

Reference Period: First Quarter 2017

RESTAURANT OUTLOOK SURVEY

NEW! Foodservice operators share their:

- **Top business priorities for 2017**
- **Technological innovation for 2017**



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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Highlights

In this edition of the Restaurant Outlook Survey, we've got some fresh new insights on how operators are doing business.

For instance, the top priority for 2017 for foodservice operators is trimming their expenses. Other priorities include improving guest experience and staff training.

The survey also shows that operators rely heavily on social media to bring in customers. They have also turned to apps and software to improve productivity and efficiency.

We are always interested in your feedback. Please send any questions or comments to Chris Elliott at celliot@restaurantscanada.org.

Foodservice operators began the year on a strong note as 48% of respondents reported higher same-store sales in Q1 2017 over Q1 2016. Operators benefitted from healthy job creation and a steady improvement in consumer confidence. Another 27% reported flat sales.

In contrast, 25% of operators reported lower revenues in Q1. A number of operators wrote that construction near their restaurant disrupted sales. In addition, the recession lowered sales for six in 10 operators in Alberta.

The above survey results coincide with the data from Statistics Canada's Monthly Survey of Foodservices and Drinking Places, which showed foodservice sales rose by 4.0% in the first two months of 2017 over the same period in 2016.

There has been a general improvement in economic conditions in recent months,

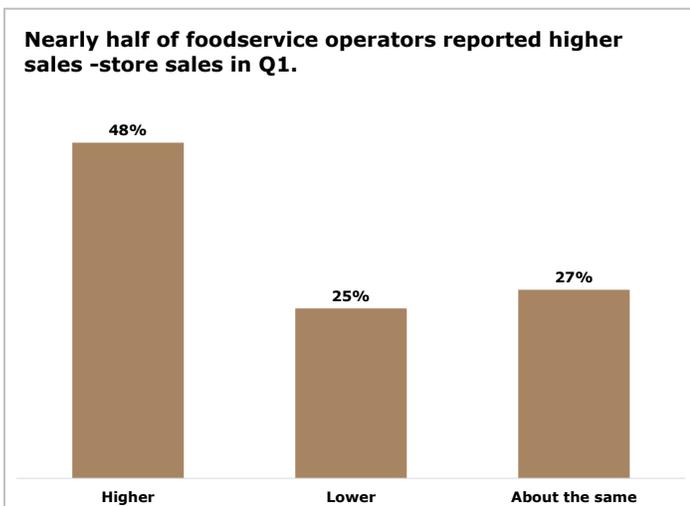
which has boosted Canada's foodservice industry.

TD Economics is forecasting Canada's economy will accelerate to 2.3% growth in 2017 after a tepid 1.4% expansion in 2016. Canada's economy is forecast to add 217,000 jobs in 2017 following the creation of 133,300 jobs in 2016.

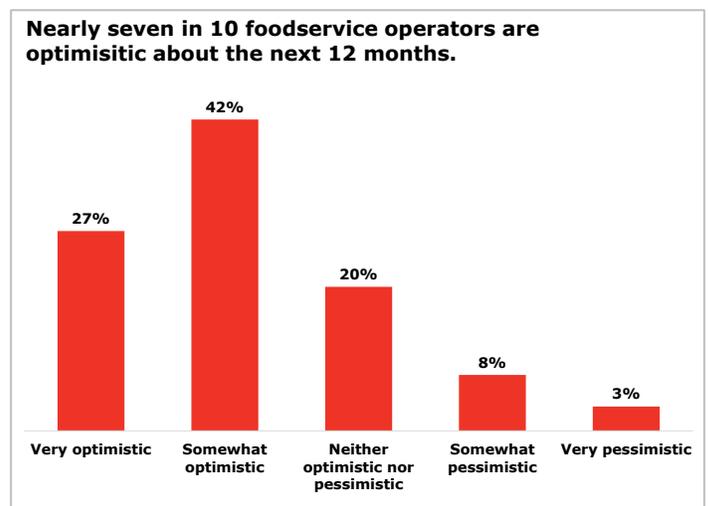
The feeling of optimism is shared by foodservice operators as 27% of respondents are 'very optimistic' about the next 12 months. Another 42% feel 'somewhat optimistic.'

In contrast, only 8% are 'somewhat pessimistic' and just 3% feel 'very pessimistic.'

Operators identified a number of reasons why they are positive about the year ahead. Some operators reported that revenues are higher due to improved customer loyalty. Operators also expect a boost in sales from the Canada 150 celebrations.



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



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

Despite a severe recession, 50% of operators in Alberta feel optimistic about the next 12 months compared to 29% that remain pessimistic. Alberta's economy is forecast to be among the fastest-growing provinces in 2017 due to a stabilization in commodity prices and the rebuilding efforts in Fort McMurray.

All segments of the industry anticipate a fruitful 2017. Three-quarters of quick-service restaurants and 'all other foodservice' - which includes, accommodation, institutions and bars - are feeling optimistic about the next 12 months. Although this level of optimism isn't as strong for table-service restaurants, 66% still feel hopeful about the year ahead.

Factors Impacting Business

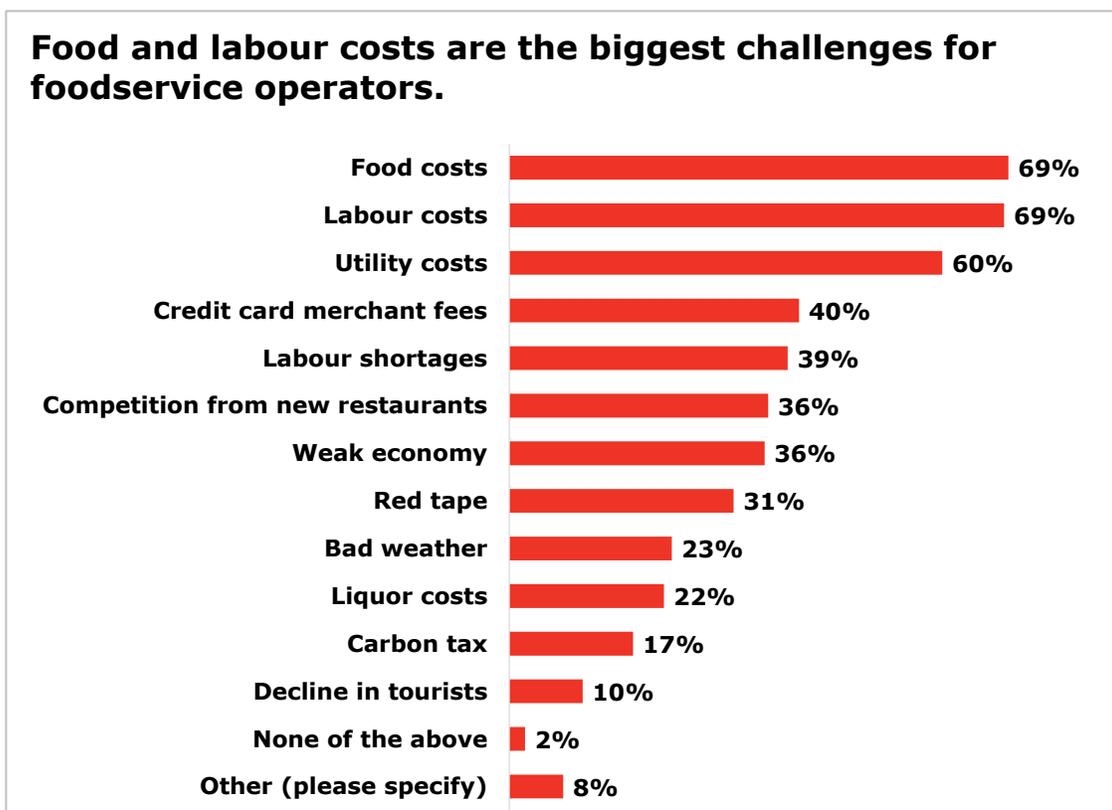
Food and labour costs remain the biggest factors having a negative impact on operators' business. The minimum wage will increase in eight provinces in 2017, forcing many operators to look for ways to trim operating expenses.

Utility costs such as water, electricity, gas and heating are a significant issue for 60% of operators. This is the first time utility costs was included in the survey. In Ontario, 65% of respondents identified high utility costs -- the highest in the country.

Although the recent recovery in Canada's labour market is good news. A lower unemployment rate is making it more challenging for foodservice operators to find staff. As a result, four in 10 operators said they are experiencing labour shortages.

In the past three years, foodservice unit growth has outpaced population growth. This could be why nearly half of table-service restaurants believe competition from new restaurants is having a negative impact on their business.

In Alberta, a staggering 92% of operators said the weak economy is hurting their business. In contrast, a weak economy was an issue for 26% of operators in the rest of Canada.



Q: What factors, if any, are currently having a negative impact on your business?

Priorities over the Next 12 Months

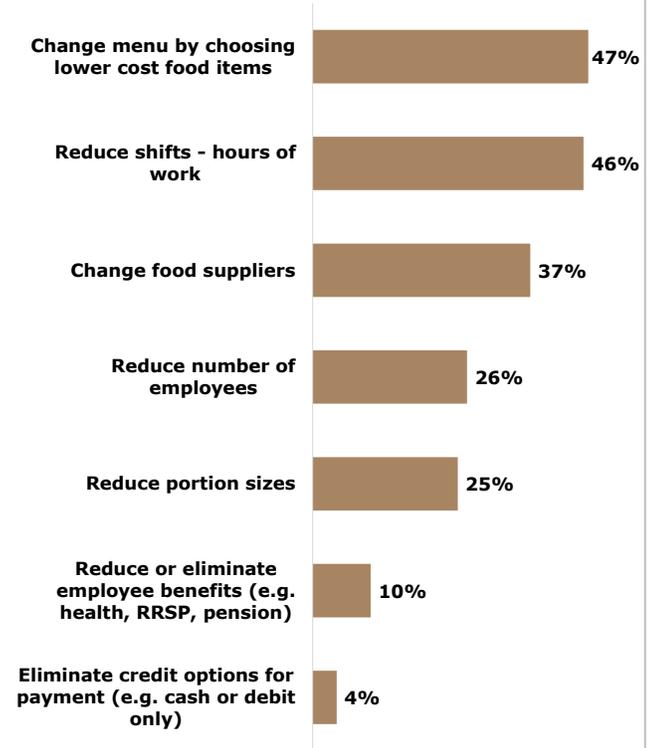
Despite operator optimism about foodservice sales growth in 2017, the vast majority of operators are coping with higher food, labour and utility costs. As a result, restaurateurs have identified reducing operating costs, improving guest experience and improving staff training as their top three priorities over the next 12 months. Operators are also looking to increase marketing and improve inventory management.

Three in 10 operators are looking to grow their sales by adding a new profit centre, such as catering, delivery and special events.

Despite the many challenges that exist in operating a restaurant, 19% of respondents plan to open a new location in the next 12 months.

For those that are looking to reduce their operating costs, 47% said they would change their menu by choosing lower cost food items. A similar share said they would reduce shifts by cutting back hours of work. Operators were less likely to cut staff or reduce portion sizes.

For those that are reducing operating costs, most operators will lower their food and labour costs.



Q: In what ways do you plan to reduce your operating costs?

Reducing operating costs, improving guest experience and improving staff training are the top priorities over next 12 months.



Q: What are your top priorities over the next 12 months?

Menu Inflation

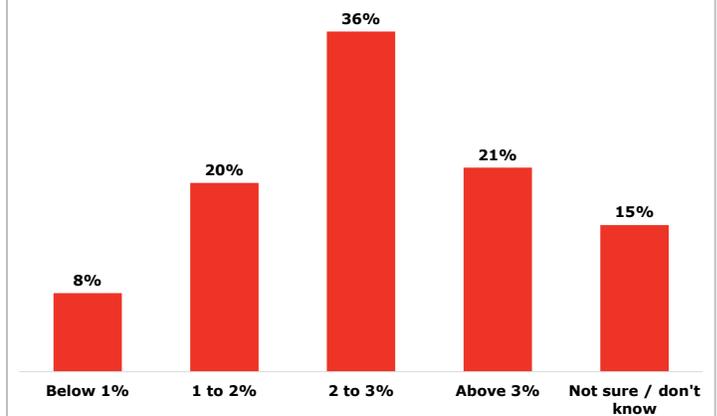
Given rising operating costs, the majority of respondents will increase their menu prices in 2017. Nearly six in 10 operators will raise their menu prices by 2% or more. This is in line with Restaurants Canada's forecast for 2.3% menu inflation in 2017.

Technology at Restaurants

In this edition of the Restaurant Outlook Survey, Restaurants Canada asked operators to identify ways that they integrate technology into their restaurant to bring in more customers. A commanding 78% are using social media to build awareness. This is well ahead of loyalty programs (26%) and delivery services through apps like UberEATS and Foodora (19%).

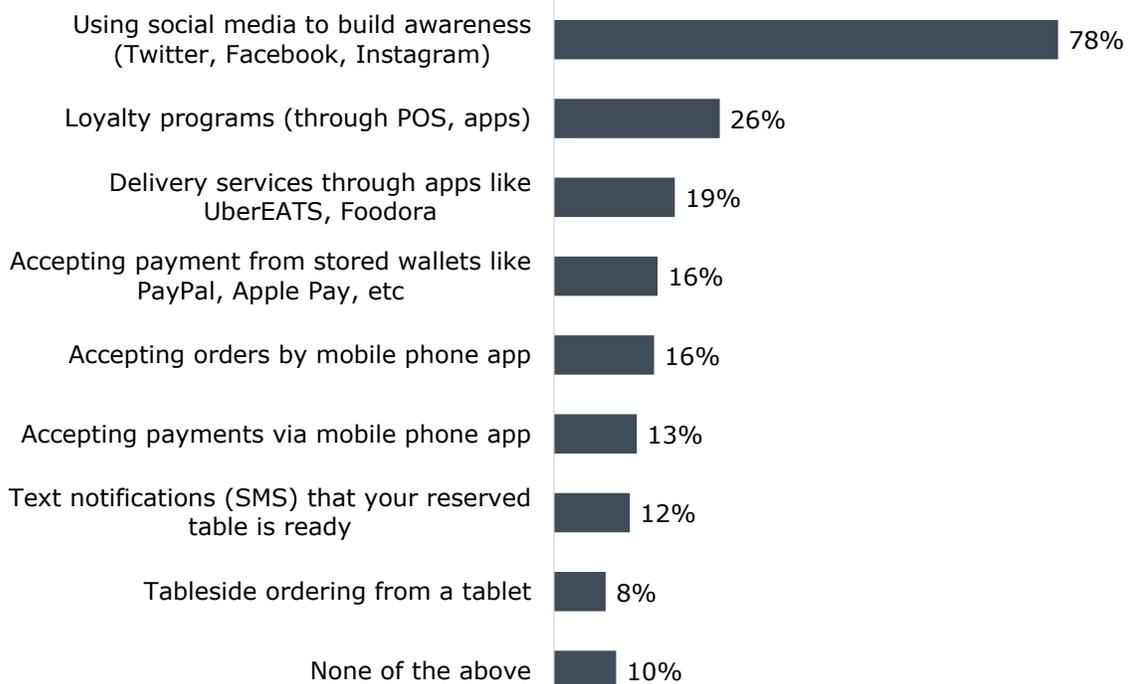
Currently, only a small share of operators are accepting payments from stored wallets (e.g. PayPal, Apple Pay) and by mobile phone.

Nearly six in 10 operators will raise their menu prices by 2% or more 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:

Eight in 10 operators currently use social media to build awareness about their business.



Q: In what ways will you integrate technology into your restaurant or foodservice establishment to bring in more customers?

Quick-service restaurants are more likely than table-service restaurants to accept payment from stored wallets and by mobile phone.

One in five table-service restaurants sends text notifications when a customer's reserved table is ready, and only one in 10 offer tableside ordering from a tablet.

One way the industry is evolving over the next 12 months is by increasing the number of cashless payment options. Four in 10 quick-service restaurants will be adding payment via mobile phone app as an option in the next 12 months. One in five operators will be adding payment from stored wallets as an option.

Over the next 12 months, more quick-service restaurants will be investing in technology than table-service restaurants.

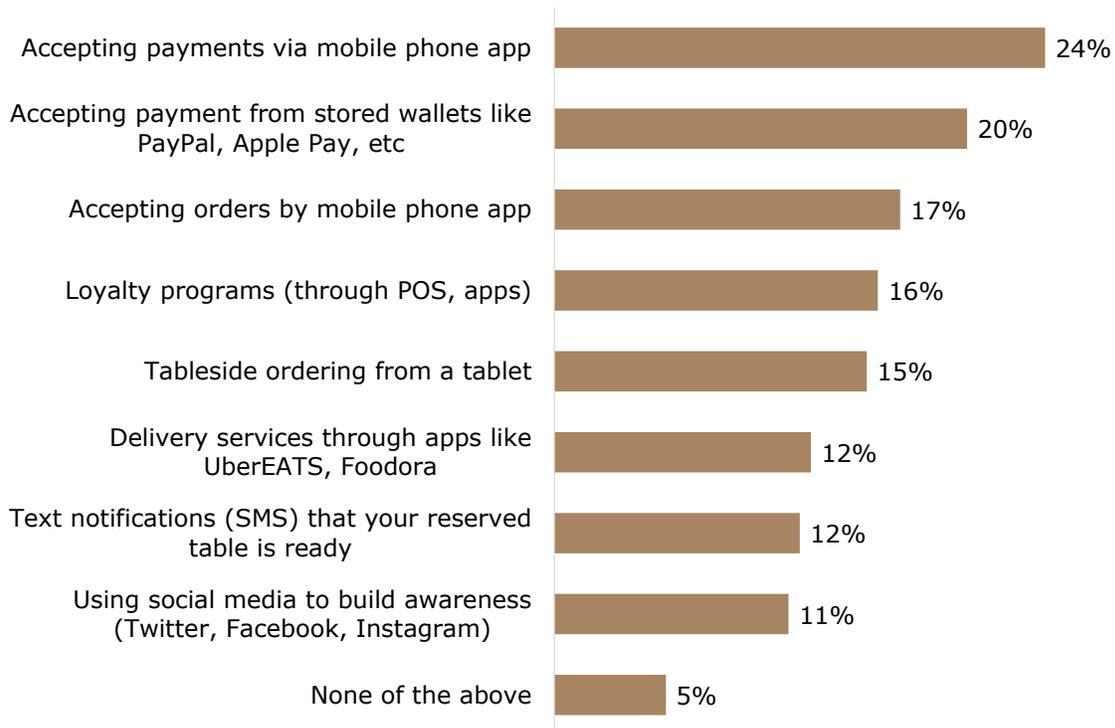
Operators are always looking for new ways to use technology to improve their productivity and efficiency. The most popular tool is inventory software programs and apps. Other popular apps and software aid with menu costing and employee scheduling.

One in five foodservice operators are relying on "smart" equipment (e.g. refrigerator, dishwasher, soap dispenser) to improve efficiency.

Fully 17% of quick-service restaurant respondents use a recipe app on a tablet to help train kitchen staff on ingredients, measures and preparation techniques. This compares to only 7% of table-service respondents.

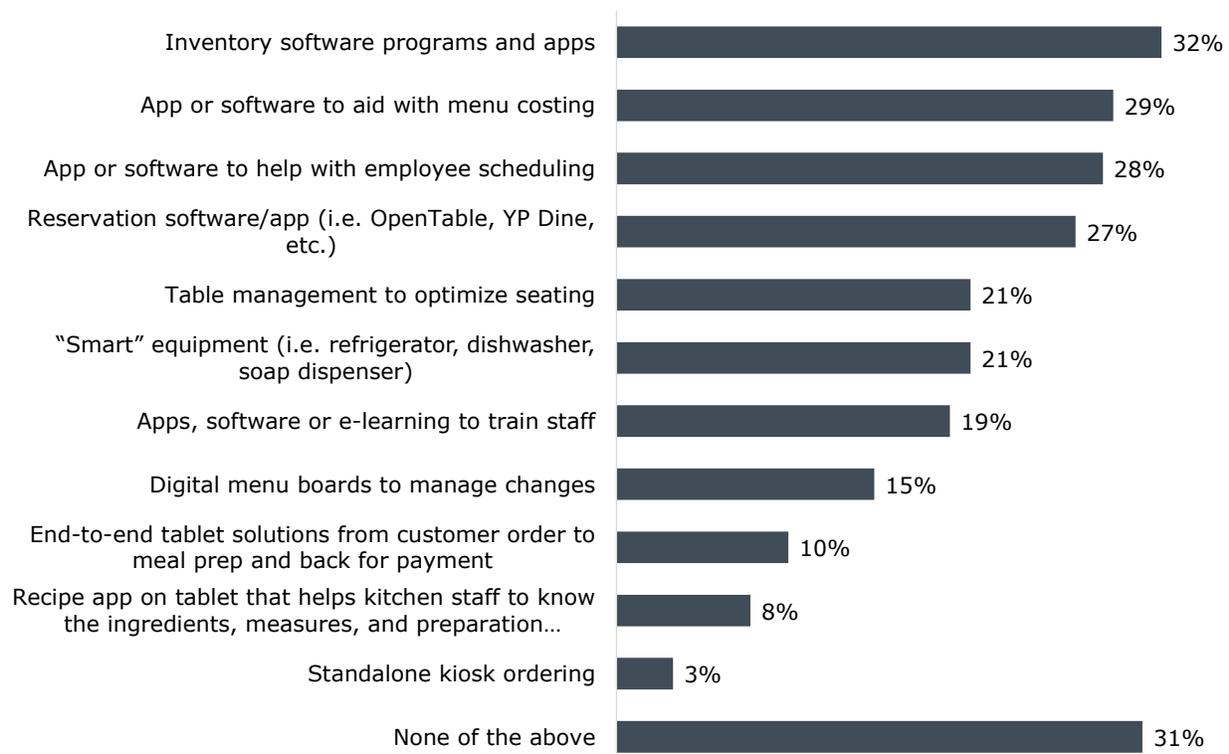
Four in 10 table-service restaurants use a reservation software/app, such as OpenTable and YP Dine.

About one in five operators are considering taking wallet-less payments.



Q: In what ways will you integrate technology into your restaurant or foodservice establishment to bring in more customers?

Nearly one-third of operators use inventory software programs and apps to improve productivity and efficiency.



Q: In what ways are you currently using technology to improve productivity and efficiency?

About the Restaurant Outlook Survey

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

In total, 186 completed surveys were submitted, representing 4,087 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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In the first quarter of 2017, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the first quarter of 2016?

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Higher	48%	62%	42%	53%
Lower	25%	18%	31%	16%
About the same	27%	21%	28%	31%

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

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Very optimistic	27%	23%	24%	37%
Somewhat optimistic	42%	51%	42%	39%
Neither optimistic nor pessimistic	20%	20%	20%	16%
Somewhat pessimistic	8%	3%	10%	6%
Very pessimistic	3%	3%	4%	2%

What factors, if any, are currently having a negative impact on your foodservice business?

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Food costs	69%	63%	71%	70%
Labour costs	69%	69%	76%	56%
Utility costs (water, electricity, gas and heating)	60%	66%	64%	46%
Credit card merchant fees	40%	46%	47%	24%
Labour shortages	39%	46%	43%	26%
Competition from new restaurants	36%	37%	49%	12%
Weak economy	36%	20%	47%	26%
Red tape	31%	49%	31%	22%
Bad weather	23%	31%	24%	16%
Liquor costs	22%	9%	31%	14%
Carbon tax	17%	23%	18%	12%
Decline in tourists	10%	6%	12%	10%
None of the above	2%	3%	0%	6%
Other (please specify)	8%	11%	9%	4%

What are your top priorities over the next 12 months?

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Reduce operating costs	68%	69%	73%	58%
Improve guest experience	67%	51%	74%	62%
Improve staff training	62%	66%	60%	62%
Increase marketing	46%	57%	45%	40%
Improve inventory management	37%	40%	38%	36%
Integrate new technology into my business	34%	49%	29%	36%
Raise menu prices	34%	46%	34%	26%
Improve workplace culture	32%	29%	36%	28%
Add a new profit centre (e.g. add catering, delivery, special events)	30%	37%	32%	22%
Hire more staff	22%	29%	20%	22%
Introduce healthy items to the menu	20%	34%	18%	14%
Open a new location	19%	37%	20%	4%
Close a location	4%	11%	3%	0%
Eliminate a profit centre (e.g. eliminate catering, delivery, special events)	1%	0%	2%	0%
Other (please specify)	4%	3%	3%	4%

In what ways do you plan to reduce your operating costs?

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Change menu by choosing lower cost food items	47%	41%	46%	54%
Reduce shifts - hours of work	46%	41%	54%	32%
Change food suppliers	37%	59%	38%	18%
Reduce number of employees	26%	36%	29%	14%
Reduce portion sizes	25%	18%	26%	29%
Reduce or eliminate employee benefits (e.g. health, RRSP, pension)	10%	0%	13%	11%
Eliminate credit options for payment (e.g. cash or debit only)	4%	5%	4%	4%
Other (please specify)	16%	18%	15%	18%

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

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Below 1%	8%	9%	8%	8%
1 to 2%	20%	26%	20%	14%
2 to 3%	36%	31%	38%	34%
Above 3%	21%	20%	19%	26%
Not sure / don't know	15%	14%	14%	18%

In what ways will you integrate technology into your restaurant or foodservice establishment to bring in more customers? CURRENTLY OFFER

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Using social media to build awareness (Twitter, Facebook, Instagram)	78%	80%	82%	70%
Loyalty programs (through POS, apps)	26%	26%	30%	18%
Delivery services through apps like UberEATS, Foodora	19%	20%	24%	6%
Accepting payment from stored wallets like PayPal, Apple Pay, etc	16%	37%	7%	18%
Accepting orders by mobile phone app	16%	29%	13%	14%
Accepting payments via mobile phone app	13%	26%	8%	12%
Text notifications (SMS) that your reserved table is ready	12%	3%	21%	2%
Tablesider ordering from a tablet	8%	3%	10%	4%
None of the above	10%	6%	8%	16%

PLAN TO OFFER IN THE NEXT 12 MONTHS

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Accepting payments via mobile phone app	24%	40%	23%	16%
Accepting payment from stored wallets like PayPal, Apple Pay, etc	20%	26%	21%	16%
Accepting orders by mobile phone app	17%	26%	15%	14%
Loyalty programs (through POS, apps)	16%	31%	12%	12%
Tablesider ordering from a tablet	15%	17%	18%	10%
Delivery services through apps like UberEATS, Foodora	12%	20%	12%	8%
Text notifications (SMS) that your reserved table is ready	12%	9%	15%	8%
Using social media to build awareness (Twitter, Facebook, Instagram)	11%	20%	8%	12%
None of the above	5%	0%	4%	10%

In what ways are you currently using technology to improve productivity and efficiency?

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Inventory software programs and apps	32%	26%	35%	28%
App or software to aid with menu costing	29%	31%	30%	26%
App or software to help with employee scheduling	28%	29%	28%	30%
Reservation software/app (i.e. OpenTable, YP Dine, etc.)	27%	9%	41%	13%
Table management to optimize seating	21%	3%	33%	9%
"Smart" equipment (i.e. refrigerator, dishwasher, soap dispenser)	21%	9%	26%	20%
Apps, software or e-learning to train staff	19%	20%	18%	22%
Digital menu boards to manage changes	15%	23%	14%	13%
End-to-end tablet solutions from customer order to meal prep and back for payment	10%	11%	12%	7%
Recipe app on tablet that helps kitchen staff to know the ingredients, measures, and preparation techniques	8%	17%	7%	2%
Standalone kiosk ordering	3%	3%	4%	2%
None of the above	31%	46%	24%	33%
Other (please specify)	1%	0%	0%	2%

How many units do you own and/or operate?

	Total Foodservice	Quick-services Restaurants	Table-services Restaurants*	All Other Foodservices**
Number of Responses	186	35	97	54
Number of Units	4,087	2,145	1,652	290

* 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.