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Monthly Briefing Report

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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.

If it's not one thing, it's another

Headlines are screaming. Gas shortages; supply chain disruption; queues at petrol stations. The key question for me is: What do they add up to for the foodservice sector – how are the supply issues going to affect demand, and costs? And what does that all imply for the sector and its profile over the coming months?

The headline issues affect the whole economy, but the foodservice sector is faced with a number of sector-specific issues. How do these add to the impact of the wider economy issues? Where does this all lead?

In this Monthly Briefing Report I will investigate the answers and give my views, but embedded within all of this is Christmas.

Christmas

Traditionally, Christmas is an important trading period for restaurants, for pubs and for hotels. They all cater for several distinct audiences (which, to be fair, include many of the same customers but wearing different hats).

There is the family and friends audience: dining out in the run up to Christmas and beyond into the very early New Year. There is the pub-going audience: out to celebrate Christmas on a whim or partly planned – drink is involved and so is a lot of eating. There is the corporate entertainment audience: entertaining clients and customers in restaurants and pubs. There is the corporate audience that sets up functions, again to entertain customers, and suppliers. Large venues, primarily hotels, benefit from this corporate activity which provides opportunities for selling food and drinks, with the added benefit of providing a steady stream of customers seeking accommodation. And there is the informal corporate activity – company events, one-to-one customer lunches, departmental outings to celebrate Christmas in a restaurant or pub.

This activity normally leads to a spike of 20% during the six or so trading weeks over Christmas up to the early New Year, compared with the annual average. The big beneficiaries from all of this are suburban and city centre restaurants and pubs, larger hotels, well-regarded restaurants in rural locations. It's not such a noticeably positive period for the quick service sector which puts on a good seasonal face at Christmas but does not appeal specifically to the festive needs of its customer base. It's not a bad period for the sector, but it's not accompanied with the seasonal spike that is so obvious in restaurants, pubs, and hotels.

All of that occurs in a normal year. Last year was, of course, entirely different. It was a time of eager anticipation in the sector with the portended removal of lockdown restrictions – in most of the country but not Manchester, for example. So the anticipation was patchy and overlaid with uncertainty, seemingly from day to day, over the trading conditions that would apply – Which days could the sector open? In which regions? Would social distancing apply – and how would it apply? Customers were somewhat conflicted – some were extremely happy to have the opportunity to go out and celebrate, others were fearful of catching covid and for whom the thought of going out to celebrate was something not to be contemplated. It's worth noting this split still exists (although with a growing mid-way point of people who are wary about going out but not totally opposed to the idea, so they go out but not as often as before),

Last Christmas

- Eager anticipation "Things may get better"
- Wide regional variations in lockdown restrictions
- Up-to-the-last-minute uncertainty over restrictions
- Customers conflicted over the wisdom of eating out
- In the end it was just about "OK" for restaurants, pubs (and hotels)

Last year trading over Christmas in the sectors of interest – restaurants, pubs, hotels – was double the sales levels in November. This compares with a 20% uplift in normal years. And actual levels of trading at Christmas last year were only 17% of 2019 figures.

Last year's performance is part of the trading context for the coming Christmas. My view has been, for some time, but without direct or empirical evidence, that Christmas 2021 would shape up to be a good Christmas not only, of course, compared with last year, but with prior years too. My thinking has been that people will want to go out because there was little to celebrate last Christmas – despite growth in demand, it was a "lost" Christmas. So there is come catching up to do. And the general mood of the country has been improving for some, and therefore will likely continue to move in the direction of celebration. Let's party, at last!

For those reasons I have been anticipating a good trading period bringing relief to operators – large and small, across the country - with money returning to their bank accounts helping to rebuild balance sheets and providing a boost to optimism.

That has been my thinking for the last few months.

However.

Shortages and uncertainty

Having endured a summer of operational restrictions, unusual weather and a "pingdemic", the foodservice sector has been through an intensely difficult period and now the macro economy is imposing its concerns across the country – affecting, not least, restaurants, pubs, and hotels.

There are several key words. One is shortages. Natural gas is in short supply and doubts about how it will pan out are many. These shortages affect many of the foodservice touchpoints: heating and fuel bills are rising, the impact on suppliers is affecting supplies generally.

Driver shortages are affecting supply chains throughout the economy not least specifically within the foodservice supply chain. These shortages have led to increased costs – pay has gone up to attract derivers, shortages require short term and therefore less-profitable (even unprofitable) alternatives such as using smaller trucks that can be driven by drivers without an HGV licence.

The lead up

- Ongoing restrictions – social distancing etc – in some regions, outlets
- Pingdemic
- Part-time closures for some businesses
- Supply shortages
- Fuel shortages
- Rising energy costs
- Rising cost of goods
- Labour shortages
- Increased wages
- Uncertainty over supplies
- End of furlough
- VAT rise effectively increases bills by a nominal 7%

Shortages of other workers affect, once more, supply chains from warehouse workers to farm workers and abattoir operatives. And, they have had a huge impact on the foodservice sector leading to a scramble – frequently unsuccessful – for kitchen staff, front-of-house staff, and management. And there have been consequent knock on effects in the form of outlet closures on some days, or some parts of the day. And in extreme case, closure of the business entirely.

Another key word is: uncertainty. Comments about the possibility of supply chain shortages leading to a Christmas without the usual choice of Christmas presents and festive food for Christmas lunch are creating uncertainty. Television pictures of long queues at petrol stations provide an additional layer of uncertainty. And those are only examples.

There are other issues too – and a notable example is the Scottish vaccine passport scheme for entry to nightclubs and other large scale hospitality outlets, which comes into force as you read this.

And there is the prospect of increasing, systemic inflation with unknown, but potentially severely negative, implications for business sentiment, operational costs and customer demand.

Overlying everything is the expectation that things on the varus front will improve and the pressure on the NHS will not be unbearable. But things may turn out otherwise, and heaven forbid, a stronger variant emerges. If it does then I suspect all bets will be off. But for now, we can hope for a relatively benign situation on the virus front.

So the lead-up to Christmas is being infected by unknowns, uncertainty, and shortages. This must have an effect on consumers and will influence how they spend Christmas and what they spend their money on over the period. However it pans out, I suspect my previous sunny expectations of the coming Christmas will be severely dented.

And now for the real issues

But that is not all, because there are specific issues that are impacting the foodservice sector.

By the time you read this the Job Retention Scheme – the furlough scheme – will have come to an end. Over the last eighteen months it has supported over 11 million jobs at one time or another, and at its peak it supported almost 9 million – just shy of a third of all jobs in the UK. At its closure it was supporting under 1 million jobs (the actual figure is still to be released).

While operational, it undoubtedly saved many businesses from going under while providing income for millions of people who would otherwise have been thrown out of their job. As it ends it will reveal a few more job roles that will not be filled, leading to additional redundancies. While this will be distressing for the people concerned, the numbers are unlikely to make much of a difference to the pool of people willing and able to take up one of the large number of available job positions – in foodservice or any other sector.

Natasha's law, requiring strict content labelling for food prepared and packaged on site, also comes into law as you read this although its impact on specific Christmas-reliant sectors is limited.

This Christmas

- Headwinds, uncertainty, and unknowns
- Growing consumer desire to eat out
- Consumers still conflicted over wisdom of eating out
- Supply shortages
- Fuel shortages
- Rising energy costs
- Rising cost of goods
- Labour shortages
- Increased wages
- Uncertainty over supplies
- Introduction of Natasha's Law
- Potential return of inflation
- As usual a "good" Christmas is vital to see business over the lean Q1 next year

Of more importance to the foodservice sector is that, again by the time you read this, VAT on eating out will have gone up to 12.5% (from its previously reduced level of 5%). There has been a lot of talk about whether this increase should be reflected in full, or only in part, on menu prices. The actual increase would represent an increase of 7%. Can price rises of this level stick?

I'll try to answer that shortly. However, I would draw your attention to the fact that when VAT was reduced (it had been reduced to 5% from the normal level of 20% at the start of the pandemic), with some limited exceptions, operators did not reduce their bills by the implied figure of -14%. Instead they kept the money. And to be fair that's what the Chancellor intended, when the reduction came into force, so that balance sheets would benefit. I would also note that any reduction would have been fairly moot because, at the time it was implemented, demand was on its knees and customers would not have benefitted from lower prices in restaurants and pubs. A key beneficiary, though, was the delivery (and take away / click & collect activity). However, as I've pointed out, this activity is not a beneficiary of the Christmas market and so, broadly, falls out of the thrust of what I am drawing attention to here.

So, returning to whether price rises will stick. I suspect now is a quite a good time to increase menu prices – customers are increasingly going out and about, and returning to eating out, there is a general air of price rises in which customers expect to see prices increases. However, an acceptance of price rises does not mean that people will actually pay them. They may seek lower priced alternatives from the menus they are presented with, or they may choose to entertain or be entertained at a cheaper restaurant or pub. A price rise of 7% does not, in my view, lead to increased customer spend of the same amount.

And a third issue is rent. This has been an obvious facet of the trading environment since the start of the pandemic (actually, of course, it was significant before and the pandemic has broadly highlighted, exacerbated and accelerated the changes to property costs). At the start of the pandemic the government introduced measures that protected stressed operators from landlords seeking their usual remedies of legal action and closure. But unpaid rent bills still grew relentlessly.

The legal environment surrounding unpaid rent and other property costs has already been changed somewhat; but it will reach a peak after next March when most of the moratorium on legal action is removed and operators become exposed once again to landlords armed with measures that will allow them to collect the many quarters' rents that are still outstanding.

And March will also see a further planned rise in VAT back to its standard level of 20% and will reinvigorate arguments over whether decisions to increase prices by the resultant 6.6% can be justified - and where they will stick.

The timetable

Pulling all this together there seems, to me, to be an irresistible timetable for operators seeking a good Christmas.

Right now, an impoverished sector with weakened balance sheets and struggling against labour shortages and price rises for everything from fruit to combi ovens, is faced with a VAT increase of significant proportion. But for those businesses that have got this far, and with a bit of luck, they will survive.

Then comes Christmas – typically this is good time of the year. Sales are up, a buzz is around, and confidence is boosted by the feel-good-festive season. This will possibly be the case this year – but it is by no means a given.

Whatever happens over Christmas, restaurants and other foodservice business enter the post-season period knowing that a poor couple of months lie ahead – they always do. If trading over Christmas is good, operators will be better placed to withstand the inevitable buffeting, and they will stand an improved chance of surviving until better trading times arrive in the Spring.

The Timetable

- **Currently,** a weakened industry is surviving
- In a very uncertain environment, a good **Christmas** is needed to build confidence and balance sheets
- The **first quarter of 2022** will be poor – it always is – and faced with additional pressures, some (or many?) weakened operators will go under

But past experience also shows that some business will fail early in the New Year. If Christmas is not good, more businesses will fail.

And then there is the spring when rent and VAT pressure build up and balance sheets will once again be examined by businesses themselves, their investors, and creditors.

What does this all mean?

The reality is there are so many unknowns that I find it extremely difficult to come up with anything close to a definitive view.

Uncertainty rules – but the foodservice sector has been extremely adaptable in the past and this time round I expect that adaptability to come to the fore.

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

- Ego Restaurant sales rose 35% in July versus 2019
- Gordon Ramsay Restaurants sales fell -36.9% in the years to end August 2020 versus the prior year
- Rosa's Thai Café sales fell -16.5% in the year to end March 2021
- Le Comptoir Restaurants turnover in calendar year 2020 fell -58.4%
- Westbourne Leisure sales were down -35.7% in the year to end September 2020

QSR

- Soho Coffee Co turnover was down -63% in the year to end January 2021
- Wright Restaurants - McDonald's franchisee – saw turnover fall -15.8% in calendar 2020
- Burger King UK sales were down -22.8% in calendar year 2020

Pubs

- Innis & Gunn sales fell -12% in calendar year 2020
- St Austell Brewery turnover in the year to early January 2021 fell -38.0%
- Peach Pub Company sales fell -42.0% in calendar 2020

Hotels

- PPHE Hotel Group turnover in the first six months of 2021 fell -58.3% versus 2019
- Andrew Brownsword Hotels sales were down by -63% in the twelve months to end January 2021