

Make Informed Decisions

KevinGrier

Market Analysis and Consulting Inc.

79 Pheasant Run Drive
Guelph, Ontario
N1C 1E4

T 519 823 9868
C 519 240 8779
E Kevin@KevinGrier.com
KevinGrier.com



Coronavirus Sales Impact at Foodservice and Grocery

One big financial question as the Canadian food industry moves into the second quarter of 2020, is what is the impact of the coronavirus on foodservice and supermarket sales? The easy answer is good for one and terrible for the other. It is not hard to guess which is which, but what is the order of magnitude of the losses and the gains. One place to start the guesswork, however, is by looking at sales patterns.

Foodservice Sales and Breakdown

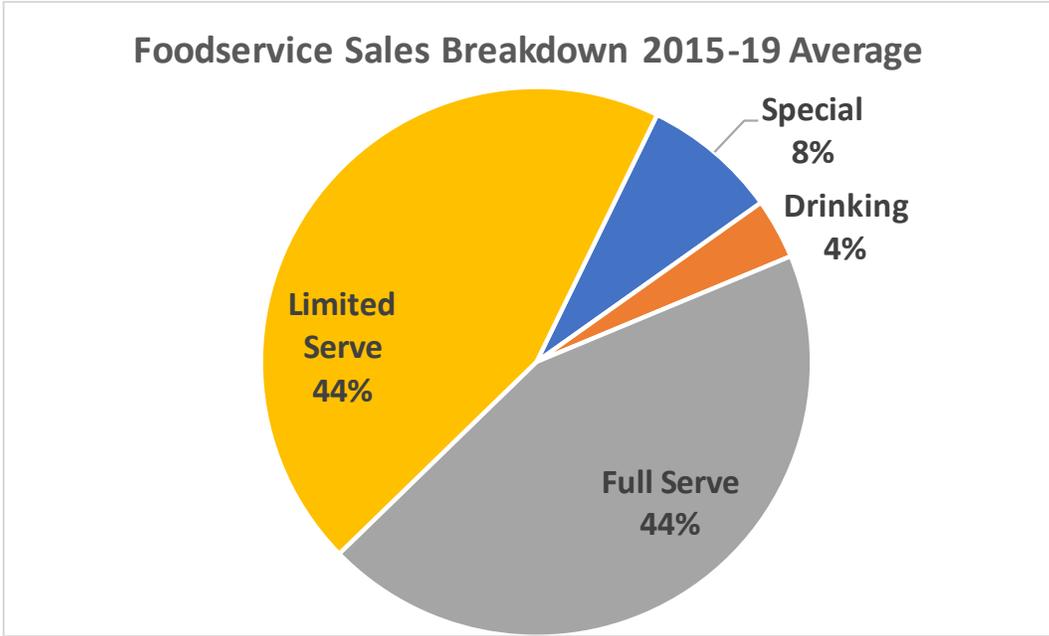
Total foodservice sales in Canada totaled just under \$75 billion last year, according to Statistics Canada. Those sales were up about 3.5% last year compared to 2018. The growth rate in 2019 compares to the compound annual 2010-2019 growth rate of just under 5%.

The StatsCan foodservice tally breaks total sales into the following categories:

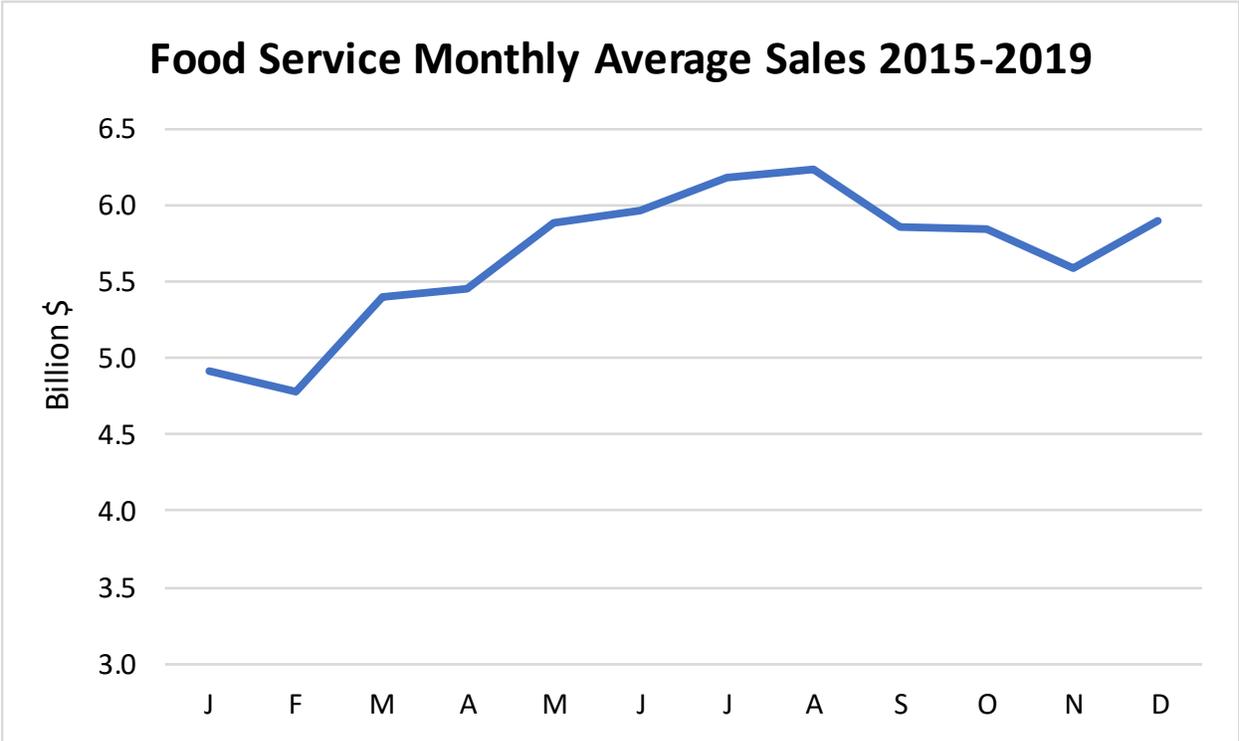
1. Special food services
2. Drinking places (alcoholic beverages)
3. Full-service restaurants
4. Limited-service eating places

Special foodservices are defined generally as caterers, mobile foodservices, and contractors. Drinking places are bars with some food. Full service is for customers that order and are served while seated and pay after eating. Limited service are those establishments that serve at the counter and pay before eating.

Over the past five years, the limited serve and full serve have each had about 44% of total sales. Interestingly both types of venues have been growing at a similar compound annual rate of 5% over the past ten years from 2010-2019.

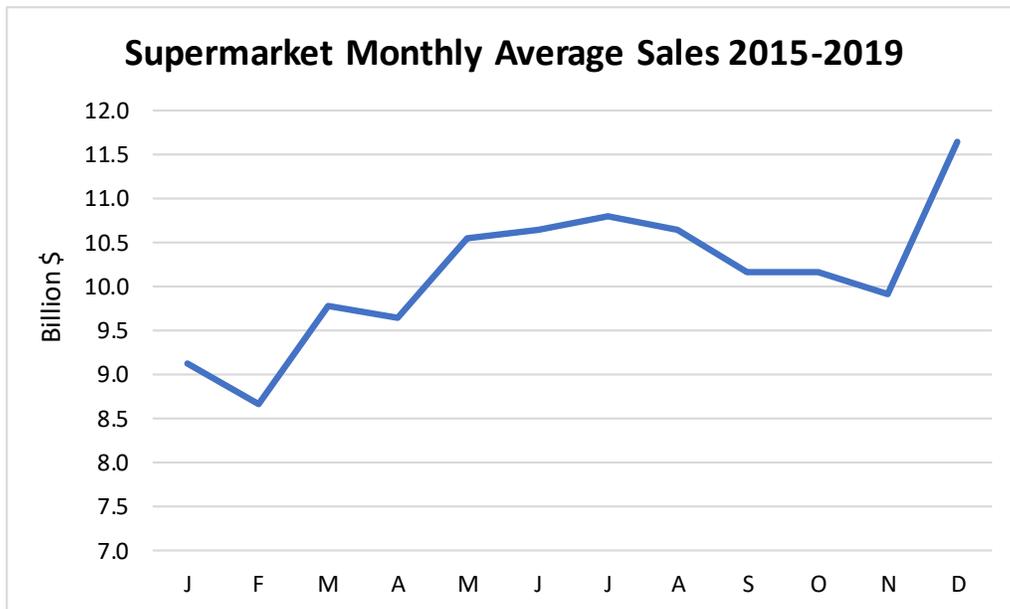


There is a seasonality to foodservice sales with the weakest sales in the first quarter and the strongest in the third. Restaurant sales are weakest in the first quarter as consumers pay down credit card bills and curb spending. Sales are strongest in the summer quarter with more travel and outdoor activity. Sales also take a spike in December for Christmas outings. Sales in the second quarter are close to the annual average for the year.



Supermarket Sales Patterns

Total supermarket sales in Canada were about \$88 billion last year. That was a 2.6% increase over 2018. The compound annual growth rate for supermarkets was less than 2% for the 2010-2019 period. As with foodservice, there is a seasonality to supermarket sales. As with foodservice, once again the first quarter is the weakest as consumers pull in their spending horns. While the third quarter is also a strong spending quarter, the biggest supermarket quarter is the fourth. That is because of consumer spending in December for Christmas. As with foodservice, the second quarter is close to the annual average.



Coronavirus Impact on Foodservice

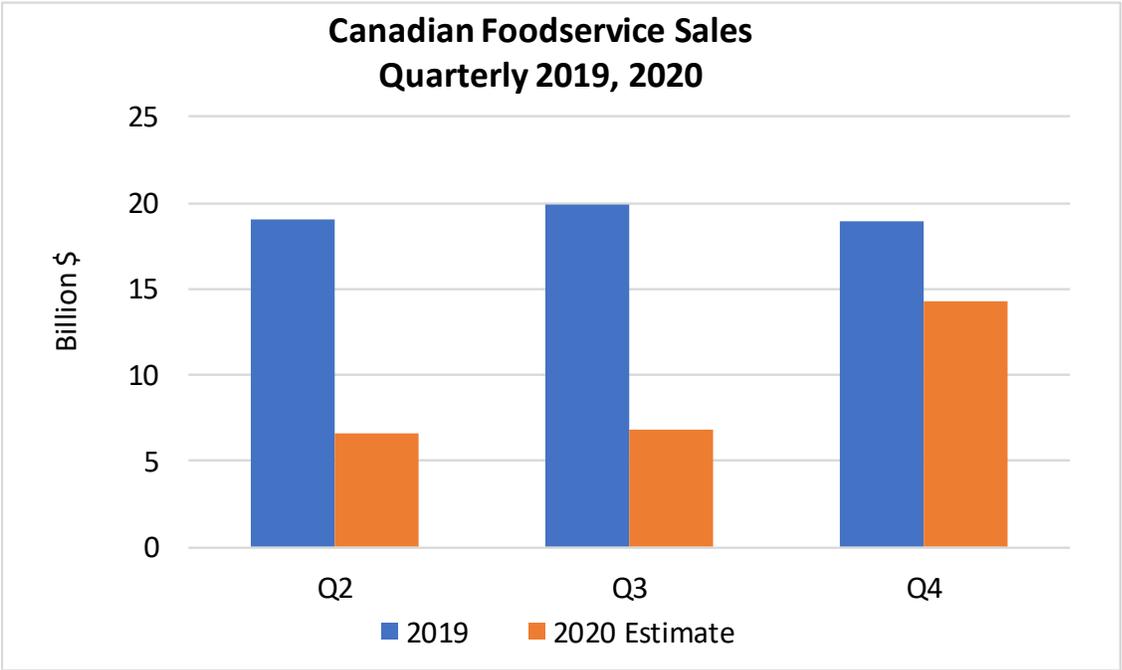
So again, what is the impact of the coronavirus on foodservice and supermarket sales, starting with the current quarter? March was not a good barometer of the situation. During March restaurants and bars were open for about half the month. In addition, March saw consumer pillaging of supermarkets due to corona-related fears.

As the industry moves into the second half of April the sales impacts of the virus are still not fully understood but patterns are clear and rational. As a starting point all restaurants are expected to be closed to all but drive-through and take out for all the second quarter. Full service will be hard pressed to hit 20% of their normal sales as take-out or delivery. Limited service might muster 40-60% of normal sales. These are just estimates, of course, but they are consistent with early trade talking points. To further refine the foodservice sales estimates or guesses, drinking places will see practically no sales other than what they can muster for take-out or delivery. Special service operators will not be hit as hard, but if they meet half their normal sales that would be a positive.

Applying those guesses to last year's second quarter actual sales leads to the estimate that second quarter 2020 foodservice sales will be about one third of 2019. That is, instead of second quarter foodservice sales of \$19-20 billion, this year might garner \$6.5 billion. Conversely, that means that foodservice sales could see a second quarter decrease in sales of about \$12-13 billion. The third quarter will likely see similar restrictions in place that will result in lost sales of about \$13 billion. Even if restrictions are lifted entirely by the fourth quarter, it is

unlikely that consumers will go to foodservice as in the past. That could mean another \$4-6 billion lost in the fourth quarter in Canada. In summary, second and third quarter could see sales at only about one third of normal. By the fourth quarter the industry might be fortunate to get back to two-thirds of normal.

Total lost sales for the Q2 through Q4 might be about \$30-32 billion. For the entire year, 2019 sales were \$74.5 billion while the entire 2020 could be just over \$40 billion. Again, these are just crude estimates, but they do provide an idea of the magnitude of the problem for the industry.

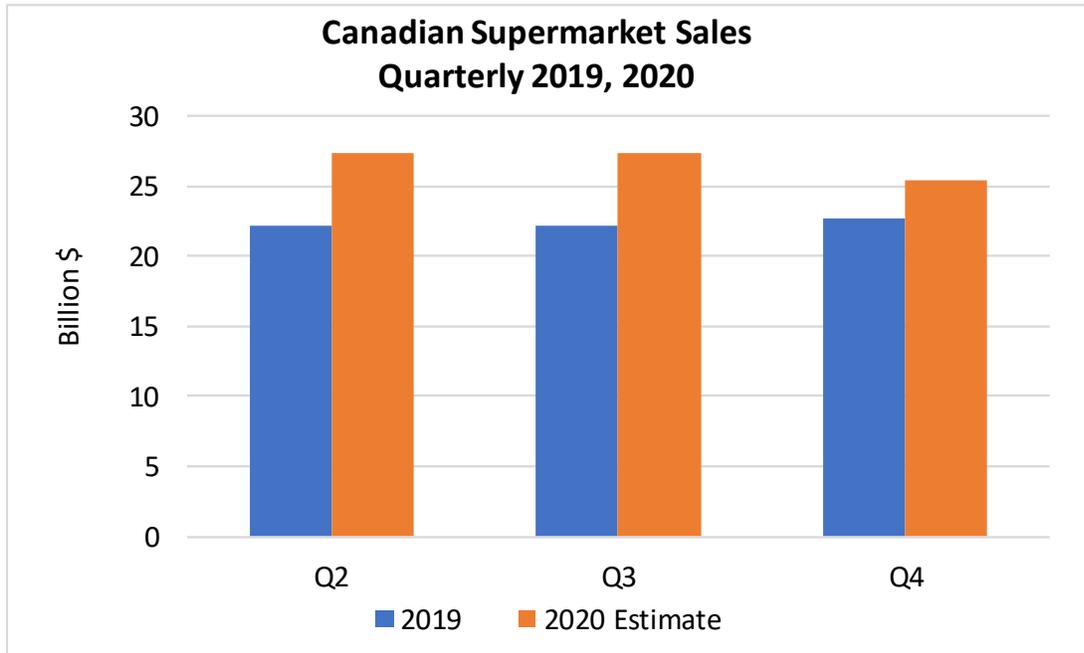


Grocery Gains?

This does not mean that grocery sales will increase by \$30 billion. First, much of the restaurant sales would be alcoholic beverages. Secondly, restaurant sales do not translate directly to grocery. Restaurant meals would be more expensive, obviously, than the equivalent if bought at retail. In addition, the restaurant items would not be the same as those purchased at home. So, there is not going to be a dollar for dollar loss and gain. Further to that, Rabobank estimates that a 10% drop in out-of-home food spending results in only an additional 3% in retail food spending.

Using the Rabobank estimates for the Canadian foodservice sales described above means that Canadian supermarkets could see sales increase by an added 20% or more in the second and third quarters. The fourth quarter could see added sales of about 10%. That second and third quarter estimate is consistent with early assessments in the United States. For example, SupermarketNews.com, April 10 says that household grocery spend remains elevated at 23% higher than pre-pandemic levels but has tailed off from an “extreme buying” phase in which consumer stockpiling hiked their purchases 35% above normal, New York-based NCSolutions said. Anecdotal evidence in Canada indicates that the 20-25% sales increase is a good place to benchmark.

Taking all of that into consideration, it is not unreasonable to expect that grocery sales could increase by an added \$10-15 billion in 2020. That is, last year second and third quarter sales were about \$22 billion. With normal sales increases factored in, plus the gain from foodservice, total sales in those two quarters could be about \$27.5 billion. Fourth quarter could go from \$22.7 billion last year to \$25.5 billion this year.



For the year, if the expected sales for 2020 at the start of the year were \$90 billion, this year could turn out to be about \$102 billion. That is added food sales at supermarkets only. It does not include that added sales at Walmart and Costco. Added food sales at those two operations could easily be seen to outperform the supermarket gains.

At the start of 2020, I noted that grocery store competitive intensity would likely heat up. That was based on inflationary trends that seemed to be easing at the end of 2019. It was also based on flyer activity and statements from Sobey about their competitive focus. If there would have been increased competitive intensity, that would have meant downward pressure on retail pricing. I also expected increased competitive inroads from Walmart and Costco given the relatively high grocery prices in 2019.

That competitive environment has dramatically changed as a result of the virus. The most basic change has been the increase in consumer purchases at stores due to the loss of foodservice. As a result, I see less need for grocers to compete with the expected level of intensity. If the retail price increase forecast was in the 2-3% range at the start of the year, it is looking more like 4-5% now.

Kevin Grier, April 2020

A version of this article first appeared in the March edition of the Grocery Trade Report. If you would like a free two-month trial email kevin@kevingrier.com