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Monthly Briefing Report

Month ending 31 May 2021

Published 1 June 2021



Introduction

I have been publishing my [Quarterly Briefing Report](#) since 2009. At the start of the covid lockdown, I began my Weekly Briefing Report to provide a more immediate view. And now, in addition to the [Weekly Briefing Report](#), which remains free of charge, I have launched a premium version which includes a subscription to my Quarterly Briefing Report and a new series of [Monthly Briefing Reports](#). You can find details [here](#).

I would value your feedback on topics you would particularly like me to add to my coverage - my email address is peter@peterbackmanfs.com and my phone number is 07785 242809.

My insight

May has been a month of two halves for restaurants and pubs – two weeks of outdoor eating and drinking; two weeks of indoor eating and drinking albeit socially distanced. The messages we are getting about how demand has shaped up in these two halves has been, to put it mildly, mixed.

And while I will attempt to paint a coherent picture, you may ask, reasonably pertinently: why bother when all this short term drama will be swept aside in the medium and long term? Why bother when the picture will become clearer over the coming months and the events of the past few weeks will shortly become a footnote? And I have no block buster answer. But I would say that an attempt at understanding might shed some light on what might be coming down the track. So here goes.

We've been here before

My starting point is, perhaps, surprisingly: we've been here before.

Staff shortages are appearing all over the hospitality sector. One of the prime reasons being given is the departure of EU citizens to their home countries during periods of lockdown, and as a result of Brexit. But interestingly, staff shortages are being encountered all over Europe in the hospitality sector – why are they not being filled (at least in some countries) by citizens who have returned from the UK and other countries – including France and Germany which have also lost hospitality workers?

So, we probably have to look for other reasons (or additional reasons) for the staff shortages that are encountered, specifically in this country. Maybe furlough is hiding the numbers; people have been enjoying not working – but being paid – so much that they have decided not to work. Or they may have found other work in sectors that have been open all along – Amazon have been doing roaring business over the last year or more and have been increasing employment. Or perhaps, the odd working hours, and low pay in the foodservice sector have finally hit home.

And another reminder of past times is inflation which is, once again, in the headlines, even though it is still below the Bank of England's target. There is global evidence of price rises for many

agricultural products. And the reasonable fear is that these increases will find their way into foodservice food prices.

And a third reminder of being here before is that, yet again the government has started down along trodden path of calorie labelling. This has a history going back twenty years or more with various attempts at making customers aware of the calories they consume when they have their salad in a pub. Alright, that may be a bit below the belt – the government would be wanting me to talk about the high level of calories in a pizza or cheeseburger, but honestly, most people eat

these meals in an occasional meal out of home – it is not part of the daily repertoire for many people. Clearly, some help needs to be given to those people who consume too many calories in restaurants over the week as a whole. But it should not be the task of restaurants to hector the majority for whom this is not an issue (and even if they do overindulge on a single meal, they may well cut back subsequently). A solution, it seems to me is for the government to harness the strengths and inherent willingness of the restaurant sector to help its customers eat healthily and with knowledge about the food they are consuming.

For those of an age, it is easy to recall periods in the 1980s, and the 1990s, and even at the time of the Great Recession,

when these were the defining issues. In a sense it is good that we are seeing them rise again – it suggests that we're getting back to normal. And in that sense I think we are.

Trade in May

Yet, we have a long way to go. The first results after the easing of lockdown restrictions are still coming from restaurants and pubs in. But they are mixed and confusing. And in a sense it may not be helpful to comment on them if the picture is going to change over the next few weeks, let alone the next few months.

Nevertheless, businesses – operators and suppliers – need information on which to base decisions and to understand what is going on. And this is especially necessary for operators and suppliers after they have been through a long period exposed to abnormal (even zero) information since the onset of covid.

So I'm going to attempt to comment on what has been happening over the month of May - and this commentary should be seen as the first draft of a developing and ongoing analysis of the performance of the eating out market. For clarity, I shall only be commenting on restaurants (full

10 points to note during May

- 1. Outdoor dining permitted (from 12 April)**
- 2. Indoor, socially distanced dining from 17 May**
- 3. The weather was wetter and colder than normal**
- 4. Notable regional differences – more footfall outside London**
- 5. Staff shortages – leading to some sites not reopening**
- 6. Inflation is beginning to show signs of increasing**
- 7. Delivery growth impacted by more eating out**
- 8. About a tenth of sites not reopened**
- 9. Drink sales outperformed food sales**
- 10. Lower than usual travel-related demand**

service and quick service) and pubs. Other sectors are either still suffering from covid-induced changes with no clear route – as to timing and extent – over the next few months (such as hotels, the leisure sector and staff feeding). Or they are well on the way to normality (hospitals and schools for example).

Factors at work in May

Just a reminder for the record, indoor dining and drinking was forbidden up to 16 May in restaurants (and its associated “destination” sectors, such as pubs); and from then, on diners and drinkers could indulge indoors or outside (albeit with some social distancing measures in place).

Three factors have driven change – actually growth – in restaurants and pubs: changing lockdown restrictions, the weather, and a likely surge of pent up demand.

Quick service outlets have been subject to a different set of changes notably the increasing competition from eating in has noticeably impacted on the core of quick service activity and growth over the past year – delivery (and to a lesser extent take away and drive through). Previous growth in these areas has significantly eased.

All of this seems to have resulted in two distinct periods in the month of May.

The first two weeks – outdoor eating and drinking

The first half saw a large boost to turnover in pubs – for drinking. Eating in pubs and restaurants increased only modestly with growth, perhaps, being challenged by the weather. Large headline growth figures were being trumpeted but they were normally like for like increases and ignored the large numbers of outlets that were as yet unopened.

And it should also be noted that increases were being (correctly in my view) compared with equivalent figures for 2019 (and not covid-impacted 2020). However, some figures were based on a single day, and finding the precise comparative date has proved problematic for reasons to do with the day of the week (perhaps comparing Monday with Sunday, for example) and maybe daily comparisons have ignored ignoring the weather, or competing activities – Cup Finals for example.

During early May, about 25% of group owned restaurants were open, and a somewhat higher percentage of independent restaurants was open. About 35% of managed pubs were also open, but individually owned, tenanted outlets were recording modest increase at best – with wet-led pubs reporting quite high % growth, and food-led pubs experiencing somewhat lower growth.

Clearly the picture is indistinct, but my overall assessment is that food sales rose to perhaps 50% of equivalent 2019 figures – the weather probably depressed this number, maybe be 10% or even 20%. So a tentative conclusion is that, in the first half of May, food sales were down by 60% on “normal”, pre-covid levels.

The second two weeks – indoor, socially distanced eating and drinking

When indoor dining was permitted from 17 May, consumers initially flocked to restaurants to eat – they were less likely to visit a pub for food although numbers were high for drinking only.

But even at this point, an estimated 5% (maybe higher) of restaurants and pubs remained closed because they could not operate with existing social distancing rules significantly which reduced their capacity to an uneconomic level, or staff shortages were such that reopening the restaurant was rendered problematic by virtue of not being able to provide an adequate level of service. A final point to note is that perhaps 10% of outlets had closed permanently during the period of covid lockdowns (and this figure is lower than many observers, including me, had estimated to be the case – I have been saying for some time that the figure would be about 15%).

Taking these factors into account, My headline number is that the restaurant sector was seeing sales at 80-90% of the equivalent period in 2019.

May in the round

And for the month as a whole, food and associated drink sales in restaurants and pubs were about 70-75% of May 2019 levels. This is clearly encouraging and has allowed operators to start to minimise, and in some cases eliminate, cash burn.

But it is still not a basis for long term health. Of course, these are still early days but there is plenty of heavy lifting still to do in terms of increasing sales and making inroads into ongoing operating losses.

It is important to note, that although food sales in pubs were lower than in restaurants, their drink sales performed significantly better – they were perhaps 80–85% of pre-covid levels. Given the higher margin earned on drinks, this is not at all bad news for pubs.

And another benefit of recent trading has been the recognition, especially by pubs but by some restaurants too, of what can be done with outside seating spaces; for quite a number of sites, this has shown them a relatively low cost way of increasing capacity.

So pubs have done well with drink sales. Restaurants performed quite well during May – although hopes must be pinned on an increase from current levels. If the surge proves short lived or particularly large, the future for restaurants may need to be rethought.

As for the final element of the “destination” eating out segment – QSR – the month of May did not show much, if any, growth. Two factors were particularly at play: delivery, the core of recent QSR sector resilience, was threatened by dining out; and although dining restrictions were removed, the low footfall numbers in central London (and other cities), and low levels of commuter traffic, meant that there was little if any upturn in those geographies which, in pre-covid times, were a major component of the overall QSR market.

Easing of restrictions has resulted in welcome, if uneven, growth across the sector. Some operators will be breathing somewhat more easily but no one is out of the woods yet.

If you want to know any more, or if you have any comments, or concerns, please contact me on 07785 242809 or at peter@peterbackmanfs.com

The remainder of this Monthly Briefing Report contains a very short summary of the longer-term corporate activity over the medium and long term that has been reported in the past month.

News in the month

Restaurants

- Burger & Lobster turnover fell -0.8% in calendar year 2019

QSR

- Pret a Manger trials shop in BP petrol station owned by Motor Fuel Group
- Krispy Kreme UK sales fell -23.5% in calendar year 2020

Pubs

- Cameron's, brewer, sales fell -13.0% in twelve months to end May 2020

Around the World

- UberEats turnover rose 52% in calendar year 2020