

Quarterly Briefing Report

A quarterly digest of the state of the foodservice market and wider economic outlook. It looks at issues affecting the market and consumers such as inflation, unemployment and earnings alongside market data on sales by sector.

Product Outline

- Sample issues covered:
 - Review of previous quarter:
 - Foodservice sector
 - Consumers and the wider UK economy (employment, earnings, expenditure & debt, housing and mortgages)
 - Inflation
 - Sector analysis (tourism, QSR, restaurants, pubs, hotels and leisure, institutional sector)
 - Companies involved in foodservice
 - Supply
 - Europe and USA
 - Forecasts for the next 2 quarters (overall outlook, foodservice sector)

Frequently asked questions which the Quarterly Briefing Report is designed to answer:

- What is going on right now?
- How are specific companies doing?
- What will the market landscape look like over the next two quarters?
- What are the market drivers - and blockers - right now?

Who subscribes to the Quarterly Briefing Report?

- CEOs, Managing Directors
- Sales / Marketing Directors
- National Account Managers
- Insight Managers
- Investors

Release schedule

The Quarterly Briefing Report is released in January, April, July and October each year.

Further information

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Performance in Q2 09

Changes in Food & Beverage Sales and Purchases

The rate of decline slowed somewhat in Q2 and Q3. The upward shift (about 20% negative) was of note for those UK foodservice operators who spent their holidays in the UK. The weather, which was better than a year ago, also helped. But the upturn in meals was not accompanied by falling inflation which displayed much of the increasing impact later. We comment on this in the next issue in The Story of the Quarter.

July

- The weather was slightly better than the previous year and some food started to slow down.
- Britons were buying fewer foreign holidays compared with 2008 meaning that hotels, motor clubs and pubs in some traditional holiday areas in the UK were having good levels of business.
- But consumer concerns were rising and operators cramped up their offers.

August

- Britons continued to spend their holidays in the UK - but they were spending less on accommodation, more to have a meal, on getting out and the increased numbers staying in this country did not always translate into increased sales.
- Visitors from overseas were disappointing and stayed away from the UK because their own Festivals were in a poor state despite the growing power of the £ and some for eastern currencies.
- The weather generally was better than in 2008.

September

- More people lost their jobs - almost 2.5 million were out of work by the end of September. And the media were full of stories of redundancies fueling consumer uncertainty.
- Eating out was beginning to stabilize but changeable weather - cold in the first week, floods in Yorkshire and Derbyshire in the second week - were in week 3.

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Margin Squeeze

After the food price, the good news is that prices of basic and cooking oils have fallen about 10%.

The message for operators appears to be that it is important to keep an eye on your product mix - and if you are going to purchase a product make sure inflation is working for you and not against you.

A major reason for the falling food inflation figure is that the large rise of a year ago - this September's foodservice food and beverage inflation rate of 1.7% compares with last year's September figure of 13.2%.

- And the differential between the foodservice and retail shopping baskets has been falling. In March 2009 the retail basket was 1.7% cheaper for September the figure was 0.7.
- Despite all these positive signs though the fact remains that your prices are now significantly higher than they were when the downturn started.

Forecasts for the next two quarters

The optimism of the summer is waning. Unemployment continues to rise, costs are falling and the net margin wedge is starting to take effect. The foodservice sector is beginning to stabilize but any significant growth will come very slowly. In the meantime operators will have to be recruited to trading at lower levels than a year ago.

The Overall Outlook

- The UK economy may have stabilized in Q2 but for the year as a whole most sectors showed a fall in GDP of over 40%. This has led to a sharp fall in output, consumer spending and other key drivers of the economy in the first half of the year.
- Although economic output still remains well below capacity, there are several positive growth influences including an end to deflation, the effect of the Bank of England's policy stimulus, and the effect of the devaluation of the £ (against the \$).
- On the negative side though, output remains light, skill levels are high, concerns about job security, and it is uncertain how the economy will respond to higher import prices.

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Meal Deals

- Some noteworthy detailed points include:
 - Cafe Claudio had an offer for the first time in September
 - Offers have been pulled for Starbucks, Tropic, La Vie, Henrys, Baronski, Exchange Bar & Grill, Fire & Stone
- The number of deals available on the web started to fall in the summer. But this was not a sign of reduced activity. Instead it reflected two things:
 - The first was extensive rationalisation from the frantic activity that grew in the first two quarters of 2009; operators did not want to be left behind and fell that they had to emulate their competitors.
 - There came a realisation that offers were not conforming to the consumer's needs. High levels of custom were becoming operators' ability to cope (especially given their reduced staff levels). And the impact of menu offers on margins was becoming considerable.
 - Consequently operators rationalised their offers and started to focus on those that allowed some control over margins - hence the shift from "buyers off" offers to meal deals.
 - The second factor was that operators were able to offer a "value" menu on a day-to-day basis - rather than the much smaller web-delivered discounts that consumers were downloading in industrial quantities.

Numbers of Meal Deals available from selected websites

Source: Horizons

portions to on table wine offers. These allow operators to control offers at a "value" level on a day-to-day basis - rather than the much smaller web-delivered discounts that consumers were downloading in industrial quantities.

Consumers and the wider UK economy

Do investors spend all their income in the cinema?

The Oxford Picture Index - which measures average cinema sales in each Britain cinema - has tracked the FTSE 100 Index closely all year. The Picture Index grew 2.1% between end February and end July 2009.

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