Tracking the COVID-19 Crisis

and the Impact on Canada's Foodservice Industry

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As we ended the fourth quarter of 2019, restaurant growth in Canada was already slowing. Unemployment had risen, consumer sentiment had fallen, and household debt was at a record high. Commercial foodservice traffic in January and February increased by just 1% in Canada, the lowest levels seen during that time period in five years. While the verdict is still out on how badly the COVID-19 public health crisis will affect the Canadian economy, there is widespread agreement that the restaurant industry will need to endure a significant slowdown in the months to come.

Our data shows U.S. restaurant customer transactions declined by -42% in the week ending March 29, and -41% in the week ending April 5. Quick service restaurants, which historically have more off-premise business than full service restaurants, experienced lower transaction declines in the week ending April 5, with a decline of -38%. Full service restaurants, on the other hand, which were already challenged prior to the COVID-19 crisis, experienced transaction declines of -79% in the week ending April 5 compared to the same week a year ago. Our restaurant location database, ReCount® indicates that approximately 94% of U.S. restaurants are under some level of restriction, with most prohibiting on-premise service.

Dealing

The current period of isolation will inevitably thrust Canada into an economic downturn. As consumers in Canada begin to assess the impact of COVID-19 on their own personal finances, we can expect that they will also begin looking for ways to cut back on discretionary spending. As a result, dealing will be extremely important for the industry. Savvy operators will need to find a way to avoid the pitfalls of deep discounting, and instead come up with deals that present the consumer with good value and not necessarily just a low price. This builds on a trend that we have already been seeing in the Canadian market, where the overall deal rate has risen by +5pts over the last five years to just under 27% of commercial visits. Operators should also be encouraged by the fact that the average cheque on deal visits is higher than on non-deal visits and is rising at a similar rate. In other words, a deal does not necessarily mean a low price, just a good value.

What else should you consider when planning your dealing strategy?

- Combos and coupons are the most popular forms of dealing.
- Dealing is higher among consumers aged 18 to 34 and those with lower incomes.
- Digital orders (placed online or via mobile devices) generate the highest dealing rates, approaching 50% of all orders that include a deal.
- Curiously, family visits include fewer deals than adult-only visits. More family meal deal offerings could be an area where operators can provide something unique.
- It is possible to get people to spend more to get a good deal. An example would be an offer of something for free (delivery, dessert, appetizer) if a minimum threshold is met.

Deal Rate — 5-Year Trend

Overall deal rate has risen by +5pts over the last 5 years to just under 27% of commercial visits.

Source: The NPD Group/CREST®, YE January 2020

22%

% TRAFFIC ON DEAL

27%

YE JAN 16

YE JAN 20

Delivery and Technology

The mandated closure of on-premise dining has led to increased importance of all forms of off-premise dining, including carry-out, drive-thru, and delivery. Combined, these off-premise occasions represented close to 50% of dollars at commercial foodservice annually prior to the COVID-19 crisis.

Delivery accounted for approximately 13% of all off-premise dollars in January 2020. It has become a safe haven for consumers who are looking to avoid leaving their homes during this period of uncertainty. In China, delivery was up by 10% in February, during the height of that country's isolation efforts. The question on everybody's mind is, how much of this behaviour will carry over beyond the recovery? Will the operators that are new to delivery realize its value and continue to support it? Will consumers who are new to delivery continue to order, or will they go back to their previous ways?

The answers to these questions are difficult to predict. But we do know that delivery has been one of the fastest-growing market segments for several years. It accounts for 300 million visits, or 4% of the total visits at commercial foodservice in Canada. Even more important, delivery was up 19% in 2019, in a market that was up just 1%. Given the current situation, we can expect delivery's rapid rate of assent will be further amplified.

It is also important to mention that the increase in delivery is being driven in large part by technology. Whether it's third-party delivery services or independently operated online/app-based platforms, technology offers a conduit for dealing and a way for operators to quickly and easily connect with their consumers. **Technology is also driving some key trends that have become increasingly important to consumers over the last month, including:**

Touchless payment: Touchless accounts for less than 2% of all transactions, but it is reasonable to suspect that this will climb as consumers continue to exercise caution around touching surfaces in public places and handling money.

Pre-ordering: Digital orders account for 6% of all restaurant dollars. This has been climbing faster than any other segment of the market for about three years.

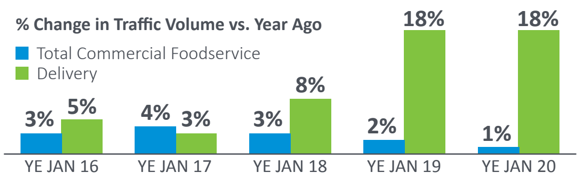
Loyalty: Loyalty programs continue to gain popularity, especially since many operators have migrated their loyalty programs to mobile, where they can be integrated with dealing and order capabilities.

Social media: Never before has it been so important for operators and brands to connect with their consumers. Whether it's updating them on new hours or showcasing innovative delivery options, social media provides a critical link to consumers in a time when staying connected has become highly challenging.

Growth Rate — 5-Year Trend

Delivery has been one of the fastest-growing market segments for a number of years.

Source: The NPD Group/CREST®, YE January 2020



Adding It All Up

Our industry has been one of the hardest hit during this time of unprecedented challenge. The impacts will be deep and long lasting. Yet, there is some reason to be optimistic about the future. A recent study we completed in the EU suggests going to a restaurant is one of the first things many consumers plan to do as soon as they are able. It has become clear that what consumers truly miss is not just the functional side of off-premise dining (in other words: the food) but instead, the social side. Whether it's grabbing a coffee with a coworker, enjoying a burger with a friend, or celebrating a special occasion with loved ones, consumers WILL flock back to our industry — not because they have to, but because they want to. There has been a groundswell of support for our industry that is likely to translate into traffic once this period of turbulence and isolation comes to an end.

For the time being, this situation presents a good opportunity to truly reflect on the consumer.

Focus on your core customers. Consider why they visit and what differentiates your business and makes it unique. Continue to do what you do, only better than ever. Stay positive and stay connected with your customers — they will still be there when this comes to an end. Most of all, remember that we are all in this together.

For more data and insights like this, contact your NPD account representative, call 866-444-1411, or email contactnpd@npd.com.

Meet the Analyst

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Vince provides his unique perspective on food and the foodservice industry and helps his clients improve their performance. When he's not busy analyzing the business, you can find him preparing meals for family or friends, or out in the neighbourhood trying out the latest new restaurant and analyzing the menus.