Restaurants Canada Research

RESEARCH

Restaurant Outlook Survey

Q4 2018

Executive Summary

- Most foodservice operators reported either no change in their same-store sales or lower sales in Q4 of 2018 compared to Q4 2017, likely due to falling consumer confidence in an uncertain economy.
- Struggling with rising expenses, four in 10 foodservice establishments said their financial performance worsened in 2018 compared to 2017.
- Looking ahead, the share of foodservice operators feeling optimistic about their business fell to 47% in Q4 from 60% in Q3. Those who are feeling optimistic cited the quality of their guest experience and improved business practices as reasons why.
- The share that is feeling pessimistic rose to 26% in Q4 from 18% in Q3 due to higher labour costs and worsening economic conditions.
- The top priorities for restaurant operators in 2019 are reducing operating costs, improving guest experience and focusing more attention on labour (for instance by investing in staff training and workplace culture).
- While the majority of survey respondents said they saw no impact from the legalization of recreational cannabis use (or that it was too early to tell), a sizeable number expressed interest in potential future opportunities for selling pre-packaged edibles or cannabis-infused products, having the ability to operate a cannabis lounge or café, or offering cannabis-infused catering/private events.

Consumer confidence is down and spending is slowing — but they still gotta eat

There's no doubt that 2018 was an economically challenging year. Housing markets tumbled from 2017 highs, particularly in key, urban markets, and stock markets were predictably unpredictable. Combined, that left many consumers uncertain about their financial outlook.

Despite the continued popularity of discretionary spending going towards dining out, the foodservice industry suffered from the fallout of flagging consumer confidence: the number of respondents who reported increased same-store sales versus the same quarter in 2017 dropped from 41% in Q2 to 34% in Q4.

Restaurant operators that reported lower sales increased by 2 points to 30% during the second half of 2018 and 37% said they'd seen no change in Q4, up from 32% in Q2.

While none of these are "panic button" numbers, they still bear watching as we forge into 2019.

QSRs showing signs of weakness

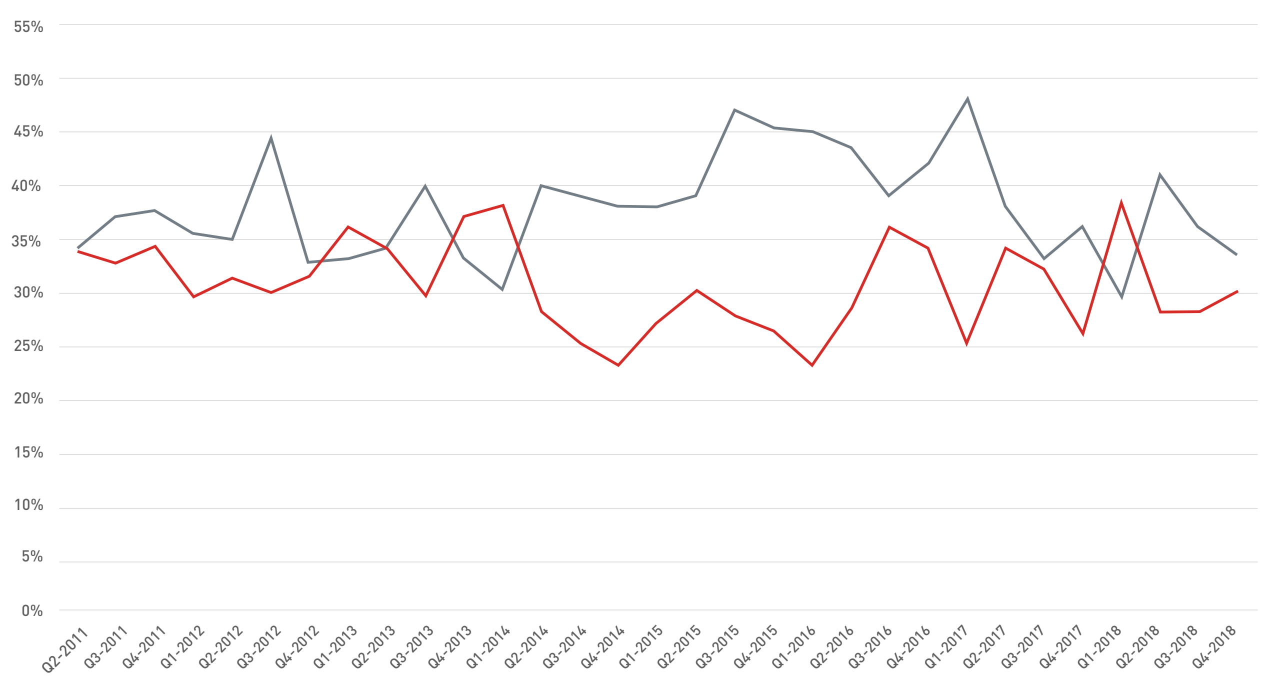
What segment of the industry you occupy made a significant difference in year-over-year same-store figures.

In the quick-service restaurant market, 41% of respondents reported Q4 same-store sales were up. However, 28% said sales were down, a sharp increase from 14% in Q2. It's hard to pinpoint a reason for the slide, but rising menu prices may be partially to blame, encouraging consumers to seek other dining options perceived to be of better value.

Full-service restaurants presented a virtual three-way tie for Q4, with essentially identical numbers for higher, lower, and static performance. That's consistent with what we saw in Q3 but shows a slight dip from a promising first two quarters of 2018.

So, where are consumers spending their discretionary budgets? At businesses that fall into the "All other foodservice" category. These include foodservice options found at hotels and other accommodations, institutions like universities, and clubs and drinking establishments. Just 16% said sales were down versus Q4 2017, a huge improvement from the 31% tallied in Q3. That means 84% did the same or better in the final quarter of 2018 than they did the previous year.

How to explain this? It may be due in part to the diversification of consumer spending. At least one study shows more discretionary dollars were spent on travel and entertainment in 2018 than the previous year, perhaps leading to more dining at non-traditional foodservice outlets.



Respondents who reported higher sales vs. the same quarter in the previous year

Respondents who reported lower sales vs. the same quarter in the previous year

An especially rough Q4 for Alberta

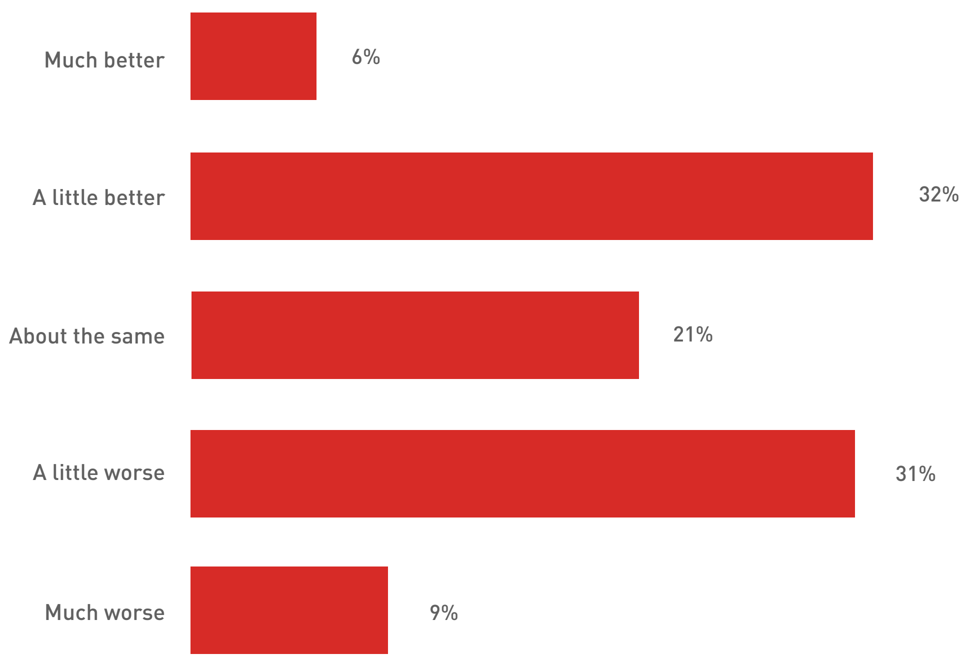
Of course, in a country as large and diverse as Canada, economic results are not one-size-fits-all. For example, in Alberta, the hangover from a 2015-16 recession, dropping oil prices and an uncertain future for the energy sector are plaguing the local economy. In total, 44% of respondents reported reduced sales versus 2017.

One cannot entirely discount the impact of having the highest minimum wage in the nation, either. On Oct. 1, minimum wage jumped by $1.40 to $15 per hour in Alberta — $1.00 higher than in Ontario and significantly higher than in either of its neighbouring provinces.

A virtual ”no-decision” on financial performance in 2018

Consumers weren’t the only ones under financial pressure last year. The foodservice industry had to contend with rising minimum wages in every province, new labour legislation, rising food costs, and increasing rents and utility prices.

But how severe was the impact? That depends on who you ask.



Overall, 38% reported they did better financially in 2018 than they did in 2017. However, 41% said they did not fare as well. That leaves 21% who maintained the status quo, neither losing nor gaining compared to the previous year.

It’s important to call out, however, that the extreme ends of the spectrum had the lowest numbers; most respondents were only a little better off or a little worse off.

"Our restaurant benefited from better summer weather, while third-party delivery helped drive top-line revenue growth."

- Survey respondent

What worked and what didn't work in 2018?

Top three reasons why 2018 was a better year financially than 2017

- Improved cost control (56%)
- Improved guest experience (43%)
- Strong economy (16%)

Faced with mounting financial pressures, Canadian restaurant operators employed a variety of strategies to offset unavoidably higher operating expenses.

The number one strategy was good old belt-tightening, aka improved cost control. This could involve anything from more efficient waste stream management to more effective sourcing of ingredients.

Right behind that was an "improved guest experience". Giving consumers a reason to make the trek from home, or to choose your restaurant from the many food options available via delivery services like Uber Eats and SkipTheDishes, clearly pays dividends. Maybe it's a slick app interface; maybe it's trendy decor. What could you do to make your establishment more appealing?

What strategies didn't work as well? Capital investments in fixed assets ranked lowest according to those who saw better numbers in 2018. Overall, just 9% said that expanding their restaurant space helped them financially last year. An equal number said opening a new location boosted their bottom line.

External forces took their toll on P&L statements in 2018

Among those who reported a worse year in 2018 versus 2017, most cited factors beyond their control for the slowdown.

More than eight out of 10 blamed rising labour costs for the financial setback. The aforementioned increased minimum wages played a part, but high turnover rates coupled with the cost to train new staff, plus a shortage of labour were also major factors. In times like these, employee retention can be just as important as customer retention.

Exactly half of the respondents blamed their woes on a lack of customers. Digging into the data, however, we find that what branch of foodservice you're in made a huge difference in this area: 75% of QSRs reported fewer customers, but just 31% from the "all other foodservice" category said the same.

Indeed, outside data suggests QSR consumption is on the decline in Canada, though the number of outlets keeps climbing. Expanded breakfast and plant-based options may be helping to drive growth.

> "Though the economy is doing OK, consumer confidence in the economy is low, and businesses have pulled back on hospitality spending."
>
> -Survey Respondent

Top three reasons why 2018 was a worse year financially than 2017

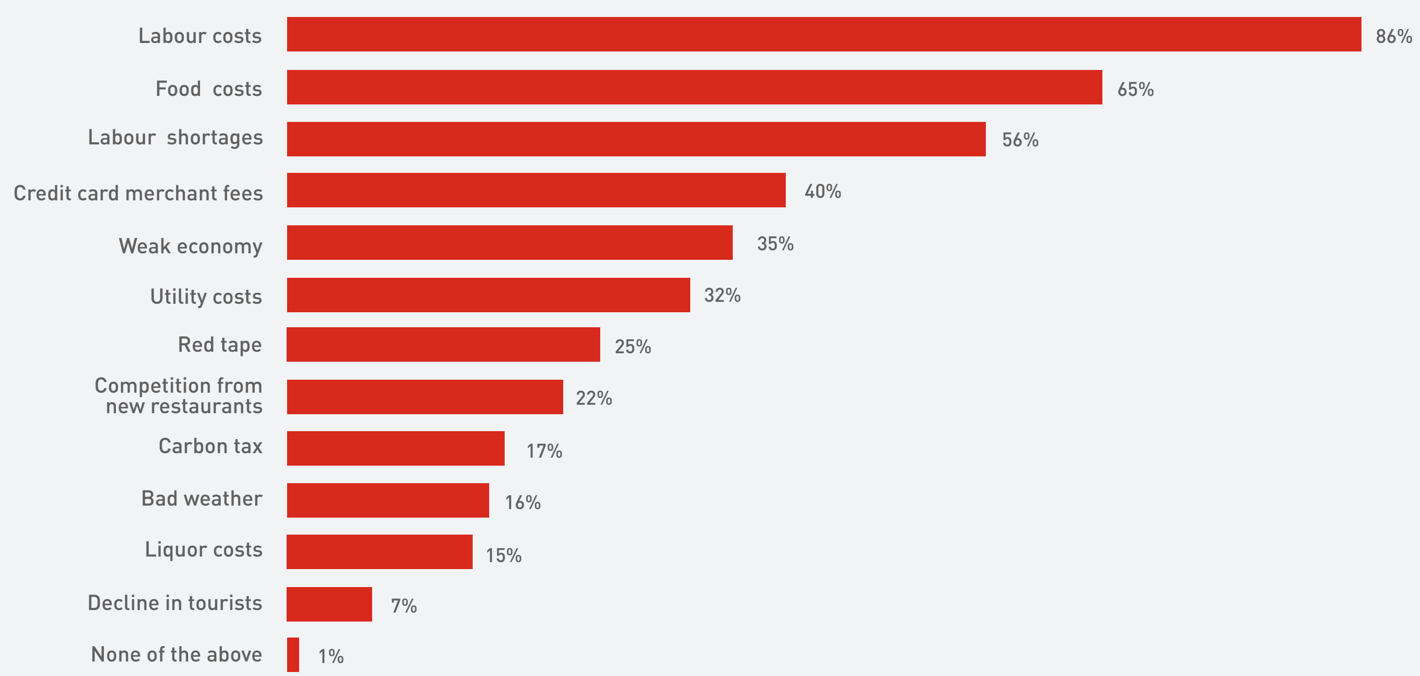
Rising labour costs (81%)

Fewer customers (50%)

Poor economy / government policies (36%)

Expenses top the list of financial challenges

To no one's surprise, labour and food costs held on to the top spots for the biggest challenges facing foodservice operators in Canada.



Affecting more than half of respondents, labour shortages continue to be a hardship for restaurant owners. Put into numbers, in Q3 2018, 63,300 foodservice positions were vacant in Canada. However, this is a highly regional problem: Alberta and Manitoba saw significant declines in labour shortages, while Quebec and Atlantic Canada reported the highest growth in vacancies.

Restaurants Canada research indicates the majority of vacancies are in back-of-house and managerial positions. Perhaps fostering a good relationship with one of the many colleges and universities in Canada offering culinary and hospitality programs could help alleviate this problem in your establishment?

Pro tips for gaining and retaining staff

Ryan Moreno is the CEO of the Joseph Richard Group (JRG), a rapidly expanding organization that currently encompasses 14 public houses, five restaurants, three liquor stores and one hotel in Western Canada. He offers the following tips for attracting and keeping great staff:

- Provide staff with a free meal when they work a full shift and a reduced-cost meal for a shorter shift.
- Offer staff discounts on food and drinks on days off; that can also be extended to friends and family.
- Offer a benefit program for full-time workers that would be better than they would be able to get on their own.
- Pay for training and provide employees with a gift, such as a knife set, if they pass the training.
- Establish a network of agreements with other local businesses that enable employees to get various discounts.

Source: **Business In Vancouver**

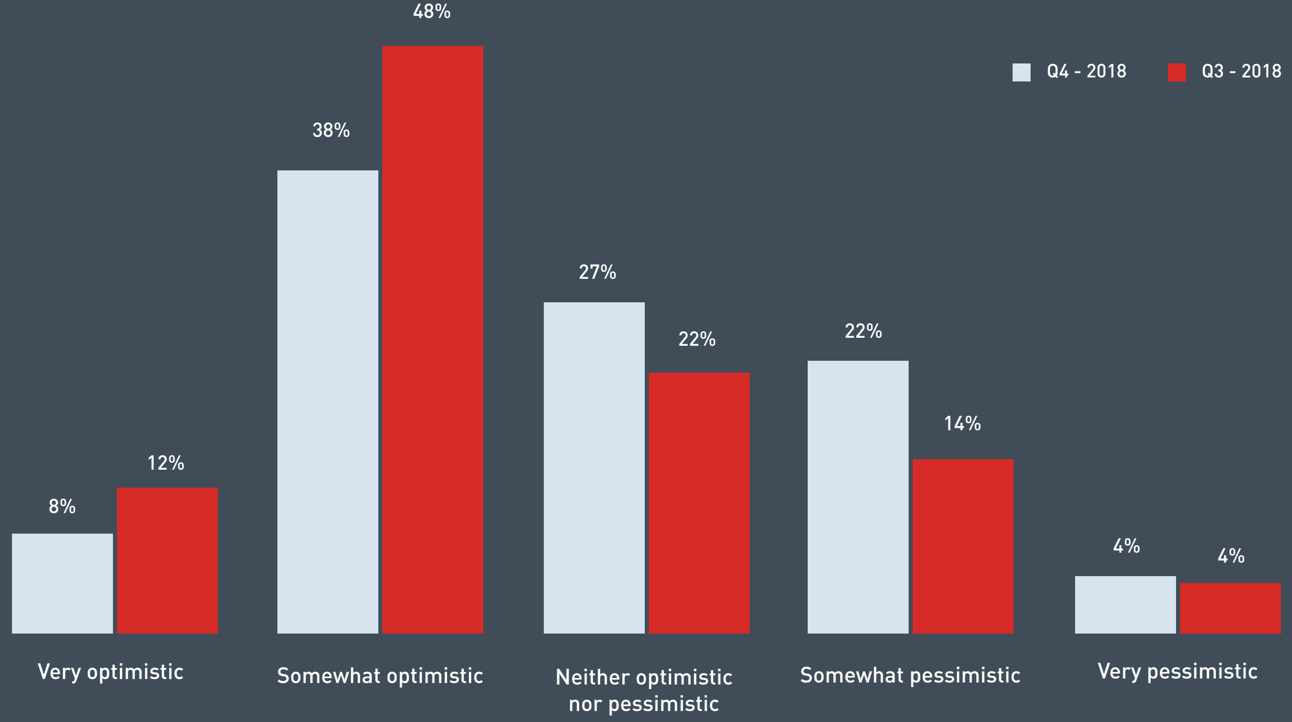
2019 forecast: Less growth, less optimism

Back in July, the Bank of Canada projected an annual growth rate of 2.2% for Canada's 2019 GDP. That number was revised in January to just 1.7%, largely thanks to the drop in oil prices, but also because of adjustments to provincial and municipal housing market policies, tighter mortgage finance guidelines and rising mortgage rates. A bump to 2.1% growth is expected in 2020, but we have to get through this year first!

Unfortunately, a predicted slowdown in real consumer spending (sales adjusted for inflation) will also be an anchor dragging on the economy this year, and that could noticeably impact the foodservice industry.

The outlook isn't all doom-and-gloom, but there has been a corresponding shift in how restaurant operators feel about the near future. When asked in Q3 whether they felt optimistic about the next 12 months and to what degree, 60% of respondents were either very or somewhat optimistic. That dropped to 47% in Q4.

Of course, every glass that's half full is also half empty: the number of pessimistic respondents surged from 18% in Q3 to 26% in Q4.



Top three reasons operators are feeling **optimistic** about 2019

- Quality of our guest experience (65%)
- Improved business practices or systems (63%)
- High-quality staff (34%)

Top three reasons operators are feeling **pessimistic** about 2019

- Higher labour costs (70%)
- Stagnant or worsening economic conditions (65%)
- Labour shortages (48%)

Those with a positive outlook are still serving their optimism with a side of realism. An economic slowdown this year seems inevitable, and foodservice operators are looking for proactive solutions to get their businesses over the hump.

Reducing operating costs leads the way, of course, but that's standard practice when any industry feels the pinch. Improving guest experience and staff training, two factors that go hand-in-hand, are also top priorities for the majority of respondents.

More interesting, though, are the less obvious tacks operators are taking.

Ramping up marketing activities is a go-to choice for many, and more businesses are focusing on growing their social media presence. It's a lower-cost approach to marketing with instant, targeted reach, and it's the way to grab the attention of millennials and Gen Zers.

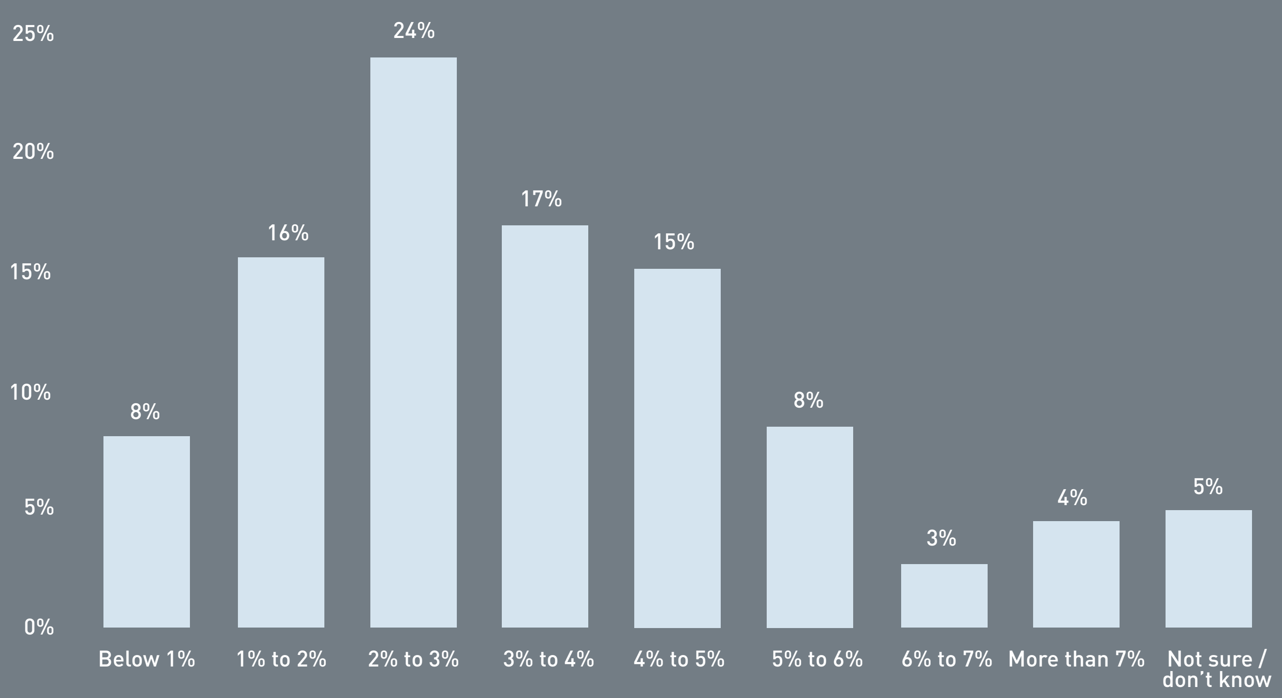
Menu innovation is also a priority for some respondents. Younger demographics are worldly and adventurous and looking for new flavours. Plus, the rise of "food tribes" including vegans, flexitarians, Keto, and so on has been well documented. Providing increased options for specialty diets may help fill seats.

Menu prices set to climb again

Nationwide, menu prices climbed 4.2% from 2017 to 2018, despite an average annual inflation rate of only about 2.3%. A surge of 6.4% in Ontario skewed the results somewhat, but diners definitely saw menu prices go up across the country.

Raising menu prices is an unfortunate but expected way for operators to combat cost increases. Nearly half (48%) expect to boost prices by less than 4% again in 2019, with half of those planning a 2-3% bump in keeping with inflation. The bulk of the remaining respondents (26%) are aiming for 4-7% increases, and 4% anticipate raising prices by 7% or more.

If consumers are indeed watching their wallets more carefully, any jump in menu prices could be detrimental. Affordable while still profitable menu items will be the key to success for most restaurant operators.



What matters most to consumers?

With menu prices going up, consumers will be looking for added value to entice them to purchase. The meaning of "added value", however, is subject to interpretation and everyone has his or her own.

When asked what matters most to consumers, the number one answer from respondents was "quality of food". QSR operators, in particular, were nearly unanimous in this opinion: 97% put it on their list of top consumer priorities. Other major players were "customer experience" (79%) and "price" (71%).

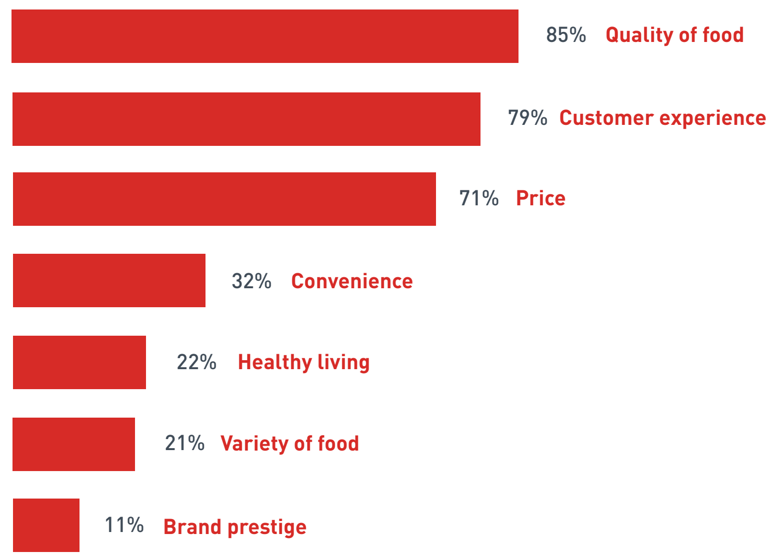
Intriguingly, while "healthy living" was cited by just 22% of overall respondents, 41% of QSR operators called it out. Offering a wider variety of healthy menu items could draw in customers who are seeking better-for-you dining choices.

It will be interesting to see what (if any) impact the new Canada Food Guide from Health Canada will have on consumer behaviours and expectations. In a major departure from established conventions, Canadians are being encouraged to eat far more fruits and vegetables, including plant-based proteins, and cut back on meat and dairy products.

QSR operators also tagged "convenience" as being very important to consumers; 72% had it on their lists compared to just 27% of table-service restaurants.

Of course, convenience has always been the stock-in-trade for quick-service. In fact, Ipsos Foodservice Monitor reports that take-out, delivery and drive-thru account for 71.3% of quick-service restaurant traffic as of November 2018.

But, traditional restaurants may want to take notice; busy 21st-century consumers don't have the time to dine out that they once did. Streamlined service, off-peak specials, or enhanced delivery options could put your business on someone's radar — or home screen. That same Ipsos study showed about one-quarter of table-service restaurant purchases were eaten outside the premises. What could you do to expand on that opportunity?



What goals are you setting for 2019?

So far, we've covered a slowing economy, increasingly tight-fisted consumers, and rising costs for operation. With a year like this ahead, it's important to have a plan.

According to those surveyed, 70% said they'd be looking for ways to reduce operating costs — this was the top answer across the board for all industry segments. For some, this will be a continuation of measures already implemented in 2018.

Cutting back on labour hours is an obvious choice for others, though the potential impact on customer experience makes it a risky proposition.

There are a lot of foodservice options out there competing for already hard-to-get consumer dollars. Providing a superior and memorable (and social media-worthy) guest experience is a critical piece of the puzzle when it comes to outperforming your competition. This could take the form of a loyalty program, a user-friendly app, or simply keeping your facilities clean and pleasant to be in. Think about enhancing the presentation of meals, and Instagrammable decor to encourage foodie posts and selfies — and don't forget to push your hashtag for free word-of-mouth advertising.

As mentioned earlier, reducing food waste is a green solution some operators are exploring. Others plan to experiment with switching out menu items with less-expensive alternatives.

While few operators plan on hiring more staff (16%), more intend to make better use of the staff already in place with improved training (51%). Working to "improve workplace culture" can also boost productivity; 30% have that on their to-do lists for 2019.

Nearly one-third of restaurant operators will "integrate new technology" into their business. Past research by Restaurants Canada has shown that technology can benefit operators through increased sales and higher productivity, but that the perceived high cost is a significant factor that has discouraged restaurants from adopting new technology.

Top Priorities for Restaurants in 2019

Cannabis and Foodservice: Competing with "Netflix and roll"

The federal government made good on its promise to legalize recreational cannabis use on Oct. 17, 2018. It remains a "buzz-worthy" topic, but the potential impact on the foodservice industry is still somewhat up in the air.

As a special feature in the Q4 2018 Restaurant Outlook Survey, Restaurants Canada asked foodservice operators about the impact this has had on business. The overwhelming consensus is that little has changed.

Just 2% of all respondents said they'd seen any positive impact at all, and only 8% claimed a negative impact. Nearly two-thirds said it had made no impact at all thus far, and 26%, perhaps sagely, said it was too early to tell.

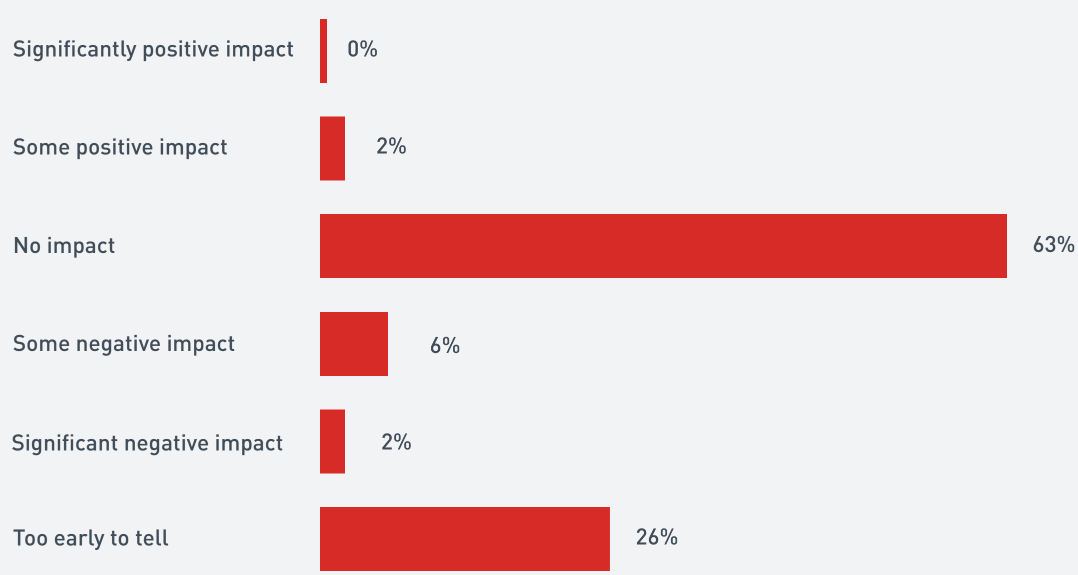
Looking at the detailed numbers, however, it's notable that 9% of table-service operators said they'd experienced "some negative impact." Could it be that this new recreational opportunity is keeping some would-be restaurant patrons at home? And could the counter-measure be to implement or enhance existing delivery options?

If you can't beat them, join them

Interest in selling premade products averaged about 35%, with hosting events or operating a cannabis lounge coming in just slightly below that. Given that the legal, recreational cannabis industry in Canada is expected to swell from $400 million in 2018 to **$4.3 billion** in 2025, and that alcohol consumption is on the decline, this might be a prescient and profitable attitude.

In contrast, 54% said they would not be interested in selling cannabis products, and 61% would decline to run a cannabis lounge or café, or host cannabis-oriented private events.

Impact of Recreational Cannabis on Restaurants



Appendix

What factors, if any, are currently having a negative impact on your foodservice business? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Labour costs	86%	90%	85%	80%
Food costs	65%	69%	64%	67%
Labour shortages	56%	55%	56%	57%
Credit card merchant fees	40%	38%	44%	35%
Weak economy	35%	28%	40%	31%
Utility costs (water, electricity, gas and heating)	32%	41%	36%	20%
Red tape (unnecessary government policies and regulations)	25%	17%	28%	18%
Competition from new restaurants	22%	31%	23%	12%
Carbon tax	17%	10%	19%	16%
Bad weather	16%	21%	17%	12%
Liquor costs	15%	3%	16%	12%
Decline in tourists	7%	3%	9%	4%
None of the above	1%	0%	1%	2%

In the fourth quarter of 2018, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the fourth quarter of 2017?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	33%	41%	33%	35%
About the same	37%	31%	33%	49%
Lower	30%	28%	34%	16%

In 2018, was your financial performance in terms of net income, better, worse or about the same as in 2017?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Much better	6%	7%	7%	2%
A little better	32%	34%	27%	45%
About the same	21%	31%	20%	22%
A little worse	31%	21%	33%	29%
Much worse	9%	7%	13%	2%

Which factors led to an improved financial performance in 2018?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Improved cost control	56%	42%	61%	54%
Improved guest experience	43%	42%	46%	46%
Strong economy	16%	33%	13%	13%
Expanded restaurant space	9%	17%	9%	8%
Opened a restaurant	9%	17%	9%	8%

Which factors led to a worsening financial performance in 2018?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Rising labour costs	81%	88%	81%	75%
Fewer customers	50%	75%	47%	31%
Poor economy	36%	25%	36%	44%
Government policies	36%	13%	39%	31%
Increased competition	30%	38%	27%	38%

How optimistic are you about your foodservice operation over the next 12 months compared to the previous 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very optimistic	8%	10%	5%	16%
Somewhat optimistic	38%	38%	37%	41%
Neither optimistic nor pessimistic	27%	24%	31%	22%
Somewhat pessimistic	22%	28%	22%	18%
Very pessimistic	4%	0%	5%	4%

Which of the following factors make you feel optimistic about the next 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Quality of our guest experience	65%	79%	62%	66%
Improved business practices or systems	64%	64%	64%	66%
High quality staff	35%	21%	40%	31%
Improving economic conditions	22%	29%	28%	14%
Staff labour costs	8%	0%	10%	7%
Positive impact of new government policies	7%	0%	10%	7%

Which of the following factors make you feel pessimistic about the next 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher labour costs	70%	75%	70%	73%
Stagnant or worsening economic conditions	66%	50%	70%	64%
Labour shortages	48%	63%	46%	45%
Negative impact of new government policies	44%	25%	46%	36%
Lack of effective business practices or systems	8%	13%	5%	9%
Quality of our guest experience	7%	0%	5%	9%

Over the next 12 months, do you expect your menu price increase on a year-over-year basis to be:

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Below 1%	8%	17%	6%	6%
1% to 2%	16%	17%	14%	16%
2% to 3%	24%	14%	27%	22%
3% to 4%	17%	14%	18%	16%
4% to 5%	15%	10%	16%	16%
5% to 6%	8%	10%	7%	12%
6% to 7%	3%	0%	2%	6%
More than 7%	4%	10%	4%	2%
Not sure / don't know	5%	7%	4%	6%

In your opinion, which of the following matters most to consumers? (Please select all that apply.)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Quality of food	85%	97%	87%	92%
Customer experience	79%	79%	84%	82%
Price	71%	79%	77%	69%
Convenience	32%	72%	27%	35%
Healthy living	22%	41%	19%	29%
Variety of food	21%	14%	16%	43%
Brand prestige	11%	10%	13%	6%

Which of the following will be your top priorities for your business over the next 12 months? (Please select all that apply.)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Reduce operating costs	70%	79%	74%	71%
Improve guest experience	62%	62%	66%	65%
Improve staff training	51%	62%	50%	59%
Raise menu prices	35%	34%	39%	39%
Increase marketing	32%	45%	30%	39%
Improve workplace culture	30%	34%	32%	33%
Integrate new technology into my business	30%	38%	31%	29%
Improve inventory management	27%	24%	29%	31%
Hire more staff	16%	28%	12%	24%
Introduce healthy items to the menu	15%	14%	15%	18%
Add a new profit centre	13%	10%	15%	12%
Open a new location	13%	31%	10%	10%
Close a location	5%	14%	5%	2%

What level of impact has the legalization of recreational cannabis had on your business?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Significantly positive impact	0%	0%	1%	0%
Some positive impact	2%	7%	0%	6%
No impact	63%	66%	62%	63%
Some negative impact	6%	0%	9%	2%
Significant negative impact	2%	0%	1%	4%
Too early to tell	26%	28%	26%	25%

If permitted, what level of interest would your business have in opportunities to sell pre-packaged edibles or cannabis-infused products?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very interested	13%	17%	11%	20%
Somewhat interested	22%	24%	23%	18%
Not interested	54%	45%	57%	49%
I don’t know	11%	14%	9%	14%

If permitted, what level of interest would your business have in the ability to operate a cannabis lounge or café, or to offer cannabis-infused catering/private events?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very interested	14%	7%	14%	22%
Somewhat interested	18%	31%	18%	12%
Not interested	61%	59%	63%	55%
I don't know	7%	3%	5%	12%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	237	29	139	69
Number of Units	6,385	3,662	2,462	261

* Includes table-service restaurant and combination table-service restaurant and bar

** Includes accommodation, drinking places, institutions (e.g. health care, education) and managed service providers.

About the Restaurant Outlook Survey

The results for the fourth quarter are compiled from responses to an email to foodservice operators inviting them to take an online survey. The survey was conducted in January 2019.

In total, 237 completed surveys were submitted, representing 6,385 establishments.

Restaurants Canada encourages foodservice operators to participate in the Restaurant Outlook Survey to ensure results continue to be representative of our industry. Contact Chris Elliott at celliott@restaurantscanada.org to receive the next survey.

About Restaurants Canada

Restaurants Canada (previously CRFA) is a growing community of 30,000 foodservice businesses, including restaurants, bars, caterers, institutions and suppliers. We connect our members from coast to coast, through services, research and advocacy for a strong and vibrant restaurant community. Canada's restaurant industry is an $89 billion industry, directly employs 1.2 million Canadians, is the number one source of first jobs, and serves 22 million customers every day.

Restaurants Canada

The voice of foodservice | La voix des services alimentaires

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