

Reference Period: Fourth Quarter 2017

RESTAURANT OUTLOOK SURVEY

WHAT'S NEW!

- **How technology helps restaurant operators**
- **Which technology restaurants will devote more resources to in 2018**
- **Barriers to using technology at restaurants**



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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Highlights

A greater share of operators reported higher same-store sales in Q4 compared to Q3 due to strong economic growth and rising consumer confidence.

Despite increased operating expenses, the share of operators that feel optimistic about the next 12 months rose in Q4 to 48%. This compares to 32% that feel pessimistic.

Menu prices in Ontario are forecast to climb an average of 4.2% in 2018 due to rising labour costs.

Most restaurant operators agree that technology makes restaurants more productive and speeds up customer service.

Four in 10 operators will devote more resources to online or app ordering in 2018.

The foodservice industry ended the year on a relatively positive note, as 36% of operators reported higher same-store sales in Q4 versus a year ago. This is up from 33% in Q3.

In contrast, 26% of respondents reported lower same-store sales, which is the lowest share since Q1 2017. Another 38% of operators reported flat sales.

Although some operators have struggled at the unit level, overall commercial foodservice sales increased by a solid 5.7% based on preliminary data from October and November. Once adjusted for menu inflation and unit growth, real sales at the unit level grew by 1.3%.

Nearly four in 10 quick- and table-service operators reported higher same-store sales in Q4. The share of table-service restaurants that saw lower sales declined from 36% in Q3 to 30% in Q4.

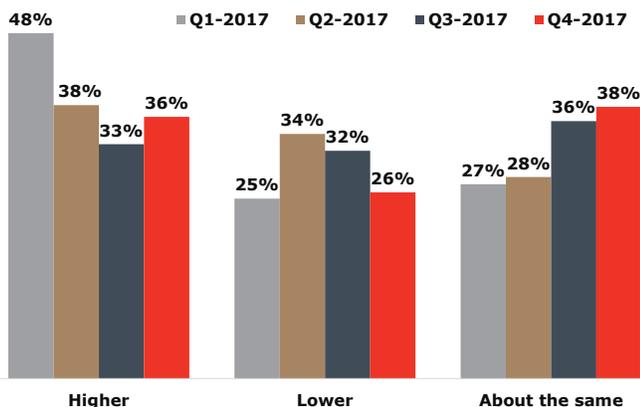
Nearly one-third of 'all other foodservice,' which includes accommodation, caterers and drinking places, posted higher same-store sales in Q4. While drinking places experienced solid gains, this was partially offset by lower same-store sales for some operators in the accommodation sector.

Looking ahead, the share of operators that are optimistic about the next 12 months rose to 48% in Q4 after falling to 43% in Q3. This compares to 69% in Q1 and 53% in Q2.

While a number of operators said they are 'optimistic by nature', others point to a strong economy. Canada led the G7 countries in economic growth in 2017. Consumer confidence jumped to its highest level since 2007 and the unemployment rate is at its lowest level in 40 years.

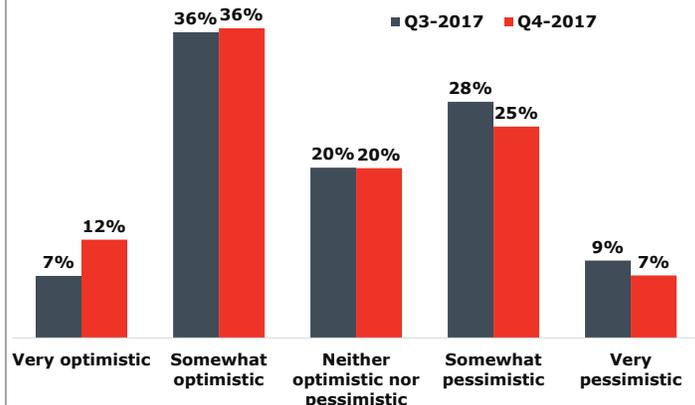
Others are optimistic about the future by expanding the

The share of operators reporting higher same-store sales increased to 36% in Q4.



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

The share of operators feeling optimistic about the next 12 months rose to 48% in Q4.



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

catering side of their business, and being more creative with their menu to boost traffic.

Nevertheless, one-third of respondents are feeling pessimistic about the year ahead. Many are worried about the impact of higher labour costs and new regulations. Others mentioned that rising living expenses and high household debt could restrain some people from eating out.

Factors Impacting Business

Nine in 10 foodservice operators say rising labour costs is negatively impacting their business. Due to Ontario's Bill 148 and Alberta's Bill 17, combined with rising minimum wages in other parts of the country, operators are very worried about how their business will survive. In order to remain profitable, owners are raising menu prices, reducing staff and labour hours, investing in labour-saving technology and cutting other operating expenses.

Two-thirds of operators are struggling with higher food costs. According to the 2018 Canada's Food Price Report, vegetable prices are forecast to increase by 4% to 6% in 2018 due to unfavourable environmental conditions.

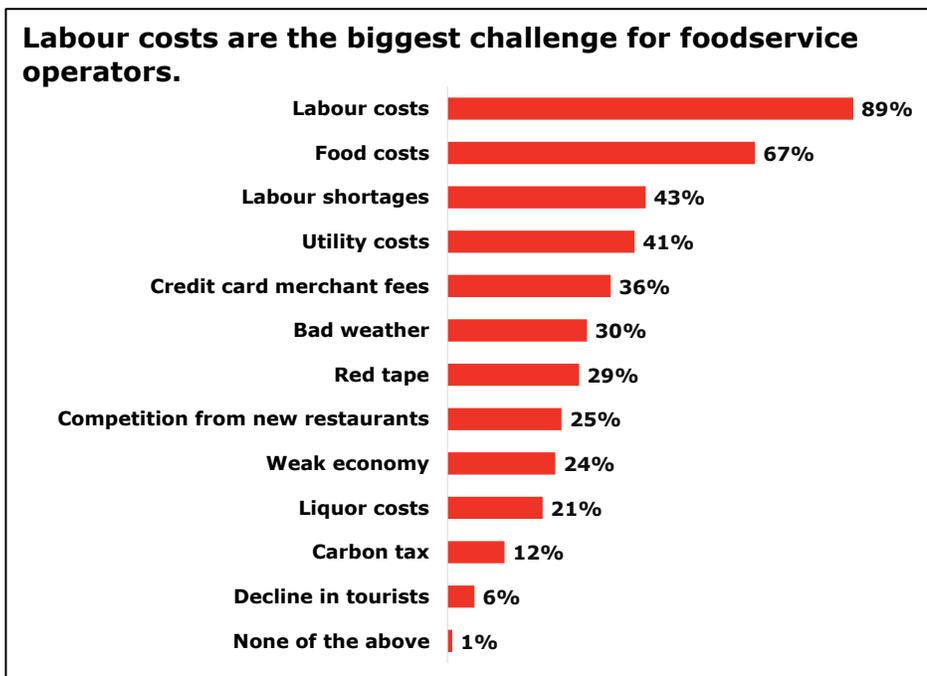
In recent weeks, the Canadian dollar has appreciated against the U.S. dollar. This will make it cheaper to purchase imported ingredients. However, uncertainty around NAFTA may push the Canadian dollar lower, which would make food imports more expensive.

In November, the unemployment rate fell to 5.7% - its lowest level since 1974. This resulted in a shortage of labour for many operators. Nearly half (47%) of table-service restaurants are experiencing labour shortages.

Four in 10 operators said that rising utility costs are hurting their business.

Bad weather was an issue for 30% of operators in Q4, up from 16% in Q3. Bitterly cold temperatures and winter storms in parts of the country kept guests from eating out.

On a positive note, the share of operators that said a weak economy had a negative impact on their business continues to decline. The one major exception is Alberta, where the vast majority of respondents there are blaming the weak economy for declining sales. While Alberta's economy improved in 2017, it has been a slow recovery for restaurant operators.



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

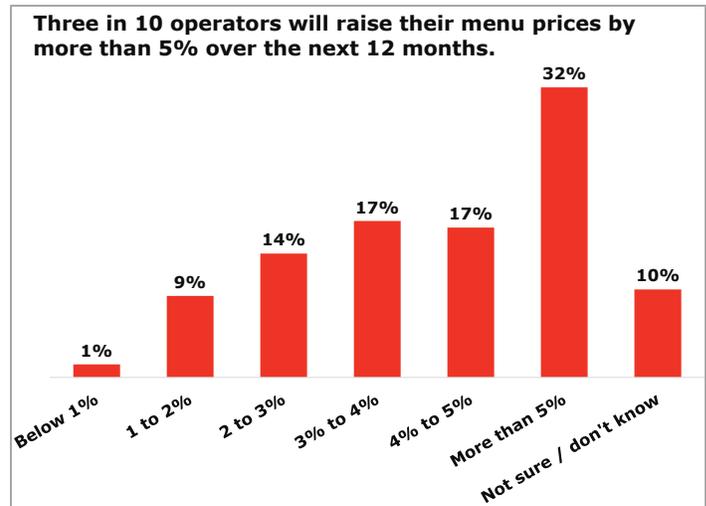
Menu Inflation

The share of operators that will raise their menu prices by 4% or more in the next 12 months increased to 49% in Q4, up from 45% in Q3. This is largely due to rising labour costs. Four in 10 quick-service restaurant respondents plan to raise their prices by more than 5%. This compares to 29% of table-service restaurants

On a weighted basis, menu prices in Ontario are forecast to climb by 4.2% in 2018. There was no statistically significant difference between quick-service restaurants and table-service restaurants.

Priorities over the Next 12 Months

Reducing operating costs remains the top priority over the next 12 months. This includes cutting back labour hours and staffing levels in response to higher minimum wages. Others will reduce portion sizes and cut back on the number of items on the menu.



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



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

Improving guest experience is now the second most important priority. Some operators are training front of house staff to 'meet and exceed' guest expectations. Others are inviting guests to a loyalty program. It is also essential to collect customer feedback to identify what you are doing right, and look for ways that you can improve.

Four in 10 restaurant operators plan to increase marketing.

Nearly three in 10 table-service operators plan to add a new profit centre such as catering and delivery.

Technology at Restaurants

From the previous section, one-third of operators will make integrating new technology into their business a top priority over the next 12 months.

In this edition of the Restaurant Outlook Survey, Restaurants Canada asked operators how they are using technology in the restaurant sector as well as identifying some barriers.

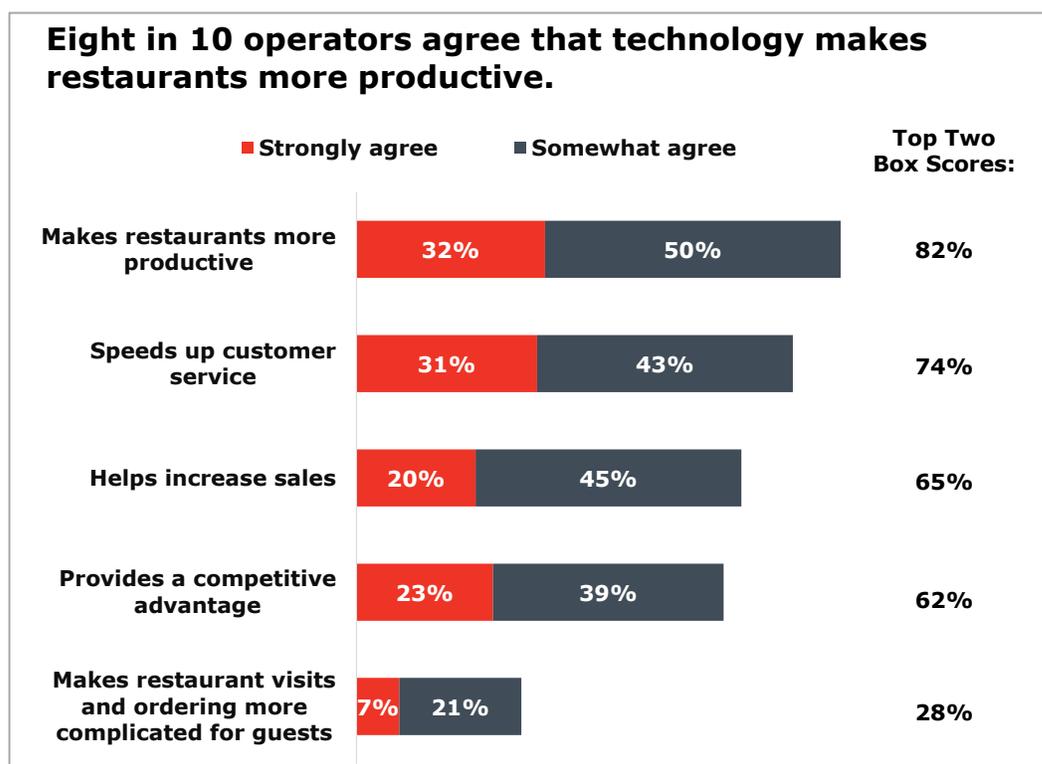
When it comes to technology, the vast majority of foodservice operators (82%) agree that it makes restaurants more productive. Three-quarters of respondents said that it speeds up service.

Sixty-five percent of operators said that technology helps increase sales. This could be through online apps that notify guests about upcoming deals and events, or with loyalty programs. Studies have found that kiosks can help with upselling and improve speed of service.

Just over one-quarter of respondents said that technology would make restaurant visits and ordering more complicated for guests. These results were consistent across all segments.

Although technology is seen as a helpful tool for the restaurant business, restaurateurs see a number of barriers to adopting new technology.

The biggest barrier for 70% of respondents is the cost of implementation. Nearly 40% responded that staff training is a big issue. This was



Q: To what extent do you agree or disagree with the following statements about technology at restaurants?

followed closely by 36% that felt that per transaction cost is too high.

Just over one-quarter of operators felt that customer acceptance would be a barrier, although this seemed to be a bigger issue at table-service restaurants (28%) compared to quick-service restaurants (18%)

Some restaurants pointed out they see the benefit of technology in the restaurant, but they were reluctant to make that investment since it would take too long to see any ROI.

Finally, operators were asked which technologies they would devote more resources to in 2018. Six in 10 quick-service restaurants will invest in online or app ordering. This compares to 33% of table-service restaurants and 29% of 'all other foodservice'.

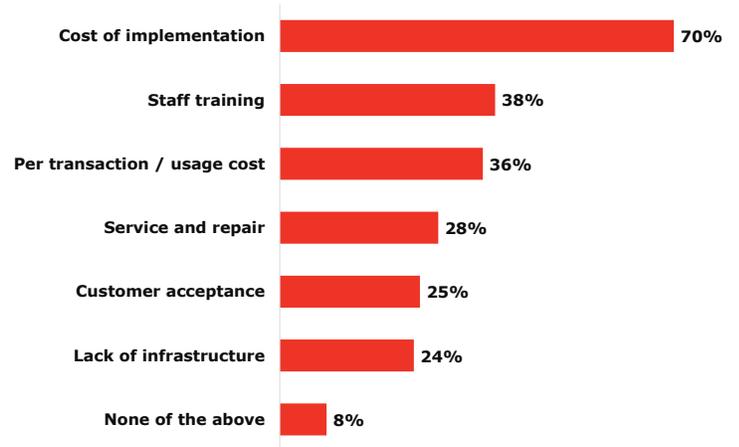
Nearly three in 10 respondents are looking at inventory management software/apps to help streamline and reduce costs.

One quarter will devote more resources to third-party delivery such as Foodora and UberEATS. Quick-service restaurants in particular are looking into third-party delivery compared to table-service restaurants.

One in six table-service restaurant operators are looking into table management software/apps.

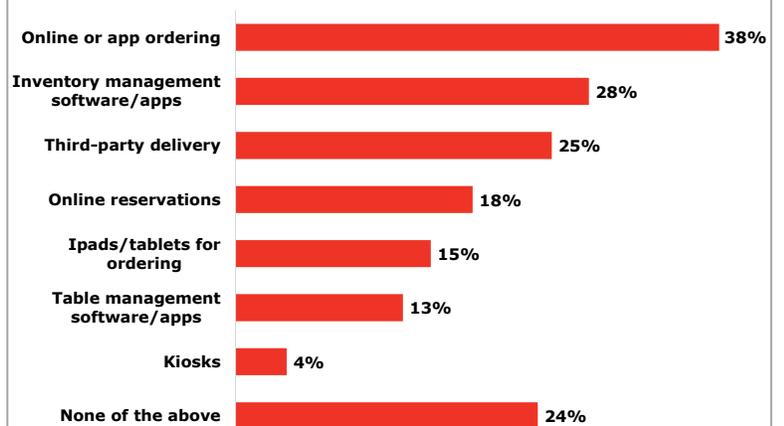
With rising labour costs and a shortage of workers, restaurant operators will be investing more in technology in the coming years. For many operators, technology will help improve store productivity and reduce overall expenses. Nevertheless, operators face an initial investment in time and capital to integrate this technology into their business.

Cost of implementation is considered to be the biggest barrier to adopting new technology.



Q: Which of the following do you consider to be barriers to adopting new technology? (please select all that apply)

Online or app ordering is the top technology that operators will devote resources to in 2018.



Q: Which of the following technologies will you devote more resources to in 2018? (please select all that apply)

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 January 2018.

In total, 289 completed surveys were submitted, representing 9,930 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 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 fourth quarter of 2017, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the fourth quarter of 2016?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	36%	39%	37%	32%
Lower	26%	20%	30%	22%
About the same	38%	41%	33%	46%

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	12%	7%	12%	14%
Somewhat optimistic	36%	35%	32%	47%
Neither optimistic nor pessimistic	20%	24%	21%	15%
Somewhat pessimistic	25%	27%	27%	19%
Very pessimistic	7%	7%	8%	5%

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	89%	82%	90%	91%
Food costs	67%	66%	70%	63%
Labour shortages	43%	34%	47%	43%
Utility costs	41%	36%	44%	39%
Credit card merchant fees	36%	34%	41%	25%
Bad weather	30%	27%	37%	20%
Red tape	29%	20%	32%	28%
Competition from new restaurants	25%	25%	28%	17%
Weak economy	24%	18%	25%	25%
Liquor costs	21%	7%	26%	20%
Carbon tax	12%	2%	14%	17%
Decline in tourists	6%	4%	8%	4%
None of the above	1%	2%	0%	3%
Other (please specify)	7%	7%	7%	7%

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%	1%	0%	1%	3%
1 to 2%	9%	11%	9%	8%
2 to 3%	14%	7%	16%	14%
3% to 4%	17%	18%	15%	22%
4% to 5%	17%	5%	21%	15%
More than 5 %	32%	41%	29%	31%
Not sure / don't know	10%	18%	8%	8%

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	81%	85%	81%	77%
Improve guest experience	62%	62%	60%	65%
Raise menu prices	59%	45%	63%	59%
Improve staff training	54%	47%	57%	53%
Increase marketing	39%	36%	34%	51%
Integrate new technology into my business	33%	35%	32%	34%
Improve inventory management	31%	18%	38%	27%
Improve workplace culture	27%	16%	27%	34%
Add a new profit centre (e.g. add catering, delivery, special events)	24%	24%	27%	19%
Hire more staff	16%	15%	12%	27%
Open a new location	13%	24%	11%	9%
Introduce healthy items to the menu	12%	13%	8%	20%
Close a location	4%	9%	2%	4%
Eliminate a profit centre (e.g. eliminate catering, delivery, special events)	2%	0%	3%	3%
Other (please specify)	4%	0%	7%	1%

To what extent do you agree or disagree with the following statements about technology at restaurants?
(please select all that apply)

<i>Helps increase sales</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Strongly agree	20%	30%	14%	26%
Somewhat agree	45%	39%	47%	45%
Neither agree nor disagree	25%	25%	27%	20%
Somewhat disagree	6%	2%	8%	8%
Strongly disagree	2%	0%	3%	0%
I don't know	1%	4%	1%	2%
<i>Makes restaurants more productive</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Strongly agree	32%	29%	35%	26%
Somewhat agree	50%	48%	47%	58%
Neither agree nor disagree	12%	18%	12%	8%
Somewhat disagree	4%	2%	5%	5%
Strongly disagree	1%	0%	1%	2%
I don't know	1%	4%	0%	2%
<i>Speeds up customer service</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Strongly agree	31%	32%	30%	30%
Somewhat agree	43%	46%	42%	44%
Neither agree nor disagree	18%	11%	20%	20%
Somewhat disagree	6%	7%	6%	5%
Strongly disagree	1%	0%	1%	0%
I don't know	1%	4%	0%	2%
<i>Provides a competitive advantage</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Strongly agree	23%	30%	20%	25%
Somewhat agree	39%	38%	40%	38%
Neither agree nor disagree	28%	25%	29%	29%
Somewhat disagree	7%	4%	9%	5%
Strongly disagree	1%	0%	2%	0%
I don't know	2%	4%	1%	3%
<i>Makes restaurant visits and ordering more complicated for guests</i>	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Strongly agree	7%	7%	7%	8%
Somewhat agree	21%	16%	21%	23%
Neither agree nor disagree	34%	38%	37%	25%
Somewhat disagree	21%	21%	18%	29%
Strongly disagree	15%	13%	15%	15%
I don't know	2%	5%	1%	0%

Which of the following technologies will you devote more resources to in 2018? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Online or app ordering	38%	61%	33%	29%
Inventory management software/apps	28%	27%	26%	32%
Third-party delivery	25%	32%	26%	15%
Online reservations	18%	11%	23%	15%
Ipads/tablets for ordering	15%	16%	18%	8%
Table management software/apps	13%	4%	16%	14%
Kiosks	4%	7%	1%	9%
None of the above	24%	13%	25%	31%

Which of the following do you consider to be barriers to adopting new technology? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Cost of implementation	70%	68%	68%	78%
Staff training	38%	36%	36%	46%
Per transaction / usage cost	36%	25%	43%	31%
Service and repair	28%	30%	28%	28%
Customer acceptance	25%	18%	28%	23%
Lack of infrastructure	24%	21%	24%	26%
None of the above	8%	11%	9%	5%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	289	56	158	75
Number of Units	9,930	6,937	2,176	817

* 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.