# MONTHLY BRIEFING REPORT

**February 2024**

Published 1 March 2024

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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.

## 'No change February'

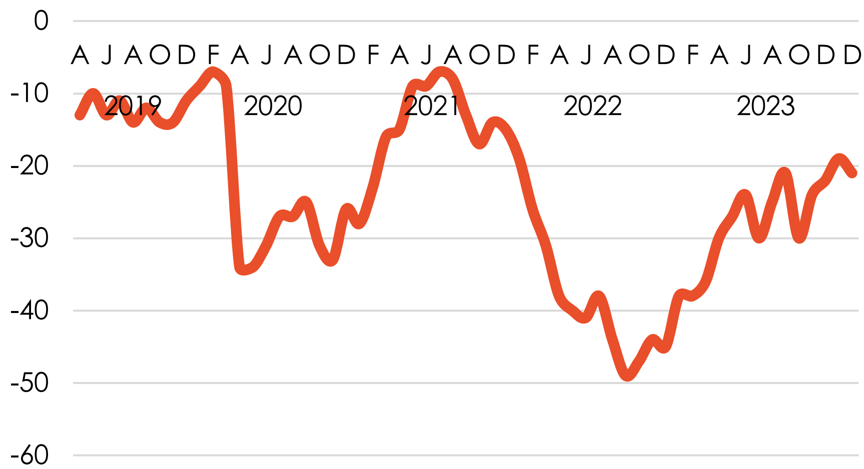
- The market is drifting – sideways rather than downwards – at the moment. This makes it difficult to comment in a revealing and helpful way. Nevertheless, I shall try.
- First let's start with the last couple of months
- Christmas trading is now in reasonably sharp focus and it shows for restaurants, pubs, and hotels – the sectors that are most dependent on Christmas trading to boost income, profits, and spirits – the outcome was probably OK. It was perhaps up on Christmas 2022 but, if so, not by much.
- And, by the by, it meant that while 2023 showed significant growth over 2019, once inflation has been allowed for, it ended on a par with that pre-covid year. So, no growth over four (admittedly covid-impacted) years.
- January was, as expected, a slow month as it always is. It was possibly down on 2023 or maybe at about the same level. No sector stood out either as an example of growth or falling demand.
- February seems to have followed this pattern.
- That's the overall picture. But what has been happening at a more detailed level?

## Consumer confidence, inflation, and other matters

- First to discuss is the matter of confidence – not only amongst consumers but operators as well.
- As I pointed out in my latest Quarterly Briefing Report at the end of January, consumers have been neither more nor less confident over the last few months. They seem to have come to terms with the squeeze on their disposable income.
- Inflation is falling, and with it fuel costs and the price of food and beverages. The ONS has just published research which shows that what they refer to as 'Housing shelter costs' (that is private rentals, social rentals, owner-occupier housing costs) are currently the major driver of the squeeze on household expenditure.

- These cost increases obviously affect some sectors of the community more than others. Higher housing costs impact particularly those with mortgages, people of working age (ie not retirees), and those with children; meanwhile poorer sectors of the community are hit worse than others. Notably of course, individuals may belong to several of these categories.

Consumer confidence




Sources: GfK; Peter Backman

- So the squeeze on incomes is driven by rising housing costs – and as these fall (which is likely as borrowing costs fall in the medium term in response to falling inflation) the pressures on household budgets are also likely to fall.

- However, this forthcoming fall is not obvious yet and consumers' confidence accordingly remains constrained.

- I suspect there will be little shift in consumer confidence over the next few months insofar as it depends on financial issues – cost of living being the most prominent.

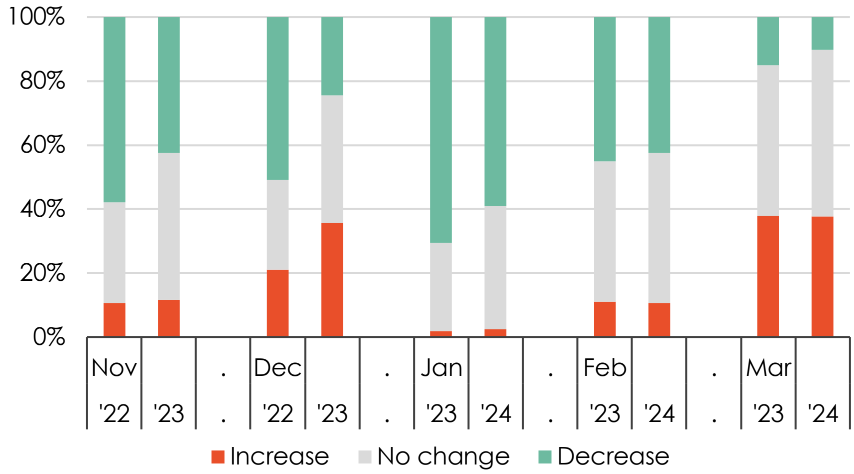
- However, there are other pressures – political instability, a worsening international outlook etc which can – probably does – also have an impact on confidence.

- These factors will feed through into consumer expenditure generally, and spending on foodservice in particular will not see a benefit from rising consumer confidence because, in my view, it will not be rising.

**Operator confidence**

- Confidence among operators is also fragile.

Turnover expectations for the month ahead



Sources: ONS; Peter Backman

- The ONS publish information about what operators in the hospitality sector ('accommodation and food services') feel business will be like in the coming month.
- The latest figures relate to March and show a very slight increase over the position last year (and this reflects the picture of perceptions of the coming month as reported for February).
- If anything, this set of data suggest that perceptions of the immediate future are worsening compared with the end of 2023.
- So operator confidence, like consumer confidence, is fragile.

## Strikes and Working from Home

- There have been other developments of course over the past month.
- Strikes of various kinds have affected the foodservice sector. The most prominent have been rail strikes which restrict people travelling to their workplaces – and, notably, they prevent hospitality workers travelling to work causing operator employers uncertainty and higher costs in the short term.
- Transport strikes are set to continue into March and beyond: RMT strikes on London Overground for a day in early March; a one day strike on LNER and Northern Rail also in early March; and an overtime ban at the same time.
- These strikes have a disproportionate effect on some sectors of society but most are unaffected or subject merely to 'nuisance'.
- Working from home continues to resurface as an issue – with press coverage lighting up with occasional instances of action taken by employers who want their staff to be at work (rather than working from home).
- But working from home now seems to have become entrenched in lifestyles and working patterns, and although they will shift over time, in my view the situation we have now will remain for the foreseeable future – and perhaps over the very long term.

## Changes in liquidity and the outcome

- Of more and longer term concern is liquidity within the foodservice system.

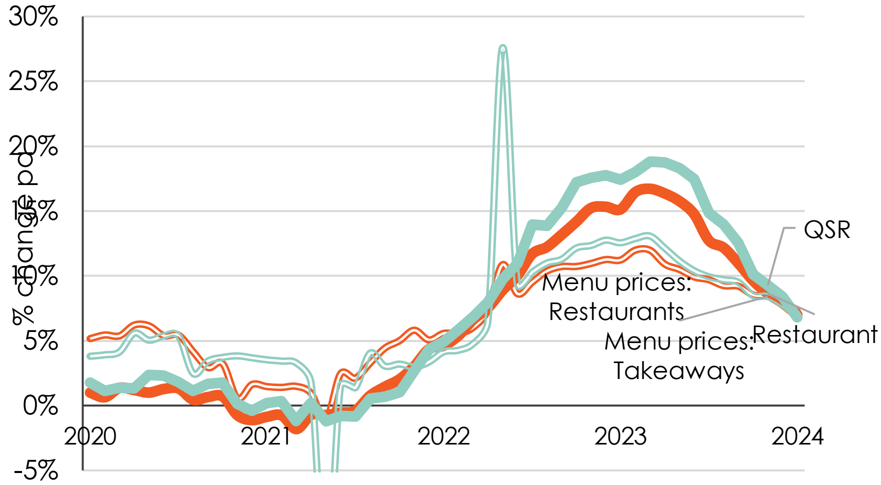
- This concern has been prominent over the last few years, starting before covid, but exacerbated by it (even though the government provided unprecedented support over a couple of critical years) and now this concern remains and is not being lightened in any meaningful way.

- One factor is that food and beverage inflation, rising fuel and energy costs, and increased costs of borrowing coupled with overall low levels of sales have drawn heavily on operator balance sheets.

- A survey (by UKHospitality, British Beer and Pub Association, British Institute of Innkeeping, Hospitality Ulster) says that currently ‘a quarter of hospitality businesses have no cash reserves and a further 29% have less than three months’ worth’.

- While significant, that the situation is not worse for operators is partly due to the fall in numbers of outlets that I have mentioned several times in the past. Various reports put this reduction in the range of about 10% since 2019.

F&B costs v Menu price changes YoY




Sources: ONS; Peter Backman

- I would note that the numbers of insolvencies that are currently being reported are no less than over the long run. But, crucially, new businesses are not being created at long run levels. Thus the net number of outlets is falling.

- The result is that while numbers remain low, revenue is spread over fewer businesses resulting in (slightly) more revenue for each business.

## A note about new businesses

- There are some signs of new foodservice business creation - many small businesses are opening second and third sites, and there is considerable growth of franchised brands, mainly US-based such as Popeyes.

- Investment businesses, such as Keystone Brewing Group are picking up businesses in the pubs sector, McWin is investing in the restaurant sector and Trispan is also in the restaurant business. These are businesses with significant internal operating expertise and are making investments where they can deploy that expertise either to turn businesses around or to add significantly to their growth trajectory

- In total, I expect that this new business creation will build over the coming year for two reasons.

- The first is that there is always a wellspring of new foodservice businesses driven by the desire of many individuals to create and run their own business, and specifically to ‘run a restaurant’ or a hotel or even a contract catering business.

- The other reason is that property costs are relatively benign at the moment (due to falling demand for retail outlets) and will act to encourage the creation of new foodservice businesses.

- Two problems are apparent though. The first is that high streets remain unloved – and uninvested – and consequently restaurants (both existing and newly formed) will have to work hard to create an environment that welcomes their dining customers.

- And the second problem is that I expect new restaurant businesses will be less well capitalised than they should be (a common fault within the restaurant business) and accordingly dropout rates will remain high although perhaps lower than the rate of new business formation over the next year or two.

- Having said all of this, the numbers of business will show little change over the short term, and certainly not in the next month or two.

## In summary

- At the end of February, the market was lacklustre
- Operators have been squeezed
- But there may be glimmers of hope on the horizon
- Nevertheless, the short term (and probably medium term ) outlook – while not drastically negative - is not bright


We've wrapped up a fascinating discussion on **The Delivery Prophets** podcast with Edin Basic - founder of Firezza and Amplify.

We delved into the critical role of customer data in driving targeted marketing strategies for food businesses. From segmenting customers based on activity levels to analysing order frequency, understanding your audience is key to success in the competitive delivery landscape. Find out more **here**.

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

- Various Eateries sales rose 12% in the year to end October 2023
- Harry's Bar Restaurants sales rose 36.4% in calendar 2022
- Azzurri Group sales rose 9.3% in the year to end June 2023

## QSR

- Rookery Foods sales fell -16.0% in calendar 2022
- Grind & Co sales rose 25.3% in the year to end April 2023
- Daisy Green UK sales rose 30.9% in the year to mid-April 2023
- Ole & Steen UK sales rose 58% in calendar 2022
- Pieminister sales rose 0.6% in the year to end March 2023
- Caffè Nero UK sales rose 10.1% in the half year to end November 2023
- Foodco UK sales rose 18.3% in the year to end June 2023
- CJRach sales rose 10.6% in the year to end March 2023
- A Khan Restaurants sales fell -22.9% in the year to end August 2023
- Boojum sales rose 12.1% in the year to mid-April 2023

## Pubs

- Urban Pubs & Bars sales rose 6.4% in the year to end April 2023
- Oakman Group sales rose 6.3% in the year to end June 2023
- Heavitree Brewery sales rose 0.9% in the year to end October 2023
- Herefordshire brewer and retailer Wye Valley Brewery sales rose 22.1% in the year to end April 2023
- Bowland Inns sales fell -2.1% in the year to end May 2023

## Hotels

- Cawley Hotels & Restaurants sales fell -2.8% in the year to end April 2023
- Brook Hotels sales fell –1.9% in the year to end March 2023
- London hotel business London Town Group sales rose 44.1% in the year to end June 2023
- Flamingo Land sales fell -5.6% in the year to end March 2023
- Pentewan Sands sales fell -7.5% in the year to end March 2023

## Leisure

- Lyons Holiday Parks sales rose 5.1% in the year to end January 2023
- Champneys sales were flat in the year to end April 2023
- Westmorland sales rose 14.4% in the year to end June 2023
- The Club Companysales rose 9.3% in the year to end September 2023