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Monthly Briefing Report

Month ending 30 June 2021

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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

"A large company that takes more than 45 days to solve a problem isn't a large company". These were words spoken out of frustration by a senior executive in a food manufacturer based in the Far East. The context was his inability to get his products distributed to restaurants and other outlets in the UK in the last month.

But are the words justified?

Well, in a sense, they are. Large companies have large resources – people, money and access to help, support and guidance. So in large companies, problems shouldn't be around for long before they are solved. Yet, to take just one example, Boeing, an indisputably large company, took eighteen months to solve the safety problems associated with its 737 Max airliner.

This isn't the place to solve all the problems in the world, but it is where I would like to comment on the impact of one problem affecting the foodservice sector right now. It's the problem that underlies the causes of the frustration of my Far Eastern contact last week – the supply chain and the problems that are causing distributors to tear their hair out.

The root cause of the problem seems to be the shortage of HGV drivers. But merely stating the problem is insufficient because it is like a Russian doll – one problem stacked inside another, inside another and so on.

How many Russian dolls?

Solving a business problem, not only the shortage of delivery drivers, will mostly require a number of compromises to be made – an urgent upgrade somewhere is to be delayed perhaps, maybe the problem is just kicked down the road to be dealt with at a later date, or maybe there are longer term, negative implications, maybe a limit has to be put on an item of capex or perhaps pay awards invoked to solve the problem give rise to an unacceptably highly level of ongoing expenditure. In short, solving a problem often (I would actually say, usually, doesn't solve the problem totally and for all time

t's within that context that the foodservice supply chain – or at least that part that involves moving things around, is facing a major problem. The problem? Finding the people to do the driving.

The first Russian doll is that previously suitable drivers have left the country "because of Brexit", or perhaps they have been driven home by the effects of covid. But on their own, these aren't enough to cause the industry-wide driver shortages.

Instead there is another doll affected by covid – delays at ports. This involves goods being piled up at ports. And this causes knock-on supply problems – and as a result required products are delayed. But of more relevance to the driver-shortage is the fact that every lorry waiting to be checked out includes a driver who is not on the road. Leading to demand for more drivers, and thereby adding to shortages.

5 Russian Dolls – Reasons for driver shortages in foodservice distribution

1. Drivers left "because of Brexit"
2. Drivers "locked up" at ports
3. Many other sectors of the economy are hiring drivers
4. Uncertain ordering / overordering
5. Pipeline filling

And another doll is the fact that all parts of the UK economy that require some form of logistics, are in a similar position – they are all suffering from a lack of drivers at a time when their industries are waking up. So there is huge demand for drivers, and it is not limited to foodservice distribution but is found from electricals to household goods, from building materials to hospital supplies. So suddenly after a period when workers were furloughed, they are now in demand, and as a result all distribution companies are fishing in the same pool of limited drivers.

And then there are dolls that relate specifically to foodservice and hospitality. The sector is waking up from a year and quarter of lockdown or at least very limited demand. Orders are being placed on the basis of uncertain knowledge and tentative forecasts. In some cases there may be a tendency to over-order, and in other cases, where there is under-ordering, the lack of supply needs to be made good at short notice. There is uncertainty at the operator / distributor interface. And distributors are forced to make judgements about the number of drivers that are needed.

And then there is just pipeline-filling, plain and simple. The effect of this is a spike in demand from operators, and distributors as warehouse, distribution hubs, kitchen storerooms are filled up. The resources needed for this pipeline filling are more than are required on an ongoing basis. Distributors are, accordingly, reluctant to staff up to peak levels when they may be left over-resourced, with higher costs, in the future.

And then look at the nature of solutions to problems. The solution that solves the problem might cause associated issues, bottlenecks, additional training requirements. Solutions might be implemented in the knowledge that other problems are being caused. So, a problem seemingly solved might only be a part of the solution -a nd yet it is possible to cry "problem solved".

The nub of the problem

On reflection a doll is not really the right analogy because, each of the issues I've outlined does not fit neatly inside another one. Instead the dolls sprawl across each other and interact in multiple ways ultimately leading to an overall UK shortfall of perhaps 100,000 drivers.

The solution to these many problems boils down to a simple question: how to resource the driver requirement? There is pressure, from within the distribution sector on the government, to increase the supply of drivers by changing the rules for immigrant workers to make it easier for them to enter this country. That may work – but solving the shortage of delivery drivers will probably take time. In the short term, money is certainly a lubricant – I am aware of a mid-size distributor in the USA which is paying new drivers a bonus of $10,000 after staying in post for just 90 days. But while actions such as these might solve the problem in the short term, they may build up pressures in the medium term.

But there are other problems as well

At the same time that these generalised driver issues are hitting the sector, foodservice distributors are facing sector-specific issues. Their customers in the commercial sector are faced with high levels of debt and this must be paid back, starting now. Business loans backed by the government are starting to fall due, furlough support is being reduced and operators are having to contribute more to paying staff, and back rent, while still being protected by the moratorium on landlords taking tenants to court, will not be protected in a few months' time. Five quarters unpaid rent amounts to a lot of money for foodservice operators and paying it back will be a drain on financial resources for years.

3 more challenges

1. Customers are highly indebted
2. Cash-strapped customers
3. Inflation

So these customers in the commercial sector will be cash-strapped for quite a while – years not months. Although these issues do not pertain in much of the non-commercial sector that is no cause for celebration.

And yet another issue is inflation. Food costs look set to rise, and along with them pressures are building on other costs too – packaging, utilities and fuel for example.

Solving the challenge

There is therefore a whole range of issues impacting on the foodservice supply chain. In the end, it seems to me that they boil down to a financial issue – costs will be going up. And the challenge for all – operators, distributors and suppliers alike – is how to cope with this challenge?

And what happens when these financing issues – primarily an increase in wages – lead through to increased prices to operators? They are facing price pressures on other fronts too – the overall increase in food prices, the forthcoming VAT increase from 5% to 12.5% in October, and no doubt price increases for equipment, utilities and a wide range of other inputs. Operators will be forced to increase prices.

But will their customers be forced to pay them? Or will they shun eating out? Probably not, but they may turn their backs on more expensive places, or more expensive dishes. Although that is another subject it serves to highlight the ramifications of the delivery driver shortage – and make it difficult for even large companies to solve the problem. Maybe I should explain that to my contact in the Far East.

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

- Comptoir sales fell -37.4% in calendar year 2020
- Various Eateries sales fell -70.5% in the year to early April 2021

QSR

- Caffe Nero's new digital and delivery channels are generating sales of £320,000 a week
- Caffe Nero currently trading at over 70% of 2019 levels

Pubs

- Hawthorn pub company managed estate LfL volumes in June were at 83% of 2019 levels; tenanted LfL volumes at 98%
- Timothy Taylor turnover fell -23% in the year to end September 2020
- Heavitree Brewery turnover fell -67.5% in the year to end April 2021
- Daniel Thwaites turnover fell -67% in the year to end March 2021