

Case Study

Getting a Contractor to Do the Job Right

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.

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It isn't news that a food service company's performance doesn't always match the promises it made when securing the contract. What may be news is that a million or so dollars in business isn't very important, at least to major companies with annual revenues of seven to ten billion dollars.

THE SITUATION: The company replaced its in-house dining service with one of the Big Three contractors in order to reduce its heavy subsidy.

The contractor projected an increase from \$1 million to \$1.6 million dollars in sales and an end to subsidies within three years. Midway through the third year, sales had not risen, meals and services had deteriorated and no end to subsidies was in sight. Employees didn't complain much, they simply went to the sandwich shop and other food outlets next door. Less than half of all company catering services were provided by the operator.

The district manager and regional vice president seemed indifferent to the situation, seldom visiting the account or responding to management's calls and e-mails.

We were asked to evaluate the dining service and work with the company and the contractor to improve performance and revenue, with the goal of providing a better service with minimal, or no, subsidy.

WHAT WE FOUND: The problem started when the contractor took over the service and replaced all of the company-employed food service workers with new employees at substantially lower wages and benefits, and, for the most part, without experience or training.

A young, minimally-experienced manager was assigned and pretty much left to sink or swim. She didn't swim. The manager, who was shy, rarely appeared in the servery or spoke to customers. The catering manager spent much of her time in the office.

There was no skilled chef in the kitchen. Few hourly employees had worked in food service previously. With no leadership or direction, they did their jobs according to their own lights. Interaction with customers was minimal.

Meals were frozen, prepared entrees and other convenience foods. Focus group participants said the food was far inferior to the fresh foods that had been served previously. Many resented the replacement of long-time company employees with these new, less competent strangers.

Marketing and merchandising efforts were minimal and inept, although the contractor charged more than \$20,000 for promotions and merchandising materials, which didn't seem to be used.

Administrative assistants, who control the ordering of most small catered events, said they preferred to use outside sources because of dissatisfaction with the contractor's service. A universal complaint was that services were not cleared after an event, when another group needed to use the room.

WHAT WE DID: If the district manager and regional VP were indifferent, we went up a step and contacted the contractor's division president. He assigned a new RVP and district manager to the account.

They met us during our two-day onsite evaluation and brought along a regional chef, and a marketing/merchandising specialist. We reviewed the operation's shortcomings with the RVP and reached agreement on the steps the contractor would take to make improvements. Among the first steps was to assign a competent chef to the account.

We briefed our client on the results and provided a list of recommendations to improve the service. The contractor adopted them into its "action plan."

FINANCIAL PERFORMANCE: Our review of 2007 and 2008 financial operating statements found that most of the 2007 subsidy and all of the 2008 subsidy were caused by overcharges and surcharges ("indirect income") by the contractor, and charges for marketing, merchandising, promotion and training for which no tangible benefit could be found.

The financial statements merged sales and expenses for the two dining centers. There also were no budget data or operating statistics, like customer counts, making it impossible to determine where problems lay.

THE OUTCOME: The contractor is busy implementing its operational improvement plan. Whether this will succeed is still to be determined. They also agreed to provide separate financial statements for the two locations, including statistical data.

CLARION'S ROLE: We provided the expertise the client lacked to identify the sources of the problems and find solutions. We knew how to reach the contractor's top management and to speak to the RVP and DM on their own terms. We also could analyze financial statements to identify the excess charges the caused the subsidy.

Now, the contractor has a second chance to do the job right.

Clarion can resolve operational, financial and contractual issues with your food service company and develop effective improvement programs . . . and help to implement them. Contact Tom Mac Dermott, FCSI at 603/642-8011 or TWM@clariongp.com or Angela Phelan at 973/544-6223 or ALPClarion@aol.com or visit our website, www.clariongp.com