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**MAFSI**

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# 2019

MAFSI **FOODSERVICE INDUSTRY MARKET FORECAST REPORT**



# MAFSI 2019 MARKET FORECAST

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## WELCOME TO MAFSI, AND OUR 2019 FOODSERVICE MARKET FORECAST.

MAFSI is a 70 year-old non-profit trade association comprised of 270+ independent manufacturers' representative sales companies and 260+ manufacturing companies in North America selling, marketing, and producing commercial foodservice equipment, supplies, tabletop, and furnishings.

Representing over 2,400 sales and marketing professionals and manufacturing executives across North America; MAFSI provides market forecasting, networking and partnership opportunities, industry stewardship, education and resources, and member advocacy for the \$13 billion commercial non-foods industry.

MAFSI is everywhere food is. And everywhere you are. Spanning North America, feeding 300 million people and changing an industry.

From mom and pop restaurants, to colleges, hospitals, major chains—we're there. With the people, and the products—moving an entire industry further than ever before. And as members, we get to reinvent it. We get to make it better, and we make it different.

We get to make reps and manufacturers proud of how they go to market.

We get to reinvent foodservice every day. We get to make a difference. In a job... in a profession built around great products and great people.

We... Are... MAFSI.

MAFSI is home to 71% of all manufacturers' representative firms in the U.S. and Canada. They are the window to the foodservice marketplace, relied on by all channel partners for their knowledge and expertise.

MAFSI REP firms are independent professional providers of field-level sales and marketing services to manufacturers and/or suppliers. They typically handle a portfolio of related but noncompetitive product lines, working under a contractual arrangement within a defined geographic region, and on an exclusive basis within their assigned field of responsibility.

On behalf of their manufacturers, MAFSI REPS exclusively represent approximately 12-18 foodservice manufacturers in their defined geographic region. There are typically 10-20 MAFSI REP agencies in each marketing region.

**CLICK ON VIDEO** to view the "2019 MAFSI Board of Directors Video"

**CLICK ON VIDEO** to view the "2019 Market Forecast Video"

# MAFSI 2019 MARKET FORECAST

MAFSI REP firms come in all shapes and sizes, but on average generate 10–18 million dollars in gross sales, and typically employ three to four field representatives, with an additional two to three inside customer service personnel. 70% of firms have showrooms and test kitchens to assist customers in project planning and sample products firsthand.

The value that MAFSI REPS bring—both to those they sell to, and those they sell for—emerges in large part from the synergy created through the representation of multiple manufacturers. Their product portfolios allow MAFSI REPS to present broad-based solutions to customer problems, rather than the price-and-delivery model typical of single-product selling. Their consultative approach not only opens the door for the other manufacturers they represent, but also adds value and fosters a partnership with the buyer as the purchase progresses through the entire project.

Below you will find the product categories that MAFSI REPS serve.

## Product Categories:

- Equipment
  - > Primary Cooking Equipment
  - > Refrigeration & Ice Machines
  - > Storage & Handling Equipment
  - > Serving Equipment
  - > Food Preparation Equipment
  - > Warewashing Equipment
  - > Ventilation
- Supplies/Smallwares
  - Tabletop
  - Furniture
  - Janitorial/Sanitation

MAFSI's 270+ Rep Members classified by product category (many reps sell more than one category):

- 220 or 81% of our agencies represent Equipment
- 233 or 86% of our agencies represent Light Equipment
- 171 or 63% of our agencies represent Supplies/Smallwares
- 124 or 46% of our agencies represent Tabletop
- 96 or 36% of our agencies represent Furniture

Forty-five percent of our representative firm members participated in our annual Foodservice Market Forecast—a prime reflection of our members' commitment to this industry. Moreover, since MAFSI REPS call on almost all facets of commercial foodservice, there is no one better equipped to report the market dynamics that affect our industry.

The MAFSI Market Forecast report isn't only relied on by our industry, but by incredibly influential trade and mainstream media outlets including the *Wall Street Journal*, *Yahoo! Finance*, and many, many more.

We thank our representative members not only for their contributions to this report, but for the hard work and pride they bring to this industry each and every day.

For more information about MAFSI and our members, please visit [www.mafsi.org](http://www.mafsi.org), or call 404/214-9474.

## 2019 BOARD OF DIRECTORS

(continued from page 2)

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Jennifer Cody  
SpecPath, Director of Software Operations

Ramsey Phillips  
Editor, Market Forecast Report  
Associate Executive Director

# MAFSI 2019 MARKET FORECAST

Throughout the past six-and-a-half-year period, foodservice moved at nearly twice the growth rate of the overall economy.

MAFSI Reps, like typical sales people, maintain a positive outlook for future sales growth. This has been the case for most of the MAFSI Quarterly Business Barometer's 17-year history, and the annual forecast results have also tended to out pace the actual performance by a tick or two.

So, with that somewhat optimistic bias, MAFSI is forecasting an increase of +3.4% in 2019. By product category, the projection calls for an advance of +3.5% in both Equipment and Supplies. +3.3% in Tabletop, and +3.0% in Furniture.

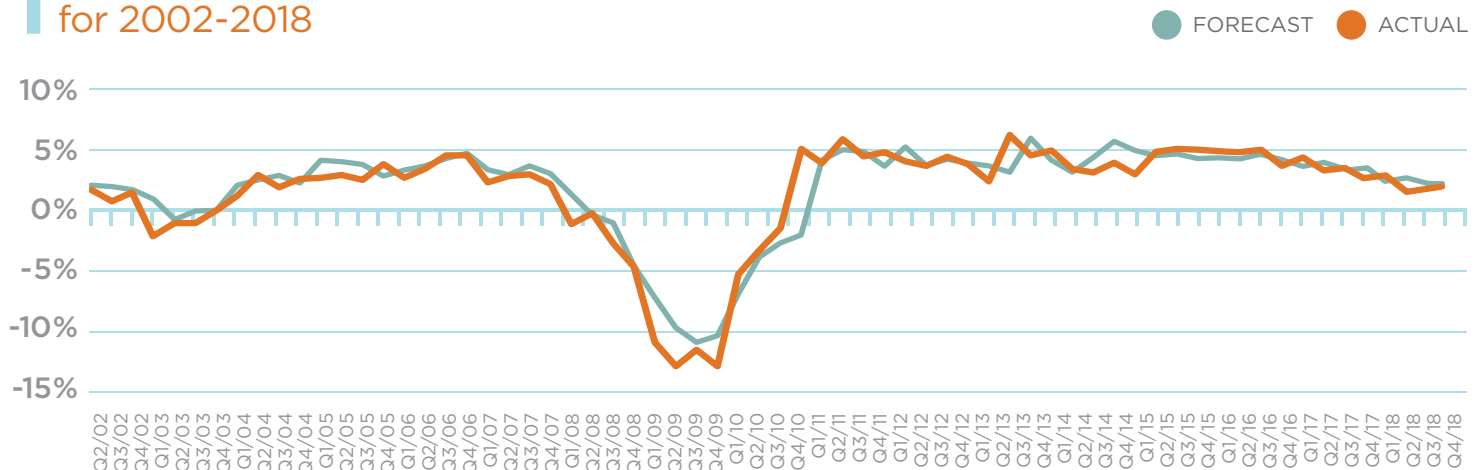
By region, the breakdown calls for increases of +4.1% in Canada, +3.7% in the Midwest, +3.5% in the Northeast as well as the South, and +2.5% in the West.

All types of products have relatively the same growth expectations between +2.9% and +3.7%. Janitorial and Sanitation lines lag a bit at +2.7%. Further breakdown by region of both product categories and equipment subcategories can be found on page 7 of this report.

For 2018 MAFSI Reps had forecasted growth of +3.7%, which, in actuality, will not be achieved given that the first three quarter results for 2018 were +1.5%, +1.8% and +2.5%.

## MAFSI BUSINESS BAROMETER HISTORY

### Overall Sales Per Quarter for 2002-2018

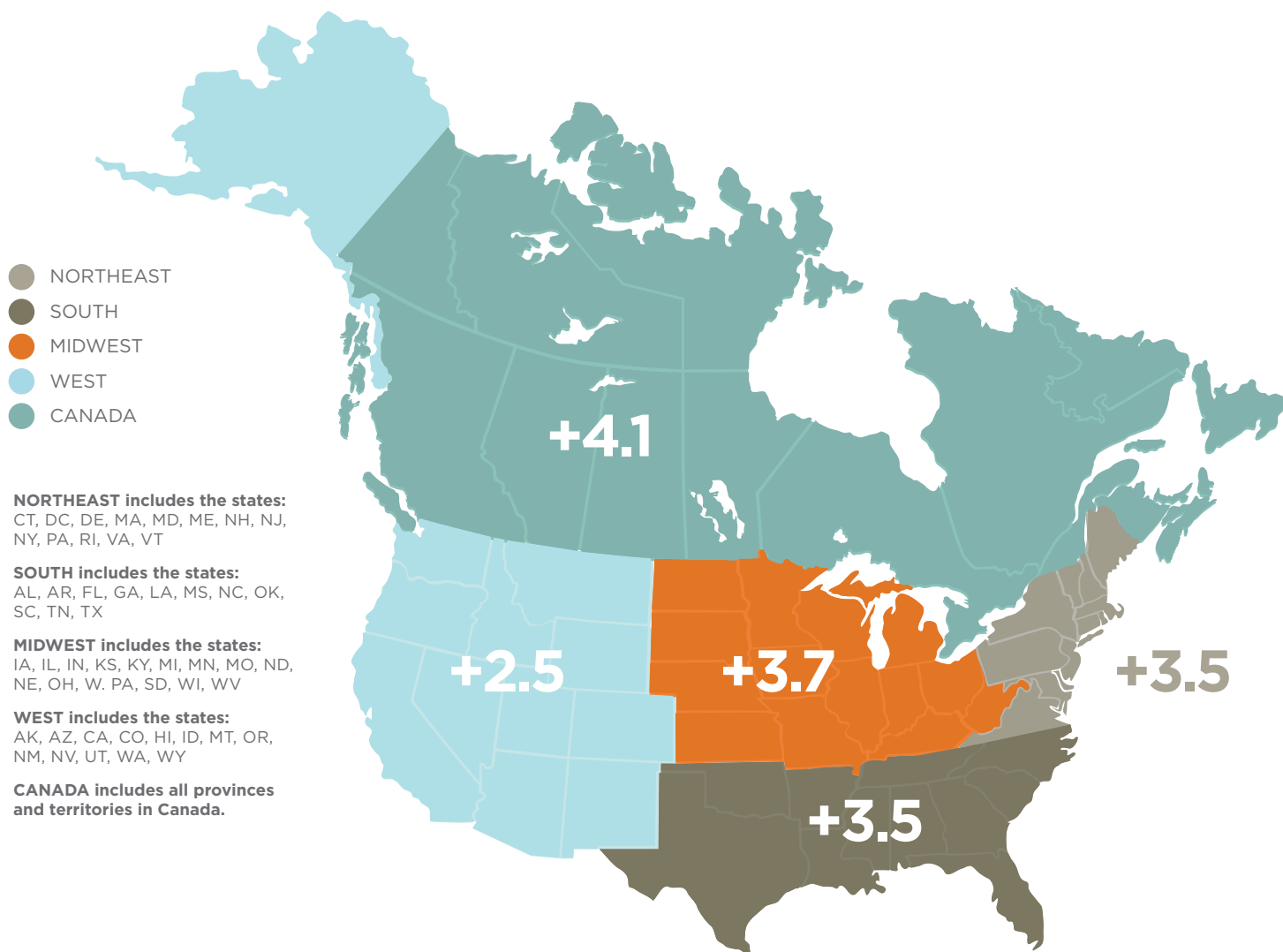


NOTE: Y axis is the percentage of change from comparable quarter of prior year.

# MAFSI 2019 MARKET FORECAST

## OVERALL SALES FORECAST BY REGION

2019 vs. 2018



## OVERALL SALES FORECAST FOR NORTH AMERICA

2019 vs. 2018

**+3.4%**

# MAFSI 2019 MARKET FORECAST

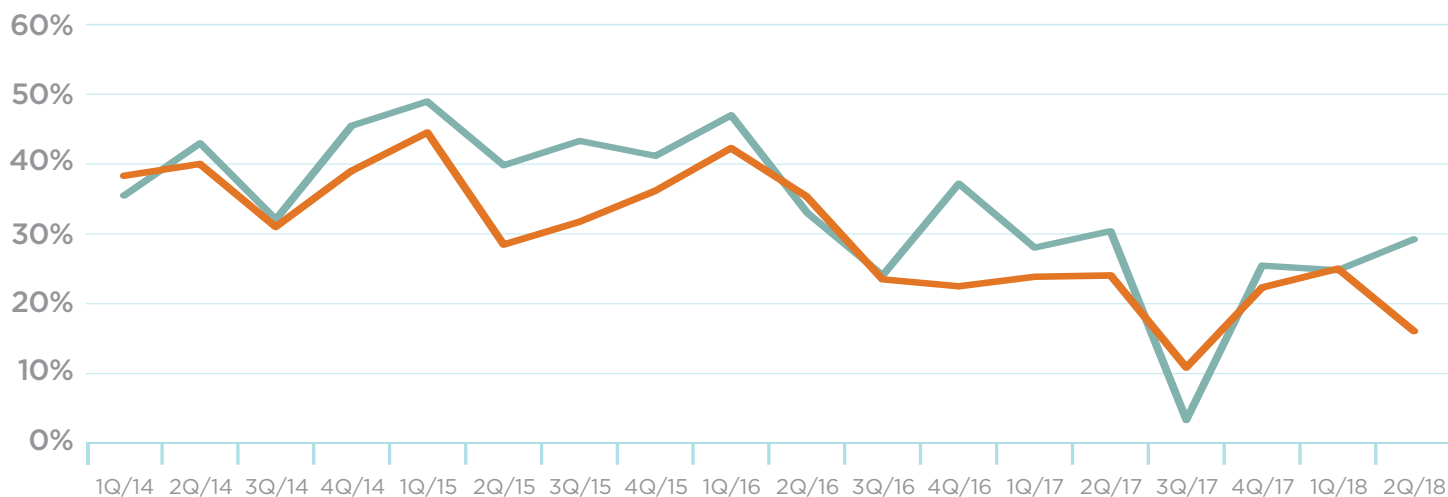
## JAN SAN SALES FORECAST 2019 vs. 2018

DISPOSABLES	+2.7
JANITORIAL & SANITATION SUPPLIES	+2.1
JANITORIAL & SANITATION EQUIPMENT	+2.7

## MAFSI BAROMETER

### Quotation and Consultant Activity

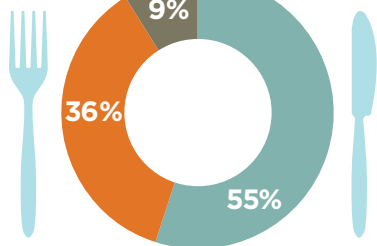
QUOTE ACTIVITY CONSULTANT ACTIVITY



NOTE: This graph shows the difference between those reporting more activity vs. those reporting less activity.

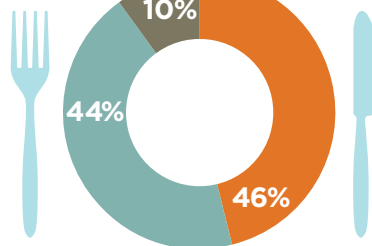
## QUOTING ACTIVITY FORECAST 2019

MORE ACTIVITY  
NO CHANGE  
LESS ACTIVITY



## CONSULTANT ACTIVITY FORECAST 2019

MORE ACTIVITY  
NO CHANGE  
LESS ACTIVITY



# MAFSI 2019 MARKET FORECAST

## PRODUCT CATEGORIES SALES FORECAST BY REGION

2019 vs. 2018



NORTHEAST	<b>+3.7</b>	<b>+2.9</b>	<b>+2.6</b>	<b>+3.2</b>	<b>+3.5</b>
SOUTH	<b>+3.5</b>	<b>+3.4</b>	<b>+3.5</b>	<b>+3.8</b>	<b>+3.5</b>
MIDWEST	<b>+3.8</b>	<b>+4.2</b>	<b>+3.6</b>	<b>+1.9</b>	<b>+3.7</b>
WEST	<b>+2.6</b>	<b>+2.3</b>	<b>+1.8</b>	<b>+2.6</b>	<b>+2.5</b>
CANADA	<b>+3.9</b>	<b>+3.8</b>	<b>+5.3</b>	<b>+4.7</b>	<b>+4.1</b>

\* The overall industry sales growth is calculated using a weighted average based on the percentage of the total sales volume for the overall industry represented by the various sales categories: Equipment (77%), Supplies (7%), Tabletop (10%), and Furnishings (6%). Market numbers are based on the North American Association of Food Equipment Manufacturers (NAFEM) biennial "Size & Shape of the Industry" study.

## PRODUCT CATEGORIES SALES FORECAST—OVERALL

2019 vs. 2018



## EQUIPMENT SUB-CATEGORIES SALES FORECAST BY REGION

2019 vs. 2018

	Primary Cooking	Refrigeration & Ice Machines	Storage & Handling	Serving	Food Preparation	Warewashing	Ventilation
NORTHEAST	<b>+2.9</b>	<b>+4.7</b>	<b>+3.2</b>	<b>+3.2</b>	<b>+3.5</b>	<b>+4.0</b>	<b>+4.4</b>
SOUTH	<b>+4.5</b>	<b>+3.3</b>	<b>+3.7</b>	<b>+2.5</b>	<b>+3.8</b>	<b>+3.1</b>	<b>+3.1</b>
MIDWEST	<b>+3.6</b>	<b>+3.7</b>	<b>+3.5</b>	<b>+4.2</b>	<b>+4.0</b>	<b>+3.9</b>	<b>+2.8</b>
WEST	<b>+3.1</b>	<b>+2.1</b>	<b>+2.1</b>	<b>+2.6</b>	<b>+2.5</b>	<b>+3.5</b>	<b>+2.0</b>
CANADA	<b>+3.4</b>	<b>+3.6</b>	<b>+5.2</b>	<b>+4.0</b>	<b>+4.8</b>	<b>+4.2</b>	<b>+2.7</b>
OVERALL	<b>+3.6</b>	<b>+3.5</b>	<b>+3.3</b>	<b>+3.2</b>	<b>+3.7</b>	<b>+3.7</b>	<b>+2.9</b>

\*The equipment sub-category sales growth is calculated using a weighted average based on the percentage of the equipment sub-category sales volume represented by the various sales categories: Primary Cooking (25%), Refrigeration/Ice Machines (32%), Storage/Handling (9%), Serving (16%), Food Prep (7%), Warewashing (11%) from the NAFEM biennial "Size & Shape of the Industry" study. Ventilation not weighted.

# MAFSI 2019 MARKET FORECAST

Although the industry growth rate moderated in 2017, and is forecasted for more of the same in 2018, the market is still growing faster than the overall U.S. economy as measured by GDP.

Some of MAFSI's optimism is derived from very positive Quoting and Consulting Activity forecasts. Relative to Quoting Activity, 55% report more, while only 9% record less. Consultant Activity forecasts 44% more with 10% saying less.

The best bets for finding this growth can be found in the Market Segments of Schools (K-12), Chain Accounts, Healthcare, Business and Industry, and Colleges and Universities.

Rep firms are growing larger in both the number of employees and number of lines represented, probably reflective of mergers and consolidations of both reps and manufacturers.

The task of business forecasting has never been more complex as evidenced by the recent volatility recorded in the financial markets with extreme swings in the midst of a major market correction. Current variables, both negative and positive include: the recent government shutdown, the political environment, Brexit, the trade-war and tariffs, raising internet rates, falling oil prices, concerns over a slowing global economy, and the effects of E-Commerce on Foodservice E&S sales, just to name a few factors.

## INCREASE IN REP FIRM STAFF BY REGION

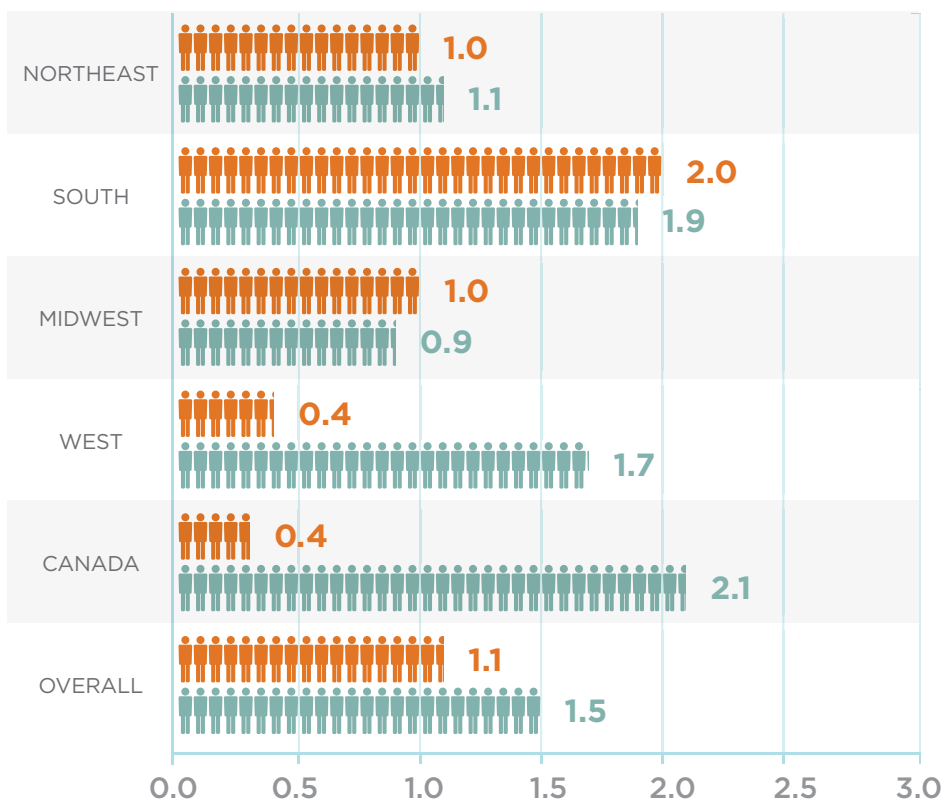
2019 vs. 2018



2018 ACTUAL



2019 FORECASTED



# MAFSI 2019 MARKET FORECAST

With the lowest unemployment rate in nearly 50 years, artificial intelligence (AI) and Robotics come into play. Lower gasoline prices translate to more disposable income and hopefully more dining out.

NAFEM 2019 should lead to a surge in product innovations. Here's to a running start in 2019. MAFSI Reps will need it to achieve their lofty goals of a +3.4% advance in sales.

Special thanks to Michael Posternak, PBAC & Associates LTD, Eastchester, NY for his 2019 forecast commentary. We also extend sincere thanks to our industry partners at SpecPath, *Foodservice Equipment Reports*, *Foodservice Equipment & Supplies*, Ashton Foodservice Consulting and Clarity M&A, *Foodservice and Hospitality*, Restaurants Canada, Technomic, and AutoQuotes for sharing their data and expertise in our forecast report.

Visit [MAFSI.org](http://MAFSI.org) to learn more.

## NEW LINES ADDED BY MAFSI REPS IN THE

### Last 12 Months

Overall increase in number of lines: +1.6

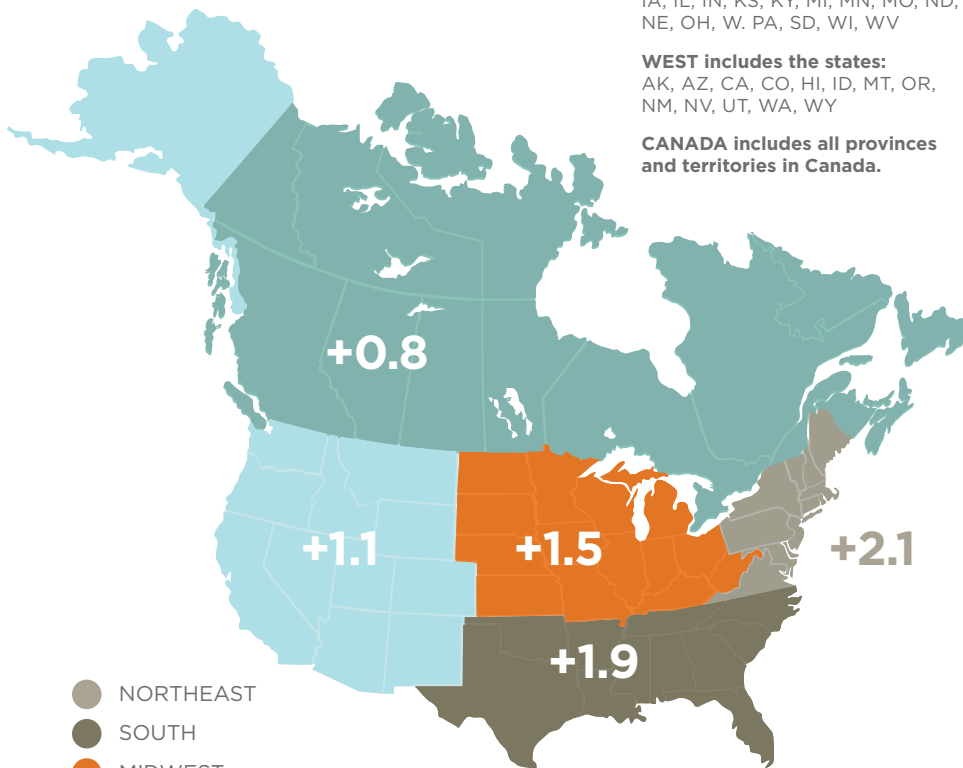
**NORTHEAST includes the states:**  
CT, DC, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VA, VT

**SOUTH includes the states:**  
AL, AR, FL, GA, LA, MS, NC, OK, SC, TN, TX

**MIDWEST includes the states:**  
IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, W. PA, SD, WI, WV

**WEST includes the states:**  
AK, AZ, CA, CO, HI, ID, MT, OR, NM, NV, UT, WA, WY

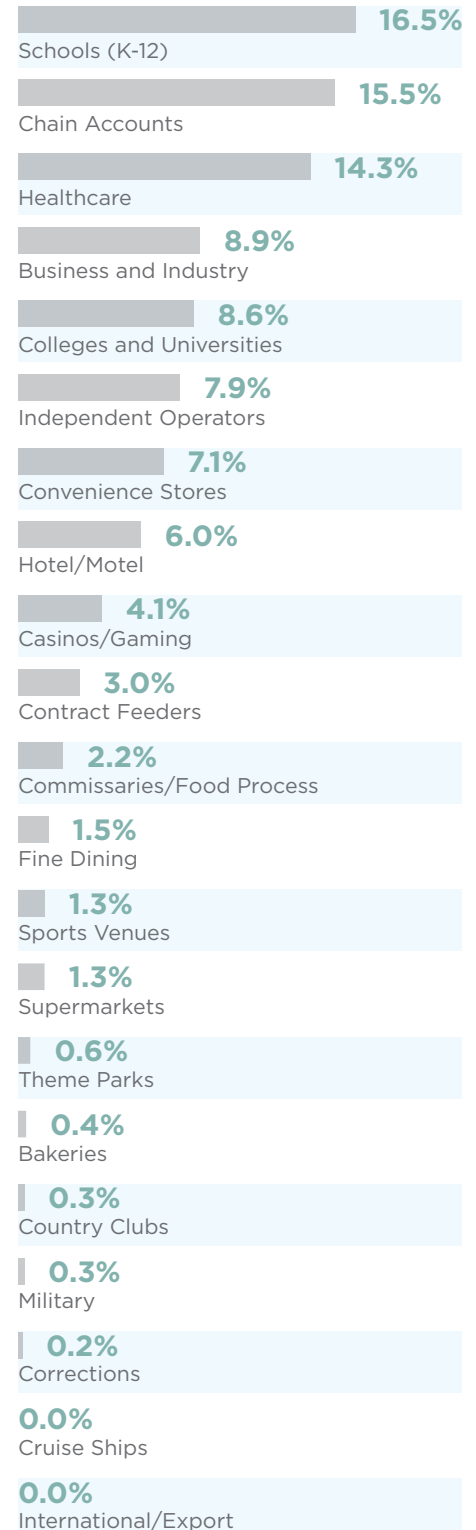
**CANADA includes all provinces and territories in Canada.**



- NORTHEAST
- SOUTH
- MIDWEST
- WEST
- CANADA

## 2019 FASTEST GROWING SEGMENTS

by Percentage of Respondents



# MAFSI 2019 MARKET FORECAST

## HOW MAFSI REPS WILL MOVE

### With the Market in 2019

MAFSI Reps were asked to identify significant actions taken and/or planned for 2019. The leading responses were:

#### Capital Investments

1. Restructuring office positions and hiring new staff to provide customers with more services and adapt to meet customer's needs.
2. Increased focus on expanding and enhancing the inside sales department to increase sales support, product specialists and marketing efforts.
3. Special attention to expanding customer reach by merging and expanding coverage into multiple regions.
4. Continued investment on expanding culinary-specific investments, such as test kitchens and showrooms to support end-user demand for live cooking demonstrations.

#### Marketing Investments

1. Increased online presence by updating to interactive websites to attract and generate more customer leads.
2. Continued investment on marketing activities and brand visibility in direct marketing campaigns, and social media.
3. Creation and promotion of further education for end users to disseminate information faster and in-person to help establish customer relationships.
4. Implemented customer-relationship management systems to increase customer contact and segment customers for direct marketing campaigns.

#### Operations Investments

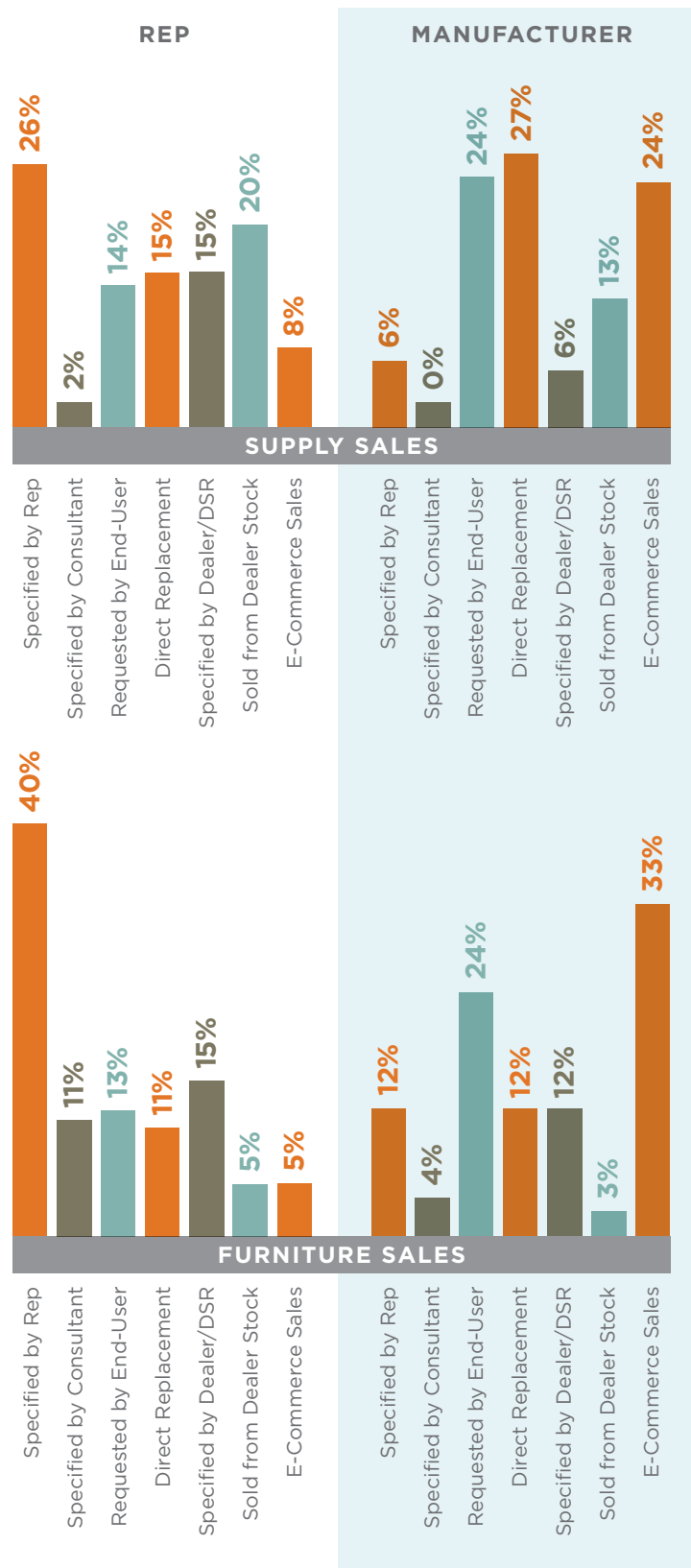
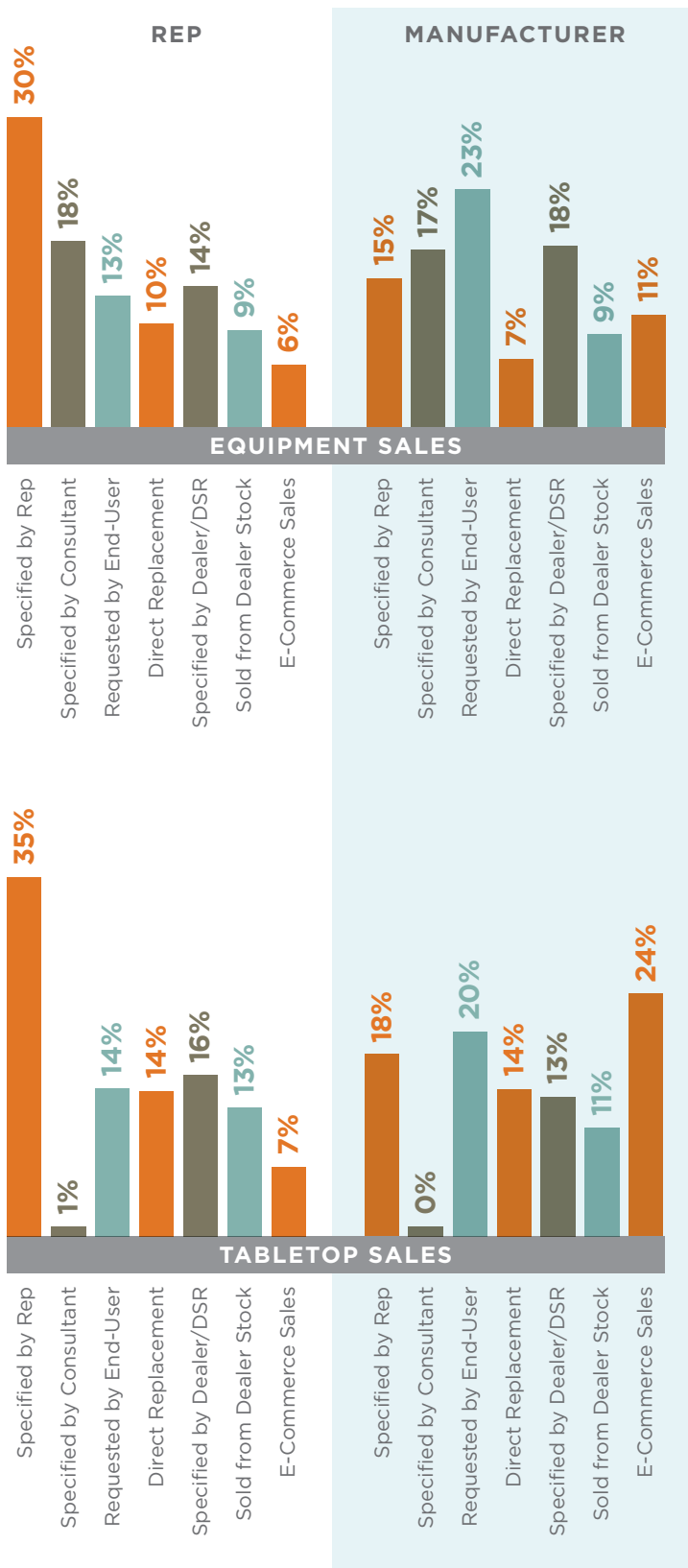
1. Creating new positions and increased staff size to handle all service issues correctly and improve customer experience.
2. Continued investment in inside sales training, motivation and development to focus on sales/internal support and quoting.
3. Reviewed and reconstructed old processes to optimize, improve, and streamline day to day activities.
4. Improved test kitchens to improve and increase operator demos and product training for end-users.

#### Strategic Product Realignment

1. Continued leverage of local end-user sales calls to create a demand for brand specific product through features and benefits.
2. Adding new, custom, unique, and technical lines to diversify portfolios and capture end-user attention and demand.
3. Performing system upgrades and employing new technologies to service customers faster than ever before.
4. Supporting dealers by increasing end-user sales calls to push sales information and guide the sale through appropriate channels.

# MAFSI 2019 MARKET FORECAST

PERCENTAGE OF WHERE SALES COME FROM  
by Industry Participant



For the first time, MAFSI submitted this survey to Manufacturers and compared the responses to those of the Reps. Given that Equipment Sales represent 77% of the market, this segment, in particular, deserves a closer look.

## WHERE DO YOUR SALES COME FROM?

For the past several years, MAFSI Reps have been surveyed and asked to allocate the extent to which sales can be accredited to each member of the sales process; be it the Rep, Consultant, End User Request, Direct Replacement, Dealer, Dealer Stock, or E-Commerce.

For the first time, MAFSI submitted this survey to Manufacturers and compared the responses to those of the Reps. Given that Equipment sales represent 77% of the market, this segment, in particular, deserves a closer look.

As might be expected, Reps placed a higher value on their role in generating sales at 30% vs. 15% as reported by Manufacturers. The Manufacturers valued End-User Requests at 23% vs. 13% claimed by Reps.

E-Commerce Sales were measured at 11% by Manufacturers, but only 6% by Reps. Certainly there are other aspects to this segment such as Engineered Products vs. “Plug and Play” and Commodity vs. Specialized Products.

It is quite interesting to note that both surveys were relatively consistent when it came to the role of the Dealer. Reps measured Dealer sales at 14% and Manufacturers credited their Dealer Partners with 18%. Dealer stock additionally is a significant factor.

Lastly, the category of “Specified by Consultant” was valued at 18% by Reps and 17% by Manufacturers. Again, higher quality and engineered products would seemingly score higher in this segment than more basic equipment.

## OTHER CONCLUSIONS

- Manufacturers placed higher value on E-Commerce than Reps, particularly in Supply, Tabletops, and Furniture.
- End User Requests and Direct Replacement play a significant role in all areas, particularly in Supply and Tabletops.
- One thing that this dual survey clearly demonstrates is that sales happen for a combination of reasons. Sales can be maximized when all parties function in support of one another, and the role of all partners is kept in balance.
- Reps need to better promote their involvement in generating sales to their Manufacturers.



SpecPath helps reps and manufacturers find and track projects through crowdsourcing.



SpecPath saves rep members hundreds of hours of time by providing automated takeoffs.



Increase your bottom line by getting paid for the work you do and renumeration your reps.

It's simple. Our subscribers see more. And do more.

SpecPath tracks your foodservice jobs in North America for 1,851 brands, written by 1,280 foodservice designers and bid by 2,311 dealers across 23 market segments. Enabling you to measure your pipeline and manage your commission credits, all in an easy-to-use and secure web based platform. SpecPath easily turns your paper PDF foodservice specs, into valuable data, streamlining your office operations and freeing up your team's time. SpecPath has everything you need for effective project management and sales followup, and all at your fingertips.

[Visit SpecPath.org](http://SpecPath.org) to learn more.

It's been an amazing two years. Please enjoy some of our favorite SpecPath moments:



**7,718+**

How many projects we have in SpecPath... and growing every day. We are now averaging 300+ new projects each month.



**756**

Rep users who have signed up for SpecPath since our launch last summer (40% of all equipment reps in MAFSI).



**55**

Consultant firms who use SpecPath to keep track of their project stats and upload their new projects since their launch in April 2017.



**1,144,133+**

How many, of the over one million items in SpecPath, belong to your company?



**243**

Manufacturer users who use SpecPath every day to track their new projects and to help identify the correct specification, destination and origination reps.



**545**

The average number of projects, per region in SpecPath.



**\$100,000**

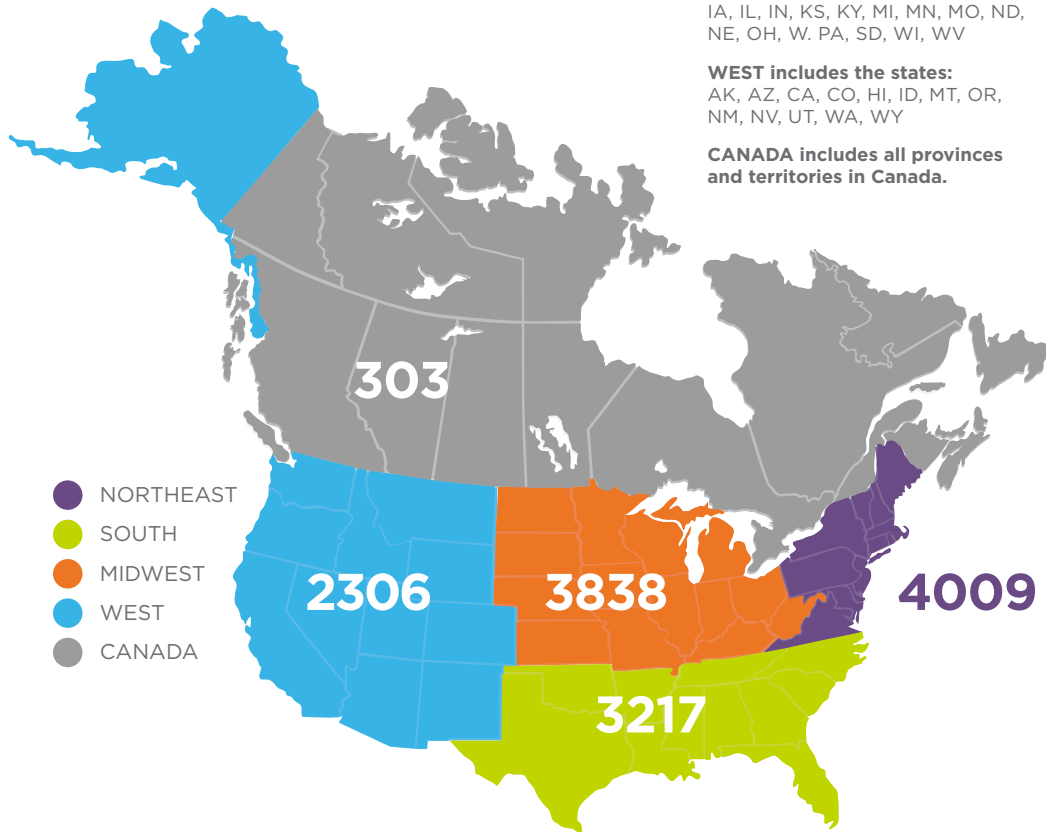
What one rep subscriber found in spec commissions, in just two projects, that they wouldn't have known about without SpecPath.



**27%**

The average percent of projects, speced and built outside the rep subscriber's region, that are now visible to them in SpecPath.

## TOTAL NUMBER OF PROJECTS IN SPECPath BY REGION



**NORTHEAST includes the states:**  
CT, DC, DE, MA, MD, ME, NH, NJ,  
NY, PA, RI, VA, VT

**SOUTH includes the states:**  
AL, AR, FL, GA, LA, MS, NC, OK,  
SC, TN, TX

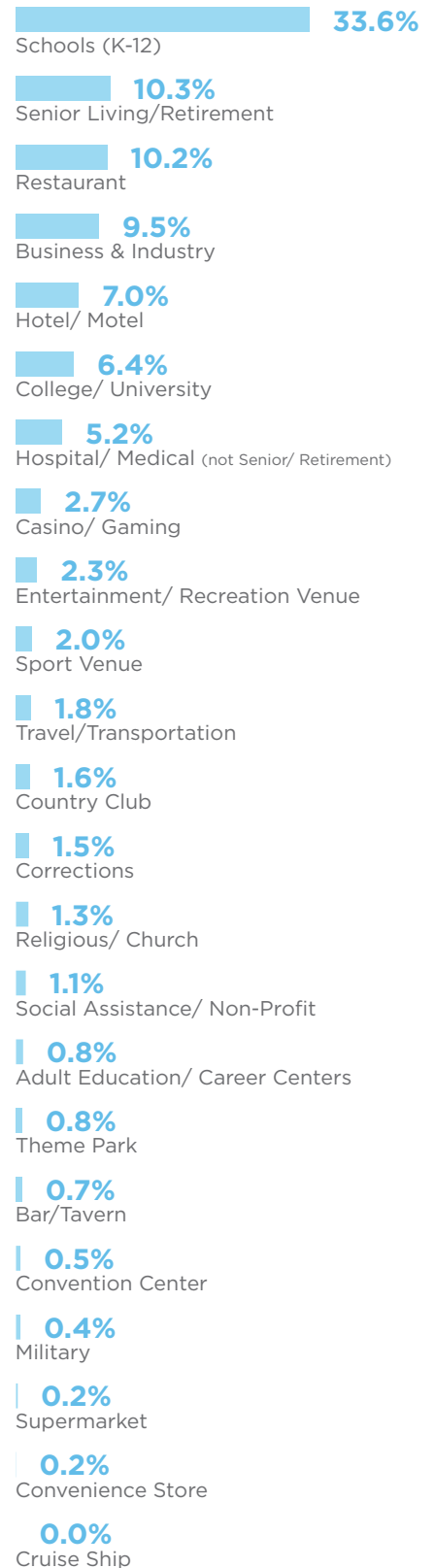
**MIDWEST includes the states:**  
IA, IL, IN, KS, KY, MI, MN, MO, ND,  
NE, OH, W. PA, SD, WI, WV

**WEST includes the states:**  
AK, AZ, CA, CO, HI, ID, MT, OR,  
NM, NV, UT, WA, WY

**CANADA includes all provinces  
and territories in Canada.**

## HIGHEST SPEC'D MARKET SEGMENTS

By Percentage in SpecPath



## TOTAL NUMBER OF PROJECTS IN SPECPath BY REGION AND BY TYPE

MAFSI Region	Specification Projects	Destination Projects	Origination Projects	Total Projects
<b>NORTHEAST</b>	2266	2132	2715	4009
<b>SOUTH</b>	1942	2307	2345	3217
<b>MIDWEST</b>	1947	2044	2985	3838
<b>WEST</b>	1460	1515	1406	2306
<b>CANADA</b>	228	234	247	303

By John Muldowney, Contributing Editor  
*Foodservice Equipment Reports*

This year won't differ hugely from last, but even a gradual gain is a gain.

Economic activity is bouncing all over... naturally. However, in looking at the fundamentals of our business to discern our outlook for the E&S market in 2019, we believe the industry will continue to trend up.

Here are the factors to consider:

## THE GENERAL ECONOMY

- Real GDP growth was +3.5% in Quarter 3 of 2018, following a strong Quarter 2 with +4.2% growth.
- Real growth for Quarter 4 of 2018 is pegged at +2.5%, but we believe that may be light in view of strong consumer demand and holiday shopping, including record-breaking sales for Black Friday and Cyber Monday.
- Real GDP, as per Blue Chip Economic Indicators, is still pegged at +2.9% for 2018, dipping slightly to +2.6% for 2019. We think 2018 will end with a positive 3.0% Real GDP finish.
- Consumer confidence is still running at historic levels, despite a dip in November 2017 and 2018. We believe that the volatile elections and stock market corrections gave people pause.
- Unemployment is at a record low of 3.7%, meaning more people are employed, and wages are up +3.0%.
- Inflation is stable at 2.5%. The Federal Reserve did raise interest rates slightly in November 2018 with an eye to maintaining careful growth.
- Gas prices are stable around \$2.50 per gallon; lower prices are like a "tax cut" to foodservice.

## THE POLITICAL ECONOMY

President Trump likes to stir the pot as a negotiating premise, but he's a pragmatist, neither truly conservative nor liberal. He blustered and jaw-boned on recasting NAFTA (now the United States-Mexico-Canada Agreement or USMCA), and on EU trade, and yet we are expecting workable agreements. Same thing with China and the tariffs. There will be a mutual agreement with China in early 2019.

How the steel and aluminum tariffs are applied and how they affect the industry in the long term is still in question. Many manufacturers have locked in their materials and can weather the short-term developments through 2019, but 2020 is another story.

It looks like we will have a split government for the next two years.  
**In other words: gridlock.**

How the steel  
and aluminum  
tariffs are applied  
and how they  
affect the industry  
in the long term  
is still in question.

The new tax cuts are in place, and a number of regulations enacted under the Obama administration are being rescinded. The stock market seems to like the “certainty” of congressional gridlock, and CEOs will make their numbers relative to EBIT targets and stock performance.

### FOODSERVICE INDUSTRY

Technomic Inc., states the foodservice industry is almost at \$800 billion for 2018, with nominal growth holding at 4.1% for 2018 and 2019. With all the underlying general economic fundamentals pointing in the right direction, there seems to be a disconnect with some consumer behavior in the foodservice space. The key is determining how to interpret some mixed signals we’re seeing.

NRA’s Performance Index remains in expansion territory (>100.0) with October’s Current Situation Index at 100.9 and the Operators Expectations Index remaining optimistic at 101.6. Two key expectation indicators are Business Conditions and CapEx for the next six months, which have softened somewhat to 100.6 and 100.5, respectively.

### FOODSERVICE E&S

We are seeing now that the E&S industry is somewhat stronger than previously thought. The eight public companies we follow (including some informed estimating on Carlisle FoodService Products since it went private) showed a strong Quarter 3 in 2018 for Equipment (approximately +17.0%) while Supplies (+1.0%) were relatively soft.

Adjusting for acquisitions and an announced divestiture, we calculated a +4.0% organic growth for Quarter 3 in 2018. For 2018 YTD (9 months), aggregated growth was +16.5%! Organically, growth YTD of the companies tracked was still +9.0% compared to the prior year.

Keep in mind, these eight companies account for about 40% of NAFEM’s \$13 billion in estimated E&S revenues from 2017. We know anecdotally that some of the larger private companies are up YTD in the 6.0%-8.0% range. We have a strong up-tick, which sends us into 2019 with optimism.

With all the underlying general economic fundamentals pointing in the right direction, there seems to be a disconnect with some consumer behavior in the foodservice space

### OVERALL ORGANIC GROWTH

Q3/2018

# +4.0%

For 2019,  
we proceed with  
cautious optimism.  
The forecast is  
+4.7% nominal  
increase in E&S  
revenues and  
about +2.5%  
real growth.

## THE FORECAST

For 2019, we are adjusting our previous predictions to +5.0% nominal growth, +3.0% real growth for the E&S business, with price increases capturing as much as +2.0% of sales.

- Economic fundamentals are strong and pointed in the right direction; solid consumer spending is ongoing; operator outlooks appear optimistic (NRA).
- Replacement purchasing propels E&S sales, with Primary Cooking, Refrigeration/Ice Machines, and Serving Equipment, pulling the market along, all of them with gains over 5.0%.
- For 2019, we proceed with cautious optimism. The forecast is +4.7% nominal increase in E&S revenues and about +2.5% real growth.
- All the fundamentals driving foodservice remain promising. Consumer spending will be favorable with lower tax rates and larger family standard deductions come April 15th.
- Our tariff situation will be sorted out; it is a tool to be applied to garner favorable outcomes in trade negotiations.
- Operator expectations for continued capital expenditures and business conditions six months out buoys our outlook.
- There will be continued mix-shifts amongst restaurant segments, but they all need new fryers, ovens and refrigeration.

## ADJUSTED PREDICTION FOR 2019

<b>EQUIPMENT &amp; SUPPLIES</b>	<b>+3.0% REAL GROWTH</b>
<b>PRICE INCREASES</b>	<b>+2.0% OF SALES</b>

For more information on the FER's 2019 E&S Market Forecast call 800/986-9616, or e-mail Randy Hano at [rhano@fermag.com](mailto:rhano@fermag.com).

By Joe Carbonara, Editor

*Foodservice Equipment & Supplies*

## STEADY STATE

The more things change, the more they stay the same in the restaurant industry. Despite significant evolution in the form of consumer dining preferences—including when, where and what they eat—and a growing reliance on technology among operators, overall industry sales continue to inch along during an extended period of moderate growth. That's been the story the past few years and it seems the industry will maintain that status quo this year and next.

Sales at restaurants will hit \$825 billion in 2018, according to the National Restaurant Association. This represents 4% nominal growth or 1.4% in real terms.

"2018 is the ninth consecutive year of sales growth for the restaurant industry," says Hudson Riehle, Senior Vice President of the Research and Knowledge Group for the National Restaurant Association. "Not surprisingly, it's another year characterized by moderate growth. "When you look at the industry's compound annual growth rate since the association started tracking it in 1970, it's a solid 6.4%. However, if you look at for the past decade, it drops down to 3.7%. There's definitely a period of moderate growth in the post-recession environment."

A period of moderate growth is exactly what most industry observers predicted heading into this year. "I think 2018 has gone to plan. I don't think there's anything that has changed dramatically," says Darren Tristano, a longtime industry analyst. "The idea for 2018 was we were going to see a 3% to 4% growth and 2.5% of that was inflationary. So very real little growth. I don't expect very much change there."

The restaurant industry's moderate growth rate reflects the overall moderate growth rate of the U.S. economy, Riehle notes. In fact, according to data from the U.S. Bureau of Economic Analysis, Gross Domestic Product has exceeded a 3% growth rate all of 4 times over the past 16 quarters. This includes a 4.1% growth rate for the second quarter of this year.

GROWTH RATE FOR  
Q2/2018

+4.1%

When you look at the industry's compound annual growth rate since the association started tracking it in 1970, it's a solid 6.4%. However, if you look at for the past decade, it drops down to 3.7%. There's definitely a period of moderate growth in the post-recession environment.

But restaurants can't continue to live off healthy bite of a shrinking pie. This will force operators to get creative as they look to acquire and retain customers.

At the same time, the amount of money consumers have to spend on food continues to shrink. On average, consumers spend 12% to 13% of their budget on food. "If you go back a few decades, what consumers spent on food was considerably higher," Riehle notes. The good news is that roughly half the money consumers spend on food goes to restaurants, he adds.

But restaurants can't continue to live off healthy bite of a shrinking pie. This will force operators to get creative as they look to acquire and retain customers. "Going forward you are going to see more consumers linking restaurant spending with other categories," Riehle predicts. He points to the grocery segment as one example. Many grocers now entice shoppers by offering them discounts on their gasoline purchases. Another example is the way some financial services companies offer to lower insurance premiums for customers who purchase perceived healthy food. "You will see operators bundling restaurant spending with other necessary spending," he adds.

In addition, restaurants may start leveraging technology to drive sales. For example, digital menu boards make it easier for restaurants to alter pricing based on daypart and other factors. It's interesting to note this approach seems to resonate with consumers. "When you ask consumers, roughly 3 out of 4 say they would patronize restaurants more if they could get different pricing from restaurants," Riehle adds.

Emerging consumer groups such as Millennials and Generation Z learned some valuable lessons during the last recession and it shapes how they use restaurants. For example, they understand the need to manage their finances, including paying down debt such as student loans, but are finding ways to balance that with their desire to eat out as much as possible. "It's trying to manage the cost so they can dine out with greater frequency," Tristano says. "The mindset is as I am going to dine out as often as possible but take advantage of a deal, whether it's a coupon, an incentive for checking in via social media or an app and other ways."

The whole concept of restaurant pricing could be ripe for change. "If you think about how restaurant meals are paid for it has not changed in 100 years," Riehle says. They either pay right before or after their purchase. Younger consumers are more apt to like a Netflix like subscription approach."

On average, consumers spend  
12% to 13% of their budget on food.

For the foreseeable future, though, labor will remain a multi-front battle for operators. In a very labor-intensive industry, operators continue to struggle with employee recruitment, retention and even cost. “Roughly one out of every two restaurant operators report their top challenge is labor related,” Riehle notes. “It can vary by region, and even within states by certain metropolitan areas.”

Is there anything on the horizon that might jolt the restaurant industry into a period of more accelerated growth? “I am not sure there’s anything that can do that. If we were looking at scenarios, one would be population growth and I don’t see that happening. And we may even see lower population growth,” Tristano says. “The oversupply of restaurants is as big a contributor as anything. Still lots of bars and restaurants. Granted they are smaller, but there’s still net positive openings each year. Until we see more closings we will not see higher growth rates. I don’t foresee a scenario where we will have more people spending more money to eat food away from home.”

## 2019: NEW YEAR, SAME GROWTH RATE

Looking ahead to 2019, expect more of the same. “There’s nothing to indicate falling off the cliff in 2019,” Riehele says. “Foodservice operators and equipment manufacturers and distributors should expect the same kind of growth environment as they have in 2019. But history’s clear that certain externalities can act as a catalyst in altering the country’s economic growth,” Riehle points out.

In other words, don’t be surprised if the industry hits a few potholes along the way. “I think there’s definitely things to be concerned with,” Tristano says. “We are starting to get used to the political anxiety and there are an increasing number of stress points that affect the U.S. It could be global relationships, for example. Certainly, the environment is a threat. Flooding, droughts and wild fires are all things that could affect the supply chain and the economy. And we have such an oversupply of restaurants. Some operators are hanging on by a thread. It costs more to close than stay open.”

Traditional foodservice operators continue to face competition from new and different organizations seemingly on a daily basis. At the same time, convenience stores and grocery stores continue to up their prepared food game. Companies like Wawa in the c-store space and Whole Foods in the grocery space, continue to draw the most attention, but the growth in prepared food sales spreads well beyond these two leaders. “When you look at all of the different spaces, there’s a ton of competition out there,” Tristano says.

In addition, the changing nature of corporate dining continues to impact the restaurant world. Tech giants like Google and Microsoft have long been the standard bearers for this segment but in order to recruit and retain top talent many other companies have upped their dining plans. “There’s a lot of on premise places that offer employees free food and that’s killing the business for some of these restaurants,” Tristano notes.

For the foreseeable future, though, labor will remain a multi-front battle for operators. In a very labor-intensive industry, operators continue to struggle with employee recruitment, retention and even cost.

Taken individually, none of these developments seem too dramatic. Collectively, though, they continue to contribute to the industry's meager growth rate.

There's only two ways for operators to influence their success: Opening and closing stores and changing the menu, Tristano says. "If you are not doing either of those, it will be very difficult to grow."

Fast-casual remains the darling of the chain restaurant segment and for good reason. Fast-casual restaurant units have grown at a compound annual growth rate of 7% over the past 5 years, per The NPD Group. Despite this growth, fast-casual remains susceptible to periods of slower customer traffic. For the year-ending May 2018, NPD reports total restaurant visits remained flat, while visits to fast-casual concepts were up 5%. While fast-casual enjoyed a 7% increase in traffic during the third quarter of 2017, NPD reports it trailed off to 4% growth for the quarters ending in December 2017 and March 2018.

Looking at specific restaurant types, Poke restaurants continue to enjoy a period of rapid growth. That said, Tristano compares their boom that of frozen yogurt from a few years ago, meaning he anticipates that poke's growth will eventually level off. The bar business continues to boom, as specialized concepts focusing on craft beer and wine remain popular with consumers. "Adult beverage still has a very strong play in the world of the independent restaurant operator," Tristano says.

Catering represents another segment with significant growth potential. "More people are deciding they want to have functions at their homes catered because they don't want to cook," Tristano notes.

Same applies to delivery. "We expect to see very strong growth in this area," Tristano says. The anticipated growth of catering and delivery sales represents a larger trend affecting the industry: off-premise is the new dining out. "100% growth we expect this industry to have in the next five years will be from off-premise," Tristano notes. "Don't expect dining in restaurants to grow."

Off-premise restaurant sales, meaning purchases made from restaurants and other foodservice operators but consumed elsewhere, like a home or office, will account for 37% of industry sales in 2018, according to projections from CHD Expert. Takeout sales for pick up will total \$124 billion in 2018, delivery \$32 billion, delivery from a third-party provider such as GrubHub or Uber Eats \$13 billion and catering for pick up or delivery will hit \$40 billion, according to CHD Expert.

Fast-casual remains the darling of the chain restaurant segment and for good reason. Fast-casual restaurant units have grown at a compound annual growth rate of 7% over the past 5 years, per The NPD Group.

## Don't expect dining in restaurants to grow.

“More and more restaurant operators realize the industry is heading toward a greater focus on delivery. And when you think of it from a consumer perspective, there’s nothing more convenient than food delivered to them,” Riehle says. “Different operators are adopting different business strategies to deal with this. QSR has always been convenience driven but table-side segment is starting to realize the potential for this segment moving forward.”

Another factor shaping the restaurant industry: the growing presence of private equity. “Over the past five years private equity has been very active in the restaurant space,” Tristano notes. “Traditionally, private equity would buy under-performing restaurants and it was a real estate play. Now they are buying stronger concepts that has been a very good fit for their portfolios.”

The presence of private equity continues to impact not only restaurant merger and acquisitions activity but how these concepts go to market once the deal closes. “They are getting a little smarter by investing in companies that overlap,” Tristano says. “If they own a coffee business, for example, they are buying companies that sell coffee. So, there’s greater synergies and information sharing among those companies.”

“There are two things a private equity company looks at differently,” Tristano adds. “First, is moving into the retail space and that has a lot of opportunity.” This allows the operators to create new revenue streams by licensing their products for sale in grocery stores and other retail outlets. The second growth opportunity is not just franchising but licensing and moving internationally, Tristano notes. The chain leverages its system by finding investors that want to open and run its restaurants in markets outside the U.S. “These steps give the brand opportunities to generate revenues without having to run restaurants and without pulling a lot of capital out of the system,” he adds.

If you are a fan of that familiar feeling that comes from watching reruns of old television shows, then you should enjoy the next 12 to 18 months in the restaurant industry.

## TARIFF TALK

One economic factor with potential to impact the foodservice industry are a series of Tariffs imposed by the U.S. on goods made overseas. The initial tariffs took effect in April and it immediately raised the prices of aluminum and stainless steel, two key ingredients when making foodservice equipment. “And that caught everyone’s attention. It demonstrates that materials costs are going to rise, and the cost of finished products will rise,” says Charlie Souhrada, Vice President, Regulatory and Technical Affairs for the North American Association of Food Equipment Manufacturers.

“More and more restaurant operators realize the industry is heading toward a greater focus on delivery. And when you think of it from a consumer perspective, there’s nothing more convenient than food delivered to them,” Riehle says.

That's why dealers, reps, operators and consultants should pay attention to this. The tariffs represent additional expense to produce these products.

The next round of tariffs were announced this summer and are designed to protect intellectual property and the high-tech interests in the U.S. These tariffs impact three different types of products: material inputs and component parts, tools used to make equipment and consumer goods coming from China. This round of tariffs includes items like polymers, resins, hoses and other items that factories use to manufacture foodservice equipment and supplies, Souhrada notes.

In addition, the amount of the tariff can vary depend by item. "It lends yet another level of overhead where manufacturers need these items to make their products. That's why dealers, reps, operators and consultants should pay attention to this. The tariffs represent additional expense to produce these products," Souhrada adds. "In many ways, it represents a supply chain challenge. Many of those items are available from other suppliers but NAFEM members rely on a very complex supply chain system that is integrated. It took years to build and it may take years to rework. But when you factor in the increasing steel and aluminum prices and rising freight costs, it makes it only more difficult for manufacturers to compete."

How manufacturers of foodservice equipment and supplies will address the tariffs will likely vary by company. Some may choose to absorb the additional expense for as long as they can. Some may choose to pass them along immediately.

In an attempt to get ahead of this, some factories are discussing the tariffs with their rep networks to determine when to increase prices and by how much to offset the costs. Others have already raised prices. "Some manufacturers have been very fair," says Jonathan Gustafson, Director of Purchasing and Strategic Sales for Ace Mart Restaurant Supply. "In some cases where we know the tariff is 10%, the factories are pushing through a 3% to 4% increase. In other instances, we are seeing some price grabs."

In lieu of price increases, some manufacturers have established a surcharge on shipments after a certain date, adds Joe Ferri, a Principal at Pecinka Ferri Associates, a New Jersey-based independent manufacturers' rep firm. "The law of unintended consequences is certainly taking hold with profiteers doing what they do best," he adds. "It's created a lot of disruption and ill will."

While this may seem like a manufacturing issue at the moment, the implementation of these tariffs could have a ripple effect throughout the industry. For example, higher equipment costs could impact operators' budgets for replacement purchases, remodels and more. "We are seeing that on some projects," says Jeff Couch, Principal at Preferred Marketing Group, a California-based independent manufacturers' rep firm. "With the chains, who are remodeling and franchising, this is throwing their budgets out of whack."

As a result, operators may need to brace for equipment and supplies costs that will be greater than the typical 3% to 5% most manufacturers implement on an annual basis. “Some customers are aware of this and want us to start exploring other options, so they don’t get hit with a 20% increase,” Gustafson adds.

This comes at a time when operators face significant cost pressures related to other aspects of their business, including labor. “Mini wage increases are taking hold across the country and they are starting to look at that,” Couch says, “Now the equipment they are looking at is inflated by a certain percent and they have to weigh what to do.”

The tariffs could impact more than just the cost of new equipment. They could impact the cost of parts service agents use to maintain and repair existing equipment. “If raw materials are going up, then you can expect to see price of parts going up,” says John Schwindt, General Manager and Vice President of Operations for Hawkins Commercial, a Colorado-based service agent. Schwindt also serves as President for the Commercial Food Equipment Service Association. “Bottom line is we are bombarded with price increases literally every week. Every once in a while, one will go down. Every time you order a part, prices are always subject to change depending on demand. Prices have been going up. Everyone wants to improve their margins and they will use this as an excuse to raise prices.”

How will the tariffs affect the industry over the long haul remains anyone’s guess. “There’s lots of uncertainty because we don’t know how it will end,” Couch says. “You are not laser focused any more. You are more shot gunned in your approach because there’s so much uncertainty. We are all talking about it but there’s so much uncertainty. Nobody’s really moving forward. You hear the economy is humming along but I don’t see a real building boom anywhere in my area. With the tariffs there’s a trickle-down impact that affects a lot of people, regardless of whether they are tied to steel. Then there’s all the other tariffs that go on that affect other businesses that don’t allow consumers to spend more money at restaurants. If your costs go up then your disposable income changes. Because the announcements are not done yet, nobody knows exactly what it means yet.”

Stay tuned.

For more information on the *FE&S*’ 2019 Foodservice Industry Forecast, call 800/630-4168, or e-mail Joe Carbonara at [joe@zoombagroup.com](mailto:joe@zoombagroup.com).

The tariffs could impact more than just the cost of new equipment. They could impact the cost of parts service agents use to maintain and repair existing equipment.

# ASHTON AND MULDOWNEY DISCUSS INDUSTRY DYNAMICS

ASHTON  
FOODSERVICE  
CONSULTING

Clarity

**By Robin Ashton, Principal**  
Ashton Foodservice Consulting

**John Muldowney, Principal**  
Clarity M&A

MAFSI asked Robin Ashton, Principal at Ashton Foodservice Consulting, and John Muldowney, Principal at Clarity M&A, to discuss the forces driving the foodservice and foodservice equipment and supplies markets. Ashton and Muldowney produced Foodservice Equipment Reports' annual E&S Market Forecast from 2000 through 2018. Their dialogue follows.

**Muldowney:**

Robin, how would you characterize the foodservice equipment and supplies market at this moment?

**Ashton:**

Weird. Really weird. We have the strongest macroeconomic environment in more than a decade, operator sales and traffic, after a very sluggish 2016 and 2017, have improved this year, and yet the E&S market is just limping along. If one believes the MAFSI Barometer, and you know we do, growth of the E&S market is the slowest it's been since the Great Recession.

Let's start at the beginning. What's going on at the macro level that's pertinent:

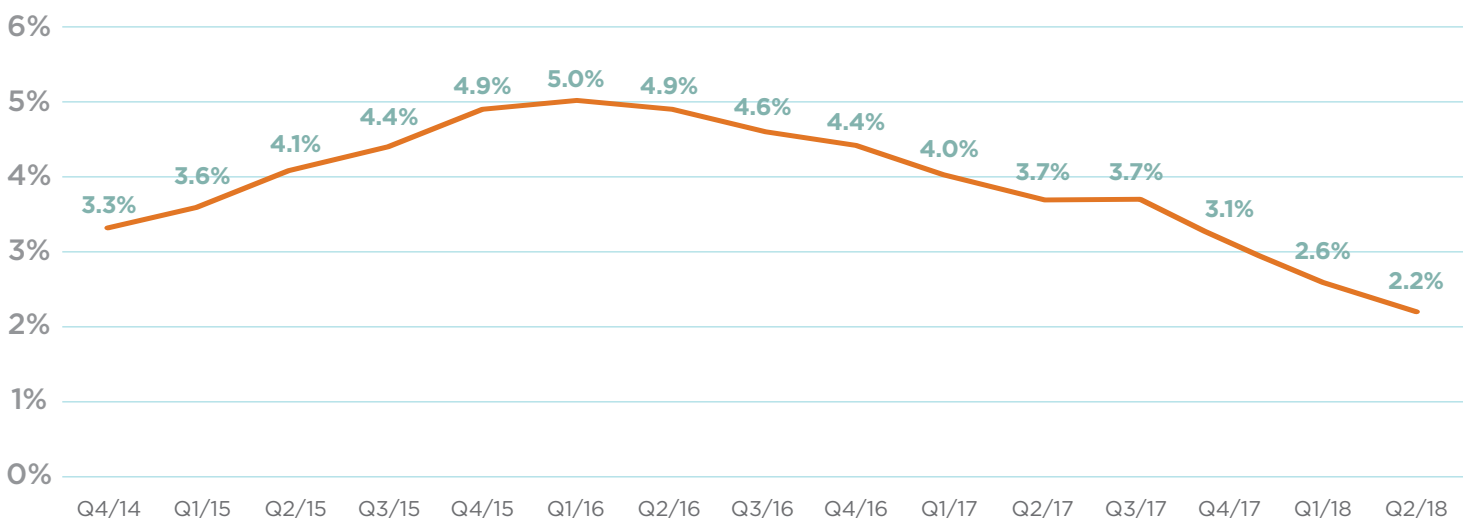
**Muldowney:**

We're seeing an upward tick in an already strong economy. Third-quarter 2018 real GDP is looking more like 4%, which puts the 2018 annual rate at +3%. Unemployment is no longer an issue. At 3.7% in the September jobs' report, it's the lowest since 1969! Wages are beginning to rise. Real consumer spending is running at 2% to 3% real rates.

Real consumer spending is running at 2% to 3% real rates. Everything is looking good on consumer confidence. In fact, confidence is running at its highest rate in nearly 20 years.

## MAFSI BAROMETER

### Four-Quarter Moving Average Percentage Change



# ASHTON AND MULDOWNEY DISCUSS INDUSTRY DYNAMICS

Now, maybe now  
that the economy  
has improved, and  
Millennials are aging,  
this dynamic will  
change, but the  
Baby Boomers are  
also entering  
retirement and will  
almost certainly  
start cutting back  
on restaurant use.

Everything is looking good on consumer confidence. In fact, confidence is running at its highest rate in nearly 20 years. Gas prices could be a bit of a negative, as they've risen some this year, but they are still historically very low.

President Trump's trade initiatives and "jaw-boning" are still creating a lot of uncertainty, but it looks like we have a new version of NAFTA and the threat of putting tariffs on cars from Canada and Mexico is over. We also still have a delayed impact on the consumer economy that will be realized in continued lower payroll taxes and a big benefit to consumers as they prep for their 2018 taxes with favorable personal deductions per household.

So, what's going on with foodservice? Why the disconnect? Why is the strength in the macroeconomy not being reflected, not giving us the directional bias that we would expect?

While sales for restaurants appear to be a bit better this year—Technomic raised its 2018 and 2019 forecasts to 4.1% total industry in May—they are still historically slow? What's going on? That's the big question.

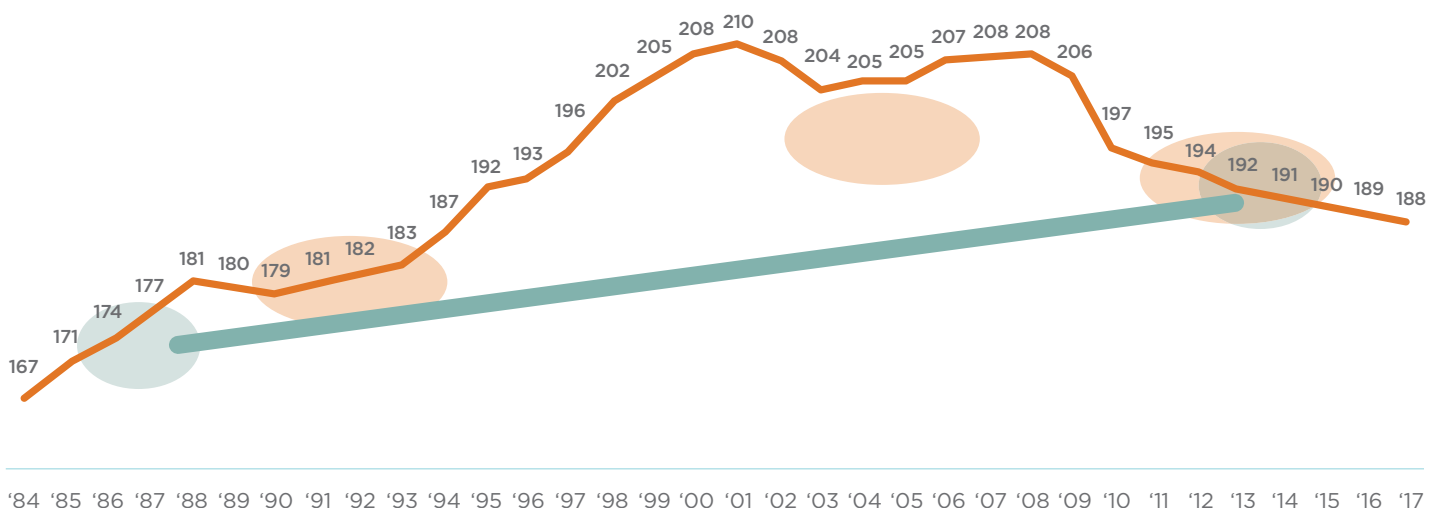
## Ashton:

I believe two key changes in the market are driving this. One is the simply the maturity of the foodservice market in the U.S. We just don't need any more restaurants. And then there are major structural changes in the way younger Americans use foodservice.

We'll start with the maturity issue, which is also a saturation issue. Per NPD Group's ReCount census, net restaurant counts are falling. Even the private equity-fueled fast-casual unit growth has slowed the past year

## ANNUAL COMMERCIAL FOODSERVICE Meals Per Person in the USA

SOURCE: The NPD Group/ Annual Eating Patterns of America



# ASHTON AND MULDOWNEY DISCUSS INDUSTRY DYNAMICS

ASHTON  
FOODSERVICE  
CONSULTING

Clarity

or two. It's really hard to make the return-on-investment and return-on-assets numbers work. Especially with retail rents and construction costs increasing. Don't get me wrong: There will always be breakout concepts and restaurant growth in booming cities—Denver!—but that is still going to come out of some other operator's share.

On the “beyond restaurants” side, there is still growth in supermarkets and c-stores, but, really, they are a relatively small part of the market. And we've renovated a lot of the institutional foodservice infrastructure in the past decade. And built a lot of new hotels and casinos. We've come to the end of the cycle.

I truly believe we're just running out of pent-up demand. This expansion in E&S is nine years long. From a capital spending perspective, the foodservice market is just in a pause.

## Muldowney:

What about the structural changes in foodservice behavior you mentioned?

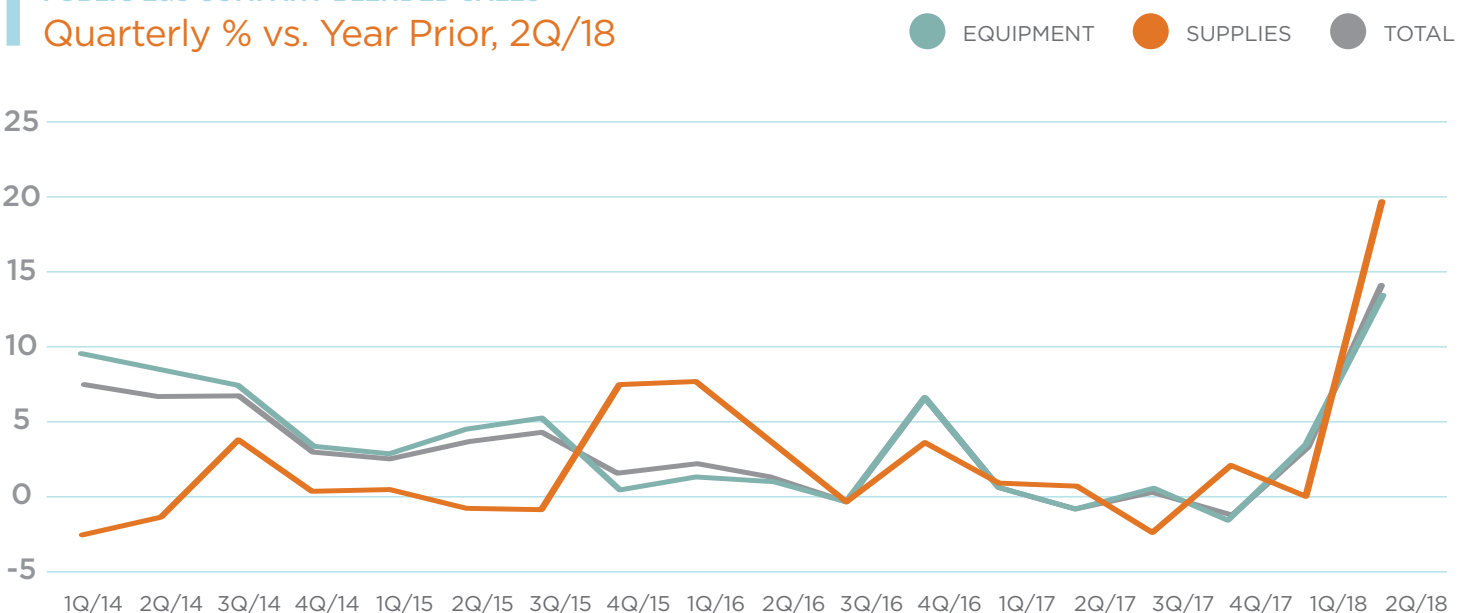
## Ashton:

It's simply that the demographic cohort that traditionally eats out the most, doesn't eat out as often. By a lot. One of the most insightful pieces of data I've seen in the last 10 years is from my friends at NPD and their CREST studies. If you go back to the late 1990s or the recovery period of 2005 to 2007, 18-to-34-year-olds visited restaurants an average of 275 times a year. During the Great Recession, that per capita dropped to below 200. And it's never really recovered. That's huge because Millennials are the biggest demographic cohort since the Baby Boomers and a young culture is exhibiting a restaurant segment

I think in this environment, parts and service are the real opportunity, but you have price suppression there too, because of the big parts distributors.

## PUBLIC E&S COMPANY BLENDED SALES

### Quarterly % vs. Year Prior, 2Q/18



The big dealer buying groups and internet players, which continue to consolidate, use their market power to lower prices to end-users.

mix shift, compounded by a stay-at-home attitude most evenings, and a home delivery and an upscale “meal in the box” focus that buttresses a shift to social media and “internet player gaming.” Commercial foodservice as a lifestyle is undergoing another evolution in practice.

Maybe now that the economy has improved, and Millennials are aging, this dynamic will change, but the Baby Boomers are also entering retirement and will almost certainly start cutting back on restaurant use. If you look at Technomic’s and NPD long-term forecasts, they both see very moderate growth well into the next decade. So, this problem isn’t going away.

John, I think you put these two things together and it helps explain the disconnect between strong macro and sluggish foodservice and E&S growth we discussed at the beginning.

So, I have a question for you. What are the key issues facing the E&S side of the business?

**Muldowney:**

In a couple of words: channel compression. And the effect? More price suppression to keep their end-users. The big dealer buying groups and internet players, which continue to consolidate, use their market power to lower prices to end-users. And the reality is that more and more of dealers are also importing light equipment directly and private labeling; it only leads to more price competition. It’s purely a reflection of market power. Dealers seem to actually have their cake and eat it too. I’m sorry, but manufacturers have been and continue to cede market power to the channel and buying groups. All this puts the reps under pressure, as manufacturers squeeze them for additional service support to try to make up some of what they’ve given to dealers. I think in this environment, parts and service are the real opportunity, but you have price suppression there too, because of the big parts distributors.

**Ashton:**

Tell me some good news.

**Muldowney:**

The big public equipment companies are doing much better this year. The second quarter was particularly strong. Double-digit growth on average for the 2nd quarter, and organic growth for the first half of the year at 6%. Maybe this is a harbinger that E&S was just in a two-to-three-year lull. What do you think? It’s running two points ahead of the MAFSI indicators, so where’s the disconnect, again?

**Ashton:**

I don’t want to be Debbie Downer, but I still think it’s going to be a very slow year. But maybe we’ll get lucky. You know I’m always an optimist.

For more information on Industry Dynamics, please contact Robin Ashton at [rashton@theashtonreport.com](mailto:rashton@theashtonreport.com) or John Muldowney at [muldojmm@gmail.com](mailto:muldojmm@gmail.com).

# 2019 CANADIAN FOODSERVICE INDUSTRY MARKET FORECAST

By Amy Bostock, Managing Editor  
*Foodservice and Hospitality*

Since 2017, the hospitality industry has experienced slowdowns in the full-service and QSR segments. Yet, despite the fact growth numbers are flat to modest at best, it doesn't mean the industry has stagnated. New variations on the foodservice theme—such as takeout, home delivery and catering—are changing the foodservice landscape considerably. Technology has become a de facto game changer and menu selections are a stronger drawing card than ever. A tight competitive environment also means opportunities for revenue growth are squarely focused on stealing market share.

The industry has come off a fairly strong growth period, which averaged 5.7% annual commercial foodservice-sales growth over the past four years. This has helped total food sales climb to nearly \$85 billion. A lot of that was driven by Millennials and the wealth effect. Once you factor in menu inflation, real commercial sales have still increased by a solid 3.1%.

According to data from Restaurants Canada, year-to-date foodservice sales are at 5% and forecast to reach 5.3% in the balance of the year. However, menu inflation drops those number to 0.7% and 0.8%, respectively. Factors that have led to this slowdown include rising utility, labour and food costs, he notes.

Geographically, B.C., P.E.I. and Quebec are showing the strongest sales growth due to strong population growth, which is driving full-service growth. In contrast, Ontario traffic is relatively flat. As the market becomes more tiered, QSR and casual dining are taking a bit of hit from the fast-casual segment.

In 2019, operators can expect foodservice sales to be affected by higher interest rates and household debt levels. Overall projections for commercial foodservices sales growth are 4.4%.

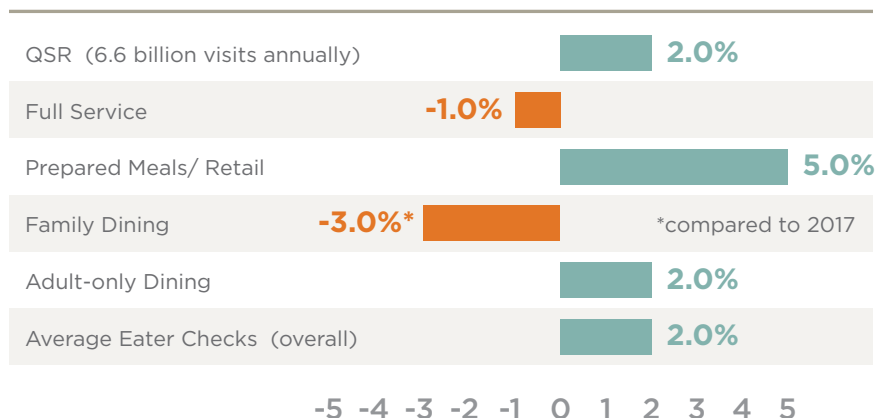
**FOODSERVICE**  
CANADA'S HOSPITALITY BUSINESS MAGAZINE  
**AND HOSPITALITY**

The industry has come off a fairly strong growth period, which averaged 5.7% annual commercial foodservice-sales growth over the past four years. This has helped total food sales climb to nearly \$85 billion.

## FOODSERVICE PERFORMANCE

SOURCE: NPD Group

### Traffic Changes



Overall that means the pie is not growing for the average operator, so the only way to grow is to steal market share from someone else. But, grabbing that market share in a rapidly shifting market demands innovative thinking on the part of operators.

### PUSHING THE ENVELOPE

Overall that means the pie is not growing for the average operator, so the only way to grow is to steal market share from someone else. But, grabbing that market share in a rapidly shifting market demands innovative thinking on the part of operators, says Ryan Moreno, CEO and Co-Founder of Joseph Richard Group (JRG) in Vancouver. "Consumers are obviously changing and developing. They're a lot wiser, more adventurous and have sophisticated palates. The landscape is different now."

As the owner of more than 20 branded locations and expanding, Moreno says operators have to look for new opportunities to grow revenues. "On the one hand there's a lot of takeout with services such as SkipTheDishes and Uber Eats. Another area of opportunity is catering, where we are establishing a dedicated division. Catering is a good fit and allows us to give the JRG experience everywhere."

"We've noticed a lot more activity around the catering space," says Robert Carter, Industry Analyst with The NPD Group in Toronto. "That's a function of restaurant operators looking to expand their distribution network. Recipe Unlimited's (formerly Cara Operations Ltd.) acquisition of Pickle Barrel, for example, was squarely focused on the catering opportunity. Even smaller players are getting into it."

One driving factor behind the catering push is the changing work environment, Carter explains. "A lot of companies have meal plans for employees. Their people are working in different areas or remote meeting spaces. That drives more opportunities within catering. When you add in the technology play through companies such as SkipTheDishes, it makes the entry to catering that much easier."

### DELIVERING THE GOODS

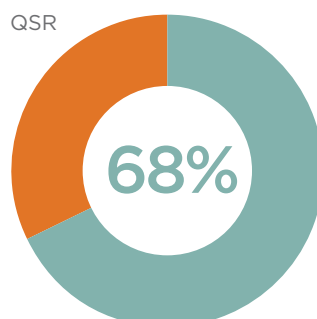
With that, the online-delivery space has also exploded in the last couple of years, Carter says. "We're seeing \$1.8 billion in sales right now, accounting for 5.0% of all restaurant traffic. The growth continues to increase at a double-digit rate. It's become the new battleground for restaurants." He believes online delivery will dramatically change the business model

### FOODSERVICE PERFORMANCE

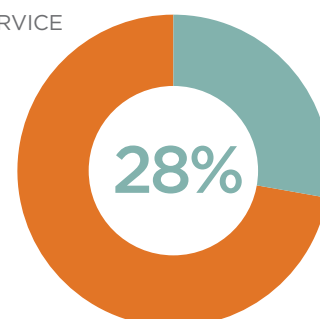
#### Market Share

SOURCE: NPD Group

QSR



FULL SERVICE



for most operators over the next five years. “It’s the exact same scenario we saw when retail stores were going omni-channel seven years ago. It’s still a bit of a Wild-West area and there are only a handful of platforms for now. But operators will become savvier as this space evolves.”

### A MATTER OF PERSONAL TASTE

Menu offerings—and the ability for consumers to customize—are also becoming a critical survival tool.

Mark Wilson of Mark Wilson Culinary Consulting in Toronto pinpoints top trends that are helping keep margins intact. First, it’s important to stick to menus that are much smaller and more nimble. “Gone are the behemoth tri-fold menus with 80 to 90 items, which kitchens always struggled to manage. Smaller menus should have no loss leaders and each item must be simple to prepare in order to keep labour costs down and preserve margins.”

Consumers are also steering away from the formal menu structure, he notes. “They’re less interested in the appetizers, salad/main/dessert structure. It is now melting into single offerings with greater focus on shareables and platters.”

Successful restaurateurs are also learning to focus on margins compared to costs. “Higher-priced items can yield double or triple the margin with the same labour cost,” Wilson says. “For example, a sandwich could cost \$6 to produce and sell for \$10 for a \$4 margin. Steak frites might cost \$15 and sell for \$30, giving you a \$15 margin.”

Vegetarian and vegan are also becoming a must-have on any menu, from QSR to fine dining, he adds. “Vegetarian is mainstream on menus today. Customer demands and the inclusion of calorie counts are pushing operators to think healthier and offer something for everyone.”

Studies show 11% of consumers would like to see more vegetarian options, Carter reports. “One in ten Millennials consider themselves to be vegan or vegetarian. Plant-based menus are up 8% as of 2017 and have been on a five-year steady-growth trend.”

One needs to only consider the sell-out status of A&W’s Beyond Meat Burger to realize the relevance of plant-based menu items, Elliott says. “They really hit it out the ball park with that [offering]. Products such as the Beyond Meat and Impossible Burger are delivering on both texture and taste that go beyond the typical soy burger.”

### THE FRANCHISE MOVEMENT

The franchise landscape is going strong as top U.S. brands Chick-fil-A, MOD Pizza, Potbelly Sandwich Shop and Firehouse Subs move into Canada.

Joseph Pisani, director of Franchise Financing at the Bank of Montreal says much of the growth in the franchise space can be attributed to concepts with an “international flair” rather than the historical coffee, doughnut and burger staples. “Pita places, falafel, Greek, Indian—the flavours of the industry have expanded and continue to grow year-over-year.”

### BY THE NUMBERS

#### Takeout Opportunity

**According to Technomic’s “2018 Canadian Takeout & Off-Premise Consumer Trend Report,” takeout and delivery could drive sales rather than cannibalize dine-in occasions.**

# 41%

of consumers order food either for takeout or delivery at least once a week

# 46%

of 18 to 34-year-olds agree to some extent that they are ordering delivery from a wider variety of restaurants now compared to two years ago

# 55%

of consumers agree to some extent that they are concerned about the quality and freshness of food delivered by third-party delivery services

Technology innovation stands out as an essential area of focus for operators, as younger-generation consumers look to convenience and speed, whether it's forward-thinking apps, online delivery and ordering, mobile payment, or self-order kiosks.

Pisani reports that the overall franchise market in 2017 was \$96 billion, with foodservice accounting for 70% of the sector. The main players are newcomers to Canada and accumulators. "The latter are the next-stage professionals who want to build franchises as their own corporation. We are seeing big growth in both those groups."

He adds that Ontario still represents the main launch market for franchisors entering Canada. "B.C. is similar in terms of being a major centre, but the price of real estate is a challenge. Saskatchewan was a booming market, but has suffered since the slowdown. It will become a growing market as oil prices climb. One major challenge for franchisors looking to Eastern Canada is finding franchisees."

### FIGHTING FOR FUTURE SUCCESS

Given how crowded things are, operators need to focus on a number of key elements in order to maintain or grow their market share.

"Canadians are motivated by innovation. So companies that focus on innovation, food quality, expanding their menus beyond core staples—these are the operators that are growing," Carter notes.

Branding and messaging are becoming extremely powerful drawing cards as one of the biggest keys to success today is the image of the company. What is its role in terms of environmental sustainability, food waste, animal welfare, treatment of staff?

Technology innovation stands out as an essential area of focus for operators, as younger-generation consumers look to convenience and speed, whether it's forward-thinking apps, online delivery and ordering, mobile payment, or self-order kiosks. Technology also plays a critical role in alleviating the margin squeeze, because it can help operators address food and labour costs, Carter notes. "The Chief Technology Officer will continue to evolve as players become more sophisticated."

Ultimately, the best way to stay ahead of the game, Wilson says, is "to differentiate your product, provide a better experience, or a better value proposition—something that makes them want to keep coming back. It's really crucial for operators to understand their target market and what their consumers really value in their restaurant experience."

Moreno says as a restaurateur, you always have to be cognizant about what's going on in the industry. "There are a lot of very talented people in our space and it's very competitive. But that's both a challenge and an opportunity because we are constantly being pushed to deliver new and exciting experiences to stay relevant. Whether it's catering, diversifying your offering or embracing apps, you need to be aggressive."

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For more information on the 2019 Canadian Foodservice Industry Market Forecast, e-mail Amy Bostock at [abostock@kostuchmedia.com](mailto:abostock@kostuchmedia.com).

# 2019 CANADIAN COMMERCIAL FOODSERVICE SALES FORECAST



**Restaurants  
Canada**

The voice of foodservice | La voix des services alimentaires

**By Chris Elliott, Senior Economist**

*Restaurants Canada*

Convenience, spending time with friends and family, or experiencing new and exciting menu offerings are some of the many reasons that Canadians' appetite for eating out remains as vibrant as ever. Canada's commercial foodservice industry is projected to grow by 5.3% in 2018. This marks the fifth consecutive year that foodservice sales have grown by 5% or more. Overall, commercial foodservice sales in Canada are forecast to grow to \$72.1 billion—a \$3.6 billion increase over 2017.

Including non-commercial foodservice sales, total annual spending on foodservice is forecast to grow to a record \$89.3 billion.

While the foodservice industry is experiencing healthy nominal sales growth, the increase in spending is largely due to higher menu prices. Menu prices are forecast to grow by 4.4% in 2018, which would represent the largest annual increase in menu prices since 1991.

When adjusted for menu inflation, real sales are forecast to grow by a tepid 0.8%. This represents the weakest growth in real sales since 2011.

In 2019 it is expected that rising interest rates, high household debt, and slower disposable income growth will slow nominal growth of commercial foodservice sales to 4.4%. This pace would be on par with the industry long-run average growth. Real sales are forecast grow at a 1.4% rate throughout 2018.

Healthy economic growth and growing population will boost 2019 commercial foodservice spending in Ontario, British Columbia, and Quebec. After several years of sluggish gains, pent-up demand and a stronger economy will lead to a rebound in foodservice sales in Alberta. In contrast, an aging population and slower economic growth are forecast to restrain foodservice sales in Newfoundland, Labrador, and New Brunswick.

This marks the fifth consecutive year that foodservice sales have grown by 5% or more.

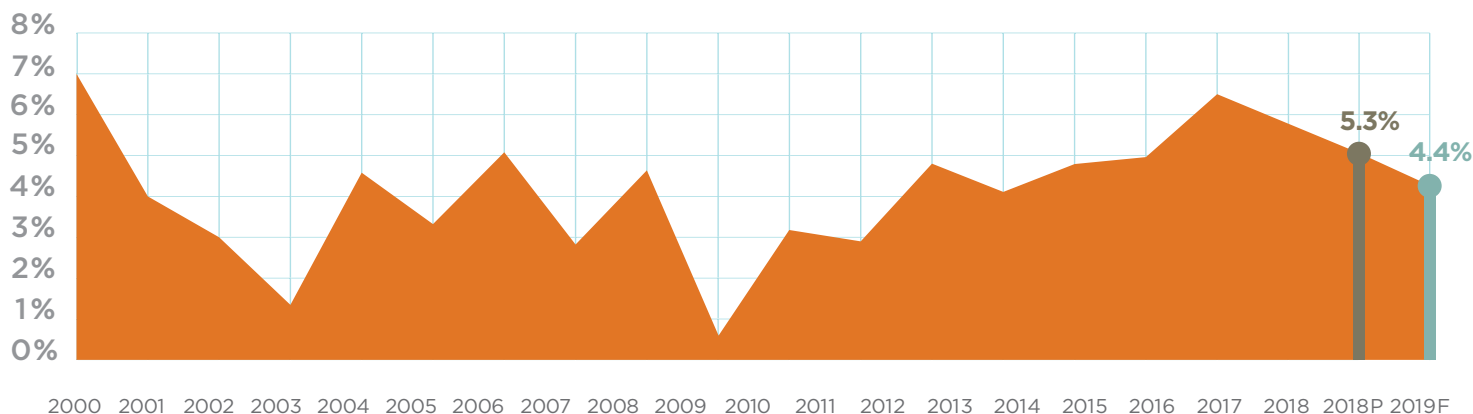
For more information, contact Chris Elliott at 416/923-8416, or e-mail [celliott@restaurantscanada.org](mailto:celliott@restaurantscanada.org).

## CANADIAN COMMERCIAL FOODSERVICE SALES

### Year-Over-Year Nominal Change

● PRELIMINARY ● FORECAST

SOURCE: Statistics Canada and Restaurants Canada



## U.S. Food Industry Universe

July 2018

2018 Retail Sales Estimates \$B

Nominal Growth

SEGMENT	FOOD	ALCOHOL	NONFOODS	TOTAL	2018	2019
<b>TOTAL RETAIL</b>	<b>\$ 712.3</b>	<b>\$ 134.4</b>	<b>\$ 61.0</b>	<b>\$ 907.7</b>	<b>2.4%</b>	<b>3.2%</b>
Traditional Grocery	\$ 453.6	\$ 26.5	\$ 24.3	\$ 504.4	0.4%	1.0%
Traditional Supermarkets	\$ 315.4	\$ 19.7	\$ 10.9	\$ 345.9	0.1%	0.6%
Supercenters	\$ 126.5	\$ 6.6	\$ 8.9	\$ 142.0	1.6%	2.6%
Mass Merchandisers	\$ 11.7	\$ 0.2	\$ 4.5	\$ 16.5	(3.1%)	(3.4%)
Other Grocery	\$ 258.7	\$ 107.9	\$ 36.7	\$ 403.3	5.0%	5.9%
Specialists	\$ 25.4	\$ 51.6	\$ 0.1	\$ 75.9	4.1%	4.0%
Club Stores	\$ 57.9	\$ 2.9	\$ 4.4	\$ 65.3	2.9%	4.0%
Convenience Stores	\$ 58.2	\$ 16.8	\$ 0.9	\$ 70.7	1.0%	2.0%
Online	\$ 16.4	\$ 24.4	\$ 17.3	\$ 58.1	21.1%	20.2%
Limited Assortment	\$ 31.3	\$ 1.9	\$ 1.1	\$ 34.3	6.5%	6.5%
Small Grocery	\$ 10.2	\$ 0.6	\$ 0.4	\$ 11.2	2.5%	2.5%
All Other	\$ 59.3	\$ 9.6	\$ 12.6	\$ 81.5	1.4%	2.7%
<b>TOTAL FOODSERVICE</b>	<b>\$ 761.6</b>	<b>\$ 114.0</b>	<b>\$ N/A</b>	<b>\$ 905.7</b>	<b>4.0%</b>	<b>4.0%</b>
Restaurants & Bars	\$ 515.1	\$ 91.0	\$ N/A	\$ 606.1	4.1%	4.1%
Top 500 Chains	\$ 304.4	\$ 14.4	\$ N/A	\$ 318.7	4.4%	4.2%
Independents/Small Chains	\$ 210.7	\$ 76.6	\$ N/A	\$ 287.4	3.8%	4.0%
Supermarket Fresh Prepared Foods	\$ 34.2	\$ 0.1	\$ N/A	\$ 34.3	6.0%	6.2%
Other Foodservice	\$ 242.4	\$ 22.9	\$ N/A	\$ 265.3	3.4%	3.3%
<b>TOTAL FOOD INDUSTRY</b>	<b>\$ 1,504.0</b>	<b>\$ 248.4</b>	<b>\$ 61.0</b>	<b>\$ 1,813.4</b>	<b>2.8%</b>	<b>3.2%</b>

SOURCE: Technomic Inc. analyzing data from IRI; US Department of Commerce; US Bureau of Labor Statistics; Inmar Willard Bishop. Grocery "All other" includes stores in the following sectors: Fresh Format Grocery; Health and Personal Care [Drug Stores]; Furniture & Home Furnishings; Building Material/ Garden Equipment; Sporting Goods, Hobby, Book & Music; General merchandise including Dollar Stores, other than mass merchants; miscellaneous store retailers; mail order; all other nonstore retailers. "Other foodservice" includes: Retailers (other than supermarket foodservices); Travel & Leisure; Noncommercial; and All Other Foodservice.

# US/CANADIAN FOODSERVICE INDUSTRY MARKET FORECAST

TECHNOMIC®

## United States

Revised May 2018

SEGMENT	2018 Retail Sales Equivalent \$ BILLIONS	Nominal Growth 2018 (P)	Nominal Growth 2018 (F)
<b>TOTAL RESTAURANTS AND BARS</b>	<b>\$ 515.197</b>	<b>4.3%</b>	<b>4.3%</b>
Limited Service	\$ 291.096	5.1%	4.9%
Full Service	\$ 219.921	3.3%	3.4%
Bars and Taverns <sup>1</sup>	\$ 4.081	2.7%	2.8%
<b>RETAILERS</b>	<b>\$ 69.385</b>	<b>4.3%</b>	<b>5.1%</b>
<b>TRAVEL &amp; LEISURE</b>	<b>\$ 82.528</b>	<b>4.0%</b>	<b>3.8%</b>
<b>NONCOMMERCIAL</b>	<b>\$ 120.242</b>	<b>3.1%</b>	<b>3.1%</b>
Business & Industry <sup>2</sup>	\$ 16.402	2.5%	2.5%
Education <sup>2</sup>	\$ 40.247	3.1%	2.9%
Healthcare <sup>2</sup>	\$ 30.390	5.7%	5.4%
Refreshment Services	\$ 24.975	1.1%	1.5%
Military <sup>2</sup>	\$ 4.122	2.5%	2.5%
Corrections <sup>2</sup>	\$ 4.107	0.0%	1.0%
<b>ALL OTHER</b>	<b>\$ 4.396</b>	<b>5.1%</b>	<b>4.5%</b>
<b>TOTAL FOODSERVICE</b>	<b>\$ 791.649</b>	<b>4.1%</b>	<b>4.1%</b>

SOURCE: Technomic Inc.: All numbers preliminary and subject to change ( ) = decline; P = preliminary; F = forecast. The data shown does not reflect the impact of changes in portion sizes and/or sales mix. Numbers may not add due to rounding. Data may not be comparable to previous editions of this chart due to redefinitions, resegmentation and revisions. Nominal growth assumes menu price inflation rate of 2.5% for 2018 and 2019. <sup>1</sup>Contact point estimates include units that do not offer foodservice. <sup>2</sup>Segment uses special "non-restaurant" inflation rate of 2.0% for 2018 and 2019.

## Canada

Revised October 2018

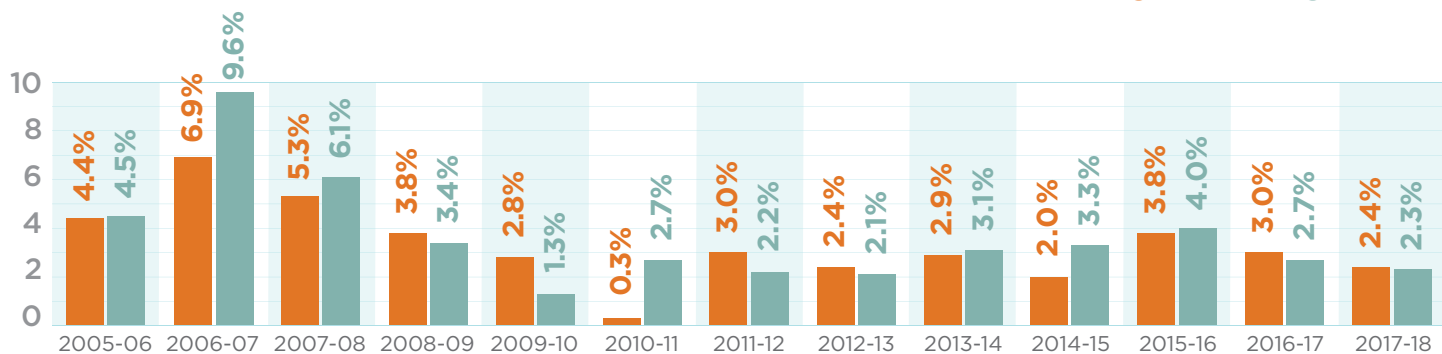
SEGMENT	2018 Retail Sales Equivalent \$ BILLIONS	Nominal Growth 2018 (R)	Nominal Growth 2018 (F)
<b>TOTAL RESTAURANTS AND BARS</b>	<b>\$ 53.816</b>	<b>4.6%</b>	<b>4.0%</b>
Limited Service	\$ 30.374	4.7%	4.2%
Full Service	\$ 23.058	4.5%	3.8%
Bars and Taverns	\$ 0.384	(0.5%)	(1.0%)
<b>RETAILERS</b>	<b>\$ 6.861</b>	<b>3.5%</b>	<b>3.9%</b>
<b>TRAVEL &amp; LEISURE</b>	<b>\$ 14.554</b>	<b>5.4%</b>	<b>5.1%</b>
<b>NONCOMMERCIAL</b>	<b>\$ 9.622</b>	<b>4.0%</b>	<b>3.7%</b>
Business & Industry	\$ 2.426	4.0%	3.5%
Education	\$ 1.472	3.4%	3.4%
Healthcare	\$ 4.760	5.0%	5.1%
Refreshment Services	\$ 0.517	(0.5%)	(1.5%)
Military	\$ 0.256	(1.0%)	(0.5%)
Corrections	\$ 0.192	4.6%	3.3%
<b>ALL OTHER</b>	<b>\$ 0.170</b>	<b>4.0%</b>	<b>3.5%</b>
<b>TOTAL FOODSERVICE</b>	<b>\$ 85.023</b>	<b>4.0%</b>	<b>4.1%</b>

SOURCE: Technomic Inc.; CRFA: Statistics Canada: All numbers preliminary and subject to change ( ) = decline; R = revised; F = forecast. Nominal growth assumes menu price inflation rate of 4.5% for 2018 and 3.5% for 2019. Numbers may not add due to rounding. Forecasts and numbers are subject to change.

## YEARLY PRICE INCREASE

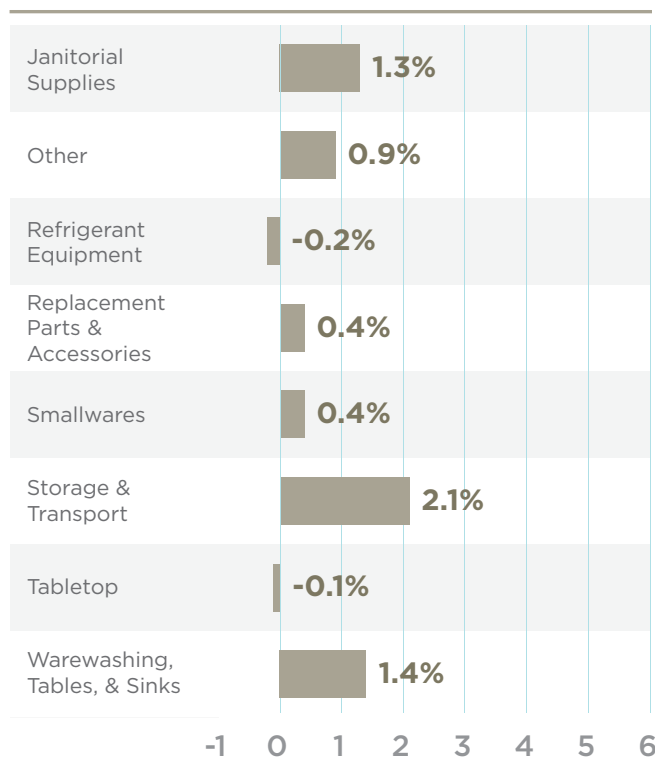
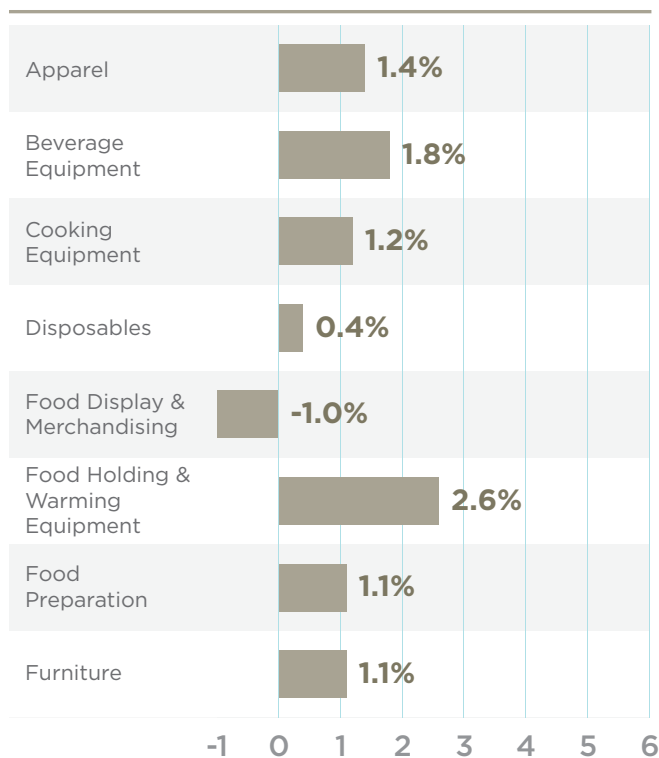
2005-2018

● MEDIAN ● AVERAGE



## PRICE CHANGES BY CATEGORY

2018-2019



# 2019 MAFSI FOODSERVICE INDUSTRY MARKET FORECAST REPORT

## THANK YOU

MAFSI Reps have their fingertips on the pulse of the markets they serve, giving them an inside look at regional and national sales trends. Our Foodservice Industry Market Forecast would not be possible without you; the dedicated members of MAFSI. Many thanks to the 121 firms below for making our 2019 forecast possible.

Advantage Marketing Group  
Agences Hamilton Agencies  
Anderson Foodservice Solutions  
Apex Commercial Kitchen Co.  
Apex Marketing  
ARB Sales and Marketing  
B Square Enterprises  
Barringer Marketing, Inc.  
Beacon Sales Group LLC  
Bob Waite & Associates  
Bowerman Management Group  
Brittan Associates  
Celco Inc.  
CGA Reps  
Charles L. Burton Associates  
Charles Pace & Associates  
Chrane Foodservice Solutions  
Clemens Profit Group  
Clements-Stella-Gallagher  
Marketing  
CLV Marketing  
Collis Group, Inc.  
Commercial Kitchen Reps, Inc.  
Copperfield Agencies Limited  
Courtney Marketing, Inc.  
Cowan Associates  
Davis & Associates, Inc.  
Desert Peak Marketing  
DJ Marketing & Associates  
DMM Enterprises Reps, Inc.  
Downing Management  
DRC Marketing Group  
E. Ruff & Associates, Inc.  
Eaton Marketing Associates, Inc.

Equipment Preference, Inc. (E.P.I.)  
E-Source, Inc.  
Ettinger-Rosini & Associates, Inc.  
Five Point Kitchen Solutions  
Florida Agents, Inc.  
FOCUS Hospitality Sales  
Food Service Applications, Inc.  
FOODSERVICE AGENTS  
of ONTARIO  
Forbes, Hever & Wallace, Inc.  
Gabriel Group, Inc.  
Gibbs & Associates, Inc.  
GMV Sales Associates  
Greenwald Sales & Marketing, LLC  
Hanna-Young & Associates, Inc.  
High Sabatino Associates  
Hollander Company  
HRI, Inc.  
Inform Marketing Group, LLC  
Johnson Pike & Associates, Inc.  
Kain-McArthur Inc.  
Kaufmann & Associates  
KBC Specialty Products, Inc.  
Kelly-Mincks  
KLH Marketing, Inc.  
Koehler-Borden &  
Associates, Inc.  
Lake Effect Sales & Marketing  
Lane Marketing Group  
Lehr McKeown Marketing, Inc.  
Lund-Iorio, Inc.  
M2 Foodservice  
Representatives LLC  
MAC Sales & Marketing LTD.

Marjon & Associates, Inc.  
Master Marketing  
Midwest Professional Reps, Inc.  
Miller & Associates  
Mirkovich & Associates - Region 17  
Mirkovich & Associates - Region 18  
ONE SOURCE  
Paglio & Associates, Inc.  
Paragon Marketing  
PB & J Commercial Agents  
PBAC & Associates LTD  
Pecinka Ferri Associates  
Performance Reps Northwest, Inc.  
Permul Ltd.  
PMR  
Preferred Marketing Group  
Preferred Source  
Premier Equipment Group, Inc.  
Premier Marketing Group  
Premier Marketing Group, Inc.  
Pro/Line Marketing, Inc.  
Professional Manufacturers  
Representatives, Inc. (PMR)  
Pro-Pacific Agents, Inc.  
R. Henry & Associates  
Raleigh W. Johnson & Company  
Redco Foodservice  
Equipment, LLC  
Robert Emig & Associates, Inc.  
Schmid-Dewland Associates  
Shamrock Foodservice  
Equipment Reps. Inc  
Southwest Foodservice  
Equipment Marketing

Specialized  
Spurry-Curren and Associates  
stage KOLSTAD associates  
Stiefel Associates, Inc.  
TD Marketing Company, Inc.  
The 2Market Group, Inc.  
The Burlis-Lawson Group  
The Daly & DeRoma Group, Inc.  
The Fischer Group  
The Hansen Group  
The Pantano and Pinilla  
Agency, Inc.  
The Wallin Group, Inc.  
The YES Group  
Thormann Associates  
TLC Marketing Inc.  
Total Source Equipment &  
Supply  
Total Tabletop Plus  
Tri-State Marketing Associates  
Veitch Group  
Viola Group  
Voeller & Associates, Inc.  
W. D. Colledge Co., Ltd.  
Walter Zebrowski Associates  
West Coast Food Service  
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Wyllie Marketing  
YBR Marketing, Inc.  
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