

Peter
Backman.



Monthly Briefing Report

Month ending 31 August 2021

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Introduction

In addition to my [Weekly Briefing Report](#), which remains free of charge, I 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 – you can contact me at peter@peterbackmanfs.com or 07785 242809.

My insight

This last month has proved to be very complex and fraught with difficulties. The vaccination programme in the UK is moving ahead – but so is the virus – and when we thought we were almost out of the wood, we are finding that the end is still difficult to discern.

Not only are there knock-on concerns - international travel, for example, is not where many people had hoped it would be. But the issues that I have covered in the last June Monthly Briefing Report and in my Weekly Briefing Reports – driver shortages, front of house / back of house staff shortages, impending inflation amongst many other issues – remain very real and have perhaps become more pressing. But they are playing out against a backdrop of time, and the benefit of time is that it provides opportunities to try things out, to see what works, and what can still be done. And that is my view about where the foodservice sector is right now.

Although the issues remain, and are causing real concerns, my feeling is that the staff shortage problems, to take one example, are partly (I say partly) in the mind. This is how I see it: just like a caterpillar reforms itself inside a pupa to become a butterfly, everybody to some extent reformed themselves during covid lockdown – perhaps it was a determination to only work from home (or never to do so again), perhaps it was to seek a new career or maybe it was something else. This process led to a reformation of perceptions, requirements, and aspirations.

While this was going on, businesses were beginning to cope with the changes that had either been forced on them by what they felt customers, employees and other stakeholders might have up their sleeves, or because the rules of business engagement (with landlords or investors, for example) were going to be changed.

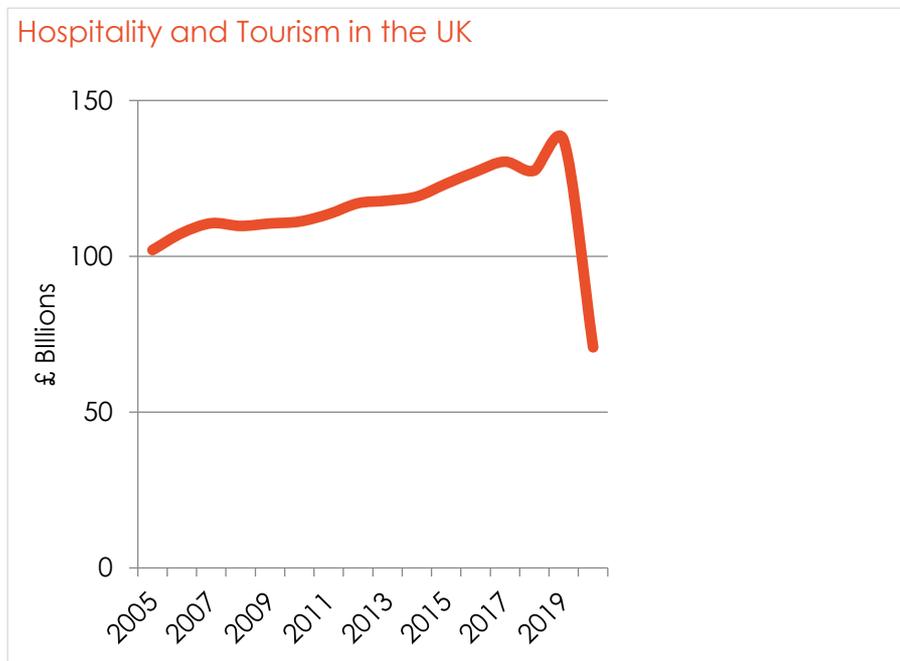
Thus, a few months ago, the foodservice world was in a state of mental turmoil – I say mental because it was in the mind, rather than being expressed in practice. And then the economy started to wake up – not just foodservice but most sectors had been suspended for over a year during lockdowns. And the reality of what the world looked like as it was waking up clashed with the turmoil. Decisions were made, if not necessarily in a vacuum, then at least in an environment when the rules had changed and were uncertain.

I'm not suggesting for one moment that it's not an exceptionally time – difficulties in finding staff, for example, are all too real - but I am saying that one factor at play is a huge state of uncertainty caused by changes that people and businesses had been, and still are, undergoing.

This will, unfortunately take time to settle down and resolve itself, but when it does, I believe that many of the difficulties we are seeing today will also be resolved.

The hit taken by Hospitality and Tourism in 2020

August is holiday month and that seems a useful reason to visit the world of tourism in the UK and to review what it looked like in 2020.



I publish a report on the hospitality market at the end of July each year – but this year information has been slower than usual to be forthcoming (for obvious reasons related to covid). So I have only just been able to complete my analysis for 2020.

The headline is that the hospitality and tourism market (as I define it) fell from £137.3 billion in 2019 to £70.8 billion in 2020 – a fall of -48%. The rate of decline would have been even greater but for the first quarter which, apart from its last two weeks, was pretty close to

normal. However, the contribution this quarter normally makes to the full year is restricted – and accounts for perhaps 15-20% of the annual total.

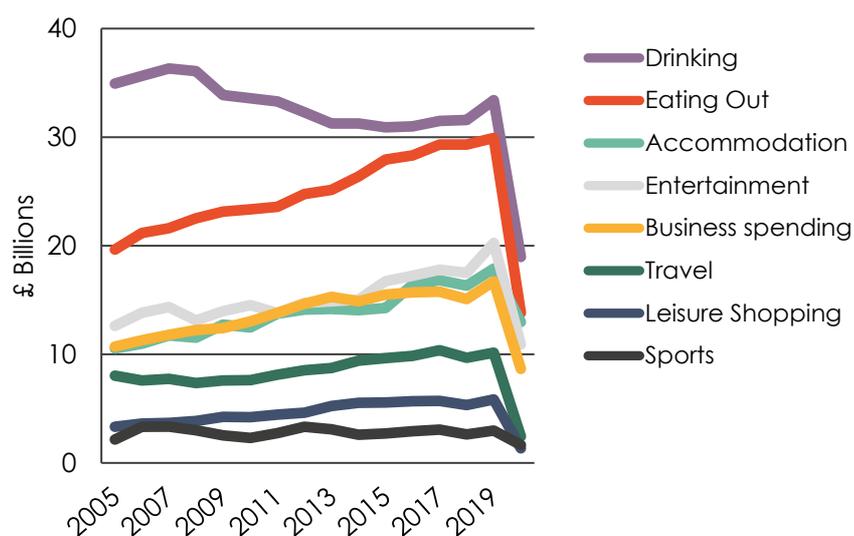
Eliminating the first quarter, I calculate that the annualised fall over the covid period of 2020 (ie its last three quarters), to have been -62%.

How the various components fared during 2020

Hospitality and tourism require a definition.

The two largest parts are drinking and eating out – and they are not precisely the same as my normal definition of “foodservice” for two reasons. First, the figures I show here include all drink consumed outside the home – and not just drink which is consumed with food. And second, some elements of foodservice are difficult to reconcile with “hospitality and tourism” and so I exclude them – they include feeding at work / B&I, health care, education, and public service such as prison feeding

Evolution of the components of Hospitality and Tourism in the UK



The evolution of the various components are shown in the chart head “Evolution of the components of Hospitality and Tourism in the UK”. It provides a clear view of the growing importance of eating out, and a corresponding fall in drinking from 2005 until 2019. Both sectors then fell under the influence of covid restrictions in 2020.

But all other sectors also declined. The largest percentage fall was in expenditure on travel – both inside the UK and outside in terms of expenditure with British transport operators (trains, and

boats, and planes) originating outside the UK.

Amongst the “winners”, businesses that operated on a subscription membership model – golf clubs, and gyms for instance – were financially resilient during 2020.

The net changes – both long term since 2005, and short term compared with 2019 - are summarised in this table

	Change		
	From: 2005 To: 2019	2005 2020	2019 2020
Drinking	-4%	-46%	-43%
Eating Out	52%	-30%	-54%
Accommodation	70%	23%	-27%
Entertainment	60%	-14%	-46%
Business spending	56%	-19%	-48%
Travel	26%	-70%	-76%
Leisure Shopping	75%	-60%	-77%
Sports	39%	-23%	-45%
Total	55%	-23%	-50%

In each column, the colours are graded from green (highest), through yellow, to red (lowest). They show that over the long term, leisure shopping (by tourists and overseas businesspeople) grew the fastest to 2019 followed by spending on accommodation in hotels (as well as guest houses, theme parks, B&B). The slowest growing (actually in decline) was drinking.

But covid severely impacted these patterns of growth and spending on (internal UK) travel plus leisure shopping fell fastest of all these activities while accommodation for summer staycations fell the slowest.

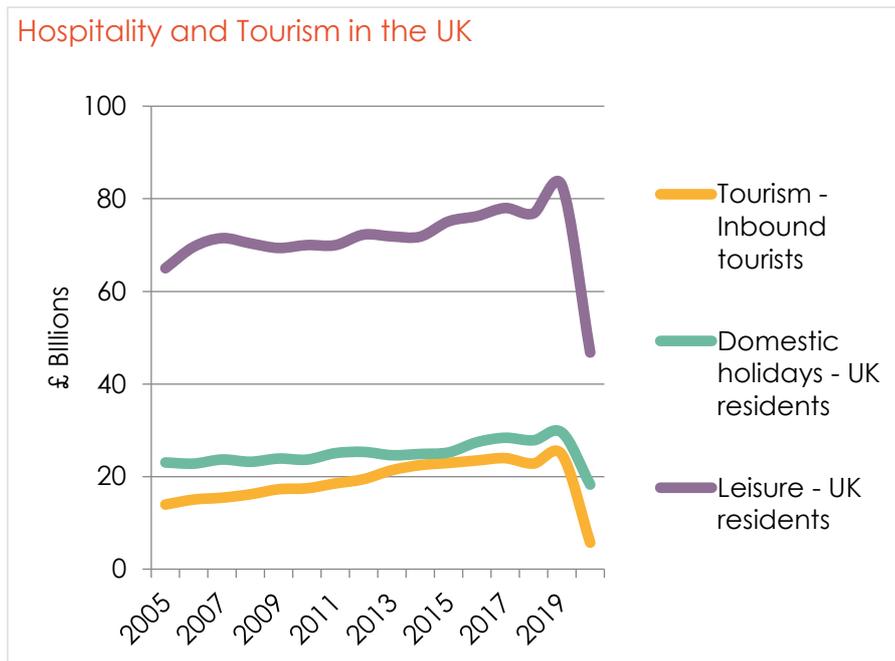
Contributions from Brits, and overseas visitors

One way to look at the reasons behind the variable fall in hospitality and tourism spending is to review three types of customer: inbound tourists, UK residents spending on leisure in a hospitality environment, UK residents taking a domestic holiday.

The first of these – inbound tourists - saw the most dramatic fall in percentage terms – their spending in the UK fell by -£19.1 billion last year compared with 2019. The knock-on effect on

hotels, especially inner city hotels in major tourist destinations – London, Bath, Edinburgh etc – was dramatic and was further enhanced by the disappearance of business travellers.

Hotel business was supported, during the early days of covid, by the government, local authorities, and other bodies, on accommodation for front line workers in the NHS and other essential services. While such accommodation, being subject to severe financial limits, was “frill-free” it nevertheless provided a reason for some hotel operators to remain open during



a very difficult time.

On the other hand, UK residents took many more holidays in the UK last year than in previous years and, in total they spent £18.3 billion on holidays in 2020 – down -38% on 2019. UK residents also spent £46.8 billion on non-holiday leisure activities in the UK – a fall of -44% compared with 2020.

In short, overseas visitors spent -77% less last year than in 2019 and their share of the total UK hospitality and tourism spend was 8% of a much reduced market, compared with 18% in 2019.

Some conclusions

Without going into the details, the unsurprising conclusion I draw from this latest set of data is that all previous patterns in the hospitality and tourism market were thrown into disarray by covid. It wasn't that everything declined, it was the case that the various components of the market changed at different rates – UK vs overseas tourists, holidays versus more general leisure spending, eating versus drinking, entertainment versus sporting activity all showed remarkably variable rates of change.

This suggests that it will take quite a time to get back to the pre-covid status quo. Indeed I question whether it actually ever will. And that has implications for operators in the market in terms of: their marketing profile (Have their previous customers, and the categories they represent, undergone irreversible change? Do operators need to review who their customers are going to be?); their hardcore infrastructure (Are they in the right type of location? To what extent do their sites need to be reconfigured or resized?); their “offer” (What will post-covid customers be looking for? How should pricing change to reflect new realities?) and much more.

One important question is the extent to which Britain will have changed as a destination for international tourists? Will they continue to come in the same numbers? Will they originate from the same countries as before? Will they individually, and collectively, spend more – or less – than before? The answers to those questions, and the extent to which British operators gauge the correct answers, will determine the future shape of hospitality in the UK.

And what about 2021?

We already have some idea of what is happening in 2021.

Brits want to go abroad for the summer holidays. Nevertheless, many are either making do by taking their holiday in the UK – or are seeing this as a positive benefit, and something they may continue to do in the years ahead.

Eating out is returning but still has some way to go before it hits pre-covid levels. Likewise, drinking surged immediately after lockdowns were released but has moderated a bit since.

Consumer spending on sport – both as participant and spectator – and participation in music festivals appear to be coming back.

What have not come back are the 40 million or so overseas leisure visitors. Their total spend is significant - £24.8 billion in 2019 – and their absence is being keenly felt. The hospitality industry, in its widest sense – will have to do its utmost to ensure they return in 2022.

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

Landlords

- The REMark Report shows an average of 78.6% of commercial rent due was paid within 35 days of the latest April to June quarter

Restaurants

- The Fulham Shore sales fell -41.3% in the year to end March 2021
- Patty & Bun sales fell -25.4% in the year to end November 2020

Leisure

- Cineworld sales fell -58.9% in first half of the year versus 2020
- The Rank Group turnover fell -48% in the year to end June 2021

Around the World Delivery

- DoorDash Gross Order Value increased 70% in the latest quarter