THE 2013
BOTTOM LINE

A GUIDE TO CANADIAN RESTAURANT OPERATING PERFORMANCE

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FHG International Inc.

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INTRODUCTION

BY DOUGLAS P. FISHER

FHG International Inc., *Foodservice and Hospitality* magazine and The Ted Rogers School of Hospitality and Tourism Management at Ryerson University are pleased to present The 2013 Bottom Line: A Detailed Report Outlining Restaurant Operating Performance. The report features the findings of the second national financial study of the restaurant industry in 10 years. Over the past decade, restaurant operators, university professors, accountants and industry consultants have been searching for a comprehensive and reliable source of information to better understand the performance of the various restaurant industry sectors. While other similar reports have been produced in the past, some of these have not featured specific sector review.

This report provides important segment information, which will be of great value to everyone in the industry. *The Bottom Line* compiles data from restaurant operators across Canada. The research and data compilation was conducted by FHG International Inc., Foodservice & Franchise Consultants, while Ryerson provides the narrative on the findings. *Foodservice and Hospitality* magazine, a division of Kostuch Media Ltd., was instrumental in assisting FHG fund the project as well as distributing 25,000 surveys across the country, producing a 10-per-cent industry response, approximately the same rate as last year.

The results presented within this report represent those operators who provided detailed facility information, along with a comprehensive response, to the financial questions asked. Ultimately, the responses used are from 638 operators representing 2,531 units across the country.

PERIOD COVERED

The survey was conducted during the first three fiscal quarters of 2012. We asked participants to provide recent year-end results, which, for the most part, were taken from the period ending late 2011 or from the first half of 2012, representing the beginning of the recessionary recovery period. Not surprisingly, there were some major consumer shifts in dining habits during the recessionary period. While consumers tended to be dining out more often in 2012, they were are still cautious on spending less than prior to recession.

Fine-Dining Restaurant sales took a rather substantial 'hit' during the recession, as customers traded down from Fine-Dining operations to Casual. However, over the past year, the segment has slowly begun to recover.

MARKET SEGMENTS

We have segmented results in general and specific terms. First, restaurants in each of the four most common commercial segments were examined and an overview of the information is listed below:

Segment	Number of Respondents	Percentage of Respondents
QSR	1,198	47%
Family	750	30%
Casual	484	19%
Fine-Dining	99	4%
TOTAL	**2,531**	**100%**

We also examined the data from a regional point of view to develop the following profile:

Region	Percentage of Respondents
British Columbia	8%
Prairies	10%
Ontario	50%
Quebec	24%
Atlantic Canada	7%
TOTAL	**100%**

Note: *Prairies includes Alberta, Saskatchewan and Manitoba; Atlantic Canada includes Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland & Labrador; Northern Canada includes Northwest Territories, Yukon and Nunavut (however we had minimal responses from this region this year).*

DATA SEGMENTATION

We have done our best to determine the key aspects of the restaurant industry from the points of view of operators, teachers, accountants and consultants. We have 'sliced and diced' the data into segments that best reflect the industry and its overall performance. Data is presented on a national and regional basis, benchmarked by the overall combined industry performance. Not only is data segmented by regions, but also by other key variables such as type of cuisine, menu theme, sales per seat and sales per square foot. As intended, we did not ask respondents to provide specific dollar sales information but rather to report on their operation's performance based on income and cost ratios typically used in the industry.

LIMITATIONS

The results featured in this report are meant to be used as guidelines for financial projections and performance analysis. They illustrate the information from operators willing to share with the industry their facility characteristics and operating results. Though we believe the information reflects what is taking place in the industry, it's based only on those operators who shared information. FHG International Inc., *Foodservice and Hospitality* magazine, and Ryerson University have not — and are not trying to — set operational or performance standards for the industry in this publication, but rather provide the results from this survey only.

We also need to caution readers that Statistics Canada has developed its own Operations analysis, which we believe is limited in scope. The data featured in this report may differ from the summary results found in the Statistics Canada report due to a variety of factors, including different definitions of cost-centres, as well as variance in category or regional groupings and other salient issues. It's best for the reader not to overlap the two reports. Furthermore, we have tried to compare operating profits within this report to those of previous Industry Operations Reports prepared by the CRFA up to 2001. There may be slight differences in the methodology of data collection presentation that will not allow for exact comparison.

ARTICLES

We have also asked industry leaders from various regions to participate in this study by providing responses to questions related to some of the significant aspects that impacted the industry and operating results of their region from 2011 through 2012, as well as to provide their thoughts and vision for the next couple of years. We believe their responses are helpful and informative from a perspective of where the industry is and where it's going as an industry in each region.

Additionally, Professor Richard Wade has written a short article outlining how to effectively use the data results found within this report. He has also provided a worksheet to enable users to develop a profile whereby they can project potential outcomes for their operations based on a cross-section of data found within the report; or to simply try and create a benchmark for a particular restaurant in a specific market.

THE FUTURE

As a team, it's our intent to continue to develop this important study. We hope to expand the participation rate and look forward to a greater number of chain operators participating, in order to provide strength and variety to the data sample set. We thank those who have completed the survey and participated in this project. Without their time and effort, this project would not have been possible. A special thanks to Mohtashim Ahmed, MBA, who worked diligently to ensure the accuracy of the results.

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NOTES TO READER

This market analysis is based on the respondents of a national survey distributed by *Foodservice and Hospitality* magazine in the spring of 2012. It represents results from the end of 2011 to the year ending 2012.

The survey results, as presented, are limited to the results of those who participated in the survey itself and have not been modified, although the data was vetted for obvious errors, and when found, the entire respondent's survey was eliminated, if it was not complete. The operating results shown within this report are based on actual results achieved by the respondents, but do not represent standards of sales, or cost of sales, but rather can be used as a benchmark as to how others are doing in the industry. We have not audited the respondent material and have not verified the responses to actual financial statements of the respondent, as all respondent information has been held as confidential with no way to cross reference any one response to any particular respondent.

As noted in the introduction, the responses from some areas in the Fine-Dining Sector were low and we have noted these where they were less than 50 respondents. This year, there were only a couple of respondents from Northern Canada. As a result, we have not shown those results, as they are not reliable nor reflective of the industry given the small numbers. In some tables we have left the Fine-Dining results blank as the respondent level may have been as low as just a few restaurants within a region. Keep in mind, that these results are not statistically accurate. Please note that in a few data cross sections, the respondents represented less than 50, and in those cases we have added a cautionary note.

We experienced some challenges determining whether we should put royalty fees above or below the operating profit line. Ultimately, if we put it above the line and averaged it with those restaurants that did not pay a royalty fee (likely because they were not franchisees) we would have skewed the results. If, for example, we had 100 restaurants reporting and 50 paid a 5% royalty fee and 50% paid nothing, then the survey result would show a royalty fee of 2.5%, which no one pays. As such, we have provided all the operating expenses for restaurants as shown, with the representative royalty fee illustrated below the line.

As a result of averaging and rounding, some columns may not add up to exactly 100 per cent. This is simply a rounding error caused by the volume of information provided and does not materially impact the results shown.

Unlike previous years, we have not illustrated the results of long-term interest and depreciation/amortization as these rates change significantly depending on the type of loans received, the length of time in business and many other non-operating factors that are not relevant in our opinion to the day-to-day operations of the restaurant business in Canada. ●

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THE 2013 BOTTOM LINE:
A DETAILED REPORT OUTLINING CANADIAN RESTAURANT OPERATING PERFORMANCE

BY DOUGLAS P. FISHER AND PROFESSOR RICHARD WADE

Last year's *Bottom Line* Survey noted "that the foodservice business in Canada had survived the recession (near depression) and with the exception of a few companies, the industry pulled off a strong financial performance in 2009/2010 based on the hard work of its owners and operators." The same can be said for the industry in 2012 in Quebec, which experienced a noticeable decline in Operating Profit of 14.8 per cent, down to 8.4 per cent before applicable Royalty Expenses. It was also significantly lower than the National Average of 10.6 per cent. This could possibly be due to a relatively lower GDP and perceived economic malaise in Quebec for 2012 compared to most of the other provinces. The province was also forecast to have the lowest growth in foodservice sales among all the provinces. Another explanation for Quebec's poor performance might be because of significantly higher food-to-beverage ratio and higher cost of sales in 2012 as compared to the preceding year. These were also much higher when compared to the other provinces.

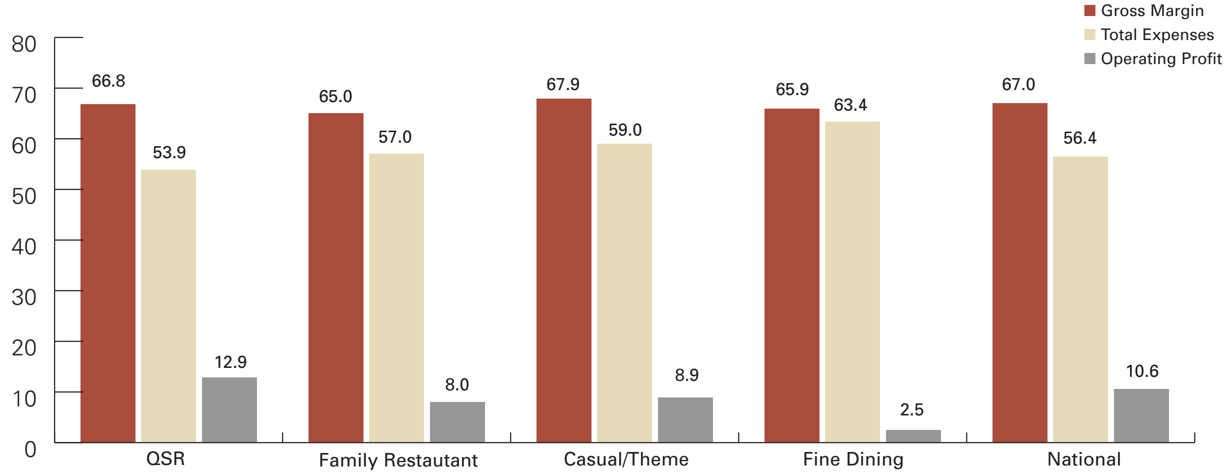
All Regions

	British Columbia	Prairies	Ontario	Quebec	Atlantic Canada	National
Sales (by per cent)	%	%	%	%	%	%
Food	85.6	83.9	85.4	96.2	90.8	86.5
Beverage	9.6	13.2	11.9	3.4	5.1	10.5
Other Revenue	4.8	2.9	2.7	0.4	4.1	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales						
Food	31.8	36.3	33.2	38.0	36.2	34.0
Beverage	25.7	25.2	25.2	35.3	26.4	27.1
Other	27.2	21.1	26.3	28.4	19.2	24.3
Total Cost of Sales	31.0	34.4	32.1	37.9	35.0	33.0
Gross Margin	69.0	65.6	**68.0**	62.1	65.0	67.0
Expenses	%	%	%	%	%	%
Salary, wages & benefits	32.9	28.8	28.8	30.4	24.7	29.6
Occupancy	8.2	8.6	8.9	9.6	8.4	9.2
Operating	4.3	3.8	3.7	3.3	4.4	3.6
Paper	2.7	2.9	3.4	1.8	3.8	2.9
Utilities	3.9	3.7	3.5	2.9	3.8	3.5
General & Administration	3.5	3.5	3.3	1.4	3.2	2.8
Marketing	3.6	3.7	3.2	3.4	3.5	3.4
Entertainment	0.2	0.3	1.7	1.0	0.5	1.4
Total Expenses	**59.2**	**55.2**	**56.5**	**53.7**	**52.4**	**56.4**
Operating Profit	**9.9**	**10.4**	**11.4**	**8.4**	**12.6**	**10.6**
Royalty Expense	**3.0**	**3.5**	**3.0**	**2.7**	**3.1**	**3.2**

National by Sectors

	QSR	Family Restaurant	Casual/Theme	Fine Dining	National
Sales	%	%	%	%	%
Food	97.7	89.40	61.5	68.5	86.5
Beverage	0.7	7.65	32.5	28.0	10.5
Other Revenue	1.6	3.00	5.8	3.5	3.0
Total Sales	**100.0**	**100.0**	**99.9**	**100.0**	**100.0**
Cost of Sales					
Food	33.5	36.2	33.8	38.4	34.0
Beverage	25.0	26.0	30.1	25.7	27.1
Other	21.1	21.3	24.1	16.7	24.3
Total Cost of Sales	**33.2**	**35.0**	**32.0**	**34.1**	**33.0**
Gross Margin	**66.8**	**65.0**	**67.9**	**65.9**	**67.0**
Expenses	%	%	%	%	%
Salary, wages & benefits	29.6	30.4	28.8	25.7	29.6
Occupancy	9.2	8.2	10.7	11.6	9.2
Operating	3.3	4.0	3.5	6.6	3.6
Paper	2.9	3.0	2.8	1.7	2.9
Utilities	3.3	3.9	3.3	5.6	3.5
General & Administration	2.2	3.6	2.5	5.8	2.8
Marketing	3.2	3.2	3.7	4.8	3.4
Entertainment	0.1	0.7	3.8	1.5	1.4
Total Expenses	**53.9**	**57.0**	**59.0**	**63.4**	**56.4**
Operating Profit	**12.9**	**8.0**	**8.9**	**2.5**	**10.6**
Royalty Expense	**3.9**	**2.7**	**2.3**	**0.0**	**3.2**

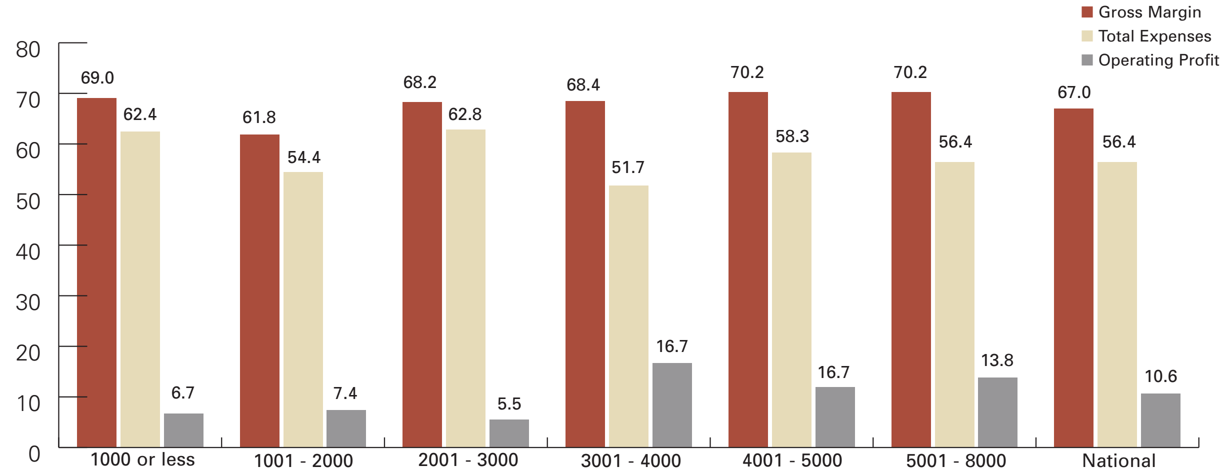
A comparison of the industry survey results of 2012 with 2010 by National Sectors shows modest improvement overall in profitability, increasing from 9.2 per cent to 10.6 per cent in all sectors except for a marginal decline (10.3 per cent to 8.9 per cent) in the Casual/Theme component. While two sectors, Family Restaurant and Fine Dining, were identified as "soft spots" last year, it appears Fine Dining remained well below the others, experiencing an Operating Profit of 2.5 per cent. It seems that consumers continued to "trade down" in this sector during 2012. Evidence of this can be seen by comparing the Total Expenses of the Fine Dining sector with the National Average, which were 63.4 per cent and 56.4 per cent respectively. The fact that Total Expenses include fixed expenses, and these fixed expense components remain constant regardless of sales volume further explains this. Therefore, as sales decline in this sector due to consumers (trading down), Total Expenses as a percentage of sales rise accordingly. Further evidence of this can be observed in reviewing the Total Cost of Sales (a purely variable expense). In this instance, Fine Dining performed the same as last year (34.1 per cent). This suggests the sector managed to keep its variable expenses under control in spite of it being a little higher than the National Average of 33.0 per cent.



By Square Footage

	1,000 or less	1,001-2,000	2,001-3,000	3,001-4,000	4,001-5,000	5,001-8,000	National
Sales	%	%	%	%	%	%	%
Food	73.9	96.7	84.1	85.1	58.6	75.0	86.5
Beverage	16.9	2.4	13.9	13.4	29.4	22.8	10.5
Other Revenue	9.2	0.9	2.0	1.5	12.0	2.2	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales							
Food	33.5	38.6	33.5	32.1	33.0	32.1	34.0
Beverage	30.3	26.8	22.3	28.5	28.5	24.0	27.1
Other	11.9	28.3	26.3	27.1	17.1	12.5	24.3
Total Cost of Sales	**31.0**	**38.2**	**31.8**	**31.6**	**29.8**	**29.8**	**33.0**
Gross Margin	**69.0**	**61.8**	**68.2**	**68.4**	**70.2**	**70.2**	**67.0**
Expenses	%	%	%	%	%	%	%
Salary, wages & benefits	29.9	29.2	28.8	28.1	27.7	29.6	29.6
Occupancy	12.2	9.2	10.6	7.8	8.3	10.0	9.2
Operating	3.9	4.1	3.2	3.7	3.8	3.6	3.6
Paper	2.6	2.3	4.6	2.7	1.5	1.7	2.9
Utilities	3.8	3.3	4.4	3.6	4.6	3.2	3.5
General & Administration	4.0	2.5	1.5	2.3	6.1	3.2	2.8
Marketing	3.8	3.5	3.2	2.9	3.5	4.6	3.4
Entertainment	2.3	0.4	6.3	0.6	2.8	0.5	1.4
Total Expenses	**62.4**	**54.4**	**62.8**	**51.7**	**58.3**	**56.4**	**56.4**
Operating Profit	**6.7**	**7.4**	**5.5**	**16.7**	**11.9**	**13.8**	**10.6**
Royalty Expense	**3.6**	**4.1**	**3.0**	**0.4**	**2.2**	**5.2**	**3.2**

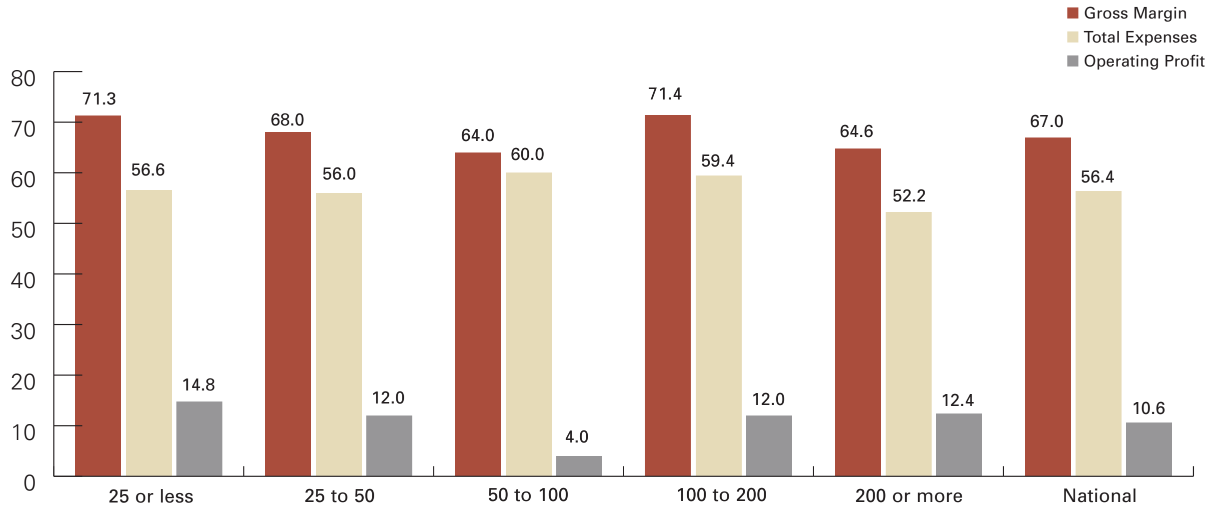
A comparison of operating performance by size, showed that 3,001-4,000 sq. ft. spaces were most profitable followed by 1,001-2,000 sq. ft. and 5,001-8,000 sq. ft. locations. The least profitable spaces were foodservice facilities sized between 2,001-3,000 sq. ft. There appears to be much consistency in the ranking this year compared to last year with the exception of a noticeable drop-off in performance of the 1,001-2,000 sq. ft. facilities. Where this sector appears to have lost ground is in the cost of sales, which rose rather dramatically. On the other end of the scale, the most profitable 3,001-4,000 sq. ft. operations were successful in the containment of their Total Costs (51.7 per cent), which were the lowest of the seven sectors that had a National Average of 56.4 per cent. This may be partially explained by the popularity of the larger Casual/Theme concepts, some of which have moved toward somewhat smaller, more efficient formats. However, it is evident the larger scale operations (4,001 + sq. ft.) experienced greater profitability (average 12.9 per cent) than those operations with 3,000 sq. ft. or less, which recorded an average profitability of 6.5 per cent.



Average Sales Per Seat

	25 or less	25 to 50	50 to 100	100 to 200	200 or more	National
Sales	%	%	%	%	%	%
Food	95.5	93.2	82.04	71.6	81.8	86.5
Beverage	2.1	5.0	15.49	23.2	14.2	10.5
Other Revenue	3.2	1.7	2.48	5.2	3.9	3.0
Total Sales	**100.8**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales						
Food	29.0	32.2	38.7	30.2	36.5	34.0
Beverage	23.0	34.7	23.5	25.3	31.6	27.1
Other	40.0	14.2	25.2	21.1	27.1	24.3
Total Cost of Sales	**29.5**	**32.0**	**36.0**	**28.6**	**35.4**	**33.0**
Gross Margin	**71.3**	**68.0**	**64.0**	**71.4**	**64.6**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	28.1	29.0	29.3	30.6	29.7	29.6
Occupancy	8.3	10.9	9.3	9.5	7.0	9.2
Operating	4.5	3.1	4.3	4.3	3.1	3.6
Paper	4.0	2.8	3.5	2.1	2.9	2.9
Utilities	3.3	3.5	4.3	3.8	2.6	3.5
General & Administration	4.7	1.3	3.1	3.7	3.2	2.8
Marketing	3.5	4.1	3.6	4.2	2.9	3.4
Entertainment	0.2	1.4	2.5	1.2	0.8	1.4
Total Expenses	**56.6**	**56.0**	**60.0**	**59.4**	**52.2**	**56.4**
Operating Profit	**14.8**	**12.0**	**4.0**	**12.0**	**12.4**	**10.6**
Royalty Expense	**5.1**	**3.3**	**1.0**	**3.1**	**4.3**	**3.2**

In reference to the table above, reporting on the operating ratios by Number of Seats, it's evident foodservice outlets with 50 to 100 seats performed well below the National Average, achieving an Operating Profit of 4.0 per cent compared to 10.6 per cent. This is consistent with the previous table in which it was reported foodservice facilities occupying between 2,001 to 3,000 sq. ft. (the approximate size of 50-100 seat operations) were the least profitable. Furthermore, these 50 to 100 seat facilities, which may be more representative of independents than chain operations, had difficulty in controlling their costs. Both their cost of sales (36.0 per cent) and Total Expenses (60.0 per cent) were well above the National Average of 33.0 per cent and 56.4 per cent respectively. The performance of the larger 100 to 200 seats and the 200-or-more seats in foodservice operations were again consistent with the previous table, which identified the cost efficiencies of larger scale facilities, which reported above National Average profitability.



Average Sales-Per-Seat

It's been approximately 15 years since an average sales-per-seat figure has been released in Canada. It's also the first time this data has been made available on a regional and national basis. Sales-per-seat is a key indicator of potential performance based on historical sales and turnover within the marketplace.

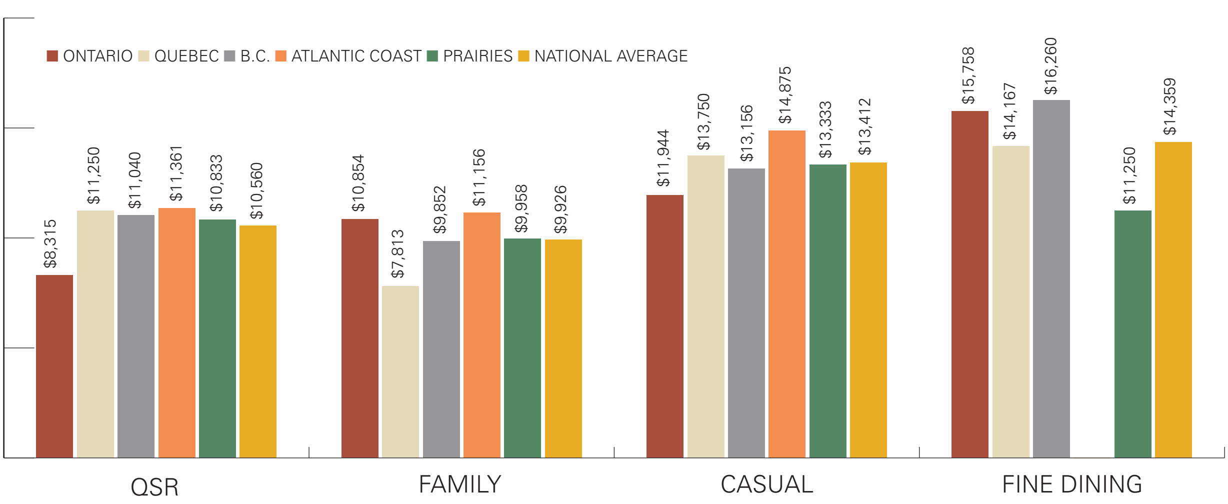
Atlantic Canada seems to be the strongest-performing area within the market on a sales-per-seat basis in the QSR, Family and Casual markets. This is probably due to the region's strong economic performance, which has given consumers more disposable income and therefore allows them to dine at restaurants with greater frequency. Average prices there seem to be slightly higher than the more competitive markets of Toronto, Vancouver and Montreal. And, because there are fewer restaurants per capita, the market is not yet saturated.

Quebec has shown strong sales-per-seat in the Family and Casual markets. This is due to lower restaurant prices in Quebec than the markets that reside to the west of it, resulting in an increased draw as dining out is less expensive.

B.C. and Ontario seem to be able to achieve the highest sales-per-seat in the Fine-Dining sector. This is likely the result of location as these two markets are located in the centre of financial markets, where operating costs are higher. This means that resultant prices for similar meals must be higher, producing higher average checks, and higher sales-per-seat, as consumers in these markets are willing to pay more.

The table below segments the average annual sales per seat by foodservice sector and geographic regions. On examining the data, it's not surprising to observe that Fine Dining has the highest sales-per-seat (excluding the Prairies where limited data was available) due to the significantly higher check averages of these restaurant concepts. It also follows that Casual/Theme operations are typically next in line with check averages exceeding those of Family Restaurants. The anomaly here is seen in the QSR segment, which has relatively high average sales-per-seat. However, when you consider that take-out sales are factored into the annual sales, the higher than expected sales-per-seat is understandable. With regard to the geographic regions there are two numbers that are out of line with the rest: Ontario QSRs and Quebec's Family Restaurants. In both instances, their sales-per-seat are well below the national average.

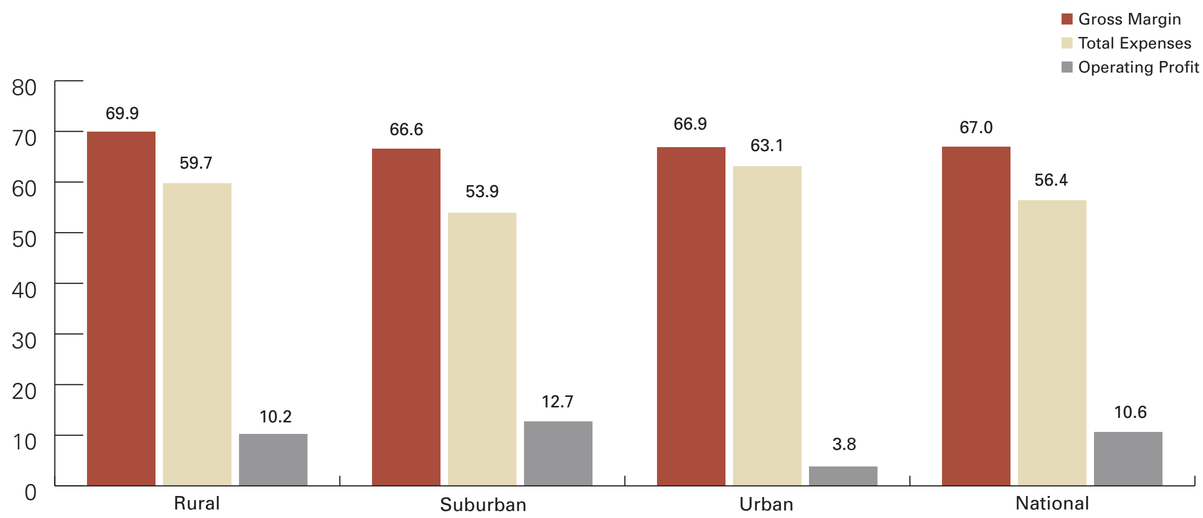
Average Sales-Per-Seat, by sector



By Location

	Rural	Suburban	Urban	National
Sales	%	%	%	%
Food	82.04	89.1	82.2	86.5
Beverage	13.20	8.4	14.5	10.5
Other Revenue	4.76	1.6	3.3	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales				
Food	31.2	34.3	34.0	34.0
Beverage	29.1	27.0	29.1	27.1
Other	13.2	22.1	28.2	24.3
Total Cost of Sales	**30.1**	**33.5**	**33.1**	**33.0**
Gross Margin	**69.9**	**66.6**	**66.9**	**67.0**
Expenses	%	%	%	%
Salary, wages & benefits	29.3	28.3	30.8	29.6
Occupancy	10.1	9.0	12.4	9.2
Operating	3.1	3.4	4.1	3.6
Paper	4.0	3.0	2.2	2.9
Utilities	4.2	3.4	4.2	3.5
General & Administration	2.0	3.4	2.7	2.8
Marketing	4.2	3.1	3.9	3.4
Entertainment	2.7	0.2	2.6	1.4
Total Expenses	**59.7**	**53.9**	**63.1**	**56.4**
Operating Profit	**10.2**	**12.7**	**3.8**	**10.6**
Royalty Expense	**2.2**	**4.17**	**2.06**	**5.3**

The above table addresses the operating ratios by type of location, namely Rural, Suburban and Urban. It's evident urban locations were least profitable, due in part by higher occupancy expenses resulting from the escalating costs of real estate. While these same businesses were able to manage their Cost of Sales, it was their Total Costs' including occupancy expenses' that impacted negatively on the bottom line. On the other hand, Suburban locations recorded above-average profitability, which was consistent with last year's results. It's interesting to note this category had a lower beverage-to-food ratio than the other two sectors. Perhaps the rigid enforcement of the drinking-and-driving legislation that has materialized across the provinces had greater influence on this sector than the others.

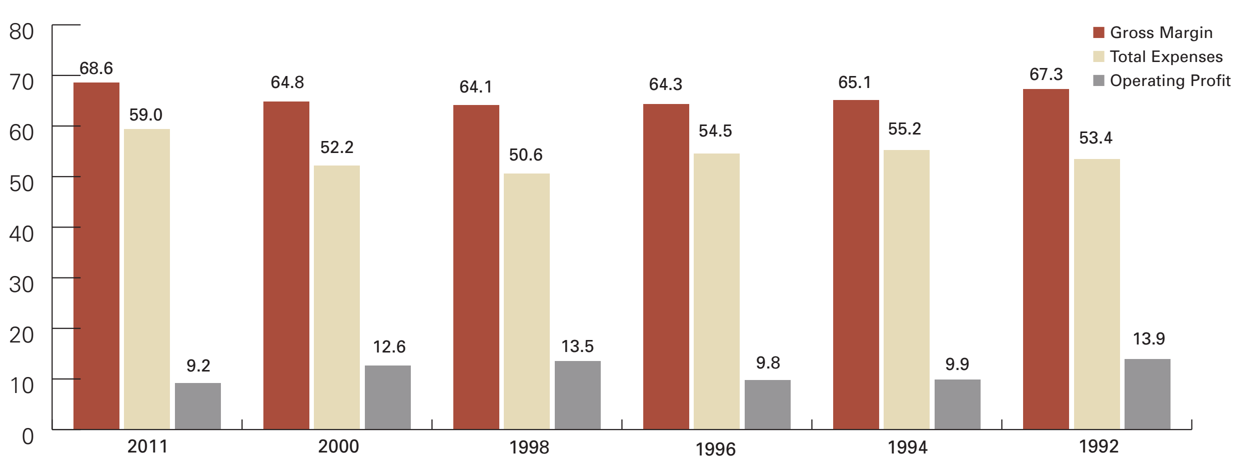


Historical

	2012	2011	2000	1998	1996	1994	1992
Sales	%	%	%	%	%	%	%
Food	86.5	86.9	83.2	88.3	87.9	85.9	87.4
Beverage	10.5	11.4	14.0	9.8	10.9	12.5	11.5
Other Revenue	3.0	1.7	2.8	1.9	1.2	1.6	1.1
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales							
Food	34.0	31.6	34.7	35.7	36	35.5	34.1
Beverage	27.1	30.0	35.0	36.5	34.7	34.5	29.7
Other	24.3	33.2	46.7	51.9	40.5	48.2	40.3
Total Cost of Sales	**33.0**	**31.4**	**35.1**	**36.1**	**35.9**	**35.6**	**33.7**
Gross Margin	**67.0**	**68.6**	**64.8**	**64.1**	**64.3**	**65.1**	**67.3**
Expenses	%	%	%	%	%	%	%
Salary, wages & benefits	29.6	26.1	29.6	28.1	28.9	29.2	30.8
Occupancy	9.2	12.2	6.1	6.3	7.1	6.6	7.4
Operating	3.6	3.7	7.4	7.4	6.7	7.9	
Paper	2.9	1.8	-				
Utilities	3.5	3.0	2.3	1.7	2.3	2.4	2.7
General & Admin.	2.8	4.2	3.2	3.1	3.6	3.1	8
Marketing	3.4	4.4	3.6	4	3.8	4.6	4.5
Entertainment	1.4	4.0	-				
Total Expenses	**56.4**	**59.4**	**52.2**	**50.6**	**54.5**	**55.2**	**53.4**
Operating Profit	**10.6**	**9.2**	**12.6**	**13.5**	**9.8**	**9.9**	**13.9**
Royalty Expense	**3.2**	**5.3**	**2.5**	**3.3**	**2.1**	**1.4**	

Source for 2000-1992 data from - CFRA 2001 Food Service Operations survey

As reported last year, the last time a comprehensive survey on the operating results of the Canadian restaurant industry was conducted was in 2001. The table, therefore, reflects the 10-year gap between 2001 and last year's results. Back then there was much consistency in the numbers across the 1990s. There was little variance in the prime costs; Cost of Sales and Salaries Wages and Benefits. There had also been a gradual improvement in Total Expenses, probably due to increasing real sales growth experienced over the course of the decade. Several noticeable differences were evident a decade later. The Cost of Sales had improved dramatically due to the availability of cheaper food; salary wages and benefits also declined, perhaps due to rising sales volumes and greater application of technology. However, these were more than offset by higher Occupancy and Utility charges resulting in a somewhat lower Operating Profit. In 2012, a reversal in the Cost of Sales can be observed due to rising food prices. Surprisingly, Total Expenses declined despite higher Occupancy costs and rising Wages, Salaries and Benefits. The net result was an improvement in the overall Operating Profit for the year.



Menu Type Sales Per

	Coffee Shop	Burger	Pizza	Southern BBQ	Salad	Dessert	Sandwich	Pasta	Steak/ roast beef	Other red meat	Chicken	Veg./ Vegan	Seafood	Other	National
Sales	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Food	93.09	66.46	71.7	55.2	71.7	77.04	84.7	65.1	63.9	66.2	78.5	64.0	65.4	81.4	86.5
Beverage	5.25	28.63	25.1	39.3	22.8	19.43	12.7	30.0	30.6	29.4	18.3	30.1	28.9	13.7	10.5
Other Revenue	1.66	4.92	3.2	5.5	5.4	3.53	2.6	4.9	5.5	4.4	3.1	5.8	5.7	5.6	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**99.9**	**100.0**	**100.0**	**100.7**	**100.0**
Cost of Sales															
Food	39.1	33.3	36.7	34.0	30.7	30.4	33.2	35.5	36.2	34.2	35.5	34.4	36.4	32.6	34.0
Beverage	29.6	25.4	25.3	31.9	26.3	21.6	32.3	25.5	26.8	28.3	27.0	26.9	28.9	30.6	27.1
Other	19.3	14.1	11.9	3.0	27.1	19.1	21.2	21.0	24.0	26.5	19.5	16.4	23.6	39.4	24.3
Total Cost of Sales	38.3	30.1	33.1	31.4	29.5	28.3	32.8	31.8	32.7	32.1	33.4	31.1	33.5	33.0	33.0
Gross Margin	**61.7**	**69.9**	**66.9**	**68.6**	**70.5**	**71.7**	**67.2**	**68.2**	**67.3**	**67.9**	**66.5**	**68.9**	**66.5**	**67.8**	**67.0**
Expenses	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Salary, wages & benefits	29.2	29.6	27.7	28.3	25.7	20.4	31.0	27.2	27.0	25.1	26.7	26.6	27.2	30.5	29.6
Occupancy	10.0	7.2	8.4	11.0	11.6	14.5	7.1	9.5	9.5	8.2	8.5	9.3	9.3	9.6	9.2
Operating	2.9	4.3	4.3	2.4	3.2	4.3	2.6	3.0	3.5	3.4	3.7	3.2	4.0	3.9	3.6
Paper	2.6	3.1	1.9	4.8	4.1	3.3	2.4	2.5	2.7	2.0	2.7	1.7	2.2	3.2	2.9
Utilities	3.2	4.0	4.1	2.3	3.4	4.3	3.4	4.4	4.4	4.4	2.6	4.3	4.6	4.8	3.5
General & Admin.	1.5	4.2	2.9	4.2	3.0	5.0	2.1	3.3	4.2	3.5	3.4	3.3	4.4	3.4	2.8
Marketing	3.0	3.2	3.3	6.1	2.1	3.3	2.8	3.5	3.7	2.1	3.0	2.5	3.3	2.9	3.4
Entert.	0.5	1.4	1.0	1.0	1.2	0.4	0.7	4.0	3.4	1.0	1.5	1.4	1.4	1.5	1.4
Total Expenses	**52.7**	**57.0**	**53.6**	**60.1**	**54.4**	**55.3**	**52.1**	**57.3**	**58.5**	**49.7**	**52.0**	**52.2**	**56.5**	**59.8**	**56.4**
Operating Profit	**8.9**	**13.0**	**13.3**	**8.5**	**16.2**	**16.3**	**15.1**	**10.9**	**8.8**	**18.2**	**14.5**	**16.7**	**10.0**	**7.9**	**10.6**
Royalty Expense	**2.6**	**1.5**	**2.4**	**0.0**	**1.8**	**3.2**	**1.3**	**1.0**	**0.9**	**0.5**	**2.9**	**0.5**	**0.6**	**1.8**	**3.2**

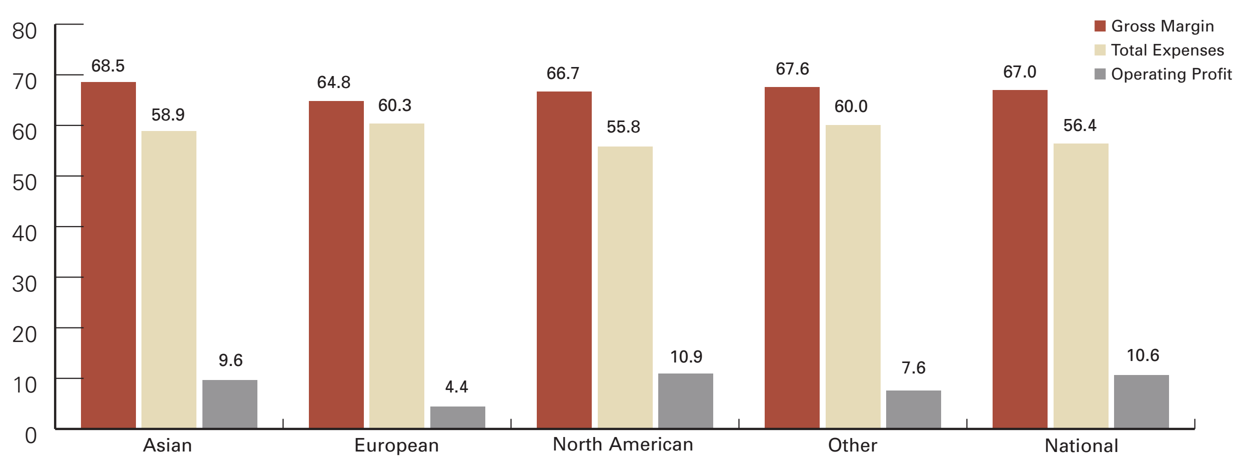
While there are many menu categories to decipher in the above table, it is interesting to observe which foodservice operations are most, and least, profitable according to this past year's survey. Accordingly, the big winners are in the categories of Salad, Dessert, Sandwich, Other Red Meat and Vegetable/Vegan operations, which appear, for the most part, to fall into the categories of QSR or Fast Casual. On the other end of the scale, there is Coffee Shop, Southern BBQ, Steak/Roast and Other, which may be more reflective of FSR (full-service restaurants) facilities, except for the Coffee Shop category. Interestingly, the Cost of Sales does not vary much among the 14 foodservice categories except for Coffee Shop, which is above the National Average. Also note, the most profitable operations appear to have their Total Expenses well under control. The increasingly popular burger concepts appear to be in the "middle of the pack" in terms of profitability.

Sales by Menu Theme

	Asian	European	North American	Other	National
Sales	%	%	%	%	%
Food	86.0	73.3	86.3	86.6	86.5
Beverage	11.8	24.1	11.1	9.1	10.5
Other Revenue	2.2	2.6	2.7	4.8	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.6**	**100.0**
Cost of Sales					
Food	33.0	38.1	34.1	34.5	34.0
Beverage	24.3	28.5	28.9	23.0	27.1
Other	11.8	16.6	26.3	21.1	24.3
Total Cost of Sales	**31.5**	**35.2**	**33.3**	**33.0**	**33.0**
Gross Margin	**68.5**	**64.8**	**66.7**	**67.6**	**67.0**
Expenses	%	%	%	%	%
Salary, wages & benefits	24.4	28.4	29.7	31.6	29.6
Occupancy	8.7	9.7	9.4	9.0	9.2
Operating	3.4	4.3	3.5	4.3	3.6
Paper	3.1	1.4	2.9	2.9	2.9
Utilities	7.8	4.6	3.3	3.4	3.5
General & Administration	4.9	4.9	2.0	5.2	2.8
Marketing	2.9	4.3	3.4	3.3	3.4
Entertainment	3.8	2.6	1.6	0.4	1.4
Total Expenses	**58.9**	**60.3**	**55.8**	**60.0**	**56.4**
Operating Profit	**9.6**	**4.4**	**10.9**	**7.6**	**10.6**
Royalty Expense	**5.0**	**1.4**	**2.8**	**4.95**	**3.2**

N.B.: Asian and European had less than 50 respondents.

The data obtained from the survey were also categorized by Menu Theme based on three specific geographic regions, plus one Other category, representing the remaining parts of the world. The Middle East region was removed this year due to very limited data being collected. This year's results are similar to last year's survey with North-American operators reporting the greatest profitability (10.9 per cent), followed by Asian operations (9.6 per cent). North-American operators continue to be effective in controlling their Total Costs. Not surprisingly, and, similar to last year's results, Asian restaurants continue to have the lowest Cost of Sales and comparatively lower Salary, Wages and Benefits. This may be due, in part, to the composition of their menus/recipes and the use of extended family members as employees in their businesses. Furthermore, this year, these operators experienced significantly lower Salary, Wages and Benefits of 24.4 per cent compared to the previous year's survey of 27.1 per cent. These operators seem to have fallen short in controlling many of their other expenses. European restaurants also lost some ground this year as a result of not controlling both their Cost of Sales and Total Expenses. Their Operating Profit of 4.4 per cent was well below the National Average.

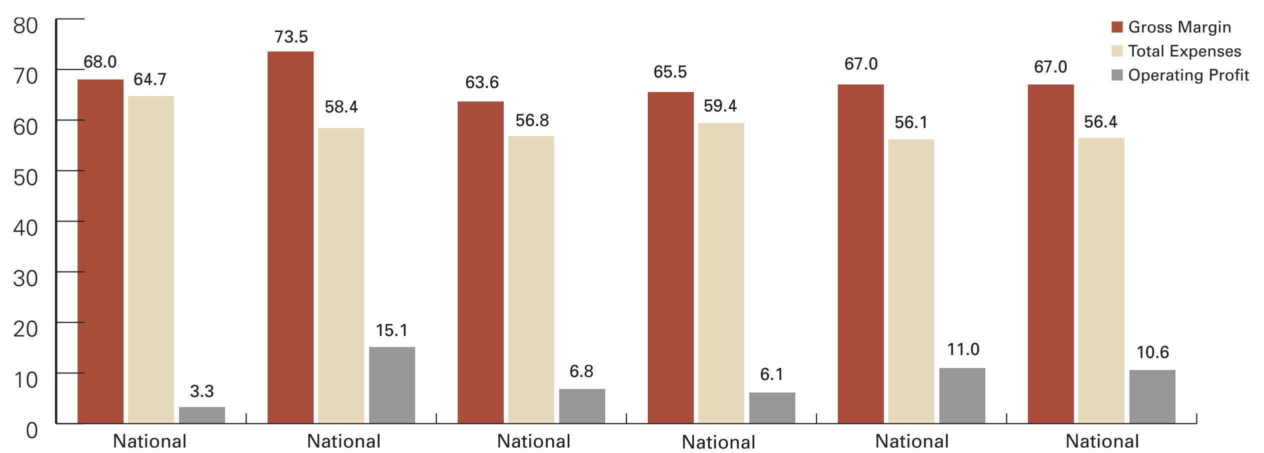


Sales By Number of Years in Business

	Less than 2	2 to 5	6 to 10	11 to 15	16 or more	National
Sales	%	%	%	%	%	%
Food	73.7	67.0	78.7	84.8	88.7	86.5
Beverage	23.0	27.6	15.8	11.7	8.9	10.5
Other Revenue	3.3	5.4	5.5	3.3	2.6	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**99.8**	**100.2**	**100.0**
Cost of Sales						
Food	34.0	27.4	40.6	36.2	33.9	34.0
Beverage	28.2	23.8	23.2	23.2	28.6	27.1
Other	14.1	29.1	14.8	28.1	20.9	24.3
Total Cost of Sales	**32.0**	**26.5**	**36.4**	**34.3**	**33.1**	**33.0**
Gross Margin	**68.0**	**73.5**	**63.6**	**65.5**	**67.0**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	28.4	29.3	24.0	31.0	29.5	29.6
Occupancy	12.6	12.4	12.6	9.8	9.1	9.2
Operating	5.9	3.4	5.4	4.1	3.4	3.6
Paper	4.4	1.7	2.6	2.9	2.9	2.9
Utilities	5.6	4.7	3.8	3.3	3.7	3.5
General & Administration	2.8	3.1	3.6	3.0	2.7	2.8
Marketing	4.1	3.0	3.5	4.0	3.3	3.4
Entertainment	1.0	0.8	1.1	1.5	1.6	1.4
Total Expenses	64.7	58.4	56.8	59.4	56.1	56.4
Operating Profit	**3.3**	**15.1**	**6.8**	**6.1**	**11.0**	**10.6**
Royalty Expense	**1.7**	**0.5**	**4.0**	**5.1**	**3.0**	**3.2**

N.B.: Less than 2 years category has only 30 data points

On examining the 'Years in Business' the results and rankings are quite consistent with last year's data among the five identified age cohorts, except for some observed improvement in profitability in several of them. We can, therefore, make the same interpretations as last year. The results reflect what seasoned operators already know. It takes a couple of years to build and develop a client base and make a restaurant profitable. At that point, a business can generally get three to four years of good growth before becoming dated. As concepts age, profitability drops. Resurgence is possible but it comes slowly after reinvesting in the concept, allowing for future growth. Operators who remain in business for 10 years are usually able to make long-term careers out of their operations. This anomaly may be due to the rapid growth that many new restaurants experience in the second phase of the business' life cycle. Not surprisingly, those operating for less than two years are least profitable (only 3.3 per cent, but an improvement over last year's results) as they have the challenge of building volume in their formative years, while experiencing higher operating costs typical of nascent foodservice businesses. There appears to be, for the most part, a positive correlation between profitability and the number of years in business. The major exception is the two-to-five year period when increases in profitability are quite dramatic, typical of the good growth years previously identified.

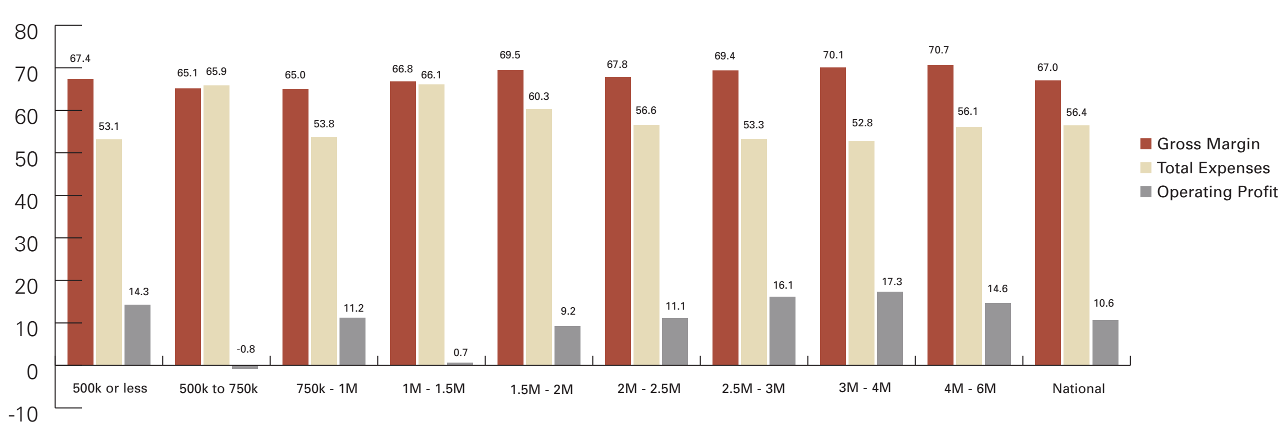


Sales By Revenue

	$500K or less	$500K - $750K	$750K - $1M	$1M - $1.5M	$1.5M - $2M	$2M - $2.5 M	$3M - $3.5M	$3.5M - $4M	$4M - $6M	National
Sales	%	%	%	%	%	%	%	%	%	%
Food	90.0	74.2	89.5	66.7	80.4	89.2	76.50	71.4	59.0	86.5
Beverage	5.1	17.4	9.4	29.6	19.5	10.6	16.97	25.0	32.8	10.5
Other Revenue	5.6	8.4	1.1	3.7	0.1	0.2	6.53	3.6	8.2	3.0
Total Sales	**100.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales										
Food	34.1	39.1	35.8	36.5	31.4	32.4	32.00	30.1	30.7	34.0
Beverage	30.5	22.7	27.8	28.3	27.1	31.1	29.50	31.3	27.5	27.1
Other	19.9	22.9	34.3	11.3	23.1	26.1	17.10	16.1	27.1	24.3
Total Cost of Sales	**33.4**	**34.9**	**35.0**	**33.2**	**30.5**	**32.2**	**30.6**	**29.9**	**29.3**	**33.0**
Gross Margin	**67.4**	**65.1**	**65.0**	**66.8**	**69.5**	**67.8**	**69.4**	**70.1**	**70.7**	**67.0**
Expenses	%	%	%	%	%	%	%	%	%	%
benefits	32.5	29.8	25.7	27.0	32.9	32.1	33.1	26.0	29.5	29.6
Occupancy	6.0	9.2	10.9	10.2	8.5	9.1	7.5	10.4	8.2	9.2
Operating	2.7	5.1	4.6	5.7	5.0	3.8	3.7	3.7	3.8	3.6
Paper	2.6	3.7	2.1	4.1	2.5	2.2	1.3	2.4	1.6	2.9
Utilities	3.5	4.4	2.9	4.6	4.9	1.5	1.7	2.4	4.3	3.5
General & Administration	2.3	5.0	2.2	5.6	2.7	2.1	4.7	2.2	3.9	2.8
Marketing	3.2	5.9	3.8	3.5	3.5	3.4	1.0	5.1	3.8	3.4
Entertainment	0.3	2.8	1.5	5.4	0.3	2.6	0.3	0.7	0.9	1.4
Total Expenses	**53.1**	**65.9**	**53.8**	**66.1**	**60.3**	**56.6**	**53.3**	**52.8**	**56.1**	**56.4**
Operating Profit	**14.3**	**-0.8**	**11.2**	**0.7**	**9.2**	**11.1**	**16.1**	**17.3**	**14.6**	**10.6**
Royalty Expense	**1.4**	**4.2**	**1.6**	**3.1**	**2.4**	**6.7**	**2.0**	**4.9**	**1.4**	**5.3**

N.B.: The following categories had less than 50 respondents – 500-750k, 3M-4M

Consistent with last year's results, the higher volume foodservice operations were generally more profitable than the smaller facilities. In reference to the Table, businesses with Sales of $2.5 million or more were significantly more profitable than National Average of 10.6 per cent. It's evident these high-volume restaurants are benefitting from the "economies of scale," which suggests there are certain cost efficiencies in operating higher-volume businesses. These "economies of scale" are quite evident when examining the Total Expenses of these larger scale businesses, which are successful in operating below the National Average. At the end of the scale, those facilities with Sales of $500,000 or less also experienced above National Average profitability. This could be used as an argument to refute the previously identified economic theory. However, it also can be observed that the costs related to Occupancy (6.0 per cent) of these smaller scale facilities are well below the National Average of 9.2 per cent. These relatively lower rent locations may account for the lower Sales experienced by these operators.



REGIONAL ROUNDUP

BRITISH COLUMBIA

Q/A WITH JEFF FULLER,
PRESIDENT, JOEY RESTAURANT GROUP

COMPILED BY ROSANNA CAIRA

F&H Looking at the past two years (2010-2012), how significant was the impact of the economic fall-out on the restaurant industry in your region and was the impact different in various sectors within the area (QSR, Family, Casual, Fine Dining and in different regions?

JF The past two years have actually been steady for us at the Joey Restaurant Group. Certainly, there are regional variations: the Vancouver Olympics, the strength of the Alberta economy, and the positive guest reaction to our entry into the Toronto market.

F&H What were the most difficult aspects of making your restaurant successful through the recession?

JF It comes back to understanding that our guests have a lot of options when it comes to dining out. We have focused on creating an experience where the food, the atmosphere, and the service all come together to elevate the spirit of every guest we come in contact with.

F&H How has the cost of goods impacted your restaurant? Has it forced you to do business differently?

JF Joey is known for its bold, yet carefully crafted menu of signature dishes. To secure the best prices and value for our guests, we have established deep relationships with suppliers. Regardless of food costs, we are committed to ensuring every dish is consistently high quality and offers authentic flavours that will draw guests back again and again.

F&H Has your market (as of December 2012) fully recovered? If so, how was it done; and if not, what is your prognosis for the recovery to be completed?

JF The past two years have actually been fairly steady for us.

F&H Looking forward 12 to 8 months (January 2013 onward) where do you see your local economy moving to? How much growth is expected and why?

JF Each of our markets faces different economic pressures. While we can't impact the macro economic issues, we can impact the guest experience. Day in and day out, our culinary and guest-service teams stay focused on offering an experience that will draw guests back.

F&H Continuing to look forward, what do you see happening in the restaurant business over the next 18 months or so? (Do you see the numbers of restaurants grow/decline; do you see increased/decreased per unit sales. If so, in which segments and markets do you expect increased/decreased sales?).

JF Over the past few years, there has been a shift towards more approachable dining experiences. That means there are more and more options for customers within our sector. Knowing that, we have to continually work hard to draw diners back by offering an imaginative and distinctive dining experience.

F&H Looking at the long term, where do you expect the business to be in five years?

JF We are currently expanding in the Greater Toronto Area. We have been really pleased with how guests have responded to our restaurants since we opened there in 2009. We see a lot of opportunity in Toronto, and in the next few years, we will be opening two new locations.

F&H What do you think are the three biggest trends that impact your business today?

JF The biggest trend is just how knowledgeable and interested in food customers are these days. Increasingly, we see guests with discerning palates interested in exploring a broader range of flavours.

We are responding to this by continually innovating and refining our menu. Our executive chef, Chris Mills is an adventurer – he is constantly travelling, tasting, and seeking culinary inspiration from around the world. While on his travels, Chef Mills absorbs the local cuisine. He sources local ingredients, flavours, and preparation techniques from their places of origin, and brings them home to his test kitchen. The result is a bold and highly distinctive menu that draws our guests back.

F&H What are your company's biggest obstacles to growth?

JF Finding the right people is key to ensuring we create memorable experiences that draw guests back time and again.
We are committed to developing great leaders and to providing an environment where they are inspired to grow, learn, and discover their full potential. To do that we have a comprehensive approach to HR that uses coaching, mentorship, training, and recognition to engage and develop our partners. In 2010, 2011, and 2012 we were recognized as one of the Best Workplaces in Canada in the annual ranking produced by the Great Place to Work® Institute in partnership with *The Globe and Mail*.

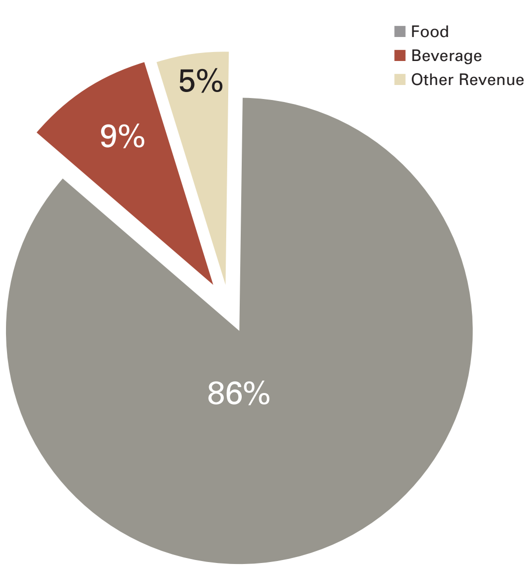
Sales in B.C. by Sectors

	QSR	Family Restaurant	Casual/ Theme	Fine Dining	British Columbia	National
Sales	%	%	%	%	%	%
Food	96.0	86.7	67.9	63.8	85.62	86.5
Beverage	0.0	9.3	23.3	35.3	9.61	10.5
Other Revenue	4.0	4.0	8.9	1.0	4.77	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales						
Food	33.8	37.8	28.0	29.3	31.76	34.0
Beverage	0.0	32.2	35.6	26.3	25.72	27.1
Other	19.2	38.8	31.1	50.0	27.20	24.3
Total Cost of Sales	**32.3**	**37.3**	**30.0**	**28.5**	**31.0**	**33.0**
Gross Margin	**67.7**	**62.7**	**70.0**	**71.5**	**69.0**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	32.2	32.7	35.6	32.0	32.87	29.6
Occupancy	9.3	7.4	7.4	7.3	8.22	9.2
Operating	4.0	4.6	3.8	5.0	4.27	3.6
Paper	2.7	3.1	2.2	1.0	2.65	2.9
Utilities	3.4	4.2	4.8	3.0	3.89	3.5
General & Administration	4.4	3.3	2.1	3.0	3.53	2.8
Marketing	4.4	3.0	2.5	5.0	3.58	3.4
Entertainment	0.0	0.1	0.5	0.7	0.16	1.4
Total Expenses	60.5	58.4	58.9	57.0	59.2	56.4
Operating Profit	**7.2**	**4.2**	**11.1**	**14.5**	**9.9**	**10.6**
Royalty Expense	**5.6**	**0.0**	**3.5**	**0.0**	**3.0**	**3.2**

N.B.: Fine dining has only 4 data points

British Columbia Casual/Theme and Fine-Dining restaurants experienced the highest profitability of the four sectors. Both these sectors benefitted from much lower Total Cost of Sales, which was both below the British Columbia Provincial and National Averages of 31.0 per cent and 33.0 per cent respectively. Surprisingly, Occupancy expenses were much lower for all the sectors except for QSRs. This appears to contradict the commonly viewed perception that British Columbia's real estate— particularly Vancouver's — is considered more expensive than the major urban areas within the rest of Canada. The only sector that did not fare well was Family Restaurants, due primarily to a high Total Cost of Sales.

Source of Revenue, B.C. All Sectors Average



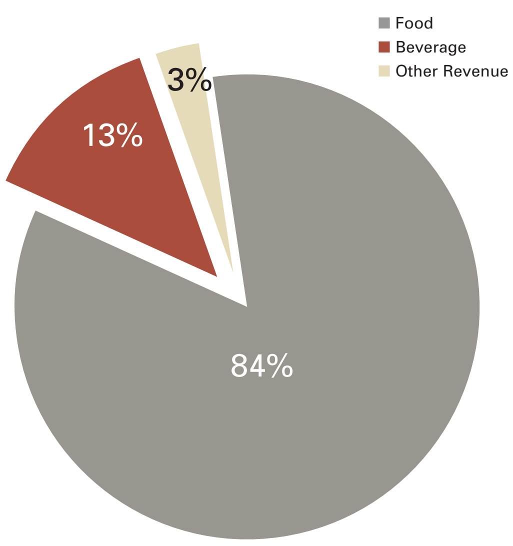
Sales in the Prairie Region by Sectors

	QSR	Family Restaurant	Casual/ Theme	Fine Dining	Prairies	National
Sales	%	%	%	%	%	%
Food	100.0	91.4	62.7	67.0	83.9	86.5
Beverage	0.0	7.2	29.7	23.0	13.2	10.5
Other Revenue	0.0	1.4	7.7	10.0	2.9	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales						
Food	40.9	35.7	34.0	35.0	36.3	34.0
Beverage	0.0	28.0	33.0	32.0	25.2	27.1
Other	0.0	35.0	21.1	20.0	21.1	24.3
Total Cost of Sales	**40.9**	**35.1**	**32.7**	**32.8**	**34.4**	**33.0**
Gross Margin	**59.1**	**64.9**	**67.3**	**67.2**	**65.6**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	23.0	31.1	29.6	31.0	28.8	29.6
Occupancy	7.8	8.3	10.5	9.0	8.6	9.2
Operating	3.8	4.2	3.0	3.5	3.8	3.6
Paper	3.2	3.1	2.2	1.5	2.9	2.9
Utilities	3.2	4.8	3.5	3.0	3.7	3.5
General & Administration	4.6	2.7	2.9	6.5	3.5	2.8
Marketing	2.7	3.8	4.7	1.5	3.7	3.4
Entertainment	0.1	0.2	0.8	0.0	0.3	1.4
Total Expenses	**48.5**	**58.2**	**57.3**	**56.0**	**55.2**	**56.4**
Operating Profit	**10.6**	**6.7**	**10.0**	**11.2**	**10.4**	**10.6**
Royalty Expense	**4.7**	**0.7**	**5.1**		**3.5**	**3.2**
Franchise Operating Profit	**5.9**	**6.0**	**4.9**	**11.2**	**6.9**	

N.B.: We did not have sufficient Fine-Dining respondents from the Prairies.

Given the low unemployment rates and economic prosperity enjoyed by the Prairie Provinces, it's not surprising that higher priced sectors, namely Casual/Theme and Fine Dining are experiencing higher levels of profitability than those of central Canada (notwithstanding the weak response of Fine-Dining establishments). QSRs also performed well, experiencing lower Salaries, Wages and Benefits, which is typical of many limited-service operations. However, much of this was offset by unusually high Total Cost of Sales within this sector. It's also worth noting that the Total Cost of Sales for the Prairies (34.4 per cent) is higher than the National Average of 32.5 per cent. The Family Restaurant sector was the weak performer of the four sectors, similar to last year. Perhaps, this is due to the rural nature of the Prairies; dining or eating out in Family Restaurants is not a popular pastime for Prairie residents.

Source of Revenue, Prairies All Sectors Average



REGIONAL ROUNDUP
ONTARIO

Q/A WITH PETER FOWLER,
PRESIDENT & COO, SIR CORP. (SERIVCE INSPIRED RESTAURANTS)

COMPILED BY ROSANNA CAIRA

F&H Looking at the past two years (2010 to 2012), how significant was the impact of the economic fall-out on the restaurant industry in your region, and was the impact different in various sectors within the area (QSR, Family, Casual, Fine Dining and in different regions (urban, suburban, rural)?
PF The impact was significant in our region particularly in 2009 through 2010 with the largest and most obvious impact in the fine-dining and upscale segments, which saw the biggest decline.

F&H What were the most difficult aspects of making your restaurant successful through the recession? Do you think the effects of the recession have now faded from memory or is the recession still impacting the way your business runs?
PF What's critical to making a restaurant work successfully during a recession is not to do the easy things, which would be to reduce labour costs and increase food costs to ensure profitability. In my mind, it's about maintaining guest counts. As a result, you have to be cognizant of continuing to give guests value versus trying to maintain profitability. Too often restaurants get caught up in profitability versus guest retention. With regard to the recession, I don't believe it has faded from memory; I believe it's still on the tip of everyone's mind with the ongoing challenges of the global economy.

F&H How has the cost of goods impacted your restaurant? Has it forced you to do business differently (eliminate menu items; increase menu prices; alter hours of operation)?
PF Like everyone else, we are challenged with finding alternative sources and coming up with creative menu items that use less expensive products, but still provide a great guest experience and we have, as everyone else has, increased menu prices, keeping them in line with guest expectations in the marketplace. I'm not sure any of the markets have fully recovered. If one is referencing the market as it was from 2000 to 2008, I think we are experiencing what one would call the new high, which is a moderate increase in sales over the prior year. This will continue to happen, in my mind, as long as there is ongoing speculation on what the stability of the economy is, both here at home (North America) and in Europe and Asia.

F&H Looking forward 12 to18 months (January 2013 onward) where do you see your local economy moving to? How much growth is expected and why?
PF I would suggest that, again, the economy is in a slow to little or no growth situation. Until we have more clarity around issues outside of the country, which impact the local economy, people will continue to adjust their spending habits downward so long as there is ongoing speculation with respect to health of the global economy.

F&H Continuing to look forward, what do you see happening in the restaurant business over the next 18 months or so? (Do you see the numbers of restaurants grow/decline; do you see increased/decreased per unit sales. If so, in which segments and markets do you expect increased/decreased sales?).
PF I see continuing growth in the number of restaurants being built. However, I would assume it would be moderately hindered by the economy slowing — this would apply to unit sales on a restaurant-by-restaurant basis.

F&H Looking at the long term where do you expect the business to be in five years?
PF The restaurant business will continue to be a viable business as long as people continue, as they have for the last 20 years, to dine out as part of their entertainment budget. I would expect as restaurateurs we would have to adjust to likes and dislikes, as we have over the past two to three decades, in response to changing needs.

F&H What are the three biggest trends that impact your business today?
PF First, the changing dynamic of social media impacts restaurants and our business from so many perspectives — whether it's traditional marketing, guest feedback, and/or communication of good or bad experiences. Secondly, there are increasing challenges around protein and food costs and the necessity to come up with inventive means to continue to give guest value. And lastly, the expectations of guests with regard to change with respect to foodservice and atmosphere and the shortening of time frames by which people expect this change to take place.

F&H What are your company's biggest obstacles to growth?
PF In my mind, the three obstacles to growth are around concept and its relevance to the consumer; the ability to finance new sites, and having people with whom to grow the business.

F&H How is today's customer different from five years ago?
PF There is a consumer trend to move away from heavier protein-based meals to lighter/healthier fare. Additionally, today's consumers have an increasing dependence on social media as a means of determining which restaurants and what items they will buy.

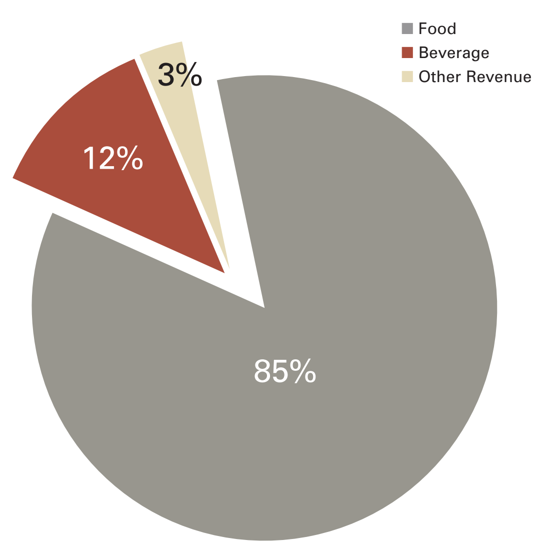
Sales in Ontario by Sectors

	QSR	Family Restaurant	Casual/ Theme	Fine Dining	All Ontario	National
Sales	%	%	%	%	%	%
Food	98.71	89.5	60.7	69.7	85.4	86.5
Beverage	0.31	7.8	34.1	27.4	11.9	10.5
Other Revenue	0.99	3.2	5.2	2.9	2.7	3.0
Total Sales	**100.0**	**100.5**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales						
Food	32.6	33.3	35.1	36.6	33.2	34.0
Beverage	29.0	26.2	29.3	24.8	25.2	27.1
Other	19.1	22.0	13.1	31.9	26.3	24.3
Total Cost of Sales	**32.5**	**32.6**	**31.9**	**33.2**	**32.1**	**33.0**
Gross Margin	**67.5**	**67.9**	**68.1**	**66.8**	**68.0**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	28.8	29.5	28.1	26.7	28.8	29.6
Occupancy	8.6	8.0	11.5	11.4	8.9	9.2
Operating	3.1	4.0	3.6	7.4	3.7	3.6
Paper	4.0	2.8	3.0	2.0	3.4	2.9
Utilities	3.3	4.4	3.1	3.4	3.5	3.5
General & Administration	3.0	4.2	2.3	5.2	3.3	2.8
Marketing	3.1	3.1	4.9	4.5	3.2	3.4
Entertainment	0.1	0.5	4.7	1.5	1.7	1.4
Total Expenses	**54.0**	**56.6**	**61.0**	**62.0**	**56.5**	**56.4**
Operating Profit	**13.5**	**11.3**	**7.0**	**4.7**	**11.4**	**10.6**
Royalty Expense	**4.4**	**1.2**	**1.6**	**0.1**	**3.0**	**3.2**

N.B.: Fine dining has less than 50 respondents

An examination of the four identified foodservice sectors within the Ontario Region reinforces the current "trading-down" trend. This is quite evident by observing the declining profitability among the four sectors as menu price point tends to rise from QSR to Family Restaurant then on to Casual/Theme and eventually Fine Dining. This presumes the declining profitability (13.5 per cent, 11.3 per cent, 7.0 per cent and 4.7 per cent respectively) is due to declining customer traffic in the higher-priced foodservice sectors. It's interesting to observe this declining profitability has little to do with the Total Cost of Sales and Salary, Wages & Benefits, but rather with Total Expenses. Higher occupancy costs appear to be plaguing these two sectors. However, Ontario's overall results are fairly consistent with the previous year's profitability performance (11.4 per cent compared to 12.1 per cent) and slightly better than the National Average of 10.6 per cent.

Source of Revenue, Ontario All Sectors Average



REGIONAL ROUNDUP

QUEBEC

Q/A WITH DENIS RICHARD, PRESIDENT & CEO, IMVESCOR

COMPILED BY ROSANNA CAIRA

F&H Looking at the past 2 years (2010-2012) how significant was the impact of the economic fall-out on the restaurant industry in your region, and was the impact different in various sectors?

DR Obviously, the high-end casual segment bore the brunt as consumers traded down. This led to pricing activity that was lower and much more frequent than we had seen before. In the fall of 2012, family and casual chains in Quebec were running discount promotions with pricing that would normally have been seen in the mid-January time slot.

F&H What were the most difficult aspects of making your restaurant successful through the recession?

DR Our greatest challenge was maintaining traffic counts as consumers migrated from family/casual dining towards QSR. Innovation played a key role in protecting our customer base but competitive price reductions from all sectors of the industry made this a difficult task. And, anytime those sales are negatively impacted, restaurant profit levels become harder to maintain — especially when you couple that with minimum wage increases across the country.

F&H How has the cost of goods impacted your restaurant?

DR It seems that consumers are not willing to pay more and competitors are looking for ways to give more for less. So the rising cost of goods has had an impact on how we manage our restaurants. There are six ways to manage food cost and we have carefully reviewed our practices in each of those key areas to ensure we are able to hit the food cost target that our unit economic model requires. Those six areas are:

• Menu Engineering
• Menu Pricing
• Negotiating Favourable Supplier Contracts
• Inventory Management
• Portioning Control
• Promotions
• Management

Our brands are working to close the gap between their theoretical food cost and their actual results. We are re-evaluating service models, looking to technology and considering labour saving menu items to manage the overall P&L.

F&H Has your market (as of December 2012) fully recovered?

DR The market has not yet recovered. Customers have become very adept at seeking out value — whether it is at grocery stores with home meal replacement or by moving down market within restaurant sectors.

F&H Looking forward 12 to 18 months (January 2013 onward) where do you see your local economy moving to? How much growth is expected and why?

DR The CRFA is forecasting Canadian industry growth at 3.9 per cent but only 3.4 per cent for Quebec — the second lowest growth rate in the country. Growth will come from new entries into the marketplace and same-store sales will be a challenge.

F&H Looking forward, what do you see happening in the restaurant business over the next 18 months?

DR There will be two major changes in the restaurant landscape. First, we will see the continued growth of the fast-casual segment in Canada. And secondly, there will be more American chains venturing into Canada as they evaluate the success of Chipotle, Panera Breads and PF Chang's.

F&H Looking at the long term, where do you expect the business to be in five years?

DR Currently the industry is in a share war – fighting hard against static traffic counts. We are also a mature industry. With those two defining characteristics, we will see a period of consolidation. Companies will look to acquire other brands to grow the top line and to expand into new territories or sectors.

F&H What do you think are the three biggest trends that impact your business today?

DR The three biggest trends are consumers' changing definition of what is relevant for them, rising food and labour costs and back-of-the-house staff shortages.

F&H What are your company's biggest obstacles to growth?

DR First and foremost, we grow through franchising and our biggest challenge is finding the right franchise candidates. Our best, most successful, restaurants are those that have hands-on franchisees who are visible on the restaurant floor, connecting with their guests. And, they also have to be great business people with an ability to manage and motivate staff. That's why finding the right franchisees has always been, and, will remain, an industry challenge.

Sales in Quebec by Sectors

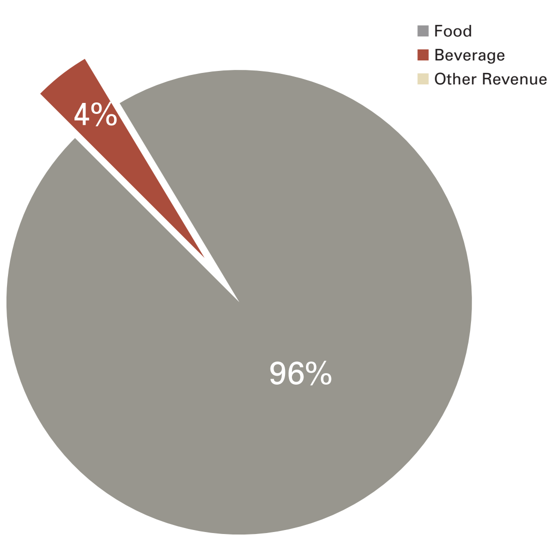
	QSR	Family Restaurant	Casual/ Theme	Fine Dining	Quebec	National
Sales	%	%	%	%	%	%
Food	99.2	99.6	65.8	67.8	96.2	86.5
Beverage	0.7	0.4	29.8	29.6	3.4	10.5
Other Revenue	0.1	0.0	4.5	2.7	0.4	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales						
Food	36.0	39.1	37.9	39.2	38.0	34.0
Beverage	37.9	35.0	27.3	30.8	35.3	27.1
Other	32.2	35.0	11.1	22.0	28.4	24.3
Total Cost of Sales	**36.0**	**39.1**	**33.6**	**36.3**	**37.9**	**33.0**
Gross Margin	**64.0**	**60.9**	**66.4**	**63.7**	**62.1**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	29.9	30.5	27.1	30.0	30.4	29.6
Occupancy	9.9	8.8	10.2	9.6	9.6	9.2
Operating	3.3	3.1	2.6	5.8	3.3	3.6
Paper	3.1	3.0	3.9	0.5	1.8	2.9
Utilities	3.0	2.7	2.6	5.2	2.9	3.5
General & Administration	2.5	1.6	1.0	6.4	1.4	2.8
Marketing	3.0	3.0	5.5	6.8	3.4	3.4
Entertainment	0.0	0.0	6.8	2.0	1.0	1.4
Total Expenses	**54.8**	**52.7**	**59.7**	**66.3**	**53.7**	**56.4**
Operating Profit	**9.3**	**8.2**	**6.8**	**-2.6**	**8.4**	**10.6**
Royalty Expense	**2.4**	**3.1**	**2.0**	**0.0**	**2.7**	**3.2**

N.B.: We did not have sufficient Fine dining respondents from Quebec. Causal/theme was also limited to under 50

There is supporting evidence that "trading down" is also occurring in Quebec. However, it appears that Fine Dining venues were "harder hit" than in Ontario, experiencing negative profitability of -2.6 per cent. Furthermore, profitability for the other three sectors is lower than in Ontario. The main culprit in this instance appears to be the Total Cost of Sales' which is significantly higher (38.0 per cent) than in Ontario (31.5 per cent). This was below the National Average of 32.5 per cent. A comparison of overall profitability of the two provinces, shows that Ontario experienced 12.0 per cent profitability whereas Quebec achieved only 8.4 per cent. The lower per-capita sales in Quebec ($1,256.43) compared to Ontario ($1,439.64) may also be a contributing factor for Quebec's lower profitability.

Source: CRFA

Source of Revenue, Quebec All Sectors Average



REGIONAL ROUNDUP

EASTERN CANADA

Q/A WITH STEPHEN PIKE, PRESIDENT, JUNGLE JIM'S

COMPILED BY ROSANNA CAIRA

F&H Looking at the past two years (2010-2012), how significant was the impact of the economic fall-out on the restaurant industry in your region and was the impact different in various sectors within the area (QSR, Family, Casual, Fine Dining and in different regions (urban, suburban, rural)?

SP Over half of our revenue comes from our restaurants in Newfoundland and Labrador, where the economy has been robust, leading to substantial sales gains. As a result, the recession has not been a factor for most of our business, with the exception of Nova Scotia, where the HST increase put a damper on people's outlook in general. Nova Scotia and New Brunswick still have a ways to go to recover and that is reflected in flat same-store sales for the past two years. Newfoundland and Labrador and Alberta (where we have only a modest presence) continue to be the beneficiary of the resource-based economic boom. I guess you could say that after many years of sub-par economic performance, our region is enjoying its moment in the sun. And our restaurants are enjoying the benefits.

F&H How has the cost of goods impacted your restaurant? Has it forced you to do business differently (eliminate menu items; increase menu prices; alter hours of operation)?

SP The worst impact has been from the price of chicken wings, which is our number-one-purchased food item.

F&H Looking forward 12 to 18 months (January 2013 onward) where do you see your local economy moving to? How much growth is expected and why?

SP The benefits and spin-offs of a resource-based economic surge can be fragile. Continued growth will depend on growth of our trading partners and diversification of our economy. We are optimistic and will continue to grow our company.

F&H Continuing to look forward, what do you see happening in the restaurant business over the next 18 months or so? (Do you see the numbers of restaurants grow/decline; do you see increased/decreased per unit sales. If so, in which segments and markets, do you expect increased/decreased sales?).

SP We expect the market to expand in NL, particularly in Labrador, as mega-projects in oil & gas, mining and hydro proceed. Dining out occasions have lagged other markets significantly through the years, so there is plenty of room for catch-up. In N.S. and N.B. we hope to grow our business with a heavy schedule of family value promotions such as our Winter Meal Deal, Early Bird Kids Eat Free, Envelope of Fortune, and Toucan Dine, as well as mid-week value nights such as Kids Pay-By-Your-Height-Night Tuesday, Wing Night Wednesday and Steak-Tacular Thursday.

F&H Looking at the long term, where do you expect the business to be in five years?

SP We believe that the market will continue to be very competitive as large brands find a way to permeate smaller markets. We see a continued move to attract temporary foreign workers to fill the gap in hands-on labour requirements. We also see a blurring of dining channels as grocery purveyors step up their presence in ready [prepared] meals.

F&H What do you think are the three biggest trends that impact your business today?

SP The time-squeezed guest of today will continue to seek dining-out opportunities. The Millennial or Echo Boomer generation, the first generation to grow up with dining-out an integral part of their lifestyle, provide a large and willing target for those who pay attention to their demands. The lack of stable workforce to cook, and serve, the expanding market will result in further employment of temporary foreign workers.

F&H What are your company's biggest obstacles to growth?

SP The greatest pressure is absorbing higher people costs (due primarily to the rapid rise in the minimum wage) on the one hand, and keeping prices reasonable for our guests, on the other hand.

F&H How is today's customer different from five years ago?

SP Today's guest has a never-ending range of choice when it comes to dining out. So, in that sense, they have the power to demand what restaurants serve. A good example of this is that so many of our guests have requested gluten-free dining options. We actually had no choice but to offer a "Gluten-Aware menu."

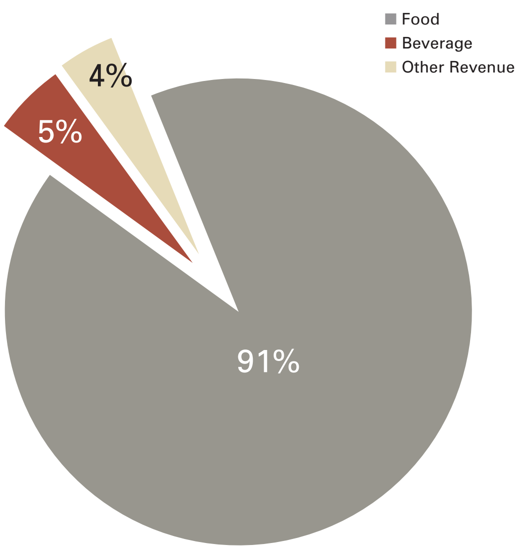
Sales in Atlantic by Sector

	QSR	Family Restaurant	Casual/Theme	Fine Dining	Atlantic Canada	National
Sales	%	%	%	%	%	%
Food	93.9	86.9	68.4	-	90.8	86.5
Beverage	-	12.4	30.7	-	5.1	10.5
Other Revenue	6.1	0.7	0.9	-	4.1	3.0
Total Sales	**100.0**	**100.0**	**100.0**	**-**	**100.0**	**100.0**
Cost of Sales						
Food	35.9	31.8	34.8		36.2	34.0
Beverage	-	20.7	26.6		26.4	27.1
Other	12.0	25.0	23.5		19.2	24.3
Total Cost of Sales	**34.4**	**30.4**	**32.1**	**-**	**35.0**	**33.0**
Gross Margin	**65.6**	**69.6**	**67.9**	**-**	**65.0**	**67.0**
Expenses	%	%	%	%	%	%
Salary, wages & benefits	24.5	31.2	29.4		24.7	29.6
Occupancy	8.4	8.2	9.7		8.4	9.2
Operating	6.1	4.0	4.4		4.4	3.6
Paper	4.0	3.8	3.1		3.8	2.9
Utilities	3.4	4.6	3.8		3.8	3.5
General & Administration	3.8	2.9	2.5		3.2	2.8
Marketing	3.7	3.2	3.4		3.5	3.4
Entertainment	0.6	0.3	1.2		0.5	1.4
Total Expenses	**54.5**	**58.1**	**57.5**	**-**	**52.4**	**56.4**
Operating Profit	**11.1**	**11.6**	**10.4**	**-**	**12.6**	**10.6**
Royalty Expense	**3.2**	**1.5**	**0.0**		**3.1**	**3.2**

*no data available for fine dining in Atlantic Region

A review of the three identified sectors (Fine Dining excluded due to insufficient response) of the Atlantic Region, shows all performed, more or less, at the same level of profitability. However, the Casual/Theme sector showed a slightly lower level of profitability than the other two despite having better Total Cost of Sales. Once again, there does not appear to be any "trading down" taking place within this Province.

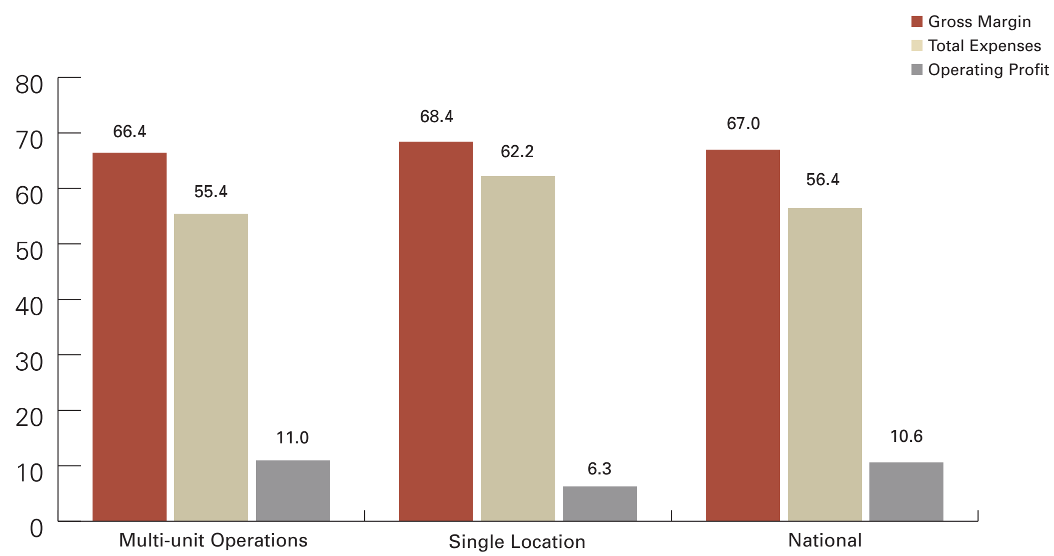
Source of Revenue, Atlantic All Sectors Average



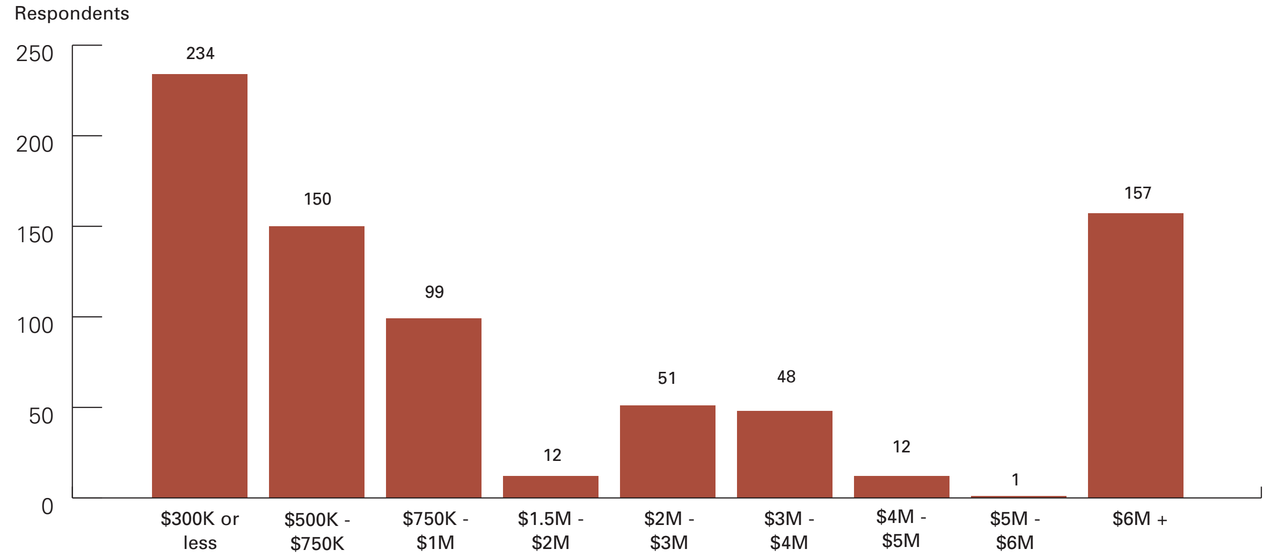
Sales By Multi-Unit Operator versus Single-Unit Operator for National

	Multi-unit operations	Single Location	National
Sales	%	%	%
Food	89.7	71.6	86.5
Beverage	8.7	19.2	10.5
Other Revenue	1.5	9.2	3.0
Total Sales	100.0	100.0	100.0
Cost of Sales			
Food	34.2	35.7	34.0
Beverage	28.0	23.7	27.1
Other	34.5	15.7	24.3
Total Cost of Sales	**33.7**	**31.6**	**33.0**
Gross Margin	**66.4**	**68.4**	**67.0**
Expenses	%	%	%
Salary, wages & benefits	29.4	31.0	29.6
Occupancy	9.2	8.9	9.2
Operating	3.4	5.1	3.6
Paper	2.9	3.0	2.9
Utilities	3.4	3.9	3.5
General & Administration	2.5	4.2	2.8
Marketing	3.2	4.1	3.4
Entertainment	1.4	1.9	1.4
Total Expenses	**55.4**	**62.2**	**56.4**
Operating Profit	**11.0**	**6.3**	**10.6**
Royalty Expense	**3.3**	**2.8**	**3.2**

These results demonstrate the power of a recognizable brand. This was also the case last year. While gains are not being made in the "Total Cost of Sales," they are being seen in the reduction of Total Expenses. Multi-Unit Operations benefit from in-house management and professional resources, which independents often do not have access to, or simply cannot afford. They also experience economies of scale by having administrative functions performed by one central headquarter to service all the units within the foodservice chain. The numbers speak for themselves. The Operating Profit for the Multi-Unit Operations was 11.0 per cent compared to 6.3 per cent for Single Locations. There was an even greater variance between the two sectors last year.



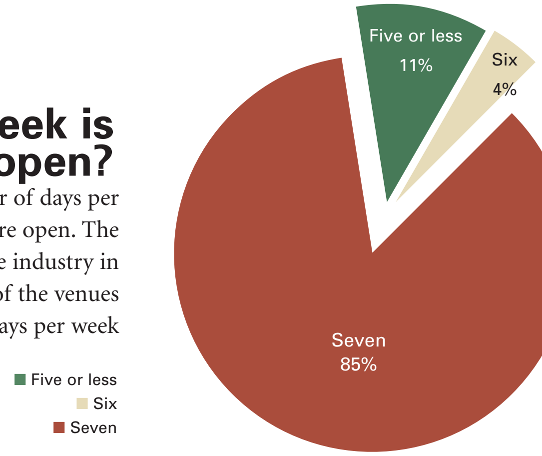
How much does it cost to build a restaurant?



This is consistent with the nature of the foodservice industry, which is represented by typically many small, low capex businesses. It's clear businesses that were developed for $300K or less represent almost 40 per cent of the total sample. When the next category of $500-$750K is included, that percentage rises to almost 65 per cent. In comparison, facilities that cost more than $1M to build were cited by just 20 per cent of the reporting operators.

How many days a week is your restaurant open?

The adjacent pie chart reflects the number of days per week that the respondents' businesses are open. The results typify the nature of foodservice industry in Canada where a large majority of the venues are open seven days per week

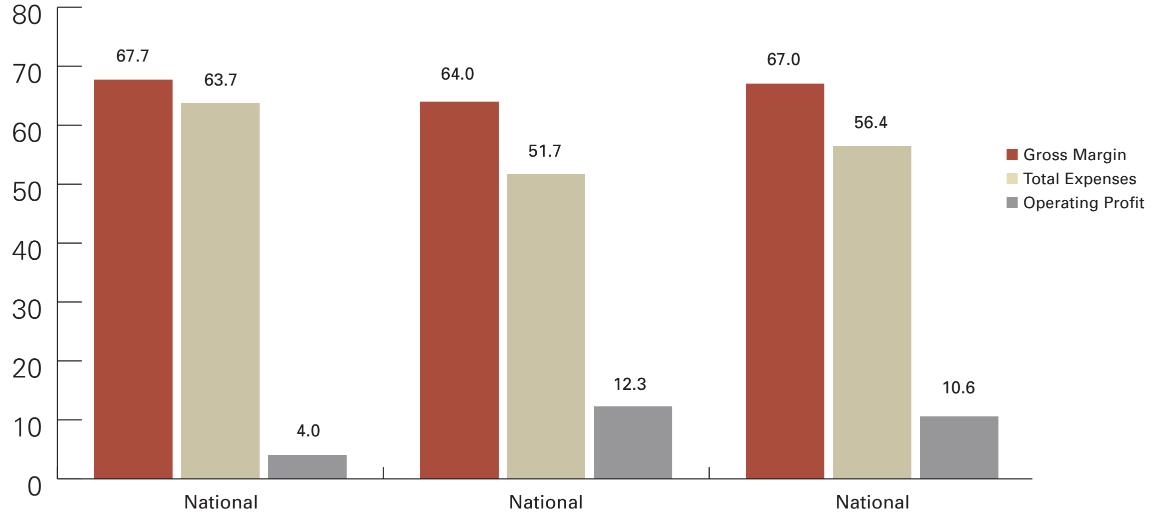


Does your establishment serve alcohol?

	Serve Alcohol	Do Not Serve Alcohol	National
Sales	%	%	%
Food	70.8	97.6	86.5
Beverage	25.4	0.0	10.5
Other Revenue	3.8	2.4	3.0
Total Sales	**100.0**	**100.0**	**100.0**
Cost of Sales			
Food	35.6	36.3	34.0
Beverage	23.9	0.0	27.1
Other	26.2	21.5	24.3
Total Cost of Sales	**32.3**	**35.9**	**33.0**
Gross Margin	**67.7**	**64.0**	**67.0**
Expenses	%	%	%
Salary, wages & benefits	29.1	26.5	29.6
Occupancy	12.1	9.7	9.2
Operating	4.4	3.3	3.6
Paper	2.8	2.9	2.9
Utilities	4.2	3.6	3.5
General & Administration	3.9	2.3	2.8
Marketing	4.1	3.3	3.4
Entertainment	3.3	0.1	1.4
Total Expenses	**63.7**	**51.7**	**56.4**
Operating Profit	**4.0**	**12.3**	**10.6**
Royalty Expense	**3.2**	**3.2**	**3.2**

N.B.: due to rounding, the operating profit averages are skewed by one basis point.

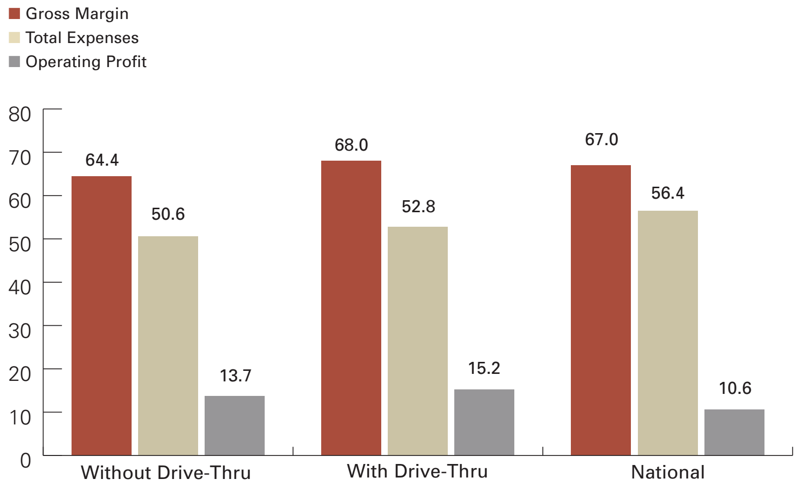
These results are contrary to the popularly held belief that "money made in the restaurant business is in the alcohol." The Operating Profit in this year's results was 4.0 per cent for licensed premises compared to 12.3 per cent for those that do not serve alcoholic beverages. The results also favoured the latter group last year, though they were not as dramatic. While it's evident the premises that serve alcohol benefit from a lower Total Cost of Sales, this is more than offset by much higher Total Expenses. There is a 12-percentage point spread between the two categories. Salary, Wages & Benefits, Occupancy and Entertainment seem to be the major culprits resulting in higher operating costs for licensed premises, and cause the significant difference in Total Expenses between the two sectors.



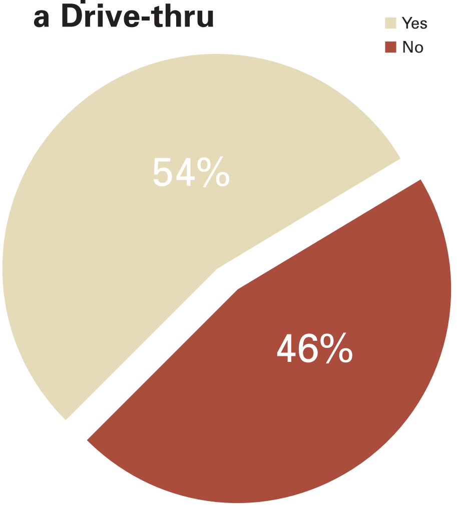
Are sales higher for QSRs with drive-thru?

	Without Drive Thru	With Drive Thru	National
Sales	%	%	%
Food	95.5	100.0	86.5
Beverage	1.2	0.0	10.5
Other Revenue	3.4	0.0	3.0
Total Sales	**100.0**	**100.0**	**100.0**
Cost of Sales			
Food	36.0	32.0	34.0
Beverage	25.2	0.0	27.1
Other	29.0	0.0	24.3
Total Cost of Sales	**35.6**	**32.0**	**33.0**
Gross Margin	**64.4**	**68.0**	**67.0**
Expenses	%	%	%
Salary, wages & benefits	27.2	26.7	29.6
Occupancy	8.0	9.0	9.2
Operating	2.8	3.7	3.6
Paper	2.8	3.0	2.9
Utilities	3.0	3.7	3.5
General & Administration	3.4	2.8	2.8
Marketing	3.3	3.0	3.4
Entertainment	0.1	0.7	1.4
Total Expenses	**50.6**	**52.8**	**56.4**
Operating Profit	**13.7**	**15.2**	**10.6**
Royalty Expense	**4.4**	**3.2**	**3.2**

This Table's data does not reflect the significant competitive advantage that Drive-Thru premises have over their counterparts that don't offer this service option. Major industry operators with Drive Thru often suggest, that on a national basis, Drive Thru accounts for 45 to 60 per cent of sales. Last year we saw in support of Drive Thru operations, that there is little waste, limited use of facilities; and no on-premise maintenance, et cetera. The factors that contribute to a reduction in the overall operating costs of the business. That said, the numbers simply do not reflect those facts and theory. Drive Thru's profitability of 15.2 per cent performed slightly better than those premises Without Drive Thru (13.7 per cent) by only 1.5 percentage points.



Percentage of QSR respondents with a Drive-thru



HOW TO USE
THE BOTTOM LINE

BY PROFESSOR RICHARD WADE
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Over the past couple of decades, I have found two useful applications for foodservice market surveys as the one recently undertaken this past spring by *Foodservice and Hospitality Magazine*, FHG International Foodservice & Franchise Consultants and Ryerson University.

APPLICATION I

(In the first instance,) I have used it to advise clients and others seeking advice, particularly smaller independent foodservice operators to compare their operating ratios with those benchmarks exhibited within the survey as a means of gauging the operating performance of their own business. To do this, the operators must select preferably five or more sectoral categories that they believe are most representative of their respective foodservice concepts. For instance, if a restaurateur had recently opened a small 65-seat licensed Italian restaurant in suburban Toronto and wanted to know how the business was performing in relation to similar Italian restaurants, it may be appropriate to use the following sectoral categories:

- Menu Type – Pasta
- Sectoral Type – Casual/Theme
- Number of Seats – 50-100
- Licensed to Serve Alcohol or Not – Licensed
- Location – Suburban
- Years in Business – Less than 2
- Unit Type – Single Location
- Revenue - $500k - $750k

Having selected the above categories, the operator would then be advised to record the operating ratios of the various sectors on an Excel spreadsheet as presented in Table 1. A simple average for the

Table 1 - Sectoral Averages

	Pasta	Casual	50-100 seats	Licensed	Suburban	Less than 2 Years	Single Location	$500k - $750K	Overall Averge
Sales	%	%	%	%	%	%	%	%	%
Food	65.1	61.5	82.0	70.8	89.1	73.7	71.6	74.2	73.5
Beverage	30.0	32.5	15.5	25.4	9.4	23.0	19.2	17.4	21.6
Other	4.9	5.8	2.5	3.8	1.6	3.3	9.2	8.4	4.9
Total Sales	**100.0**	**99.9**	**100.0**	**100.0**	**100.1**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales									
Food	35.5	33.8	38.7	35.6	34.3	34.0	35.7	39.1	35.8
Beverage	25.5	30.1	23.5	23.9	27.0	28.2	23.7	22.7	25.6
Other	21.0	24.1	25.2	26.2	22.1	14.1	15.7	22.9	21.4
Total Cost	**31.8**	**32.0**	**36.0**	**32.3**	**33.5**	**32.0**	**31.6**	**34.9**	**33.0**
Gross Margin	**68.2**	**68.0**	**64.0**	**67.7**	**66.6**	**68.0**	**68.4**	**65.1**	**67.0**
Expenses									
Wages/salaries	27.2	28.8	29.3	29.1	28.3	28.4	31.0	29.8	29.0
Occupancy	9.5	10.7	9.3	12.1	9.0	12.6	8.9	9.2	10.2
Operating	3.0	3.5	4.3	4.4	3.4	5.9	5.1	5.1	4.3
Paper	2.5	2.8	3.5	2.8	3.0	4.4	3.0	3.7	3.2
Utilities	4.4	3.3	4.3	4.2	3.4	5.6	3.9	4.4	4.2
Gen. & Admin.	5.5	2.5	3.1	3.9	3.4	2.8	4.2	5.0	3.8
Marketing	3.3	3.7	3.6	4.1	3.1	4.1	4.1	5.9	4.0
Entertainment	4.0	3.8	2.5	3.3	0.2	1.0	1.9	2.8	2.4
Total Expenses	**57.3**	**59.0**	**60.0**	**63.7**	**53.9**	**64.7**	**62.2**	**65.9**	**61.1**
Operating Profit	**10.9**	**9.0**	**4.0**	**4.0**	**12.7**	**3.3**	**6.2**	**-0.8**	**5.9**

Note: EBITDA stands for Earnings Before Interest, Tax, Depreciation and Amortization. The resultant data is then transferred to Table 2 as outlined following.

Table 2 - Operator's Comparative Analysis

	Overall Average	Operator's Ratios	Difference	Assessment
Sales	**%**	**%**	**%**	
Sales	%	%		
Food	73.5	78.3	4.8	
Beverage	21.6	20.7	-0.9	
Other	4.9	1.0	-3.9	
Total Sales	**100.0**	**100.0**	**0.0**	
Cost of Sales				
Food	35.8	38.4	+2.6	Food cost too high
Beverage	25.6	29.1	+3.5	Beverage cost also too high
Other	21.4	20.0	-1.4	
Total Cost	**33.0**	**36.1**	**+3.1**	Much too high cost of sales
Gross Margin	**67.0**	**63.9**	**-3.1**	Too low due to high cost of sales
Expenses				
Wages/salaries	29.0	30.3	+1.3	Labour cost a little high
Occupancy	10.2	10.3	+0.1	
Operating	4.3	6.8	+2.5	Operating expenses too high
Paper	3.2	3.4	+0.2	
Utilities	4.2	3.9	-0.3	
Gen. & Admin.	3.8	3.6	-0.2	
Marketing	4.0	1.6	-2.4	Too low for new business
Entertainment	2.4	3.4	+1.0	A little high
Total Expenses	**61.1**	**63.3**	**+2.2**	Too High
Operating Profit (EBITDA)	**5.9**	**0.6**	**-5.3**	Much too low due to high cost of sales and operating costs

selected sectors for each line item would then need to be calculated providing an Overall Average for the identified foodservice concept. In this instance, it can be observed that the Overall Average of the Gross Margin, Total Expenses and Operating Profit for the selected eight sectors are 67.0%, 61.1% and 5.9% respectively.

The operator would then place their current operating ratios in column 3 (Table 2) beside column two entitled "Overall Averages" taken from Table 1. A comparison can now be made between the restaurateur's operating ratios in column three and the Overall Averages in column two. Differences between the two scores can then be recorded in column 4 (Difference). The last column (five) in the table is used for assessment purposes, where the operator can make notations about the performance of the restaurant. This should provide the operator with some direction as to what needs to be done to improve the operating performance of the business.

An additional refinement to this process could include obtaining a weighted average of the various sectoral averages. For instance, if the restaurateur believed that some of the sectoral categories better defined the foodservice concept than others in question, such as Menu Type, Number of Seats, Location and Revenue, then a higher weighting such as 15% could be applied to these with a lesser weighting (10%) to the remaining four others. However, one has to ensure the total weightings add up to 100%. The calculation would be 4 x 15% = 60% and 4 x 10% = 40%. When 40% and 60% are then added together, the total equates to 100%.

APPLICATION II

I have also used this survey data in the classroom at Ryerson University. It is particularly instructive when addressing the CRFA's standards in Canadian Restaurant Accounting for foodservice operations when conducting feasibility studies that my third-and fourth-year students are required to undertake. It's their responsibility to seek out foodservice operators or other hospitality entrepreneurs who may be contemplating some form of expansion of their entreprise or who would like the experience to learn more about the feasibility process. In the latter instance, the exercise becomes hypothetical rather than real. Either way, the students are exposed to the same issues and challenges.

The two major components of the feasibility process that the students must tackle first, is the market study followed by an assessment of the economic viability of the proposed business. It is in the second component where the foodservice survey is applied. It serves in part in the development of a five-year proforma income statement that forms the basis of the whole financial plan for the proposed business. It also includes a one-year cash flow statement, two balance sheets, break-even and return on investment (ROI) analyses. Forecasted revenues are based on a combination of supply and demand analysis, opinions of similar concept operators and the survey data.

In the development of the proforma income statement, the students rely on two forms of information, one from operators of similar business concepts which is being investigated and the other

Sectoral Averages

	QSR	Coffee Shop	North American	25 - 50 Seats	Urban	Less than 2 years	Overall Average
%	%	%	%	%	%	%	%
Food	98.4	98.3	97.3	98.3	96.3	96.7	97.5
Beverage							
Other	1.6	1.7	2.7	1.7	3.7	3.3	2.5
Total Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Sales							
Food	33.5	39.1	34.1	32.2	34.0	34.0	34.5
Beverage							
Other	21.1	19.3	26.3	14.2	28.2	14.1	20.5
Total Cost	**33.4**	**38.8**	**33.9**	**31.9**	**33.8**	**33.4**	**34.2**
Gross Margin	**66.6**	**61.2**	**66.1**	**68.1**	**66.2**	**66.6**	**65.8**
Expenses	%	%	%	%	%	%	%
Wages/salaries	29.6	29.2	29.7	29.0	30.8	28.4	29.5
Occupancy	?	?	?	?	?	?	?
Operating	3.3	2.9	3.5	3.1	4.1	5.9	3.8
Paper	2.9	2.6	2.9	2.8	2.2	4.4	3.7
Utilities	3.3	3.2	3.3	3.5	4.2	5.6	3.9
Gen. & Admin.	2.2	1.5	2.0	1.3	2.7	2.8	2.1
Marketing	3.2	3.0	3.4	4.1	3.9	4.1	4.1
Entertainment	0.1	0.5	1.6	1.4	5.5	1.0	1.7
Total Expenses	**44.6**	**42.9**	**47.4**	**45.1**	**53.4**	**52.2**	**48.8**
Operating Profit							
Before Occupancy							
Costs & EBITDA	22.0	18.3	18.7	23.0	13.8	14.4	17.0

from the actual survey data. Let us assume that the foodservice operator with whom they have partnered is interested in venturing into a new foodservice concept such as a North-American bakery café/coffee shop for an urban location. The students would then decide which sectoral averages within the restaurant market survey would be most appropriate to use. Let us further assume they believe that the following sectors best define the proposed business:

- Sectoral Type – QSR
- Menu Type – Coffee
- Menu Theme – North American
- Number of seats – 25 – 50 seats
- Outlet Location – Urban Location
- Years in Business – Less than 2 years

The process is now similar to the one previously presented. The selected individual sectoral averages are copied onto the Excel spreadsheet to determine the Overall Average for the selected sectors as presented in Table 3. Please be aware, since the café/coffee shop is not licensed, the beverage sales have been included in Food Sales and the Cost of Sales for Beverages has been excluded. This overall average would then be married with the operating ratios of similar foodservice concepts that the students were able to obtain from those operators. Typically a weighted average would be calculated based on the confidence level the students had in the data obtained from the various sources. It should be noted that occupancy costs from within the survey have been excluded since the actual estimated occupancy costs of the site in question would be used instead. In addition, estimates would need to be determined for interest expense, taxes and amortization based on a prepared capital budget and assumed financing.

Once the first year's proforma income statement is complete, subsequent years' revenues and expenses are forecasted using data secured during the market study phase and analyses previously described. The students would then proceed to finish the feasibility study by undertaking the remaining components of the financial plan, concluding with a ROI assessment based on the financial objectives of the foodservice operator.

CONCLUSION

In the preceding pages I have explained two applications with respect to the Canadian Restaurant Survey which I have found beneficial in counselling both foodservice operators (new and seasoned alike) and students within The Ted Rogers School of Hospitality and Tourism Management at Ryerson University.

I suspect there are many foodservice operators/professionals who have found other useful applications as well. However, the future success and integrity of this survey is dependent on the willingness of foodservice operators to contribute and provide their careful consideration when completing the questionnaire.

Self-Assessment Worksheet

	Benchmarks	Analysis			
		Overall Average	Operator Ratios	Difference	Assessment
Sales					
Food					
Beverage					
Other					
Total Sales					
Cost of Sales					
Food					
Beverage					
Other					
Total Cost					
Gross Margin					
Expenses					
Wages/salaries					
Occupancy					
Operating					
Paper					
Utilities					
Gen. & Admin.					
Marketing					
Entertainment					
Total Expenses					
Operating Profit					