

ANALYSIS & INSIGHT

Pubs and the profit problem

By Simon Brooke | 14 June 2024 | 7 min read



Major pub operators like Greene King are achieving strong top-line growth, yet the cost of doing business is still causing a squeeze on profits. MCA writer Simon Brooke explores how pubs are balancing their businesses with premium and enhanced offerings, and considers how a transformation in culture might feed through to the bottom line

It's a Thursday evening and the pub is packed. Customers queue at the bar and waiting staff are weaving their way through the crowds to serve tables. At a glance it might seem that, like many pubs around the country, this one is a financial success story. And yet one busy evening isn't proof that over the longer term the business is profitable, just as revenues might be healthy but profits can still prove disappointing.

A survey published in October by the British Institute of Innkeeping revealed that while two thirds of respondents had seen an increase in sales over the previous year, only half of them were making a profit.

More recently financial results published by Greene King, which is responsible for 2,700 pubs, restaurants and hotels across the UK, making it one of the country's largest groups, show a similar pattern. Revenues are £2.4bn for the year ending 31st December 2023, up substantially from £2.1bn a year earlier but operating profits are down slightly at £186m from £192m for the same period.

"Whilst we delivered an improved revenue performance reaching above pre COVID-19 levels our profitability was impacted by the heightened cost of doing business," said Nick Mackenzie, Greene King's CEO. Despite improving sales, this squeeze in profits will have no doubt come as a disappointment at the company.

This is a typical of the pub sector, James Shorhouse, head of alternative markets at professional services and investment management company Colliers, tells MCA. "Revenues are pretty healthy, and you'll be seeing a lot of companies reporting double-digit growth," he says. "The market quite strong from the top line sales perspective. Rebuilding margins is the focus of a lot of operators' attention at the moment but there's only so much you can do as far as pushing pricing is concerned."

"The problem is that over the last few years has been costs increasing," Shorhouse explains. "Energy in particular is obviously a big issue for pubs. Many of them are, by their very nature, old buildings with a lot of character but their energy usage is high. They might just probably scrape a C as an EPC rating."



Greene King Hive Wymondham

"Costs have been rising at a time when consumer spending has also been under serious pressure, and pubs are at the discretionary end of spending," Tim Black, associate director at Frontier Economics, tells MCA. The consultancy produced a report last year on the sector commissioned by the British Beer and Pub Association which revealed that the combined scale of cost pressures is substantial, representing an increase of up to 43% for pubs from 2019 to 2024.

Meanwhile, brewers' production costs have also risen substantially in the last five years, up from 28% as a percentage of gross sales in 2019 to 34% in 2024 before any mitigation or pass through. These costs present a significant challenge for pubs – to what extent do they seek to mitigate them, to pass them through to customers or try to absorb them?

However, the picture isn't entirely gloomy. "Greene King and all the national operators are seeing some parts of their business performing better than others," Shorhouse says. "It's often the more premium price points that are able to cover their cost better, while in lower price, high volume sectors margins are being squeezed."

"There's a need for pubs to think about their specific offer and how they attract customers, with different choices to make," argues Tim Black. "A pub might position itself as the place to go to watch sports and invest in large screen TVs – with the Euros this summer a particular attraction, while others might focus more on improving their food offer to appeal to customers eating out, including coffee or lunch options to maximise the appeal at otherwise quieter times of day or days of the week."

Admiral Taverns has adopted a two-pronged approach – cutting costs while appealing to a wider range of clientele and providing them with an incentive to linger and spend more. The company has invested over £1m into energy saving initiatives that include cellar management system and fridge managers to help regulate when machines are being turned on and off.

Proper Pubs Brown Cow, Greenacre

"A big part of our strategy is also education, working with our business development managers to educate them so they can offer the best possible support and advice to our operators," Mark Brooke, managing director of Admiral's Proper Pubs division, tells MCA. "Whether that's turning the lights off in unused areas, making sure our pubs are warm by using heating systems that are energy efficient and are able to provide different temperatures for different zones of the pub, or efficiency behind the bar - preparing during quieter times, scheduling labour effectively, these are all important measures to help reduce costs."

The company is also adopting a community-led approach with a more diverse product offering to bring more consumers in through the door. "We have to provide a compelling reason for customers to get off the sofa and visit our pubs," Brooke says. "We do this through providing regular entertainment, quizzes, sports viewing, facilitating pub teams, charity events, local celebrations and parties. We believe that if we provide a hub for the community, then the community will support our operators."

Macroeconomic indicators and sector challenges aside, to what extent might Greene King's financial performance be positively impacted by a change of culture? Has Nick Mackenzie's leadership style and his influence on the company's culture had a discernible impact its financial performance? What effect could it have going forward?

In an industry traditionally seen as male-dominated, which is now facing a tougher economic climate as the cost of living increases competition among individual pubs and chains for consumers' share of wallet, can culture have an impact on financial performance?

Dr Randall Peterson, Professor and Academic Director of the Leadership Institute at London Business School, argues that it does, and he points to the case of Microsoft. Under Steve Ballmer's leadership, its "stack ranking" management system saw employees ruthlessly graded with one in 10 of them automatically receiving a poor rating, regardless how much they contributed to the company. Competition between colleagues was intense and politics rife. However, Microsoft's Bing search engine pretty well failed against Google, and its Zune digital media range couldn't compete with Apple's iPod, Peterson points out. Ballmer's own Glassdoor rating among his own employees was just 29%, while Google CEO Larry Page's was 94% and Mark Zuckerberg achieved 99%.

However, the current Microsoft CEO, Satya Nadella, has taken a more inclusive, collegiate approach. His Glassdoor rating is 95% and the company is back in the game, competing with Google and others in areas such as cloud computing and AI.

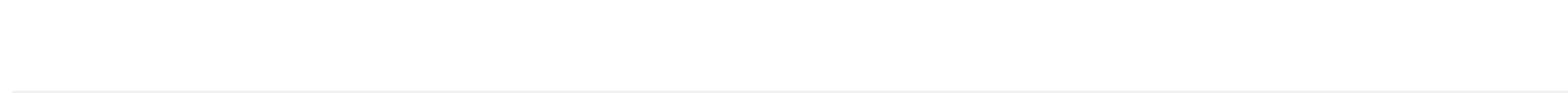
Nick Mackenzie, CEO of Greene King, has overseen a cultural transformation at the pub company

"Competition needs to be directed externally and not within the firm," Randall tells MCA. "Ideally, you need people to cooperate with colleagues within the company but then be competitive towards other players in the market. It's about knowing when to be cooperative and when to be collaborative. Sports teams, for instance, are trained to be cooperative within the team and competitive when it comes to the other side."

Could a more inclusive, more collegiate corporate culture and management style have the same effect on Greene King and Nick Mackenzie as it did for Satya Nadella and Microsoft? Employees, investors and suppliers will be watching carefully.

- Simon Brooke is a freelance journalist who has been published in the Financial Times, The Sunday Times, The Times, the Daily Telegraph and the Daily Mail on subjects including business, travel, property and retail
- Greene King CEO Nick Mackenzie and Admiral Taverns CEO Chris Jowsey are appearing at the Pub Conference on 26 June. For tickets and more information, [click here](#).

Admiral Greene King



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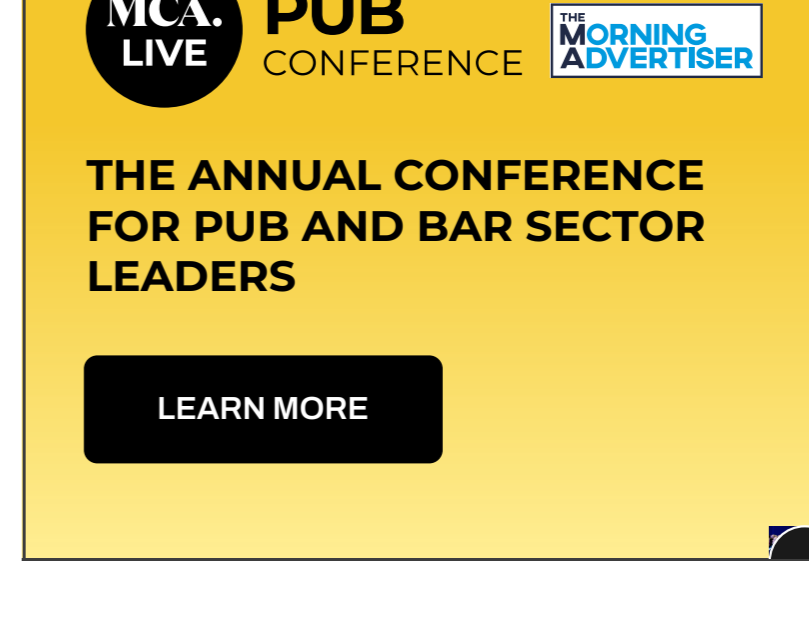
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