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Restaurants feel pain of recession

Slump suggests lean year ahead

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Sales at privately held eating establishments grew just 0.34% in 2009 after ranging between 6.4% and 7.5% growth in the prior three years

TORONTO -- The Canadian food-service industry has been pummelled by the recession, new market research says, with new data showing sales growth at full-service restaurants came to an abrupt halt in 2009 after years of steady increases.

Sales at privately held eating establishments grew

just 0.34% in 2009 after ranging between 6.4% and 7.5% growth in the prior three years, according to Sageworks Inc., a market research firm based in Raleigh, N.C.

That could mean a difficult 2010 as Canadian restaurateurs scramble to recover their businesses over the next year, said Drew White, chief financial officer at Sageworks. By comparison, sales at comparable U.S. restaurants slowed in the two years after 2006 prior to the recession hitting the United States, so its 0.22% sales slowdown in 2009 would have a less dramatic impact.

"In Canada, they have had less time to adjust to falling restaurant sales, to cut their marketing costs," Mr. White said. "Canadian restaurants right now are doing what they have been doing over the last two years in the U.S. They are going to be doing whatever they can do to conserve cash: cutting overhead, renegotiating leases and reducing advertising spend."

He noted Canadian full-service restaurants spent much more on advertising during the recession than their U.S. counterparts did - 2.35% of sales in 2009 versus 2.25% in 2008; compared with a U.S. marketing spend of 1.28% of sales in 2009 and 1.59% in 2008. At the same time, the Canadian restaurants' cash reserves relative to assets sank to 9.18% compared with 13.6% in 2008; in the United States, cash to assets dipped less dramatically - to 12.03% in 2009 from 12.23% in 2008.

In a year when quick-serve restaurants such as McDonald's and A&W enjoyed some gains from consumers "trading down" from full-service chains such as Kelsey's, casual dining restaurants have been hit hard and the fine dining category has been decimated, said Garth Whyte, president and CEO of the Canadian Restaurant Foodservice Association, with multiple high-end establishments being forced to close their doors.

Nevertheless, the Sageworks data is stronger than what the CRFA had predicted for full-service restaurant sales in 2009, an annual sales decline of 3.1% at restaurants open for more than a year, known as same-store sales. The group's numbers will be finalized later this year.

"That's actually great if [sales were 0.34%] - it was a tough, tough year," said Mr. Whyte. "Everyone felt it. People shopped [downmarket], and they went out less. Full-service and fine dining felt it the most. Consumer confidence does really hit our sector."

Some of the strongest players in the casual dining sector were hit hard in the first three quarters of the year, according to company reports At Boston Pizza, same-store sales fell 3.9%; at The Keg same-store sales slid 4.4% and at Prime Restaurants, operator of Casey's, East Side Mario's, and Prime Pubs same-store sales declined by 6.6%.

Restaurant owners responded by cutting labour, in addition to other costs. The number of foodservice employees at full-service restaurants fell 3.4% in September compared with the same period of 2008, according to a recent report from Statistics Canada, and operators slashed hours as well. The StatsCan report said hours worked by foodservice employees averaged 22.3 per week in September 2009 compared to 23 in the 2008 period.

Nevertheless, no major casual restaurant chains in Canada have been shuttered during the recession due to weak performance.

"Full-service is so resilient, they have done great marketing and they have kept up great relationships with their customers. But the high spending days are over," Mr. Whyte predicted. He noted a survey published last month Nielsen Canada predicted many Canadians who cut back during the recession will still pinch pennies as the economy recovers. Forty-nine per cent of consumers surveyed by

the market researcher who had reduced their spending through the economic crunch said in October that they would continue to spend less in the months ahead.

"The [restaurant] companies that will survive will offer high value and put a high focus on the customer," Mr. Whyte said.