Peter Backman.

Monthly Briefing Report

Month ending 31 December 2021

Published 1 January 2022

Introduction

In addition to my Weekly Briefing Report, which remains free of charge, I provide a premium version which includes a subscription to my Quarterly Briefing Report and 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.

Season of joy?

In my Monthly Briefing Report a year ago I ended by saying "The pendulum has swung, if not to a position of certainty, then a short way from uncertainty." How far towards certainty has the pendulum swung in the past year - and what does its swing imply?

Let's start with omicron. Just over a month ago who had heard of it? The World Health Organisation, having identified a new covid variant – B 1.1.529 - towards the end of November confirmed that it was a variant of concern, and named it omicron.

A clear, but very important, point of uncertainty at that point – and still, to a degree, now – is what would impact will this new variant have on the world, its economy, and more parochially for us, is what impact will it have on hospitality?

Even in the early days after the WHO announcement, we definitely knew that the high transmissibility of omicron meant that, before long, it would be driving out the former dominant delta variant. But how dangerous would omicron actually prove to be? Would it lead to elevated levels of hospitalisation – creating severe difficulties for the NHS (and other health systems around the world)? What would its symptoms be – and would they be severe? Or easy to shrug off? And ultimately, how deadly would this new strain prove to be?

By the end of the year these questions were well on the way to being answered. Omicron is proving to be less onerous and less deadly than delta, but more people are being infected and thereby having to self-isolate (together with those living with them). So what are the implications - especially for the foodservice sector?

As far as the economy in the UK, and other countries, is concerned, omicron has led to disruption of work patterns, and it has had a significant (but hopefully relatively short-lived) on the nature of social interactions. It has also caused governments to take various measures concerning actions to reduce the spread of the new variant – mask mandates, reinstallation of social distancing rules in hospitality and other venues, and so on.

Oh well! Omicron

The overall impact of omicron on the important Christmas trading period for restaurants and pubs in the UK was very significant. A couple of months ago, the sector was approaching Christmas with a small spring in its step. While the period was not expected to be a record breaker, it did seem to hold the promise of a return to something approaching 2019 levels.

While this was built partly on hope, it was also underpinned by signs – as in forward bookings for example – that suggested a reasonably successful festive season was in the offing. Office parties, while not necessarily sanctioned at a corporate level, were being arranged at an informal level so that colleagues who hadn't seen each other for nearly two years (and their colleagues who had joined them since the onset of covid) had plans to celebrate together. Family parties were being arranged in pubs and offices around the country. While this wasn't being done in a spirit of wild abandon, there was a spirit of anticipation in the air.

Omicron decided otherwise, and demand for eating (and drinking) out more or less evaporated as December progressed. Pre-booked parties were being cancelled causing, at an absolute minimum, disappointment for foodservice operators – but more often causing significant changes to operators' plans: cancelled orders for food and drink, changes to staff rosters, reworking of year-end budget plans, awkward discussions with lenders and so on.

At the same time, consumers were scaling back on their seasonal travel plans. Planned holidays abroad evaporated as entry conditions were being sharpened round the world, and many travellers "tested positive" before setting off for the airport leading to last minute cancellations. Hotels, airports, airplanes, motorway service areas, saw demand fall. Government guidance – under the so-called Plan B in England, and more onerous restrictions in Scotland, Wales, and Northern Ireland - was that people should work from home whenever possible, masks were mandated in closed areas, entry to nightclubs required a covid pass, and so on. And there was an expansion in self-administered lateral flow tests (even though, toward the end of the month, the tests themselves were in restricted supply).

But as dispiriting as all this was in the months leading up to Christmas the overall demand for meals in restaurants, pubs and other places in the hospitality sector was measurably up on 2020 levels and run rates were approaching those seen in 2019. Even so, the return to the office which had been trudging forward in the autumn, slowed somewhat.

And now with omicron firmly embedded, it appears that overall foodservice demand over Christmas was twenty percent or so below 2019 levels. Of course, this comes with big caveat because the numbers are not in yet for this, always important, trading period

Any silver linings?

A somewhat sombre silver lining has been the shortage of staff – partly because of the oncoming shortfall in recruitment numbers and partly because of the high levels of isolation arising from the high transmissibility of omicron. Shades of previous "pingdemics" were invoked by staff not being able to turn up at short notice having "tested positive". Consequently, there were many examples of restaurants and pubs having to shut for these staff-related reasons.

Government support came through in several forms but there was no repeat of the high levels of financial support seen in 2020. And the government also gave a boost to further vaccinations – there was a significant additional impetus given to third booster jabs, and to the vaccination of younger-aged children. While of very little impact over Christmas, I assume there will be benefits from these increased vaccination levels in January.

The general impact then was, at a minimum, a disappointing Christmas trading period – especially in the light of the reasonably high hopes as late as November.

It seems to me that notable change from 2020 was the less febrile atmosphere in Christmas 2021. I put this down partly to a spirit of resignation ("Whatever will be, will be") and partly as a result of having learned in 2020 what is necessary to cope in a Christmas world where covid stalks the land ("We've been through it before, so we can do it again because we know what it means and what we should do")

And so Christmas 2021 passed. The dispiriting cancellations, and lower than hoped trading, were a blow to confidence. Revenue was down. There was very little to top up the coffers ahead of the inevitable, weak trading period at the start of 2022. Rent payments due on Christmas Eve were a blow to finances. And the prospect, of a rewarding Christmas trading period topping up bank balances ahead of the early months of the new year, went away.

The impact of omicron on foodservice and hospitality over Christmas 2021 has weakened the sector.

Covid is not going away

Out of all this, its sems to me that there are three points worth making

The first is that covid is here and it's not going away. It'll be around next Christmas ,and the one after, and the one after that well into the future. What is unknown is what it will look like as each year's dominant variant will have different forms – less or more transmissible, less or more lethal, less or more severe symptoms. And the responses of the public, and governments nationally and internationally, are not known. But the world is learning how to cope – and will, no doubt benefit, from more vaccinations and immunity, the emergence of more effective treatments and medicines, and the installation of more effective coping mechanisms. So while the virus won't go away, its effects will become less over the coming Christmases.

The second point, in the light of the first, is that the foodservice sector (and the wider hospitality sector) has already discovered the outlines of a new world. In this new world, Christmas is much less likely to be the revenue and profit generating period than it had formerly been.

The third point arises from the second and poses the question "What will operators do to cope with this new trading profile when Christmas is not the profit of the bulk of annual profits, and when it no longer provides the financial resources required to tide over the first two months of the year until more "normal" trading levels reappear in March?"

Some thoughts on how to rely less on Christmas

- Create a more flexible business
- Work out how to make employment more flexible
- Develop a portfolio business to provide cost-flexibility
- Generate more profits outside Christmas
- Create a meaningfully cash-generative online Christmas offer.
- Improve margins and profits by providing "better"
- Improve financial strength to insulate against a "bad" Christmas

Here are some thoughts on what these realignments might look like for operators and suppliers alike:

- The emergence of new models that allow costs to be managed more flexibly, especially in low revenue periods like those at the start of the year.
- An element of this new model could include flexible employment (although this is going to be difficult at a time when the general movement is in the opposite direction).
- The invigoration of portfolio business models – businesses that have more than one type of operation - that allow staff to be refocused from one part of the business to another as demand changes.
- More efforts to generate business at times of the year other than at Christmas. A thought: summer is a lowish trading period for operators and sectors whose customers are on holiday. What can be done to generate – significant - additional business in this slack time?
- Make – genuinely meaningful – efforts to create an online Christmas offer. Make it really added value, exciting, noteworthy and a customer "must have" so that it generates significant topline numbers.
- What can be done, to improve margins and profits, by providing "better" / ""more value?
- Improve the financial strength of restaurants, especially, to allow them to borrow more or generate more invested capital so that they are less vulnerable to the effects of a "bad" Christmas trading period.

I'm sure there are many more imaginative approaches and ideas. But this is a start

Where has the pendulum swung to?

At the start of covid – nearly two years ago – there was lots of talk about the "new normal," and although this concept was frequently derided (because it was perhaps too simplistic) it seems to me that the curtains are slowly opening on a different – and new – world; and that world is becoming the normal world.

I would suggest that the pendulum has swung a little bit more towards certainty in the coming year.

Welcome to 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 noticeably brief summary of corporate activity over the medium and long term that has been reported in the past month.

News in the month

Financial & Legal

- Unemployment only fell -0.1% in August to October period despite ending of furlough scheme

Landlords

- New World Trading Company turnover fell -69.1% in the year to end March 2021

Restaurants

- Fulham Shore sales in the half year to end September 2021 were up 103% on 2020
- The Hush Collection sales fell – 20.3% in calendar 2020
- Ping Pong turnover fell -71.4% in the year to end March 2021

QSR

- Pho sales fell -46.3% in the year to end February 2021
- KFC UK company managed sales rose 10.4% in calendar 2020; overall sales rose 5.3%

Pubs

- Zerodegrees turnover increased 26% in 2021 versus 2019
- Punch Pubs & Co acquired by Fortress Investment Group
- Joseph Holt revenue was down -51.3% in calendar 2020
- Arc Inspirations sales fell -67.1% in the year to end March 2021

Hotels

- Hand Picked Hotels turnover fell -60% in the year to end November 2020

Leisure

- Hollywood Bowl turnover fell -9.6% in the year to end September 2021

Around the World

- Sticks'n'Sushi revenue rose 4% in the latest 2020/2021 year
- SSP turnover was down -41.8% in the twelve months to end September 2021