BY H. DAVID PORTER, FCSI

Self-Op vs. Contract: What's Right For Your Campus?

Administrators must weigh several critical factors in choosing the method of management best suited to their campuses.

One of the most frequently probed questions in the higher education market for foodservice is whether or not dining services operations should be self-operated or contracted out to a management company.

This topic generally comes to the forefront when campus administrators are: a) looking for capital to make improvements to dining venues; b) a new administrator with previous experience with a foodservice management company joins the campus community; or 3) when customer dissatisfaction with the current dining management appears to be high.

There is no right or wrong answer to this question. Different models work for different campuses. But there are some factors to consider when weighing these options.

How committed is a college to supporting a self-operated dining services organization and/or does the college want to be in the foodservice business? The answer typically lies in the administration's willingness to commit the time, money and effort to recruit and maintain a highly-qualified foodservice general manager and staff. The administration must also be willing to make the necessary investments in equipment upgrades, facility renovations and point-of-sale inventory management and production forecasting business systems.

For a self-operated university dining service department, all decisions are based on what is best for the college or university.

If a school does not have the money or time (or does not want to dedicate the resources) needed to maintain a self-operated dining services business, it can find the expertise and resources it needs by hiring a foodservice contractor.

The following sections outline the advantages and disadvantages of this type of business model and how these factors may affect a college's decision.

Management. Any college dining operation, be it self-operated or contracted, will ultimately perform only as well as the level of leadership, management skills and foodservice knowledge possessed by the Dining Services Director. One of the perceived advantages of contracted dining services is that a contractor has unlimited resources to use in identifying highly-skilled managers and assistant managers.

While it's true that foodservice management companies usually do have many qualified managers in their ranks, any college or university can have access to the same type of talent on the open market. An aggressive search will employ the Internet, placing classified ads in local newspapers and trade journals, networking contacts, etc.

If a college dining services organization is already self-operated and the dining services management team and workforce is stable and dedicated to performing in the best interests of the institution, then in most cases, the existing team is well suited to continue operating the current (and future) on-campus dining venues.

Capital. When it comes to raising capital for new construction and/or to finance improvements in existing dining services, one option to consider is accepting investment dollars from a foodservice management company, which are sometimes packaged with a contract offer.

On the other hand, it is important to remember that such investments are not a gift or contribution. The investment will be paid back by the college or university in one form or another.

If, for any reason, the contractor leaves before the term of the negotiated contract expires or before the capital investment is fully amortized, the contractor typically requires that the unamortized portion of the investment be paid back in full to the contractor within one to thirty days of departure. Depending on the amount and a school's financial wherewithal, this can create a financial hardship for a college or university. It also tends to limit early termination options that might exist otherwise.

It is important to evaluate the cost of capital obtained in this way as it may be higher than that from other sources. But if an institution does not have another source of money, such arrangements may well be an attractive solution.

Whether a college chooses to be self-operated or contract-operated, it will still have to establish the projected net surplus that it wants after all direct and indirect operating expenses are covered over a five to 10 year period.

This is a very important consideration because the calculation helps inform any decision to self-fund capital needs or to accept capital up front. In the end, all investments are paid for by the school in some way, and it is important to understand how this payback may affect any potential annual surplus.

Business systems. One big advantage foodservice management companies bring to potential clients is a full arsenal of business and financial accountability systems. These business tools include:

- Weekly/monthly profit and loss

statements

- Weekly food costs for all units
- Weekly labor costs for all units
- A weekly physical inventory of all food and non-food products
- Standardized recipes for all menu items, coordinated with food production needs and inventory management in each unit and in the warehouse or store rooms.
- Daily adjustments of standardized recipes and inventory and purchasing requirements based on input from chef/managers and area managers, assistant directors and purchasing.

If a college or university doesn't have any other source of money, capital investment from a contractor may be an attractive solution.

Such systems and measures of performance are vital. They provide empirical data that the management team uses to assess and track the performance of each unit. It also provides benchmarks used in evaluating performance, used in guiding unit management staff and as a basis for reports provided to administration on a weekly/monthly basis.

Every foodservice management company fully utilizes every one of these business tools to improve the efficiency of each of its operations. If a self-operated college dining services department is unable or unwilling to make the financial commitment to implement similar systems, it may choose to hire a foodservice management company that will bring them as part of its package.

Decision making. For a self-operated university dining service department, all decisions are based on what is best for the college or university and the campus community. On the other hand, by their nature, foodservice management companies' fiduciary responsibility is first to their own company stockholders and then to the client.

Nearly every decision made by a management company about any foodservice it operates is driven first by that responsibility, not by what is best for a particular campus. Also, a self-operated dining services department may be in a better position to make immediate changes to its dining program when necessary (e.g. to control costs or respond to customer requests). Foodservice contractors often have more corporate protocol to wade through before decisions can be made and changes can be implemented..

If, after all of the factors are weighed and a college decides it is in the best interest of the campus community to contract out its dining service operations, an RFP is usually issued. In order to secure comparative bids, a college should provide a detailed and specific outline of the dining program it seeks for its campus. (This is often done by hiring an independent, objective source to define a dining program's requirements based on market research.)

The RFP will include meal plan requirements, hours of operation, menu mix, venue ambiance and other specifics.

Some schools prefer to issue more general RFPs to "see what the bidders will offer." The downside of this approach is that the playing field is not level and it becomes very difficult to compare final bids side by side. By asking foodservice management companies to bid on a defined program, a college can quickly evaluate each company's approach to the same program requirements and select the one that most closely meets a campus' needs.

H. David Porter, FCSI, *is CEO of Porter Consulting Worldwide, Inc., a Crofton, Maryland-based foodservice consulting, strategic planning and design firm.*