MONTHLY BRIEFING REPORT

June 2023

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Introduction

This is the most recent of my Monthly Briefing Reports which, together with my Quarterly Briefing Reports, comprise the subscription-only series of Premium Briefing Reports.

In response to requests for a more compact and focused report, this latest issue follows a revised format which I introduced earlier this year.

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.

Summary of a summery June

- The foodservice sector experienced a period of stability in June, following the end of the spring season and before the onset of summer holidays. However, there are concerns about whether this stability will continue or if conditions will worsen in the coming months due to the fragile economy.

- Inflation remained high, putting pressure on consumers' spending power, foodservice businesses, and the government. The response from the government and the Bank of England was to increase the cost of borrowing, which is expected to continue rising due to rising inflation.

- Despite the cost of living crisis, consumer demand did not collapse, but signs of limited resilience are emerging as people dip into their savings. While there hasn't been a significant increase in corporate failures yet, financial pressures caused by inflation and increased borrowing costs are expected to lead to more distressed operators in the future.

- Inflation poses the biggest threat to the foodservice sector, with food input costs rising significantly and putting pressure on operators' margins. Menu price increases have been countered by customers choosing cheaper options or foregoing parts of their meals.

- Operators have made operational changes such as sourcing cheaper supplies, buying cheaper food items, and cutting back on labour and other costs to stay afloat.

- Travel and tourism have seen an increase, benefiting businesses related to airports and leading to potential growth in eating out.

- Regional differences have been observed, with London experiencing higher trading compared to the regions.

- However, there have been some negative developments, including an increase in company insolvencies and a decline in retail sales volumes.

- While the anticipated wave of business failures in the foodservice sector hasn't materialized to a significant extent, there have been some instances of distress, indicating potential challenges.
- Employment redundancies are increasing compared to 2019, and although employment shortages have eased slightly, they remain a problem.
- Delivery in the restaurant sector has shown slower growth, but ghost kitchens and new-style operations have seen positive growth. This suggests that traditional dine-in restaurants may see improved profitability by focusing less on delivery.
- Overall, it is difficult to predict the future of the foodservice market with certainty.
- Stable demand is shifting towards lower-cost options, and the sector remains under stress due to the lingering effects of covid and Brexit, financial pressures, and squeezed customers.
- The potential for negative shifts in the sector is a concern, and operators need to be prepared for further challenges.

So what happened?

- June seemed to be a time when the foodservice sector was catching its breath – the Spring and its Bank Holidays was over, and summer holidays hadn't yet arrived.
- Pressures remained but the industry ploughed on.
- The question that June leaves though is whether this is going to be the mood over the coming few months or whether things will worsen – the economy is too fragile to ask whether things will get better over the summer.
- Inflation remained – it was higher than anticipated and certainly higher than economists and businesspeople alike hoped.
- And the result is pressure on consumers' spending power, pressure on foodservice business especially on their margins, and pressure on the government and the Bank of England. The response from the last of these has been to increase the cost of borrowing – and with still rising inflation, borrowing rates will almost certainly continue to rise.
- The weather during the month was somewhere between fine and hot – good conditions for pubs and sites catering for leisure pursuits.
- Given this picture, spending (and other pressures) will remain for months yet. And the impact will be to dampen demand and increase chances of failure throughout the foodservice sector and its supply chain.

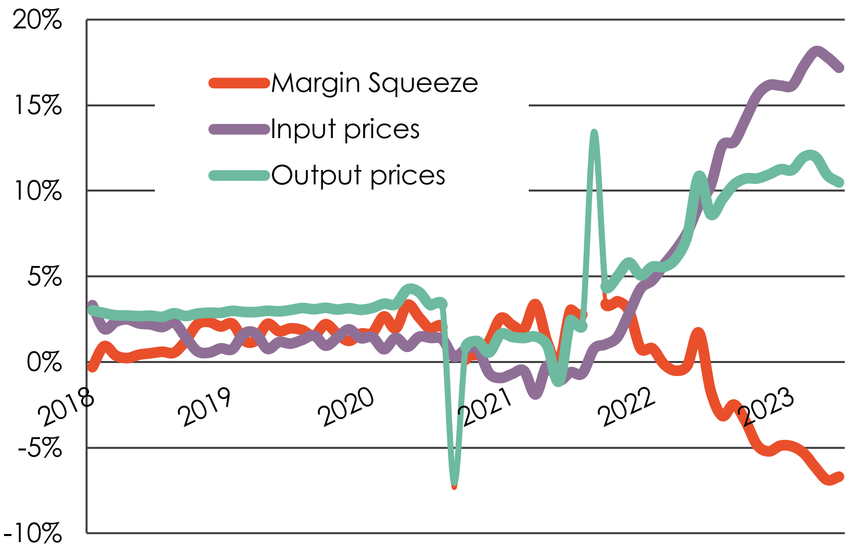
What didn't happen in June

- Demand didn't collapse in the face of the cost of living crisis; consumers remained resilient but there are signs that their resilience might have limits as the growth in the numbers of people drawing on their savings signifies.
- For some months, I have been forecasting severe difficulties for foodservice operators. But these haven't yet resulted in a significant increase in corporate failures (although there have been some, as I report later).
- Nevertheless, pressures remain – especially financial pressures arising out of inflation and increased borrowing costs – and I still see these pressures resulting in a growing number of distressed operators.
- Funding – not only for smaller players, but for larger corporates too – is becoming an increasing issue and when combined with cost issues, pressures on corporate health are increasingly severe. We will probably see the results of this as the summer draws to a close.

Inflation

- Inflation currently remains the biggest destabilising threat to the foodservice sector.
- Foodservice food input costs rose at 18.1% in May; alcohol also rose much faster than it has historically but at 11.2% it was demonstrably below food inflation. This imbalance puts pubs ahead of restaurants where they compete – notably in the casual dining sector that is outlets serving mid-priced meals served by low cost operating models ie where labour costs are kept low and service levels are accordingly not as good as they should be.

Margin Squeeze



Source: ONS; Peter Backman

- Headline menu price rises were 10.5% in May – but customers have probably been 'gaming' these increases by selecting cheaper menu options and / or by foregoing parts of the meal – starters, desserts, or side dishes.
- The net result of these significant price changes and consumers' reactions to them is an ongoing squeeze on operators' margins. The graph shows the overall impact.
- But operators have made operational changes to counter the threat.

- They have, for example, changed to cheaper sources of supply, bought cheaper food items, offset costs by cutting back on other costs especially labour. An additional beneficial contributory factor has been the slight easing of energy and fuel costs.

- All in all these actions have been helpful in keeping businesses afloat. But I am concerned that they may not have much more space for cutting costs.

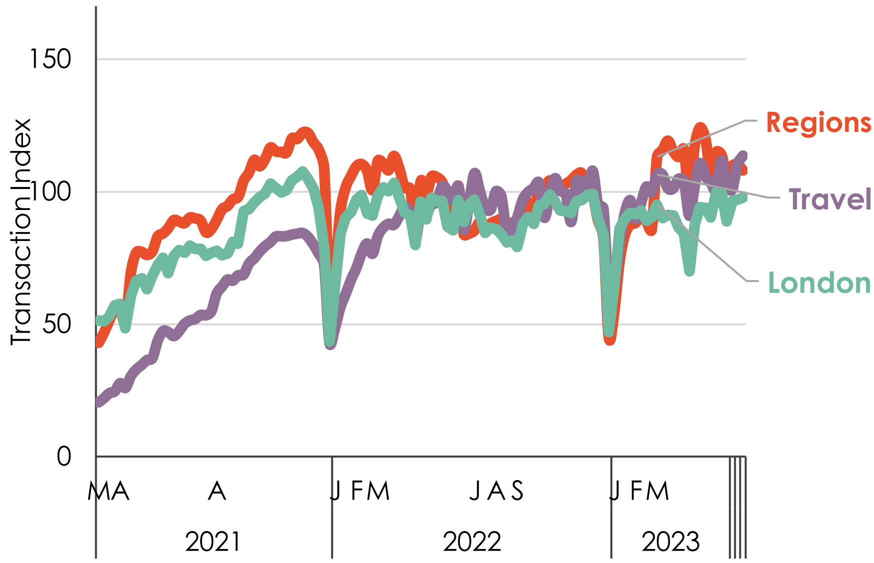
Tourism and travel

- Tourism and international travel have stepped up significantly as summer has been approaching.

- The UK is a moderately cheap destination (although inflation is eating into that competitive advantage). And of course, the UK and specific destinations – such as London and Windsor – are attractions that are recognised around the world.

- The number of flights into, out of, and within the UK have been increasing steadily since the start of the year (this is what has happened in 'normal' years anyway). There have been almost 150,000 flights in the first twenty five days of June – and this is 90.2% of the equivalent 2019 figure – this is an improvement on the average of 87.2% in the first five months of 2023 (compared with 2019). So things seem to be on the up

Pret Transaction Index



Sources: ONS; Pret a Manger; Peter Backman

- The majority are international flights for business or leisure, and include UK residents and overseas visitors. This is a positive for any business related to airports – and that includes flight caterers, staff caterers and terminal caterers.

- As for internal travel within the UK, although figures are not available for June, petrol sales have been stable for the past couple of years and there is no reason to suppose that they haven't changed significantly during the past month.

- The price of fuel peaked a year ago and has been steadily falling since which, when taken with the steady level of actual sales, suggests that mileages have increased (for business as well as leisure).

- Even though I don't have any information about the impact of working from home on car mileage, increased mileage is probably to the benefit of eating out because when people travel, they may be inclined, for a variety of reasons, to eat away from home more.

Regional differences

- The positive story about travel is reflected in data from Pret a Manger.
- Pret a Manger figures show an uptick in travel related business, and in London where trading is 10% higher than a year ago. Business in the regions fells lightly in the month compared with earlier months this year.
- This echoes stories from landlords and larger businesses who claim to see growth in employment and visitor numbers in London. Whether this is a sign of that working from home has peaked or is just a small scale blip is uncertain. I suspect it's the latter.

Bad news in the month

- Alongside these recent positive developments, there have been black spots too.
- In the overall economy, company insolvencies in England and Wales rose 40% in May compared with a year ago and this reflects monthly increases since the start of the year – I imagine that June will also see arise in overall insolvencies, versus the prior year.
- The CBI reported that retail sales volumes fell 9% in June compared with a year ago, and in a sign that maybe things are worsening, data from Springboard showed retail footfall was volatile during June – for example, overall levels dropped by more than 2% in the middle of the month compared with a week earlier.
- The drumbeat of business failures in the foodservice and hospitality sector that I expected at the start of the year has not materialised to the extent that it could have despite news of failures during June.
- For example: Lakeland Inns, operator of 5 hotels, entered liquidation, and Coconut Tree had not paid its staff in May according to the BBC.
- Meanwhile, Firezza, the pizza business, is reported to be 'expected to enter an insolvency procedure'.
- And Gino D'Acampo Worldwide Restaurants was put into liquidation.
- However, while sad and distressful for those involved, these examples are not sufficient to support a view that the foodservice industry is anywhere meltdown.
- Peckwater Brands, the virtual restaurant brand franchisor, revealed a survey which claims that a third of hospitality businesses do not think they will be around in a years' time (actually 'they do not expect to survive the next 12 months' which, to all intents and purposes, is the same thing). I think this number is way off the mark, but it reflects a spirit of despondency which will inform decisions about investments, marketing activities and even business survival.
- And this is reflected in an interview with the Times in which Michel Roux, chef-patron of Le Gavroche in Mayfair, said that food inflation is killing business and that things are 'going to

get worse' due to Brexit. Admittedly this is only a sample of one, but in my view, it is probably reflective of a common opinion,

Employment

- Across the economy (ie not only in the foodservice sector) potential redundancies in the first three weeks of June were running at 91% of the equivalent period in 2019. However, this compares with only 51% comparison between last year and 2019. So the numbers of redundancies, as anticipated, are increasing.

- Employment shortages, by common consent, seem to be easing although they are still a problem. De-duplicated online job adverts in June for catering and hospitality (reported by Adzuna) are running 52% higher than in June 2019 – and although this seems a large increase and is a slight increase on the average for the first five months of the year, it is lower than the 66.4% difference a year ago.

- The conclusion I draw is that employment shortages have eased somewhat over the past year, but they remain and may be getting slightly worse again.

Delivery

- Delivery has been going ex-growth across the restaurant sector.

- But new style operations – primarily ghost kitchens – have been showing good growth.

- This suggests that customer-focused, dine-in restaurants have done less delivery than say a year ago. Anecdotal, and other, evidence, supports this view.

- So what are the implications for restaurants who are doing less delivery, where profits are difficult to find and certainly are lower than for dine-in or take away meals, but where overall sales are stable? The simple answer is that their profits will improve. So, current changes in delivery are good for traditional brick and mortar restaurants.

What of the future?

- It's difficult to form a coherent view of the foodservice market right now.

- Demand is stable, if not strong – it appears to be shifting to lower cost, value offers (fast food, limited service, takeaway).

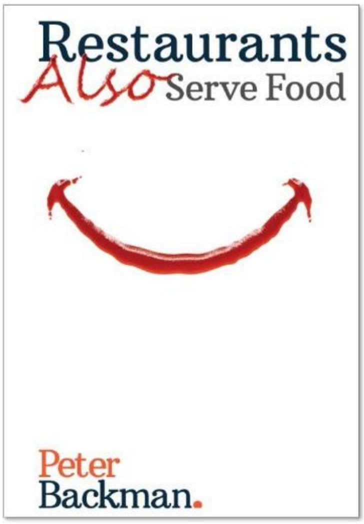
- The backwash from covid and Brexit is still present, finances are under pressure, and customers are being increasingly squeezed.

- These issues conspire to weaken operators.

- Accordingly, I still believe that the sector is under stress, and it won't take a lot to shift it a negative direction in the next few months.

The revised edition of my book – **Restaurants Also Serve Food** – has now been published. It is addressed to suppliers, especially those who are proficient at selling to the retail sector but find selling to the foodservice sector is a challenge.

Restaurants Also Serve Food provides solutions to the many conundrums facing the food supply chain in the foodservice market – you'll find more about the book and how to buy it **here**.



In the latest episode of **The Delivery Prophets** podcast, brand creator and leading innovator, **Faraz Nagree**, Founder of The Lean Kitchen Network, joins the show to discuss the role of virtual brands, the crucial importance of food quality, and the role of packaging.

Learn about the rule book for creating a virtual brand - how to create the restaurant experience with food delivered to your door.

The rest of this Monthly Briefing Report provides a summary of the news reported in the past month that relates to more than three months ago (see my Weekly Briefing Reports for more recent news):

News in the month

Restaurants

- Kokoro sales fell -12.9% in the year to end August 2022
- Busaba sales rose 106% in the year to mid-September 2022
- Nobu Mayfair sales rose 26.9% in calendar 2022
- San Carlo Group sales rose 137% in the year to end September 2022

QSR

- Pizza Union sales rose 43% in calendar 2022
- PJT Restaurants sales rose 4.0$ in calendar 2022

- Cobra Coffee sales rose 38.3% in the year to end January 2023
- Diverse Dining sales rose 27.0% in calendar 2022
- Boost Juice Bars owner TD4 Brands sales rose 82.0% in the year to end September 2022
- Krispy Kreme UK sales rose 9.3% in calendar 2022

Pubs

- Provenance Inns and Hotels sales rose 37.9% in the year to end August 2022
- Adnams sales rose 20.9% in calendar 2022
- Robinsons sales rose 31.3% in calendar 2022
- Flock Inns sales rose 21.8% in the year to end September 2022
- Wadworth sales rose 55.5% in calendar 2022
- Ramside Estates sales rose 54.0% in the year to end November 2022
- Chestnut Group sales rose 168% in the year to end March 2022
- W&R Holdings sales rose 255% in the year to end March 2022; sales were 44% behind 2019 figures
- Brewhouse & Kitchen sales rose 74.2% in the year to end September 2022

Hotels

- Castlewood Hotels sales rose 156% in the year to end August 2022
- Britannia Hotels sales rose 253% in the year to end March 2022
- Costley & Costley sales rose 54.3% in the year to end September 2022
- Moor Hall Hotel sales rose 55.8% in calendar 2022

Leisure

- Shorewood Leisure Group sales fell -26.2% in calendar 2022
- Soho House sales in the UK rose 28.4% in calendar 2022