

Restaurants: Headwinds buffet the industry

Everyone has an opinion about the restaurant business. Meanwhile, the numbers paint a picture that may not be flattering, but is not always as dreadful as the rumours. The pressures on the restaurant sector are nothing new, but tightening economic conditions and intensifying competition are not helping matters. Despite the headwinds of the past few years, there are restaurateurs who are still in business and who are managing to combine creativity, management skills and passion with a stroke of genius. At the same time, there are plenty of people in the workforce and in everyday life who need restaurant services. Working in this sector is no trivial undertaking, and 2015 offers no promises of easier times for restaurateurs.

RUMOURS ABOUND, BUT ARE THEY WELL FOUNDED?

The restaurant business does not enjoy a good image. Many numbers are bandied about, giving the impression that things are in a sorry state. Therefore, it is worthwhile to take a look at some preconceived ideas and check them out.

Survival rate

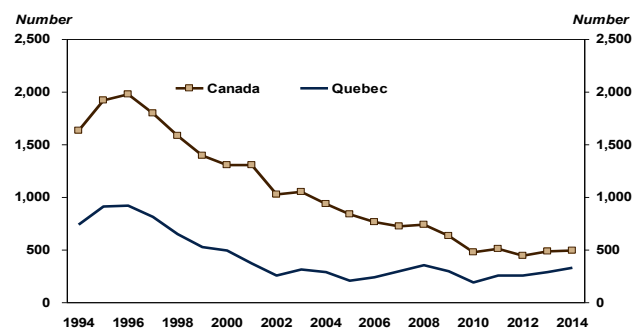
The survival rate of restaurants is often pointed at. It is true that a survival rate of 15.3% after nine years, as measured by the Ministère de l'Économie, de l'Innovation et des Exportations in 2008, does not argue well for the sector. From the outset, we must mention that this statistic applies to the entire hospitality industry, and that the proportion pertaining to restaurants alone is not known.

It is also true that the restaurant business has few barriers to entry and that anyone, or almost anyone, can take his or her chances at it. To an increasing degree, the sector is experiencing a trendiness effect, resulting in a proliferation of new restaurants taking inspiration from the latest culinary fads. Many of them do not survive very long, but long enough to create greater competition for other restaurants that are already in business. Moreover, the budget that Quebec households allocate to eating out has remained static, with no real increase since 2010, and the spending has been spread over a larger number of dining emporiums. Not all of them are able to cover their costs, hence the increase in bankruptcies.

Bankruptcies

Rumours are circulating to the effect that bankruptcies are legion. In fact, the number of bankruptcies is high, largely for the reasons mentioned above, to which we must add

Graph 1 – Restaurant bankruptcies in Quebec on the rise again in 2011



* Real sales represent total sales, minus inflation based on the price index for food purchased from restaurants (2002=100)
Sources: Office of the Superintendent of Bankruptcy

higher prices for food and energy (at least, up until 2014). An increase in bankruptcies has been observed since 2011 in Quebec (graph 1), during which time economic uncertainty prevailed, the financial position of households became tougher, and the Quebec government introduced the sales recording module (SRM). On the other hand, if we look back over more than 20 years, we can see that there was a significant decline in bankruptcies in the 2000s, before the recession hit.

Profitability

It is often said that the restaurant business is not profitable, or that half of all restaurants cannot cover their costs. So how do we account for the fact that there are over 20,000 restaurants in Quebec, and that some have been in business for 20, 25 years or more? On the question of profitability, a few sources of information are available. While the numbers vary somewhat, the conclusions are quite similar.

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According to data from Statistics Canada, among SMEs (enterprises with fewer than 500 employees), 64.2% of restaurant businesses (including restaurants and drinking places) were profitable in 2012. As for the operating profit margin, it came in at 3.9% for SMEs that year, according to Statistics Canada, and at 4.4% according to the Association des restaurateurs du Québec; the latter number also takes larger businesses into account.

Turnover

We also hear that the staff turnover rate in the restaurant sector is staggering. It is true that the issue of labour scarcity, or even shortage, has posed a problem for several years now. The turnover rate in the accommodation and food services sector, as measured by the Institut de la statistique du Québec (ISQ), was 44.6% in 2011, while the Quebec average in that year was 33.1%. Is this really a surprise? The working conditions can be very demanding (e.g. being on your feet, split shifts, kitchen work, etc.). In addition, the unemployment rate is relatively low, leaving a smaller pool of workers to meet employers' needs. Finally, restaurant work is an entry point into the job market for youth, and that factor also affects the turnover rate.¹ However, this rate of 44.6% is comparable to that of the information, culture and recreation sector (42.7%) and even to that of construction (53.9%) in that same year.

We must take into consideration the fact that this high turnover rate adds to the costs that restaurants must bear for training their employees. On this subject, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ) reported in 2012² that this sector is characterized by a tight cost structure, especially costs linked to a high staff turnover, which swallows 36% of sales revenues. This turnover is often accompanied by higher recruitment and training costs.

Part-time work

The restaurant business offers only part-time jobs, or so we hear. Data are available only for the accommodation and food services sectors taken together, but, at this point, they indicate that full-time jobs win out. In 2013, the proportion of full-time jobs was 53.2%, slightly more than half. Even if we assume that the restaurant sector has more part-time workers, the fact remains that more than just part-time jobs do exist.

"Restaurants are for tourists." How then do we account for the fact that one quarter of Quebec households' food spending is allocated to dining out? In fact, approximately 80% of restaurant patrons are local residents. It is mainly the locals that restaurants cater to.

The number of restaurants per capita

Finally, there is a tendency to think that the ratio of restaurants per capita, which is often quoted in the media, is an indication of the sector's state of health. This parameter offers many advantages, particularly since it is easily calculated and applies just about everywhere on the planet; however, it tells us both everything, and nothing. It offers no distinction in terms of the population density of a given city, the personal disposable income of the people likely to frequent restaurants, the type of restaurant (full service or self-serve), the density of the business community in the neighbourhood, the diversity of the supply, tourist traffic or events likely to bring customers to the tables. These are all factors that can contribute to the prosperity of restaurants. In short, this indicator cannot be used as a benchmark with which to measure the vitality, or lack thereof, of the restaurant industry. If it were the ideal benchmark, it would be a simple matter to use it to determine the prospects of success for a newcomer in the industry.

THE WEIGHT OF THE RESTAURANT INDUSTRY IN QUEBEC

The restaurant sector is one link in Quebec's biofood chain. It has ramifications for a large number of business sectors beyond food. By itself, it accounts for at least 1.6% of Quebec's GDP, and this does not include restaurants located in hotels. In 2010, the MAPAQ³ estimated that approximately 61% of purchases of food and drink from Quebec sources were made in commercial restaurants. Incidentally, in June 2014, the program "Aliments du Québec au menu" was launched, with the objective of showcasing restaurateurs who promote Quebec food products in their menu. At that time, 60-odd restaurateurs had already taken part in this initiative.

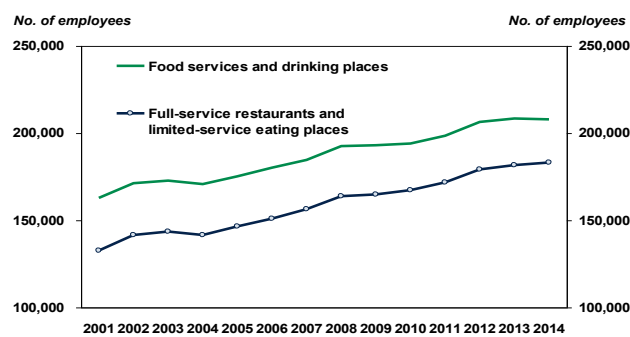
¹ Emploi-Québec, *Enquête sur le recrutement et l'emploi au Québec (EREQ), volume 12 – Analytical report* (in French only): "[Translation: This survey shows that the turnover rate is higher in those sectors where the workforce is young. The percentage of people younger than age 25 (41.0%) in the accommodation and food services sector is close to 2.5 times higher than in other sectors.]... "[Translation: As in retail, the food services sector is an entry point to the job market for many young people, since the flexible schedules help them combine work and studies.]" pp. 10-11.:

² MAPAQ, "L'importance économique de la restauration commerciale au Québec," *Bioclips+*, April 2012, vol. 15, no. 2.

³ MAPAQ, "L'importance économique de la restauration commerciale au Québec," *Bioclips+*, April 2012, vol. 15, no. 2.

The restaurant sector employs a large number of workers. Looking at wage-earners alone, there were 207,847 of them in food services and drinking places in 2014, although this was fewer than in 2013 (208,565) (graph 2). This sector also includes a large number of self-employed workers, who are difficult to count. Nevertheless, it is entrenched throughout Quebec and brings in revenues to the federal and provincial governments in the forms of income tax, consumption tax and contributions to various social programs (CSST, QPP, employment insurance, etc.).

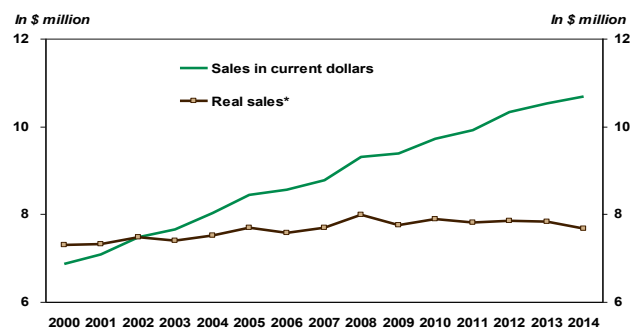
Graph 2 – Quebec: Fewer employees in the food services and drinking places sector in 2014



Sources: Statistics Canada, Survey of Employment, Payrolls and Hours

Sales in current dollars reached \$10.7B in 2014, up by 1.4% from 2013 (graph 3). However, real sales, once the price index of food purchased from restaurants has been applied, paint a different picture. We note that sales have been treading water since 2009, and even dipped slightly in 2014.

Graph 3 – Quebec: Food services and drinking places real sales stall and decline

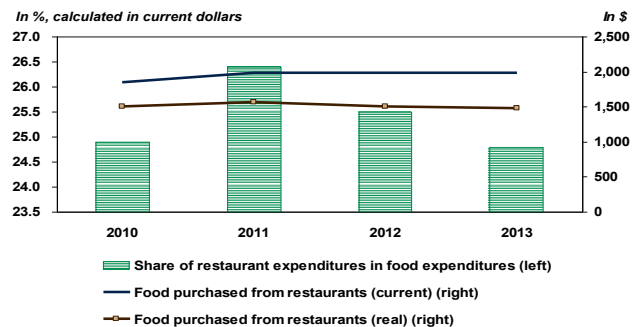


* Real sales represent total sales, minus inflation based on the price index for food purchased from restaurants (2002=100)
Sources: Statistics Canada and Desjardins, Economic Studies

Dining out constitutes a significant share of household spending. In 2013, Statistics Canada estimated that every Quebec household spent \$1,978 in restaurants. This represents one quarter (24.8%) of Quebecers' food spending, which is nothing to sneeze at.

However, if we look at the data of recent years, we note first of all that household spending in current dollars has barely increased (graph 4). Next, we note that those same amounts, expressed in constant dollars, have fallen since 2010. Finally, the share of Quebec household spending devoted to restaurant food was down in 2012 and 2013 compared with 2011. Is this trend here to stay? Will the savings gained from lower gasoline prices since mid-2014 be redirected, at least in part, to spending at restaurants? This remains to be proven, and time will tell whether the amounts allocated to restaurant food head up in 2014 and in 2015.

Graph 4 – Quebec: Real household restaurant expenditures have not increased in recent years



Sources: Statistics Canada and Desjardins, Economic Studies

The restaurant business carries significant weight in Quebec household spending, in the labour market and in the economy. More recently we have noted some loss of steam, in particular in the decline in real sales at restaurants, in real spending on restaurant food by Quebec households, and in the number of wage-earners. This pullback is evidence of the difficulties the sector has been facing in recent years.

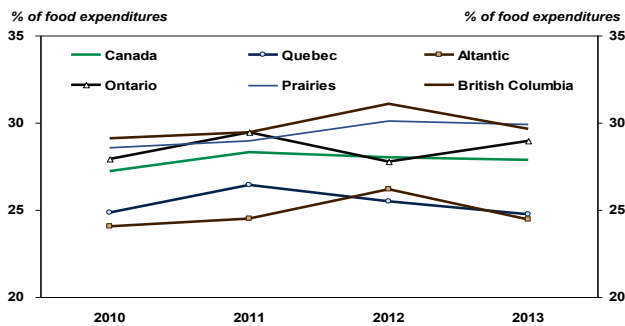
THE “COPY/PASTE” METHOD DOES NOT APPLY

Studies are often published on the U.S. and Canadian food services sector, and there is reason to wonder whether their findings may apply here. This is not the case, however. In Canada in 2013, for example, 60.4% of the industry's sales hailed from restaurant chains, compared with 52.5% in the United States.

Similarly, the profile of Quebec’s food services sector does not mirror that of Canada’s. For a start, Quebec has more independent restaurateurs than Canada and in terms of establishments, MAPAQ estimates that in 2010, commercial restaurants and drinking places were mainly run by independent owners, representing 71.3% of establishments.

In addition, the share spent on food in a restaurant compared to the share of food as part of Quebec household expenditures was lower than that of other Canadians, with the exception of the Atlantic provinces (graph 5). However, Quebec households allocated a larger portion of their overall expenditures to food.

Graph 5 – Share of household restaurant expenditures lower in Quebec than in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

For 2012, Quebec was the only province where more than 50% of commercial food service revenues were linked to full-service establishments. However, Quebec is no exception to the decade long trend—as is the case nearly everywhere across Canada—that limited-service restaurants are increasingly gaining market share.

A REAL OBSTACLE COURSE

The food services sector faces multiple challenges in addition to the growing tax burden felt by Quebec households. The hesitant labour market, household debt and the limited increase in personal disposable income may be fuelling people’s reluctance to eat out at restaurants more often. But that’s just part of the problem. The slow economic recovery after the last recession has done little to help the business community and governments. Corporate and public sector cutbacks may have had a negative impact on business meals over the past few years, although it is difficult to accurately quantify these effects.

The scarcity of workers coupled with an aging labour force is limiting hiring activities, especially as the sector is already suffering from a labour shortage. Turnover rates engender substantial costs at a time when profit margins are already slim. Add to this the costly no shows for reservations felt by restaurateurs. To combat this, many are considering imposing penalties on customers who do not honour their reservations in order to cover the losses incurred.

The pitfalls are numerous. In this regard, restaurant survival on the Web holds a number of risks. While in theory the arena offers an exceptional voice to showcase the distinctive assets of an establishment and increase traffic, the growing presence of consumers on social network sites can make or break a reputation in a flash. To propagate a rumour, there’s no better place than in cyberspace.

Lastly, some analysts indicate that upgrading management skills (staffing, purchasing, inventories, etc.) as well as other restaurant-related occupations could improve industry performance.

SERVING UP CREATIVITY, MANAGEMENT AND PASSION WITH A STROKE OF GENIUS

The food services industry in Quebec has been under significant strain in recent years. The aforementioned factors are by no means exhaustive and do not explain all the difficulties experienced by the industry. However, they do show that certain conditions will remain unchanged for 2015. As for factors that could help boost the industry, we cannot fully discount the fact that Quebec households could use the slight wiggle room provided by the drop in gas prices to eat out more often at restaurants, especially as their disposable income could benefit from improved job creation this year with respect to 2014. The question is whether the marked improvement in the U.S. economy and the strength of its job market in recent years will succeed in bringing more U.S. tourists this side of the border. And to foster new trade with the U.S., will Quebec businesses be ready to loosen their purse strings to pay for business meals? Hopefully; but in light of the information available at the beginning of the year, a number of conditions must be fulfilled before affirming that this will be the case.

Despite the headwinds of the past few years, there are restaurateurs who are still in business and who are managing to combine creativity, management skills and passion with a stroke of genius. At the same time, there will always be people in the workforce and in everyday life who need restaurant services. The hope is that supply will meet demand.

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