Case Study

6 Companies Wanted to Run this Food Service

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

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After more than four years of up-and-down performance by its food service contractor, the company's management thought it was time to "test the waters." The contract was expiring in a few months and, while management liked the contractor's on-site manager, relationships with the company were less than close. Food and services were okay, the "tried and true," but not innovative or exciting.

THE SITUATION: The high-tech company employs nearly 2,300 in several interconnected buildings at its headquarters. It has a large employee dining center, extensive catering activity, a small vending operation and a low-volume convenience store. Annual revenue exceeds $1.3 million.

The current regional contractor replaced a national company in a competitive selection process that Clarion managed. Initially, the contractor assumed the risk of profit or loss, but after a staff reduction a year later, the company provided a small subsidy, which gradually grew over the years.

Periodically, we had evaluated the operation and helped the company and contractor to improve services and reduce costs.

WHAT WE DID: At the company's request, we provided a detailed summary of industry trends and innovative services being offered in corporate dining service. We arranged for management representatives to visit dining services in their area provided by seven national, regional and local food service companies.

The company selected five of these companies to compete with the incumbent for a new, five-year contract.

We developed a project timetable and worked with the company's purchasing department to prepare a Request for Proposals. The RFP included detailed information about population, sales, menus and other data that would be useful to a proposer.

Given the company's population and other factors, we recommended that the RFP require a "P&L" operation (the operator bears the risk of profit or loss). The company would subsidize the c-store.

We participated in a pre-proposal conference attended by all invited companies and arranged for each company to have a one-day "site survey" of the operation . We also helped draft responses to proposers' e-mailed followup questions.

THE PROPOSALS: Four of the six proposers agreed to a P&L contract and two offered to incorporate c-store products into the servery, eliminating the c-store subsidy. The larger companies offered investments. The incumbent offered to continue its existing program, menu and service and requested an increased subsidy.

We provided a side-by-side comparison of the proposals, including financial offers. Four proposals, including the incumbent's, were selected for further consideration.

On our advice, the primary emphasis was on the proposers' operational plans and the degree of confidence generated by their operations executives and on-site manager candidates who would operate the service.

Curiously, the incumbent had made little effort to retain the contract, although this was among its largest. They had made no effort to obtain a renewal before the company decided to invite proposals. No member of senior management had contacted the company for more than a year.

After meetings with the four "finalists," the company selected two – the largest and a local independent – to negotiate with for the contract. The incumbent was eliminated.

THE OUTCOME: The company selected the national company, based on the imagination and initiative shown in its proposal, the caliber of its management team and especially, the experienced on-site manager offered. Contract negotiations were swift and uncomplicated, in part because the terms and cost controls required for a subsidized operation were unnecessary – costs are the contractor's responsibility, not the client's.

The process was completed within the established timetable, giving the new operator time to organize the service and take over when the old contract expired.

The outgoing company's operations vice president reacted to the loss of the contract by announcing, via an e-mail, that the company would sharply reduce menu, staff and service in the final weeks. We telephoned the company's president to ensure this draconian program would not be implemented. He agreed, but his company's actions in completing its contract and moving out was much less than exemplary.

The success of the new service is yet to be determined. The national contractor will want a profit of 7% to 8% of sales, about $100,000, including rebates and indirect income. It will take skilled management to achieve this goal.

CLARION'S ROLE: We provided industry insights, knowledge, experience in analyzing proposals and managing the RFP process, as well as contract drafting and negotiation to help the company make a sound choice.