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Prepared By:

Approved By: PHILIP HAYES

Report Highlights:

The Canadian foodservice sector grew by five percent to nearly \$68 billion USD in 2018. FAS/Canada expects growth to continue in 2019, as innovation and changing consumer behaviors drive the foodservice landscape. Canada continues to be an attractive export destination for U.S. companies focusing on the hotel, restaurant, and institutional (HRI) segments of the foodservice sector.

Keywords: Canada, Foodservice, Hotel, Restaurant, Institutional

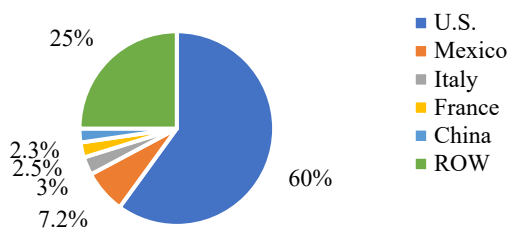
Executive Summary

The population of Canada is approximately 37 million and 90 percent of Canadians live within 100 miles of the U.S. border. In 2018, Canada was the leading export destination for U.S. agricultural exports. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports \$120 million worth of daily two-way trade in food and agricultural products. Canada's 2018 foodservice sales amounted to \$68 billion, up five percent from 2017. Opportunities exist to expand U.S. food and beverage sales. Canada is a mature market and it is imperative for U. S. companies to analyze the market and account for existing strong competition.

Imports of Consumer-Oriented Products

U.S. exports of consumer-oriented products to Canada exceeded \$16 billion in 2018, nearly double the value of the next largest market, Mexico. The top U.S. export categories of value-added products included prepared foods, fresh vegetables, red meats, fresh fruits, snack foods and processed fruits and vegetables.

Imports of Consumer-oriented Products 2018



Canada's Foodservice Market

In recent years, Canada's foodservice sector has grown steadily at an average rate of five percent per year since 2014. Canadian foodservice industry association Restaurants Canada has estimated that the industry grew (in nominal dollar terms) by five percent in 2018. However, after taking into consideration menu inflation and increased operational costs for restaurant operators, the foodservice sector posted real growth of just one percent. Between 2019 to 2021, foodservice sales are forecast to grow each year at a modest three to four percent.

The foodservice industry is divided into two segments: commercial (restaurants, caterers and drinking places) and non-commercial (hotels, institutional, retail and other foodservice). The commercial segment accounts for 80 percent of total foodservice sales, with quick-service and full-service restaurants constituting the majority of sales. Foodservice sales through hotel and other accommodation locations leads the non-commercial segment, generating more than 40 percent of sales in 2018.

Canada Quick Facts 2018

Total Imports of Consumer-Oriented Products

\$26 billion

Imports of U.S. Consumer-Oriented Products

\$16.2 billion

List of Top 10 Growth Packaged Food Products in Canada

Biscuits/Snack bars/Fruit Snacks	Savory Snacks
Spreads	Edible Oils
Rice/Pasta/Noodles	Confectionary
Processed Fruits/Veg.	Baked Goods
Sauces/Dressings/Condiments	Packaged Foods

Food Industry Sales by Channel (\$ billions)

Total Food & Beverage Industry - \$224

Foodservice Sales - \$ 68

Retail Food & Beverage Sales - \$ 96

Processing Food & Beverage Sales - \$87

Top 10 Canadian Restaurant Chains and Market Share

- 1) Restaurant Brands International, Inc. (18.7%)
- 2) McDonalds Corporation (11.1%)
- 3) Recipe Unlimited Corporation (7.1%)
- 4) Doctor's Associates Inc./Subways (4.2%)
- 5) A & W Food Services of Canada Inc. (3.5%)
- 6) Yum! Brands (3.4%)
- 7) Starbucks Corporations (3.2%)
- 8) Boston Pizza International Inc. (3%)
- 9) MTY Food Group Inc. (2.2%)
- 10) Pizza Pizza Ltd. (1.8%)

Strengths / Weaknesses / Opportunities / Threats

Strengths	Weaknesses
High economic growth rate and disposable income	Stronger U.S. dollar and high levels of household debt
Opportunities	Threats
Duty free tariff treatment for most products	Tariff rate quotas limit trade in dairy and poultry products

Contact Information:

Office of Agricultural Affairs – Ottawa

Telephone: (613) 688-5267

Email: agottawa@fas.usda.gov

Office of Agricultural Affairs – Toronto

Telephone: (614) 640-8683

Email: agtoronto@fas.usda.gov

Section I: Market Summary

I.A. Overview of the Canadian Foodservice Landscape

Canada's food service sales reached \$68¹ billion in 2018, which marked a five percent increase over 2017 sales of \$66 billion. This was the fifth consecutive year of five percent or higher growth, making it the industry with the strongest GDP growth over the last ten years. The food service sector includes two major segments. The commercial foodservice segment, which represents approximately 80 percent of total foodservice sales in a given year, includes quick-service restaurants, full-service restaurants, caterers and drinking establishments. The non-commercial segment, which is driven in large part by tourism-related sales at hotels, includes accommodation, institutional, retail and other foodservice.

The overall increase in foodservice sales in 2018 can be attributed to a surge in customer traffic, but also a four percent increase in menu prices. Higher menu prices were driven by increased labor costs, food costs and operating expenses. As a result, real growth in the foodservice sector was roughly one percent in 2018.

Table 1: Foodservice Sales Forecast in Canada (CAD Billion)

In CAD Billions	2018 (Estimated)	% Change '18/'17	2019 (Forecast)	% Change '19/'18
Quick-service restaurants	32	5.1%	33.5	4.5%
Full-service restaurants	31.8	5.5%	33.2	4.1%
Caterers	5.7	5.3%	5.9	4.5%
Drinking places	2.5	2.3%	2.5	0.4%
Total Commercial	72.1	5.2%	75.1	4.2%
Accommodation foodservice	7.2	3.9%	7.5	4.2%
Institutional foodservice	4.9	4.5%	5.1	3.6%
Retail foodservice	2.8	7.6%	3	6.2%
Other foodservice	2.9	4.0%	3	4.0%
Total Non-commercial	17.8	4.6%	18.5	4.3%
Total Foodservice	89.9	5.1%	93.6	4.2%
Menu Inflation		4.2%		3.1%
Real Growth		0.9%		1.1%

Source: Restaurants Canada, Food service Facts 2019

¹ All values are expressed in U.S. dollars unless otherwise specified. The \$1 USD : \$1.2957 CAD exchange rate has been applied for 2018.

I.B. Market Trends in Foodservice Sector

The Canadian foodservice landscape continues to evolve to adapt to demographic and social changes in the country. Below are some of the major trends that are driving sales in the foodservice sector:

- **Millennials and Gen Z:** Canadians under the age of 40 are seeking more eating-away-from-home or food delivery options. However, as these generations of Canadians do not yet have the same amount of disposable income of their boomer and Gen X parents, their spending decisions are heavily concentrated at lower price points and include less alcohol than older generations.
- **Multicultural Population:** Increasing ethnic diversity and multiculturalism is contributing to a more diverse food environment. The number of ethnic restaurants is on the rise in order to keep pace with the immigrant population. Immigrants currently represent 22 percent of Canada's total population.
- **Retail Foodservice:** This is the fastest growing foodservice segment in Canada with sales doubling in size since 2013. Retail stores are expanding the selection and quality of prepared meals and snacks to meet consumer needs and grow their sales.
- **Consolidation in Chain Restaurants:** This trend continued in 2018 as it is an effective way to generate growth in the large, chain restaurant market. For example, Cara Operations changed its name to Recipe Unlimited Corporation after merging with Keg Restaurants in early 2018. MTY Food Group also purchased Timothy's World Coffee and Mmuffins in 2018.
- **Continuous Growth for Independent Operators:** the growth of independent foodservice sales was in line with chain restaurant foodservice sales in 2018. The freedom to adapt to local tastes delivering more innovation helped them maintain steady growth and compete with chain restaurants.
- **Healthy Food Choices:** The search for healthy and sustainable food choices are leading trends in the commercial foodservice. Many foodservice operators are responding to consumer demand for alternative proteins by expanding menu offerings in this growing segment.
- **Labor Costs and Shortage:** Most restaurant operators consider labor costs the number one challenge impacting their businesses. An aging population and fewer working young people have led to a labor shortage in the foodservice sector. This drives the need to continuously look for labor-saving innovations to reduce operating costs and increase efficiency.
- **Food Technology:** Technology is redefining dining decisions, convenience and payment options. Restaurants Canada data indicate that more than four in ten Canadians base their dining choice on whether the restaurant is 'connected' through online ordering and delivery services.

I.C. Advantages and Challenges Facing the U.S. Products in the Foodservice Sector

Advantages	Challenges
Canadian consumers enjoy high disposable income, coupled with growing interest in premium, high-quality products and global cuisine.	Competitive pricing as the cost of doing business in Canada for foodservice buyers and distributors is higher than in the United States, pushing food prices up.
Canada's ethnically diverse population provides opportunities for specialty products.	The total population of Canada is slightly smaller than California and much more geographically diverse, making marketing and distribution costs generally higher than in the United States.
Fruit and vegetable consumption in Canada is higher than in the United States. Canadian food service operators rely heavily on imports to supply the domestic market all year round.	Buyers are constantly looking to reduce price, improve product quality and extend the product range with new entrants.
Duty free tariff treatment for most products under NAFTA.	Tariff rate quotas apply on certain products.
High U.S. quality and safety perceptions.	Differences in approved chemicals and residue tolerances, and variations in food standards may require special production runs and packaging due to Canadian standard package sizes.
U.S. food products closely match Canadian tastes and expectations.	Established vendors currently entrenched in the market.

Section II: Road Map for Market Entry

II.A. Entry Strategy

To facilitate initial export success, The Foreign Agricultural Service in Canada (FAS/Canada) recommends the following steps when entering the Canadian market:

1. Contact an international trade specialist through your state department of agriculture.
2. Thoroughly research the competitive marketplace.
3. Locate a Canadian partner to help identify key Canadian accounts.
4. Learn Canadian government standards and regulations that pertain to your product.

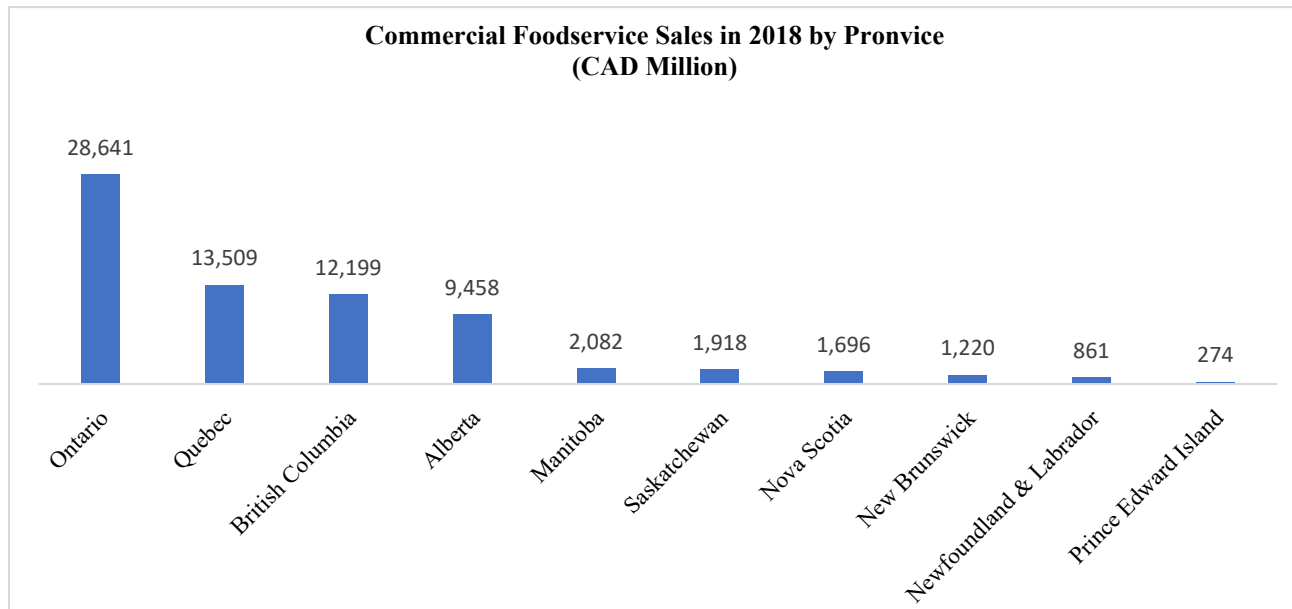
FAS/Canada works with State-Regional Trade Groups (SRTG) and the respective U.S. state departments of agriculture to provide one-on-one export counseling, business trade missions, support for participation in selected tradeshows, and identification of potential Canadian partners. Some of the services available through SRTGs and state departments of agriculture include: one-on-one counseling, business buyer missions into the United States, support for participation in selected tradeshows, and identification of potential Canadian partners. Small- and medium-sized firms may qualify for financial support to promote their brands in Canada and other foreign markets under the [Branded Program](#) / [CostShare Program](#) / [FundMatch Program](#) administered by the SRTGs and funded in part by the USDA Market Access Program (MAP).

For more information on entering the Canadian market, please consult the FAS/Canada [Exporter Guide](#). The best entry method depends on the specific food product and the particular market sub-sector. FAS/Canada encourages companies to research their product category and the various channels they intend to target in Canada, as selected categories may be highly challenging. Attending Canadian trade and consumer shows can help U.S. exporters familiarize themselves with the market. A partial list of Canadian tradeshows can be found on the [Agriculture and Agri-Food Canada website](#). There are three foodservice trade shows in Canada. The newly established [Canadian Restaurant & Bar Show](#) (November 4 – 5, 2019), the [Restaurants Canada Show](#) (March 1 – 3, 2020) and [SIAL Canada](#) (April 15 – 17, 2020). USDA endorses SIAL Canada by coordinating a USA Pavilion with its tradeshows partner, [IMEX Management](#). This annual event alternates between Montreal and Toronto. The 2020 show will be in Montreal on. Interested U.S. food companies can contact USDA's show contractor, [Ms. Jeanne Martin](#) and [Ms. Allison Brittain](#) of IMEX Management.

II.B. Foodservice Market Structure Commercial Foodservice

Accounting for 80 percent of total foodservice sales, the commercial foodservice segment is the main driver in this sector. British Columbia generated the highest sales growth rate in 2018 (eight percent). This was led by rising wages, increases in tourism and the wealth effect from the high-priced housing market in and around Vancouver. In Ontario, sales increased by six percent and are expected to continue in 2019 due to a growing population and healthy job creation numbers. Quebec and Nova Scotia enjoyed strong five and six percent growth respectively. Alberta and the remaining provinces in the Prairies and Atlantic regions had a modest growth rates ranging between one to three percent. The number of commercial foodservice units increased slightly by two percent in 2018 reaching 97,939 units.

Chart 1: 2018 Commercial Foodservice Sales, by Province



Source: Restaurant Canada, Foodservice Facts 2019

Non-commercial Food Service

Sales growth in the non-commercial foodservice segment reached four percent growth in 2018, mainly on strong sales in the retail and accommodation foodservice segments. The strong pace of growth in the retail foodservice is forecast to continue as more convenience stores and grocery stores compete with restaurants to offer prepared meals and snacks that are convenient and affordable for consumers. As for accommodation foodservice, the growing consumer desire for experiences through lodging and travel is expected to drive the growth in this segment in the future.

Total institutional foodservice sales in Canada reached \$4.9 billion in 2018, representing five percent of the foodservice industry. The sector consists of hospitals, residential care facilities, schools, prisons, factories, remote catering, and patient and inmate meals at correctional facilities.

II.C. Import Procedures

U.S. exporters are urged to review FAS/Canada FAIRS Reports ([CA18069](#) and [CA18070](#)) to better understand the Canadian import regulations and standards that apply to your product. The Canadian Food Inspection Agency (CFIA) provides extensive information on the [programs and services](#) it offers for importing commercial foods into Canada, including a [Guide to Importing Food Products Commercially](#). In addition, the CFIA [Automated Import Reference System](#) (AIRS) provides specific import requirements for food items by the Harmonized System (HS) classification, and detailed by place of origin (i.e., a specific U.S. state), destination in Canada (i.e., a specific province) and end use of the food item (e.g., for animal feed, for human consumption, etc.).

U.S. exporters should be aware that the [Safe Food for Canadian Regulations](#) (SFCR) came into effect on January 15, 2019 whereby 14 sets of existing regulations were consolidated. Certain parts of the regulations are being phased in over 12 to 30 months. Much of the regulations will directly impact the Canadian importers that U.S. exporters are working with. U.S. food processors are encouraged to understand how the SFCR may apply to them as new requirements may be required in doing business in Canada at [Getting started: Toolkit for businesses](#).

II.D. Market Access Channels in Canada

The bulk of Canadian foodservice imports are predominantly imported by large importers, brokers, foodservice distributors or through intra-company sales among international restaurant chains. Much of the perishable and specialty items, such as fresh meat products, are imported and distributed by foodservice distributors. Below is a list of the top companies dominating the importation and distribution of commodities and products in the Canadian foodservice sector.

Table 2: Top Foodservice Restaurant Chains, Hotel Chains and Distributors

Restaurant Chains	Hotel Chains ²	Distributors
Restaurant Brands International	Four Seasons Hotels & Resorts	Sysco
McDonald's Corporation	Fairmont Raffles Hotels International	Gordon Food Service
Recipe Unlimited Corporation	Marriott Hotels of Canada	Associated Food Distributors
Doctor's Associates	Starwood Hotels & Resorts Worldwide	Colobar Foods
A&W Food Services of Canada	Wyndham Hotel Group	Flanagan Foodservice
Yum! Brands	Intercontinental Hotel Groups	Belmont Meat
Starbucks Corporation	Hilton Canada Company	Beverage World
Boston Pizza International	InnVest REIT	
MTY Food Group	Best Western International	
Pizza Pizza	Choice Hotels Canada Inc.	

Source: Euromonitor & Restaurant Canada

Sysco and Gordon Food Service are the two largest national food service distributors in Canada, representing approximately 40 percent of the market. Regional and specialty commodity/product distributors play an important role in meeting foodservice sector needs and present opportunities for imported products with smaller production volumes.

² The Hotel Association of Canada can be accessed at: <http://www.hotelassociation.ca/>

It is recommended that small to medium sized U.S. companies partner with a Canadian food broker/food distributor/importer. Most foodservice distributors are not in the business of pioneering or finding new foodservice accounts for U.S. firms. Instead, Canadian distributors prefer to warehouse products that have a steady turnover rate.

Foodservice brokers do not take title of the goods, but act as a sales representative and work at pioneering the product and establishing new food service accounts with restaurant, hotel, and other institutional accounts. They establish a distribution network throughout the country or designated region. U.S. companies should seek a potential food broker with expertise and contacts in the foodservice sector as competition and establishing pricing can be challenging within a smaller, consolidated market in Canada.

All food brokers take a percentage of the product sales revenue, ranging between three to six percent. The percentage is determined by several factors: the type of product category, market niche potential, expected sales volume, and any additional services like data collection that may be requested by the U.S. company. Initially, a broker may request a monthly retainer fee as they pitch the product to prospective foodservice accounts and distributors. Once targeted sales volumes are established, the broker will switch to a percentage of the established sales. All fees are negotiated between the U.S. company and the broker prior to future transactions.

Section III: Competition

As Canada is a mature market offering a highly integrated supply chain structure, much of the competition for U.S. exporters tends to be with other U.S. and Canadian food processors already entrenched in the market.

Table 3: U.S. Consumer-Oriented Food Exports to Canada in 2018 (CAD Billions)

Consumer-Oriented Product	Total Imports	Imports from the United States	U.S. Market Share
Food Preparation	4.1	3.4	82%
Fresh Vegetables	2.6	1.6	62%
Fresh Fruit	3.6	1.4	39%
Pork & Pork Products	0.9	0.7	86%
Beef & Beef Products	1.0	0.7	70%
Chocolate & Cocoa Products	1.3	0.7	53%
Condiments & Sauces	0.8	0.6	80%
Processed Vegetables	1.1	0.6	59%
Tree Nuts	1.1	0.7	65%
Non-Alcoholic Beverages	0.52	0.47	89%

Source: Trade Data Monitor

The food preparation category includes products such as flavoring extracts, cocktail mixes, syrups, single fruit juices, pastry, pizzas/quiches, and dough mixes – all essential products needed in the food

service industry. The pork and beef products range from portion control meats for fine dining to deli meats for sandwich shops and cafés. Non-alcoholic beverages, on the other hand, include juices, coffee, tea and non-alcoholic beer.

Section IV. Best Products Categories and Trends

The increasing percentage of senior citizens and the growing demand from millennials and Gen Z consumers for healthy and sustainable food is shaping the food trends in Canada. Chefs and menu designers are constantly seeking innovative offerings with cleaner ingredients, alternative-protein options, and more fruits and vegetables.

Restaurant operators are always looking for products that save them time and money to ultimately increase their profit margins. With the [minimum-wage increase plan](#) across Canada, restaurant operators have become more price sensitive and will continue to look for cheaper products to meet their needs while maintaining food quality.

The following trends in 2018 offer best prospects for sales growth in the Canadian foodservice sector.

Table 4: Top Food and Menu Trends in the Foodservice Sector

Top Food & Beverage Trends	Top Menu Trends
Craft Beer & Microbrews	Cannabis/CBD Infused Drinks and Food
Sous Vide	Half Portions/Smaller Portions (for Small Price)
House-made Condiments/Sauces	Food Waste Reduction/Management
Plant-based Burgers & Sausages	Protein-rich Grains/Seeds
Locally Sourced Foods	International/Street Food (Inspired Appetizers)
Paper Straws	Unusual/Uncommon Herbs
Food smoking	Drinkable Desserts
Charcuterie (House-cured Meats)	Dessert Flights/Combos/Platters
Sustainable Seafood	Vegetable/Vegetarian Appetizers and Cocktails
Pickling	

Source: Restaurants Canada 2019 Chef Survey

In terms of food orders, the following items were on the top of the food trends for 2018:

Table 5: Top Food Trends in Foodservice orders in Canada

Food Trends	Percentage of Food Orders
French Fries, Potato, Sweet Potato, Onion Rings	15%
Breakfast Item	10%
Burger	9%
Sandwich, Subs	8%
Chicken	8%
Pizza, Panzerotti, Calzone	5%
Breads	4%
Salad	4%
Cake, Squares, Muffins	3%
Wraps, Burritos, Tacos, Nachos	3%

Source: Restaurant Canada Foodservice Facts 2019

Section V: Key Contacts and Further Information

Please refer to the FAS/Canada [Exporter Guide](#) for links to additional sources of information, including Canadian government agencies, Canadian databases and industry organizations.

For further information, please contact the FAS/Canada staff at:

Foreign Agricultural Service (FAS) Ottawa:

Telephone: (613) 688-5267

Email: agottawa@fas.usda.gov

Foreign Agricultural Service (FAS) Toronto:

Telephone: (416) 640-8683

Email: agtoronto@fas.usda.gov

Attachments:

No Attachments