

## The impact of the fat tax on the hotel, restaurant and tourism industry

The fat tax became effective on 1 October 2011. This means that a tax must be paid on certain foods containing more than 2.3 per cent saturated fat. It applies, among other things, to meat, dairy products, animal fat, cooking/salad oil, margarine and similar spreadable blended products, substitute goods or imitations of the products mentioned above. The tax is DKK 16 per kilogram of saturated fat in these foodstuffs.

The purpose of the tax is to improve public health by making it more expensive to eat unhealthily. For many companies within the hotel, restaurant and tourism industry, the consequences of the new tax will, however, be a price hike of a range of key goods.

After payroll, the food costs are the biggest expense in operating a restaurant. Food costs vary from company to company, but typically amount to between 25 and 40 per cent of turnover<sup>1</sup>. As the food costs constitute such a large share of their turnover, the hotel and restaurant industry's earnings are very dependent on the general fluctuations in food prices.

In November 2011, HORESTA conducted a survey of its members with the aim of identifying the consequences of implementing the fat tax

for the hotel, restaurant and tourist industry. HORESTA believes that one month after the introduction of the fat tax, the majority of the companies within the industry will be able to assess the first consequences of this.

### Regarding the survey

The survey was conducted by an online questionnaire, sent by email to 1,158 members of HORESTA. HORESTA received a total of 268 responses to the questions regarding the fat tax; representing a response rate of 23 per cent. Restaurants, fast-food outlets, cafés, tourist attractions, hotels, conference centres, hostels, etc. participated in the survey. The participants are shown in Table 1.

Some responses represent more than one company. The survey thus includes a total of

<sup>1</sup> Source: HORESTA, Normtalsanalyse 2009/10

387 companies/entities with a total turnover of DKK 6.6 billion.

The total annual revenue of Danish hotels, hostels, restaurants, cafés, conference centres, pubs, canteens, catering companies, camping grounds, theme parks, etc. amounts to DKK 42.2 billion<sup>2</sup>. The participating companies represent, in total, 16 per cent of the market.

The sale of food and beverages is not necessarily the primary activity of the companies. To ensure a correct calculation base for the impact of the fat tax, all participating companies were asked to specify their total sales of food and beverages.

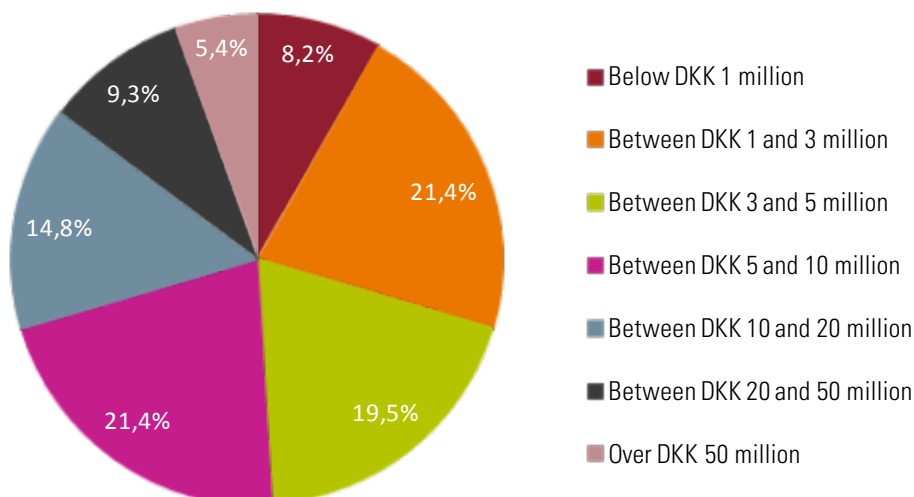
The overall restaurant, canteen and catering turnover in the survey totals DKK 3.6 billion; representing 10 per cent

2: Source: Statistics Denmark

**Table 1: Participating companies sorted by type**

Type	Responses	Distribution
Tourist attractions/theme parks	6	2,2%
Cafés	15	5,6%
Canteens and catering companies	13	4,9%
Pubs and discotheques	5	1,9%
Fastfood outlets, cafeterias	14	5,2%
Holiday resorts	5	1,9%
Hotels	89	33,2%
Inns	20	7,5%
Conference centres	26	9,7%
Restaurants	59	22,0%
Hostels	11	4,1%
Other tourism businesses	5	1,9%
<b>Total</b>	<b>268</b>	<b>100,0%</b>

**Figure 1: Participating companies sorted by their restaurant turnover**





of the total taxable turnover of the restaurant industry in Denmark.

It is our assessment that the answers represent a valid sample of the companies within the industry; with respect to type, size and location.

## Results

As mentioned above, after payroll, food costs are the largest cost item in the operation of restaurants, and the fat tax is therefore of great importance to the restaurant industry. The extent to which companies are impacted by the fat tax, however, depends on their concept, menu, etc. Approximately every third company states that their food costs have increased by between 1 to 4 per cent; while

more than half of the respondents state that their food costs have risen by more than 4 per cent.

Since the fat tax has only recently been introduced, a small proportion (7.5 per cent) of the companies still does not have a complete overview of the impact.

For the companies participating in the survey, the fat tax will incur additional food costs totalling approximately DKK 34 million; corresponding to 0.9 per cent of their total food and beverage turnover.

Increased food costs are not the only consequence of the fat tax. The companies also report an increased time spent on administration related to the implementation of the fat tax.

**Figure 2: How do you believe the fat tax affects the food costs (excl. beverage) in your company?**

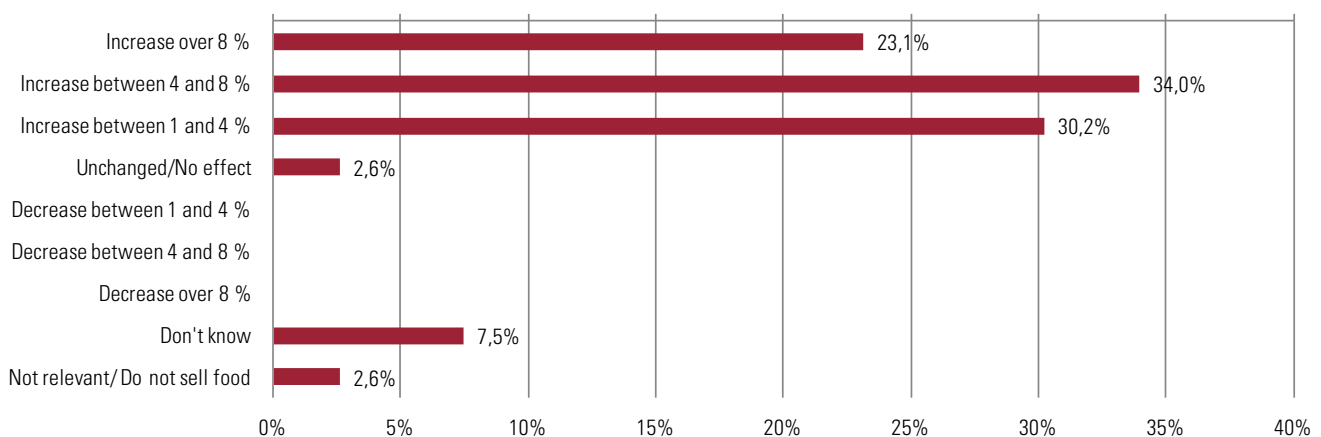
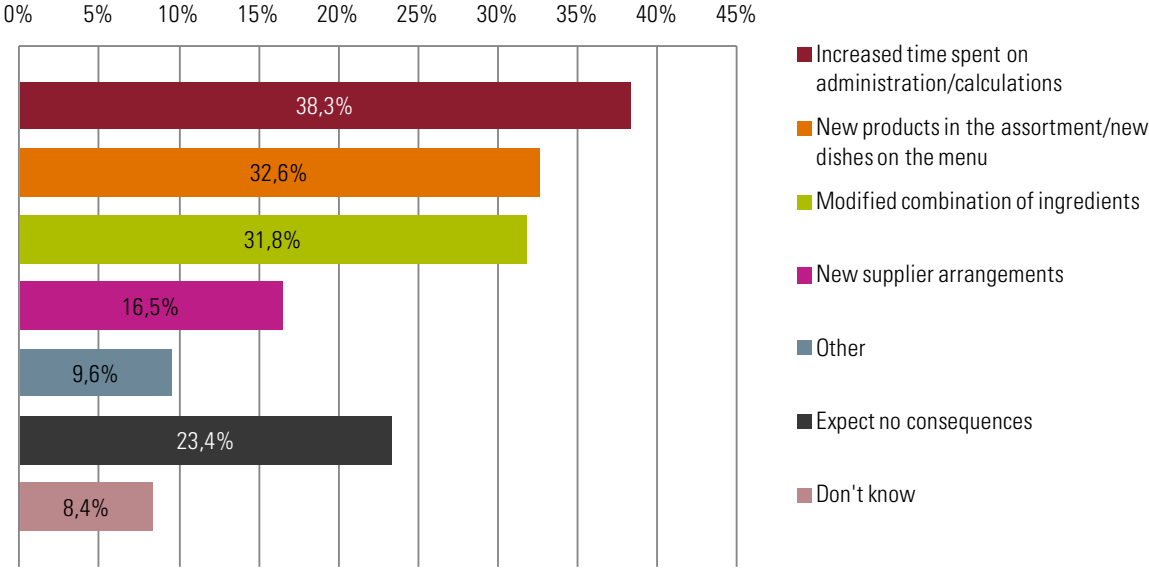


Figure 3: What other consequences will the fat tax have on your business?



Companies must spend time on calculations and, based on these, assess whether or not to replace certain ingredients or create entirely new dishes and menus.

Nearly 40 per cent of the companies expect to spend more time on administration, including dialogue with bookkeepers, accountants and suppliers as a result of the introduction of the fat tax.

Almost every third company expects to introduce new dishes to their menu in order to minimize the impact of the fat tax, and just as many have responded that they expect that the fat tax will influence the composition of their assortment/menu. This may involve buying ingredients with lower amounts of saturated fat, or possibly focusing on

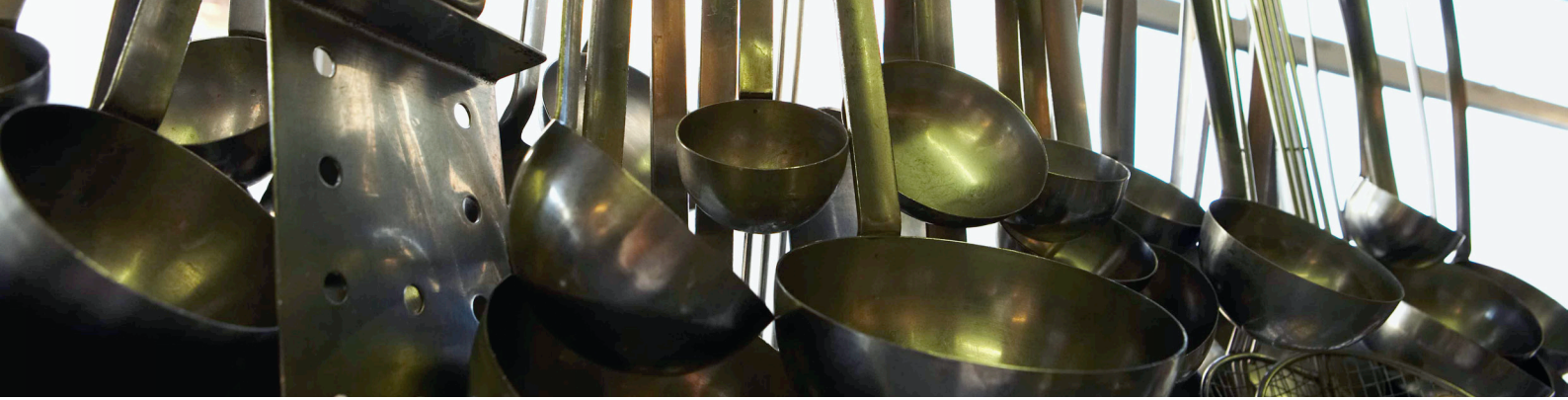
purchasing cheaper ingredients. One company notes, for example, that they have reduced the proportion of organic ingredients to minimize the impact of the fat tax.

Approximately 16-17 per cent of the companies will enter into new supplier agreements as a result of the fat tax.

**The impact of the fat tax on the amount of saturated fat**

The purpose of introducing the fat tax is to encourage restaurants etc. to use healthier ingredients with a lower content of saturated fat in their production.

In reality, the majority of restaurants operate with a (menu) concept, which is difficult to change without com-

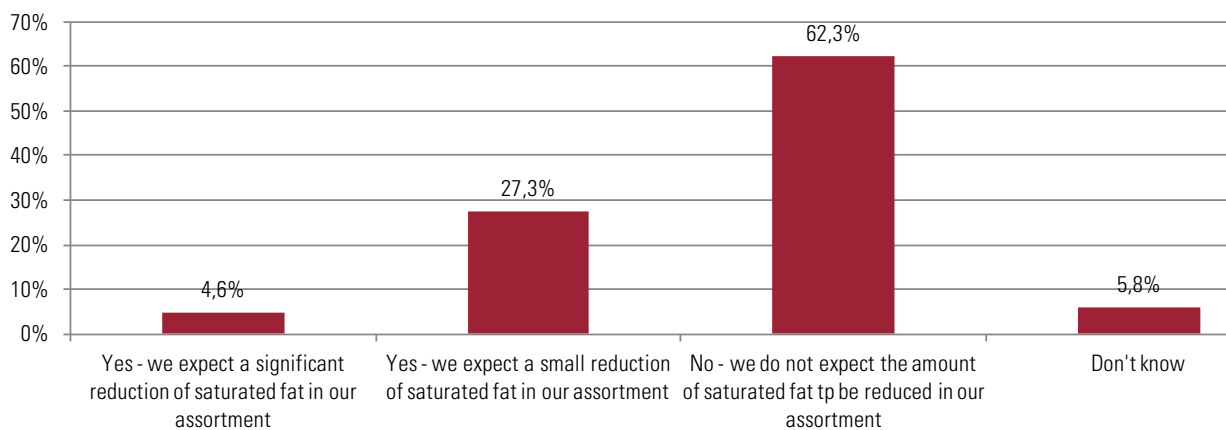


promising the company's profile and the guests' experience. Almost two thirds of respondents believe that the level of saturated fat in their menu will remain unchanged. 27.3 per cent expect that the fat tax will lead to a slightly lower content of saturated fat in their assortment. Only 4.6 per cent expect that the fat tax will lead to a significant reduction in the amount of saturated fat in their dishes.

ers will visit their business, which may result that turnover remains unchanged or even decreases.

The responses show that only a small percentage of the companies expect to increase turnover corresponding to the increased commodity costs. 54.3 per cent of respondents assess that the fat tax will not influence their turnover, while every fifth company expects lower turnover. Companies that are highly dependent on tourism also fear that higher food prices will reinforce the image of Den-

**Figure 4: Do you expect that the dishes you offer will have a lower content of saturated fat as a result of the fat tax?**



### The impact of fat taxes on turnover

The companies only see a small possibility of reducing the effect of the fat tax by changing their combinations of ingredients. Hence the companies are basically faced with two options: 1) to pay the extra costs from the fat tax themselves - with subsequently lower profits - or 2) to pass the bill onto their guests. By passing the tax onto the guests, the companies however risk that fewer custom-

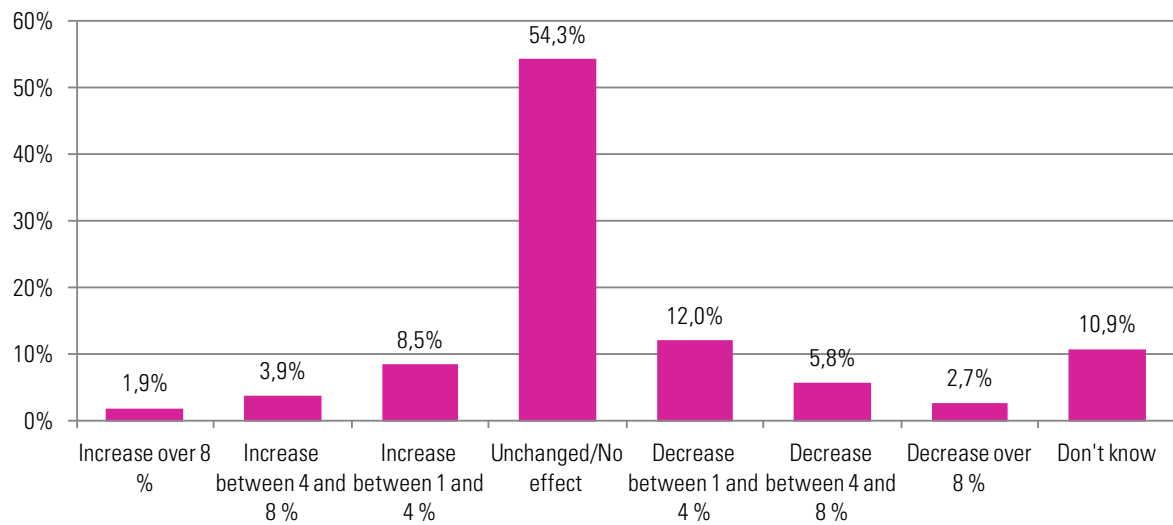
ers will visit their business, which may result that turnover remains unchanged or even decreases.

Only 14 per cent expect they will be able to increase turnover, thus wholly or partially covering the increased costs resulting from the fat tax.

If companies do not have the ability to increase turnover and, only to a limited extent, are able to reduce the



Figure 5: What impact will the fat tax have on your restaurant turnover?



amount of saturated fat in their production, a considerable portion of the cost of the fat tax will be borne by the industry.

The total cost of the fat tax to the hotel, restaurant and tourism industry amounts to a total of DKK 250 million to DKK 350 million. This amount corresponds to 0.7 to 1.0 per cent of the restaurant industry's total revenue and impairs the companies' bottom line accordingly.

### Conclusion

Only a few companies in HORESTA's survey do not expect to be affected by the fat tax. Approximately every third company states that their food costs have risen by between 1 to 4 per cent; while more than half answer that their food costs have risen by more than 4 per cent.

The motivation for implementing the fat tax is to lower the amount of saturated fat in foodstuffs. However, most restaurants follow a specific concept and do not have the possibility of modifying their concepts and thereby eliminating the impact of the fat tax. This helps to explain why the fat tax will have a limited impact on the amount of sat-

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urated fat in the companies' assortment and menus. Approximately two thirds of the companies do not believe that the fat tax will influence the amount of saturated fat in their assortment.

Therefore, the companies only have two options: To pay "the bill" for the fat tax themselves resulting in lower earnings/profits margins, or to pass the increased cost onto their consumers, with the risk of declining demand. The survey shows that only 14 per cent of respondents expect that it will be possible to increase turnover, thus wholly or partially covering the increased costs resulting from the fat tax.

The fat tax will thus result in increased costs for the hotel, restaurant and tourism industry in the range of DKK 250 to 350 million annually, which will be felt directly on the bottom line. This corresponds to 0.7 to 1.0 per cent of the total turnover of the industry.

This amount must be viewed in the light that an average restaurant in Denmark achieves a pre-tax result of 5.6 per cent deficit on turnover, when the owner has received a salary. In addition to the direct cost increase, a large proportion of companies expect to spend more time on administration, renewing calculations,

developing new dishes and entering into new supplier agreements.