MONTHLY BRIEFING REPORT

August 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

On the cusp of multiple dangers – what does covid teach us?

The foodservice sector – as is the rest of the economy and indeed much of the world – on the brink of experiences that we'd rather not have.

Inflation is very high up the list, with foodservice operators' average costs likely to rise at an annual growth rate of 20% or more by the end of the year. Consumers, who are facing similarly inflationary pressures, will be financially squeezed and therefore will have much less money to spend on eating out (and much else).

> As we face a future of significant challenge, what can covid teach us about:
>
> - Timing?
> - Uncertainty?
> - How long it will last?
> - Support from Government?
> - The availability of labour?
> - Innovation?
> - Cohesion?

Where can we go for guidance and inspiration on addressing these issues in the difficult days that lie ahead?

To answer that question, let's look at the lessons that the progress of covid holds for the current state of the future of the foodservice sector.

There are many streams that lead into the current situation but most of them – and certainly the most significant - are financial.

But covid wasn't primarily a financial event (even though much of the discussion surrounding the pandemic was, and still, is about money in one form or another). So, let's start at the beginning.

Timing

Covid crept up on us (other than the relevant medical and scientific communities) with striking speed. In the UK we first started to become aware of a virus in Wuhan just before Christmas 2019, and two months later we were witnessing horrific scenes in hospitals in Italy – and news reports of people being refused entry to parts of the country or not being allowed to leave. A month later, that's where we were in this country too. That makes three months from the first inklings to full exposure.

The current financial tsunami is similarly approaching rapidly. But not nearly as fast as covid. There have been warnings of inflation for months, pressures on supplies of fuel have been noticeably building for months too. And they (price rises) won't strike on a single day. The impact of covid, in the UK, started (variously) on 16 or 23 March when the Prime Minister told us we would 'have to stay at home'. There isn't that degree and specificity of warning as to time for the coming financial impacts (perhaps because the Prime Minister isn't around to give it).

Instead, the impacts will take time to take effect.

The forthcoming energy price cap – of £3,549 - for consumer households, for example, was announced last Friday but energy prices didn't start rising on that day. They won't take effect until 1 October and then it will take weeks and months until the price increases show up on all energy bills. And there will be a further announcement of changes (including, no doubt, significant increases) to come into effect on New Year's Day 2023.

So, one difference between the onset of covid and the onset of the current crisis is one of timing. This time we have more notice, and the changes will take longer to come into effect.

Certainty

Then there is the uncertainty around covid. None of us (again except the medics and scientists) knew what we were in for – from the numbers of deaths to the need for social distancing. All of this was unknown.

And being totally unknown, covid gave rise to huge uncertainty. But right now, today, it is possible to measure in some way what is going to happen – when costs will rise above specific levels, what parts of any business they will impact first, where the impact will be hardest, and so on.

Price rises, because their effects can be measured (even if very imperfectly) and because most people have had to deal with price rises of some degree at some point, are known and their solutions are known too – increase prices, cut back where possible and so on (that's the theory by the way, I'm not suggesting that by doing these things everything will be OK).

So, another difference between the onset of covid and today's situation is differing levels of certainty. The future is less uncertain (even if we'd rather not contemplate it) than it was for covid.

How long will it last?

Initially, the extent of time that covid would last was unknown. For the first six months or so, there were comments, but no facts, about how long covid would last. Then after about nine months it seemed that the vaccines would do the trick, and levels of covid infection would come down – there seemed to be growing certainty about that – but certainty about the length of time, especially is if it were going to be short, until covid was 'beaten' was misplaced.

But, at least, some degree of confidence started to arrive nine months or so after covid first arrived.

And this time around? By its nature, it's difficult to be certain about the length of time that current uncertainty will last. But it's going to be quite a time – years not months. And I suspect, the level of uncertainty will be exacerbated by this long time that the uncertainty will last.

So, there are similarities with covid regarding uncertainty, but limited similarities regarding how long it will last.

Government Support

One piece of certainty during covid, and its early timeliness, was the government's financial support - especially furlough support but not forgetting loan support, debt forgiveness, tax holidays and the rest. This started to arrive a day or so after the first lockdown started – for some things in detail, for others in outline - and although even by the first day some companies had declared redundancies, the announcement of the first levels of financial support did the trick (even to the extent that staff already made redundant were re-employed and put on furlough).

Will something like that happen this time round? Despite notifications of what is likely to happen by way of energy inflation (and other cost rises) there is currently talk about some indeterminate government support – but no clarity of intention.

It's important to note that covid itself weakened the government's balance sheet, and as a result, the government's borrowings and their costs are higher (and much of the UK government's borrowings are in inflation-linked bonds so the weakness is likely to get worse). The government will, accordingly, have less room for financial manoeuvre now compared with the key period of covid.

This reduced room for borrowing is further exacerbated by the fact that while the costs of furlough would, to a theoretical extent, be offset by the cost of unemployment pay, today it is difficult to see any similar opportunities to offset the cost of, say, providing money to cover increased energy bills.

So, government support was especially important, clear, and immediate during the height of covid lockdowns, and without making a political point (because I try my best to keep my Weekly, Monthly and Quarterly Briefing Reports apolitical) I would say that there is no such certainty today. Maybe it will arrive?

Labour availability

Another component of today's situation surrounds labour – and, in particular, its unavailability. Obviously during covid labour was not in shortage, in fact it was in dramatic oversupply. But a feature of the past year or more, has been the shortage of suitably qualified and motivated staff. Will that continue? It's a big unknown.

On the one hand, potential employees will seek the best paid jobs and shun those that are poorly paid – and while this is a normal state of affairs, the forthcoming squeeze on household disposable income means that the importance of employment issues will rise a notch - actually, several notches.

At the same time, and acting against that, consumer demand - the level of business that the foodservice sector must address - may well fall over the coming months so the need for labour will fall - and will the overall shortage disappear?

The net result is still a conundrum – maybe staff shortages will remain a problem – or maybe they don't. And that's another uncertainty for the sector to face.

Innovation

Covid gave rise to a high level of innovation within the foodservice sector – from wholesalers cooperating on delivering general foodstuffs to the vulnerable at home to the creation of the restaurant meal kit market, from the massive expansion of delivery to the growth in the use of app-based ordering at the table and subsequent payment.

What is going to happen over the next few months? Will there be a similar explosion of innovation?

One of the defining characteristics of the foodservice sector is the degree to which it can innovate – imaginatively and speedily. So, I expect there will be innovation in the months ahead. But will it be sufficient? I'd be surprised if it were.

Togetherness

One noteworthy feature of covid was the widespread feeling – recognition – that 'we're all in this together'. The feeling that there was an external threat, and that it affected everyone and every business. A feeling that by looking after ourselves we were looking after everyone else. Businesses became less financially aggressive.

Will those feelings still obtain over the coming months. I'd say almost definitely not in anything like the same way, but perhaps a similarly positive mindset will arise. I hope so, but I'm not holding my breath.

Blankets

So, we have many things that will be different from the onset of covid – and while there are no doubt many other lessons to be learned from covid, I'd like to end here on a somewhat flippant note: blankets.

Covid required social distancing and it required people to only eat out of doors (unless at home). While the weather was benign, that wasn't too much of a problem. But when it turned cold, ways had to be found to keep customers warm.

During covid there were two solutions (if not widely adopted): outdoor heating and blankets. The former won't be a solution because its uses – expensive – energy. So, we'll have to use blankets to keep warm.

And as an improvement on covid conditions, we'll be able to do that indoors in our favourite restaurant.

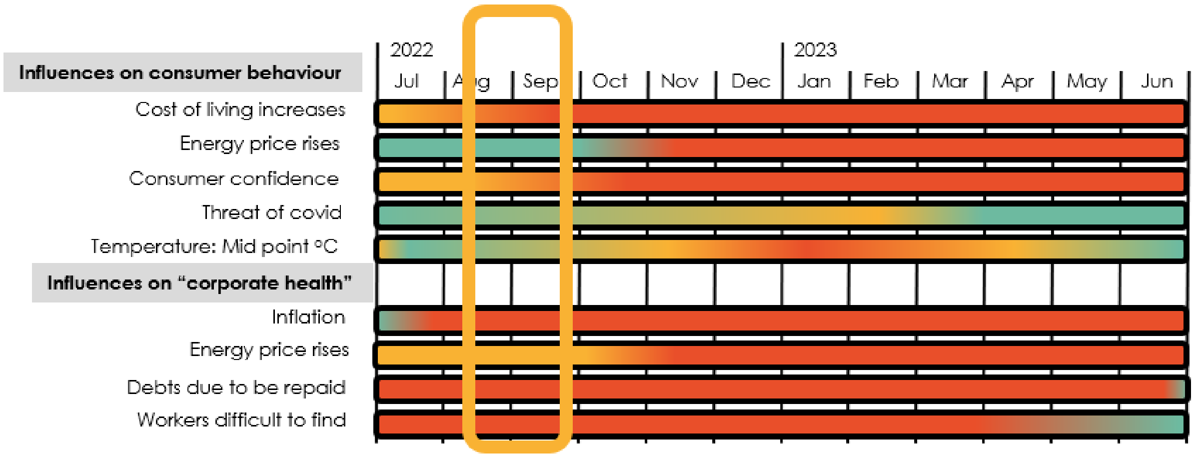
So, will there be opportunities for suppliers of blankets?

Heat Map

As a background to these observations, I have updated the Heat Map that I first introduced in March last year.

I have changed the factors that it covers because times have changed – and the factors that affect the outcome for the foodservice sector have changed. For example, the risk of an expansion of covid is much reduced. On the other hand, goods inflation has become highly significant and energy costs have risen right up the scale of important considerations and are now the critical consideration for foodservice operators.

Inflation impacts on the future of foodservice in two ways: it raises operators' costs; and it also raises the costs that consumers must bear on everything they buy, so they have less to spend on eating out.



There are further issues which I haven't captured on the Heat Map – the war in Ukraine, for example, which probably (or hopefully?) won't have a direct impact on the foodservice sector in the UK (although it has many indirect impacts, not the least of which are inflation and high energy prices).

Another issue is the strikes which are now becoming increasingly common – rail strikes for example are keeping office workers away from central London on the middle days of the week when commuters had increasingly chosen to come to the office. By not being in the City and other central locations, on strike days, the absence of commuters on Tuesdays to Thursdays leads to lost business on what have become these key days for restaurants.

And there may be further supply shortages too. The impending shortage of CO_2, resulting from reduced production of ammonia for fertilisers, is affecting parts of the food supply chain, from meat (CO_2 is used in the stunning of animals before slaughtering) to the brewing of beer.

Overall, it's probably a case of assuming many unknowns will happen – they always do regarding issues such as these – and having the resilience to cope with them.

How does the future look to you?

All in all, we're in for a rocky ride – and although covid provides some sort of lessons, in reality it has little to guide us.

Instead, the sector is going to have to rely on its ability to innovate, on its resilience and on its experience (however imperfect) of former periods of rising prices and falling consumer demand.

As I said during the early days of covid: the foodservice sector will survive – some business may not. That's a shame but it's what's going to be.

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

- Harts Group (Barrafina, Quo Vadis, Casa Pastor, Parrillan) sales fell -23.1% in the year to end July 2021
- Caledonian Heritable restaurants, bars and nightclubs sales fell -3.7% in the year to end October 2021
- Gordon Ramsay sales fell 24.1% in the year to end August 2021
- The Ned sales rose 39.1% in calendar 2021

QSR

- Gregg's sales rose 27.2% in the first half of 2022

Pubs

- Revolution Bars LfL sales rose 0.3% in the year to early July
- Signature Group sales fell -18.2% in the year to end October 2021
- Hydes' sales rose 132% in the year to early April
- Brakspear sales rose 38.1% in calendar 2021
- Ramside Estates sales rose 51.7% in the year to end November 2021

Hotels

- CenterParcs sales rose 319% in the year to end April
- Greenclose Hotels sales rose 2.6% in the year to end October 2021
- Leisureplex Hotels sales rose 213% in calendar 2021
- Whittlebury Hall and Spa sales rose 69.9% in calendar 2021
- Historic Sussex Hotels sales fell -18.6% in the year to end November 2021

Leisure

- Leisure Resorts sales rose 43.3% in calendar 2021
- Shorewood Leisure Group sales rose 65.9% in calendar 2021
- Calcot Health and Leisure sales rose 36.4% in calendar 2021
- David Lloyd Leisure sales rose 43.0% in calendar 2021
- Hoburne sales rose 2.7% in the year to end January

Suppliers

- Holdsworth Foods sales rose 108% in the year to end February 2022

Around the World

- Illycaffè sales rose 21% to €265m in the first half of 2022