The Risks in Eliminating the Café Subsidy

Sudden change hurts morale and productivity; employees go elsewhere

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Some business circumstances require quick, decisive action. Eliminating the subsidy for employee dining services isn't one of them.

In this slow economy, when companies are looking for every way to curtail expenses, the employee café subsidy is an obvious target. Just tell the operator to eliminate or sharply reduce the subsidy by "x" date and the problem is solved. In fact, the problem may get worse.

At three companies where Clarion has analyzed the circumstances of a sudden and substantial increase in prices to reduce the subsidy, the immediate reaction of employees was to go elsewhere. Café sales went down, increasing the operating loss.

In two instances, the loss fell on the food service contractor, whose contract had been converted from cost-plus-fee to "profit-and-loss" (the contractor keeps the profit or absorbs the loss). The third company found itself absorbing an increased subsidy. In one instance, the original drop in sales was more than 60%, but has improved slightly since.

At all three, employees chose alternatives, either outside food outlets or the increasingly popular "brown bag" food from home. It will be difficult to woo them back.

Benefit or Convenience?

A subsidized dining service with prices significantly lower than outside alternatives is viewed by employees as a benefit as well as a convenience. Raising its cost and/or curtailing services or hours is seen in the same light as reducing health insurance or paid vacation time.

In a customer survey we conducted at the company that most recently eliminated the café subsidy, only 17% of respondents said they purchased lunch in the company café three or more times a week, compared to 88% who said they did in a 2008 survey.

"Value" Lost

Eighty-three pct. said they were "not very satisfied" or "dissatisfied" with the value received for the price paid. In 2008, 26% gave those answers. Café prices were increased by 40% and some popular features were eliminated in the shift to a subsidy-free operation.

At a company that increased prices by 45% to reduce the subsidy in 2008, customer patronage remains 30% below pre price increase levels and, despite aggressive cost cutting, the subsidy has not gone down.

Be Realistic

The most effective approach to subsidy reduction or elimination, so you don't destroy more value for the company than you create is a gradual, carefully-planned process. You also have to be realistic. If your company has reduced staff and/or increased telecommuting, your site population may have fallen below the minimum level where a self-sustaining operation is feasible. Food service contractors say that's between 800 and 1,000 employees.

Whether that's enough population to support the café depends on other factors: whether you're in an isolated area or in the middle of a city with lots of off-site competition, and the company's volume of catering service (usually more profitable than the employee café), for example.

If your dining facility was built to serve a much larger population, it may not be possible to bring staffing down to a level where current sales will support labor cost. You'll have to judge whether the cost of a facility renovation will pay for itself through savings in operating costs.

Just telling the food service contractor to operate without a subsidy won't work. They won't remain if they don't see an opportunity to earn a reasonable profit, about 8% of revenue.

Evolution, Not Revolution

A successful subsidy reduction or elimination plan will take about two years to implement. ep one is to examine the internal workings of the operation. Dining services that have operated under a subsidy for a long time may have become inefficient and possibly overstaffed.

You may find there are services provided that are not needed and that some positions can be consolidated. Reducing labor costs by replacing well-paid, skilled and experienced employees with low-wage newcomers is counterproductive.

Increasing prices and changing other policies, such as hours of service, to reduce the subsidy require careful planning and gradual implementation.

Easing the Pain

Subsidized dining services typically have a food cost that equals 50% or more of sales. A non-subsidized operation needs a food cost of between 35% and 40% of sales, depending on labor costs and other factors.

The least painful way to increase prices and lower food costs is to introduce new items into the menu at a higher price point or that have a lower food cost for at or close to the current price level. These changes can be effectively introduced with promotional events and fresh marketing and merchandising efforts. Price increases that are tied to a publicly-known increase in costs of a product usually are accepted by customers.

A two-year plan can be implemented with specific benchmarks: a 15% to 20% decrease in the subsidy per quarter, for example, until the operation is self-sustaining.

As with any other part of your business, planning and anticipating problems is the most effective way to implement change.

Clarion can help plan and implement a successful subsidy reduction program. For information, contact Tom Mac Dermott, president, 603/642-8011 or Angela Phelan, senior vice president, 973/544-6223 or e-mail us at info@clariongp.com.