WEEKLY BRIEFING REPORT

Week ending 19 February 2023

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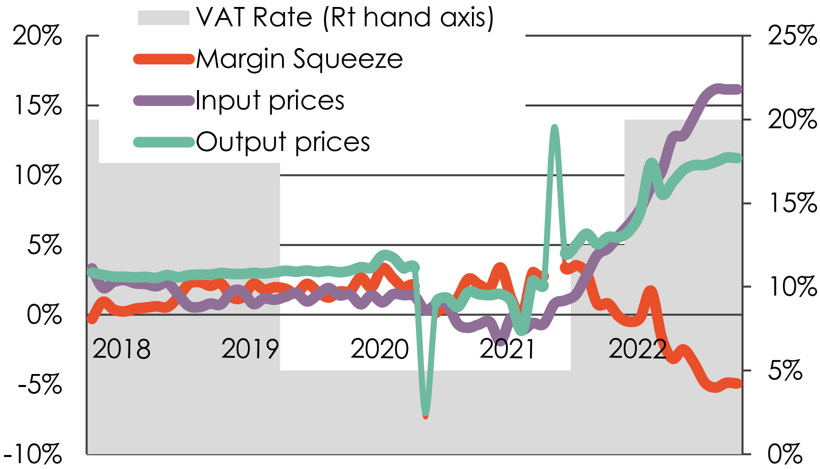
The numbers

Subscribers to my monthly Premium Briefing Report series will be aware of the Margin Squeeze. This measures the rates at which the costs of goods are inflated compared with menu prices. The faster that the costs of goods rise, compared with the increase inf menu prices, the greater the squeeze on operators' margin'.

The Margin Squeeze shows that gross profits have been faring badly for most of the past twelve months for two major reasons. First, prices of food (and beverages, but not to the same extent) have been increasing steadily - currently the rate is getting on for 18%. Second, operators' ability to offset cost of goods inflation by raising menu prices rises is limited by their willingness (usually the opposite) to contemplate any price increase.

Margin Squeeze



Sources: Peter Backman; ONS

Note that net profits may not be affected to the same extent – or they may be affected even more – because their direction of change depends not only on cost of goods inflation but inflation of wages, salaries, property costs, fuel prices and more.

We are now in a situation where, not only have gross profits been falling for well over a year, but inflation, although it has started to fall, is now baked into the system because it's not reasonably possible to unwind most of the inflation already embedded in the cost of goods, wages and other costs.

In the short term, the foodservice sector faces further pressures on demand (customers have less money in their pockets because savings have been drawn down while the cost of living increases); and operators will continue to face further rises in the price of fuel, for example, because government support is dwindling.

Stable, and then falling, costs of goods prices will bring some relief, but the foodservice sector is still exposed to pressures which are unlikely to abate for quite a few months.

My insight

Most weeks I write a piece that has a conclusion or gives rise to a thought. Today is different: I have a number of observations that have arisen in the course of my conversations over the past few months. But they haven't really led me to any overarching conclusion – yet. Maybe something will come out of it though, and maybe you can help with observations of your own.

My observations start in well-known territory for readers of my newsletters: dark kitchens. A restaurant sets out to provide its offering to the public and, for one reason or another, decides that it needs to prepare some (or even all) of its menus off-site.

Another observation, also in known territory for those engaged in the restaurant business: central processing units. I've mentioned them before over the last couple of years. Contract caterers set up sites to prepare food which they ship to the locations where it is to be served to consumers. Or a restaurant prepares some of its dishes – or parts of its dishes, such as sauces - centrally and ships them to its individual units for serving to customers.

And another observation: an event caterer is unable to prepare food on the site where it is to be served – perhaps there is no kitchen, or the one that is available is too small. Or it turns out that preparing food where it is to be served means small batch food prep, with all the inefficiencies arising from small scale production, is unprofitable. What is needed is a complete kitchen to act as a hub for the events that are to be catered for.

And yet another observation: there are people who start producing food in their home kitchen for selling through retailers. Someone, perhaps, starts to produce jam or cakes for sale at farmers' markets, and then receives an order from a retailer and the kitchen is no longer large enough. But an off-site kitchen will be just the job.

And a final observation (for now at any rate): sassy entrepreneurs create a product - a snack, or a juice drink perhaps - and need to produce it at some scale to meet growing demand from retailers, wholesalers, or foodservice operators. Established co-packers can't do the job (or perhaps they just charge too much), so the entrepreneur does it herself in a hired kitchen.

I think, after five observations, you may have got the point. It's about 'off-site kitchens'. And given the scenarios I've outlined (and bearing in mind they are only a small selection) there must be thousands of businesses requiring off-site food production premises.

It's taken me many years examining, measuring, analysing and commenting on foodservice (and to an extent food manufacturing and retail as well) to see the business opportunities in off-site premises, even though they've been sitting there all the time.

I currently have very little concept of the total size of the off-site kitchen market other than it must be large and is probably concentrated in larger cities, London especially because it has the spaces and the demand. Supporting the market is a small army of people who see business opportunities – large and small - in the sector.

With the expansion of virtual restaurant brands (brands that have no bricks and mortar presence) built on the opportunities arising from delivery, a whole new front opens up for off-site kitchens.

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

News in the past three weeks

Around the World

- Autogrill LfL sales rose 52.8% in calendar 2022; organic sales rose 59.7% at current exchange rates
- SSP sales rose 3% above 2019 in the last quarter of 2022; sales rose 67% versus 2021
- Coca-Cola coffee segment – includes Costa – sales rose 13% in calendar 2022; total Coca-Cole sales rose 11%
- Shake Shack systemwide sales rose 15.8% in the last quarter of 2022; same store sales rose 5.1%