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Weekly Briefing Report

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About the Weekly Briefing Report

I write the Weekly Briefing Report to provide an immediate view of the market. My premium service (which additionally includes Monthly and Quarterly Briefing Reports) provides a more in-depth view. Learn more and subscribe here

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

The numbers

So, we are being told that the way to solve the staffing crisis (or perhaps it's just a problem) in the restaurant sector is to raise wages. Let's look at what this means.

How much should wages be raised to persuade someone to join your business? This isn't about switching from one employer to another; it's about persuading someone to become a waiter rather than, say, a worker on a construction site. The amount has to be meaningful – and competitive. Let's say 10% is the amount (although, my guess is it needs to be substantially higher).

That has a consequence. It means that a restaurant's costs increase by 4% (assuming that employment costs are 40% of the total). The restaurant business is a low net profit business, so the increase has to be passed on. And, of course, that increase ignores any other increases due to rising fuel costs, food costs, VAT, and the rest, which also need to be managed.

Will customers pay the increase? Some will, some won't; a recent UKH survey shows that half of those surveyed would eat out less frequently if prices went up. Maybe they'll chose to go to a restaurant offering more competitive prices or maybe they'll switch to buying lower priced items off the menu. Whatever happens, a likely outcome for restaurants is a mix of reduced turnover and reduced profits.

But there is another significant impact of attempting to pay people more. And it comes to the fore in attempting to answer the question: where are these people going to come from? I get that, for political reasons, they can't come from overseas; so they need to come from the pool of labour that exists in this country. There are, give or take, a million and a half people looking for a job at the moment. Some of these people (many of them?) will not be suitable or won't want to work in a restaurant. And some will be tempted by offers from another sector such as the road haulage industry (100,000 jobs to fill), or the nursing profession (40,000 vacancies). Incidentally I assume the government will be taking its own advice and upping nursing pay in order to fill the employment gap in that sector.

Be that as it may, there are big issues in filling staffing roles in restaurants. And raising wages by a significant amount is unlikely to do the trick. Maybe the solution is to address the other part of the government's exhortation and that is to train the workforce to be more productive. It's going to be difficult to do that – and the existing productivity hurdle will be raised even higher when wages are meant to grow at the same time. It's been tried before. Can it actually work this time?

My insight

I try, I really do try, not to comment on aspects of delivery all the time, and yet, no sooner do I cover one aspect, then along comes another.

When restaurant delivery was in its youth four or so years ago, I (along with others) noted three things that were wrong with it: high commission rates (and that was a time when they were less than 20%); a negative impact on a restaurant's brand; and antagonising customers by prioritising delivery over dine-in customers. This last issue is rapidly coming to the fore as restaurants, which had built up a healthy delivery business during lockdowns, now struggle to keep up with delivery while dine-in customers return. The result is a clash of priorities in the kitchen and the unwelcome sight for diners of helmeted, riders collecting food front of house. And the consequence of this is that dine-customers become exasperated over the drop in the quality of service, especially noticeable in the time taken to be served.

You can argue that this situation is a function of success. But it's still a problem. A possible solution is to move delivery to a nearby dark kitchen where there is no risk of antagonising customers. However questions arise. Are there enough (or indeed any) dark kitchens in the areas where they are required (there are only about 60 sites nationwide and they are primarily in the inner suburbs of London)? And if there aren't any, can a restaurant set up its own standalone dark kitchen with its inevitable complications including further commitments to new landlords?

Another issue is that the costs of using a dark kitchen come in addition to running a bricks and mortar restaurant nearby. That would mean an overall cost increase – and a subsequent reduction in profits. In that regard, I would note that most of the problems associated with antagonising customers arise only at periods of high demand. There will be many periods when delivery orders can be satisfied without antagonising dine-in customers. Thus much of the cost of running a nearby dark kitchen would be unnecessary. This suggests that while moving to a local dark kitchen would solve the antagonism problem, it will create further problems primarily in the form of additional costs which could well be significant. There are other solutions to the antagonism problem though – for example: raise prices (both dine-in and delivery or just delivery - after all, the demand is there) – until they get to a level that starts to choke off demand. This is not a secure policy (what to do about regional differences is one problem) and likely a very risky one too. Another solution would be to: increase kitchen capacity by reengineering sites to include bigger kitchens and more back of house staff (but dine-in capacity will be reduced, and costs will go up).

Restaurants are at a tipping point as demand for delivery increases at the same time as growing dine-in demand. When will this clash become unsustainable?

While we wait to see what happens, here are the latest numbers:

	October							
	4	5	6	7	8	9	10	Metric
Huq Index	43.1%	43.6%	42.8%	44.1%	45.3%	44.9%		YoY % change in footfall
Open Table	5	4	13	16	25	34		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

Finance & Legal

- Wales to require covid passes for nightclubs
- National Living Wage likely to rise to £9.42 an hour

Landlords

- Two thirds of coffee shop and restaurants pay rents by the last quarter day at the end of September

Restaurants

- Tortilla Mexican Grill shares were traded on AIM

QSR

- Greggs LFL sales grew 3.5% in September

Pubs

- Revolution Bars sales grew 17% in the ten weeks to early October versus 2019

Leisure

- Brighton Pier Group sales for the latest quarter were up 145% versus 2020, and up 44% versus 2019
- Hollywood Bowl reports exceptional summer holiday trading: Hollywood Bowl Group LfL sale were up 29% in the mid May to end September period versus 2019

Delivery

- Wendy's launches dark kitchen at Reef Kitchens site in Kentish Town
- Just Eat Pay was launched in the UK for businesses to provide employees with an allowance to permit ordering from a wide variety of restaurants
- Supper, the upscale delivery platform, sales rose 700% between February and September
- Peckwater Brands, virtual delivery brand company, reports turnover growth of 20% per month over the past year
- Starbucks launches 400 sites on Deliveroo

Around the World

- Pepsi sales in North America grew by 7% in the most recent quarter

Delivery offers of the week

- UberEats: 50% off groceries
- UberEats: Get £10 off groceries when you spend £20
- UberEats: Celebrating Black History Month in the UK
- UberEats: Hungry for a deal? We've got you covered
- UberEats: Your discount is still available. Get 40% off
- Deliveroo: Offers for National Curry Week
- Deliveroo: Get £7 off your next order
- Just Eat: Stamp cards are here!