CORPORATE TRANSFORMATION SERVICES

# THE RESTAURANT INDUSTRY'S BALANCING ACT IN 2023: FINDING GROWTH IN A PERFECT STORM

## Introduction

While it has overcome numerous difficulties in the past decade, the restaurant industry requires careful navigation through unchartered territory in 2023. Obvious hurdles include rising interest rates, the cost-of-living crisis, staffing shortages, country-specific industrial action, increasing energy costs, and of course global inflation. So, what can business leaders do to manage this?

The industry ended 2022 in a tough position. The UK saw a 64% increase in restaurant closures in the 12 months to May last year, and a 56% rise in insolvencies over the same period[1]. Governmental support such as VAT reductions across Europe and the 'Eat Out to Help Out' scheme in the UK gave short-term lifelines but no substantial solutions.

Meanwhile, the inflation rate for restaurants across the European Union was 9.6%, the highest figure reported since 2017[2]. This comes after 42,500 restaurants were reported to have permanently closed in eight euro-zone countries between June and August of 2020[3].

The varying restrictions on customer interactions caused by the pandemic saw delivery platforms take advantage of this opportunity, seeing unprecedented growth as restaurants sought new channels to reach their audience. This further disrupted the market allowing for some restaurants to stay solvent, or even grow top line revenue, but at a big cost of margin. The delivery market is now an established distribution channel for the industry, despite the decline in penetration from 2021 levels in Europe[4] (see figure 1).

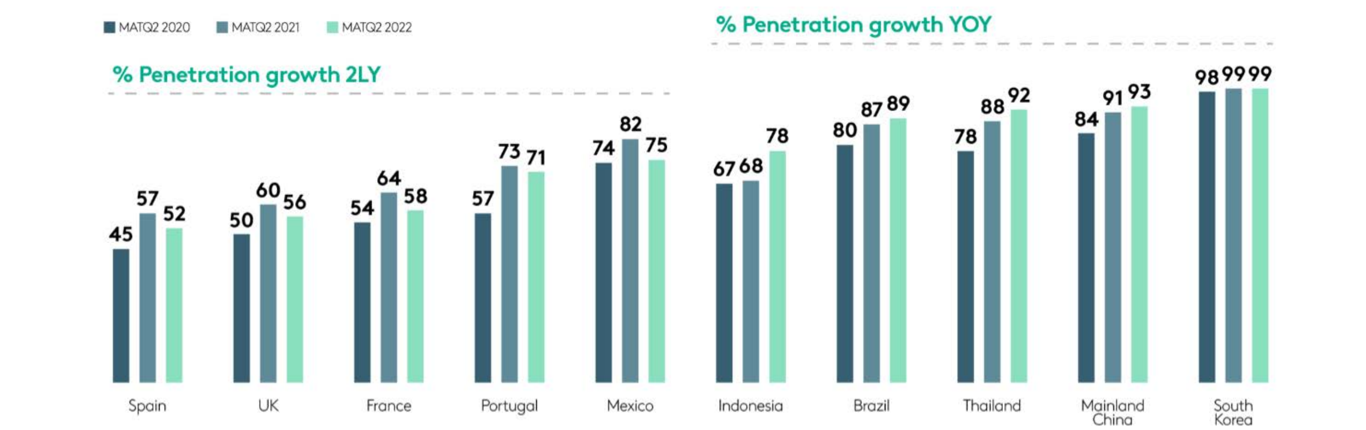


**Figure 1:** Penetration Meal Delivery Growth YoY 2020 – 2022 (Source: Kantar 2022)

1 UK restaurant insolvencies jump by more than 60% in year, data shows | Hospitality industry | The Guardian

2 EU-27: inflation rate of restaurants 2022 | Statista

3 Over 42,500 Restaurants Have Permanently Closed Due to COVID (chd-expert.com)

4 Restaurants rebound while food delivery becomes a post-pandemic norm (kantar.com)

In mid-2022 the UK restaurant investor Luke Johnson stated that the industry was in for “two years of hell” and that the cost-of-living crisis, rampant inflation, brands falling into arrears with HMRC, landlords, and CBILS loans were creating a “perfect storm” in the UK[5]. The UK is not alone in these pressures, with the war on Ukraine causing surges in the price of food and energy, in addition to labour shortages and supply chain issues across Europe resulting in a loss of sales for restaurants in many countries.

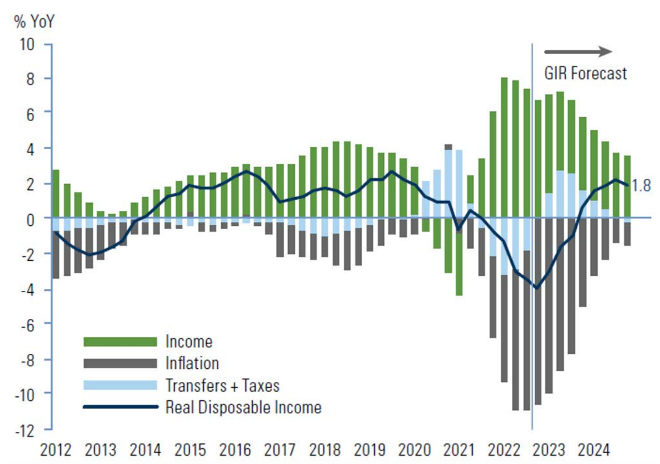


**Figure 2:** Eurozone household real disposable income historical and forecast to end of 2024.
(Source: Investment Strategy Group, Goldman Sachs Global Investment Research)

## Challenges to come in 2023

### The cost-of-living crisis

is being felt in many countries, reducing customers’ disposable income and driving down repeat visits; with 53% of customers stating they will be decreasing spending into 2023. Restaurant spending fell by as much as 12% YoY by the end of 2022[6].

### General inflation

in the UK is estimated to fall from 10.9% in Q4 2022 but remain high at 5.2% in Q4 of 2023[7]. In Europe, there is a forecast it will decrease from 9.2% to 3.25% across the same period[8]. While an improvement on last year, inflationary pressures will still impact the cost of goods and services to a degree, posing restaurants with a decision of whether to pass this on to the customer via price rises.

### Energy costs

will likely require further government intervention to support or will result in continued dramatic impact on restaurants’ income statement. In London, restaurants are among those facing the prospect of a rise of nearly £4,500 in annual energy bills once government support is withdrawn[9].

### Staffing shortages and wage inflation

will continue to be impacted as other industries will be able to pay higher wages, luring talent away from the restaurant industry.

### Rising base rates

have increased interest costs significantly. Operators facing a maturity date (or trying to agree an amendment) are likely to find that refinancing takes significantly more management bandwidth with much less certainty on the outcome.

### Industrial action

is prevalent in many European countries across a variety of linked sectors such as aviation, rail and fuel, resulting in disruption of trade in many cities. This is expected to continue into 2023, with several scheduled across sectors in various EU countries for the first few months[10].

5 Serial restaurant investor Luke Johnson: ‘Batten down the hatches and pray!’ (foodserviceequipmentjournal.com)
6 Spending slows in September due to cost-of-living concerns | Barclaycard (home.barclaycard)
7 Monetary Policy Report - November 2022 | Bank of England
8 Goldman Sachs no longer expects recession in euro zone in 2023 | Reuters
9 Annual energy bills to jump by £4,492 for London pubs and restaurants once Government support ends | Evening Standard
10 France, Italy and the UK: A full list of the travel strikes planned in January and February | Euronews

## Potential solutions and opportunities

Despite negative forces that are likely to continue to occur during 2023, there are levers that can positively impact business operations such as:

### Revenue protection

- Control and manage no-shows with deposits and interactive automated booking systems
- Focus on customer retention by concentrating on existing customers first before seeking potential new buyers

### Execution and implementation

- Focus on minimised menus focused on quality over quantity
- Ensure simple and tight processes and controls that are clear to all staff from restaurant team members to the board room
- Hands-on focus to training and development of new staff

### Product innovation and stabilisation

- Premiumisation and theatre vs extensive choice or replicable offerings
- Partnerships and dual-brand offerings promoting choice and extending day-part trading

### Cash is reality

Focus on simple and transparent cashflow forecasts on a weekly basis

- Talk with suppliers on payment terms to manage working capital
- Protect capital reserves
- Utilise government support

### Rightsizing

Account for all environment changes to ensure the balance between site staff, management and head office is correct, as the shift to an execution-led approach is adopted

### Digital and technology

- Optimise all the omni-channels available to drive revenue with a grip on margin
- Technology integration between systems vs incompatible isolation software
- Map customer experience to fully utilise technology at all interactions

### Restructuring

- Consider consensual options to realign the fixed cost base, address onerous leases or refinance unsustainable debt structures

**The progression through these challenges** is likely to be slow during 2023 with the optimistic grass shoots appearing in the second half of the year. But with continued uncertainties, **the winners will be those who have a clear focus on implementation and consistent execution, developing stable foundations to best utilise the growth phase of the future.**

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For a conversation about the challenges mentioned in this article and how A&M could help please contact **James Halsall, Ed Bignold or Erin Brookes**.

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