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Date: 4/19/2016

GAIN Report Number: CA16008

Canada

Post: Ottawa

City Scope Report on Toronto Market

Report Categories:

Agriculture in the Economy

Food Processing Ingredients

Food Service - Hotel Restaurant Institutional

Retail Foods

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Report Highlights:

Toronto is located in the province of Ontario and is Canada's most populous city at 2.6 million. The Greater Toronto Area (GTA) has an estimated population of 6.1 million, accounting for 16% of the national population and making up North America's fifth-largest urban area. Its population is expected to increase to 9.1 million by 2036. The GTA consists of a land area of 7,000 sq. km/2,700 sq. miles and encompasses the City of Toronto and 25 other municipalities as well as 4 regions that have a high degree of integration with the City of Toronto as measured by commuting flows. This report contains more information on the market as well as opportunities for U.S. exporters.

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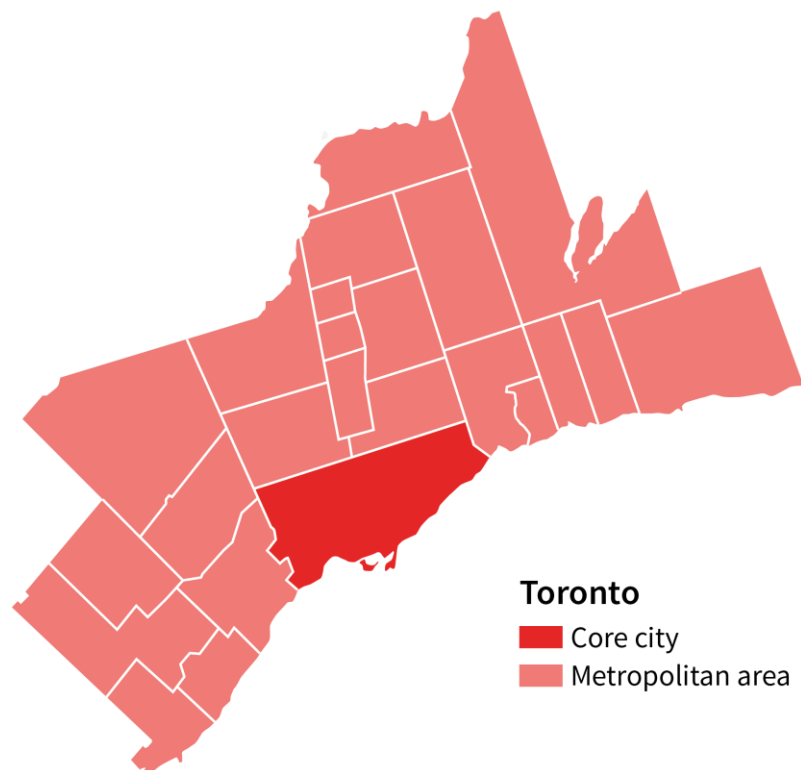
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Introduction

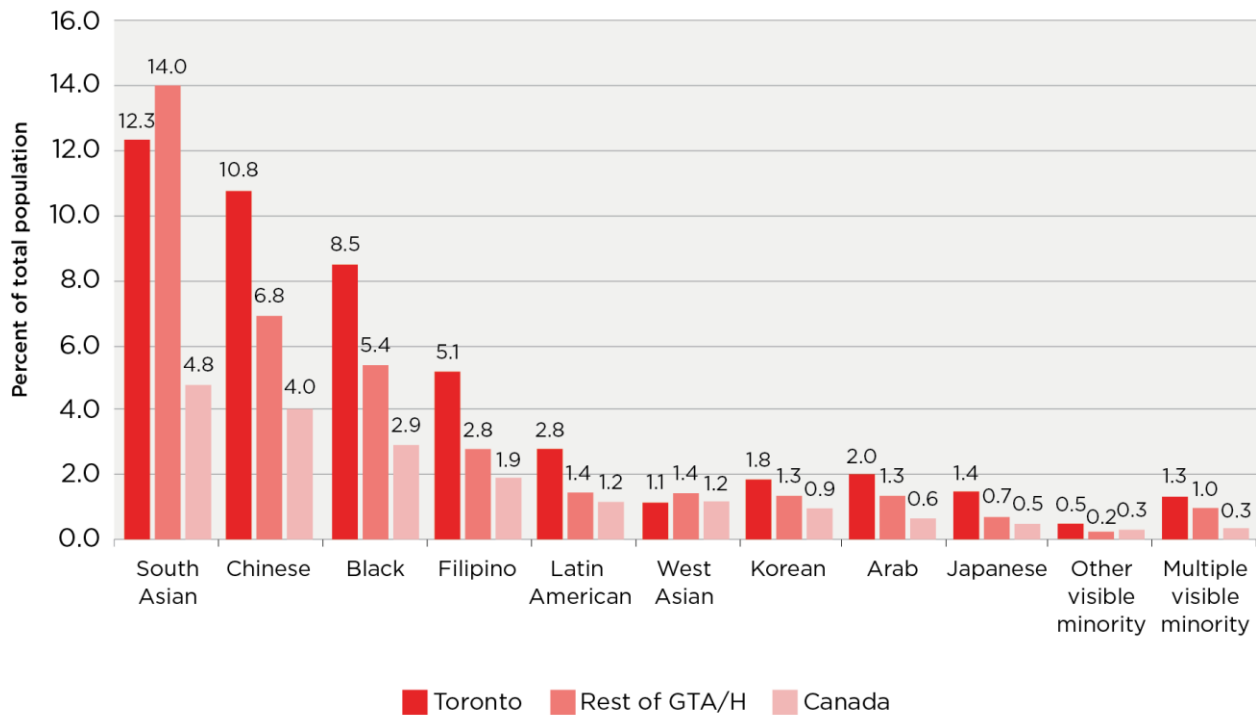
Toronto is located in the province of Ontario and is Canada's most populous city at 2.6 million. The Greater Toronto Area (GTA) has an estimated population of 6.1 million, accounting for 16% of the national population and making up North America's fifth-largest urban area. Its population is expected to increase to 9.1 million by 2036. The GTA consists of a land area of 7,000 sq. km/2,700 sq. miles and encompasses the City of Toronto and 25 other municipalities as well as 4 regions that have a high degree of integration with the City of Toronto as measured by commuting flows.



Source: Euromonitor International

Within the City of Toronto, 51% of the population was born outside of Canada. Due to its high immigration rate, coupled with multiple ethnic origins, Toronto is considered one of the world's most diverse cities. The percentage of the population born outside of Canada drops to 38% when considering the entire GTA. English is the predominant language spoken.

Percentage of Total Population by Visible Minority



Source: 2011 National Household Survey

One-quarter of all Canadians live within a 150 km/93 mile radius of Toronto. An additional 100 million Americans and half of all U.S. businesses are within a day's shipping distance. Combined with its four major highways, multi-modal rail facilities, a Great Lakes port and an international (as well as regional) airport, Toronto is a well- positioned gateway to North America.



Source: Euromonitor International

General Economic Overview

The Toronto region accounts for 19% of the nation's GDP. Total GDP in 2013 was US\$341 billion with total GDP estimated to grow to US\$431 billion by 2018.

Statistics Canada does not produce sub-provincial GDP estimates, but the City has three private-sector GDP forecasts for the Toronto Census Metropolitan Area (CMA): Conference Board of Canada, Oxford Economics and Moody's.

Using the average of the three forecasts, the economy of the Toronto region grew by 3.1% in 2014, and it is projected that the Toronto region grew by 2.5% in 2015, and is expected to grow 3.3% in 2016.

Although the Toronto economy has slowed, it is still expected to outperform the national economy due to Toronto's lower exposure to the natural resource sector. It is a strongly service-oriented economy, with business services generating nearly 40% of the city's GDP.

Toronto's food and beverage cluster is the second largest – and the fastest growing – in North America. This is the result of a remarkable level of product development driven by ethnic diversity (and therefore a strong demand for specialty foods), as well as a highly innovative retail community. Twenty-five per cent of all food processing plants within Toronto are considered to be making specialty products.

Toronto's vast cultural and ethnic diversity ensures that its food manufacturers are at the forefront of culinary trends and product developments in North America's ever growing specialty food subsector. Toronto has a diversity of palate that is unequalled.

Toronto also features a co-packing industry that is nimble, flexible and open to change. The Ontario Food Terminal, located in the Toronto region, is Canada's largest wholesale fruit and produce distribution center and ranks in the top five by volume in North America. This provides for a local and reliable supply chain.

Toronto's food processing costs are among the lowest in the G7. Canada overall has a 9.5% food processing cost advantage relative to the U.S. baseline index of 100.0 and Toronto specifically has a 9.4% food processing cost advantage relative to the U.S. baseline index of 100.0. (Source: KPMG Competitive Alternatives, 2016) The rise in value of the US dollar relative to the Canadian dollar through 2015 is the main driver of improved cost index results for Canada and its' cities in 2016.

The Harmonised Sales Tax (HST) combines Good & Services Tax (GST) and Provincial Sales Tax (PST) in some provinces. In Ontario, the HST is 13%. The minimum wage in Ontario is C\$11.25 per hour for adults, C\$10.55 for students under 18 years of age and C\$9.80 for liquor servers.

Consumer Habits

Because of the slow economic recovery, coupled with rising food prices since 2011, many Canadian consumers have become bargain shoppers. The average Canadian spends \$411 per month on groceries and 57% of shoppers now compare food prices and are making fewer impulse decisions.

The most significant demographic trend facing Canadians is a rapidly aging population and a falling birth rate. The aging population means consumers are becoming more health conscious, and as a result are reading food labels more carefully. Consumers continue to seek products with lower sodium, lower sugar, lower calories, and lower trans and saturated fats. Health-conscious attitudes and a rising demand for healthy and local foods continue to dominate the mind-set of consumers.

Total Consumer Spending

Disposable income per household is 16% higher in Toronto than in the rest of Canada as of 2013 (US\$86,100). This also translates into consumer expenditure per household being 16% above the rest of

Canada (transport & housing excluded). Disposable household income is expected to grow by 1.2% per annum in real terms over the 2016-2018 period.

Although there has not been much growth in disposable income, notoriously cautious Canadian consumers are spending a little more on food. They are still very deal-conscious, buying close to 36% of food on promotion, but those promotions are less deep-discount than in previous years. Lower fuel prices have generally benefitted the entire food industry, with boosted restaurant sales, as well as food for home consumption.

Toronto households spend 9.3% of their budget on Food and Non-Alcoholic Drinks, 2.6% on Alcoholic Drinks & Tobacco, and 7.0% on Restaurants and Hotels.

Average Household Expenditure Toronto*

	2013	2018 Estimate
Food & non-alcoholic beverage	7,388	7,437
Alcoholic beverage & tobacco spending	2,076	2,009
Hotel & restaurant spending	5,557	5,600

*Stated in Constant Prices, US\$

The weakening Canadian dollar (down from parity in 2013 to 0.74 US Dollar as of 2/29/16) will increase tourism staycations where consumer buying power tends to go further.

What Makes This Market Unique?

Toronto's city motto is "Diversity Our Strength". Known as one of the world's most multicultural cities, it prides itself on its wide range of cultures, languages, and foods. Because of this ethnic diversity there is a strong demand for specialty foods, with specialty food processors making up 25% of total processors in the GTA food cluster.

Five per cent of the Greater Toronto Area's population is Muslim, making Toronto the city with the highest concentration of Muslims in North America. According to Agriculture Canada's Specialty Food Market report in March, 2012, Toronto is home to 47 per cent of Canada's Muslims, with 424,900 people. The Canadian halal food market is estimated to be worth \$1 billion. It's a market that is growing in importance as Canada's Muslim population is increasing at roughly 13 percent annually. Canada's Muslim community is expected to triple by 2031; consequently consumer demand for halal food products is also expected to increase.

Toronto households spend on average 25% more on housing than those in the rest of Canada. After Vancouver, its housing is the least affordable in the country, with household expenditure spent on

housing of 27.2% being higher than major US cities like New York, LA or Chicago. The estimated average price for owning a home in 2013 was C\$1.4 million, compared to Montréal at only C\$368,900.

Toronto's composition of dwellings is also unique from the rest of Canada with 41% of households living in apartments buildings with more than 5 floors, compared to Montréal at only 13% of households. Toronto continues to add more high rises (30 floors or more) to its housing stock. This increased densification has resulted in more grocers opening smaller urban stores to service this market, a market segment that is less likely to own a car due to easy access to public transit. High rise housing also has smaller kitchens and pantries, resulting in a population that shop more frequently and has a smaller basket size per shop.

Toronto Retail Sector Analysis

The retail trade in Canada is far simpler and more concentrated than in the U.S., with the top 2 banners representing close to half of all grocery sales. Experienced importers usually have established relationships with the major retail groups, so positive results tend to be achieved much more quickly when compared to the U.S.

The exit of Target from Canada has reduced the oversupply of food retail space and has strengthened retail margins, freeing upwards of 2 million square feet of dedicated food retail space. However, market concentration still exists which makes the cost of business higher, with significant trade investment required in order to list products and to keep them on shelves. It also results in a higher percentage of private label sales, estimated at 13% of all food sales.

Dollar stores are also growing, with retail sales up 13% in 2014. Dollar stores in Canada do not yet have a refrigerated section.

Reflecting Toronto's ethnicity, there are over 100 full-size ethnic grocery stores in the Greater Toronto Area. Ethnic grocery stores are the fastest growing retail channel, growing at over 15% per year and currently represent a 10% share of the marketplace. This growth has attracted the major grocery chains to purchase smaller, ethnic stores, (e.g. Loblaw purchasing T&T, Metro purchasing Adonis).

Toronto grocery stores are also moving to smaller urban stores from the traditional car centric large format stores. Newer stores have shrunk middle aisles and expanded fresh and To-Go (also known as Home Meal Replacement or HMR) offerings, catering to a population that no longer cooks from scratch as often. Canada's largest retailer, Loblaws, purchased Shoppers' Drug Mart/Pharmaprix, Canada's largest drugstore chain, last year giving it a number of smaller urban locations that are open 24/7. Drug stores are emerging as "the new convenience store", offering a wide range of groceries, including chilled products.

Longo's is a family owned grocery retailer with 28 locations within the Greater Toronto Area. It also owns Grocery Gateway, an online home delivery service. Although 70% of its produce comes from local suppliers in Ontario's peak growing months, Longo's does carry a wide variety of U.S. products as well.

Toronto also has a number of smaller food chains and independent retailers with stores under 5,000 square feet (Rabba Fine Foods, Hasty Market, Kitchen Table) operating in the downtown core, occupying a niche between full-service grocery stores and convenience stores. Many of these stores are also open 24/7.

2015 Who's Who in Canadian Retail						
Retailer	Food	Drug & HBA	Merchandise	Apparel	TOTAL	Share
Loblaw/Shoppers	\$28,077	\$12,584	\$3,037	\$731	\$44,428	15.6%
Sobeys/SWY	\$20,833	\$3,300	\$428	\$0	\$24,561	8.6%
Walmart	\$6,577	\$4,451	\$8,134	\$3,124	\$22,286	7.8%
Costco	\$9,238	\$926	\$7,023	\$473	\$17,659	6.2%
Canadian Tire	\$0	\$0	\$15,839	\$1,141	\$16,981	6.0%
Metro	\$10,125	\$1,911	\$158	\$0	\$12,194	4.3%
Home Depot	\$0	\$0	\$6,050	\$0	\$6,050	2.1%
RONA	\$0	\$0	\$5,371	\$0	\$5,371	1.9%
Jean Coutu	\$268	\$4,049	\$53	\$0	\$4,369	1.5%
Co-ops	\$3,504	\$153	\$408	\$0	\$4,065	1.4%
Sears	\$0	\$0	\$1,946	\$1,280	\$3,226	1.1%
Overwaitea	\$2,618	\$500	\$0	\$0	\$3,118	1.1%
HBC	\$10	\$0	\$852	\$1,958	\$2,820	1.0%
Dollaram	\$486	\$356	\$1,511	\$238	\$2,591	0.9%
TJX	\$0	\$0	\$0	\$1,368	\$1,368	0.5%
Target	\$82	\$68	\$227	\$194	\$572	0.2%
Other	\$14,175	\$12,866	\$68,699	\$17,588	\$113,327	39.8%
TOTAL	\$95,993	\$41,164	\$119,734	\$28,094	\$284,958	100%

Source: Company reports and CIBC World Markets Inc.

Total food grocery sales in Canada were \$104 billion in 2014. Traditional grocery is comprised of chain stores, independents, and convenience stores, and remains the largest sector with sales of \$88 billion. The balance of food sales outside of traditional grocery includes major players Costco (\$9B), Walmart (\$6B), and Drug Stores (\$1B).

The perimeter of the grocery store now accounts for 44.6% of food sales, up 2.2%, while the center of the store has declined to 55.4% (Canada 2015).

In 2015, grocery chains accounted for 60% of Grocery Store Sales in Ontario, compared to 61% in total Canada. Specialty Food Stores continue to outpace growth of grocery store, accounting for \$2.6 billion in Ontario, up 5% over 2014.

Traditional Grocery Market Share by Top Corporate Retailers (2015)

%	Loblaw	Empire (Sobeys)	Metro	Other
National	28.4	17.1	0.3	5.3
Ontario	34.2	10.0	12.8	2.4

Loblaw operates under the Loblaw, Valuemark, No Frills, Shoppers Drug Mart and T&T banners in Toronto.

Consumer Spending & Habits

Canadians have similar eating and shopping patterns when compared to Americans. In 2013, Canadians made an average of 174.2 shopping trips per household and spent an average of C\$50.60 per trip. Consumers are driving the growth of the home-replacement market at retail.

The Canadian consumer is very deal conscious, buying close to 36% of groceries on promotion. Lower gas prices should give consumers more spending power at the grocery check-out, but the weakening Canadian dollar will make US foodstuffs more expensive.

After years of big grocers spending on systems and logistics infrastructure, stores are now being upgraded to include boutique-style food markets, cafes and dine-in sections. There are also investments in chefs to upgrade the quality of their HMR (home meal replacement) offerings. The center-store is also shrinking, with traffic being reconfigured to ensure customers spend time and money on fresh products before entering the shrinking grocery departments. They are also moving from traditionally large stores to newer stores, mid-sized suburban stores or very small urban units within the city.

Food products with high sales potential – high sales growth (year 2013)

Category	Growing 4% to 10%	Growing over 10%
Beverages	Premium fruit/vegetable juices (5%)	Chilled smoothies (28%) Coffee (15%)
Confectionery	Chocolate (4%)	
Dry Grocery	Asian sauces (4%) Tortillas and wrap (5%) Cracker chips (4%) Sweet and savoury snacks (4%) Natural snack bars (6.1%)	Stir-fry sauces (24%) Asian chili sauces (59%) Bagels (6%) High fibre paste (15%) Health snack bars (6%)
Chilled and Frozen Foods	Chilled and natural based/soy based desserts (5%) Chilled noodles (4%) Frozen oven baked potato chips (4%) Frozen processed vegetables (4%)	Chilled Soup (7%) Thin crust pizza (6%) Refrigerated salad dressings (5%) Soy milk (11%)
Refrigerated and Dairy	Yogurt (9%)	Natural/organic/Greek yogurt (40%)

Source: Euromonitor International 2013, Canadian Grocer Category Captains 2013

According to Nielsen the fastest growing product categories in Grocery in 2015 were:

1. Processed meat (up 12%)
2. Home meal replacements (up 9%)
3. Vegetables (up 6%)
4. Meat (up 6%)
5. Hot beverages (up 5%)

Practical Business Tips

Most small-to-medium sized producers will partner with a Canadian food broker/distributor/importer rather than try to sell directly to the retail buyer. These firms tend to specialize by product type (e.g. frozen), as well as geography and, in some cases, by retail type (e.g. C-stores).

Most distributors and importers will take title of shipments. They tend to work on margins of 20-30% of the wholesale price.

Brokers do not take title, but instead provide a sales force to sell your goods. They tend to work with non-conflicting products, but have an area of expertise. They usually demand exclusivity by geography. Brokers will ask for a retainer upfront to pioneer the product. Once a level of sales is achieved, they will then move to a commission model with the average fee of 5%.

Hotel, Restaurant and Institutional (HRI) Analysis

Overview

Tourism in Toronto increased for the sixth consecutive year in 2015, where it welcomed a record 14 million overnight visitors. Visitors to Toronto spent C\$7.2 billion during their trips. Toronto surpassed 4 million international visitors for the first time in 2015 as American and overseas travelers continued to visit in greater numbers. Overnight visitors from the U.S. increased for the fifth consecutive year to 2.48 million and produced direct spending in Toronto of \$1.32 billion. Overseas travelers, led by China and the U.K., numbered a record 1.75 million and spent \$1.49 billion.

Hotels in the Toronto region sold a record 9,647,500 room nights in 2015, an increase of 2.6 per cent. Over the past three years, increased tourism to Toronto has added 676,000 more annual hotel room nights. The Greater Toronto Area's hotel industry represents 170 hotels, with approximately 36,000 guest rooms and 32,000 employees. Accommodation foodservices are forecast to grow the fastest in 2015 due to the low dollar and increased domestic travel. The top 5 hotel chains in Canada are Four Seasons Hotels and Resorts, Fairmont Raffles Hotels International, Starwood Hotels and Resorts, and Wyndham Hotel Group.

Toronto has a low hotel occupancy rate of 68% when compared to other major North American cities. This could be due in part to the traditionally strong dollar, as well as its international airport being amongst the most expensive locations to land. The significant weakening of the Canadian dollar in comparison to the US dollar in recent times should provide a boost to tourism.

In 2015, the foodservice share of the total food dollar was 38.6%. Total Commercial Foodservice sales in Canada were C\$57 billion in 2014 with total Non-Commercial Foodservice sales of C\$14 billion. Ontario enjoyed the second-strongest growth in Canada, as foodservice sales grew over 6% to C\$22 billion 2014.

In Canada, the foodservice industry is expected to grow at a modest rate of less than one percent per year over the next five years. Convenience, value, unique menu items, and service remain high on the list of foodservice consumers' must-haves and wants.

Canada Foodservice Sales Forecast

FOODSERVICE SALES FORECAST	2014 Preliminary (Millions of Dollars)	% Change 2014/2013	2015 Forecast (Millions of Dollars)	% Change 2015/2014
Quick-service restaurants	\$25,536.0	5.8%	\$26,531.9	3.9%
Full-service restaurants	\$24,916.3	5.0%	\$25,813.2	3.6%
Contract and social caterers	\$4,903.6	6.6%	\$5,085.0	3.7%
Drinking places	\$2,296.1	-0.7%	\$2,312.1	0.7%
TOTAL COMMERCIAL	\$57,651.9	5.3%	\$59,742.3	3.6%
Accommodation foodservice	\$5,890.0	4.7%	\$6,162.0	4.6%
Institutional foodservice ¹	\$4,397.2	3.4%	\$4,501.0	2.4%
Retail foodservice ¹	\$1,425.6	5.5%	\$1,485.5	4.2%
Other foodservice ¹	\$2,484.0	2.8%	\$2,558.5	3.0%
TOTAL NON-COMMERCIAL	\$14,196.8	4.1%	\$14,707.0	3.6%
TOTAL FOODSERVICE	\$71,848.7	5.0%	\$74,449.2	3.6%
Menu inflation		2.1%		2.4%
REAL GROWTH		2.9%		1.2%

In Ontario, total foodservice sales were \$22 billion in 2014, up 6.3% over the previous year. The average unit volume was \$649,952 and there were 34,294 units across the province. Chains account for 45% of all restaurants versus 55% of all restaurants that are independent. Sales in 2015 are expected to be up another 4.1%. The restaurant industry has outpaced the economy and retail sales over the past five years. Ontario has benefitted from strong consumer spending, rising disposable income and a growing population.

Restaurants

The City of Toronto has 8,100 restaurants, caterers and bars, representing \$5.8 billion in revenues generated. The average Canadian household spent C\$2,459, or 28% of the food budget, at restaurants in 2013. Toronto households spend 15% more than the rest of Canada on Restaurants and Hotels in 2013. According to Zagat's 2012 Toronto Restaurants Survey, Torontonians dine out on average 3.1 times per week. This ranks Toronto with other dining-out-focused cities like Chicago, New York, Las Vegas, and Los Angeles. Independents make up the largest portion of restaurants in Ontario at 55% of total units, but chains (45%) are growing at a faster rate.

The top ten restaurants chains in Ontario based on total 2014 sales are as follows:

1. Tim Horton's C\$3.1 billion
2. McDonald's C\$1.4 billion
3. Subway C\$627 million
4. Swiss Chalet C\$402 million
5. Starbucks C\$372 million
6. Pizza Pizza C\$354 million
7. Wendy's C\$321 million
8. Boston Pizza C\$302 million
9. KFC C\$226 million
10. Country Style C\$213 million

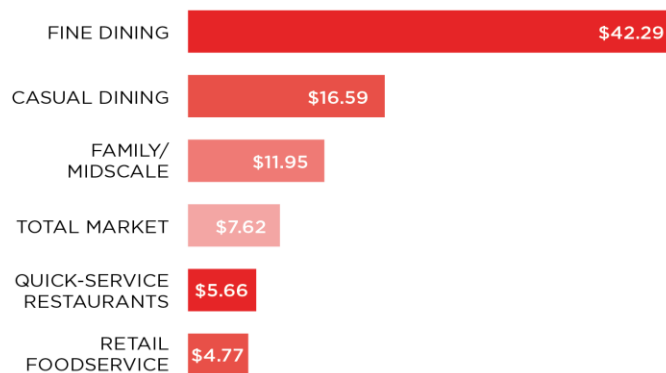
Tim Hortons remains the leading fast food brand in Ontario, followed by McDonald's and Subway. Tim Hortons held a 26% share of foodservice value sales, while McDonald's and Subway accounted for shares of 11% and 7% respectively.

In 2014, fast food restaurants recorded a 4% increase in foodservice value sales with a marginal increase in the number of outlets. The fast pace of life and on-the-go trends are reasons Canadians are attracted to fast food restaurants. The increasing demand for gourmet food and healthier options pushed the development of "fast casual" restaurants in Canada.

Total Consumer Spending & Habits

Over the past 3 years, foodservice sales have grown faster than consumer disposable income. The foodservice share of the total food dollar is 38.6%, compared to 47% in the U.S. for 2015. In 2014 the average check per person was C\$7.62 (excluding tips).

AVERAGE CHECK PER PERSON – 2014



Source: The NPD Group Inc.\Foodservice\CREST@Total Canada\YE November 2014
Note: Average check includes taxes but excludes tips.

The aging population, coupled with stricter drinking and driving laws, has resulted in double-digit decreases in drinking establishment sales. The legal drinking age in Ontario is 19.

Beer, which is Canada's most popular alcoholic beverage, has declined by 6 per cent in 2015 while cocktails and other drinks were down by 10 per cent. However craft beer servings have experienced strong growth of 7 per cent year-over-year, currently accounting for 17 per cent of all beer at casual dining restaurants. Consumers are also turning to wine more often, as servings in this category have grown by 16 per cent year-over-year.

According to the Zagat 2012 Toronto Restaurants Survey, online reservations are the method of choice for 53% of Torontonians, followed by phone reservations at 37%. The average percent tip left by Toronto diners is 17.1%, two percent less than the average in major U.S. cities.

When asked how celebrity chefs impact their dining decisions, 54% of surveyors said that a celebrity chef in the kitchen has no effect on where they choose to dine. Diners have also weighed in on their preferred cuisine: Italian is the favorite for 25% of surveyors, followed by French with 16%, and Japanese with 14%.

Locally sourced, organic and sustainably raised food items are a trend considered important by 71% of surveyors, while 56% say they are willing to pay more for these ingredients.

Opportunities & Trends

Due to the lower Canadian dollar, restaurateurs are paying more for imports such as fresh fruit and vegetables.

All-day breakfast is a growth opportunity, with more than half of Canadians wishing that restaurants served breakfast items all day. That number jumps to 60% amongst Canadians 18-34 years of age.

Fastest Growing & Slowing Menu Items, Canada 2014

The 10 fastest growing menu items in 2014 over 2013

The 10 steepest declining menu items in 2014 over 2013

WHAT'S GROWING

WHAT'S SLOWING

1 Breakfast sandwiches

1 Carbonated soft drinks

2 Burgers

2 Seafood/fish

3 Bagels

3 Hot coffee

4 Muffins

4 Chinese/Cantonese/Szechwan

5 Chips/pretzels/crackers/curls

5 Chicken/poultry entrées

6 Hash browns

6 Deli meat sandwich

7 French fries

7 Salads

8 Hot chocolate

8 Rice

9 Donuts

9 Milk

10 Hot tea

10 Non-fried vegetables

Source: The NPD Group Inc.\Foodservice\CREST@Total Canada\YE November 2014
Note: The 'growing' list shows the menu items that made the biggest volume gains in 2014 compared to 2013, while the 'slowing' list shows the menu items that saw the most significant declines.

Top Growing and Declining Restaurant Categories		Top Three Growing Chains
Top Growing Categories	Top Declining Categories	
Midscale Diner QSR Other Ethnic Casual Spanish Yogourt Midscale Barbeque	Hot Dog Ice Cream Bakery/Sandwich Biscuit/Bun Cafeteria	Starbucks Tim Hortons Thai Express

Profit for Toronto restaurants is driven by both the business lunch and happy-hour crowd. Liquor consumption can easily become the main source of revenue.

The growth of Grocery's HMR section (home meal replacements), as well as its increasing quality and range of items could be a threat to restaurants. To capitalize on the estimated C\$2.5 billion Canadians spend annually on HMR, restaurants should provide HMR-style offerings, including a retail section in existing restaurants.

Practical Business Tips

Products destined for the HRI segment are exempt from bilingual labeling. While foodservice products are exempt from submitting nutritional information in a Nutritional Fact Table label, they are still required to provide nutritional information.

The average non-residential construction cost in Toronto is 12% higher compared to the average of 30 US cities (Source: RSMeans Square Foot Costs 2015). Building costs range from \$140 to \$700 per square foot (concept dependent), with the average being \$354 per square foot for FSRs, \$298 per square foot for QSRs and \$265 per square foot for Fast Casual Restaurants.

Each of Canada's provinces has a liquor board or commission that oversees the control, distribution and sale of beverage alcohol in its jurisdiction. In Ontario, it is the Liquor Control Board of Ontario (LCBO). The LCBO is the largest single purchaser of beverage alcohol in North America, purchasing fine wine, spirits and beer from 82 countries for Ontario consumers and licensees. Through its integrated distribution and retail network, over 8,100 products are available in more than 611 LCBO retail stores and 216 Agency Stores across the province.

Ontario has perhaps the most complicated approach to beer sales in Canada. Beer can be bought at The Beer Store, an entity operated by a trio of foreign-owned breweries, and at government-owned LCBO outlets. In December of 2015, the province started loosening The Beer Store's monopoly, specifically by rolling out a limited test of beer (to be followed by wine) in grocery stores.

Most products in the HRI channel are managed through importers, brokers, food distributors, wholesalers and/or repackers. The two largest foodservice distribution chains in Canada are GFS (Gordon Food Service) and Sysco. The National Food Distributors Association Canada www.nfda.ca also lists other strong regional players.

Product Categories with Best Growth Potential

Fast Casual is the fastest growing segment of the Canadian market. The desire for customization, food prepared fresh right in front of you with your choice of toppings, and the halo effect of health and wellness is propelling Fast Casual as a category. Customers are willing to pay a bit more for a better quick-service meal, without the added pressure to tip.

Based on a 2016 survey of Canadian Chefs, the following menu items are rated as having the best potential:



Food Processing Sector Analysis

Overview

Toronto's food and beverage cluster is the second largest in North America (after Los Angeles). As of 2013, there were approximately 1,149 food processing companies employing 51,000 people.

Most of the large food processors are located outside of the City of Toronto, within the GTA, due to lower land costs and the possibility for further expansion. Top international food processing companies within the GTA include: Cadbury Schweppes, Kraft, Nestle, A-B InBev, PepsiCo, and Kellogg.

Opportunities & Trends

The aging population means that Canadians are becoming more concerned and informed about their health and wellness. They are looking for a better nutrition panel, as well as smaller portions to meet calorie targets. To meet these needs, 88 percent of Canadian food processors report that they plan to launch new products with specific nutritional benefits in the next 2-3 years. Functional foods

(conventional foods with an added healthy ingredient) are a C\$4 billion market and one of the fastest growing categories.

The sustainability trend continues to grow, especially with concerns about sustainable production and the environmental impacts of packaging. Consumers also increasingly care about where their food comes from, driven by a desire to support the local economy, as well as environmental concerns about how far food travels before it reaches the final consumer.

The value of Canada's organic food and non-alcoholic beverage market hit C\$3 billion in 2012, a three-fold jump from 2006, according to most recent figures available (source: Canada Organic Trade Association). The exponential growth now makes Canada the fourth largest organic market in the world. Ontario has Canada's largest consumer market for organics valued at C\$1 billion annually.

Some of the growth is attributed to Canada's stricter organic standards and labeling requirements put in place in 2009. All products claiming to be organic are governed under the Organic Product Regulations.

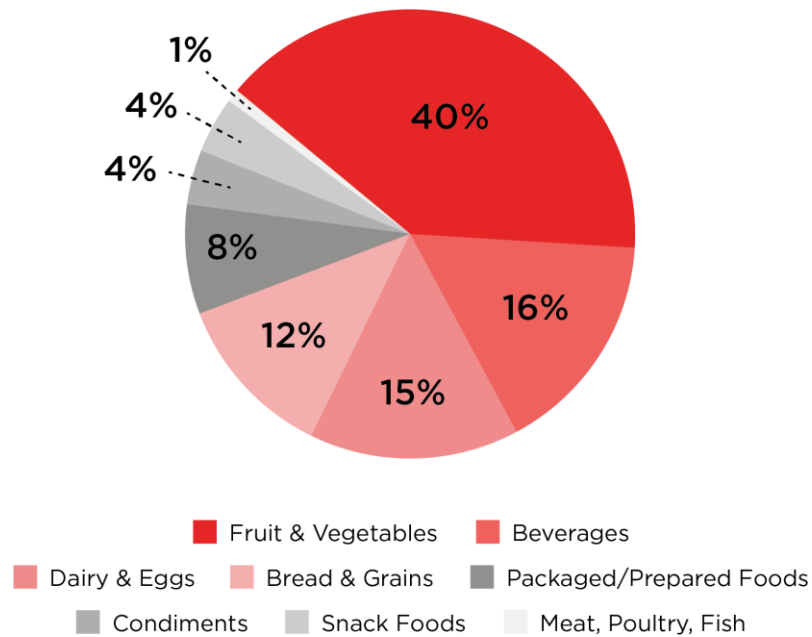
Organics are also now as mainstream as any other grocery product. Fifty-eight per cent of Canadians report purchasing organic products at least once a week. And that rate is even higher among ethnic Canadians, people living in Canada's largest cities, households with young families, and consumers with university educations.

The most popular organic products in 2012 were fruit and vegetables, comprising 40 per cent of all organic sales. Beverages, dairy, and eggs were the second and third biggest categories (see chart below).

Among pre-packaged grocery items, organic beverages enjoyed the fastest rates of growth between 2008 and 2012. Coffee, shelf-stable juices and milk were especially fast gainers during this time period. (see chart below)

Organic sales by product category

Grocery banners, mass merchandisers and drug stores, 2012



Food manufacturers are also reformulating and cleaning up ingredient labels to remove artificial flavors, colors, and preservatives where possible.

There is also a trend towards the concept of value over price, with discerning consumers driving the sales of artisanal and craft products like bread, alcohol, snacks, and coffee.

Similar to U.S. consumers, Canadians are a nation of grazers, with 56% of eating/drinking occasions being a snack rather than a traditional meal occasion.

The demand for “gluten-free” products appears to be a legitimate trend in Canada. Sales of gluten-free products also continue to experience double-digit growth, representing C\$458 million in sales in 2013, and are expected to double in size by 2017. When compared to U.S. consumers, Canadians are more likely to report purchasing gluten-free products because someone in their household has celiac disease, a gluten or wheat allergy or intolerance, with almost one-third of Canadians seeking out gluten-free products.

Product (Categories) with Best Potential

Top 5 U.S. Exports to Canada in 2014 are shown below:

1. Fruits and Nuts \$3.7B
2. Vegetables \$2.7B
3. Beverages \$2.5B
4. Baked Goods, Pasta, Mixes, Doughs \$2.4B
5. Sauces, Soups, and Processed Foods \$2.2B

The ethnic food market in Canada is estimated to be worth C\$65 billion and is growing by 15% to 20% annually. It is projected to reach C\$128 billion by 2020. Products aimed at the South Asian and Chinese market should lead this growth, especially in Toronto.

Because of Toronto's climate, it does not have access to fresh fruits and vegetables year round, with the exception of items grown in a greenhouse (e.g. tomatoes). Canada imports 80% of its fresh fruits and vegetables between November and June.

Country of origin is growing in importance for food and is turning historically low involvement categories (meaning that the consumer puts minimal consideration into the purchase) like produce into a higher involvement category. Seen as a trusted neighbor, the U.S. is seen by Canadians as the next best thing to buying local.

E-commerce Sector Analysis

Online Grocery

E-commerce is only a fraction of Canada's total grocery market. As of last June, Profitero estimated it at just 0.5% compared to an estimated 4% in the US. Although, the research firm predicted that online could rise to three per cent of grocery's total by 2018.

According to Nielsen, research shows that 19% of Canadian households buy food online. The fastest growing categories in 2014, according to Nielsen, were Condiments (+35%), Snack (+18%), and Baking (+12%).

A recent Ipsos Reid study shows that consumers 18-34 years of age are the most likely to buy online, with reported annual spending of C\$954. Groceries make up 14% of that spending.

Canada's big grocery retailers are starting to invest in online. Loblaw Companies began a three-store click and collect service in Toronto in 2015, and plans to expand that to 50 stores within the year.

Walmart has just launched an online grocery pick-up service in Toronto. Customers can order online at Walmart.ca, then choose which of the 12 stores they want to go to and retrieve their groceries. Walmart will charge \$3 for online orders. Loblaw, whose click and collect service is similar to Walmart's, charges between \$3 and \$5, depending on pickup time.

Independent grocer Longo's online home delivery service, Grocery Gateway, was launched in 2004. Longo reports increasing revenues between 10% to 12% a year, as consumers grow increasingly comfortable with online shopping. It now has a delivery license issued by the Alcohol and Gaming Commission of Ontario, and has added wine and spirits to the approximately 9,500 grocery items available for order online. It does not stock any of the alcohol products.

Amazon has been ramping up its CPG product assortment in Canada, though the company has yet to launch a fresh delivery service as it has done in the United States.

Total Consumer Spending & Habits

Shoppers are increasingly using technology to make their purchase decisions with 48% reporting that they use apps and websites to help them make food choices.

Coupons and offers drive technology use, with 69% using online or interactive tools for coupons, 45% for email offers, 40% for shopping lists, and 34% for recipes.

Food delivery apps are also growing in importance within the fiercely competitive Toronto market. Toronto is the only Canadian city where UberEats is available, delivering food from over 100 restaurants to approximately a 15km radius outside Toronto's downtown core. Foodora acquired Hurrier in 2015, planning to bring the strengths of its logistics systems and its flat delivery fee to the service. Other food delivery brands include JustEat, Ritual, Grabb, Foodee, and OrderIt.

Opportunities & Trends

While e-commerce is still small, it will continue to put pressure on traditional brick and mortar retailers and restaurants to compete on lower prices, convenience, and the shopping/eating experience, especially in the densely populated Toronto market.

Toronto versus Montréal

Both markets are attractive options for importers and have food processing costs that are among the lowest in the G7. Toronto and Montréal have a food processing cost advantage of 9.4% and 9.5% respectively, compared to the U.S. Consumers in both markets consider U.S. origin products the next best thing to the Canadian products.

Montréal's grocery retail is less concentrated than Toronto, with chains accounting for 36% of sales in Quebec versus 60% for Ontario. This difference may be a result of less restrictive alcohol sales policies in Québec, allowing for a stronger independent store network. Montréal's restaurant industry is also made up of fewer chains than Toronto, with chains accounting for 31% of all restaurants in Quebec versus 45% in Ontario.

Toronto Market Overview Summary

Advantages	Challenges
One-quarter of all Canadians live within 93 mile radius of Toronto making it a well-positioned gateway to North America	High cost of housing (more than 3 times that of Montreal)
Second largest & fastest growing food & beverage cluster in North America	Low hotel occupancy rate of 68%
Strong demand for specialty foods due to high level of population diversity	Higher non-residential construction costs for restaurants
Canada's largest wholesale fruit & produce distribution center located here	Complicated system for beer sales
Food processing cost advantage of 9.5%	
Higher disposable income than Montreal	

Additional Information

Key Contacts

The Canadian Health Food Association - www.chfa.ca

The Canadian Federation of Independent Grocers - www.cfig.ca

A non-profit trade association which works on local, regional, and national levels on behalf of non-publicly traded grocery organizations, including retailers and distributors.

RCC Retail Council of Canada - www.retailcouncil.org

A not-for-profit, industry-funded association representing over 43,000 stores of all retail formats across Canada.

CCSA Canadian Convenience Stores Association - www.conveniencestores.ca

Represents over 31,000 members across Canada including corporate and independent C-Store operators, key industry suppliers and wholesalers.

Key shows & events

The Canadian Health Food Association - www.chfa.ca

CHFA East - held in Toronto every September

The Canadian Federation of Independent Grocers - www.cfig.ca

Grocery Innovation Show - held in Toronto every Fall. 2016 date Oct. 17-18

SIAL - www.sialcanada.com

SIAL Canada alternates between Toronto and Montréal annually. Next Toronto show will be May 2-4, 2017.

RCC Retail Council of Canada - www.storeconference.ca

Toronto May 31- June 1

Key HRI contacts

Restaurants Canada - www.restaurantscanada.org

The largest association in Canada representing foodservices industry including restaurants, bars, cafeterias, coffee shops, and caterers.

Ontario Restaurant Hotel and Motel Association (ORHMA) Toronto Region

www.orhma.com/AboutUs/ORHMARegions/TorontoRegion.aspx

The largest provincial hospitality association in Ontario (the City of Toronto is the capital of Ontario).

Top Food Service Distributors

Sysco Canada - sysco.ca

Gordon Food Service - gfs.ca

The National Food Distributors Association Canada - www.nfda.ca

Key HRI shows & events

Restaurants Canada - www.restaurantscanada.org

Restaurants Canada holds one show a year for the Canadian restaurant and foodservice industry in Toronto at the end of February.

Key food processing contacts

Food & Consumer Products of Canada (FCPC) - <http://www.fcpc.ca/>

The national association representing the food, beverage, and consumer products industry.

Food & Beverage Ontario - <http://www.foodandbeverageontario.ca/>

The provincial association representing the food and beverage industry.