Is Food Service Provider a Partner or Vendor?

It depends on how you see them, and how they view you

Dining Insights Fall 2008

We'll be your partner," the food service contractor's sales rep tells you, painting a rosy future of four star dining, hotel-class catering and warm, caring, responsive management.

"Partners" is also the message contractors invoke when they're in trouble: the client is unhappy with the operation and/or costs, and may be thinking about making a change.

How do you see your food service operator? Is the company a partner, working together with you to improve services for the benefit of your students or employees, sometimes sacrificing financial gain to achieve one of your objectives?

Or is the operator a vendor, providing a useful – even valuable – service, but one that can be easily changed for another company that will do the job equally well, and maybe at a lower cost.

Defining Relationships

A partnership is an enterprise in which the partners share in the investment, risks and rewards of the outcome.

A vendor is a person or organization that provides goods and/or services for payment by the customer.

A relationship isn't a partnership when one "partner's" profit comes out of the other "partner's" pocket.

A contract under which a company operates the dining service at its own risk of profit or loss, and the client absorbs some of the expenses – utilities, facility maintenance and the like – typical of college din-ing operations, may be a partnership, especially if there is a profit-sharing arrangement.

When the operator charges the client for all costs, minus sales revenue, plus a fee, this is a vendor-client relationship.

There are variations on these two basic contract formats. When the contractor takes the risk of profit or loss, a client may ensure that it gets a share of the profits by charging a commission, a percentage of all or some part (typically retail) of sales.

Under a cost-plus-fee contract, the contractor may agree to put a portion of its fee at risk: a penalty if it fails to meet, or a bonus if exceeds, financial goals and/or operational standards.

Client as Landlord

At some colleges, the institution charges a fixed rent for the space and utilities provided. This converts the relationship to landlord-tenant, although generally with service standards (e.g., minimum service hours, some control over prices) and other terms not typical of commercial lease.

Most contractors will agree, often eagerly, to a profit-and-loss (P&L) contract if they see there's a good chance of substantial profit. Typically, this is when the population is large enough to generate enough income to earn a profit.

They also look at other elements: Is there a good catering business (much more profitable than daily café retail sales)? The addition of vending (primarily cold drinks and snacks) and office coffee service help ensure the total operation is profitable, even if the margin on café sales is thin.

Distance vs. Control

The further the client distances itself from the risk of profit or loss, the less control it has over the operation. An operator who is paying a fixed rent is unlikely to make concessions that cut into sales or profit margins. A contractor with a conventional P&L agreement may be more willing to bend, because the commission (if any) will flex with changing revenue. When the client takes all, or most, financial risk, all control is in its hands.

Negotiating these arrangements with a contractor is a lot like buying a car. The other side knows more than you do about its business and has far more experience in negotiating this kind of deal. You never know how much you left on the table.

Clarion Group can help you decide which form of contract is best for you and is experienced in negotiating an agreement that protects your interests. Contact Tom Mac Dermott, FCSI at 603/642-8011 or TWM@clariongp.com or visit our website, www.clariongp.com