# DINING OUT: INCL IMPACT OF COVID-19

CANADA, JULY 2020

NEXT

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# Contents

# OVERVIEW

## What you need to know

Dining out is a nearly ubiquitous consumer activity; in a typical three-month period, nine in 10 consumers visit a quick-service or full-service restaurant. Yet the industry is facing an existential crisis as a result of the COVID-19 pandemic and its economic ripple effects.

It is therefore necessary to not only assess the damage of the current crisis, but to understand consumers' dining out behaviours overall. If restaurants hope to rebound from these unprecedented times, they will need to be more strategic than ever, using consumer insights to inform their tactical decisions and bring diners back to the struggling industry.

Overall, the analysis in this Report shows how difficult the current restaurant landscape is and some of the underlying reasons for its vulnerabilities. It also focuses on consumer behaviours and attitudes that will uncover opportunities for businesses to evolve and be more relevant in the future. Restaurants were among the first to close and the last to reopen, but the comfort and familiarity they offer guests can be an impactful experience amid this global crisis.

### Key issues covered in this Report

- The impact of COVID-19 on the restaurant industry.
- QSR and FSR usage, leading brands and leading decision factors when choosing a restaurant.
- Assessing QSR and FSR opportunities and vulnerabilities based on their typical daypart traffic.
- Looking ahead to understand what role technology, environmentalism and plant-based meats can play in the future of dining out.

This Report was written from June 20-July 20, 2020. Consumer research was fielded March 26-April 1, 2020, and reflects consumer behaviour during the three months leading up to that field date (ie January-March).

## Definition

This Report covers dining out at restaurants and uses the following definitions of these terms:

- QSRs: quick-service restaurants that focus on speed and convenience. Typically involve ordering and picking up food from a designated counter area, without table service. Includes fast casual restaurants that deliver meals to tables, but do not designate a server to a party. Bills are usually paid up front.
- FSRs: full-service restaurants that offer sit-down table service, typically including servers assigned to parties. Bills are usually paid at the end of the meal.

# EXECUTIVE SUMMARY

TWO SEEMINGLY HYPERBOLIC STATEMENTS ILLUSTRATE THE CURRENT STATE OF DINING OUT: FOODSERVICE HAS ARGUABLY BEEN THE HARDEST-HIT CONSUMER INDUSTRY BY COVID-19 AND 2020 SO FAR HAS INARGUABLY BEEN THE MOST CHALLENGING TIME IN RESTAURANT HISTORY.

CONSUMERS HAVE ALWAYS LOOKED TO RESTAURANTS AS A WAY TO GET AWAY FROM EVERYDAY LIFE AND RELAX – AND THEY ARE STILL IN A POSITION TO DO THAT AS CONSUMERS LOOK FOR REMINDERS OF SIMPLER TIMES. BUT MANY BUSINESSES WILL NOT SURVIVE THE CURRENT CONDITIONS AND THOSE THAT DO WILL NEED TO BE VERY STRATEGIC ABOUT HOW TO GIVE THEIR CUSTOMERS ENJOYABLE, STRESS-FREE EXPERIENCES.

Scott Stewart, Senior Research Analyst

## Top takeaways

- Foodservice is a **historically stable market, but is facing record sales declines**. While the industry was able to weather the storm of the 2008-09 financial crisis, forced closures amid COVID-19 resulted in unprecedented losses. And the slim profit margins most restaurants operate on mean that many will not be able to survive this crisis.
- As restaurants reopen, the opportunity is to **offer consumers comfortable familiarity**, while adapting to new behaviours. That means messaging around “getting back to normal” should be a focus, as restaurants can give consumers a bit of an escape to pre-COVID times. And with many consumers adopting new behaviours during the initial lockdowns (eg eating healthier, using more tech), nimble restaurants can capitalize on emerging trends.
- Marketing strategies will be more challenging than before. Businesses will be tempted to use pricing promotions, but must do so in profitable ways – and ensure that they have an exit strategy for when the market rebounds (ie avoid getting tied to a specific price). At the same time, **messaging will have to be sensitive to the economic hardships people are facing** – walking a fine line between a consumer’s experience and their budget.

## Market overview

Foodservice has historically been a very stable market – even after the financial crisis a decade ago – but it is currently facing an existential threat unlike anything it has ever seen. Between 2006 and 2019, QSR and FSR sales never declined by more than 1% annually. But during the first full month of closures due to COVID-19, QSR sales in April 2020 dropped by 41% compared to the same month a year prior, while FSRs saw declines of 78%. Foodservice has arguably been the hardest-hit category in the entire consumer market.

Even as restaurants begin to reopen, the road ahead will be very difficult. The industry’s slim profit margins mean many businesses have either depleted their savings or gone into debt to survive months of closures – leaving little buffer for any more disruptions. And restrictions on the number of diners allowed inside a restaurant at any given time will make it difficult to remain profitable for the foreseeable future – especially once the weather gets colder and outdoor patios are no longer a viable option.

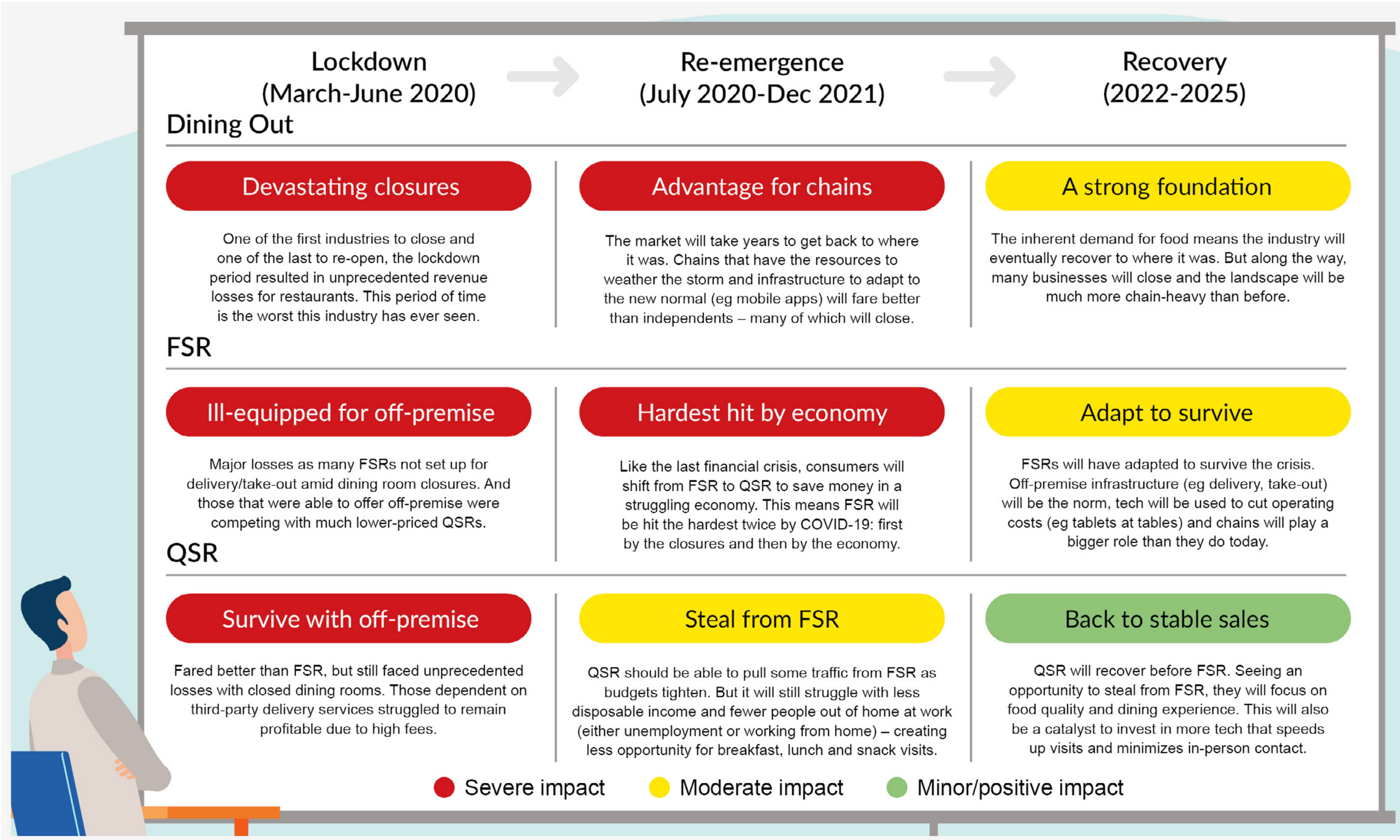
Restaurants Canada’s Q1 2020 forecast summarizes how dire the rest of this year will be for the dining industry. It estimates that annual commercial foodservice sales will decline by between 24% and 48% compared to 2019; a heretofore unfathomable projection for an industry that has been so stable for so long.

## Impact of COVID-19 on restaurants

Restaurants are in a position where they are being severely impacted by the COVID-19 crisis in two ways. The first is the pandemic itself, which shut down dining rooms, kept consumers in their homes and created fear among some that the food was not safe. The second is the economic fallout; not only does a recession mean less disposable income and tightening budgets, but fewer trips out of the home to go to work (either due to unemployment or working from home) or for entertainment (eg movie theatres, live sporting events) means less need for restaurants.

The following Figure provides a traditional stoplight analysis of the impact of COVID-19 on the restaurant industry, which includes Mintel’s analysis for when we anticipate consumer behaviour to resume to more normal or traditional levels prior to COVID-19.

FIGURE 1: SHORT, MEDIUM AND LONGER-TERM IMPACT OF COVID-19 ON DINING OUT, JULY 2020




Source: Mintel

While the entire industry will see record declines in sales, FSRs are the most vulnerable. Compared to QSRs, they are much more dependent on dining room traffic, meaning it was the hardest hit by closures. And its higher price point relative to QSRs' means it will take the brunt of a struggling economy. As discussed in Mintel's *The Impact of COVID-19 on Foodservice – US, June 2020* Report, "*efficient and nimble operational pivots will determine success now and in the future*."

Since those operational pivots will be necessary for survival, the industry will look different in the future; only the businesses that evolve will survive. Eventually, consumer demand should return to where it was, but that will likely take years. In the meantime, restaurants will need to find ways to streamline operations and cut day-to-day costs, either to increase their profit margins or reduce prices in response to the economic recession. That means that technology (eg mobile ordering, tablets at tables) will play a larger role in restaurants as a way of reducing labour expenditures and offering something new to consumers.

Restaurants will also realize the value in diversification of their business. While many QSR brands had already started broadening their scope before the crisis – specifically by moving into new dayparts (eg McDonald's coffee and snacks, Tim Hortons lunch) – FSRs were heavily dependent on dinner and dining room visits, which made it extremely vulnerable. As a result, FSRs will make off-premise options (eg take-out, delivery) the norm rather than a differentiator – and it will likely attempt to spread its traffic more evenly throughout the day with breakfast and lunch promotions. QSRs on the other hand will put even more of a focus on delivery than it already had, recognizing that COVID-19 will be a catalyst for more people staying at home while working and socializing virtually.

The one bright spot for restaurants is that they provide something that consumers cannot do without: food. While grocery is an obvious substitute for dining out, there will always be a demand for food and drink – unlike other categories that consumers may simply realize they can do without (eg air travel, movie theatres). As such, the restaurant industry has a very difficult road ahead of it – likely for years to come – and many businesses will not survive. But the strong foundation of the foodservice market means that it will eventually rebuild itself – though it will most likely look much different than it did before 2020.

## Opportunities

### Providing familiarity in uncertain times

Restaurants are in a unique position to help consumers feel like they are getting back to normal as businesses start to reopen. Dining out is an ingrained behaviour for Canadians – before the pandemic, 78% had visited a QSR and 66% an FSR – so being able to return to a restaurant can be a comforting reminder of simpler times.

This is reflected in the factors that diners consider when choosing an FSR. Nearly twice as many diners say that they choose a restaurant based on familiarity compared to those who choose because they are looking for something new/different. Furthermore, Mintel's *Global COVID-19 Tracker – Canada, June 18-27, 2020* research found that consumers are significantly more likely to say going out to a restaurant is one of the things they are most looking forward to doing than they are to be looking forward to going to the movies, going to a live event or getting back to school/work.

Familiarity was already foundational to dining out before the crisis, but it is even more so today. Restaurants should present themselves as comfortable, familiar environments. Messaging around getting back to (the next) normal or seeing old friends should resonate with consumers who are finally able to dine out again.

This is not the time for consumers to be trying something new or being too adventurous – they will want to return to something they know well that reminds them of the past and restaurants should position themselves to provide that.

### Building on new behaviours that COVID-19 has created

The COVID-19 crisis and its impacts on everyday consumer lives have brought about new behaviours that nimble restaurants could react to and capitalize on – such as comfort with technology. According to Mintel's upcoming *Digital Trends: COVID-19 – Canada, October 2020* Report, approximately half of consumers say that they are participating in more video calls due to COVID-19, online shopping more and spending more time on social media. Out of necessity, consumers are using digital technology at a higher rate during this crisis, which means they will be more comfortable with it in the future. Restaurants that have the resources to invest in digital technology should recognize that this is the optimal time to take that step (see The Role of Technology in Restaurants).

Healthy eating is another emerging behaviour that restaurants could capitalize on. According to Mintel's *Global COVID-19 Tracker – Canada, July 23-31, 2020*, 33% of consumers have put a higher priority on eating healthy since the COVID-19 outbreak (vs 6% who have put lower priority). While health-focused menu items were not impactful promotions in the past (see Menu Item Promotions), an increased importance for healthy eating means that this is an opportune time to use that messaging. And consumers are also thinking about the environment more (22% higher priority vs 6% lower priority), meaning eco-friendly initiatives like a reduction in single-use plastics and plant-based meats are relevant.

This period of time is undoubtedly challenging for restaurants – but this pandemic has brought about new behaviours and attitudes that restaurants can use to their advantage. The customer returning to restaurants as they reopen is different than the one who visited pre-COVID; the businesses that can react to the new normal will be the best positioned for the future.

## Challenges

### Finding the right promotion to leverage

One specific issue that restaurants will find themselves soon facing is determining what types of promotions they should use to attract consumers. On one hand, they need to offer consumers some sort of incentive to come back and re-ignite the industry – and price discounts are the most relevant amid an economic recession. But on the other hand, many restaurants cannot afford to offer those discounts after months of little to no revenue.

Alternatively, this Report found that some of the best-received menu promotions are those that offer an entirely new menu item or a new flavour/topping on an existing item (see Menu Item Promotions). But those tactics also require investment in testing, research and the operational changes required to add a new item to a menu.

Restaurants find themselves in a challenging quagmire when it comes to tactical promotions. Pricing discounts are relevant at a time when consumer budgets are tightening, but may not be feasible for most businesses. Conversely, new menu items require upfront investments that make them risky if consumers are not interested in trying something different upon their return to the market.

Restaurants will need to be much more strategic than usual when deciding on a way forward, by looking closely for discounts that can maintain good profitability, or else offering new dishes/flavours/toppings that require minimal upfront investment (eg something already in the R&D pipeline pre-COVID, relaunching an old favourite).

### Walking a fine line with marketing messaging

As restaurants open their dining rooms again and consumers become more active in the market, businesses will have to be very careful about the messaging they use. *Mintel's Global Trend Drivers track seven fundamental catalysts of consumer choice and change. These drivers and underlying Pillars can help explain the key behavioural changes likely to impact consumers in the years ahead.* Mintel's ***Experiences*** and ***Value*** drivers are particularly relevant to restaurants today.

The ***Experiences*** Driver finds that 67% of consumers love trying new experiences (***Adventure*** Pillar) and 71% say that experiences are more important than material possessions (***Pleasure*** Pillar). But at the same time, the ***Value*** Driver finds that 70% of consumers have a budget that they try to stick to as much as possible (***Budget*** Pillar).

While these attitudes have always been evident, there is a much greater sensitivity amid high unemployment. For instance, restaurant advertising messages that focus on ***Adventure*** and ***Pleasure*** could come across as tone-deaf if they do not acknowledge the financial hardships consumers are facing. Meanwhile, too much of a focus on ***Budget*** messaging could trap a restaurant as a budget brand, making it difficult to increase prices in the future when the market stabilizes. The challenge will be for restaurants to present themselves as an affordable way to treat oneself – perhaps by contrasting themselves to the high expense of travelling for new experiences rather than being seen as a luxury over and above home cooking. These messages will not be easy to create, but it is vital at a time like this that businesses put additional scrutiny into their communications to ensure they align with consumer attitudes.

# THE MARKET

# What You Need to Know

## Foodservice is a stable industry, but is facing unprecedented declines

Historically, the foodservice industry has seen very stable sales from year-to-year. Even during the financial crisis of 2009, sales levels were essentially flat for both QSRs and FSRs. But the closures in this industry since March have been a challenge unlike anything foodservice has seen before. So while the stability of this market and consumer demand for dining out should eventually return to normal, it could be a very long time before that happens and many companies will go out of business in the meantime.

## Restaurants operate on slim margins, making it hard to survive closures

The restaurant industry has always operated on very slim profit margins – making its current situation much more dire. Low profitability means that many businesses had very little savings to begin with – or may have already been in debt before COVID-19-related closures – leaving them little cushion to survive. They are facing a perfect storm; they had minimal resources already, many have locations in high-rent areas, their profitability has taken a bigger hit by reopening restrictions (eg capacity limits), and they need to invest even more money in safety protocols (eg Plexiglas, signage).

## Dining out is closely connected to disposable income

Dining out is one of the most common ways that consumers spend their extra cash. But the flip-side of that means that restaurants would suffer during an economic recession when disposable income is limited – especially those with higher prices (eg fine dining, upscale casual). Combined with the fact that out-of-home entertainment and travel industries – which indirectly benefit foodservice – will also struggle, the restaurant industry is facing major traffic challenges for the foreseeable future.

## Consumers' safety concerns could impact restaurant visits

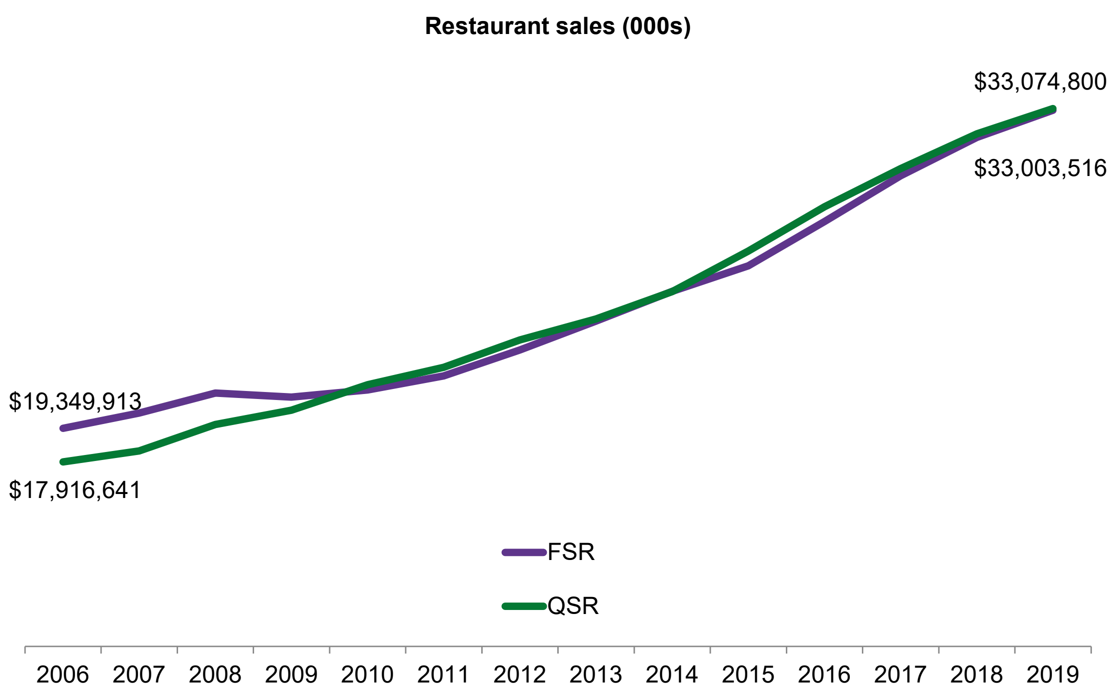
Although less damaging than the broad closures, restricted capacities and economic recession restaurants have faced, there is also the reality of how comfortable consumers are with dining out amid a pandemic. Concerns about exposure to the virus have declined but are still prevalent, and even for those who are comfortable with the risk, face mask rules could make a restaurant visit not worth the hassle. This is further evidence that the industry will continue to face challenges even as restrictions loosen.

# Market Factors

## Foodservice is a stable industry, but is facing unprecedented declines

Foodservice has been a historically stable industry in Canada. While individual businesses often struggle from year-to-year, restaurants sales overall are incredibly consistent. Between 2006 and 2019, QSR and FSR sales growth has never declined by more than 1% and never grown by more than 7%. Even during the financial crisis of 2009, QSRs actually saw slight growth while FSRs' losses were minimal. Considering the industry is built on a basic human need (ie eating) this stability makes sense – but it is also reassuring to know that dining out sales have proven they can withstand challenging environments.

FIGURE 2: CANADIAN RESTAURANT SALES, 2006-19




Source: Statistics Canada/Mintel

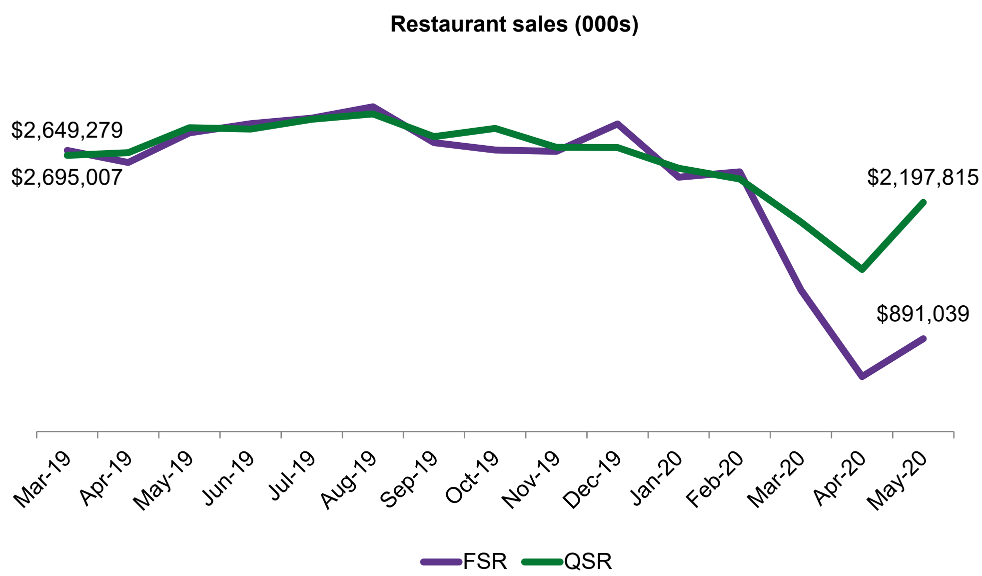
That said, the industry is currently facing declines like it has never seen before. During previous shocks to the market – like the financial crisis – the main limitation for foodservice sales was consumers' disposable income. But during this crisis, restaurants have been forced to close their entire dining rooms and fewer consumers are leaving home on a daily basis – all in addition to job losses significantly higher than a decade ago.

FSRs have been the hardest hit because they were not as prepared to shift to take-out, delivery and drive-thru options like QSRs. And considering FSRs typically cost more to dine at than QSRs, it is likely this segment of the industry will also be more impacted by the economic fallout of the crisis; April 2020 was the first full month of closures, and FSR sales were 78% lower than the same month a year earlier. And while certain QSRs may have maintained profitability amid the dining room closures by leveraging drive-thru, delivery and limiting staffing costs, the broader QSR category saw sales decline by 41% from April 2019-April 2020. While both FSRs and QSRs rebounded in May 2020, their sales were still down by 69% and 25%, respectively, compared to the same month a year earlier.

An example of QSRs' struggles is highlighted by Restaurant Brands International, which owns Tim Hortons, Burger King and Popeyes. The company – which also runs restaurants in the US – saw its earnings decline by 31% in Q2 2020 year-over-year. And while sales have climbed back up as restaurants reopened, they are still at just 90% of their pre-COVID levels – which would be considered massive declines in any other year.

Therefore, the longstanding stability of the foodservice market in Canada is in for its greatest test yet. The historical consistency in sales indicates a strong foundational consumer demand for dining out that will be needed to help rebuild the industry when restrictions are fully lifted. But in the meantime, the unprecedented declines in sales in just a few months mean that many restaurants will not survive this crisis and for those that do, the industry will likely take years to get back to where it was.

FIGURE 3: RESTAURANT SALES, MARCH 2019-MAY 2020




Source: Statistics Canada/Mintel

## Restaurants operate on slim margins, making it hard to survive closures

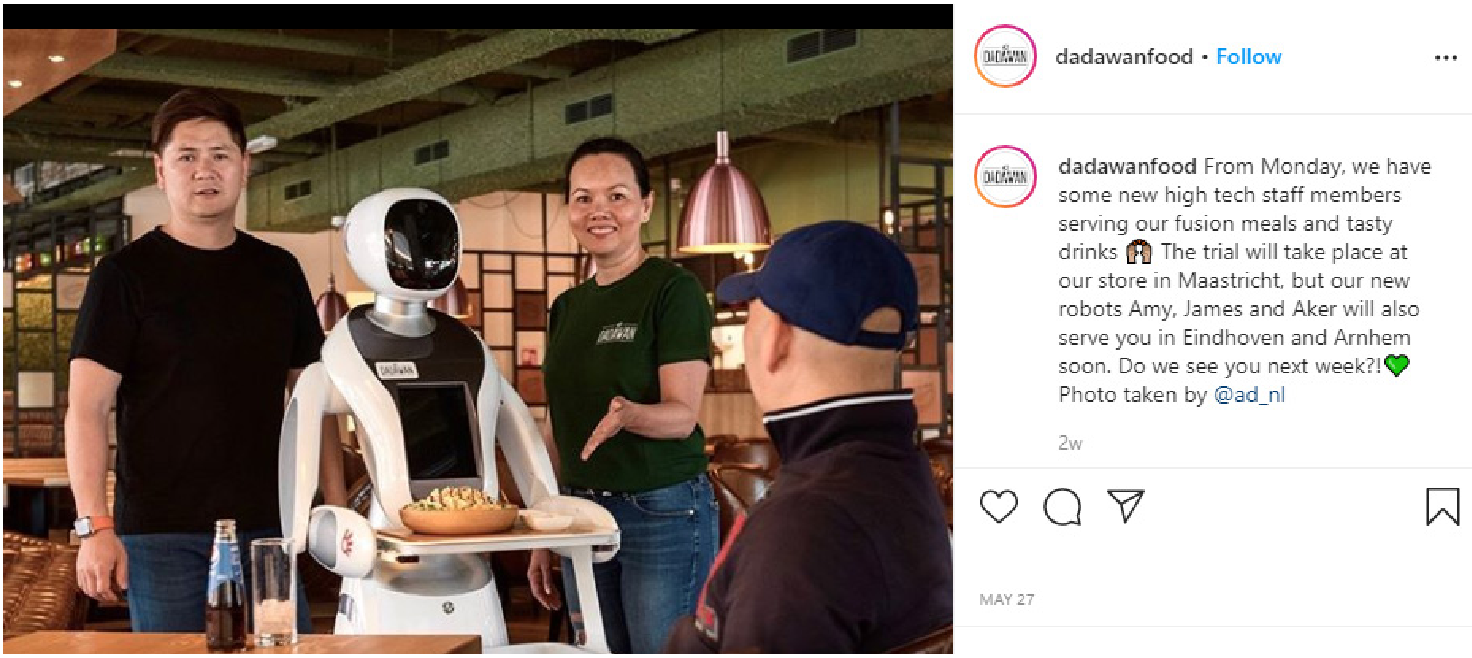
The highly competitive restaurant industry means that businesses usually run on very small profit margins. According to a *Forbes* report on the subject, the typical net profit margin of a restaurant is 6-7%. The result is that many restaurants struggle to build up significant emergency savings, making it particularly difficult for them to survive months of forced closures amid the pandemic.

A major challenge for these businesses is their rent costs. Food ingredients and labour costs are variable and correlate to sales, but rent payments are a fixed monthly cost. According to *The Globe and Mail*, the average restaurant rental cost in Toronto in 2017 was $38 per square foot – meaning a small 1,500 square foot restaurant would need $160 in sales per day just to cover its rent, let alone its variable costs. With closures having a major impact on restaurant revenues, many of them are struggling to pay those rents that are due regardless of their sales for the month.

The Canadian government did start some programs to help these smaller businesses. The Canada Emergency Commercial Rent Assistance (CECRA) was designed to help small businesses and landlords during closures by covering some rent costs. Furthermore, the Canada Emergency Wage Subsidy (CEWS) covers a portion of employee wages to offset costs for employers, while the Canada Emergency Business Account (CEBA) provides interest-free loans to small businesses. But while these programs do help some businesses stay afloat, the massive declines in sales revenue and grim prospects for the near future mean that this assistance will not be enough for some of them.

The precarious nature of this industry is magnified even more by the new realities of reopening with new restrictions in place. Social distancing regulations vary across the country, but many restaurants are facing rules that limit their capacities to just 50% of what they used to be – meaning just half the revenue they used to make during peak hours. Furthermore, new safety measures like Plexiglas barriers or floor signage cost money. The steps taken by some restaurants in other countries highlight how quickly expenses could climb in order to adhere to social distancing requirements – such as restaurants in the Netherlands that are using robots and glass bubbles to keep safe distances between staff and guests.

## FIGURE 4: DADAWAN FOOD INSTAGRAM POST, MAY 2020




Source: Instagram – DadawanFood/Mintel

## FIGURE 5: MEDIAMATIC EDEN INSTAGRAM POST, MAY 2020


Source: Instagram – Mediamatic_Eten/Mintel

Put simply, individual businesses – especially local independents – were generally struggling to remain profitable even before the COVID-19 crisis. This pandemic has brought a perfect storm of months-long closures, high unemployment and the need to invest in physical safety precautions just to be able to serve a limited number of consumers.

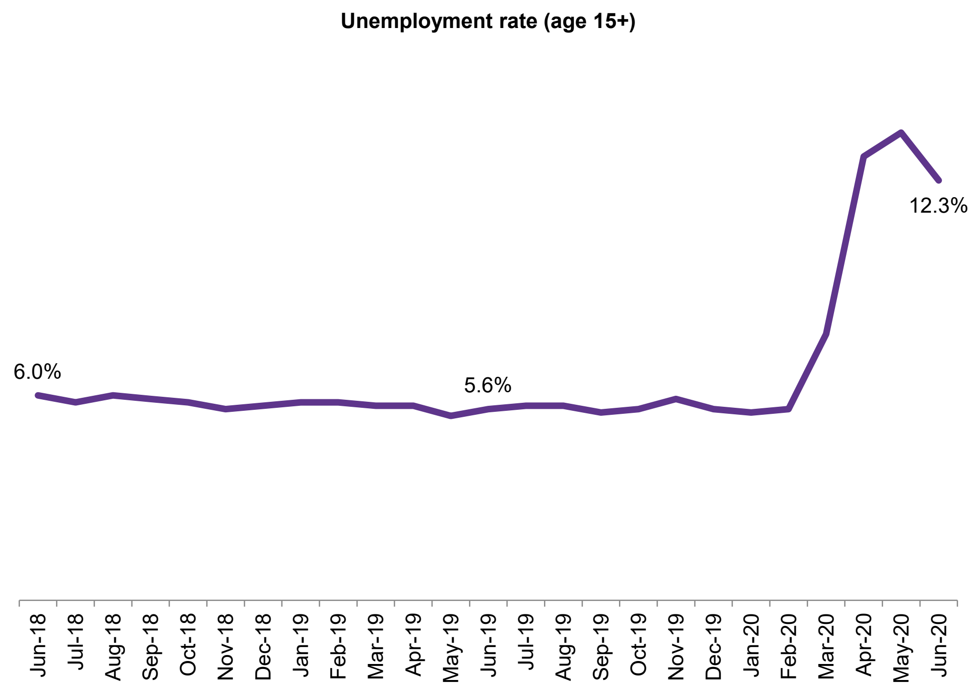
Restaurants Canada – an organization that represents the national foodservice industry – conducted research in April that found three quarters of restaurant owners were very/extremely concerned about their debt levels. Even after shutdowns started to lift, a June report by Restaurants Canada found that over half of restaurants that were open were still operating at a loss – highlighting that businesses will struggle to survive until a time when there are no more restrictions on them.

## Dining out is closely connected to disposable income

The restaurant industry is particularly threatened by an economic recession because its revenues are so dependent on disposable income. According to Mintel's upcoming *Canadian Lifestyles – Canada, August 2020* Report, 38% of consumers say that they use their extra money (ie after bills and needed purchases) on dining out. That proportion is higher than the share who put extra money towards investments (28%) or saving for a major purchase (29%). This means that the industry relies heavily on the extra money that consumers have left over at the end of the month; which conversely indicates that dining out would be one of the first budget cuts for consumers once income levels decline.

There are also indirect impacts from less disposable income. That same Report found that 39% of consumers spend their extra money on entertainment (eg going out for events) and 35% use it for travel.

FIGURE 6: CANADIAN UNEMPLOYMENT RATE, JUNE 2018-JUNE 2020




Source: Statistics Canada/Mintel

Of course, major events and travel were already severely limited by government restrictions – but even once they open up again, a lack of disposable income means many consumers will no longer engage in them. And since the restaurant industry is closely connected to entertainment and travel – such as going to dinner before a concert or using restaurants for meals while travelling away from home – foodservice will be negatively impacted by those budget cuts too.

Canada's unemployment rate illustrates the difficult economy that restaurants are facing as they reopen. Even after dropping from its peak in May 2020 (13.7%), the unemployment rate is still more than double what it was in June 2019. And considering the highest unemployment rate during the financial crisis was just 8.7%, these are truly unprecedented times.

Overall, this means that the COVID-19 crisis is a major threat to foodservice for the foreseeable future. Not only has it been severely affected by business closures while governments try to control the pandemic, but it also will be one of the most impacted industries amid the economic recession that is expected to continue even once the virus has been solved. Combined with the likelihood that fewer people will be leaving home for work (either due to working remotely or unemployment) and therefore in less need of meals on the go (see Using Dayparts to Predict Impacts from COVID-19 section), there is reason to believe that external factors will continue to challenge foodservice. Stakeholders in this industry should brace for challenging times even once they are allowed to fully reopen.

## Consumers' safety concerns could impact restaurant visits

Emerging safety concerns and precautions taken by consumers amid the COVID-19 pandemic could have a significant ripple effect on the restaurant industry. For instance, Mintel's *Global COVID-19 Tracker – Canada, April 13-17, 2020* found that 56% of consumers believed it was safer to cook at home than order food from restaurants. While that research was conducted relatively early on in the crisis, recent July data shows that fewer than half of consumers are comfortable with dining outside at a restaurant (eg on a patio) and only a quarter are comfortable dining inside.

While concerns about being exposed to the coronavirus have dropped – 49% were worried from July 13-17 compared to 61% at the end of March – there will likely be some who still avoid restaurants out of worries about crowding. And as discussed in Mintel's *Restaurant Marketing Strategies: Inc Impact of COVID-19 – US, June 2020* Report, restaurants will need to be extraordinarily mindful of sanitation and safety – and make sure that consumers can clearly identify and understand the protocols that are in place.

Qualitative consumer feedback about returning to restaurants once they reopen illustrates some of the concerns about dining out amid the pandemic, and highlights why it will be a slow recovery for restaurants until a vaccine is available:

*"When dining rooms reopen I will slowly return to eating out again, but probably will not be at ease until a vaccine is found for the virus. At present, I remain very wary of mingling with people in fear of contracting the COVID virus."*

**55-64 year old, Atlantic Provinces male**

*"I will have no problem going back to restaurants once COVID is over, but I think we'll probably be going way less than before, at least to start."*

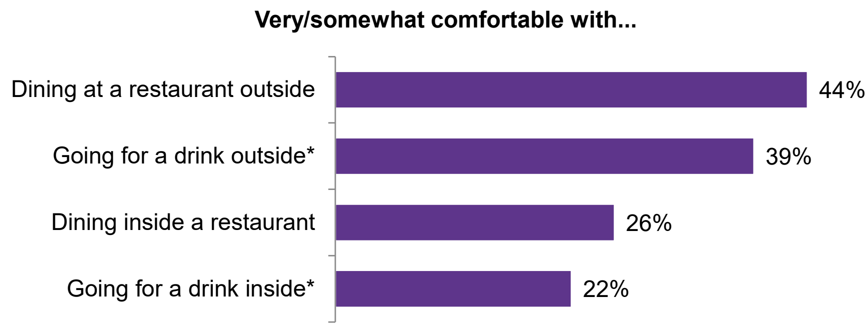
**35-44 year old, Ontario male**

*"No I don't think the experience will be as pleasant, I find just going to the store stressful so I can't imagine going out to eat."*

**45-54 year old, Quebec female**

### FIGURE 7: COMFORTABLE WITH VISITING RESTAURANTS, JULY 2020

*"How comfortable are you doing the following activities?"*

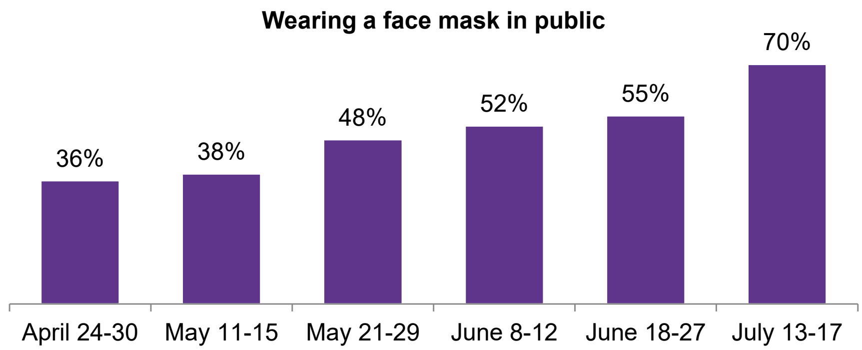



Base: 500 internet users aged 18+; *489 internet users aged 20+, July 13-17, 2020

Source: Lightspeed/Mintel, Mintel's Global COVID-19 Tracker – Canada

### FIGURE 8: WEARING A FACE MASK IN PUBLIC, APRIL-JULY 2020

*"Due to COVID-19, I am currently…"*




Base: 2,000 internet users aged 18+, April 24-30, 2020, May 21-29, 2020, June 18-27, 2020; 500 internet users, May 11-15, 2020, June 8-12, 2020, July 13-17, 2020

Source: Lightspeed/Mintel, Mintel's Global COVID-19 Tracker – Canada

Outdoor dining does present an opportunity for the restaurants that have the patio space. Most experts agree that the natural ventilation of the outdoors makes virus transmission less likely to occur than inside. Restaurants with outdoor dining areas should be leveraging those as much as possible during the warm summer months – and they should consider investing in outdoor heaters to extend the usefulness of patios into the autumn months.

Furthermore, a common safety precaution – wearing a mask – could make the dining out experience less enjoyable. By July, many municipalities (including Toronto and Montreal) made masks mandatory inside public buildings – and half of Canadians were wearing them even before those rules were made official. This means that masks will be part of the reality of visiting restaurants – which would make the experience less enjoyable and potentially deter visits.

Overall, this highlights that restaurants cannot expect to return to business as usual when governments allow them to reopen. Even if they were allowed to operate with no restrictions in place, many consumers are not comfortable visiting yet – especially if they have to sit inside. And considering that masks will be common for the foreseeable future, restaurants will be hindered by a constant reminder that there is risk associated with dining out.

# KEY PLAYERS

# What You Need to Know

## Recipe Unlimited has expanded its brand portfolio

Formerly known as Cara, Recipe Unlimited has been rapidly expanding its brand portfolio by acquiring existing foodservice brands. In the FSR market specifically – where it already owned Swiss Chalet, Kelsey's, Montana's and Milestones – it added East Side Mario's, St-Hubert, and The Keg (among others) over the course of just five years to help it corner the Canadian chain FSR market.

## FSRs are finding ways to adapt to the realities of COVID-19

Given the unique challenges that FSRs have faced amid dining room closures during COVID-19, some operators are pivoting to create new revenue streams to compensate for losses. Chain restaurants like The Keg and Scaddabush have started meal kit programs to help recreate the restaurant experience at home. This shows that many restaurateurs are being adaptive and finding ways to survive closures.

## Third-party delivery services are making it difficult to remain profitable

Though very convenient for consumers – especially amid COVID-19 closures – the relationship between third-party delivery apps (eg Uber Eats, Skip the Dishes) and restaurants is rocky. These services charge commissions of up to 30% on orders they process, making it difficult for restaurants to make a profit. The result has been restaurants looking to avoid these third-party apps, either by encouraging consumers to order through them directly or by using services that charge a lower rate.

## Lessons to be learned in how to discount prices strategically

Discounting has always been a major part of restaurant promotional strategies. But as the economy struggles and budgets tighten, many businesses will be even more motivated to react with pricing discounts – much like after the financial crisis in 2009. However, it is important for restaurants to use these tactics with an eye on the future so as to avoid getting trapped in a pricing model that will be hard to get out of in the months and years ahead without upsetting consumers.

## Dining out will look different until COVID-19 is no longer a threat

Safety protocols as a result of the pandemic have changed what restaurants look like – and will for the foreseeable future. Floor markings, signage, physical barriers, masks and contact information will become the norm. In time, diners will get more used to these changes – but it will still detract from the stress-free experiences they had pre-COVID.

## Smartphone ordering will become much more common

Restaurants like McDonald's and Starbucks have been building momentum around mobile ordering via their apps for the last few years. But the COVID-19 crisis has been a catalyst for this innovation since it offers consumers a way of ordering without talking to an employee or touching a publicly used kiosk. Expect more restaurants to focus on these apps – or align with third-party apps like Ritual – as mobile ordering shifts from a differentiator into a basic expectation.

## Artificial intelligence is the next logical step

A by-product of more digital ordering options is a vast amount of consumer data that was never traceable in the past – meaning artificial intelligence can be used at restaurants. Restaurants with mobile apps can track how consumer orders change over time, or which promotions drive an upsell. With such a massive supply of consumer data now available to restaurants, using it in artificial intelligence infrastructures is a natural next step.

# What’s Working?

## Recipe Unlimited has expanded its brand portfolio

The name Recipe Unlimited is relatively new in the Canadian foodservice landscape, but the company was actually founded more than 100 years ago. For decades, the company went by the name Cara Operations, but recently switched names amidst massive expansion through acquisitions of existing brands.

After acquisitions made by Cara in 1999, the company’s portfolio was focused on its FSR brands Swiss Chalet, Kelsey’s, Milestones and Montana’s – and its fast food burger chain Harvey’s. But starting in 2013, the company began aggressively growing by taking more chains under its control. In 2013 it entered an agreement with Prime Restaurants to add East Side Mario’s, Casey’s, Bier Markt and Prime Pubs to its portfolio. In 2015, Cara purchased fast food fries brand New York Fries, then bought Quebec chain St-Hubert in 2016. A year later the company acquired The Burger’s Priest fast food burger restaurant and then in 2018 completed one of its most significant purchases: a $200 million deal for The Keg. Soon after the company took on The Keg brand, it changed its name from Cara to Recipe Unlimited.

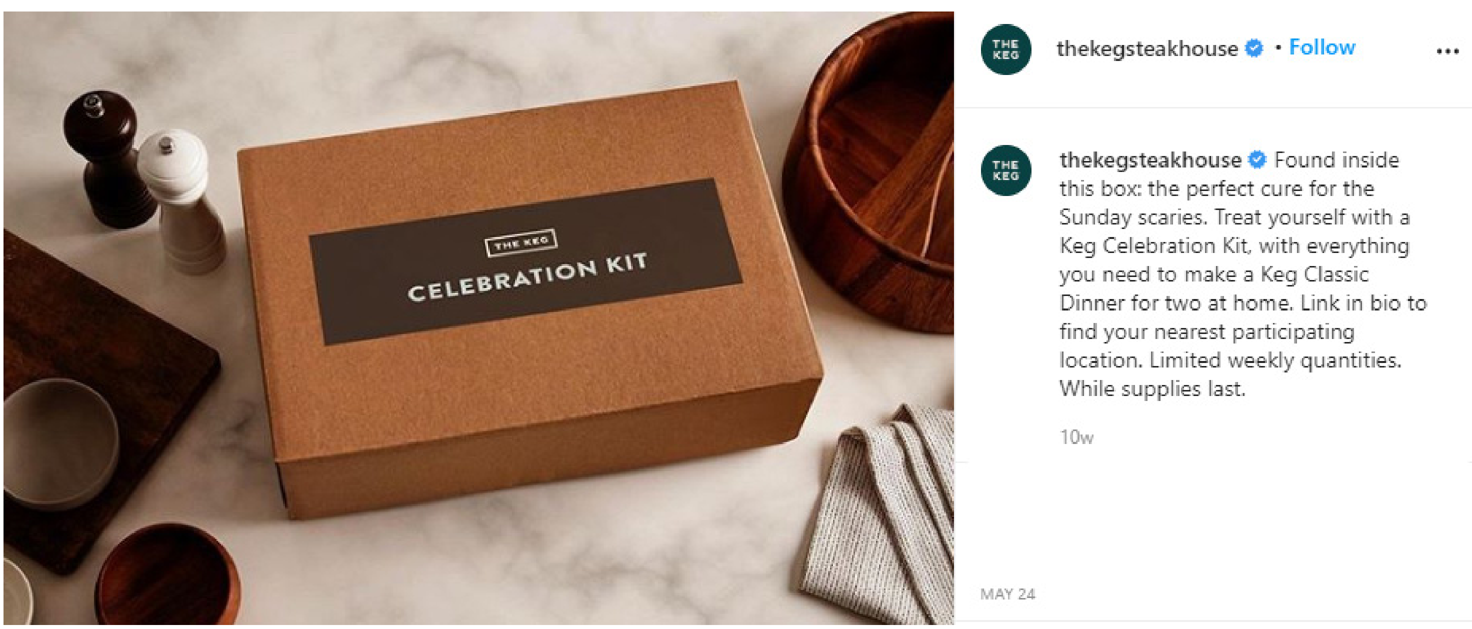
That means the company held the same five brands – Swiss Chalet, Montana’s, Kelsey’s, Milestones and Harvey’s – for 14 years from 1999-2013 but then in just five short years purchased some of the largest brands in the country and took on a completely new name. While the restaurant industry is facing challenges – especially as a result of the COVID-19 pandemic – these acquisitions and a rebranding by Cara/ Recipe Unlimited show that it has been taking steps to corner the FSR chain market in Canada.

## FSRs are finding ways to adapt to the realities of COVID-19

As discussed earlier in this Report, the FSR segment of the industry has been severely impacted by COVID-19 and its closures (see Market Factors section). But some of those companies are creatively finding ways to adapt to these challenges.

For instance, The Keg introduced Celebration Kits amid dining room closures. Each kit serves two diners and includes steak, potatoes, vegetables, bread, salad, cheesecake and cooking instructions.

FIGURE 9: THE KEG STEAKHOUSE INSTAGRAM POST, MAY 2020




Source: Instagram – The Keg Steakhouse/Mintel

Scaddabush, an Italian FSR chain in Ontario, not only started selling similar meal kits to customers, it also created a grocery service to sell individual products like prosciutto, truffle oil and its signature alfredo sauce.

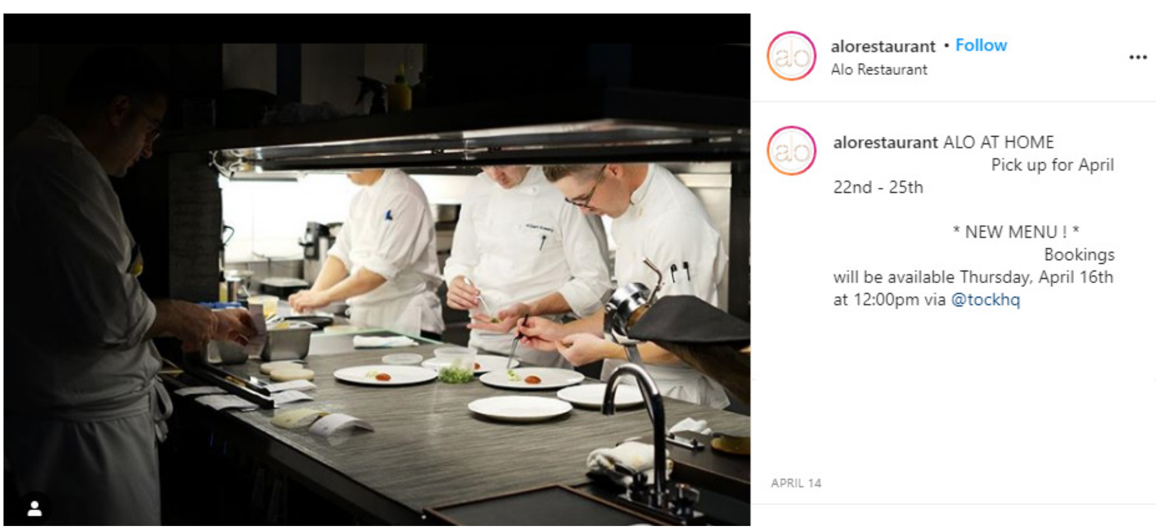
Fine dining is trying this strategy too. A fine dining restaurant in Toronto called Alo started an Alo at Home campaign, where consumers can pick up multicourse meals to enjoy at home.

While FSRs are facing unprecedented challenges and taking the brunt of the damage to the industry – since QSRs are better prepared for off-premise sales – these tactics show that many restaurateurs are finding ways to adapt and drive revenues in an attempt to remain sustainable.

## FIGURE 10: SCADDABUSH INSTAGRAM POST, MAY 2020


Source: Instagram – Scaddabush/Mintel

## FIGURE 11: ALO RESTAURANT INSTAGRAM POST, APRIL 2020




Source: Instagram – Alo Restaurant/Mintel

# Challenges

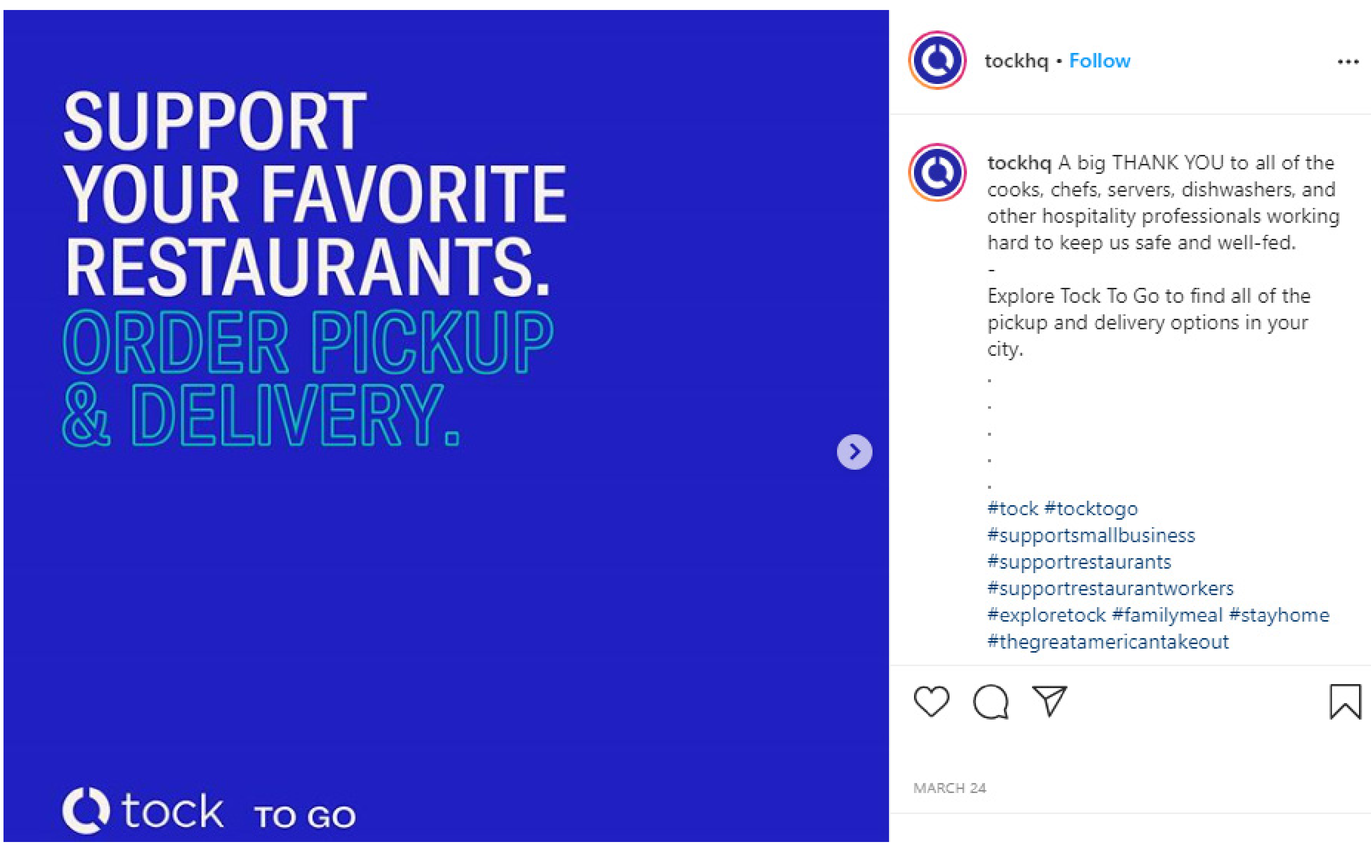
### Third-party delivery services are making it difficult to remain profitable

Third-party delivery services like Uber Eats, Skip the Dishes and Just Eat have had a major impact on the foodservice industry by giving consumers the ability to order from nearly any restaurant and have it brought to their door. According to Mintel's *Quick Service Restaurants – Canada, June 2019* Report, by March 2019, 28% of consumers had used one of these services and an additional 22% had not used it but were interested. And according to Mintel's *Global COVID-19 Tracker – Canada, April 13-17, 2020*, 15% of consumers were using these services more as a result of COVID-19 in the early days of the crisis.

But more attention on these services has highlighted how challenging they are for restaurants. While rates vary by service, restaurants typically pay between 10% and 30% commission on orders that are processed through these third-party companies. Since many restaurants typically operate with profit margins below 10%, this makes it difficult to remain profitable at the best of times. With the COVID-19 crisis closing dining rooms, it is even less feasible to be profitable if so much of a restaurant's orders are processed through these services that take a significant portion for themselves.

As a result, some restaurants have started to encourage their customers to order directly through their websites or over the phone. And there has also been an emergence of delivery services that are taking less commission and marketing themselves as supportive parts of the restaurant industry. For instance, a company called Tock was originally designed to process reservations but in response to the pandemic it has created a service called Tock to Go that facilitates orders as well. The difference is that it only takes a 3% commission as long as restaurants are responsible for their own delivery drivers. Essentially, it gives restaurants back some control over their delivery staff and costs while still facilitating orders through one convenient consumer-facing app.

FIGURE 12: TOCK INSTAGRAM POST, MARCH 2020




Source: Instagram – TockHQ/Mintel

Whether or not this particular service succeeds, it seems that the relationship between restaurants and companies like Uber Eats and Skip the Dishes is coming to a head. Il Fornello, an FSR with multiple locations in Ontario, still uses these services but has added a note to its website's delivery section that links to Uber Eats and DoorDash: "*Uber Eats and DoorDash charge a 25%-30% service fee on every delivery order. Please consider using our Contactless Pickup service. We are pleased to take your telephone order.*" A deliberate attempt to dissuade customers from using a service partner, followed by a link to that partner, illustrates how tumultuous these relationships currently are. These third-party services have disrupted the entire industry in recent years, but there is not yet a stable model that keeps all parties happy.

At the same time, the alternative – restaurants running their own delivery – has its challenges too. Not only are dedicated delivery staff required (drivers and order takers), but also a payment system, vehicles, gas and insurance. And some restaurants do not even have the real estate to run delivery; a lack of a parking lot would make it extremely difficult to keep delivery staff on hand waiting for orders to come in. Since there is no suitable solution for restaurants at this time, expect a continued battle between restaurants and services to get their share of consumers' dollars.

FIGURE 13: MCDONALD'S CANADA FACEBOOK POST, MAY 2019


Source: Facebook – McDonald's Canada/Mintel

## Lessons to be learned in how to discount prices strategically

With Canada currently in an economic recession and predicted to continue struggling until businesses can fully reopen, expect restaurants to leverage pricing discounts to attract consumers who are now more budget-conscious. But these companies need to be careful about how they implement these discounting tactics – with a particular focus on the future and an exit strategy for when the market eventually stabilizes.

After the financial crisis recession a decade ago, some restaurant brands used aggressive discounting to remain relevant and stand out from the crowd – and saw strong sales as a result. For instance, Subway used a $5 Footlong promotion in the US and Canada during the recession to great success. But the brand became trapped when operating costs inevitably increased while it was locked into a specific price. When the company eventually moved away from the price point years later, it was very salient to consumers that they were paying more for the same product, leading to dissatisfaction. Price increases are the norm in foodservice, but consumers are never happy about it and a price-based promotion makes it much more obvious when it happens.

McDonald's ran into a similar issue after introducing Dollar Drink Days during the recession. The brand had to quietly alter its messaging so that Dollar Drink Days became Summer Drink Days when the $1 price point was too restrictive.

The lesson is that the first instinct for restaurants may be to create a promotion that will drive traffic immediately, looking at the current situation as one of survival rather than long-term planning. But it is important that restaurants also put some consideration into how they plan to evolve or move away from that promotion in the future without upsetting consumers. COVID-19 is front and centre right now for the entire industry, but the challenge for companies is to take a step back and understand how their actions today may impact their position in the years ahead once consumer behaviour begins to look more like it used to.

# What's Next?

## Dining out will look different until COVID-19 is no longer a threat

Until COVID-19 is no longer a threat to public health, the dining out experience will be unlike anything seen before. This is illustrated by a guide recently published by Restaurants Canada to help restaurants in the country reopen.

In addition to local regulations across provinces and municipalities, the guide recommends signage and floor markers throughout the restaurant to promote distancing and control the flow of foot traffic. It also suggests closing tables that are too close to each other and physical barriers between bartenders and patrons sitting at the bar. Other protocols businesses are instituting include taking diners' contact information in case contact tracing is necessary and forcing some to wait outside if the restaurant is too busy – which is particularly relevant for QSRs at peak meal times. In some regions of the country where masks are required inside public buildings, restaurant-goers must wear face coverings unless seated at their tables.

In general, from the perspective of consumers, the foreseeable future of dining out will be heavily regulated. Dining with strict rules will become the norm – especially during the colder months when outdoor dining is not an option. While this certainly poses challenges for restaurants to be able to create an enjoyable dining experience, consumers should gradually get used to it – in the same way that mask wearing and social distancing have become more normalized – so that adhering to these rules feels natural. Nevertheless, foodservice is in a particularly difficult position until COVID-19 is no longer a threat since a major reason for consumers to dine out is to relax and socialize – not to be surrounded by constant reminders of the pandemic.

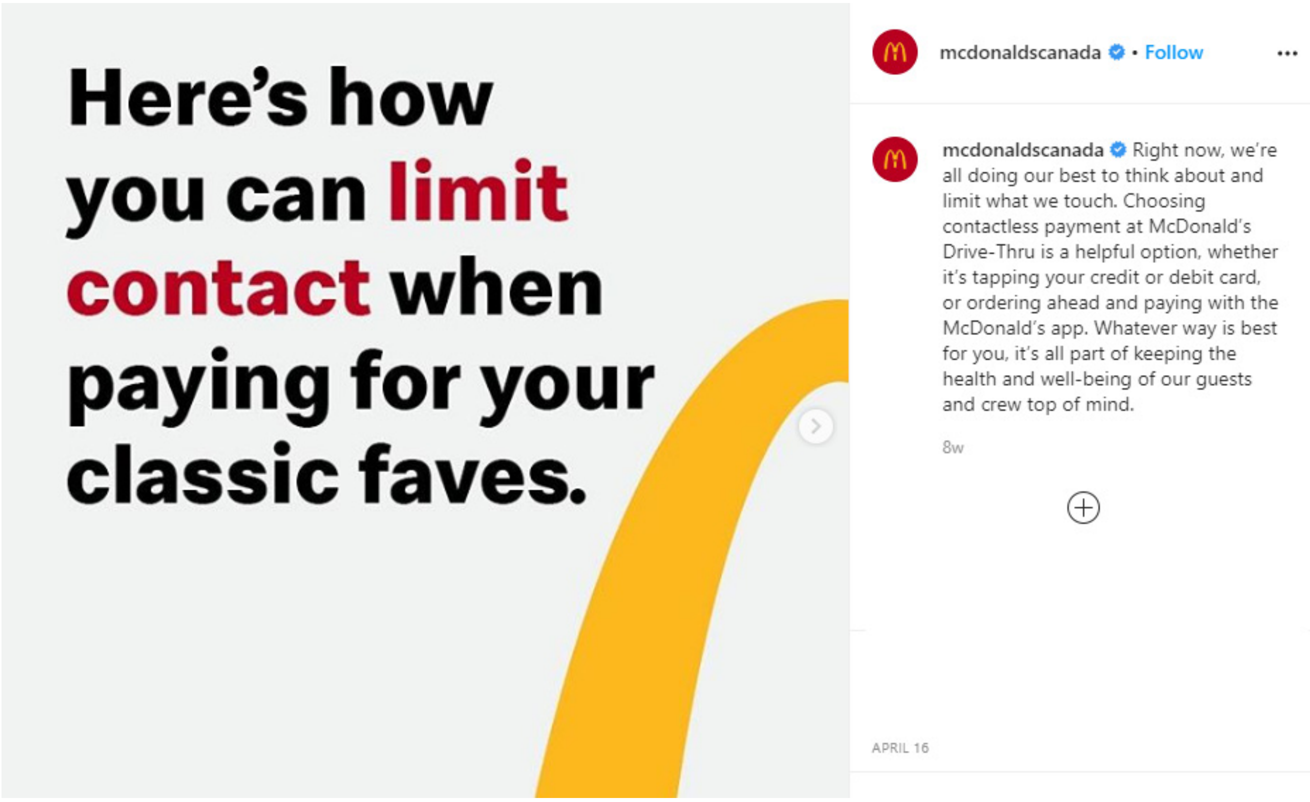
## Smartphone ordering will become much more common

Restaurants have been leveraging digital tech for years now – but it will likely ramp up significantly as a result of the COVID-19 pandemic. Specifically, ordering via smartphones should become much more common as consumers look for ways to get their favourite meals safely and hygienically.

According to Mintel's *Quick Service Restaurants – Canada, June 2019* Report, 27% of QSR consumers had used mobile pre-order/pick-up apps by that point, while 44% had used kiosk ordering. And Mintel's *Digital Trends (Brands): Inc Impact of COVID-19 – Canada, May 2020* Report found that in the three months prior to COVID-19 closures, 19% of consumers had made a purchase through the McDonald's app and 16% through the Starbucks app. Suffice to say, these tech innovations already had considerable momentum.

But safety precautions resulting from COVID-19 mean that digital tech is even more valuable today – specifically, mobile ordering. At QSRs, traditional ordering through a cashier means standing in line with others, talking, using a physical payment (eg cash, credit) and speaking with an employee. And while self-serve kiosks solve many of those issues, they involve touching a screen that countless others have before. Only mobile ordering on one's own phone can guarantee no need to be close to others or touch publicly used surfaces. McDonald's is already encouraging consumers to use contactless options – such as its mobile app – to be safer at restaurants. As a result, more consumers will opt for this method of ordering, which will likely establish habits that continue into the future.

FIGURE 14: MCDONALD'S CANADA INSTAGRAM POST, APRIL 2020




Source: Instagram – McDonald's Canada/Mintel

Look for more restaurant brands to develop mobile apps that let customers order straight from their phones – and third-party apps like Ritual that can be used by smaller restaurant companies should gain popularity as mobile ordering becomes an expectation rather than a differentiator. And while FSRs have not built mobile infrastructure in the same way as QSRs, expect some of them to leverage their guests' smartphones into the dining experience – such as ordering or paying – as those devices become central to dining out.

## Artificial intelligence is the next logical step

As digital technology plays a bigger customer-facing role in dining out, companies are able to collect massive amounts of data on their guests. For instance, a mobile ordering app can track a consumer's longitudinal ordering behaviour – whether they always get the same items, how many respond to upselling tactics, how many different locations they use – to provide significantly richer insights than what was used in the past (ie cash register records). Similarly, ads and offers on these mobile apps can be catered to a consumer's demographics, past ordering behaviour and location.

The natural next step with all of this data available is to leverage artificial intelligence to uncover tactics never before considered. According to *Wired*, McDonald's is already testing some of these innovations. In 2019 the company launched a pilot program in Miami that used AI at one location's drive-thru. Rather than the usual static menu as cars arrive, the software's algorithms use data like weather, time of day, historical sales and even events in the area to predict which items are most likely to sell and should therefore be displayed prominently at any given time. The restaurant company is also testing AI voice technology to implement at its drive-thrus in an attempt to speed up lines and even be able to take orders in different languages and accents. A more extreme example is White Castle in the US; the burger chain recently started testing robots in its kitchen to make French fries.

In the same way that the digital media industry is now built on learning algorithms that predict what consumers want to see based on the behaviour of them and people like them (eg Netflix, Spotify), the foodservice industry will find more efficient ways to process the near-infinite amount of data it receives on a daily basis and leverage it to target consumers more effectively.

# THE CONSUMER

# What You Need to Know

## QSR usage and brands

QSRs are a widely used part of the foodservice industry, with three quarters of consumers visiting at least once in the first three months of 2020. And that market is heavily chain-based, with independents only attracting a fraction of that traffic. Among the chains, McDonald’s and Tim Hortons have set themselves apart from the competition – while Starbucks has had perhaps the most effective branding by attracting a unique consumer set.

## FSR usage, visit drivers and ordering behaviours

Though FSR usage is lower than QSR, the majority of consumers still visited one of these restaurants in Q1 2020. Strategies to attract consumers should focus on the fundamentals – great service, craveable menu items – before moving on to secondary tactics like healthy items and restaurant design features. They should also look for ways to maximize revenues from each diner; paid drinks, appetizers, side dishes and desserts present the best opportunity for restaurants to increase the dollars they get from patrons who can be so challenging to get through the doors in the first place.

## Using dayparts to predict impacts from COVID-19

The COVID-19 pandemic will have long-lasting effects on the restaurant industry. But stakeholders can look at how restaurants were used before the crisis to see their biggest vulnerabilities and uncover future opportunities. QSRs are dependent on breakfast and lunch traffic driven by consumers out at work – which will decline amid job losses and shifts to working from home. FSRs are heavily dependent on dinner, which could be the victim of budget cuts. Restaurants will need to look for ways to diversify their daypart strategies to mitigate the losses they will experience from COVID-19.

## The role of technology in restaurants

Technology is already increasing its role in QSRs with mobile ordering and kiosks, but there is also an opportunity for FSRs to leverage it by investing in tabletop tablets for ordering and paying. And while those devices will be too expensive for some businesses, restaurants need to be aware that the internet – via reviews and menu research before visits – impacts their traffic whether they want it to or not. Therefore, restaurants in both QSR and FSR need to acknowledge the role of tech in their industry and do their best to embrace it.

## Menu item promotions

Menu promotions are very common in foodservice, but restaurants need to be strategic about what tactics they use. Entirely new menu items may be innovative and exciting, but require much more investment than simply discounting an existing item. And trendier tactics – like health-focused and meat-free menu items – do not resonate with many consumers overall, but could be used to target specific consumer groups. Restaurants need to be critical of their own promotion strategies to ensure that they are maximizing their return on investment and profiting from their initiatives.

## New trends in restaurants

Restaurants need to be aware of emerging trends so that they can remain relevant to consumers. Consumers are increasingly conscientious of the impact of food on the environment and their health – which is why most want restaurants to reduce waste and many have tried plant-based meats. Alternatively, new flexible strategies around all-day breakfast, FSR delivery and grocery store restaurants are gaining traction, highlighting how this industry continues to evolve – and the need for stakeholders to keep up with it.

# QSR Usage and Brands

## Most consumers visit QSRs

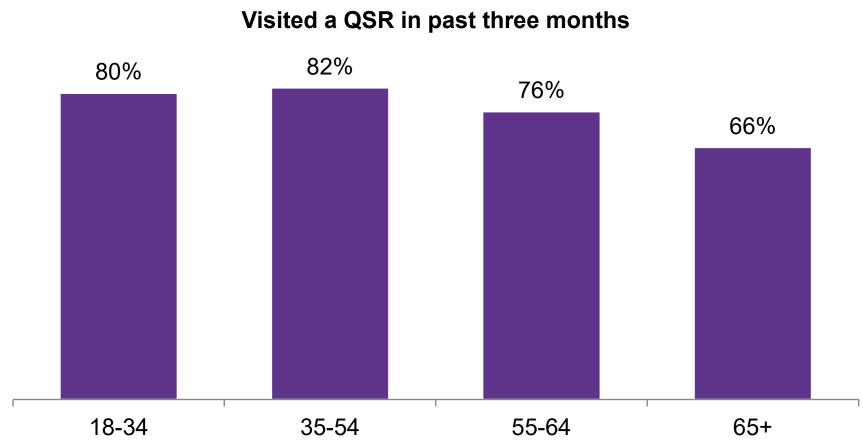
The QSR industry is very important and relevant to Canadians; three quarters (78%) of consumers visited one of these restaurants during the first three months of 2020. According to Statistics Canada, these restaurants saw nearly $7 billion in sales during those three months.

While QSR usage is high across all demographics, there are some groups that are more likely to use it than others. For instance, younger consumers are significantly more likely than older consumers to visit QSRs. This is likely driven in part by their employment; 81% of employed consumers visit QSRs compared to 73% of unemployed. Since quick-service restaurants are very useful for people who are at work and away from home at meal times, it makes sense that employed consumers are more likely to visit. And since 18-54s have higher employment rates than over-55s, these age skews align with that logic.

Another way that employment plays a role in QSR usage is through household income. Since a meal at a QSR typically costs more than one at home, it stands to reason that consumers with more money available to them would be more likely to visit. This is reflected by the finding that consumers with household incomes above $100,000 are significantly more likely to visit QSRs than those with household income below $50,000.

### FIGURE 15: QSR VISITS, BY AGE, APRIL 2020

*"In the past three months, which of the following types of restaurants have you dined at or ordered food from? Please select all that apply."*

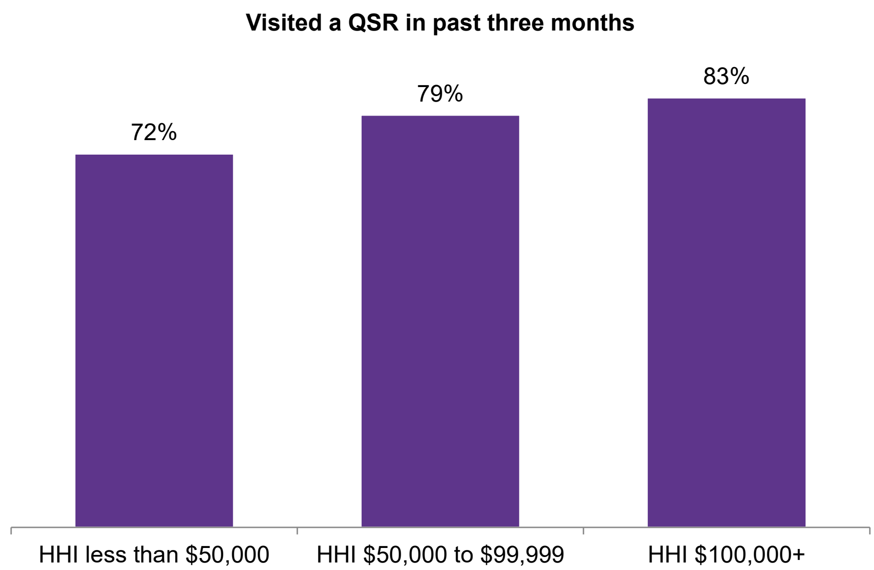



Base: 2,000 internet users aged 18+

Source: Lightspeed/Mintel

### FIGURE 16: QSR VISITS, BY HOUSEHOLD INCOME, APRIL 2020

*"In the past three months, which of the following types of restaurants have you dined at or ordered food from? Please select all that apply."*




Base: 2,000 internet users aged 18+

Source: Lightspeed/Mintel

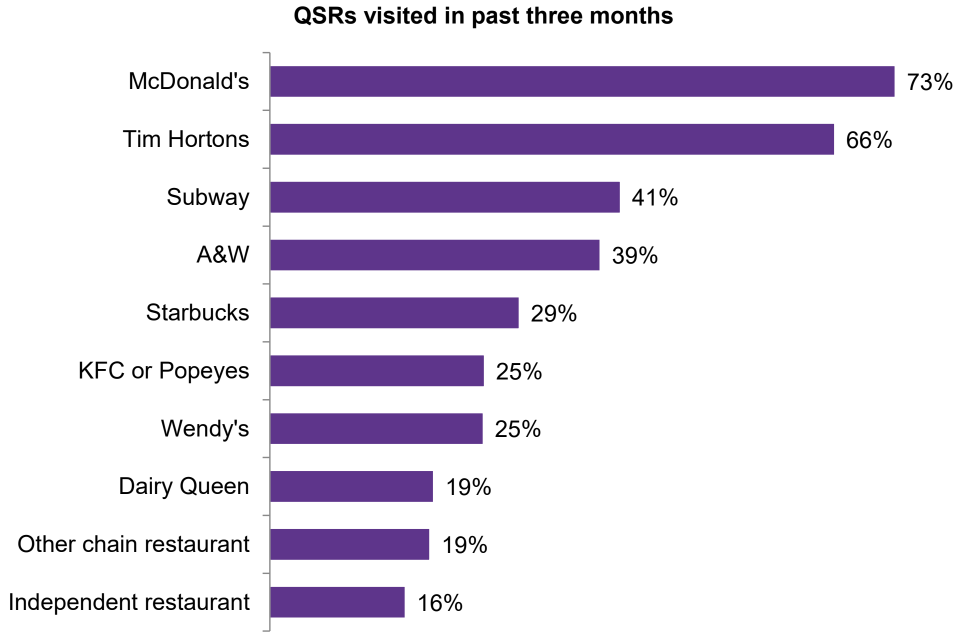
There are some other small demographic skews in QSR usage, such as parents (84%) being more likely than non-parents (76%) to visit – likely because many QSR brands make a targeted effort to attract families (eg McDonald's). However, these proportions also highlight how broadly QSRs are used overall.

For instance, over-65s are less likely than younger consumers to visit QSRs – but there are still 66% of them who do. Similarly, lower-income households are not using QSRs at the same rate as higher-income households, but 72% of those with HHI below $50,000 went to one of these restaurants in the past three months.

The key takeaway here is that, while there are some demographic skews, QSRs are a widely used industry that plays a role in most people's lives. The rest of this section will delve further into the nuances of this industry, but it is important to keep in mind its broad appeal and the fact that a consumer is much more likely than not to be a QSR user.

FIGURE 17: QSR BRAND USAGE, APRIL 2020

*"Which of the following quick-service restaurants have you dined at or ordered food from in the past three months? Please select all that apply."*




Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

## Chains dominate the QSR landscape

### McDonald's and Tim Hortons are the clear leaders

Among the consumers who visit QSRs, only 16% have visited an independent restaurant. That small proportion illustrates how heavily skewed the QSR industry is towards chains with multiple locations. And even among those chains, there is a clear disparity between the middle of the pack and two particular brands that stand out from the rest: McDonald's and Tim Hortons.

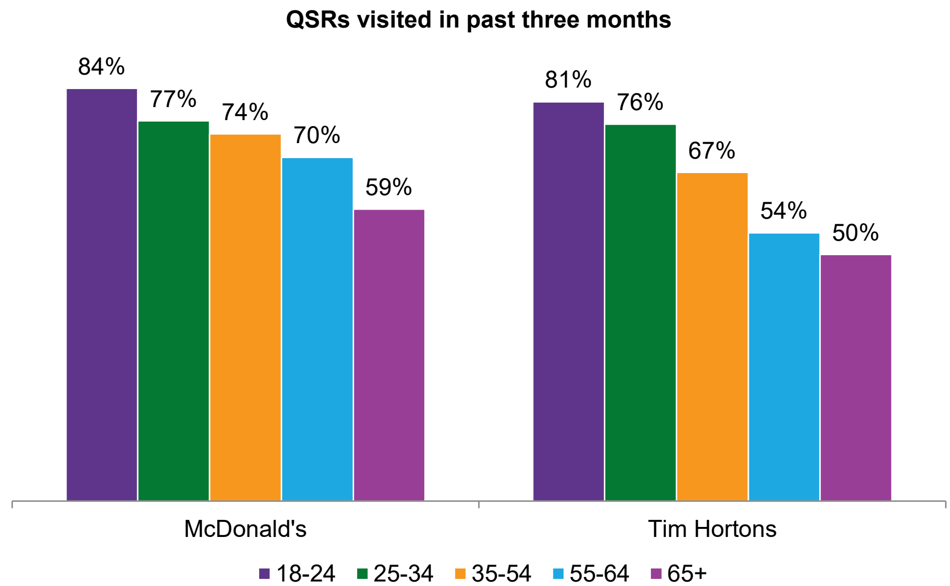
Among QSR users, a total of 88% visited at least one of McDonald's or Tim Hortons in Q1 2020. And there is significant crossover too; 79% of Tim Hortons users visited McDonald's and 71% of McDonald's users visited Tim Hortons in that time period. So while many consumers may prefer one over the other, the general behaviour is that most people are using both.

It is therefore not a surprise that both brands attract many of the same consumer groups. Age splits for McDonald's and Tim Hortons are very similar, which supports the findings around significant crossover usage. However, another notable finding from these results is how both brands skew to younger consumers. Tim Hortons was founded in 1964, while McDonald's opened its first Canadian location in 1967. These brands have been operating in Canada for over 50 years, yet they have both found a way to resonate with young consumers – which speaks to each company's ability to consistently innovate and remain relevant. For instance, McDonald's started installing self-serve kiosks in its restaurants in 2015 while Tim Hortons announced in 2018 that it would spend $700 million renovating all of its locations over a four-year period.

Both restaurants have also effectively connected with Canada's diverse cultures. In particular, visits to McDonald's are very high among Chinese Canadians, while Tim Hortons has similar usage across all non-White/Caucasian consumer groups. This is further evidence that both brands have evolved with the Canadian population and despite the fact that they have existed for half a century, they have made themselves relevant to young, diverse consumers today.

## FIGURE 18: QSR BRAND USAGE: MCDONALD'S VS TIM HORTONS, BY AGE, APRIL 2020

*"Which of the following quick-service restaurants have you dined at or ordered food from in the past three months? Please select all that apply."*

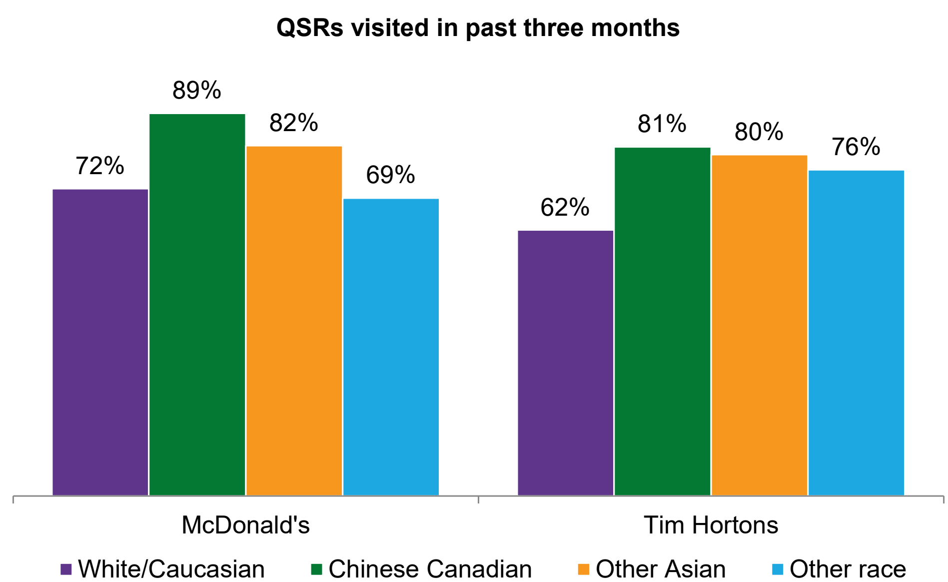



Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

## FIGURE 19: QSR BRAND USAGE: MCDONALD'S VS TIM HORTONS, BY RACE, APRIL 2020

*"Which of the following quick-service restaurants have you dined at or ordered food from in the past three months? Please select all that apply."*




Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

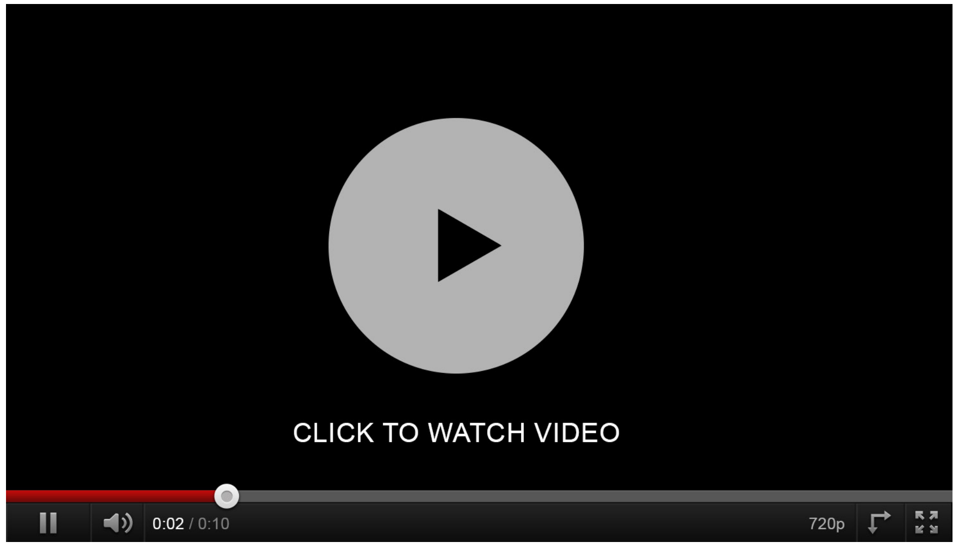
Source: Lightspeed/Mintel

Interestingly, Tim Hortons usage is significantly higher among consumers whose language spoken at home is neither English nor French. Three quarters (75%) of these consumers visited Tim Hortons compared to 67% of English speakers and just 60% of French speakers. One reason for this is that Tim Hortons has made a strategic effort to brand itself as a form of accessible Canadiana that brings cultures together – which is reflected in one of its ads from a few years ago.

One way in which these two brands are different is regionally. McDonald's usage is essentially the same across the whole country, whereas Tim Hortons sees some more regional differences. Tim Hortons has particularly high visit rates in Ontario and Atlantic, but lower in Quebec and the Prairies. Tim Hortons' overdevelopment in Ontario is likely driven by the fact that it started in Hamilton, ON, and is based in that province. On the other hand, the lower usage rate in Quebec aligns with Starbucks' struggles in that region (21% visit in Quebec vs 29% overall), suggesting national chain coffee shops are having a difficult time getting into that province. According to a 2013 report by Canada.com that analyzed Tim Hortons' locations across the country, the density of stores was lower in Quebec City and Montreal than it was in North Bay, Ontario, and Surrey, British Columbia – an indicator of underdevelopment in Quebec.

Overall, the key takeaway is that McDonald's and Tim Hortons have set themselves apart from the rest of the industry in terms of visits; among QSR visitors, nearly all of them have gone to either McDonald's or Tim Hortons in the past three months. And with the COVID-19 pandemic wreaking havoc on the restaurant industry, these leading chains are likely the best positioned for the future. While they will also experience sales declines amid closures, they have the resources to survive (while independents and small chains cannot) and offer a level of familiarity and credibility to consumers returning to the market in search of a safe, dependable dining option. McDonald's and Tim Hortons both have the opportunity to grow their share of foodservice traffic as a result of this pandemic.

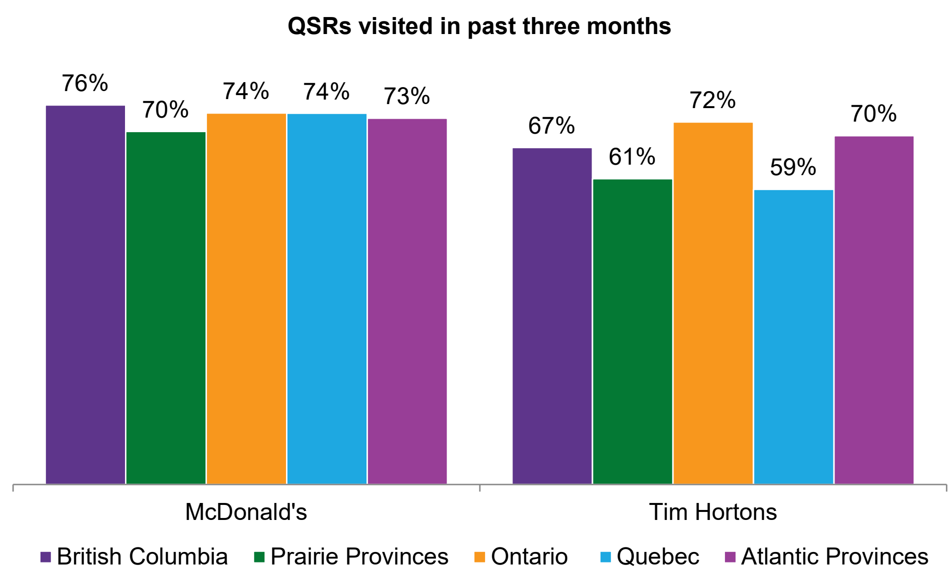
## FIGURE 20: TIM HORTONS TRUE STORIES: PROUD FATHERS, MARCH 2017




Source: YouTube – Tim Hortons/Mintel

## FIGURE 21: QSR BRAND USAGE: MCDONALD'S VS TIM HORTONS, BY REGION, APRIL 2020

*"Which of the following quick-service restaurants have you dined at or ordered food from in the past three months? Please select all that apply."*




Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

### Starbucks attracts a unique consumer

Though not used by as many consumers as McDonald's or Tim Hortons – or even other QSRs like Subway and A&W – Starbucks is worth a closer look because it has been able to resonate with a specific consumer set. While McDonald's and Tim Hortons have generally similar usage across different consumer groups, Starbucks has much more variance among demographics.

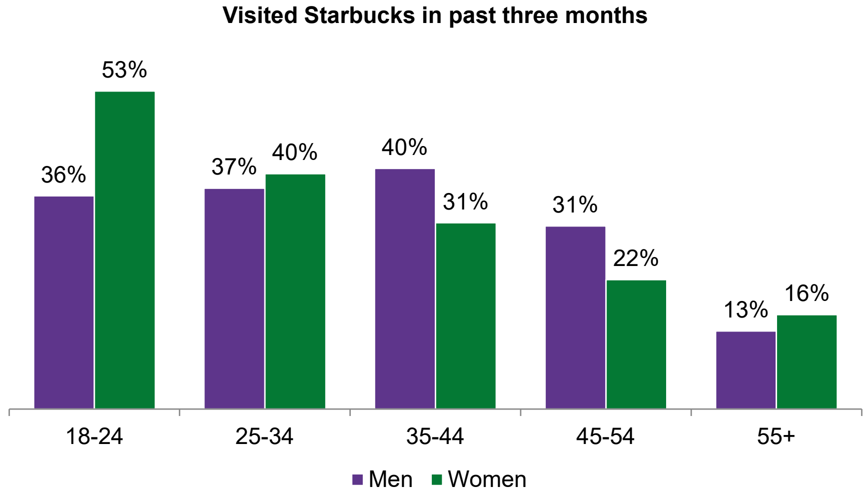
For instance, Starbucks is highly successful with young women. Half (53%) of 18-24 year old women who visit QSRs have gone to Starbucks – compared to just 29% overall and 36% of 18-24 year old men.

Another group that Starbucks has been particularly successful with is post-secondary students. Overall, 54% of college/university students visit Starbucks (vs 29% overall). And that skew is not just driven by their age; 54% of 18-24 year old post-secondary students go to Starbucks vs 44% of 18-24s overall. This is not a coincidence, but a targeted strategy for the brand. In 2014, Starbucks Canada announced that it would serve Fairtrade espresso coffee exclusively at its restaurants on college and university campuses. For the two years prior to that announcement, the brand had seen over 50% growth in its campus segment. And such high usage among these students is proof that Starbucks has succeeded in targeting that group.

Given its higher prices relative to Tim Hortons and McDonald's, it is no surprise that household income also plays a role in usage. Some 36% of QSR consumers with household incomes of $100,000 or more visit Starbucks – compared to just 22% of those with incomes below $50,000. Another expected demographic difference is the greater success the brand sees in the West; 45% of BC consumers visit Starbucks compared to just 21% in Quebec and 20% in the Atlantic Provinces. This difference in usage is driven by the brand's expansion history; it entered BC in 1987 but did not get to Quebec and the Atlantic Provinces until 2000 – meaning it has had over a decade more to build locations and establish loyalty in British Columbia.

FIGURE 22: VISITED STARBUCKS IN PAST THREE MONTHS, BY AGE AND GENDER, APRIL 2020

*"Which of the following quick-service restaurants have you dined at or ordered food from in the past three months? Please select all that apply."*

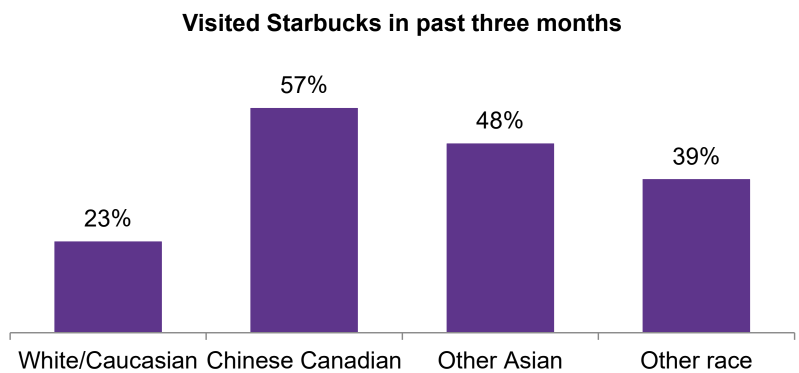



Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

FIGURE 23: VISITED STARBUCKS IN PAST THREE MONTHS, BY RACE, APRIL 2020

*"Which of the following quick-service restaurants have you dined at or ordered food from in the past three months? Please select all that apply."*




Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

But one less expected skew is how Starbucks performs among different races. More than half of Chinese Canadians who use QSRs have visited Starbucks in the past three months; White/Caucasian consumers are particularly underdeveloped when it comes to Starbucks visits. Part of this could be driven by the above-mentioned regional differences. According to Statistics Canada, 12% of British Columbia's population identify as Chinese – compared to just 5% of the overall Canadian population. But even taking BC's overdevelopment into consideration, this usage rate for Chinese Canadians – as well as other non-White/Caucasian races – is still very high and indicates that Starbucks has been very successful in connecting to diverse consumer groups.

Overall, Starbucks usage rates are far below Tim Hortons and McDonald's, even in British Columbia. But it is a particularly interesting brand because, whereas other restaurants chains are generally competing for the same consumer, Starbucks has a very distinct base. It skews heavily to young people – especially women and students – and resonates strongly with diverse ethnicities, as well as a strong connection to British Columbia where it opened its first Canadian location in Vancouver in 1987.

It will, however, face some unique challenges as a result of the COVID-19 pandemic. For instance, many post-secondary schools across the country have already announced that the first semester of the upcoming year will be virtual – meaning Starbucks cannot capitalize on its locations in and around universities and colleges. Furthermore, many Starbucks locations have relatively small footprints (ie square footage) compared to McDonald's or Tim Hortons; capacity will be severely limited as long as social distancing protocols are in place. And the chain's relatively high price point means that it could be the victim of consumers trading down to lower-priced options, like the aforementioned McDonald's and Tim Hortons. Finally, the company announced in June that it would close up to 200 stores in Canada over the next two years as a strategic shift amid the pandemic – meaning it will be competing with other coffee brands while dealing with fewer locations.

Despite these challenges, Starbucks still stands out as one of the most unique brands in the Canadian QSR landscape. Even though McDonald's and Tim Hortons may see more customers coming through their doors on a given day, Starbucks has arguably been the most successful chain restaurant at branding itself and making its name distinct from the rest of the industry.

# FSR Usage, Visit Drivers and Ordering Behaviours

## Two thirds of consumers visit FSRs

Like the QSR industry, the majority of consumers visit full-service restaurants. Although the proportion is not as high (78% visit QSRs), two thirds of consumers (66%) have visited an FSR in the past three months.

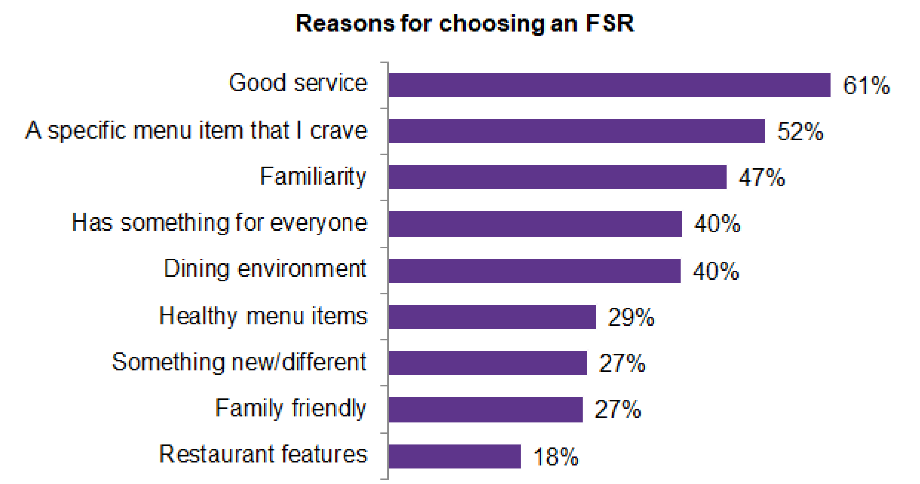
There are some significant skews in usage. For instance, 76% of dads visit FSRs compared to just 61% of moms; and while that skew is also evident among men (69%) and women (62%) in general, it is more pronounced among parents. Part of this could be driven by their interest in sports; 24% of dads who visit FSRs say they pick a restaurant based on its features like TVs and patios (vs 16% of moms). And according to Mintel's *Sports Media Consumers – Canada, February 2020* Report, 87% of dads follow pro sports compared to only 65% of moms. Although part of this is driven by men in general – 21% visit FSRs for their features and 80% follow sports – it is higher among dads and indicates that they are particularly driven by these factors. So considering their affinity for sports and their interest in a restaurant's features – such as sufficient television screens – it seems that dads' high usage of FSRs is driven partly by those restaurants' ability to act as gathering places for these events.

Another notable difference in usage is among Chinese Canadians. Some 77% of Chinese Canadian consumers have visited an FSR in the past three months; not only is that higher than average (66%), but it is nearly the same proportion as Chinese Canadians who visit QSRs (82%). Whereas overall consumers are much more likely to visit QSRs than FSRs, both restaurant categories perform almost equally among Chinese Canadians. This indicates that FSRs play a particularly important role for Chinese Canadians compared to the average consumer – and other differences among this consumer group will be discussed in more detail through the rest of this section.

Overall though, FSRs have similar usage among most demographics. While the above groups highlight some consumers who are more likely to visit than others, the general trend among demographics is that the majority of consumers visit FSRs – though a lower proportion than QSRs. As will be seen in the following analysis, there are some specific tactics that FSRs can use to attract more traffic and increase spending to drive revenue for their businesses.

FIGURE 24: REASONS FOR CHOOSING AN FSR, APRIL 2020

*"Besides price and convenience, which of the following factors do you typically consider when choosing which full-service restaurant to visit? Please select all that apply."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

## Decision factors highlight consumer priorities at FSRs

### Most consumers look for good service

Aside from price and convenience, the decision factor most often cited by FSR consumers is good service. And in general, there are no major demographic skews for this driver – indicating that it is universal for the market overall.

The importance of good service makes sense at FSRs; after all, the key differentiator between FSRs and QSRs is the level of service a customer receives. But while it seems obvious, it is an important reminder for restaurateurs to prioritize their service. For instance, some restaurants may look at investing in additional restaurant features (eg a new patio, more TVs) or introducing healthier items to their menus as a way of driving traffic. But this consumer feedback suggests that businesses should not be focusing on those tactics until they ensure that they have exceptional service – in terms of speed, efficiency, friendliness and responding to problems that may arise – because that is what most consumers are looking for.

This is particularly important amid the COVID-19 pandemic. According to Mintel's *Global COVID-19 Tracker – Canada, July 23-31, 2020*, only 32% of consumers are comfortable dining inside a restaurant. While that is a slight increase on the 26% who were comfortable from July 13-17, it highlights that a restaurant's COVID safety protocols will be under a microscope for many diners as a part of the overall service experience. Furthermore, those measures will be a way for businesses to differentiate themselves from each other – meaning the ones that are lacking will find it difficult to attract the consumers who are still uncomfortable with entering a restaurant's dining room.

The following analysis will look more closely at some other decision factors to help restaurants understand their most effective tactics to attract consumers – but it is imperative that these companies first understand how vital good service is to FSRs and make it a priority.

### Deciding on the best menu strategy

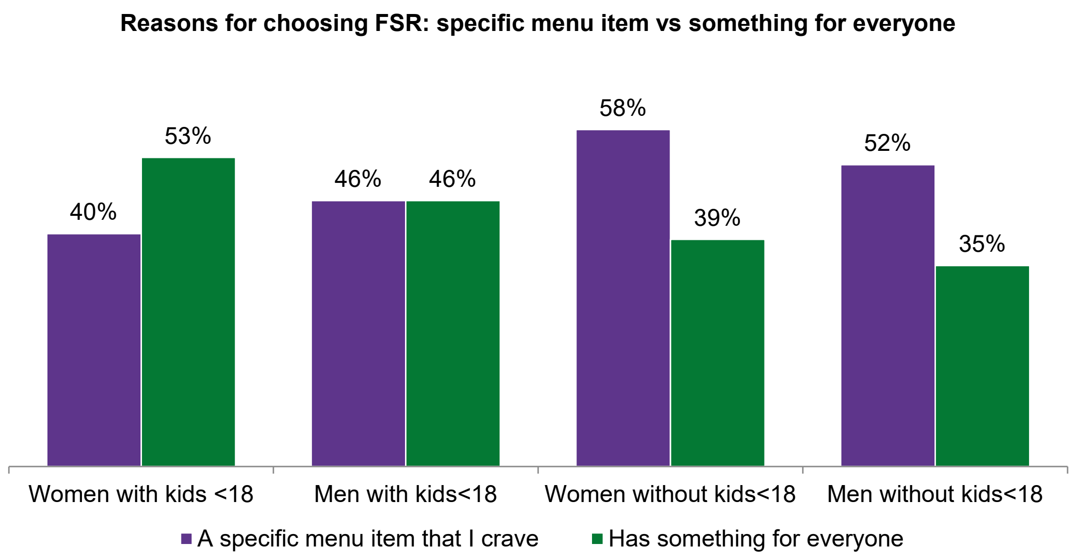
Since restaurants are ultimately designed to serve food; a menu is often the first step in a business' strategy to attract more diners. But the challenge is in knowing exactly what to do with a menu in order to resonate with consumers. For instance, a restaurant can focus on specializing in one particular dish that it is known for, or else it could take a broad approach so that everyone can find something they like. Alternatively, they could use health as a building block for their menu and offer consumers healthy options for their meals. But it can be difficult to do all of these things at once, meaning companies often need to pick one of these menu tactics and move forward with it.

Based on the above findings, the menu tactic that attracts the most people is having specific items that consumers crave; 52% say this is what they consider when choosing which FSR to go to. What is interesting is how this compares to the 40% who want a restaurant that has something for everyone – especially among moms.

Women with kids at home are significantly more likely to choose an FSR based on having something for everyone than they are to pick one for a specific item they crave. In contrast, the proportions are flipped for women without kids – who are much more likely to be looking for a specific item. The same difference is evident for men, but not nearly as stark as for women. And not surprisingly, 50% of parents say that "family-friendly" is a deciding factor – which is second only to good service for that consumer group.

FIGURE 25: REASONS FOR CHOOSING FSR: SPECIFIC MENU ITEMS VS SOMETHING FOR EVERYONE, BY GENDER AND PARENTAL STATUS, APRIL 2020

*"Besides price and convenience, which of the following factors do you typically consider when choosing which full-service restaurant to visit? Please select all that apply."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

The reason here is obvious: when people (especially women) have kids they spend less time thinking of themselves during dining occasions and more time thinking about their kids and their family overall. The trade-off is that many would rather find a restaurant that makes everyone happy rather than one with a specific item they want. But the opportunity here is for FSRs to realize that these parents did not suddenly stop craving their favourite foods – they just de-prioritized it after they had kids. Restaurants hoping for family visits should therefore find ways to cater to those cravings while also keeping the kids happy. For instance, a restaurant could specialize in a particular dish that parents crave (eg steak), while also offering a broad enough menu that the kids will find something they want too. The opportunity is to offer parents (in particular, moms) an experience that does not require them to trade off their own enjoyment in order to appease their kids; finding a way to offer both will resonate with these consumers.

Qualitative feedback from diners helps illustrate how families are often forced to compromise when picking a restaurant rather than visiting their preferred choice:

*"If we are eating out with family and friends we usually go to Boston Pizza. They provide an awesome service and have a wide variety of Canadian and Italian items on their menu…When my wife and I are in the mood for a quiet dinner we like to eat at Shez West. A beautiful restaurant with a cozy atmosphere, chic décor and very stylish interior, with a great tasting creative cuisine and overall tasty menu items, especially their seafood."*

**55-64 year old, Atlantic Provinces male**

*"Myself and my family only go to restaurants that serve food that we know my son can eat. He has many food allergies, and we need to keep him safe. My favourite restaurant is one called Twiggs. There are only 4 of them in the world, and are all locally owned."*

**35-44 year old, Ontario female**

*"Deciding on a restaurant is always an event in our family, as no one can ever seem to come to a consensus for some reason! The main factor is that the place needs to have gluten free options for my son and I, but outside of that it's a free for all based on everybody's preferences."*

**35-44 year old, Ontario male**

The other menu tactic mentioned above – healthy menu items – is one that is often touted as a growing trend, yet does not seem to be resonating with many consumers. Some consumers do value healthy items more than others, such as women over the age of 35 (35% vs 29% overall). Meanwhile, relatively few Chinese Canadians are basing their decisions on healthy items (17%). In general, restaurants should spend some time considering how to include healthy menu items for those who want them – but it should not come at the expense of craveability or broad selection, which factor into many more decisions than healthiness.

Overall, these rankings are a reminder of the basics that restaurants should focus on. Much like the importance of good service in a full-service restaurant, consumers want a great food experience when they dine out. With that in mind, a delicious, craveable menu item is the obvious focal point for restaurants to offer before worrying about breadth of a menu's selection or calorie counts of certain items.

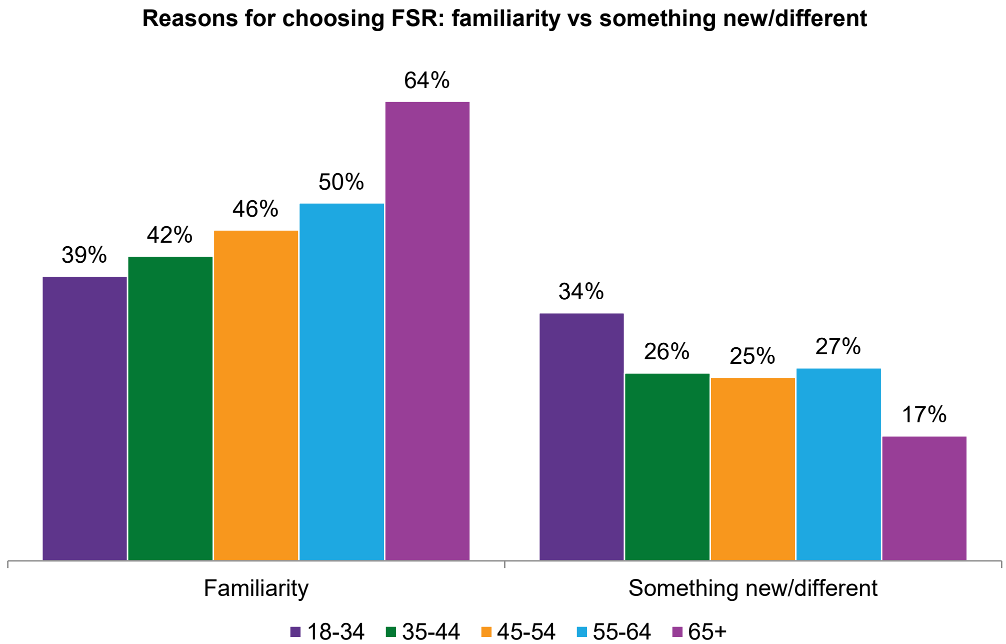
### Familiarity vs something new and different

Another tactic that is often used in the foodservice industry is menu innovation. The logic is that menus need to be refreshed with new and exciting dishes in order to attract new diners and keep customers coming back – lest they get bored and move on to a competitor. And while there is certainly room for innovation in the FSR industry, consumer research suggests that familiarity may actually be more important.

Overall, FSR consumers are much more likely to be driven by familiarity (47%) than something new and different (27%). Considering how important good service is to consumers, it makes sense that they would prefer somewhere they know well. And while this preference for familiarity skews to older consumers, 18-34 year olds are no more likely to seek out something new and different than they are to look for somewhere familiar.

## FIGURE 26: REASONS FOR CHOOSING FSR: FAMILIARITY VS SOMETHING NEW/DIFFERENT, BY AGE, APRIL 2020

*"Besides price and convenience, which of the following factors do you typically consider when choosing which full-service restaurant to visit? Please select all that apply."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

Familiarity could be a particularly useful tactic to attract consumers as COVID-19 lockdown restrictions are lifted. According to Mintel's *Global COVID-19 Tracker – Canada, June 18-27, 2020,* 36% of consumers say going to a restaurant is one of the things they are most looking forward to after social distancing measures are lifted – and it is even higher among over-65s (44%). This combination of pent-up demand for restaurants and a general interest in familiarity means that restaurants should use "get back to normal" as a key marketing message to spark interest from consumers.

Mintel's Trend Driver ***Experiences*** is particularly relevant here as its ***Adventure*** Pillar illustrates the demand to try something new, but also the impact COVID-19 has had on that attitude. According to that Trend Driver's research, 67% of Canadians say that they love trying new experiences – but that is a significant decline compared to the 73% who felt that way before the pandemic. At the same time, the ***Value*** Driver's ***Budget*** Pillar finds that 70% of consumers have a budget they try to stick to as much as possible. So at a time when budgets are particularly tight amid an economic recession, restaurants that can offer a balance between adventure, budget and familiarity should resonate with consumers. One way to do this would be to offer fixed-price menus that provide a mix of popular favourites (eg main dishes) and new items (eg appetizers). Diners would appreciate the familiarity of a restaurant and dish they know, while enjoying the value of a fixed-price meal and the excitement of some new flavours with it – all while increasing the revenue for restaurants.

Ultimately, this is further evidence that the best strategy for restaurants is often to keep things simple. Consumers want good service overall – and more of them look for a place that has something they can crave and is familiar than one that is different for the sake of it or has a health-focused menu. Restaurateurs should put their attention on mastering these fundamentals before moving on to secondary tactics. It may seem boring, but investing in great service and great-tasting food will resonate with many more consumers than most other eye-catching strategies.

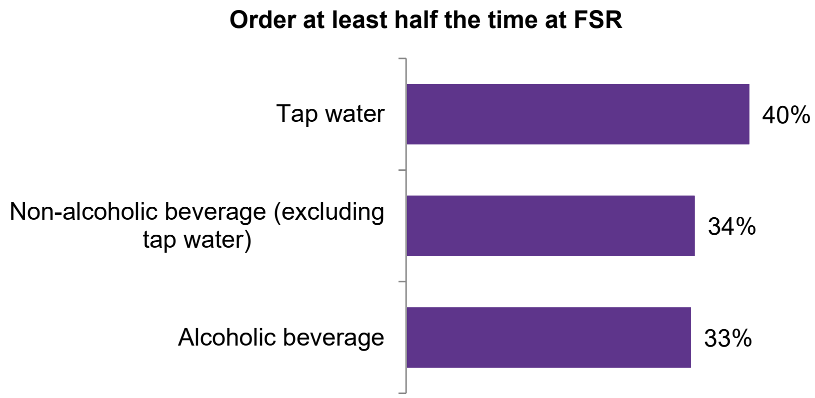
## Optimizing revenues with add-on menu items

### FSRs need diners to order more drinks

One challenge for the FSR industry is that a very profitable part of menus is undercut by a free product they are forced to offer, water. According to *FSR Magazine*, beverages like alcohol, coffee and tea offer some of the highest profit margins in a restaurant. Yet only 33% of FSR consumers regularly order alcohol with their meals and only 34% typically get a paid, non-alcoholic drink (eg pop, coffee). Meanwhile, 40% of these consumers get tap water more than half the time.

FIGURE 27: BEVERAGES ORDERED AT FSR, APRIL 2020

*"Which of the following menu items do you order at least half the time on a typical visit to a full-service restaurant? Please select all that apply."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

It is worth noting that tap water consumption at restaurants is not connected to household incomes; consumers with HHI above $150,000 are just as likely to order tap water as those earning under $25,000. This suggests that this behaviour is not simply a function of ability to afford a paid drink, but a habit that many consumers have adopted that is beneficial to their health and their budgets.

Alcoholic beverage purchases do skew to higher incomes – likely due to the high prices of those drinks – but still only reach 40% among the highest bracket. So even among consumers within household incomes over $150,000 it is the minority who order alcoholic beverages at most FSR occasions.

On one hand, this challenge is difficult to overcome. Tap water is freely available at restaurants, making it difficult to encourage patrons to spend upwards of $3 on a drink – and much more if it includes alcohol. But restaurants can also tweak their operations to nudge consumers away from tap water. For instance, many FSRs have trained their servers to offer tap water as a default when diners sit down at the table or begin to order. While it is an amicable practice – which supports the aforementioned good service – it makes it much more challenging to sell a beverage when the customer already has one in front of them. One small change for these restaurants would be to happily provide tap water to any consumer who asks for it – but not to proactively offer it and potentially spoil a sale. The change would be minor from the perspective of the consumer, but could help a restaurant increase beverage revenues if even just a small proportion of patrons end up opting for something other than tap water.

Quebec's bring-your-own-wine model could help some restaurants drive beverage revenues while giving consumers value. Although other provinces have since instituted these laws, Quebec began in 1982 and has therefore established the practice of consumers bringing their own wine. This tactic in the other provinces where it is legal – Ontario, Alberta and New Brunswick – could help drive sales by bringing in revenue for the service (ie corkage fees, which are typically between $10 and $30 per bottle) without any product cost, while allowing the consumer to have a more enjoyable experience and feel like they saved money.

Alternatively, restaurants could set more aggressive prices for their drinks. Considering the menu price usually inflates by nearly 30% after tax and tips are factored in, consumers know that one alcoholic beverage can easily cost upwards of $10 – while non-alcoholic drinks are only a couple of dollars less. If businesses do not want to cut into their profits by simply lowering the prices of their drinks, they could offer more size options – such as half pints of beer, small glasses of wine or non-refillable soft drinks – for those who want something other than water with their meal, but cannot justify the significant expense at current prices. Restaurants will always have difficulty competing with a free, healthy, familiar drink like tap water – but they can be more strategic about how to increase beverage sales in creative ways.

### Appetizers, sides and desserts face similar challenges as paid beverages

While they do not face the same issue of substitutability that beverages have with tap water, add-on food items also struggle to sell to most consumers. Only a third of FSR consumers regularly order an appetizer, a similar proportion typically get a side dish (in addition to what comes with their main dish) and only a quarter of consumers get a dessert at least half the time.

Like paid beverages, the challenge for restaurants is that these add-on items are important tools to drive revenue with higher spend per person. But at the same time, they are the easiest to skip if a diner wants to stick to a budget for their meal. Many FSR main dishes include a side (eg salad, fries), meaning a consumer could order that and a glass of water and get a complete meal without spending any money on appetizers, additional sides, desserts or beverages. This is further evidence that the fixed-price menus mentioned above could be an affective tactic for restaurants.

Notably, consumers in some racial groups are more likely to order these items than others. White/Caucasian consumers are the least likely to order appetizers, sides or desserts, while South Asian consumers are the most likely. In contrast, White/Caucasian consumers are more likely to order alcohol at FSRs (37% vs 33% overall and only 17% of South Asians). Part of these differences could be driven by the types of restaurants these consumers frequent most often and the designs of the menus – and lower alcohol consumption among South Asians is likely driven by the prevalence of Islam in that culture, which prohibits alcohol – but it ultimately shows that there are certain subsets of the consumer base who are much more likely to order menu add-ons than others. Restaurants that cater to diverse, multicultural communities (especially South Asian consumers) should therefore look to capitalize on their unique opportunity to sell more menu add-ons.

FIGURE 28: FOOD ADD-ONS ORDERED AT FSR, APRIL 2020

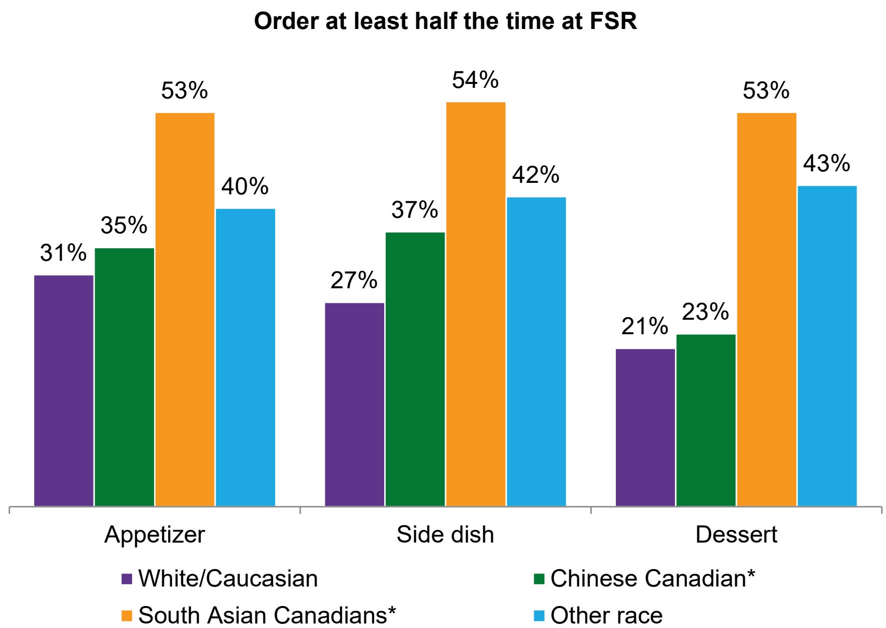
*"Which of the following menu items do you order at least half the time on a typical visit to a full-service restaurant? Please select all that apply."*


Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

FIGURE 29: FOOD ADD-ONS ORDERED AT FSR, BY RACE, APRIL 2020

*"Which of the following menu items do you order at least half the time on a typical visit to a full-service restaurant? Please select all that apply."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

* small sub-sample (70-100)

Source: Lightspeed/Mintel

Qualitative consumer feedback provides context for why so many consumers avoid these add-ons, since they are an easy way to keep restaurant spending under budget:

*“Only entrées because everything else is too expensive. Entrées also typically fill me up.”*
**18-24 year old, Prairie Provinces female**

*“I usually order entrées. They are enough to fill me up so I don’t order anything else.”*
**18-24 year old, Ontario male**

*“Money is always tight at our house, so we hardly ever get dessert or booze when we go out. Most times we all just get our own entrée, and the odd time we might also get an appetizer to share.”*
**35-44 year old, Ontario male**

Notably, Quebec diners have a unique usage of FSR menus. They are significantly less likely than average to order appetizers more than half the time (26% vs 34% overall). Yet they are much more likely than average to order a dessert (37% vs 26% overall). For restaurants based in that region, this means that they should place a particular focus on their dessert menus – and perhaps invest less time on appetizers – since those consumers evidently have a sweet tooth and are more likely to order those post-meal treats.

Overall, these observations in both beverages and food items illustrate the challenges but also the opportunities that restaurants have to increase revenues. In such a competitive market, getting a consumer into a restaurant in the first place is a difficult and often costly task – meaning it is very important to maximize that visit by optimizing the spend per person. Restaurants can take lessons from the broader visit drivers discussed earlier in this section. Ultimately, most consumers are looking for great service and delicious, craveable menu items. Companies can apply those tenets to these add-on items – such as signature, indulgent appetizers, side dishes, desserts and drinks. And through training, server staff can leverage their roles to make helpful suggestions about these items when it would be complementary to a diner’s meal. The fallout of COVID-19 will make it more challenging to succeed with these tactics than before the pandemic, but they should still be part of every business’ strategy. In the end, the primary focus for restaurants should be on winning the traffic occasion and getting a customer in the door – but once they are there, these tactics can help increase revenues while also giving consumers an enjoyable experience.

# Using Dayparts to Predict Impacts from COVID-19

## QSRs will be impacted by fewer people out at work

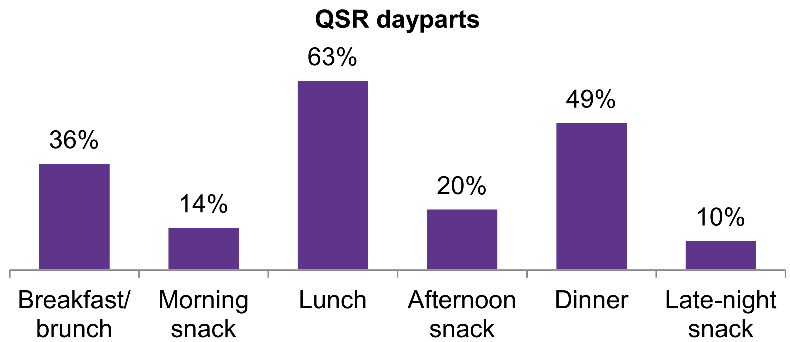
The different ways that COVID-19 will impact the foodservice industry are discussed earlier in this Report (see Market Factors section), but there is some specific consumer research that sheds light on what parts of the industry are most vulnerable. The meals and occasions that consumers were using restaurants for before the pandemic show which dayparts could see a larger decline in business even after they can fully reopen.

A major concern for QSRs is how dependent they are on traffic at breakfast and lunch. In addition to the expected economic recession that the country will be facing, these are two dayparts that are built on the away-from-home needs of workers. That is, a significant part of the intrinsic value of breakfast or lunch at a QSR is the convenience of getting a meal served to you when you are out of the house – which is often the result of being on the way to or at work. If fewer consumers are at work – either because of unemployment or new working-from-home practices – it means fewer people who may need QSRs for these occasions.

A look at behaviours among employed and unemployed consumers reflects this. Employed consumers are significantly more likely than unemployed consumers to have visited QSRs for breakfast or lunch in the past three months – though there is no significant difference in the other main meal, dinner. While many unemployed consumers are still visiting QSRs for breakfast and lunch, the fact that they are significantly less likely to do so means that the industry can expect a decline in traffic if fewer people are going to work on a daily basis.

FIGURE 30: QSR DAYPARTS, APRIL 2020

*"For which of the following meals/occasions did you visit each of these restaurant types in the past three months? Please select all that apply per restaurant type."*

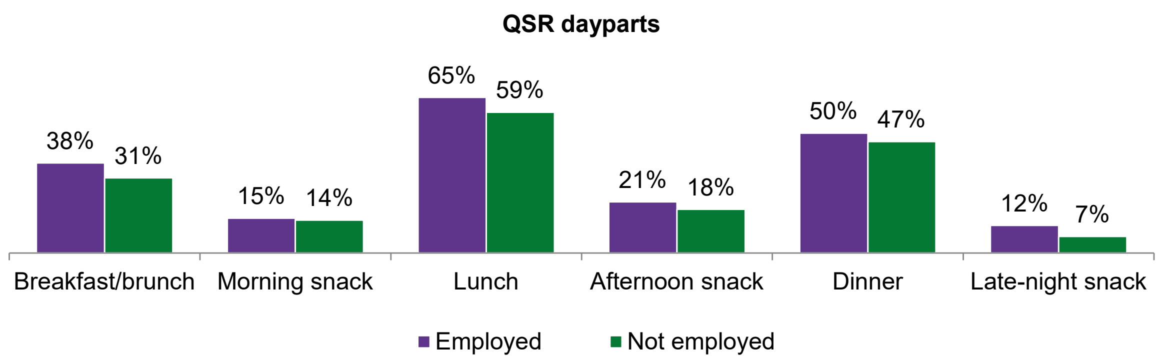



Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

FIGURE 31: QSR DAYPARTS, BY EMPLOYMENT STATUS, APRIL 2020

*"For which of the following meals/occasions did you visit each of these restaurant types in the past three months? Please select all that apply per restaurant type."*




Base: 1,558 internet users aged 18+ who have visited a QSR in the past three months

Source: Lightspeed/Mintel

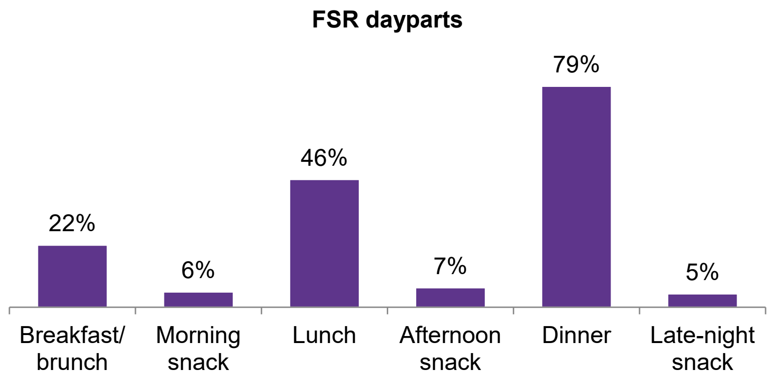
Employment is not the only factor that will result in fewer people in need of a restaurant. According to Mintel's *Global COVID-19 Tracker – Canada, June 18-27, 2020*, only 19% of consumers are looking forward to going to the movies and 15% are looking forward to live events when social distancing rules are relaxed. A *Global News* report in mid-May found that just 18% of Canadians are likely to attend a sports game even when it is permissible. Considering that many attendees to these large events would typically visit a restaurant before (ie dinner) or after (ie late-night snack) their movie, concert, or game, a reduction in demand for those will ultimately result in less relevance for the foodservice industry.

One opportunity for QSRs to use daypart strategies to bounce back from this crisis is at dinner. While it does not see the same traffic levels as lunch, the dinner occasion could potentially grow if QSRs are able to steal share from FSRs. As will be shown below, dinner is a particularly important occasion for FSRs – but QSRs' opportunity is to offer a more affordable alternative for consumers who still want to dine out, but need to cut costs due to the economic recession. This is not an unprecedented shift; during the financial crisis and recession a decade ago, Statistics Canada reports that QSR sales actually grew by 3% in 2009 and another 5% in 2010. In comparison, FSR sales dropped by 1% in 2009 and only rebounded with 1% growth in 2010. That was also when fast casual restaurants – upscale QSRs with FSR-quality food and, in some cases, table service (eg Chipotle, Panera) – entered the market as a way of giving consumers a more budget-friendly option than traditional FSRs.

This means that QSR companies will need to broaden their scope to sustain traffic during and after the COVID-19 crisis. Rather than simply focusing on battling each other for share of overall QSR traffic, they will need to also battle with FSRs for broader foodservice traffic. Those tactics could range from something relatively simple – such as advertising messages or price discounts – to more involved investments – such as dining room renovations or new fast casual concepts to blur the lines between QSRs and FSRs. But the key will be to strategically pick the occasions that QSRs will be most likely to bring into their restaurants and focus on those rather than taking a broad approach and expecting traffic to return to normal.

FIGURE 32: FSR DAYPARTS, APRIL 2020

*"For which of the following meals/occasions did you visit each of these restaurant types in the past three months? Please select all that apply per restaurant type."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

## FSRs' challenges will stem from the dinner daypart

Unlike QSRs, FSRs are less dependent on traditional workday meal occasions. Among consumers who visited an FSR during the first three months of 2020, only 22% went for breakfast/brunch and 46% went for lunch. Not surprisingly, dinner is by far the most common daypart in FSRs, with four in five FSR diners visiting for that occasion.

The good news is that FSRs are therefore less vulnerable to behaviour changes around leaving home to go to work. FSRs are often destinations themselves, rather than a convenient meal while away from home for other reasons. This is reflected by the fact that there is no significant difference in dinner visits between employed (81%) and unemployed (77%) consumers.

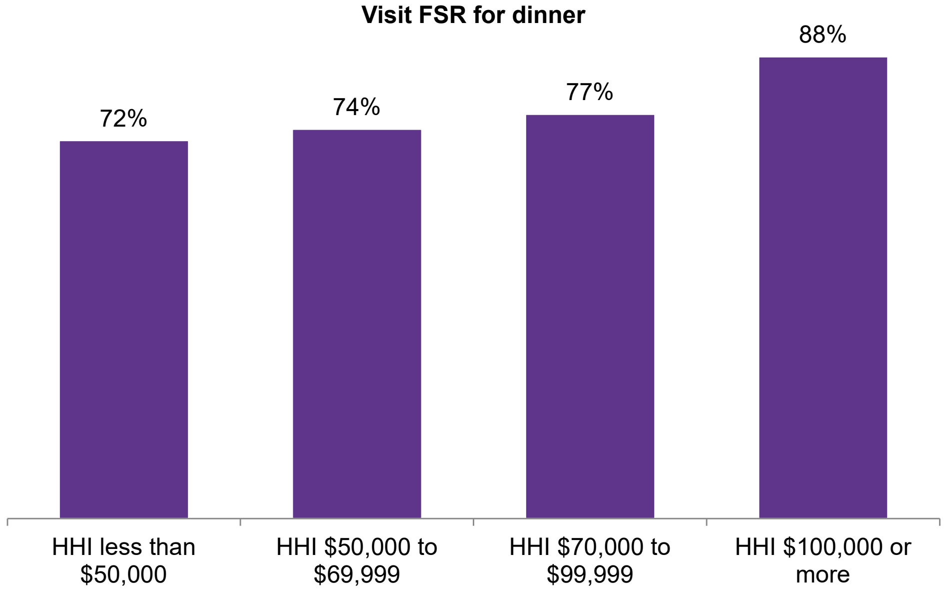
But while FSRs are not as dependent on workday occasions, their pricing model compared to QSRs' means that they are closely connected to disposable income trends – and therefore employment. Furthermore, since their traffic is so heavily focused on one daypart – unlike QSRs which are more relevant throughout the day – their eggs are all in one basket, making it more difficult to pivot in response to economic challenges.

This is reflected by FSR dinner visits across different levels of household income. Consumers in households with income of $100,000 or more are significantly more likely to visit FSRs for dinner than those with lower incomes. Even those with income levels one step below – in the $70,000-$99,999 range – are significantly less likely to have dinner at FSRs than those with six-figure household incomes.

This means that FSRs are heavily dependent on dinner occasions, and that dinner occasions are heavily dependent on high income levels. The domino effect of an economic recession will therefore have a significant impact on this part of the foodservice industry. As mentioned above, FSRs' revenues declined following the 2008-09 financial crisis while QSRs' actually saw increases. Considering unemployment is even higher now than it was at that time means that FSRs are under even greater threat.

FIGURE 33: FSR DINNER VISITS, BY HOUSEHOLD INCOME, APRIL 2020

*"For which of the following meals/occasions did you visit each of these restaurant types in the past three months? Please select all that apply per restaurant type."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

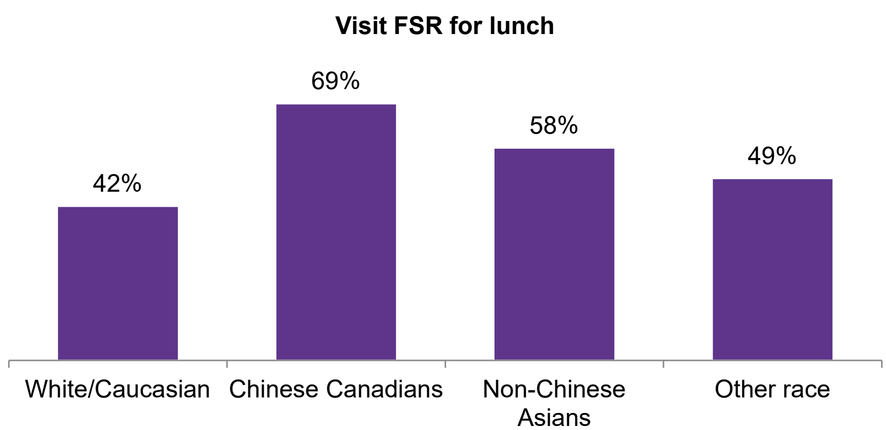
### Using dayparts to uncover opportunities for FSRs

To say that FSRs will suffer as a result of COVID-19 is an obvious prediction. But the more important discussion should be what these companies can do about it. In particular, this daypart approach can provide more tactical guidance to how FSRs can navigate the new normal.

For instance, this is a stark reminder of the vulnerability of an industry depending too much on one particular product or service – in this case, dinner occasions. FSRs could react to this crisis by broadening their scope to drive traffic at other dayparts. Prior to the crisis, only half of FSR consumers visited at lunch and one in five for breakfast/brunch. But these occasions typically cost consumers less than dinner occasions – driven by smaller portions (eg lunch menus), lower-priced menu items (eg eggs, sandwiches) and lower incidence of expensive alcohol purchases. While restaurants would certainly prefer to have consumers visit during the profitable dinner hours, these breakfast/brunch and lunch occasions may be necessary for some to survive the crisis and its fallout. This is especially true if reopening regulations require social distancing that limits the number of diners in restaurants at a given time – meaning they will have to be spread more throughout the day rather than squeezed into the 6-8pm dinner hours.

FIGURE 34: FSR LUNCH VISITS, BY RACE, APRIL 2020

*"For which of the following meals/occasions did you visit each of these restaurant types in the past three months? Please select all that apply per restaurant type."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

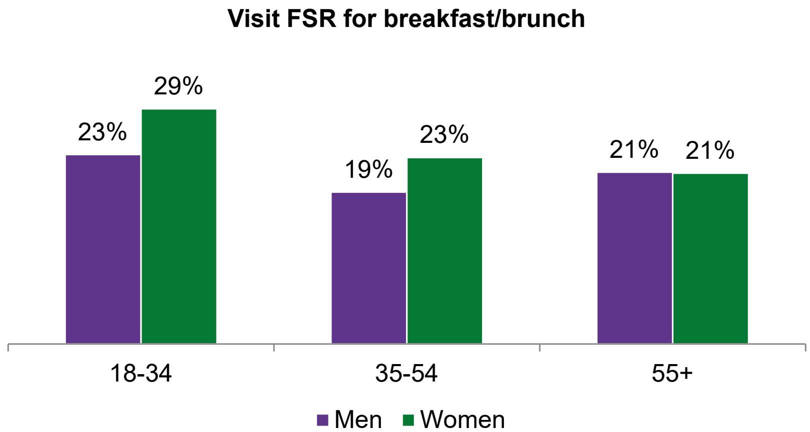
Source: Lightspeed/Mintel

Like QSRs, it could help to target consumer groups who are already more likely to visit FSRs for breakfast/brunch or lunch. For instance, 69% of Chinese Canadian FSR consumers visit at lunch, while other Asian consumers are also overdeveloped at this daypart. For restaurants that operate in regions with significant Chinese and other Asian communities, there is an opportunity to connect with them as a way of driving traffic for lunch occasions. And this simultaneously highlights the value of building a restaurant and brand that resonates with a diverse collection of consumers – as those that already have a connection with these consumer groups are in a better position today.

Though not as significant, there are also demographic differences at breakfast/ brunch. In particular, young women are the most likely to visit FSRs for these occasions. This behaviour may be driven more by the brunch occasion than breakfast. Interestingly, an *NPR* article on the history of brunch found that a major spark for the success of brunch in the 1950s was that combining breakfast and lunch on Sundays meant one fewer meal for women to prepare for their families – and that it was ultimately marketed to them as a kind of liberating activity. While we are a long way from those days, that foundation of marketing the brunch occasion to women could be why it still resonates today – reflected by the annual ritual for many to have brunch on Mother's Day. But whatever the reason for this overdevelopment, it shows that FSRs could use the early-day meal occasions to attract young women and mitigate the losses they will likely experience at dinner.

## FIGURE 35: FSR BREAKFAST/BRUNCH VISITS, BY AGE AND GENDER, APRIL 2020

*"For which of the following meals/occasions did you visit each of these restaurant types in the past three months? Please select all that apply per restaurant type."*




Base: 1,316 internet users aged 18+ who have visited an FSR in the past three months

Source: Lightspeed/Mintel

There is no perfect solution for FSRs here. Whereas QSRs have the opportunity to make up for losses by stealing from FSRs, full-service restaurants have no such outlet. Some lower-priced restaurants may be able to attract diners from the more expensive establishments, but the FSR industry as a whole will likely see declines with so much of a focus on dinner. These above-mentioned tactics around daypart diversification – specifically for breakfast/ brunch and lunch – are ways of fighting back against these inevitable losses. By looking at their restaurants through the lens of different dayparts rather than one broad business, these companies have a better chance at strategically identifying opportunities and limiting vulnerabilities amid the COVID-19 crisis and its ripple effects in the future.

# The Role of Technology in Restaurants

## Tablets can be a useful tool to improve FSR dining experiences

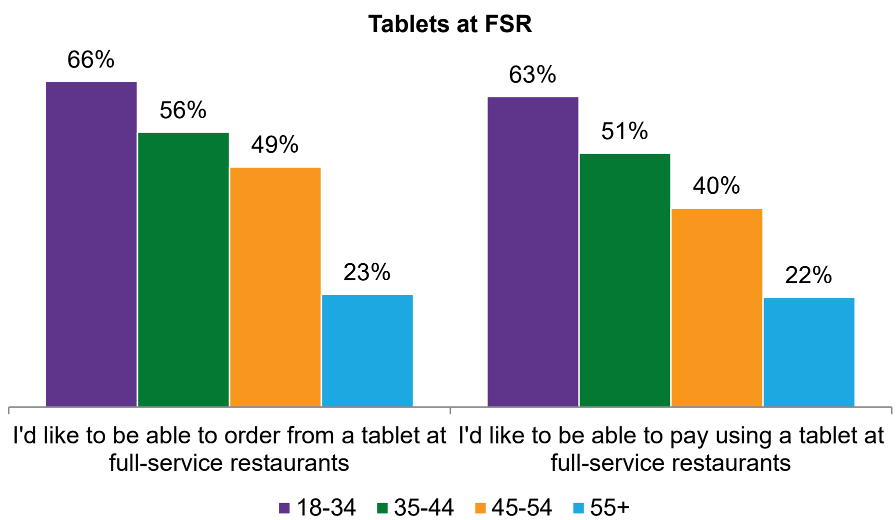
Digital tech has already been used in several ways in the QSR industry. According to Mintel's *Quick Service Restaurants – Canada, June 2019* Report, 44% of QSR consumers have used a self-order kiosk, 38% have used a digital coupon, 35% have used a mobile loyalty program and 27% have used a mobile pre-order/pick-up service. Considering how integral speed, efficiency and convenience are to QSRs, it is no surprise that they are on the leading edge of digital tech in restaurants – but there are ways for FSRs to leverage customer-facing technology too.

One specific way to do this is by using tablets in restaurants. Several US FSR chains have been utilizing tablets for ordering and payments for years; Chili's announced it would be rolling them out in 2013, while Applebee's did the same shortly after. Canadian restaurants have been slower to adopt these devices, but there are signs that some are starting to install them – such as a *CBC* article on a Crabby Joe's location in Ontario that is using tablets to make up for labour shortages.

These tablets would resonate with many consumers. Overall, 47% of restaurant-goers say they would like to be able to order via tablet at FSRs, while 44% would like to be able to pay through the tablet rather than waiting for a server. Not surprisingly, age is a major factor in this interest; 18-34s are three times as likely to be interested in these innovations as over-55s.

FIGURE 36: TABLETS AT FSR, BY AGE, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

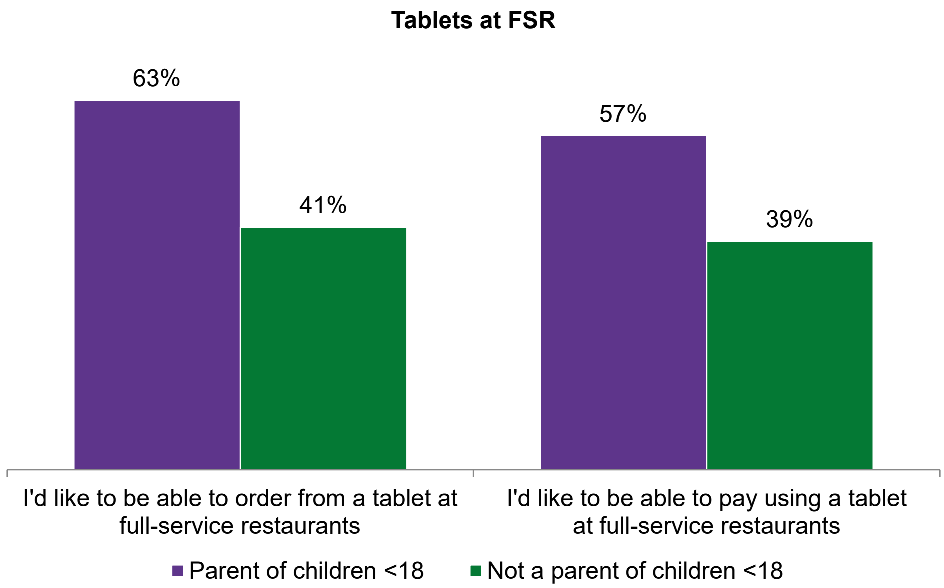
This age skew is consistent with other findings around automation. According to Mintel's *Quick Service Restaurants – Canada, June 2019* Report, only 49% of over-55s have used or are interested in using self-order kiosks – compared to 65% overall and 75% of 18-34s. Similarly, Mintel's *Attitudes Toward Technology and the Digital World – Canada, December 2019* Report found that 43% of consumers would visit a store that was completely automated – but that proportion was just 27% among over-55s. This shows that tech innovations in restaurants will not make every guest happy and that restaurants that cater to an older demographic may need to be careful about implementing tablets. Meanwhile, those that have a younger clientele – or are looking to attract younger consumers – can leverage tablet ordering knowing that many of them are interested in it.

Another consumer group that would find these tablets particularly valuable is parents. Part of that interest is driven by the fact that parents skew younger; among 18-44s, there is no significant difference in interest among those with and without kids. Nevertheless, 59% of consumers who pick an FSR based on its family-friendliness are interested in tablet ordering (vs 47% overall) and 54% are interested in tablet payments (vs 44% overall). Therefore, while the higher interest among parents may be driven by their age, the reality is still that family-oriented restaurants should be some of the first to implement tablets at tables since they can be valuable for parents who want more control of their dining experience when out with their kids.

One more notable benefit of these tablets is to support with language barriers. Consumers whose home language is neither English nor French are significantly more likely to be interested in tablet ordering and payments. A likely reason for this is that they may not be totally comfortable interacting with a server in a language that is secondary to them (ie English, French). As a result, the opportunity to use a tablet to read and order at one's own pace is an attractive concept. Furthermore, these tablets could easily build in a multitude of languages so that all patrons can quickly switch to whatever they are most comfortable with. Restaurants located in tourist areas and communities with a diverse collection of languages other than English or French should consider using these tablets at tables to make their guests more comfortable and give them a more enjoyable dining experience.

## FIGURE 37: TABLETS AT FSR, BY PARENTAL STATUS, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*

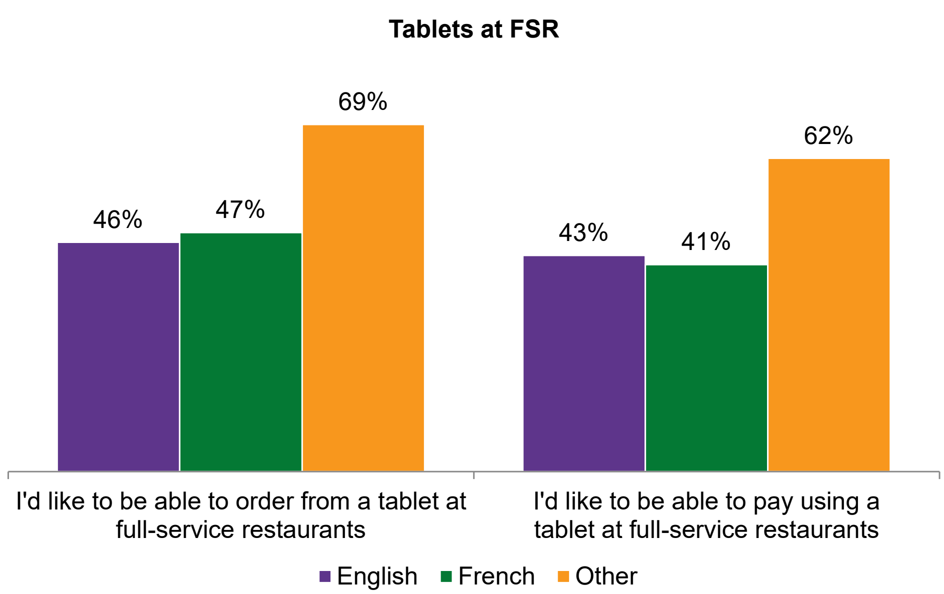



Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

## FIGURE 38: TABLETS AT FSR, BY LANGUAGE SPOKEN AT HOME, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

Of course, implementation of these tablets at tables is no simple task. It would cost restaurants a significant amount of money up front to purchase the devices, as well as acquiring the software necessary to fit their menu. Furthermore, the risk of damage or theft means that there would likely be ongoing overhead costs. And employee satisfaction may diminish if tablet orders result in lower tips. Put simply, this strategy is not for everyone.

For those businesses that do not want to invest in the hardware, they can also leverage consumers' smartphones. In order to minimize contact in restaurants, some establishments are putting QR codes on each table, which diners scan with their smartphones so that they can see the full menu on their own devices. PayPal has even introduced payments via QR codes so that the entire dining experience can be done digitally on one's own phone. Although this would depend on diners having the proper devices and know-how to go through the process efficiently, it is a way to get digital tech into restaurants without the need to purchase tablets for each table.

This digital technology presents many opportunities to restaurateurs who invest in it. The above consumer research shows that many people are interested in it, meaning that these tablets could drive traffic from those diners who appreciate the convenience and speed provided. In addition, a streamlined ordering process via tablets would mean fewer miscommunications between guests, servers and the kitchen; orders coming straight to the kitchen from the guests via software are more accurate, minimizing costly mistakes. And if servers do not have to spend as much time at each table, they can cover more tables at any given time – meaning restaurants could lower staffing costs.

A strategy around tablets at tables should not be taken lightly, but has very clear benefits for those able to invest. And it highlights the broader capabilities that digital technology offers to full-service restaurants. The leading QSRs have invested in tech as a way of keeping ahead of the curve with consumers through kiosks and mobile apps – so it is likely just a matter of time before consumers expect FSRs to leverage tech in a way that improves their experiences as much as possible.

## Tech could be a creative solution to COVID-19 challenges

The COVID-19 crisis has turned in-restaurant tech from an intriguing investment option to a potentially vital tool for survival – for both FSRs and QSRs. As discussed above, tech can make dining occasions more convenient for consumers, meaning they could be an effective tactic to spark demand coming out of the crisis. But they also present unique value specific to new challenges that have emerged from the crisis.

For instance, tech in restaurants can minimize the amount of contact that consumers need to have with staff – thereby limiting any risk of viral transmission. A concept restaurant in Toronto, called Box'd, is opening Canada's first fully automated dining experience. Customers order via app or kiosk, then their meals will be put into a specific cubby for pick-up when ready – meaning the kitchen staff who prepares the meal is also the person who puts it in the cubby, cutting out the need for any front-facing server staff and meaning that diners do not need to come within two metres of anyone throughout their entire visit.

FIGURE 39: PARAMOUNT FINE FOODS INSTAGRAM POST, JUNE 2020


Source: Instagram – Paramount Fine Foods/Mintel

Another clear benefit is the potential for cost efficiencies – which will be incredibly valuable to find during such challenging times. While digital tech in restaurants requires significant upfront investments, they could help bring down day-to-day variable costs – specifically labour. A brand like McDonald's has already been doing this for years, using its mobile app and self-order kiosks to reduce the need of cashiers to just one or two staff at any given time. And as discussed above, tablet ordering at FSRs means fewer servers are needed to cover a dining room. Therefore, digital tech in restaurants is even more relevant at a time like this and this crisis could be a catalyst that gets more of those innovations into the industry sooner than expected.

## Online research plays a significant role in the foodservice industry

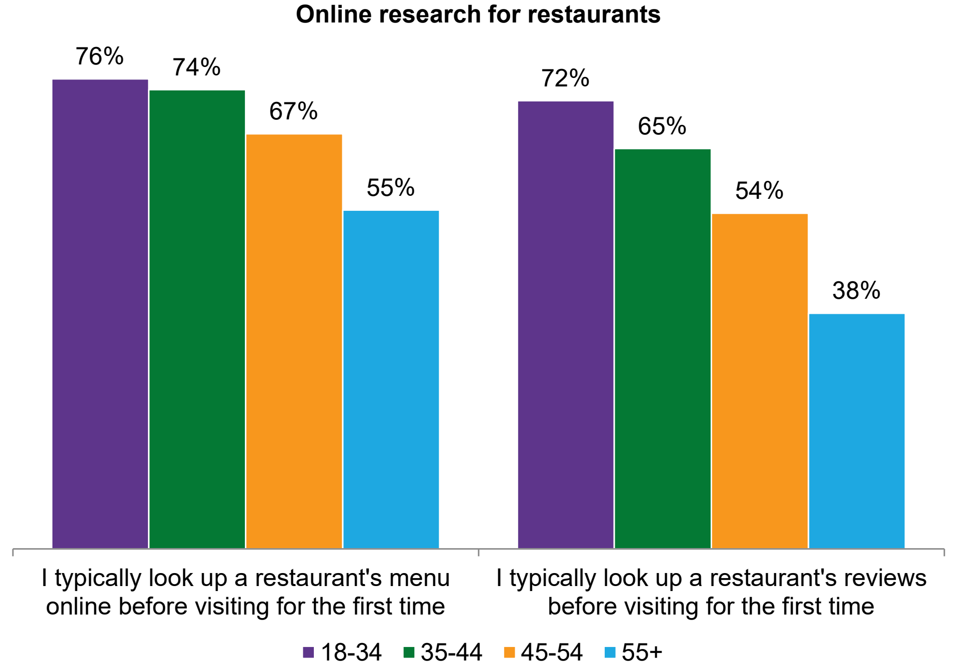
While it is up to companies whether they want to include digital tech like tablets in their restaurants, there are some tech innovations that are taking place whether they like it or not. Specifically, the internet has become a central resource to research restaurants before visiting.

Overall, 67% of restaurant consumers say they typically look up a menu online before visiting a restaurant for the first time – and 57% typically look up reviews. Like interest in tablets, this behaviour is heavily skewed by age; approximately twice as many 18-34s are looking up restaurant reviews as over-55s. Young women are especially likely to read restaurant reviews – 84% of 18-24 year old women typically do so before visiting a new restaurant.

Research ahead of restaurant visits is also more common among Asian consumers. In particular, the vast majority of them look up reviews before trying a new restaurant – which is a significantly higher proportion than any other group. This suggests that restaurants catering to Asian consumers – either based on their menus or the demographic makeup of the restaurant's location – need to be highly aware of the impact their online reviews have.

FIGURE 40: ONLINE RESEARCH FOR RESTAURANTS, BY AGE, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*

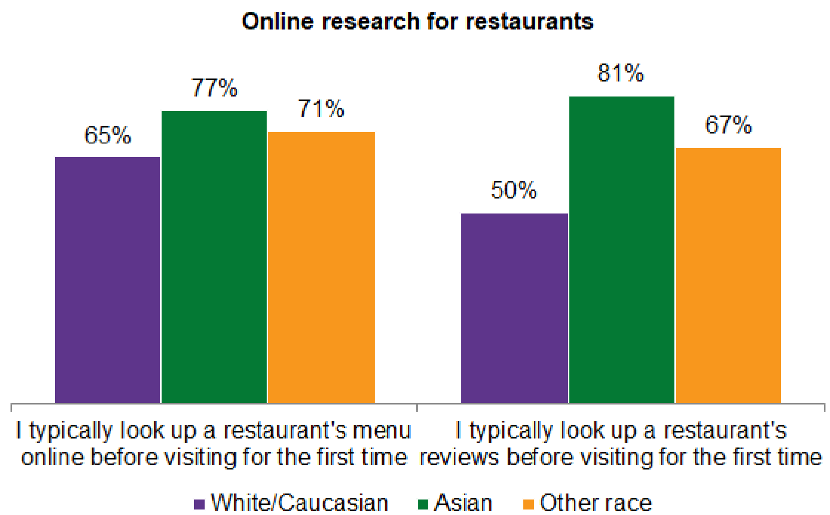



Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

FIGURE 41: ONLINE RESEARCH FOR RESTAURANTS, BY RACE, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

Restaurants that try to innovate and offer new and exciting dishes need to be especially aware of these behaviours. Consumers who choose an FSR because they want something new/different are significantly more likely than average to look up reviews before visiting a restaurant (71% vs 57% overall) – probably because they want to know what it is that is new and different about these establishments. This is not necessarily a problem, but means that restaurants looking to push the boundaries and create unique experiences need to be aware that they are under more of a microscope online than businesses that stick to traditional restaurant practices.

These behaviours have multiple implications for restaurateurs. The first is that it is integral that they set up a good website with an informative menu. A lack of any web presence will make it extremely difficult to attract new customers – especially young ones – since many will move onto the next option when they cannot find a menu online. Furthermore, it is also important to keep those sites up to date since consumers are depending on them to be informative about what they can expect if they decide to visit.

Online reviews are much more difficult to control than company websites, but there are still actions that restaurants can take to support them. The most obvious is to offer great food and service so that online reviews are organically positive and drive more visits – but that has been the optimal strategy since long before the internet existed. More specifically, restaurants that are confident that they offer a superior experience can put effort into encouraging consumers to review them online. Whether it is a request from a server or even just a tabletop stand that directs diners to sites like Yelp or Google, it could help to ask satisfied customers to share their experiences.

Inevitably, though, restaurants will receive some negative feedback on these platforms. Knowing how important these reviews are, companies can proactively respond to those customers who were not entirely pleased with their experience. Not only will it potentially encourage that customer to return and give the restaurant another chance, but others who visit the review site will see that the company is actively trying to improve itself and respond to its guests' problems – an assuring sign for diners looking to try a new place.

Ultimately, restaurateurs need to know that digital technology is getting an increased role in the foodservice industry. Companies do not necessarily have to embrace it by investing in tablets, self-order kiosks or mobile-ordering apps, but they do have to acknowledge that most consumers are using the internet to decide whether or not to visit them – meaning their best strategy is to proactively create a positive web presence that makes people want to dine there.

# Menu Item Promotions

## Restaurants need to do cost-benefit analysis on promotions

Menu promotions are a tactic that restaurants consistently leverage to drive traffic and sales – and there is a wide array of promotions they can use. Menu innovation often takes place via these promotions, either with entirely new items or variations of a current dish – such as adding bacon to a burger or a new sauce to a sandwich. Alternatively, businesses can also offer a discounted price for existing menu items in the hopes that it will drive traffic overall, or at least motivate regular customers to try something different.

Mintel's research shows that these three tactics – new menu items, new flavours/toppings and discounted existing items – have a similar level of appeal among consumers. On its surface, it suggests that any one of those tactics will perform comparably in terms of driving demand. But restaurants need to consider the cost-benefit analysis of these different promotions.

Specifically, two of the leading promotions – new menu items and new flavours/toppings – require innovation, research and development. This is especially true for large chains, which need to test their different innovative ideas and then determine the feasibility of procuring the necessary ingredients for all of their locations and properly training staff to make it – in addition to the risk that the item is not well received and underperforms its sales forecasts. Alternatively, the main cost of discounting an existing menu item is simply the revenue lost due to the lower price.

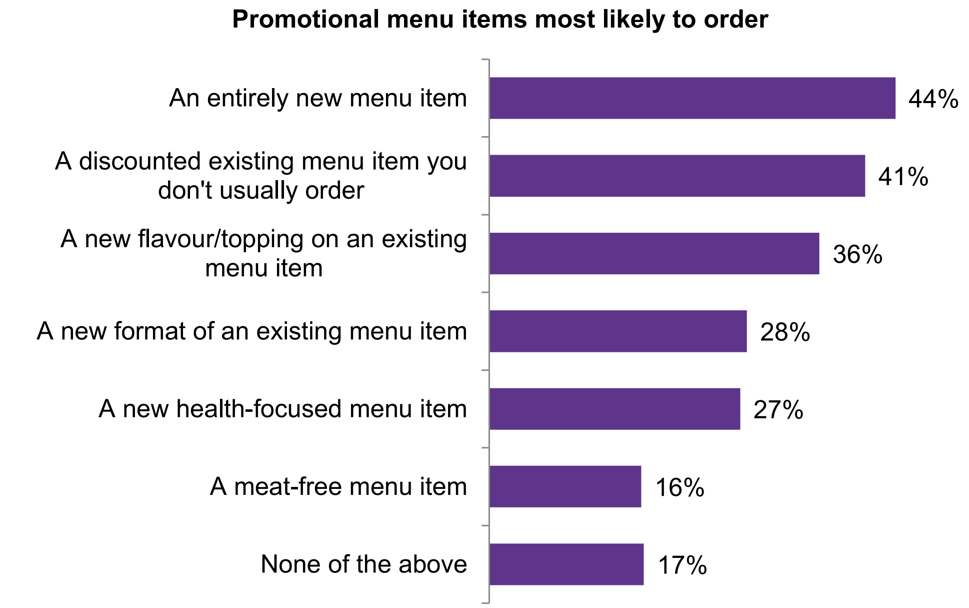
This is not to say that restaurants should not be innovative with their menus or try new things. But it illustrates that there are many cases where the less exciting tactic – discounting instead of innovating – is the more prudent step to take. When considering promotions around new menu items, businesses should think of the cost-benefits of that initiative in comparison to a simpler discounting strategy; or at the very least, innovate more efficiently with a new flavour/topping rather than creating an entirely new dish.

Interest in entirely new menu items does not have any major demographic skews, including gender, age, income, race or region. Meanwhile, new flavours/toppings skew to younger consumers; in fact, the likelihood of ordering an entirely new menu item is essentially the same as ordering an existing item with a new flavour/topping among under-55s. This is further evidence that businesses should be thorough when considering introducing an entirely new menu item – because it is very possible that a tactic that requires much less investment (ie a new flavour/topping) could attract just as many consumers.

In recent years, McDonald's has been employing this tactic with its long-running burger menu. In 2019, it promoted its QPC BLT – a Quarter Pounder with Cheese with added bacon, lettuce and tomato. While the actual cost of innovation was minimal, the brand was able to promote it like it would its other new time-limited offers.

FIGURE 42: PROMOTIONAL MENU ITEMS MOST LIKELY TO ORDER, APRIL 2020

*"Which of the following promotional menu items would you be most likely to order from a restaurant you regularly visit? Please select all that apply."*



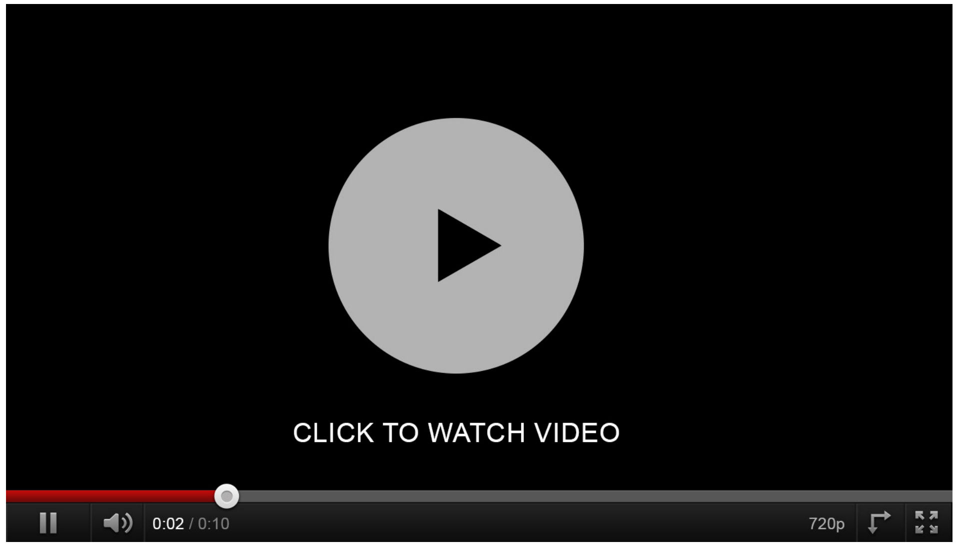

Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

More recently, it brought back the Big Mac Bacon, which is simply a traditional Big Mac with bacon on top. The company highlighted the simplicity of this new product by starting the debate of whether or not it is still a Big Mac once bacon is added. Between the two promotions, McDonald's just used products it already carried (bacon, lettuce and tomato) to create two new menu items – which requires significantly less investment and procurement than entirely new products would.

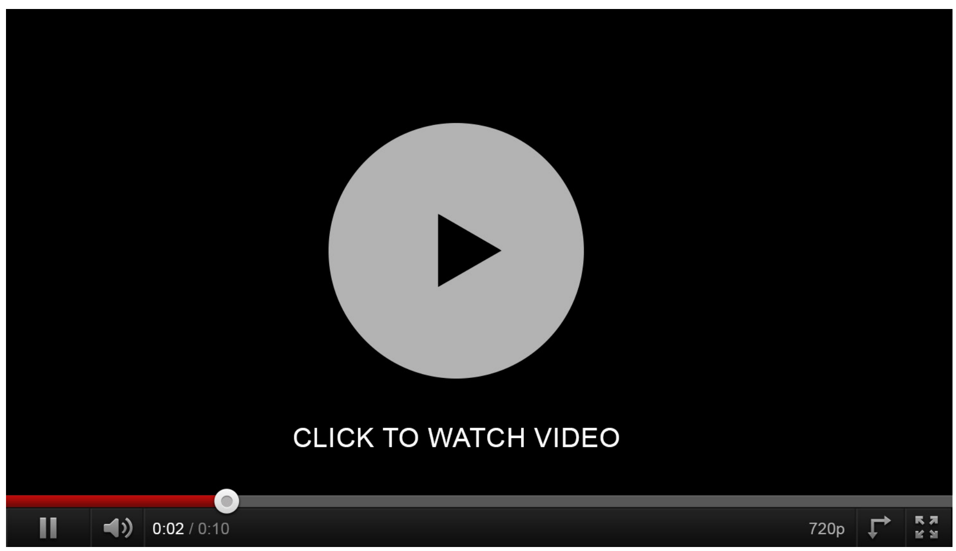
As discussed earlier in this Report (see FSR Usage, Visit Drivers and Ordering Behaviours), familiarity outweighs something new/different for a lot of consumers. Restaurants should not be afraid to keep it simple and should be critical of their own innovations to ensure that there is a profitable plan in place to benefit from introducing and promoting new items. At a time when the restaurant industry is particularly challenged amid COVID-19 (see Market Factors) it is especially important to ensure that every dollar invested pays off profitably – meaning businesses should implement the promotional tactics that provide the best return on investment, even if it is as basic as a price discount.

## FIGURE 43: QPC BLT | MCDONALD'S CANADA, JANUARY 2019




Source: YouTube – McDonald's Canada/Mintel

## FIGURE 44: BIG MAC BACON | MCDONALD'S CANADA, JUNE 2020




Source: YouTube – McDonald's Canada/Mintel

## Health and plant-based promotions should only be used strategically

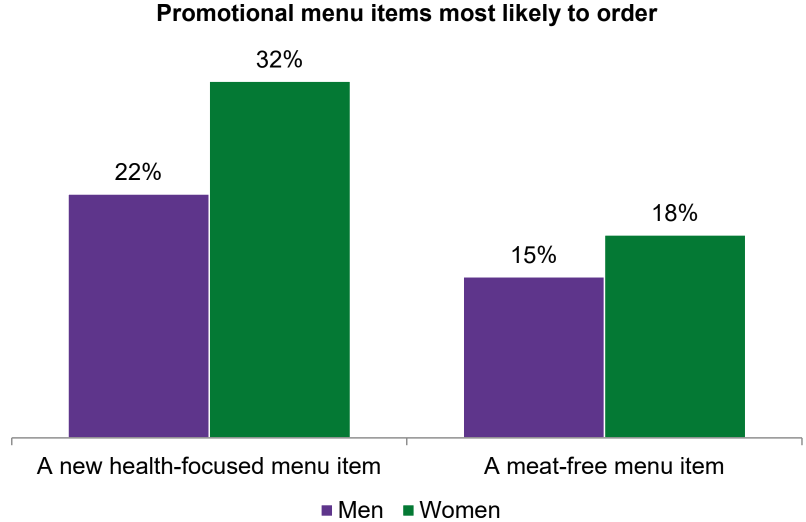
Restaurants need to be aware of how to selectively use different tactics to drive their business; there is not a one-size-fits-all solution that they can use every time. That point is illustrated by the relatively small proportion of consumers who say that they would be likely to order a new health-focused menu item (27%) or a meat-free menu item (16%). In comparison to entirely new menu items, new flavours/toppings and discounting existing products, these tactics are significantly less effective.

Yet restaurants can still use healthy and meat-free options in a more targeted approach to augment the more widely accepted promotions that can appeal to the masses. For instance, women are significantly more likely than men to be interested in these promotions – especially more health-focused items.

These tactics can also be used to attract consumer groups of certain ethnicities. For instance, South Asian consumers are particularly likely to be interested in health-focused (42%) and meat-free (25%) menu item promotions – likely driven in part by ethnic cuisines that are more vegetarian-focused. For restaurants that cater to a clientele with a significant proportion of South Asian consumers, these tactics would resonate more than for other businesses. Furthermore, health-focused and meat-free menu items that take inspiration from these ethnic cuisines would be more likely to succeed.

FIGURE 45: PROMOTIONAL MENU ITEMS MOST LIKELY TO ORDER: HEALTH-FOCUSED AND MEAT-FREE ITEMS, BY GENDER, APRIL 2020

*"Which of the following promotional menu items would you be most likely to order from a restaurant you regularly visit? Please select all that apply."*

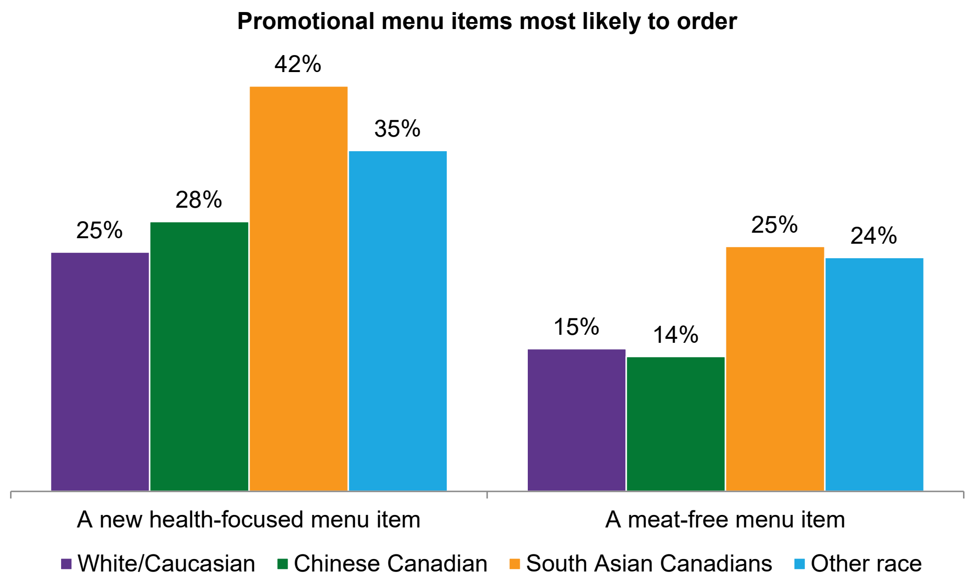



Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

FIGURE 46: PROMOTIONAL MENU ITEMS MOST LIKELY TO ORDER: HEALTH-FOCUSED AND MEAT-FREE ITEMS, BY RACE, APRIL 2020

*"Which of the following promotional menu items would you be most likely to order from a restaurant you regularly visit? Please select all that apply."*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

The key takeaway is that restaurants should not look to health-focused or meat-free menu innovations as promotional tools that will effectively drive traffic from a broad proportion of consumers. If the goal is simply to attract more diners to a restaurant, then new menu items, new flavours/toppings and discounting are much more likely to succeed. However, these health-focused and meat-free tactics do have the potential to cater to very specific groups of consumers – such as women and South Asian Canadians – as well as giving the restaurant brand the appearance of keeping up with emerging trends (see New Trends in Restaurants). And considering that more consumers are putting a higher priority on healthy eating and the environment as a result of COVID-19 (see Market Factors), now is an opportune time to use these tactics.

Therefore, when used in conjunction with other strategies – and with a specific goal in mind – these can be impactful promotions for restaurants to use. But in the same way that restaurants should think critically about whether menu innovation promotions can be as profitable as basic discounts, they also have to have a particular reason to leverage healthy and meat-free items and an explicit objective. In other words, these promotions can ultimately benefit a restaurant if deployed effectively and for the right reasons – but implementing healthy or meat-free promotional strategies for no purpose other than to keep up with trends risks losses for businesses, since relatively few people overall are actually interested in these types of food.

# New Trends in Restaurants

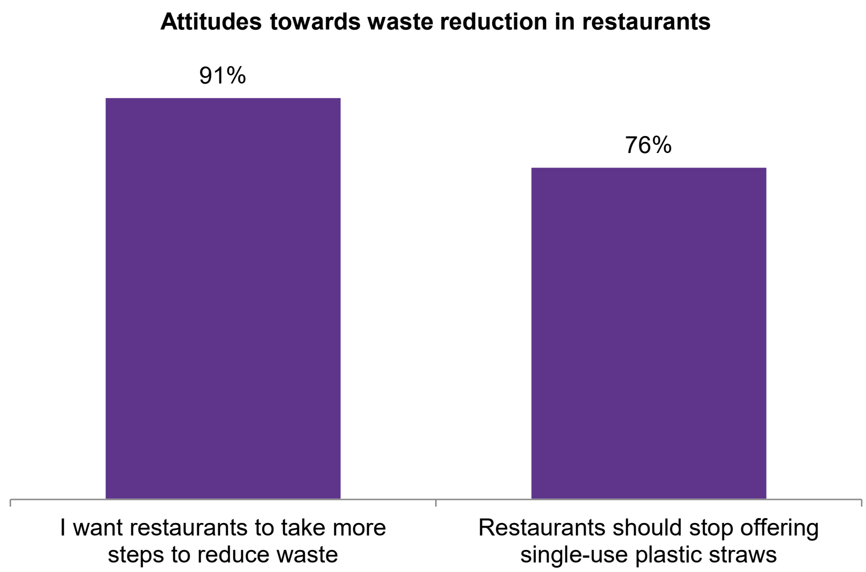
## Consumers are becoming more environmentally conscious

Restaurants need to be responsive to the broader trends going on in the world around them. Specifically, with increasing focus on the planet's health and the consequences of climate change, consumers are thinking about how they can be more mindful of the environment.

According to Mintel's *Sustainability in Food – Canada, February 2020* Report, these issues are already top of mind in the food and drink industry. That Report found that 63% of consumers are worried about packaging waste, 58% about food waste and 56% about pesticide use; overall, 91% have at least one environmental concern about the food and drinks in stores. Furthermore, Mintel's Trend Driver ***Surroundings*** and its ***Sustainability*** Pillar show that the majority of Canadians (81%) try to act in a way that is not harmful to the environment.

FIGURE 47: ATTITUDES TOWARDS WASTE REDUCTION IN RESTAURANTS, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

In the foodservice industry, consumers are nearly unanimous about waste reduction. Nine in 10 (91%) FSR and QSR-goers want restaurants to do more to reduce waste. There are some slight demographic skews – such as 97% of women over 65 having this opinion vs 86% of 18-24 year old men – but the overall sentiment in the market is that consumers are looking for restaurants to find ways to create less waste.

Some brands are already taking steps to limit the amount of waste they create. Starbucks offers customers a 10 cent discount on drinks if they bring their own reusable cups, thereby reducing the number of disposable cups used. In 2019, McDonald's Canada announced two Green Concept Restaurants – one in Ontario and one in BC – that would test eco-friendly packaging such as fully re-pulpable cups, fibre lids, wooden cutlery and stir sticks, as well as paper straws. Many other brands are engaging in these steps to reduce waste – such as Tim Hortons and Swiss Chalet – which shows that they are responding to consumer demand.

One specific way that restaurants can limit waste is with their straws. Three quarters of consumers say that restaurants should stop offering single-use plastic straws. But while that is a large proportion when looked at on its own, it also provides valuable context about the kind of waste reduction consumers want. Nearly all consumers say that restaurants should take steps to reduce waste, yet only three quarters think that single-use straws should stop being offered. The gap between those two attitudes illustrates the challenges restaurants are facing with their environmental initiatives.

The issue is that most consumers acknowledge that waste should be reduced, but a significant proportion do not seem willing to make a relatively small personal sacrifice to do so. And there are few significant demographic skews, meaning this is a universal attitude across the market. For restaurants, this means that the most impactful waste reduction initiatives will be the ones that do not actually affect consumers negatively. For instance, making paper cups out of a new resource that is more recyclable or biodegradable – without a noticeable difference for consumers – is something that would resonate. Ultimately, there are still three quarters of consumers who want single-use plastic straws to stop being used – meaning it would likely be well received by the majority of people – but that gap shows how careful restaurants need to be before taking a step towards waste reduction.

**Using alternative proteins to give consumers a healthy, eco-friendly option**

Operations are not the only way that restaurants can be more conscious of the environment. Menu items are also an effective tool because they not only contribute to more sustainable agricultural practices, but also offer healthier options for consumers. Plant-based meat products like Beyond Meat and Impossible Foods have become more common in restaurants, and consumers are taking notice.

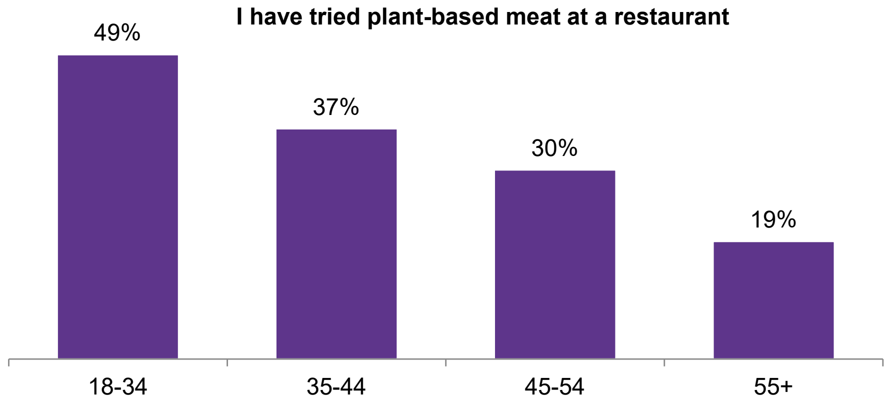
Overall, a third of restaurant consumers (34%) have tried a plant-based meat product while dining out. That behaviour skews heavily to younger consumers, with half of 18-34s trying these meat alternatives. Like many new trends in the industry – such as the usage of tech devices for ordering and paying – it is not a surprise that younger consumers are the most open to it. But it is a good reminder that companies should be aware of their current clientele and their targets to understand whether or not these menu items would resonate.

Notably, younger consumers have also put more of a focus on healthy eating amidst the COVID-19 crisis. They seem to be putting more of a focus on betterment in general; 47% of 18-24s and 40% of 25-34s put a higher priority on exercising as a result of COVID-19 (vs 29% overall). So restaurants can put a greater focus on plant-based meat marketing as they start to reopen, knowing that younger consumers will be more receptive after developing healthier habits during the pandemic.

This focus on healthy eating aligns with Mintel's ***Wellbeing*** Trend Driver. According to one of that Trend Driver's pillars, ***Nutrition***, 62% of consumers say that they put a lot of thought into what they eat. Therefore, consumers paying more attention to what they eat – and the ingredients in those products – will put a spotlight on products like plant-based meat that aim to improve health by reducing meat consumption. Notably, Maple Leaf Foods is already trying to bridge the gap between plant-based and actual meat products, by offering items that are half meat, half plant-based – which it calls "*meat for people who want to eat less meat*".

FIGURE 48: PLANT-BASED MEAT AT RESTAURANTS, BY AGE, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*

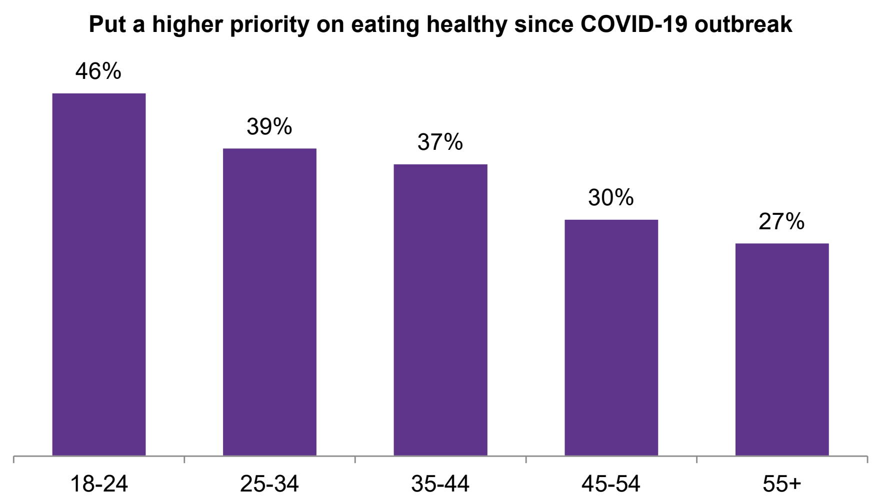



Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

FIGURE 49: HIGHER PRIORITY ON EATING HEALTHY, BY AGE, JUNE 2020

*"Since the COVID-19 outbreak, how have your priorities changed for the following?"*




Base: 2,000 internet users aged 18+, June 18-27, 2020

Source: Lightspeed/Mintel, Mintel's Global COVID-19 Tracker – Canada

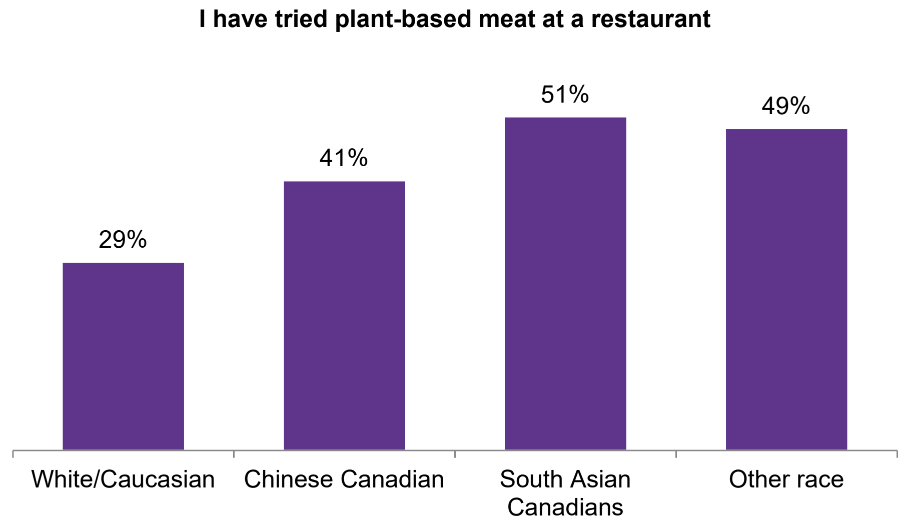
## FIGURE 50: MAPLE LEAF FOODS INSTAGRAM POST, JUNE 2020


Source: Instagram – Maple Leaf Foods/Mintel

Consumption of plant-based meat also varies across different races. White/Caucasian consumers are the least likely to have tried this type of food at restaurants, while 41% of Chinese Canadians and half of South Asian Canadians have. According to Mintel's *Plant-based Food & Drink – Canada, May 2019* Report, South Asian consumers are more likely than average to follow a vegetarian diet. Furthermore, Chinese Canadians are less likely than White/Caucasian consumers to have a carnivore diet (ie eat meat at most meals). Put simply, these races are generally more likely than average to avoid meat – which is a likely contributor to their higher consumption of plant-based meats. Like the age analysis above, restaurants should take stock of their current consumer base to better predict whether plant-based meats would be successful.

## FIGURE 51: PLANT-BASED MEAT AT RESTAURANTS, BY RACE, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

There are a few other noteworthy consumer groups more likely than others to have tried these products. Some 41% of BC consumers have tried plant-based meats in restaurants compared to just 30% of those living in the Prairie Provinces next to them – meaning restaurants in BC likely have the best opportunity to succeed with these items on their menus. Meanwhile, 46% of consumers who choose FSRs based on healthy menu items have tried plant-based meats, indicating that there is a health aspect for these products too. And more specifically, 49% of consumers who have visited Starbucks have tried plant-based meats in restaurants, meaning that the brand has a better opportunity than most to use these products on its menus (it already carries Beyond Meat) since it ties in closely to its current consumer base.

Taking a step back, there are common themes between emerging plant-based meat options and the waste reduction initiatives discussed above. Both strategies are ways for restaurants to be more responsible with what they offer their guests – but too much change too quickly could easily alienate consumers. Diners may say that they want a reduction in waste or be interested in plant-based meats as a way of eating healthier, reducing agricultural emissions and protecting animals. But ultimately, restaurant visits come down to the convenience and dining experience they offer – so consumers may not actually be willing to make the sacrifices that go along with these attitudes.

A good example of a restaurant brand that has successfully balanced marketing messages around these initiatives without changing the foundation of its dining experience is A&W. In 2013, it launched its Better Beef campaign, touting its beef as steroid- and additive-free. Soon after, the strategy was expanded to its chicken products too.

Establishing its focus on quality ingredients and better eating, it evolved to offer Beyond Meat burgers in its restaurants. Today, its menu includes a Beyond Meat sausage breakfast sandwich, Beyond Meat burger, as well as a limited time offer of plant-based nuggets in BC and Ontario at the end of 2019.

## FIGURE 52: A&W CANADA TWITTER POST, OCTOBER 2014


Source: Twitter – A&W Canada/Mintel

## FIGURE 53: A&W CANADA TWITTER POST, OCTOBER 2018

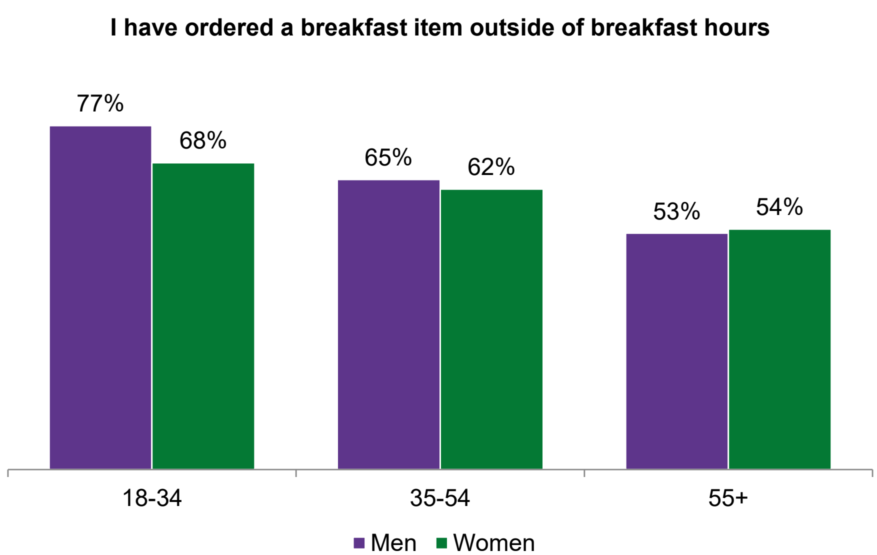

Source: Twitter – A&W Canada/Mintel

## FIGURE 54: BURGER KING TWITTER POST, JULY 2020


Source: Twitter – Burger King/Mintel

## FIGURE 55: ORDERED BREAKFAST ITEMS OUTSIDE OF BREAKFAST HOURS, BY AGE AND GENDER, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

And to curb waste, it offers its dine-in guests drinks in glass mugs, fries in reusable baskets and plated breakfast options on ceramic plates with stainless steel cutlery. These tactics help the restaurant reduce waste while actually upscaling the experience for diners.

Burger King is also implementing operational changes that have minimal impact on the consumer, but help the brand stand out. In July, the chain announced that it would be changing the diet of its cows in order to reduce their methane emissions. Like A&W, this allows the brand to market itself as environmentally conscious while not making any changes to consumers' experiences.

The key takeaway here is that restaurants need to be aware of a cultural shift towards environmental awareness and take steps to reduce the waste that they create. Mintel's ***Rights*** Trend Driver illustrates how companies can relate to consumers; its ***Respect*** Pillar shows that 58% of consumers prefer to be associated with companies/brands that align with their values. Taking these kinds of distinct positions on important topics like sustainability creates opportunities to connect with consumers at a deeper level.

However, restaurants still need to be very strategic about how they actually engage in these tactics. Any changes that are too drastic or take away from the dining experience will ultimately result in lost traffic, even if the intent behind them was noble. Therefore, restaurants need to think about all aspects of their operations and where they can reduce waste – and then focus on the areas that will have the least impact on consumers. Making customers feel better about their purchase while offering the same experience they have come to expect is the ideal that companies should be striving for.

## Consumers want what they want, when they want, where they want

Another emerging trend in the restaurant industry is a blurring of lines between categories that used to be clearly defined. Now, a consumer can go to McDonald's for dinner and order an Egg McMuffin, have their favourite dish from their local pub delivered right to their door, or sit down for lunch in the middle of a trip to the grocery store; the industry is more flexible than it ever has been.

In 2017, both McDonald's and A&W announced that they would be offering certain breakfast items all day rather than cutting those items off before lunchtime. By the summer of 2018, Tim Hortons announced that it would also offer all-day breakfast. In just a few years since these launches, nearly two thirds of consumers (63%) have ordered an all-day breakfast item outside of breakfast hours. That proportion skews younger – especially to young men, with nearly four in five having ordered all-day breakfast.

This behaviour has been slower to pick up in Quebec – only 53% have ordered all-day breakfast – but is consistent across the rest of the country. And while Asian (69%) and other non-White/Caucasian consumers (71%) are the most likely to use all-day breakfast menus, most White/Caucasian consumers have also done so (61%). This shows that these strategies by these brands have been successful in driving widespread consumer interest, but the larger learning here is how much consumers responded to an offer of flexibility. Diners were not necessarily clamouring to eat an egg sandwich for dinner, but they clearly appreciate that they now have the option to do so.

This demand for freedom and flexibility is also evident in the FSR industry. Platforms like Skip the Dishes and Uber Eats have accelerated a trend that brands like Swiss Chalet and Boston Pizza were already engaging in: delivery. Overall, half of restaurant consumers (51%) have gotten delivery from an FSR – and like all-day breakfast, it skews to young men.

Parents with kids under 18 are significantly more likely than non-parents to have ordered FSR to their homes (64% vs 45%). While this is driven by age (ie no difference in parents vs non-parents among 18-44s), it still shows that marketing efforts around this kind of delivery service should be targeted at parents since they are disproportionately high users of FSR delivery.

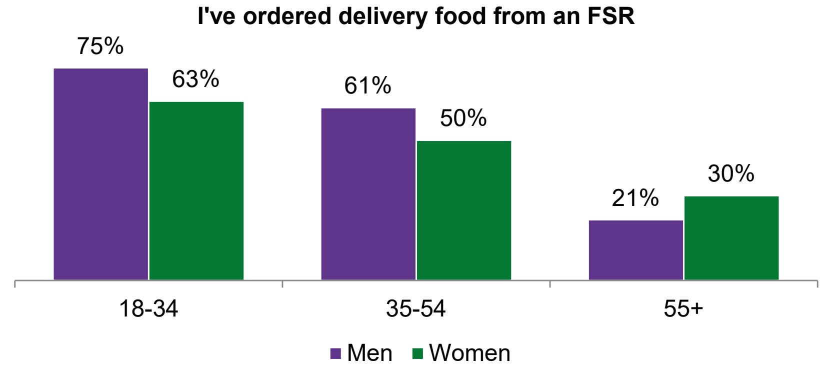
Finally, another initiative that is not yet as popular as all-day breakfast or FSR delivery – but similarly disruptive to traditional categorization of dining out – is eating in at grocery stores. HMR (home meal replacement) started in a very basic way – grocery stores would offer rotisserie chickens alongside a few other dishes that consumers could take home from their shopping trip as ready-to-eat meals. Over the years, it evolved into larger sections of stores and a more elaborate selection of dishes. Today, many grocery stores have dedicated space to tables and chairs where consumers can sit down and eat the ready-made food they have purchased – essentially replicating a restaurant experience. A third of consumers (32%) have dined in at a grocery store, but that proportion is nearly half among young men – who, as shown above, have been particularly responsive to these loosening foodservice categories.

These emerging behaviours all illustrate a broader trend in the consumer industry that restaurants need to be aware of.

Much like how consumers have gravitated towards Netflix and Spotify so they can have maximum control of their content on demand, they are taking advantage of restaurant initiatives that give them that same degree of flexibility and choice. Whether it is implementing some of the above tactics or finding other ways to be flexible, restaurants need to go forward with the understanding that consumers do not want restrictions on what they eat, where they eat or when they eat it.

## FIGURE 56: ORDERED DELIVERY FROM FSR, BY AGE AND GENDER, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*

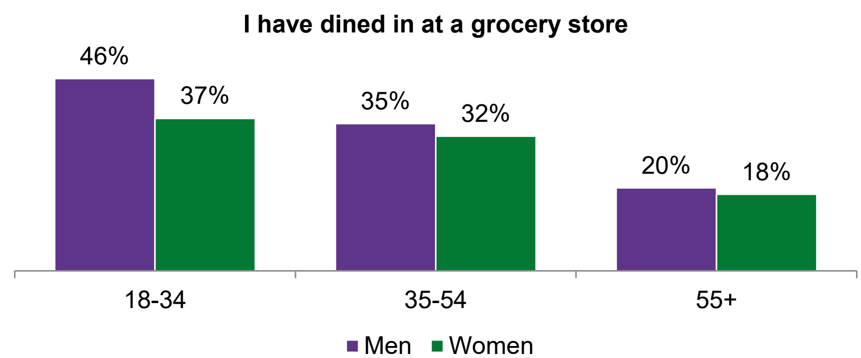



Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

## FIGURE 57: DINE IN AT A GROCERY STORE, BY AGE AND GENDER, APRIL 2020

*"Do you agree or disagree with each of the following statements about dining out?"*




Base: 1,785 internet users aged 18+ who have visited a QSR or FSR in the past three months

Source: Lightspeed/Mintel

# APPENDIX

# Data Sources and Abbreviations

## Data sources

### Consumer survey data

For the purposes of this Report, Mintel commissioned exclusive consumer research through Lightspeed to explore consumers' dining out behaviour and attitudes. Mintel was responsible for the survey design, data analysis and reporting. Fieldwork was conducted in April 2020 among a sample of 2,000 adults aged 18+ with access to the internet. Specifically, this survey was in field between March 26 and April 1, 2020 – which was after many provinces had closed restaurant dining rooms. Throughout the survey, respondents were asked to answer based on their past three months – meaning the findings in this Report are based on their behaviours through January, February and March 2020 (ie mostly before any closures occurred).

Mintel selects survey respondents by gender, age, household income and region so that they are proportionally representative of the Canadian adult population using the internet. Please note that Mintel surveys are conducted online and in English and French.

### Consumer qualitative research

In addition to quantitative consumer research, Mintel also conducted an online discussion group among a demographically mixed group of adults aged 18+. This discussion group was asynchronous (ie not run in real time), functioning like a blog or bulletin board, with questions remaining posted for a predetermined period of time. This method allows participants to respond reflectively, at their leisure, or to log off to think about any issues raised, and return later to respond. Participants were recruited from Lightspeed's online consumer panel with responses collected between May 29 and June 1, 2020. Relevant quotes are included verbatim, and as such, include typos and other grammatical errors as they originally appeared.

## Abbreviations and terms

The following is a list of abbreviations and terms used in this Report.

### Abbreviations

| | |
|---|---|
| **AI** | Artificial intelligence |
| **BC** | British Columbia |
| **CEBA** | Canada Emergency Business Account |
| **CECRA** | Canada Emergency Commercial Rent Assistance |
| **CEWS** | Canada Emergency Wage Subsidy |
| **FSR** | Full-service restaurants |
| **HHI** | Household income |
| **HMR** | Home meal replacement |
| **QR** | Quick response |
| **QSR** | Quick-service restaurants |
| **R&D** | Research and development |
| **US/USA** | United States/United States of America |

### Terms

| | |
|---|---|
| **COVID-19** | Disease caused by the novel coronavirus |
| **Dollar Drink Days** | McDonald's promotion that charged $1 for any size soft drink |
| **Fairtrade** | A product designation to help producers in developing countries achieve sustainable and equitable trade relationships |
| **Fast casual** | An intermediate concept between quick and full service. Typically includes higher-quality food and sometimes alcohol, but no table service |
| **Footlong** | A term used for a 12-inch sub sandwich |
| **Home meal replacement** | Fully prepared food items available at retail outlets like grocery and big-box stores |
| **Plant-based meat** | Food products using plant ingredients to attempt to replicate meat products like burgers and sausage |
| **Ritual** | An app/service that allows consumers to pre-order meals for pick-up from a wide selection of different restaurants, including independents |

# RESEARCH METHODOLOGY

# Canada Research Methodology

Mintel is an independent market analysis company that prides itself on supplying objective information on a whole range of markets and marketing issues.

There are six main sources of research that are used in the compilation of Mintel reports:

- Consumer research
- Social media research
- Desk research
- Trade research
- Statistical forecasting

Mintel reports are written and managed by analysts with experience in the relevant markets.

## Consumer research

Exclusive and original quantitative consumer research is commissioned for almost all Mintel reports. In addition, qualitative research is also undertaken for a large proportion of reports in the form of online discussion groups. Mintel invests a considerable sum each year in consumer research, and the purchaser of a Mintel report benefits, as the price of an individual report is less than the cost of the original research alone. The research brings an up-to-date and unique insight into topical issues of importance.

Consumer research is conducted among a nationally representative sample of internet users in Canada and is carried out by Lightspeed. The results are only available in Mintel reports. Note that Mintel's exclusive research is conducted online in both English and French.

Starting in July 2017, Mintel's consumer research has been conducted using a device agnostic platform for online surveys (ie respondents can now take surveys from a smartphone in addition to a computer or tablet). This methodology change may result in data differences from previous years; any trending should be done with caution.

## Sampling

**Online Surveys**

**Lightspeed**

Founded in 1996, Lightspeed's double opt-in U.S. online consumer panel contains approximately 1.27 million U.S. consumers. Lightspeed recruits its panelists through many different sources including web advertising, permission-based databases and partner-recruited panels.

*Note: Lightspeed GMI was re-branded as Lightspeed in September 2016.*

Mintel sets quotas on age and gender, region, and household income. Specific quotas for a sample of 2,000 adults aged 18+ are shown below.

Please note: these quotas are only representative of a standard General Population survey sample of 2,000 internet users aged 18+. Sample size, targets, and quotas may vary per report. Please see the Report Appendix for further details.

| Age groups by gender | % | N |
|---|---|---|
| Male, 18-24 | 8.1% | 161 |
| Male, 25-34 | 10.3% | 205 |
| Male, 35-44 | 8.1% | 161 |
| Male, 45-54 | 8.6% | 172 |
| Male, 55-64 | 7.6% | 153 |
| Male, 65+ | 7.4% | 148 |
| Female, 18-24 | 6.1% | 121 |
| Female, 25-34 | 8.4% | 168 |
| Female, 35-44 | 9.0% | 181 |
| Female, 45-54 | 8.7% | 175 |
| Female, 55-64 | 9.6% | 192 |
| Female, 65+ | 8.2% | 163 |
| **Total** | **100** | **2,000** |

| Region | % | N |
|---|---|---|
| Ontario | 39.5% | 789 |
| Quebec | 23.3% | 466 |
| British Columbia | 12.7% | 254 |
| Alberta | 11.8% | 236 |
| Saskatchewan | 2.7% | 53 |
| Manitoba | 3.7% | 74 |
| Atlantic Provinces (New Brunswick, Newfoundland/ Labrador, Nova Scotia, Prince Edward Island) | 6.4% | 128 |
| **Total*** | **100** | **2,000** |

*Mintel does not include rural regions such as the Yukon or the Northwest Territories (including Nunavut) in its research. Thus the consumer research data does not reflect opinions and behaviours of the population living in those areas.

| Household income | % | N |
|---|---|---|
| Less than $25,000 | 14.0 | 281 |
| $25,000 - $49,999 | 20.8 | 416 |
| $50,000 - $69,999 | 15.0 | 300 |
| $70,000 - $99,999 | 17.8 | 356 |
| $100,000 and over | 32.4 | 647 |
| **Total** | **100** | **2,000** |

## Secondary Data Analysis

In addition to exclusively commissioned surveys, Mintel gathers syndicated data from other respected consumer research firms. This allows Mintel analysts to form objective and cohesive analyses of consumer attitudes and behaviours.

## Qualitative Research

### Recollective

Recollective provides Mintel with online qualitative research software. This allows the creation of Internet-based, 'virtual' venues where participants recruited from Mintel's online surveys gather and engage in interactive, text-based discussions led by Mintel moderators.

## Further Analysis

Mintel employs numerous quantitative data analysis techniques to enhance the value of our consumer research. The techniques used vary form one report to another. Below describes some of the more commonly used techniques.

### Repertoire Analysis

This is used to create consumer groups based on reported behaviour or attitudes. Consumer responses of the same value (or list of values) across a list of survey items are tallied into a single variable. The repertoire variable summarises the number of occurrences in which the value or values appear among a list of survey items. For example, a repertoire of brand purchasing might produce groups of those that purchase 1-2 brands, 3-4 brands and 5 or more brands. Each subgroup should be large enough (ie N=75+) to analyse.

### Cluster Analysis

This technique assigns a set of individual people in to groups called clusters on the basis of one or more question responses, so that respondents within the same cluster are in some sense closer or more similar to one another than to respondents that were grouped into a different cluster.

### Correspondence Analysis

This is a statistical visualisation method for picturing the associations between rows (image, attitudes) and columns (brands, products, segments, etc.) of a two-way contingency table. It allows us to display brand images (and/or consumer attitudes towards brands) related to each brand covered in this survey in a joint space that is easy to understand. The significance of the relationship between a brand and its associated image is measured using the Chi-square test. If two brands have similar response patterns regarding their perceived images, they are assigned similar scores on underlying dimensions and will then be displayed close to each other in the perceptual map.

### CHAID analysis

CHAID (Chi-squared Automatic Interaction Detection), a type of decision tree analysis, is used to highlight key target groups in a sample by identifying which sub-groups are more likely to show a particular characteristic. This analysis subdivides the sample into a series of subgroups that share similar characteristics towards a specific response variable and allows us to identify which combinations have the highest response rates for the target variable. It is commonly used to understand and visualise the relationship between a variable of interest such as “interest in trying a new product” and other characteristics of the sample, such as demographic composition.

### Key Driver Analysis

Key driver analysis can be a useful tool in helping to prioritise focus between different factors which may impact key performance indicators (eg satisfaction, likelihood to switch providers, likelihood to recommend a brand, etc). Using correlations analysis or regression analysis we can get an understanding of which factors or attributes of a market have the strongest association or “link” with a positive performance on key performance indicators (KPIs). Hence, we are able to identify which factors or attributes are relatively more critical in a market category compared to others and ensures that often limited resources can be allocated to focusing on the main market drivers.

### TURF Analysis

TURF (Total Unduplicated Reach & Frequency) analysis identifies the mix of features, attributes, or messages that will attract the largest number of unique respondents. It is typically used when the number of features or attributes must be or should be limited, but the goal is still to reach the widest possible audience. By identifying the Total Unduplicated Reach, it is possible to maximize the number of people who find one or more of their preferred features or attributes in the product line. The resulting output from TURF is additive, with each additional feature increasing total reach. The chart is read from left to right, with each arrow indicating the incremental change in total reach when adding a new feature. The final bar represents the maximum reach of the total population when all shown features are offered.

## Social Media Research

To complement its exclusive consumer research, Mintel tracks and analyses social media data for inclusion in selected reports. Using Infegy’s Atlas software, Mintel ‘listens in’ on online conversations across a range of social platforms including Facebook, Twitter, consumer forums and the wider web.

Atlas provides rich consumer insight via the analysis of commentary posted publicly on the internet. The system performs comprehensive and broad collection of data from millions of internet sources, working to ensure a faithful and extensive sampling of feedback from the widest range of individuals. The dataset contains commentary posted in real time, as well as a substantial archive dating back through 2007.

## Trade research

### Informal

Trade research is undertaken for all reports. This involves contacting relevant players in the trade, not only to gain information concerning their own operations, but also to obtain explanations and views of the strategic issues pertinent to the market being researched. Such is Mintel’s concern with accuracy that draft copies of reports are sent to industry representatives, to get their feedback and avoid any misrepresentation of the market. These comments are incorporated into reports prior to final publication.

**Formal**

Internally, Mintel's analysts undertake extensive trade interviews with selected key experts in the field for the majority of reports. The purpose of these interviews is to assess key issues in the market place in order to ensure that any research undertaken takes these into account.

In addition, using experienced external researchers, trade research is undertaken for some reports. This takes the form of full trade interview questionnaires and direct quotes are included in the report and analysed by experts in the field. This gives a valuable insight into a range of trade views of topical issues.

### Desk research

Mintel has an internal team of market analysts who monitor: government statistics, consumer and trade association statistics, manufacturer sponsored reports, annual company reports and accounts, directories, press articles from around the world and online databases. The latter are extracted from hundreds of publications and websites, both Canada and overseas. All information is cross-referenced for immediate access.

Data from other published sources are the latest available at the time of writing the report.

This information is supplemented by an extensive library of Mintel's reports produced since 1972 globally and added to each year by the 500+ reports which are produced annually.

In addition to in-house sources, researchers also occasionally use outside libraries such as Statistics Canada and the Canadian Grocer. Other information is also gathered from store and exhibition visits across Canada, as well as using other databases within the Mintel Group, such as the Global New Product Database (GNPD), which monitors FMCG sales promotions.

All analysts have access to Mintel's Market Size and Macroeconomic Databases – a database containing many areas of consumer spending and retail sales as well as macroeconomic and demographic factors which impinge on consumer spending patterns..

The database is used in conjunction with an SPSS forecasting program which uses weighted historical correlations of market dynamics, with independent variables, to produce future spending scenarios.

## Statistical Forecasting

### Statistical modelling

For the majority of reports, Mintel produces five-year forecasts based on an advanced statistical technique known as 'multivariate time series auto-regression' using the statistical software package SPSS.

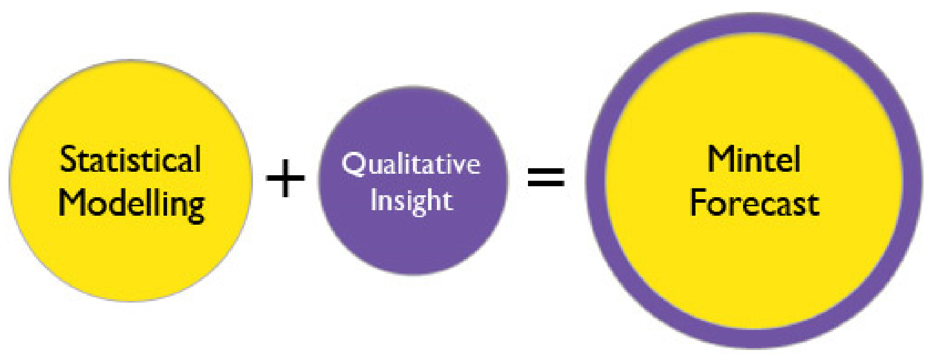
Historical market size data feeding into each forecast are collated in Mintel's own market size database and supplemented by macro- and socio-economic data sourced from organisations such as Statistics Canada, The Bank of Canada, The Conference Board of Canada and the Economist Intelligence Unit.

Within the forecasting process, the model searches for, and analyses relationships between, actual market sizes and a selection of key economic and demographic factors (independent variables) in order to identify those predictors having the most influence on the market.

Factors used in a forecast are stated in the relevant report section alongside an interpretation of their role in explaining the development in demand for the product or market in question.

**Qualitative insight**

At Mintel we understand that historic data is limited in its capacity to act as the only force behind the future state of markets. Thus, rich qualitative insights from industry experts regarding past and future events that may impact the market play a crucial role in our post statistical modeling evaluation process.



As a result, the Mintel forecast allows for additional factors or market conditions outside of the capacity of the data analysis to impact the market forecast model, using a rigorous statistical process complemented by in-depth market knowledge and expertise.

## The Mintel fan chart

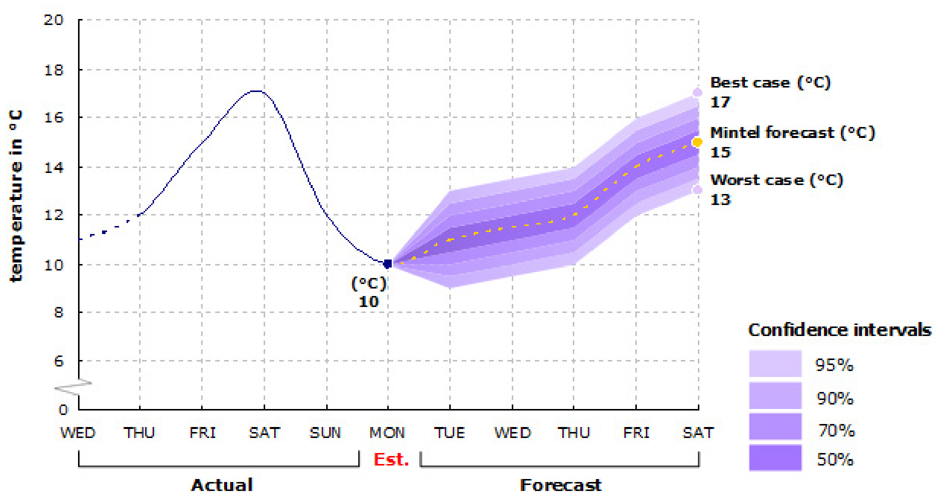
Forecasts of future economic outcomes are always subject to uncertainty. In order to raise awareness amongst our clients and to illustrate this uncertainty, Mintel has introduced a new way of displaying market size forecasts in the form of a fan-chart.

Next to historical market sizes and a current year estimate, the fan chart illustrates the probability of various outcomes for the market value/volume over the next five years.

At a 95% confidence interval, we are saying that 95 out of 100 times the forecast will fall within these outer limits, which we call the best and worst case forecasts. These, based on the statistically driven forecast, are the highest (best case) and lowest (worst case) market sizes the market is expected to achieve.

Over the next five years, the widening bands successively show the developments that occur within 95%, 90%, 70% and 50% probability intervals. Statistical processes predict the central forecast to fall within the darker shaded area which illustrates 50% probability, i.e. a 5 in 10 chance.

A general conclusion: Based on our current knowledge of given historic market size data as well as projections for key macro- and socio-economic measures that were used to create the forecast, we can assume that in 95% of the time the actual market size will fall within the purple shaded fan. In 5% of all cases this model might not be correct due to random errors and the actual market size will fall out of these boundaries.




### Weather analogy

To illustrate uncertainty in forecasting in an everyday example, let us assume the following weather forecast was produced based on the meteorologists' current knowledge of the previous weather condition during the last few days, atmospheric observations, incoming weather fronts etc.

Now, how accurate is this forecast and how certain can we be that the temperature on Saturday will indeed be 15°C?

To state that *the temperature in central London on Saturday will rise to exactly 15°C* is possible but one can't be 100% certain about that fact.

To say *the temperature on Saturday will be between 13°C and 17°C* is a broader statement and much more probable.

In general, we can say that based on the existing statistical model, one can be 95% certain that the temperature on Saturday will be between 13°C and 17°C, and respectively 50% certain it will be between about 14.5°C and 15.5°C. Again, only in 5% of all cases this model might not be correct due to random errors and the actual temperature on Saturday will fall out of these boundaries and thus will be below 13°C or above 17°C.

(To learn more about uncertainty in weather forecasts visit: http://research.metoffice.gov.uk/research/nwp/ensemble/uncertainty.html)

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