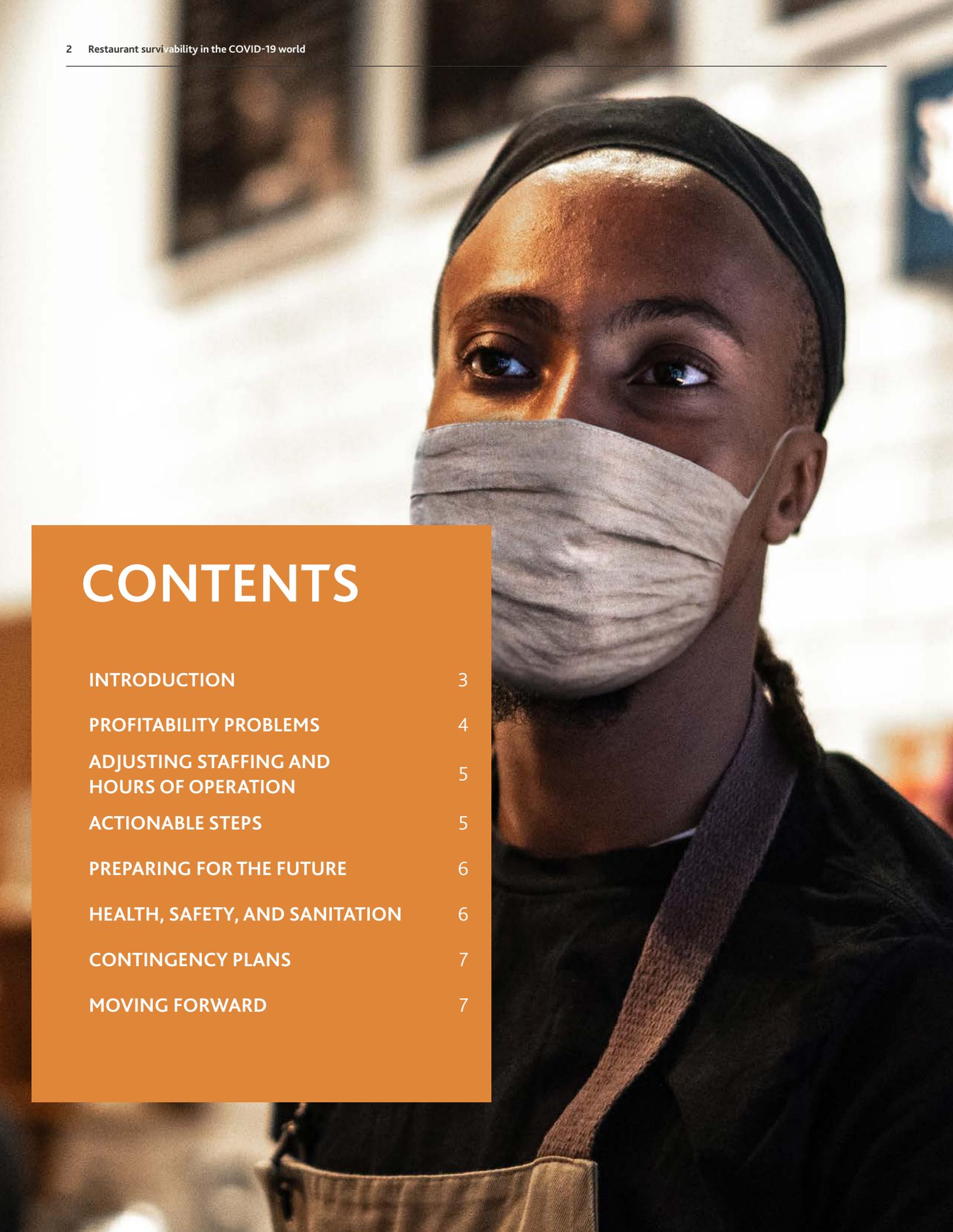


A woman with long dark hair, wearing a white face mask and a blue and white striped apron, is looking down at a white tablet computer. She is sitting at a wooden table in what appears to be a restaurant or cafe. In the foreground, there are some papers with blue charts and graphs on the table. The background is slightly blurred, showing other people and greenery. There are two vertical red bars on the left side of the image.

Restaurant survivability in the COVID-19 world

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INTRODUCTION

While restaurants have come a long way since they had to close down due to COVID-19, they're still facing an uphill battle. The majority of restaurant businesses in Canada are facing operational losses and could take a year, or longer, to see profitability, according to a survey from Restaurants Canada.

Restaurants and other foodservice businesses are the fourth-largest source of private sector jobs in Canada. The industry employed about 1.2 million people prior to COVID-19, with the pandemic forcing more than 800,000 people out of the foodservice and hospitality sector. While the latest Labour Force Survey from Statistics Canada shows employment increased by 100,500 jobs in July, the industry is still without more than 300,000 jobs compared to February levels.

The restaurant industry will likely have to rely on assistance for a while longer, whether that is rent relief or help with cash flow.

This guide will help restaurant owners and operators improve profitability, take actionable steps to survive the pandemic, and prepare for the future.

INDUSTRY STATS

PRE COVID-19

1.2M

Employed in the foodservice
and hospitality sector

DURING COVID-19

800,000

Lost jobs in the industry during
February, 2020

100,500

Jobs gained by July, 2020

300,000

Still unemployed compared to
February, 2020

Financial data will continue to be key for improving profitability

PROFITABILITY PROBLEMS

Before COVID-19, many independent and franchised restaurants were keen to improve profitability, but it's become the number one concern for restaurants given the current environment. Financial data will continue to be key for improving profitability. Good financial data allows for comparisons with projections, previous periods, and the best-run locations in your franchise system or other stores if you are a multi-location operator.

Accurate financial data will assist with accessing certain government programs, such as the Canada Emergency Wage Subsidy (CEWS). CEWS has been a lifeline for the restaurant industry. A Restaurants Canada survey indicated that 75% of restaurant operators are receiving CEWS.

Managing cash on hand continues to be essential. Running regular cash flow forecasts is crucial for restaurant operators. Forecasts should address questions such as:

- ▶ What will the restaurant look like with a 50%, 75%, or 100% occupancy?
- ▶ What are the 3, 6, or 12-month forecasts?
- ▶ What deferred payments will be coming due such as taxes, rent, and loan payments?
- ▶ Where will you finance any shortfalls?

There are many considerations for restaurant owners from managing a smaller restaurant capacity to staffing, while trying to remain profitable.

ADJUSTING STAFFING AND HOURS OF OPERATION

As the pandemic is unpredictable, the situation might change again for the restaurant industry in the future. Once colder months arrive, it might not be possible to accommodate customers outdoors. If capacity levels change, staffing levels will need to be adjusted. Analyzing changes to customer traffic and behaviours can help restaurants adapt and quickly adjust to ongoing fluctuations.

Restaurants should continually review hours of operation to compare revenue to cost of labour and other relevant expenses, especially if you find business is slowing down or increasing. Restaurant owners may want to have shorter operating hours as daylight dwindles resulting in decreased demand for patios, and during the winter if it's not as busy. While increasing revenue is important, overall profitability might decline with longer operating hours. Most restaurants will continue to need government support. Restaurant owners should take the following steps to help their restaurant through the pandemic.

ACTIONABLE STEPS

- ❑ **Continue to use cost assistance.** If you are eligible for CEWS, continue to follow the requirements to ensure you receive it. Leverage the Canada Emergency Commercial Rent Assistance (CECRA) program or any other relief programs if you're eligible.
- ❑ **Seek help with cash flow and increasing debt levels.** Restaurants need sufficient working capital to stay viable for as long as the pandemic lasts. Restaurants should be able to access interest-free loans through the Canada Emergency Business Account (CEBA) program. You should also analyze how taking on this additional debt could affect impact future cash flow.
- ❑ **Financial recovery might be unavoidable for some.** Restaurant operators need to understand and consider all available options to develop a recovery plan while including all relevant stakeholders.

PREPARING FOR THE FUTURE

Restaurants will have to decide whether to hunker down and wait out the pandemic, or invest in creative solutions to survive or thrive despite the current environment. Restaurants will likely have to be creative to maintain profitability until conditions normalize. It will be important to think outside the box. Consider produce boxes, selling any extra raw ingredients, increasing your offerings, menu innovation, and selling alcohol to go if you are not already doing so. Restaurants like Swiss Chalet are selling bottles of wine for customers to take home with carryout meals.

A Restaurants Canada and BDO survey indicated that for those with multiple locations, 41% are planning to invest in website, ecommerce, or mobile solutions. In April, new technology was considered key to business growth, with 4 in 5 businesses willing to invest in new technology to improve efficiencies and customer experience, according to a BDO Restaurants Study. There might not be huge investments in technology over the next year, but there are some emerging trends.

These trends include changes such as implementing self-service kiosks, which can help maintain space between the staff and customers. Contactless options are also gaining popularity. Restaurants are turning to disposable and downloadable menus—using a QR code, disposable cutlery, and no-touch payment. Some restaurants are creating their own online ordering system, which helps cut fees to third-party vendors, such as Uber Eats and DoorDash.

Assessing the approach, and ensuring that cash flows support the decisions are critical early in the process, while restaurants still have the cash available to invest in executing creative solutions.

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Restaurants will have to be creative to maintain profitability until conditions normalize

HEALTH, SAFETY, AND SANITATION

The safety of staff and customers will continue to be top of mind in the restaurant industry. A “Hygiene Representative” could become more common in restaurants. The concept is about protecting staff, customers, delivery partners, and anyone else who may enter restaurants.

This role involves managing the flow of all customers, seating customers at specific tables, and maintaining the highest standards for restaurant cleanliness. While the role is not required, the highest sanitation standards have to be maintained in restaurants.

Lastly, restaurant owners should consider whether they are prepared to handle confirmed COVID-19 cases at one of their locations. A policy for handling outbreaks to include contacting customers, suppliers, and anyone else who visited the restaurant is paramount. There should be a plan for shutting down operations for a period if necessary.

CONTINGENCY PLANS

With so much unpredictability surrounding COVID-19, it's important to prepare as much as possible. There will likely be a second wave resulting in restaurants needing to alter their operations again. If necessary, is your restaurant prepared to quickly pivot back to delivery and take out only?

Ensure the restaurant website and social media channels are updated with available menu items, hours of operation, and delivery options. Consider reverting to reduced hours if that helped your restaurant during the initial shutdown.

Consumer behaviours have changed—more than two in five consumers have turned to cooking meals at home more often, according to a Technomic report. As many restaurant operators relied on social media to engage with customers, they may have built a following during the first shut down. Leverage your audience with interesting content like demos of home cooked meals, cooking classes, and recipes.

While patio season usually ends with the summer, extending patio season will be an important consideration for restaurants this year. Outdoor heaters, covered patios, and blankets could help attract customers to your patio through the fall.

MOVING FORWARD

The restaurant industry is incredibly important to the Canadian economy and local communities. Restaurants usually spend more than \$30 billion a year on food and beverages, which plays a pivotal role for Canadian farmers and the agri-food sector. Healthy and thriving restaurants are vital to the COVID-19 recovery.

The restaurant industry was one of the first and hardest hit by COVID-19, and there is still so much uncertainty for the future. However, according to Technomic, many consumers believe their previous takeout (52.4%) and dine-in (52.9%) foodservice practices will return to normal once the pandemic is over. With careful planning and flexibility, restaurants will make it through to the other side.

BDO is here to help with many challenges from cash flow projections to improving profitability.





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