WEEKLY BRIEFING REPORT

Week ending 6 November 2022

Published 7 November 2022

Peter Backman.

About my Weekly Briefing Report

This Weekly Briefing Report is **free**. Has this been sent to you by a colleague? You can sign up here for your own copy:

Sign up Here

Premium Briefing Reports

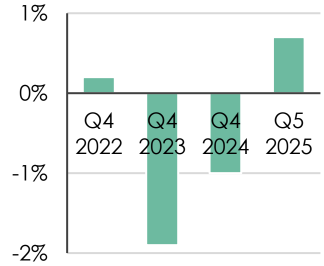
My **Monthly and Quarterly Briefing Reports** provide a more in-depth view. There is a **choice of monthly and annual subscriptions**.

Subscribe Here

The numbers

'Horrific', 'catastrophic',' a train wreck'. I've chosen to quote only three examples of what leading industry figures have told me they think 2023 is going to look like. I covered my own views in considerable detail in my latest Quarterly Briefing Report – which you can subscribe to here – and I thought I'd take this opportunity to briefly summarise those views.

GDP Change to 2025



Source: Bank of England

For context, last week, despite forecasting a rapid fall in inflation in a year's time, the Bank of England came up with a dispiriting assessment of the onset of a recession in this current quarter (it may already have started) and not ending until some time in 2025 – perhaps two and half years from now. Meanwhile, at a sector level, commenting on current conditions, the Bank's agents concluded 'Firms in … leisure sectors … were concerned that tight budgets would depress demand even further during the off-peak season', and as for suppliers '… firms offering services in logistics and wholesale … reported weaker sales volumes compared with a year ago'.

Based on these views and a host other evidence, I concluded that the six month outlook for foodservice is bleak as a result of two types of impact. First are the hard impacts, such as inflation, the falling the value of the £ and rising interest rates; these are leading to increased costs, and reduced expenditure by customers, and therefore reduced sales for foodservice operators. And then there are the soft impacts – on confidence, mood, attitudes, overall uncertainty. These also lead to lowered consumer expenditure, as well as reduced investment by operators.

My overall assessment of the outlook for the foodservice sector over the next two quarters is therefore, at very best, unsettled. In making my forecasts I have assumed that Christmas trading, which is of course still unknown, will be OK (which is nowhere near saying it will be 'good').

But the real danger period will be in the three months immediately after Christmas as consumers spend even less in this coming period than they normally do in the first months of the new year. And all the while operators, like consumers, will face large increases in energy and borrowing costs which, for many, will come on top of balance sheets weakened since the start of covid.

Some operators will be cushioned or will find that their sales are not significantly reduced – high end restaurants, much of the food to go market for example. But reduced sales, higher costs, and a weakened financial position – will come together early next year to create a time of great uncertainty for many operators – and failure for perhaps too many.

My insight

Sometimes I start writing my words for the Weekly Briefing Report with a clear idea of where I'm going. But sometimes I set off with a thought but no idea where we'll end up. This week's is very much of the latter variety, so let's see where it takes us.

I want to start with the notion that if someone's feet don't take them to your restaurant then they won't buy anything from you. In other words you need 'footfall' as my friend Jim Klass, a respected foodservice supply chain consultant in North Carolina, pointed out to me last week.

Sometimes, it seems, people start off with a very clear idea of where they want their feet to take them to shop and what they want to buy, and they pursue that objective with laser-like focus: they pull up right outside the chemist, rush inside, buy the pack of headache pills that they need, and rush out again. Or they make their way to the sandwich bar at lunchtime, buy their usual sandwich and leave. On occasions like these, the decision what to buy, and where, has been taken well before the visit takes place.

But what happens on the many (I'd suggest most) occasions when the customer might have a general idea, or perhaps no idea, of what they want? They set out in a spirit of seeking inspiration from the goods on display. And they might indeed find inspiration in the shop or restaurant they have already decided to visit. Or the inspiration might come from walking around, looking in windows and seeing where chance may lead them. But as a high street operator if you don't have enough footfall then all this random wandering around outside won't provide the custom you need inside.

Now, let me introduce another idea. The high street works because it encourages footfall by providing choice and the power of serendipity. Over time, many different physical models have been constructed to exploit this apparent randomness of choice. There is the concept of providing choice at the point of purchase – that is the point of a menu. Then there is the cornucopia of choice on a supermarket's shelves or in the many departments of a variety store – clothes, perfume, food, stationery all available under one roof. There is the idea of a food court where different restaurant offers are available in an open space, widening the choice for wandering customers. These are some examples of the many, various ways that the traditional way of shopping has evolved from the high street (and, in even earlier days, in open air markets).

But what happens if the choice diminishes and no longer supports the necessary footfall (it's footfall that generates business) - what happens if customers' feet don't bring them to the right place? The high street empties, and the businesses that rely on it fail. And right now, it seems that for a variety of reasons – rent levels, Amazon, working from home, the long term impacts of covid – footfall is disappearing and, with it, our high streets.

With that thought in mind I had a short, but information-packed, discussion last week with property developer Ken Elliott. He pointed out to me that help may be at hand from restaurants (and their siblings like food to go and pubs) because they have the potential to re-energise the lost (or disappearing) feet. But in doing so, they fundamentally change the nature of high streets – the rents charged, the shape too, which will evolve from a ribbon to a circular area (recreating the old-style town centre perhaps?) Town centres will change. As a nation are we up for that change?

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

News in the past week

Financial & Legal

- ONS reported 71.3% increase in registered company insolvencies in the third quarter
- Bank of England agents reported that lower-priced hospitality venues generally outperformed mid-priced outlets

Restaurants

- Fulham Shore sales grew 35% in the half year to end September

QSR

- WSH Group acquires Notes
- KFC UK system sales fell -7% in the three months to end September; global LfL sales grew 7%

Leisure

- Lakeshore Leisure Group acquired by Capfun

Around the World

- Shake Shack sales rose 17.5% in the quarter to end September
- Papa Johns system sales grew 0.5% in the three months to end September; international restaurants system sales fell 0.4%
- ACI Europe reported passenger numbers at European airports grew 61% in the third quarter
- Sysco sales grew 16.2% in the quarter to end September; non-US sales grew 13.4%
- Pizza Hut Europe system sales fell -3%; global sales fell -1%
- Thwaites sales grew 21.1% in the half year to end September
- Tim Horton's same store sales grew 11.1% in the quarter to end September
- Burger King International same store sales grew 15.2% in the quarter to end September; US same store sales grew 4%.
- Starbucks revenue rose 3% in the quarter to end September; international same store sales fell -5%
- Melia Hotels sales grew 83% in the quarter to end September
- DoorDash revenue grew 33.4% in the quarter to end September; Gross Order Value grew 29.9%

Delivery Offers in the Week

- Deliveroo: We say 20% off (or more)
- Uber Eats: 50% off Bonfire Night meals & snacks
- Uber Eats: 40% off your next 5 orders