UKHOSPITALITY

CGA

Future Shock

Issue Ten - Hospitality in 2022

Partners

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Foreword

This edition of Future Shock provides a good sense of the confidence felt by both businesses and consumers after nearly two-years of devastating losses. With numerous challenges having slowed us down, ranging from new COVID variants to inflationary pressures and supply shortages, our industry is in a vulnerable state, to say the least. Figures from this report shows 91% of businesses are already facing higher costs in the supply chain and further costs are due to soar in April as financial support measures come to an end.

Despite the continuous challenges our industry is anything but defeatist. We know that our customers are eager to get back to experience those moments that only hospitality can deliver - as indicated in this report, consumer confidence is now at **70%**, the highest it has been since the pandemic hit.

If we are given the right support, our sector can play a key part in the Government's Levelling Up agenda. In fact, hospitality is the only industry in a position to deliver post-pandemic jobs, growth and investment at speed and across all communities of the UK.

While it has been a bumpy start to the year, and we no doubt will continue to face some tough challenges, I believe we will start to see a more positive operating environment going forward as we see Government increasingly holding hospitality in higher regard and understanding our worth.

Kate Nicholls, Chief Executive, UKHospitality

Welcome to the tenth edition of the Future Shock report from CGA and UKHospitality.

The last few Future Shock reports have charted the seismic impact of COVID on hospitality—but just over two years on from the start of the pandemic, we can finally look to the future with positivity. We hope this edition provides happier reading than the various commentaries of recent months.

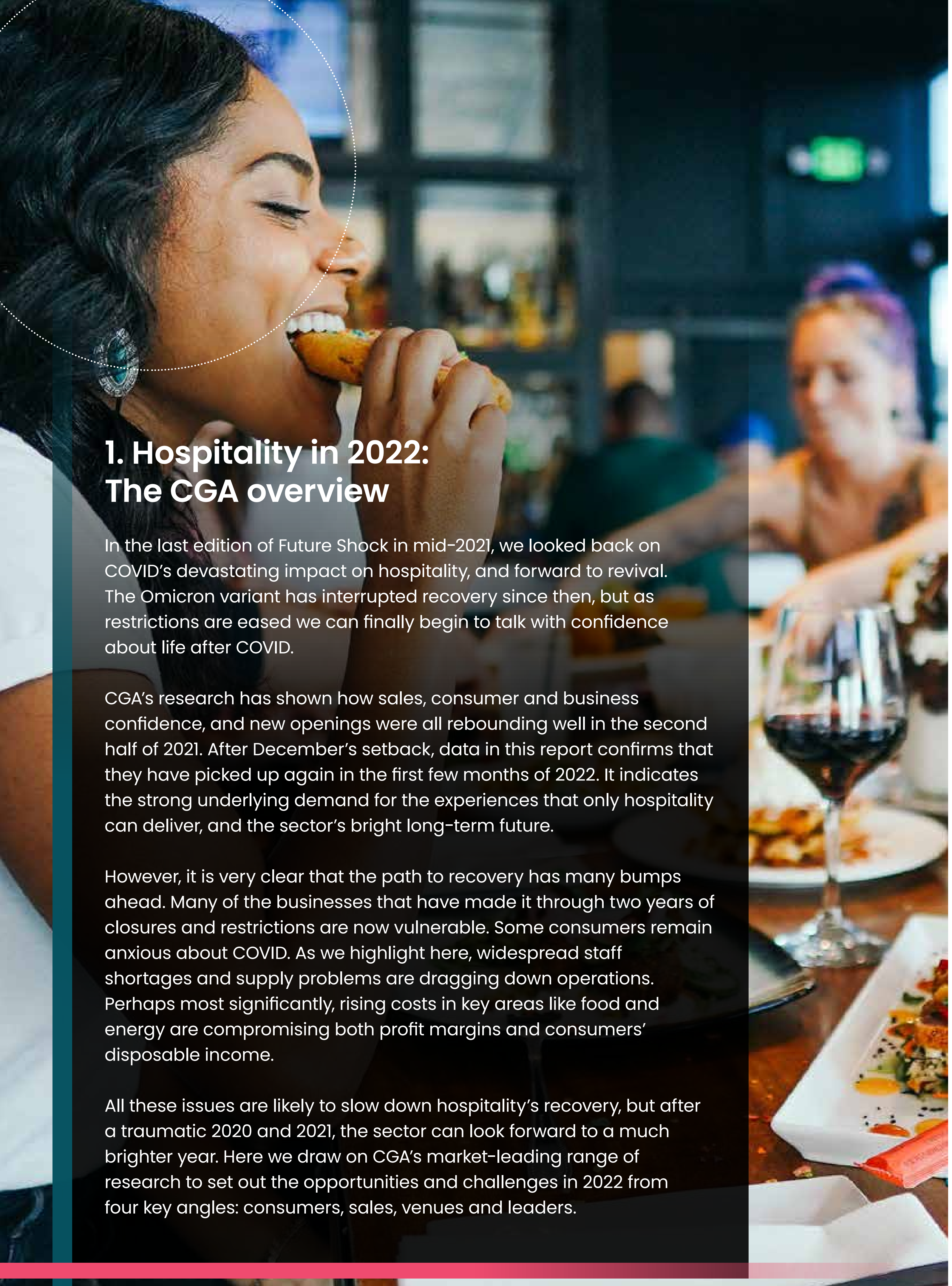
The CGA research we share here reinforces the feeling of cautious optimism. Trading, especially for leading managed groups, is edging back towards pre-COVID levels. Consumers and business leaders are recovering their confidence. Site openings—always a good barometer of the mood of the market—are heading in the right direction. The delivery and takeaway market, which was a lifeline to operators during lockdowns, continues to flourish.

However, hospitality businesses now face a variety of new challenges and threats. Costs are rising in key areas like food and energy, and there are still chronic shortages of staff. Disruption to supply caused first by Brexit and then by COVID goes on. High levels of inflation are making it very difficult for operators to achieve real-terms sales growth.

These enormous challenges come at the worst possible time for businesses facing high levels of debt after two years of turmoil. They deserve help from government on tax, labour and much more, and the superb work of UKHospitality that is outlined in this report will be crucial in achieving it. Consumers' passion for restaurants, pubs, bars and hotels is as strong as ever, and hospitality is ideally placed to power the UK's economic recovery—but the industry needs proper, sustained support if it is to do so.

We hope you enjoy reading our Future Shock report, and that it helps with your planning for the rest of 2022 and beyond. As always, we welcome your views and questions on the issues it raises.

Karl Chessell, director – hospitality operators and food, EMEA at CGA



1. Hospitality in 2022: The CGA overview

In the last edition of Future Shock in mid-2021, we looked back on COVID's devastating impact on hospitality, and forward to revival. The Omicron variant has interrupted recovery since then, but as restrictions are eased we can finally begin to talk with confidence about life after COVID.

CGA's research has shown how sales, consumer and business confidence, and new openings were all rebounding well in the second half of 2021. After December's setback, data in this report confirms that they have picked up again in the first few months of 2022. It indicates the strong underlying demand for the experiences that only hospitality can deliver, and the sector's bright long-term future.

However, it is very clear that the path to recovery has many bumps ahead. Many of the businesses that have made it through two years of closures and restrictions are now vulnerable. Some consumers remain anxious about COVID. As we highlight here, widespread staff shortages and supply problems are dragging down operations. Perhaps most significantly, rising costs in key areas like food and energy are compromising both profit margins and consumers' disposable income.

All these issues are likely to slow down hospitality's recovery, but after a traumatic 2020 and 2021, the sector can look forward to a much brighter year. Here we draw on CGA's market-leading range of research to set out the opportunities and challenges in 2022 from four key angles: consumers, sales, venues and leaders.

Hospitality in 2022: Key numbers

£114.8 bn
Value of **expected sales that have been lost** between March 2020 and December 2021

3%
Increase in like-for-like sales for managed groups in January 2022 v January 2019

138%
Increase in **delivery and takeaway sales** for managed groups in January 2022 v January 2019

70%
Of consumers **feel confident** about visiting pubs, bars and restaurants—**double the number (34%) of early 2021**

19%
Of consumers plan **to visit venues more often** than they did last year, compared to **17%** who will visit less

8.6%
Net loss of **licensed premises** between March 2020 and September 2021

48%
Of consumers now **prefer to use technology to book, order and pay**—12 percentage points more than in August 2020

1.6%
Net increase of licensed premises between September and December 2021

66%
Of leaders **feel optimistic about the next 12 months** for their business

91%
Of leaders **face higher costs** in the supply chain

14%
Of staff roles currently **vacant**

Sources: UKHospitality and CGA Quarterly Hospitality Tracker, Coffer CGA Business Tracker, CGA and Slerp Hospitality at Home Tracker, CGA Consumer Pulse surveys, CGA and AlixPartners Market Recovery Monitor, CGA and Fourth Business Confidence Survey.

2. CONSUMERS: Confidence rising, but cost pressures mount

As we move deeper into 2022, there are plenty of reasons to feel both optimistic and anxious about consumers' spending in the hospitality sector.

First, the good news. Confidence about going out to eat and drink is rising fast. CGA's Consumer Pulse survey in mid-January showed that well over two thirds **(70%)** felt confident about visiting pubs, bars and restaurants—double the number of **34%** who felt confident at the start of 2021, and a sharp increase on the 53% recorded in July.

This reflects an easing of concerns about COVID since December, when consumers were urged once again to be cautious about social interaction. With the Omicron variant proving less dangerous than feared and infection rates dropping, people who paused their plans to go out over Christmas and New Year have returned confidently to pubs, bars and restaurants. They have been enjoying themselves too: more than a third **(38%)** of consumers say their recent visits were better than expected, while just **2%** considered them below expectations.

People's confidence is likely to have grown further since the government eased COVID-related restrictions from late January. The relaxation of Plan B measures—and in particular the requirement for vaccine passes that was so damaging to late-night venues—means that many people are now going out in much the same way as they did before COVID.

There are also some encouraging signs that people will step up their visits as 2022 goes on. One in five **(19%)** plans to visit venues more often than they did last year—slightly more than the number who think they will visit less **(17%)**. This points to a core of people who have badly missed going out to eat and drink, who have been relatively unscathed by the pandemic in financial terms, and who now want to make up for lost time.

19% **One in five (19%)** plans to visit venues more often than they did last year

However, it is important to note that not everyone has recovered their confidence. CGA's January Consumer Pulse found that more than half **(55%)** remained worried about Omicron, and two thirds **(67%)** about a further peak of infections. Those numbers are likely to have dropped since then, but they are a reminder that venues still need to take safety seriously (see box).

While anxiety lingers, a much greater concern for hospitality businesses in the longer term is the squeeze on consumers' spending. Well-publicised pressures on the cost of energy and many essential items are cutting the disposable income that people can set aside for out-of-home eating, drinking and sleeping, and more than two thirds **(70%)** are now concerned about their long-term finances. Over half **(55%)** are more worried about their personal finances than they were a year ago.

People recognise that pubs, bars and restaurants are not immune to inflationary pressures. The large majority **(85%)** expect to see price rises in the sector this year, and there is inevitably a risk that significant hikes will put them off eating and drinking out.

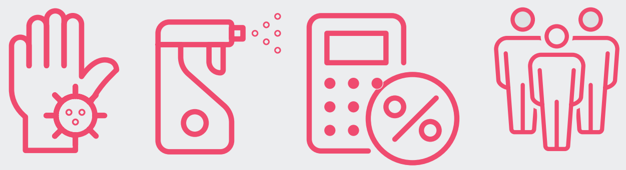
These are stark warnings of the potential impact of the cost-of-living crisis. While consumers' confidence is rising, that is of no use if they don't have cash in their pockets. The extent of the damage to spending remains to be seen, but unless cost pressures ease—or the government intervenes to mitigate them—many people are going to be keeping a tight grip on their purse strings in 2022. It will be up to operators to show that hospitality experiences provide good value for their increasingly hard-earned money.

Most wanted: The top five factors in hospitality choices

What do people look for when they go out to eat and drink? CGA's Consumer Pulse survey shows how COVID has pushed hygiene and value right to the top of their priorities. Other fundamentals of hospitality like service and atmosphere remain important of course, but safe and good-value experiences are uppermost in people's minds in 2022.

Which of these factors are most important to you when choosing where to visit?

1. **43%** Hygiene / cleanliness
2. **40%** Value for money
3. **39%** Quality of food
4. **38%** Price
5. **31%** Not too busy



Source: CGA Consumer Pulse survey, January 2022

Hospitality consumers in 2022: Three big trends to follow

1. Health

The pandemic continues to sharpen many consumers' focus on health. CGA's BrandTrack survey in late 2021 showed that more than two thirds **(70%)** now proactively try to lead a healthy lifestyle—a rise of five percentage points in two years. With a third **(34%)** planning to make healthier choices when eating out than they did before the pandemic, and even more **(38%)** prepared to eat out more often if they saw more healthy options on menus, operators will have to cater well for this trend—while also appealing to those who still want to treat themselves.

2. Sustainability

Growing awareness of the climate crisis has led consumers to look closely at the sustainability credentials of the pubs, bars, restaurants and hotels they use. CGA's Food Insights report shows that more than two thirds think sustainability is an important consideration when deciding both where to eat out **(73%)** and what they will eat **(69%)**. But they are looking to operators and suppliers to help them make better choices. More than two in five **(42%)** think venues don't do enough to inform them about the sustainability of their food, and high numbers would like to see relevant information on menus **(58%)** and websites **(41%)**.

3. Technology

One of the most notable side-effects of the pandemic in hospitality has been the take-up of technology it has triggered, among both consumers and operators. CGA's Consumer Pulse survey in January found that nearly half **(48%)** would now prefer to use technology to book, order and pay—a jump of 12 percentage points since August 2020. How much of this use has been out of necessity rather than choice during COVID isn't yet clear, but there are strong signs that many consumers are going to keep their new habits. Young people are particularly engaged—18 to 34 year-olds over-index on the use of tech by eight percentage points, while those aged 55+ under-index by 12 percentage points—and the digital natives who are now emerging into hospitality will be even more likely to adopt it.

3. SALES: Managed groups edge up, but inflation holds down growth

Two years on from the start of the pandemic, the full scale of damage on hospitality is clear. The UKHospitality and CGA Quarterly Tracker reveals that £114.8 bn of sales have been lost since March 2020 compared to what would otherwise have been expected (based on 2019 sales). Hospitality was hit first and hardest by COVID, and months of closures and restricted trading have led to thousands of business failures and lost jobs. As UKHospitality CEO Kate Nicholls put it when revealing the £114.8 bn loss: *"Who would have thought two years ago that we would now be looking at a once vibrant and dynamic industry brought to its knees?"*

However, light is emerging at the end of the tunnel. In the final quarter of 2021, the UKHospitality and CGA Quarterly Tracker reported a **121%** increase in sales from the last three months of 2020, when trading was wrecked by restrictions and closures at what should have been the busiest time of year. Final-quarter trading was still well down on 2019, and the run-up to Christmas was very difficult for hospitality businesses—but it showed what the sector could achieve when it was relatively free to trade.

There are more signs of life in the Coffer CGA Business Tracker, which measures the monthly sales of Britain's leading managed restaurant, pub and bar groups. In August, September, October and November 2021, trading here was actually in modest growth compared to the same months in 2019 (see box). Sales were then dragged down by **11%** in December as concerns about the Omicron variant spread and some consumers chose to stay at home in the weeks before Christmas.

Managed groups' sales have rebounded again in early 2022, the Tracker shows. In January they sat **3%** up on the first month of 2019, with restaurants slightly outpacing that growth. Trading has received more boosts in the first couple of months of the year, first from the easing of Plan B restrictions and then with the government's move towards the removal of remaining legal measures.

Some of the shortfall in sales in recent months has also been made up by the flourishing delivery and takeaway sector. The CGA and Slerp Hospitality at Home Tracker—based on a separate cohort to the Coffer CGA Business Tracker—has shown how sales were at least triple pre-pandemic levels throughout the first half of 2021 (see box). Though growth tailed off a little as venues reopened, even by December 2021 and January 2022 sales were well over double those of the same months of 2019.

11% drop in sales in December as **concerns about the Omicron variant spread**

This growth has been powered by the soaring popularity of third-party delivery platforms during the pandemic. In January, the value of delivery sales was five times pre-pandemic levels, as consumers moved away from takeaways to the convenience of having food brought to their door. Among groups taking part in the Tracker, deliveries and takeaways accounted for nearly 30 pence in every pound earned in January. These sales come at a cost though, with margins depleted by the cut taken by delivery partners, and a risk that eat-in sales will be compromised by people choosing to stay at home.

Positive sales trends show how restaurants, pubs, bars and hotels can recover from the challenges of the last two years to lead the UK's economic recovery. However, to do so it must have proper and sustained from government. If sales growth is to be sustained, the industry needs an extension of the cut in VAT, support for the industry's efforts to fill hundreds of thousands of vacancies, and new ways to mitigate the inflationary pressures that are besieging operators now. With the right backing, we can be cautiously optimistic that sales will steadily increase as we move through 2022.

The inflation effect

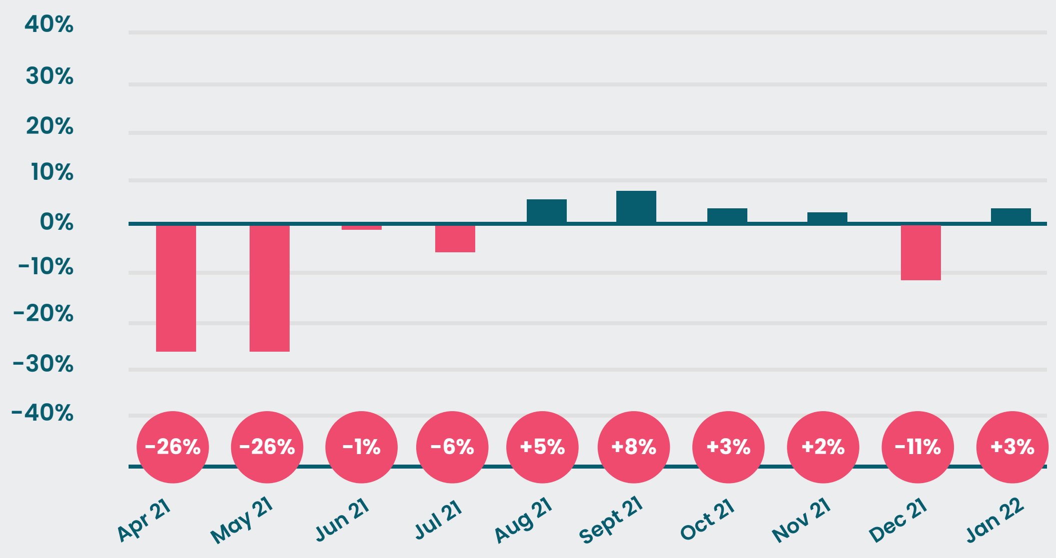
Optimism about sales growth in hospitality is tempered by the effects of inflation. With Consumer Prices Index inflation currently running at around 5% to 6%, the 3% sales growth measured by the Coffer CGA Business Tracker in January is actually below the levels of 2019 in real terms. For now, any modest increases in revenue are being eaten up by inflation.

Hospitality's cost pressures will weigh heavily on the sector for the foreseeable future. Soaring energy costs mean higher manufacturing and transportation costs for businesses, which are being exacerbated by ongoing problems in the supply chain and post-Brexit trading arrangements. Brexit has also contributed to staff shortages, which are prompting some employers to raise wages, further fuelling inflation.

These pressures come at the worst possible time for businesses. Many have been severely weakened by COVID, with debt levels high and cash reserves low—especially in the independent sector. Increasing sales is already difficult, given the growing cost-of-living crisis affecting consumers—and high inflation means that real-terms growth will be even harder.

Eat-in and drink-in sales: April 2021 to January 2022

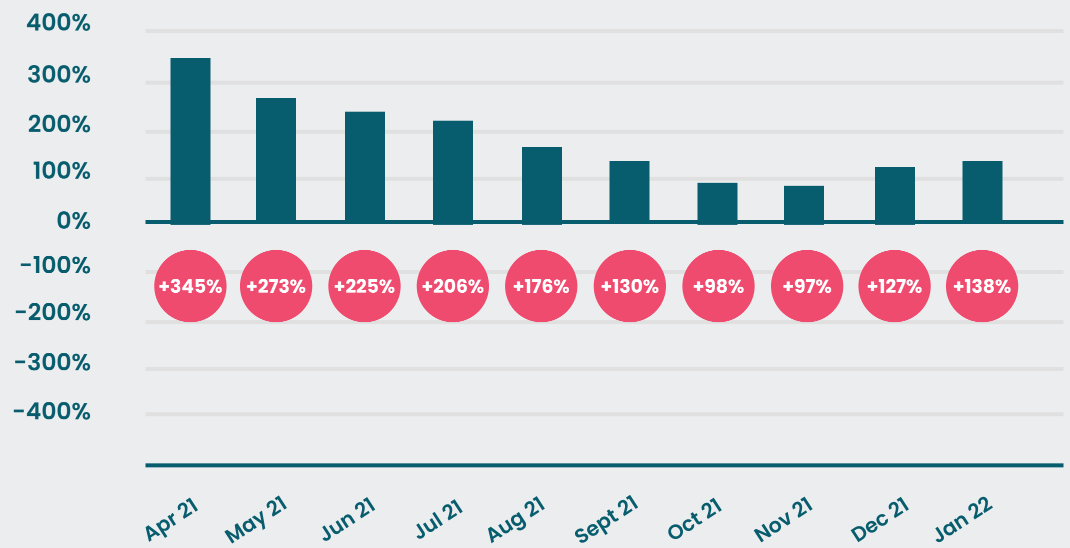
Sales v same month in 2019



Source: Coffer CGA Business Tracker

Delivery and takeaway sales: April 2021 to January 2022

Sales v same month in 2019



Source: CGA and Slerp Hospitality at Home Tracker

4. VENUES: Openings pick up after 10,000 sites lost

Britain lost nearly **9%** of its licensed premises between the start of the pandemic and last autumn—but there are signs of a recovery as businesses restart long-delayed new openings.

Those are among the messages from the Market Recovery Monitor from CGA and AlixPartners, which has tracked openings and closures across the hospitality sector for the last two years. It shows that in the 18 months between March 2020 and September 2021, there was a net loss of just over 9,900 premises—equivalent to a drop of around 550 venues every month.

The rate of closures has varied from sector to sector (see box). For example, the numbers of casual dining restaurants and nightclubs has tumbled by **17%** since March 2020, but hotels **(down 3%)** and food pubs **(down 4%)** have been less affected.

CGA's data also shows how independent and leased businesses have borne the brunt of closures. Site numbers in these two sectors have fallen by **8%** and **9%** since March 2020, compared to just **4%** on the managed side of the market. This shows the greater resilience of large businesses than smaller ones, which tend to have less cash to draw on during times of crisis.

However, in the second half of 2021, as vaccination programmes continued and both consumer and business confidence rose, we started to see closures bottoming out. Between September and December, Britain's number of licensed premises actually increased—by just under **2%**. This was the first quarter-on-quarter rise recorded by CGA and AlixPartners' Monitor for more than five years, and a sign that new life was being breathed into hospitality. These openings have been spread across the market, though growth in late-night venues was particularly welcome after more than a year and a half of closures and disruptions to trading. There has also been a notable recovery of food-led segments like casual dining, after a couple of years of retrenchment.

Small businesses have also rebounded well. The number of independent licensed premises increased by **2%** between September and December, reflecting a wave of openings from people who had been patiently waiting for trading conditions to improve. It highlights the entrepreneurialism of the indie sector, and suggests that properties that were vacated during COVID are being reopened as new businesses.

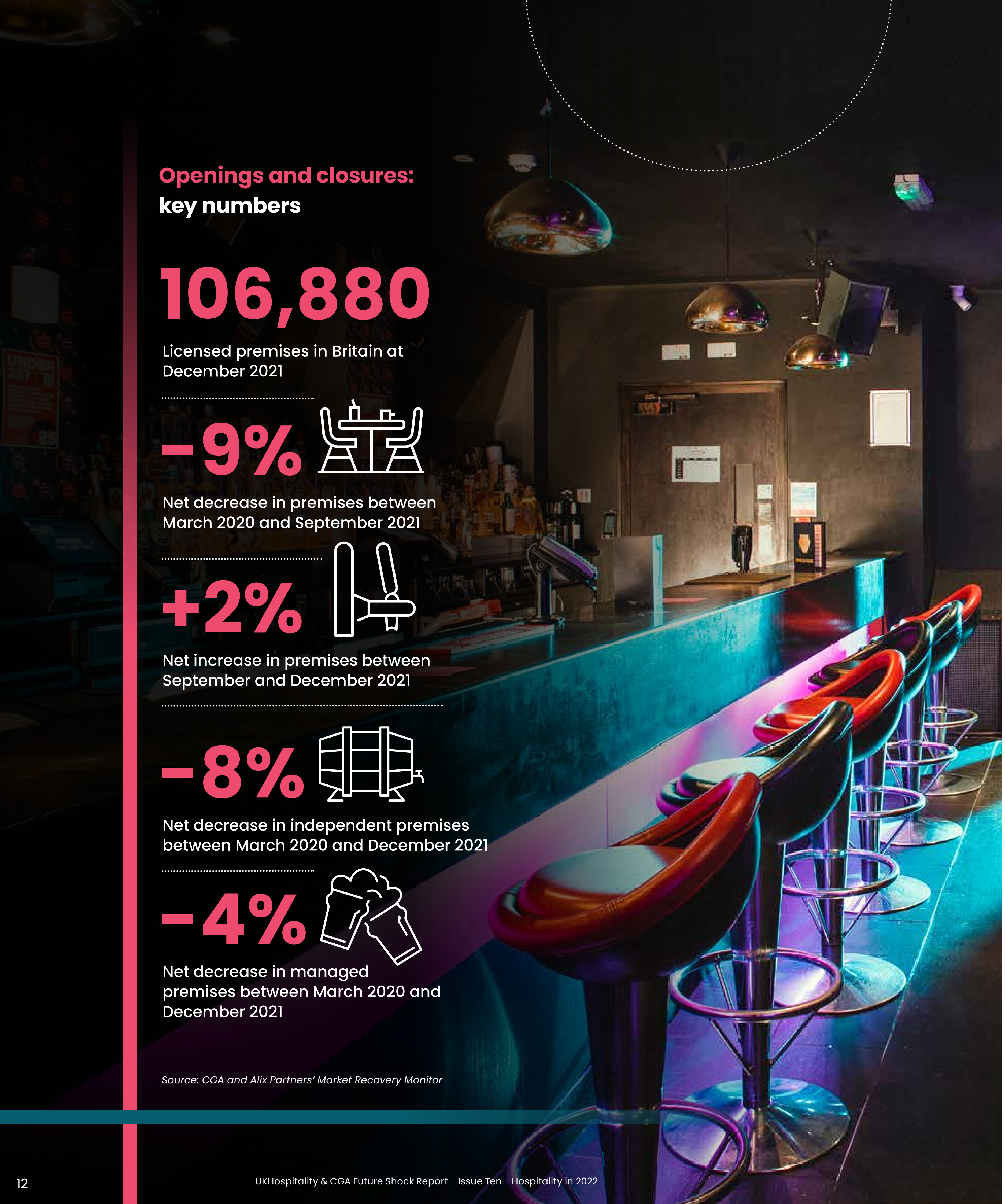
While the recent flurry of openings bodes well, the size of the market in site terms is unlikely to return to pre-COVID levels for many years to come—if at all. More failures, of both new and established businesses, are to be expected after Christmas trading was hit by the Omicron variant. This was a reminder, if it were needed, that the COVID crisis is not over.

The next few months will tell us whether Britain now has an appropriate volume of licensed premises, or if it is above or below the level of demand. The arrival of a steady stream of start-ups suggests that there is still spare capacity in the market, but if the cost-of-living crisis causes a fall in demand, more closures will follow. Either way, it is clear that COVID has dramatically changed Britain's hospitality landscape.

Net closures of licensed premises, March 2020 to December 2021: Selected segments

	Sites at Dec 2021	% change in sites, Dec 2021 v March 2020
Bar	4,507	-1%
Bar restaurant	3,372	-9%
Casual dining restaurant	5,477	-17%
Community pub	19,126	-6%
Food pub	12,115	-4%
High street pub	6,265	-6%
Hotel	7,525	-3%
Large venue	4,559	-1%
Nightclub	1,035	-17%
Restaurant	16,878	-10%
Sports / social club	21,343	-6%
Independent	**68,470**	**-8%**
Leased	**17,702**	**-9%**
Managed	**20,708**	**-4%**

Source: CGA and AlixPartners Market Recovery Monitor



Openings and closures: key numbers

106,880

Licensed premises in Britain at December 2021

-9%

Net decrease in premises between March 2020 and September 2021

+2%

Net increase in premises between September and December 2021

-8%

Net decrease in independent premises between March 2020 and December 2021

-4%

Net decrease in managed premises between March 2020 and December 2021

Source: CGA and Alix Partners' Market Recovery Monitor

5. LEADERS: Confidence solid, but staff and supply cause concern

Hospitality leaders' optimism is growing, the quarterly Business Confidence Survey from CGA and Fourth shows. The November 2021 edition of the survey found that two thirds **(66%)** of leaders were optimistic about the next 12 months for their business, and nearly as many **(59%)** felt optimistic about the market in general.

Numbers feeling confident about their business dropped slightly from the September Business Confidence Survey, but the figure is a huge improvement from the depths of the pandemic. Between April and November 2020, no more than **20%** of leaders were optimistic about the market, and the number feeling confident about their business in November was the second highest for nearly two years.

This revival indicates the underlying confidence in hospitality as a place to build a business and invest. It was underscored by reasonable trading in November, and four in five **(80%)** leaders said their business was making a profit at that time, up by 11 percentage points since the third quarter—though a third **(33%)** were making a lower profit than they were before COVID. There was a similarly mixed picture on growth plans: around two in five **(42%)** leaders planning to open new sites over the next 12 months, but just as many **(43%)** said they would not.

It is important to remember that the Business Confidence Survey was conducted before the emergence of the Omicron variant and Plan B restrictions, and optimism will have been dented by the end of the year. It is reduced still further by concerns in two critical areas: staffing and supply.

Staffing

Hospitality's severe shortage of staff, deepened first by Brexit and then by COVID, is a huge challenge in early 2022. The Business Confidence Survey found that around one in seven **(14%)** staff roles were currently vacant, and only a quarter **(26%)** of leaders were confident about recruiting, training and retaining their workforce over the next 12 months.

These problems are having a direct impact on trading. Leaders surveyed by CGA and Fourth estimated that labour shortages are costing them an average of **16%** of potential revenue, and well over half of them say they had had to implement major changes, like deploying managerial staff to front of house roles **(71%)**, asking staff to work longer shifts **(70%)**, reducing trading hours **(62%)** or revising menus **(61%)**.

Recruitment and retention issues are also driving up costs. Four in five **(79%)** leaders have increased pay to attract and keep team members, while more than half **(56%)** have provided better benefits, and **10%** are offering signing-on bonuses. Many have tried other tactics to appeal to staff, like cultivating a good working culture **(72%)**, stepping up communications **(70%)** and focusing more on wellbeing **(64%)**. These are all positive steps, and the industry-wide 'Hospitality Rising' advertising campaign should help further. But there is a very long way to go before the sector resolves the staffing crisis.

42%

Around two in five **(42%)** leaders planning to open new sites over the next 12 months

79%

Four in five **(79%)** leaders have increased pay to attract and keep team members

Supply

Like staff shortages, supply problems are affecting nearly all hospitality businesses in early 2022. Of respondents to the Business Confidence, **99%** have experienced supply chain issues of some kind, including higher costs **(91%)**, reduced or unavailable product lines **(89%)**, products not turning up **(86%)** and delays to deliveries **(80%)**.

The problems are down to a potent combination of factors including Brexit, COVID, a shortage of labour across the supply chain and rising input costs. They are fuelling inflation across the hospitality sector, and **93%** and **86%** of leaders say they are facing increases in food prices and energy costs respectively.

There is a consensus among leaders that not all of these extra supply chain costs can be absorbed by businesses, and just **4%** say they will not pass at least some of them on to consumers. This causes a fresh cycle of challenges, as some people—especially those who are still suffering the financial consequences of COVID—will be put off eating and drinking out. Until supply challenges and inflationary pressures recede, there are no easy solutions to this problem.

66% Of leaders feel **confident** about prospects for their business in the next 12 months

42% Are planning to open **new sites** in the next 12 months

91% Expect to **recruit new staff** in 2022

79% Have **increased pay** to improve recruitment and retention

91% Are experiencing **higher costs in the supply chain**

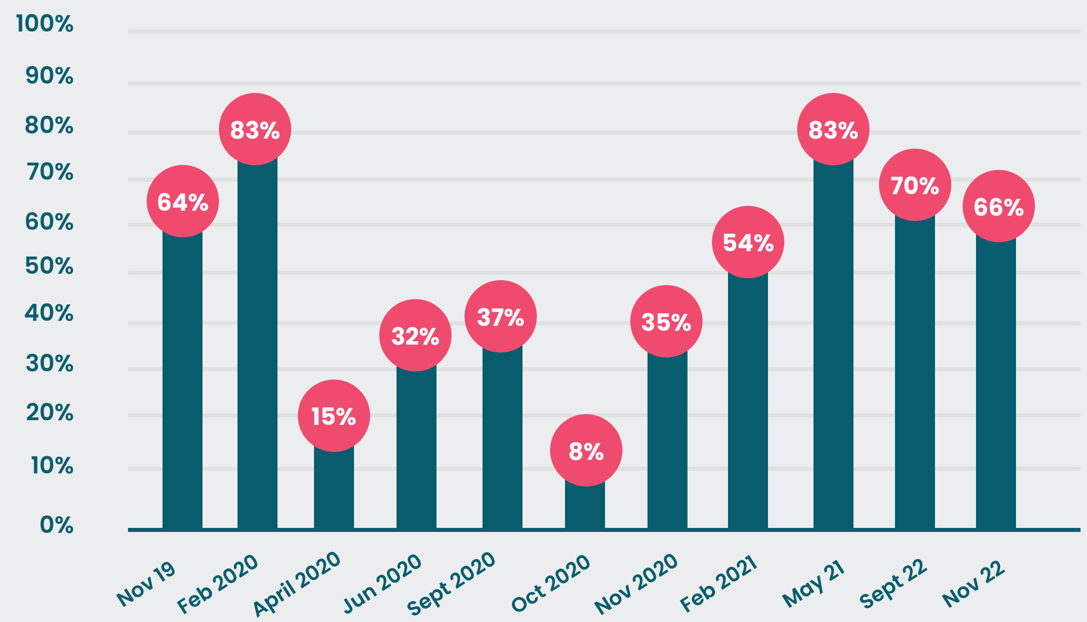
82% passing some higher costs on to consumers by **increasing food prices**

14% Of staff roles are currently **vacant and open for applications**

Source: CGA and Fourth Business Confidence Survey, November 2021

Delivery and takeaway sales: April 2021 to January 2022

% feeling confident about prospects for their business in the next 12 months



Source: CGA and Fourth Business Confidence Survey

Working to ensure that the needs and priorities of the sector are represented in Government

Set up by Government, the three Sector Councils are comprised of leading industry representatives, acting not only as a sounding board and point of dialogue between Ministers and the industry but more broadly working to ensure that the needs and priorities of the sector are represented.
In chronological order, these are the Tourism Industry Council, Food and Drink Sector Council, and, most recently established, the Hospitality Sector Council. UKHospitality Chief Executive, Kate Nicholls, sits on all three of the Boards, as well as on many of the working groups, ensuring representation of UKHospitality and its members across the Councils.

UKHospitality has a particularly prominent role within the Hospitality Sector Council. As an overview, the Hospitality Sector Council was set up following the Government's hospitality strategy, in which the Government announced plans to work with the sector as it reopened and recovered from COVID-19. To build the sector's longer-term resilience a focus was drawn on three pillars –reopening, recovery, resilience. The Hospitality Sector Council was then set up to begin to deliver the support needed. Stemming from the Council are various working groups, with government officials providing oversight.

One is the Recovery Group. This Group was set up to address the immediate challenges for the hospitality sector's recovery, and to inform Government of the sector's priorities and the short sharp recommendations for how to get the sector's recovery back on track. Chaired by Kate Nicholls, the group first met in November 2021 and has since developed an interim report and will shortly begin work on phase 2.

Secondly, a Sustainability Committee will be chaired by Tim Doubleday, BKUK CFO, with UKH providing secretariat. Stemming from the Committee will be two technical groups, one focusing on Net Zero, and a second on Waste. The first meeting is set to take place in April.

Finally, created from the Tourism Sector Deal, the Hospitality and Tourism Skills Board focuses on jobs and skills and tackling the recruitment crisis, recruitment routes into hospitality (apprentices), and curriculum and continuous development. UKH provides secretariat for this Board, and it is chaired by UKH Chairman, Steve Richards.

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How the APPG on Hospitality & Tourism can help drive change for your business

The All-party Parliamentary Group (APPG) on Hospitality & Tourism is an informal cross-party committee of constituency MPs. Whilst APPGs do not have any official authority in Parliament, the Group brings together backbench MPs to learn about the needs of the sector, explore potential policies to support the sector and to organise actions to influence decision makers.

The Group has a variety of levers for achieving constructive change for the industry. This includes sponsoring debates, speaking on behalf of the sector in Parliament, making representations to ministers, holding receptions and more.

As the secretariat to the Group, UKHospitality plays a key role in steering the agenda of the Group and ensuring that MPs are well-informed about the issues that matter most to the industry, providing briefing materials and liaising with MPs on sectoral issues. In between meetings, UKHospitality works closely with its members to ensure the priorities of the sector are communicated to Parliament more widely.
A recent example is the APPG's inquiry into locking-in the current 12.5% rate of VAT, which highlights the benefits of the policy and its overwhelming economic case to the Treasury.

Issues the APPG is working on:

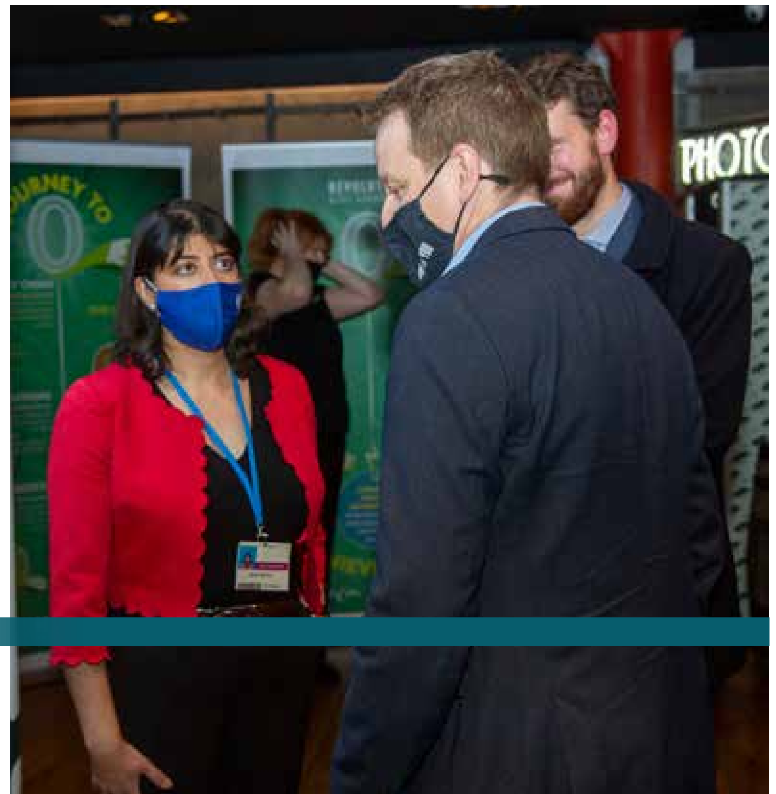
- **VAT**
- **Labour shortages**
- **How the sector can help keep society open and allow us to 'live with COVID'**
- **Sustainability**
- **Revitalising the tourism industry**
- **Food**
- **Accessibility**

A sector well positioned to support Government in meeting its 2050 net zero target

As businesses continue to recover from the effects posed by the recent Omicron Coronavirus surge, sustainability offers hope to many as both a tool for recovery, but also as an opportunity. COP26 in Glasgow reminded everyone once again of the growing consumer demand for sustainable practices, and crucially, the need for businesses, politicians and citizens alike to act now. Many hospitality businesses are well on the way to meeting the Government's environmental targets, and it was impressive to hear from so many members, whether that be SMEs or larger companies, on the steps they are taking to reach net zero, during our successful fringe event. The need for business action is made all the more important in light of the Government's environmental policy agenda, with, among others, **the Plastic Packaging Tax, Deposit Return Scheme, and food waste reporting set to impact the industry over the next few years**. UKHospitality will continue to work with officials to highlight the willingness in the sector for supporting sustainable objectives, whilst outlining that any legislation must remain workable for businesses, to avoid unintended consequences.

UKHospitality continues to support its members along this journey by ramping up its sustainability agenda. Notably, work remains ongoing in developing our sustainability guide, the flagship element of our sustainability strategy, which is particularly aimed at supporting those smaller businesses, with tips and resources to navigate the sustainable agenda. This will help members meet many of the science-based targets outlined within the sector roadmap to net zero, and indeed to build on the impressive work that is already ongoing. Consolidating upon the roadmap, in the coming months, we are also set to launch our carbon calculator, helping businesses map out their carbon footprint and easily identify areas to reduce emissions, to reach net zero.

It is clear that given the outreach of the hospitality sector in being in every region of the UK, whether that be city centres or rural locations, the industry has a significant role to play if the Government is going to be successful in meeting its 2050 net zero target. Given this, UKHospitality is continuing to highlight to policy makers that the sector is well positioned to support the roll out of electric charging points, and we are set for further discussions with officials to discuss how the industry can collaborate, to level up the network nationwide for consumers.



Is your business prepared for the new food regulations?

The introduction of new calorie labelling requirements

The start of April sees the introduction of new calorie labelling requirements for businesses over 250 employees in England. This is a challenging moment for the hospitality industry, with businesses already battling on several fronts as they strive to recoup COVID-19 losses: staff shortages, operating cost pressures, high debt levels and depleted cash reserves, not to mention the looming triple-whammy of April VAT, rents and business rates increases. Hospitality has already made impressive progress in voluntarily offering healthy options based on what diners want to see on menus. What calorie labelling can do, though – with the cooperation of our sector – is help guide people gently towards healthier eating choices, but this legislation will ultimately play a small part in the wider efforts to reduce obesity.

While UKHospitality is working to ensure the sector is prepared and able to comply with the new regulations, UKHospitality has long called for a delay to their implementation – and currently is pressing for an enforcement 'grace period' post-April to allow businesses breathing space to implement the new rules without the risk of unnecessary enforcement action from day one.

There also needs to be open and honest dialogue between hospitality businesses and their local authorities, with councils acknowledging the difficulties operators will surely face when trying to comply with the new rules. And when and where there is enforcement, there must be a consistent approach across the country. It would be very wrong to see businesses in one region punished more harshly than those in another.

But whenever calorie labelling comes into effect, the industry must be ready for it, so we've produced guidance on the new Calorie Labelling legislation, which is intended to help affected businesses and to ensure consistent enforcement. That's why we've made it available to anyone in the sector, not just to UKHospitality members.

Compiled with the UKHospitality Nutrition Group, the guidance includes a summary of the legislation and answers to frequently asked questions. And given the complexity of handling the new measures – at a time when operators are already stretched to breaking point – the advice will be updated on a rolling basis as additional queries and details emerge.

The 'may contain' Consultation

UKHospitality is also responding to the current FSA consultation on Precautionary Allergen Labelling, via our Food Experts Group – allergen management remains a key focus of UKHospitality going forward into 2022 to ensure we have the right solution for the hospitality sector based on how we actually operate and avoid any unintended consequences from Government.

Updated guidance

Furthermore, the revised UKHospitality Catering Guide will be published later this year, incorporating the latest guidance for members – and we continue to strengthen our Primary Authority relationship with Cornwall Council on all aspects of food safety and beyond.

Hospitality and the cost of living crisis

The UK's cost of living crisis is starting to bite and this will have inevitable consequences. But with positive action from Government, we can also be part of the solution.

The hospitality cost base is increasing dramatically for our businesses. A UKH member survey in January showed a range of costs soaring. On average energy prices were up **41.3** per cent; labour costs **18.8** per cent; food and drink purchases **17.4** and **14.1** per cent respectively. Members were expecting an **11** per cent increase in prices through to consumers.

UKH analysis shows that the sector will likely be contributing **1.7** percentage points to the national rate of CPI.

As we know there is only so much that consumers can take. Our customers are facing their own cost increases, many in the same area as the sector. Energy and food and drink prices are soaring. This leaves less cash to spend on visits to hospitality.

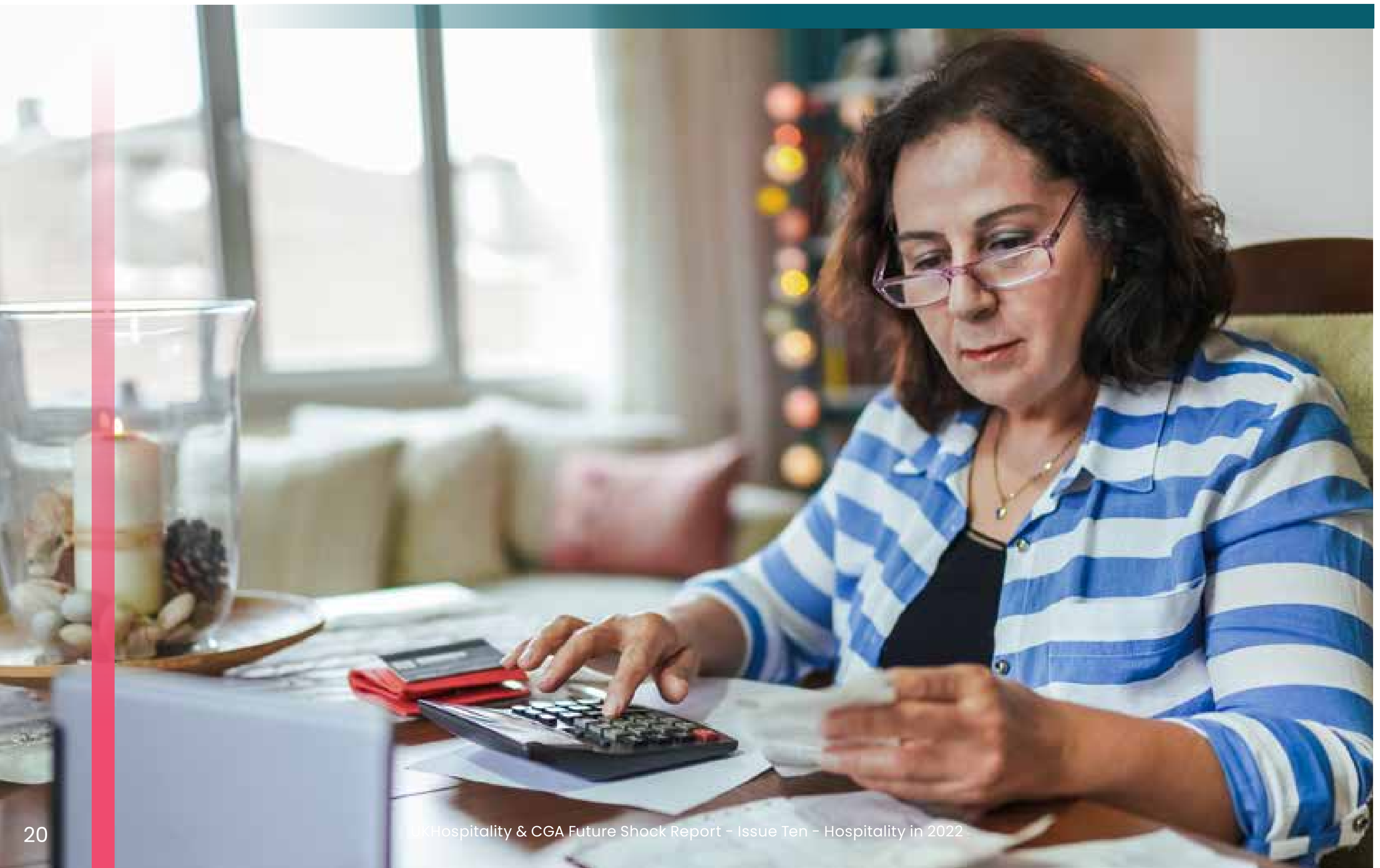
Increases in the National Insurance Contributions in April - an extra **1.25%** for both employees and employers will also add pressure - though it's understandable that Government wishes to get waiting lists down and 'fix' social care.

The biggest contributory factor from hospitality will be an increase in VAT from **12.5%** to **20%**. This will compound all the other cost increases coming through. It will squeeze businesses that have relied on the reduced rate to absorb costs. And it will add to prices at a time when people can least afford them.

Along with members, UKH will continue to campaign to avoid this damaging measure - and persuade Government that **#VATsEnough**.

1.7%

percentage points to the national rate of **CPI contributed by the sector**



Building the workforce of the future in every community

Recent employment numbers for the sector are mixed. At a total level the sector has returned as a major employer, nearing pre-pandemic levels. Yet the same ONS data show that sector vacancies are a staggering **102%** higher than pre-pandemic. A fundamental shift in the labour market has occurred.

We need to work closely with Government to deal with this issue. February saw the long-awaited publication of the Levelling Up White Paper. Much of this seminal policy is intrinsically entwined with the prospects for the hospitality sector, importantly around skills and employment, creating pride of place and boosting community wellbeing. Solving hospitality's workforce issues supports all of these objectives.

Of course the phenomenon of labour shortages is not unique to hospitality, as other sectors are experiencing shortages, but it appears most acute in our businesses. There doesn't seem to be a single reason, either, for the dearth of workers. A lack of confidence in the sector, a decline in overseas workers coming to the UK, a shortage of people coming out of education due to COVID-19 delays, a rise in new roles and working practices outside of hospitality. All will have an impact.

And that's why we need a range of solutions. The re-formation of the Hospitality & Tourism Skills Board (HTSB) is a critical step. This body is designed to bring together all parts of hospitality to boost recruitment and retention. It boasts representation from across the nations of the UK, and across the different sectors of hospitality, with a wide range of expertise.

In an important initial step the HTSB has endorsed the Hospitality Rising campaign to take forward an image campaign for jobs and careers in the sector. UKH has fully backed the campaign as have other industry bodies and scores of employers.

While a vital component this is not the only area we are looking at for recruitment. UKH has engaged with organisations working with over-50s to help to understand the barriers to recruiting and attracting this valuable age group. It is estimated that hospitality is under-represented in this cohort of the potential workforce by over 100,000 employees.

We also continue our work with Only a Pavement Away to support homeless people and other vulnerable groups into work. While we have also developed a disability employment strategy, with Kate Nicholls appointed as the sector's Disability Ambassador by Government.

UKH and the industry continue to engage with Government skills and training campaigns, including an ambitious plan to engage tens of thousands of people through Skills Bootcamps.

There is also ongoing work to reform and streamline the immigration system so it is more responsive to the needs of employers. This will take time but we believe we can make important changes to support members.

We will continue to work with Government and other stakeholders to deliver the workforce our sector needs. This is a key priority and mission for UKH. Ultimately it's in the interest businesses and our customers, jobseekers and the existing workforce and the local and national economies.

How businesses can apply expert hygiene protocols in the workplace to reassure customers and staff

The first lockdown - announced in the UK on 23 March 2020 in a televised press conference - may seem a distant memory, but its legacy looks set to remain for some years to come. Transposing science and health to the news desk, the pandemic has positioned hygiene as a priority and thus evolved the nature of interaction between science and consumer.

This pandemic has also changed how people interact with businesses - research from Dettol Pro Solutions reveals that **78%** of consumers are still concerned about germs[1] - as well as the minimum expectations around operating. Since the beginning of the pandemic, consumer expectations of cleanliness have been vastly elevated, and preventing the spread of illness-causing germs is now a top priority for businesses. Around **85%** of business leaders believe that having the right products and processes for cleaning and disinfection is one of their most important job responsibilities. However, **70%** do not have any specific expertise in this area.[2]

With the spread of the virus still a concern moving into 2022, how can businesses enhance their hygiene protocols to reassure customers and staff?

78%

of consumers are still concerned about germs

Lessons from event hygiene that can be applied to the workplace

Whilst hesitancy could remain around staging large events, both consumers and organisers are looking at hygiene measures to support a return to large scale events at venues of all types.

Lessons can be learned from how large-scale events, such as COP26, have been successfully run where authorised by local regulation; for example, Public Health Scotland (PHS) confirmed that there was "no evidence" of any connection between Omicron cases and the two-week long climate summit held in November 2021.[4]

The UN Climate Change Conference was one of the largest physical events to be held since the beginning of the pandemic, covering a conference space larger than 30 football pitches and containing 50,000 high-traffic germ hotspots. As the official hygiene partner of COP26, Dettol Pro Solutions – Dettol's business-to-business offering - developed a tailor-made targeted hygiene programme that has become a tried and tested case study and part of a legacy for the conference that can be adapted and implemented across many different business environments.

Dettol Pro Solutions' team of virologists, microbiologists, and medical scientists took the same approach in developing a custom targeted hygiene programme for COP26 as it does for businesses, dedicating hours of technical support to creating and delivering bespoke protocols that could keep businesses hygienically clean.

This targeted hygiene approach means focusing hygiene practices at the times and in the places that matter most, to help reduce the spread of bacteria. Hygiene intervention includes not just cleaning and disinfection, but also hand hygiene – washing or sanitising – which should be carried out when it is most needed, such as when arriving at work and after using the toilet.

[1] Reckitt Toluna Tracker, Wave 16 (6/7/2021-6/13/2021)
[2] B2B SME U&A Study, December 2020
[3] Zappi Survey Partnership Screen UK 2020
[4] https://www.bbc.co.uk/news/uk-scotland-59649228

Putting hygiene protocols into practice

Workplace cleaning and disinfection protocols developed by Dettol Pro Solutions are created, reviewed, and approved by scientists with specific working environments in mind. Dettol Pro Solutions has a proven track record of providing reassurance for businesses and consumers, with **72%** of people indicating that they feel more confident to engage with a brand if a Dettol partnership is in place. As such, businesses can look at implementing the following steps to instil confidence and peace of mind among employees and consumers:

- Identify high-touch 'hotspots': Areas that are frequently touched and shared represent potential hotspots (e.g., lift buttons, doorknobs, phones). Additionally, eating and drinking areas such as a communal kitchen are higher-risk due to hand-to-mouth contact.
- Devise an effective protocol: Implement a targeted hygiene approach that is informed by science, to help interrupt the chain of infection. Helping prevent spread of germs by going beyond the illusion of improved safety through "hygiene theatre" is critical to reassuring employees and increasing their confidence in workspaces.
- Use trusted products: use products with efficacy proven on virus and bacteria. When used as per instructions of use disinfecting products can significantly reduce the germs on surfaces or hands. For example, during COP26 event, the organisers and guests were invited to sanitise their hands regularly with Dettol antibacterial Hand Sanitiser Gel. Cleaning protocols also included the use of Multi-Purpose Disinfectant Spray and Cleansing Surface Wipes, proven to kill 99.9% of bacteria and viruses including SARS-CoV-2 virus.
- Timing, frequency, and verification of protocols: Once cleaning and disinfection protocols are established, the critical element to reducing the potential for germ transmission is the timing and frequency of cleaning and disinfection. High traffic areas require attention immediately after usage. Likewise, small, irregular surfaces will need more frequent cleaning throughout the day. Once a targeted hygiene programme has been implemented, it should be regularly tested for effectiveness and refined accordingly.

In the midst of uncertainty, one thing is certain – for businesses, applying hygiene protocols today will help to secure the confidence of consumers tomorrow.

Will consumers have an appetite for calorie labelling? Recent history may give us an answer

Katy Watts, Head of Channel Development: Foodservice & Licensed

6 April 2022 won't be your average Wednesday for England's food businesses – it's the date the Government's new calorie labelling legislation will come into effect.[1]

Large out-of-home food businesses, including restaurants, cafes and takeaways with more than 250 employees, will be required by law to display the calorie content of the food they sell. This is all part of a wider government initiative to help people make better informed, healthier food choices, and ultimately tackle one of the highest obesity rates in Europe.[2]

Calorie intake is viewed as the key metric when it comes to weight loss or gain. Without knowing how many calories we're consuming, and how many calories we need each day – another requirement of the calorie labelling regulations[1] – it becomes very difficult to regulate our diets and be fully aware of what we're putting in our bodies. Add to that the fact that the meals we eat out are often far larger than what we make at home or pick up in the supermarket[3] – and that nearly a quarter of people are spending more on food deliveries now than before the pandemic[3] – and we have a strong case for these changes. But it's of course not as simple as that.

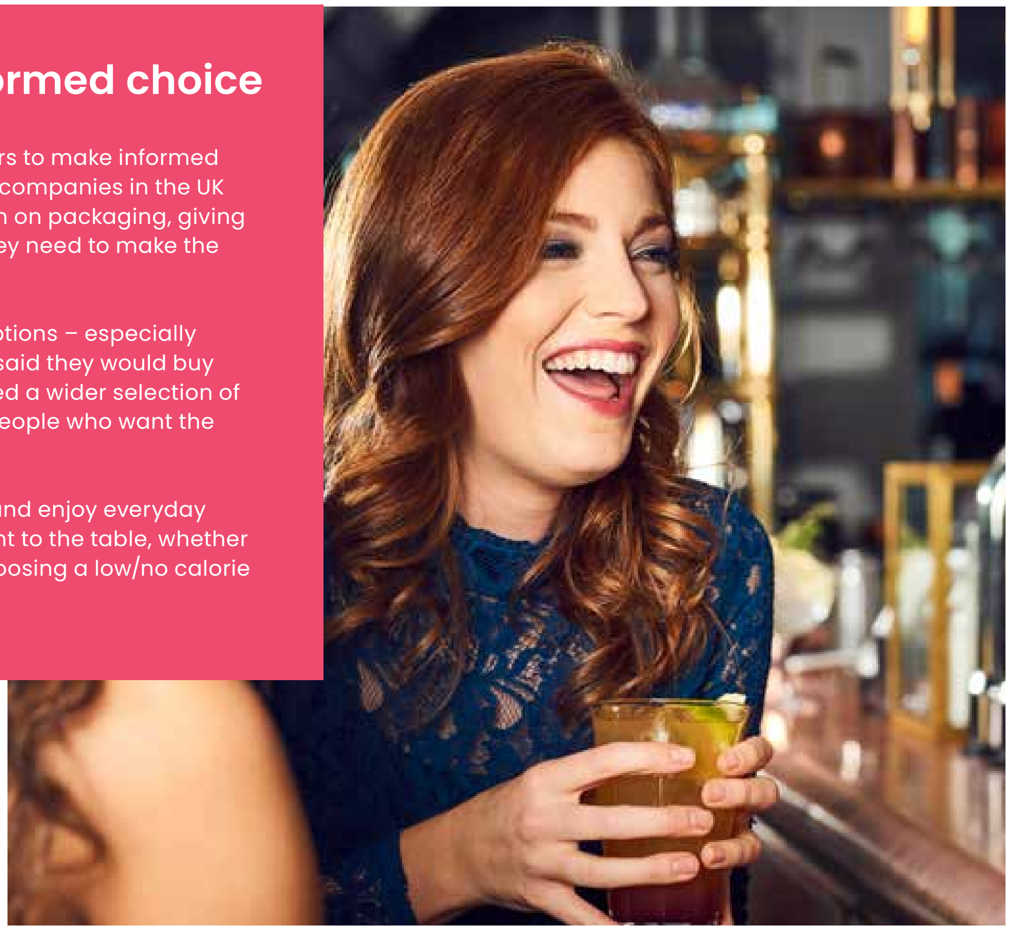
Calories are undoubtedly key to measure, but many health experts believe that we place far too much emphasis on the role they play in the obesity crisis. The prevalence of fast-food ads and the huge stigma surrounding obesity are just two examples of the many other culprits. There's a strong argument that calorie counting is, ironically, unhealthy. In a society that has been taught to place calories on a pedestal and believe that, by and large, fewer of them are better, we've made it possible for a plate of pie and chips to take on a salad in a nutritional debate. If you ask me, there's a time and place for both.

The right to make an informed choice

Calorie labelling on labels will allow consumers to make informed choices. Britvic was one of the first soft drinks companies in the UK to introduce traffic light nutritional information on packaging, giving consumers easy access to the information they need to make the best choices about what they're drinking.

Although there is a move towards healthier options – especially amongst 18 to 24-year-olds where nine in 10[4] said they would buy food for delivery more often if they were offered a wider selection of healthy meals – there is still a core group of people who want the ability to indulge.

Soft drinks is one way to bring treating to life and enjoy everyday moments without bringing a high calorie count to the table, whether enjoying a perceived indulgent cocktail or choosing a low/no calorie alternative to enjoy with a great meal.



[1] Calorie labelling in the out of home sector: implementation guidance', 17 September 2021, Department of Health & Social Care

[2] UK obesity plan will fail without action on unhealthy food – report' by Andrew Gregory, 27 December 2021

[3] Taste for takeaways outlasts Covid lockdowns' by Elisabeth Mahy, 31 August 2021, BBC News

[4] Deliveroo set to invest £1million in healthy eating across the UK in 2020', 28 January 2020, Deliveroo

Featured Article

Who will fill the costly education gap?

"The Government is leaving it up to businesses to find the best way to calculate their calories and getting it wrong could result in a hefty £2,500 fine.

"But for many businesses calorie labelling is a brand new concept. There's a big education gap that needs to be filled."

The Government hopes that calorie labelling will lead to high-calorie menu items falling out of popularity, which will encourage businesses to reformulate dishes, reduce their size or cook them in a healthier way. Yet in The Observer's survey of more than 20 of the UK's biggest restaurant and fast-food outlets, none plan to formulate their menus.[5] In fairness, many of these chains have been displaying calories for several years now, so these regulations won't mean much to them. It's the businesses that haven't, which lack the same level of resource and infrastructure, that will struggle with this new task – especially now, with many still reeling from the cost of the pandemic.

Like with many things, there are clearly two well-developed sides to this story. As someone from the drinks industry looking in, I can't help but compare it to what we experienced in 2018 when the Soft Drinks Industry Levy (SDIL) came in. I'm not going to say that history will repeat itself here, but it may give us a good indication of what to expect.

The rise and rise of sugar-free drinks

Health and wellbeing mean many different things to people, whether that be seeking additional benefits or restricting ingredients. When it comes to soft drinks, this means choice is key – particularly when it comes to low and no sugar options from big name brands such as Britvic's Pepsi MAX, 7UP Free and Tango Sugar Free.

Low calorie took a majority share of cola in the out of home channel for the first time in October 2021,[10] demonstrating a long-term shift in consumer behaviour that we must take note of.

Steer where consumers are heading

The SDIL is a tax on soft drinks high in sugar. Going back to the obesity crisis, it came from the same source of inspiration as the calorie labelling regulations – adding to the tingling sense of déjà vu.

The industry reduced the sugar content in our drinks and prioritised our low or no sugar portfolio. Britvic had already taken a leading position on sugar reduction, having removed over 20billion calories from GB diets on an annualised basis since 2013, and by April 2019, when the levy was introduced, **72%** of its total portfolio and **94%** of its owned brands were below or out of scope of the soft drinks levy in Great Britain.

By September 2019, the SDIL had helped to strip 37.5 billion kilocalories from the nation's diet.[6] Sugar free drinks continue to grow faster than full sugar products[7], and UK households were found to have reduced their weekly sugar intake by 30g.[8] This may all seem fairly unsurprising now, but steering consumer behaviours away from hugely popular products at that scale is no mean feat.

This wasn't simply about changing what consumers find on shop shelves and forcing their hands, it has been hugely influenced by a wellness boom that is not only still going but seriously growing – especially after the events of the past two years. The pandemic has put a huge spotlight on personal health, with **70%** of the on-trade saying they proactively try to lead a healthy lifestyle[9].

For the drinks industry, this hasn't been a case of chicken and egg, but instead one very influential event and an even more influential trend happening at once. With consumer appetite for healthier choices only growing, my industry today finds itself in a strong place having made the changes we did. The calorie labelling story is a nuanced one, but my hope is that the food industry will find long-term benefits from a similar change of course. All the evidence says that is where consumers are heading.

[5] 'Calories on menus 'may not be helpful' in drive against obesity' by James Tapper, 23 January 2022, The Guardian

[6] 'New report shows further sugar reduction progress by food industry', 20 September 2019, Public Health England

[7] CGA, total OOH data, total soft drinks, value sales % change, MAT vs. 2YA, 31.12.2021

[8] 'Sugar purchased in soft drinks fell 10% following introduction of industry levy', 10 March 2021, University of Cambridge

[9] CGA, Brandtrack, August 2021

[10] CGA, OPM Data, Volume share, 12 weeks to 06.11.21 & OOH 12 weeks to October 2021

Looking Forwards

Looking back

It may seem ironic to begin an article titled "Looking Forwards," by looking backwards, but it's worth taking a moment to reflect on the journey that we've all been on over the last two years.

Cast your mind back to Monday 16 March 2020 – this was the day when Boris Johnson said that "everyone in the UK should avoid 'non-essential' travel and contact with others to curb coronavirus." Critically for the hospitality industry, new guidance was announced that "everyone should avoid gatherings and crowded places, such as pubs, clubs and theatres."[1]

Since then, we've had to manage various lockdowns and tiered restrictions, huge amounts of uncertainty, big swings in consumer confidence….and of course, debates over whether scotch eggs could be classed as a 'substantial meal!'

Impact on consumers

The last two years have been challenging for consumers, with coronavirus having a serious impact on people's confidence in visiting pubs, bars and restaurants.

A CGA survey post 'Freedom Day' showed that consumer confidence across all age brackets was still well below 100%, with the older age groups in particular feeling less confident visiting hospitality venues.[2] This has clearly affected behaviour and older people have been much slower to return to the on-trade than younger adults, particularly in the early stages of re-opening, when two in five **(41%)** of those who were yet to return were 55 or over.[3]

Many of our working habits have also changed – the number of people working from home doubled during lockdown and hybrid models where many work from the office once or twice a week have been the norm since April last year.[4]

More people working from home means less likelihood of colleagues gathering for after-work drinks in town and city centres. Instead, many are opting for quieter occasions closer to home.

As a result, the on-trade consumer profile has become markedly younger and more affluent over the last two years [5].Occasions tend to be shorter than before the pandemic and many drinkers are looking to treat themselves when they do go out.[2]

1. https://www.bbc.co.uk/news/uk-51917562 (Published 16/3/20, accessed 22/2/22)
2. CGA Brand Track survey, post 19/7/21
3. CGA article ref ageing demographics, 1/10/21
4. Kantar Out of Home, Link Q Survey, April 2021
5. Kantar Alcovision data, rolling 12 months ending data to 30/9/21

We've also got to factor in the novelty factor and desire to celebrate after being couped up at home for months on end. This can be seen in the success of the spirits category in the early days after hospitality reopened with drinks such as cocktails and shots featuring far more prominently in drinkers' repertoires than they would do normally. This novelty factor won't be a driver forever though, as being able to go out freely has been the norm again for some time now and visiting pubs, bars and restaurants will soon be the norm again for those who have been the slowest to return.

Premiumisation trends have also accelerated, most notably in the World Lager category, whilst more traditional favourites such as Core Standard Lager (e.g. Carling & Foster's), Core Keg Ale (e.g. John Smith's & Worthington's) and Cask Ales (e.g. Sharp's Doom Bar & Greene King IPA) have seen their share of the drinks category come under pressure – even if they still account for a high proportion of overall demand.

Looking forward

Consumer confidence continues to build, and people will increasingly travel for work and leisure, and more spontaneous and big-group occasions will return. So, we fully expect to see some normalisation of the sales mix with familiar favourites such as Core Standard Lager, Core Keg Ale and Cask Ale regaining share and more premium sectors such as World Lager dropping back slightly.

The pandemic has undoubtedly accelerated trends that were already underway, but we need to see things settle back to normality before we can read too much into these patterns. It might not be the most exciting message, but all our consumer research and insight points to the fact that the world hasn't fundamentally shifted over the past two years.

The shape of the market is likely to change again from how it looks today as more people come back to the on trade, in particular those older consumers who have been the slowest so far, and as occasions become longer in duration and more spontaneous.

Looking at some of the economic headwinds ahead, such as rising energy prices and the squeeze on disposable incomes this will create, we could see the advances made by premium start to slow. This will make balance across the range even more important for venues.

A winning range will have brands which meet a wide variety of customer expectations - from the everyday familiar favourites through to more premium options, with interesting and different beverages for those drinkers who are looking to try something new. The right balance between these different roles will vary dependant on the type of outlet.

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For more information

To find out how Molson Coors could help you strike the right balance on the bar, please contact Mark Bentley, On Trade Category Controller: **Mark.Bentley@molsoncoors.com**

Prior to COVID-19 the hospitality sector employed 3.2 million people, representing 10% of all employment, 6 per cent of businesses and 5 per cent of GDP. UKHospitality is the unified voice for the sector, and seeks to unlock the industry's full potential as one of the biggest engines for growth in the economy, and to ensure that the industry's needs are effectively represented by engaging with governments, the media, employees and customers.

Our key priorities are the revival of a sector hardest hit by COVID-19, safeguarding the future workforce of the sector, tackling the excessive tax burden the sector faces and ensuring that regulation on business is proportionate.

UKHospitality provides a unified voice for hospitality: brewers, coffee shops, contract caterers, hotels and other accommodation providers, indoor attractions and leisure (including ten-pin bowling and escape rooms), late-night, members clubs, pubs, QSR, restaurants, visitor attractions, wedding venues, those that supply the industry and much more.

To contribute to future Future Shock reports or for membership enquiries, please contact UKHospitality:

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CGA is the definitive On Premise measurement, insight and research consultancy that empowers the world's most successful food and drink brands. With more than 30 years' experience and best-in-class research, data and analytics, CGA is uniquely positioned to help On Premise businesses develop winning strategies for growth.

CGA works with food and beverage suppliers, consumer brand owners, wholesalers, government entities and pub, bar and restaurant retailers to protect and shape the future of the On Premise experience. Its mission is to use phenomenal data and expert insights to give brands a competitive edge and ensure the market we love is the most vibrant possible.

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