QUARTERLY BRIEFING REPORT

Q2 April – June

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Introduction

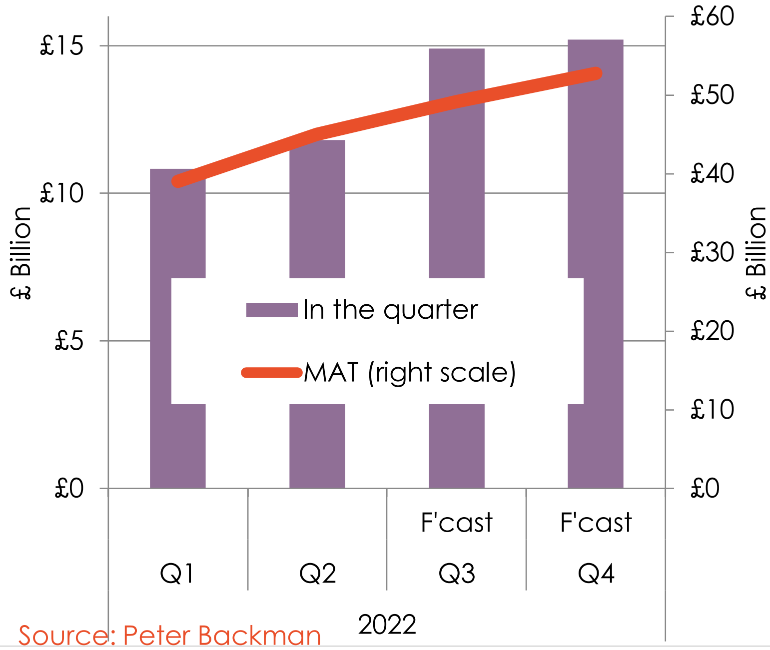
I have been publishing The Quarterly Briefing Report since 2009. Over two years ago, at the start of the coronavirus lockdown, I started producing The Weekly Briefing Report to provide a more immediate view. And now, you can find details here of how to subscribe to my premium service which includes Monthly 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

The bare numbers of food purchases, and foodservice sales, of the last quarter, look OK. In fact, they begin to pose the question: what's all the fuss about? After all restaurant LfL (Like-for- Like) sales are improving and in many cases are close to, or even above, similar pre-pandemic figures. And in many cases, you can see significantly improved figures from a year ago – sales growth of two or three times is not uncommon.

Food & Beverage Sales



Source: Peter Backman

But there is plenty of smoke and mirrors. For example, depending on which precise periods you compare (such as comparing the last quarter with Omicron-affected trading at the start of the year; or comparing the past 12 months with the equivalent period in 2021 which was of course subject to several covid-lockdowns)

As a rule of thumb, look at where the business was in 2019 rather than 2020, or 2021.

And another significant influence is inflation – now rising at or close to double digits, anything less than an increase equal to inflation signifies a contraction.

And then there is VAT – it rose from 5% to 12.5% in October 2021, and then to 20% in April this year. These increases raise turnover figures. They may also have an impact on profitability because the VAT increase, if it is not added in full to the selling price, eats into the gross margin and ultimately reduces profits. And while the reverse is also true, operators have been understandably somewhat reluctant to increase prices more than absolutely necessary for fear of driving customers away (and to lower-priced competitors).

So, there is plenty to look out for in the numbers.

What are the 'big issues' right now

In my last Quarterly Briefing Report, I made the point that 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.

Nothing has changed over the last three months – other than to get worse – more furious bombardment and less clarity over what's happening.

However, whereas in April, the issues that I thought worthwhile commenting on were: Working from Home, Delivery, Travel, and Building on past trends, today's issues are more global and pose existential threats.

The issues for today are

- Food inflation
- Energy costs
- Cost of living increases
- Staff shortages
- War in Ukraine
- Climate change

This is how I see how they have impacted on the foodservice sector recently. The first three are inextricably linked:

Food inflation

In this discussion I have separated food inflation from other inflationary rises because, for the foodservice sector, food is a critically important input – accounting for about 30% of total costs. It is of course a variable cost but nevertheless it is extremely difficult to pass on increases in these variable costs.

I would note though, that this difficulty is perhaps more in the minds of foodservice operators than in their customer's minds. A couple of people have noted, in their recollections of 1978 that I have published in my Weekly Briefing Report, in that year operators were reluctant to increase their prices above a perceived threshold, fearing that were they to do so, customers wouldn't pay the increase but would chose cheaper menu items or would chose to take their custom elsewhere

In fact, when prices were put up in the past, customers paid the increase - and operators lost out on revenue that they could have received if they had raised their prices earlier.

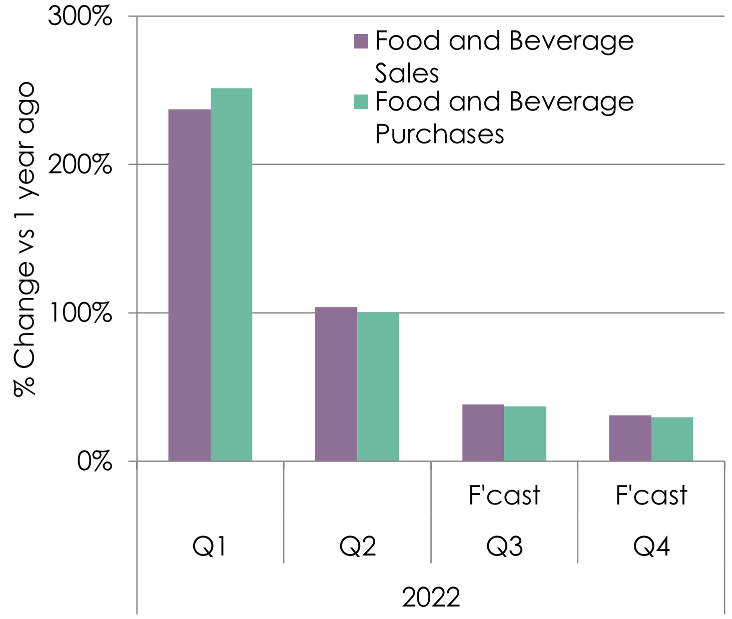
And as an important aside, it's worth noting that McDonald's have just raised the UK price of their Cheeseburger for the first time in 14 years – from 99p (just below a perceived £1 threshold) to £1.19. That 20% rise is going to be noted by customers and maybe it would have been worthwhile raising prices in smaller steps more often.

Energy costs

Although, by definition, the major problem with rising energy costs is their inflationary effect, I think the effect is different from inflationary food and beverage prices.

The latter rises are likely to be in the order of 10%, and since the products involved are 30% or so of total operator costs, their overall impact is effectively to increase operator costs by 3%. But for energy the numbers are different: the percentage of operator costs is normally about 5%, but right now prices are trebling, which means that the overall effect on total operator costs is to increase them by a total of 10%, which is, of course, considerably more than the 3% effect of rising food prices.

Nominal Change in Food & Beverage Purchases and Sales



Source: Peter Backman

Thus, the impact of energy cost inflation is 10% or over three times the impact of food and beverage inflation.

In turn, this puts a different perspective on the impact of rising fuel costs which are, as I've just noted, very large and very noticeable. And as far as the foodservice operator is concerned, fuel price rises impact front of house costs (warming spaces for customers, air conditioning, lighting) and back of house (refrigeration, freezing, cooking). These are things that operators may be able to do something (but not much) to mitigate; but rising energy costs also have a major impact on the supply chain (fuel for transport, costs of running factories and farms) about which operators can do nothing – except to pay the increased prices that are now obvious throughout the supply chain, or change their supplier.

In the end of course, inflation is inflation but how it manifests itself and what operators can do about rising fuel costs are different from what they can do about rising food and beverage costs.

Cost of living increases

Inflationary pressures, whether food or energy, have an impact not only on foodservice operators but on their customers. And when their customers must cope with inflation and a potential (and most likely) rise in income that doesn't keep up with inflation, the consumer is financially squeezed.

For some, this means that their propensity to eat out will be lowered – and the operator will suffer reduced demand. It's simple to make that observation but it's much more difficult to assess just what it means in terms of reduced demand – how many £ less will it be?

In my forecasts I have built in some estimate of what it will be, but it's not a science and only time will tell how much less demand the foodservice sector will experience.

Staff shortages

The final consideration in this list is certainly one that is having an immediate impact on the foodservice sector.

Staff shortages – whether resulting from Brexit, changed working patterns caused by covid, or a longer-term shift in employment – are a hugely important issue for many operators right now.

The best operators are able to secure adequate staff (based on acceptable wages and working conditions). But many struggle to attract enough, suitably qualified staff and this leads them to pay more, cut corners on service levels, open at fewer hours than 'normal', or develop other 'remedial' actions.

The overall impact of staff shortages over the next few months will be inflationary – but the impact on consumer perceptions on satisfactory service levels and product quality, may (probably will) lead to customers deciding to spend their money elsewhere – and that may be somewhere outside the foodservice sector.

Customer demand is at risk from staff shortages.

War in Ukraine

No comment is necessary from me on the rights and many wrongs of the war, nor its overall effects. Nevertheless, it's important to emphasise two issues – its impact on availability of some foods and ingredients, and its impact on confidence (and its wider impact on consumers' views of the world and their place in it).

I will leave it to others, better qualified than me, to address these issues in depth. But I will note the resulting inflation – on food and energy prices – that is causing difficulties in the foodservice sector in the UK (and in many other countries).

And the changes in consumer confidence engendered by the war are further influencing other impacts (such as inflation and covid-uncertainty) that are reducing demand in the foodservice sector.

The effects of the war are insidious, eating into much of the fabric of our lives in this country.

Thus, it will be difficult to identify the precise effects on eating out other than to observe that demand will fall (or, being unreasonably positive, demand will be lower than it otherwise would have been as result of the conflict).

Climate change

Temperatures of forty degrees Celsius having been reached once in the UK must be assumed to return – if not this summer then in many future summers.

High temperatures on their own may not be an insurmountable thing, but they are harbingers of further climate changes (and we have already started to witness increased numbers of wildfires in the last few weeks to add to winter storms and unseasonable flooding).

It is not clear how, or even whether, the foodservice sector will cope with these changes. Will the sector become more adept at developing the products, and operating environments that will attract customers in high temperatures? The answer is in the future and is not for the short-term forecast included in this report.

Comparisons with previous periods

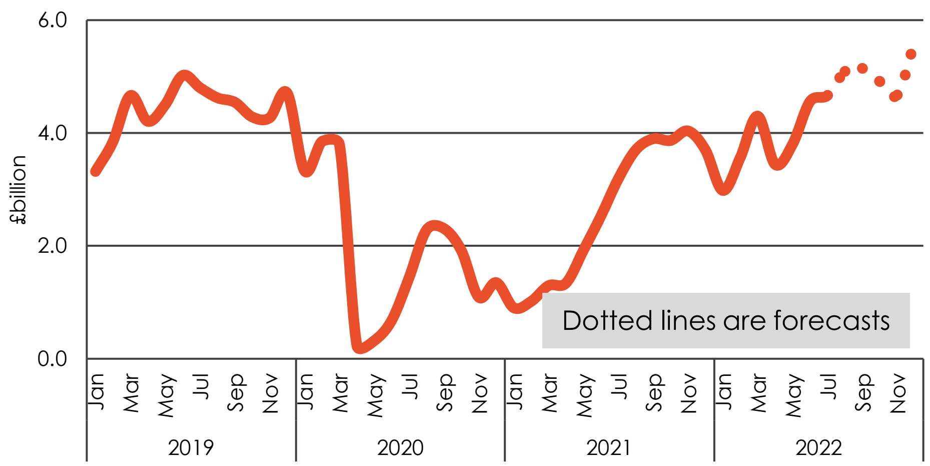
How has the foodservice sector performed compared with previous quarters?

I try to answer that question below.

The last quarter (Q2) versus the prior quarter

- Quarter 2 always represents an expansion over the prior (post-Christmas / early New Year) quarter which is when sales are depressed. And so it was this year when the second quarter saw an increase of 9.3% in sales of food and beverages across the foodservice sector
- A key driver this year was the release from Omicron-induced Plan B restrictions in January and the emergence of a general feeling that perhaps things are getting back to normal. But overlaying this feeling were growing concerns about the state of the world and the state of the UK economy. Both of these probably impacted eating out expenditure.

Food and beverage sales



Source: Peter Backman

The last quarter versus the same quarter a year ago

- In simple terms, demand in the foodservice sector doubled in the latest quarter versus the same quarter in 2021 which was when Tier 4 covid restrictions were being relaxed in all nations of the UK.
- Quarter 2 last year was when inflation started to rear its head – the headline rate reached 2.5% in June (in comparison, June this year saw it reach 9.4%)

The last quarter versus pre-covid – Quarter 1 2019

- F&B sales, in Quarter 2 2019 stood at 14.2% - 20% above this year's level which includes 20% inflation increases. So there is plenty of leeway to make up yet.

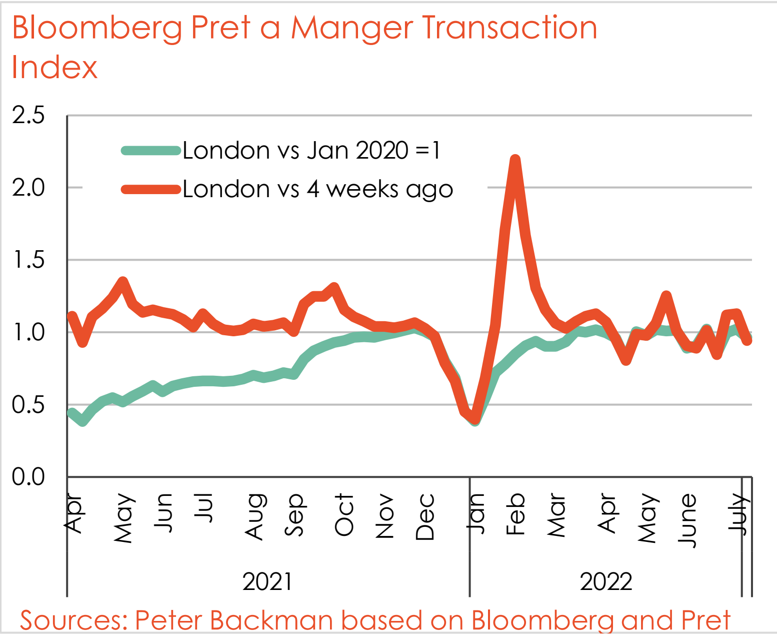
How foodservice did in the last quarter. What's the evidence?

Hard, reliable data about the performance of the foodservice sector is exceptionally difficult to find (and, for an industry with the importance of foodservice / hospitality, that's a great shame).

But in a search for useful, measurable insights, I have drawn data from two sources – Google Trends and Bloomberg.

Bloomberg and Pret a Manger

Bloomberg have been publishing data for some time now about trading at Pret a Manger stores – specifically counting the numbers of transactions.



I have extracted data for London (the full data set also covers, New York, Paris, and Hong Kong).

This graph alongside shows the changes in the number of transactions across the Pret a Manger estate in London (I have weighted the data on the basis of the numbers of Pret outlets in the various areas covered - West End, City, Suburbs etc).

Comparisons with the pre-covid period (the green line) show steady growth during 2021 brought to an end by Omicron Tier 4 restrictions. The first quarter of this year showed a return to growth.

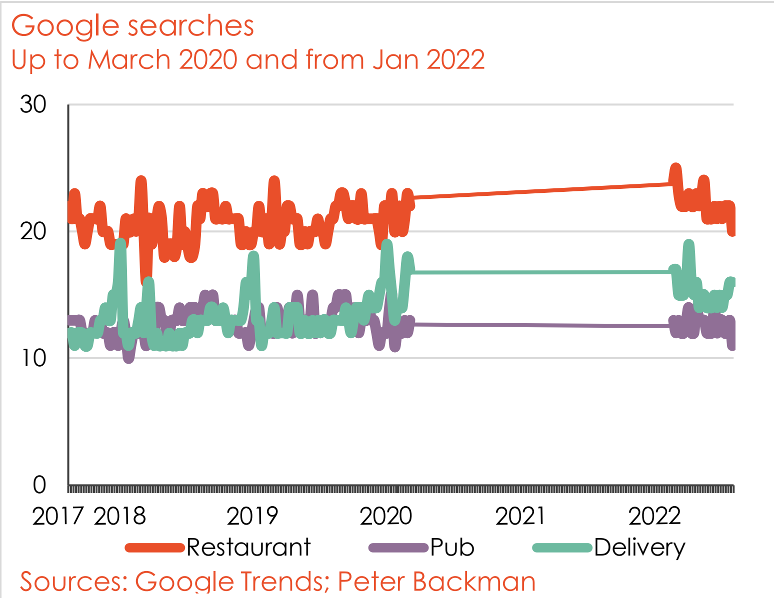
Demand has now settled at pre-covid levels although it dips from time to time due to special conditions such as strikes on the railways.

Searching through Google

Information from Google Trends is, at a minimum, interesting but it is also potentially revealing.

There are two graphs here with Google Trend data for searches on 'Restaurant', 'Pub' and 'Delivery'.

The first graph shows trending information over the last 5 years.



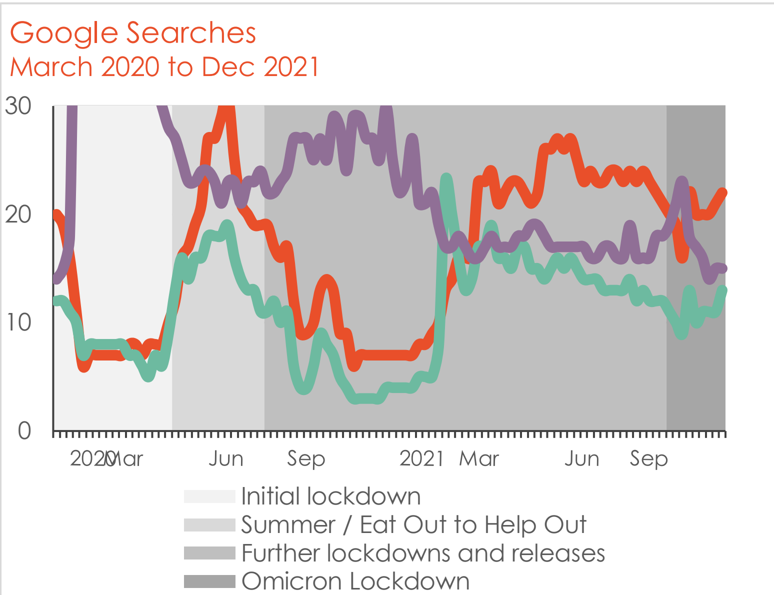
I have removed the data for the 'covid years' – March 2020 to December 2021 – and replaced the data with a straight line. I have done this because the data for the 'covid' years is highly variable and distracts from the point I want to make which is that searches for each term are either back where they were pre-pandemic, or in the case of 'restaurant' somewhat ahead of the July 2017 to March 2020 period.

Now, what does this tell us? First of all, these figures relate to online searches and do not necessarily result in any sort of action, least of all sales. Nevertheless, the graphs demonstrate consumer intentions, or at least interest. And as such they show no slackening of interest in eating out.

I would note that the word 'delivery' is somewhat problematic in this context because it can refer to delivery of anything – grocery, stationery, even childbirth (which itself is nowhere close to the trend line for 'delivery').

Nevertheless, the implication is that interest in going to the pub or having something (anything) delivered remained remarkably stable between the start and the (hopefully) end of the 'covid years'.

The second graph does a slightly different job. It fills in the gaps covered by the straight lines in the first chart.



And I've also highlighted the various periods of the covid pandemic – the Initial lockdown, Summer / Eat Out to Help Out covering May to August 2020, Further lockdowns and releases between September 2020 and November 2021, and finally the Omicron lockdown that ended in January this year.

The overall picture, unsurprisingly, reflects the complexity apparent to operators over the whole period.

And in that context, several subscribers have asked where they can get a copy of the Covid Trendline that I produced earlier this year. If you want a copy, the best way is to contact me via email.

What conclusions can we draw?

The two sets of data measure different things (searches on Google, and number of transactions at Pret a Manger). Nevertheless, they both show recovery from a downturn induced by covid (the Bloomberg Pret a Manger data don't cover the period before April 2021.

And revealingly, both graphs have levelled off – in the case of the longer running Google Trends data, the level is the same as before covid

The last quarter in summary

As I noted last quarter, covid seems to be under some sort of control. Although some people are reluctant to go out (let alone to eat out), most are at least to go out frequently.

However, inflation is a major issue – it affects all areas of operators' expenditure (from food to equipment, from fuel to wages) and it may be becoming entrenched.

Staff shortages too loom large for operators and there are few signs that they will ease (at least over the next two quarters).

The War in Ukraine, and climate change issues, are less clearly linked to what is currently happening to the foodservice sector, but they exert a malign effect over it (and much else of the economy).

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 quarter were £11.8 Billion – and stood at £45 Billion over the previous twelve months
2. Food and beverage purchases doubled over the past year broadly keeping pace with the increase in sales
3. Long term growth comparisons having been in triple digits over the past 18 months as comparisons are made with covid- affected levels of demand, are set to move into more manageable levels but still high in historic terms. However, these are 'mathematical' issues and do not have much of an effect on the way the sector performs in the real world.

Moving into Q3 and beyond

The picture for the next couple of quarters is currently somewhat surreal.

Customer demand is reasonably buoyant, there is the summer holiday period to look forward to (foreign visitors seem to be returning), there is plenty of talk of new concepts, store expansion and general 'good news'.

At the same time, economic storm clouds are not far away (some have already arrived). I suspect inflation will become front and centre in the calculations of foodservice operators and in the minds of their customers.

Those considerations make forecasting very difficult and high inflation will do its best to make any real downturn into a positive growth story.

But don't be fooled.

Uncertain forecasts

I noted in my last Quarterly Briefing Report that any forecasts that I venture to make right now are not far off being guesses. That remains true this time round, but I have done my best to arrive at a reasoned, and reasonably positive, view which is shown in this table that follows:

Quarterly Trends		**2022**			
		Q1	**Q2**	**Q3**	**Q4**
				F'cast	**F'cast**
Food and Beverage Sales					
In the quarter	£ Billion	10.8	11.7	14.7	15.1
MAT (right scale)	£ Billion	39.0	44.9	48.8	52.3
% change vs 1 year ago		237%	102%	37%	30%
Food and Beverage Purchases					
In the quarter	£ Billion	4.0	4.3	5.2	5.5
MAT	£ Billion	14.3	13.5	5.5	27.0
% change vs 1 year ago		251%	98%	35%	28%
Food purchases					
In the quarter	£ Billion	2.5	3.1	3.2	3.1
MAT	£ Billion	9.3	10.6	11.3	11.9
% change vs 1 year ago		165%	78%	28%	21%

Source: Peter Backman

Summary

Highlights of the coming two quarters include:

- Consumers continue to 'live with' covid, and consequently its impact on the foodservice sector is - currently – taking a back seat

- Instead, it seems clear that demand will be further constrained by uncertainty and reduced disposable income

- Inflation will add to top line growth while real demand will still be below pre-pandemic levels.

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 recent periods including the current week. Below I have listed the news items that cover a longer time period:

Restaurants

- Gusto Italian sales fell -46.3% in the year to end September 2021 pro rata to the prior year
- Hickory's LfL sales rose 39% in the last year versus the mainly pre-covid period
- Turtle Bay LfL sales rose 48.6% in the year to end March versus the prior year
- Roux Waterside Inn sales rose 75.6% in calendar 2021 versus 2020
- Fulham Shore sales rose 105.2% in the year to end March versus the prior year
- Inamo sales rose 61% in the year to end June versus the prior year
- Betty & Taylors sales rose 8.9% in the year to end October 2021 versus the prior year
- Wetherby Whaler sales rose 13.1% in the year to end October 2021 versus the prior year

QSR

- Benugo sales rose 21.6% in calendar 2021 versus the prior year
- Hotel Chocolat Group sales rose 37% in the year to end June versus the prior year
- Parsons Bakery sales rose 31.9% in calendar 2021 versus 2020

Pubs

- Baa Bar sales fell -18.6% in the year to end July 2021 versus the prior year
- Inn Collection Group sales rose 79.0% in calendar year 2021 versus 2020
- JW Lees sales rose 253% in the year to end March versus the prior year
- Joseph Holt sales rose 21.1% in calendar 2021 versus 2020
- Harvey & Son sales rose 34.4% in calendar 2021 versus the prior year
- Stonegate acquired a minority stake in virtual brand company, Peckwater Brands
- Robinsons Brewery sales rose 38.8% in calendar 2021 versus 2020
- Stonegate LfL sales increased 2.3% in the six months to mid-April versus the prior year

Hotels

- Stay Original Company sales rose 59.6% in the year to end September 2021 versus the prior year
- Sandman sales rose 83.0% in calendar 2021 versus 2020
- Gainford Group sales rose 28.3 % in calendar 2021 versus the prior year
- Paulton Park sales rose 106.9% in the year to end November 2021 versus the prior year
- Crest Hotels sales rose 49% in calendar 2021 versus 2020

Leisure

- Park Chinois sales fell -86.0% in the year to end March 2021 versus the prior year
- Barons Eden sales rose 5.0% in calendar 2021 versus 2020
- Searcys sales rose 54.8% in the year to mid December 2021 versus the prior year
- Brighton Pier Group sales rose 25% in the year to end June versus 2019 to 2020 period

Suppliers

- Diageo sales rose 21.4% in the year to end June versus the prior year