

Reference Period: First Quarter 2018

RESTAURANT OUTLOOK SURVEY

WHAT'S NEW!

- **Labour shortages and challenges in recruiting**
- **Factors driving foodservice revenues in 2018**
- **Biggest restaurant upgrades for 2018**



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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Highlights

Nearly four in 10 restaurant operators posted lower same-store sales in Q1 2018. This is due in part to bad weather and weak consumer spending in Alberta and Saskatchewan.

Operators expect a combination of economic growth, rising consumer confidence and higher disposable income will boost foodservice revenues in 2018.

Half of respondents plan to raise menu prices by more than 4% over the next 12 months.

The majority of respondents will invest more resources into marketing and staff recruiting and training.

Operators are experiencing significant difficulties filling back-of-house and manager positions.

What a difference a year can make. In last year's Q1 2017 Restaurant Outlook Survey, a majority of operators posted higher same-store sales and were optimistic about the next 12 months. The mood has soured significantly since then.

In Q1 2018, 38% of operators reported lower same-store sales compared to 30% that saw higher sales. The share of operators posting higher same-store sales has trended down throughout 2017.

The share of respondents reporting lower same-store sales was consistent across all segments. Some of the decline is due to bad winter weather in Q1. But consumers are also watching their spending due to rising interest rates and high household debt.

Data from Statistics Canada show that foodservice sales moderated to 4.4% growth in the first two months of 2018.

This compares to 6.2% growth in Q4 2017. Once adjusted for menu inflation, real sales increased just 0.5%.

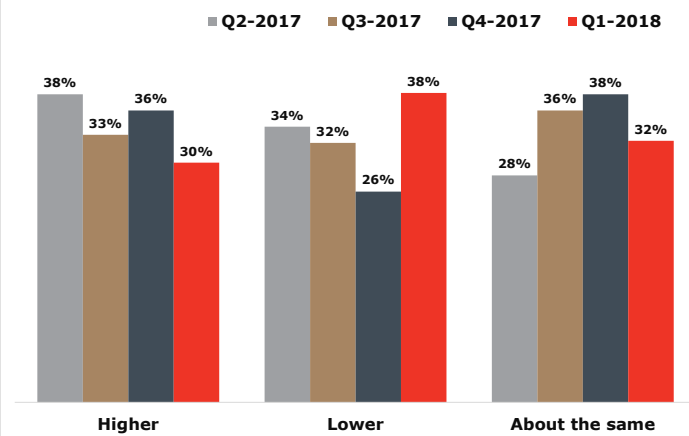
Since the announcement of Bill 148 in Ontario and Bill 17 in Alberta, the share of foodservice operators feeling optimistic about the next 12 months dropped from 69% in Q1 2017 to 47% in Q1 2018.

Conversely, those feeling pessimistic jumped to 33% in Q1 2018 from 11% in Q1 2017.

Just over half (54%) of quick-service restaurant operators are optimistic about the next 12 months. This compares to 43% of table-service restaurants and 50% of 'all other foodservice'.

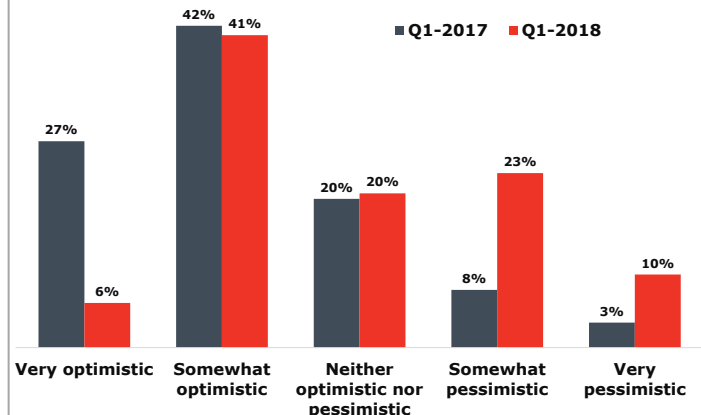
In addition to the new labour legislation, the erosion in operator sentiment reflects deteriorating household finances. High household debt and rising interest rates will put more pressure on consumers to restrain discretionary spending.

Nearly four in 10 operators reported lower same-store sales in Q1.



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

Nearly 50% of respondents felt 'very' or 'somewhat' optimistic about the next 12 months.



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

Factors Driving Business

Over the next 12 months, restaurant operators see a combination of factors driving their revenues. For 37% of respondents, a strong economy will help boost sales. Canada led the G7 countries in economic growth in 2017. Although Canada's real GDP will moderate from its strong performance in 2018, it will still grow at a healthy 2% clip.

One-third of restaurant operators will depend on increased marketing. As discussed later in this report, marketing is the top investment priority for the majority of restaurant operators in 2018.

Three in 10 restaurant operators expect high consumer confidence and rising disposable income to boost sales. Both of these factors have a strong correlation to foodservice sales growth.

Two in 10 respondents believe tourism and businesses will provide a boost to foodservice sales.

While there was no dominant factor, there remains an undercurrent of business uncertainty as it relates to the impact of changes in labour legislation and labour shortages.

Factors Impacting Business

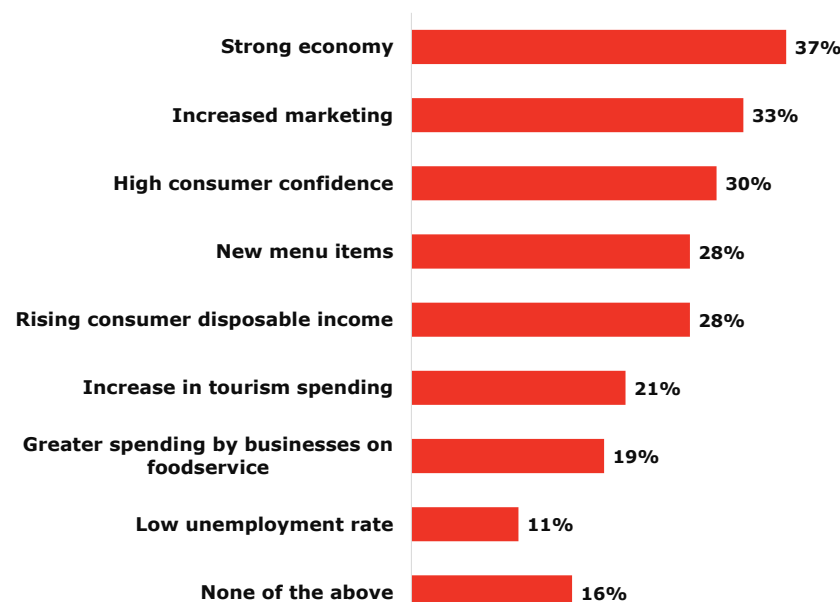
Given the above concerns, it's not surprising that nine out of 10 operators are worried about rising labour costs. This is a concern that is shared across most of the country. In Ontario, 95% of operators say that Bill 148 will have a negative impact on their business.

In Alberta, the minimum wage increase from \$10.25/hr in 2015 to \$13.60/hr in 2017 had a 'very negative impact' on eight in 10 restaurant operators.

The share of operators that said food costs had a negative impact on their business was 62%, down slightly from 67% in Q4 2017.

With the national unemployment rate below 6%, labour shortages is a growing concern for operators. Nearly half of table- and quick-

Operators believe the biggest boost to their revenues will come from the economy and increased marketing.



Q: Which of the following do you believe will provide the biggest boost to your revenues in 2018? (select all that apply)

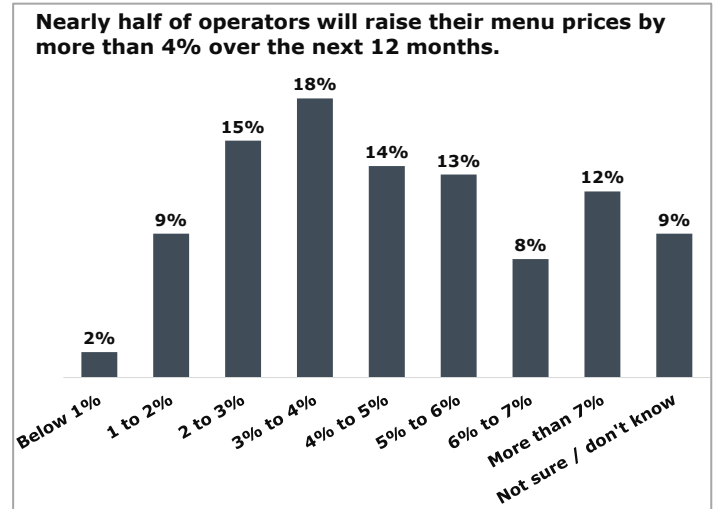
service operators are experiencing labour shortages. As discussed later in this report, a number of operators are finding it difficult to find back-of-house staff and managers.

Bad weather led to weak sales in Q1 for a quarter of restaurant operators.

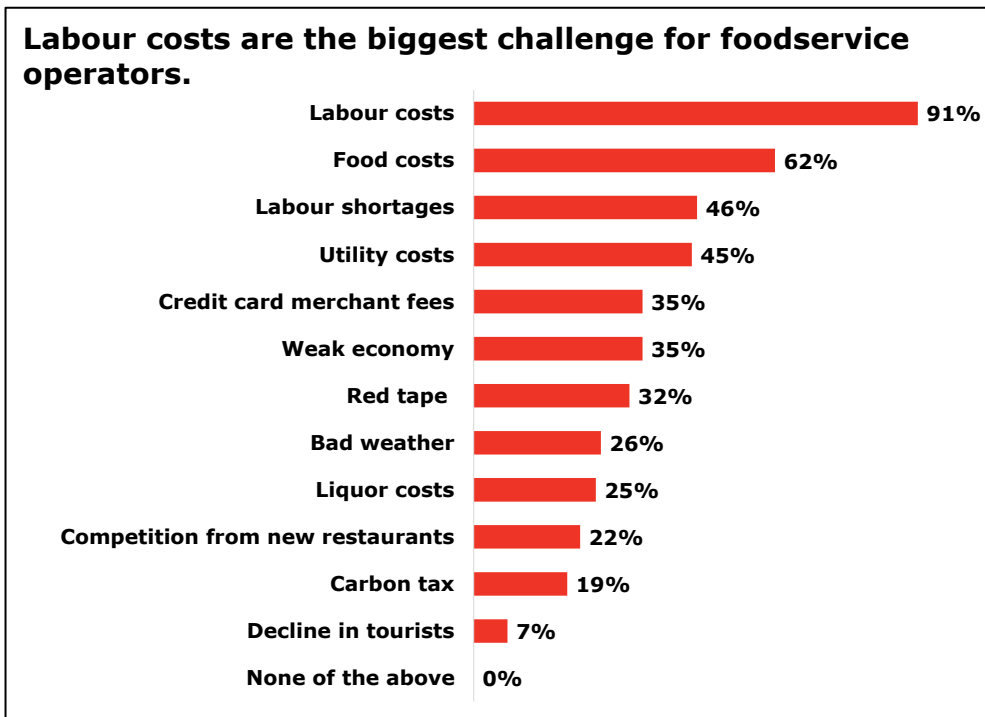
Menu Inflation

Nearly half of operators said they will raise their menu prices by more than 4% over the next 12 months. Even for those outside of Ontario, 42% plan to raise their menu prices by more than 4%.

Due to Bill 148 and other operating expenses, menu prices in Ontario were 6.2% higher in Q1 2018 compared to Q1 2017. This is largest increase in menu prices since the introduction of the GST in 1991. By comparison, prices at grocery stores rose by just 1.3% during the same time. If the price gap between restaurants and grocery stores continues to widen, it could discourage value-conscious consumers from dining out.



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



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

Biggest Upgrades for 2018

In this edition of the Restaurant Outlook Survey, Restaurants Canada asked operators what major upgrades they will invest in over the next 12 months.

Nearly six in 10 operators will focus on marketing. Typically, quick-service restaurant operators devote 3% of their operating revenue to marketing and promotions. This compares to 2.2% for full-service restaurants.

Faced with increased competition from other restaurants, operators are looking for creative ways to stand out from the crowd to drive traffic and retain existing guests.

Besides traditional marketing, experts agree that your marketing strategy should include social media. Using Instagram to promote your food and décor will help create buzz around your business. Also encourage your guests to do the same, perhaps using a draw for a free snack or dessert as an incentive.

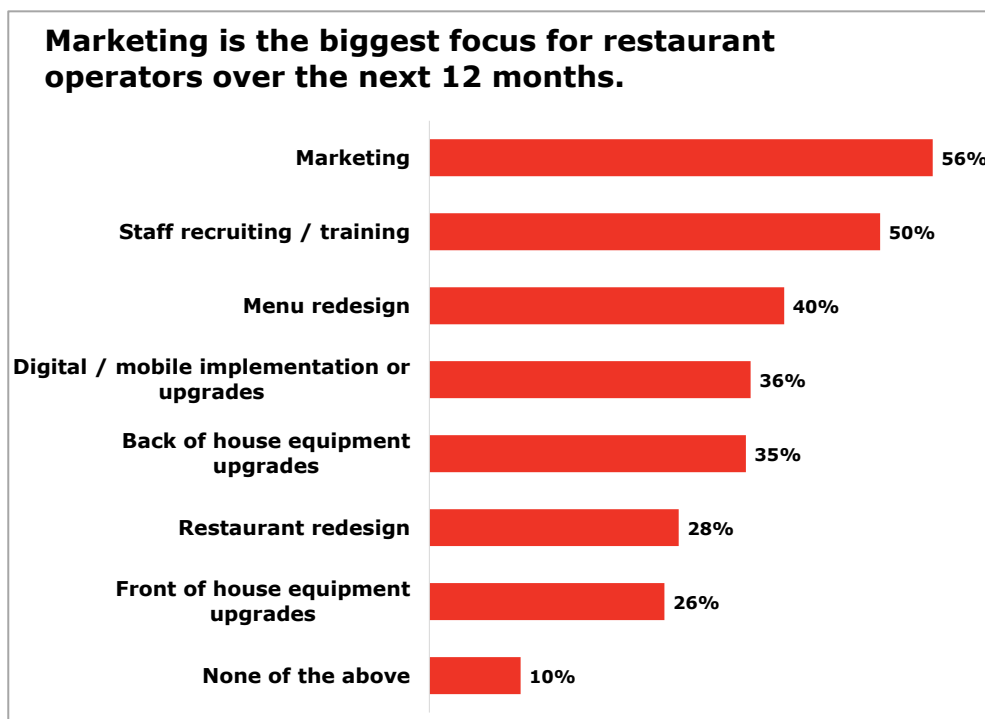
Staff recruiting and training is also critical. While labour shortages are an issue, training is also

important provide the best possible customer experience and improve overall efficiency.

Four in 10 operators are looking to redesign their menu to keep up with the latest trends, but also to remove items that are less popular with guests. To find out what's popular among chefs, consult Restaurants Canada's 2018 Chef Survey results on our website.

Investing in digital/mobile implementation and upgrades is another top priority for operators. A restaurant's online and mobile presence is more important than ever and is only growing. According to a survey by BrandSpark, six in 10 Canadians looked up directions/locations/hours of operation on their smartphone/tablet. Four in 10 ordered take-out/delivery through a restaurant's website. Three in 10 used rewards/special deals on their smartphone/ tablet. This is up 6% over 2017.

Respondents say that now is the time to focus on back-of-house equipment upgrades (35%), restaurant redesign (28%) and front-of-house equipment upgrades (26%).



Q: Over the next 12 months, which of the following upgrades will you invest in? (select all that apply)

Labour Challenges

As stated earlier, labour shortages is the third most important issue impacting foodservice operators.

More than half of respondents said they are having an 'extremely difficult' or 'very difficult' time filling back-of-house positions. One-third were having a difficult time filling manager positions, while 13% had challenges with front-of-house positions. These results were fairly consistent across all segments, although table-service restaurants faced the largest challenge filling back-of-house positions (61%) and managers (38%).

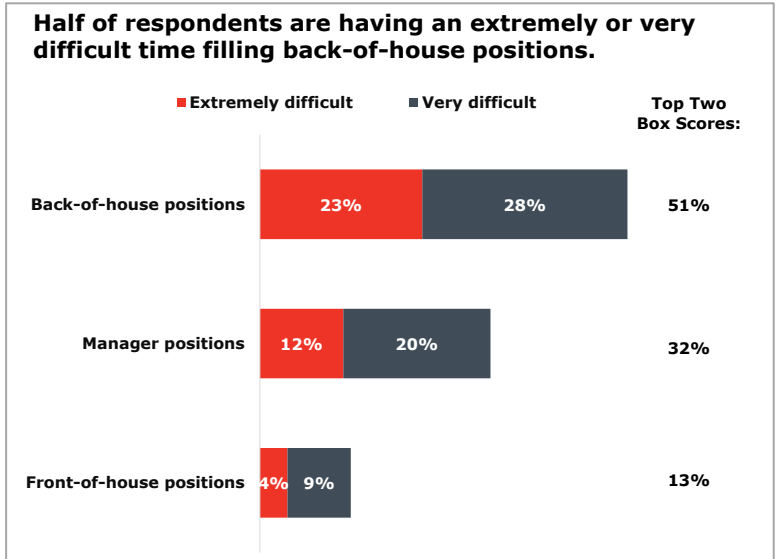
Restaurants Canada asked why they were unable to fill these positions. For 73% of operators, they couldn't find people with the right skills.

More than half of respondents cited that young people don't want to work in the industry.

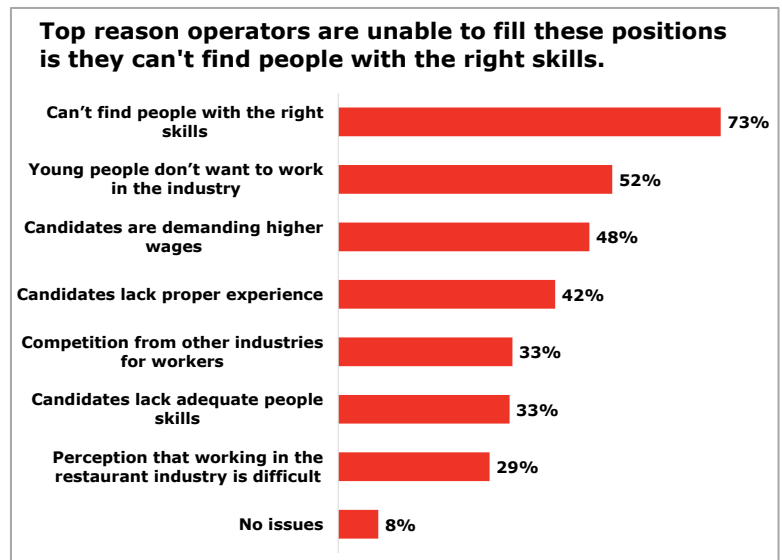
Despite rising minimum wages, nearly half of respondents said that candidates are demanding higher wages. Yet many of those that apply lack proper experience or skills.

Other respondents pointed out that 60% of the people they schedule for interviews don't show up. Another operator explained that not only do candidates not show up for interviews, but the ones that do are unable to supply job references.

Experts on hiring and recruiting say that it's important to provide staff with flexible schedules, career-advancement opportunities and good working conditions. While this may encourage young people to work in the industry, the skills-shortage problem requires a long-term strategy.



Q: Are you currently experiencing any difficulties filling the following positions?



Q: Which of the following are the biggest challenges to filling these positions? (select all that apply)

About the Restaurant Outlook Survey

The results for the first quarter are compiled from responses to an e-mail to restaurant operators inviting them to take an online survey. The survey was conducted in April 2018.

In total, 187 completed surveys were submitted, representing 4,403 establishments.

We encourage restaurant operators to participate in the Restaurant Outlook Survey to ensure results continue to be representative of our industry.

About Restaurants Canada

Since its founding in 1944, Restaurants Canada has grown to represent 30,000 businesses in every segment of the foodservice industry, including restaurants, bars, clubs, cafeterias, and contract and social caterers. Through advocacy, research, member savings and industry events, we help our members in every Canadian community grow and prosper.

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Foodservice Industry Insights

The Restaurant Outlook Survey is one of many research reports available exclusively to Restaurants Canada members.

Visit the Member Portal at restaurantscanada.org/members to see them all.

Questions? Please contact Member Services at (416) 923-8416 or 1-800-387-5649, extension 8006, or members@restaurantscanada.org with your request.

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

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	30%	29%	32%	24%
Lower	38%	39%	39%	35%
About the same	32%	32%	29%	41%

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	6%	6%	5%	11%
Somewhat optimistic	41%	48%	38%	39%
Neither optimistic nor pessimistic	20%	13%	19%	28%
Somewhat pessimistic	23%	23%	25%	17%
Very pessimistic	10%	10%	13%	4%

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	91%	87%	93%	89%
Food costs	62%	58%	64%	61%
Labour shortages	46%	48%	49%	39%
Utility costs	45%	45%	50%	37%
Weak economy	35%	26%	42%	28%
Credit card merchant fees	35%	35%	40%	20%
Red tape	32%	32%	34%	33%
Bad weather	26%	26%	27%	24%
Liquor costs	25%	10%	33%	20%
Competition from new restaurants	22%	29%	21%	17%
Carbon tax	19%	13%	25%	11%
Decline in tourists	7%	6%	8%	4%
None of the above	0%	0%	0%	0%

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%	2%	3%	2%	0%
1 to 2%	9%	16%	6%	14%
2 to 3%	15%	6%	17%	19%
3% to 4%	18%	16%	20%	14%
4% to 5%	14%	13%	14%	14%
5% to 6%	13%	10%	16%	7%
6% to 7%	8%	10%	7%	7%
More than 7%	12%	10%	14%	12%
Not sure / don't know	9%	16%	5%	12%

Which of the following do you believe will provide the biggest boost to your revenues in 2018? (select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Strong economy	37%	39%	42%	28%
Increased marketing	33%	35%	32%	39%
High consumer confidence	30%	35%	29%	28%
Rising consumer disposable income	28%	29%	27%	28%
New menu items	28%	35%	24%	33%
Increase in tourism spending	21%	23%	21%	24%
Greater spending by businesses on foodservice	19%	26%	14%	26%
Low unemployment rate	11%	10%	12%	7%
None of the above	16%	23%	15%	13%

Over the next 12 months, which of the following upgrades will you invest in? (select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Marketing	56%	55%	63%	43%
Staff recruiting / training	50%	39%	47%	65%
Menu redesign	40%	35%	40%	43%
Digital / mobile implementation or upgrades	36%	39%	37%	26%
Back-of-house equipment upgrades	35%	26%	36%	39%
Restaurant redesign	28%	35%	28%	15%
Front-of-house equipment upgrades	26%	16%	26%	28%
None of the above	10%	19%	10%	7%

Are you currently experiencing any difficulties filling the following positions?

<i>Front-of-house positions</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Extremely difficult	4%	3%	4%	4%
Very difficult	9%	10%	8%	9%
Moderately difficult	34%	45%	33%	31%
Slightly difficult	22%	13%	23%	24%
Not at all difficult	25%	10%	32%	20%
Not applicable	7%	19%	1%	11%
<i>Back-of-house positions</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Extremely difficult	23%	17%	27%	15%
Very difficult	28%	27%	34%	20%
Moderately difficult	16%	13%	12%	26%
Slightly difficult	18%	17%	20%	15%
Not at all difficult	10%	7%	7%	17%
Not applicable	5%	20%	0%	7%
<i>Manager positions</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Extremely difficult	12%	10%	15%	5%
Very difficult	20%	13%	23%	21%
Moderately difficult	20%	17%	20%	21%
Slightly difficult	9%	7%	7%	19%
Not at all difficult	9%	3%	10%	12%
Not applicable	29%	50%	25%	23%

Which of the following are the biggest challenges to filling these positions? (select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Can't find people with the right skills	73%	61%	80%	64%
Young people don't want to work in the industry	52%	58%	52%	50%
Candidates are demanding higher wages	48%	42%	50%	50%
Candidates lack proper experience	42%	29%	46%	43%
Competition from other industries for workers	33%	29%	36%	31%
Candidates lack adequate people skills	33%	35%	35%	29%
Perception that working in the restaurant industry is difficult	29%	32%	26%	33%
No issues	8%	10%	4%	17%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	187	31	107	49
Number of Units	4,403	2,541	713	1,149

* 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.