

MIDYEAR UPDATE

2022

The past two years brought unforeseen challenges to the foodservice industry, leaving many operators scrambling to adapt. With a couple years of experience under their belt, operators entered 2022 more readily settling into solutions for these trials while facing new ones as well, such as soaring inflation costs. Through the first half of the year, we have seen operators attempt to do more with less, embrace new operating strategies that balance digital and brick-and-mortar units, emphasize flexibility with menus and continue to adapt the guest experience.

As we reach the halfway point of 2022, let's look back at our trend predictions for the year and see where each of them stands.

Forecasting the Future

Canada's pre-pandemic \$95 billion foodservice industry was battered by sales losses of nearly 29% as we entered 2021. While COVID-19-related restrictions— influenced by new caseloads and the looming impact of virus variants— may directly affect consumer visitation and behaviour in 2022, current Technomic research shows that the new year will also bring an upswing in the Canadian industry's sales and overall performance. According to our latest data, Canada's foodservice sector is expected to reach \$74.8 billion, reflecting roughly a 21% increase over 2021 and just 3% below pre-pandemic sales levels.

Indexing shows industry revenue will be at 97% of pre-pandemic levels by end of 2022

From a segment perspective, limited-service restaurant sales are projected to rebound at a nominal growth rate of 7.3%, and full-service restaurants are poised to grow sales by a nominal rate of 26.2% in 2022.

Midyear Status: As predicted, Canadian foodservice sales have begun to rebound in early 2022, with commercial foodservice

sales up nearly 18% over the last year and indexing showing that industry revenue will be at 97% of pre-pandemic levels by the end of 2022. As COVID-19 restrictions have eased and indoor dining has begun to make a comeback, Canadian foodservice industry employment has also begun to recover, showing 12% year-over-year growth in February 2022. When it comes to segments, predicted nominal rebound rates have been adjusted to be slightly lower, with limited-service sales projected to grow 7.1%, and full-service sales estimated to grow 20.9% in 2022.

Leaning Into Leanness

Operators are getting leaner on multiple fronts, from downsized staff to smaller unit footprints to trimmed menu selections, in an effort to respond to changing conditions. In 2022, expect restaurant chains to accelerate investments into more compact models that service delivery and takeout while operating efficiently with fewer workers on hand. Look for ghost kitchen outsourcing to emerge as a primary avenue to allow brands to expand without additional spending on real estate. And we'll continue to watch menus shrink in favour of optimization strategies that help make food prep simpler while reducing costs.

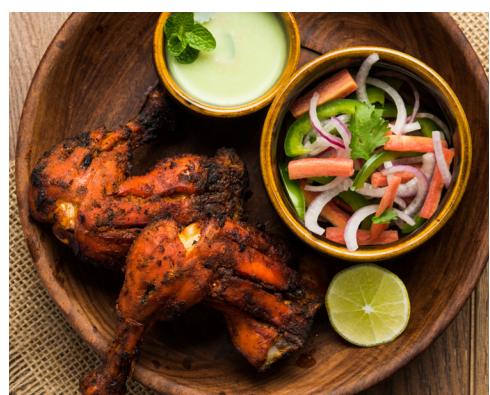


For some operators, e-commerce sales have continued to grow, even as dining rooms have reopened

Midyear Status: Restaurant chains are balancing investments in traditional expansion and digital operations. As predicted, some operators have been leaning into technology-driven enterprises that focus on delivery and takeout models. For multiconcept operator Recipe Unlimited, e-commerce sales have continued to grow, even as dining rooms have reopened. On the flip side, rather than getting leaner, many operators—including Mary Brown's, Popeyes and Jollibee—have been expanding by opening units in new regions. And despite overall menu items decreasing 2% year over year, the fact that this is compared to a 9% decrease from pre-pandemic to today signals that a slow road to menu recovery may be starting.

Menu Pivots Support Supply Chain-ges

Persistent supply chain issues will inspire creativity and require flexibility in 2022. Specifically, quirky preparations of familiar ingredients will allow for exciting menu additions without new SKUs—think pickled apples, candied garlic or salt-baked root veggies to impart new flavours and/or textures while, in some situations, even extending shelf life. Inventiveness with favourite fare will also help operators stand out without overhauling entire menus, such as chicken sandwiches or pizzas differentiated with global toppings. And because of ingredient shortages and sourcing issues, nimbleness will be table stakes, with operators ready to implement menu swaps



Innovative preparations and menu swaps have helped operators cope with the impact of supply chain issues

that take advantage of more readily available and economical ingredients.

Midyear Status: The menu creativity we predicted for this year is already apparent, with innovative preparations (e.g., grilled lettuce at Tanto in Toronto) and quirky takes on classics (e.g., Mucho Burrito's Tandoorito featuring tandoori chicken and chutney crema stuffed into a burrito) popping up on menus. We've also seen menu swaps when it comes to proteins, with limited-time offers such as Quiznos Canada's Bison Reuben Sandwich. With enduring supply chain issues impacting operators, creative menus that embrace flexibility will continue throughout the year.

The Evolving Face of Hospitality

Restaurant hospitality will look very different as we head into another pandemic year. Some practicalities of on-premise dining will continue to be stumbling blocks for operators who are trying to balance safety and hospitality. And some of these decisions—whether mandated or not—will cause controversy among consumers. For example, here to stay may be vaccine passports or negative COVID-19 tests required for dine-in customers and charges for



Restaurants will balance safety and hospitality with hybrid operating solutions

no-show reservations or last-minute cancellations. Gone by the wayside may be extensive staff interactions for ordering and payment (thanks to contactless operations), physical reusable menus (with QR menus taking permanent hold) and high-touch food and drink areas (such as communal condiments and fountain drink stations). As the foodservice industry embarks on the road to recovery, the year ahead will tell us which of these modifications might prove to be permanent fixtures.

Midyear Status: Within the first few months of 2022 as the omicron wave seemed to slow, several provinces lifted mask and vaccine mandates, leaving restaurants to adapt to new hospitality requirements once again. As we tentatively move forward, restaurants will continue to balance safety and hospitality—perhaps with hybrid operating solutions, such as restaurants

defaulting to QR menus but offering physical menus for those who prefer them. The future for the foodservice industry looks hopeful, but only time will tell how comfortable and confident consumers will feel in traditional hospitality settings.

All Buttered Up

As the comfort food trend surges on, many operators will turn their attention to butter, a versatile staple ingredient in most kitchens. Flavoured butter will be grounds for endless culinary experimentation, ranging from umami-rich kombu or yeast butters to cocktails featuring herb-infused and browned butters. Beyond the classic dairy product, other buttery ingredients such as buttermilk, butterscotch and ghee/clarified butter will gain attention. Elevated versions and applications of nut butters will also continue to grow in conjunction with the plant-based trend, with pistachio and macadamia butters finding momentum, and peanut butter making headway in new directions, such as on burgers or in cocktails.

Midyear Status: Our predicted butter trends have already made moves in 2022 in the form of funky-flavoured butters (e.g., sake kasu butter at Burdock & Co in Vancouver, and Aura in Victoria, British Columbia), innovative uses of buttermilk

(e.g., buttermilk sorbet at Biera in Edmonton, Alberta) and elevated versions of nut butters (e.g., hazelnut butter at Toque in Montreal). Given we've already seen operators get buttered up, expect further exploration throughout 2022. Additionally, look for innovation with new textures, such as butter powder, currently found at Straight and Marrow in Vancouver.

**Look for innovation
with new textures
for butters, such as
butter powder**



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