

QUARTERLY BRIEFING REPORT

Q1 January – March 2023

Published 30 April 2023

Peter
Backman.





Introduction

I have been publishing The Quarterly Briefing Report since 2009. This report is now one in my Premium Briefing Reports series – I issue one report at the end of each month. The report issued at the end of each quarter provides my views about the past quarter – and gives my forecasts for the next two quarters.

At the start of the covid pandemic, I started producing [The Weekly Briefing Report](#) to provide a more immediate view - and this remains available free of charge.

I also produce [theDelivery.World](#) - a fortnightly newsletter – and that, too, is free of charge.

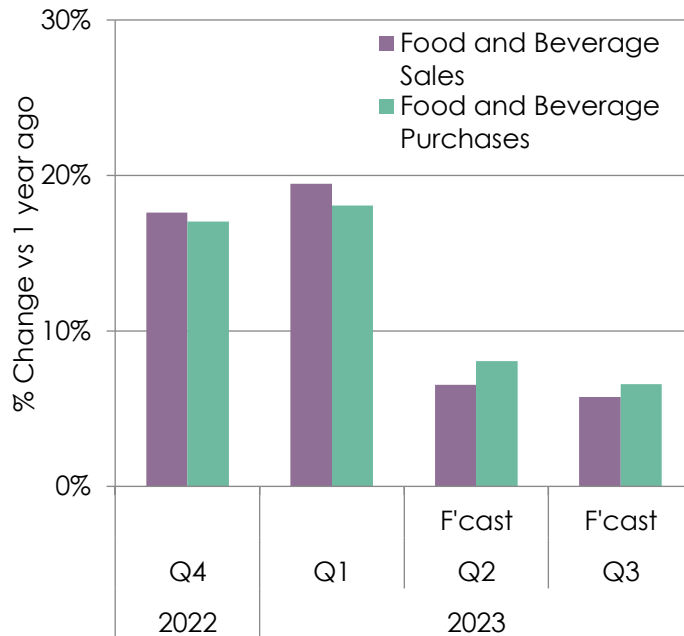
In response to several requests for a more compact and focused report, this issue of my Quarterly Briefing Report follows a revised format which provides a more structured approach to the report.

I have focused on providing a succinct summary together with some charts to examine what's happening at a sector level since most of the general topics that were formerly covered in depth in my Quarterly Briefing Reports, are now covered in detail in my Monthly Briefing Reports which form part of your subscription to my Premium Briefing Report series.

I hope this new format is helpful to you and I would value your feedback on it – and any topics you would particularly like me to add to my coverage - my email address is

peter@peterbackmanfs.com and my phone number is 07785 242809.

Nominal Change in Food & Beverage Purchases and Sales



Source: Peter Backman

The past quarter

Demand side

- The demand side of the foodservice sector kept up fairly well across most sectors in the last few months despite growing pressures on consumers and rapid inflation.
- Consumers were price-sensitive and thrifty, but they continued to spend.

- The Coffey CGA Business Tracker reports a distinct market slow down - LfL sales in the pub sector rose 2.4% year on year in March (versus 6.9% in February and 12.9% in January); restaurant LfL sales were 2.5% ahead (versus 1.9% in February and 10.3% in January).
- More specifically, Easter trading was positive (although not when inflationary costs are allowed for):
 - Barclays reported that consumers spent 2.7% more over Easter compared with 2022
 - The Oxford Partnership On Trade Report reported that sales of beer and cider over Easter exceeded those sales in 2022
 - CGA noted that on premise drink sales over Easter were over 10% higher than in 2022.
- March was the sixth wettest March (in almost 200 years).
- On the negative side Barclays consumer card spending grew just 4.0% year-on-year in March. And another survey from Barclays showed that 62% of Britons are cutting down on eating at restaurants.
- And for context, the volume of retail sales (in shops and online) fell 0.9% in February.

Supply side

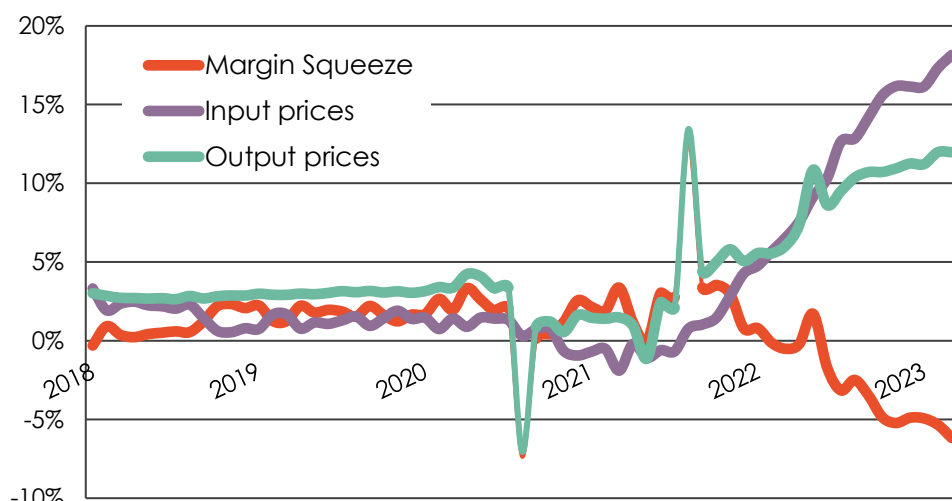
- There were more deeply worrying signs on the supply side – amongst operators and their supply chains.
- The Financial Times reported that 'Food and beverage profits have been badly hit'.
- Inflation continued to be a significant issue for operators (and for consumers as well) and it maintained elevated levels – above 10% in March despite forecasts that it would start to fall during the period:
 - The Opec+ oil cartel announced a surprise cut to oil production, immediately lifting the price of crude.
 - Although wholesale gas prices are down 67%, and electricity grid prices are down 56%, home fuel and lighting costs are up 88% over the past year putting pressure on household budgets.
- Corporate insolvencies were three times higher in the year to February than in the year to February 2022. And in March they were 16% higher in England and Wales than they had been a year ago. Selective examples included:
 - Pret supplier, Orchard House Foods, went out of business.
 - Bar company, Dirty Bones, was reported to be examining its business options including selling all its sites.
 - Tapas Revolution, an 11 strong bar and restaurant chain, was acquired under a pre-pack arrangement.
 - Jacko's, a fish and chip shop in Ilkeston, closed – it's owner citing rising costs as a significant contributory factor: "Gas has just been quadrupled and the electric - I dread to think what it could be ... increases seem to be a never-ending affair".

- Beverage manufacturing insolvencies were 136% higher in the year to February than a year before.
- Over 150 pubs closed in England and Wales in Q1 2023 – an increase of almost 60% on a year earlier.
- Food wholesalers are reportedly taking up warehousing space at a rate 58% higher than a year ago impelled by the efforts to acquire stock to prevent shortages of produce and other categories.
- Despite these negative aspects, of course the picture is not one-sided, it never is, and Remarkable Pubs, for example, reports that it is trading at pre-covid levels at 9 out of its 11 sites in London.
- And finally, labour. The labour market remains strong which is different from what happened in previous downturns and, notably, demographic trends suggest this will remain the case for years.

The Budget, and inflation

- The Budget, on 15 March, had little direct import for the foodservice sector:
 - The Energy Price Guarantee was set at £2,500 so it was (and is) still useful in minimising costs to consumers even though energy costs are still measurably higher than a year ago
 - Beer Duty levels remained frozen in pubs (and other hospitality sector outlets). It was increased for off-licence sales which puts the hospitality at a slight advantage and may help to shift alcohol sales towards pubs especially those selling at lower prices.
- The Margin Squeeze worsened noticeably during the quarter and is tighter than at any time since mid-2009.

Margin Squeeze



- Inflation impacted several food lines especially significantly:
 - Basics such as butter, oils, fats, cheese, sugar, and eggs – all of which increased at above 25% in March
 - Even categories with slower rates of inflation such as fish, poultry, vegetables, all increased by between 15% and 20%.

- On the other hand, menu prices rose by about 12% and the on-sale price of alcohol increased by about 9%.

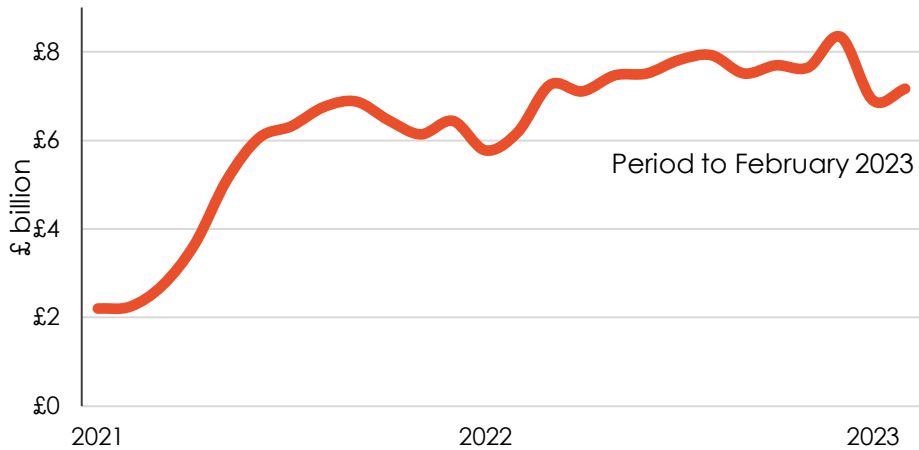
Source: ONS; Peter Backman

- Significantly higher inflation on food and beverage inputs compared with their sale price, puts severe pressure on P&L accounts .

By sector

- Restaurant trading fell in real terms in the quarter despite growing nominal sales.

Food & Beverage serving



Sources: ONS; Peter Backman

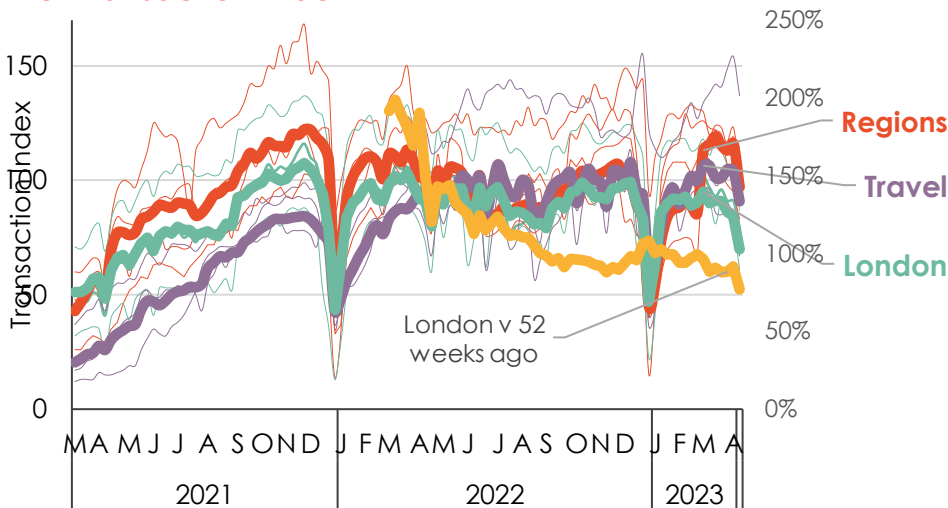
2019 in real terms. Occupancy grew slightly in January (versus 2022) – because of comparisons against omicron-hit numbers a year before; but it has fallen back since the end of January.

- Quick service (including food to go) also fell – and this is underlined by the spending information from Pret a Manger which is heavily biased towards city centre and travel hub business.

- Pubs continued their reasonable run of improving trade that started in Q4 2022.

- Hotels were (and are still) struggling to revert to

Pret Transaction Index



Sources: ONS; Pret a Manger; Peter Backman

budgets in light of large food price increases.

- The leisure market continued to grow during the quarter but is still below pre-pandemic trading levels.

- Feeding at work (primarily the province of contract caterers) continues to suffer from elevated levels of working from home.

- Volumes in the health sector remain at 'normal' pre-covid levels – but pressure is building up on

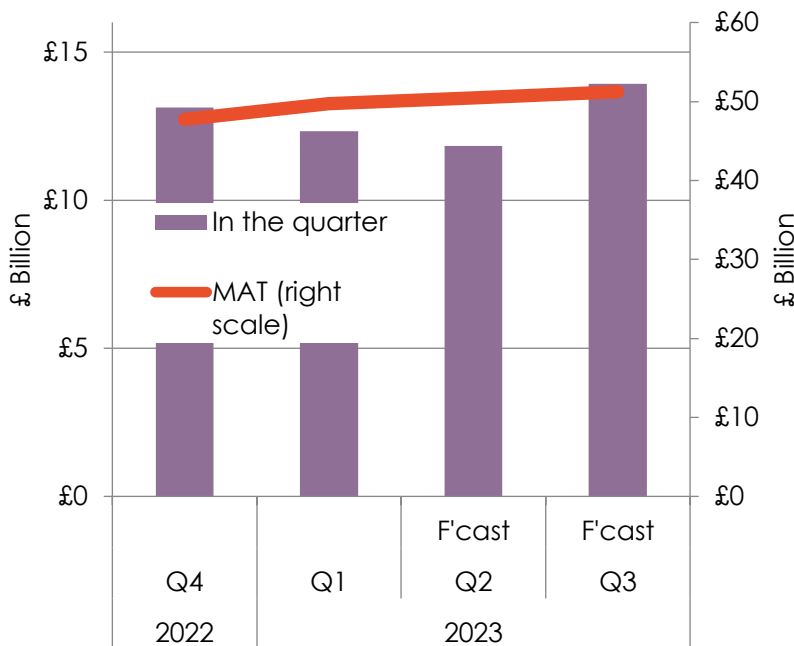
- Conditions in the education sector are similar to the health sector.

- Delivery volumes have fallen in the past quarter while revenues have increased slightly – in other words, the post-covid rise (on top of the much higher rise during covid itself) seems to be running out of steam.
- This means that operators – restaurants and QSR – are seeing reduced real levels of delivery sales – but this is not necessarily a bad thing because delivery is proving very difficult to operate profitably for most bricks and mortar operators. With less delivery, their overall profitability will rise.

The context for the coming two quarters

- There has already been a mixed bag of news in April at the start of Q2:
 - Prezzo confirmed closure of 46 sites – 33% of its estate; and Camile Thai, which had formerly announced aggressive plans for development through franchising, revealed that it has appointed liquidators
 - On the other hand, Loungers LfL sales grew 11.8% in the six months to mid April – albeit flattered by comparison with omicron-affected trading in the same period last year.
- The Prezzo and Camile Thai announcements are examples of the outcomes of past weaknesses (whether in demand, in cost management, or both) coming home to roost. I expect we will be hearing more examples through the quarter.

Food & Beverage Sales

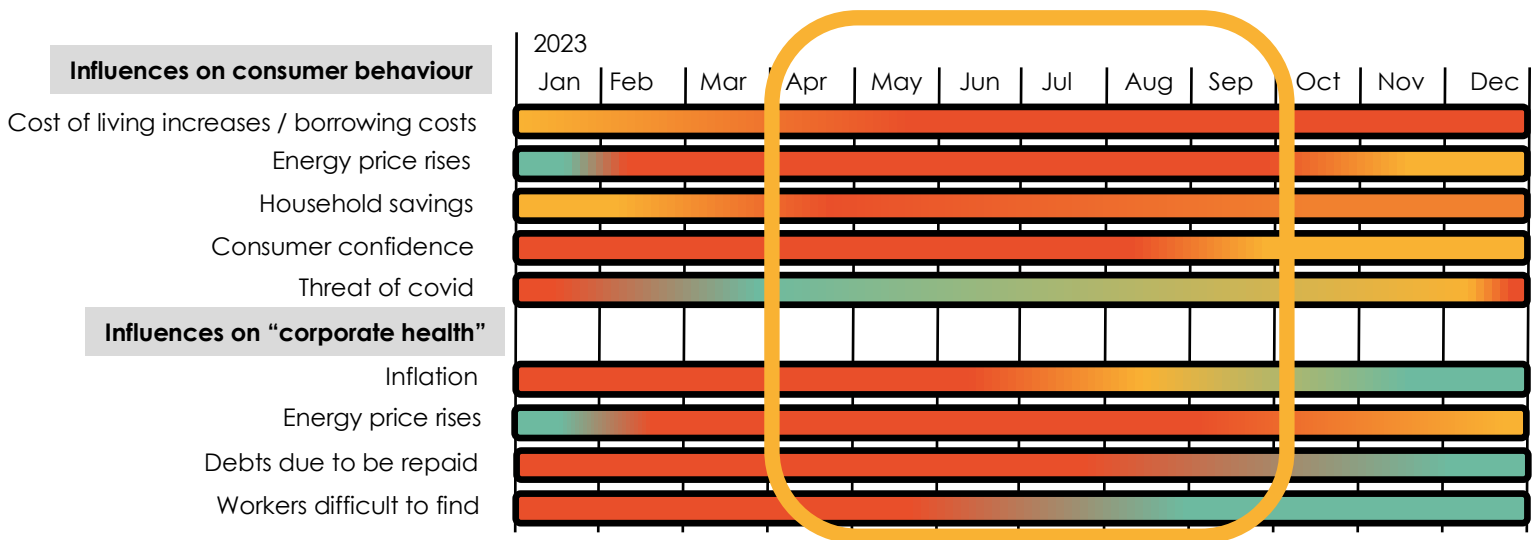


Source: Peter Backman

- To offset that, though, the example of Loungers suggests that there will be some brighter news as well.
- This dual picture arises because, of course, not all companies are the same. Prezzo had been going through a torrid time over the last three or so years (including an earlier purchase out of administration). There are other examples of this. Loungers, on the other hand, although a leader in its field, is not unique.
- We're in for a period of bad news and better news – but with some short term emphasis, I fear, on the bad news side.

- With April's near 10% increase to the minimum wage, to £10.42 (for those over 23 – less for younger age groups) and an increase in the London living wage at £11.95, plus a bit more money for pensioners and those on universal credit, nearly 40 per cent of the lowest paid will see a boost to their incomes.

- But this has to be set against rising costs – of basics, necessities, and luxuries alike.
- Thus, while almost all consumer segments will have more money, their costs are rising faster.
- A survey by PwC reported that 50% of consumers are (either very or extremely) concerned about their personal financial situation; 38% of people said they planned to eat out less over the next three months, down slightly from 41% in September 2022.
- Bookings for holidays, and travel more generally, are higher than a year ago and suggest that:
 - At least significant numbers of consumers are confident, although perhaps not bullish
 - And they seem prepared to spend on experiential activities such as these, possibly at the expense of alternative expenditure such as on eating out.
- Inflation remains a worry and is still the biggest factor affecting spending. But it is likely to fall during the quarter – at the moment consumers, probably influenced by media comments, are optimistic that inflation will fall for the rest of the year.
- The foodservice Heat Map summarises these issues and threats – and it's still flashing red over the coming quarter, although becoming slightly more positive towards the end of the second forecast quarter:



In summary

Quarterly Trends		2022	2023		
UK Foodservice		Q4	Q1	Q2	Q3
Q4 2022-Q3 2023				F'cast	F'cast
Food and Beverage Sales					
In the quarter	£ Billion	13.1	12.3	11.8	13.9
MAT (right scale)	£ Billion	47.7	49.7	50.5	51.2
% change vs 1 year ago		17.6%	19.5%	6.5%	5.7%
Food and Beverage Purchases					
In the quarter	£ Billion	3.9	3.8	4.3	4.2
MAT	£ Billion	15.0	15.5	15.9	16.1
% change vs 1 year ago		17.1%	18.1%	8.1%	6.6%
Food purchases					
In the quarter	£ Billion	3.0	2.9	3.3	3.2
MAT	£ Billion	11.6	12.1	12.3	12.5
% change vs 1 year ago		17.2%	18.0%	8.1%	6.5%

Source: Peter Backman

- Restaurants and pubs will see growing food sales – but inflation is deceiving the numbers – and it will be quite a few months until the real numbers are evident. I believe real food sales in these sectors will remain below pre-pandemic levels for some time.
- Pubs will benefit from real growth in alcohol sales.
- The QSR sector is likely to see real growth before it becomes apparent in restaurants and (for food) in pubs.
- There is unlikely to be a noticeable change in demand in the non-commercial / institutional sector whose prices are being squeezed by inflation.

As always, I produce short term – monthly - data for each market sector, distribution channel, temperature etc. [Contact me](#) if you want to access relevant data for your business – to benchmark your existing performance, or to help you assess what your future prospects look like.

Industry news

In my Weekly Briefing Report, I include relevant industry news that relates to recent periods including the current week. Below I have listed the news items that cover a longer time period:

Note: Comparisons are with the prior period unless stated otherwise.

Financial and Legal

- ONS reports -6.1% fewer breweries in the UK at the end of 2022 versus 2021

Restaurants

- Megan's Restaurants sales rose 193% in the year to end March 2022 versus the prior year
- Wahaca sales rose 121% in the year to end June 2022 versus 2021
- Aubaine sales rose 408% in the year to end March 2022 versus 2021
- Flower Power Group sales rose 148% in the year to end March 2022 versus 2021
- Cinnamon Collection sales rose 60.7% in calendar 2021 versus 2021; down -39.4% versus 2019

QSR

- Fortress Operations sales rose 47.5% in the year to end March 2022 versus 2021
- Blundell's of Liverpool sales rose 52.8% in the year to end March 2022 versus the prior year
- Adil Restaurants sales rose 48.1% in the year to end March 2022 versus 2021
- Hala Group sales rose 3.9% in the year to end June 2022 versus 2021

Pubs

- Thornbridge Brewery sales rose 15.8% in the year to end June 2022 versus the prior year
- Innventure sales rose 74.8% in the year to end June 2022 versus the prior year
- Hopback Brewery sales rose 90.8% in the year to end September 2022 versus 2021; down -29.8% versus 2019
- Bruce Group sales rose over 700% in the year to end June 2022 versus 2021
- Remarkable Pubs sales rose 123.6% in the year to end June 2022 versus 2021
- Beannchor Group sales rose 152% in the year to end June 2022 versus 2021; up 21.9% on 2019
- BaaBar sales rose 89.8% in the year to end July 2022
- SimpsInns sales rose 90.5% in the year to end July 2022 versus 2021

Hotels

- Choice Hotels sales rose 171% in the year to end June 2022 versus the prior year
- Vine Hotels sales rose over 250% in the year to end March 2022 versus the prior year
- Brudloff Hotels sales rose 72.1% in the year to end March 2022 versus 2021; down -5.5% on 2019

- RBH Hotels sales rose 66.5% in the year to end August 2022 versus the prior year; down -20.1% versus 2019
- Robert Parker Collection sales rose 190% in the year to end March 2022; down -6.4% versus 2029

Leisure

- Roxy Leisure sales rose over 600% in calendar 2021 versus 2020
- Flamingo Land sales rose 112% in the year to end March 2022 versus 2021; up 0.3% on 2019
- Everyman sales rose 62,5% in calendar 2022 versus 2021
- Home House Collection sales rose 49.8% in calendar 2021 versus the prior year; up 13.8% on 2019

Around the World

- Vue sales rose 64.1% in the year to end November 2022 versus 2021

My **Quarterly Briefing Report** is supplied under my standard Terms and Conditions.

- Peter Backman must be acknowledged as the source and owner of the Information whenever it is published (electronically or otherwise).
- You may not distribute the Information to any third party (including your clients, advertising agencies, advisers, other companies in your group, etc.) without my express prior written permission.