Case Study

Converting a Campus Dining Service to P&L

Dining Insights, Winter 2014

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' anonymity.

Can a brand new, potentially profitable dining service operation be made to lose money? It takes some work, but yes it can, as a large graduate school and research center discovered.

BACKGROUND: A state-of-the-art dining center was the centerpiece of a new campus building. The school issued a Request for Proposals for an operator.

With an average daily population of some 10,000 students, faculty, researchers, staff and visitors, it wasn't hard to attract interest and competitive proposals on a "P&L" (profit-and-loss, contractor has all financial risk) basis.

One of the three national contractors was selected. Then a fly landed in the proverbial ointment.

A public institution, the school had used a federal bond fund for financing. Under terms of the fund, the dining services could only be operated on a cost-plus-fee basis.

The contractor was happy to shift the financial risk to the school and began operations under a new contract.

> Our research found a 2.9% loss charged to the client was really a 9% profit to the contractor.

THE SITUATION: In addition to the new dining center, the contract included three nearby satellite units and a café at a separate campus.

Although its proposal had said the services could be operated profitably, the contractor was billing the school for operating losses. We were asked to investigate and recommend a solution.

WHAT WE FOUND: The five locations could be divided into three groups, each with a different story.

- The new café, with high daily sales and substantial catering activity, was operating well, primarily under the leadership of a talented and competent executive chef. An inexperienced young general manager was over her head in the job and ineffective.
- The three satellites were sad little affairs, each with a single attendant serving minimal menus to small populations and barely overseen by the main café manager.
- At the remote campus, an energetic young chef-manager was serving a population of 1,200 adequately, but with no direction or support from the contractor. Nominally, he reported to the general manager at the main campus, but that person had no time to spend here.

Effectively, only the main campus café received any attention or support from the contractor's district manager; the other four units were on their own.

After 10 months of service, the combined operations, which should have been profitable, were showing a 2.9% loss on $2.4 million in sales.

Our analysis of financial records found the losses were due entirely to overcharges by the contractor. The School was subsidizing excess costs, including vendor rebates and concealed surcharges, equal to 9% of sales in addition to the 6% management fee.

The combined operations were actually yielding nearly a quarter-million dollars to the contractor in addition to its direct cost of providing services – district manager, support personnel, accounting, human resources and other overhead – equal to about 5% of sales.

WHAT WE DID: Our recommendations for operational improvements included:

- Replace the inadequate main campus café manager with an experienced, competent manager.
- Solutions to several operating deficiencies at the main campus café.
- Assign of one of the main café managers to actively oversee the satellites.
- Direct oversight of the remote campus café by the district manager and a plan for upgrading services there.

Our report and recommendations were presenteded first to the school's administrators and then to the contractor's regional vice president.

NEW CIRCUMSTANCE: At the same time, the school refinanced its construction bond, eliminating the restriction on its contracting arrangements. It was now free to negotiate a P&L contract.

We prepared a new operating agreement under which the contractor assumes all risk of profit or loss and pays a commission on sales to the school. The agreement includes more stringent standards for operational performance and financial accountability than the prior contract and full transparency in accounting and reporting.

The contractor objected to many of these terms and stalled negotiations. It took several months and a threat to invite proposals from other companies before the contractor's senior operations executive became serious about reaching agreement.

THE OUTCOME: With its own profits at risk, the contractor has a strong incentive to pursue our operational recommendations. The school now earns commission income instead of paying subsidies with no reduction in services.

CLARION'S CONTRIBUTION: Our experience enabled us to see opportunities the client could not and fashion viable solutions for our client's benefit.

Clarion can identify the operational and financial shortcomings in your dining and hospitality services and provide imaginative, cost-effective solutions. For information, call Tom Mac Dermott, president, 603/642-80111 or Angela Phelan, senior vice president, 973/544-6223 or e-mail us at info@clariongp.com