of the habits forgotten over the course of multiple lockdowns and restrictions may never be relearned, and some acquired may never be forgotten. As such, in this final phase, we outline longer-term behavioural trends likely to impact high streets (noting some could be considered accelerations of the pre-COVID patterns outlined in the first section).

1-5:



1 Long-term suppression of retail transactions on the high street

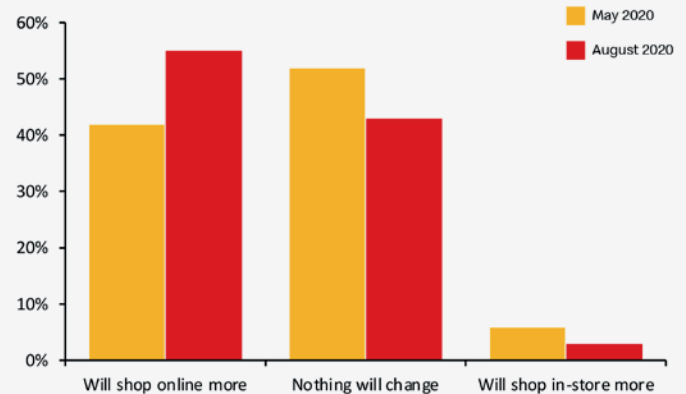


As highlighted in Phase One (Pre-COVID trends), UK high streets faced headwinds for many years prior to the pandemic.

Many commentators have argued that COVID-19 and its restrictions could exert long-lasting pressure on the brick-and-mortar retail model, primarily driven by three factors:

- Further acceleration of consumers making retail transactions online, even amongst age groups that were previously unlikely to move online
- A significant increase in delivery and in-home services for both hospitality and leisure
- The financial stresses faced by high street establishments over the past two years leading to closures and a cyclical decline in the attractiveness of the high street

Figure 18. How do UK consumers predict the pandemic will affect their future purchasing habits



Consumers are more likely to shop online post-COVID than before.

Source: eMarketer

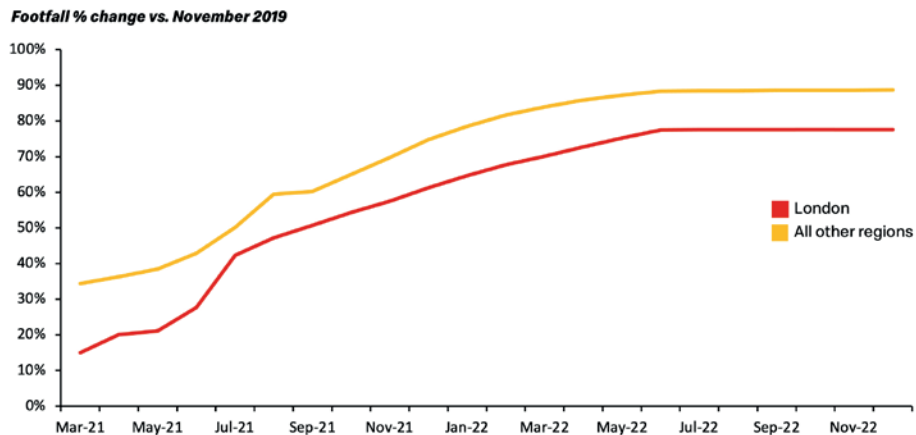
2 Permanent shift in working patterns



After the initial burst of demand to return to the office, large parts of the UK workforce will settle into a cadence of flexible working, with the pandemic having significantly accelerated previous trends towards remote working.

White collar workers are likely to move to a model of working in the office around half the time, with time away from the office spent either working from home or from third-party working locations. As shown by our worker footfall forecast in Figure 19, worker footfall is not expected to reach pre-pandemic levels by the end of 2022, with London's footfall recovery forecasted to be below the rest of the country.

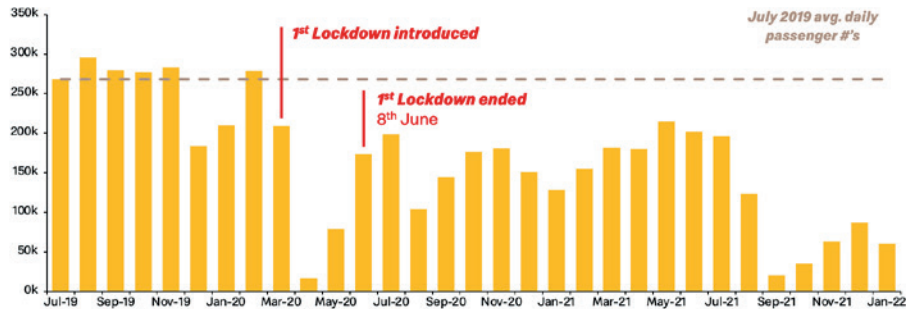
Figure 19. Worker forecast footfall as a % of 2019 footfall London vs. all other areas, all areas in which there is a McDonald's high street restaurant



London lags below all other regions in terms of worker footfall recovery, however both are not expected to recover 100% of 2019 footfall by the end of 2022. Source: Telefonica cell tower data and Teneo analysis

Evidence of this long-term impact can be found in New Zealand, as the country enjoyed many months largely free of COVID in 2020 and 2021. Despite exiting lockdown in mid-2020 and largely eradicating the virus, passenger numbers on the Auckland Metro transport system have never fully recovered, reaching a peak of 80% of pre-COVID levels (before collapsing again in Autumn 2021 as lockdown was reintroduced). This indicates an ingrained desire for employers and employees to retain elements of flexible working.

Figure 20. Auckland ridership data July 2019 – January 2022



Following its first lockdown, New Zealand continued to see suppressed patronage on commuter services, indicating a long-tail of work from home behaviour post-COVID. Source: Metro ridership statistical release

“

I hear lots of people suggesting we should have a four-day work week. Ultimately that really sits between employers and employees. But as I've said there's just so much we've learnt about COVID and the flexibility of people working from home, the productivity that can be driven out of that”

JACINDA ARDERN,
PRIME MINISTER OF
NEW ZEALAND

3 Cost-of-living crisis, hitting the poorest the hardest

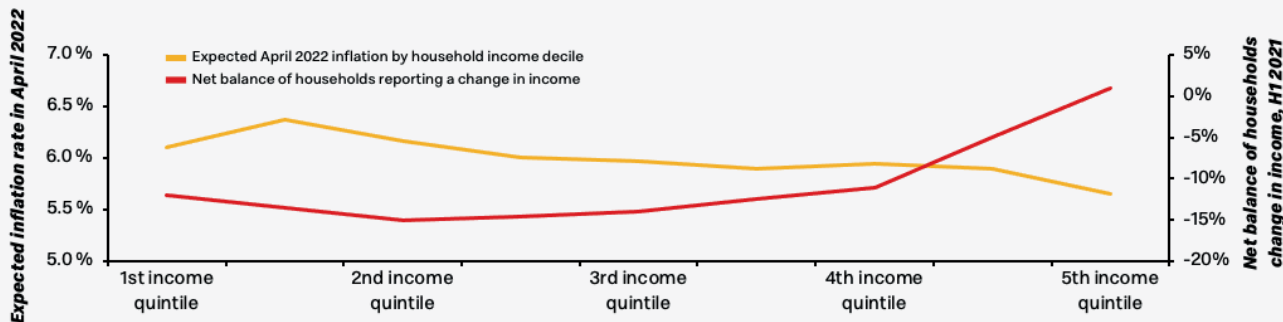


A dominant economic and political story over the next few years will be falling living standards, driven by rising inflation. In line with many experts' predictions of a 'K-shaped' recovery from the pandemic, the poorest households will feel this crisis the most.

Inflation has risen to its highest rate since 1992, driven by global energy prices, supply chain problems, and labour shortages. While wages are likely to increase, inflation is forecast to outpace wage growth. Given these pressures, value for money will play an even more important role in consumer decision-making, and high street businesses will need to contend with many consumers tightening their belts.

While living standards are expected to be squeezed across the board, this is not likely to be felt equally. Incomes have risen unevenly throughout the pandemic, and the current inflationary pressure is affecting the lowest-income households the most, as these households spend a greater proportion of their incomes on the goods – energy and food – that are seeing the highest price increases. This uneven impact on living standards is likely to present a challenge to the high street, as creating a balanced offering for the whole community will become even more difficult.

Figure 21. Expected annual inflation against net household changes in income



There is an inverse relationship with the lowest-income households facing higher rates of inflation but having seen worse income growth than richer households.

Source: Institute for Fiscal Studies, Bank of England



“

The unintended consequence of the pandemic has been more inequality, coupled with an increased probability of a K-shaped recovery. As both business and government look to encourage a UK-wide bounce back, it is now imperative we set out a clear vision and policies which support those in areas feeling further left behind”

NIGEL WILSON, CEO
AT LEGAL & GENERAL

4 Food delivery growth

Data has suggested that the pandemic alone has shifted the food delivery market forward by at least 3 years, adding to what was already an underlying trend growing steadily.

While there is likely to be a surge in people returning to in-restaurant eating, as shown by consumer behaviour following the easing of Lockdown One (also driven by Eat Out to Help Out), it is likely this surge will be temporary. There is a growing consumer sentiment that the ease of delivery services paired with the expanding choices available may replace some meals they would have traditionally eaten in a restaurant.



Figure 22. Consumer sentiment on use of online food delivery services

30%

Growth in customers planning to purchase food takeout and delivery services **most or all online** post-COVID

47%

Intent to keep up or increase their use of restaurant delivery services post-COVID

There is general consumer sentiment that food delivery behaviour developed during COVID-19 will remain in a post-pandemic environment.

Source: McKinsey UK survey, Dec 20



5 Decrease in university student populations



The pandemic has had a major impact on the university experience of every student in the UK, with a significant switch to online learning.

While this shift was always likely in an ever more digital world, the pandemic led to the majority of courses moving online overnight. The general sentiment from students has been that this has not negatively impacted their learning experiences, with some 49% of students polled by Youthsite indicating they were happy with online learning at their university and only 29% stating they were unhappy. Unlike face-to-face activities restricted by time and space, online learning allows students to access course materials and engage with learning activities whenever they want, wherever they want.

This will have a significant impact on areas where students make up a significant proportion of the population, and especially on the high streets in these areas. In particular, cities such as Manchester, Edinburgh, Dundee, Aberdeen, Cambridge and Oxford are likely to see the effect of this shift. As an example, the area surrounding the Manchester - St Anns Square McDonald's restaurant is forecasted at 85% of 2019 footfall by the end of 2022.

“

In 2022 the UK should expect a 20% decline in students applying from East Asia, amounting to a 12% drop in International students”

BRITISH COUNCIL



LONG-TERM PATTERNS
SUMMARY :

While the long-term impacts of the pandemic may cause concern, particularly around decreased footfall, there is significant opportunity in the changing public behaviour. Meeting this will be crucial to developing a successful British high street of the future.

Section

2

This section outlines what we believe high streets need to look and feel like to thrive in a post-pandemic world

What British high streets of the future will need to look like to thrive

In order to further counter the challenges set out in the previous section, meet the needs of the consumer, and embrace this opportunity to thrive in the long-term post pandemic environment, changes will need to be made in a number of areas.

While McDonald's is a global business, at its core are local business owners that desire to be a part of a vibrant high street that serves the local community. Our presence on the high street remains a strategic priority. While they will change, we believe they remain an important element for our communities and for everyday lives. Therefore, as part of our Future High Street Strategy, we have carried out significant research combined with our data analytics to develop a set of changes high streets can make to flourish in the future. These include:

Embracing consumers' desire for experiences over pure retail



Increased mixed-use developments to balance the type of footfall



Greater engagement with the local community



Collaboration between brands on the high street and between Local Authorities and businesses



Developing integrated transportation systems



Creating a safer, more appealing high street environment



1 Embracing consumers' desire for experiences over pure retail

Consumers have increasingly turned away from traditional retail in favour of experiences. In a 2019 survey, 76% of consumers reported they would rather spend their money on experiences than on material items. This shift manifested itself in the pattern of product focused store closures on the high street, as highlighted in Section One's pre-COVID trends.

Figure 23. Consumers' perceptions on high street future purpose

75%

Of consumers expect that by 2027 over half of retail space will be dedicated to experience rather than product

Source: ONS Retail Index

The pandemic has only exacerbated this trend and after 15 months of lockdowns and restrictions, individuals are eager to get back to enjoying experiences. Those responsible for thriving high streets should consider increasing the proportion of the tenant-mix that is experience-led. This could be achieved through a range of measures, including:

- ▶ **Business rates breaks for experiential outlets to encourage more of these types of businesses**
- ▶ **Innovative approaches to leases to encourage unconventional retail and affordable shared workspaces**
- ▶ **Free public amenities, such as WiFi, that are more suited to experiential consumption than pure retail**

High streets should encourage traditional retailers to be more experience-focused in their offer through collaboration, including bringing independents and chains together.

One crucial ingredient to this will be larger brands understanding the local area and what is important to locals in order for them to better tailor their offerings.

Further development also requires adapting the surrounding environment to lend itself to this dynamic, through increased pedestrianisation and a focus on greenery and sustainability (see Northcote Road case study).

By increasing the share of experience-led outlets and reducing their reliance on pure retail, high streets can insulate against the headwinds facing in-person retail, specifically online competition. Furthermore, a more experience-heavy mix would not only directly enhance footfall, it would also provide a more vibrant mix of services on the high street.



POTENTIAL
ACTION
FOR A LOCAL
AUTHORITY:

**Incentivise more
experience-led businesses
through targeted business
rates breaks and wider
support in order to
increase the proportion
of experience focused
tenants on high streets.**



2 Increased mixed-use developments to balance the type of footfall

The underlying trend of high streets becoming more residential represents an opportunity that needs to be taken advantage of and, if done correctly, can help future proof the high street.

However it is not just about embracing residential space, it is also around seeking an optimal mix between commercial, residential, office and industrial space (where relevant). By achieving this mix, a high street is able to generate a captive audience through those that live on or nearby and those that visit it frequently for work purposes.

Rather than being solely reliant on retail for footfall, mixed use developments mean high streets can become a key part of people's residential, working, and social lives, balancing the type of footfall it receives and making it less exposed. More mixed use developments would signal a move away from the high street's traditional role as a retail hub, but retain its role as a central part of the community.



POTENTIAL
ACTION
FOR A LOCAL
AUTHORITY:

Develop a planning permission strategy that seeks to achieve a greater mix between residential, commercial and retail/hospitality, potentially relaxing restrictions to incentivise uses which are currently underweighted.



There is a clear future for high streets as beautiful, walkable, well-connected places for people to live, work and meet

BUILDING BETTER,
BUILDING BEAUTIFUL
COMMISSION

3 Greater engagement with the local community

The pandemic has taught us the importance of community to the British public and has accelerated a pre-COVID trend around a desire for independent local brands – fusing these two together should be at the heart of a high street strategy.

However, this does not mean there is no room for larger chain brands; this is an opportunity for brands to work together to provide communities what they desire through a differentiated approach high street-by-high street. No longer does the cloning of a high street model that existed in the 80s and 90s work; instead brands need to be inspired by the heritage of an area and use this as a guiding light for locally inspired innovation. Through this, the high street can once again become the heart of local communities as a meeting place.

Figure 24. Proportion doing more to help others since COVID

88%

Source: Retail Gazette

Peak proportion of people who thought people were doing things to help others more since the COVID-19 outbreak

“

The pandemic has once again highlighted the power of business coming together in times of crisis... However, it is clear that there is much more to do as we help our communities to recover. Now is not the time to pat ourselves on the back, but double down and push harder to support our communities to recover as quickly as possible from the long-term effects of the pandemic.”

PAUL BUCHANAN, DIRECTOR AT
BUSINESS IN THE COMMUNITY



POTENTIAL
ACTION
FOR A LOCAL
AUTHORITY:

Increase dedicated space for local and community businesses/activities (e.g. small trader markets, civic space, and youth clubs) and facilitate community-led improvement schemes (e.g. town cleans ups, beautification, and safety).



4 Collaboration between brands on the high street and between Local Authorities and businesses

Brands can increasingly see ‘competition’ as a benefit on the high street, as it improves the customer experience and overall vibrancy of a high street.

Local authorities can help to actively foster collaboration by creating opportunities for interactions between brands. This could take the form of town halls or working groups on the future of the local authorities’ high street.

Successful local authorities will work closely with their high street businesses. Having a coherent message on what the high street represents and what the ambitions are for said high street will support in driving footfall.

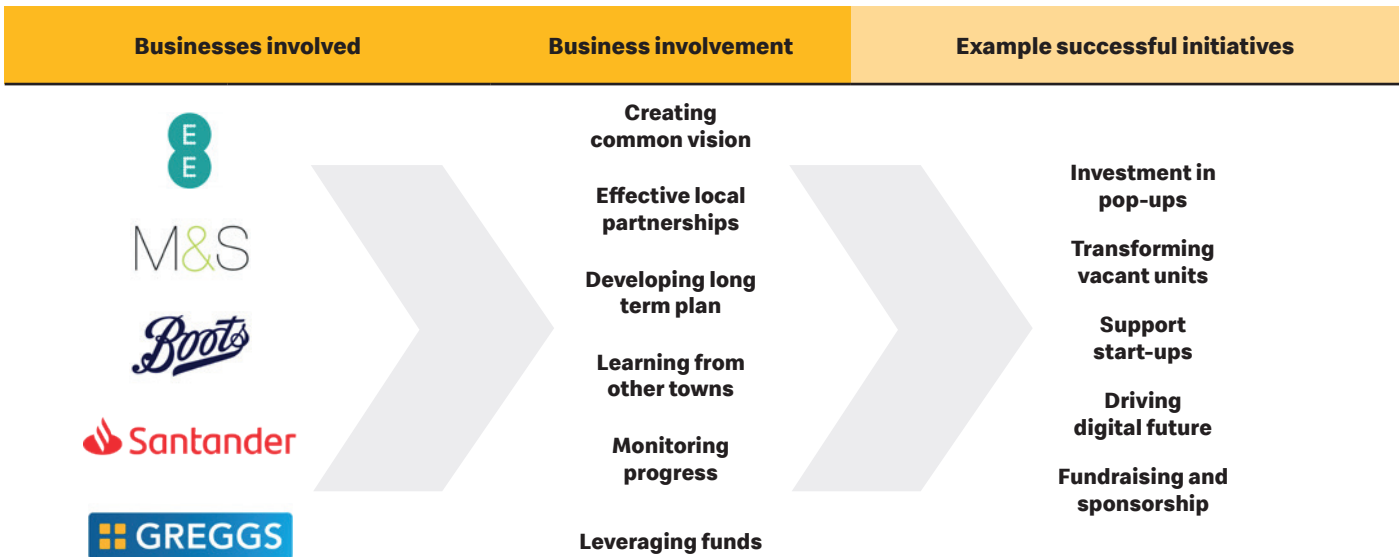


POTENTIAL
ACTION
FOR A LOCAL
AUTHORITY:

High streets to provide a platform, such as town halls, for businesses to build relationships and gain traction on topics such as pedestrianisation, beautification, and investment in the high street.

An example of a successful scheme run in the past where brands worked together to improve high streets was the Healthy High Streets Programme between 2014 and 2017.

Figure 25. The Healthy High Streets Programme was setup to support and foster the development of 100 UK high streets



5 Developing integrated transportation systems

Historically, the relationship between a high street, retailers, consumers and transport operators has been very transactional, and if one link in the chain breaks, the entire operation would break.

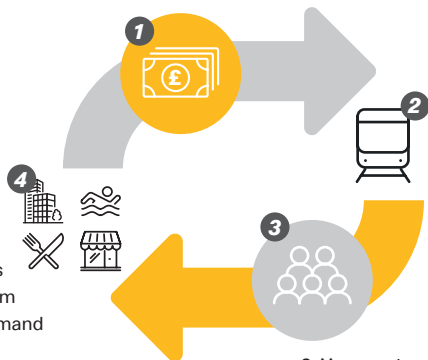
Figure 26. Third party revenue streams

1. Retailers directly fund transport options in order to support demand generated

2. Transport providers charge lower fares due to retailer subsidies

4. Retailers benefit from further demand

3. More customers use public transport to access the high street, increasing demand



The model needs a rethink to become more holistic – how can we make the high street, retailers and transport operators a single point of contact for consumer access? Should Local Authorities completely subsidise this model? Should retailers pay for it?

The recent National Bus Strategy focuses on all bus contracts being enhanced partnerships from the end of this year to help allow transport to become a key cog in pulling local communities together as well as providing better access.

A similar vision was outlined in The Williams-Shapps Plan for Rail, released in May 2021, which highlighted significant problems with the existing model which suffered from “years of fragmentation, confusion and over-complication” that was failing passengers. The plan speaks of the vision for an integrated British Railway by replacing franchising - making the end-to-end journey process a simpler one for all passengers and better integrated with local communities.

Source: Teneo analysis

“

To be truly transformational, we need to view transport as a system: to consider it as a whole.”

SIR PATRICK
VALLANCE,
GOVERNMENT
CHIEF SCIENTIFIC
ADVISOR, FUTURE OF
TRANSPORT REPORT



POTENTIAL
ACTION
FOR A LOCAL
AUTHORITY:

Using recent national transport strategy as a base, develop radical proposals to reconstruct the relationship between Local Authorities, transport providers, local businesses, and the customer (e.g. free bus travel to city centres, funded by business rates).



6 Creating a safer, more appealing high street environment

All of the above will only be achieved if we can make the high street feel like a safe and appealing place to be again.

This can be achieved through close collaborations with the local police force and greater investment in cleaning and lighting to create a more pleasant experience and a more trusted environment for consumers. Consumer feedback indicates that McDonald's plays a key role from a social and safety aspect after-dark, as McDonald's restaurants represent a non-alcoholic establishment, that is well-lit and generally in a busy area.

Figure 27. Proportion feeling their high street is unsafe

46%

Peak proportion of people who felt their local high street was unsafe

Source: Nationwide Building Society Poll of more than 2,000 adults

Figure 28. Proportion felt their high street had been neglected

62%

Peak proportion of people who felt their high street had been neglected in recent years

Source: Nationwide Building Society Poll of more than 2,000 adults



POTENTIAL
ACTION
FOR A LOCAL
AUTHORITY:

Invest further in 'greening' the high street through initiatives such as pedestrianisation as well as installations of plant features, such as rain-gardens which serve multiple purposes.

CASE STUDY

Northcote Road, Clapham Junction (pedestrianisation, greenery, and security)

- ▶ In Summer 2020 Wandsworth Council approved the weekend pedestrianisation of Northcote Road, a major hospitality area in the borough, in response to COVID restrictions on indoor dining
- ▶ Alongside pedestrianisation, the council has provided additional greenery in the form of plants, and co-ordinated a security presence
- ▶ The costs associated with the road closure are funded by a fixed fee per customer paid by each outlet
- ▶ The pedestrianisation has allowed venues to expand their outdoor dining into the street, allowing some outlets to more than double their outdoor capacity
- ▶ Following the success of the pedestrianisation, it was approved for continuation in 2022



Section

3

This section
briefly outlines our
initial thinking and
the initiatives we
will be prioritising
in 2022

Developing our Future High Street Strategy

Building on our analysis of what needs to happen on British high streets for them to thrive in the future, we have identified and are exploring five key initiatives to form a significant part of our Future High Street Strategy:



1 Creating more experience-led restaurants

We plan to make in-store visits more appealing by being increasingly experience-led, with improved dine-in areas and scope to introduce new entertainment options (including more learning facilities for children).

SECTION TWO ACTIONS SUPPORTED



Embracing consumers' desire for experiences over pure retail



Greater engagement with the local community

2 Providing greater differentiation and personalisation

We recognise there is no 'one size fits all' solution. Our restaurants in different areas are faced with different customer demographics and demands. Therefore, we plan to trial differentiated menus and products in certain locations that diverge from our standard offering. For example, enhanced Grab & Go options in areas with a high worker population or new bundling options in high student area populations.

SECTION TWO ACTION SUPPORTED



Increased mixed-use developments to balance the type of footfall



3 Flexible footprint – trialling the dynamic adjustment of restaurant layouts throughout the day

Building on point two, we will also trial flexible restaurant layouts. This will allow our restaurants to utilise their space in different ways throughout the day as our menu changes across breakfast, lunch and dinner. The aim is to help restaurants to become more versatile and serve a wider, more diverse consumer base.

SECTION TWO ACTIONS SUPPORTED



Embracing consumers’ desire for experiences over pure retail



Greater engagement with the local community

4 Investing in the reimagining of our restaurants through Convenience of the Future

Reimagining of restaurants to meet the changing needs of the future high street customer, including improvement of Click and Collect facilities, further enhancement of the dining-in experience, and the introduction of a dedicated entrance and waiting area for couriers.

SECTION TWO ACTION SUPPORTED



Increased mixed-use developments to balance the type of footfall



Spotlight: Investing in the reimaging of our restaurants through **Convenience of the Future**

Convenience of the Future (COTF) is an exciting, large-scale programme that will see us reimagine our entire restaurant estate and make our customers' McDonald's experience quicker, easier and more convenient than ever before. It will also ensure we create an even better environment for our hardworking crew, both when they're on and off shift.

From redesigning our kitchens and being smarter about space, to better integrating our digital channels with our physical restaurants and introducing more sustainable design, we're looking at modernising every aspect of the restaurant experience. As part of this redevelopment programme, we will also consider how we can evolve our restaurants to better support a reshaped high street and continue to ensure they play a positive role in our economy.

With 200 restaurants upgraded throughout 2022, 250-300 by 2023 and a further 250 a year thereafter COTF is a significant investment that will deliver real and lasting benefits not just for our customers and crew, but also the local communities we serve.

11%

increase in customer satisfaction in COTF restaurants due to improved levels of service, order accuracy, and restaurant experience

15%

increase in customer satisfaction in COTF Drive-Thru due to improved levels of service, order accuracy, and restaurant experience

10%

increase in sales in our pilot restaurants reflects the impact this programme can have as we roll COTF out across our entire business

KEY FEATURES OF **COTF** UPGRADES:

An improved restaurant experience: in removing the front counter we've been able to create dedicated areas to cater for our different sales channels, more space for our customers to enjoy their meal and shorter queues.

Dedicated courier waiting area: fostering a more relaxing environment for our customers and courier partners.

Improved carpark layout: meaning it's much easier for Drive-Thru and Click & Collect customers to get to their order.

A new kitchen design: bringing in a bigger order assembly area meaning crew are able to serve more quickly and efficiently, and with greater order accuracy than ever before.

Improved spaces for our crew: like upgraded crew rooms that have been revamped and repositioned to ensure more natural light.



5 Integrating delivery into our high street estate

Recognising the growth and expected continued growth of delivery in the long-term, we plan to ensure our delivery portfolio works in unison with our in-store portfolio; this includes a commitment to repurposing certain restaurants to better meet the local demographic needs and maintaining a commitment to jobs on the high street.

SECTION TWO ACTION SUPPORTED



Increased mixed-use developments to balance the type of footfall

6 Embed our Plan for Change

Sustainability has always been key for us. In 2021, we launched our 'Plan for Change', a framework and strategy that commits us to leading positive change. This includes going net zero in the UK & Ireland by 2040 and taking actions across five key areas: Planet, People, Restaurants, Food and Communities. As part of this, we opened the UK's first Net Zero Carbon restaurant, a building which has been designed to be net zero emissions standard in both construction and everyday operation. It will act as a blueprint for future restaurants.

On the action we're taking to support our communities, we'll continue to partner with LitterLotto to reduce the litter on our streets, introduce new packaging solutions to ensure all of our customer packaging is recyclable or compostable by 2024, and help young people by supporting 3,000 apprentices by 2025.

SECTION TWO ACTION SUPPORTED



Creating a safer, more appealing high street environment

How to get involved...



To bridge the gap between **Section Two** (high street actions) and **Section Three** (McDonald's actions) of this paper, we propose a final joint action to open an ongoing dialogue for required change on the high street

The pandemic has had a seismic impact on high streets and is likely to accelerate a number of trends that already existed. These trends need to be addressed and solutions developed to ensure high streets are best positioned to deal with the challenges that lie ahead.

There is likely to be a roughly year-long period following the easing of restrictions where the high street outlook appears brighter as latent demand for leisure, the workplace, and staycations drives a recovery. This is an opportunity for high streets to invest for the future as this demand will not persist. Eventually, long-term challenges will return to the fore.

Those high streets that understand this and are proactive to change in the immediate aftermath of COVID will be best placed to succeed in the longer term and meet the needs of the future consumer.

McDonald's has the high street presence, access to data, and strategic imperative to support Local Authorities in achieving this.

Not only do we welcome the opportunity to share impactful data and strategic insight in the immediate term, but we also hope to use this as a stepping stone towards a collaborative future for the high street. We firmly believe that together, we will be able to achieve the strategies set out in this paper and beyond.

If you would like to get involved or discuss anything in this report, we would invite you to engage with us using the channels below:



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