WEEKLY BRIEFING REPORT

Week ending 22 January 2023

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My insight

What's the difference between an entrepreneurial start up restaurant that operates out of a dark kitchen and occasionally does pop ups in bricks and mortar sites – and a very expensive restaurant in Copenhagen? The answer, it seems, is very little apart from the cost of their offerings to you, the customer.

The timeless basics of running a restaurant are the same whether it is a smoothie bar in Sausalito, California, a family-owned fish and chip shop in Lowestoft, on the east coast of England, a franchised casual dining restaurant in Dubai, UAE, or a high end restaurant in Sydney, Australia. All you have to do is provide an offer that customers like and are willing to pay a price commensurate with the food and service on offer. Then run the operation at a cost that is less than what customers, in aggregate, are prepared to pay. It's quite simple really.

When things go wrong financially, you reduce costs - buy things more cheaply, reduce the number of people employed, maybe tweak the layout (close off part of the floor perhaps), lower the thermostat setting. Or increase prices. Provided the offer still appeals to customers, and that costs and revenue are in balance, the business continues. That's how it's been for generations.

In the last half dozen years another, alternative way of balancing revenues and costs has arrived – dark kitchens. In effect, they remove the front of house where the customer is served and thereby turn the customer's home into the front of house with the financial benefit that there are no costs (to the customer or the restaurant) in this new front of house. In this way, the total cost of running a restaurant is reduced by a large amount – say a third.

So when Noma, the high end restaurant in Copenhagen, discovered that insufficient numbers of customers were prepared to pay the prices needed to produce a profit, they decided to reduce costs by removing the front of house operation. That's why, Noma – five times header of the World's 50 Best Restaurants, and with its 3 Michelin stars (and another one for its environmental credentials) – is going to become a dark kitchen operation based on developing recipes for others to follow, and will be running the occasional pop up.

Just like MrBeast Burger, Seoul Chicken, and Pasta Dreams, Noma is going to run without a front of house operation. If the numbers stack up, the business, will once again, become sustainable.

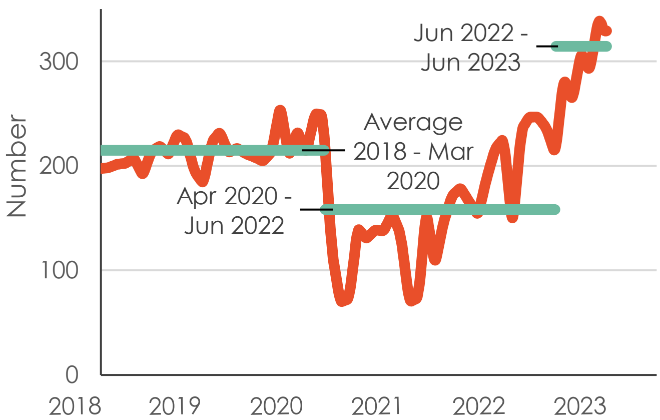
The timeless basics of running a restaurant kick in. Get the offer, pricing, and costs right - and profits flow.

The numbers

You will have seen the 'covid graph' – it's the one that starts in about 2018 and initially tracks the normal course of whatever it measures.

Allowing for seasonal variations, it describes a period of gentle progress. And then in March 2020 it collapses – perhaps reaching zero before it climbs back again, not necessarily to its previous levels but, with the removal of lockdown restrictions, it reaches an acceptable level before falling again as the winter of 2020 approaches. Then springs sets in and within a couple of peaks and troughs it starts to climb into 2021 and then 2022. This is the shape of a graph that describes many things – foodservice sales, travelling into city centres, hotel revpar. What is notable about the 'covid graph', with its repeated dips and rises not reaching pre-pandemic levels, is that it's a bad thing.

Struggling restaurants



Sources: BBC; London Gazette; Companies House

But researchers at the BBC have found a covid graph that is a good thing. This graph measures the numbers of restaurant, cafes, and pub businesses that are in trouble by measuring notifications to the London Gazette and Companies House. (A word of caution: this is not quite the same thing as actual restaurants, cafes and pubs because some businesses represent more than one site). Now here's the surprising thing: the graph, like all covid graphs, collapsed in the spring of 2020 and meaning that fewer businesses were struggling - not more – because government support kept failing businesses alive. But now that this government support has been withdrawn, or is in the process, what does this graph tell us about the current state of hospitality businesses?

The timeline falls into three parts. The first is the pre-covid period when 215 businesses struggled each month. The covid period – March 2020 to June 2022 – saw this average fall to 158. Since then it's been climbing again – in other words the number of struggling restaurants is increasing.

Here's the key thing. Struggling businesses were kept alive during the covid period which meant that the reduction in their numbers was a one-off, not a permanent feature. And now that they are exposed once again, some of those that were kept alive with government support will fail. adding to the 'natural' level of failing businesses. So the total number of such businesses will increase beyond the pre-pandemic norm of 213. Indeed, they are already on the up.

We are entering a period when restaurant failures are increasing above historical levels. And significantly, the businesses that were kept going with government support will also start to struggle. The aggregate numbers of failing businesses will increase to higher levels than before the pandemic - for a while. Let's assume that these businesses will struggle over the coming six months; that means the average number of failures will reach 315 a month – that's 100 up on the pre-covid 'norm'.

Numbers of struggling restaurants are set to rise by 46%. Rocky times lie ahead.

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

News in the past three weeks

Christmas Trading

- JKS Restaurants sales fell -15% in pre-Christmas 'strike weeks' versus 2019
- Simmonds Bars organic sales rose 89% in the five weeks to 1 January versus 2021; LfL sales rose 22%
- Oakman sales rose 34.3% in December versus 2021 and 34.3% versus 2019
- Mitchells & Butlers LfL sales rose 19.0% in the five weeks to 7 January versus 2019

QSR

- Cooks Coffee Company sales rose 41% in calendar 2022 versus 2021
- Black Sheep LfL sales rose 43% in the final quarter of 2022 versus 202 and 25% versus 2021
- El Mexicana exploring strategic options

Pubs

- Revolution Bars LfL sales fell -9% in the second half of 2021 versus 2019

Delivery

- Just Eat announced deal to supply rapid grocery for Sainsbury's
- Deliveroo GTV in UK&I rose 9% in the final quarter of 2022, number of orders rose 7%
- Bidcorp UK acquires Harvest Fine Foods

Around the World

- Just Eat Takeaway global GTV fell -2% in the last quarter of 2021 versus 2021, number of orders fell -12%.com

Delivery Offers in the Week

- Deliveroo: Get 2-% off for Tasty Thursday