*bartlett mitchell's 'recipe for success' expert guide*

# Food inflation: mitigating the effects in contract catering

## Introduction

***"Supermarket prices rise at fastest rate for four years" (Grocer magazine 12.08.17)***

Since the UK's referendum vote to leave the EU in June 2017, increasing food prices have been a constant challenge for contract caterers and their clients. As this situation looks set to continue, bartlett mitchell's operations and procurement team have produced this Food Inflation Recipe for Success guide. The guide outlines the issues, influencing factors and ways we can all work together to mitigate the lack of stability in food pricing.

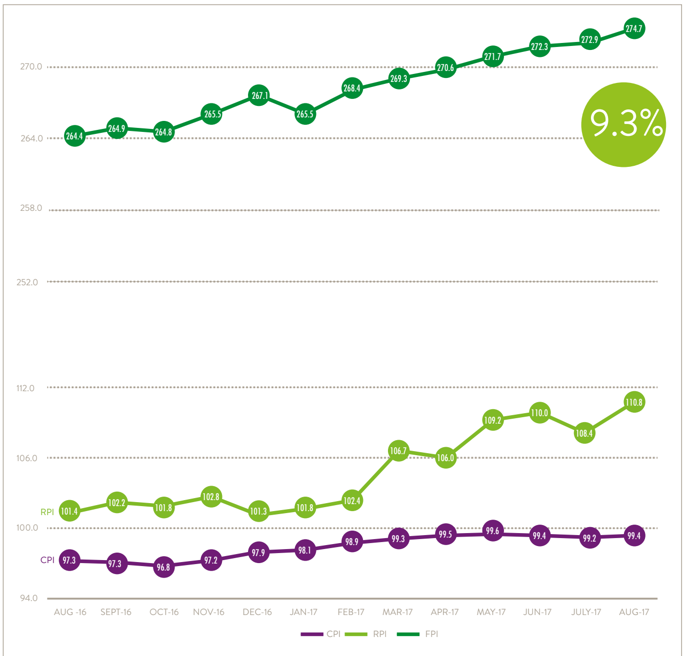
## FPI, CPI and RPI

The rate of increase in prices for food are tracked on three indices;

- Foodservice Price Index (FPI)
- Consumer Price Index (CPI)
- Retail Price index (RPI)

**The FPI** is the independently developed alternative to the CPI and RPI. It contains data drawn from over 50% of the foodservice market and around 7.8m transactions per month. It is the only inflation report focused on the Hospitality and Leisure sector. The FPI provides a more accurate and relevant figure to the foodservice industry than the governments CPI.

**The CPI** is similar to the RPI but does not include the costs of housing. Therefore, the CPI is more aligned to the FPI in terms of the products it is measuring.




Food and non-alcoholic beverages FPI v CPI v RPI

**The RPI** is a list of prices of goods and services that show how much prices have changed in a given period of time. This index includes the costs of housing (rents, mortgage interest costs and council tax for example).

**The FPI latest data reports food inflation is currently tracking at 9.3% (August 17 data) the CPI is tracking at 2.9% and the RPI is at 3.9%.** The discrepancy between the indices shows that the foodservice industry is more exposed to inflationary pressures than consumer-side sectors.

## Why are the three price indices not reporting the same number?

The CPI and RPI are calculated using supermarket's selling prices instead of foodservice wholesale prices; these markets' movements are distinctively different. It should be noted that these indices are experiencing the highest increases in 4 years. Because there is intense competition between the 'Big Four' supermarkets (Tesco, Sainsburys, Morrisons and Asda), these businesses are (for the moment) absorbing food inflationary costs and therefore reducing the inflationary impact to the consumer, which in turn converts to a lower rate for the CPI/RPI.

The RPI tracks higher due to the increase in housing costs over the past 12 months.

### Foodservice inflationary trends and insights per category (July 17 v July 16

| | |
|---|---|
| Bread & cereal 1.4% | Coffee tea & cocoa 3.6% |
| Fish 5% | Fruit 8.9% |
| Vegetables 9% | Meat 11.4% |
| Milk cheese and Eggs 10.6% | Soft Drinks and Juices 8.7% |

# Negative pressures and their impact on inflation

The Brexit vote has led to a sharp fall in the value of the Pound, at its lowest £1 to $1.22/ Euro 1.10 (a fall of over 15%). This has a significant impact and means that imported food will cost more. About 50% of the UK's food is imported. It's impossible to foresee the future position of the Pound but we do know that its fall in value will have long-term impacts.

We cannot predict food inflation with absolute certainty because of the nature of the influencers which include;

- The unpredictable world weather which will often lead to short term fluctuations
- Market forces (such as the drive to use more green transportation, higher minimum wage levels and pressure to remove zero-hours contracts). These forces will continue, and more will be added. They will have an impact on inflation, even if the weather was stable and the Pound remained strong.
- Increases in energy and transportation costs
- The drop in value of the Pound makes our exports competitively priced overseas which creates shortages in the UK
- No member country has ever left the EU before. No one knows what trade deals will be struck.

## Increase in cost of labour.

With more suppliers paying London Living Wage and the increasing minimum wage and workplace pension contributions, supplier's payroll costs are increasing. These can increase payroll costs by up to 9%, taking in to account the planned legislative increases up to 2020. This will also have a direct impact on the supply chain as suppliers attempt to recover their overheads by increasing the cost of their products.

# Europe's influence

Strong economic data from Europe is part of the reason for the drop in the Pound's value. The pound has underperformed against most other major currencies this year, due to the reduction in its value after the UK's referendum decision to leave the EU last year.

Regardless of personal views, the decision to leave the EU has created uncertainty in the short to mid-term, this affects the markets and confidence in the Pound. This uncertainty is compounded by a weaker UK government, a possible election within the next few years and a lack of clarity around transition and trading arrangements.

The Office for National statistics reported in August 2017 that following the referendum decision, EU nationals are leaving Britain. One of the reasons is that weak sterling makes the UK unattractive for EU workers because their wages are subject exchange losses. The outflow was most pronounced among citizens from Poland, Hungary and the Czech Republic. Similarly the number of people choosing to come to Britain has declined. It's widely recognised that this is already leading to skills shortages in hospitality and food production (like butchery) and seasonal farm workers for fruit picking etc. These factors will ultimately drive foodservice costs up.

# What the bartlett mitchell procurement team are doing

To ensure our purchasing delivers value for money we independently benchmark our prices against our competitors. To do this we engage the services of Quenelles who monitor food prices for the catering industry. https://www.quenelles.co.uk/what-we-do The last benchmark was undertaken in April 17 (next benchmark due October 2017), the result showed that our shopping basket of prices (1,000 core lines) was 8.58% better than average for contract caterers.

- Our Purchasing Director conducts monthly briefing sessions providing inflationary updates to keep our managers and clients informed.
- Our procurement policy is not to enter into long term contracts, ensuring our suppliers stay sharp and focused.
- bartlett mitchell has a "good to do business with" reputation amongst our foodservice partners. Suppliers actively seek the opportunity to trade with us. This allows us to negotiate tenaciously (and fairly) ensuring we always get a good deal.
- We engage multiple suppliers in our fresh food categories to ensure suppliers are in a competitive environment to gain market share. In line with our ethical business practices, this also ensures we don't allow a supplier to be overly-reliant on our business.
- We negotiate our fresh food prices on a monthly basis (fruit, vegetables, meat and fish) which enables us to negotiate effectively by tracking market trends.
- Our chefs and managers have the autonomy to decide which suppliers they engage (from our approved supplier listing) which reinforces the competitive environment suppliers are trading within.

# What our catering teams are doing

Our teams take proactive approach to mitigate the effects of inflation. This is what they are doing;

- All Managers and head chefs attend mandatory Gross Profit training workshops with quarterly top-up forums.
- We target sales first; by improving sales the inflationary impact of increasing food costs can often be offset. Tariff increases are always a last resort.
- Teams are trained to monitor costs and adapt their menu and offer to maximise margin. For example, planning menus that use seasonal ingredients.
- High margin items are placed in the most prominent places and teams are encouraged to upsell the high margin items.
- Menu balance. It's okay to give a little margin on one day, as long as chefs make it up on another. For example, chef might target a 40% margin. One day he will sell salmon (which has gone up drastically in price) knowing that he will sell Lasagne on the following day and make up the margin. Our belief is it's a marathon, not a sprint.
- Create meal deals and loyalty schemes to drive customers away from low margin options and remove low margin items altogether if they are not selling.
- Ensure portion sizes are consistent and strictly controlled.
- Focus on food waste. Pete Redman, Chef Director, holds quarterly 'Wast-ed' masterclasses as part of the Chef Academy. Pete introduces the teams to innovative ways of recycling food without simply using 'leftovers'. This includes potato jam, herb stalk pesto, caramelised celery tarte tatin and watermelon rind relish. All of which are popular recipes in our restaurants.
- Evaluate if we can make cheaper than we can buy? Drive customers to buy food we make, rather than items we buy in.
- Provide sales-mix analysis and cost information to our clients, along with regular benchmarking against the high street, so the best decisions on tariffs can be made.

# Recommend- A- tions for clients

### Agility

Be agile with price reviews to enable us to respond to big shifts - we'll absorb the temporary blips.

### Analyse

We recommend a minimum of one tariff review every year so customers are psychologically prepared for it. It becomes very hard to do a catch-up tariff increase after several years of no price reviews. In periods of high inflation, one annualised tariff review is not sufficient. In the current, volatile environment, we recommend doing an overall annual price adjustment, but making small incremental monthly adjustments, if it's required, focusing on non-sensitive items first. If a particular commodity increases by say 30%, you have to act quickly by either increasing the price immediately or removing the item.

### Adjust

It's important to be able to adjust the sales mix and not be afraid to lose certain lines if they don't work. There is no rule that says you have to sell jacket potatoes every day!

### Advertise

Regular communication with customers. It is imperative that customers are educated throughout the year about inflation, even if you haven't increased the tariff. Letting customers know that the price of coffee, for instance, has gone up 10%, but that you are holding the current price as part of your commitment to them shows them you are trying to avoid tariff increases and also mentally prepares them for an increase if and when it happens.

Understanding whether the catering is a staff benefit, or a business stream. In some organisations, they may have to make cut backs, or are unable to award bonuses or pay rises. Offering a subsidised catering service and being willing to absorb the inflation rises so customers do not feel the impact of all or part of it, is a positive message.

# Summary

History shows the UK is a resilient nation and economy and while there may be short term uncertainty and price increases, in the long term we will recover more quickly than many expect. Increasing prices and a shortage of lower paid labour will drive the need for innovation, both technologically and creatively.

It is not the first time the UK has been through challenging times. During the three years following the 2008 recession food prices increased by more than 15%, but the economy recovered and we saw very little inflation for nearly three years from 2012.

Our team are continually focused on coming up with solutions to mitigate food inflation, please talk to your Area Business Manager to discuss other ways we can support you.

# 5 ways bartlett mitchell powers your business

Great food, eaten in great surroundings, can make a huge difference to your business. It's our job to help you make the most of this, in five ways…

## 1. Attracting the best people

Today's employees expect more from their workplace, and the food you provide is a crucial part of that – especially as many people now care more about what they eat. We can help you enhance your 'employer brand' by creating a food and drink offer that sets you apart from other companies. You'll have a happier, healthier, more engaged workforce, and find it easier to recruit and retain the most talented people.

## 2. Improving productivity

Well-fed employees are more productive. In 2013, the Journal of Occupational & Environmental Medicine argued that employees who eat well are 25% more likely to perform better. And, of course, if there's an appealing restaurant or café in the workplace, they will stay on site. More importantly, taking lunch and coffee breaks with colleagues encourages interaction. People talk more freely, information flows more easily, and your business benefits.

## 3. Enhancing your reputation with customers

When customers and other guests visit you, you want them to enjoy the experience and be impressed by your workplace. An appealing, well-run café, restaurant or executive dining facility, serving great food, says a lot about your business. We can ensure your food, drink and hospitality reflect your brand style and values, and uphold its reputation.

## 4. Providing return on investment

Every square foot of your business premises is highly valuable, and the space you dedicate to catering and hospitality has to work hard for you. We ensure these facilities work efficiently and cost-effectively, making best use of your resources. Also, choosing us to manage your food and drink services leaves you and your team free to focus on running all the other vital aspects of your business.

## 5. Collaboration

You want your business to have a positive impact on the environment and your community – and your customers, staff and shareholders want to know about it. We can boost your reputation as a responsible organisation through our strong track record in sustainability. Our achievements become your achievements. And inspiring stories – like the Thirsty Planet water we sell helping to pay for clean water in Malawi – can be associated with your brand.

bartlettmitchell.co.uk

## About bartlett mitchell

bartlett mitchell is a multi-award-winning contract caterer. Our experienced, energetic and enthusiastic team takes a fresh approach to food and drink – with delicious results for you and your business.

We've grown steadily to a team of over 800 experienced foodies, serving 40,000 customers every day in over 90 locations in the UK.

We're also a responsible company, and can help yours to be one, too. We were the first contract caterer to achieve the Sustainable Restaurant Association Three Star Champion Status, known as the Michelin stars of sustainability.

### Fresh ideas every time

Because we're an entrepreneurial business, we don't have a one-size-fits-all template that we attempt to force on each client. Our catering focuses on tailor-made solutions using innovation. We take time to develop bespoke ideas to match the client culture, employees' tastes and the physical environment.

We also recognise the importance of value for money. We work as a tight, agile team to develop solutions that reduce costs and use resources more smartly.

The Planet Mark eden project

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