

PERSPECTIVE



The Commercial Food Service Industry: Coming Through!

2017 was a good year for the commercial food service industry overall. And it appears 2018 will be just as good. The economic parameters are positive for this industry. However, the numerous problems it has been facing for a number of years, especially the labour shortage, could be a recipe for trouble. This shortage may compromise the growth of some establishments. Besides this problem, increased competition is posing a challenge for restaurateurs trying to hold their position in consumer spending. Immediate action is required to catch the attention of customers at a time when everyone is clamouring to get them into their restaurants. Let's take a closer look at an industry where everything is speeding up.

The Commercial Food Service Industry

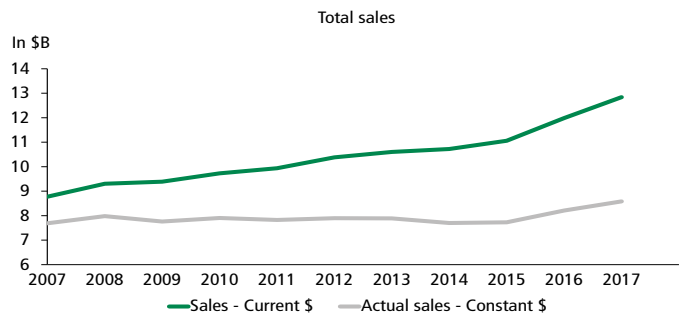
This sector includes full-service restaurants, limited-service eating places (customers order at a counter or by phone and pay before eating), bars and drinking places and, last but not least, special food services. The latter include caterers and mobile food services. Services offered in hotels are not included.

2017 Was a Good Year

The food service sector is made up of SMEs, approximately half of whom employed fewer than 10 employees. Last year, there were slightly more than 20,000 establishments in Quebec, and they employed 224,800 workers. Sales reached approximately \$12.8 billion in 2017, a 6.9% increase in today's dollars and 4.5% in constant dollars (which does not take into account the inflation rate for restaurant meals) (graph 1). This is significant growth compared to that seen before 2016. As for sales in constant dollars, only in 2016 and 2017 did they increase after plateauing for a long time.

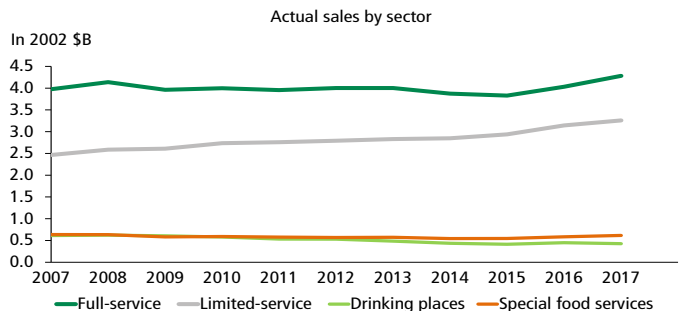
The change in sales per category is interesting. Figures in constant dollars show that sales were higher for full-service restaurants than those of limited-service eating places (graph 2). However, the gap between the two has been getting narrower over time. In 2017, sales grew 6.2% and 3.7%, respectively. Sales for special food services rose 5.5%, while those for drinking places declined 5.3%. Drinking places have seen sales gradually slide over the last few years. Several factors have worked against these establishments. The aging of the population, in particular, has prompted changes in consumer behaviour, and anti-tobacco legislation in 2006 and a more hectic way of life may have impacted the drop in patronage.

GRAPH 1
Total annual food service sales increased in 2016 and 2017



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
Sales for 2016 and 2017 for full-service restaurant and limited-service eating places



Sources: Statistics Canada and Desjardins, Economic Studies

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A Potential Recipe for Trouble

Even if the commercial food service industry seems to rest on a solid foundation, it is not invincible. The scarcity of labour has reached a point that it is commonly referred to as a shortage. The difficulties of recruiting and retaining employees are very real and have been complained about by the industry for over 10 years. Recruiting abroad for kitchen staff, in particular, is neither a rare nor recent phenomenon.

In 2017, commercial food services employed 224,800 workers on average. This figure does not include owners, who are considered to be self-employed. Despite the challenges to recruit, the number of workers has gradually risen over the last 10 years, except for 2014, when there was a slight dip (drop of 750 workers). There is still growth, but it is becoming increasingly difficult to expand the products and services offered because one of the ingredients essential to providing a service, i.e. staff, is missing. Ways to get around this have sprung up (meal ordering stations in the fast-food industry, in particular), but they cannot be applied everywhere. Some have decided to reduce their business hours.

What does future look like? Tourism Canada and the Conference Board jointly published a study in 2016¹ that estimated a shortage of 8,713 workers in 2020 in the food service industry in Canada (Table 1). This figure is expected to climb to 12,657 in 2025 and reach 18,943 in 2035. The least that can be said is that this is a significant challenge.

The scarcity in Quebec is caused, in particular, by a rapidly aging workforce, a drop in the unemployment rate, and the number of jobs offered in all sectors of the economy. Those seeking employment are not lacking in attractive offers, where the actual working conditions are not as demanding and the working hours not as inconvenient.

Nonetheless, people in the industry and those on the periphery (trainers, tourism industry associations and organizations, such as chambers of commerce, convention centres, etc.) have

¹ Tourism HR Canada and Conference Board of Canada, *Bottom Line: Labour Challenges Threaten Tourism's Growth*, June 2016. (The data shown here was published by the Conseil québécois des ressources humaines en tourisme).

TABLE 1

Labour demand and supply forecasts in the food services industry 2010-2035

	NUMBER OF JOBS					
	2010	2015	2020	2025	2030	2035
Labour demand	195,952	202,220	215,688	227,479	242,241	259,910
Labour supply	200,659	205,315	206,975	214,822	228,432	240,966
Labour shortage (surplus)	-4,707	-3,095	8,713	12,657	13,809	18,943

Sources: Tourism Canada and Conference Board of Canada

shared their ideas for dealing with the challenge of finding workers. They include highlighting training and simplifying, even fast-tracking, the steps involved in recruiting abroad. A number of restaurateurs are calling for tips to be shared with the kitchen staff as a way to retain staff. Currently, the Act respecting labour standards prohibits managers from introducing this practice. They see it as a way to make working in a kitchen more attractive.

In addition to these means, emphasis is also being placed on on-the-job training because working in the food services industry requires skills and know-how that can be taught. Flexible working hours is also a factor in retaining employees. Recognition, in the form of remuneration, training received, experience and seniority within the establishment can also play a role in ensuring employee loyalty. As in the case of other sectors of the economy, the availability of benefits such as vacation time, insurance, and group RRSPs is not to be ignored; on the contrary. The design of the kitchen, the dining room or the place of contact with customers is part of the investment that goes beyond the strictly physical appearance of the premises. They are also signs of appreciation for those working there. All these gestures contribute to employees becoming attached to their employer.

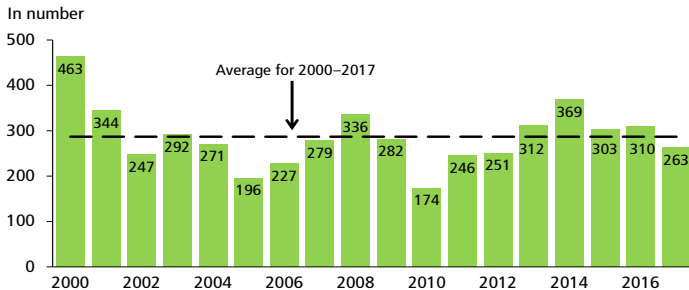
The Secret Isn't Only in the Sauce

The food service sector is one of those industries where the number of bankruptcies, proportionately speaking, is the highest in Quebec. There were 263 bankruptcies last year, fewer than the 310 recorded in 2016 and below the average for the last 18 years (287) (graph 3 on page 3). It is common knowledge that a lot of people take the plunge while underestimating what it takes to manage an establishment. The talent in the kitchen, or even the tried-and-true recipes of the chains and the big names, are part of the equation.

You also have to understand accounting, how to manage human and material resources, and be up-to-date on municipal by-laws and government standards, while choosing a location that encourages traffic to the establishment (e.g. site, availability of parking, and ease of access). In addition, you have to innovate, since, in the food service industry as elsewhere, there are trends that don't stand up well to the test of time.

GRAPH 3
Bankruptcies have reached approximately 287 on average every year since 2000 (restaurants only)

Quebec (1999–2017)

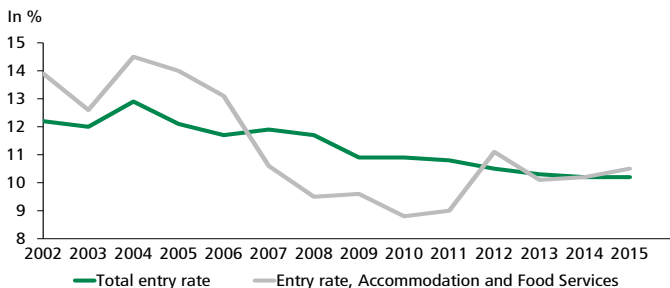


Sources: Office of the Superintendent of Bankruptcy Canada and Desjardins, Economic Studies

As for business dynamics, Statistics Canada reports, in 2015, (the most recent data), an entry rate of 10.5% for accommodation and food services, while the Quebec average was 10.2% for the same year (graph 4). The period before and after the recession (2007 to 2011) was not as frantic, but those bold enough began to try their chances again.

GRAPH 4
The entry rate fluctuated somewhat to settle below the average, especially between 2007 and 2011

For accommodation and food services



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 5 shows the industry exit rate, which has consistently been higher than the Quebec average since the early 2000s. It was 11.8% in 2015, while the entry rate was 10.5%. The average exit rate for all Quebec businesses was 10.2%, or 1.6 percentage points below that for accommodation and food services.

Recent Changes in the Industry

Before taking a look at the factors that will shape the food services industry in Quebec in the future, it is important to know what changes occurred recently. Over the last 10 years, the number of limited-service establishments increased at the expense of full-service establishments, which have since become far fewer in number.

GRAPH 5
The exit rate for businesses in the accommodation and food service sectors is higher than the Quebec average



Sources: Statistics Canada and Desjardins, Economic Studies

Furthermore, the number of independent restaurants, which are not linked to chains, has decreased over time. While they represented approximately 75% of the establishments in Quebec in 2000, they only represented 67% in 2017. According to data from NPD Group, a U.S. research firm that works around the world, franchise restaurants are grabbing a bigger slice of sales in Quebec. Sales were estimated at 48% in 2012 compared to 54.6% in 2017. It seems that the increasing popularity of breakfast is a determining factor in this growth. At the same time, the number of dinners out has dropped due, in particular, to prepared meals sold at grocery stores and big-box stores.

An Industry “Under the Influence”

Restaurants have to keep up with the times if they want to stay in business. However, the times, they are a-changing. And, whether we like it or not, they are influencing the way we do things. For example, the increasing number of prepared-meal options (for lunch and dinner, especially) available in grocery stores and big-box stores (Walmart, Costco, etc.) is a game changer. Their practical side greatly overrides the time considerations: the predictability, almost unending variety, affordability and ease of parking (available and free) that these stores offer, in addition to not having to leave a tip, are among the reasons people prefer this alternative to a restaurant meal. Therefore, the experience or practicality of what restaurateurs are offering must be unbeatable to compete with the abundant choices on the market.

The industry can't escape the digital revolution. There are now multiple options for reservations, menu selections, delivery, and even paying the check. Whether you're using your computer or smartphone, there are no more obstacles. Applications abound, including virtual loyalty cards that entitle the holder to privileges and those that help users find low-cost meals. Some apps in Europe (France, Switzerland and Denmark, among others) even allow restaurateurs to take advantage of the unsold products of the day by selling meals converted into lunch boxes at a discount to subscribers.

Digital technology have caused communication channels to multiply, which circumvent customer interactions. Supplier relations are moving at a different pace. For example, in Quebec, a marketplace app has been launched to bring together farmers and restaurateurs. Limiting the number of intermediaries and diversifying supply sources, such as food suppliers, are among the many obvious advantages.

Restaurateurs are also beholden to environmental concerns. Practices are becoming increasingly more restricted when it comes to kitchen procedures and food waste. Solutions such as reviewing inventory management, reassessing menus and composting organic waste are a few of the numerous possibilities. Moreover, food redistribution is another choice available to restaurateurs. The objective is to avoid waste while helping people in need. For example, food banks are open to receiving donations, and the initiative, *La tablée des chefs*, is one of many organizations that benefit from these leftovers.

Delivery services are very popular. A survey conducted for the Association des restaurateurs du Québec in the spring of 2018 revealed that Quebecers have really taken to this type of service. In fact, 79% of respondents said that they had ordered at least one delivered meal during the previous year. Although no increase is expected in 2018, 92% of 18 to 24-year-olds expect to use this service. It is worth noting that most of this group of customers used an app (66%) to place an order, while 66% of those aged 25 and over still preferred to use the phone.

Lastly, we have to talk about the combined effect of digital media and the rise of the sharing economy. More and more platforms are being created to discover new culinary experiences or local cuisine. They allow individuals and tourists to dine at the home of someone who cooks and acts as a restaurateur for one or several evenings a week in exchange for payment. "Food surfing" or "social dining" are the terms commonly used to describe phenomenon which, though marginal, still attracts customers who, in all likelihood, would otherwise sit down in a restaurant to eat. While digital technology allows establishment owners and managers to make progress, it is also advantageous for competitors.

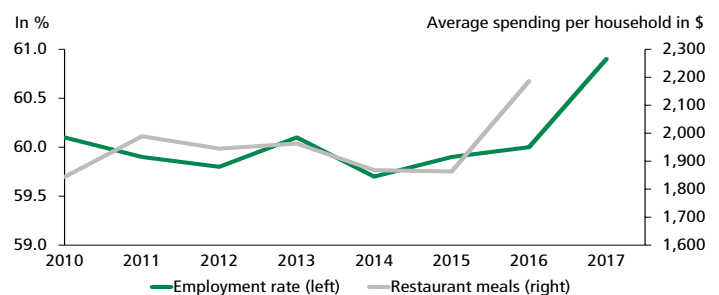
What about 2018?

Like the hotel industry, the food service sector may have a good year and see sales growth. Several parameters are in its favour. A brief review of the indicators discussed in the latest edition of *Perspective* on the accommodation sector indicates that the same may be true of the food service industry. With 71% of Quebecers planning to travel this summer and the relative weakness of the Canadian dollar, vacationing on Quebec soil is more appealing. The rise in the price of gas, which went from ¢113.06 on average during the first four months of 2017, to ¢127.03 during the same period in 2018 in both Montreal and Quebec City, may discourage people from taking long trips. In addition, the increase in the average weekly earnings and

employment in recent years in Quebec means people have more money to spend, and why not at a restaurant?

The rise in the employment rate is also an indicator that seems to evolve in tandem with household spending on restaurant meals (graph 6). Given the anticipated tightening of the unemployment rate in 2018 in Quebec, the expected increase in employment and the weak growth of the labour force, the employment rate is expected to rise again in Quebec this year, which bodes well for spending on restaurant meals.

GRAPH 6
Quebec: The rise in the employment rate appears to match household spending in restaurants



Sources: Statistics Canada and Desjardins, Economic Studies

Little Room for Improvising

Commercial restaurateurs emerged unscathed in 2016 and 2017 after several years of treading water. This year, which is already well underway, they are on solid ground, if the economic parameters published to date are to be believed. Nonetheless, there are dark clouds on the horizon: the labour problem may compromise the industry's growth and prosperity. However, a few positive signs stand out against this backdrop, including the closing of ranks by all players in the tourism industry to find solutions, and the effort to enhance the professionalism of jobs by promoting training.

The challenge facing those working in this economic sector is to persevere. In an environment where alternative solutions abound, quick action is required to catch the attention of customers at a time when everyone is clamouring to get them into their restaurants. The profession of restaurateur is increasingly difficult, and managing a restaurant leaves little room for improvising, other than the occasional stroke of genius and boldness that come with the territory.

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