



Overview of the Food Service Market in the Pacific Southwest States

July 2006



The Government of Canada has prepared this report based on primary and secondary sources of information. Readers should take note that the Government of Canada does not guarantee the accuracy of any of the information contained in this report, nor does it necessarily endorse the organizations listed herein. Readers should independently verify the accuracy and reliability of the information. This report is intended as a concise overview of the market for those interested in its potential and is not intended to provide in-depth analysis which may be required by the individual exporter. Although every effort has been made to ensure that the information is correct, Agriculture and Agri-Food Canada assumes no responsibility for its accuracy, reliability, or for any decisions arising from the information contained herein.

Please address any comments or suggestions you have on this report to:

Ben Berry - berryb@agr.gc.ca

EXECUTIVE SUMMARY

This report is intended to provide Canadian exporters with an overview of the food service market in the Pacific Southwest region of the United States. This region includes the states of California, Arizona, Nevada, Utah and Hawaii. The information contained in this report was drawn from a series of secondary sources as well as market intelligence generated from Canadian diplomatic staff.

This region is a prominent market in North America due to its sheer size, wealth, and trend-setting consumer base. Food consumption in the region is influenced by the aging Baby Boom generation, the time pressures of dual-income households, growing demands for healthy, convenient products and a large and quickly growing ethnic population.

QUICK FACTS

- The National Restaurant Association estimates that annual sales will reach US\$511 billion nationwide, with 12.5 million employees and 925,000 locations serving over 70 billion meal and snack consumer requirements. This represents the 15th consecutive year of real growth, with restaurant industry sales forecast to increase by 5% in 2006, to a point where it represents nearly 4% of US gross domestic product.
- Over \$1.6 billion in Canadian agricultural exports went to this region.
- This market features a strong demand for distinctive, high-quality products at competitive prices; potential exists for private-label goods, specialty foods, convenience foods, natural products and ethnic food items.
- This region accounts for roughly 16% of the US population and over 16% of total restaurant sales in the US.
- This industry employs nearly 2 million people within the region – and on average represents 11% of total employment per state.
- This region accounts for nearly 45% of the total travel market share for the nation. This translates into nearly 11 million visitors to the region. The food trends at resorts, hotels and conference centers echo the overall food trends at restaurants as consumers are looking for smaller portions, quick, healthy, and fresh foods that do not sacrifice unique taste.
- Two years ago the American Hispanic population spent US\$581 billion on goods and services. Today, their purchasing power has risen to US\$700 billion, and is projected to reach US\$1 trillion by 2010. This consumer segment is particularly important to note in the Pacific Southwest region, as most states within the region have higher than national average Hispanic populations.

THE UNITED STATES AS A MARKET

The United States represents Canada's largest export market. In 2005, Canada exported \$348.1 billion worth of goods and services to the United States, an increase of over \$20 billion from 2004 totals. Canada imported \$214.9 billion in return, an increase of over \$6 billion from 2004. These values lead to a positive Canadian balance of trade of roughly \$133.2 billion for 2005.

Canada exported over \$15.8 billion in agricultural and agri-food goods to the United States in 2005. These exports were lead by meat and edible meat offal, preparations of grains, pasta, live animals, as well as edible vegetables.

The food service sector across the United States faced considerable obstacles in the past year. Food service operators and their distributors were challenged by an intense storm season, mad cow (BSE) and bird flu concerns, as well as a sharp increase in energy costs. As is the case in most industries, food service operators had to quickly adjust to widespread economic and environmental influences; as a result many opted to stock fewer ingredients with less focus on high-end meal components.

Despite these challenges and the necessary industry adjustments, the National Restaurant Association's outlook for 2006 remains strong. Analysis has shown that nearly 60% of food service operators have reported sales gains over the previous year, nearly 50% have reported increased customer traffic and finally, over 60% plan on making significant capital expenditures on their establishments over the next 6-12 months. All these indicators point to promising industry performance results in 2006 and towards 2007.

Finally, growth in the sector in its entirety is influenced by consumer lifestyle trends and economic pressures. Increased time pressures cause consumers to eat away from home more often. Likewise, consumers increasingly demand cuisine uniqueness without compromising health and taste attributes as well as reasonable price associations. The challenge for food service operators is finding ways to keep prices low despite rising commodity/input prices and sophisticated consumer demands.

THE PACIFIC SOUTHWEST

The Pacific Southwest region accounts for roughly 16% of the US population and over 16% of total restaurant sales in the US according to the National Restaurant Association. This region's combined GDP of US\$46 billion is comparable to the GDP of countries like the Ukraine and Morocco.

This region has experienced strong growth in terms of population, employment and disposable income. Trade agreements like the North American Free Trade Agreement (NAFTA) are helping the industry in this region prosper. The food service market is vast, dynamic and extremely competitive. It is a market that perpetuates economic growth and consistently generates high sales and tax revenues. Likewise, this is an industry that employs nearly 2 million people within the region – and on average represents close to 11% of total employment per state. This industry's performance and growth is central to the overall economic health of the region.

The significant population growth in the Pacific Southwest over the past 10-15 years is due in part to the US government's provision of land for resource development. The US government allows for things such as oil and gas drilling and distributes grazing permits for livestock. Local and state government also offer incentives such as low taxes, cheap utilities and inexpensive land as incentives to attract business, which in turn attracts a workforce.

As urban areas develop and farmland decreases, the Pacific Southwest region has a greater need for imported goods in an effort to satisfy the food demands of a growing urban and working population.

The Pacific Southwest is close in proximity to Canada. This puts Canada in an excellent position to take advantage of the opportunities that a market of this magnitude has to offer. It is important to note that this is also one of the most competitive markets in the world, due to extreme market competition and an ever evolving consumer base. As a result, this market demands well-defined and concise business strategies on the part of Canadian exporters.

This market is characterized by a strong demand for distinctive, high-quality products at competitive prices; potential exists for private-label goods, specialty foods, convenience foods, natural products and ethnic food items.

In the broadest sense, there are four demographic trends that significantly affect sales volume and spending patterns in the Pacific Southwest food service industry. These factors are currently, and have been for many years - the most important to consider when entering the market:

- The ratio of Hispanic population to the general population at large → *A more diverse range of products appeals to the local consumer and is therefore sought after by the food service operator.*
- The percentage of dual income households, and the impact this has on time consumption → *More families have a disposable income capable of accommodating the choice to eat out or take out, as a time saving activity.*
- The aging baby-boomer population → *Consumers in this particular segment are seeking product offerings with high nutritional value as current health and future health is top of mind.*

The food service sector in this particular region is closely tied to a rebounding, and in many cases thriving tourism industry in most of the major cities housed within the Pacific Southwest. It is estimated that on a nationwide scale, travelers and visitors account for close to 40% of fine dining sales, and 25% of casual dining sales. In a region that encompasses many popular travel destinations such as San Francisco, Las Vegas, Honolulu, the Grand Canyon or Salt Lake City, the food service sector is bound to thrive and remain highly competitive within the region during periods of consistent growth in tourism.

Canadian Exports to the Pacific Southwest

Over \$1.6 billion in Canadian agricultural exports went to this market. Canada's top agricultural food product exports to the Pacific Southwest region in 2005 were bovine cuts (boneless, fresh or chilled) accounting for 17.5% of total exports, rape/colza seed oil-cake at 7%, bovine (live except pure-bred breeding) at 4.3% and swine cuts (fresh or chilled) accounting for 3.7% of total exports. Exports have remained consistent over the past few years with exact totals ranging from \$1.646 billion in 2003, to \$1.681 billion in 2004 and \$1.645 billion in 2005.

STATE OVERVIEWS

California

- California has the largest economy in the United States.
 - Approximately 12.5% of the entire US population lives in California.
 - California has a population of roughly 34 million people, and a median age of 33. The largest age segment is 35-44 yrs, who make up 16.2% of the population.
 - 32.4% of the population is Hispanic or Latino. This is more than double the national average.
 - As California's population continues to grow, so does its reliance on imported food.
-
- In 2005 Canada and California exchanged approximately US\$3.2 billion worth of goods and services across all industries.
 - Top Canadian agricultural exports to California in 2005 were meat and meat offal, preparations of grains, pasta, food industry residues and waste, and prepared fodder.
-
- To prove how vital and instrumental the food service industry is to the overall economic health of a State; for every dollar that is spent in a food service establishment in California, US\$1.41 in sales is generated for other industries in the state.
 - It is estimated that the restaurant and food service industry in California employs approximately 1.56 million individuals, with the prospect of adding over 210,000 more jobs to this total by 2015.
 - Restaurant and food service employment represents over 9% of total employment in the State of California.
 - There are an estimated 87,225 eating and drinking establishments in California.
 - These establishments are predicted to generate sales of over US\$51 billion in 2006.

Arizona

- The food service industry in Arizona employs approximately 234,000 people, a number that will likely grow by 25% over the next 10 years.
 - There are an estimated 11,790 eating and drinking establishments in the State of Arizona.
 - US\$7.4 billion dollars in sales are projected to be generated by these establishments in 2006.
 - In 2005 there were nearly 29 million tourists who visited Arizona, the majority of which were domestic, with approximately 560,000 of this total from international settings.
-
- Arizona has a population of roughly 5.1 million people and a median age of 34.2 years. The largest segment of Arizona's population is in the 35-44 (15%) age range.
 - From 1990-2000 the population of Arizona grew by roughly 40%.

- 25.3% of the population is Hispanic or Latino. This is twice the national average.
- Arizona suffered from severe droughts in recent years, seriously hurting its agricultural sector, but opening the door for food exporters to fill this production gap.
- In 2005 Arizona and Canada exchanged approximately US\$2.9 billion worth of goods and services across all industries.
- Top Canadian agricultural exports to Arizona are meat and edible meat offal, beverages, spirits and vinegar, as well as preparations of grains and pasta.

Nevada

- Nevada's food service and restaurant industry employs approximately 185,000 people, a number that is expected to grow by over 20% in the next 10 years.
- There are an estimated 5,300 eating and drinking establishments in Nevada.
- US\$3.7 billion in sales are projected to be generated by these establishments in 2006.
- Nevada is projected to lead the nation in restaurant sales in 2006, with an anticipated 8.9% increase in sales according to the Nevada Restaurant Association.
- Nevada holds status as a major distribution centre for most of western United States.
- Nevada has a population of roughly 2 million people, a median age of 35, and the largest segment are the 35-44 year olds who make up a little over 16% of the population.
- 19.7% of the population is Hispanic or Latino; this is well above the national average of 12.5%.
- Nevada has an economy valued at approximately US\$117 billion.
- Top Canadian agricultural exports to Nevada in 2005 included spirits, pet food, food preparations and non dairy ice products.
- In 2005 Canada and Nevada exchanged over US\$1.3 billion in goods and services across all industries.

Utah

- In 2006 it is estimated that over 98,000 people within the state will be employed by the restaurant and food service industry.
- There are an estimated 4,690 eating and drinking establishments in Utah.
- US\$2.7 billion in sales are projected to be generated by these establishments in 2006.
- Utah has a population of roughly 2.3 million.
- Utah's median age is approximately 27, well below the national figure of approximately 35. Utah is expected to have the youngest population in the nation for a number of years.
- 9% of the population is Hispanic or Latino, slightly below the national average, but a rate that is expected to grow in coming years.

- The state is in a period of rapid population growth as a result of the area's higher birth and immigration rates, primarily attributed to the Latino population.
- Utah is the 11th largest state in the US according to area, of which the federal government owns 65%.
- Utah has the most persons per household at 3.1, compared to a national average of approximately 2.6. Likewise, Utah's number of people per family figure is in the 3.6 range, considerably higher than the national average of 3.1.
- Top Canadian agricultural exports to Utah in 2005 were live animals, pork products, food preparations, as well as bread and pastries.
- In 2005 Canada and Utah exchanged nearly US\$2.5 billion in goods and services across all industries.

Hawaii

- Nearly 83,000 people are employed by Hawaii's restaurant and food service industry.
- There are an estimated 3,790 eating and drinking establishments in Hawaii.
- US\$2.8 billion in sales are projected to be generated by these establishments in 2006.
- Hawaii has a population consisting of approximately 1.2 million people, a population that is supplemented by a substantial tourist population that reached 6.9 million in 2004 (air and cruise ship arrivals total).
- Hawaii's ethnic composition is different from other Pacific Southwest state. 58% of the population is Asian, while just over 7% is Hispanic or Latino.
- Major industries in the state include tourism, agriculture, film and television production and specialty food products.
- In 2005 Hawaii and Canada exchanged approximately US\$130 million in goods and services, with approximately 220,000 Canadians visited Hawaii and spending nearly \$310 million during their stay.
- Agricultural products are the states leading export to Canada, while Canada sent approximately US\$10.3 million in agricultural goods to Hawaii dominated by beverages, sprits and vinegar, edible preparations and live animals.

Key Sub-markets

The key food distribution hubs in the US Pacific Southwest are Los Angeles, San Francisco, Fresno, Phoenix, Salt Lake City, and Hawaii (Honolulu). These hubs represent some of the largest cities in the region, and are excellent starting points for penetration into this market. They do not, however, represent the best or only entry points for specific products. Given their population, location and importance to their respective states, these cities were selected as possible food service market entry points. There are a number of other cities in the region whose large size may provide opportunities for exporters, such as San Diego, Las Vegas, San Jose, or Anaheim.

Los Angeles, CA

- Los Angeles County accounts for roughly a third of the total population of California (11.3 million). This is more people than the entire populations Utah, Nevada, Arizona and Hawaii combined.
- Los Angeles' population has a median age of 32 and the largest single age group in this city is the 25-34 year old range (over 18% of the population). It is the manufacturing centre of the United States, with extensive industry clusters and unrivalled industrial infrastructure.
- Los Angeles is also the centre of the nation's largest consumer market, a diverse concentration of 16 million people. Los Angeles alone accounts for around 8% of the total US population; this is a dynamic, trend-setting area.
- Los Angeles is the second largest Latino city in the world, second only to Mexico City.

San Francisco, CA

- San Francisco has a population of more than 700,000 people.
- The San Francisco-Silicon Valley area is the nation's fourth largest economic area, accounting for 3.8% of the US population, and is one of the fastest-growing areas in California.
- San Francisco's median age is 37, and the largest age group is the 25-34 year old range (23.2%). This is also a vibrant area in the US, known for its ability to dictate style and influence consumer tendencies.
- Opportunities for Canadians exist in niche market products targeted at the local population and tourists.
- This area boasts a highly educated and skilled work force, with high per capita income supporting extensive retail trade and personal services sectors.
- Extremely high costs of living and doing business, with limited geographic area for industrial expansion. These limitations open up opportunities for quality, lower-priced exports destined for the food service sector.

Fresno, CA

- Greater Fresno has a population of 1.7 million people.
- The large consumer base and high population growth is due to the low cost of living.
- The local economy is insulated from business cycles because of a large government sector.
- Fresno is currently the sixth largest city in the state of California
- The largest segment of the population is the 25-34 year old range (14.8%). Fresno's median age is 28.5 years and 36% of the population is 19 years of age or younger.
- This city is close to key agricultural operations in the state. Nationwide, Fresno ranks first in grape production, cotton, and tomatoes, third in peaches, plums and prunes and fifth in lettuce production

Phoenix, AZ

- Phoenix is the fifth-largest city in the US.
- Greater Phoenix has a population of approximately 3.2 million.

- The largest age group in this city is 25-34, representing 17.2% of the population. The median age in Phoenix is 30.7.
- Rapid economic and population growth has fuelled a strong market for services and trade.
- Low wages, energy rates and taxes continue to attract firms to this area.
- The area's major industries are 1) high-tech manufacturing, 2) tourism and 3) construction.
- Phoenix has an impressive tourism industry which hosts more than 13 million people each year, this number is largely made up of domestic tourists.

Salt Lake City, UT

- 40% of the population of Utah live in the Salt Lake Area. It is the state capital.
- Salt Lake City accounts for 1.2% of the US population base, with a population of 181,743.
- The largest demographic group is the 25-34 year old group who make up 19.7% of the population. The median age in Salt Lake City is 30.
- Lower wages, lower costs of living, and a highly educated labour force make Salt Lake City a popular metropolitan area for business.
- The city's economy is primarily driven by the service sector.

Honolulu, HI

- The largest city and the capital of Hawaii, the city and county of Honolulu (which encompasses the entire island of O'ahu) accounts for over 70% of Hawaii's total population.
- The population of Honolulu is 371,657 people, the largest portion of which (15.4%) are between the ages of 35 and 44. The median age is 39.7 years.
- A large military presence provides an insulating role in the Honolulu's economy and adds US\$4.7 billion to the local economy annually.
- Strategic Mid-Pacific location makes Hawaii an ideal bridge to serve lucrative markets on both sides of the Pacific.
- Growing economies in Asia and California will boost local tourism activity.
- The economy is service-oriented with hotels and other service providers accounting for more than one-fourth of the jobs.

THE FOOD SERVICE SECTOR

Over the past few decades the restaurant industry has become an undeniable influence on, and indicator of national economic performance as a whole. This all encompassing industry includes commercial and non-commercial food service establishments; segments like military restaurant services or institutional food service establishments all fall under the US restaurant industry umbrella.

The National Restaurant Association; an American organization considered the leading business association for the restaurant industry, estimates that annual sales will reach US\$511 billion nationwide, with 12.5 million employees and 925,000 locations serving over 70 billion meal and snack consumer requirements. This represents the 15th consecutive year of real growth, with restaurant industry sales forecast to increase by 5% in 2006, to a point where it represents nearly 4% of US

gross domestic product. According to the National Restaurant Association, restaurants and bars account for just over US\$360 billion of this total, with other categories such as hotel food service and food service vending representing the other 30% of the food service market. According to a Food Institute report, eating and drinking places recovered from slower growth rates during February of 2006, to experience sales of nearly US\$36 billion in March of 2006, a value that was up nearly 9.2% from the previous year's totals during that month. With such promising and rebounding indicators, the National Restaurant Association's estimate that sales will surpass the US\$500 billion mark in 2006 seems on par.

Consistent consumer demand is the key reason why an industry as diverse as this is capable of recording substantial growth from year to year. With the typical American consumer spending approximately 45% of their "food" dollars on restaurant industry spending; industry operators are exploring new and advanced food preparation techniques, using diverse produce, flavours and seasonings, and producing health and wellness considerate menu options in an effort to meet and exceed consumer demands and attract their portion of this substantial spending.

Fast Facts

- Fast casual restaurant formats have grabbed sales from fast food formats. Regardless of a desire for quick service, consumers are demanding healthier, fresher and more creative alternatives to a typical fast food offering.
- Major activity has been seen in the specialty coffee shop format; a format that has grown nearly 55% according to Euromonitor's Restaurants and Cafés in the USA report (2005).
- Independent restaurants that stray from a sales volume approach to business, and instead offer unique/quality foods, are the types of restaurants that currently erode the fast food industry.
- As cities and populations expand, outlet movement is directed toward the suburbs. This movement creates locations called exburbs, where many popular full service type restaurants flourish off of a localized market.
- Solid sales and sustained growth characterize most of the 500 largest restaurant chains in the US over 2004-200; these larger chains are capable of soaring over challenges that hinder less established chains or independent operations.
- Limited service restaurant categories that exhibited larger than average rates of growth were the hamburger (10.9%), specialty beverage (28%), bakery café (22%), other sandwich (besides hamburger) (9.5%), and Mexican (8%) categories.
- In the full service category, steak and Italian themed restaurants exhibited growth rates of approximately 10% while most other formats in this category grew at a rate between 6 and 7%.
- Heavy rates of expansion in the food service sector are anticipated to occur in less traditional locations including airports, hotels, and theme parks.

Commercial Sector

Commercial food service providers including fast food outlets, quick and full service and other restaurant formats, account for nearly 80% of away-from-home expenditures. Favourable conditions helping the growth of the food service industry include the narrowing gap between the price of eating out and eating at home, and the rising number of dual-earner households. Unfavourable conditions hindering the

growth of the food service industry include rapidly rising fuel costs and concerns for food safety bumping up commodity costs.

Current trends within the commercial food service sector include companies developing a variety of restaurants to satisfy consumer preferences, fast-food outlets redesigning their menus to offer selections similar to those available at quick casual restaurants, and restaurants and food retailers competing to meet the needs of quick casual diners with home meal replacement products. Companies are also attempting to associate their food products with popular health-oriented brands in order to tap into the trend toward healthier eating.

Quick Service

Quick service category growth will be driven by "quick-casual" or "fast-casual" formats within this overall category. Such restaurants offer full-service quality food in a quick-service format with a greater variety of menu offerings than fast-food outlets.

- Quick service restaurants will look towards co-branding (multiple brands under one roof) to increase market penetration.
- The greatest challenge these formats face is maintaining a balance between choices which cater to consumer needs, without sacrificing the rapid service and relative value they have come to expect.
- Nuevo Latino restaurant chains are a rapidly growing Latin American quick-casual market niche.
- Increasingly popular cooking techniques and offerings include flame-roasted and fruit-wood smoked foods, as well as the option of building "personal combination meals".
- Custom-made sandwich sales are increasing at a pace of 15% annually compared with hamburgers at 3%. These sandwiches are made with fresh and specialty ingredients, satisfying the demand for convenient and fresh foods.
- Many quick casual restaurants have become known for a limited yet specialized selection of dishes. It is this specialization and expertise that makes even a quick service dining experience memorable and worth repeating.

Full Service

With the gap in price between dining at home and dining out gradually decreasing and consumers enjoying increased disposable incomes, people are taking more opportunities to diversify their food palette with the convenience of personalized service. Full service restaurants are also exploring new culinary techniques to satisfy the consumer demand for fresh, authentic and unique food choices.

- 2005 brought sales of nearly US\$165 billion for full service restaurants; a 5% increase over 2004, or real growth rate of 2.2%.
- An increasingly solid economy is emerging in the US, and this is a promising thing for full service operators; as approximately 70% of this group has projected sales growth in their respective establishments based on this outlook.

- An increase in tourism rates (detailed below) and tourism spending will spur full service sales growth.
- Home meal replacement is a major trend that full service restaurants may cater to in the future. Some establishments currently offer "drive-up and takeaway" service, allowing consumers to phone in their order ahead of time and then have their meal delivered to their car upon arrival.
- Challenges that the full service category faces: increased competition and saturation within the market, increased input and operational costs cutting into profits – with higher menu prices a last resort; because these formats do not deal in volume, such challenges tend to surface.
- With all these challenges, operators are working hard to leverage existing assets and capabilities to extend their establishments into areas like catering, banquet hosting and delivery services.

Food Service and Tourism

The travel and leisure industry has rebounded quickly in the Pacific Southwest region since the economic recession in 2001. This region accounts for nearly 45% of the total travel market share for the nation. The trends at resorts, hotels and conference centers echo the overall food trends at restaurants as consumers are looking for smaller portions, quick, healthy, and fresh foods that do not sacrifice unique taste.

- The U.S Department of Commerce announced that in 2005, tourism spending in the United States had finally rebounded from 9/11 impacts to reach a total of US\$104.8 billion; this total surpasses the US\$103.1 billion dollar mark set the year before the events of 9/11.
- Within the Pacific Southwest region, there are three states that are in the top 5 tourist destinations in all of America. California ranks #2, Hawaii #4 and Nevada #5. These rankings and their corresponding tourism market shares mean much of the approximate US\$105 billion spent in the US tourism industry is focused in these areas, and in the restaurant and food service industries contained in these locations. This is a large and lucrative market to be a part of.

Non-Commercial Sector

In 2005, according to US Census Bureau numbers, national non-commercial food sales stood at US\$55 billion dollars (including employee, educational, hospital and club restaurant services). The non-commercial food service sector has shown slow growth as it continues to adjust to changing food demands and stricter food regulations among other factors. Changing customer eating habits have strongly affected this sector, as employees are demanding that workplaces provide quick, healthy and fresh food choices.

Note: All food products in schools must be domestically produced. The United States Department of Agriculture forbids foreign countries to export food products to United States schools (kindergarten to grade 12).

Colleges and Universities

Post-secondary food service providers are becoming increasingly sensitive to college student demands for authentic ethnic foods, vegan/vegetarian foods, healthy options, and organic/sustainable foods. Campus convenience stores are becoming "hybrid" operations that offer partially prepared meals and flexible lifestyle menus, and create a selection of food service outlets on each campus, and more flexible meal plans.

- There are more than 170 colleges and universities in the Pacific Southwest region, most of which have contract operated food service.
- The country's post-secondary school food service segment is estimated to grow from US\$9 billion in 2002 to US\$13 billion by 2010; a 44% increase.

Hospitals

The aging baby boomer population has increased demand for quality healthcare services, including food service. The buffet-style food service is now taking on more of a bistro, quick and casual feel.

- Only one in five hospitals outsource to private food service providers, such as Sodexo USA and Aramark. The remaining are independent, hospital-run operations.
- More than 68% of meals are being served to individuals other than patients, including employees and visitors.

NICHE MARKETS

Demand for menu expansion in many Pacific Southwest restaurants reflects the growing cultural diversity of the area. Currently worth US\$75 billion, the American ethnic food market has grown from US\$53 billion in 2002. The composition of the ethnic food market by cuisine and sales breaks down into three major categories: Hispanic, African American, and Asian American foods.

Dishes from different ethnicities make their way into mainstream consumption patterns of sophisticated American consumers. Consumer preferences are changing the face of the restaurant industry and Canadian exporters have demonstrated the ability to deliver many products that are in demand in the Pacific Southwest region. New restaurants and menus are incorporating food themes such as:

- Nuevo Latino cuisine
- Comfort foods
- Tapas foods (i.e. Spanish appetizers served in Spanish-styled bars/restaurants)
- Organic-certified foods
- Noodle shops
- Live sushi bars

Hispanic

Over the last ten years, the Hispanic population in the United States has grown significantly, and no where is this more obvious than in the Pacific Southwest. Two years ago US Hispanics spent US\$581 billion on goods and services. Today, their purchase power has risen to US\$700 billion, and is projected to reach US\$1 trillion by 2010.

The Hispanic consumer segment is the largest growing ethnic minority in the United States, making up approximately 13% of the population and the largest ethnic food market in the country. This consumer segment is particularly important to note in the Pacific Southwest region, as most states within the region are characterized by higher than national average Hispanic population rates. By 2012, it is estimated that this segment will account for nearly one out of every five Americans, with an estimated 50 million Hispanics living in the United States.

This Hispanic food market includes products from the 27 Latin American countries, Spain and Portugal. Nuevo Latino cuisine is Latin dishes made with an American twist. Some recent product trends include ceviche, curtido, pupusas, paella, fabada, tapas, slow-roasting dishes, dulce de leche, tres leches, plantains, cherimoya fruit, pico de gallo, and Mateus wines. Popular flavours also include lemon Cajun, chipotle, mesquite, and chimichuri.

- California has the largest Hispanic market valued at US\$189 billion, Arizona is also among the top ten markets valued at US\$20 billion.
- 1/3 of Hispanic population is under 18 years old
- 67% of Hispanics are Mexican, 14% are South American, 9% are Puerto Rican, 4% are Cuban, and 7% from elsewhere.

CONSUMER CHARACTERISTICS

Growth within the Pacific Southwest food service sector is spurred by consumer lifestyle trends. As the average consumer faces time pressures, the accommodating option to visit a food service establishment is often used. It is estimated that approximately 7% of all household expenditures is focused on the purchase of food and non alcoholic beverages, of which a substantial portion is allocated to purchases relating to away-from-home eating.

- There are roughly 46 million people living in the US Pacific Southwest, of which about 76% reside in California.
- The aging of the Baby Boom generation is driving the median age of the US population steadily upwards. The largest population segment of all Pacific Southwest states, with the exception of Utah, falls between 35-44 years old.
- As the population gets older, it is also getting larger. There was a 13% increase in the census population for the US between 1990 and 2000. The states in the Pacific Southwest were leaders in population growth during the last decade. Nevada's population increased by 66%, Arizona by 40%, Utah by 29%, followed by California, 13% and Hawaii with 9%.
- A key demographic characteristic of the Pacific Southwest that differentiates it from other American markets is the above mentioned ratio of Hispanic population to the general population at large. This ratio significantly affects

- the volume of sales and spending patterns in the area. The Hispanic segment of the population in the Pacific Southwest region of the United States presents a significant opportunity for Canadian exporters.
- One exception to the aging population trend is in Utah, where roughly 32% of the population is under the age of 18, and only 8.5% of the population is over 65. This is well below the national average of 12.4%. The average household in Utah has 3.1 people - the most of any US state. Exporters to Utah will need to consider current marketing trends, such as the promotion of fruits and vegetables to younger consumers, and offering more bulk items that appeal to larger families.
 - The median household income for families in the Pacific Southwest is between US\$40,000 and US\$50,000.
 - The median age for people in this region is between 33 and 36 years old, with the exception of Utah, where the median age is 27.
 - The percentage of working mothers in California and Nevada is significantly lower than in the other states of this region. Only 32.6% of mothers work in California and Nevada, compared to Arizona, Utah and Hawaii, with 66.0, 66.9 and 72.5% respectively.
 - With growing numbers of mothers employed on a full-time basis, there is an increase in dual-income families who have little time to prepare meals. This is an obvious market opportunity in the eyes of food service operators and their suppliers.

CONSUMER BEHAVIOUR - FOOD SPENDING, EATING HABITS AND TRENDS

In general, consumers in the Pacific Southwest are inclined to experiment during their dining experiences, although consumer interest appears to be concentrated in products that offer nutrition, convenience and quality. Customers in this area will generally pay more for a dining experience that incorporates nutritional and quality components.

Interestingly, food spending, eating habits and trends are pointing towards a very palpable competitor to the restaurant and food service industry; this competitor is the US supermarket. Supermarkets of today infringe on the food service consumer base. US supermarkets are now in direct competition with the food service industry, they have ventured into home meal replacements (HMRs) in an attempt to build on the 21% of the takeaway food market they now hold, compared with restaurants which hold 22% of the market. Some supermarkets have begun to install drive through windows to improve accessibility, convenience and to better compete with the restaurant industry. Fresh, healthy, made-to-order sandwich counters in grocery stores are also providing competition for the take-out restaurant industry.

- Americans' are enjoying and experimenting with spicy and flavourful foods. This trend in eating is a result of the growing ethnic diversity within the country.
- Crossover foods or "fusion" foods, which merge elements of various cooking styles while not fitting specifically into one food category, are growing in popularity.
- Less obvious factors such as increased rates of international travel, and consumers increased exposure to ethnic cooking through television coverage

have a direct impact on the types of restaurants that are currently opening. Restaurants specializing in distinct regional cuisine will continue to emerge and flourish in years to come.

- Although industries like travel and tourism suffered post 2001, the restaurant industry remained healthy. Restaurant growth was limited; however overall sales grew as consumers increasingly made food service use a common part of their daily life.
- Euromonitor has identified, according to research from firm Ipsos Insight, that 32% of American consumers eat at restaurant or food service facilities a few days a week, while 61% do so at least once a week.
- With an “on the go” population, as much as 30% of Americans get a takeaway lunch or dinner a few days a week, while 60% get takeaway from a restaurant, deli or food stand at least once a week.

Health and Wellness

Health and sustainability continue to dominate consumption trends, causing restaurant owners to shift their starchy menus to leaner, protein-based dishes. The demand for vegetables, chicken, meats, fish, antipasto meats, cheese and olive oil continue to increase rapidly as people attempt to improve and maintain healthy, low-carbohydrate diets.

Personalization and Service

Personalization and quality food service are deciding factors in consumer choices. The demand for individual solutions will increase brand loyalty. Restaurants that offer separate weekday and weekend selections will meet the needs of consumers who need practical solutions on weekdays and who prefer premium quality dining on weekends.

At-Home Meal Solutions

Restaurant quality is the new trend in at-home meals. Chef or restaurant-branded products imply credibility. Consumers are looking for ingredients and home meal replacements to replicate the experience of dining out. Families are the most time conscious consumers and need ways to alleviate time pressured stress. Food service establishments are responding via their efforts to extend their business into easy to carry away take away meal options.

COMPETITIVE ENVIRONMENT

Canada has long been the number one exporter of meats, processed fruits and vegetables, grain mill products, bakery goods, sugar and confectionary, and fats and oils to the United States. This has given Canadian food a distinct advantage over international competitors; however, Canadian exporters will face intense competition from small to medium-sized local and national food manufacturers that typically operate on a regional level. There is also the presence of large multinational manufacturers who entered the Pacific Southwest market through acquiring smaller producers.

INTERNATIONAL COMPETITION

The top countries exporting agri-food and seafood into the United States are Canada, Mexico, Chile, France, Italy and China. The main imports originating from these countries are as follows.

- Mexico: edible vegetables, alcoholic beverages, edible fruits and nuts, beer and tomato products
- Chile: edible fruits and nuts, fresh grapes, shellfish, peaches, and alcoholic beverages
- France: wine, brandy, vodka, sparkling wine, and dairy products including cheese
- Italy: wine, olive oil, prepared cereal and flour, dairy products, and cheese
- China: prepared vegetables and fruit, seed oils, edible fruits and nuts, citrus fruit, and tea

CANADIAN POSITION

Canadian companies will find several opportunities in the Pacific Southwest food service sector. However, the consistently changing demographics and consumer demands in this region make it wise for exporters to conduct thorough consumer analysis and utilize Canadian government support provided domestically and housed within the region to guide and assist market penetration and expansion.

- Total agricultural food exports of over \$1.6 billion were exported from Canada to this market.
- Of this \$1.6 billion total, \$355 million consisted of intermediate goods, while approximately \$1.25 billion was in the form of consumer goods. The remaining exports were of bulk commodities.
- Canada's top agricultural food product exports to the Pacific Southwest region in 2005 were bovine cuts (boneless, fresh or chilled) accounting for 17.5% of total exports, rape/colza seed oil-cake at 7%, bovine (live except pure-bred breeding) at 4.3% and swine cuts (fresh or chilled) accounting for 3.7% of total exports.
- Exports have remained consistent over the past few years with exact totals ranging from \$1.646 billion in 2003, to \$1.681 billion in 2004 and \$1.645 billion in 2005.

FOOD DISTRIBUTION

The Pacific Southwest region houses numerous distribution centres for some of the largest food distributors in North America. To arrange distribution in the Pacific Southwest, the manufacturer has three options at their disposal: manufacturer direct to the food outlet, manufacturer to merchant wholesaler to food outlet, or manufacturer to distributor to retailer to food outlet.

The majority of exporters (75-80%) choose to ship their product directly to the retailer's warehouse. The advantage of this channel is expediency over shipping to distributors/wholesalers without the excessive transportation and labour costs of shipping directly to the store.

SYSCO, with sales of US\$28 billion, is the largest food distributor in the United States. It is estimated that food service distribution was a US\$207 billion dollar industry in North America in 2005, a value expected to climb by \$5-10 billion in 2006. A list of major US food distributors and potential business contacts follows at the end of this document, it is not a complete list of all potential food distributors within the US, or those with a specific presence in the Pacific Southwest region – for more market specific distributor information it is suggested that Canadian agri-food exporters contact the Canadian Consulate General in Los Angeles, CA (key contact information below).

EXPORT LOGISTICS

The US market is vast, complex and highly competitive, and can be intimidating to enter, but thousands of Canadian enterprises - small, medium, and large - have been very successful south of the border.

The "Exporting to the US" guide from Exportsource is an excellent tool to answer specific logistical questions. This guide contains the basic information that is common to all exporting, as well as emphasizing the practical side of doing business in the United States. This guide will explore:

- tools you can use to analyze US markets and their characteristics;
- the on-the-ground effects of NAFTA on Canadian exporters;
- product liability litigation in the US;
- NAFTA and non-NAFTA classifications for cross-border travel to the US;
- border security and how it affects Canadian exporters; and
- US Customs procedures and regulations, and how to deal with them.

[Exporting to the US - Exportsource.ca](http://Exportsource.ca)

When companies are further along in the export planning process, they should contact the Canadian Consulate General in Los Angeles, which actively promotes Canadian products and provides general market planning assistance. The consulate provides companies with lists of contacts (brokers, distributors and retailers), and assists Canadian exporters with advertising and promotion plans. Regulations and procedures for Canadian exporters are also available.

Numerous programs have been established between Canadian and US Governments to facilitate trade. Exporters should research and familiarize themselves with programs such as Free and Secure Trade (FAST) - a completely paperless cargo release mechanism put into place to reduce Customs information requirements and has dedicated lanes at major crossings for participants. The program is designed to streamline the commercial processes for clearance by offering expedited clearance to carriers and importers enrolled in Customs Trade Partnership Against Terrorism (C-TPAT) or Canada's Partner's in Protection (PIP).

For detailed information on Canada-US bilateral trade programs, the various considerations a Canadian food exporter should consider and research before entering the market, and of course the appropriate websites and contact information to which exporters should direct their attention and concerns, please consult the US Market Access section of the ATS website at www.ats.agr.gc.ca/us/access_us_e.htm.

Major Foodservice Distributors in the US

The following are some of, but not all of the major foodservice distributors in the US. Again, it is recommended that Canadian agri-food exporters contact the Canadian Consulate General in Los Angeles, CA. for assistance in identifying the best possible business connection/link for your organization in this vast market.

Sysco Corporation: SYSCO has sales and service relationships with approximately 390,000 customers in the foodservice industry.

www.sysco.com

US Foodservice: US Foodservice is one of the leading broad line foodservice distributors in the United States, with yearly revenues exceeding \$18 billion.

www.usfoodservice.com

MBM Corporation: One of the largest privately owned food service distributors in the nation (252) 985-7200.

Performance Food Group: Performance Food Group (PFG) is one of the nation's largest foodservice distributors, delivering more than 66,000 foodservice items to approximately 44,000 customers from every kind of eatery coast to coast.

www.pfgc.com

The Martin-Brower Co.: Martin-Brower has been in the food service industry since 1934. www.mbhires.com

McLane Company Inc.: McLane Foodservice supplies the industry's leading quick-service restaurant chains with everything they need to run their businesses.

www.mclaneco.com

Vistar Corp.: A full-line food distribution choice specializing in the areas of Italian, Pizza, Vending, Office Coffee etc; with 40 distribution centers and numerous cash and carries located throughout the country. www.vistarvsa.com

Golden State Foods Corp.: Golden State Foods is a diversified, \$2 billion manufacturer and distributor in the foodservice industry with corporate headquarters in Irvine California. www.goldenstatefoods.com

Dot Foods: The foodservice channel provides fresh-prepared meals to both commercial and institutional foodservice operators including restaurants, hotels, hospitals, nursing homes, schools, military installations, airlines and prisons.

www.dotfoods.com/foodservice.html

Shamrock Foods Co.: Nationally ranked foodservice distributor headquartered in Phoenix; Shamrock sends refrigerated trucks to 9 other states from distribution centers in Phoenix and Commerce City (Denver) Colorado.

www.shamrockfoodservice.com

PROMOTIONAL EVENTS

Trade shows represent one of the most important ways of entering the lucrative and competitive US food and beverage market. Export-ready companies can learn about market and product trends, check out their competitors, and meet prospective customers. At key shows, the Canadian government organizes official Canadian food pavilions, which exporters are invited to join. The Government also organizes several expositions and other trade promotion events to help introduce Canadian food and beverage exporters to the US market. For more information, contact the Agri-food Trade Service regional office nearest to you www.ats.agr.gc.ca/region/home-e.htm.

32nd Winter Fancy Food Show - San Francisco
January 21-23, 2007 - Moscone Center San Francisco, CA
One of the premier events for the specialty/gourmet food sector.

2007 N.G.A. Annual Convention &
Supermarket Synergy Showcase
January 29 – February 1, 2007 at Caesars Palace, Las Vegas, NV
Trade show for foods and beverages, equipment and services.

- Organizer:
National Grocers Association
1005 North Glebe Road, Suite 250
Arlington, Virginia 22201-5758
Telephone: (703) 516-0770
Facsimile: (703) 516-0115
E-mail: info@nationalgrocers.org
Website: www.nationalgrocers.org

Natural Foods Expo West
March 9/11, 2007
Anaheim Convention Center, Anaheim, CA
Natural and organic foods (85%), vitamins and supplements for the health foods industry. www.expowest.com

- Organizer:
New Hope Natural Media
1401 Pearl Street
Boulder, CO 80302
Telephone: (303) 939-8440
Facsimile: (303) 998-9020 E-mail: info@newhope.com
Website: www.newhope.com

9th Spring Fancy Food Show - Chicago
May 6-8, 2007
McCormick Place, Chicago
One of the premier events for the specialty/gourmet food sector.

53rd Summer Fancy Food Show - New York
July 8-10, 2007
Jacob K. Javits Center, New York
One of the premier events for the specialty/gourmet food sector.

- Organizer:
National Association for the Specialty Food Trade
120 Wall Street, 27th Floor
New York, NY 10005-4001
Telephone: (212) 482-6440
Facsimile: (212) 482-6459
Website: www.specialtyfood.com

KEY CONTACT INFORMATION

The Consulate General of Canada, Los Angeles

Street Address:
550 South Hope Street, 9th Floor ,
Los Angeles, California, 90071, USA

Tel: (213) 346-2719
Fax: (213) 346-2767
Email: caaz.info@international.gc.ca
Web page (URL): <http://www.losangeles.gc.ca>

Mr. Carl Light

Trade Commissioner
Aboriginal Products, Services and Technologies, Agriculture, Food and Beverages,
Consumer Products, Fish and Seafood Products
Email: caaz.info@international.gc.ca

The Consulate General of Canada, San Francisco

Street Address:
580 California Street, 14th Floor ,
San Francisco, California, 94104, USA

Tel: (415) 834-3180
Fax: (415) 834-3189
Email: sfran-td@international.gc.ca
Web page (URL): <http://www.sanfrancisco.gc.ca>

Ms. Mary-Jane Ginsberg

Trade Commissioner
Agriculture, Food and Beverages
Email: mary-jane.ginsberg@international.gc.ca