

Meet the Grocery CHALLENGE



Canadian grocers are a lot better at competing with traditional foodservice than we give them credit for. They take in over 75 per cent of food and beverage spending by Canadian households, while U.S. grocers take in only 58 per cent, according to *Foodservice Facts 2011* from the Canadian Restaurant and Foodservices Association (CRFA).

Canadian foodservice operators lost \$5 billion in market share to grocers over the past ten years, and the outlook isn't any easier with Walmart and Costco pushing hard on established Canadian banners to become even more competitive.

Canada is a highly concentrated grocery market with the top four chains capturing 60 per cent of the market as opposed to only 30 per cent from the top four in the U.S. With size comes power; Canadian grocers use their power to not only to beat each other up, but to take a big piece out of the restaurant industry.

Canadians have less purchasing power than Americans do, despite a high Canadian dollar. Canadians generate a GDP per capita of \$39,100 compared to the \$46,300 generated by Americans. What that means is the average Canadian gets only 84 cents worth of goods and services for every dollar Americans get.

Grocers use Canadian behaviours to their advantage. Their high concentration and their higher share of stomach gives them significant advantages when negotiating with food manufacturers and processors. Lower relative landed costs in grocery drives lower relative prices for foodservice in Canada, giving Canadians more reasons to eat at home.

Grocers also use their size to drive innovation. Pizza is a category where product innovation has taken a huge bite out of the restaurant business in recent years. Grocers continue to get better at serving

lunch and dinner with better tasting, fresher offerings, served more conveniently than ever.

Foodservice chains can also be one of their own worst enemies. When a foodservice operator develops a new product in the supply chain that eliminates prep time they often end up feeding that innovation into the grocery channel. Less prep time can work just as well at home as it does in the back of the house at a restaurant.

So how do you fight back? Jill Holroyd, senior vice president, marketing and communications for the CRFA, has a few thoughts for full-service operators who have been hurt the most. "Visiting a restaurant is the number one way for Canadians to spend time outside the home with family and friends" says Holroyd. "This is one area

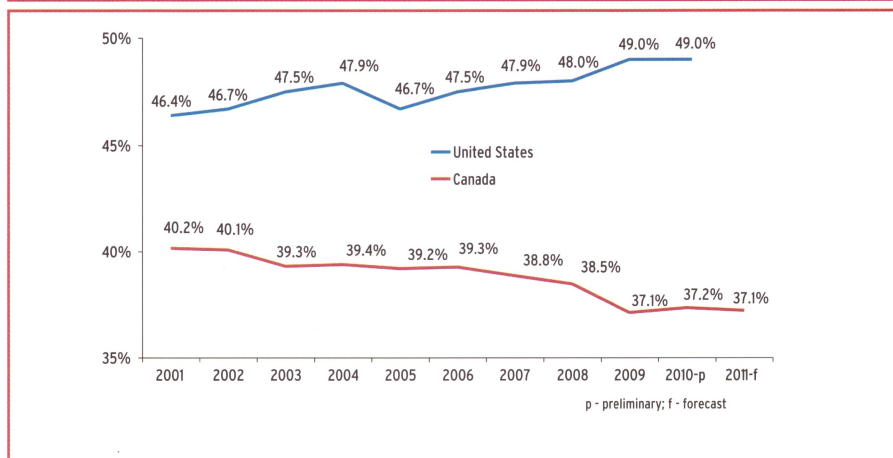
where restaurants have a real competitive advantage over grocery stores; Canadians see eating out as a treat, something fun to do, and an experience they can't get at home."

Three other big ways to meet the challenge include:

- Foods that are difficult to make at home give consumers reasons to eat out
- Menus that are "fresh made from scratch" are difficult for grocers to match
- Service that is made to order, has a big advantage due to the labour skills needed to execute the value proposition

Keep your biggest competitor in mind when looking to build your guest counts and you'll be able to capture at home occasions from the grocery store giants in Canada.

Foodservice Share of the Total Food Dollar
(Canada vs. United States)



Source: CRFA, Statistics Canada and the National Restaurant Association

Note: Total food dollar includes spending by consumers, tourists, businesses, institutions and government at foodservice operations, grocery and convenience stores.

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