

# 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. 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](mailto:peter@peterbackmanfs.com)

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## My insight

Last week I was reliably told that the wage of a typical chef de partie, the core of all kitchen brigades, has risen by 25% in the last year or so. If their pay has gone up by that amount so will the wages of anyone working in a kitchen. And that means, together with a 10% plus rise in food costs and an unbelievably large increase in the price of fuel, the price on the menu will have to go up too.

That is precisely what is happening – eating out is costing more. And do you know what? Demand in restaurants has gone up too. That's not to say that the consumer is immune to higher prices, probably far from it, and that demand might fade away over the coming months. But right now? Demand is increasing - and so paradoxically, as I have said, is the pay of kitchen staff. And I suspect, it's not only their pay but that of front of house staff too.

And the really interesting thing that this says is that one of the major problems that the restaurant industry has confronted for years, possibly generations - namely low pay - is being addressed right now. A real-life experiment, albeit an accidental one, is going on into pay levels with the impetus coming from the four horsemen of the CUBE - fallout from Covid, the war in Ukraine, Brexit, and Energy inflation – plus whatever other unwelcome pressures are forcing themselves onto our world.

Now what happens from here? 'Here' being the situation where restaurant wages take a massive leap forward, and demand is still there. The first thing to note is that this probably doesn't apply to all restaurant businesses – there is a body of opinion that says that higher end (not necessarily just the highest end) restaurants will do OK over the coming months, and the cheaper, functional end will also do OK. It's the ones in the middle that will be squeezed.

I have a certain sympathy with that view. And it means that rising wages, accompanied by squeezed demand, will pose real financial headaches for restaurants in the middle. But my main thesis holds: wages can go up, and so can demand, even though menu prices also increase.

And that being so, it seems we are in the middle of the higher pay / higher prices / sufficient demand experiment. Perhaps the longstanding low pay problem at the core the restaurant sector needn't be for all time. Maybe we'll look back on this time as a great turnaround in the way that staff are paid.

I like to be positive sometimes and see the good in the bad. I hope you do too.

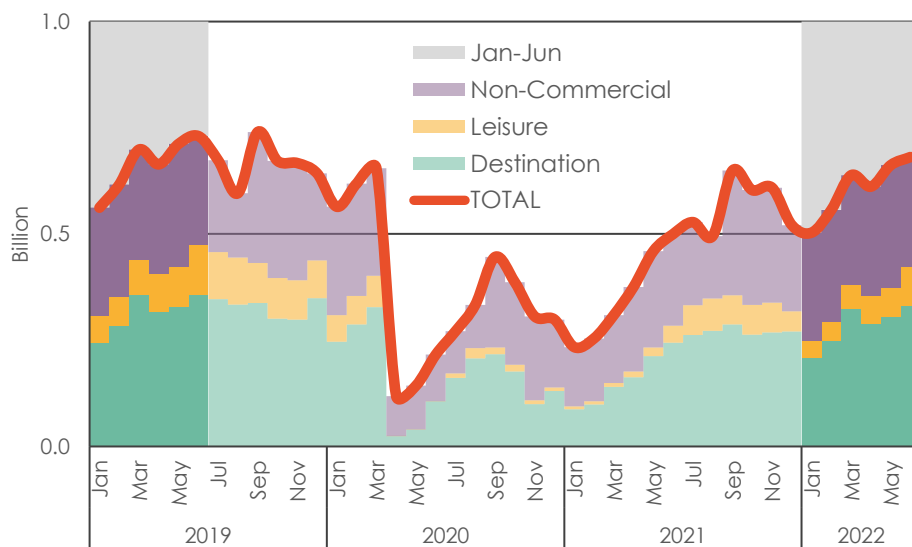
## The numbers

Look at how demand for the numbers of foodservice meals has changed over the last three years – that's from pre-covid 2019 up to last month. In the chart I've highlighted the first six months of 2019 and the same period this year so that they're easier to compare.

Now notice that the overall shape of demand – the orange line – is very similar in both periods. In other words, the measure of volume - that is: meals (and also transactions) - is pretty much back to where it was in 2019; and, perhaps also significantly, the shape is the same now as it was then with an Easter peak in both periods, for example.

Not only that, but the components of the market are similar in both periods as well. The green

### Numbers of meals served in foodservice



Source: Peter Backman

segment represents 'destination' outlets – full-service and limited-service restaurants, and pubs – and it has a similar shape. The yellow segment covers hotels and the leisure market; it, too, is similar in the two periods. And finally, the purple segment shows that workplace feeding, feeding in hospitals and schools and similar places, is replicated between 2019 and this year.

Of course, some of the details are different – most things to do with international travel are still

down, for example, and the hotel sector as a whole has not performed as well this year as it did in the pre-covid period.

On the other hand, lower-spend outlets, especially in the limited-service sector, have performed significantly better than the whole eating out market. Workplace feeding, although down on the historical pre-covid period, has held up surprisingly well given the high levels of working from home. I have gone into more detail on these, and other current issues, in my latest Quarterly Briefing Report for subscribers to my [Premium Briefing Report](#) series.

So, do the last six months mean that the foodservice sector is set for a promising period of trade at back to broadly 'normal levels? Unfortunately not. A very long recession lasting from Q4 2022 to early 2024, is going to be on us shortly. And we know from past recessions that this is bad news for the eating out market. Overall demand – measured in terms of meals – will fall for the next year or even the next eighteen months. But the value of the market will increase because the fall in volume will be masked by inflation that, says the Bank of England, is likely to peak at above 13%.

Meals down, sales up, costs up. The question is how to cope with this pattern of change?

The rest of this Weekly Briefing Report provides a summary of the news in the past week:

## News in the past week

### Financial & Legal

- Corporate insolvencies in England and Wales rose 80%+ in the April to June quarter versus 2021

### QSR

- KFC pauses WOW Tuesday offer because of chicken on the bone shortage
- Gregg's sales rose 27.1% in the first half of 2022 versus 2021
- Domino's Pizza Group system sales fell -5.6% in the first half of 2022 versus 2021; LfL sales rose 2.4%
- KFC system sales in the UK fell -8% in the second quarter of 2021

### Pubs

- Nightcap LfL sales rose 23.6% in the year to early July; total sales rose 55.1%

### Leisure

- British Airways at Heathrow short-haul ticket sales
- London City Airport passenger numbers are down about -30% versus pre-covid levels

### Around the World

- Ali Group, equipment manufacturer, acquires Welbilt
- Starbucks global same store sales rose 3% in the second quarter of 2022; average ticket prices rose 6%, transactions fell 3%
- Taco Bell same store sales rose 8% in the second quarter of 2021
- KFC international (excluding China) same store sales rose 7% in the second quarter of 2021
- Pizza Hut international (excluding China) same store sales rose 8% in the second quarter of 2021
- Tim Horton's same store sales in Canada rose 14.2% in the second quarter of 2022
- Papa John's North America same store sales rose 0.9% in the second quarter of 2022 versus 2021
- Shake Shack system sales rose 24.8% in the second quart of 2022

### Around the World Delivery

- UberEats delivery sales rose 37% in the second quarter of 2022
- Just Eat revenues rose 7% in the first half of 2021, orders fell 7%

### Delivery Offers in the Week

- Deliveroo: Win with 35% off KFC's bundle
- Deliveroo: We say 20% off (or more)
- UberEats: Your 35% discount is still available

- UberEats: Buy One, Get One Free this Eat Wednesday
- UberEats: Get 35% off your next 5 orders