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Required Report - public distribution

Date: 11/1/2018

GAIN Report Number: CA18060

Canada

Food Service - Hotel Restaurant Institutional

2018

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Report Highlights:

In 2017, total Canadian food service sales reached \$65 billion. Steady growth in the food service sector, reaching five percent in 2018, helped to make Canada the #1 destination for U.S. high-value agricultural exports in 2018. This report focuses on the hotel, restaurant, and institutional (HRI) segments of Canada's food service sector.

Keywords: Canada, CA18060, Food Service, HRI, Hotel, Restaurant, Institutional

Post:

Ottawa

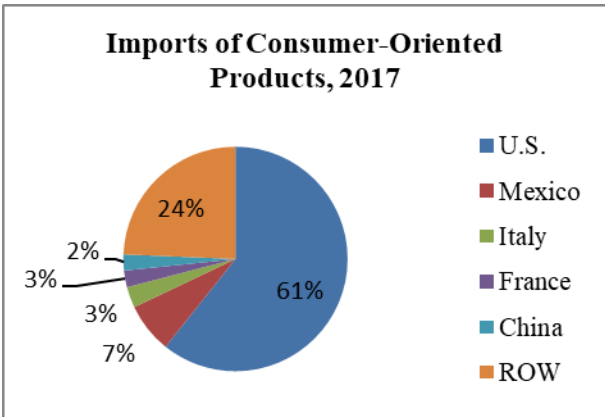
Market Fact Sheet: Canada

Executive Summary

The population of Canada is approximately 37 million and 90 percent of Canadians live within 100 miles of the U.S. border. In 2017, Canada was the leading export destination for U.S. agricultural exports. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports \$120 million worth of daily two-way trade in food and agricultural products. Last year, Canada’s commercial and institutional food service sales amounted to \$65 billion, an increase of five percent from 2016. Opportunities exist to expand U.S. food and beverage sales but as a mature market, it is imperative for U. S. food processors to study the market well.

Imports of Consumer-Oriented Products

U.S. exports of consumer-oriented products to Canada exceeded \$16.3 billion in 2017, nearly double the value of the next largest market, Mexico. The top U.S. export categories include prepared foods, fresh vegetables, red meats, fresh fruits, snack foods and processed fruits and vegetables.



Canada’s Food Service Market

Since 2014, Canada’s food service has steadily grown an average of 5 percent per year. The Canadian national restaurant industry group has projected 2018 growth rate at 4.3 percent. Between 2019 to 2021, food service sales are forecasted to grow each year by 4 percent per year.

The industry is divided into three subsectors: restaurants, accommodation, and institutional foodservice. Restaurants sales accounted for \$53 billion, or 80 percent, of total food service sales in Canada in 2018, followed by accommodation sales at \$6.8 billion and institutional sales at \$3.6 billion.

Total Food & Beverage Industry	\$224.0
Foodservice Sales	\$ 65.0
Alcoholic Beverages	\$ 18.0
Retail Food Sales	\$ 74.0
Food & Beverage Processing Sales	\$ 85.0

[Restaurant Brands International, Inc](#)
[McDonalds Corporation](#)
[Cara Operations](#)
[Doctor’s Associates Inc./Subways](#)
[Yum! Brands](#)
[A & W Food Services of Canada Inc](#)
[Starbucks Corporations](#)
[Boston Pizza of Canada](#)
[Pizza Pizza Ltd](#)
[International Dairy Queen Inc.](#)

Strengths	Weaknesses
High economic growth rate and disposable income	Stronger U.S. dollar and high levels of household debt
Opportunities	Threats
Duty free tariff treatment for most products	Canadian tariffs on select items since July 2018

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Section I: Market Summary

Overview of the Canadian Foodservice Landscape

Total foodservice sales in Canada for 2017, both commercial and non-commercial, reached \$65 billion, a five percent increase from 2016. The industry is divided into three subsectors: restaurants, accommodation, and institutional foodservice. Restaurants sales account for the largest share of the foodservice market representing 80 percent of total sales. *Statistics Canada* reported 94,400 establishments across Canada, serving on average 22 million customers per day. Accommodation food sales (hotels, motels, and resorts) account for 8 percent of the market, followed by institutional sales (hospitals, schools, prisons and residential care facilities) with 5 percent. The long-term outlook for the industry remains stable with estimated growth of 4 percent per year between 2019 to 2022.

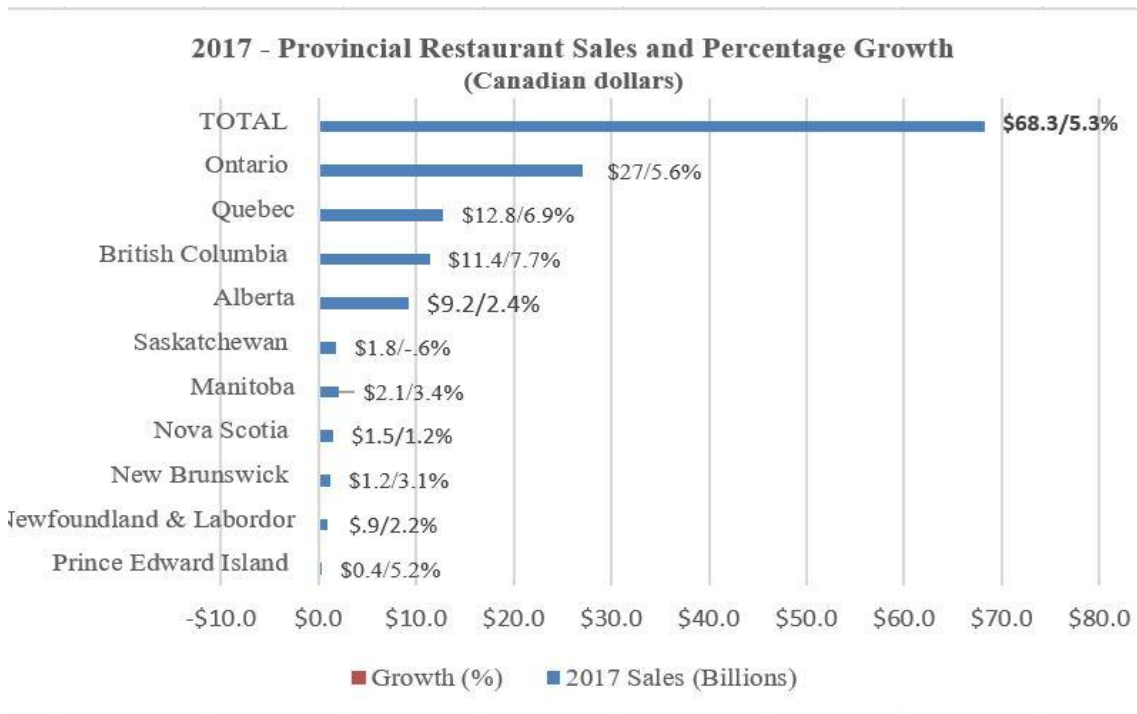
Foodservice Sales Forecast Breakdown by Subsector (CAD billions)

	2017 Projected	% Change '17/'16	2018 Forecast	% Change '18/'17
Quick-service restaurants	\$30.5	5.6%	\$32.0	4.9%
Full-service restaurants	\$29.9	5.9%	\$31.3	4.7%
Caterers	\$ 5.5	2.8%	\$5.8	4.7%
Drinking places	\$ 2.4	0.4%	\$2.4	0.1%
TOTAL COMMERCIAL	\$68.3	5.3%	\$71.5	4.6%
Accommodation foodservice	\$ 6.8	2.6%	\$ 7.1	4.6%
Institutional foodservice	\$ 4.7	2.5%	\$ 4.9	3.7%
Retail foodservice	\$ 2.1	6.1%	\$ 2.2	6.0%
Other foodservice	\$ 2.7	4.1%	\$ 2.8	4.0%
TOTAL NON-COMMERCIAL	\$16.3	4.2%	\$ 17.0	4.4%
TOTAL FOODSERVICE	\$84.6	5.1%	\$88.5	4.1%
Menu inflation		2.6%		2.6%
Real growth		3.3%		1.5%

Source: Restaurants Canada, *Foodservice Facts 2018*

Foodservice Subsectors

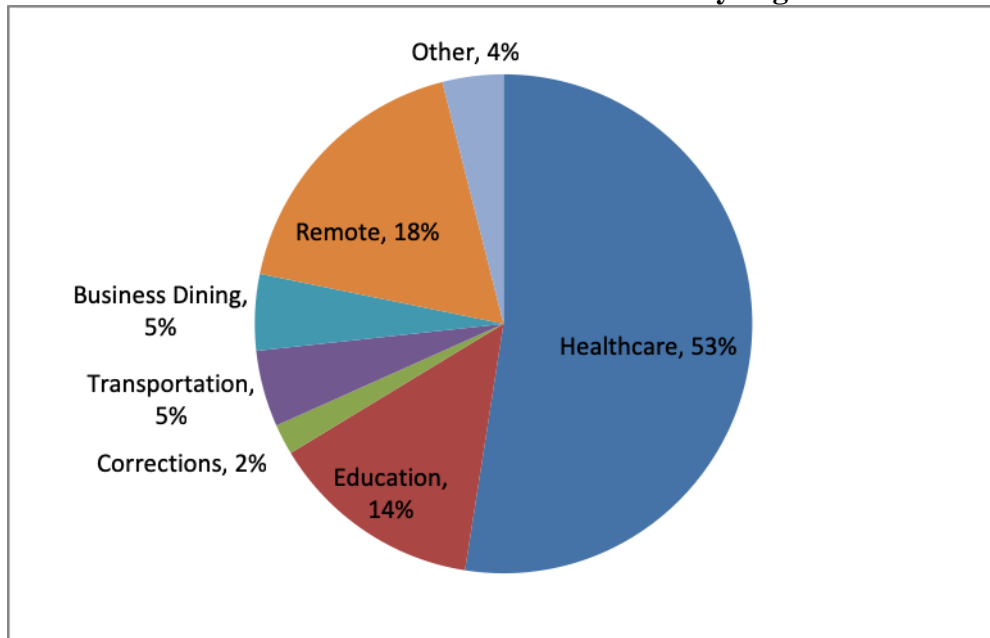
Restaurant Foodservice: Among the 94,000 restaurant units across Canada, over 60 percent represent chain restaurant locations. Quick-service formats continue to be popular, largely due to menu savings over full-service restaurants (FSRs) as Canadians remain price-conscious. The fast-casual segment (e.g., Panera Bread Company, Priestly Burgers, and Freshii [sic]) have exhibited strong growth (over five percent per year), particularly those offering healthier, fresh menu options. The provinces of Ontario and Quebec represent nearly 60 percent of total Canadian foodservices sales. Though British Columbia accounts for only 17 percent of national sales, foodservice sales led provincial growth rates at 8 percent in 2017.



Accommodation Foodservice: Canada’s tourism economy grew six percent in 2017 year-on-year, as the total number of international visitors climbed above the 20 million mark. Destination Canada reported food and beverage sales grew by 6 percent, contributing over \$5 billion to Canada’s foodservice economy. Some of Canada’s most profitable hotel chains are Four Seasons Hotels and Resorts, Fairmont Raffles Hotels International, Marriott Hotels of Canada, Starwood Hotels & Resorts Worldwide, Wyndham Hotel Group, and InterContinental Hotels Group.

Institutional Foodservice: Total institutional foodservice sales were nearly \$5 billion in 2017, representing over five percent of the foodservice market. The sector consists of hospitals, residential care facilities, schools, prisons, factories, remote catering, and patient and inmate meals at correctional facilities.

Institutional Foodservice Market Share by Segment



Source: fsSTRATEGY 2017, Canadian Institutional Food service Market Report

Advantages and Challenges Facing the U.S. Products in Canada

Advantages	Challenges
Canadian consumers enjoy a high disposable income, with a growing interest in high-quality products and global cuisine.	Competitive pricing as the cost of doing business in Canada for foodservice buyers and distributors are higher than in the United States.
U.S. food products closely match Canadian tastes and expectations.	Dispersed Canadian population can significantly add to marketing and distribution costs.
Fruit and vegetable consumption in Canada are higher than in the United States, and the market relies heavily on imports.	Distributors are constantly looking to reduce prices, improve product quality and extend the product range with new entrants.
Duty free tariff treatment for most products under NAFTA.	Canada has imposed retaliatory tariffs on a narrow range of products since July 2018; tariff rate quotas limit opportunities for certain products.
High U.S. quality and safety perceptions.	Differences in approved chemicals, residue tolerances, and food standards may require special production runs for the Canadian market.
Canada's increasingly diverse population creates opportunities for specialty products.	Established vendors have consolidated positions in the market.

Section II: Road Map for Market Entry

Entry Strategy

To facilitate initial export success, FAS/Canada recommends the following steps when entering the Canadian market:

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

For more information on these steps, please consult the FAS/Canada [Exporter Guide](#). The best entry method depends on the specific food product and the particular sub-sector. FAS/Canada encourages companies to research their product category and the various channels they intend to sell in Canada as it may be highly challenging in selected categories. Attending Canadian trade and consumer shows can help U.S. exporters to familiarize themselves with the market. A partial list of Canadian trade shows can be found under “[Local trade events in Canada](#).” There are three food service trade shows in Canada. The newly established [Canadian Restaurant & Bar Show](#) that took place November 4-5, 2018, the [Restaurants Show](#) at the end of February and [SIAL Canada](#). USDA endorses SIAL Canada, a retail and food service show by coordinating a USA Pavilion with its trade show partner, [IMEX Management](#). This annual event alternates between Montreal and Toronto. The 2019 edition will be in Toronto from April 30 - May 2. Interested U.S. food companies can contact USDA’s show contractor, [Ms. Claire Gros](#) of IMEX Management, at 704-733-7211.

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

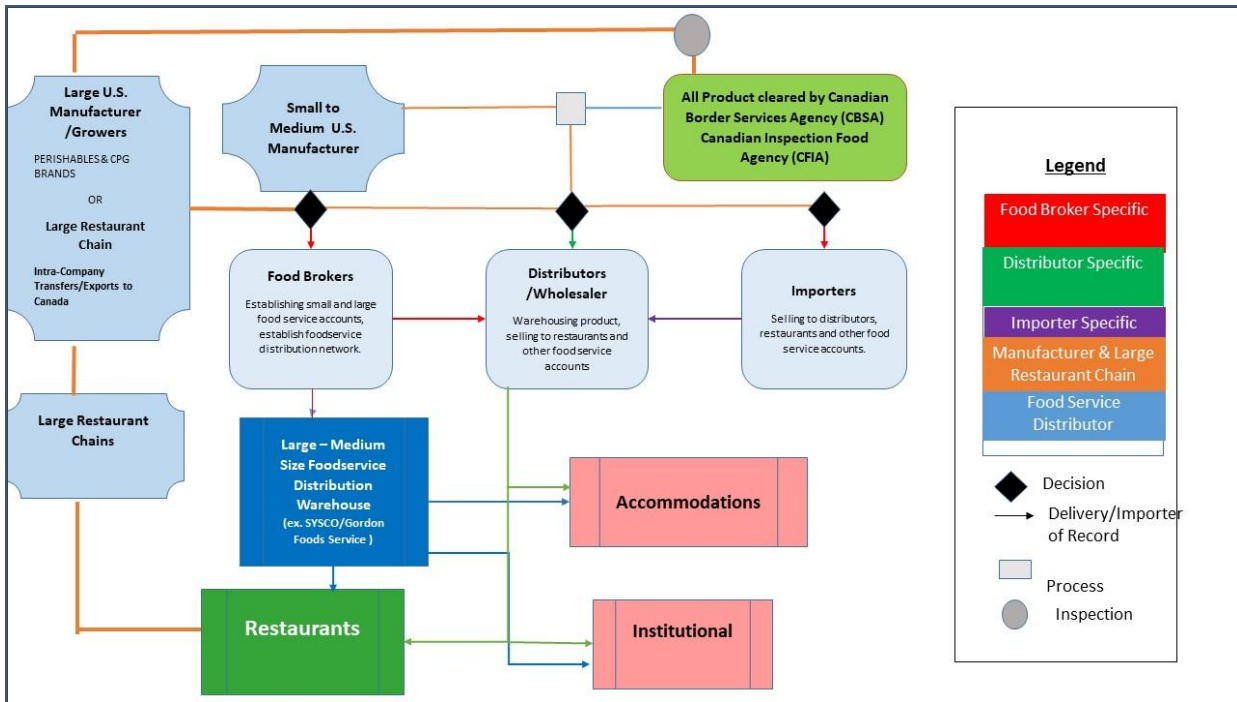
Import Procedures

Start by reviewing the latest FAS/Canada FAIRS Reports ([CA17049](#) and [CA17050](#)) to better understand the Canadian import regulations and standards that apply to your product. The Canadian Food Inspection Agency (CFIA) provides extensive information on the [programs and services](#) it offers for importing commercial foods into Canada, including a [Guide to Importing Food Products Commercially](#). The CFIA offers an on-line service to importers called the [Automated Import Reference System](#) (AIRS). The system permits users to access both all import requirements for their specific product, as well as identifying the Harmonized System (HS) codes by drilling down where the product is originating in the U.S., the end use of the food products item (i.e, for animal feed, testing, or human consumption,

etc.). The CFIA also operates the [National Import Service Centre](#) that help in guiding U.S. exporters with compliancy and pre-clearance on cross border shipments.

FAS Canada recommends that first-time exporters use the services of a [Canadian customs broker](#) as 80 percent of all border shipments into Canada are handled and cleared by an appointed custom broker.

Market Channels for U.S. Food Manufacturers



The bulk of Canadian foodservice imports pass through large importers, brokers, foodservice distributors or through intra-company national restaurant chains, like [Restaurant Brands International Inc.](#), [McDonald’s Corporation](#), [Starbucks](#), or [Domino’s Pizza](#).

Much of the perishable and specialty items, such as fresh meat products, are imported and distributed by foodservice distributors. The two most recognized national distributors in Canada are [SYSCO](#) and [Gordon Food Service](#), commanding close to 40 percent of the total market. The balance of foodservice distribution sales are handled by regional and other specialty commodity distributors. Among them are such companies as [Associated Food Distributors](#), [Colobar Foods](#), [Flanagan Foodservice](#), [Belmont Meat](#), and [Beverage World](#).

Canadian Partners - Broker/Food Distributor/Importer Appointments

FAS/Canada recommends that U.S. firms, particularly small to medium sized firms, partner with a Canadian food broker/food distributor/importer. In most instances, food distributors and importers will import and take title of the shipment and warehouse the product. Most foodservice distributors are not in the business of pioneering or finding new foodservice accounts for U.S. firms. Instead, Canadian distributors prefer to warehouse products that have a steady turnover rate. Food brokers¹ on the other hand, usually do not take title of the goods, but act as sales representatives to pioneer the product and establish new food service accounts with restaurant, hotel, and other institutional accounts. Food brokers will establish a distribution network for the products throughout the country or designated region. When evaluating potential business partners, FAS/Canada recommends inquiring about what percentage of the company's business is allocated to foodservice and to retail accounts. U.S. companies should seek a potential food broker with expertise in the foodservice sector, as competition and establishing pricing can be challenging in a smaller, relatively consolidated Canadian market.

Food brokers take a percentage of the product sales revenue, ranging from 3 percent to 6 percent. The percentage is determined by several factors: the type of product category, market niche potential, expected sales volume, and any additional services like data collection that may be requested by the U.S. partner. Initially, a broker may request a monthly retainer fee as they pitch the product to prospective foodservice accounts and distributors. Once targeted sales volumes are established, food broker fee structures typically transition to a percentage of the established sales. All fees are negotiated between the exporter and the broker in advance.

Company Profiles

Top 10 Restaurant Chains²

- 1) [Restaurant Brands International, Inc.](#) (19.7%)
- 2) [McDonalds Corporation](#) (10.3%)
- 3) [Cara Operations](#) (7%)
- 4) [Doctor's Associates Inc./Subways](#) (4.4%)
- 5) [Yum! Brands](#)/Pizza Hut, KFC Canada, Taco Bell (3.5%)
- 6) [A & W Food Services of Canada Inc.](#) (3.4%)
- 7) [Starbucks Corporations](#) (3%)
- 8) [Boston Pizza of Canada](#) (3%)
- 9) [Pizza Pizza Ltd.](#) (1.8%)
- 10) [International Dairy Queen Inc.](#) (1.4%)

¹ The term food broker should not be confused with a customs broker. Customs brokers facilitate customs clearance procedures at the border, whereas a food broker serves as a sales representative for a food manufacturer.

² The Canadian Chains Directory offers a complete listing that can be purchased at <http://www.chainsdirect.net/Home.aspx>

Top 10 Hotels Chains in Canada³

- 1) [Four Seasons Hotels & Resorts](#)
- 2) [Fairmount Raffles Hotels International](#)
- 3) [Marriott Hotels of Canada](#)
- 4) [Starwood Hotels & Resorts Worldwide](#)
- 5) [Wyndham Hotel Group](#)
- 6) [Intercontinental Hotel Groups \(IHG\)](#)
- 7) [Hilton Canada Company](#)
- 8) [InnVest REIT](#)
- 9) [Best Western International](#)
- 10) [Choice Hotels Canada Inc.](#)

The Top Five Institutional Segments for foodservice sales

- 1) Hospitals (31%)
- 2) Long-Term Care (14%)
- 3) Retirement Homes (13%)
- 4) Remote (18%)⁴
- 5) Education (14%)

Section III: Competition

Table 1. Canadian Imports of Consumer-Oriented (CO) Foods (USD Millions)

Years	Total Canadian CO Imports	Total Imports of U.S. CO Foods	U.S. Share of Total CO Imports	Total Food Sales in Canada
2013	25,287	16,120	64 percent	72,362
2014	26,118	16,562	63 percent	75,769
2015	25,558	16,200	63 percent	67,362
2016	25,215	15,731	62 percent	69,750
2017	26,000	15,731	61 percent	74,250

* Decreases in the retail market size in Canada reflects annual exchange rate fluctuations, as the U.S. dollar has appreciated significantly against the Canadian dollar.

³ The Hotel Association of Canada can be accessed here: <http://www.hotelassociation.ca/>

⁴ Remote includes field camps for the mining, forestry, oil and gas, firefighting, hydro, road construction, and rail maintenance.

Table 2: Top U.S. Consumer-Oriented Food Exports to Canada (billions)

Consumer Oriented Products	2017
Consumer Oriented Total	\$16.3
Food Preparations	\$1.9
Red Meats (incl. processed)	\$1.9
Fresh Vegetables	\$1.9
Fresh Fruits	\$1.6
Snack Foods	\$1.3
Non-Alcoholic Beverages	1.1 b
Processed Fruits & Vegetables	1.0 b
<i>Source: USDA BICO reports</i>	

Table 3: Top U.S. Consumer Oriented Food Commodity Categories and Share of Market

Product	U.S. Share of Market	Leading Competitors
Prepared Foods ⁵	86%	Mexico and United Kingdom
Condiments and sauces	81%	Italy, France, and China
Red meats	71%	Australia, New Zealand, and Uruguay
Snack foods	56%	Mexico, UK, and China
Fresh vegetables	63%	Mexico
Fresh fruits	42%	Mexico, Guatemala, and Chile
Cocoa and cocoa preparation	56%	Mexico, UK, and China
Juices, non-alcoholic beverages	53%	Brazil and China

The United States dominates the Canadian market for imported prepared food products with 86 percent of the total market. This leading category includes flavoring extracts, cocktail mixes, syrups, single fruit juices, pastry, pizzas/quiches, and dough mixes – all essential products in the food service industry. U.S. red meats, which constitute 71 percent of category imports, are another area in which the Canadian foodservice industry relies on imported products. These meat products will range from portion-

⁵ This general category of prepared foods includes approximately 25 HS Tariff Classifications that can be looked up at the [USDA GATS](#) home page.

controlled cuts for fine dining to deli meats for sandwich shops and cafés. U.S. meat processors are recognized for maintaining high food safety and product-handling standards that Canadian chefs, restaurateurs, food and beverage directors, and institutional buyers have come to rely on. As more Canadians self-identify as flexitarian, vegetarian, or vegan, demand for vegetarian menu option has grown. Fruits and vegetables are no longer relegated to the side of the plate, but have arrived at the center of plate, as more consumers focus on healthy options or adapt to digestive sensitivities.

Canadian poultry and egg markets operate under the umbrella of ‘supply management,’ which restricts imports to control supply and maintain artificially high prices. The United States commands 87 percent of Canadian poultry meat imports. Though Brazilian producers can provide frozen products at lower prices than the United States, some Canadian plants are reluctant to source poultry from Brazil as commingling of U.S. and Brazilian origin products could prohibit sales of the processed products to the United States. In 2017, U.S. suppliers provided 95 percent of Canadian imports of egg and egg products.

The Canadian dairy industry also operates under the supply management system. The United States is the largest supplier of dairy products within limited tariff rate quotas, due in part to the perishable nature of dairy products. The European Union (EU) has a distinct advantage in the cheese trade, due to provisions of the World Trade Organization’s Uruguay Round of negotiations (1994) and the Comprehensive and Economic Trade Agreement that has expanded access for EU-origin cheeses since entering into force in September 2017.

For more information about Canadian import restrictions for supply-managed sectors, please see FAS/Canada’s latest FAIRS Report [CA17049](#).

As Canada is a mature market offering a highly integrated supply chain structure, much of the competition for U.S. exporters are with other U.S. and Canadian food processors already entrenched in the market. More information on specific categories and leading competitors is available, beginning on page 31 of the Retail Foods GAIN Report [CA17054](#).

Section IV: Best Products Categories and Trends

The changing demographics of a graying population, along with the rise of health conscious millennials and boomers, have given rise to increased demand for food products addressing the health and wellness of Canadians. Food service operators are increasingly looking for products that offer cleaner, simpler ingredient lists as well as organic fruits and vegetables. Operators continue to seek products that save time and money, including peeled garlic and peeled potatoes in institutional packaging. U.S. exporters should keep in mind that there may be greater price sensitivities than in the retail sector, as food operators aim to manage their overall operating costs in their establishments. In Ontario, the provincial government introduced legislation that increased the minimum hourly wage from \$11.60 CAD to \$14.00 CAD in 2018, before climbing to \$15.00 CAD in 2019. This swift increase has impacted restaurant owners, particularly smaller independent operations.

Top 10 Hot Trends

Hot Trends
#1 Craft Beer & Microbrews
#2 Food Smoking
#3 Pickling
#4 House-made Condiments/Sauce
#5 Sustainable Seafood
#6 Gluten-Free / Food Allergy Consciousness
#7 Fermenting
#8 Dark Leafy Greens (e.g., Kale, Swiss Chard, etc.)
#9 Sous Vide
#10 Locally Sourced Foods
<i>Source: Restaurants Canada 2018 Chef Survey</i>

Hot Culinary Trends	Hot Menu Trends
#1 Gluten-Free Foods	#1 Small Plates / Tapas / Dim Sum
#2 Locally Sourced Foods	#2 'Free-From' Foods
#3 Street Food Inspiration	#3 Meatless / Vegetarian Entrees
#4 Hyper-Local Sourcing	#4 Fewer Choices on the Menu
#5 Natural Ingredients/Clean Menus	#5 Do-It-Yourself Ingredients
<i>Source: Restaurants Canada 2018 Chef Survey</i>	

Section V: Key Contacts and Further Information

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