July 1st 2009: D Day for the French restaurant industry

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By Thierry Poupard

An event that has never occurred before (and will not be seen again) will happen on the first of July in France: the VAT rate for the restaurant industry will decrease from 19.6 to 5.5%.

First, a few market facts:

- The eating out market is not as developed in France as it is in other countries: 1 out of 7 people eats out, when the ratios are 1 out of 6 in Spain, 1 out 3 in the UK and 1 out of 2 in the US.
- French people look for pleasure and enjoy taking time and sharing meals with colleagues or friends even though the duration of lunch time has drastically declined from 1 hour 45 minutes down to half an hour between 1975 and now.
- The eating out market had been experiencing an annual growth path of 10% or above since the eighties when several sanitary crises (mad cow, bird flu, foot-and-mouth disease...) impacted negatively the consumer purchasing patterns. Then, the switch from Franc to Euro, in 2002, was such an opportunity to practice unfair conversions for the entire retail business that the consumer became reluctant to eat out. Growth stopped at once. Later on, there has been a progressive revival, however with an average path of 5% per year.
- Prices in restaurant are very high, particularly in Paris and on the French Riviera, and they have continuously increased way above the inflation rate (like 8.6 times more between March 2008 and March 2009; source INSEE).
- And recently, the economic downturn has had a strong impact on the industry. Apart from a few exceptions like in the economy or the contract catering sectors, all market segments are impacted and some chains as well as many independents are in a hazardous situation.

Now, the announcement of the new VAT rate is good news, although it has nothing to do with the current economic conditions: France's first request for applying a lower rate for the restaurant industry was made in 2002 and it finally obtained the unanimous agreement of its 27 European partners just last March after several previous attempts.

A few precisions:

- VAT is paid by the end user and, as a consequence, restaurateurs are just collectors even though many are tempted to keep the differential in their pockets.
- The 19.6% rate is the highest in France; it applies to a large majority of products and services like full service restaurants and all eat-in facilities.
- The lowest rate, 5.5%, has always been used for delivery and take away. Up to now, this was a huge advantage in favour of the fast food segment.
- Alcoholic drinks (cocktails, wine, beer...) will remain at the 19.6% rate. Thus, for a meal including a glass of wine, the check will show the split between the two amounts of VAT between solid and liquid items

An agreement was formally set up by the Government and all the professional associations on April 28th for the implementation of the new rate. President Sarkozy passed on two messages: the rate will be the lowest (5.5%) and the implementation will be at the earliest (July 1st). The differential between the two rates represents a yearly loss of 3 billion Euros for the Government; in fact 2.3 due to the simultaneous suppression of a temporary financial aid that was granted to the industry.

How will that money be used by the restaurateurs? The agreement says it should be allocated in four ways corresponding to four needs:

- *For the consumer:* a price reduction equal to the total decrease of VAT (i.e. 11.8%) on seven products and combos to be selected among a generic list of ten (entrées, main courses, dish of the day, deserts, water, soft drink, coffee) so that the customer can take advantage of the full price decrease on a complete meal. This is a good deal: e.g. a meal that was priced 20 Euros will cost 2.36 Euros less. For five meals per week that is a 47 Euro saving per month and over 500 in one year. The fast food segment will lower by 5% minimum the prices on a few major products and combos. The Big Mac Index must to be updated... The outlets that precisely apply these recommendations will have the right to post the "official" sticker on their window: "A cut in VAT is a cut in prices!"

- *For the personnel:* rise of the wages, training, tutoring, ease up of working conditions, and social protection; all key loyalty and service improvement factors. These will be discussed by employers and employees with a global agreement to be signed up by the end of the year.
- *For the employment:* creation of 40,000 new jobs within three years, half permanent and half apprentice positions (there are currently 600,000 employees in restaurants and 80,000 in the contract catering segment).
- *For modernising the outlets:* works should be done to meet the new security and accessibility standards as well as other investments (equipment, design, comfort...) with the help of a special fund that will be set up by banks and the Government so as to grant up to one billion Euros of loans.

The whole idea behind this big drop in prices is to motivate the consumers to come back and to go more often to restaurants. The Government counts on this to regain part of the lost revenue due to the lower rate. However, the point is that the price cut, like any measure that has been agreed upon, is not mandatory and an important percentage of independents have not yet decided about their new pricing policy (a week ahead of the D Day...) Meanwhile, many gastronomic and upscale restaurants have already reduced their prices and all chains are ready to relaunch the conquest of consumers through that mean. As of July 1st, it is more likely that the consumer will choose places where prices have decreased and boycott those where they haven't.

Now you all know more than many French professionals about this VAT matter. Researches say that 42% of the tourists, who come to visit France, are motivated by the local gastronomy. So, why don't come over? It's never been a better time?

About the Author

Thierry Poupard is a French citizen and lives in Paris. He is currently an independent consultant in marketing, sales and service for restaurant, hotel and spa industries in France. Feel free to visit his web sitewww.thierrypoupardservices.com or to contact him on his blog or by e-mail tp@thierrypoupardservices.com about this article or any subject that relates to this field.

Previously he was Director of Strategic Marketing of a large European fast food chain, consultant on local marketing and sales for retail chains and networks, account director in various advertising agencies. He holds an MBA from University of San Francisco.

In addition to his professional activity, Thierry is the author of "Service Attitude" published (in French language) in June 2007. He is speaker at H.E.C. school of management for Executive Education and MBA Program, trainer at IFHOR (school for employees of hotels and restaurants), member of the Leaders Club(restaurants) and Restaurants sans Frontières (caritative) associations, columnist on neorestauration.com since January 2006, and partner of NESS, the Wellness Business Magazine.

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