MONTHLY BRIEFING REPORT

November 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.

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 + 44 7785 242809.

Contrasting news in the month

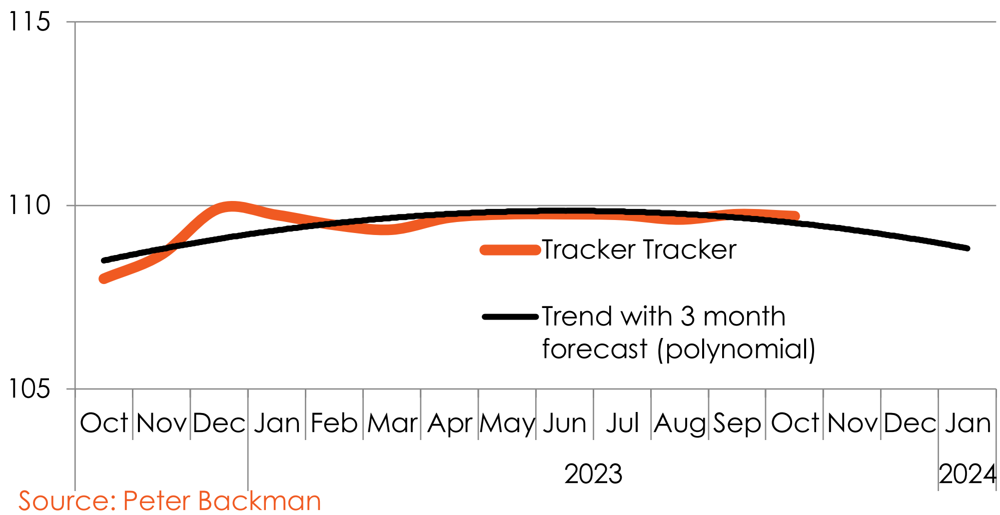
- Inflation is falling. October CPI (as reported in November) stood at 4.7%, having been double that – at 9.6% - a year before.
- And both the Bank of England and the Office for Budget Responsibility expect it to continue to fall – but more slowly – next year. Both are forecasting an average of 3.5% throughout 2024.
- That positive news was offset by the measures unveiled in the Chancellor's Autumn Statement which raise taxes and reduce spending in the medium term.
- The positive news in the autumn statement for the foodservice sector was meagre – the business rate multiplier is frozen, duty of beer is frozen until next August, and employee-paid National insurance is to be reduced from 12% to 10% from January.
- The National Minimum Wage is to be raised by 9.8% in April for those over the age of 23 – and by more for younger employees. When weighted for age, the average increase in NMW will be about 11.5%. Thus foodservice operator costs will rise - although some employees might have just a little bit more to spend (on eating out for instance).
- So November was a month of some slight good news and more not so good news for operators.

Tracker Tracker

- I continue to refine the Tracker Tracker (which I introduced into my Monthly Briefing Reports in August together with commentary on how it is constructed and a discussion of what it means).
- Of the fifteen metrics I use in the tracker, only six were positive (with the ONS figures on spend in 'Food and beverage services' yet to be published for October). The average growth, at 0.1%, was a whisker above zero.
- The most positive figures were spending in Pret stores – up 10.5% on a year earlier; the lowest growth was Barclays credit card expenditure in pubs, down -5.3% on the prior year.
- These wide variations should not be taken as indicative numbers, but they point to the ongoing unevenness in the eating out market – and the consequent difficulty of forming a clear understanding what is going on.

- However, a wider range of sources, including anecdotal comments, indicates a fall of about 2.6% in October in the **restaurant sector.**

Tracker Tracker - October 2023



Source: Peter Backman

- The **pub sector** also saw a similar decline of about 2.7% in the month, with food sales falling faster than that.
- Sales in the **QSR** sector on the other hand were just about stable.
- And **hotel and leisure** F&B sales were also stable (versus October 2022).

- So, overall, these sectors recorded a fall of about -1%.
- Other foodservice sectors – primarily **B&I** which had weak comparatives a year ago (as the results of changes to the 5-day working week were feeding through the system) – showed positive numbers in the month.

Consumer behaviour

- There has not been a shut down in consumer expenditure but the whole consumer spending scene is fragile.
- In some senses the consumer financial experience is benign currently. For example, unemployment is low – standing at 4.2% in the summer (and even as low as 3.5% according to one measure being explored by ONS).
- At the same time, mortgage approvals are growing (although still lower than pre-covid, by about 30%).
- However, these positive aspects are offset by inflation generally.
- More specifically: petrol prices are still rising (they are 5% higher than in June (although falling very slightly during November); the energy price cap for households is set to rise in January which means that the average household will be facing energy costs that are 5% higher than currently.
- And mortgage costs although falling in aggregate will be rising for householders who are due to roll over the mortgages in the coming year.

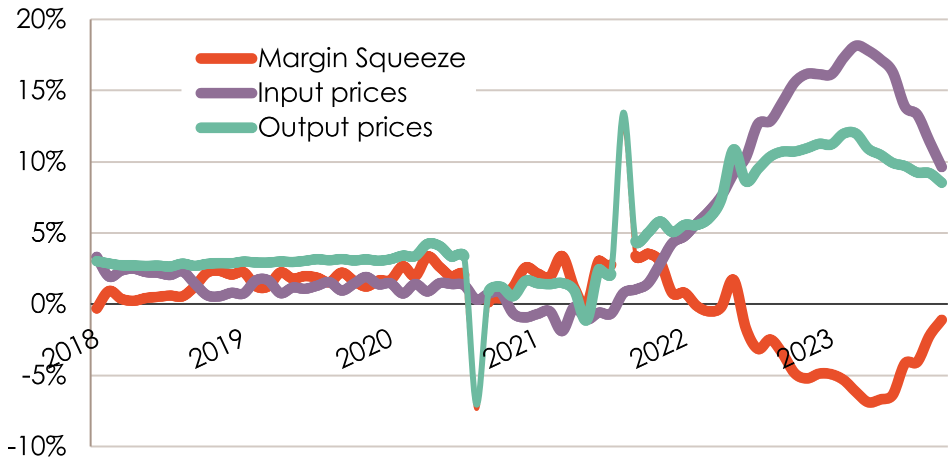
- And coupled with growing mortgage-servicing costs, house prices are falling pushing some mortgage-holders into negative equity.
- With the ending of summer and the slightly higher confidence this induces, consumer confidence as measured by GfK fell (although it has now stabilised).
- This confidence measure was driven by concerns over the general economic situation rather than consumers' personal financial situation. Now this is more positive than it seems because concerns over the state of the economy are, in practice, less pertinent than concerns over personal circumstance. In effect consumers are saying: 'The rest of the world is going to suffer more than me'.
- Thus overall confidence is particularly impacted by these external concerns which do not completely reflect the amount of money consumers actually have in their pockets. It does however engender a general atmosphere of cautious spending, and we are seeing this translated into reduced spending.
- The overall result seems to be that consumers are uncertain, undecided, even fearful of what happens next. And consequently they are reluctant to take risks, and are taking care over how much they spend and what they spend it on.
- I interpret this, in the context of the foodservice sector, as meaning that consumers are wary of spending their money even though they might like to. In turn this translates into fewer meal occasions but increased spending on the fewer occasions when people actually eat out.
- Discussions with operators underscore this – with many operators recording fewer guests and therefore fewer meals, but higher spend per meal – partly due to inflation and partly due to paying slightly more in real terms.
- More generally for foodservice and hospitality businesses, this fragility in consumer spending is overlaid with their own fragile conditions and other concerns such as staff shortages, changing work patterns and the resulting changes in eating at work.

Inflation

- With the latest CPI figure at 4.7% in October, there's been better news on the inflation front, at least as far as the whole economy is concerned.
- But that needs to be seen in the context of the target rate set for the Bank of England at 2%. There is still a long way to go until that target is hit.
- And in the foodservice sector, inflation – both input and output is higher than the overall CPI.
- Operators' food cost inflation stood at 9.6% in October – it was especially for bread and butter (really!) with inflation of over 16% and over 6% respectively.
- Alcohol prices also rose in the month but, at 8.5%, more slowly than for food.
- With the search for labour easing, labour costs were being kept under control.

- Labour, food, and alcohol make up the lion's share of foodservice operators' expenditure so with the average 8% rise in the cost of these categories, the pressure on operators is easing slightly.

Margin Squeeze



Source: ONS: Peter Backman

- Sales (ie menu) prices also rose in the month, at about the same rate as input prices overall (slightly less than food and beverage costs though).

- Consequently the pressure on operators' margins continues to be reduced from the high levels of a year ago. This is especially true of restaurants whose overall mix of food products saw larger falls in costs than the food mix in other sectors.

Taking stock

- The overall picture at the moment is one of uncertainty - affecting most sectors.
- Consumer sentiment continues to appear to be moving away from eating out.

November

- I am still waiting for any meaningful hard data about conditions in November.
- Discussions with operators, though, reflect ongoing uncertainty and concern over what the short term future might look like.
- This is offset somewhat by easing of the labour supply – this reflects several factors including falling numbers of meal occasions and increased numbers in the workforce and those looking for work.
- The outlook for Christmas is reasonably positive under the conditions – but that is a feature of the market every year at this time. Forward bookings (for hotels, office parties in restaurants etc) are up on last year (which was not as strong as pre-covid festive seasons).
- There are concerns over the potential impact of rail strikes. The main impact of strikes in the recent past have been staffing problems – staff not being able to get to work – rather than an overall reduction in demand. It seems that strikes tend to displace demand rather than eliminate it.

- ASLEF have an overtime ban at the beginning of December plus 6 days of strikes, but each only affects a handful of operating companies / regions. Conversely the RMT have called off planned strikes at least until Q2 next year. So the overall impact of forthcoming strikes looks to be minimal in the short term.

- Nevertheless concerns over the effects of any rail strikes persist and reinforce operator worries.

- In summary, uncertainty (reflected in falling consumer confidence already noted) coupled with stretched personal budgets means that eating out is still a challenge.

From here

- But the biggest concern is what happens in the new year – given that consumers are continuing to experience stretched budgets, operators may still be financially week, with ongoing concerns about inflation, product shortages and staffing issues.

- The outlook is still much as I indicated in my last Monthly Briefing Report in September. And I can really only underline the issues that I mentioned at that time.

- For example, so far as consumers are concerned their saving continue to be drawn down, mortgage costs (for those 350,000 or so families and individuals renewing in Q1 2024) will be higher than their previous mortgage, and energy costs are likewise still rising for those moving to new rates.

- A positive, as I've noted above, is falling inflation generally; and menu price rises are still comfortably outpacing overall inflation – while this might (probably will) negatively impact consumer expenditure, it will help stabilise operator's balance sheets.

- One result of these current changes (and those in the recent past) has been the emergence of two different types of restaurant, QSR, and pub operator at either end of the price spectrum.

- Many lower priced players are thriving in the fast food, quick service, and limited service sectors - examples are McDonald's, KFC, and Gregg's together with smaller, thrusting operators – such as German Doner Kebab and Creams – which increased store numbers through growing their franchised operations.

- But note that by no means all operators are prospering in this segment. This applies notably to those operators exposed to changes in working patterns and resulting reductions in commuter travellers.

- At the other end, higher priced operators – like Hawksmoor, Dishoom and The Ivy Collection – are experiencing significant real increases in sales because they offer real value for their higher spending, wealthy customers.

- The losers are in the middle – including undifferentiated offers in the mid-spend, casual dining sector together with pubs.

- Delivery continues to stutter and remains plagued by the ongoing struggle to achieve profitability – for aggregators and restaurants alike.

In conclusion

- The conclusion from this analysis of the current trading environment is that the foodservice market remains uncertain and fragile - and this is unlikely to change over the short term (at least).

- Well-funded operators – from the major contract caterers and (a smallish number of) casual dining restaurant chains, to managed pub operators and franchised QSR operator – are in a promising position.

- They should prosper by increasing their market share and through acquisition (together with intelligent offloading of non-performing assets).

- As usual, the bigger operators will emerge in a better position, than smaller, or less well-funded competitors.

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

Sales are compared with prior year unless stated

Restaurants

- Angus Steakhouse owner ATFC sales 187% in the year to end October 2022
- Bill's Restaurants sales rose 39.7% in calendar 2022
- Di Maggio's Restaurant Group's sales rose 287% in the year to end May 2022
- Hawksmoor sales rose 730921-3509107% in calendar 2022
- Neat Burger sales rose 86.3% in calendar December 2022
- Comptoir Group sales rose 2.1% in the first six months of 2023
- Ottolenghi sales rose 32.0% in the year to end March 2023

QSR

- KFC UK system sales rose 10% in Q3 2023; same store sales rose 6% globally
- Bansols Beta sales fell 5.5% in calendar 2022
- Beap Restaurants sales rose 4.9% in calendar 2022
- Goldex Investments sales rose 5.7% in the year to end October 2022
- Made to Order sales rose 17.2% in calendar 2022
- David Hunt (North Devon) sales rose 6.8% in calendar 2022
- Kaizen Restaurants sales rose 10.4% in calendar 2022
- Caspian Networks sales fell -3.0% in calendar 2022
- Splendid Restaurants sales fell –4.7% in calendar 2022
- Lonetree, sales rose 3.2% in calendar 2022
- Auntie Anne's UK sales rose 33.5% in the year to end October 2022
- Chipotle UK sales rose 61.3% in calendar 2022
- Hero Brands sales rose 8.7% in calendar 2022
- Full House Restaurants sales fell -3.2% in calendar 2022
- Manor Restaurants sales rose 0.4% in calendar 2022
- Joe & The Juice UK sales rose 67.3% in calendar 2022
- McDonald's UK sales 9.5% in calendar 2023
- K Foley sales rose 18.9% in calendar 2023
- Pho sales rose 33.6% in the year to mid-February 2023

Pubs

- Market Taverns sales rose 168% in the year to end September 2022
- Admiral Taverns sales rose 18.0% in the year to end May 2023
- Market Town Taverns 51.9% the year to end January 2023
- Thorley Taverns sales rose 2.4% in the year to end June 2022
- ETM Group sales rose 29.2% in the year to end February 2023
- Three Cheers Pub Co sales rose 12.1% in the year to end March 2023

Hotels

- Principal Hotel Company sales rose 91.8% in calendar 2022

- Hotel group St James' sales rose 42.3% in calendar 2022
- Edwardian Hotels sales rose 150% in calendar 2022
- Hotel group Sandman sales rose 75.2% in calendar 2022
- Firmdale Hotels sales rose 99.4% in calendar 2022
- The Dorchester Collection sales rose 70.9% in calendar 2022
- Gleneagles Hotel sales rose 21.1% in the year to end March 2023
- Apex Hotels sales rose 58.2% in the year to end April 2023
- Corus Hotels sales fell -11.5% in the year to end June 2023

Leisure

- David Lloyd Leisure sales rose 63.2% in calendar 2022
- Gulliver's Kingdom sales rose 13.0% in calendar 2022
- Les Ambassadeurs sales rose 374% in calendar 2022
- Hoburne sales rose 7.9% in the year to end January 2023
- Green & Fortune sales rose 116% in the year to end March 2023

Around the World

- Pizza Hut Europe system sales rose 1% in Q3 2023
- Taco Bell global same store sales rose 8% in Q3 2023; system sales rose 11%

In the latest episode of **The Delivery Prophets** podcast, we had the pleasure of hosting James Brown, CEO of Brewdog Bars, a leading figure in the craft beer industry.
Join us as we dive deep into the world of craft beer, delivery services, and the crucial role of customer experience. James shares valuable insights on how Brewdog Bars is shaping the craft beer landscape and enhancing customer satisfaction through innovative delivery and takeaway options. Stay tuned for more thought-provoking insights from this episode that's bound to leave you thirsty for more knowledge!
This opportunity is too valuable to let pass.