WEEKLY BRIEFING REPORT

Week ending 27 November 2022

Published 28 November 2022

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My insight

Events in this past week have focussed my mind on the real challenges facing the restaurant sector – and what's going to happen to it over the next few months. I have been saying for some time, most recently in my latest Monthly Briefing Report and my Weekly Briefing Report of 6 November, that 2023 will be a dire year. My views were reinforced by serial restaurant investor, Luke Johnson, who was quoted in Propel last week as saying that the next year to eighteen months will 'break a lot of businesses' in the hospitality sector.

His view is that the vast majority of failing hospitality operators will be small, family businesses which are vulnerable because they don't have the depth of their balance sheets to cope with existing challenges and those that will arrive next year. That is undoubtedly, and unfortunately, true; but small family-run businesses have strengths that their larger competitors don't. And if you want to learn more about my thoughts on this topic, listen to my interview last week on BBC Hereford and Worcester; you'll find it here – starting at 3 hours, 11 minutes and 40 seconds.

Family businesses have immense flexibility – because the shareholders are the family who run the business; that means they can make decisions quickly, and sometimes brutally, when it comes to exiting parts of their business or letting staff go. And they have the ability to forego salaries for the good of the business. In a business where the staff – manager, chef, waiters – is perhaps three quarters family, maybe half of them can exist on severely reduced income. That can translate into a reduction in total day to day expenditure of about fifteen or twenty percent. That will go quite a way to offsetting rising costs, for fuel for instance, that cannot be passed on to customers. While this may be an idealised picture, it points to a flexibility that larger players lack.

Luke Johnson makes other points with which I wholeheartedly agree. For instance, he recognises that a strength of hospitality is its 'diversity and fragmentation' – something that I have emphasised on several occasions. It's these characteristics that, in aggregate, allow the sector to evolve over time and bounce back from dire situations. But this is 'in aggregate'; it's not, regrettably, necessarily true for individual operators who may fail because they don't have the chance to evolve.

And finally, Luke Johnson noted that the 'better players will prosper'. Not wishing to quibble unduly, I would suggest the 'best' players – those with the necessary funding, the right offer, the most suitable marketing and management skills and more - will prosper. The merely adequate will be at risk, possibly at greater risk than small businesses, because they lack the innate, flexible strengths of the family. Maybe size is not the only bulwark against the challenges to come.

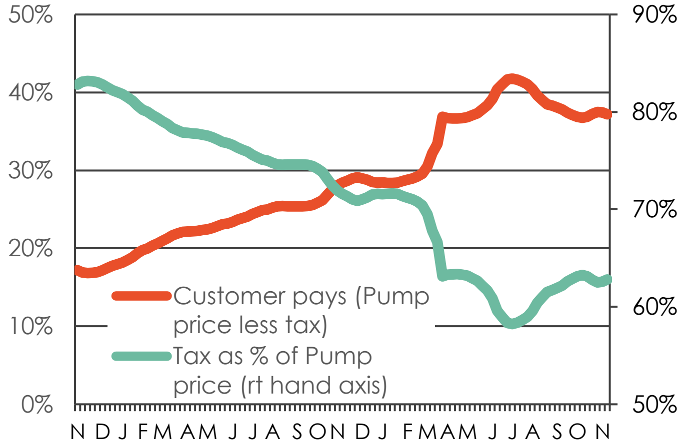
The numbers

Rising fuel and energy prices affect restaurants and their customers in different ways. This week I want to highlight two examples of these different ways. In doing so, I'll return to a topic I covered a year ago. In my Weekly Briefing report of 21 November 2021, I discussed the role of petrol prices in determining travel habits, and in particular driving to a restaurant for a meal.

This builds on the US experience. But this is somewhat different to what happens in the UK because the price of petrol is far more variable in the US than in the UK arising from the much lower US rates of tax on the fuel.

Over the intervening period since I first wrote about this, the price that the customer pays in the UK had initially risen and then stabilised. And having stabilised, the price of petrol, is currently of less concern to consumers in their desire to drive to a restaurant, than it was a year ago.

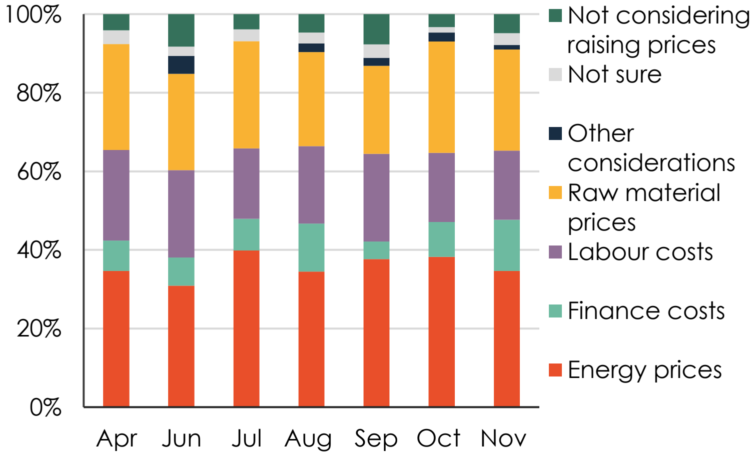
Share of wholesale petrol price as % of pump price 2020 / 2022



Sources: ONS; Peter Backman

On the other hand, fuel prices – or rather energy prices – are of growing concern to restaurant operators. The ONS carry out a fortnightly survey that, amongst other things, examines views about the impact of energy prices on business decisions in the hospitality sector. The most recent figures (based on the results published earlier this month) show that energy prices are now the main concern of 58% of operators - up from 28% in May when inflation in the cost of goods (food and beverages in the main) was the major concern of 44% of operators.

Factors cited by operators causing them to consider raising their prices



Sources: ONS; Peter Backman

As a result of these changes - inflationary pressures on fuel and food – is that 43% of operators expect to raise their prices and a further 38% do not expect to change their prices; the rest are not sure what they will do (although a small percentage – 3% - expect to reduce prices). I suspect a major determinant of whether to increase prices is the fear of driving customers away. But with energy prices of such a major concern it is increasingly likely that prices will rise

We can, I suppose, hope that the stabilised price of petrol will encourage customers to take the trouble to drive to their favourite restaurant even as the prices, when they arrive, have one up. That's going to stretch operators to provide the very best food and service that they are able.

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

News in the past week

Restaurants

- Ping Pong bought by its management
- Caffè Concerto is put up for sale
- Mazars report restaurant insolvencies grew by 59% in the last twelve months versus prior year

QSR

- AMT Coffee goes into administration; SSP acquires 25 sites
- Caffè Nero available on Deliveroo platform

Pubs

- Loungers' LFL sales rose 14.2% in the half year to end September versus 2021

Suppliers

- Britvic sales grew 15.2% in the year to end September versus 021

Around the World

- Compass organic revenue grew 31% in the latest quarter versus prior years
- Elior revenues grew 20.5% in the year to end September versus 2021; revenue in the three months to end September were -5% below 20219
- DP Eurasia system sales grew 11.6% organically in the latest 10 months versus 2021

Delivery Offers in the Week

- Deliveroo: 25% OFF to fuel your Black Friday
- Deliveroo: 25% off from today
- Uber Eats: Get 40% off your next 5 orders