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Weekly Briefing Report

Week ending 11 July 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

Slowly at first and then increasingly fast, we will be finding out the accuracy of our forecasts of the changes wrought by covid. Working from home for instance – how will it work out (if indeed it becomes a normal part of our working repertoire)? Everyday travel – will it be entirely different from what we have known up to now, or will it revert to where it was? What about harder to measure outcomes – will we be nicer or more caring? Will we take hygiene more seriously?

This bout of introspection has been brought about through the process of completing a project, with a couple of inspirational and doughty partners in India, on the topic of delivery, and the role of technology in its evolution. The project was on target to be completed in the first few months of 2020. But covid upended that. What had been management by WhatsApp, email, and the occasional phone call, stopped - totally. Then it restarted but with Zoom – Zoom in the morning, Zoom in the afternoon (not in the evening fortunately because of the time difference).

The research team had to be restructured because of the effects of covid on the ability to get things done. But with old-fashioned grit – and a heavy dose of Jugaad Yatra (the Indian art of problem solving - read [Dean Nelson's book](#) of the same name on this subject) – we made progress. But the whole market had been upended by covid, and we had to go back over much of our earlier work.

And then it was finished. Lessons were learned, about project management, about how to manage changes that came out of nowhere, how to communicate effectively – at distance, with colleagues old and new. Multiply these learnings millions of times, and we can begin to see how the new post covid world will be shaped. Its actual landscape will emerge from the clouds – slowly at first and increasingly fast.

And you can join in learning about one aspect of this new world if you join me and a stellar line up of panellists including CEOs of Swiggy and KFC India at a webinar on “The use of technology to drive profitability in delivery” to coincide with the launch of the Indian Food Service Delivery Report.

The webinar is being streamed next Wednesday, 14 July, from 11:30 to 12:50 BST (16:00 to 17:50 IST). If, by now you are interested in the role of technology in delivery please head here to complete [this reply form](#) to get the link.

The numbers

Last Thursday was the anniversary of the reduction in VAT, from 20% to 5%, on meals eaten out. This was initiated by the government “to boost cash flow and improve business viability” – certainly restaurants, pubs, and hotels, generally pocketed the resulting windfall by not reducing prices (which was partially academic anyway since few restaurant meals were being served to locked-down customers at the time) – Fazenda, for example, revealed last week that it had used some of the windfall on a bonus for its staff.

Along with some other operators, Wetherspoons, true to its tradition, went the other way and passed on the reduction to its customers in the form of lower prices. This was always a poisoned chalice because, unless businesses were prepared to increase prices significantly when VAT was inevitably increased again at some time in the future, the hit to P&Ls would be grievous.

And now that VAT is set to increase to 12.5% in October (and then return to 20% next April), this moment of reckoning is approaching. It remains to be seen what operators will do.

One strategy being brought into play is to attempt to reduce the level of VAT. Wetherspoons (again) argue that “... the increase would make the entire hospitality industry less competitive vis a vis powerful supermarkets. Treating the same product – food – the same way ... makes economic sense”.

But of course the fallacy in this argument is that we are not comparing like for like – food is not like service. And service is what the hospitality industry does. If I want a Margherita pizza plus a Coke, I can pay £3.96 at Tesco or £6.15 at Wetherspoons (and after removing VAT to allow for a level playing field, that is about £5.85). There is nothing wrong in this differential but we should acknowledge that the higher price is due to the charge for “hospitality” (otherwise known as the “service”, in “foodservice”).

So, to treat hospitality and supermarkets equitably, yes, VAT could be applied to the food and drink – but not to the service. This attracts a VAT rate of 20% - a haircut, for instance, truly a service, attracts VAT at that rate.

Now, food is 35% or so of the cost of an “average” pub or restaurant meal (in passing, “food” is 36% of the letters in “foodservice”) and if you do the maths you find that an equitable VAT rate for “foodservice” vis a vis supermarkets is 12% - which is pretty much the level planned to run from next October.

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

	July							
	5	6	7	8	9	10	11	Metric
Huq Index	49.5	49.1	49.3	48.7	51.5	51.2		YoY % change in footfall
Open Table	17%	-17%	-10%	-8%	-72%	-1%		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

Financial & Legal

- The government will give guidance this week regarding what to expect on so-called Freedom Day, 19 July
- Activities to be considered on Freedom Day include: masks, the 1 metre rule, QR codes, working from home, bar service in pubs, self isolation
- Government figures for the end of May indicate about one third of hospitality employees were furloughed
- Government permits HGV drivers to work 10 hours a day – up from 9 hours

Foodservice

- CGA Drinks Recovery Tracker data says sales were down -28% vs 2019 in the week to 26 June - pubs down -25% on 2019, restaurants fell -32%
- Hospitality Rising recruitment initiative launched and supported by Arc Inspirations, Buzzworks, Butlins, Cote, Hawksmoor, Loungers, Punch, Rhubarb Hospitality and others
- ONS says accommodation and foodservices grew 37.1% in May and were responsible for the vast majority of the growth in the economy in the month

Landlords

- Land Securities collected 76% of rent due from commercial tenants on quarter day on 28 June

Restaurants

- D&D London is to run a summer school to help ensure enough workers for reopening on Freedom Day

QSR

- Barburrito Group acquires Barburrito out of administration

Pubs

- JD Wetherspoon LfL sales fell -14.6% vs 2019 in eight weeks to early July
- Fuller's managed estate LF sales fell -24% vs 2019 in the quarter to early July

Leisure

- Ryanair says masks will still be compulsory after Freedom Day
- Ten Entertainment Group LfL sales rose 22.5% vs 2019 levels in six weeks since mid-May
- Entain revenue rose 42% in the last quarter
- Manchester Airport passenger numbers fell -89.4% in the year to end March

Delivery

- Deliveroo UK and Ireland orders grew 94% vs 2020 in the three months to end June

Around the World

- UK arrivals to Spain fell -97.4% in May vs 2019
- Greece restaurants, bars, and restaurant only to serve seated guests
- Chinese city, Wuhan, restaurants no longer to serve dine-in
- Seoul places seating restrictions in restaurants and cafes; bars, nightclubs, schools to be closed
- International air travel fell -62.7% in May vs 2019