

# QUARTERLY BRIEFING REPORT

**Q3 July – September 2023**

Published 31 October 2023

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**Backman.**



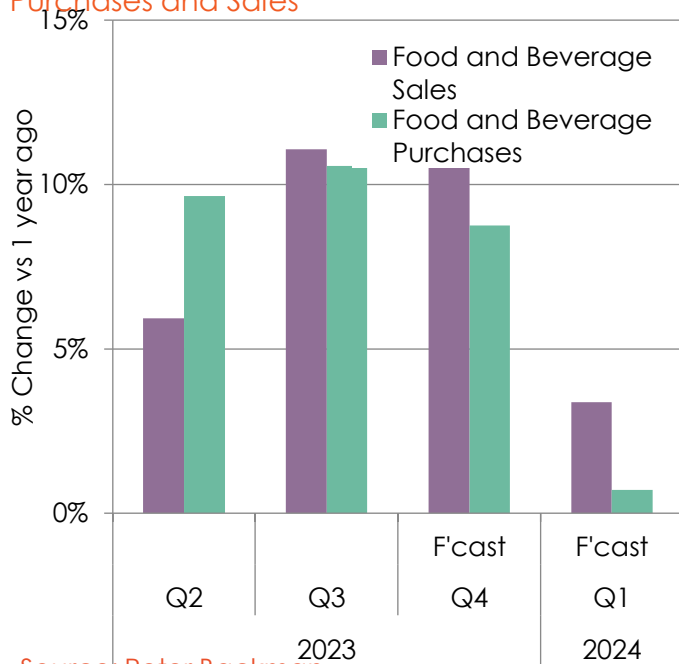


## Introduction

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.

### Nominal Change in Food & Beverage Purchases and Sales



Source: Peter Backman

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](mailto:peter@peterbackmanfs.com) and my phone number is 07785 242809.

## The past quarter – Demand side

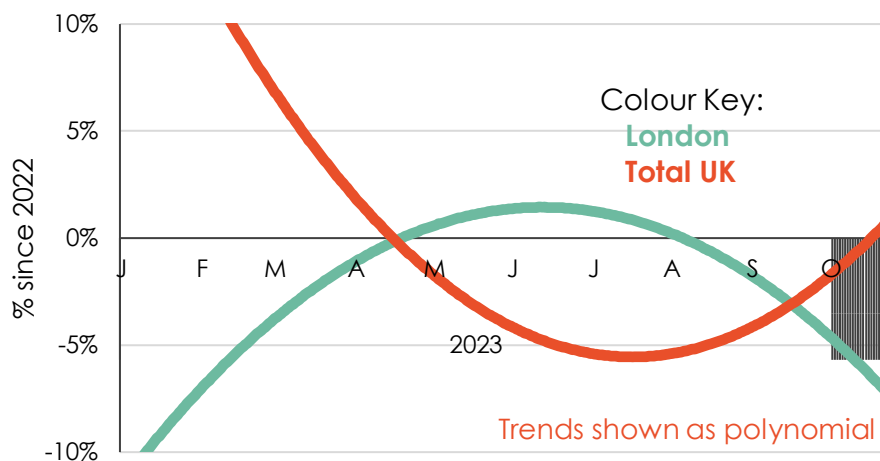
- CGA report LfL sales growth in Q3 almost unchanged from the prior quarter at 6.3%. This is based on a sample of approximately 50 restaurant and pub groups – and accordingly although it is not typical of the sector as a whole it is almost certainly directionally useful. In other words the market showed no change in the quarter and growth is below the level of inflation.
- HDI reported that hospitality sales grew 8.9% in the quarter to end Augusts versus 2022 – fast food, takeaways and delivery showed the most growth, pubs grew at about 6.5%, and casual dining was the laggard.
- Storm Babet hit the UK – especially Scotland -in October with severe wind and rain
- People continued to work from home where this is possible with implications, as noted in the previous Quarterly briefing Report, for benefitting local (and suburban) outlets over city centres; travel outlets (at least those for commuters). Meanwhile workplace catering continues to feel the effects, mainly negative.

## Travel and tourism

- The numbers of overseas leisure visitors were back to 95% of pre-covid levels in the quarter; business travellers are not back to the same levels.
- In August, Manchester airport numbers were -7% down on 2019, but East Midlands showed no change.
- Stansted Airport recorded a 10% increase in passenger numbers during September versus 2022 – but still -4% of 2019 numbers

## Table bookings

### Table bookings in restaurants - 2023 vs 2022



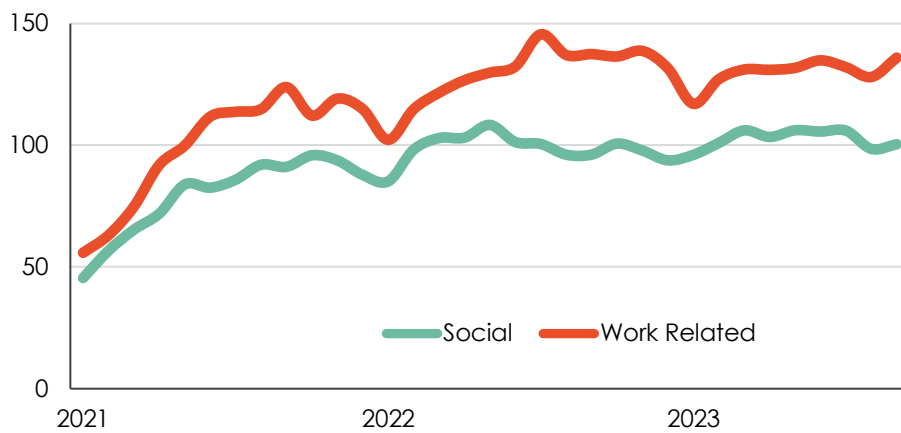
Sources: OpenTable; Peter Backman

- Data from OpenTable show restaurant table bookings slowing across the UK (and especially in London) highlighting falling numbers of visits to restaurants – something that is confirmed anecdotally by operators.

## Credit cards

- Spending on credit cards, as recorded by CHAPS, is hardly changed from a year ago – despite inflation of about 10%.

## Credit card spending



Sources: CHAPS; Peter Backman

- Comparison of the shape of the graph from CGA Hospitality Monitor shows a similar pattern. Spending on social activities fell -3.3% in Q3 compared with the prior quarter, and work-related expenditure fell -0.4%.
- Since this data shows a slightly faster rate of decline on social spending (as against work-related spending) a read across could be that, as in Q2, food and beverage

## The past quarter – Supply side

- There was limited news on the supply – probably because I was the summer period when announcements, and corporate activity, are less likely

### Bad news

- Insolvencies in the UK in September were 17% up on a year ago
- England and Wales rose 40% in May versus the same month last year.

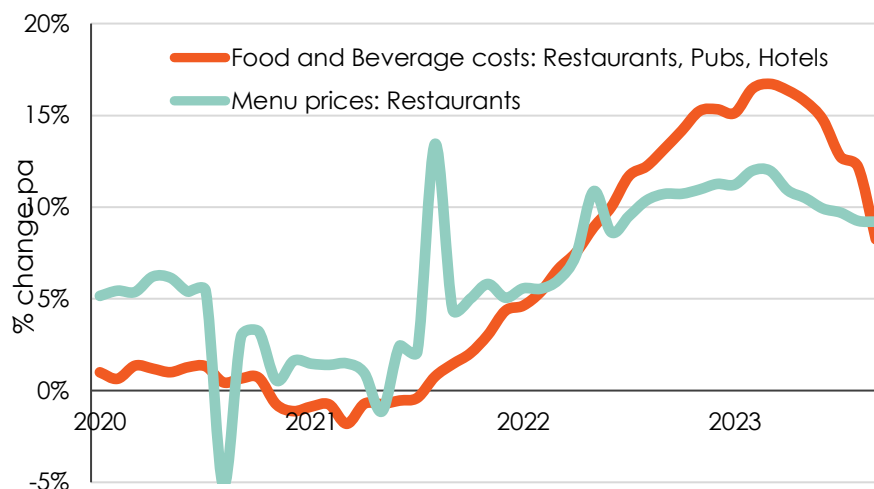
### Acquisitions etc

- The main news about company ownership has been the bid for The Restaurant Group by Apollo Group but the outcome is unclear given the potential rival bid from Pizza Express.
- Meanwhile, Vinoteca was acquired out of administration by Breal Group; and Gino D'Acampo restaurants were put into administration; Firezza was reportedly about to be wound up.
- St Austell Brewery acquired Bath Pub Company

### Inflation

- Pressures on the prices of food and beverage eased considerably in the last quarter. And although menu price inflation also eased, it did so more slowly than COGS; this reduces the margin squeeze and helps reduce pressures on corporate balance sheets. Nevertheless, these pressures remain at historically elevated levels.

#### The Margin Squeeze



Sources: ONS; Peter Backman

- Customers appear, in the main, to be willing to pay the higher prices posted on menus.
- Fuel costs continue to ease but that is, at best, small consolation for operators whose hedged medium- or long-term contracts are rolling over right now. Their fuel will cost more under any new contract.

### Food Shortages

- Food shortages are no longer the major issues they were year ago, but some shortages persist – rice and cooking oil being two examples.

## **Staff shortages**

- Staff shortages are also ameliorating but still remain in some areas. Increases in the National Minimum Wage will be implemented in the spring but currently, of course, the forthcoming increase has no effect on wages.

## **Consumer demand**

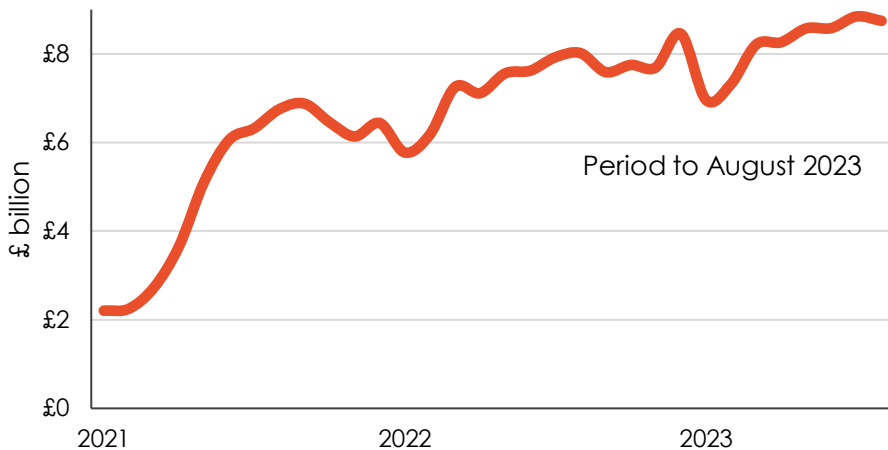
- Consumer demand is still under threat given the issues noted in the previous Quarterly Briefing Report, namely:
  - Savings (created especially during the periods of covid lockdown), have been drawn down by consumers leaving an increasing number with severely depleted reserves.
  - Inflationary pressures, while reducing, are still high. Fuel bills, in particular, are likely to continue rising over the next few months.

## By sector

### Restaurants

- Sales in restaurants were up in the quarter.
- Overall sales in 'food and beverage serving' measured by the government with figures up to the end of August. Although they cover a wider market than just restaurants the figures probably broadly reflect performance in that sector.

#### Food & Beverage serving



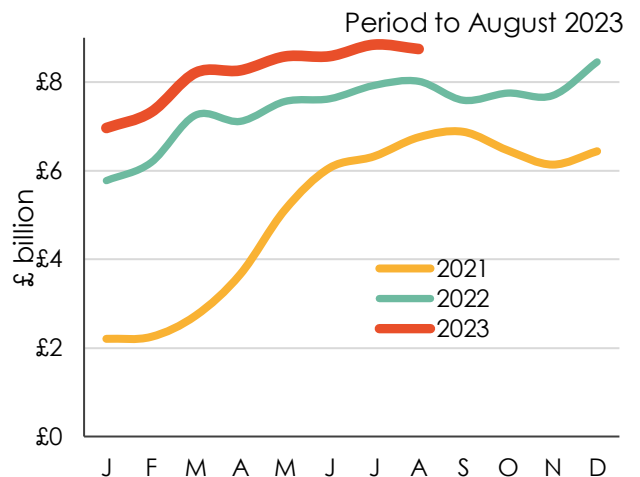
- The CGA Hospitality Market Monitor showed restaurant sales from a sample (not fully representative of the restaurant sector as a whole) grew 8.5% in Q3.

- This probably overstated the full sector performance – which, I estimate, to have grown by about 6.5% in Q3

Sources: ONS; Peter Backman

- I have taken the opportunity to present the information in two ways. The first is to take the line from the start of January 2021 which shows the medium term trend. The second is to compare monthly figures for each year.
- This latter approach shows that trading patterns this year follow those of 2022 ie no difference between this year and last other than an uplift of 14%. Inflation in restaurant sales, though it has been falling in recent months, has been averaging about 11% for the past year.
- This suggests that the restaurant market has been growing in real terms by about 3%. This is highly unlikely and can probably be best explained by an overoptimistic increase in the sales data presented here plus a slight increase due to the argument for a 'search for quality'
- Nevertheless the overall month on month changes are probably realistic.

#### Food & Beverage serving



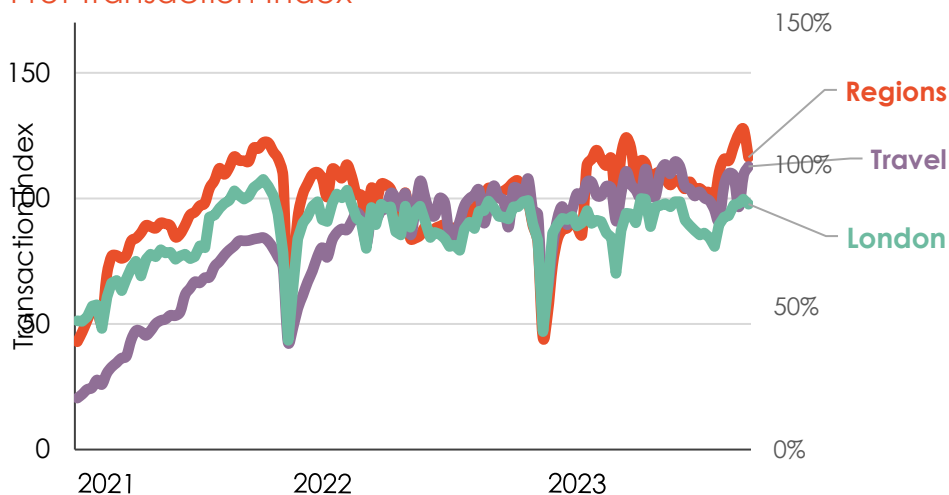
Sources: ONS; Peter Backman

- This 'search for quality' seemingly arises because the mid-spend segment, especially in restaurants, has been squeezed and is falling. Thus both lower and higher spend segments have experienced an increase in market share.
- Higher average meal prices at the higher spend level have outpaced those at the lower end. Meanwhile, although volumes at the lower priced end have increased more than at the premium end, the overall average spend has increased slightly.
- With sector selling price inflation at just over 9% at the end of the quarter, it is likely that sales continue to drift backward in real terms.
- There were alternative results that do not provide a clear picture:
  - Tortilla's sales were up 2% in the first six months of the year (ie before the quarter covered by this Quarterly Briefing Report) but perhaps supportive of an argument of growth in the current quarter
  - Famous Brands, trading as Wimpy in the UK, saw UK sales up 18% in the half year to the end of August
  - Comptoir Group sales rose by 2.1% in the six months to mid-July (ie just into the current quarter) – this presents a counter to the rapid growth reported by Tortilla and Wimpy.

## QSR

- The QSR sector continued to outperform the restaurant sector and, indeed, the wider foodservice market, with sales up by about 10% in the quarter

### Pret Transaction Index



- Caffe Nero sales were up 13.5% in the June to August quarter.
- Greggs sales in its managed stores increased 20.8% in the same quarter.
- Domino's UK sales were 7.9% up in the first three weeks of July
- Pret a Manger transactions were 7.7% higher in the period from early July to mid-October compared with the same

Sources: ONS; Pret a Manger; Peter Backman

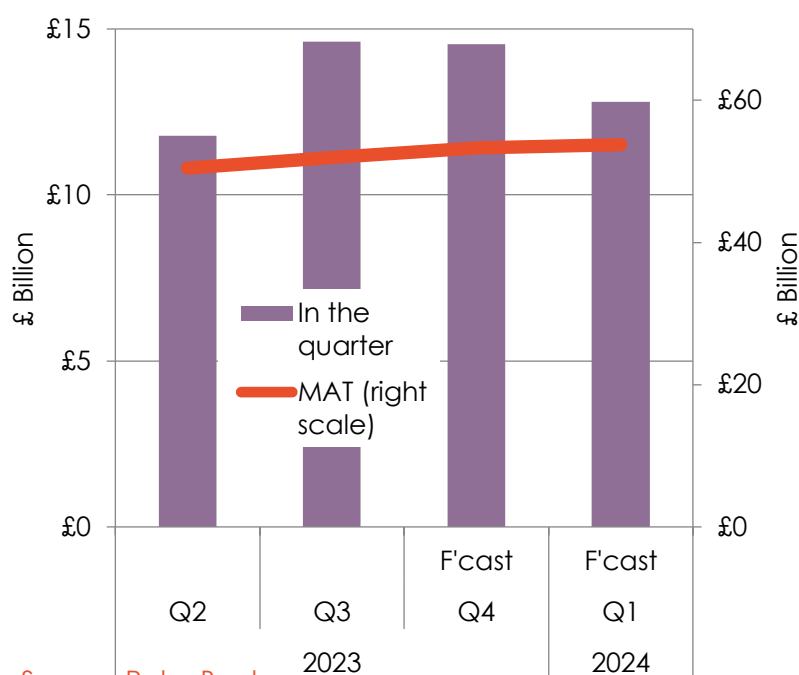
period last year. Sales in London continued their recovery from a low point in Q2.



## Pubs

- Pub LfL sales rose at about 7% in the July to September quarter – a decline from the previous quarter but at about the same level as seen by restaurants in the quarter.
- Warmer, drier weather supported pub going in the quarter – and consumer's were more likely to increase purchases of drinks than food – thus wet sales grew faster than food sales.
- Nevertheless Mitchells & Butlers food sales increased 10.6% in the three months to end September and Loungers sales were up 10% in the same period

## Food & Beverage Sales



Source: Peter Backman

- Other operators reported sales during the quarter but with a distinct beverage bias
- JD Wetherspoon sales increased 10% in August to September period; Marston's LfL sales rose 12% in September; and Revolution Bars Group sales fell -3.7% in the three weeks to mid-October
- Thus the pub sector appears to be recording food sales growing at about 7% against menu price inflation of about 9%.
- Beverage sales are rising slightly faster than food sales and selling price inflation is slightly lower, thus drink sales overall are showing less of a decline in real terms than food.

## Hotels

- Bank of England agents noted that hotel and other accommodation providers had seen less tourist demand during the summer than in 2022.
- Overall, occupancy – a measure of 'volume' - has been fairly stable
- Having peaked in Q1 this year occupancy rates are declining in the regions.

## Occupancy change year on year



- In London, the situation has been more stable, showing a small upward trend during the year

- Customer spend, measured as Revpar or Revenue per Available Room, increased by 21% in London, and over 30% in the regions, with a bias towards spending in mid-tier and economy hotels rather than 4 and 5 star London hotels.

- Thus, the hotel sector

has seen broadly stable (Perhaps slightly increasing) volume in the quarter but spend has increased by perhaps 20% - well above the rate of inflation.

- These numbers are broadly reflected in F&B sales in the sector during the quarter.

### Institutional sectors

- Working from home now seems to be an entrenched fact of life with consequent effects on demand for workplace feeding which is lower than in the pre-covid period
- Demand for foodservice in the institutional, primarily government funded, sectors - health and education - remained steady.

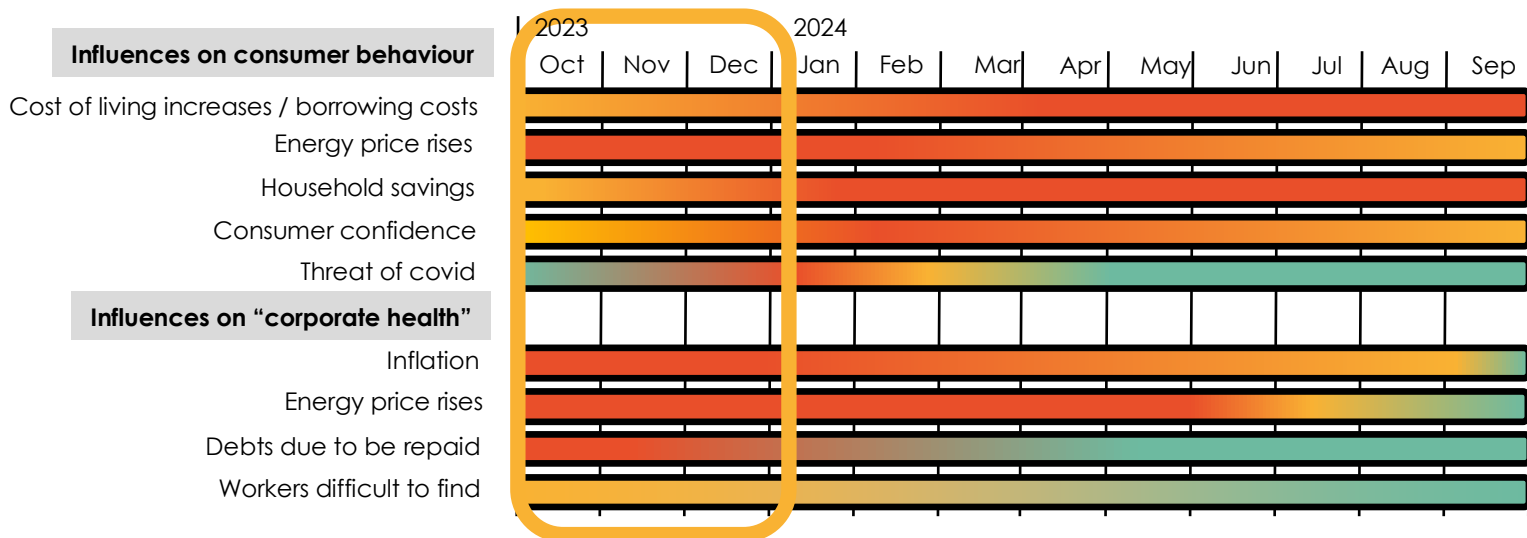
### Delivery

- Growth in delivery sales grew in the past quarter by about 8% in nominal terms compared with the same quarter last year.
- Just Eat Takeaway recorded growth in GTV (sales to consumers) of 4% in Q3 in UK and Ireland - and improvement on the fall of -6% in Q1
- Deliveroo's GTV, also in UK & Ireland, grew 9% in Q3 and this is a slight acceleration on the growth seen in the first two quarters
- KBox - the dark kitchen operator - was put into administration

## The context for the coming two quarters

- The overall market is flat even though nominally it is now ahead of 2019
- The summer was reasonable one for most operators in most sectors – warm weather contributed, as did the ‘returning customer’
- This has helped provide some measure of financial stability but my conversations with operators suggest that they are not approaching the coming months with confidence
- This seems to reflect a sensible air of realism that the short term outlook is delicately poised between not very good and quite bad or worse.
- It will not take much, in my view, to destroy what confidence there is – and regrettably there is plenty of to be concerned about. I fear that war and geopolitical uncertainty can spill over into corporate finances and consumer confidence with considerable rapidity.
- To help make sense of what the short term outlook looks like my Heat Map provides a broadly subjective summary of market conditions - highlighted for the coming quarter – which suggests that overall conditions may worsen over the rest of this year – and will worsen even more in the spring with the year ahead outlook improving slightly on some metrics:

### Heat Map for UK Foodservice Q4 2023 to Q3 2024



Sources: Peter Backman; Quarterly Briefing Report

## In summary

Quarterly Trends UK Foodservice Q2 2023-Q1 2024		2023 Q2	Q3	Q4 F'cast	2024 Q1 F'cast
<b>Food and Beverage Sales</b>					
In the quarter	£ Billion	11.8	14.6	14.5	12.8
MAT (right scale)	£ Billion	50.4	51.9	53.3	53.7
% change vs 1 year ago		5.9%	11.1%	10.8%	3.4%
<b>Food and Beverage Purchases</b>					
In the quarter	£ Billion	4.3	4.3	4.2	3.8
MAT	£ Billion	15.9	16.3	16.7	16.7
% change vs 1 year ago		9.6%	10.6%	8.8%	0.7%
<b>Food purchases</b>					
In the quarter	£ Billion	3.4	3.4	3.3	3.0
MAT	£ Billion	12.4	12.7	13.0	13.0
% change vs 1 year ago		9.7%	10.5%	8.6%	0.6%

Source: Peter Backman

- I am forecasting a stable market in terms of sales to customers over the next, Christmas, quarter but I expect a fall in the first quarter of next year
- This is, of course, partly a seasonal decline – but it also includes an allowance for weakening consumer demand as the quarter advances
- Input prices – for food and beverages - have been growing more quickly than sales prices in the last half year
- I expect this to reverse as inflation in COGS slows down, and operators attempt to ramp up prices to rebuild their balance sheets.
- Whether they are successful in this is a moot point and we will see what happens during 2024.

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.

### Landlords

- Boypark sales rose 35% in the year to end April 2023

### Restaurants

- Gusto Italian sales rose 95.2% in the year to mid-September 2022
- High Road Restaurants Group sales rose 207% in the year to end June 2022
- Malhotra Group sales rose 14.0% in the year to end March 2023
- The Manor House Hotel (Castle Combe) sales rose 20.5% in the year to end March 2023
- The Scotsman Group sales rose 24.2% in the year to end March 2023
- Eataly UK sales rose 45.2% in calendar 2022
- Richard Corrigan Restaurants sales rose 74.3% in calendar 2022
- Burger & Lobster sales rose 47.2% in calendar 2022
- Ivy Collection sales rose 15.2% in calendar 2022
- Bill's sales rose 39.7% in calendar 2023
- Azumi sales rose 56.4% in calendar 2022
- Incipio Group sales rose 41.5% in calendar 2022
- Caprice Holdings sales rose 73.0% in calendar 2022
- Seafood Restaurant (Padstow) sales fell -20.4% in calendar 2022
- Belmond Le Manoir Aux Quat'Saisons sales rose 33.8% in calendar 2022
- Shoryu Ramen Restaurant Group sales rose 54.8% in calendar 2022
- Sourdough South sales rose 50.2% in calendar 2022
- Castlegate Investments sales rose 61.1% in calendar 2022
- JKS Restaurants sales rose 79.9% in calendar 2022
- Feng Sushi ceases trading

### QSR

- Soul Foods Group sales fell -0.9% in the year to end June 2022
- McDonald's franchisee Wright Restaurants sales rose 7.9% in calendar 2022
- Scoffs Group sales rose 30.0% in calendar 2022
- HJL restaurants sales rose 13.7% in calendar 2022
- Nuestra Familia sales rose 2.3% in calendar 2022
- HFLC sales rose 43.9% in calendar 2022
- FT Foods sales rose 8.6% in calendar 2022
- Five Guys UK sales rose 17.4% in calendar 2022
- AG Restaurants sales rose 25.2% in calendar 2022
- FT Foods sales rose 9.0% in calendar 2022
- A&S Restaurants sales rose 1.0% in calendar 2022

- W Liddy and Co sales rose 6.4% in calendar 2022
- Bennett Restaurants sales rose 5.4% in calendar 2022
- Lola Cupcakes sales rose 17.4% in calendar 2022
- Burger King UK sales rose 39.1% in calendar 2022; LfL sales rose 11%
- Papa John's UK & Ireland sales fell -7.0% in calendar 2022
- Wendy's UK sales rose 210% in calendar 2022 on the back of new store openings
- Chipotle UK sales rose 61.3% in calendar 2022
- C&T Restaurants sales fell -1.4% in calendar 2022
- Zaf Holdings sales fell -11.6% in calendar 2022
- Costa Coffee sales rose 21.4% in calendar 2022
- MCD Manchester sales rose 27.7% in calendar 2022
- I&A Restaurants sales rose 4.9% in calendar 2022
- SME Group sales fell -9.5% in calendar 2022
- Capital Arches Group sales rose 46.8% in calendar 2022
- Premium Restaurants sales rose 3.7% in calendar 2022
- Edge Restaurants sales rose 17.0% in calendar 2022
- Lambtrad sales rose 7.9% in calendar 2022
- DNP Restaurants sales rose 8.3% in calendar 2022
- Costa Express sales rose 5.1% in calendar 2022
- Colicci sales rose 26.9% in calendar 2022
- Chilled Pubs sales rose 42.0% in calendar 2022
- Cameron's Brewery sales rose 25.8% in calendar 2022

## Pubs

- The Inn Collection Group sales rose 47.4% in calendar 2022
- Innis & Gunn sales rose 7.7% in calendar 2022
- Joseph Holt sales rose 69.2% in calendar 2022
- BrewDog Retail sales rose 71.0% in calendar 2022
- Draft House Holdings, sales rose 49.0% in calendar 2022
- Cubitt House LfL sales were up 27.5% in H1 2023; sales rose 109% on calendar 2022

## Hotels

- Macdonald Hotels sales rose 82.4% in the year to end September 2022
- Peel Hotels sales rose 38.5% in the year to mid-January 2023
- Lymptone Manor sales rose 3.5% in calendar 2022
- Crest Hotels sales rose 32.3% in calendar 2022
- BH Hotels sales rose 6.9% in the year to end June 2022
- Red Hotels sales rose 20.8% in calendar 2022
- Interesting Hotels sales rose 15.7% in calendar 2022
- Andrew Brownsword Hotels sales rose 48.3% in calendar 2023
- Mogford Hotels sales rose 46.5% in calendar 2022
- Leonardo Hotels sales rose 94.8% in calendar 2022
- Brayford Hotels sales rose 41.7% in calendar 2022
- Horsted Estates sales rose 23.2% in calendar 2022
- The Savoy sales 126% in calendar 2022
- Harbour Hotels sales rose 32.4% in calendar 2022

## Leisure

- The Genuine Dining Co sales rose 102% in the year to end September 2022
- Vale Holiday Parks sales fell -9.3% in the year to end January 2023
- The Groucho Club sales rose 46.6% in calendar 2022
- Venue operator The Columbo Group sales rose 82.2% in calendar 2022
- Roxy Leisure sales rose 94% in calendar 2022
- Harrison Leisure UK sales 13.1% in calendar 2022

Information for the News is sourced from many places including: Companies House, ONS, company press releases, newsletters and reports (Propel, Langton etc), stockbroker and other analysts' reports, regular news media (BBC, newspapers etc)

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