WEEKLY BRIEFING REPORT

Week ending 2 October 2022

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My insight

What a momentous week it's been.

In my Monthly Briefing Report for September, I've reported in detail what the budget is doing to, and for, the foodservice sector. Let me give you a flavour here. And you can read the detail by subscribing to my Premium Briefing Reports.

The impact of the budget is pretty clear. On the one hand, it will have some really hard impacts on consumers. All except the highest earners, will have less to spend. Any reductions in their tax bills will, for most people, be more than swallowed up by increased costs of everything - from their food to their mortgage interest payments. And then there are the 'soft' impacts of the budget – a negative hit to confidence, mood, attitudes, and an overall increase in uncertainty.

On the other hand, the budget may provide a bit more security for foodservice businesses (and business generally). But this is unlikely to take effect until well into 2023 if at all. Another very slight bright spot is the possibility of some increase in overseas visitor numbers encouraged by easing of VAT. Any benefit from this will be felt in London (and other tourist locations) where demand may also be bolstered, to a small degree, by some increased spending by the highest earners.

Overall, the effect of the budget specifically on foodservice is likely to be less consumer expenditure in all, but a small selection of some higher spend, outlets. At best, it's going to be a case of a smaller reduction in sales than otherwise would have been the case. But it seems to me that ultimately an unknown, but probably significant, number of loss-making and marginally profitable businesses across the foodservice sector will still fail as a result of the budget.

Having said all that, a major – if not the major – point to note about the budget is the way it has been handled and how its fallout has been managed. There are lessons to learn from business. With any crucial decision it is always necessary to take key stakeholders along. Listen carefully to them (and not un unrepresentative subset), and then lay the ground for the announcement – explain things carefully and logically, and preferably over a period of time.

And finally, when the fallout is disastrously negative (there are many corporate examples from Coca Cola and its launch of Dasani, to Pret and its mislabelling of allergen-containing sandwiches) act swiftly and appropriately – don't hide the CEO away.

As I say, it's been a momentous week, the outcome is still very unclear and definitely not positive, but the foodservice world rolls on.

The numbers

A recent cartoon in the FT made the point: 'Everything is going up - except the £'

Inflation is increasing globally – in the western nations it is currently approaching 10%. In the UK it is already there and is highly likely to rise over the coming months. What can this mean for foodservice operators in the UK?

They are seeing the cost of all their supplies increasing. And the sales mix of any single operator determines the overall inflationary increase it experiences. For some operators, inflation will be well in excess of the headline rate – and, for others, below it. But overall, rising inflation will continue to drive a pressing need to increase prices, and it will exert significant cost pressures that will lead to depleted financial reserves.

For some operators, the resulting pressures will be unsustainable, and in extremis they will mean the closure of their business. For others, notably those with adequate cash reserves or access to further finance, it will mean an awkward period until inflation is once again at lower levels.

Importantly, the impact is not going to be felt only by operators; consumers, too, face rising costs for their everyday purchases and anything else they buy, from holidays to hairdressing. This, in turn, will 'steal' money from their pockets making it difficult to justify their former eating practices – they will spend less on eating out.

And consumers and foodservice operators are not only enduring price inflation (and the rising cost of energy in particular), their borrowing costs are also increasing – partly because of global issues but mainly because of the fall in the value of sterling, hastened by the budget last week.

The impact of rising interest rates is going to be felt by consumers whose mortgages will increase, in many cases dramatically (while for others, with long term mortgages, the impact may not arrive if interest rates fall before the contract needs to be renewed). The increases will make home-owning impossible (at least in the short term) for some, leading to considerable levels of consumer dissatisfaction, dismay, and perhaps anger.

Thus the overall results of the current large, and rapid, increases in borrowing costs are a hit to confidence (and therefore a hit to eating out), there will be less money for consumers to spend (again, on eating out), and there will be a hit to corporate balance sheets in the foodservice, hospitality, and leisure sectors (not forgetting the rest of the economy).

Based on recent experiences, including during the Great Recession a dozen years ago, these considerations, in the round, are likely to mean that consumers will eat out less frequently. But they may spend more when they do – and this will mean that they will search for 'better value for my £' when they are eating out.

However, the search for 'value for my £' does not necessarily mean the end of eating at cheaper places. Indeed, there is much talk about increased spending at both ends of the spectrum but less in the sectors between them – the middle will be squeezed. While I am keeping an open mind on this, I feel that is probably a correct assumption for now. Everyone will have to offer 'value'.

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

News in the past week

Finance & Legal

- Railway workers were on strike on 1 October

Restaurants

- Backyard Chicken Co placed in liquidation
- Big Table Group acquires Banana Tree

Pubs

- We Are Bar Group placed in administration
- Shepherd Neame LfL sales were unchanged in the quarter to end September versus 2021
- Loungers LfL sales rose 22% in the year to end July versus 2019
- Mitchells & Butlers LfL sales rose 1.5% in the latest quarter versus 2019

Leisure

- Brighton Pier Group sales rose 197% in the year to end June versus 2021 and were 25% up on 2019
- Cineworld sales in UK and Ireland were up 468% in the half year to end June; up 417% globally

Suppliers

- AG Barr sales rose 16.7% in the six months to end July
- Chapel Down sales rose 3% in the year to end June versus 2021

Around the World

- SSP revenue in the most recent quarter is about -5% of 2019 levels, In the UK it is 14%
- Autogrill LfL sales rose 61.7% in the eight months to end August versus 2021; Europe was up 45.6%

Delivery offers in the week

- Deliveroo: Get 20% of for Tasty Thursday
- Deliveroo: We miss you. Here's £7 off your next order
- Uber Eats: Get One Free, this Eat Wednesday
- Uber Eats: Get 40% off your next 5 orders