STATE OF THE HOSPITALITY NATION

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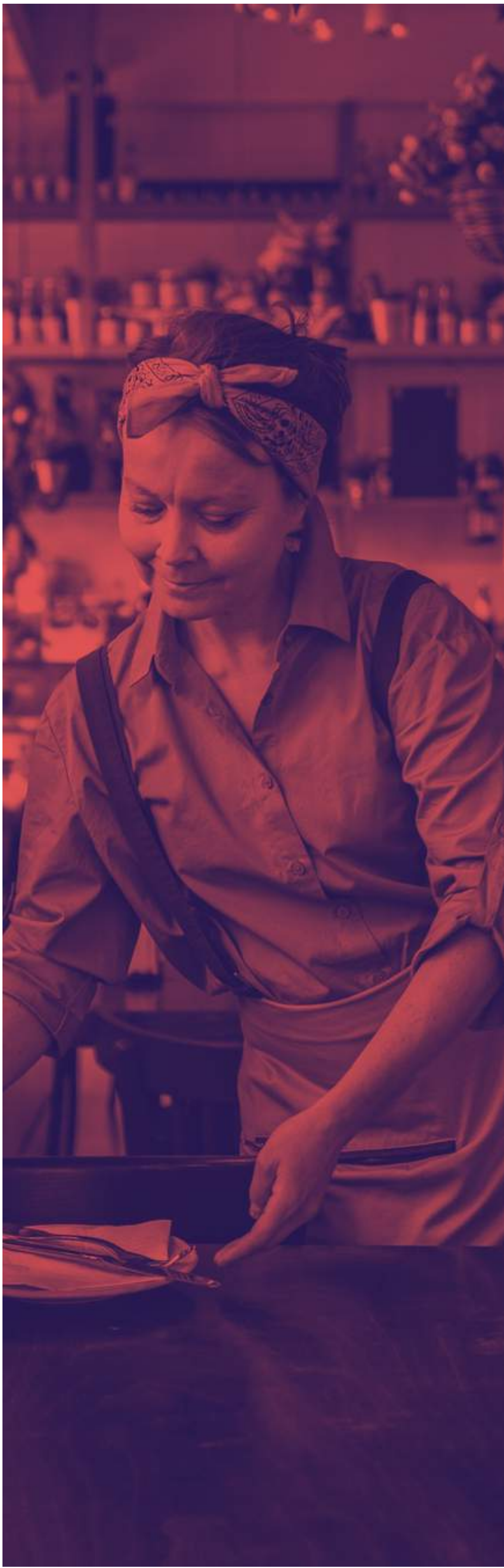
APRIL 2023

FOREWORD



Propel and KAM have launched a deep-dive research study into the current outlook of the UK's hospitality sector. The survey, which is produced in association with Mapal Group, sought to examine the key issues currently impacting the industry, whilst also looking ahead to what the next 12 months might bring. This research will allow businesses to benchmark their performance and experiences against the wider sector. The results of this extensive research are laid out over the course of this report, and includes in-depth case studies from some of those who took part. It highlights long-term factors that the sector is still getting to grips with, including recruitment and retention and rental values, but also the threat from current challenges around energy costs, a delivery market in a state of flux, and under-pressure supply chains.

Combating energy costs is the key current challenge, which, as is shown by a number of examples included in these pages, is threatening the viability of some businesses, which are running out of ways to mitigate the astronomical bills they are facing. There is also the continued fall out from the pandemic, including well-publicised changes in working patterns, which are continuing to impact the flow of trading weeks, especially for city centre-based companies. Despite this, the results from the survey show a higher level of optimism for the year ahead, with confidence boosted by the fact that consumers are currently still prioritizing going out to eat and drink, over other discretionary purchases.

Paul Charity
MD, Propel

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REVIEW OF THE YEAR JUST GONE

STATE OF THE HOSPITALITY NATION

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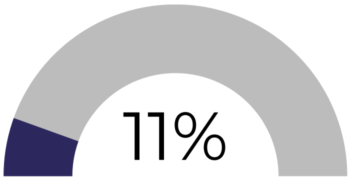
“RETENTION IS STRONG, BUT THERE ARE STILL VERY SLIM PICKINGS AND NO DEPTH OF CANDIDATES

BEN STACKHOUSE
FOUNDER OF PUBLOVE
SITES 6 / STAFF 70

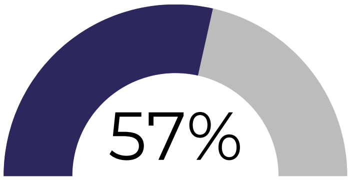
When it comes to current challenges, Stackhouse says it’s a “combination of energy, staff costs and cost inflation in general”. On staffing, he says: “It is easing slightly and retention is strong, but there are still very slim pickings and no depth of candidates. It is still a challenge and the focus is on retention, through improved training/reward/engagement/culture which also has a positive knock-on impact on recruitment through reputation enhancement.” When it comes to the biggest threat to growth this year, Stackhouse pinpoints the possible impact of the cost-of-living crisis on consumer confidence.” Aggressive discounting over the past year is helping drive rising sales at PubLove. A rigid promotional calendar of month-by-month promotional events, targeted at a category, includes ‘Fiverburgeranuary’ offering £5 burgers, half-price after-work gin & tonics and ‘lunch beers’ at £3.50 for a schooner - now a permanent deal. “It’s been enormously successful for us,” says Stackhouse. “Having 12 months of events planned saves us time and effort thinking up new ideas, and we can advertise it on giant posters in the pubs and on social media.” This year PubLove will also be hiring a specialist marketer to visit businesses within a one-mile radius of each site and invite bosses and party organisers to meet over lunch, with the aim of persuading them to host to staff get-togethers at the pub. And the bed-booking team is taking on table bookings, “to give a fresh perspective on it”. “Cost inflation has been a challenge, of course,” Stackhouse adds, “so we’ve had a close look at the suppliers for our food menu and we’ve been putting more out to tender and finding alternative sources for products. We’re partners with Stonegate so we’ve been making more use of their buying power, too.” With 24-hour staffing needed for the hostels, finding people to do the work has also been a problem, and PubLove has centralised the recruitment process, with one of its general managers taking on the task two days a week. “She’s very good at identifying the right person for the right job, and it frees up time for our other GMs. We could have gone to a recruitment consultant, but they don’t know your business and for me it’s like chucking good money after bad. “Overall, we’ve had an amazing year,” Stackhouse concludes. “The backpackers have returned, young people are travelling again and they seem to have money. We’re trading very well.”

STAFFING

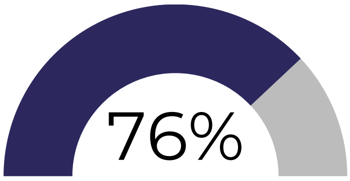
Over the past three years the hospitality sector has experienced acute labour shortages due to varying factors from the pandemic through to Brexit. Trade associations and sector businesses continue to call on the government to provide greater flexibility in current employment and skills initiatives to enable the sector to meet the challenges of recruiting and retaining a skilled and motivated hospitality workforce to help drive the economic recovery throughout the UK. However, while the wait for assistance continues the current view from the front line is of staffing remaining a challenge, albeit one that is improving slowly, but at a cost. The report shows over three quarters of respondents said their recruitment costs went up in 2022, and the same number said labour cost, as a percentage of total turnover, went up last year. The knock-on impact of the pandemic is still being felt. As one respondent says: “It was always inevitable that after paying the nation to sit in the sun for months on end reacclimatising to work would take time. We seem to be making progress but it is all too easy to create a pernicious circle where the stresses caused by staffing difficulties exacerbate the challenge of recruitment, development and training. Kid gloves and creative thinking are required by the bucket load.” The sector is also recalibrating how it can motivate and incentivise a new generation of workers beyond pay alone, with the shortage of staff impacting the quality of consumer experience, bottom line and existing team morale. That talent pool remains in a state of flux, with a shortfall in numbers remaining.



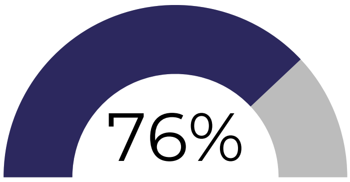
Average staff vacancy in 2022



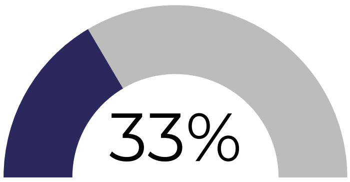
Average staff turnover in 2022



Said recruitment costs went up in 2022.



Said labour cost, as a percentage of total turnover, went up in 2022



Labour cost as a % of total turnover in 2022

"The sector is recalibrating to how it can motivate and incentivise a new generation of workers beyond pay"

"THE BIGGEST THREAT TO GROWTH IS CASH FLOW GIVEN ENERGY AND WORKING CAPITAL IN THE SUPPLY CHAIN

ANDY & PRANEE LAURILLARD
FOUNDERS OF GIGGLING SQUID
SITES 46 / STAFF 1400

Andy and Pranee Laurillard, founders of Thai restaurant brand Giggling Squid, say profitability had "remained robust" and trading levels "held up" in 2022. Andy says: We are well resourced and intend to continue our measured expansion as desirable sites become available in our target locations. We are in pretty good shape. Underlying business is at circa £9m Ebitda now and there's lots of great sites coming out. There are a few Asian competitors emerging though so we have to stay awake." However, his main concern was around the supply chain, with "credit insurance absent and so eating in working capital" and energy costs. He says that the biggest cost of doing business at present was "energy until September, as we had to fix high last year". He says: "The biggest threat to that growth is cash flow given energy and working capital in the supply chain." The company's staff turnover percentage in 2022 was 100%, while its labour cost, as a percentage of total turnover, stood at 31%, a decrease on the previous 12 months. And the challenge of staffing at the moment? He says: "Not particularly difficult except at front of house, supervisor and area manager level - we are improving succession planning and talent pool management to counter."

STAFFING

The report found that 75% of respondents noticed an increase in the number of team members leaving the hospitality sector altogether in the last 12 months, compared to previous periods. At the same time, just over half (52%) noticed an increase in the number of team members who are new to the hospitality sector altogether in the last 12 months. Mike Parnham, chief executive at Rum Kitchen, says: “Staffing is easier than last summer but still challenging. A lot of the big brands have switched to hiring under 18s and this has made the talent pool wider. The biggest positive action we have taken is to contact good leavers after six months to check in with them and see how they are doing and if the grass really is greener. Since January we haven't hired anyone except for returning team members. This also has the benefit that these returning team members bring with them new staff as well.” While increasing wages maybe the answer in the short-term, and this will come into focus again with an increase in the National Minimum Wage due at the end of Q1, it is the additional benefits companies can offer, which may prove affective in the long run. Some respondents are giving staff real time access to up to 50% of their salary as they earn it. Benefit packages also includes discounts at supermarkets and retailers for staff and access to financial coaches, on top of training and career path developments.

The following have been the biggest impacts that staff shortages have had on your business in 2022...

Vacancies and the lack of staff are impacting the quality of the customer experience	49%
Shortages of candidates is causing increased salaries above budgeted amounts	35%
Vacancies are impacting the offer we can deliver to desired standards	33%
Vacancies are impacting stress and welfare of current team members	32%
Vacancies are impacting sales and reducing turnover	29%
Vacancies are impacting the job satisfaction of current team members	25%

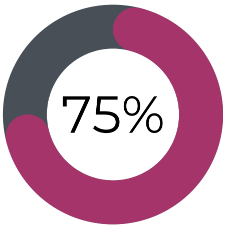
LAST YEAR THE BUSINESS BECAME A TIER-TWO SPONSOR, AND TO DATE, IT HAS SPONSORED THE MIGRATION OF 13 SKILLED WORKERS ACROSS ITS SITES

LOUISE PALMER-MASTERTON
FOUNDER, STEM & GLORY
SITES 3 / STAFF 65

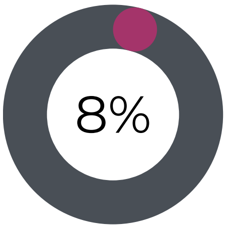
“When the margins are so super slim it's hard work for little reward and not optimum for growth,” says Palmer-Masterton, when talking about the cost of doing business for the vegan restaurant brand. She said: “Our gross profit margins dropped from 73% to 66% last year due to massive increase in ingredients cost. Eventually with extreme effort with our procurement and some creative pricing we managed to get them back to 72% by the end of last year, but prices are still increasing all the time. Onerous business rates and taxation also squeeze margin too much - it's not healthy or encouraging to people in business.” With two sites based in central London, the business has also had to deal with “volatile customer numbers” caused by rail and tube strikes. She says: “There are devastating for our two London sites which are both in the City. Everyone just disappears back to working from home during the strikes.” Last year the business became a tier-two sponsor, and to date, it has sponsored the migration of 13 skilled workers across its sites, which has helped it mitigate staffing issues, and according to Palmer-Masterton helped it strengthen its team last year.

BUSINESS PERFORMANCE

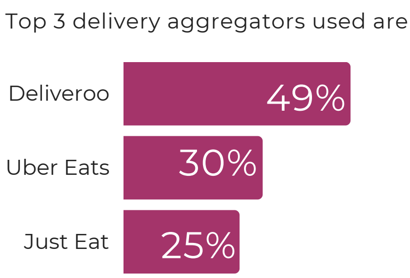
As the sector came out of the pandemic, trading, unsurprisingly, recovered strongly across last summer, only for the ongoing war in the Ukraine, rising costs and train strikes to place a brake on that momentum. However, the vast majority of operators said that their like-for-like sales were up over the course of the year, increasing on average by 24%. The caveat is that trading last year continued in part to lap performance impacted by covid-19. The continued resilience seen at the end of last year and at the start of 2023 also benefited from comparisons with early 2022, when some consumers stayed at home amid concerns about the Omicron variant of covid. High inflation means sales continue to lag pre-pandemic levels in real terms.



Said like-for-like sales were up in 2022 (average increase of 24%)



Of the sales mix is made up of delivery/takeaway



For many respondents, the words “robust and resilient” were prevalent but balanced by the suggestion they were “running very fast to get nowhere” - turning sales into profit against a backdrop of high cost inflation is still proving challenging. Forming a fixed view on where delivery sales will settle is also influx. The Restaurant Group reported a delivery and takeaway like-for-like sales decline for Wagamama, in line with reduced demand across the delivery market. As one respondent says: “There’s been a slight pull back on delivery in recent months, but I think a lot of this is to do with people tightening their finances a little more. We’re maybe seeing more people prioritise dining out and cutting out that weekday, takeaway treat instead.” At the same time, another respondent felt that smaller brands were “now seeing delivery as a marketing tool instead of a cash generator”. One says: “It’s far more important to us that we are able to reach new potential guests within a 2km radius than using it to drive profit.”

“

I SEE IT GETTING EASIER AND I BELIEVE THE WHOLE SECTOR IS SEEING IMPROVING LEVELS OF STABILITY IN THEIR TEAMS

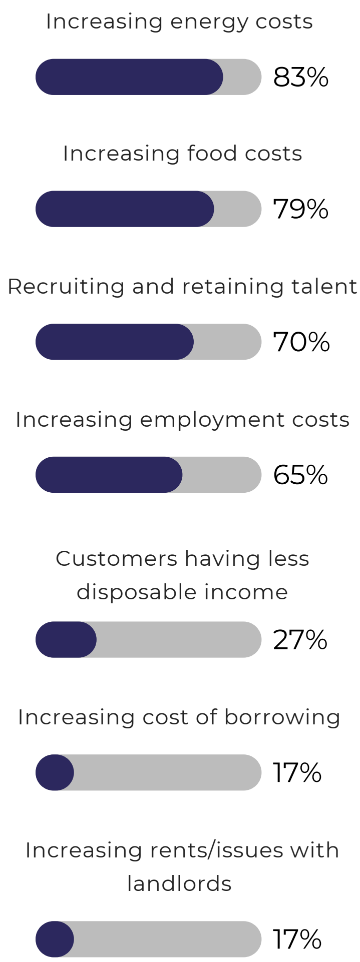
ALASDAIR MURDOCH
CHIEF EXECUTIVE, BURGER KING UK
SITES 530 / STAFF 13000

When it comes to what is the biggest cost of doing business, Murdoch says that food cost inflation has been a “nightmare” for the QSR brand. He says: “It remains so as we cannot pass it onto the consumer at the rate we have had to swallow it. Food cost inflation has been the biggest challenge over the past 12 months across the main protein groups. Costs have stabilised but as of yet we are not seeing any significant deflation in these areas.” The company’s staff turnover percentage in 2022 was 90%, while its labour cost, as a percentage of total turnover, stood at 24%, a decrease on the previous 12 months. In terms of the challenge of staffing at the moment, Murdoch says: “It’s not that tricky at all. I see it getting easier and I believe the whole sector is seeing improving levels of stability in their teams.” Delivery, unsurprisingly, plays a key part of the brand’s reach. In terms of the percentage of sales delivery and takeaway take up for Burger King, Murdoch says this has stabilised over the past year. He says: “For QSR it has stabilised, in fact it has been strong for the last year and remains and we see it as steady – I guess its 25-30% of sales across QSR.” For Murdoch, the biggest threat to growth over the coming year is the availability of debt. He says: “Getting an affordable growth-based facility would seem to be tricky for most operators at present.”

BUSINESS CHALLENGES

UKHospitality chief executive Kate Nicholls sent a letter to the energy secretary Grant Shapps in which she demanded that Ofgem be allowed to tackle suppliers' handling of business customers' ancillary energy costs. The letter was the latest in a string of warnings from the trade body about its members' battle to contend with the impact of higher energy prices. Nicholls warned Shapps that many companies would not feel the benefit of falling wholesale energy prices for another six months, and reminded him that nearly half of hospitality businesses had fixed their energy contracts at high prices during the second half of last year. Unsurprisingly, when it came to identifying the biggest challenges faced by businesses last year, increasing energy costs topped the list. Our case studies in show a recurring theme, with many respondents saying that their energy costs had increased by well over 100%. Martin Greenhow, founder of Voodoo Doll, the company behind the Mojo Bars business, voiced the sector’s Dunkirk spirit as it battles energy costs: “Energy quotes for new contracts are currently down to only double what we were paying!” Mike Phillips, founder of the Fat Hippo chain, expressed sympathy for operators who opened a site last year, and were blindsided by huge utility cost hikes. He says: “Thankfully, the sites we opened pre-2022 were on long term contracts until 2025.” He adds that all sites were battling with food inflation and wage increases. Peter Marks, chairman of Rekom UK, the country’s largest nightclub operator, highlighted the difficulty of securing “funding at a decent price, consumer confidence and cost of living crisis hitting early week trade”, as his top three concerns.

The biggest challenges these business have faced over the last 12 months are...



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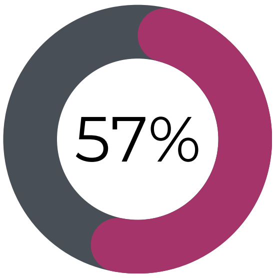
LEVERAGE TECHNOLOGIES TO MINIMISE THE RELIANCE ON HIGH-LABOUR COST MODELS AND FOCUSING ON TRAINING IN NEW AREAS

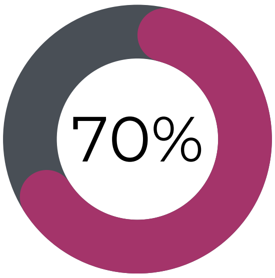
JAMES HACON
GLOBAL CHIEF MARKETING OFFICER
MAPAL GROUP

James Hacon, Global Chief Marketing Officer, at MAPAL Group, says: “Of the major challenges business leaders face right now, the majority are externally driven, whether they be political or economic and can quite rightly feel out of our own control – something that others need to fix. While there is some truth in that, it’s clear that our sector has become increasingly resilient to these so-called headwinds. Interestingly, the results show us that longer term global environmental challenges and sustainability didn’t even rank, due to the more direct short-term external factors. The short-term energy crisis is likely to reflect a challenge around resource scarcity that will continue. We are seeing our customers and partners using this immediate challenge to trigger a review of trading patterns, operating models and formats, to consider the opportunity to reduce their energy consumption for the long-term, better leverage technologies to minimise the reliance on high-labour cost models and focusing on training in new areas such as energy awareness and sustainability to nudge changes in behaviour that have tangible benefits on the bottom-line. As a technology business our role is to enable our customers to make these changes easily. This year we have released a number of learning modules within our Flow Learning solution to support in this way and delivered changes across our Facilities and Compliance solutions to make monitoring easier.”

CONSUMER BEHAVIOUR



Said footfall was up in 2022. With an average increase of 19%



Said customer spend per head was up in 2022. With an average increase of 10%

“We’ve seen a shift in consumer behaviour when it comes to visiting hospitality venues”, says Katy Moses, Managing Director at KAM. “The typical hospitality customer is still visiting pubs, bars, restaurants, etc. However, the key difference is the occasions which are driving the footfall and spend. There is a clearer divide in the spectrum between the value-end and the premium-end of the market. At the higher end, customers are perhaps going out slightly less frequently than before, but when they do they are prepared to spend more. It comes back to that ‘experience factor’. If customers are going to make an investment, then they want to make sure it returns. For hospitality visits this means going for more premium choices and being prepared to push the boat out a little to increase the guarantee of a good time. At the other end, we see the more habitual occasions (think regular catchups with friends, etc.) shifting down to more value-led propositions as consumers look to keep their social life without breaking the bank in the process. The key for operators is to understand the occasions which are driving this footfall and spend in venue (and these will change across times of the day, days of the week, and venue locations) and adjusting the offer accordingly. Flexibility will be fundamental in providing long term success.”

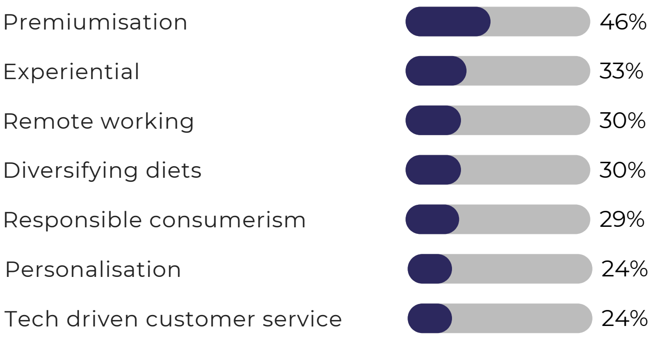
“ HOPEFULLY, THE GOVERNMENT WILL SEE SENSE AND ALLOW YOUNGER PEOPLE TO TRAVEL AND WORK

DAVID FOX
CHIEF EXECUTIVE OF TAMPOPO
SITES 5 / STAFF 140

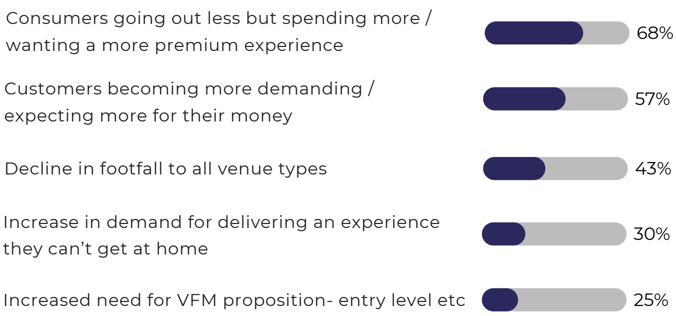
Fox reported delivery is on the decline. He says: “For full-service restaurants it should always be ancillary. If it is not ancillary it will be a problem as there is no comparison of the value proposition of a table service dine-in restaurant experience to a delivery experience (which often costs the same). I know what I would cut back on first, which is what is happening - delivery is on the decline. It will always be there - but it has yet to settle at a place where all parties are happy - customer, rider, delivery company, restaurant.” In terms of the biggest challenges faced by the business over the past 12 months, Fox highlights how his company has had to swallow costs which have eroded margin. He estimates a 25% increase in food and drink costs and utilities that have not passed on to the customer. He says: “Our margins have halved, not helped by a punitive VAT that is now out of kilter with many European countries where VAT rates are half or more than half what we have to pay.” It also regards it as the biggest threat to future growth. He says: “The erosion of margin makes the restaurant model less attractive as an investment because of much higher capex and lower profit as a percentage of sales than retail. We need to fix that, as this reduces access to debt and other funding to open sites.” In terms of staffing, the company has gone down the sponsorship of foreign national route to help ease the issue.

CONSUMER TRENDS

The following consumer trends were influential in driving sales during 2022 for their business...



The biggest impact from the cost-of-living crisis on the hospitality sector in 2023, from a consumer perspective, will be...



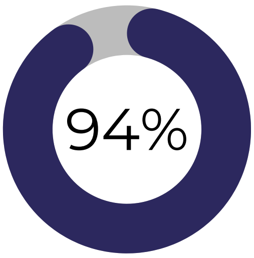
"Premiumisation and experiential are the two biggest consumer trends that we've seen grow within the last 12 months, across the research projects we've undertaken", says Katy Moses, Managing Director at KAM. "It taps into the key mega-trend which has been exasperated from the pandemic. That being, consumers key decision when planning an 'occasion' is not just where to go, but is also, now, whether to go out at all. The lines have blurred between hospitality and retail. Consumers will now consider a meal out in an evening against a delivery from their favourite restaurant and a nice bottle of wine from the supermarket, and the price of a pint is now more acutely judged against the cost of beer in their local store. So, what does this mean for hospitality? For many, it means ensuring we offer more than just a product, we need to offer an experience."

> WE WILL HOLD OUR NERVE AND AWAIT THE TIME WHEN OPERATING RESTAURANTS IS ONCE AGAIN FUN AND FINANCIALLY VIABLE

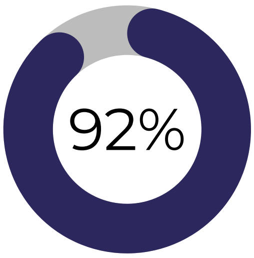
TERRY HARRISON
CHIEF EXECUTIVE OF BUSABA
SITES 12 / STAFF 325

“Recruitment, strikes, utilities” are the three biggest challenges faced by Busaba, the Thai chain founded by Alan Yau, last year, according to Terry Harrison, chief executive of the Tnui Capital-backed brand, and he says all are still “very tough” to deal with. He says: “Utilities have wiped most of our profit. Train strikes impacted sales and caused losses of 20% plus on those days on a like-for-like basis. In terms of utilities - we are paying quadruple what we were 18 months ago, mainly pumped up by standing charges. It’s that bad, we have forgotten how awful food inflation is!” When it comes to staffing, Harrison says the business had done well at promoting from within for some recruitment, for example front of house management, but recruiting chefs “remains frustrating”. Consumer confidence and utility costs are the biggest threat to growth this year, according to Harrison. He says: “We are refusing to raise prices in Busaba because we will just end up out-pricing the very people we need to patronise us. We will hold our nerve and await the time when operating restaurants is once again fun and financially viable; that seems a long way off right now.”

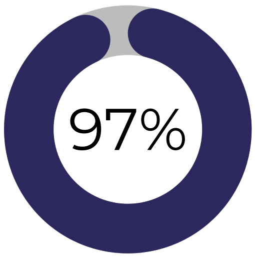
COST OF DOING BUSINESS



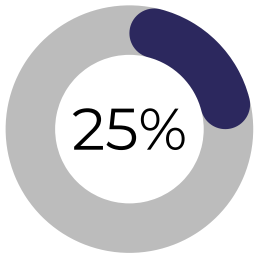
Said energy bills have increased in 2022 (up 111% on average)



Said employment costs have increased in 2022 (up 13% on average)



Said costs of goods increased in 2022 (up 15% on average)



Said rent costs increased in 2022 (up 11% on average)

Spiralling energy costs were raised over and over again by our respondents. Ben Stackhouse, founder of PubLove, saw his energy costs increase by 350% in 2022, and though he believes the crisis will pass, “higher energy bills look to be here to stay”. When it comes to the biggest challenge to doing business currently, Stackhouse says it’s a “combination of energy, staff costs and cost inflation in general”. On energy, he says: “In the short term we have to keep lobbying hard for business support. In the medium term, whilst this crisis will pass, higher energy bills look to be here to stay - not least to pay for the sustainability changes the energy industry still needs to make. So, we need to build a business that can accommodate higher running costs.” If energy costs are a fresh challenge, rental values remain a constant issue through boom-and-bust cycles. Even during a period of restructures and new agreements being agreed with landlords across the sector, a quarter of respondents saw their rent costs increase last year, on average by 11%. There was a feeling that coming out of the pandemic that people would have learnt lessons but as some respondents pointed out that when it came to property, people have just reverted back to their normal ways. Many pointed a finger at larger chains “taking on new sites and getting into bidding wars that drive up rents”. One respondent says: “Rents are high not because of greedy landlords but because of brands making these offers. In our last two rent reviews we have seen increases of £35,000 and £80,000. The £35,000 increase was a 28% and the other a 43% increase in rent. Both sites had seen a competitor open within the last two years that had been competing with other brands to secure a site, the sites they had taken were smaller than ours but the rent review had been based off sq ft rent so both saw these large increases. This increase has just been added to the others like energy and labour – 2022 really was the perfect storm. Landlords are able to push these above-inflation rent review increases through because in many cases market rates are driven by new arrivals.” With a further rise in national living wage on the horizon, many highlighted wages as the biggest acceleration in costs to their businesses. One respondent says: “We pay the National Living Wage as a minimum regardless of age and inevitably, this approach has an inflationary effect on what we pay the whole workforce.”

“THE BIGGEST THREAT TO GROWTH IS THE RISE IN INTEREST RATES COMBINED WITH THE LACK OF APPETITE FOR FUNDING IN OUR SECTOR

MARK ROBSON
CO FOUNDER, NEW DAWN INNS
SITES 5 / STAFF 130

For Mark Robson, the co-founder New Dawn Pubs, the vehicle launched in 2022 from the founders of Red Mist Leisure, dealing with rising energy costs has been, and continues to be, the biggest challenge faced by his business. Robson says: “The astronomical increase in the cost of energy (500% for us) has, unsurprisingly, been our biggest challenge.” However, he does see a light at the end of the tunnel: “We know energy costs are coming down and that will filter to us in April when we renew contracts so the biggest threat to growth is probably the rise in interest rates combined with the lack of appetite for funding in our sector.”

When it comes to staffing issues, this a more seasonal issue for the South East-based business. He says: “We are not finding this a challenge at present, quite possibly because our recruitment needs are less in the winter. The real test for us on this front will be in the spring. Staffing remains our largest cost but energy has increased from circa 3% of revenue to 15% of revenue.”

LOOKING FORWARD TO THE YEAR AHEAD

STATE OF THE HOSPITALITY NATION

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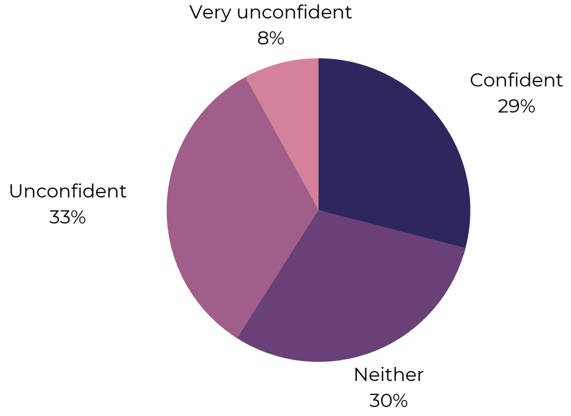
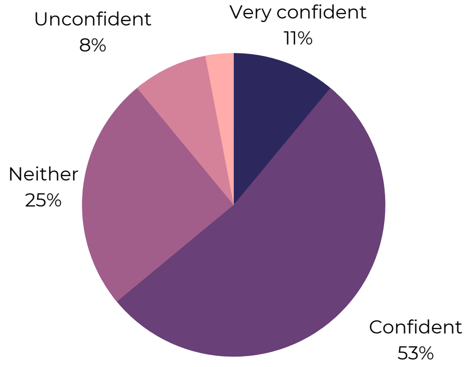
CONSUMER BEHAVIOUR

Sector confidence, influenced by the travails of the past three years remains uncertain. Asked about how he felt about the coming the year, one operator said, “I’m not optimistic, but I’m less pessimistic”. Operators are hoping for an increase in consumer confidence in the coming months on the back of lower energy prices and inflation tapering down. Some are reliant on their own reimagination of systems and approach to see them through. As Mike Parnham, chief executive of Rum Kitchen, points out: “To the guest everything has remained the same but behind the scenes we have changed every part of the business. So, this year if we face these issues again, we won’t be affected but if these issues fall away, we will have an epic 2023.” Martin Greenhow of Voodoo Doll, is hopeful that we've seen the worst of inflation. He says: “If that's so I think we'll start to see a plateauing in the cost-of-living challenges and the associated stress for everyone as the bottle necks caused by global lockdowns start to unwind. Similarly, I think the pressure is starting to tell on getting people back into the office. I do think the needle has shifted there permanently, possibly to the detriment of city centre businesses but the benefit of suburban operators.”

How confident do they feel about the next 12 months for the **UK hospitality sector**



How confident do they feel about the next 12 months for **their business**



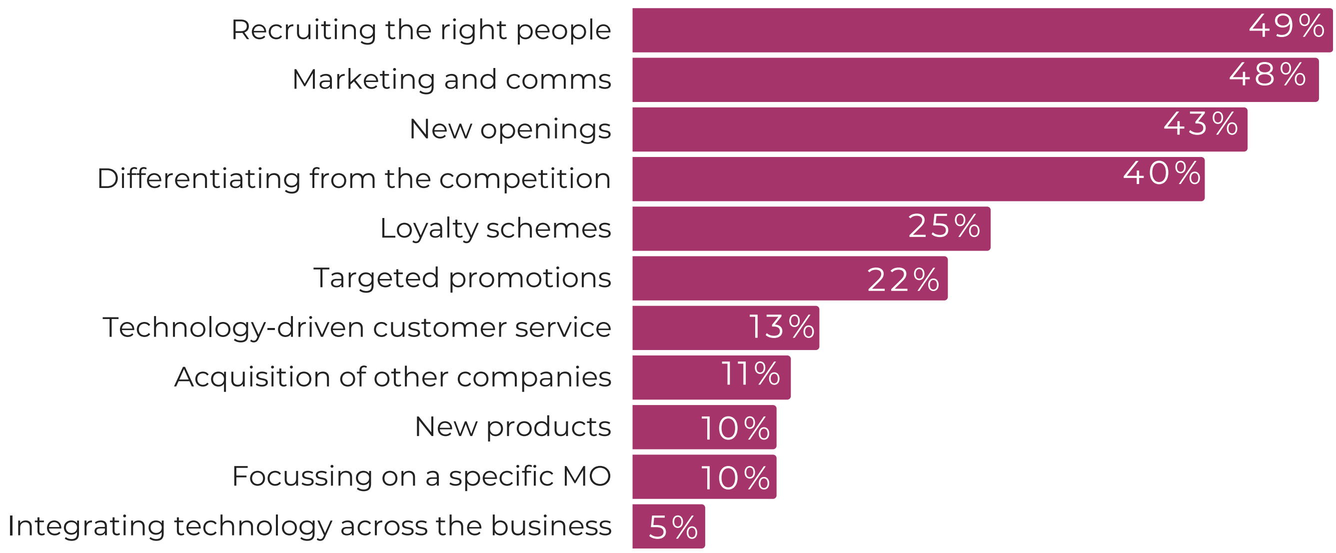
PEOPLE NEED TO BE BRAVE IN OPENING UP THE BARRIERS TO ALLOW FOR WIDER REPRESENTATION IN OUR INDUSTRY

NATASHA WATERFIELD
CHIEF EXECUTIVE, BIG FANG COLLECTIVE
SITES 6 / STAFF 240

“We are seeing a change in customers wanting the whole experience,” says Waterfield. “Customers want everything from a venue music, atmosphere, food, drink and entertainment. There is a rise in customers purchasing packages where they know what they are spending for their whole evening and what they get from it. Due to our demographic customers are looking to Tiktok to learn about our venues so we are rapidly having to strategize this channel. Thursdays are also creeping back up, which shows that after-work demand may increase as the year goes on. I feel excited by the next 12 months. I think customers are enjoying going out and enjoying themselves, while the teams are able to show true hospitality spirit and drive.” When it comes to diversity and inclusivity in the sector, Waterfield calls for “more action and less talking”. She says: “There needs to be understanding that not everyone is or feels the same. We need a number of network groups. We need to shout out and normalise diversity across our industry through more representation. There is a lot of talk but we do not represent our diversity across all touch points. There is a huge piece around education, because so many people feel uncomfortable even talking about diversity for fear of saying the wrong thing. People need to have the education and confidence and be brave in opening up the barriers to allow for wider representation in our industry.”

OPPORTUNITIES

The biggest opportunities to drive growth for their business over the next 12 months are...



“We remain active in the market should the right opportunities become available,” was a well-used phrase by respondents when it came to looking at growing their businesses over the coming 12 months. Many remain keen to expand, but a lack of the right sites on the market, and the need for capital to be invested elsewhere is holding people back. Others are taking a wait-and-see position, aware that with energy support dropping in the coming months and a quarterly rent call due, further opportunities may present themselves as Q2 progresses. Openings are currently being driven by QSR brands, international concepts, franchising and drive-thru operators - and quite often businesses that straddle all of those categories. With debt markets currently shut to consumer-facing businesses, mergers and acquisitions remains mostly off the table, although it is expected to return nearer the back end of the year. It is no surprise that looking at internal improvements or greater focus on “sweating existing assets”, have dominated responses to how businesses are seeking to drive growth for their business over the next 12 months. That starts with recruiting the right people, and although, as many respondents pointed out, staffing is easier than last summer, which remains challenging. One respondent points out: “A lot of the big brands have switched to hiring under-18s and this has made the labour pool slightly deeper.” It is hoped that as the post-covid labour market settles and campaigns such as Hospitality Rising gain further traction, the challenge of recruitment starts to ease further. Despite the upheaval of the past few years, innovation across the sector has continued, and arguably, increased. As demand experiences has grown, the need to differentiate has never been so important, whether that is a move toward premiumisation or experiential, both of which will continue to provide opportunities for businesses across the whole sector.

“WE'VE INVESTED HEAVILY IN RECRUITMENT OVER THE PAST THREE YEARS SO OUR VACANCY RATES ARE STILL LOW

PHILIP THORLEY
DIRECTOR, THORLEY TAVERNS
SITES 18 / STAFF 350

“Cash in the tills is not an issue for us, as we feared last year,” declared Thorley. “People seem to have money and we’re trading nicely. The question is, with inflation and utility bills doubling, how profitable are we going to be? We feel we need to invest our way out of a crisis. Not with major refits but sparkles, inside and out. People can see the difference, they appreciate the care and attention we’re giving to our pubs, and we’re winning customers thanks to the efforts we’ve made. We’ve been painting, putting in modern lighting, improving signage, working on our gardens. We’ve brought back real fires, changed colour schemes, switched curtains to blinds and upgraded our televisions for the World Cup, which has worked well for us.” Attention has also been paid to getting the drinks range right for each pub, and focusing on fresh, local ingredients at Thorley’s seven food houses. “There are pressures on GPs and we’ve had to absorb some costs,” he admits. “But we’ve made sure we continue to deliver quality. When people come out they want value for money and great service – and they’re happy to pay for that. But I do feel hospitality has a special case for a discount on VAT and help with utilities – the market has softened but we’re still paying double what we were last year and we have 350 staff to look after.”

“

TECHNOLOGY NEEDS TO ADD VALUE. INTEGRATE EFFECTIVELY AND STREAMLINE PROCESSES, NOT ADD ADMINISTRATION.

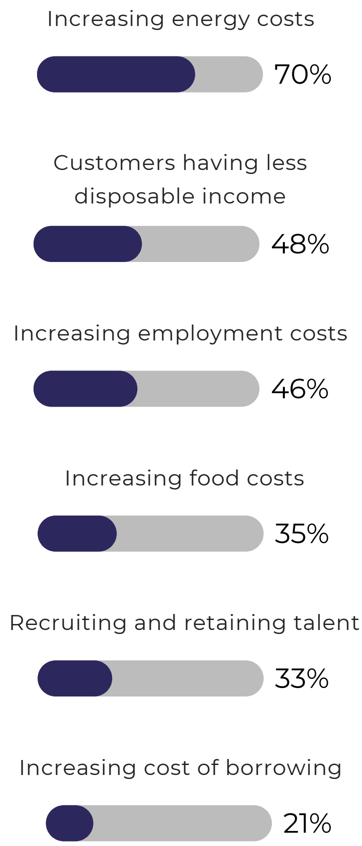
JAMES HACON
GLOBAL CHIEF MARKETING OFFICER
MAPAL GROUP

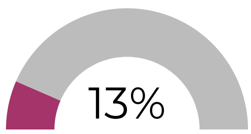
James Hacon says: “As a hospitality technology business, at first glance seeing technology adoption at the bottom of the list felt a little disconcerting firstly, but then secondly confusing, as we have seen unprecedented levels of opportunity within the market across much of our technology portfolio. Unwrapping it, in the context of growth, we recognise that during the pandemic we saw the industry deal with unprecedented consumer demand and requirement for customer-facing technologies. Much of this technology implementation was short-sighted and reactive, without proper attention to the overall placement within the customer journey. We’ve seen a trend of brands rolling back on some of these rash implementations, some re-contracting after more carefully considering how digital and technology works into their models, while others are removing without replacement, with declining usage of pay at table type applications, particularly in more traditional, full-service environments. We’ve seen demand for ‘invisible’ technology grow, solving issues many of the other highlighted issues from using our workforce management optimisation engine to reduce employment costs, to leveraging Flow Learning and Engagement to overcome the talent retention challenge. Technology will play an integral part of any successful hospitality business, the challenge will be to ensure it adds real value. Integrate effectively and streamline processes, not add administration.”

FUTURE CHALLENGES

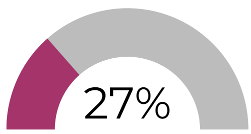
While still dealing with the volatile cost environment and wary about consumers' disposable income levels, many respondents also highlighted a continuing challenge to adapt to the post-covid landscape, especially hybrid working and its impact on trading patterns. One respondent says: "Having sites in city centres, the impact of the workers travelling to their desks on Tuesday, Wednesday and Thursday only is really having an impact on sales and performances of our sites. Mondays can sometimes feel like a ghost town and many restaurants are deciding not to even open on that day. Pre-covid, Fridays would have the busiest week-day lunch and after-work drinks but now Wednesdays and Thursdays both trade above Fridays. With a narrowing of key trading sessions, it means these opportunities now need to be reviewed. Do we push hard on staffing levels to maximise profit but then run the risk of inconsistent service impacting the guest and the team. It's very much a balancing act. And if this hybrid home and office situation continues then business rates need to be reviewed - at the moment there is definitely a premium on city centre locations." Another says: "I think the needle has shifted permanently on getting people back to the office full time. Possibly to the detriment of city centre businesses but the benefit of suburban operators."

The biggest threats to growth for their business over the next 12 months are...





Of hospitality businesses are predicted to close in 2023



Say that it's 'likely' that they will have to lose some sites in 2023

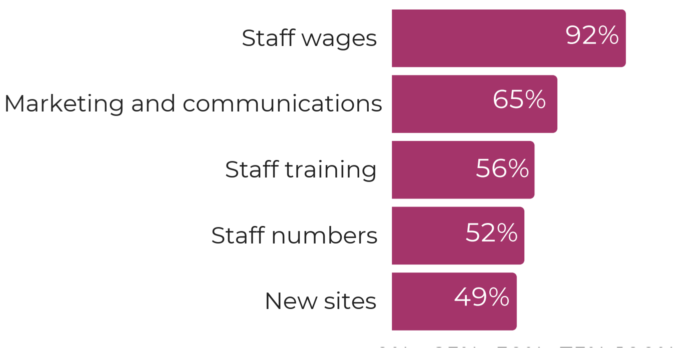
“ INFLATION HAS STARTED TO SLOW DOWN BUT BEEF REMAINS A LOSS LEADER AS IT IS SO EXPENSIVE

MATT SNELL
CHIEF EXECUTIVE OF GUSTO ITALIAN
SITES 14 / STAFF 650

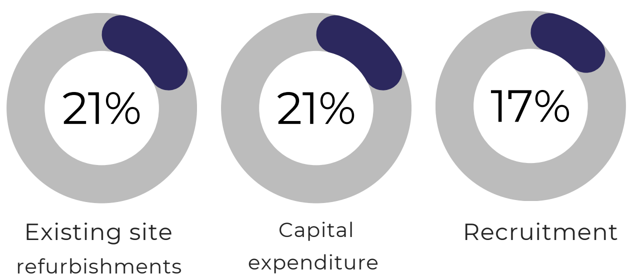
Snell says: “Energy is up over 100% and although gas is coming down (we signed a flexible contract), electricity has not moved and, like most operators, we have moved our kitchen kit to electric as it was low usage.” He described food inflation as being “a disaster zone” over the last 12 months “with an almost 20% increase”. He says: “Inflation has started to slow down but beef remains a loss leader as it is so expensive. All poultry, including duck, is very expensive because of avian flu and it is now clear that there will be a massive increase in the price of pork.” Snell says that labour costs have increased by almost 20% over the last three years, “not helped by the National Minimum Wage going up by 10% rather than the normal 5%”. When it comes to staffing, recruiting for back-of-house roles had been challenging for the business with it “closing multiple businesses on certain days last summer due to lack of chefs”. Snell says: “We have now addressed this more than 30 chefs arriving over here through the immigration licence scheme over here from India. However, it has cost £150,000 to get them here. In terms of front-of-house we don't really struggle as tips remain a very big draw.” And the biggest current threat to growth? “Consumers becoming fatigued by the level of price inflation the industry is having to apply. Sales have been very strong thus far - will this continue?” Snell says.

COST SAVINGS / INVESTMENTS

Top 5 areas in which businesses will be investing more in 2023 are...



Top 3 areas in which businesses will be saving cost in 2023 are...



Rekom chairman Peter Marks was very succinct in identifying the key threat to sector growth - “funding”. The ability to find further cost savings is severely restrained. “There is not much more meat we can cut from the bone,” one respondent states. For many there is invidious choice over whether they afford to reinvest in their estates balanced against the impact that will have on consumer experience, when consumer expectations have never been higher. On the difficult choices facing many in the sector, one respondent says: “Can we afford to cut back or delay investment in our sites and in training? No, not if we want to lose trade. We have to find savings elsewhere, but in this cost environment where is that? The churn of staff is still there, the need to pay more remains constant.” While many are still looking to the government for help, others are wary of continually asking for help. One says: “There is a recognition that the government handouts seen during the pandemic is now over, instead, the sector would like a reduction in unnecessary tax burden and interference.”

"

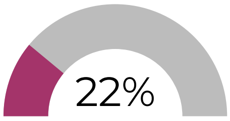
WE'VE INVESTED HEAVILY IN RECRUITMENT OVER THE PAST THREE YEARS SO OUR VACANCY RATES ARE STILL LOW

YISHAY MALKOV
CHIEF EXECUTIVE OF VARIOUS EATERIES
SITES 15 / STAFF 1000

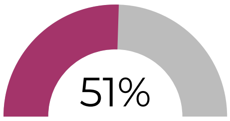
Operators have argued that this a unique time of uncertainty. “The lack of clear visibility has been the biggest factor for us,” says Malkov, when asked about the biggest challenge of the past 12 months. He added: “It has impaired our ability to hang our hats on any single strategy and has forced us into a much more measured, diversified approach. When it comes to staffing issues, he said it was “very challenging especially outside big city centres”. He adds: “Saying that, we've invested heavily in recruitment over the past three years so our vacancy rates are still low. Direct recruitment and more resources for the recruitment team is a must. Job boards and open days are less effective than pre-pandemic - you need to come to them and not just wait for them to come to you. Labour is still the biggest cost to doing business.” Malkov says there remains a number of factors that make it hard to gain the visibility needed to plan for growth. He says: “Macro-economic and global pressures and consumer confidence are the biggest threats to growth. The lack of clear visibility generally, continued war in Ukraine, inflation and fear of recession, high interest rates, public sector strikes, high retail energy prices and many more factors all contribute to the depressed consumer confidence, which in turn makes direction of growth difficult to pin down.”

DIVERSITY & INCLUSIVITY

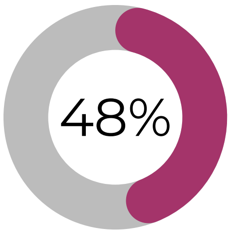
The feedback from respondents and the results the survey has generated suggest momentum when it comes to issues surrounding diversity and inclusivity in the sector, but more progress needs to be made. Will Beckett, co-founder at Hawksmoor, says: “I think there's work to do to genuinely reflect the communities and societies we live in, and to feel sure that gender, marital status, race, nationality, sexual orientation, age, religion or belief, health condition, disability or indeed anything else are no impediment to feeling you belong or to you fulfilling your potential at work. That said, it's never been further to the front of some people's minds, and it behoves us all to think carefully about the extent to which we are helping or hindering in this area. None of us are perfect, all of us could no doubt improve, and to me that feels like the key - be a little better tomorrow than we are today, and challenge ourselves to make changes a little more quickly than we are. I think that summarises where Hawksmoor is. We take the issue seriously, work hard at it, see the benefits to the business (quite aside from the moral case), but know there is work to do and are trying to be better, quicker.”



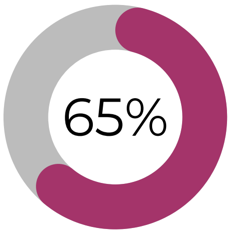
Of hospitality businesses have KPIs in their business specifically around diversity and inclusion. 33% don’t but are planning to do in 2023.



Of hospitality businesses have training and support specifically related to diversity and inclusion. 22% don’t but are planning to do in 2023.



Feel that the UK hospitality industry as a whole are doing a good job on tackling the issues around diversity and inclusion.



Feel that their business is doing a good job on tackling the issues around diversity and inclusion

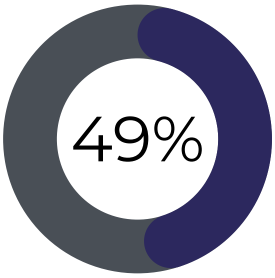
“

AS A COLLECTIVE WE FOUND STRENGTH IN EACH OTHER AND WHAT LINKED US WAS OUR LOVE TO COOK AND FEED OTHERS

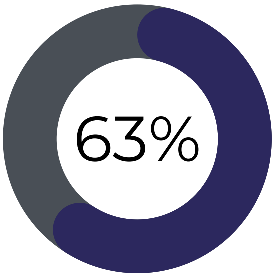
ASMA KHAN
CHEF, AUTHOR & FOUNDER OF DARJEELING EXPRESS
SITES 1 / STAFF 26

On diversity and inclusivity, Khan, the Indian-born British chef, says: “’One size fits all' does not apply to hospitality. For someone like me coming from a non-hospitality background - the industry can come across as very closed and unfriendly to single female founders of various nationalities and ethnic backgrounds. Today, Darjeeling Express is one of the few all-female kitchens in the world. When it comes to Indian cuisines, we are truly unique. In Indian restaurants in the East or West men dominate. The journey from my home kitchen to a 96-cover restaurant in Soho has not been smooth but has definitely been exhilarating. The one thing that has been my constant companion is loneliness. Without having the network within the industry, I began as an outsider and I remain an outsider. The story of how we began - from a supperclub to a pop-up and finally a restaurant is not the route that many women took in 2012. What could have been seen as a disadvantage - as none of us were professional chefs, turned out to be our greatest strength. Our offering was immediately seen as different. We had women from very diverse life experiences, grandmothers, nannies, and women who came from great deprivation. As a collective we found strength in each other and what linked us was our love to cook and feed others. This is still our greatest strength. We still have the same women cooking in our restaurant today who cooked with me in my home at the beginning of my food journey.”

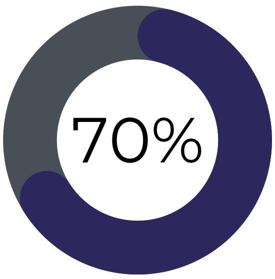
FUTURE PREDICTIONS



Predict their footfall will increase in 2023. With an average projected increase of 12%



Predict their spend per head will increase in 2023. With an average projected increase of 2%



Predict their like-for-like sales will increase in 2023. With an average projected increase of 10%

“We keep looking at that cliff edge” was how one respondent put the past 12 months, “and we may have to look at it for a bit longer”. With the end of the First Quarter seeing support on energy ending, National Minimum Wage rises, and other government support tailing off, that view may not be the greatest in the short term.

However, the sector has repeated shown its ability to absorb rising costs and work around staffing issues. Looking beyond the short-term landscape, many hope there will be a return of investment into the sector in form of renewed M&A, although forecast this may not happen until later in the year. All want an uninterrupted period of trading, helped by an end to train and tube strikes.

Many hope that the consumer will continue to prioritize eating and drinking-out, and expect growth to come predominantly in the QSR, franchise and experiential/competitive socialising categories. They also further opportunities to grow their estates as larger businesses continue to assess and consolidate their portfolios. Richard Ferrier, managing director of Brasserie Bar Co. says: "The industry is likely to be polarised in a way we have not seen previously. The well capitalised businesses will benefit from ever greater opportunities to expand their estates.

Other groups will be stressed by energy challenges, rising labour costs and covid debt. The chancellor provided little respite for these businesses in the latest Budget meaning a two-paced year lies ahead for the sector."

SUMMARY

1. The cost of energy and the ability to mitigate rising fuel bills is THE key issue currently facing many across the sector. Examples of energy costs rising by up to 600% in one case highlights the scale of the threat that some operators are still facing and will be battling with over the coming months.

2. Staffing is a perennial issue, but over the last few years, whether impacted by Brexit or covid, operators have had to work even harder to recruit and retain staff. Operators are continuing to explore what levers work to bring new generations into the sector, and to tempt back those that left it during the pandemic.

3. There was always going to be a decline in delivery sales as we came of the pandemic and consumers returned to eating and drinking out. Respondents suggest volume growth returning for now and demand for dine-in remains strong, albeit with shifting patterns of consumption.

4. Despite the well-documented challenges still facing the sector, operators are optimistic about the 12 months ahead, and believe there will be opportunities to grow their businesses and market share as the year progresses.

5. There is an unparalleled need for adaptability across multiple disciplines, whether that is constantly revisiting supply chain issues, pricing or the impact of wider challenges - such as train strikes. The sector is getting used to operating through an extended period of insecurity and instability, and in many senses this will continue.

CLOSING STATEMENT

While first glance of this report might seem pessimistic, with rightful concern around the impact of these political and economic issues on consumer confidence and our uncertain cost base, a deeper dive into the case studies and conversations with business leaders today reveals that there is a lot of hope and positivity. As with any period of instability and economic downturn there will be winners and losers, what we seem to be seeing is an even widening divergence of consumer behaviour between brands that focus heavily on value, with more regular visits and those that are focusing on experience for special occasions, resulting in the biggest problem being for those that sit in the rift in the middle.

Here at MAPAL Group we have a unique view of the wider global market, with our technologies powering tens of thousands of sites across Europe, the Middle East and LATAM. Interestingly, many of the issues we are seeing coming out of the report are mirrored elsewhere in the world, particularly across Europe, albeit the political response to some areas, like energy relief, makes it easier for some other nations. When it comes to the question of talent attraction and retention however, it seems that the greatest impact has come through a fundamental societal shift in how people balance their work and personal lives. The clear difference in the UK is the added pressure of Brexit and current immigration policy, which remains a political minefield and one where slow progress in being made.

There does need to be a constant push towards flying the flag for our wider industry, not just politically, but socially too, encouraging positivity to spread with the ambition to drive more people into considering a career or to work in our sector. We commend the work of the Hospitality Rising Campaign over the past year as well as charities in our sector that we are proud to support, Only A Pavement Away and Springboard, who are all working to drive this message and help create platforms that build confidence and make our sector more accessible to a wider spectrum of society. This message does need to be driven from within our companies day-in-day out however, increasingly from our base of influence to many hundreds of thousands of professionals in our sector through Flow Learning we are encouraging companies to take an approach of championing hospitality first, then their business second and focusing on converting the huge number of transient workers and students that have a stop gap in our industry that there is a long-term opportunity to stay, be successful, happy and fulfilled.

Over the next few months and probably, years, we will continue to be tested as a sector and will need to constantly adapt to changes in the external landscape, changing consumer expectations and growing competition as the best bounce back and the closures in the market make way for newer, entrepreneurial brands to enter and take market share. Challenge always bring opportunity, and this time is no different, here at MAPAL Group we are excited to see where this creativity and perseverance will take our sector next.

James Hacon
Global Chief Marketing Officer, MAPAL Group

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