Trends in Retail

Issue 17, Winter 2020

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Foodservice Market, Canada

The retail sector of the food industry encompasses food sold to consumers for preparation and consumption at home as well as the final preparation of food for consumption away from home. In this issue, Canadian and Alberta foodservice sector market trends are analysed and presented.

The foodservice industry generated $85 billion in sales in 2018, which is four per cent of Canada's GDP. There were 1.2 million direct employees in the industry accounting for seven per cent of the country's workforce. Indirect jobs related to the industry is reported at 283,700 in the year 2018.[1]

The foodservice industry is comprised of different segments (Figure 1). There are traditional restaurants and their sub-segments, such as casual dining and quick-service operations. Then there are 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.

Figure 1: 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

Source: Restaurants Canada.

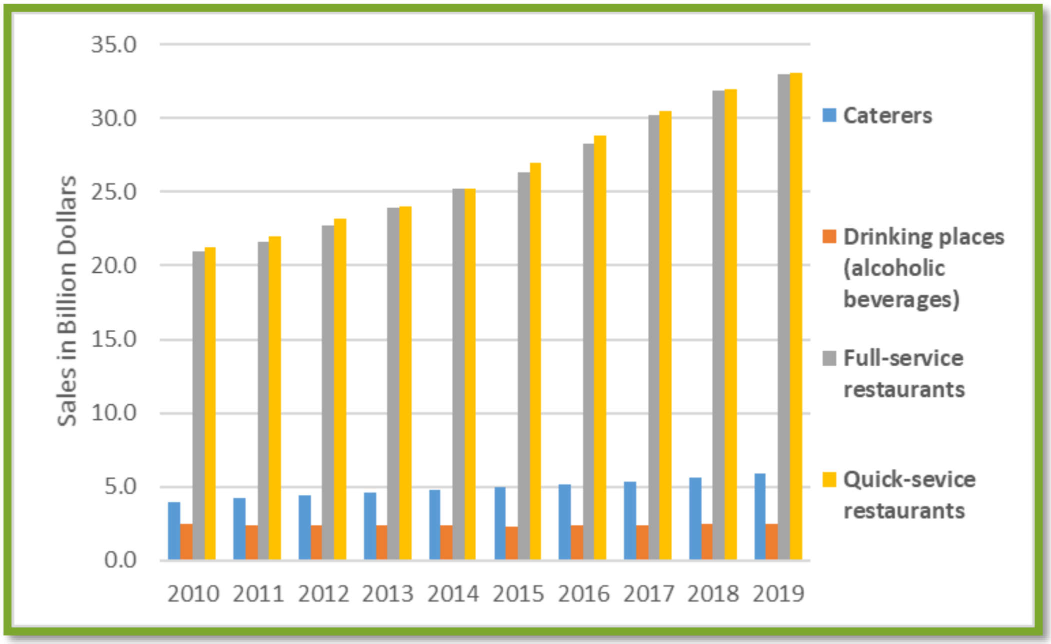
[1] Restaurants Canada. Foodservice Facts 2019.

Commercial Foodservice Segment, Canada

Among the commercial foodservice sub-segments, quick-service restaurants retained the top spot for total sales in Canada, but full-service restaurants are closing the gap. Figure 2 illustrates the sales trends from 2010 to 2019.

Quick-service restaurant sales rose 3.4 per cent in 2019 to a record $33.1 billion while **full-service resaurant** sales grew by 3.6 per cent to $33 billion in the same year. However, after adjusting for menu inflation and population growth, the per capita spending on quick-service restaurants dropped to $864 whereas full-service per capita spending increased to $859. According to Restaurants Canada, some of this growth is attributable to gains in third-party delivery.[2]

Figure 2: Total commercial foodservices sales (billion dollars), Canada



Source: Statistics Canada

Although **caterer** revenues rose by a better-than-expected 4.4 per cent in 2019 – 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 slow growth in Alberta and Saskatchewan. Worth noting was a decrease in the number of sole proprietorships causing a corresponding drop in the quantity of locations in 2019.

Sales at **drinking places** grew by 2.3 per cent in 2018, but recorded a drop of 0.3 per cent in 2019. Growth in 2018 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 may have eroded sales.

[2] Restaurants Canada. Foodservice Facts 2019.

Quick-service and full-service store traffic analysis, Canada

The NPD Group market reseach company provides market share analysis of store traffic and sales for quick-service and full-service dayparts for 2018.

Table 1: Share of traffic and sales in quick-service restaurants in 2018, Canada

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

Table 2: Share of traffic and sales in full-service restaurants in 2018, Canada

	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.

In the quick-service category, morning meal daypart is the most popular and accounted for more than one-third of traffic in 2018. Busy consumers who seek a fast, convenient and affordable breakfast is the reason behind that. Lunch accounted for a lower share of traffic than morning meals, but a higher average check size meant the midday meal generated 34 per cent of quick-service restaurant revenue. According to NPD, lunch was the fastest-growing daypart, with traffic growing by 2.7 per cent in 2018 over 2017.

As ever, the supper daypart dominates full-service, generating 54 per cent of revenue and pulling in 44.3 per cent 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 the previous years. According to NPD, the sales share was 56.8 per cent in 2016.

Non-commercial foodservices, Canada

The most notable sub sectors in the non-commecial foodservice sector are retail foodserices and accommodation foodservices. Data for these sectors is only available for 2018.

Retail foodservices or 'Grocerants'[3] remained the fastest-growing foodservice segment in Canada, with annual sales increasing by 7.6 per cent 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.[4] Convenience stores, department stores and grocery stores are expanding the selection and quality of prepared meals and snacks to capture customers. As a result, retail foodservice is forecast to grow at a higher rate going forward.

Accommodation foodservice enjoyed a robust 6.9 per cent jump in sales in 2017. In 2018, however, spending moderated to 3.9 per cent growth because of a slowdown in international visitors, higher fuel prices and rising occupancy costs.

Foodservice market, Alberta

The foodservice industry generated $11 billion in sales in Alberta in 2018, which is 3.4 per cent of Alberta's GDP. There were 151,000 direct employees in the industry accounting for 6.6 per cent of Alberta's workforce. Indirect employement related to the industry is reported at 34,700 in 2018.

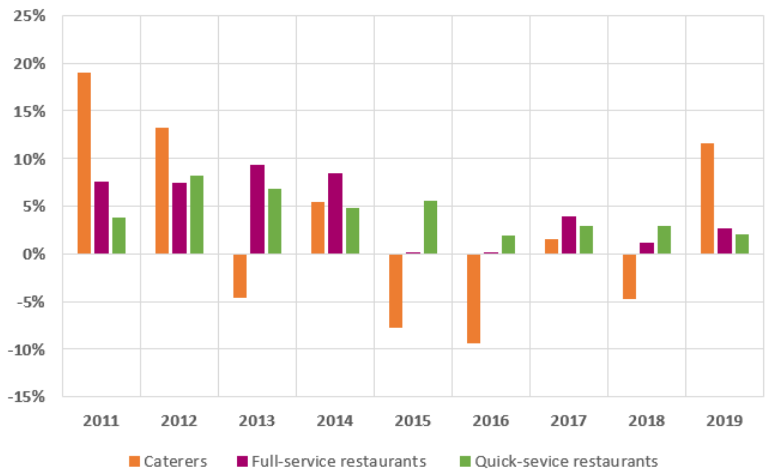
[3] The term "grocerant," a combination of the words "grocery" and "restaurant," describes the growing trend of freshly prepared, ready-to-eat or ready-to-heat foods available to consumers at convenience stores, chain drug stores, grocery outlets and other non-restaurant retailers.

[4] Restaurants Canada. Foodservice Facts 2019.

Due to a weak economy, Alberta's foodservice industry has been struggling lately. Total sales increased by about 2.4 per cent in 2019. However, this was an improvement compared to 2018 when growth was only 1.5 per cent. Additionally, rising labour costs led to a 3.4 per cent increase in menu prices, which further led to fewer visits to restaurants by consumers.

As illustrated in Figure 3, similar to average Canadian sales, quick-service restaurants recorded the highest sales of $4.4 billion in 2019. This was followed by full-service sales of $4.2 billion. Caterers reported 0.6 billion sales which is an 11.6 per cent increase in sales over 2018.

Figure 3: Breakdown of year-over-year change in foodservice sales and 2019 sales, Alberta



Sales in 2019 (Billions)

Total Food Services*	**9.5**
Quick-service restaurants	4.4
Full-service restaurants	4.2
Caterers	0.6

* Not included drinking places

Source: Statistics Canada

Foodservice menu prices, Canada

According to Restaurants Canada, many operators raised menu prices in 2018, resulting in a nationwide average increase of 4.2 per cent. The main reason behind this trend include rising labour costs and other operating expenses. The largest increase was reported in Ontario at 6.4 per cent followed by Alberta and British Columbia at 3.4 per cent each.

However, competition within the retail food segment led to significant discounting at grocery stores and supermarkets. As a result, retail foodservice prices fell in 2016 and remained low throughout 2017 and most of 2018 before starting to slowly increase in 2019 (Figure 4).

Figure 4: Food price inflation in Canada (2016 - 2019), restuarants vs grocery stores

Source: Statistics Canada

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 per cent compared to a 3.8 per cent increase at full-service restaurants.

Table 3: 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**

Note: Average check size includes taxes, but excludes tips. Source: The NPD Group/CREST©, 12 months ending December each year

Menu inflation had a measurable impact on consumer spending and the average check size at restaurants in 2018 (Table 3). While menu prices increased by 4.2 per cent in 2018, the average check size increased only by 2.7 per cent. By segment, quick-service restaurants posted the largest increase in average check size, up 3.3 per cent in 2018 over 2017. The average check size at full-service restaurants rose by more modest levels, ranging from 1.2 per cent at fine dining to 2.2 per cent growth at casual dining establishments.

Technology use and delivery trends in restaurants

Canadians are interacting with restaurants using their smartphones and tablets in a variety of ways. According to a recent study,[5]

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

Technology use can help build sales, attract new customers, speed up customer service and improve productivity. However, many owners are reluctant to introduce new technology on a large scale due to high cost of implementation, concerns about reliability and the time and resources required to train staff.

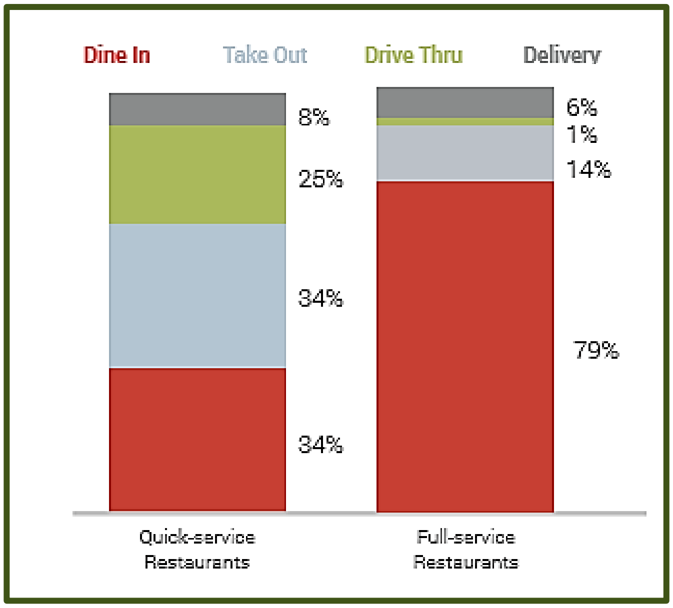
According to Ipsos Foodservice Monitor, there has been explosive growth in delivery. Delivery foodservice sales by digital (online and mobile apps) or traditional telephone totalled more than $4.3 billion in 2018, a staggering 44 per cent increase over 2017. Delivery remains a small, but growing segment, accounting for six per cent of all foodservice spending. Its demand is vey high in major urban centres where population density makes delivery economically viable.

A comparison of on-premise and off-premise sales (Figure 5) shows that on-premise dining still accounts for the majority of sales nationwide, totalling 53 per cent of overall revenues. However,

[5] The 2019 BrandSpark Consumer Restaurants Trends Study.

both on-premise sales and drive-thru lost market share to take-out and delivery in 2018. For quick-service restaurants, delivery sales rose to $2.2 billion in 2018, representing a 49 per cent increase over 2017. Delivery sales at full-service restaurants increased to nearly $2 billion in 2018, growing by almost 54 per cent.

Figure 5: Restaurant share of sales for on-premise and off-premise



Source: Ipsos Foodservice Monitor

Key takeaways

- The Canadian foodservice industry experienced solid growth in sales in 2018. However, unit volume sales dropped slightly.
- Quick-service restaurants face challenges with decreasing unit traffic and decreasing consumer spending per capita.
- Full-service restaurants, particularly independent and small chains, may be more agile and are a key segment in driving off-premise takeout and delivery.
- 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.
- Daypart traffic and sales analysis provide some insights for food service operators to manage their menu options to be competitive and profitable.
- Technology was found to be a significant factor behind improving customer experience. 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 are not ignoring these trends. The COVID-19 pandemic provides evidence that investing in technology is becoming more important.
- 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.
- Lower levels of service, balanced with lower check size, food variety, and sustained promotional activity are getting results in this sector.

Data Highlights

This section provides an update on retail and food service sales trend data in Alberta. Table 1 provides data for retail food and beverage sales in Alberta. Table 2 provides data for foodservice and drinking places sales in Alberta.

Overall, **retail food and beverage** quarterly sales in Alberta showed an increase of only 1.3 per cent annually. The year-over-year change is positive for grocery and specialty food stores with a double digit increase for specialy foods. Beer, wine and liquor stores reported a slight reduction in sales. Not surprisingly, Q3-2019 to Q4-2019 sales increased by five per cent, probably given the season. Quarterly **foodservice sales** increased 2.3 per cent annually. However, Q3-2019 to Q4-2019 sales have decreased except for specialty food services. This trend was somewhat expected from conumers in Alberta as they are spending cautiously given the challenging economic situation in the province. Drinking places quarterly sales decreased significantly compared to Q4 2018 (-12.8 per cent) and Q3 2019 sales (-11.4 per cent).

Table 1. Retail food and beverage sales in Alberta (in million dollars)

Sub Categories	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q3 to Q4 2019	Annual Q4 Change
Total Food and Beverage Stores	**3,871,822**	**3,473,249**	**3,831,570**	**3,721,096**	**3,923,825**	5%	**1.3%**
Grocery Store	2,925,493	2,751,347	2,909,757	2,833,018	2,956,191	4%	1.0%
Specialty Food Stores	197,548	149,441	171,616	173,297	220,059	27%	11.4%
Beer, Wine and Liquor Stores	748,781	572,462	750,616	714,782	747,575	5%	-0.2%

Source: Statistics Canada

Table 2. Foodservice and drinking places sales in Alberta (in million dollars)

Sub Categories	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q3 to Q4 2019	Annual Q4 Change
Total Food Services and Drinking Places	**2,377,636**	**2,170,120**	**2,434,512**	**2,520,075**	**2,433,463**	**-3.4%**	**2.3%**
Specialty Food Services	152,549	146,433	146,758	158,504	162,283	2.4%	6.4%
Drinking Places (alcoholic beverages)	93,425	78,960	82,521	92,441	81,427	-11.9%	-12.8%
Full-Service Restaurants	1,048,823	966,125	1,079,254	1,112,431	1,051,242	-5.5%	0.2%
Limited-Service Eating Places	1,082,838	978,600	1,125,980	1,156,699	1,138,512	-1.6%	5.1%

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