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Weekly Briefing Report

Week ending 20 February 2022

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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

My Insight

I try not to use numbers in this section of my Weekly Briefing Report. But this week I shall. So please humour me. My number of the week is 1.6: British women are giving birth to 1.6 children during their lifetime. But that's insufficient to sustain the overall population at its current level, let alone provide the growth required to fuel the future economy.

So there is an implication of this number. And there are more implications. For one thing, there will be a smaller pool of potential employees. And as the population ages, but becomes less propped up with new births, so the proportion of older age groups increases – the population will grow older – at least its average age will increase. And with fewer young people, the wealth needed to support the growing numbers of elderly will be insufficient to maintain the economy at its current levels. Amongst other things, that means, the young will have less to spend (because more of the wealth they create will be used to support the growing number of elderly people).

And alongside this is another example of my statistic of the week: 1.6 is also the number of degrees by which the global temperature may be expected to increase by 2040. What do we do in a world of older people with rising temperatures? Seems like a retirement village in Marbella. What's not to like? Well, in this future world there are fewer younger people; and with younger people with less wealth than their current peers, there will be less demand for innovation and excitement, but more demand for the comfortable and unchanging. And in this future too, when the weather is becoming more volatile, it becomes more difficult to plan and investment needs to be made to mitigate both floods and heat – air conditioning will be a necessity, and protection against storms will also be a necessity.

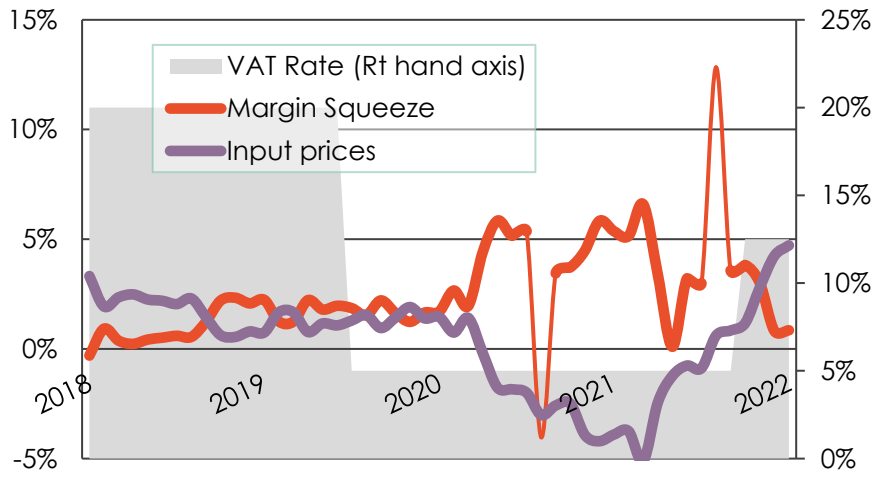
You may say that's all in the future. But although the changes are incremental, hardly noticeable from one year to the next, they will be noticeable over ten years. Decisions being made now about a business with time horizons of a decade (and bear in mind that restaurants experiencing 'overnight success' have often been around for that long) should be taken in the long-term context of changes - in demographics and the climate. But, you may go on to argue, the differences in terms of my three year plan are immaterial. That's very broadly true – but the future doesn't wait. If you are creating something for the long term, older people and a more changeable weather are already having an impact, and their impact will only grow.

So now is not too early to think creatively about the nature of the business that is going to exist, let alone thrive and grow, in the changed world. We should be thinking about these things now.

The Numbers

Last week, in commenting on the latest high, and growing, inflation figures, the ONS said that the "upward contributions to the change … were partially offset by large downward contributions to change from restaurants and hotels …"

Margin Squeeze



Source: ONS; Peter Backman

My analysis of the data provides a subtly different context. The Cost of Goods / COGs (that is, food and beverage) has certainly increased since the end of last year. The purple line on the accompanying chart shows this growth.

Go back further in time though, and the figures show that the period before covid saw constant annual rises in COGs were running consistently at somewhere in the region of 2 / 2.5%. Then covid struck and suddenly prices started to fall, reaching a low point about a year ago – in fact prices were falling by about 5% a year. And they've been growing ever since; food and beverage prices paid by the foodservice sector are growing at 5% right now. This is a net increase of 10% since the low point a year ago.

While this was happening, outlets were, first, shut - and it became trickier to measure any meaningful changes in their selling prices, then they reopened before being shut again in the first quarter of last year. At the same time, VAT paid by the foodservice sector was first reduced and then, last October, increased again (as the grey background in the chart shows). The ONS figures show no overall change in restaurant prices as a result of the cut in VAT (from 20% to 5%). This provided operators with some extra financial support since most of them kept the reduction for themselves rather than passing it on to consumers. That was the government's intention - and it worked. The figures go on to show that, on the lifting of VAT last October, operators increased their selling prices; and they are now growing at 5%.

Now, for many years I have been measuring the difference in inflation between foodservice selling prices and its COGs. I call this difference the Margin Squeeze (the orange line on the chart); it has been above zero for almost four years (which is a positive story for operators). But after some volatility caused, I suspect, by the sheer impossibility of collecting meaningful data while restaurants and other outlets were locked down), the Margin Squeeze is approaching zero (at which point margins are reduced).

Putting all this together: the figures suggest that selling prices rose after the increase in VAT in October; so we should expect further rises in April when VAT is once more increased, this time to the 'historic' figure of 20%. Input prices are likely to rise further as well. The overall impact on operator's margins has recently been to drive them down - it all the evidence points to this continuing. Coping with this squeeze is going to be a challenge over the coming months.

The rest of this report contains a summary of activity over the last week:

News in the past month

Financial & Legal

- Bank of England says purchases with credit / debit cards in February were down -4% on 2020
- The Insolvency Service reports1,560 registered company insolvencies in England and Wales in January
- Remit report office staff numbers at 46% vs pre-covid; the percentage is higher in West End of London than nationally

Foodservice

- The ONS reports hospitality job vacancies rose 700% in the three months to January 2022 vs 2021

Restaurants

- OpenTable reports restaurant booking in the first week of February were 12% up on 2020
- Wagamama extends BOX - lunchtime delivery service

QSR

- McDonald's temporarily sold out of Big Mac Chicken burger
- KFC opened its 1,000th site in the UK and Ireland

Pubs

- Inn Collection sold by Alchemy Partners to Kings Park Capital and new company founded by former owners of Bourne Leisure

Leisure

- Heathrow airport passenger numbers down -44% in January vs 2020

Delivery

- Just for Eat Business reports 81% increase between November and January

Suppliers

- MJ Baker Foodservice sold to Kitwave Group

Around the World

- Shake Shack same store sales rose 20.8% in the final quarter of 2021 versus 2020
- Hilton Worldwide Holdings turnover rose by 6% in the final quarter of 2021 versus 2020
- Marriott global Revpar rose 25.4% in the final quarter of 2021 versus 2020

Around the World Delivery

- DoorDash lowers base commission rate for McDonald's to 11.6%; but raises the rate for slow restaurants; McDonald's to cover costs of refunds for mistakes
- Grubhub launches Grubhub Goods with 7-Eleven for nationwide convenience-store delivery
- DoorDash revenue was up 34.0% in the Q4 2021 vs 2020; Gross order Value was up 36.4%

Delivery Offers in the Week

- Deliveroo: Say it with FREE DESSERT this Valentine's Day
- Deliveroo: Open me for 20% off (or more). It's Tasty Thursday
- Deliveroo: Hey, get £10 off your next order
- Plateaway: National Pizza Day. Get 10% off for 24 hours only
- UberEats: Valentines' Day sorted with 50% off
- UberEats: 50% off Valentine's essentials
- UberEats: 50% off for Random Acts of Kindness Day
- UberEats: Save £5 from your local favourites
- UberEats: Get 35% off your next 5 orders
- UberEats: Buy One, Get One Free this Eat Wednesday