

## Viewpoint

### Clarion Marks 20th Anniversary. What do contractors earn?

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**July 1** marks the 20th anniversary of the founding of Clarion Group. We appreciate all the support we've received from clients and friends over these two exciting and gratifying decades.



**I**n the last Viewpoint column, I expressed the opinion that on-site service providers like food service contractors are suppliers, not partners and asked: What is a fair profit for the provider and how should it be derived?

**From long experience**, contractors know that when evaluating proposals, clients will often focus on their proposed fee or profit margin and try to drive it down. Their response is simple. They propose a very low fee or profit and bury their actual income in expense line items where they can't easily be found.

A food service contractor needs about 5% of sales or for a subsidized service, total costs, to cover its cost of servicing the account and a share of company overhead. When you see a total fee or profit margin of less than 5%, you know the actual profit is elsewhere in the financial structure.

**The largest source** of what's called "sheltered" or "indirect" income is rebates contractors receive from their vendors that are not credited to the client's account. For the national food service companies, the rebates equal at least 14% of food and other commodities purchases. Regional and smaller companies can receive 7% to 10%.

This is no longer a secret. Most contractors acknowledge they receive and retain rebates, but not how much they're worth.

**The second largest** source of indirect income is overcharges for payroll taxes, employee benefits and workers compensation insurance. Overcharges for liability insurance and small charges added to various line items are other sources.

**What's a reasonable** return for a food service contractor? About 8% to 10% of sales or total costs for a normal, moderate-risk operation. If the service has a greater level of risk or is unusually complex, then a profit of 12% to 15% of sales is reasonable, because risk says it could be a loss instead. Size matters. A company can afford a lower percentage for a very large account.

As a client, your best approach to dealing with contractors is to understand their business model and deal with them on a realistic basis.

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