IMAGE GENERATED BY OPENAI'S CHATGPT

JUMPING *Through* HOOPS

BY LAURA PRATT

Quebec restaurateurs say the industry lacks government support

It was early June in Montreal, and restaurants were revving their engines in anticipation of a roaring summer season, not the least because the annual Formula One automobile race was in town. The Canadian Grand Prix, part of the Formula One World Championship since 1967 and a highlight of Montreal's late spring since 1978, is among the most lucrative events on the city's calendar, bringing in $162 million last year, including $110 million from tourists outside Quebec. Glenn Castanheira, executive director of the Montréal centre-ville business association, says the Grand Prix weekend, for many restaurants, "pays rent for most of the year." But at 9 p.m. on the Friday of this year's racing weekend, in the centre of the F1 Grand Prix bustle in downtown Montreal, the Portuguese fish restaurant, Ferreira Café, was rolling up its terrace and telling patrons they had to vacate its sweet outdoor vibe in response to a city official's determination that the eatery's Peel St. patio was not up to code.

In a stunned post on Instagram, Groupe Ferreira director of Operations Sandra Ferreira explained how members of the Service de securité incendie de Montreal (SIM) told her that all her customers had to vacate the Ferreira Café terrace or the whole restaurant would be shut down.

It's a political move that other restaurateurs claim characterizes the current scene for restaurants operating in Quebec: having to conduct business under the watchful eyes of an unsupportive, confrontational, persnickety government. While foodservice operators doing business in this province suffer so many of the same impediments and challenges their counterparts across Canada currently do — including rising prices, scarce labour, bankruptcies, and pinched consumer purses, to say nothing of historically high failure rates and thin margins — Quebec restaurateurs are also up against a significant internal threat: their own demanding and unaccommodating government.

"There's just not a lot of support for small businesses here," says Renée Deschenes-O'Hagan, managing partner of Franquette, a neighbourhood bistro and cocktail bar in Westmount, an affluent municipality on the Island of Montreal. "The infrastructure seems built against restaurants and bars in Quebec. There are all these hoops we have to jump through that restaurateurs in Ontario don't have to. Add that to the fact that we pay the highest taxes in the country, and it's not conducive for people to have small businesses here. I understand why so many people are throwing in the towel."

Deschenes-O'Hagan, who also cites the absence of volume discounts or any kind of conciliatory partnership with the SAQ, the Crown corporation responsible for the trade of alcoholic beverages within the province, quotes Frédéric Morin, the co-owner of Montreal's Joe Beef Group, from a conference she attended in the spring, commenting on the state of doing business in Canada's largest province: "The powers that be make us guilty for being restaurateurs."

"We don't often pull back the curtain on what's going on because we want a guest to feel good, positive, like there are no worries," says Deschenes-O'Hagan. "But there's a ton of worries, obviously."

Dyan Solomon, co-owner of Olive et Gourmando, a daytime diner that's flourished in Old Montreal since its launch in 1998, is worried, too. Solomon, who's opening a second location of her popular restaurant in the fall, points to the language requirements by which Quebec restaurants must abide as the biggest threat to a restaurant's success in this province.

In January 2024, the Government of Quebec updated language laws introduced by Bill 96. Quebec restaurateurs are no strangers to language requirements, first set out in the Charter of the French Language, a foundational law in place since 1977 that established French as the official language of the province. With Bill 96, which hit the streets in 2022, the government added stricter rules around

French compliance to its language requirements, including a call for all businesses to employ predominantly French translations in their communications — or face a fine of up to $30,000. But a recent development is seeing many restaurants who already went through the changing of their signs having to change them again thanks to a new rule requiring all signs on commercial businesses, aside from the company name, to be predominately in French by June 2025.

Businesses were given one year to assign at least twice as much space on their storefronts to French as any other language as part of the government's ongoing effort to protect Quebec's official language.

Solomon, who has had the "language police" visit her restaurant three times in the last two years, once blasting her for including the word "homemade" on her chalkboard, calls "the language situation one of the more complicated aspects of running a restaurant here.

In addition to changes to language requirements, Quebec's new tax laws for bars and restaurants load further obligations on participants in this province's foodservice industry. Reflecting a broader global trend of integrating technology into governance and tax administration, the provincial government is now mandating that restaurants change the platform they use to record their sales — specifically, that they shift from physical sales-recording modules (SRMs) to a new cloud-based IT solution (the WEB-SRM). By May 31, 2025, restaurants need to produce and file all required sommaires périodiques des ventes (periodic sales summaries), including the one for the month they start using the new IT solution, to Revenu Québec, in real time.

This extra bureaucratic burden represents another cost for an industry that's already swimming in them. "It's going to be a couple of thousand dollars at a time when about 52 per cent of restaurants are barely breaking even or are operating at a loss," says Maximilien Roy, vice-president of Restaurants Canada, federal and Quebec. He calls the summer of 2024 "the summer of ultimatums" for restaurants in Quebec.

These constraints kick in, he says, at a time when customers have less discretionary income and are not as confident in their economic futures as before. He points to the price of cooking oil increasing by about 40 per cent in the past year as a representative example. "So, the price of food is going up and fewer people are going to the restaurant. It's a double hit on our industry."

He chalks up the scene to a range of influences, including changes in customer behaviour, inflation and labour requirements that make it tough for restaurants to operate at full capacity. Of the 72,000 restaurant employment vacancies across Canada, close to 6,000 are in Quebec.

"There are just not enough employees for the industry," says Roy, who notes that restaurants have tried to improve the scene by reducing their open hours, a tactic that also shrinks their capacity to make the necessary profit to run a business.

"There's lots of bureaucracy, construction is out of control," Solomon says of Quebec's government. "There's a lot of mismanagement of public money and, if you're a small business owner, you don't have the impression in Quebec that you are appreciated and helped. You don't feel like someone's giving you a pat on the back saying, thank you for employing people, for running restaurants that attract tourism. It's no, we're going to fine you for this, there's that permit and this rule. People always say people who run restaurants in Quebec are insane. Quebec is the end-all of bureaucracy."

The paradox, Solomon continues, is that the government regularly hails its restaurant industry in its efforts to attract tourists to the province. "Quebec will talk a lot about the food scene as one of their main shining jewels, but there's not a lot of support there."

There are 22,295 foodservice businesses currently operating in Quebec, and they employ 254,500 people — 5.6 per cent of the province's workforce. In 2023, they generated $22.1 billion in revenues. The Quebec restaurant industry is mainly composed of independents — about 60 per cent of restaurants here are independent — a defining feature that's very specific to the province, whose residents have a preference for sitting down to enjoying a meal with one another, thus eschewing the fast food and counter-style restaurants that dominate elsewhere in the country.

But Roy doesn't hesitate to single out a handful of positives of running a restaurant in this province, including the diversity it promotes and the way that reality is powering a re-discovery of some of the cuisine that's typical of traditional Quebec, such as cabane à sucre favourites pea soup, cretons and maple-smoked ham. Quebeckers are proud of their culinary heritage, he states, which includes traditional recipes inherited from the French and English long before the founding of the New France, as well as recipes handed down by the First Nations and by immigrants from all over the world. Quebec gastronomy can still find novelty in its roots, he says, and that's what's behind this enthusiastic rediscovery. "We feel like things are turning," he says. "Customers are feeling more confidence in the second half of 2024. They have more money and want to visit restaurants more. The outlook is positive."

Positive too, says Deschenes-O'Hagan, are the individuals who are seeing through their dreams by opening and operating restaurants in the face of the obstacles her province throws up. "I think restaurateurs are always going to be people who are resourceful, highly intelligent, and problem-solvers," she says, "because we literally have a million problems to solve every day. People are always finding ways to work around them; to change concepts; to make things more harmonious, easier, and more attractive to people coming into the industry."

Solomon is also feeling a bit bullish about the future for her game — a change, she acknowledges, from the same time last year. She says the comments she shared about her industry a year ago were filled with gloom. "I told everyone all the restaurants here were going to close and that we'd all be eating at McDonald's," she says. "I gave a lot of interviews where I said, I don't see the future, it doesn't look good."

But Solomon calls Montreal's current restaurant scene "thriving," and points to a recent trend of restaurant openings in that famously foodie city. "After COVID there was a lot of suffering and a lot of places closed. But just this summer in Montreal alone, there are about five top restaurants owned by respected chefs or known restaurant groups, opening up in beautiful spaces." She says she knows it's an unexpected observation to make, but that there's a "strange energy" circulating in the local restaurant scene in Quebec's biggest city right now, especially sparked by young chefs, which she finds "fascinating, amazing, and inspiring. I feel like there's a little beacon of light shining over here in Quebec restaurants." **FH**

Room t

Value-driven offering
for Ontario's strugglin

BY LAUR

Years from now, historians, looking back on this period in human history in pursuit of, say, a picture of our economic and social well-being, might hone in on Ontario's restaurant industry, which offers a microcosmic view into our collective psyche during this patch of the still early, but post-COVID 21st century.

It's in this snatch of history that we find society struggling to find its footing in an environment still doubled over from a pandemic amidst soaring costs, including an expensive labour and real-estate market. And in this province, Canada's most populous, we see reflected the general state of mind for a population that bent itself to societal constraints so vigorously that the knots remain to this day.

With the pent-up demand for on-premise restaurant experiences following the restrictions of the pandemic spent, consumers are settling into a new normal that's less reactionary to the physical health of the population and more reactionary to its economic health.

"I would say [the Ontario restaurant industry] is in very tough shape," says Ryan Mallough, vice-president of Legislative Affairs for Ontario, Canadian Federation of Independent Businesses (CFIB). "It's a sector that really hasn't recovered from those three years of closing."

To wit, the industry has endured a 100-per-cent growth in bankruptcies over the last year — most in the full-service segment.

"We continue to get price increases from our suppliers, and they think we can absorb them," says Domenic Primucci, president of Pizza Nova. "We can't. That's why restaurants aren't making money. They don't want to price themselves to the point that customers won't come. But it's already happening. Customers aren't coming."

It explains why 65 per cent of Ontario restaurants aren't making a profit right now; in 2019, just 12 per cent weren't profitable.

"This is a real problem here in Ontario because the margins restaurants make are under five per cent," says Primucci. "And [with so many] not making money, it's very easy to be in the red here. One small thing, one repair could put you in trouble."

It would also be easy not to see the scene's woes, given that the industry's every sector is exceeding the numbers generated in 2019. But, says Tony Elenis, president and CEO of the Ontario Restaurant, Hotel and Motel Association, "that doesn't flow through to the bottom line because of the increased expenses, especially in food purchasing, which make up over 35 per cent of all purchases in a typical restaurant. Then over and above that, you have the price of labour going up."

Labour now accounts for a quarter of total costs rather than a fifth, as it conventionally has.

FLAGGING OPTIMISM

It's thanks to these price hikes, says Mallough, that "customers who used to come two or three times a week are now coming once.

"Those downtown sit-down restaurants in the major centres also had the hit of their clientele's commuting patterns changing dramatically. They're still figuring out how to adjust. That's a real challenge. Optimism in the industry remains very low this year, well behind its historical average, so it's going to be a struggle."

Indeed, says Ken Otto, CEO of Redberry Restaurants, whose Burger King, Taco Bell, and Jersey Mikes to Win

gs are key to success
g restaurant industry

A PRATT

holdings might make it the biggest restaurant owner in the country. The level of optimism that permeated Ontario's restaurant industry in late 2022 and 2023 isn't so prevalent anymore. "Things have turned more cautious in the past couple of months," he says. "The cost of living is catching up to people. Interest rates, mortgage renewals, rents in Toronto, the price of gas, et cetera. The [Ontario restaurant industry] is coming off a relatively buoyant period after the pandemic. It's pivoting. People are looking for value. They're interested in eating out — they have established behaviours. But they're cautious."

It's why Redberry is re-visiting its menu and promotional strategies with an eye on value. "We're telling our guest we understand the cost of living is high these days," says Otto.

Value's the ticket, agrees Steven Molnar, partner and executive chef at Quetzal, an elevated Mexican restaurant in Toronto. "A lot of people don't have the disposable income to spend on meals. Having a more approachable price point can attract clientele to come in."

Otto says his company has "had to increase prices reluctantly" to factor in massive food inflation and that, while consumers absorbed the price increases for a couple years, "now they're pushing back."

"Prices have gone up everywhere, whether you're delivery, takeout, or in-store dining," says Primucci. "If it costs people more to drive their car, that's money they don't have to spend at a restaurant. Things got better in the months coming out of the pandemic, but now costs have increased so much, people aren't going back. They don't call it a recession, but it feels like a recession."

In point of fact, the country's inflation rate slowed to 2.7 per cent in April 2024 — a three-year low but still problematic enough to curb restaurant visits in Ontario, which represents 42 per cent of the country in terms of restaurant visits — about the same as it did pre-pandemic.

"Economic conditions are overshadowing a lot of our discretionary spending," says Vince Sgabellone, a foodservice industry analyst with Toronto-based market research firm Circana. "And restaurant spending is very discretionary."

The triumvirate of food, labour, and property costs represents a powerful enemy to a thriving restaurant industry, and no more so than in Ontario, where the scene has meaningfully contracted in recent times. While traffic growth in the first quarter of 2024 was up two per cent over the same quarter a year ago, according to Circana's CREST industry-tracking database, these numbers in fact represent a slowdown given that, for the last 12 months, traffic growth in Ontario clocked in at a robust six per cent. The decline brings Ontario from a place where it was outperforming the country, into line with the rest of the market.

The contraction, says Sgabellone, is predictable, given the price of housing in Ontario, where some of the most expensive markets in the country reside. "As more and more rents and mortgages come up for renewal, more and more people are realizing they have to cut back."

"All these costs are passed down to the restaurateur," says Primucci, "and the restaurateur has no choice but to raise prices."

"Every week we're getting a note from a different vendor with a pricing increase," says Ben Osmow, CEO and head of franchising for Osmow's Shawarama. "That's why we have to charge more." Just back from a restaurant leadership

ISTOCK/ EKAVECTOR

conference in Arizona, Osmow reports that inflation pricing across menus has gone up 27 per cent in the last couple years. But passing these hikes onto the customer is challenging at QSR and fast-casual spots where, says Osmow, consumers are paying attention. "If you go up four bucks on a plate at a dine-in restaurant, it's not going to make people crazy. But in QSR, a dollar hike in price will."

"You raise prices just a little bit and you lose customers — that's always been the case," Elenis concurs.

FULL-SERVICE LEADS SUFFERING

"It's a challenging time," says Elenis, "especially for traditional full-service concepts, who've increased menu prices — but not enough to mitigate the extra expenses. At the same time, there's success for those who do delivery and quick service."

QSR, Osmow agrees, "is definitely the segment to be in right now because of consumer spending habits."

QSR restaurants are over-developed in Ontario, where they have a 73 per cent share, higher than any other province and the country at large, where QSR accounts for 67 per cent of the restaurant total.

The heavy concentration of QSRs, speculates Sgabellone, is as much chicken as egg. "Are they here because consumers demand it, or do consumers visit them because there are so many of them here?"

Regardless, various realities flow from this reality, he says. For one, it diminishes the prominence of independents, and the foothold in the industry they might otherwise enjoy in this province, given that full-service restaurants are more likely independents than chains. And it's worth remembering that independents were the more injured victims of the pandemic.

For another, it ups the competitiveness of the restaurant players in Ontario, as they jostle for locations and staff. And it features a scene in which Ontario restaurant customers are spending, on average, less per visit than restaurant-goers in other provinces.

THE TECHNOLOGY PIECE

Across the industry, about 35 per cent of sales now come from delivery. Technology extends blessings to this part of the business, including with apps, whose encouragement among customers to order from them rather than from third-party platforms can save restaurants meaningful money.

"Everyone's trying to win market share from third-party delivery platforms," says Osmow, who urges restaurateurs to cultivate a habit among their customers of ordering directly from their website, kickstarting it with promotions, contests, and freebies.

Pizza Nova has been re-developing its website and is poised to re-introduce an app with a loyalty feature. "We're trying to get better at what we do with technology," Primucci says. "People don't necessarily want to speak to an order-taker over the phone — the new generation wants to do business that way. But technology isn't cheap."

Redberry is exploring technologies in utility optimization, including those that monitor water and energy usage. "Restaurants need to spend more time on that," says Otto. He also celebrates the role of kiosks in making restaurants tighter-running ships; Redberry is rolling out kiosks in more than 50 Taco Bell and Burger King restaurants this year. It's not about reducing labour, he clarifies. "Kiosks help re-deploy labour to productivity in the kitchen; it's about increasing speed of service." Kiosks also are good at increasing average checks thanks to their facility for "finding the best upsell."

Beyond that, Otto adds, many big brands have digital apps for pre-ordering. "The app on your phone asks you a bunch of questions about ways to spend more money and you're often saying yes," says Otto.

THE GOOD NEWS

All is not doom and gloom in Ontario restaurants. According to Osmow, supply has become much more stable than it's been in recent times, which were characterized by shipping containers held up at checkpoints and strikes at Canadian ports. "Supply was a problem in the heart of the pandemic," he says. "But since November, things have been good. We're no longer shorting products left, right, and centre, which is great."

Osmow's helps the scene by looking after its own raw material — deboning, slicing, packaging, and marinating it all at its 40,000-sq.-ft. production facility in Mississauga, Ont., before sending it on to its 160-plus stores.

At Pizza Nova's 150 Ontario locations, Primucci is fighting back with training and coaching. "We're working on getting better at the human level. We're in the service business — you have to give great experiences."

The best brands, says Osmow, have been able to use the downside to their advantage. He credits his restaurant's app, loyalty program, and delivery promotions for its "very loyal and consistent customers. The best brands know exactly how to pivot in hard times."

THE IMMIGRANT PIECE

Ontario's current demographics represent an opportunity for restaurants looking to make a go of it in this province. Ontario is the most popular destination for immigrants (the province welcomed approximately 200,000 in 2023), and almost half the population of its capital city, Toronto, is made up of immigrants. This matters to restaurateurs for a couple of reasons. For one, immigrants tend to be younger, so their inclusion in our midst pulls the average age down. A slew of demographic reports name younger generations as the ones most likely to eat out. The influx of immigrants also ups the population of potential restaurant staffers. “During the pandemic, it was hard to find crew members,” says Osmow, “but booming immigration makes it easy to find good talent. That’s definitely a plus.”

Finally, it increases the potential for a wide range of ethnic food offerings in this province. “We’re going to be seeing more global cuisine,” says Sgabellone, who cites an over-development of Asian and seafood restaurants in Ontario versus these categories’ national averages, and points to Ontario’s high ratio of Asian Canadians. “It’s an interesting opportunity, because this shift in consumers is demanding new products — and if they don’t find them in the existing operating base, they’ll start their own restaurants.”

That explains the Middle-Eastern movement, Osmow says, and the adjacent rush for bowls and their association with healthier eating. In the pizza universe, Primucci delights in the reality that you can “put pretty much anything on a pizza.” During the pandemic, Pizza Nova unveiled a hot-honey pizza, heralding a hot-honey romance that’s swept lots of food categories. “We’re always testing products,” Primucci says. “Product innovation is a meaningful way to increase business, especially with your loyal customers.”

Otto thinks people are more experimental now, thanks in part to a restaurant industry that’s excelled at celebrating international flavours. “Spice is a big thing,” he says, and points to the Nashville hot flavour profiles dominating lots of menus. “Gen Z loves trying new flavours.” Both Taco Bell and Burger King have responded with more international offerings.

Personal touches are also meaningful to customers who may have balked at higher prices, says Nick Liu, executive chef and partner at Dailo, a 10-year-old Asian cuisine restaurant in Toronto’s Little Italy.

“I think the restaurants that are successful are the ones offering personal service, where you feel more connected to the restaurant, the servers are more guided toward the customer, instead of the bigger, factory-style restaurants.”

Dailo has enhanced its service, including the table-service presentation of some dishes. For example, when it added grilled

Moroccan scarlet prawn to the menu, it did so with ceremony. The server delivers this expensive, unique dish to the table, cuts up the prawn, and presents it on toast squares before spooning yuzu bonita hollandaise onto everyone’s plates. “It gives a wow factor,” says Liu. “Now we’re creating an experience and not just a dinner. That’s what people are looking for when they pick how often they go out now. They want to see how far their money can stretch.”

Dailo raised its prices at the beginning of 2023, when labour costs skyrocketed, as did so many Ontario restaurants but it opted not to raise them again in the fall, when prices jumped again and lots of spots were closing. “We decided not to because it made me uncomfortable on a personal level; also, I thought the new year was looking up — the Canadian government was talking about interest rates and I felt things were going to get better soon and we could hold off and just take a small hit without having to gouge our customers.”

It was the right thing to do, Lui says, because they stayed busy in the winter weekends when competition slowed. “If you just hold the course, I’m hoping, once interest rates start going down, you’ll see people being more comfortable with spending a bit more.”

WHAT’S NEXT?

Sgabellone predicts continued growth in Middle Eastern, South Asian, and Southeast Asian restaurants, but believes chicken restaurants are set to rule the roost. “Chicken is having its day in Ontario in terms of market share,” he says. Mexican restaurants, burrito places, and taco joints also have an outsized share of this market, with chains looking to get established here before expanding into other parts of the country.

In the meantime, Molnar encourages restaurateurs to focus on how the pandemic changed the industry for the positive. Restaurant workers are better paid, staff is better cared for, the work-life balance is more acknowledged. “Employers are taking better care of their staff now. Hopefully that continues.”

Going forward, says Otto, restaurants should limit price increases and offer more value and product innovation to the plate. “The growth we enjoyed in late 2022, 2023 will be tougher to get, but I’m optimistic that we can hold our own with a pivoting strategy of looking at other ways to get guests in the door. We’re very bullish on Canada, bullish on the industry,” adds Otto, who shares that Redberry is committing to build 500-plus restaurants in the next 10 years. “There’s room to grow and room to win.”

Primucci, too, is hopeful. “There’s a cycle of great economic times and recessionary times. Things will correct themselves and we’ll get through it.”

Elenis agrees. “This is a resilient industry. It will come back. Most operators know there’s a green light down the line. That’s the reason they open their doors, even though 65 per cent of them aren’t making any profit. It’s the hope.” **FH**

THE PERSISTENT PANDEMIC

THE RESTAURANT INDUSTRY IN WESTERN CANADA CONTINUES TO FACE CHALLENGES

BY LAURA PRATT

"We were told that coming out of the pandemic everyone would be eager to come back [to restaurants]," says Shira Blustein, general manager of both The Acorn and The Arbor in Vancouver. "But what happened was rising prices from our suppliers, starting with fuel surcharges, and then all of our food costs, insurance, minimum wage — everything went up. The guest is only willing to pay so much."

"All the issues we're dealing with now flow from the pandemic," says Mark von Schellwitz, vice-president Western Canada, Restaurants Canada. Overall, input costs have increased by about 20 per cent, he says, contrasted by menu inflation of only around six per cent — "because we can't pass all those costs onto our consumers."

Restaurants continue to feel the effects of the workplace shift to home-based industry and the enduring pivot from on-premise dining to takeout and delivery. Before the pandemic, about 12 per cent of the average full-service restaurant's sales were in takeout and delivery; now it's 38 per cent.

Then there's the demographic labour crunch. "We lost a lot of jobs during the pandemic and we're having difficulty attracting them back," says von Schellwitz,

adding restaurants — the largest employer of youth of any industry — must be proactive in finding good people, working with foreign workers, and encouraging semi-retirees to stay longer or join the workforce part time.

He believes this combination explains why more than half of Restaurant Canada's members are not making a profit (compared to just 12 per cent before the pandemic) and why restaurant bankruptcies jumped by 90 per cent last year over 2022.

"There's more government [involvement] now in our industry overall than there was five or six years ago," BC Restaurant and Foodservices Association CEO Ian Tostenson says, and points to his government's threat to move to electricity — a problem given West Coast restaurants' reliance on natural gas — and the lack of CEBA loan extensions, which saw restaurants scrambling to pay back $40,000 to qualify for the $20,000 grant. "A lot of smaller restaurants won't survive that."

The provincial governments, meanwhile, have piled on increases in sick days, hikes in minimum wage, and a new statutory holiday, along with new legislation on single-use items and reduction of plastic. And at the municipal level, taxes on leases have increased to the point where "a lot of small restaurants just can't afford to renew," says von Schellwitz. "We've got a perfect post-pandemic storm.

The quick-service segment has always been strong, observers agree, and the pandemic stretch augmented that. But the middle of the Western-Canadian foodservice market — family-style, upscale casual restaurants — are poised to suffer most, because, says von Schellwitz, "they have the most price-sensitive consumers. If you're a high-end restaurant with a pretty wealthy clientele, you're not going to be impacted because it won't change your consumers' behaviour if prices go up."

People are still willing to spend for special occasions at high-end restaurants, Blustein agrees. "But with the more casual eatery, there are just fewer people coming on the regular."

The fine-dining restaurant in Cody Allmin's portfolio, Published On Main, in Vancouver, is doing better than the rest, Allmin confirms, because it's a "celebratory destination. The people that only dine out once or twice a year fill out a big chunk of our books."

But Circana's CREST industry tracking database shows that, for the year ending November 2023, while FSR had a much higher share of traffic in B.C. (28 per cent) than anywhere else in Canada, "it could present a challenge in the coming year if the economic headwinds impact the foodservice industry as they're expected to," says Vince Sgabellone, a foodservice industry analyst with Circana. "One of the ways consumers are planning to cut back on foodservice spending will be to trade down to less expensive restaurant occasions."

Chains, meanwhile, have the advantage of economics and purchasing power, Tostenson says, and with the current economic uncertainty, people tend to go where they're familiar. More than that, chains can be "more adventurous" in their pricing, where independents have higher cost structures and infrastructures that aren't as deep. "You've got to be way more on top of your costs and operations now because of inflation," he says. "There's no room for error. A lot of independents are working six days a week, 12 hours a day.

"We've never stabilized since the pandemic," he says. While patrons have returned, inflation has been quick to yank back progress. "We've been unable as an industry to increase our prices to cover inflation, so restaurants either have no margin or are losing money."

Allmin, whose four-year-old fine-dining restaurant has a Michelin star, calls the restaurant business in Western Canada "challenging" right now. "When your operating costs are already high because it's Vancouver and then your labour rates and cost of goods go up and you try to match your prices to be in line with inflation, but nobody has the money to spend more, you get complaints from every side."

He calls the future for restaurants in this part of the country "fairly bleak" and explains that they've put a pause on growth for the next year while they "watch the economy."

Allmin's contemporary, Angus An, the chef-owner of a handful of restaurants in Vancouver, including Michelin Guide-recommended Maeman, concedes "there are more challenges than ever for restaurants." But he's keeping his cool, he says, informed by how the 2008 recession prepared him for the COVID experience. He feels consumers are craving quality, but also value. "People need to eat and as long as you provide them with value, you have the ability to thrive.

"We've got to start competing with quality. We can't pay the higher wages that some of these talented personnel deserve and by competing with price, the only thing that suffers is quality. Rather than compete on price, compete on value."

Bruce Fox, executive vice-president, Business Development with Browns Restaurant Group, says business is "tougher than it's ever been and I've been in the business 50 years." New build costs are up 30 per cent from two years ago, he says, and "We can't build new restaurants under those conditions. And we can't staff them." None of that means they're not trying, he points out.

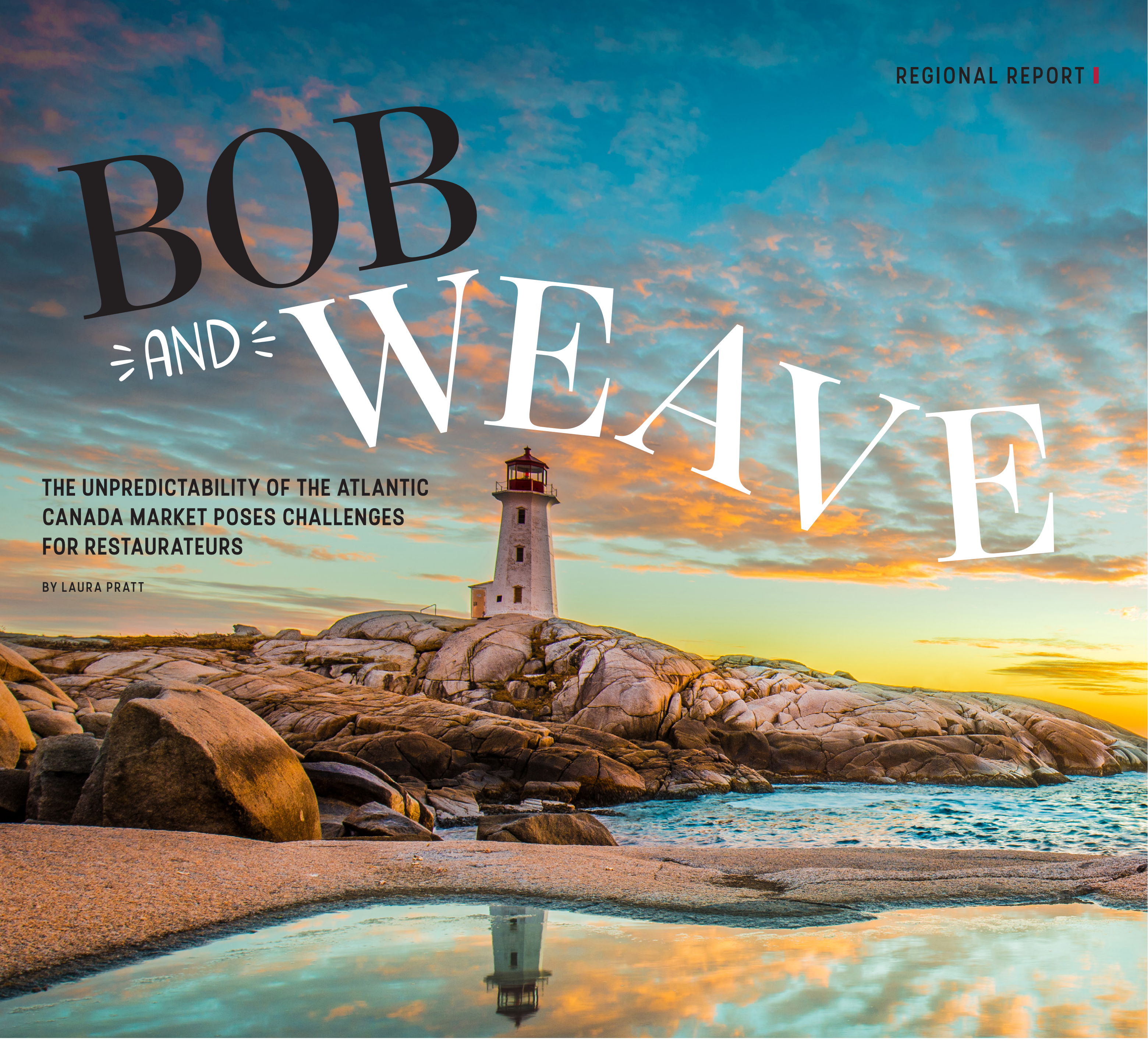
While almost all of the restaurants in his system are making money, it's "not much," he qualifies. "The scene is worse than it's ever been."

"We're going to see a lot more restaurants closing," Blustein agrees. We need that rebound where people feel freer, where they have more expendable income."

Going forward, Tostenson agrees Western Canada is facing a culling of the industry. He believes up to 2,000 restaurants across the B.C. are at risk of closing this spring unless a "miracle" comes their way.

But from that scene will rise a re-generation. Tostenson points to a recent rush of investment and innovation. "The era of the big restaurants with hundreds of seats, thousands of square feet, and high-cost operations is over. But people are coming in with more focused concepts, more diversity and ethnicity, and smaller restaurants, lower overheads, more technology."

Indeed, says Fox, there's reason for hope. "We figured out how to deal with no-smoking sections. We'll figure it out. It's depressing, but restaurant people are smart, capable, energetic, vibrant, innovative. We love what we do and we're in there for the next round to keep fighting." **FH**



BOB AND WEAVE

THE UNPREDICTABILITY OF THE ATLANTIC CANADA MARKET POSES CHALLENGES FOR RESTAURATEURS

BY LAURA PRATT

Todd Perrin's been in the restaurant business almost 30 years. One of Newfoundland's most celebrated chefs, Perrin headed up Mallard Cottage, a St. John's charmer that is ranked number 22 on the 2024 list of Canada's Best Restaurants, from its inception until his departure last October. Perrin, who was ranked in the top eight of *Top Chef* Canada in 2011, worked at The Lodge at Kananaskis in Alberta before opening Two Chefs in 2001, a fine-dining eatery in St. John's that, in its first year, was listed as one of the country's Top 50 New Restaurants in *EnRoute*. In 2008, he opened The Chef's Inn, a B&B in downtown St. John's, and then Mallard, a 65-seat dining room, in 2013, lauded for such locally inspired dishes as cornmeal-dusted deep-fried cod cheeks.

Today, Perrin has just opened Rabble, a casual, upbeat newcomer to St. John's cozy restaurant scene, and, while as enthused as ever about transforming local fixings into virtuosic dishes, the big-time chef is anxious. The restaurant business in Atlantic Canada, he says, is "volatile" right now. Where he's used to certain business patterns in an industry that's not reliable at the best times, he's finding the current imperative to "bob and weave" frustrating, especially among such other challenges as debt, cost-of-living hikes, and inflation, to say nothing of the post-COVID devastation. "Whatever predictability there used to be in the business is out the window," he says.

It's a story that could be repeated across the country — and is — but the particular flavour lent to it by the Maritimes, where a couple of bad-weather planes not landing at the airport could ruin a restaurant's month, makes it particularly hard to swallow. "You can no longer count on having a full house every Friday night," Perrin says. "And people's ability to spend is all over the map. People don't eat like they used to and juggling expanding costs on one end and retracting revenue on the other is a balance all [Atlantic Canada restaurateurs] are struggling with right now."

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BAD ECONOMICS

The struggle, he believes, is a product of consumers' changing relationships with dining out. Food prices are up, our taste for the lucrative addition of alcohol with our meals is down, and we aren't going out as often, reserving the habit for special occasions. "Overall, we're seeing restaurant patronage — and the general spend — slowing."

Indeed, agrees Mike Babineau, who's also been in the restaurant business almost 30 years and considers the current stretch "one of the biggest all-around tough times."

The COVID experience, which, he believes, taught people to eat at home, either cooking or ordering from apps, "was tough enough," says Babineau, who owns six restaurants in Fredericton, including five established independent joints and a Cora franchise. "But then we were hit with inflation and increases in costs, and we had to increase our menu prices."

Inflation is a huge challenge in Nova Scotia, Natasha Chestnut, executive director of the Restaurant Association of Nova Scotia, says, and expenses in her province — for food, insurance, equipment, fuel, utilities, et cetera — are up 30 per cent since before the pandemic.

"We absolutely are seeing people come to restaurants less and the spend per visitor is down," Kris Barnier, vice-president of Central Canada with Restaurants Canada, told *CTV* this summer. No wonder Restaurant Canada's latest survey discovered that 47 per cent of restaurants in Canada are losing money (in 2019, that was 12 per cent).

"There was a good rebound after the industry re-opened post-COVID," says Richard Alexander, executive vice-president for Government Relations and Public Affairs at Restaurants Canada, "but it was before the inflationary pressures started creeping in." Restaurant sales in Atlantic Canada have dropped month after month in the last long stretch, he says, from a six per cent drop in January 2024 to a three per cent drop in June 2024. Costs, meanwhile, have spiked. Since the third quarter of 2022, food costs have gone up 25 per cent, insurance 24 per cent, utilities 20 per cent, and labour 18 per cent. And profit margins are contracting. The average profit margin for Nova Scotia restaurants is just under four per cent now, and about half of restaurants in Atlantic Canada are either breaking even or operating at a loss.

VALUE MEAL FIX

Because of affordability challenges, guests in restaurants are looking for value, speed, and convenience. "There's a psychological barrier," says Alexander. "When someone orders a sandwich, once the price of that sandwich reaches a certain level, they'll stop ordering a side with it, stop ordering a drink with it, then start taking their lunch from home."

This explains the explosion of dollar coffees, tasting menus, cooking classes, meal kits, and value meals that quick-service restaurants (QSRs) are using to draw traffic into their stores. Givex Canada, which works with companies to engage customers, told *CTV* in September that there's currently a value-meal war taking place with burger chains, sub shops, and taco restaurants.

And loyalty programs, Alexander says, are becoming popular in restaurants, with nearly six out of 10 Canadians signed up for some kind of restaurant loyalty program.

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OTHER TRENDS

Vince Sgabellone, foodservice industry analyst for Circana, says the restaurant industry is growing in Atlantic Canada — just at a slower pace than everywhere else. That, he says, is because of a range of factors, including that the Atlantic region has the oldest demographic of restaurant goers. What's more, he says, citing data from his CREST database, for the year-ending July 2024, the east boasts the highest concentration of QSRs of any region — just over 70 per cent of restaurant visits are to QSRs here (versus about two thirds nationally).

The Atlantic Canadian consumer favours morning meal visits — clocking in at 35 per cent of total restaurant visits, five points higher than national average, and higher than any other region. And older generations drink a higher proportion of brewed

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break through the clutter and get a piece of these consumers' discretionary purses. "How are you going to convince them to come into your pub or fine-dining restaurant when they're more inclined to go out to a quick-service restaurant for a morning coffee?"

THE ATLANTIC CANADA CHALLENGE

Atlantic Canada represents just seven per cent of restaurant visits in Canada. Foodservice sales are about $4.4 billion and approximately 72,800 people work in the 5,400 restaurants in Atlantic Canada — about six per cent of the region's total employment, including almost 30,000 youth. It's a small market — 2.4 million people, or about six per cent of the Canadian population, but it's not just the market size that distinguishes this part of the country's restaurant scene. Seasonality is perhaps a more significant influencer here than anywhere else. Weather and tourism, says Chestnut, "are the two biggest components of our industry." That means a high percentage of restaurants' business here is conducted over about four months. Clever restaurateurs, she says, operate with this in mind, planning for contractions and growth.

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coffee than specialty coffee, a stat that tucks into the rest, given how QSRs tend to skew to morning occasions.

While Atlantic Canadians still dine out (once a week for about 45 per cent of them), they've changed their habits. They're ordering more for off-premise consumption and largely eschewing lunchtime visits because so many still work from home. About two thirds of all restaurant occasions are off-premise in Atlantic Canada, versus about 60 per cent for the national average.

Strangely, delivery is under-developed in this region (three per cent versus the five per cent national average). Sgabellone speculates that this is because providers aren't bothering, given the low, dispersed population of this part of the country. Finally, following on the popularity of quick-service and the morning meal, it follows that the average spend per person per visit is lower in Atlantic Canada.

Another spinoff of this reality is that, because QSRs tend to be dominated by the large chains, and because the large chains have their fattest share in Atlantic Canada, in aggregate, they control more than half of restaurant visits in this part of the country. With one third of restaurant visits taking place at breakfast here, and QSR dominating the breakfast meal, which boasts the lowest price point, it all goes hand in hand.

Not surprisingly, given that the average spend is so low, one of the challenges for Atlantic-Canadian restaurants is profitability. "Restaurants everywhere have been faced with a lot of costing challenges, so in Atlantic Canada, where the average consumer is less inclined to spend, that's a bigger problem," says Sgabellone. That's particularly so for an independent looking to

"We've always depended on our summers to get through the winter," says Babineau. "But I didn't see the volume come through this year and our tourism is critical."

St. John's, too, says Perrin, is a small market driven by tourists, and his restaurant's sales from August to September 2024 dropped by 30 per cent overnight.

Higher expenses are another serious differentiator for this part of the country. Generally speaking, says Alexander, "things are more expensive in Atlantic Canada," including food and transportation and, he underscores, alcohol, which makes up a high proportion of meals and so can be lucrative.

Restaurants Canada has been pushing government to sidestep any more increases in taxes with a letter-writing campaign asking MPs to lower insurance premiums — ideally back to the rate that was frozen during the pandemic, which would put $1.7 billion back into the pockets of Canadians.

Another big challenge for Eastern Canada is the higher proportion of rural communities, making the labour issue acute — particularly finding cooks.

THE UPSIDE

The Atlantic-Canada upside, Sgabellone adds, is that it's less expensive for Eastern-Canadian operators because the off-premise model is cheaper. And while there's lots of competition for QSR operators, there's also lots of demand. "So, if you're looking for a place to try out a breakfast idea, you've got a good chance in Atlantic Canada," he says. "And if you're a delivery operation, maybe there's an opportunity there because there's a white space you can fill. And if you want to operate a full-service restaurant, there's not as much competition, and maybe people are craving full-service restaurants." Indeed, the growth of full-service units in Atlantic Canada outpaced other regions in 2023, at three per cent versus flat nationally.

Overall, real estate, rent, and the cost of your premises are probably lower in this part of the country than elsewhere, says Babineau. "It's not cheap, but relative to Toronto, Vancouver, Montreal, it's much more economical to run a restaurant here."

LOOKING FORWARD

Restaurant Canada's chief economist, says Alexander, believes Atlantic Canada will start to see some recovery at the end of this year, as the interest rates come down, and then more into 2025. "It's going to be difficult for a while," he adds.

"I do see things turning around soon," says Babineau, who reminds that cycles are part of life in the restaurant business. "If we see the interest rate and inflation drop a bit, we'll see things flatten out and will hopefully be in a growth pattern. I think it'll be another year or so before we see a really good turn." Besides, he adds, it's not like the industry in Atlantic Canada is in the hole 30 or 40 per cent — "maybe 10 or 15 per cent. It's just that it's not as predictable as it used to be, where you knew month by month how things were going to go. Now it's surprising and you have to adapt quicker."

It's why, he contends, restaurants are going to "get more creative" with their offerings and will probably reduce the size of their menus to make things more affordable.

He also predicts that technology will increase its role in restaurant operations, with rising wages offset by labour-reducing tech. He thinks the bigger franchises will outperform independents because of the marketing and general support that prop them up, and he predicts that restaurants will reduce their square footage because the smaller ones are, simply, "so much easier to operate."

"I'm hopeful about the future," says Chestnut. "I don't think the industry is going anywhere." She points to two recent wins in her neck of the woods: Canadian bartender Keegan McGregor winning World Class Global Bartender of the Year for 2024 and Olivia Sewell, a graduate of Nova Scotia Community College's culinary-management program, competing at the WorldSkills Competition in France, the first Nova Scotian to represent Canada in this contest. "We have some world-class talent here."

In the meantime, says Perrin, the Eastern Canadian branch of the restaurant industry is probably into "an extended period of volatility, trying to find out where it'll land and what its staffing model should be. The bobbing and weaving have always been part of the industry but it's more profound now because we've been pushed to the limits with COVID and debt. You're a bad couple of weeks away from really being in trouble.

"But I'm optimistic, obviously — we just opened a new spot. I believe there's always going to be a place for restaurants. If you do it right, you can make it work. People who are going to be successful going forward are going to be those with a lot of experience — who've been through the challenges and come out the other side." **FH**