Case Study

A Tale of Two Cities: Pick One Operator or Two?

One of a series of reports of the results of Clarion projects, illustrating ways in which dining and hospitality services are improved and new opportunities to increase value are created. Names and identifying details are omitted to protect our client's anonymity.

A large financial services firm with headquarters in one city was opening a new office in another city several hundred miles away. The new office would have a state-of-the-art staff café and, like the home office, provide executive dining and extensive hospitality services.

Should they extend the headquarters food service provider's contract to cover the new office or select a new contractor? Should they use one vendor for both offices or separate companies?

Management decided to issue a Request for Proposals for both offices and see what the market offered.

The Situation

Like its peers in the financial world, the firm places a high value on hospitality services. Clients are entertained and deals are struck over private breakfasts and lunches in executive dining rooms and conference rooms; receptions and other events are held for both internal and external guests. Subsidized meals in the staff café are an important benefit provided for employees.

Sometimes two contractors are better than one.

Proposals were received from five companies, ranging from the three national contractors to a local caterer.

Clarion was asked to evaluate the proposals and collaborate with management in selecting the company or companies to be awarded the contracts and negotiate the operating agreements.

What We Found

The five proposals varied widely in their approach to managing the two locations and in their projections of staffing, revenue and costs. The local caterer's proposal was quickly eliminated from consideration, in part because its proposal for the remote city's operation was unrealistic.

All proposers claimed to provide fresh food, locally sourced and prepared from "scratch" by skilled chefs.

The biggest operational differences were in their approaches to staffing and management. For example, only one company said each operation would report to a local district manager and regional vice president. The others said the manager at one office would oversee both, although none explained how this would be accomplished.

Through e-mail exchanges and telephone conferences, we questioned each company about their projections. They responded with explanations and some revisions to management and staffing.

Revenue and expense projections ranged from unrealistically high to unrealistically low. We advised management to bypass the financials and focus on selecting the company most likely to deliver the level of quality and service that would meet their standards.

The most important element, we advised, is the caliber of the candidate on-site managers and local district managers, the two people who would actually perform the services. Financial and contractual terms can be negotiated.

We also advised that since the two offices were so far apart, there was little to gain by awarding both to one company. Each operation would have to be supported by the contractor's local resources.

What We Did

All four companies were invited to interviews with senior management and were grilled on their operational plans. Their candidate managers, district managers and regional vice presidents were interviewed. One company was eliminated, due to a weak presentation and unimpressive candidate manager. That left three proposers, including the incumbent, vying for the prize.

Each company was presented with a draft contract we prepared and negotiating sessions were held with each, initially face-to-face. That's the most effective way to negotiate; the parties can see each others' reactions and respond accordingly.

Most issues were resolved in these sessions. One more company was eliminated due to its resistance to important contract provisions, including an incentive-based management fee. The incumbent and one of its principal rivals remained.

The issue of vendor rebates was raised and both companies agreed to share a percentage of the rebates with the client.

The Outcome

In the end, the contract was split. The incumbent retained the headquarters office operation, in part because management was reluctant to change a good service in the hope of getting better.

The new dining service went to the other company. Both were advised that they would be closely watched and measured and either could lose its contract to the other if services failed to meet expectations and promises.

Clarion's Role

We had provided services for this client several times over the past eight years and understood the company and its objectives. We also know the proposers and the ways to reach the best possible arrangements with each.

Our long experience in the RFP process and negotiating strong operating contracts can help when you decide to select a new food service or other hospitality services provider. To learn the value we can bring to the process, contact Tom Mac Dermott, FCSI, president, 603/642-8011 or Angela Phelan, senior vice president, 973/544-6223 or e-mail us at info@clariongp.com.