



Canada: Commercial Food Service Equipment

Connie Irrera
Anna Nicolaou
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Summary

In 2008, the Canadian commercial food service equipment industry, which includes a wide variety of restaurant and other commercial and institutional equipment to prepare food and beverages, is estimated at \$US 1.6 billion with a growth rate of six to seven percent through 2010.

The commercial food service equipment market depends largely on imports, which are valued at \$US 1.3 billion and account for eighty-one percent of the total market demand. The United States is by far Canada's largest supplier, representing sixty-seven percent of its total imports, followed by Mexico, China, and South Korea.

Demand for commercial food service equipment depends on the economic health of the food service industry. While consumer spending is decreasing in Canada, the food service market is estimated to grow 6-7% over the next two years. According to Statistics Canada, in June 2008, commercial food service sales were estimated at \$US 50 billion. Growth is particularly strong in the provinces of Ontario, Nova Scotia, and Saskatchewan. In terms of demand for food service equipment, best prospect products include "green-strategy" equipment and equipment for the quick-service sector.

While some food service equipment manufacturers sell directly to clients with their own sales force and distribution operations, others use general sales agents and manufacturers representatives. When creating a distribution network in Canada, U.S. manufacturers should consider establishing representation in different regions of the country.

Canada presents no significant barriers to the importation of commercial food service equipment from the United States. All imported products must comply with safety regulations, such as electrical standards and meet French-English bilingual labeling requirements. Importers must pay a Federal Goods and Services Tax of five percent of the duty-paid value of imported merchandise to the Canada Revenue Agency at the time of import. In addition, each province assesses a similar provincial value-added tax.

Market Demand

The Canadian commercial food service equipment industry includes equipment used in institutions, hotels, chain restaurants, conventional restaurants, supermarkets, and convenience stores to cook and heat food and to prepare beverages. The category includes stoves, ovens, warming units, coffee makers, kitchen water heaters, toasters, fryers, and other commercial food preparation equipment.

Demand for commercial food service equipment depends on the economic health of the food service industry. With estimated annual sales of \$US 50 billion in 2008, food service sales represent nearly four percent of Canada's gross domestic product. The sector employs 1.09 million Canadians, which

accounts for 6.4 percent of the workforce. There are over 86,000 food service establishments in Canada, including restaurants, cafeterias, bars, pubs, and caterers. Of these units, 63 percent are independent companies, while chain restaurants comprise the remaining 37 percent.

Food service sales are determined by a myriad of factors. Expansion of the food service industry is sensitive to overall economic factors, such as GDP, exchange rates, tourism, and disposable income. Sales are broken down below by province, with Ontario, Quebec, and British Columbia holding the three largest sales volumes. It is notable that the Western provinces are experiencing high levels of growth with lower base levels.

Table 1 - Sales by Province for 2007: (CRFA: Economic Impact of Canada's Food service Industry)

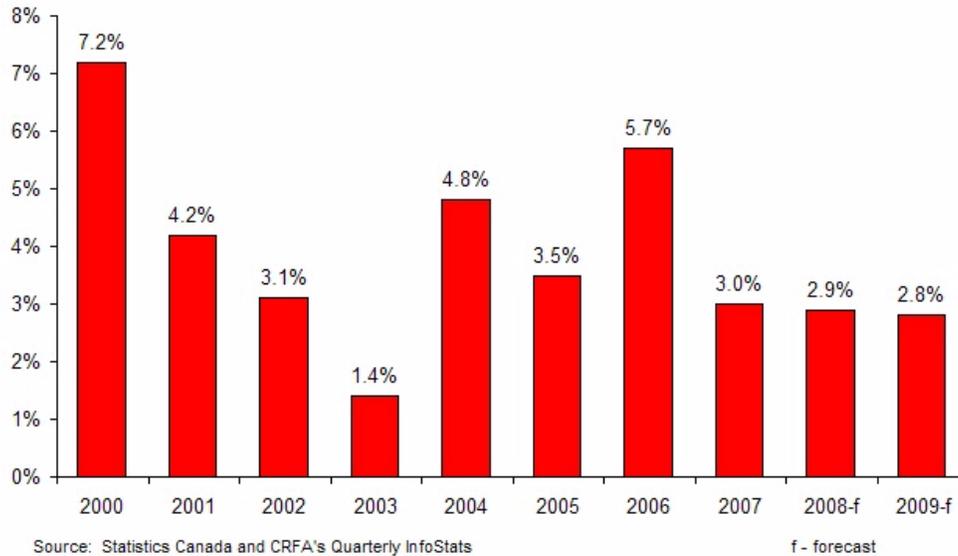
Province	Units	2007 Sales (U.S.\$Mill)	2007 Growth	Bankruptcy Rate
British Columbia	12,153	\$6,442.9	3.2%	0.3%
Alberta	9,054	\$5,447.7	6.0%	0.3%
Saskatchewan	2,093	\$992.7	7.7%	0.9%
Manitoba	2,268	\$1,095.7	-0.3%	0.5%
Ontario	34,363	\$14,530.2	3.0%	0.8%
Quebec	21,509	\$7,720.6	1.9%	1.3%
New Brunswick	1,716	\$688.5	-4.2%	0.3%
Nova Scotia	2,077	\$944.8	0.7%	0.9%
Newfoundland & Labrador	1,183	\$451.7	0.7%	0.5%
Prince Edward Island	338	\$133.7	-3.0%	0.9%

In 2007, a volatile economic climate contributed to slow disposable income growth and a 9.3 percent decline in tourism to Canada. As a result, food service industry sales slowed across the board, however they still represented a significant portion of Canada's GDP at \$45.9 billion. Exchange rates also play a role in the market demand, as Canadian currency appreciation triggered a reduction in exports and reduced tourism to Canada.

According to the Canadian Restaurant and Food Association (CRFA), the demand for consumer food service in Canada is expected to support 3.9 percent of GDP, in food service sales in 2008 for a value of \$US 50 billion. This would represent a real rate of 2.9 percent growth from the previous year. The CRFA predicts that in 2009, growth will continue to be steady at 2.8 percent. *See Figure 1.*

Figure 1

Change in Commercial Foodservice Sales in Canada



A significant trend affecting demand for commercial food service equipment is the increase of retail food service locations in non-traditional areas like airports and stand-alone mall locations. These locations are becoming increasingly popular with quick service and specialty operators. Since these areas do not always have adequate ventilation and air-handling capabilities, demand for new and highly specialized equipment is developing.

Food safety concerns have also created a demand for new techniques to prevent food contamination. For example, all new ice-making installations include water filtration and purification systems that improve ice-making safety and reliability.

The increasing emphasis on ergonomics and safety in the workplace is also opening opportunities for better-designed equipment to minimize bending, stretching, and twisting by cooks. Buyers also are attracted to equipment that can be disassembled quickly for cleaning, as well as easier-to read digital panels.

This new demand has been created in part by many restaurant owners and operators seeking ways to differentiate themselves by looking for new concepts or distinctive menus. The emergence of open-kitchen restaurants has led to an increased demand for more aesthetic equipment, designed to please the eye of the patron. In the same vein, the proliferation of ethnic restaurants in many Canadian urban centers has created a series of niche markets for specialty food service equipment. Finally, the emergence of many affiliated and independent coffee shops and breakfast and light lunch restaurants has boosted demand for coffee machines and small food service equipment. While none of these phenomena have revolutionized the Canadian market, they have encouraged existing suppliers to expand or modify their product lines, and they have created opportunities for new suppliers to expand into the Canadian market.

Food service sales continue to fuel the demand for commercial food service equipment that offers the latest in technology and design. The CRFA anticipates that caterers and limited service restaurants will fare the best in food service sales for 2008, with rates of four percent and three percent respectively.

	2008 Food service Sales Forecast (Millions of Dollars)	% Change '08/'07
Full-service restaurants	\$21,349.40	2.7%
Limited-service restaurants	\$19,151.40	3.0%
Contract & social caterers	\$3,953.60	4.0%
Pubs, taverns, & nightclubs	\$2,309.20	-3.0%
TOTAL COMMERCIAL MARKET	\$46,763.60	2.6%

It is important to note that the International Monetary Fund stated that despite the slowdown, Canada's growth rate in 2009 will be the highest amongst the G7 countries. Thus, while the world economy is experiencing setbacks, Canada's economy is relatively more stable and an attractive market for food service. While its growth has slowed in comparison to previous years, the Canadian commercial food service equipment market is still likely to be one of the most profitable relative to other industries during this time period.

According to the CRFA in 2007 the number of bankruptcies declined by 3.1 percent in 2007 to 683, which is its lowest level since 1980. Additionally, bankruptcies have fallen by 60 percent over the past ten years. This steady decline in bankruptcy enhances the potential for demand for replacement restaurant equipment over the near term. It also provides further proof that despite global economic conditions, the Canadian food service industry is stable.

Market Data

The Canadian food service equipment industry is dominated by imports, which accounts for approximately eight-one percent of the total market for a value of US\$ 1.31 billion. Estimates of U.S. imports into Canada run at US\$ eighty eight million in 2008, claiming over sixty-seven percent of Canada's total imports. The following table provides an overview of the estimated size and growth trends for the Canadian market for commercial food service equipment, which includes the following HS Codes.

- HS8210 - Hand-operated mechanical appliances (10 kg or less) - for food and drink preparation
- HS732410 - Sinks and wash basins - stainless steel
- HS841720 - Non-electric furnaces and ovens - bakery ovens, including biscuit ovens
- HS841810 - Combined refrigerator-freezers, fitted with separate external doors
- HS841869 - Other refrigerating or freezing equipment - heat pumps and absorption liquid chilling units
- HS841899 - Parts of refrigerating or freezing equipment

HS841981 - Non-domestic machinery for making hot drinks or for cooking or heating food
 HS842219 - Dishwashing machines - other than household type
 HS851660 - Ovens (excluding microwave), cookers, cooking plates, boiling rings, grillers and roasters
 HS851671 – Electric coffee/tea making machines

Table 1

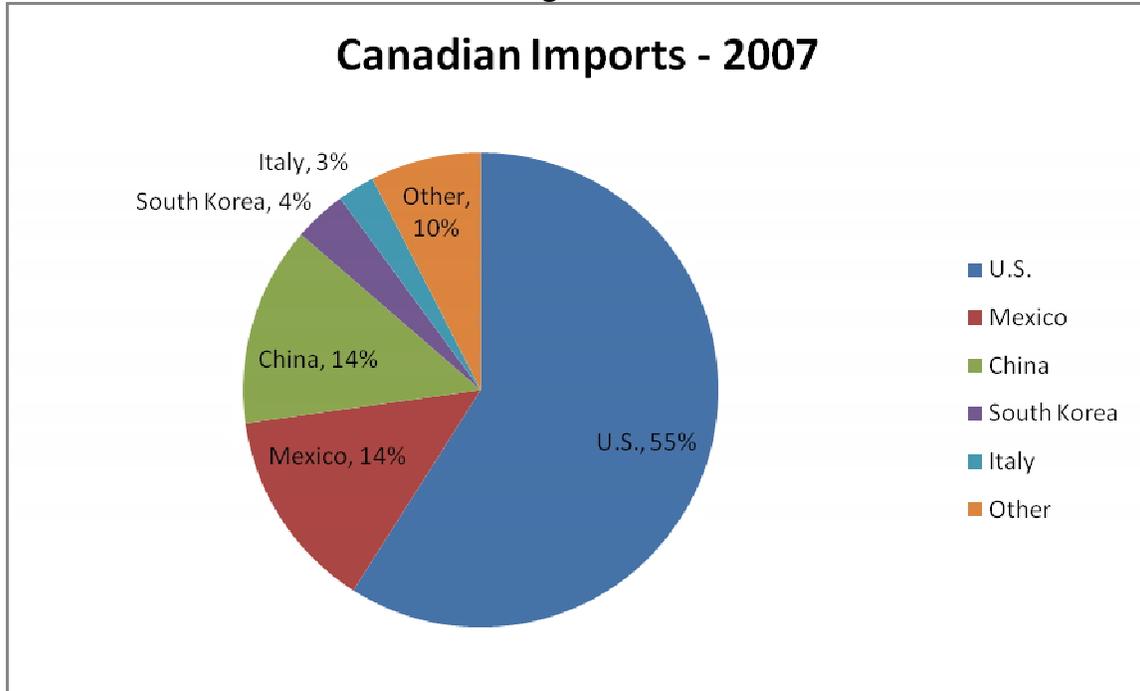
Commercial Food service Equipment Market (in US \$ Billions)

	2006	2007	2008 Projected
Total Imports	1.15	1.22	1.31
Local Production	.73	.75	.75
Exports	.47	.48	.46
Total Market	1.41	1.49	1.61
U.S. Imports	.85	.85	.88

Industry sources indicate that imports are expected to experience steady growth through 2010. Overall imports have increased approximately seven percent in 2008 in comparison to this time in 2007, due in large part to a strong Canadian currency. This is expected to sustain itself for the remainder of 2008 and into 2009.

The competitive environment in the commercial food service equipment sector is expected to remain favorable to U.S. firms that seek to expand business in Canada. While imports from the United States remained steady between 2006 and 2007, due primarily to a lagging world economy, data shows that U.S. imports are increasing by approximately three percent in 2008. The United States maintains its status as the main source of imports for Canadian commercial food service equipment, representing sixty-seven of total imports and almost fifty-five percent of the total market. In terms of suppliers by country of origin, other top exporting countries, such as Mexico, China, and South Korea, combined account for thirty-two percent of total imports. Mexico and China have experienced strong growth in exports to Canada due to low labor costs and resulting lower product prices. However, this starts from a low base point, making them a smaller threat with only fourteen percent of total imports each. The table below provides details on each of these countries' import market share.

Figure 2



Best Prospects

In general, the needs of this market are sensitive to the prevailing global economic conditions. Food service operators are feeling pressure to cut costs, which makes efficiency in equipment extremely salient. As restaurant owners must deal with rising fuel costs and slowing growth in customer demand, their operations must be as lean as possible, and equipment that offers the latest in technology and design will be most competitive. Speed and economy of space will be vital considerations on the part of vendors. In light of rising costs, pricing has become a more important factor than in the past. As profitability is down, many food service owners are looking for equipment with lower installation and maintenance costs, optimal use of kitchen space, and flexibility. The latest technology of commercial food service equipment would include combination ovens, microwave assisted convection ovens, steam injected convection ovens, and induction cooking technology.

Beyond the need to cut costs, energy efficiency and sustainability are hot topics and can become a key point of difference for buyers. The “green” trend is ubiquitous in the food industry, and this extends to food service equipment. Sustainable building designs and equipment are already becoming more common among food service operators, including Starbucks and Brinker International. Equipment such as infrared gas burners, solar panels, recycled glass, and hot-water heaters may minimize electricity used in food service operations and thus provide substantial energy consumption savings.

Another effect of the lagging economy is that consumers are increasingly demanding quick-fix meals. Take-out food and prepared foods which they can consume easily and cheaply will foster demand for smaller-scale equipment. High-speed countertop ovens and fryers can produce popular and profitable

food items incredibly quickly, which allows food service operators to produce high volumes of food at lower costs.

Limited service and full service restaurant sales are experiencing the highest growth in the commercial food service industry, with 5.5 percent and 7.4 percent growth in 2008 to year-to-date, outpacing caterers and drinking places. Consumers are looking for convenience and value in their food options. Smaller equipment such as countertop ovens, toasters, etc. will be high in demand amongst the cafes and light-dining restaurants which are serving this demographic.

Customized equipment is also attractive in a product line, as many restaurant owners are expressing the need to focus in on quality, rather than quantity. Rather than attempting to serve a wide variety of food, many full-service restaurants are opting to hone in on distinctive menus or concepts, which will increase demand for unique equipment to please customers. Canadian consumers in general have shifted their preferences towards an ethnic menu which would also require specialized food service equipment.

Another subsector of the food service industry to consider is the coffee and snack market, which continues to be a significant source of demand. Coffee has held a steady thirty percent share of the beverage market. Lighter foods such as breakfast sandwiches, salads, hot tea and juice are also among the fastest growing foods demanded. Coffee machines and smaller equipment will be strong parts of a product line for Canadian buyers.

Overall, the focus on innovation and technology should benefit U.S. suppliers who are able to meet the needs of end-users in terms of pricing, energy and speed efficiency, and innovation.

The highest demand in food service equipment is for:

- Equipment for heating food and drink – 21.7 percent growth of imports in 2008
- Electric coffee/tea making machines – 12.1 percent growth of imports in 2008
- Dishwashing machines – 9.2 percent growth of imports in 2008
- Non-portable electric cookers, grillers, roasters – 12 percent growth of imports in 2008

Key Suppliers

The domestic production of commercial food service equipment is unique in that it is highly integrated among Canada and the United States. Several of the largest suppliers in the industry are linked to large U.S.-owned manufacturing groups, including Welbilt, Middleby, and Premark. Canadians and foreign manufacturers of commercial food service equipment do not pose a strong competitive threat to potential U.S. entrants. U.S. brands are extremely well recognized in Canada and globally, which makes them more attractive to food service operators. Also, larger American companies are often able to capture economies of scale in their production, which gives firms a pricing advantage that is especially marketable in the current economic status quo. Furthermore, as nearly sixty-one percent of Canadian domestic production is exported, mainly to the U.S., the manufacturing focus is generally geared towards meeting demands of American customers, rather than selling in local markets.

The major Canadian manufacturers of commercial food service equipment include:

- Garland Commercial Ranges Ltd.

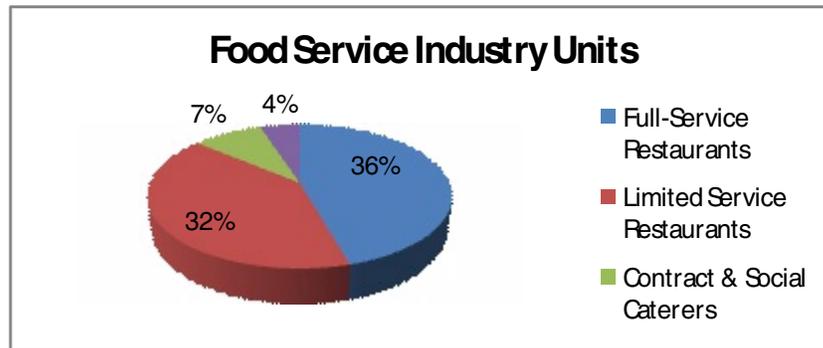
- Doyon Equipment Inc.
- Brute Kitchen Equipment

Prospective Buyers

The main end users of commercial food service equipment are food service operators. Canadian food service owners are segmented into the commercial and non-commercial food service sectors, accounting for 78 percent and 22 percent of the market respectively.

There are over 86,000 food service establishments in Canada, including restaurants, cafeterias, bars, pubs, and caterers. Of these units, 63 percent are independent brands, while chain restaurants comprise the remaining 37 percent. Figure 3 shows the breakdown among full-service and limited-service restaurants, contracts and social caterers, and drinking locations. Limited service restaurants and caterers have enjoyed the highest growth levels among these end-users in recent years.

Figure 3



Source: CRFA's provincial InfoStats and Statistics Canada

Commercial food service establishments may be broken down into institutions, hotels, restaurants, supermarkets and convenience stores.

1) Institutions

Institutional users of commercial food service equipment would include school and university cafeterias, hospital food service, and corrections facilities. There has been strong expansion in health care and education services which extends into food offerings. Government agencies responsible for these institutions are increasingly contracting out the preparation of meals served in institutions. Remote-feeding services, in which meals are prepared and pre-portioned off the premises, have become much more popular in these establishments. These new methods pose new logistical challenges and opportunities for providers of innovative food service solutions.

While it is difficult to estimate how much those establishments will spend in new food service equipment in the years to come, the general view is that severe cuts in public spending at all levels of government are having a negative impact on demand.

2) Hotel Industry

The hotel segment of the industry has been fairly flat since 2005. Lodging demand has declined overall from 5.5 percent in 2004, to 2.6 percent in 2007. However demand is still outpacing supply and so industry revenue continues to rise at 6-7 percent annually. The economic climate has also affected this industry. High food and gasoline prices have drained much consumer income which will pull down demand for travel and hotels. Hotels are feeling the pressure to cut costs; construction and renovations have declined across the board. Hotel operators are looking for cost-effective food service equipment to streamline their processes.

3) Restaurants

Shrinking consumer spending is a consideration in this industry. However, spending cuts have typically been made on big-ticket items, while food expenditures are still relatively stable. Restaurant operational costs are increasing due to increases in input costs, such as food and fuel prices. By 2009, food supply costs are expected to increase by four percent.

a) Limited-Service Restaurants

Limited service restaurants have led all other categories in 2007 with a year-to-date sales gain of 5.5 percent. Competition for this segment is fierce and suppliers aiming to sell to it should make no compromise on quality, reliability and after-sale service. Clients in this segment must remain competitive in the quality and speed of their services and therefore cannot afford to wait upon repairing any breakdowns, especially when it comes to key pieces such as ovens, ranges or fryers.

b) Full-Service Restaurants

In the first six months of 2008, full-service restaurants were one of the strongest sectors in the food service industry, showing that many consumers are not compromising their dining options at the present. Fine dining and family/midscale restaurants have been the leaders of this segment, boasting growth rates of 12.7 percent and 9.9 percent respectively in 2007. Full-service restaurants as a whole enjoyed strong growth of 5.8% in sales in 2007. With the exception of upscale establishments, which are generally more specific about their requirements and more demanding and conservative when it comes to purchasing equipment, independent commercial food service operators are usually more sensitive to initial purchase price than other market segments. Especially in light of increasing operation costs and economic pressures, U.S. suppliers of commercial food service equipment will need to undertake more intense marketing efforts, maintain larger sales forces, and constantly renew their client base.

4) Supermarkets and Convenience Stores

Supermarkets and convenience stores are increasingly important customers for food service equipment manufacturers and distributors, even though they have not traditionally been among their target markets. The surge in the number of two-worker families in Canada over the last two decades has changed the food spending habits of Canadians. With a result similar to that in the United States, supermarkets and other food stores are selling more pre-cooked, ready-to-eat meals that people can pick up on their way home from work. Although precise figures are not available, the phenomenon, though not as widespread as in the United States, is catching on fast and is creating a market niche that U.S. manufacturers of commercial food service equipment should not overlook.

Market Entry

The receptivity towards new technical solutions should benefit U.S. manufactures and suppliers who offer innovative tools, provided they make the effort to encourage end-users to change their habits. Financial considerations alone are not sufficient to convince purchasers to adopt new technology or a new type of equipment, nor a simple state of a product's merits. Exposure, hands-on demonstrations and cooperative work with the client are keys to success. Participating in trade shows (both Canadian and major U.S. shows), promoting the product in specialized Canadian magazines, establishing long term presence in Canada, offering technical advice to potential end users and actively assisting clients to make the most out of their new technology are among the steps used to successfully launch a new product into the Canadian commercial food service equipment market.

In terms of distribution, there is no standard method for the commercial food service equipment market in Canada. While some food service equipment manufacturers will sell directly to clients with their own sales force and distribution operations, others will use general sales agents and manufacturers' representatives.

Canadian companies strongly prefer vendors with a local representation, especially in major cities. Any U.S. potential manufacturer should strongly consider establishing representation in different regions of the country. Although over seventy percent of the market for commercial food service equipment is located in Ontario, Quebec, and British Columbia, it is beneficial to establish coverage in the Atlantic Provinces and Western Canada as well, as they have been growing rapidly. Most operations in this market occur regionally, and thus effective business operations will require a local presence.

Financing varies with the distribution strategy chosen. Leasing plans are sometimes available for larger items supplied by large manufactures and specialized companies. Terms of payment in this industry are generally net thirty days, with a two percent discount on payment made by the tenth day of the month following shipment.

Market Issues & Obstacles

Canada presents no significant barriers to imports of commercial food service equipment from the United States. Customs duties range from 0 to 6 percent. Importers must pay a Federal Goods and Services Tax of 5 percent of the duty-paid value of imported merchandise to the Canada Revenue Agency at the time of import. In addition, each province holds a similar provincial value-added tax.

U.S. exporters seeking more information about NAFTA rules of origin or about the duty treatment of their products in Canada should contact the Canada Border Services Agency, the federal department responsible for administering Canadian customers' tariff laws.

All electrically powered products sold in Canada must comply with the standards established by the Canadian Standards Association (CSA), Canada's largest standards writing body. Information pertaining to the standards and pre-import requirements can be obtained by contacting the CSA directly. A reciprocal agreement on product certification between the CSA and Underwriter's Laboratories (UL) in the United States has made it much easier for manufacturers on both sides of the border to attain product certification required in both countries.

All products sold in the province of Quebec must be labeled in French and must meet all Canadian-labeling requirements. All printed material that accompanies the products, such as instructions and

warranties, must be printed in both English and French. The Office de la Langue Française should be contacted for further details on language and product labeling.

Trade Events

Canada Restaurant and Food Association Show

March 8-10, 2009

Direct Energy Centre

Toronto, Ontario

www.crfa.ca/tradeshows/crfashow

Hotel and Restaurant Suppliers Association Salon Rendez-Vous Show

February 8-10, 2009

Place Bonaventure

Montreal, Quebec

<http://afhrgolive.com/SalonHRI2009/index.html>

Salon Rest-Hote

October 4-6, 2009

Centre de foires

Quebec City, Quebec

<http://www.rest-hote.com/contact.php>

Resources & Contacts

[Canada Revenue Agency](#)

[Canada Border Services Agency](#)

[Canadian Standards Association](#)

[Canadian Restaurant and Food services Association](#)

[Hotel and Restaurant Suppliers Association](#)

[Industry Canada](#)

[Hotelier Magazine](#)

[Food Service and Hospitality Magazine](#)

For More Information

The U.S. Commercial Service in Montreal, Canada can be contacted via e-mail at: connie.irrera@mail.doc.gov; Phone: 514-908-3662; Fax: 514-398-0711; or visit our website: www.buyusa.gov/canada/en

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