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Weekly Briefing Report

Week ending 31 May 2021

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Introduction

I write The Weekly Briefing Report to provide an immediate view of the market. My premium service which includes Monthly and Quarterly Briefing Reports provides a slightly more measured view. You can find details here of how to subscribe to this premium service.

I value your feedback. And I would particularly appreciate your thoughts on the topics you would like me to add to my coverage – contact me at peter@peterbackmanfs.com or on 07785 242809.

My insight

What links Thunderbirds, Wingstop, Oodles, Frankster's, Afrikana, Triple Two Coffee? For starters they are the highest ranking brands in my forthcoming Ones to Watch report (being published this week). Some, headed by Thunderbird, are ranked highest in terms of their growth rate over the last three years, others are ranked highest because they have opened the most stores since 2018 – and Oodles and Frankster's because they appear in both lists. But the other link is encapsulated in the word "franchise". All of these brands are franchisors, or in the case of Wingstop and Thunderbird, they operate master franchises.

And why should this be worth mentioning? It seems simple to me. These companies have risen to the top of the Ones to Watch lists in incredibly taxing market conditions – and bear in mind Ones to Watch is based on strict criteria of growth. Not only have these franchise brands risen to the top, brands that are operated under alternative funding options – private equity, trade investment etc – have, in many cases departed from the list over the last eighteen months. The disappearing tide of covid has left franchise-focused business afloat; many brands with other business models have been sunk.

Another point to note: franchises, such as Cream's now with approaching 100 stores, and Kaspa's, have also successfully "graduated" from Ones to Watch, in earlier years. And it is also worth noting that established brands such as Domino's, McDonald's, KFC thrived during covid; although this may be primarily due to their success in delivery, they are all operated under franchise models.

What is it about franchising that has this power of success? It seems that are three features in particular. First is the release of entrepreneurial spirit that franchising conveys. In essence, this spirit is evoked right at the front line – where the investment is made – by people and companies who have everything to gain from their success. The second feature is that franchising walls off risk – in other words, the failure of one franchisee does not bring down the edifice. Instead, the business can mend the tear in its structure and move on. And finally, franchising has the power to accelerate rapid roll out because it relies on many different parties to finance its growth – a feature not lost in the US where it is fundamental to driving QSR expansion.

Is the current success of the franchise model going to push all others aside in the UK as we enter the post covid era? Or will other models take over? I am investigating this issue - plus many others - on behalf of operators and investors, in my Future Restaurant initiative of which more will follow soon.

The numbers

The mournful whistle of an approaching express train is heard behind the hill. Since the start of the year I have been talking about this quarter (or maybe the next) as the most critical time for the foodservice sector, notably for restaurants. And now the specific challenges are coming into focus in this country, and in the US. I have been discussing these topics with a wide range of people including especially my weekly sparring partners – Steve, Jim, Peter, Gerry – as we dissect the supply foodservice chain from Northampton to North Carolina, from Rochester, Kent to Rochester, New York, and from Dubuque to (well where?).

The challenges for operators are simple: costs are going up, debts are to be repaid and demand is uncertain. Labour, food and beverages account for over 80% of an operator's costs. Labour shortages are apparent everywhere in foodservice and its supply chain. And so wage costs are rising as the search gathers speed for workers to replace those who have forsaken working in foodservice. And as for food, global dairy prices are up +18% compared with the eve of covid, cereal costs are up +25%, oils up +50%.

The reaction everywhere is to pay more – and so costs go up. A 10% increase in wages translates into an overall 5% increase in operator costs, a 10% increase in food prices translates into another 3%. Maybe property costs will be reduced (a bit) creating an overall cost reduction of, say, 2%. In aggregate though, changes of this order mean that operator costs will increase by 5-10%.

And in the UK there is another train on the track as well - the VAT increase express is destined to leave the station on 1 October. This will add 14% to operators' costs – less if they chose to add the increase on to the customer's bill (but most didn't take it off when the VAT movement was the other way).

All of this means that UK operators may be facing cost increases of up to 20%. Will customers be prepared to pay increases of anything approaching this level? I think not – they may be willing to spend an extra 20% a week on eating out but that increase will have to pay for another meal – not an increase on just one meal.

Meanwhile another express train is picking up speed. That is the rent backlog of six quarters that will have to be repaid – somehow, and over maybe an extended period of time, and with perhaps some reductions.

Thus, the timetable includes operating costs going up by 20% (perhaps), customers not too likely to pay the extra 20%, and a pile of debt to be repaid. Thus are the specifics of the dangers facing restaurant operators falling into place. The express train is rounding the hill, will it stop in time?

In the meantime, here are the latest numbers from the Huq Index and OpenTable.

	May 24	25	26	27	28	29	30	Metric
Huq Index	47.3	47.9	42.3	49.7	50.4	50.0	49.0	YoY % change in footfall
Open Table	-18%	23%	28%	34%	51%	89%	122%	YoY % change in bookings

The rest of this report contains a summary of corporate and other activity over the past week:

News in the past week

Retail

- Tesco trials Whoosh one-hour delivery service in West Midlands

Foodservice

- Dishoom (#4), Hickory's (#11), Coaching Inn Group (#21), Peach Pubs (#24), Hawksmoor (#24), Mowgli (#28), Flat Iron (#48) listed in100 Best Large Companies To Work For

Restaurants

- Loch Fyne CVA approved with landlords
- Wagamama delivery and takeaway trading at 3 times pre-covid levels
- Wagamama dine in sites trading at 122% of comparable 2019 period in the five weeks since outdoor dining permitted
- Carluccio's launches range of RTD (ready-to-drink) bottled cocktails
- OpenTable say bookings were 32% ahead of 2019 in first week after reopening for indoor dining – London was -16%, Manchester +90%
- Fulham Shore revenue was 3% ahead of 2019 in first week after reopening for indoor dining

QSR

- Caffe Nero sales increased 82% over the last quarter
- Leon launches coffee range at Sainsbury's
- Leon launches postal coffee subscription service
- Animal Rebellion blockaded four McDonald's depots

Pubs

- Oakman LfL sales rose 38.5% in week after reopening for outside drinking

Hotels

- UK hotel Revpar down -26.6% versus 2019, occupancy down -39.7%

Leisure

- Overseas residents made 11.1 million visits to UK in 2020 which is -73% of 2019 levels; they spent £6.2 billion, down -78%

Suppliers

- C&C Group sales fell -56.1% in the twelve months to end February

Around the World

- UK residents made 23.8 million overseas visits which is -74% of 2019 levels
- Melbourne reintroduces mandatory face masks in restaurants and pubs
- Taiwan introduces enhanced social distancing and customer registration in restaurants
- Royal Caribbean will restart cruises from US ports on 26 June
- Switzerland reopens restaurants for indoor dining
- Saudi Arabia to reopen entertainment venues at 40% of capacity