

QUARTERLY BRIEFING REPORT

Q1 January – March 2022

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Introduction

I have been publishing The Quarterly Briefing Report since 2009. Six months ago, at the start of the coronavirus lockdown, I started producing [The Weekly Briefing Report](#) to provide a more immediate view. And now, you can find details [here](#) of how to subscribe to my premium service which includes Monthly and Quarterly Briefing Reports - the Weekly Briefing Report remains free of charge.

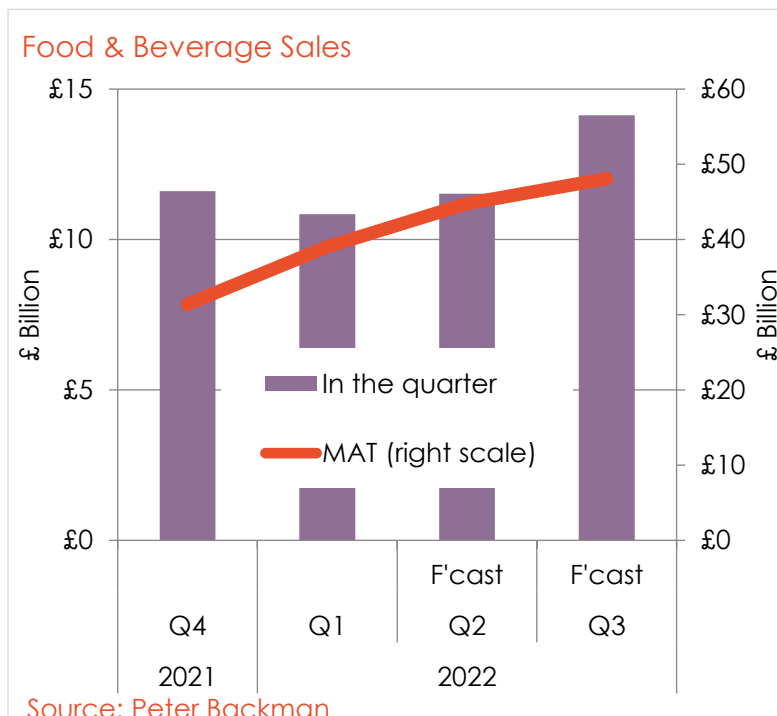
I would value your feedback on topics you would particularly like me to add to my coverage - my email address is peter@peterbackmanfs.com and my phone number is 07785 242809.

Headlines

Please bear with me as I set out some thoughts before looking at the foodservice market as it stands right now. There is a reason behind my initial analysis.

The difficulties inherent in quarterly forecasts

Before covid struck, making sense of the foodservice market every quarter (as in most markets I should imagine) was, at one level, quite simple (How have things progressed along a long term trend?), and at another level, it was more difficult (Not much has meaningfully happened in this last quarter – so what can I say about it?).



And then during covid both of those views changed to disrupt the process of taking a view on what had happened in the previous quarter. And it was the second view (Not much has meaningfully happened in the quarter) which changed the most. That meant that during covid, many things had changed in each quarter which, consequently, made it easy to comment on the changes themselves, but very difficult to understand what they would actually mean in the future.

And that was coupled, at least during the early phases of covid, with the manner of the changes which occurred. Very usefully, during the first year or so of covid, changes took place in 'quarterly' chunks – the first quarter of covid was total lockdown, in the second quarter things started to open up a bit and Eat Out to Help Out played its part, in the third quarter the autumn blues set in, and then in the first quarter of 2021 (that is, the fourth quarter after covid struck) vaccines – and hope – arrived. And so it went on during 2021.

But now we are in a new phase. On the one hand, not too much is happening that is notable. But on the other hand, the economy is being upended by significant changes.

The world of foodservice is both stable and being furiously bombarded by forces outside its control. And that makes it very difficult to see what's happening – and what will happen.

Consequently ...

So we now come to the reason (which I mentioned at the outset) behind this initial analysis.

Earlier this month The Economist produced a list of some key factors behind the **squeeze on disposable incomes**. This is a summary:

- Inflation reached 7% in March, it might reach 9% in April and could still be 6% in a year's time
- The largest increase in 30 years
- Living standards are therefore set to drop by-2.2% in this fiscal year – larger than any drop since records began in the 1950s
- For everyone this leads to spending choices; for the poor the choice is between heating or eating; for the better off it's a choice between Netflix or Disney+
- The cost of heating oils, used in around 3% of homes, increased by 44% in March
- The cap on limits chargeable by energy companies increased by 54% in April – and it can be increased again in October
- Annual food inflation was 6% in March
- Mobile phone networks increased charges by up to 11.7% in April
- Despite these and other increases, median pay awards in the first three months of the year were 3%; April's average is expected to be 3.5%
- The state pension rose 3.1% in April – and universal credit increased by 3.1%
- The poor will suffer inflation 3.5% higher than the rich because of the higher levels of inflation on products typically purchased by the less well off.

What all this navel gazing means is that, in the context of examining where the industry is, and making short term forecasts, this push-me / pull-you world must be coupled with an issue that lies at the heart of the process of forecasting.

The process requires some basis on which to set out comparisons. The base may be the last month, the last quarter, the last year, or the last period of what used to pass for 'normality', and I look at these various periods later.

Comparisons with each of these periods can produce a distinct set of assumptions and forecasts.

To help this process, in this Quarterly Briefing Report, I will discuss three themes which I have covered before. In doing so, I make no apologies for repeating them because they are of major significance in this particular period:

- Working from Home
- Delivery
- Travel

And to these three I will add another theme:

- Building on past trends

So let me give my summary of these four themes:

Working from home

I assume that you, the reader, will understand the reasons behind the working from home movement so I shan't reiterate them here. But what does this movement actually mean for foodservice?

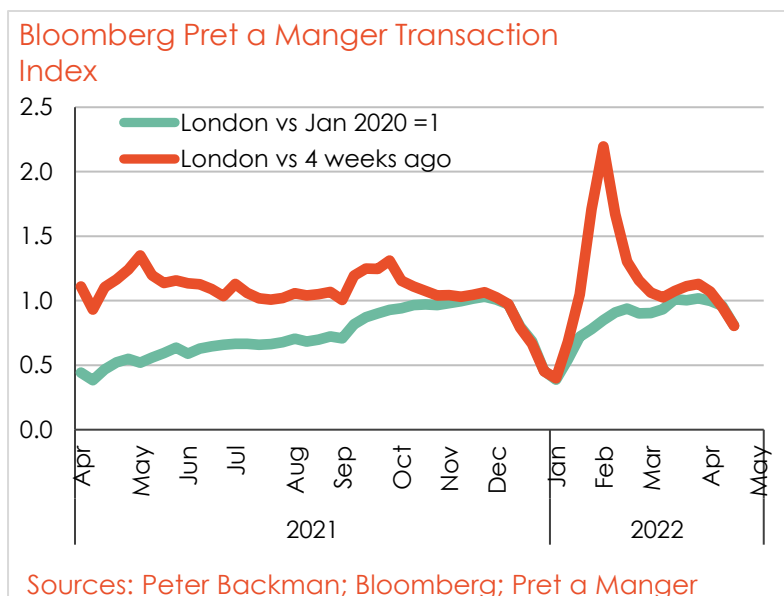
It is shifting the shape of demand although not reducing it. Whether people work from home or from an office, they need to be fed and watered. But the places where this occurs are shifting:

- From city centres to suburban and rural areas
- From workplace feeding to local coffee shops and restaurants
- From foodservice to grocery (although this shift has been springing back in the direction of foodservice, over the past year or so)

Each of these shifts (and there are more) has its own impact. They can be teased out, and one of the most impactful aspects to arise from this teasing out is what happens to 'travel'.

Travel

Working from home plus residual fears over covid (more significant in some countries than others) have reduced travel – whether local (to work for example), or international (for both business and leisure).



And these shifts exert an impact on foodservice in many ways. I would note in particular though:

- Eating and drinking at transport hubs – airports, railway stations, motorway service areas – has been reduced
- Hotels are seeing fewer international visitors (but some see greater numbers of 'locals').

The key issue is that, overall, less travel – which is where we are now – reduces the aggregate demand for foodservice in places such as these. But the demand may still exist

although translated to other places (such as eating at home).

Delivery

Delivery is a huge topic in its own right – and one on which I have commented at length in my various Briefing Reports and which I will be developing in [theDelivery.World](#) – an innovative, regular newsletter that I shall be launching shortly.

An important point about delivery is that it is of international significance - and the significant players are engaged in a global game, of which we only see a small part in this country.

But fundamentally delivery is driven by consumer demand – and in the UK, consumers are demanding food to be delivered to their homes. A number of formats are involved:

- Restaurant delivery – (mainly) hot, prepared food delivered to people at home within about 30 minutes
- Ultra-fast grocery delivery – groceries delivered within about 15 minutes
- Restaurant meal kits – restaurant food that requires ‘finishing’ off, delivered up to a week after ordering
- Supermarket deliveries – generally Day 1 for Day 2 (or later).

Each of these fills a market niche – but they all address the need for convenience. And they all impact on how restaurants (including full-service, fast food and food to go) service their customers, how their aggregate business evolves, and how their costs / profitably are structured.

For the purposes of this Quarterly Briefing Report, it is important to note the recent, so far small, slowdown in the rate of growth of restaurant delivery – an inevitability that may be arriving sooner than many people have anticipated.

Incidentally

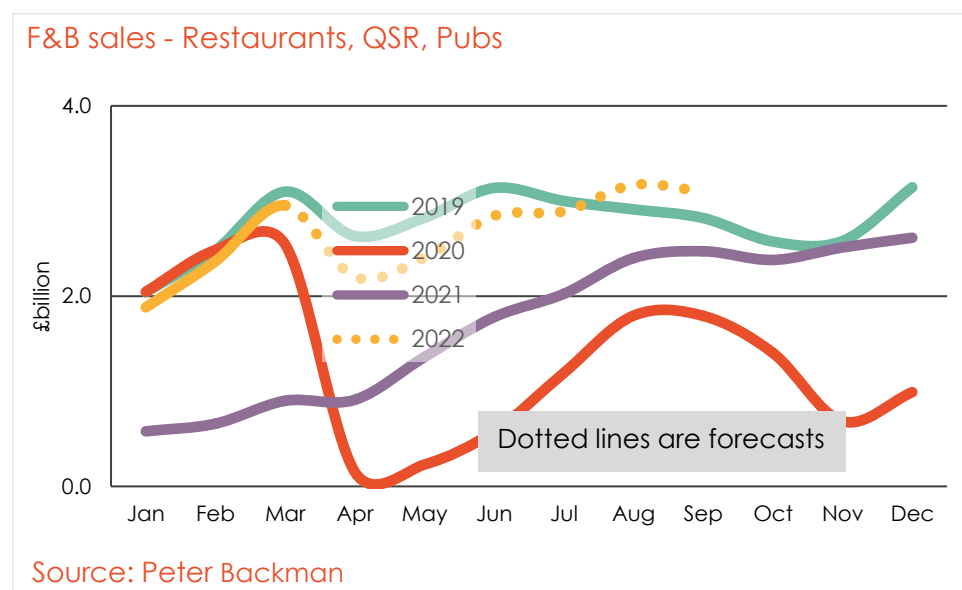
Taking these three themes together (working from home, delivery, travel), it seems to me that maybe a useful way to look at the market is not from the aspect of: who is the customer? But: where is the customer? It is a consideration in all the aspects I've mentioned. Thus, position and location – both in a broad sense (at home or at work) and in a narrow sense (London or Northallerton) – may be a useful lens through which to look at actual and potential developments in the market.

Past trends

While the three themes that I've just discussed are broadly, self-contained, and much commented on, there are a host of other issues that were discernible before covid – and

which, crucially, are still relevant now. They range from vegan food, sustainability and ‘experience’ to casual dining, the evolution of contract catering and the evolution of food distribution.

Some of these changes are being scaled back, and indeed some are being reversed (for instance, by the working from home dynamic and the other issues I've



mentioned). But the important point is that many of these past trends are continuing, right now.

But because trends such as these are continuous, it is difficult to discern any specific trend in any particular quarterly period.

Comparisons with previous periods

So much for the trend context. What about the comparison context? By this I mean comparison variously with the last month, the last quarter, the last year, or the last period of what used to pass for 'normality' which I noted earlier. Let's take a look at how current foodservice performance stacks up against performance in different periods in the recent past.

The last quarter versus the prior (pre-Christmas quarter)

- Quarter 1 is always different from the previous quarter, Quarter 4. The latter quarter includes the excitement of the run up to Christmas, while the first quarter in the year suffers from ennui, inclement weather and consumers having to pay for their fourth quarter excesses. That's always true and, in broad terms, it's also been true of Quarter 1 2021 – the most recent quarter.
- But the pre-Christmas quarter last year was not as good as had been hoped for by operators, and suppliers, because of the rise of omicron and the resulting partial closure of the eating out market over Christmas. Even so, compared with that quarter, the most recent quarter saw declining business – primarily because it always does.

The last quarter versus the same quarter a year ago

- The world – or at least consumers in the UK – have become much more relaxed about the impact of covid. They have started to eat out more and demand in Quarter 1 2022 was up – over three times - on the same quarter last year

The last quarter versus pre-covid – Quarter 1 2019

- It is this comparison that shows the real impact of covid because food and beverage sales in the foodservice market were down by -8.3% against the same quarter in 2019, and that includes cumulative inflation of about 12%. In other words, in real terms the market fell about -20% between Quarter 1 2019 and Quarter 1 2022.

How foodservice did in the last quarter

So, a conclusion is that in answer to the question "How did foodservice do in the last quarter?", the response has to be: "Compared with what?"

It's not all about consumers though

So far I've looked at the current state of the market primarily from the consumer demand point of view. And, in the short term, their demand will be influenced by increasing menu prices and by a squeeze on their incomes – affecting the ability or willingness to eat out for some demographics much more than others.

But inflation not only affects consumers' disposable income, it also equally affects all parts of the eating out value chain: not only demand but also the supply of food, drink, equipment, labour, and fuel, so a different perspective looms into view – it means looking at the market from the supply point of view.

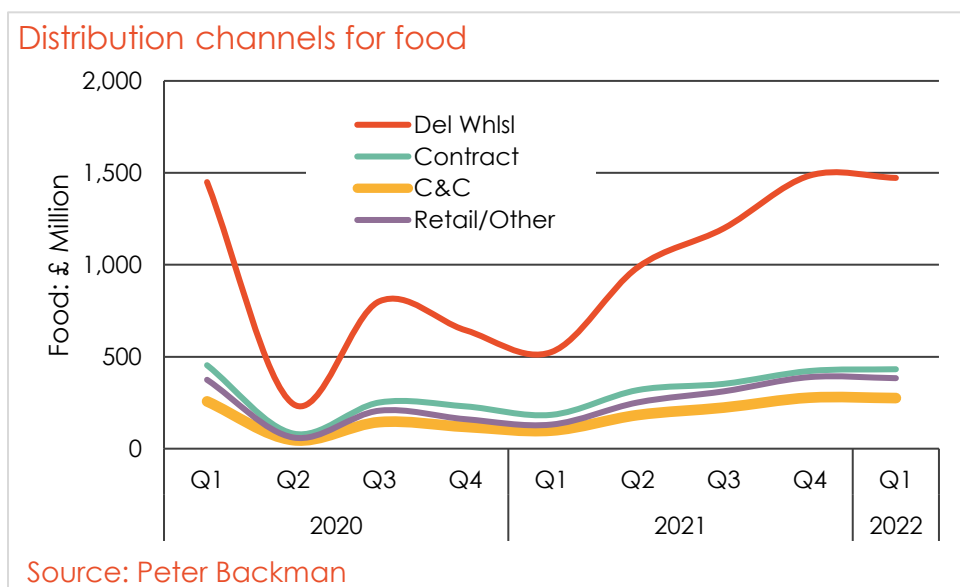
Supply

In addition to inflation in the cost of food (and COGs generally) and fuel, across the full spectrum of costs there is also the recent rise in VAT, the impact of raising worker's costs (through increase in National Insurance), the rising cost of equipment and much else

Some of these issues will affect demand, and some will affect operations – and their impacts may also include existential issues (Is my business still sustainable?).

Some sectors will be better able to contain threats such as these; they include:

- The cost sector, which is underwritten by the government
- Pubs, which do not face crippling rises in property costs
- Operations whose market is growing - food to go, fast food, delivery



Other sectors, though will be much less well protected

- Restaurants
- Hotels

I would note that these are only comparative positions (some operators will do comparatively better than others) and so, within each sector, there will be businesses that will do better than the average (and others that will do worse).

And so, taking all of the above into account, I will take a look at what the market looks like.

What happened this time last year?

- The eating out market was still severely constrained by lockdown measures designed to contain omicron
- Restaurant delivery continued its bullish rise
- Working from home constrained workplace feeding
- VAT, due to rise to 20%, was set at 12.5% (up from 5%) until October
- The furlough scheme came to an end

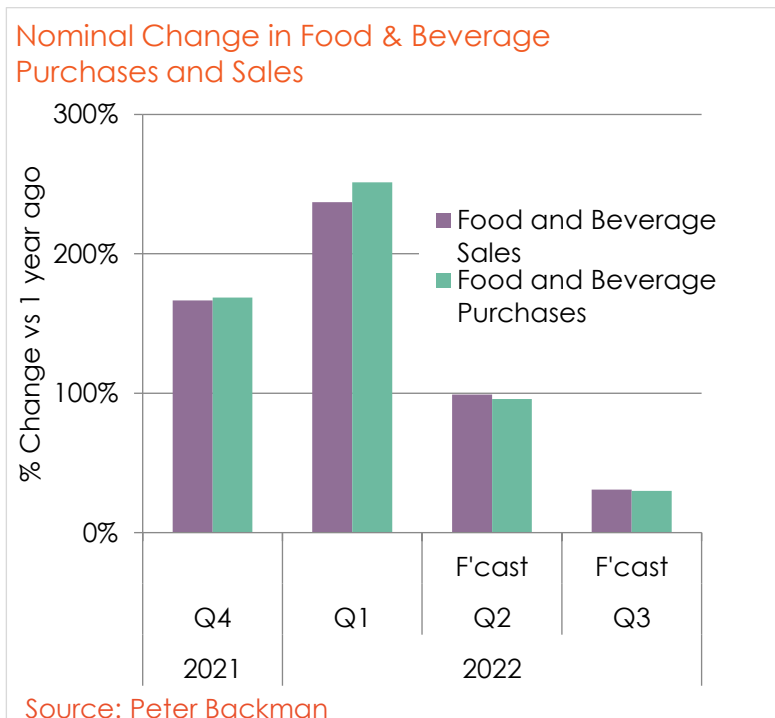
The last quarter

Currently, covid seems to be under some sort of control – or at least that appears to be a general perception amongst the UK population. Some people are still very reticent about going out, but most are not. Nevertheless, forces unleashed by covid and its various lockdowns and government

reactions around the world continue. Notable for the foodservice sector, these forces relate to food supply and inflation.

But the most significant issue to arise during the quarter has been the outbreak of war in Ukraine. The British population, basically shielded from the war, is nevertheless seeing increasing prices for some products that Ukraine and Russia are major suppliers of, such as wheat and sunflower. But rapidly rising fuel costs are probably the most worrisome.

The net result of the war is an air of uncertainty amongst operators, their supply chains and notably amongst consumer whose wish to eat out (and their financial ability to do so) may have



been knocked back.

Despite these negative forces, eating out grew during the course of the month as it always does in the first quarter of the year.

The last quarter in conclusion

Here are my headline numbers for the entire foodservice market and its supply chain in the last quarter:

1. Total food and beverage sales in the first quarter of 2022 were £10.8 Billion
2. Food and beverage purchases rose by 251% over the year and, once again, this was marginally faster than sales growth – adding an additional squeeze to already stretched balance sheets. But note that this pattern will probably reverse in the coming quarter.
3. Current year on year growth of food and beverage sales, being compared with weak comparative figures in prior periods, is still very high. But growth rates will start to become significantly slower as weak, covid-affected comparatives drop out.

Moving into Q2 and beyond

Three major factors are at play as we start on the second quarter. The first is the removal of most of the last vestiges of government support for the foodservice sector. This is imposing a financial reality check on businesses, and I suspect we will see a number of failures arising from this reduced support although it will be difficult to identify the precise causes in any specific instance.

The second major factor is the increases in employment costs resulting from an increase in the National Minimum Wage and National Insurance. This is imposing further pressures on corporate balance sheets

The third crucial factor is the squeeze on consumer's disposable income which will increasingly influence consumers' willingness to spend on eating out (amongst other things). This is now assuming very significant proportions as a result of the many economic factors that I have summarised separately.

Despite these negative pressures, I suspect that consumers will continue to make inroads into the reduced levels of spending on eating out brought on during covid.

The future – Q2 and Q3 Q2 2022

The Heatmap



I've had to make some changes to the coverage of the heatmap.

- Government support has now disappeared from the marketplace – the furlough scheme is no more, VAT deferment has ended, support for action by aggressive landlords has been removed. Consequently, the benefits of this support having ended, the support issues have become part of everyday trading and so they can be removed from the Heatmap
- But new dangers have arrived – inflation (which had already started prior to the war in Ukraine, is now a significant issue and likely to get worse – and the consequent squeeze on consumer spending will become noticeable over the coming months

- And since growth in delivery is likely to slow down in the second half of the year, and since delivery is now a significant part of trading within some market segments, I have added “Delivery growth” to the issues covered by the heatmap

The net results of these changes, and the changes within each issue covered, means that the heatmap is flashing red with very little on the horizon over the next few months to lighten the outlook.

Uncertain forecasts

There are, additionally, a large number of global issues arising from the war in Ukraine: increases in commodity prices; disruption of international trade; unstable finances; refugees and other humanitarian issues; and changed politics – expressed through sanctions, for example.

Of all of these, the one that has the biggest direct impact on the foodservice sector is the first – price increases – but the others will work their way into the sector via uncertainty at the operator, supplier, and consumer levels. Perhaps the biggest positive of rising inflation is that nominal sales will grow substantially this year – even though, in real terms, sales will end up below 2019 figures at the end of 2022.

Having taken all these factors into account, I realise that any forecasts that I venture to make right now are not far off being guesses; nevertheless, I prefer to express them as being my current best estimates.

They are shown in the table that follows:

Quarterly Trends		2021 Q4	2022 Q1	Q2 F'cast	Q3 F'cast
Food and Beverage Sales					
In the quarter	£ Billion	11.6	10.8	11.5	14.1
MAT (right scale)	£ Billion	31.4	39.0	44.8	48.1
% change vs 1 year ago		167%	237%	99%	31%
Food and Beverage Purchases					
In the quarter	£ Billion	4.3	4.0	4.3	5.0
MAT	£ Billion	11.4	14.3	13.2	5.2
% change vs 1 year ago		169%	251%	96%	30%
Food purchases					
In the quarter	£ Billion	2.6	2.5	3.1	3.1
MAT	£ Billion	7.7	9.3	10.6	11.2
% change vs 1 year ago		123%	165%	76%	23%

Source: Peter Backman

Summary

Highlights of the coming two quarters include:

- The war in Ukraine will depress growth - and impact negatively on profitability over the next two quarters
- A return to 'manageable' annual growth rates – from highs in the hundreds of percent over the last two years, but still 20-30% by the end of the forecast period
- Inflation will hide most the decline that I expect to see
- Removal of government support, and elevated levels of input inflation will cause problems for operators in all sectors

As always, I produce short term – monthly - data for each market sector, distribution channel, temperature etc. [Contact me](#) if you want to access relevant data for your business – to benchmark your existing performance, or to help you assess what your future prospects look like.

Industry news

In my Weekly Briefing Report, I include relevant industry news that relates to the current week. Below I have listed the news items that cover a longer time period.

Restaurants

- Megan's LfL sales rose 31% in the year to end March 2021

QSR

- Pizza Pilgrims sales fell 0.1% in the year to end June 2021
- Burger King UK sales rose 68% in calendar 2021

Pubs

- Bruce Group sales fell -84.4% in the year to end June 2021
- Adnams sales rose 13.2% in calendar 2021
- Camerons Brewery sales rose 118.3% in the last eight months of 2021
- Buzzworks sales fell -56.2% in the year to end April 2021
- Simpslnns sales rose 10.8% in the year to end July 2021
- City Pub Group sales rose 37.2% in calendar 2021

Hotels

- Apex Hotels sales fell -88.3% in the year to end April 2021

Suppliers

- Fentimans turnover was up 20% in calendar 2021
- Gousto sales increased by 67% in calendar 2021

Around the World

- DP Eurasia sales rose 46.9% in calendar year 2021; system sales in Turkey rose 59.4% and in Russia they rose 33.5%

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