Facing Up to Supply Chain Fragility

Delivering solutions to rising costs and supply chain disruption in hospitality

Fourth

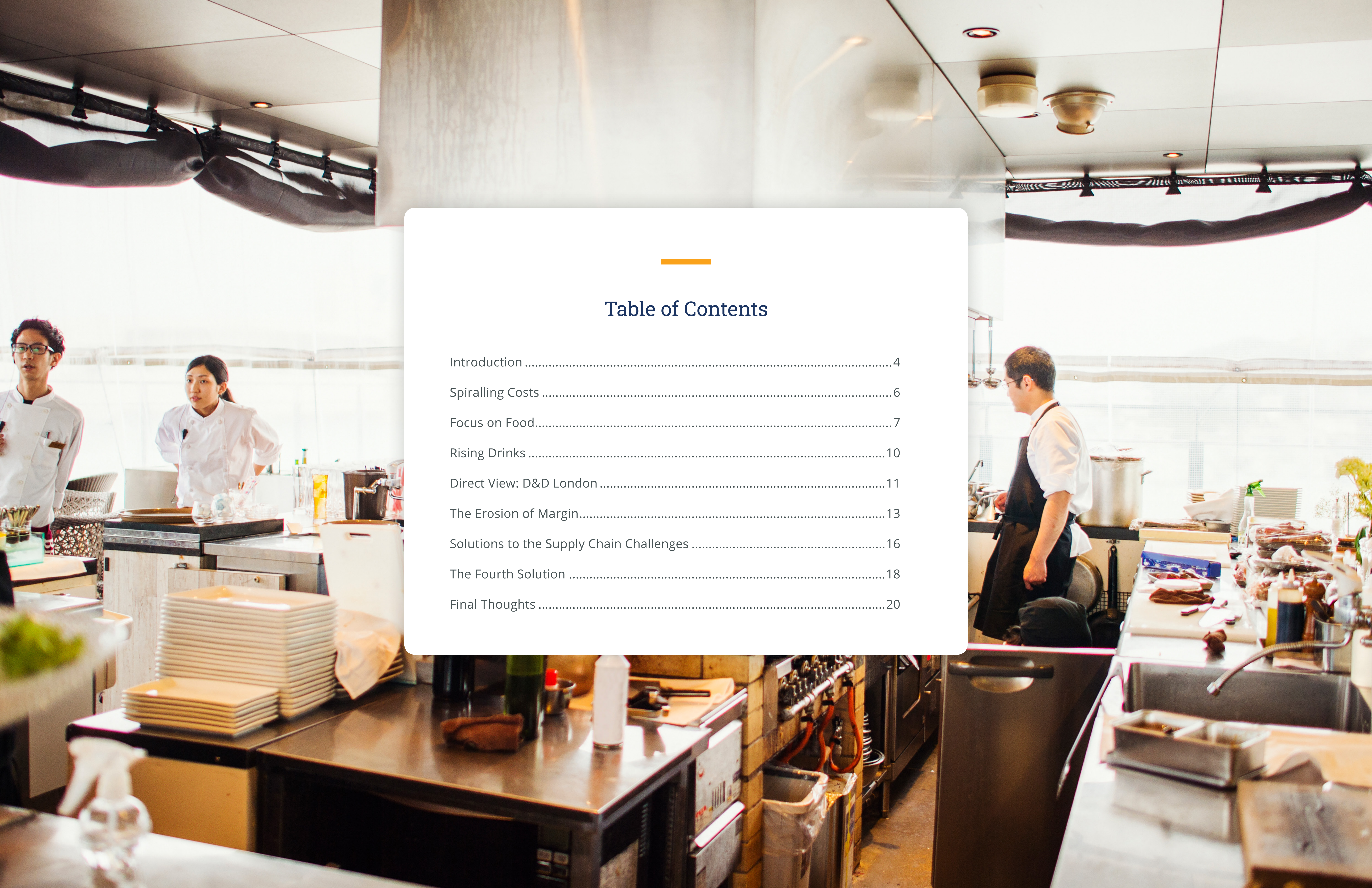


Table of Contents

Introduction

Barely a day passes without national or industry news honing-in on the issue of spiralling costs and the impact this is having on us all.

The hospitality industry is feeling this more than most. After enduring the shock of enforced closures, followed by the stop-start nature of trading during the pandemic, it now has another major challenge to confront in the form of supply chain disruption.

The reasons behind this are manifold, and the complexities such that most operators have never seen anything like this before.

Factors include the surge in utility and fuel prices, UK inflation at its highest since the 1980s, labour shortages and the consequential wage increases across the supply chain, import cost increases and the lack of availability of products due to a shortage of shipping and flights, the war in Ukraine, and suppliers being unable to source goods or even trade at all.

The list goes on and it has created an almost unimaginable perfect storm.

Food prices have been hit the hardest but drinks and other goods are far from immune. It is not a pretty picture and it may well get worse before it gets better.

With reference to data drawn from our customers and insight from operators, this report paints a vivid picture of what the industry is facing.

But beyond that it also looks at what can be done to find solutions to this unprecedented situation.

For if we have learned anything about the hospitality industry over the last few years, it is that it is resilient and nimble to adapt to change.

Things will get better, and we hope this report can help you navigate the latest challenges.

Sebastien Sepierre
Managing Director – EMEA
Fourth

Methodology

To compile this report, we closely analysed data from pub and restaurant companies with more than 1,000 sites between them. We followed this up with more comprehensive interviews with business leaders.

"These stark figures highlight the extent of the damage that rising costs are having on the hospitality and leisure market, engulfing and suffocating businesses and consumers alike.

"After more than two years of unprecedented challenges due to Covid, cost inflation now poses a massive threat to our industry and the wider economy. The impacts of rising costs are being felt across every facet of running a hospitality business, including on jobs and recruitment, economic stability, business viability, consumer confidence and willingness to spend. It's absolutely crucial that the sector receives as much support it can get – without it, more and more businesses and jobs will fall away."

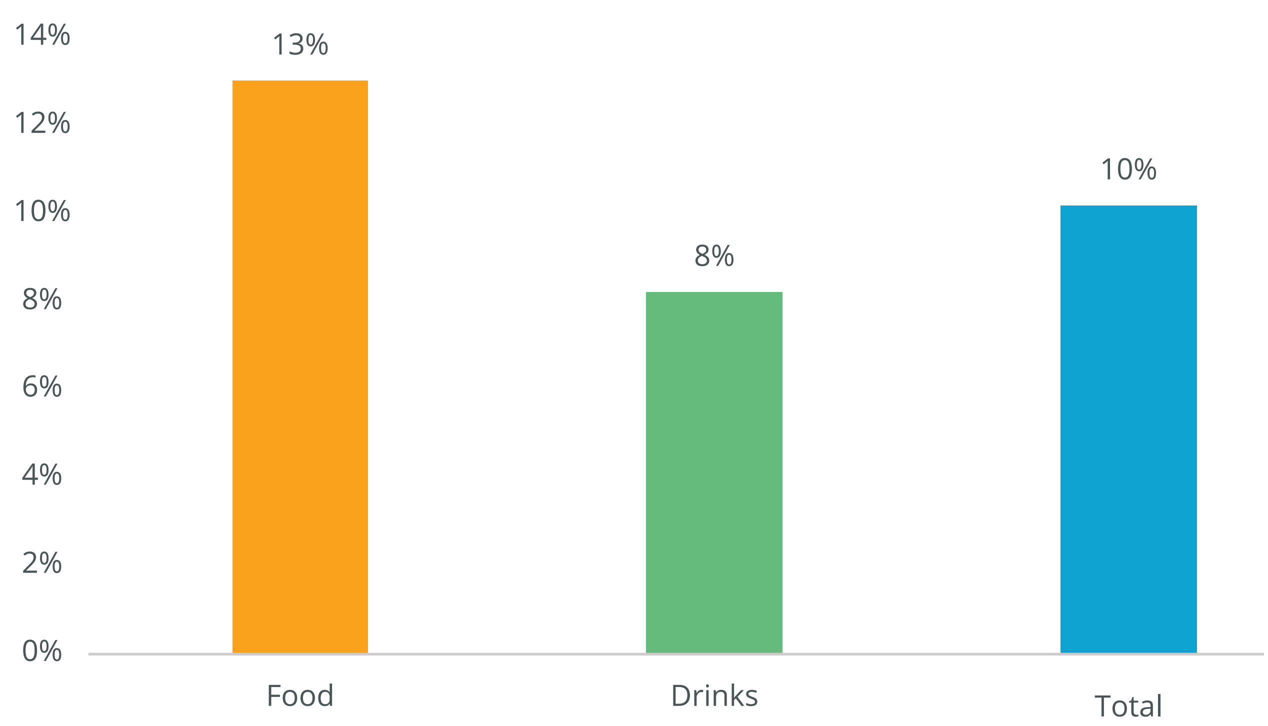
Kate Nicholls, Chief Executive of UKHospitality

Spiralling Costs

The data and the interviews all point to a number of issues that have led to the fragility of the supply chain. The reasons for pressure on the supply chain are complex, but the result is clear – higher costs for operators across the board.

This has been felt most sharply in the supply of food. While operators are paying around 8% more on drinks than they were three years ago (May 2022 vs May 2019), food has risen even more sharply, at an average of 13%. Some reported food prices increasing by as much as 40% in that period.

May 2019 vs May 2022: Increase in cost of goods



Focus on Food

While food prices are generally going up, there are categories that are being harder hit than others, most notably dairy, grain and wheat.

The days of low-priced milk could be at an end as associated costs of farming – fuel, fertilizer and feed (often in the form of grain) – could see it increase by 50%. The same applies to butter, cheese, and other hospitality staples.

Grain (up 35% since May 2019) has been impacted by similar factors. Exports of grain from Ukraine – the fourth largest global grain exporter – have been severely disrupted by the war, leading to serious spikes in prices.

Farming, feed and fuel costs have also seen meat prices soar. Experts have warned that chicken could soon become a luxury meat akin to beef.

With the price of whole chickens increasing by 12% in the last year (Office for National Statistics), companies such as London pub group Young's have gone as far as taking it off the menu.

Similarly, seafood group Rockfish has removed cod from the menus of its restaurants. Sanctions on Russian boats which supply 40% of cod to the UK, have pushed prices up.

Cost increase per category: May 2019 vs May 2022

Keeping a close eye on fluctuating food prices

Food prices will continue to be impacted by the instability within the supply chain for the foreseeable future. ***Fourth's Inventory Management Solution integrates multiple suppliers into an automated chain that enables operators to monitor prices and switch suppliers when quality and price is more competitive or when preferred supplier is unable to meet demand.***

It enables users to consistently track inventory levels to avoid over-ordering of perishable items while identifying and controlling waste that leads to loss of profit

Users can also identify the sales and profitability of menu items, allowing operators to reprice, replate and retain higher performing items.

Menus and dishes can also be engineered to cross-utilise expensive perishable items and ingredients with a shorter shelf life.

Rising Drinks

Our data set and interviews suggest that drinks prices are slightly more stable than food. The majority of operators reported an increase in single digits since May 2019.

However, with operators often tied into longer term deals on drinks, the spike could yet get steeper. Recent research by CGA unearthed an £8 pint in the capital, with the average price now around £3.95 across the UK.

The cost of ingredients (up by around 10%), wages, fuel, and inflation means that beer and other drinks may be facing more rises.

A survey of members by UKHospitality revealed that half expect to increase consumer prices by 10% in 2022.

It remains to be seen just how sustainable increasing prices on menus and at the bar really is. Consumers were recently quick to call out Costa Coffee for a second price rise within the space of six months, as reported by The Sun.

Drink Prices

£8
£8 pint in the capital

£3.95
average price of a pint £3.95

+10%
cost of ingredients up 10%

10%
expected increases to consumer prices of 10%

Direct View: D&D London

Paul O'Shaughnessy, ***Purchasing Director at D&D London***

With a collection of 45 diverse restaurants, bars, and a hotel, all needing to be stocked with fresh, specialist ingredients, any factors impacting on the supply chain are of paramount significance to D&D London.

Paul O'Shaughnessy, Purchasing Director at the group, says: "In my years of working I have never seen so many variables coming at us in different guises to make things more complex."

He said there was a 'fundamental shift' around October last year when the group's utility costs soared and the impact of fuel prices, labour shortages, hikes in supply prices from Europe, the lack of shipping availability and the increasing costs in various goods all started to hit harder.

Paul continues: “Today, beverage pricing is relatively stable. What we are seeing is food inflation ramping up each month. It is specific products – the dairy market and the meat market are being hit badly.”

Some of these costs can be passed onto the consumer but there is a point where this will be considered ‘insult pricing’.

That point has not been reached yet, he says, partly because since Covid, D&D has seen customers treat themselves to a more premium experience when they do go out.

However, they also recognise that they have to make changes to their supply chain. One way they have tackled this is by implementing Fourth’s inventory and supply chain management technology.

“We are simplifying our supply chain, making it more efficient and stripping out as much cost as we can and putting as much volume through effective mid-sized suppliers, while retaining boutique suppliers who can offer us a degree of provenance-based products.”

At the same time, the company wants to work with suppliers who share their sustainability vision.

“We are embarking on that net zero strategy,” says Paul. “We can work with our existing supply chain to make them more sustainable and if they are not willing to do that, maybe we have to look around the market.”

Paul O’Shaughnessy
Purchasing Director
D&D London

The Erosion of Margin

Rising costs naturally puts pressure on margins. Our research shows that, on average, operators are seeing a 4% fall in actual gross margin compared to May 2021. This is driven mainly by falling food margins.

4%

4% fall in actual gross margin

Gross profit (GP) on drink has remained largely stable at an average of 75% in April 2022, alost identical to 12 months prior.

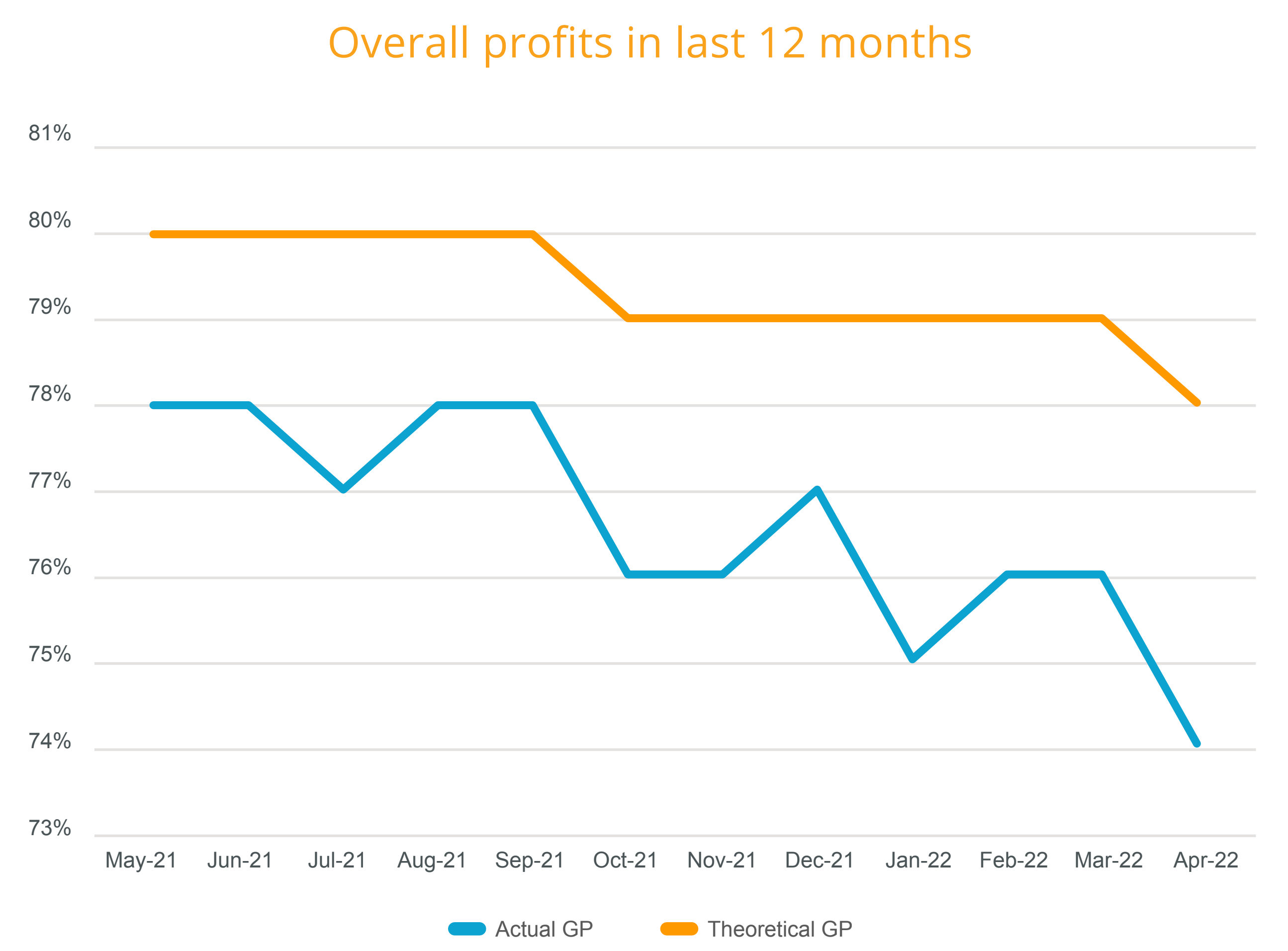
However, there is greater pressure on food where the April GP of 77% is four percentage points lower than in May 2021 (81%).

The Erosion of Margin continued

To maintain margins, operators need to look at various aspects of their business, including pricing and just how much of their increases can be reasonably passed on to consumers.

The chart below shows how overall GP has gradually declined by four percentage points over a 12-month period.

Not only has actual GP fallen, so too has theoretical GP. **The gap between the two has grown from two per cent to four per cent in 12 months.** This demonstrates how difficult it has been for operators to keep up with the actual cost of goods and how vital reliable forecasting is to their businesses.



Forecasting with Fourth

Our suggested ordering and planning functionality uses the centrally generated sales forecast to help each site order the right products in the right quantities. Sales patterns are calculated for individual stores and across entire groups to help operators become more agile and make better informed decisions. This ensures food items and ingredients are ordered and deliveries planned with greater accuracy to meet the availability in customer demand.

Customers get their order quickly because the kitchen has prepped appropriately.

Delays caused by time-consuming manual re-ordering are removed with an efficient automated process that notifies each venue when items and ingredients need replenishing. Online order forms allow orders to be created, approved and sent electronically to suppliers.

Solutions to the Supply Chain Challenges

There are no easy answers to reducing exposure to the rising cost of goods. However, examining your business practises now will help you take actions to streamline your processes and inform your supply philosophy going forward.

Raising Prices

The most obvious solution to paying more for goods is to pass this on to consumers. Doing so is inevitable and, to a degree, will be accepted by customers. However, everyone has their limit and there will be a point where customers will be either unwilling or simply unable to cover the difference.

Order Early

Getting orders of dry goods and commodities with a long shelf life, in early, operators can protect availability should items become scarce, and prices increase. Ordering early also provides suppliers more time to react and plan substitute items if required. Using tech solutions to do this makes the process more efficient.

Holding Stock

By keeping dry goods in stock you will need to order less and have fewer deliveries, which should ultimately help to keep prices down. On the flip side of this, some operators have preferred to keep less stock to free up cash.

Consolidation

It is therefore vital to closely examine your supply chain and consolidate where you can. Streamlining the products you stock and the number of suppliers you use will help keep costs down. Now is the time to focus on building relationships with suppliers you can see a long-term future with.

Looking Local

The impact of the pandemic and its continuing disruption has shone a light on the fragility of global supply chains. The pursuit of lower costs pushed production to regions with cheap labour. More businesses will be keen to work with local suppliers, which simply do not have the same vulnerabilities, that have been exposed by a dependency on the global sourcing of goods.

Sustainability

In recent times there has been increased consumer concern about climate change, and rightly so. There is renewed pressure on companies to address their carbon emissions, and focusing on making their supply chain more efficient with fewer deliverables is vital. Businesses also need to work with suppliers who share the same values as them.

The Fourth Solution

Fourth's mobile cloud-based inventory management software allows operators to control their spend and reap the rewards. Here's how.

Building a Supplier Network

Multiple suppliers are integrated into an automated supply chain providing wider choice and the flexibility to buy substitute products or use an alternative supplier when the preferred supplier is unable to meet demand.

Sales Forecasting

Detailed analysis of sales patterns across multiple sites and individual venues helps buyers plan and order ingredients with greater accuracy.

Mobile Tracking

A mobile app that allows operators to track deliveries in real-time and carry out a physical stock count to ensure inventory and stock levels are always kept up to date

Transfers and Bulk Ordering

Items can be transferred from one venue to another with costs recorded against the cost centre of the receiving store.

Recipe Engineering

With the cost of food and drink items continuously rising it is imperative to accurately price menus to manage profit. With recipe engineering, every ingredient is costed in line with the price set by supplier and automatically updated when prices fluctuate, allowing operators to monitor stock availability and potentially switch suppliers whose prices are more competitive.

Recipe Management

Businesses can reduce the time burden and costs of creating, revising, and distributing paper recipe manuals by giving teams online access to recipes, dish images, preparation guidelines, nutritional content, and pricing, accessed via kitchen display units, laptops, and other mobile devices. Allowing stores to drive dish and plating consistency across all stores while also controlling operational costs.

Final Thoughts

The fragility of the supply chain has sharply focused the minds of operators on addressing complicated issues within their businesses.

Many operators will pass on costs where they can, streamline their supply base and move to more local and sustainable producers.

There's a lot to do and a lot to keep track of, which is where technology plays a vital part. During the pandemic we saw how operators pivoted to integrate more technology to support their businesses in the form of click and collect, table management systems and communications platforms.

Technology also has a huge role to play in helping operators contend with the instability within the supply chain.

It is the most efficient way of comparing suppliers, checking the availability of products, analysing price fluctuations and knowing exactly what and when you need in your venues.

The supply chain crisis is one of the most pressing concerns within the sector and it is imperative that operators have the tools at hand to understand and address the challenge of overcoming the disruption.

About Fourth

Fourth provides end-to-end, best-in-class technology and services for the hospitality, leisure and retail industries. Its procurement, inventory, and workforce management solutions, coupled with a complete data and analytics suite, give businesses the actionable insights they need to control costs, scale profitability, improve employee engagement, and maintain compliance.

Since its merger with US-based HotSchedules, Fourth serves more than 7,000 customers across 120,000 locations globally.

Fourth works with multi-national companies across the hospitality, hotel, retail and leisure industries, including Leon, Burger King, PizzaExpress, The Ivy, Soho House, Four Seasons, Corinthia Hotels, Travelodge, Jumeirah Hotels & Resorts, The Ritz, Selfridges, Holland & Barrett, TPRG, Fortnum & Mason, The Wentworth Club and Sodexo.

You have enough to do

To learn how we can help simplify your back-office operations, boost efficiency and profitability, and improve your inventory management, give us a call.

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