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City Scope Report on Montreal Market

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Agriculture in the Economy
Food Processing Ingredients
Food Service - Hotel Restaurant Institutional
Retail Foods

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Report Highlights:

Montréal is located in the province of Québec and is Canada's second most populous city at 1.9 million. The Greater Montréal Area (GMA) is also the second largest agglomeration in Canada, stretching over 4,258 sq km/1,644 sq miles, and with an estimated population of 4 million. It is located in the southern part of Québec, on the St. Lawrence River. It includes the densely populated Island of Montréal, Laval, and Longueuil. It also includes semi-rural cities and towns on the fringe of Montréal. It is a 90-minute flight from Boston and New York City to Montréal. This report contains information on the market in the city as well as opportunities for U.S. exporters.

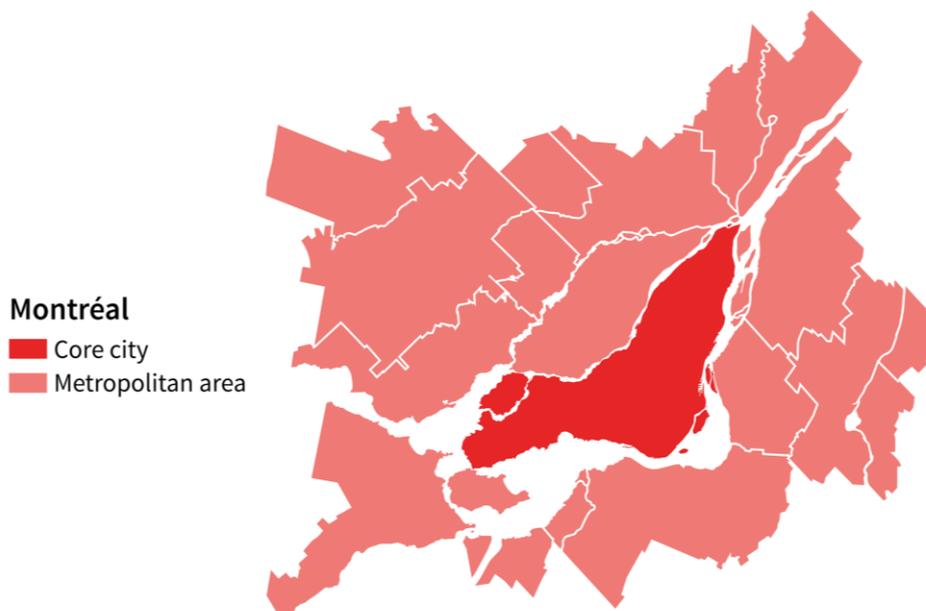
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Introduction

General Information

Montréal is located in the province of Québec and is Canada’s second most populous city at 1.9 million. The Greater Montréal Area (GMA) is also the second largest agglomeration in Canada, stretching over 4,258 sq km/1,644 sq miles, and with an estimated population of 4 million. It is located in the southern part of Québec, on the St. Lawrence River. It includes the densely populated Island of Montréal, Laval, and Longueuil. It also includes semi-rural cities and towns on the fringe of Montréal. It is a 90-minute flight from Boston and New York City to Montréal.



Source: Euromonitor International

Montréal uses foreign immigration to offset a continuing trend of Québécois leaving the city for other parts of Canada. Between 2013 and 2014, the GMA lost 10,000 Canadians to other provinces, and 7,000 to other municipalities. However, it gained 42,800 immigrants.

French is the city and province's official language, making Montréal the second largest primarily French-speaking city in the world (after Paris). Within the GMA 67.9% of the population speaks French at home, compared to 16.5% who speak English. In the 2011 government census, 54% of Montréal residents stated that they had knowledge of both English and French.

The large number of students coming to study in Montréal (170,000 students enrolled in 9 universities in 2013) drives down the average household size to 2.4 persons per household versus 2.6 persons per household for the rest of Canada.

Visible minorities comprised 32% of the population in the 2011 census. The five most numerous minorities are: Blacks (9.1%), Arabs (6.4%), Latin Americans (4.2%), South Asians (3.3%), and Chinese (2.9%). Immigrants must speak French as part of the province's requirements.

The Port of Montréal is the largest inland port in the world and is the main port for Eastern Canada, able to handle 30 million tons of cargo annually and deliver goods to over 100 million consumers by railway in less than 36 hours. As one of the most important ports in Canada, it remains a transshipment point for grain, sugar, petroleum products, machinery, and consumer goods. For this reason Montréal is the railway hub of Canada, and is the location of the Canadian National Railway headquarters.



Source: Euromonitor International

General Economic Overview

Most recent census data (2011) has median family income at \$67,010.

Montréal accounts for 9% of Canada's GDP. In 2015, the city's GDP equaled more than \$168 billion. It is expected to reach over \$187 billion by 2020.

The Greater Montréal Area (GMA) is home to one-quarter of all Québécois, and is the second most populous metropolitan area in Canada. According to The Conference Board of Canada, its economy will advance by 2.3 per cent in 2016, led by the ongoing recovery in manufacturing and steady services growth. A weaker Canadian dollar and improvement in the U.S. economy should also contribute to this positive outlook.

Montréal's food processing costs are among the lowest in the G7. Montreal has a 9.5% food processing cost advantage, the same as Canada as a whole, relative to the U.S. baseline index of 100.0. (Source: KPMG Competitive Alternatives, 2016) The rise in the value of the US dollar relative to the Canadian dollar through 2015, is the likely to be the main driver of improved cost index results for Canada and its cities in 2016.

The Harmonised Sales Tax (HST) combines Goods & Services Tax (GST) and Québec Provincial Sales Tax (QST). In Québec, the HST is 14.975%. The minimum wage in Québec will be C\$10.75 per hour effective May 2016.

Consumer Habits

Because of the slow economic recovery, coupled with rising food prices since 2011, many Canadian consumers have become bargain shoppers. The average Canadian spends \$411 per month on groceries and 57% of shoppers now compare food prices and are making fewer impulse decisions.

The most significant demographic trend facing Canadians is a rapidly aging population and a falling birth rate. The aging population means consumers are becoming more health conscious, and as a result are reading food labels more carefully. Consumers continue to seek products with lower sodium, lower sugar, lower calories, and lower trans- and saturated fats. Health-conscious attitudes and a rising demand for healthy and local foods continue to dominate the mind-set of consumers.

Total Consumer Spending

Disposable income per household is 16% lower in Montréal than the rest of Canada at US\$65,100 in 2013. This is due to relatively low-value-added jobs, as well as slightly higher unemployment (8% v. 7% for rest of Canada), and higher provincial taxation.

Although there has not been much growth in disposable income, notoriously cautious Canadian consumers are spending a little more on food. They are still very deal-conscious, still buying close to 36% of food on promotion, but those promotions are less deep-discount than before. Lower fuel prices have generally benefitted the entire food industry, with restaurant sales boosted as well as food purchases for home consumption.

Despite having lower income levels, Montréal households spend 11.2% of their budget on Food and Non-Alcoholic Drinks, 3.3% on Alcoholic Drinks & Tobacco, and 6.4% on Restaurants and Hotels. This level of spending is higher than the rest of Canada, and leaves a disproportionately smaller budget to be spent on discretionary items.

Average Household Expenditure Montréal*

	2013	2018 Estimate	The weakening Canadian dollar (down from parity in 2013 to 0.74 US
Food & non-alcoholic beverage	7,283	7,580	
Alcoholic beverage & tobacco spending	2,145	2,146	
Hotel & restaurant spending	4,123	4,299	

*Stated in Constant Prices, US\$

Dollar as of 2/29/16) will increase tourism staycations where consumer buying power tends to go further.

What Makes This Market Unique?

Montréal’s official city motto is “Well-being through harmony”, but its unofficial motto is “the City of Festivals” due to its vibrant arts scene and year round festivals. The city’s European roots give it a “joie de vivre” (joy of living) with people working to live rather than living to work. The relationship Montréalers have with food is also very European, tending to stay around the table for a longer period of time during and after dinner.

Montréalers have the lowest rate of homeownership in Canada, with only 55% owning a home compared to 69% in Canada. Homes in Montréal are still very affordable by Canadian standards at C\$338,500 in 2015.

Because of their smaller household size on average, as well as higher percentage of renters Montréalers tend to do less “one-stop shopping”. They visit stores more often and buy smaller quantities each time.

According to a large quantitative study conducted in 2013 comparing French Québec with the rest of Canada found the following significant differences:

- French Québec lives more in the moment, and saves less for the future.
- Their sense of place is central to their identity. They have local pride and protect their traditions and language.
- They seek pleasure, a simple life and solutions in all aspects of their lives – “joie de vivre”.
- They have more of a “what’s in it for me” attitude. They give less to charity than the rest of Canada, but what they do give tends to stay local.

	Living In The Moment		Chez Nous		Joyful Living		All About Me		Life Uncomplicated	
	Making the most of today because the future is uncertain.		Getting to know people whose sense of values is similar to mine		Being very satisfied with my life		Making myself and people close to me a priority instead of society at large		Taking measures to simplify my life	
50%+ Top 3 Importance	Fr Qc	Eng RoC	Fr Qc	Eng RoC	Fr Qc	Eng RoC	Fr Qc	Eng RoC	Fr Qc	Eng RoC
	57.5	50.4	53.6	42.8	73.7	69.7	60.0	54.5	62.7	49.8
Difference Qc - RoC	7.1		10.8		4.0		5.5		12.9	
Intensity Index (Top3B importance score in Qc X difference)	408		579		295		330		809	

The Canadian halal food market is estimated to be worth \$1 billion. It's a market that is

growing in importance as Canada's Muslim population of 221,000, is increasing at roughly 13 per cent annually. Canada's Muslim community is expected to triple by 2031, consequently consumer demand for halal food products is also expected to increase.

The Arab market is estimated to be the largest minority in Montréal by 2020, followed by Hispanics. Both communities will be looking for products from their native countries. Both groups also shop for food more frequently. For example, 60% of Hispanics and 58% of Arabs buy bread four to seven times a week, compared with only 7% of Canadians. On average, these immigrants will be 10 years younger and more educated than the general population. That will make them more open to innovative products, but less able to buy them as they will have less disposable income.

The Québec government also promotes Québec producers under its "Aliments du Québec (Food of Québec)" Program. Since being founded in 1996, the number of Aliments due Québec-stamped foods has tripled from 4,000 to more than 12,000. Those products – from fresh to processed foods – represent roughly 40 per cent of the approximately 30,000 items sold in most Québec grocery stores. When visiting stores within the province you will notice a clearly marked identification on the label of

manufactured food supported with additional point of sale material including posters and shelf danglers. Fully 88 per cent of retailers participate in the Aliment Program. The program's initial goal was to replace \$20 of each consumer's foreign groceries with an equivalent of Québec goods. According to research done by Leger Marketing, seven out of ten consumers in Québec actively look for Québec products when grocery shopping. For 81 per cent of consumers the Aliments du Québec logo was a sufficient enticement to purchase a branded item rather than a competing product.



Montréal Retail Sector Analysis

The retail trade is far simpler in Canada and more concentrated than in the U.S., with the top 2 banners representing close to half of all grocery sales. Experienced importers usually have established relationships with the major retail groups, so positive results tend to be achieved much quicker compared to the U.S.

The exit of Target from Canada has reduced the oversupply of food retail and has strengthened retail margins, freeing upwards of two million square feet of dedicated food retail space. However, because of this concentration, it is more expensive to do business here, with significant trade investment required in order to get products listed and to get them to remain on shelves. It also results in a higher percentage of private label sales, estimated at 13% of all food sales. Ethnic grocery stores are the fastest growing retail channel, growing at over 15% per year and currently represent 10% share of the marketplace. This growth has attracted the major grocery chains and has resulted in purchases (e.g. Loblaw purchasing T&T, Metro purchasing Québec-based Mediterranean grocer Adonis). Grocers in the Montréal area will have to make major changes in the coming years to gain business from the city's fastest-growing markets -- the Arab and Hispanic communities.

Grocery stores are also moving from the traditional car-centric large-format stores, to smaller urban stores. Newer stores have shrunken middle aisles and expanded fresh and To-Go offerings, catering to a population that no longer cooks from scratch as often. Canada's largest retailer, Loblaws, purchased Shoppers' Drug Mart/Pharmaprix, Canada's largest drugstore chain last year, giving it a number of smaller urban locations that are open 24/7. Drug stores are emerging as "the new convenience store", offering a wide range of groceries, including chilled products. Dollar stores are also growing, with retail sales up 13% in 2014. Dollar stores in Canada do not yet have a refrigerated section.

2015 Who's Who in Canadian Retail						
Retailer	Food	Drug & HBA	Merchandise	Apparel	TOTAL	Share
Loblaw/Shoppers	\$28,077	\$12,584	\$3,037	\$731	\$44,428	15.6%
Sobeys/SWY	\$20,833	\$3,300	\$428	\$0	\$24,561	8.6%
Walmart	\$6,577	\$4,451	\$8,134	\$3,124	\$22,286	7.8%
Costco	\$9,238	\$926	\$7,023	\$473	\$17,659	6.2%
Canadian Tire	\$0	\$0	\$15,839	\$1,141	\$16,981	6.0%
Metro	\$10,125	\$1,911	\$158	\$0	\$12,194	4.3%
Home Depot	\$0	\$0	\$6,050	\$0	\$6,050	2.1%
RONA	\$0	\$0	\$5,371	\$0	\$5,371	1.9%
Jean Coutu	\$268	\$4,049	\$53	\$0	\$4,369	1.5%
Co-ops	\$3,504	\$153	\$408	\$0	\$4,065	1.4%
Sears	\$0	\$0	\$1,946	\$1,280	\$3,226	1.1%
Overwaitea	\$2,618	\$500	\$0	\$0	\$3,118	1.1%
HBC	\$10	\$0	\$852	\$1,958	\$2,820	1.0%
Dollaram	\$486	\$356	\$1,511	\$238	\$2,591	0.9%
TJX	\$0	\$0	\$0	\$1,368	\$1,368	0.5%
Target	\$82	\$68	\$227	\$194	\$572	0.2%
Other	\$14,175	\$12,866	\$68,699	\$17,588	\$113,327	39.8%
TOTAL	\$95,993	\$41,164	\$119,734	\$28,094	\$284,958	100%

Source: Company reports and CIBC World Markets Inc.

Total food grocery sales in Canada were \$104 billion in 2014. Traditional grocery is comprised of chain stores, independents, and convenience stores and remains the largest sector with sales of \$88 billion. The balance of food sales outside of traditional grocery include major players Costco (\$9B), Walmart (\$6B), and Drug Stores (\$1B).

In 2015 Grocery chains account for 36% of Grocery Store Sales in Québec, compared to 61% in total Canada. Specialty Food Stores account for \$1.5 billion in Québec, down 4% versus 2014.

Traditional Grocery Market Share By Top Corporate Retailers (2015)

%	Loblaw	Empire (Sobeys)	Metro	Other	
National	28.4	17.1	0.3	5.3	Loblaw operates under the Provigo, Maxi and Pharmaprix banners in Montréal. Empire operates under the IGA banner in Montréal.
Québec	23.0	21.4	21.8	1.4	

Maxi and Pharmaprix banners in Montréal. Empire operates under the IGA banner in Montréal.

Consumer Spending & Habits

Canadians have similar eating and shopping patterns compared to Americans. In 2013, Canadians made an average of 174.2 shopping trips per household and spend an average of C\$50.60 per trip. Consumers are driving the growth of the home-replacement market at retail.

The Canadian consumer is very deal conscious, buying close to 36% of groceries on promotion. Lower gas prices should give consumers more spending power at the grocery check-out, but the weakening Canadian dollar will make U.S. foodstuffs more expensive.

After years of big grocers spending on systems and logistics infrastructure, stores are now being upgraded to include boutique-style food markets, cafes and dine-in sections. There are also investments in chefs to upgrade the quality of their HRM (home replacement meals) offerings. The centre-store is also shrinking, with traffic being reconfigured to ensure customers spend time and money on fresh products before entering the shrinking grocery departments. They are also moving from traditionally large stores to newer stores, mid-sized suburban stores or very small urban units within the city.

Québecers will view a retailer’s brand more favorably if it makes an effort to adjust to their needs, such as adding a French language descriptor to an established English name like “Café” Starbucks.

Food products with high sales potential – high sales growth (year 2013)

Category	Growing 4% to 10%	Growing over 10%
Beverages	Premium fruit/vegetable juices (5%)	Chilled smoothies (28%) Coffee (15%)
Confectionery	Chocolate (4%)	
Dry Grocery	Asian sauces (4%) Tortillas and wrap (5%) Cracker chips (4%) Sweet and savoury snacks (4%) Natural snack bars (6.1%)	Stir-fry sauces (24%) Asian chili sauces (59%) Bagels (6%) High fibre paste (15%) Health snack bars (6%)
Chilled and Frozen Foods	Chilled and natural based/soy based desserts (5%) Chilled noodles (4%) Frozen oven baked potato chips (4%) Frozen processed vegetables (4%)	Chilled Soup (7%) Thin crust pizza (6%) Refrigerated salad dressings (5%) Soy milk (11%)
Refrigerated and Dairy	Yogurt (9%)	Natural/organic/Greek yogurt (40%)

Source: Euromonitor International 2013, Canadian Grocer Category Captains 2013

According to Nielsen, the fastest growing product categories in Grocery in 2015 were:

- Processed meat (up 12%)
- Home meal replacements (up 9%)
- Vegetables (up 6%)
- Meat (up 6%)
- Hot beverages (up 5%)

Practical Business Tips

Most small-to-medium sized producers will partner with a Canadian food broker/distributor/importer rather than trying to sell directly to the retail buyer. These firms tend to specialize by product type (e.g. frozen), geography, and, in some cases, by retail type (e.g. C-stores).

Most distributors and importers will take title of shipments. They tend to work on margins of 20-30% of the wholesale price.

Brokers do not take title, but instead provide a sales force to sell your goods. They tend to work with non-conflicting products, but have an area of expertise. They usually demand exclusivity by geography. Brokers will ask for a retainer upfront to pioneer the product. Once a level of sales is achieved, they will then move to a commission model with the average fee being 5%.

Hotel, Restaurant and Institutional (HRI) Analysis

Overview

With over 200 U.S. and international flights touching down at newly refurbished Montréal-Trudeau International Airport—serving over 70 international and 25 domestic cities—daily, Montréal is easy to get to from most major destinations. Its compact, safe, and clean downtown is just a 20-minute ride away, where 15,000 of its 26,500 hotel rooms are located. Eight thousand of them are housed in deluxe properties, such as boutique hotels, and 4,000 are linked directly to the Palais des congrès (Convention Centre) via the clean, brightly lit, 32-km (20-mile) long Underground Pedestrian Network.

Tourism in Montréal increased for the sixth consecutive year in 2014 as it welcomed a record 9.2 million overnight visitors. Visitors to Montréal spent C\$2.7 billion during their trips. Montréal surpassed 2.5 million international visitors as American and overseas travelers continued to visit in greater numbers. Overnight visitors from the U.S. numbered 1.6 million. Montréal has a hotel occupancy rate of 71%, climbing to 86% in the key summer months. The significant weakening of the Canadian dollar in comparison to the U.S. dollar should provide a further boost to tourism.

The top 5 hotel chains in Canada are Four Seasons Hotels and Resorts, Fairmont Raffles Hotels International, Starwood Hotels and Resorts, and Wyndham Hotel Group. The Atlific hotel chain, Groupe Germain Hotels, and Gouverneur Inc. are headquartered in Montréal.

In 2015, the foodservice share of the total food dollar was 38.6%. Total Commercial Foodservice sales in Canada were C\$58 billion in 2014, with total Non-Commercial Foodservice sales of C\$14 billion. Québec had the weakest growth in Canada, as foodservice sales grew only 1% to C\$11 billion in 2014.

In Canada, the foodservice industry is expected to grow at a modest rate of less than one percent per year over the next five years. Convenience, value, unique menu items, and service remain high on the list of foodservice consumers' must-haves and wants.

Canada Foodservice Sales Forecast

FOODSERVICE SALES FORECAST	2014 Preliminary (Millions of Dollars)	% Change 2014/2013	2015 Forecast (Millions of Dollars)	% Change 2015/2014
Quick-service restaurants	\$25,536.0	5.8%	\$26,531.9	3.9%
Full-service restaurants	\$24,916.3	5.0%	\$25,813.2	3.6%
Contract and social caterers	\$4,903.6	6.6%	\$5,085.0	3.7%
Drinking places	\$2,296.1	-0.7%	\$2,312.1	0.7%
TOTAL COMMERCIAL	\$57,651.9	5.3%	\$59,742.3	3.6%
Accommodation foodservice	\$5,890.0	4.7%	\$6,162.0	4.6%
Institutional foodservice ¹	\$4,397.2	3.4%	\$4,501.0	2.4%
Retail foodservice ¹	\$1,425.6	5.5%	\$1,485.5	4.2%
Other foodservice ¹	\$2,484.0	2.8%	\$2,558.5	3.0%
TOTAL NON-COMMERCIAL	\$14,196.8	4.1%	\$14,707.0	3.6%
TOTAL FOODSERVICE	\$71,848.7	5.0%	\$74,449.2	3.6%
Menu inflation		2.1%		2.4%
REAL GROWTH		2.9%		1.2%

Although Québec's economy has steadily improved since the recession, its restaurant industry continues to struggle. Total foodservice sales were \$11 billion in 2014, up only 1.4% over the previous year due to lethargic spending at independent restaurants. The average unit volume was \$484,517 and there were 22,034 units across the province. Chains account for 31% of all restaurants versus 69% that are independent, the highest percentage of independent restaurants in the country.

The top Québec based restaurant chains based on 2013 sales are as follows:

1. St-Hubert C\$384 million
2. Cora C\$140 million
3. Scores Rotisserie & Grill C\$114 million
4. La Cage Aux Sports C\$111 million
5. Trattoria Di Mikes' C\$101 million
6. Baton Rouge C\$97 million
7. Normandin C\$93 million
8. Thai Express C\$80 million
9. Pizza Delight C\$71 million
10. Pacini C\$65 million

Cara, Canada's third largest restaurant chain is underdeveloped in Québec, especially with its Swiss Chalet banner, as the competing St-Hubert chicken chain (with more than 115 Québec locations) is considered a Québec institution. Recently Cara announced that it has agreed to purchase the St-Hubert chain for C\$537 million.

Sales in 2015 are expected to be up another 3.3%. Despite this increase in spending there are two significant macro trends that will limit long-term growth in Québec. Commercial unit growth in Québec has stopped, with the increase in the number of chains being offset by declines in independent restaurants. Additionally, the number of 15 to 65 year olds has plateaued and is projected to decline in the future, restraining future sales growth.

Restaurants

Montréal is the city with the largest number of restaurants per capita in North America. Over 80 different kinds of food are served in 6,800 restaurants, from 5-star European to smoked-meat counters. Montréal chefs work hand-in-hand with local purveyors to showcase fresh, local, and seasonal products. Montréalers favor table d'hôte menus, a restaurant meal consisting of a fixed number of dishes, at a fixed price for a whole meal for one person.

Montréal's devotion to fine food and drink is celebrated with numerous culinary festivals throughout the year. They also have over 350 food trucks to augment their food street scene.

Unique to Canada, Independents make up the largest portion of restaurants in Québec at 69% of total units, but chains (at 31%) are growing at a faster rate. The strength of independent restaurants is culturally-based. Because of their European origins, Québécois like the fresh, real, and artisanal food and tend to look down on the restaurant chain model because it's American and because food preparation is so standardized.

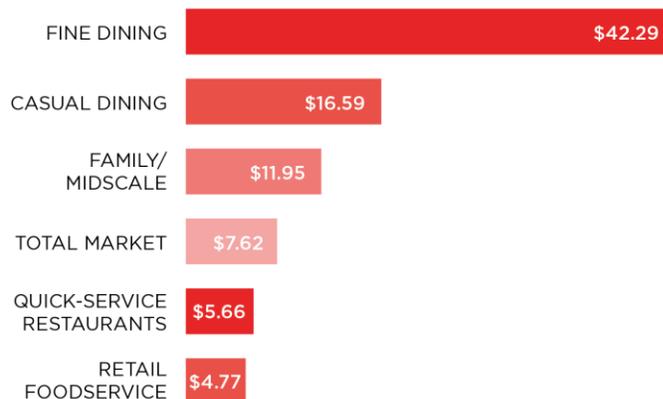
Québécois also eat out at full service restaurants more than the rest of Canada. Restaurant chains like St. Hubert (chicken) and Mike's (Italian) are hugely popular in Québec. They're not haute cuisine, but they're still full-service restaurants.

In 2014, fast food restaurants recorded a 4% increase in foodservice value sales and a marginal increase in the number of outlets. The fast pace of life and on-the-go trends are reasons Canadians are attracted to fast food restaurants. Constant menu updates with new launches and cheap prices keep fast food popular in Canada. The wellness trend and healthier food choices negatively affected fast food sales, but at the same time, cheap prices helped fast food restaurants to grow. The increasing demand for gourmet food and healthier options pushed the development of "fast casual" restaurants in Canada.

Total Consumer Spending & Habits

Over the past 3 years foodservice sales have grown faster than consumer disposable income. The foodservice share of the total food dollar is 38.6%, compared to 47% in the US for 2015. In 2014 the average check per person was C\$7.62 (excluding tips). Québec has the highest check size in Canada at \$8.32.

AVERAGE CHECK PER PERSON - 2014



The aging population, coupled with stricter drinking and driving laws has resulted in double-digit decreases in drinking establishment sales. The legal drinking age in Québec is 18.

Beer, which is Canada’s most popular alcoholic beverage, has declined by 6 per cent in 2015 while cocktails and other drinks were down by 10 per cent. However craft beer servings have experienced strong growth of 7 percent year-over-year, now accounting for 17 percent of all beer at casual dining restaurants. Consumers are also turning to wine much more often, as servings in this category have grown by 16 percent year-over-year.

In the Zagat 2012 Montréal Restaurants Survey, Montréal diners report eating out 2.8 times per week on average. According to Montréal surveyors, Italian is the favorite cuisine, winning 25% of the vote, with French cuisine following closely behind with 24%. Regardless of the percentage, diners have shown their support of local Quebecois cuisine, with 78% saying that locally sourced, organic and sustainably raised food items are a trend considered important, and 64% saying they are willing to pay more for these ingredients.

Opportunities & Trends

Due to the lower Canadian dollar, restaurateurs are paying more for imports such as fresh fruit and vegetables, of which \$3.2 billion of each are imported annually from the U.S. All-day breakfast is a growth opportunity, with more than half of Canadians wishing that restaurants served breakfast items all day. That number jumps to 60% amongst Canadians 18-34 years of age.

Fastest Growing & Slowing Menu Items, Canada 2014

The 10 fastest growing menu items in 2014 over 2013

The 10 steepest declining menu items in 2014 over 2013

WHAT'S GROWING	WHAT'S SLOWING
1 Breakfast sandwiches	1 Carbonated soft drinks
2 Burgers	2 Seafood/fish
3 Bagels	3 Hot coffee
4 Muffins	4 Chinese/Cantonese/Szechwan
5 Chips/pretzels/crackers/curly	5 Chicken/poultry entrées
6 Hash browns	6 Deli meat sandwich
7 French fries	7 Salads
8 Hot chocolate	8 Rice
9 Donuts	9 Milk
10 Hot tea	10 Non-fried vegetables

Source: The NPD Group Inc.\Foodservice\CREST@Total Canada\YE November 2014
 Note: The 'growing' list shows the menu items that made the biggest volume gains in 2014 compared to 2013, while the 'slowing' list shows the menu items that saw the most significant declines.

Top Growing and Declining Restaurant Categories		Top Three Growing Chains
Top Growing Categories	Top Declining Categories	
Midscale Diner QSR Other Ethnic Casual Spanish Yogourt Midscale Barbeque	Hot Dog Ice Cream Bakery/Sandwich Biscuit/Bun Cafeteria	Starbucks Tim Hortons Thai Express

The growth of Grocery’s HMR section (home meal replacements), and its increasing quality and range of items, could be a threat to restaurants. To capitalize on the estimated C\$2.5 billion Canadians spend annually on HMR, restaurants should provide HMR-style offerings, including a retail section in existing restaurants.

Practical Business Tips

Products destined for the HRI segment are exempt from bilingual labeling. While foodservice products are exempt from submitting nutritional information in a Nutritional Fact Table label, they are still required to provide nutritional information.

The average non-residential construction cost in Montréal when compared to an average of 30 US cities is 7% higher (Source: RSMMeans Square Foot Costs 2015). Building costs range from \$140 to \$700 per square foot (concept dependent), with the averages being \$354 per square foot for FSRs, \$298 per square foot for QSRs and \$265 per square foot for Fast Casual Restaurants.

Each of Canada’s provinces has a liquor board or commission that oversees the control, distribution, and sale of beverage alcohol in its jurisdiction. Québec has traditionally taken a slightly more liberal approach to beer and liquor sales than in the rest of Canada. Beer has long been available at dépanneurs (corner stores) until 11 p.m., and it’s the only province where individual cans and bottles are sold at these locations.

The Société des alcools du Québec (SAQ) is a government corporation that sells alcoholic beverages throughout the province of Québec. It employs nearly 6,000 persons and manages more than 800 points of sale across the province, including its network of 408 outlets. The SAQ also operates large warehouses and supplies holders of alcoholic beverage sales licenses (hotels, restaurants, bars, etc.) and food wholesalers who, in turn, serve the needs of grocers.

Most products in the HRI channel are managed through importers, brokers, food distributors, wholesalers and/or repackers. The two largest foodservice distribution chains in Canada are GFS (Gordon Food Service) and Sysco. The National Food Distributors Association Canada, www.nfda.ca, also lists other strong regional players.

Product (Categories) with Best Potential

Fast Casual is the fastest growing segment of the Canadian market. The desire for customization, food prepared fresh right in front of you with your choice of toppings, and the halo effect of health and

wellness is propelling Fast Casual as a category. Customers are willing to pay a bit more for a better quick-service meal, without the added pressure to tip.

Based on a 2016 survey of Canadian Chefs, the following menu items are rated as having the best potential.



Food Processing Sector Analysis

Overview

There are over 2,200 food processing businesses in Québec, representing a wide range of sectors.

- Bakeries (Bridor, Dare Foods, Leclerc Biscuits, Multi-Marques, Ronzoni Foods, Weston)
- Beverages (Coca-Cola, Labatt Breweries, Molson Coors, Pepsi)
- Dairy products (Agropur, Danone, Kraft Canada, Parmalat, Saputo)
- Fruit and vegetable preserving (Baxter, Bonduelle, Fleury Michon, Lassonde Industries)
- Meat products (Cargill, DuBreton, Maple Leaf Foods, Olymel)
- Sugar and confectionery (Barry Callebaut, Lantic, Nutriart)
- And many other foods (ConAgra Foods, Frito-Lay, Krispy Kernels Foods)

Due to a well-developed industrial infrastructure, the GMA region has become the main centre in Québec for food processing, as well as the main food hub in Eastern Canada. More than two thirds of the food processing activity for the entire province of Québec takes place within the GMA.

With 500 companies and 30,000 workers (16% of the workforce), the food processing sector is the GMA's largest manufacturing sector. Its shipment value has reached almost C\$9.3 billion. Three sub-sectors predominate: the beverage industry, the dairy product industry, and the bakery industry.

All sectors combined, the cost advantage is 10% over the average of North America's 19 other largest metropolitan areas. Cost competitiveness is supported by moderate costs (labor, rent, electricity), and targeted government financial incentives.

Opportunities & Trends

The aging population means that Canadians are becoming more concerned and informed about their health and wellness. They are looking for a better nutrition panel, as well as smaller portions to meet calorie targets. To meet these needs, nine out of ten Canadian food processors report that they plan to launch new products with specific nutritional benefits in the next 2-3 years. Functional foods (conventional foods with an added healthy ingredient) are a C\$4 billion market and one of the fastest growing categories.

The sustainability trend continues to grow, with concerns about sustainable production and the environmental impacts of packaging. Consumers also increasingly care about where their food comes from, driven by a desire to support the local economy as well as environmental concerns about how far the food travelled to reach its final consumer.

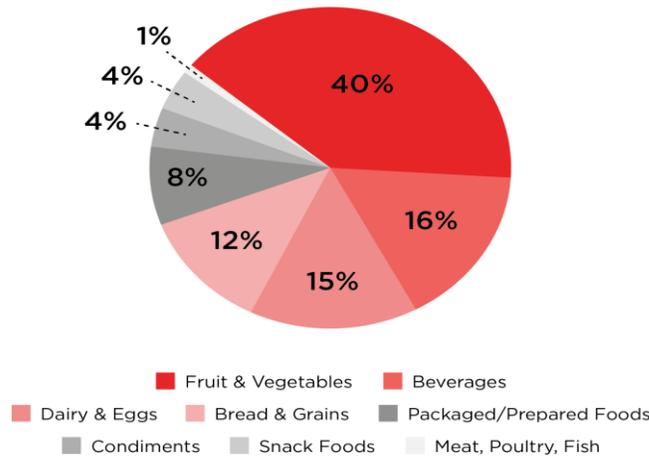
The value of Canada's organic food and non-alcoholic beverage market hit C\$3 billion in 2012, a three-fold jump from 2006, according to most recent figures available (source: Canada Organic Trade Association). The exponential growth now makes Canada the fourth largest organic market in the world. Some of the growth is attributed to Canada's stricter organic standards and labeling requirements put in place in 2009. All products claiming to be organic are governed under the Organic Product Regulations.

Organics are also now as mainstream as any other grocery product. Fifty-eight per cent of Canadians report purchasing organic products at least once a week. And that rate is even higher among ethnic Canadians, people living in Canada's largest cities, households with young families and consumers with university educations.

The most popular organic products in 2012 were fruit and vegetables, comprising 40 per cent of all organic sales. Beverages, dairy, and eggs were the second and third biggest categories (see chart below).

Among pre-packaged grocery items, organic beverages enjoyed the fastest rates of growth between 2008 and 2012. Coffee, shelf-stable juices, and milk were especially fast gainers during this time period. (see chart below)

Organic sales by product category
 Grocery banners, mass merchandisers and drug stores, 2012



Food manufacturers are also reformulating to remove artificial flavors colors and preservatives where possible. There is also a trend towards the concept of value over price, with discerning consumers driving the sales of artisanal and craft products like bread, alcohol, snacks, and coffee.

Similar to U.S. consumers, Canadians are a nation of grazers, with 56% of eating/drinking occasions being a snack rather than a traditional meal occasion.

The demand for “gluten-free” products appears to be a legitimate trend in Canada. Sales of gluten-free products also continue to experience double-digit growth, representing C\$458 million in sales in 2013 and are expected to double in size by 2017. When compared to U.S. consumers, Canadians are more likely to report purchasing gluten-free products because someone in their household has celiac disease or a gluten or wheat allergy or intolerance.

Product (Categories) with Best Potential

Top 5 U.S. Exports to Canada in 2014 are shown below:

1. Fruits and Nuts \$3.7B
2. Vegetables \$2.7B
3. Beverages \$2.5B
4. Baked Goods, Pasta, Mixes, Doughs \$2.4B
5. Sauces, Soups, and Processed Foods \$2.2B

The ethnic food market in Canada is estimated to be C\$65 billion, and is growing by 15% to 20% annually. It is projected to reach C\$128 billion by 2020. Products aimed at the Arab and Hispanic market should lead this growth in Montréal.

Because of Montréal's climate, it does not have access to fresh fruits and vegetables year round, with the exception of those items grown in a greenhouse (e.g. tomatoes). Canada imports 80% of its fresh fruits and vegetables between November and June.

Country of origin is growing in importance for food and is turning historically low involvement categories (meaning that the consumer puts minimal consideration into the purchase) like produce into a higher involvement category. Seen as a trusted neighbor, the U.S. is viewed by Canadians as the next best thing to buying local.

Practical Business Tips

If you're going to have an office in Montréal, hire a strong Francophone team that understands and speaks English but whose first language is French. Make sure to create bilingual material for everything you produce, including your website. Most importantly, remember its French first on all correspondence and **never** rely on simple translation. Instead, hire an experienced, local French copywriter and editor to adapt the content.

E-commerce Sector Analysis

Online Grocery

E-commerce is only a fraction of Canada's total grocery market. As of last June, Profitero estimated it at just 0.5% compared to an estimated 4% in the US. But the research firm predicted that online could rise to three per cent of grocery's total by 2018.

According to Nielsen research 19% of Canadian households buy food online. The fastest growing categories in 2014 according to Nielsen were Condiments (+35%), Snack (+18%), and Baking (+12%).

A recent Ipsos Reid study shows that consumers 18-34 years of age are the most likely to buy online with reported annual spending of C\$954. Groceries make up 14% of that spending.

Canada's big grocery retailers are starting to invest in online. In February, Sobeys Quebec expanded the online offer through its IGA network. The service now includes 247 of the 288 IGA stores across the province with more than 30,000 products at IGA.net.

Included in the IGA service is the ability for shoppers to personalize orders. For example, if a shopper buys avocados and makes a special request that they be ripe, this comment will be passed on to a personalized shopper who collects the products in-store.

Unique to Montréal, small retailers/convenience stores do food home delivery to local neighborhoods. A system such as this, places less of a cost burden on retailers who service orders from a customer's local store, rather than fulfilling it from a central warehouse 50 kilometers away.

Amazon has also been ramping up its CPG product assortment in Canada, though the company has yet to launch a fresh delivery service as it has done in the United States.

Total Consumer Spending & Habits

Shoppers are increasingly using technology to make their purchase decisions, with 48% reporting that they use applications and websites to help them make food choices.

Coupons and offers drive technology use with 69% using online or interactive tools for coupons, 45% for email offers, 40% for shopping lists, and 34% for recipes.

Food delivery apps are also growing in importance within the Montréal market. Foodora acquired Hurrier in 2015 planning to bring the strengths of its logistics systems, and its flat delivery fee to the service. A la carte Express (alce.ca) delivers food from over 100 Montréal restaurants. Other food delivery brands include JustEat.

Opportunities & Trends

While e-commerce is still small, it will continue to put pressure on traditional brick and mortar retailers and restaurants to compete with lower prices, convenience, and the shopping/eating experience, especially in the densely populated Montréal market.

Toronto versus Montréal

Both markets are attractive options for importers. Both markets have food processing costs that are among the lowest in the G7 with Toronto and Montréal having a food processing cost advantage of 9.4% and 9.5% respectively compared to the U.S. Consumers in both markets consider U.S. origin products the next best thing the Canadian products.

Montréal's Grocery retail is less concentrated than Toronto, with chains accounting for 36% of sales versus 60% respectively for each market's province. This difference may be a result of less restrictive alcohol sales policies in Québec, allowing for a stronger independent store network.

Montréal's restaurant industry is also made up of fewer chains than Toronto, with chains account for 31% of all restaurants versus 45% respectively for each market's province.

Montréal Market Overview Summary

Advantages	Challenges
Largest inland port in the world	Need to go beyond minimum French language requirements to be accepted
Railway hub for Canada	Higher level of taxation
Despite lower disposable income than Toronto, spend higher percent of budget on food and beverage	Strong allegiance to made in Québec artisan products
Lower cost of housing than Toronto	Foodservice growth slower to recover from last recession
Largest number of restaurants per capita in North America and highest average check per person in Canada	
Lower drinking age at 18 years of age	

Additional Information

Key Contacts

The Canadian Health Food Association www.chfa.ca

The Canadian Federation of Independent Grocers www.cfig.ca

A non-profit trade association which works on local, regional, and national levels on behalf of non-publicly traded grocery organizations, including retailers and distributors.

SIAL www.sialcanada.com

RCC Retail Council of Canada www.retailcouncil.org

A not-for-profit, industry-funded association representing over 43,000 stores of all retail formats across Canada.

CCSA Canadian Convenience Stores Association www.conveniencestores.ca

Represents over 31,000 members across Canada including corporate and independent C-Store operators, key industry suppliers and wholesalers.

Key shows & events

The Canadian Health Food Association www.chfa.ca

CHFA East - held in Toronto every September

The Canadian Federation of Independent Grocers www.cfig.ca

Grocery Innovation Show - held in Toronto every Fall. 2016 date Oct. 17-18

SIAL www.sialcanada.com

April 13-15, 2016.

FAS Ottawa

City Scope Report: Montreal

RCC Retail Council of Canada www.storeconference.ca

Toronto May 31- June 1

Key HRI contacts

Restaurants Canada www.restaurantscanada.org

The largest association in Canada representing foodservices industry including restaurants, bars, cafeterias, coffee shops, and caterers.

Ontario Restaurant Hotel and Motel Association (ORHMA) Toronto Region

www.orhma.com/AboutUs/ORHMARegions/TorontoRegion.aspx

The largest provincial hospitality association in Ontario (the City of Toronto is the capital of Ontario).

Top Food Service Distributors

Sysco Canada sysco.ca

Gordon Food Service gfs.ca

The National Food Distributors Association Canada www.nfda.ca

Key HRI shows & events

Restaurants Canada www.restaurantscanada.org

Restaurants Canada holds one show a year for the Canadian restaurant and foodservice industry in Toronto at the end of February.

Key food processing contacts

Food & Consumer Products of Canada (FCPC) <http://www.fcpc.ca/>

The national association representing the food, beverage, and consumer products industry.