MONTHLY BRIEFING REPORT

June 2022

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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.

If you have any comments, or concerns, please contact me on 07785 242809 or at peter@peterbackmanfs.com

Travel

Over the past few months I have commented in many places about travel – and how it impacts on the foodservice sector.

It has been a noteworthy subject over the last two or three years for quite a few reasons – covid-induced changes in working patterns, disrupted and reorganised holiday patterns to name just two. And the outcomes of these changes have been, and will continue to be, significant for foodservice operators – and their suppliers who have to rethink their regional strategies, supply chains and more.

What has brought it up this month is the week of strikes in the middle of the last month. And the impacts on the foodservice sector have been worth noting especially in the context of the wider changes to travel that I've just mentioned.

Just a recap: the RMT union called three days of strikes in one week – Tuesday, Thursday and Saturday. And because of scheduling issues, the unplanned location of trains at the beginning and end of the strike-free days, and changes that passengers implemented to their personal travel timetables, the effects of the strike were felt over the week from Monday to Saturday.

Now, the impact was nationwide, but attention was focused on London since it is the city that is most dependent on train travel (because it has, by far, the highest number of commuters and train-borne passengers of any city in the UK).

What happened to foodservice outlets in London? I have two major sources: the Bloomberg Pret Index, and the information and insights that I gain by speaking to operators and suppliers.

What do they show?

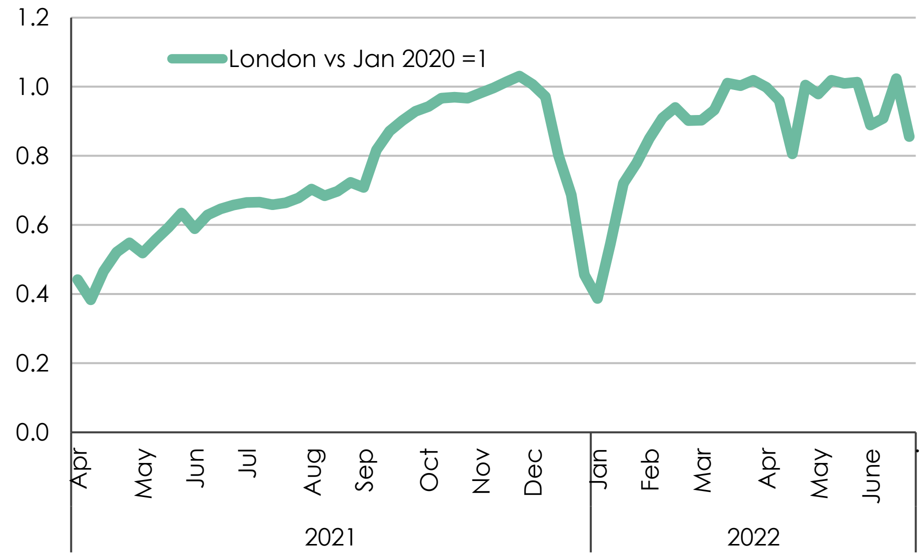
Bloomberg Pret Index

The Pret Index provides information about various types of locations in the UK (plus New York, Hong Kong, and Paris).

One of the metrics available for the UK relates to London locations – the West End, the City, suburbs, stations, airports.

Combining them and weighting the results to reflect the amount of business normally done in each of these locations, shows a dip in business during the week of RMT strikes. But not a disastrous dip – it returned figures equivalent to 86% of January 2020 levels, but ahead of mid-April this year – and nowhere near as bad as January (the time of the omicron-induced lockdowns).

Bloomberg Pret Index



Sources: Peter Backman based on Bloomberg and Pret a Manger

The figures also show that travel at London travel hubs (stations and airports) was 8% ahead of 2020 although down a bit on the prior 4 weeks. These figures were depressed because business at London stations though (and not surprisingly) was down -22% on the prior 4 weeks. On the other hand, the figures were boosted by high levels of business at London's airports where the Pret Index was up 3% on figures for the prior 4 weeks, as a result of high levels of holiday travellers and helped by multiple delays which meant that travellers had many opportunities (and reasons) to visit an onsite Pret.

Equivalent figures for other areas of London versus the prior 4 weeks were: City down substantially at -20.5%; West End down somewhat -3.4%; suburbs up a bit at 3.4%.

The conclusion is pretty much as would be expected: business was down in the City because commuters didn't commute (or not nearly as much as normal); West End was down a bit; and business in the suburbs was up probably helped by stay at home workers who took time out at their local Pret.

The net result was a fall of -10.4% versus the prior 4 weeks. But of course, this reflects the location of Pret stores and should not be taken as reflecting the London market as a whole. Nevertheless, the shift from City to suburbs is notable.

The figures for the week after the strikes will be out shortly and, based on previous rapid bounce backs in April and May, I expect them to show a return to the figures seen in May and early June.

What the trade is saying

I've also been talking to a number of London-centred restaurants and chains (mainly full service operations unlike food-to-go Pret).

Their experience of current patterns of trading are remarkably dependent on location – and I'm not talking about West End or City or Canary Wharf, but highly localised factors such as which side of the street they're on. As always, micro-details concerning location are important but when business is harder to come by – as it is right now – I suspect that these differences are multiplied.

Location aside, two factors play on current business levels which I'll comment on.

Impact of Working from Home

The first is working from home. My contacts tell me that trading in central London, especially in financial areas, is almost back to where it was prior to covid once inflation is allowed for.

However, trading patterns are now very different. Monday business is very low, Friday is a shadow of its former self. On the other hand Tuesday and Wednesday are distinctly better than pre-covid levels, and Thursday is the new Friday. This, of course, reflects new work patterns with many businesses seeing workers coming in on the middle days of the week and foregoing working in the office on Monday and Friday.

Net closures

The other factor results from outlet closures over the last two years.

Even before covid there was too much capacity – a point I frequently made at the time. In the early days of the pandemic, many large restaurant operations underwent a CVA, or closed stores where they could, or failed to renew leases that had fallen due.

At the same time, some businesses failed (and, as an aside, I'd note that their numbers were small since government support kept many businesses afloat; according to my sources, their numbers will shortly rise).

The net result of these closures was a reduction in supply in central London of about 20%.

And that, regrettably for businesses and individuals adversely affected, was a bit of good news for those outlets and businesses that remained because any fall in overall business levels (and it has been significant) is now stretched over fewer outlets.

In practice demand has probably fallen by about 20% - the same as the fall in the number of outlets. That means those outlets that remain outlets will, on average, find that business is flat compared with pre-covid levels.

A note on inflation

One of the outcomes of high inflation is that it makes comparisons difficult.

At one level, nominal changes (ie with the impact of inflation removed) help to assess the underlying trend in sales, costs or whatever is being measured. But businesses live in a world where price rises are real and therefore inflation is generally in need of being factored in.

And that applies when assessing the changing performance of restaurant business. In other words, changes in sales are most realistically calculated with inflation included – but there also needs to be strong understanding that, in reality, inflation has lifted sales and flatters growth.

Another complication is that when it is rising swiftly (as it is now), inflation varies. Although prices are currently rising at just under 10% a year, six months ago they were rising at less than 3% - and when stretched over a year (or more) these differences become real but difficult to present. That means that current levels of inflation are not the same as the inflation that a business experiences over a year.

What this means

Bringing all this together, its seems that there are a number of issues at work:

- Overall demand in London is down (by perhaps 5%, maybe up to 15%) below pre-covid levels – but inflation amounts to 12-15% above pre-covid levels at the moment. That means that overall, the restaurant business is down -20% or, more than likely, significantly more.

- Capacity, in the form of numbers of outlets, has been reduced by about 20%

- And taking these two considerations together, individual business will have seen their nominal business falling by perhaps 10%, but their real sales back to where they were before covid, or even ahead. I'd note that quite a few operators I've been speaking to report that, for some of their outlets at least, business is at 'record' levels.

- All of that is moderately good news for operators in London but they are facing challenges to their trading patterns, partly relating to dayparts but especially the days on which they trade – mid-weekdays are trading very well. On the other hand, Mondays and Fridays (and for some operators, weekends too) are seeing hugely reduced levels of business.

- This feeds into another issue which is staff availability – currently it's a major problem for all the operators I've spoken to. The more concentrated patterns of trading (ie focused on mid-week) means that teams are overstretched, service levels fall, and stress levels rise.

Overall, the market seems to have returned to roughly where it was pre-covid but lift the lid and there are some significant changes at work.

I feel sure they will be resolved (because, in the world of foodservice, they always are) but there is plenty of stress – personal and financial – still in the pipeline.

The remainder of this Monthly Briefing Report contains a very brief summary of corporate activity over the medium and long term that has been reported in the past month.

News in the month

Restaurants

- Comptoir Group sales grew 66.9% in calendar 2021 versus 2020
- Cinnamon Collection sales fell -62.7% in calendar 2021 versus 2020

Pubs

- BrewDog revenue grew 21% in calendar 2021 versus 2020
- T&R Theakston sales grew 15.7% in calendar 2021 versus 2020
- Westbourne Leisure sales fell -12.2% in the year to end September 2021 versus the prior year
- Liberation Group sales grew 46.0% in the year to January 2021 versus 2020
- Fuller's sales grew 247% in the year to end March 2022 versus the prior year
- Timothy Taylor sales fell -33% in the twelve months to end September 2021 versus 2019
- Barons Pub Company sales grew 3.6% in the year to end September 2021 versus 2020

Leisure

- XP Factory (parent of Escape Hunt) sales grew 159% in calendar 2021 versus 2020