

Keeping the Dining Service Self-Sustaining

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

Dining Insights, Spring 2006

Everything had started out well. The new food service contractor had breathed fresh life into a tired employee dining operation at a suburban corporate headquarters.

The operator had been selected in a process Clarion managed. They introduced new ideas, energy and imaginative menus, marketing and merchandising programs. They seemed to be on the way to a successful long-term, successful relationship.

The contract is “P&L” (profit-and-loss); the contractor takes the financial risk.

THE SITUATION: The honeymoon didn't last long. Not long after the new contractor began service, the company began reducing employment. Over six months, employee dining center sales slid 14% on a 13% decline in customers. Catering sales – the lifeblood of a corporate dining service – dropped by 44% over the same period.

The contractor reported it was losing money at a rate of 3.6% of sales, and asked for relief – a subsidy in some form.

THE PROJECT: The company was trying to cut costs and didn't see a dining service subsidy as part of that plan. We were asked to evaluate the situation and determine whether and how the operator could earn a reasonable profit at little or no subsidy expense to the company.

WHAT WE FOUND: The dining service was reasonably well-managed. Food was good, merchandising and servery displays were done well and prices were reasonable. A review of financial records from before and after the downsizing began showed:

- While sales and customer counts declined, the average sale per customer had increased 3.5%, indicating employees were generally satisfied with meals and service.
- Food, paper and operating costs, as percentages of sales, were about level with costs six months earlier, before the downsizing.
- Staffing had been reduced by 21% and productivity, measured by customers served per labor hour, had risen 10%

On paper, it seemed the operator was doing all the right things to cope with the reduced customer base.

But we also found:

- The contractor had a sophisticated sales and cash management system – electronic cash registers, detailed daily sales reports, etc. – but was not using it well. Cash accountability was nearly non-existent. There were signs that at least one cashier might have been diverting receipts into her own pocket.
- The executive chef buried himself in a corner of the kitchen making pizza, leaving management of the kitchen to a less-experienced cook.
- Although the servery appeared bright and attractive, sanitation in the back-of-the-house was deplorable.

- There was no food safety plan in place. Cold foods were served at temperatures well above the 40°F that retards bacteria growth, posing a risk of foodborne illness.
- The contractor's charges for some overhead costs were much higher than the actual underlying costs and were a component of the reported loss.

But there was a sunny side to the situation. In its consolidation, the company closed an outlying building, bringing 300 employees into headquarters and eliminating an unprofitable point of service. The 300 employees became potential new customers for the main café and the contractor could eliminate a position, worth about \$26,000, in the closed unit.

The relocated employees work in a remote section of the building. We suggested that a coffee cart at that area's employee entrance might generate a modestly-profitable \$50,000 in new revenue and serve as a point for advertising lunch in the café. We also advised our client that the contractor's costs were somewhat overstated and the loss was not as great as shown on the operating statements.

A fair and reasonable profit on about \$2 million sales would be 5% (\$100,000) before company overhead charges. The contractor also provided vending services (not examined in the project) with sales in the neighborhood of \$200,000. A pre-tax profit of 7% on combined sales, about \$154,000, was attainable.

OUTCOME: Recently, six months after the project, the contractor reports that sales are up and the operation has reached breakeven, although the recommended coffee cart service had not yet been inaugurated. A reasonable profit is within reach, without negatively affecting customer service or requiring a subsidy.

CLARION'S ROLE: We identified the strengths and weaknesses of the operation. The numbers alone didn't tell the story; it took an on-site survey to find the sources of poor results and solutions. We showed our client and the contractor's regional vice president where the problems were and recommended workable ways to increase sales, improve performance and ensure a profitable operation that was satisfactory to both the company and its employees.

Dining service financial problems are always interrelated with operational issues. Clarion can identify the sources and provide solutions to ensure a vibrant, customer-satisfying and economical, cost-effective operation. For information, contact:

*Tom Mac Dermott, FCSI, president
603/642-8011 _ TWM@clariongp.com*

or

*Angela Phelan, vice president
973/544-6223 _ ALP@clariongp.com*