

Reference Period: Third Quarter 2017

RESTAURANT OUTLOOK SURVEY

WHAT'S NEW!

- **Menu inflation to accelerate over the next 12 months**
- **Growth in off-premise dining**
- **What dayparts operators will focus on in 2018**



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

Prepared by
Chris Elliott, Senior Economist

October
27, 2017

Highlights

The share of operators reporting higher same-store sales slipped in Q3 as a greater share of operators saw flat sales.

The share of operators that feel optimistic about the next 12 months fell for the second consecutive quarter as operators are worried about the impact of higher minimum wages.

Menu prices in Ontario are forecast to climb by an average of 4% in 2018 due to rising labour costs.

In order to boost traffic, an increasing share of operators are looking to expand the off-premise side of their business.

Most operators will focus on growing their lunch and supper dayparts in 2018.

Although aggregate foodservice sales reported by Statistics Canada increased in most of the country in 2017, same-store sales growth was evenly mixed in Q3. While 33% of respondents reported higher same-store sales compared to last year, 32% posted lower sales. Another 36% saw flat same-store sales.

Since Q1, there has been a sharp decline in the share of operators reporting higher same-store sales. While a strong economy in the first half of the year propped up foodservice sales, spending is now moderating to a more sustainable pace.

Nearly half (48%) of quick-service restaurant operators posted higher same-store sales in Q3. This is up from 37% in Q2.

In contrast, the share of table-service restaurant operators that reported higher same-store

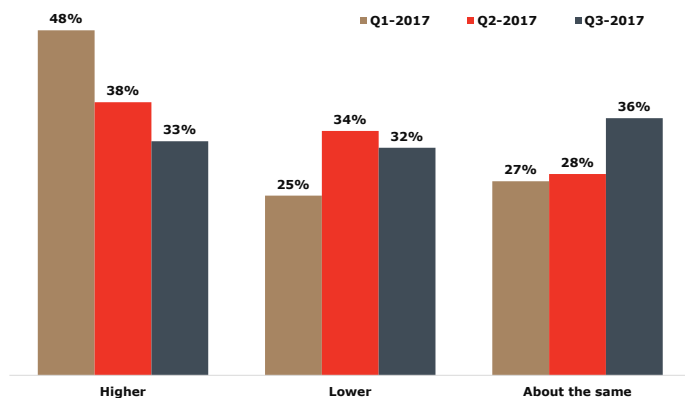
sales fell from 43% in Q2 to 29% in Q3. More than a third of table-service restaurant operators saw lower sales, which many attributed to weaker economic growth.

Three-quarters of 'all other foodservice,' which includes accommodation, caterers and drinking places, posted higher same-store sales in Q3.

Looking ahead, the share of operators that are optimistic about the next 12 months tumbled to 43% in Q3. This compares to 69% in Q1 and 53% in Q2.

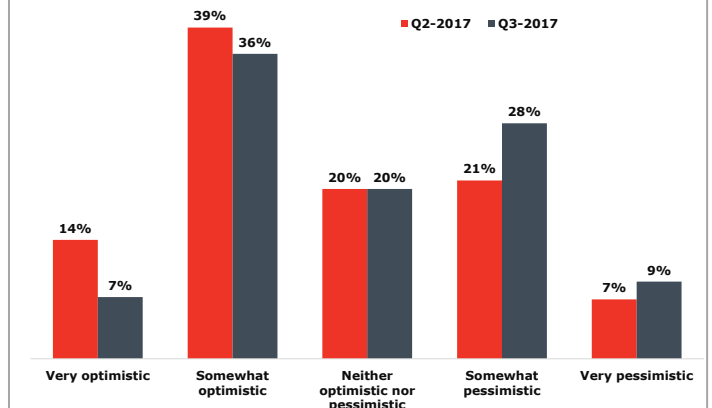
Optimism in the foodservice industry has waned due to the dramatic increase in the minimum wage in many parts of the country. In addition, high household debt and rising interest rates, will lead to a moderation in consumer spending in the coming years.

The share of operators reporting higher same-store sales slipped to 33% in Q3.



Q: In the third quarter of 2017, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the third quarter of 2016?

The share of operators feeling optimistic about the next 12 months slipped from 53% in Q2 to 43% in Q3.



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

Nearly half of 'all other foodservice' are optimistic about the next 12 months. This compares to 42% of table-service restaurant operators. In contrast, only 36% of quick-service restaurateurs are optimistic about the next 12 months, down from 43% in Q2.

Factors Impacting Business

Labour costs are having a negative effect on a record 85% of foodservice operators. This is up dramatically from 69% in Q1. The planned increase in the minimum wage in Ontario, combined with rising minimum wages in other provinces, is a significant concern for operators.

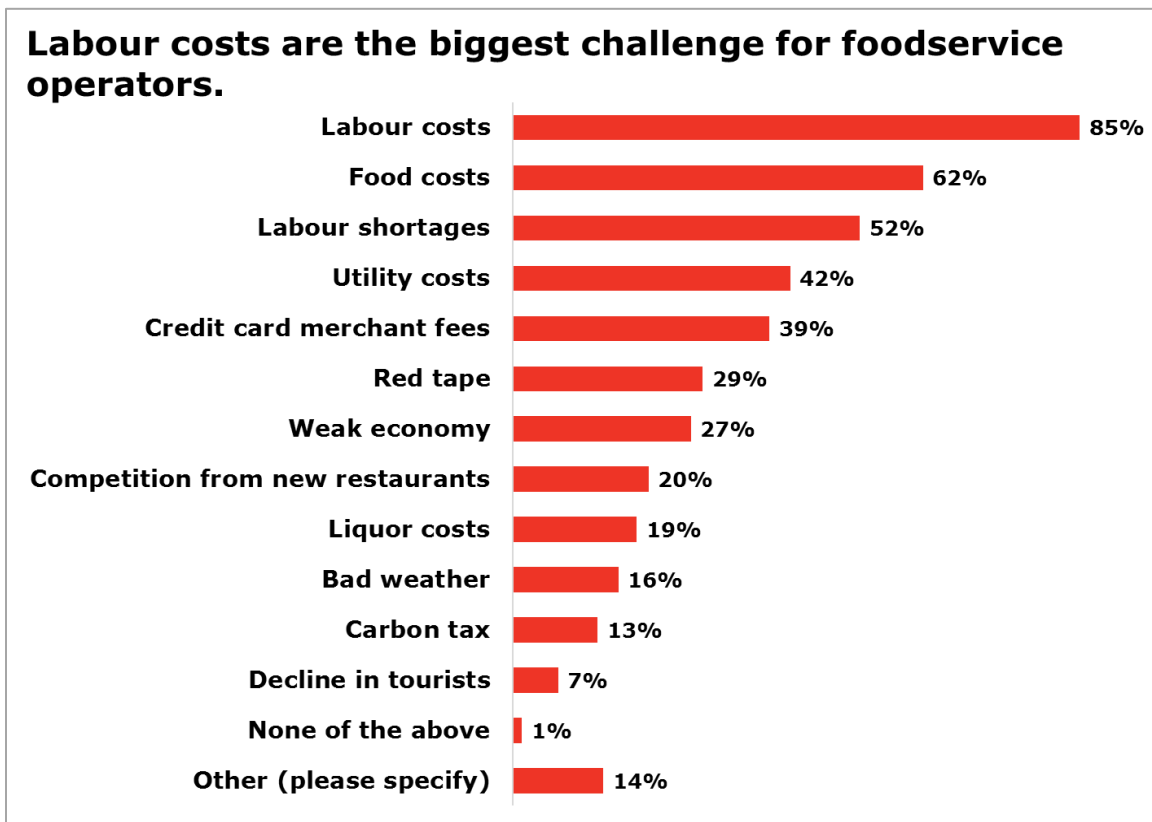
Food costs had a negative impact on 62% of operators in Q3, relatively unchanged from Q2. Looking at consumer prices at grocery stores, food costs are relatively unchanged on a year-over-year basis in Q3. While prices rose for fish (+5.4%), fresh fruit (+4.0%) and fresh vegetables (+3.4%), prices fell for pasta (-4.6%) and eggs (-5.6%).

In August, Canada's unemployment rate fell to 6.2%. This is the lowest level since the beginning of the recession in 2008. In Quebec, the unemployment rate is at its lowest level since Statistics Canada began publishing data in 1976. As a result, labour shortages is the third-largest issue impacting operators.

Utility costs, such as water, electricity, gas and heating, are having a negative impact on 42% of operators.

In addition to the usual challenges, operators also identified construction near their location, high rent and rising property taxes as also having a negative impact on their business.

There is some positive news. Only 16% of operators experienced bad weather in Q3. Also, just 7% saw a decline in tourism. Operators benefitted from Canada 150 celebrations and the Montreal 375 anniversary.



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

Menu Inflation

Due to higher labour costs, menu prices are projected to climb sharply over the next 12 months. Overall, 29% of operators in Canada plan to raise their menu prices by more than 5%.

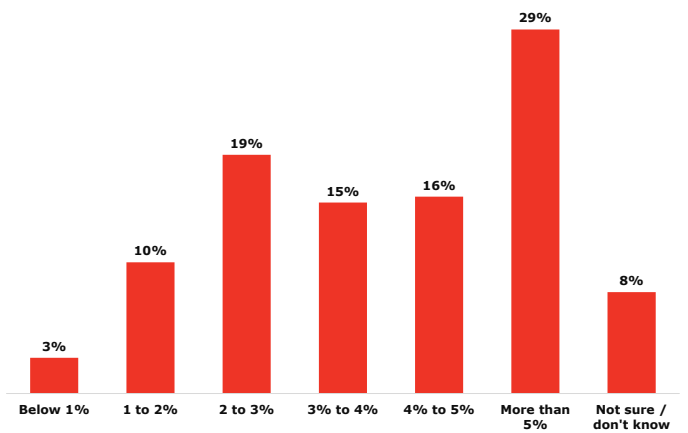
On a weighted basis, menu prices in Ontario are forecast to climb by 4%. This compares to menu inflation of 2% in the first half of 2017. By segment, there was no statistically significant difference in the projected menu inflation rates between quick-service restaurants and table-service restaurants.

Priorities over the Next 12 Months

Given the rising cost of labour, food and utilities, reducing operating costs is the number one priority for most foodservice operators over the next 12 months. Many will cut labour hours or staffing levels. Others will reduce portion sizes and cut back on the number of items on the menu.

More than half of operators said they will focus on improving guest experience as a way to

Three in 10 operators will raise their menu prices by more than 5% over the next 12 months.



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

Reducing operating costs is the top priority for foodservice operators over next 12 months.



Q: What are your top priorities over the next 12 months? (Please select all that apply)

keep guests coming back. Half of operators will also improve staff training in order to improve efficiency.

Three in 10 restaurant operators plan to integrate new technology into their business.

Nearly a quarter of table-service operators plan to add a new profit centre such as catering and delivery.

Challenges facing operators

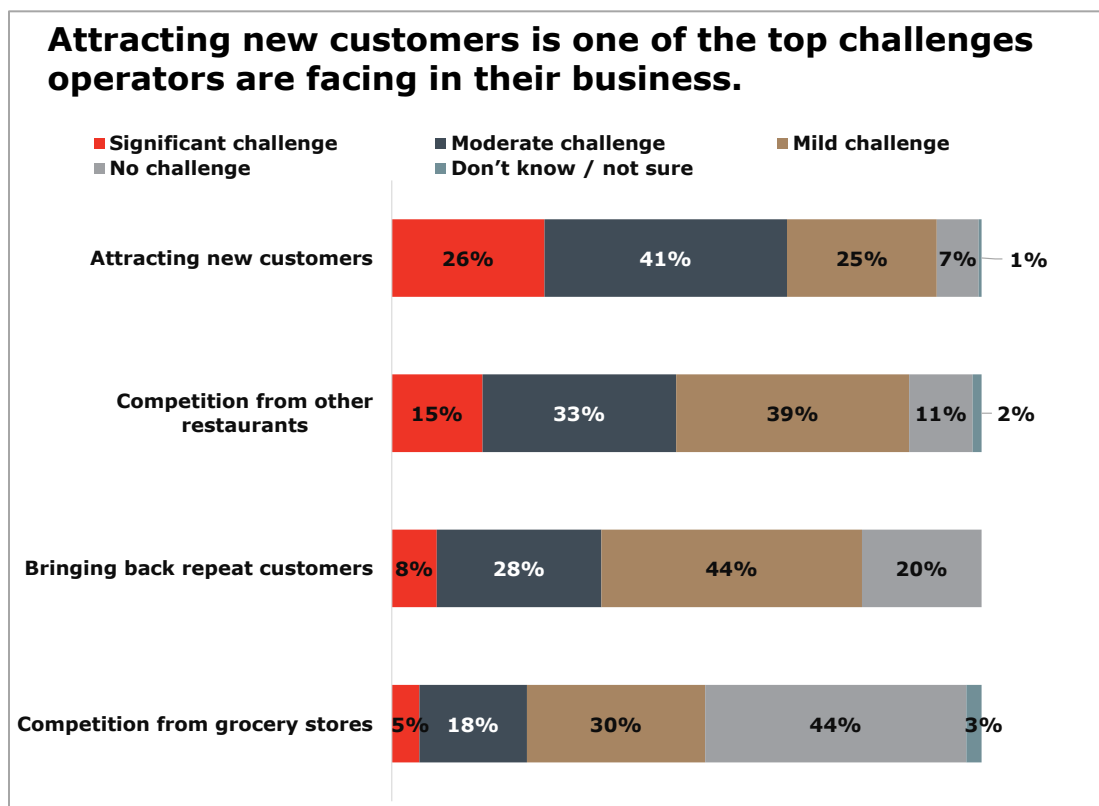
In this edition of the Restaurant Outlook Survey, Restaurants Canada asked operators to identify other challenges that are impacting their business.

Seven in 10 operators said that bringing in new guests is a significant or moderate challenge. To attract new guests, a number of operators are looking into third-party delivery service and relying more on advertisements, coupons and promotions, happy hour and partnerships with other local businesses.

In contrast, bringing back repeat customers is challenge for 35% of operators, although this climbs to 56% for quick-service restaurant operators. Successful businesses reach out to customers for their feedback and identify ways to improve service and food quality.

Nearly six in 10 quick-service restaurant operators said that competition with other restaurants was a significant or moderate challenge. This has forced many operators to keep menu prices affordable while finding other ways to be more efficient. Competition from other restaurants was a challenge for 52% of table-service restaurants and 39% of 'all other foodservice.'

Competition from grocery stores is not a significant issue for many operators, but it could be a rising challenge in the coming years as more grocery stores open 'grocerants' to attract business. In addition, convenience stores are experiencing strong growth in prepared foods and snacks, which could steal market share away from traditional restaurants.



Q: To what extent are the following a challenge for your business?

Emerging foodservice trends

Given rising operating costs and a projected moderation in foodservice sales growth in 2018, foodservice operators need to find new and innovative ways to grow their business.

Consumers are always looking for convenient meal solutions. As a result, off-premise orders are accounting for a greater share of overall revenue for 3 in 10 operators compared to two years ago. For quick-service restaurants, this share jumps to 42%.

In contrast, 29% of table-service restaurants saw a greater share of their revenues derived from off-premise orders.

This could be a key growth opportunity for operators as more guests look to eat their meals at home or in the office.

Looking ahead to 2018, 50% of quick-service restaurants are looking to expand the off-premise side of their business. This compares to 34% of table-service restaurants.

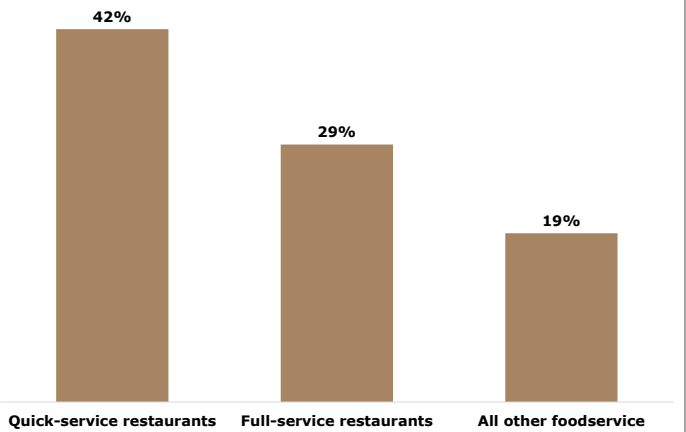
By way of comparison, 45% of quick-service restaurants in the United States planned to expand the off-premise side of their business in 2017 compared to 49% of family-style restaurants.

Operators are also focused on expanding their business across all dayparts. Most operators will focus on growing their supper or lunch dayparts. By segment, 42% of quick-service restaurants will aim to grow the lunch daypart versus 38% of table-service restaurant operators that will focus on supper.

Compared to the United States, the share focused on breakfast is relatively the same as in Canada.

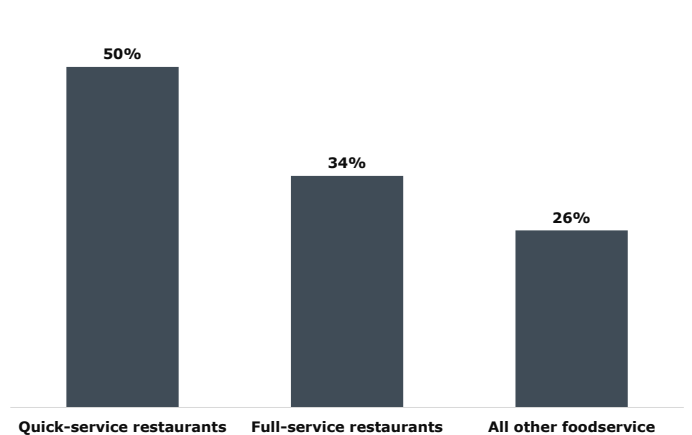
In contrast, 14% of Canadian operators plan to improve snacking compared to just 5% in the United States.

Share of respondents that said off-premise orders account for a greater share of revenue.



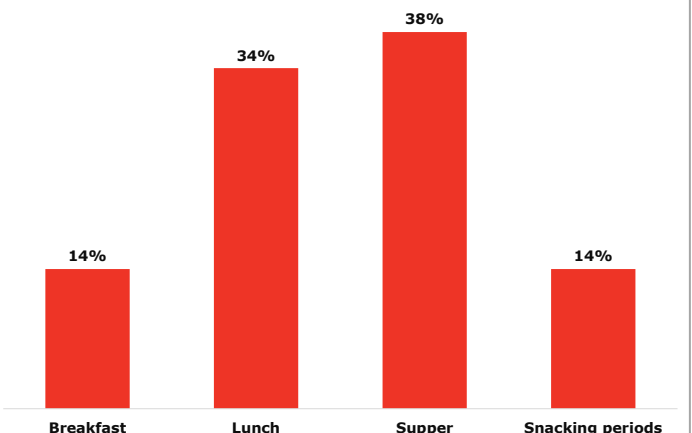
Q: Compared to two years ago, do off-premise orders account for a greater share, lesser share or about the same share of your total business revenue?

Share of operators planning to expand the off-premise side of their business in 2018.



Q: Do you plan on expanding the off-premise side of your business in 2018?

Nearly four in 10 operators will focus on improving the supper daypart in 2018.



Q: Which dayparts will you focus MOST on improving in 2018?

About the Restaurant Outlook Survey

The results for the third quarter are compiled from responses to an e-mail to restaurant operators inviting them to take an online survey. The survey was conducted in October 2017.

In total, 220 completed surveys were submitted, representing 2,094 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.

Contact:
Restaurants Canada
1155 Queen Street West, Toronto, Ontario
M6J 1J4
Tel: (416) 923-8416 or 1-800-387-5649
Fax: (416) 923-1450
E-mail: info@restaurantscanada.org
Web Site: www.restaurantscanada.org

Foodservice Industry Insights

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

Visit the Member Portal at www.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 third quarter of 2017, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the third quarter of 2016?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	33%	48%	29%	34%
Lower	32%	20%	36%	28%
About the same	36%	32%	36%	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	7%	8%	5%	13%
Somewhat optimistic	36%	28%	37%	36%
Neither optimistic nor pessimistic	20%	20%	15%	30%
Somewhat pessimistic	28%	28%	34%	16%
Very pessimistic	9%	16%	9%	6%

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	85%	88%	89%	77%
Food costs	62%	76%	60%	59%
Labour shortages	52%	48%	56%	45%
Utility costs (water, electricity, gas and heating)	42%	44%	44%	38%
Credit card merchant fees	39%	40%	40%	34%
Red tape (unnecessary government policies and regulations)	29%	28%	31%	25%
Weak economy	27%	4%	31%	28%
Competition from new restaurants	20%	12%	24%	16%
Liquor costs	19%	8%	19%	22%
Bad weather	16%	20%	15%	17%
Carbon tax	13%	12%	11%	16%
Decline in tourists	7%	8%	6%	8%
None of the above	1%	4%	0%	3%
Other (please specify)	14%	4%	13%	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%	3%	4%	2%	4%
1 to 2%	10%	8%	8%	18%
2 to 3%	19%	16%	20%	18%
3% to 4%	15%	12%	18%	9%
4% to 5%	16%	12%	12%	25%
More than 5 %	29%	36%	31%	22%
Not sure / don't know	8%	12%	9%	4%

What are your top priorities over the next 12 months? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Reduce operating costs	80%	76%	82%	77%
Raise menu prices	62%	64%	66%	52%
Improve guest experience	55%	40%	58%	53%
Improve staff training	49%	32%	51%	50%
Integrate new technology into my business	30%	32%	32%	27%
Increase marketing	28%	24%	28%	30%
Improve inventory management	27%	8%	27%	36%
Improve workplace culture	21%	16%	22%	20%
Hire more staff	20%	20%	19%	23%
Add a new profit centre (e.g. add catering, delivery,	20%	16%	24%	16%
Introduce healthy items to the menu	10%	8%	6%	19%
Open a new location	8%	16%	6%	8%
Close a location	5%	8%	4%	5%
Eliminate a profit centre (e.g. eliminate catering, delivery, special events)	2%	0%	2%	3%
Other (please specify)	9%	8%	15%	8%

To what extent are the following a challenge for your business?

<i>Competition from other restaurants</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Significant challenge	16%	24%	15%	13%
Moderate challenge	33%	32%	37%	26%
Mild challenge	39%	28%	41%	38%
No challenge	10%	12%	7%	17%
Don't know / not sure	2%	4%	0%	6%
<i>Competition from grocery stores</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Significant challenge	5%	8%	5%	4%
Moderate challenge	18%	24%	19%	12%
Mild challenge	32%	36%	33%	25%
No challenge	42%	28%	40%	55%
Don't know / not sure	3%	4%	3%	4%
<i>Attracting new customers</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Significant challenge	25%	20%	27%	21%
Moderate challenge	42%	56%	38%	45%
Mild challenge	25%	24%	28%	19%
No challenge	7%	0%	5%	13%
Don't know / not sure	1%	0%	1%	2%
<i>Bringing back repeat customers</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Significant challenge	7%	8%	10%	0%
Moderate challenge	28%	48%	23%	32%
Mild challenge	44%	24%	47%	47%
No challenge	20%	20%	20%	19%
Don't know / not sure	0%	0%	0%	2%

Compared to two years ago, do off-premise orders account for a greater share, lesser share or about the same share of your total business revenue?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Greater share	28%	42%	29%	19%
Lesser share	13%	13%	14%	12%
About the same	59%	46%	57%	69%

Do you plan on expanding the off-premise side of your business in 2018?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Yes	34%	50%	34%	26%
No	44%	29%	46%	46%
I don't know	22%	21%	20%	28%

Which dayparts will you focus MOST on improving in 2018?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Breakfast	14%	15%	14%	13%
Lunch	34%	42%	35%	30%
Supper	38%	30%	38%	39%
Snacking periods	14%	12%	13%	17%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	220	25	131	64
Number of Units	2,094	619	482	993

* 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.