

Case Study: Results of a Project

Cutting Costs Without Cutting Quality or Service

Dining Insights, Fall 2011

The case study in the Fall 2010 *Dining Insights* described a project to reduce a company's subsidy of its dining, conference and catering services. Five months after the changes we recommended were put into effect, we reviewed the results of the project.

BACKGROUND

Like most companies hit in the 2009-10 recession, this company had to reduce headcount and minimized other costs as sales dwindled. Reductions included closing two of four employee dining centers. While its fortunes revived during the slow recovery, controlling costs was still a priority. New efficiencies meant it didn't need to increase employment by much and would not need the two closed cafes.

The company had a good, long-term relationship with its food service contractor, cemented by a competent on-site manager and an efficient, capable executive chef. It didn't want to disturb that relationship.

We spent two days at the company's campus and reviewed financial and other data.

WHAT WE FOUND

In brief, meals and service was indeed good at the main café and catering services were fully satisfactory. However, at the smaller café in another building, an affable manager presided over, rather than directed, the service with four hourly employees, although the café now served fewer than 200 customers a day. Meals, sanitation and other standards were far below those of the main café.

Staffing was excessive: three salaried and 18 hourly employees. We estimated four or five positions could be eliminated.

The contractor's financial statements merged conference and catering service with the main café, making it impossible to identify where sources of problems might be.

The smaller café's food cost as a percentage of sales was nearly double that of the main café. Its subsidy was three times its sales.

WHAT WE DID

After reviewing the results with company management, we discussed the shortcomings and solutions with the contractor's regional vice president. He implemented an action plan in collaboration with the on-site manager and executive chef to achieve operational improvements.

The operating contract allowed the contractor to charge what it please for overhead expenses and sheltered it from any financial consequences from exceeding its budget. We negotiated a new contract that clearly defined the contractor's duties and responsibilities and capped overhead charges.

The contractor's fee was increased by a third, but a quarter of the new fee is dependent on the caliber of its operational performance, as determined by client-administered quarterly operational audits. Excellent performance earns the full new, higher fee; lesser audits scores reduce the fee.

At the same time, the contractor shares in the risks and rewards of financial performance. It shares half of any subsidy reduction from budget it achieves, or pays back half of any cost overruns. Thus, the contractor has "skin in the game." Its profit depends on both good operational and financial performance.

We also had operating statements revised so that financial results of each cost center were reported separately.

THE OUTCOME

Five months after the new contract and operational changes were put into effect, we measured the results compared to the same months in 2010.

The outcome was a true win-win.

- In the initial operational audits, the contractor earned most of its incentive fee.
- The company's improving fortunes and better services resulted in a 14% overall increase in sales.
- The small café's manager was replaced with a lively, energetic chef-manager with restaurant experience and the hourly staff was reduced. Some physical improvements to the facility we recommended were implemented. Food cost per customer here was reduced by 18% and labor cost by 44%. The operating subsidy decreased by 88%.
- At the main café, sales increased by almost 5% and food cost per customer decreased, but exactly by how much was difficult to determine, because in 2010, conference and catering activity was included in the café's financial statements.
- Overall labor costs declined by 29%.
- All other direct costs (paper goods, cleaning supplies, etc.) were reduced by 25%.
- Charges for employee benefits and other overhead charges were cut in half, partly offset by the higher management fee.

The company's total subsidy was reduced by 26%, and the contractor's fee, including the incentives, was about 75% higher than last year – but they had to work for it.

CLARION'S ROLE

We could see the whole picture better than those who managed the operation every day. We could recommend solutions that were not apparent to the contractor or company. We prepared a contract that benefitted both sides and made the contractor fully accountable.

Clarion can improve the performance and reduce the costs of your dining and hospitality services. For information, contact Tom Mac Dermott, 603/642-8011 • Angela Phelan, 973/544-6223 • Ernie Wilder, 703/282-3030 or e-mail us at info@clariongp.com. Visit our website, www.clariongp.com.