WEEKLY BRIEFING REPORT

Week ending 19 November 2023

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My insight

One of the pleasures of meeting people from around the world – both virtually and in the flesh – at conferences and other events from Brazil and Dubai to Madrid and Las Vegas – is the realisation that the fundamentals of foodservice are pretty much the same wherever you are. And underpinning that is the recognition that there are three things that are key ingredients for running a successful restaurant or indeed any restaurant – food (of course), people (naturally), and a place (in other words, a physical space) for patrons as I'll discuss. I have written at length about the first two, so it's 'space and place' that I'll focus on here. In fact there are a number of unconnected ideas which may build into one overarching one. Let's see.

For starters, it's perfectly possible to have too much restaurant space. That was true in the late 2010s when casual dining chains expanded into so many spaces that events proved they could not generate the income to keep all the restaurants going. Excess space taken by restaurants (in other words, overcapacity) has been reduced by closing a large number of restaurants.

Another thought: if being located in a space where customers are made welcome is one of the things that makes a restaurant a restaurant, then not having a place means that it's something else. That's true of dark kitchens which occupy spaces but do not welcome customers.

Then there is the ownership of the space – and that may determine the nature of the restaurant. McDonald's famously can be defined as a property company that sells burgers because of its major investment in real estate. Pubs are divided into those where the owner runs the pub and those where a tenant does so. Different spaces for different folks.

Another question relates to the space that a restaurant occupies: where is it occupied? The answer determines (or maybe is determined by) what the restaurant offers. A small site in an area of low property values is more likely to be a caff than an upmarket bistro. A site high up on the cliffs overlooking the sea is likely to attract a clientele that is very different from one in the centre of a global city.

So there you have some random thoughts: too much space is a problem; not having space means that there probably isn't a restaurant; who owns the space and where the space is located may define what the restaurant does.

And out of that comes the notion that place and space are key ingredients for a harmonious and successful restaurant.

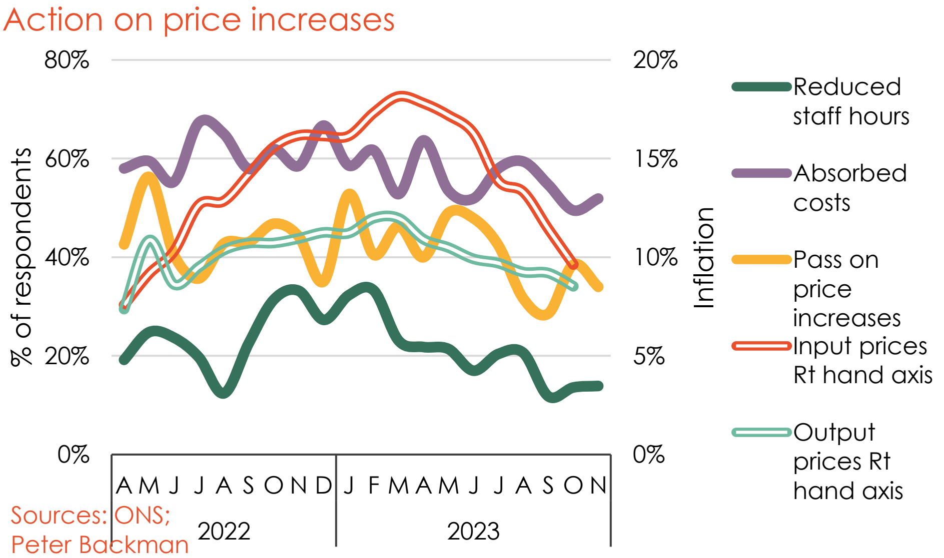
The Numbers

Inflation is coming down – the UK headline rate was 4.7% last month.

Figures for foodservice specifically are also coming down. Food and beverage cost inflation in the sector was 9.6% in October compared with a high at double that in March. And although the gap between COGS inflation and menu price inflation is still biased towards menu price increases, the difference – the Margin Squeeze - is narrowing. So things look promising.

Alongside these changes in the, still high, levels of input price increases are the actions that operators in the sector have been taking. The ONS has been tracking these actions since early last year and the results while, perhaps not unexpected, are nevertheless worth consideration for the light they shed on what's happening.

A point to note when looking at this data is that rising prices include not only COGS but inflation in many other input costs as well, especially labour costs (which have been benign over the last eighteen months or so).



The ONS data show that price increases were being passed on by about 50% of respondents right up to last summer. Since then increases in menu prices have been falling (but even so they are now 26% higher than in early 2020), and the proportion of operators who passed on price increases fell to under 30%.

Meanwhile, for most of the period since early 2022, about 60% or respondents were absorbing costs – though this percentage, too, has been falling over the last six months.

The most noticeable change has been action to reduce staffing costs. Almost a third of operators were reducing staff hours a year ago; since then, driven both by fewer customers and by cost increases, 14% are doing it now. However, the number of operators making people redundant (another way to reduce staff costs of course) has been low - in the 3% to 8% range - since the start of last year. I suspect that numbers of workers in the sector have fallen faster than these low figures imply because operators may be reluctant to replace staff who leave voluntarily.

So, input cost inflation is falling, as is the rate at which menu prices are being raised. Operators are less willing to absorb costs now, and staff are working fewer hours. Let's hope that inflation continues to fall so that operators do not have to make these awkward trade-offs in the future.

The rest of this Weekly Briefing Report is a summary of short-term news in the past week:

News in the past week

Financial & Legal

- Company insolvencies rose 18% in October versus 2022

Pubs

- Fullers LfL sales rose 12.7% in the quarter to end September
- Young's to acquire City Pub Group
- Young's LfL sales rose 3.6% in the six months to end September

Leisure

- Heathrow Airport passenger numbers rose 18% in October versus the prior year

Delivery

- Foodstars appoints advisors to market its UK estate

Around the World

- Soho House global sales rose 13% in the quarter to end September
- DP Poland LfL system sales in Poland rose in October
- Starbucks US selected workers walked out on Red Cup Day

In the latest episode of **The Delivery Prophets** podcast, we had the pleasure of hosting James Brown, CEO of BrewDog Bars. 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.

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