Restaurants Canada Research

FOODSERVICE FACTS 2019

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Restaurants Canada

The voice of foodservice | La voix des services alimentaires

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A MESSAGE FROM OUR PRESIDENT & CHAIR

2018 was a record year for the foodservice industry across Canada, and our flagship research report Foodservice Facts will provide you the economic and industry information you need to help you successfully navigate the changes on the horizon. And make no mistake about it, changes are coming.

Foodservice sales hit $89 billion, an increase of more than 5% over 2017 and these strong gains, albeit somewhat offset by inflation and increased menu prices, are expected to carry-on in 2019 as Canadians and international visitors alike remain eager to delve into the breadth of culinary traditions we have to offer.

It won't all be smooth sailing though as lingering economic uncertainty promises to create challenges for foodservice operators. Finding, training and retaining the best employees is one of them. Even though foodservice has long been the top sector for first-time jobs, the industry is facing labour shortages. What's more, technology is reshaping the way we do things, both personally and professionally.

Lifestyles are changing across the board with the rise of food tribes, like keto, vegan, flexitarian, plant-based and others. Customers are craving the individual and niche, giving operators who adapt an opportunity to shine.

Today's customers want convenience, affordability and portability, but they also look for stewardship and responsibility. They want to support businesses that are environmentally and socially responsible. Putting people and the planet on par with profits proves more than just ethical, simply put, it's good business. According to a recent Restaurants Canada member survey, 80% of respondents agree, feeling environmental sustainability is critical to their success. Most impressively, they're turning that belief into action.

In fact, more than 72% of foodservice operators have made changes to their model or practice over the past few years, whether by reducing waste, choosing reusable packaging or creating plant-based menu choices. It's both the smart move and the right move.

Similarly, guests are constantly shifting when and how they order food from restaurants. Foodservice delivery sales jumped by 44% in 2018 over 2017, driven by third-party services. What was once mobile-friendly is now mobile-first. People are shopping with their digital wallets, and determining the value of your efforts through "likes". Needless to say, operators who leverage delivery technology and service are poised to thrive.

We have dealt with a lot of changes in our industry since Restaurants Canada was founded 75 years ago. We've come so far, and we've learned so much, but the rhythm and the impact of today's challenges require creativity and stamina like never before. Our mission at RC is to support, protect and guide foodservice operators in their decision making. We hope you will find in this edition of Foodservice Facts information that is insightful, inspiring and actionable.

Shanna Munro
President and CEO
Restaurants Canada

Brad Kramble
Chair of the Board
Restaurants Canada

ABOUT FOODSERVICE FACTS

FOODSERVICE FACTS is an annual market review and forecast from Restaurants Canada, 1155 Queen Street West, Toronto, Ontario M6J 1J4.
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CANADA'S RESTAURANT INDUSTRY

2018 will be remembered for a complex mix of industry growth and operator struggles

At first glance, Canada's foodservice industry seemed to enjoy a banner year of strong gains in 2018. Total foodservice sales grew by 5.1% to nearly $90 billion. This marks a $4.3 billion increase over 2017, extending a winning streak to five consecutive years of growth exceeding 5%. In fact, the foodservice industry led all major Canadian industries with the strongest GDP growth between 2008 and 2018. To meet the growing demand for foodservice, the number of restaurant establishments rose by a solid 2.2% in 2018.

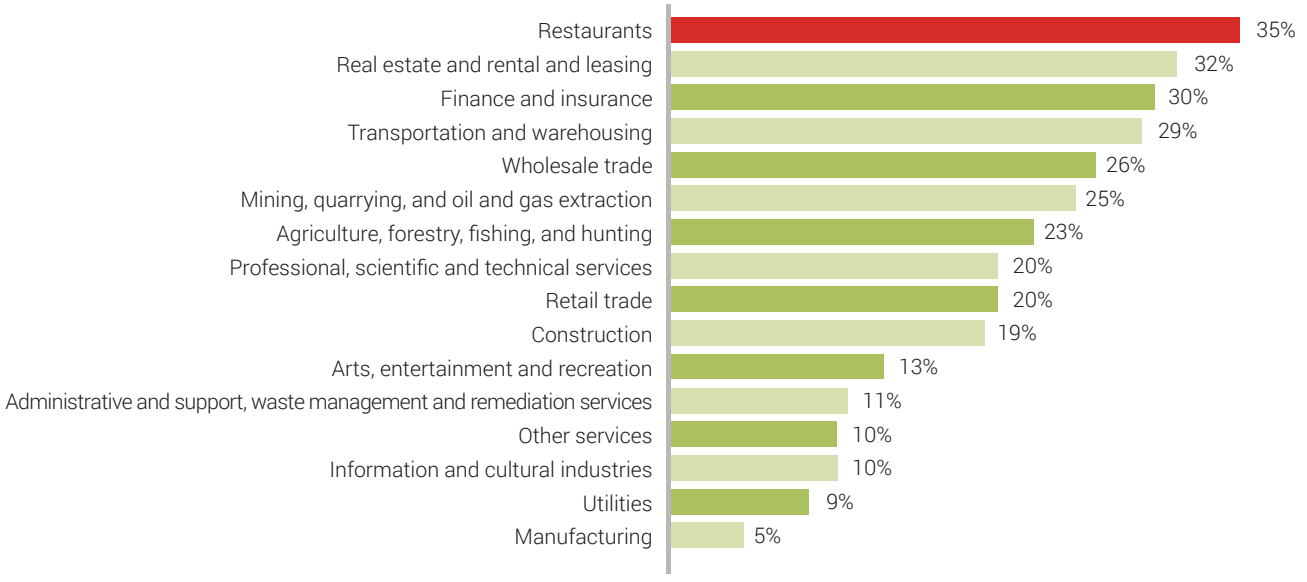
Sunny as they may seem, however, 2018's sales numbers do not tell the whole story. Unlike previous years, the increase in total foodservice sales was not due to a surge in traffic. In fact, Canadians were hit by weaker housing prices and volatile stock markets, rocking consumer confidence across the nation. In addition, the combination of rising labour costs, higher food costs, increased utilities rates and other operating expenses took a toll on restaurants.

With little room to absorb additional expenses, restaurants were forced to pass most of these increases on to customers – menu prices jumped by 4.2% in 2018, the largest increase since the introduction of the GST back in 1991.

ADJUSTED FOR MENU INFLATION, REAL SALES GREW BY JUST 0.9% FROM 2017 TO 2018, THE WEAKEST GROWTH SINCE 2011.

After taking into account unit growth and menu inflation, the average unit volume in Canada slipped slightly, dropping 0.05%. Despite the subpar national performance, however, many provinces reported solid results. Strong economic and demographic fundamentals led to robust gains in British Columbia, Quebec, Prince Edward Island, and Nova Scotia. In contrast, higher menu prices and weak economic growth eroded traffic in Ontario, Alberta, Saskatchewan, and Newfoundland & Labrador.

REAL ECONOMIC GROWTH BY INDUSTRY
(2008 TO 2018)



Source: Statistics Canada

Since 2000, the foodservice industry in Canada has more than doubled in size. Although higher disposable income, increased population, and menu inflation are part of the story for this increase, foodservice sales are also propelled by demographic and social change.

Millennials and generation Zers are prodigious away-from-home diners, and have propelled foodservice spending in recent years. Meanwhile, the movement towards a 'stay-at-home' economy has led to exponential growth in delivery sales spearheaded by these same two digital-friendly groups.

Still, while consumers are shopping online at home, banking at home, and watching movies at home, going out to a restaurant or drinking place remains a popular way to spend time with friends and family.

For 2019, total foodservice sales are projected to grow by an additional 4.2% to $93.6 billion. This comparatively sluggish increase reflects a moderation in spending due to weaker consumer confidence, high household debt, and a slowdown in job creation. A recent Angus Reid poll found that around 60% of millennials have no savings and a similar amount carry a debt load of at least $25,000.

Barring a recession or unforeseen economic downturn, better days do seem to be ahead. Based on the available data, Canada's foodservice industry is forecast to surpass $100 billion in annual sales in 2021.

STRATEGIC PERSPECTIVE

Guest counts are arguably the most powerful profit driver in restaurants, and the industry has seen sustained growth in traffic since 2011.

The customer of yesteryear is not the same as the customer of today. Restaurant spend declines as people approach retirement; as a result, baby boomer guest occasions are and will continue to be on a long term path of decline.

Growth now and in the future will come from those who are 40 and under. Solving for what they need, by evolving to deliver on functional needs (the right food, at the right price, the right way) and emotional needs (feeling good about their choices) will sort those who grow guest counts and profits from those who do not.

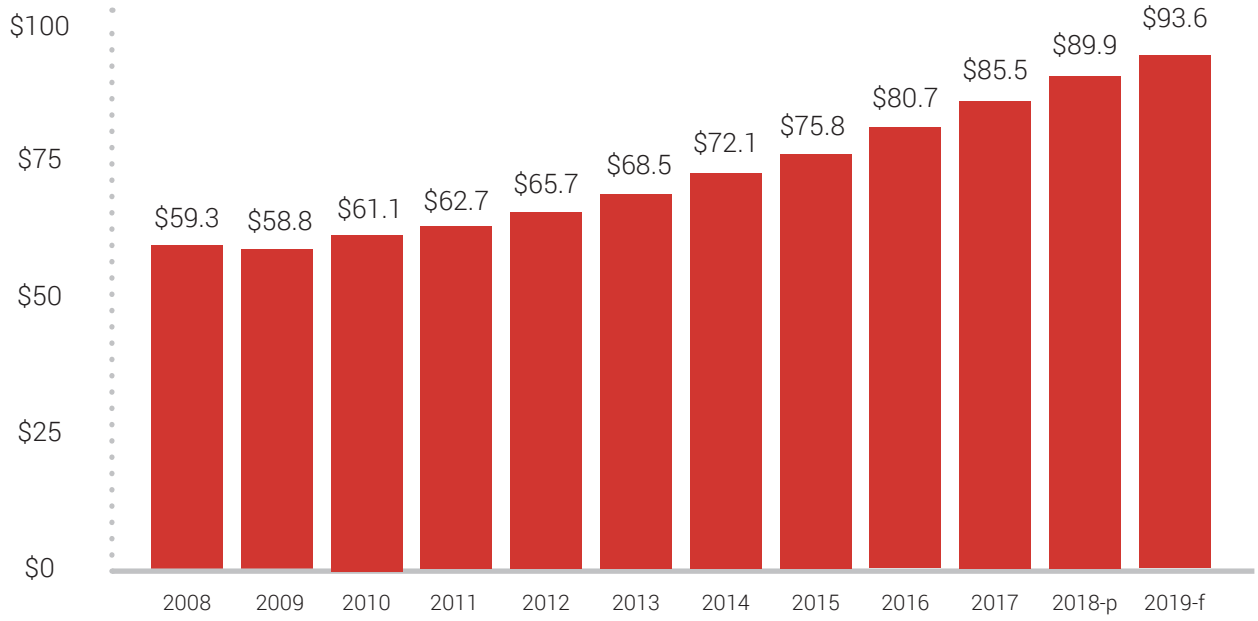
HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

RESTAURANTS CANADA'S FOODSERVICE SALES FORECAST IN CANADA

	2017 Final (in millions)	% Change '17/'16	2018 Projected (in millions)	% Change '18/'17	2019 Forecast (in millions)	% Change '19/'18
Quick-service restaurants	$30,464.2	5.6%	$32,027.8	5.1%	$33,467.7	4.5%
Full-service restaurants	$30,206.0	6.9%	$31,863.3	5.5%	$33,184.2	4.1%
Caterers	$5,400.5	4.8%	$5,688.2	5.3%	$5,944.7	4.5%
Drinking places	$2,438.5	1.6%	$2,495.5	2.3%	$2,506.5	0.4%
TOTAL COMMERCIAL	**$68,509.2**	**6.0%**	**$72,074.8**	**5.2%**	**$75,103.1**	**4.2%**
Accommodation foodservice	$6,934.0	6.9%	$7,206.0	3.9%	$7,508.0	4.2%
Institutional foodservice	$4,735.0	2.6%	$4,946.0	4.5%	$5,125.0	3.6%
Retail foodservice	$2,569.9	12.5%	$2,764.8	7.6%	$2,936.3	6.2%
Other foodservice	$2,748.6	4.1%	$2,858.6	4.0%	$2,972.9	4.0%
TOTAL NON-COMMERCIAL	**$16,987.5**	**6.0%**	**$17,775.4**	**4.6%**	**$18,542.2**	**4.3%**
TOTAL FOODSERVICE	**$85,496.7**	**6.0%**	**$89,850.2**	**5.1%**	**$93,645.2**	**4.2%**
Menu inflation		2.6%		4.2%		3.1%
REAL GROWTH		**3.4%**		**0.9%**		**1.1%**

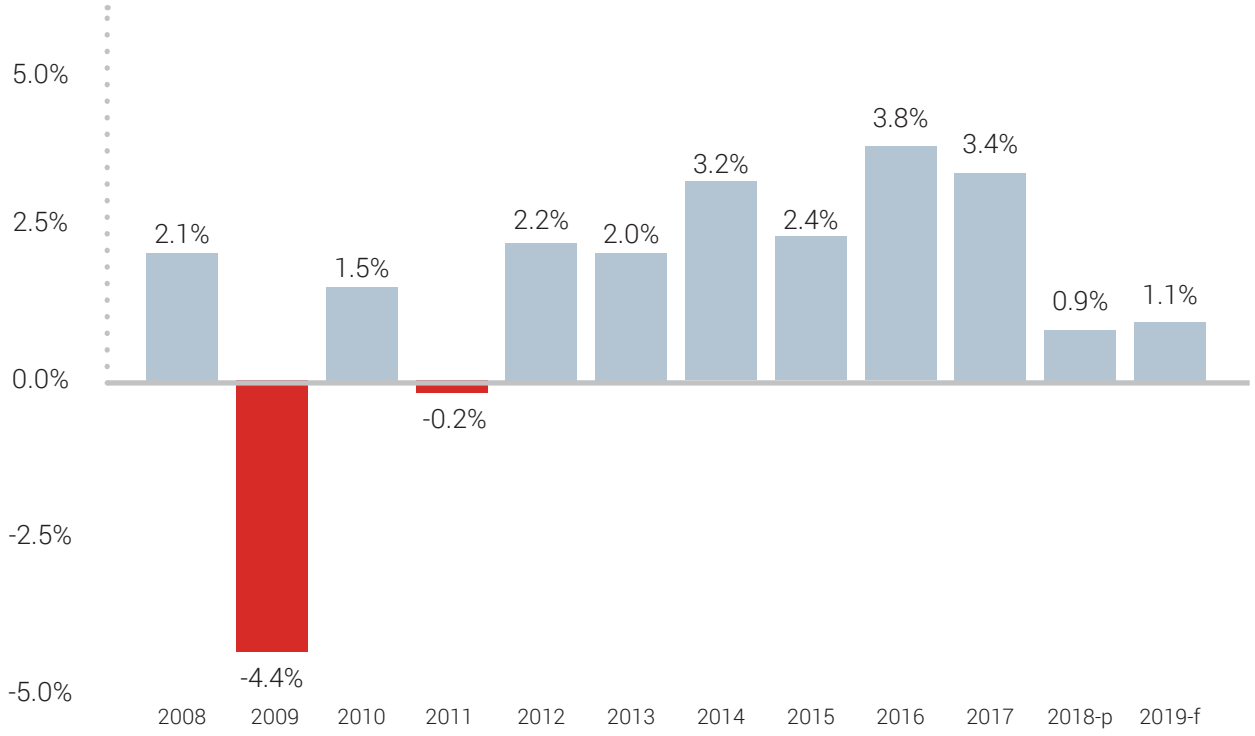
Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc. and CBRE Hotels

TOTAL FOODSERVICE SALES
(IN BILLIONS OF DOLLARS)



Source: Restaurants Canada and Statistics Canada **p -** preliminary **f -** forecast

REAL CHANGE IN TOTAL FOODSERVICE SALES



Source: Restaurants Canada and Statistics Canada **Note:** Real refers to inflation-adjusted growth.

STRATEGIC PERSPECTIVE

Growth since 2000 is indeed remarkable. On the plus side, the Canadian dollar has reverted back to a level where tourist spending can recover. Growth in women's participation in the labour force, one of the most significant drivers of industry growth prior to 2000, peaked near the millennium. On the minus side, the millennial generation does not have the same amount of disposable income that their boomer parents had at the same age.

So, what to make of five years of sustained traffic growth in restaurant guest counts? A significant part of growth is coming from changes in consumer behaviour. Today's guests are not using restaurants in quite the same way their parents did at the same age.

If you are packed with guests, learn what makes you successful and do more of it. Look for the lineups – who is busy and who is not? Figure out what the busy ones are doing better and borrow with pride to speed-up the evolution of your restaurant.

HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

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RESTAURANTS CANADA'S 2019 FOODSERVICE FORECAST

Forget 'blurring of lines' between foodservice and retail – consumers no longer differentiate between traditional foodservice channels

The foodservice industry, as those working within understand it, is comprised of a variety of segments. There are traditional restaurants and their sub-segments, such as casual dining and quick-service operations. Then there are the non-commercial foodservice segments, retail foodservice, accommodation and institutions. Over the years, diversification has caused a rapid blurring of the lines between restaurants, retail foodservice, and foodservice from convenience stores.

But, for many consumers, there are no more channels; everyone is on a level playing field, competing equally. The grocery store hot buffet, the corner store grab-and-go counter, the QSR chain drive-through, the casual neighbourhood diner – they're all chasing the same, finite, supply of consumer food dollars.

Retail foodservice remained the fastest-growing foodservice segment in Canada, with annual sales increasing by 7.6% to $2.7 billion in 2018. Sales in the segment have doubled in size since 2013, and this strong pace of growth will continue in the years ahead. Convenience stores, department stores, and grocery stores are expanding the selection and quality of prepared meals and snacks to woo customers. As a result, retail foodservice is forecast to grow by an additional 6.2% this year.

Accommodation foodservice enjoyed a robust 6.9% jump in sales in 2017 thanks to the Canada 150 Celebrations. In 2018, however, spending moderated to 3.9% growth because of a slow down in international visitors, higher fuel prices, and rising occupancy costs. In 2019, accommodation foodservice is forecast to grow by an additional 4.2% to $7.5 billion as a favourable exchange rate will boost the number of visitors from the United States and other international markets.

FOODSERVICE SEGMENT DEFINITIONS

Commercial Foodservice	Operations whose primary business is food and beverage service.
Quick-service Restaurants	Restaurants where you pay *before* you eat. Includes counter service, cafeteria, food courts and take-out and delivery establishments.
Full-service Restaurants	Restaurants where you pay *after* you eat. Includes licensed and unlicensed fine-dining, casual and family restaurants as well as restaurant-bars.
Caterers	Includes contract caterers supplying food services to airlines, railways, institutions and recreational facilities, as well as social caterers providing food services for special events.
Drinking Places	Includes bars, taverns, pubs, cocktail lounges and nightclubs primarily engaged in serving alcoholic beverages for immediate consumption. These establishments may also provide limited food service.
Non-Commercial Foodservice	Self-operated foodservice in establishments whose primary business is something other than food and beverage service. Branded restaurants in any of these settings are counted in commercial restaurant sales if they are owned by the restaurant chain.
Accommodation Foodservice	Foodservice in hotels, motels and resorts.
Institutional Foodservice	Foodservice in hospitals, residential care facilities, schools, prisons, factories, remote facilities and offices. Includes patient and inmate meals.
Retail Foodservice	Foodservice operated by department stores, convenience stores and other retail establishments.
Other Foodservice	Includes vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.

Total Foodservice: Includes commercial and non-commercial foodservice.

MENU INFLATION

Menu prices soared in 2018 in response to external financial pressures

To combat rising labour costs and other operating expenses, many operators raised menu prices in 2018, resulting in a nationwide average increase of 4.2%. A 6.4% jump in Ontario, the largest in Canada, helped pull the national average upwards. Menu prices also increased by 3.4% in Alberta and British Columbia. At the low end of the scale, Prince Edward Island and Manitoba reported modest bumps of 1.9% and 1.7%, respectively.

In contrast, fierce competition within the retail food segment led to significant discounting at grocery stores and supermarkets. As a result, food prices fell in 2016 and remained low throughout 2017 and most of 2018. It was only in the final months of 2018 that prices started to climb again.

Historically, menu prices at full-service restaurants have increased faster than at quick-service restaurants. In 2018, however, that trend flipped as quick-service restaurant menu prices increased by 5.3% compared to a 3.8% increase at full-service restaurants.

STRATEGIC PERSPECTIVE

The mix of where consumers are finding their out-of-home meals and snacks continues to change. Retail foodservice is very much driven by a shift in behaviour. Just think about how many times you ate your lunch in a grocery store 20 years ago. Lower levels of service, balanced with lower check size, food variety, and sustained promotional activity are getting results in this sector.

HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

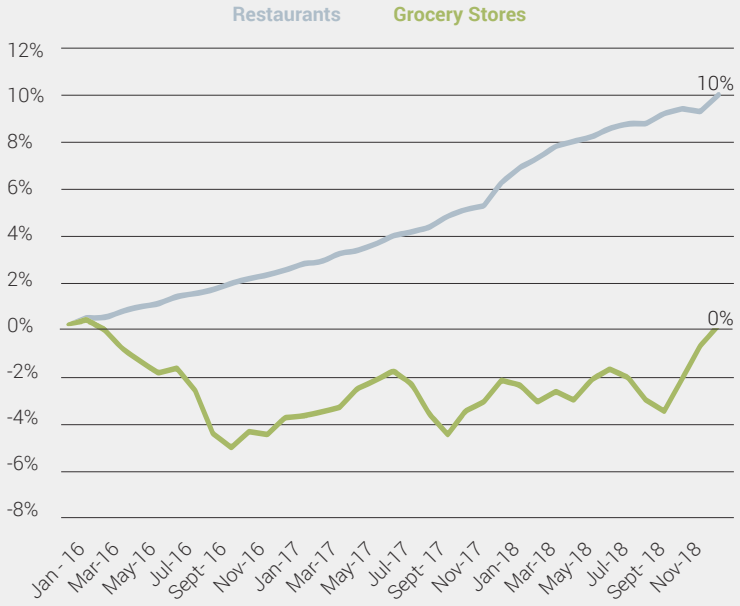
At licensed establishments, alcohol prices increased by 2.7% in 2018 versus the previous year. This was primarily due to higher prices for spirits (+3.4%), partially brought on by a federal excise tax tied to the rate of inflation. Over the past 10 years, alcohol prices have increased by 20% at foodservice outlets, more than double the rate for alcohol purchased at stores.

Fiscally-cautious consumers spent at a rate lower than inflation

Menu inflation had a measurable impact on consumer spending and the average check size at restaurants in 2018. As previously stated, menu prices increased by 4.2% in 2018, but the average check size increased by just 2.7%. The reason? Canadians adjusted their purchasing behaviour rather than increase their spending in lockstep with menu inflation. Given mounting household debt levels and slower disposable income growth, consumers will be watching their food dollar closely. Until these factors abate, they will continue to restrain growth in the average check size.

By segment, quick-service restaurants posted the largest increase in average check size, up 3.3% (or $0.19) in 2018 over 2017. This is due in large part to a greater increase in menu prices than was seen in other segments pulling the average spend upwards. The average check size at full-service restaurants rose by a more modest level, ranging from 1.2% at fine dining to 2.2% growth at casual dining establishments.

INFLATION SINCE 2016 IN CANADA



Source: Statistics Canada

AVERAGE CHECK SIZE PER PERSON IN CANADA

Channel	2016	2017	2018
Quick-service restaurants	$5.64	$5.75	$5.94
Midscale dining	$12.47	$12.82	$13.01
Casual dining	$17.56	$17.85	$18.24
Fine dining	$43.59	$43.63	$44.16
Retail foodservice	$4.76	$4.82	$4.94
Total foodservice	**$7.78**	**$7.93**	**$8.15**

Average check size includes taxes, but excludes tips

Source: The NPD Group/CREST©, 12 months ending December each year

FOODSERVICE EMPLOYMENT

Labour remains a top challenge for restaurant operators

With annual sales approaching $90B in 2018, foodservice is the fourth-largest employer in Canada, generating more than 1.2 million jobs. After three consecutive years of minimal change, foodservice employment grew by 3.3% last year. A significant number of these newly created jobs were self-employed restaurant owners, an exciting prospect for the industry. Full-time employment also rose in 2018, outpacing part-time work.

Even with the increase in the employment rate in recent years, the number of new hires has not kept pace with the rate of unit expansion. As a result, the number of workers per unit dipped slightly from 11.0 in 2014 to 10.7 in 2018. This is just one of many current challenges facing the foodservice industry.

LABOUR COSTS

The number one challenge facing foodservice operators across Canada is rising labour costs. On average, weekly earnings increased by 5.4% nationally in 2018. In the provinces with the largest minimum wage increases, Ontario and Alberta, the average weekly paycheque rose between 2017 and 2018 by 9.3% and 5.0% respectively.

In response to higher minimum wages, many restaurant operators reduced employee hours, raised menu prices, and found other ways to trim expenses.

Our most recently published survey of restaurant operators revealed higher labour costs were the number one factor making them more pessimistic about prospects for 2019.

LABOUR SHORTAGES

In Q3 2018, there were more than 63,000 job vacancies in the foodservice industry, many of them back-of-house positions. An aging population and fewer young people participating in the workforce will lead to ongoing labour shortages in the future.

Labour shortages were most pronounced in Quebec, Ontario and British Columbia, while Alberta and Manitoba reported significant improvements.

Employee retention through incentives, financial and otherwise, and an improved workplace experience can aid in landing new employees and holding on to existing ones.

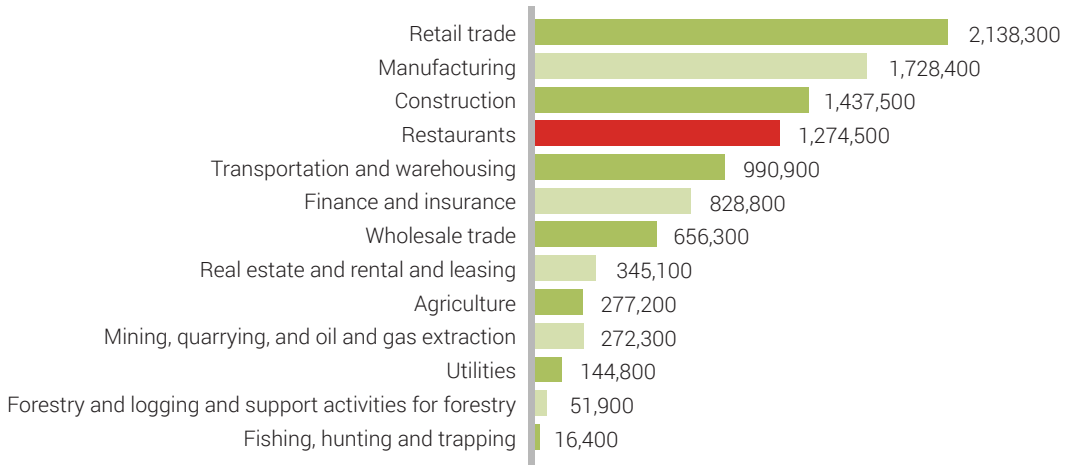
WORKER PRODUCTIVITY

Foodservice is a highly labour-intensive industry. The average restaurant requires 14.9 workers to generate $1 million in sales. This compares to an average of 4.3 workers at grocery stores and just 1.2 workers at gasoline stations.

One way to address both rising labour costs and labour shortages is to improve worker productivity. Yet, worker productivity growth in the foodservice industry has lagged behind the industrial average since 2000.

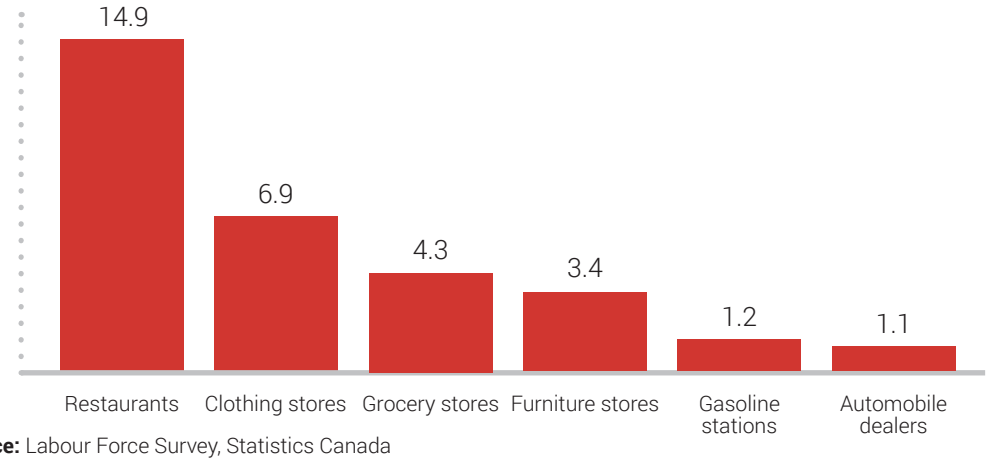
Investing in technology could lead to greater worker productivity gains, allowing more output per employee. This means you could pay workers more, increasing the likelihood of long-term retention.

2018 PRIVATE SECTOR EMPLOYMENT BY INDUSTRY IN CANADA



Source: Labour Force Survey, Statistics Canada

NUMBER OF EMPLOYEES REQUIRED TO GENERATE $1,000,000 IN SALES



Source: Labour Force Survey, Statistics Canada

STRATEGIC PERSPECTIVE

In 2019, labour will continue to rule the day in the minds of operators. While an increase to minimum wage has impacted several provinces dramatically, a more universal phenomena across the country has been increasing labour shortages. While not new, these shortages may prove more challenging than ever before due to the changing demographics of the workforce and the seeming decline in people wanting to work in the service industry.

Add to this the incredibly competitive marketplace and it is imperative that operators turn their attention to their people. An engaged workforce not only means increased productivity, it means increased profitability!

BRUCE McADAMS
Associate Professor, University of Guelph
School of Hospitality, Food, and Tourism Management

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COMMERCIAL FOODSERVICE SEGMENTS

Quick-service restaurants retained the top spot for total sales in Canada, but full-service restaurants are closing the gap

Quick-service restaurants

Sales rose 5.1% in 2018 to a record $32 billion. While this would appear to be yet another healthy result following several years of robust gains, the devil is in the details. After you adjust for menu inflation of 5.3% and Canada's 1.4% population growth, you discover that per capita spending actually dropped to $864. This is the first decrease in quick-service spending since 2011.

Looking to the future, high household debt (the bane of discretionary spending) and resultant belt-tightening by consumers are forecast to slow the rate of growth in 2019; expect total annual sales at quick-service restaurants to increase by 4.5% over last year.

Full-service restaurants

Propelled by strong spending in British Columbia, Prince Edward Island, and Ontario, annual sales at full-service restaurants grew by 5.4% in 2018 to $31.8 billion.

On a per capita basis and adjusted for menu inflation, full-service restaurant sales increased to $859, bringing the category closer to parity with quick-service restaurants than it's been since 2014. Some of this growth is attributable to gains in third-party delivery. Look for increased penetration going forward as more operators offer such services in the face of growing consumer demand.

In 2019, sales at full-service restaurants will slow significantly, achieving 4.1% growth, due to a moderation in spending in the urban economic powerhouses of British Columbia, Ontario, and Quebec. Operators in Alberta and Saskatchewan will continue to struggle due to ongoing weak economic conditions.

Caterers

Although caterer revenues rose by a better-than-expected 5.3% in 2018 – the category's most vigorous growth since 2014 – the gains were mixed. Revenues increased in Ontario, Quebec, and British Columbia, but these gains were partially offset by declines in Alberta and Saskatchewan.

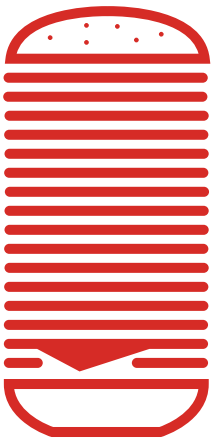
Worth noting was a decrease in the number of sole proprietorships causing a corresponding drop in the quantity of locations last year. Looking ahead, caterer revenues are forecast to grow 4.5% in 2019.

Drinking Places

Sales at drinking places grew by a tepid 2.3% last year, following a 1.6% increase in 2017; an improvement, but not the sort of numbers to open a bottle of bubbly over. Growth was due solely to gains in New Brunswick and Quebec, with the rest of the country reporting softer spending or outright declines.

The major drivers behind this change are millennials and generation Z consumers; both groups are drinking less alcohol than their boomer predecessors. Additionally, rising alcohol prices and stricter drinking and driving legislation have eroded sales. In a physical manifestation of this trend, the conversion of drinking places to full-service restaurants has reduced the number of locations over the past two decades as operators seek to adjust to the trends and broaden their consumer base.

Looking ahead, drinking place sales are forecast to slump to just 0.4% growth due to a continued decline in units and changing consumer preferences.



Commercial foodservice establishments increased by

941

locations in 2018.

Gains came from the full-service (+2.6%) and quick-service categories (+1.8%), while there were notable declines in the number of caterers (-6.5%) and drinking places (-2.9%).

PERFORMANCE BY SEGMENT (COMMERCIAL FOODSERVICE)

	Sales Growth Forecast in '19/'18[1]	Sales Growth in '18/'17[1]	2018 Sales (in millions)	2018 Average Unit Volume[2]	2018 Units	Pre-tax Profit (% of operating revenue)[3]
Quick-service restaurants	4.5%	5.1%	$32,027.8	$826,364	38,758	4.3%
Full-service restaurants	4.1%	5.5%	$31,863.3	$720,833	44,204	3.8%
Caterers	4.5%	5.3%	$5,688.2	$572,512	9,936	7.2%
Drinking places	0.4%	2.3%	$2,495.5	$494,893	5,043	4.7%
Total commercial	4.2%	5.2%	$72,074.8	$735,915	97,939	4.3%

Source: Statistics Canada and Restaurants Canada's Restaurant Industry Forecast

1 Growth rates are unadjusted for menu inflation.
2 Data are based on sales from the Monthly Survey of Food Services and Drinking Places divided by the number of units from the Business Register, Statistics Canada.
3 2017 data.

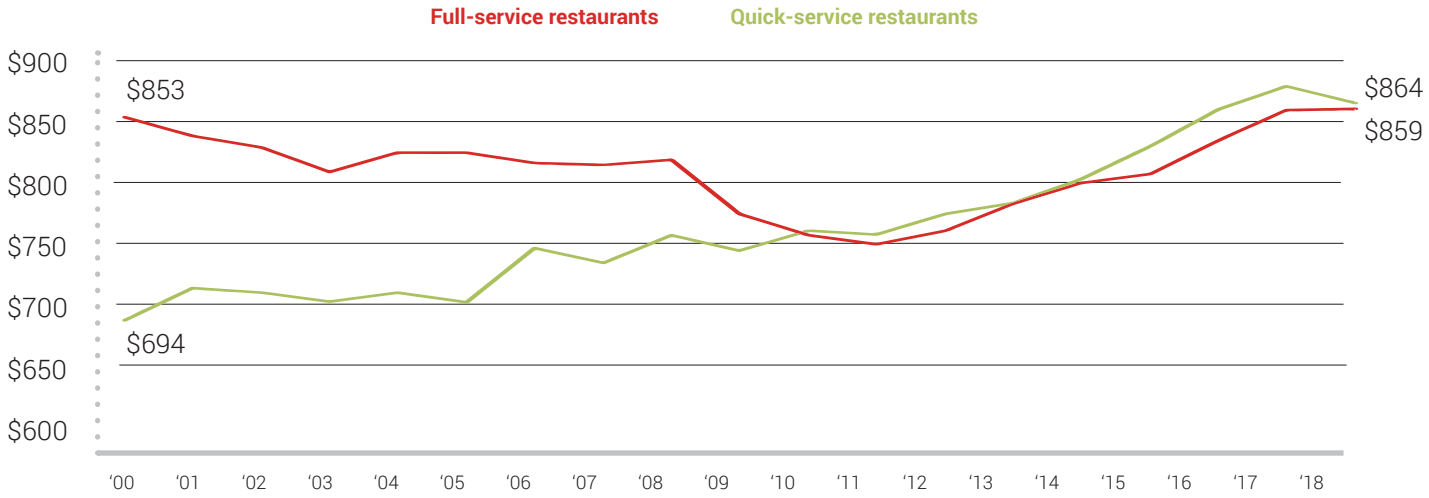
STRATEGIC PERSPECTIVE

Are alarm bells starting to ring in quick-service, or is 2018 a one year blip in traffic growth? Spend per capita is down, and average unit guest counts are down. Dominated by chains, the QSR segment is perhaps the least nimble at evolving; it is a lot of work rolling any change out across a wide system of restaurants. Five per cent overall growth that drove a 2.5% decrease in average unit traffic is not particularly healthy growth.

Full-service restaurants, particularly independents and small chains, may be more agile and are a key segment in driving off-premise takeout and delivery. Under 40s are, in a way, 'hacking' the full-service model as they engineer their guest check down by eliminating the restaurant beverage and the tip while taking a pass on the inconvenience of getting to and from a restaurant. Why not just wait at home?

HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

PER CAPITA RESTAURANT SALES (IN 2018 $)



Source: Statistics Canada and Restaurants Canada

2018 SHARE OF TRAFFIC AND DOLLARS BY DAYPART – QUICK-SERVICE RESTAURANTS

	Traffic	Sales
Morning Meal	35.2%	26.9%
Lunch	27.0%	34.0%
Supper	17.1%	25.4%
PM Snack	20.7%	13.7%

Source: The NPD Group/CREST©, 12 months ending December 2018

2018 SHARE OF TRAFFIC AND DOLLARS BY DAYPART – FULL-SERVICE RESTAURANTS

	Traffic	Sales
Morning Meal	18.5%	12.8%
Lunch	30.7%	29.0%
Supper	44.3%	54.1%
PM Snack	6.5%	4.1%

Source: The NPD Group/CREST©, 12 months ending December 2018

Quick-service daypart breakdown

Busy lives have Canadians seeking a fast, convenient, and affordable way to start the day. That's why the morning meal daypart is the most popular time to visit a quick-service restaurant. Overall, morning meals accounted for more than one-third of QSR traffic in 2018, a share that is relatively unchanged since 2015.

Lunch accounted for a lower share of traffic than morning meals (27%), but a higher average check size meant the midday meal generated 34% of quick-service restaurant revenue. Lunch was the fastest-growing daypart, with traffic growing by 2.7% in 2018 over 2017. For comparison, traffic for morning meals and supper increased by 1.9%. This is part of a longer trend of lunch outpacing all other segments in traffic growth over the past five years.

Despite the proliferation of prepared meals from grocery and convenience stores, the share of supper traffic has steadily increased from 16.5% in 2014 to 17.1% in 2018. That growth may be surprising to some, but it's in keeping with a youthful trend of assigning social value to sharing the evening meal with loved ones. In contrast, PM snacks are losing market share, falling from 23.7% of QSR revenue in 2014 to 20.7% in 2018.

Full-service daypart breakdown

Morning meals and PM snacks, while still small at full-service restaurants in terms of both sales and traffic, have proven to be growth drivers for the segment. Consumer spending climbed 7.8% and 10.3% respectively in 2018 over 2017.

As ever, the supper daypart dominates full-service, generating 54.1% of revenue and pulling in 44.3% of the traffic. Due in large part to expanded consumer choice, including increasing competition from quick-service restaurants and retail stores, the share of revenue generated by supper has slipped from 56.8% in 2016.

Record-high household debt and lower disposable income are forecast to be the norm over the next five years in Canada. As such, many full-service restaurants will find it challenging to compete with other segments when it comes to affordability. With discretionary dollars at a minimum, consumers will struggle to justify the expense of a table service meal as often as they used to, and operators will need to get creative to bolster their bottom lines.

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A LOOK AT THE PROVINCES

British Columbia and Ontario will lead in foodservice sales growth in 2019 while Newfoundland and Alberta struggle to gain ground

Newfoundland & Labrador's foodservice industry struggled for the third consecutive year in 2018. Improved economic activity will boost foodservice sales, but only by a meagre 1.6% in 2019. Over the long term, a shrinking population will result in below average foodservice sales growth.

Small but mighty **Prince Edward Island** enjoyed the strongest job creation in the country, and it translated into a very healthy 6.3% increase in commercial foodservice sales in 2018. Average annual growth raced along at 6.8% over the past four years – the second-highest increase in the country – but, foodservice sales are forecast to moderate to a more sustainable pace of 4.3% growth in 2019.

Foodservice sales in **Nova Scotia** advanced by a solid 5.6% in 2018 as gains at restaurants offset lower revenues at caterers and drinking places. Nova Scotia's foodservice industry is forecast to grow by 3.9% in 2019 thanks to a strong labour market and rising immigration targets. An increase in tourism will also help to fill operators' tills; Halifax expects to welcome 320,000 cruise ship passengers alone in a record-setting year for the port city.

New Brunswick's foodservice industry continues to deliver mixed but mainly mediocre results. Sales rose by a slim 3.0% in 2018 over the previous year, and subpar economic activity and weak population growth will limit foodservice sales gains to 3.1% in 2019.

Over the past three years, **Quebec's** foodservice industry boasted average annual sales growth of 6.9% per year. Growth was propelled by active consumer, business, and tourist spending at restaurants and drinking places. The forecast is for foodservice sales to slow to a more moderate rate of 4.2% growth in 2019.

STRATEGIC PERSPECTIVE

There is no Canadian restaurant market, there are only local ones; each market has its own local tastes, brand loyalties, and menu preferences. Alberta and BC have an average unit volume that is 14% higher than the national average. Demand for restaurants is greater in the West than it is in Ontario and Quebec.

Chains will not find that they can open in another market and get the same results. Quebec is perhaps the most unique market with all of its full-service chains being "home grown".

Restaurant owners who take advantage of differences in tastes and guest preferences can outperform the competition, particularly if their offering is geared to a micro/local target of guests that frequent the local area. Hip restaurants for hipsters, spicy places for cultures that like it hot, and so on. What is your niche?

HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

Ontario's foodservice industry had a challenging year in 2018. Total commercial foodservice sales rose by a seemingly healthy 5.7%, but, when adjusted for menu inflation of 6.4%, real sales actually fell by 0.7%. This was a sharp reversal from the average annual real growth of 4.1% enjoyed between 2014 and 2017. For 2019, nominal sales will expand by 4.6%. Although this is a moderation from the significant increases in recent years, Ontario will still post among the fastest total foodservice sales growth in the country due to a growing population and healthy job creation numbers.

Foodservice spending in **Manitoba** stalled in 2018 with 2.4% growth, a major letdown after making respectable gains between 2015 and 2017. In 2019, foodservice sales are forecast to grow by an additional 3.4% due to improved job creation.

The long-awaited recovery in **Saskatchewan's** foodservice industry will have to wait another year; foodservice sales grew by just 1.6% in 2018. Most of the weakness stems from the impact of the PST implemented in April 2017, and fragile economic conditions. In 2019, improved job creation and a stronger economy will boost foodservice sales by 3.8%, a welcome leap forward for beleaguered operators.

Due to a weak economy, **Alberta's** foodservice industry struggled in 2018, total sales rising a mediocre 2.4%. That's a disappointing performance, especially following on the heels of a 4.0% increase in 2017. Additionally, rising labour costs led to a 3.4% increase in menu prices, which further led to fewer visits to restaurants by cash-strapped consumers. Due to mandated oil production cuts, Alberta will experience the weakest economic growth in the country this year. As a result, foodservice sales are forecast to expand by a marginally improved 3.0% in 2019.

Over the past five years, foodservice sales in **British Columbia** increased on average by a remarkable 8.1%, the highest growth figure in the country. During that time, foodservice spending was propelled by incrementally rising wages, population growth, the wealth effect from the highest housing prices in Canada, an increase in tourism, and a strong economy. Although British Columbia will be hard-pressed to maintain this torrid pace in the coming years, the province will continue to lead the pack with a commendable 4.8% gain in 2019.

PERFORMANCE BY PROVINCE (COMMERCIAL FOODSERVICE)

	Sales Growth Forecast in '19/'18[1]	Sales Growth in '18/'17[1]	Real Average Unit Volume Growth in '18/'17	2018 Sales (in millions)[2]	2018 Average Unit Volume[3]	2018 Units	Menu Inflation '18/'17	Pre-tax Profit (% of operating revenue)[4]
Canada	4.2%	5.2%	-0.05%	$72,074.8	$735,915	97,939	4.2%	4.3%
Newfoundland & Labrador	1.6%	0.2%	-1.1%	$861.2	$737,301	1,168	2.8%	4.1%
Prince Edward Island	4.3%	6.3%	4.8%	$273.9	$663,259	413	1.9%	6.9%
Nova Scotia	3.9%	5.6%	4.8%	$1,696.0	$750,458	2,260	2.1%	5.0%
New Brunswick	3.1%	3.0%	3.0%	$1,220.4	$714,521	1,708	2.6%	6.0%
Quebec	4.2%	5.2%	1.5%	$13,508.5	$594,147	22,736	2.7%	4.4%
Ontario	4.6%	5.7%	-2.2%	$28,640.7	$747,468	38,317	6.4%	3.8%
Manitoba	3.4%	2.4%	0.2%	$2,082.2	$794,425	2,621	1.7%	4.8%
Saskatchewan	3.8%	1.6%	-3.7%	$1,917.7	$717,449	2,673	3.8%	5.3%
Alberta	3.0%	2.4%	-1.2%	$9,457.6	$838,666	11,277	3.4%	4.4%
British Columbia	4.8%	7.9%	3.5%	$12,199.4	$838,444	14,550	3.4%	4.7%

Source: Statistics Canada and Restaurants Canada

1 Growth rates are unadjusted for menu inflation.

2 Includes full-service restaurants, quick-service restaurants, caterers and drinking places.

3 Data are based on sales from the Monthly Survey of Food Services and Drinking Places divided by the number of units from the Business Register, Statistics Canada.

4 2017 data.

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LONG-TERM FORECAST: 2020 TO 2023

Plateauing disposable income levels and tentative consumer spending are dampening the outlook for foodservice

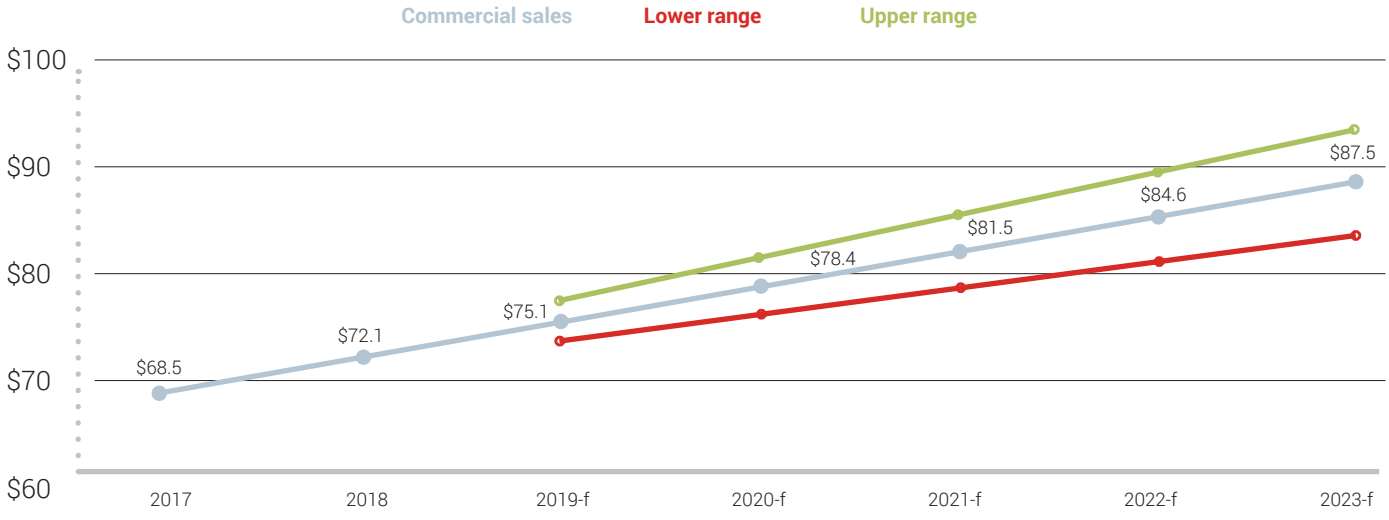
The combination of slower economic growth and disposable income growth levelling off will restrain household spending over the next four years. Furthermore, household debt is at a record high, and long-term interest rates are on the rise. The inevitable result: consumers will do a lot of belt tightening over the next few years. For instance, retail spending, a key economic indicator, is forecast to grow by an average of just 3.3% per year between 2020 and 2023. This is a noticeable slump from the 4.6% average annual growth recorded between 2014 and 2018.

Similarly, commercial foodservice sales in Canada are forecast to decelerate to an average of 4.0% growth per year between 2020 and 2023, down sharply from an average annual gain of 5.6% growth between 2014 and 2018. Adjusted for menu inflation, real sales will grow by an average of just 1.7% a year over the next four years.

With real sales expected to grow at a pace marginally above total population growth, foodservice operators will be forced to steal market share from others to grow their business. Expanding your foodservice offerings to include "food tribes" – vegan, flexitarian, keto, and more – is one way to help you attract new customers.

COMMERCIAL FOODSERVICE SALES FORECAST

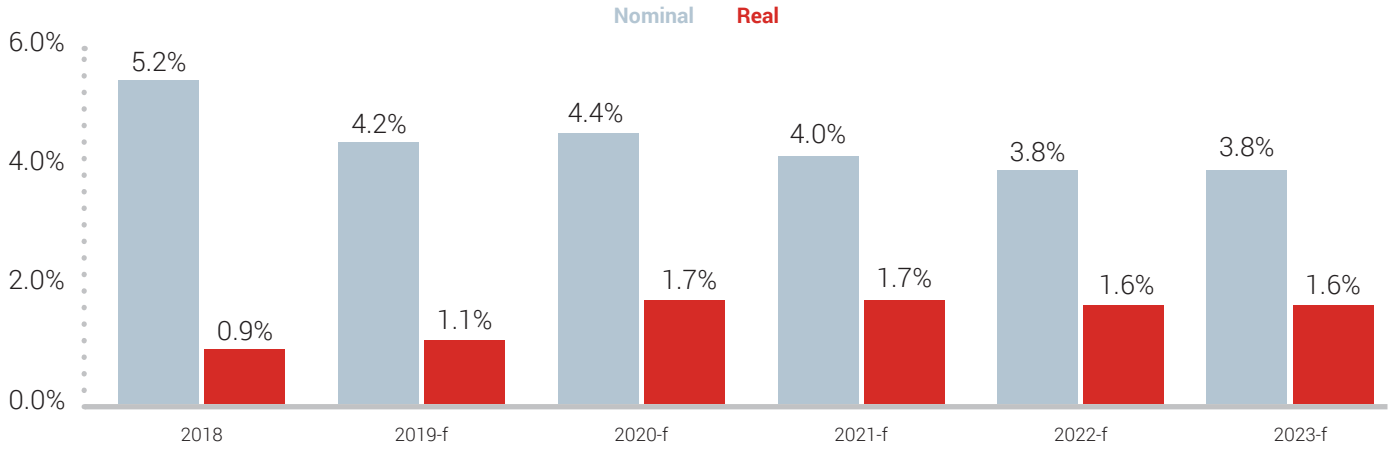
(IN BILLIONS OF DOLLARS)



Source: Restaurants Canada

Restaurants Canada uses an econometric model to forecast commercial foodservice sales. Factors included in the model include economic activity, disposable income growth, job creation, and past spending patterns to identify habit formation.

COMMERCIAL SALES GROWTH FORECAST



Source: Restaurants Canada

Note: Nominal growth includes menu inflation; real growth equals nominal growth minus menu inflation.

STRATEGIC PERSPECTIVE

Economic forecasts are informed estimates of a longer-term trend. Keep that in mind when you think about how each regional market will perform over the next five years. There has not been a downturn since 2011; it is entirely reasonable to assume there might be an economic shock sometime in that time frame.

Understand the health of your economic model. Can your margins take a few bad years without risking a business failure? Check your balance sheet as well. If you are living on the cash from your working capital, have a heavy debt load, or are committing to significant new leases for which you have no out clause, you may find yourself vulnerable.

If you have cash in the bank, open borrowing capacity, and healthy margins that can take a bit of a thumping, you may find yourself in a downturn faced with opportunities to grab sites that only come available when someone makes the mistake of pushing their model too far.

HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

FOODSERVICE MARKET SHARE

Canadian consumers are increasingly demanding not only convenience, portability, and affordability, but also better-for-you options when it comes to their food choices. This makes ready-to-eat meals and meal kits more viable alternatives to food sourced from restaurants than they have been in the past.

In Q1 2019, 45% of Canadians purchased a ready-to-eat meal at least once a month, a number relatively unchanged from what we saw throughout 2018. Ready-to-eat meals are most popular among consumers under 50 years old and with those that have kids.

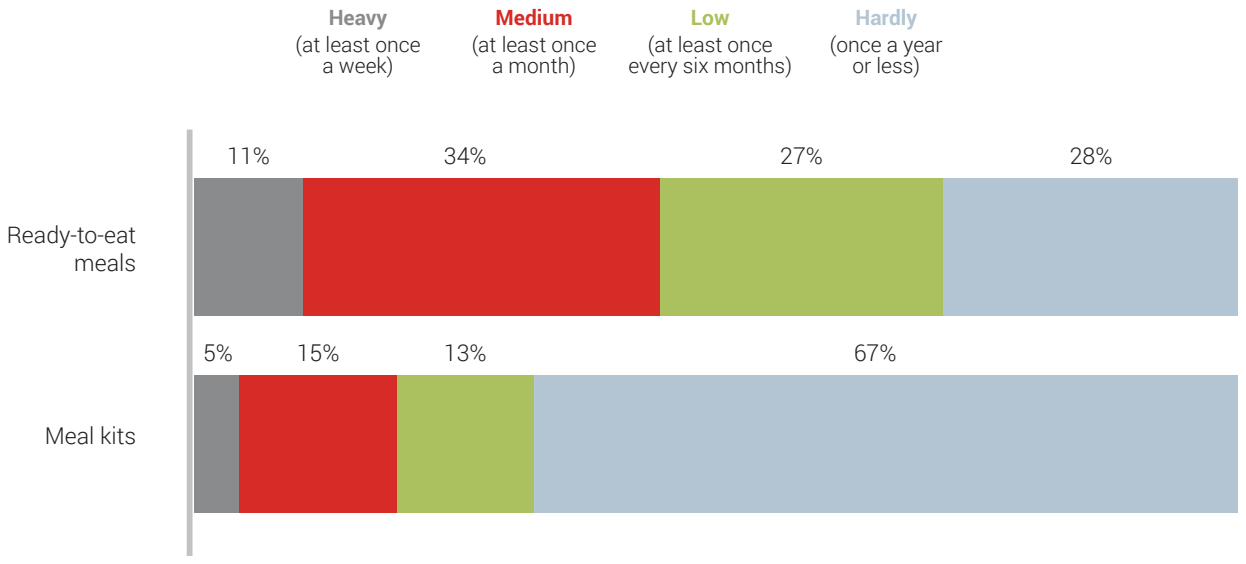
Consumers are open to switching to ready-to-eat meals to satisfy specific needs including factors like portability, freshness, and value versus dining out. According to Ipsos Foodservice Monitor, when asking home-meal-replacement (HMR) consumers if they are likely to source from HMRs instead of restaurants in the future, an overwhelming 90% indicated yes.

The combination of time constraints arising from the daily pressures of modern life and the desire to have a healthy lifestyle are key reasons for the growth of the HMR category.

Meal kits offer a convenient alternative to traditional food sold at grocery stores, taking the hassle of grocery shopping and meal planning out of the equation. They allow consumers who either cannot cook, or have little room to cook, to still enjoy a home-style meal. Thanks to this appealing combination, 20% of Canadians order a meal kit at least once a month, unchanged compared to 2018. Those that are less frequent users, ordering a meal kit at least once every six months, however, declined from 19% in 2018 to 13% in 2019. The remaining 67% of the population hardly ever order a meal kit. It may be that the higher cost per serving compared to food purchased at the grocery store is a barrier to widespread adoption.

Meal kits are most popular among younger Canadians; 27% of 18 to 34-year-olds purchase a meal kit at least once a month. By comparison, 22% of 35 to 49-year-olds and just 13% of the 50-plus demographic order a meal kit once a month or more.

PURCHASE FREQUENCY OF READY-TO-EAT MEALS AND MEAL KITS AT THE GROCERY STORE



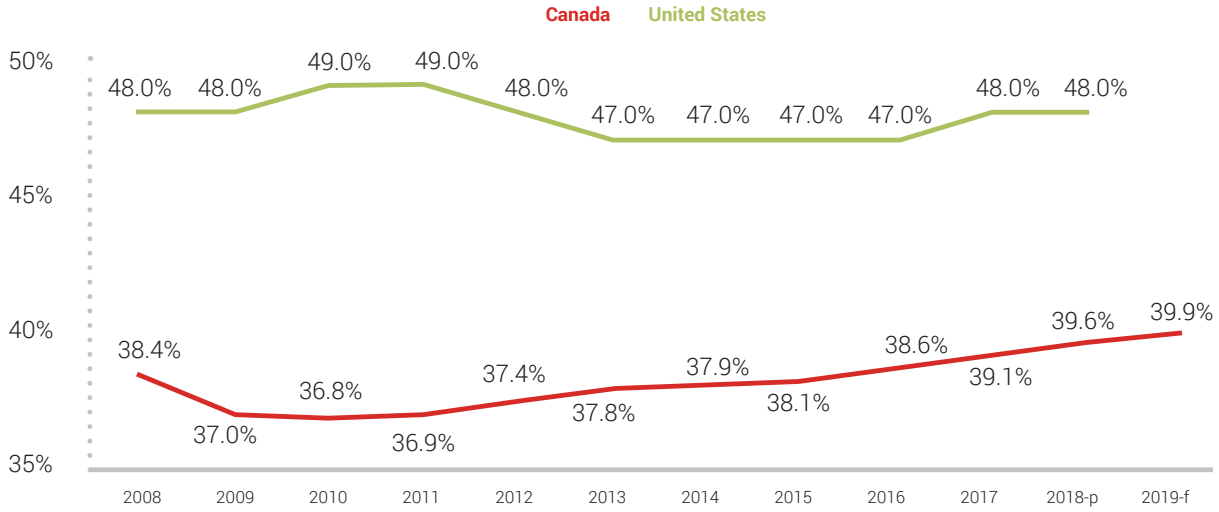
Source: The 2019 BrandSpark Consumer Restaurants Trends Study

TOTAL RETAIL FOOD AND ALCOHOL PURCHASES IN CANADA EXCEEDED $137 BILLION IN 2018.

Despite new alternatives, however, retail stores remain the predominant channel for people to source their food. With traditional grocery stores continuing to lose market share to department store retailers (Costco, Walmart), price discounting has become the norm to woo customers.

The foodservice share of the total food dollar (including households, tourists, and businesses) has been climbing steadily since 2010. Last year it reached 39.6%, and the forecast for 2019 is 39.9%. That will be the highest market share since 2002. By way of comparison, the foodservice share of the total food dollar in the United States held steady at 48% year-over-year and has fluctuated very little in the past decade. The larger market share in the U.S. is primarily due to the country's higher level of disposable income and the absence of a federal tax on restaurant meals.

FOODSERVICE SHARE OF THE TOTAL FOOD DOLLAR
(CANADA VS. UNITED STATES)



Source: Restaurants Canada, Statistics Canada and the National Restaurant Association **p -** preliminary **f -** forecast

Note: Total food dollar includes spending by consumers, tourists, businesses, institutions and government at foodservice operations, grocery and convenience stores.

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1. Account reviews will be based on a calculation of the overall cost for comparable services, as determined by the processing statements provided, and will exclude all one time fees. Account reviews are estimates only and assume that the type of cards accepted and the corresponding interchange remain unchanged from the processing statements provided. Account review does not guarantee savings. 2. Businesses who wish to obtain payment processing services from Chase Merchant Services must submit an application. All applications are subject to Chase's standard approval policies and procedures, including without limitation credit approval and entering into a Merchant Agreement with Chase Merchant Services. Proof of membership status with Restaurants Canada will be required.

HOUSEHOLD SPENDING

Average restaurant expenditures are up, with under-40s leading the way

A piece of good news for the industry: the average Canadian household's expenditure on food and alcohol from restaurants and licensed establishments rose by $102 to $3,007 in 2017, the most recent year for which Statistics Canada has data. The primary growth driver was a surge in foodservice spending by households under the age of 30, the lower age range of millennials.

In contrast, average household spending on food and alcohol at retail stores fell by $253 to $6,614, due in part to lower prices at retail food stores, but also a shift in demand to restaurants. The decline in spending at grocery stores was felt across all major food categories, although meat, dairy and eggs, and fruit saw the most precipitous drops, partly fueled by a trend towards increased plant-based eating.

Some notes on foodservice spending by household:

- Spending at restaurants is highest for households with occupants aged 40 years old and younger. Consumers under 30 years old spend 44% of their food dollar on food and alcohol from restaurants, compared to 35% for those between the ages of 30 and 39 and just 27% for those 65 and older.
- Driven by convenience, indulgence, and the growing variety of offerings, household spending at restaurants has jumped by $672 since 2010. To put that in perspective, average household spending on retail food and alcohol increased by only $209 over the same period.
- Thanks to higher average household income, British Columbia and Ontario can boast the highest average household spending at restaurants and licensed establishments; $3,457 and $3,419 respectively. In sharp contrast, Newfoundland and Labrador has the lowest at $2,001, a decline of $356 from 2016.
- As household income rises, so does the average weekly expenditure on foodservice. The lowest-income households spend an average of $28.98 per week at restaurants and licensed establishments, while the highest-income households spend $108.96 a week.
- Looking at discretionary expenditures, household spending on restaurant food and alcohol ranks behind both clothing and accessories, and recreation.

AVERAGE HOUSEHOLD SPENDING BY CATEGORY

	2017
Shelter	$18,637
Income taxes	$14,993
Transportation	$12,707
Retail food and alcohol expenditures	**$6,614**
Personal insurance payments and pension contributions	$5,137
Household operations	$4,827
Recreation	$3,986
Clothing and accessories	$3,430
Restaurant food and alcohol expenditures	**$3,007**
Health care	$2,579
Household furnishings and equipment	$2,314
Gifts of money, support payments and charitable contributions	$2,218
Education	$1,777
Personal care	$1,300
Miscellaneous expenditures	$2,544
Total expenditure	**$86,070**

Source: Survey of Household Spending, Statistics Canada

STRATEGIC PERSPECTIVE

The days when targeting a boomer was a can't miss strategy is over; under-40s are driving the industry now. There is also a limit to how much an individual household can spend on food away from home. It's a good exercise to look at the spend per capita by income bracket and divide that number by 52 weeks to get a humbling view on how much your heavy users are giving you in relation to their total restaurant spend. Treat these guests with particular care, and you will build a "moat" around your business that will serve you well when the going gets tough.

HUGH JOHNSTON
Strategic and Financial Architect
Hugh Johnston Strategy

AVERAGE HOUSEHOLD SPENDING BY AGE CLASS - 2017

Source: Survey of Household Spending, Statistics Canada

SUSTAINABILITY

There is plenty of data to show that millennials, Canada's top restaurant demographic, are also our green-living stewards, valuing a low environmental impact and preferring to do business with companies that demonstrate good corporate social responsibility (CSR). This includes a growing concern over the environmental impact of their dining habits. Therefore, foodservice operators across the country are likewise becoming more focused on the environmental sustainability of their business operations.

In a survey of Restaurants Canada's members, eight out of 10 restaurant operators stated (wisely) that environmentally sustainable operations are important to the success of their businesses.

They are also putting those beliefs into action:

98% OF FOODSERVICE OPERATORS SAID THEY RECYCLE

77% TRACK, COMPOST, OR DONATE LEFTOVER FOOD

93% USE ENERGY OR WATER-SAVING EQUIPMENT

92% PLAN TO CONTINUE OR IMPROVE ON THEIR CURRENT LEVEL OF ENVIRONMENTALLY SUSTAINABLE OPERATIONS OVER THE NEXT THREE YEARS

According to data from Technomic, 72% of restaurant operators have made at least some changes to their business model and practice in the last two years based on sustainability initiatives. And why not? It's good for both the planet and the bottom line.

How are they becoming more sustainable? Around 70% have made changes to their menu/selection of items, while just over half of restaurants indicate they're shifting how they communicate with consumers. Restaurants Canada's 2019 Chef Survey showcases the move towards sustainability with plant-based burgers and sausages, locally sourced foods, paper straws, and sustainable seafood making the Top 10 Hot Trends on Canadian menus.

Barriers to Sustainability

While most restaurant operators understand the importance of reducing their environmental footprint, as ever, it comes down to resources. More than six out of 10 operators said the biggest barrier to being more environmentally sustainable is the cost of implementation. This was followed by lack of financial resources (32%) and lack of time/personal resources (29%). On a positive note, only 14% believe its because of a lack of consumer interest.

STRATEGIC PERSPECTIVE

2019 is the time for sustainability. With more legislation likely to be coming down the pipe, and serious financial benefits to be reaped, the time to act is now.

When incorporating environmental practices into your business, the planet is only one of the beneficiaries. When we're talking about sustainability, we're essentially talking about reducing – energy, water, waste – which also means lower operating costs and keeping dollars in your pocket. High staff turnover is also costly. Sustainability is a key factor in attracting and retaining qualified staff, and can increase engagement as well as profitability.

JANINE WINDSOR
President
Leaders in Environmentally Accountable Foodservice

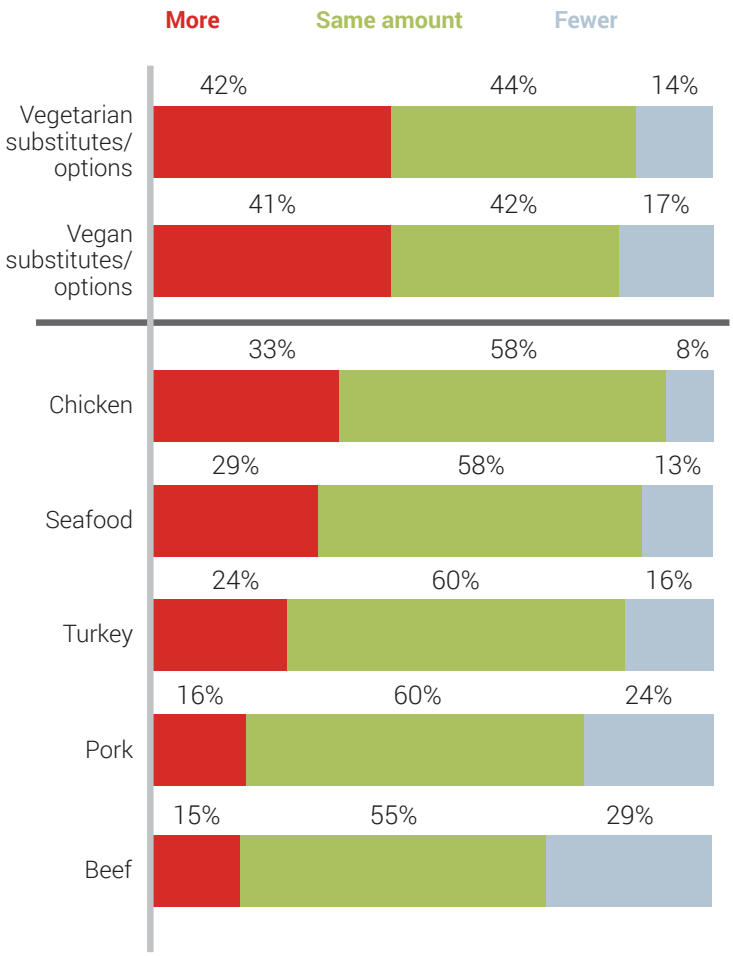
Growth in Plant-based Foods

For a combination of environmental, ethical, and health reasons, plant-based foods have surged in popularity in Canada. A study by Dalhousie University found that 6.4 million Canadians are following a diet that either limits animal products intake (often termed "flexitarian"), or eliminates it entirely.

While the number of true vegans globally is still very small, there is a growing interest among the broader population looking for vegan-type items, at least as an option. A study by Technomic asked Canadian consumers about shifts in their protein or alternative protein consumption. The highest growth categories were vegetarian and vegan substitutes/ options, and the greatest reductions were in beef and pork consumption.

Although most food 'trends' turn out to be fads, going quickly in and out of fashion, plant-based offerings will continue to grow – not necessarily as a restrictive diet for health and ethical concerns, but more strongly as an environmental concern where people are adjusting their diet to 'do their part'. For proof of the staying power of plant-based eating, one need look no further than the recent appearance of blended proteins and plant-based options at several major QSR chains in North America.

SHIFTING PROTEIN CONSUMPTION BY CANADIANS



Source: Technomic

PROFITABILITY

The average pre-tax profit margin for foodservice operators in Canada was 4.3% in 2017, up only slightly from 4.2% in 2016. Based on an average unit volume of $706,300 in 2017, the typical foodservice operator earned a pre-tax profit of $30,370.

Despite a favourable 31% surge in restaurant operating revenue between 2012 and 2017, expenses kept pace, jumping by a corresponding 31% during that time. This lockstep progression has kept profit margins relatively unchanged since 2012.

In 2018, 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. As a result, 41% of restaurant operators said they did not fare as well in 2018 compared to 2017, although most of those said they did 'a little worse' with a smaller share reporting 2018 was 'much worse'.

Faced with mounting financial pressures and already thin profit margins, Canadian restaurant operators employed a variety of strategies to offset unavoidably higher operating expenses. The majority of businesses focused on cost control; 70% cited this as a prime goal for 2019. They plan to achieve it through a combination of reducing staff hours and hours of operation, sourcing less expensive ingredients, streamlining menus, and cutting back on other expenses.

TOP PRIORITIES FOR FOODSERVICE OPERATORS IN 2019

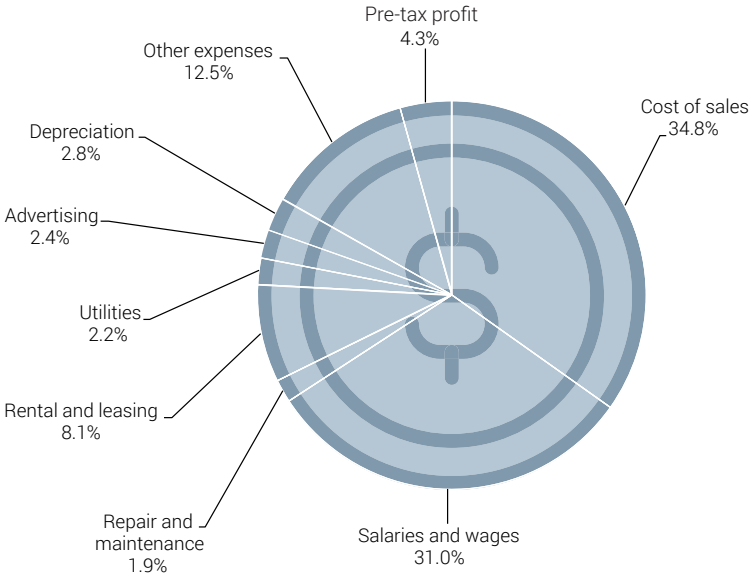
- Reduce operating costs
- Improve guest experience
- Improve staff training
- Raise menu prices
- Increase marketing

The old adage, "It takes money to make money" was noticeably lacking; hiring more staff, opening a new location, and adding a new profit centre all ranked near the bottom of the list of profitability strategies for the year ahead. Happily, "close a location" was dead last at just 5%.

Looking ahead, 47% of restaurant operators are feeling optimistic about the remainder of 2019. Many are relying on the cost controls and improved guest experience implemented last year. The rest were almost evenly split: 26% said they are feeling pessimistic about 2019, and 27% said they are feeling neither optimistic nor pessimistic. High labour costs weighed heavily on most operators, as did the slowdown in economic activity. Beyond the aforementioned operating cost cuts, the top priorities for restaurants are to improve the guest experience and focus on improving efficiency through improved staff training.

OPERATING EXPENSE RATIOS - 2017

(AS A SHARE OF OPERATING REVENUE)



Source: Statistics Canada

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*Compared to a traditional kitchen without a combi-steamer.

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4/10 FOODSERVICE ESTABLISHMENTS SAID THEIR FINANCIAL PERFORMANCE WORSENED IN 2018

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

- Rising labour costs (81%)
- Fewer customers (50%)
- Poor economy/government policies (36%)

Overall, 38% reported they did better financially in 2018 than they did in 2017, but again, most felt they did 'a little better' while few said it was 'much better'.

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

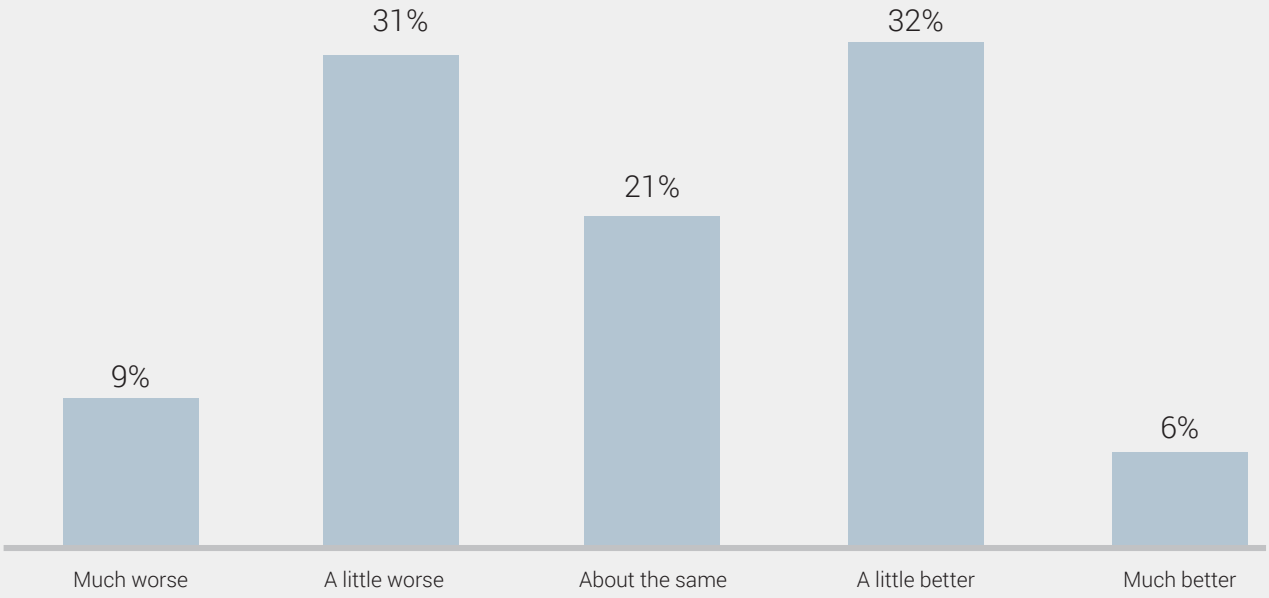
- Improved cost control (56%)
- Improved guest experience (43%)
- Strong economy (16%)

STRATEGIC PERSPECTIVE

Growth, sustainability and market forces continually create change across industries. The hospitality sector is not immune. Foodservices is a vibrant and buoyant industry that continually adapts and innovates to changes across these forces such as demographics, technology, supply chains, labour, and delivery methods. Ongoing change demands greater access to capital and authenticity of supply chain that enables the creative and entrepreneurial spirit of the industry to continually delight customers. Technology is providing operators with convenient access to capital, and management of supply chains will enable operators to adapt to ongoing market forces.

ROBERT PHELPS
President - Canada
Silver Chef Limited

IN 2018, WAS YOUR FINANCIAL PERFORMANCE IN TERMS OF NET INCOME, BETTER, WORSE OR ABOUT THE SAME AS IN 2017?



Source: Restaurants Canada's Restaurant Outlook Survey

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HARNESSING THE POWER OF TECHNOLOGY

When was the last time you went anywhere without your phone? Technology is a ubiquitous part of our everyday lives, making it essential for restaurants to have an online and mobile presence.

Canadians are interacting with restaurants using their smartphones and tablets in a variety of ways. We are seeing more consumers use rewards and claim special deals, and make reservations through an app or website already this year compared to 2018.

- **58%** are looking up directions/locations/ hours of operation
- **34%** used rewards/special deals
- **29%** ordered items for pick-up
- **25%** ordered items for delivery
- **19%** made a reservation through an app/website

Source: The 2019 BrandSpark Consumer Restaurants Trends Study

Although most restaurant owners recognize advances in technology can help build sales, attract new customers, speed up customer service, and improve productivity, some have been reluctant to introduce new technology on a large scale. For the majority of abstaining owners, the cost of implementation is too high to see a solid return on investment. In addition, there are concerns about reliability, and the time and resources required to train staff.

Consumer resistance may also be playing a role; despite regularly using technology to interface with banks and retail stores, interest in using some technological options at restaurants has declined since 2018. While there is stronger consumer interest in using technology at full-service restaurants among the younger generation, it seems that most Canadians still prefer more traditional methods of ordering. When it comes to technology options at full-service restaurants, generally only one in five Canadians were "very" or "definitely" interested in the following:

- **Electronic ordering system at the table** (19% in 2019 versus 24% in 2018)
- **Menus on iPads / tablets** (19% in 2019 versus 22% in 2018)
- **Self-service kiosks for ordering** (17% in 2019 versus 19% in 2018)
- **Receiving digital receipts** (20% in 2019 versus 22% in 2018)

Source: The 2019 BrandSpark Consumer Restaurants Trends Study

ACCORDING TO IPSOS FOODSERVICE MONITOR, DELIVERY/PICKUP SALES FROM ORDERING VIA DESKTOP/TABLET/ MOBILE APP ROSE TO $5 BILLION IN 2018.

STRATEGIC PERSPECTIVE

Recent research conducted by American Express surveying Canadian retailers, including restaurants, found technology to be a significant factor behind improving the customer experience, and ultimately driving more business. 69% of respondents agree investing in new technology is important to drive business success and 53% say online purchases, reservations and ordering has increased sales and revenue for their business. Customers expect to book reservations, access information and make payments when they want and where they want. With emerging technologies poised to disrupt the industry, businesses need to ensure they aren't ignoring these trends.

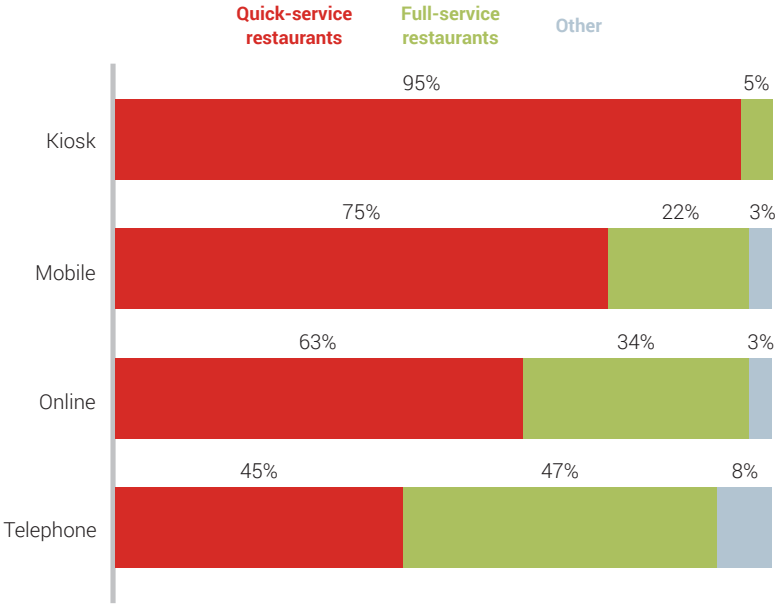
KERRI-ANN SANTAGUIDA

Vice President & General Manager, Global Merchant & Network Services, American Express Canada

TECH-SAVVY MILLENNIALS AND GEN Zs AGED 16 TO 34 YEARS OLD ARE THE HEAVIEST USERS OF TECHNOLOGY, ACCOUNTING FOR 54% OF MOBILE ORDERS AND 42% OF KIOSK ORDERS.

In the past couple of years, quick-service restaurants have made especially significant technological investments in new ordering channels. According to Ipsos Foodservice Monitor, kiosk and mobile ordering skew heavily towards quick-service restaurants. Nearly all kiosk orders (95%) occur at a quick-service restaurant, and QSRs account for 75% of all mobile orders. Full-service restaurants are still dependent on traditional telephone ordering, though online ordering is picking up steam.

SHARE OF FOODSERVICE TRAFFIC BY ORDER TYPE



Source: Ipsos Foodservice Monitor

DELIVERY TRENDS

Arguably, the hottest trend in foodservice has nothing to do with ingredients or regional cuisine. Instead, it's the explosive growth in delivery. Once the virtually exclusive domain of pizza and Asian cuisine restaurants, delivery is now available from a broad cross-section of the foodservice industry. Choices range from the smallest independents to the largest chains and include both quick-service and full-service restaurants.

AT LEAST ONCE A MONTH, 27% OF CANADIANS ORDERED DELIVERY DIRECT FROM A RESTAURANT COMPARED TO 15% THAT ORDERED FROM A THIRD-PARTY SERVICE.

Off-premise trends continue to be driven by consumers under age 50. Those aged 18 to 34 are most likely to both order delivery directly from a restaurant and order ahead online for pickup. The next generation of restaurant customers, generation Z, will likely be even bigger users; they have never known a world without cell phones or the Internet and readily adapt to technology innovations.

CONSUMERS WHO HAVE USED THE OPTION AT LEAST ONCE A MONTH

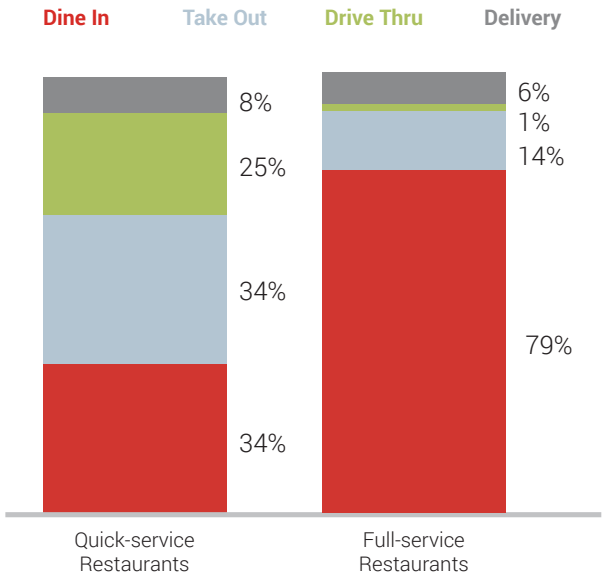
	Delivery Ordered Direct from Restaurant	Delivery Ordered From 3rd Party Service	Curbside Takeout	Order ahead of time online for pickup
18 - 34	35%	23%	23%	37%
35 - 49	26%	17%	26%	29%
50+	23%	8%	18%	19%

Source: The 2019 BrandSpark Consumer Restaurants Trends Study

Delivery foodservice sales by digital (online and mobile apps) or traditional telephone totalled more than $4.3 billion in 2018, a staggering 44% increase over 2017. Delivery remains a small, but growing segment, accounting for 6% of all foodservice spending. Its impact is most profoundly felt in major urban centres where population density makes delivery economically viable.

To compare, on-premise dining still accounts for the majority of sales nationwide, totalling 53% of overall revenues. But, both on-premise sales and drive-thru lost market share to take-out and delivery in 2018.

RESTAURANT SHARE OF DOLLARS FOR ON-PREMISE AND OFF-PREMISE



Source: Ipsos Foodservice Monitor

In an industry where gains are notoriously hard to come by, many restaurants have enjoyed dramatic sales growth through delivery. For quick-service restaurants, delivery sales rose to $2.2 billion in 2018, representing a 49% increase over 2017. Delivery sales at full-service restaurants increased to nearly $2 billion in 2018, growing by almost 54%.

"Online" is defined as ordering via a website using either a desktop or tablet. "Mobile" orders are placed through an app. Both "online" and "mobile" include delivery and pickup from a proprietary restaurant or third-party app.

From an operational perspective, restaurant operators rated third-party apps/websites for delivery/takeout as 'very good' or 'good' when it comes to:

- Ease of use for guests (64%)
- Expanding customer reach (64%)
- Ease of use for their business (41%)

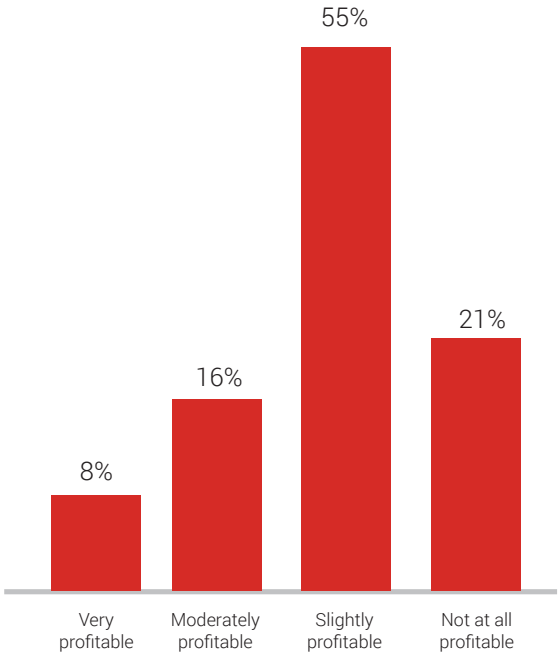
However, they rated third-party apps/websites 'poor' or 'very poor' when it comes to:

- Commission fees per order (74%)
- Converting third-party delivery to in-restaurant visits for table-service restaurants (53%)
- Quality/service control (44%)

Despite the many advantages they offer, 37% of restaurant operators stated that third-party apps/websites hurt their on-premise dinner sales and 27% said the same about their on-premise lunch sales. So, why do they do it?

There is profit to be made according to 79% of operators who use them. However, the vast majority felt that third-party apps/websites are only 'slightly profitable'. Another 21% said that they were 'not at all profitable'. For some, this may be a case where it's necessary to bite the bullet and give the people what they want, then figure out how to make it work.

HOW WOULD YOU DESCRIBE THE IMPACT OF USING THIRD-PARTY APPS/WEBSITES FOR DELIVERY/TAKE-OUT ON YOUR BUSINESS'S BOTTOM LINE?



Source: Restaurants Canada's Restaurant Outlook Survey

STRATEGIC PERSPECTIVE

Consumers are hungry for selection and are satisfying that craving through third party delivery apps that give them access to restaurants they love when it's convenient for them and introduces them to restaurants they have yet to discover - both now only a tap away. Not only can restaurants reach new customers and grow revenues by partnering with third party delivery apps like Uber Eats, they can also explore new opportunities like delivery-only kitchens to chef-driven pop-ups. The digital marketplace for food is creating a world of ways to drive incremental business while leveraging fixed costs and creating new ways for restauranteurs to think out of the box about their business model.

DAN PARK

General Manager and Head of Uber Eats Canada

DEMOGRAPHICS

Future social historians will study this era with great fascination. It is a time of transition as the baby boomers and generation X are gradually squeezed out of the economic picture by millennials, with gen Z waiting not-so-patiently in the wings. These shifting demographics are having a profound effect on the foodservice landscape.

WHILE EACH GENERATION HAS ITS UNIQUE QUALITIES, IT'S THE YOUNGER CONSUMERS THAT DRIVE MANY OF THE LATEST FOODSERVICE TRENDS.

This is forcing restaurant operators to adapt quickly to changing tastes and introduce new technologies to create a frictionless experience for younger customers.

Data from Technomic shows generation Zers and millennials are the most frequent restaurant users. Overall, 79% of gen Z consumers ordered food from a restaurant at least once a week or more in 2018. This is up a dramatic 10 points compared to 2017. Expect this figure to stay high as more gen-Zers transition from allowance to paycheque. Not far behind are millennials, with 71% going out at least once a week or more.

At the other end of the spectrum, just one-third of matures (born before 1946) go out to a restaurant once a week or more, and both boomers and gen-Xers went out less often last year than they did in 2017.

Not only does visit frequency vary by generation, but so too do the reasons why they eat out. Generation Z and millennials are more time- and cash-starved than other generations. (The youngest boomers are turning 55 this year, and many are retired.) Eating out or ordering in from a restaurant provides a viable, schedule-friendly alternative to cooking. Also important is choosing restaurants with lower prices given their lower disposable income. And, while health is important, many want to indulge too.

STRATEGIC PERSPECTIVE

Customers are increasingly looking for seamless payment options that prioritize speed and convenience, it is crucial to have an accurate understanding of the latest consumer payment trends. Restaurants, bars and coffee shops saw an 11 per cent decrease in cash usage between 2016 to 2018, the largest drop in terms of share of cash transactions for any sector.

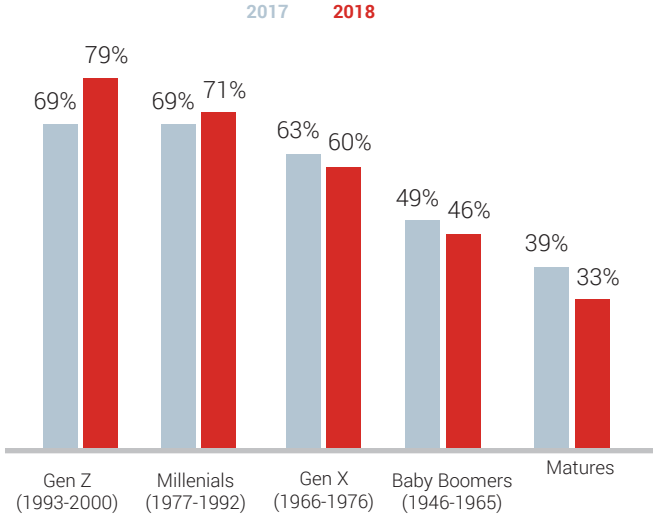
As cash transaction rates have fallen, contactless (tap) payments have been on the rise. Restaurants, bars and coffee shops saw a 16 per cent increase in the share of contactless payments between 2016 and 2018, mirroring the decline in cash use. The overall decline in cash use, combined with increase in contactless, shows an increasing desire on the part of consumers to reach for quicker, more seamless payment options.

For restaurateurs, the lesson is clear: embracing contactless payment solutions, such as INTERAC Flash, is crucial to meeting your customers where they already are.

ERIC CHUE

Director, Research and Industry Insights, Interac Corp.

SHARE OF CANADIANS SOURCING THEIR MEALS FROM A RESTAURANT AT LEAST ONCE PER WEEK



Q: How often do you order food from any type of restaurant and either eat it at the restaurant, have it delivered or pick it up at the restaurant to eat it elsewhere?

Source: Technomic Ignite Consumer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FOOD SERVICE

Gen-Zers frequently use social media sites like Snapchat and Instagram to interact with restaurants by leaving reviews, following restaurant activity, and tagging photos – be sure to give them something worth taking a picture of.

In attracting generation Z customers, it's also vital for restaurants to use effective advertising (they love video content) that's memorable – and makes them hungry! Plus, generation Z consumers are more likely than older generations to try new and unique flavour combinations, and multicultural ingredients and dishes. This can be done through special limited-time offers and promo codes.

For millennials, it's a different story. Now that they're having children of their own, millennials are more likely than older generations to select kid-friendly restaurants. You can cater to millennial families by offering a menu that not only has a variety of kid's options but one that contains healthy options as well. Consider your environment, too; everything from your decor to background music selection and volume can make a difference.

When choosing a quick-service restaurant, generation Zers and millennials both prioritize brand loyalty more than older cohorts (except for gen X). This means it's more important than ever for restaurants to create a meaningful connection with these guests, a connection which will pay dividends in the long run.

WHAT GENERATION Z AND MILLENNIALS LOOK FOR FROM FOODSERVICE

		Agree/Strongly Agree (top-2 box)		
Self-identification statement (Attitudes)	**Group**	**Gen Z**	**Millenial**	**Overall Consumer**
I usually pick restaurants with lower prices	Value conscious	59%	53%	48%
I usually do not look for healthy options when ordering at restaurants	Not so concerned about health	50%	47%	43%
I almost never have time to stop and enjoy a meal	Time starved	36%	35%	23%
Visiting restaurants instead of cooking at home allows me to meet my daily obligations	Time starved	43%	42%	32%
Often I have no choice but to eat meals on the run	Time starved	44%	42%	31%
Name-brand foods and beverages typically taste better	Brand susceptible	46%	46%	40%

Source: Technomic Ignite Consumer

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COLD BREW & NITRO COFFEE

The BUNN exclusive in-line gas infuser produces up to 3 minutes* of cascading micro-bubbles, resulting in a nitro cold brew crowned with a smooth, silky, stout-like head that tastes distinctively creamy with a velvety soft mouthfeel.

Keg Free

Achieve a nitro infusion with no kegs to change-out, store, clean or sanitize.

Artful Styling

Chrome-plated brass tap handles and LED-lighted door graphics create a unique look to catch consumers' attention.

Narrow Footprint

Offer two different Cold Brew or Iced Coffees, Standard or Nitro from one slim, 10-inch wide countertop design.

BUNN

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*Results based on product concentrate used

ALCOHOLIC BEVERAGES

Alcohol served at licensed establishments continues to evolve as shifting consumer preferences and changing demographics shake up menus. According to Ipsos' Canadian Alcohol Consumption Tracker (Ipsos, ACT Canada), 2018 featured two big trends: the strength in spirits at restaurants, and the growing preference for imported beer brands.

SPIRITS ARE GAINING MARKET SHARE AT RESTAURANTS

At casual dining restaurants, beer accounts for 41% of alcohol servings compared to 35% for wine and 20% for spirits. While wine has held relatively steady since 2013, the share of spirit servings has increased from 16% in 2013 to 20% in 2018, led by growing demand for vodka, whisky, gin and tequila. This surge has come at the expense of mainstream and premium domestic beer brands, although craft and imported beer are rising.

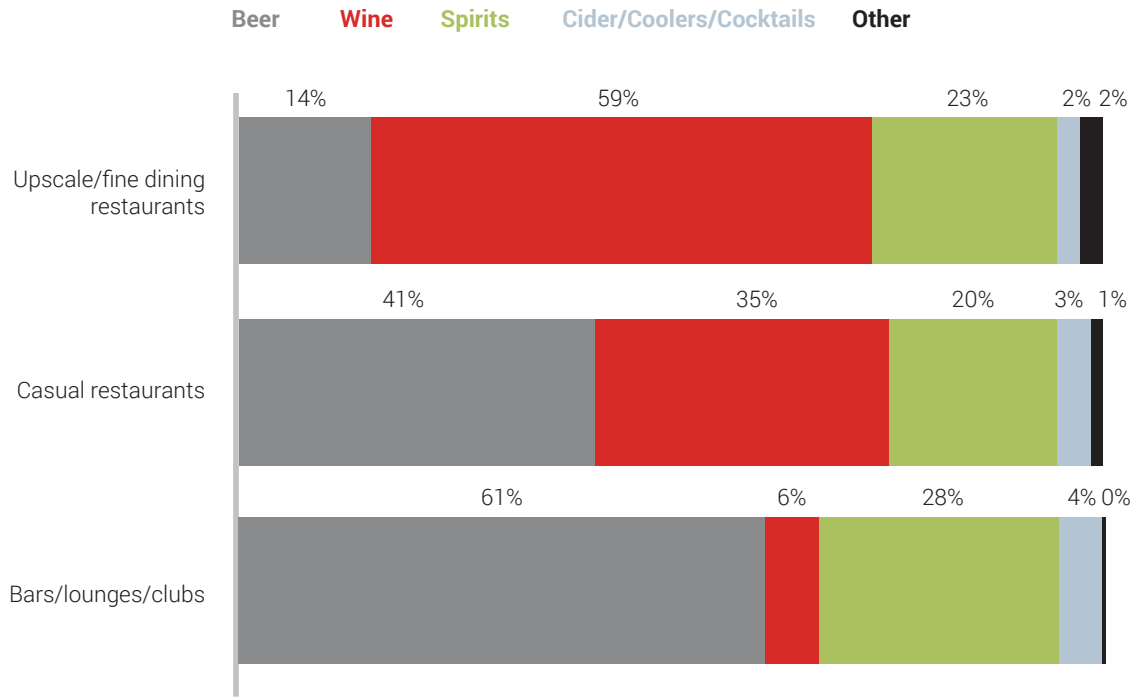
Wine is still king at upscale and fine dining establishments making up nearly 60% of alcohol servings. Spirits have also seen a steady increase in popularity since 2013 and now account for 23% of servings.

Across the board, restaurants of every sort are seeing a drop in the amount of overall drinking with a full meal. At casual dining, alcoholic beverages served with a full meal softened from 68% in 2013 to 64% in 2018. Upscale and fine dining restaurants have seen a steeper decline – from 83% in 2013 to 75% in 2018. If this trend continues, it will impact beer and wine menus, which depend heavily on meals. This decline in share may also be a partial result of an increase in the share of off-premise meals from licensed restaurants.

CRAFT AND IMPORTED BEER ARE GROWING AT BARS

At a 61% share, beer accounts for the majority of all alcohol servings at bars, lounges, and clubs. By comparison, spirits account for 28% of all servings, followed by wine (6%) and ciders/coolers (4%). While these figures have been relatively stable over the past five years, craft and imported beer's share has increased steadily from 25% of all beer servings in 2013 to 34% in 2018. This growth in share has come at a cost for mainstream and domestic beer; their share eroded to 53% in 2018, down significantly from 67% in 2013.

2018 SHARE OF ALCOHOL SERVINGS AT LICENSED ESTABLISHMENTS



Source: Ipsos, ACT Canada

STRATEGIC PERSPECTIVE

With the rise in popularity of premium beverage options and distinctive craft brews, this presents a range of food pairing opportunities to greatly enhance the consumer taste experience at your establishment. Test and monitor your consumers' preferences, which can change dramatically over time, and lean on your partners for insights into upcoming trends. With millennials, it's no longer simply a case of supplying demand – the future of beer means we need to think the way they think.

MICHELLE THAM

Certied Cicerone®; Head of Education, Labatt Breweries of Canada

FEWER YOUNG PEOPLE ARE GOING OUT TO DRINK, AND THOSE THAT DO ARE GOING OUT LESS OFTEN

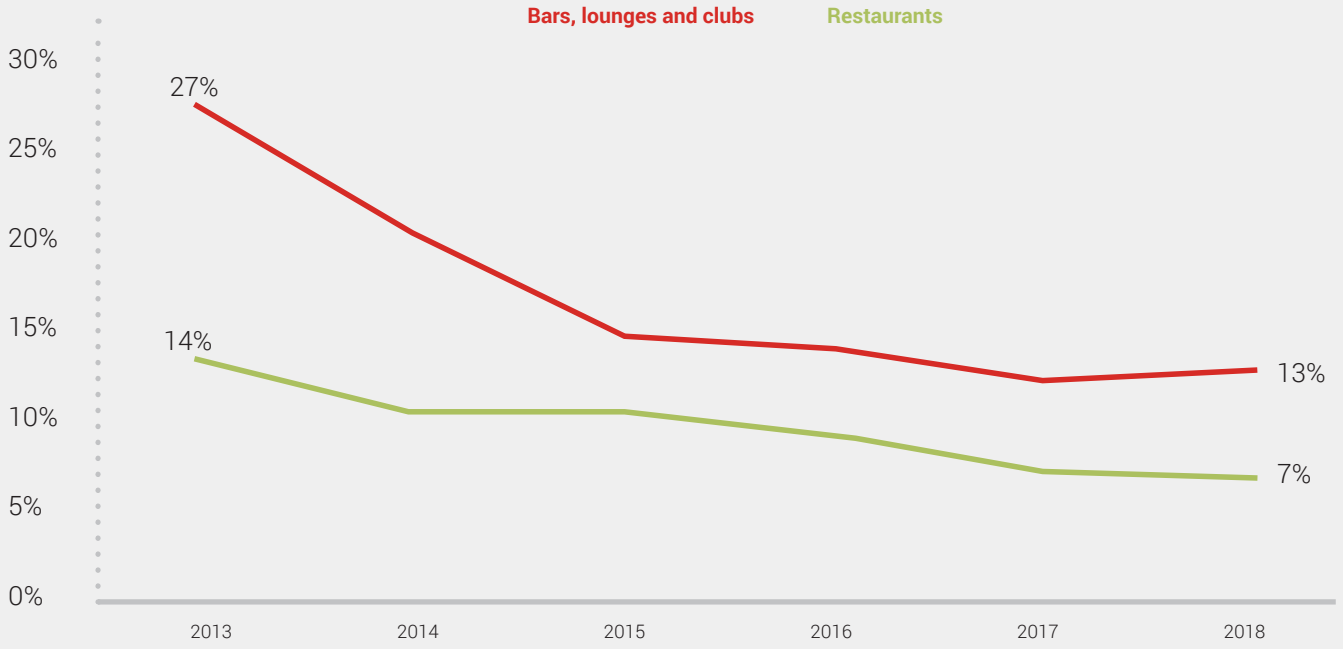
In recent years, there has been a noticeable drop in alcohol orders at licensed establishments by consumers ranging from legal drinking age (LDA) to 24 years-old. A study by Berenberg Research found that, "respondents in their teens and early 20s were drinking over 20% less per capita than millennials – who drank less than baby boomers and gen-Xers – did at the same age."

There are many theories as to why, ranging from adopting a healthier lifestyle to the public dangers of social media; a late night out drinking could turn into fodder for social media, immediately and irreversibly made public for friends, family, and employers (current and potential) to find.

To attract the younger crowd, operators need to focus on menu innovation as gen-Zers are more willing to try alternative beverages, such as organic and no- and low-alcohol beverages. Millennials' and gen-Zers' need for convenience, accessibility, and approachability is driving another trend: wine in a can, a concept few boomers would ever consider. This is a trend picking up momentum in the U.S. and overseas, and may be worth looking at if your operation serves alcohol in cans.

Note: ACT Canada has tracked consumer alcohol trends in Canada since 2011, recording over 1.3 million beverages from over 68,000 consumer diaries.

SHARE OF ALCOHOL ORDERS AT LICENSED ESTABLISHMENTS BY LEGAL DRINKING AGE TO 24-YEAR-OLDS



Source: Ipsos, ACT Canada

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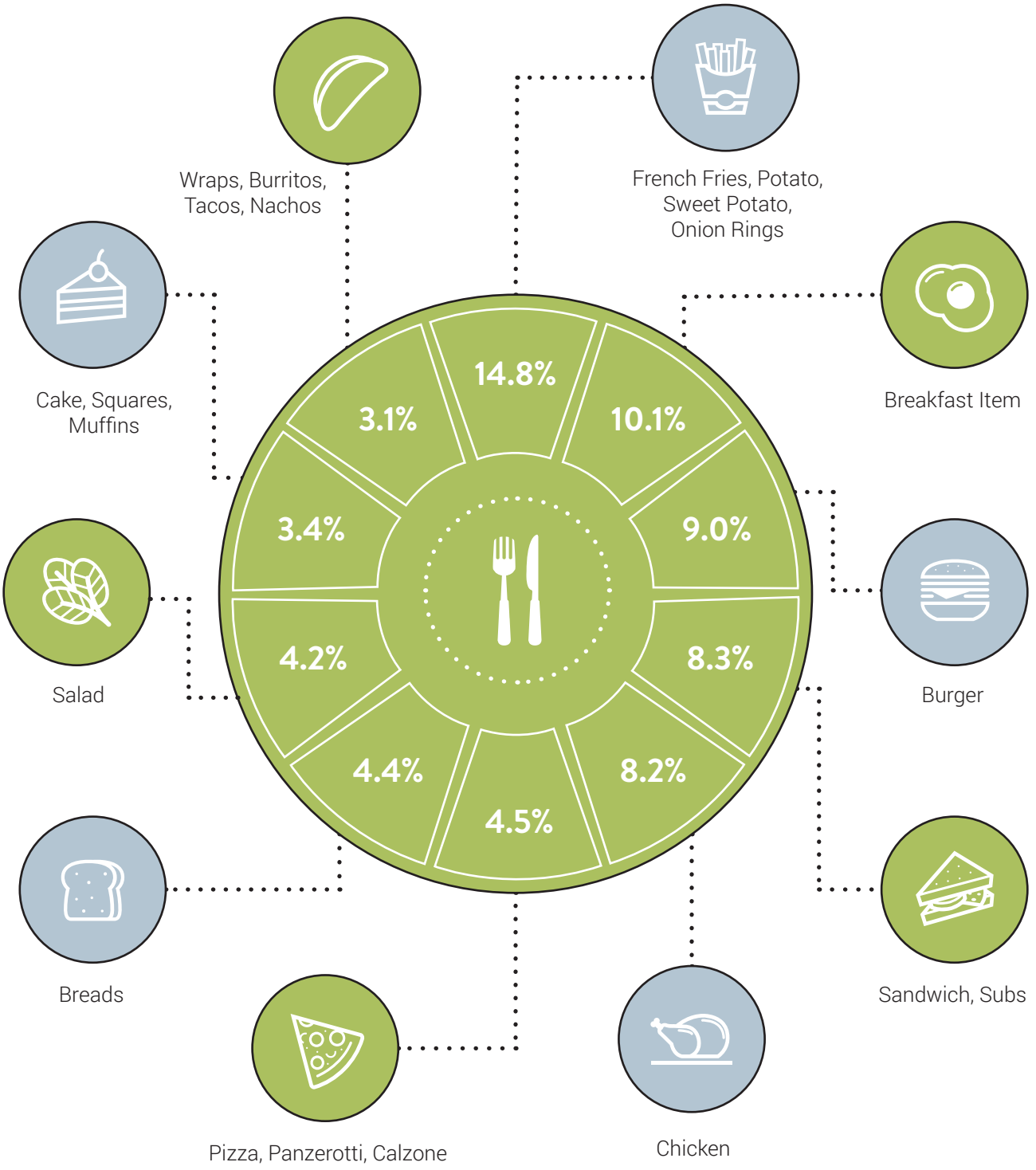
TOP 10 FOOD TRENDS 2018

(% of Food Orders)



Percentage refers to "percentage of items" or "percent of orders" that included a particular food or beverage item.
Source: Ipsos Foodservice Monitor

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As a global leader in hygiene solutions with leading expertise in food service, Diversey enhances guest experiences for superior satisfaction and customer retention. Our smart solutions provide consistency across facilities and help address concerns that affect your bottom line including food waste, food safety, managing energy costs and applying sustainable solutions and practices that are safer for our environment.

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In a safe and simple way
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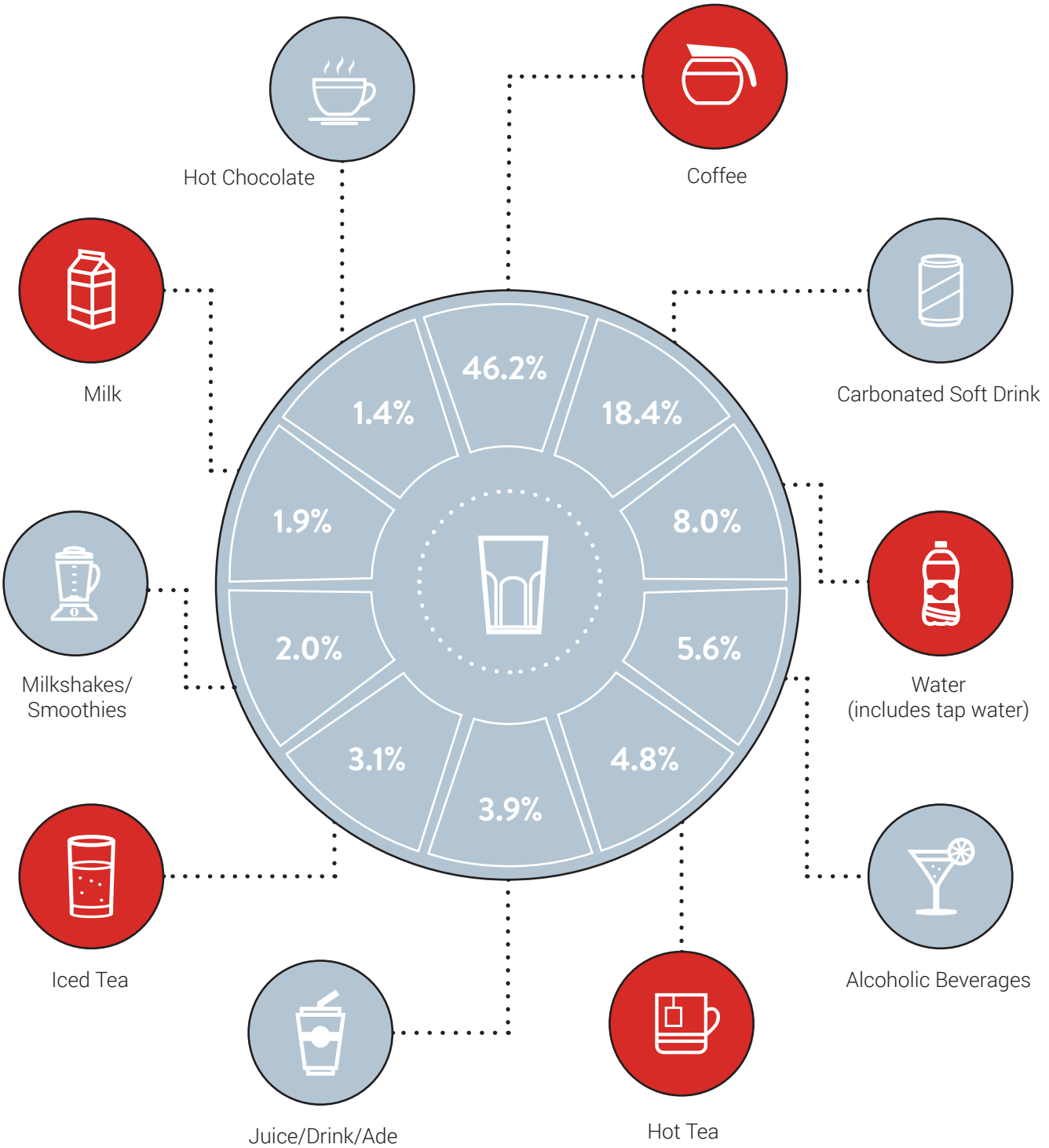
TOP 10 BEVERAGE TRENDS 2018

(% of Beverage Orders)



Percentage refers to "percentage of items" or "percent of orders" that included a particular food or beverage item.
Source: Ipsos Foodservice Monitor

MADE IN CANADA

Garland Canada, a Welbilt Company, is the leading supplier of foodservice equipment in the Canadian market. Garland Canada is committed to delivering high quality, reliable, innovative solutions that address operator needs. A high focus is placed on delivering operational and energy efficiencies, labour savings, menu execution and service and support solutions. Garland Canada and the portfolio of Welbilt brands deliver unmatched value and peace of mind.

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2019 CHEF SURVEY RESULTS

Nearly 300 professional chefs participated in Restaurants Canada's 10th annual Canadian Chef Survey. They rated a variety of menu items and cooking methods as either a 'hot trend' or 'up and coming'.

Here are the top food & beverage trends for 2019:

1. CRAFT BEER/ **MICROBREWS**
2. **SOUS VIDE**
3. **HOUSE-MADE** CONDIMENTS/ SAUCES
4. **PLANT-BASED BURGERS & SAUSAGES**
5. **LOCALLY SOURCED FOODS** (LOCAVORE)
6. **PAPER** STRAWS
7. FOOD **SMOKING**
8. **CHARCUTERIE**/ HOUSE-CURED MEATS
9. **SUSTAINABLE** SEAFOOD
10. **PICKLING**

Source: Restaurants Canada's 2019 Canadian Chef Survey

2019 CHEF SURVEY RESULTS

Chefs identified these up-and-comers, each poised to be the next big thing:

1 **CANNABIS/ CBD** INFUSED DRINKS

2 **CANNABIS/ CBD** INFUSED FOOD

3 **HALF PORTIONS/ SMALLER PORTIONS** FOR SMALLER PRICE

4 **FOOD WASTE** REDUCTION/ MANAGEMENT

5 **PROTEIN-RICH** GRAINS/SEEDS

6 **INTERNATIONAL/ STREET FOOD** INSPIRED APPETIZERS

7 UNUSUAL/ UNCOMMON **HERBS**

8 **DRINKABLE DESSERTS**

9 **DESSERT** FLIGHTS/ COMBOS/ PLATTERS

10 TIED

VEGETABLE/VEGETARIAN APPETIZERS

CULINARY COCKTAILS

Source: Restaurants Canada's 2019 Canadian Chef Survey

Results are based on a survey of professional chefs for Restaurants Canada by independent market research firm BrandSpark International in January and February of 2019. Members of the Canadian Culinary Federation participated in the survey, along with Restaurants Canada members.

For more information, visit **www.restaurantscanada.org.**

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DAIRY FARMS

82% of Canada's milk production is concentrated in Ontario and Quebec (2016)*

From 2011 to 2016, the national dairy herd remained fairly stable, while **total milk production increased by 8.9%** as many dairy farmers focused on integrating new technologies and efficiencies to enhance their insight and control from feed to animal welfare to barn design.*

DAIRY PROCESSING

Canadian dairy processing plants remain local businesses, concentrated in dairy farming communities and near urban centres.*

The **value of products shipped by dairy processors totalled almost $18 billion**—nearly 16% of the value of all shipped products in the Canadian food and beverage industry (2016).*

CONSUMERS

2% milk remains the most popular drinking milk in Canada and represents about 50% of fluid milk sales.*

Ontario households spend an average of $970 per year on dairy products, with cheese representing 35% of total dairy spend. **

Over the past 10 years, **Canadian cheese consumption has increased to over 13 kg per capita**, with most of the growth in the cheddar and fine cheese categories attributed to consumer preference for more flavourful, less processed foods.*

Consumer demand for simple, high-quality dairy products has resulted in **a growing focus on premium ice creams.***

Canadian yogurt consumption has grown to over 11 litres per capita over the last 10 years, with consumers spurring the development of new functional and fortified yogurt products with ingredients like probiotics as well as yogurt drinks.*

** Source: Canadian Dairy Commission, 2016*
*** Source: Environics Analytics, 2018.*

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*Delivery A&U 2016
†Optimal consumer liking intervals based on sensory tests 2015 & 2017
delivery cup necessary for achieving 30 minutes of crispness