SHOULD YOUR COLLEGE CAMPUS DINING BE SELF-OP OR CONTRACT?

While there is no right or wrong answer when it comes to determining the best option, here are some factors that go into the decision.

David Porter | Sep 02, 2020

There is no right or wrong answer when it comes to determining the best option for your campus. Different models work for different reasons for different campuses.

One of the most frequently probed questions clients ask us to address is whether or not their dining services operations should be self-operated or contracted out to a management company. Campus administrators are asking this question more frequently as colleges and universities struggle to source much needed capital, improve student participation and grow revenues and/or cut costs while maintaining a robust dining program. The first place they often look to is auxiliary services. Regardless of the current form of management that is in place for dining on a campus, this topic generally comes to the forefront when:

A. campus administrators are looking for large sums of capital to make improvements to dining venues;

B. a board member or new senior administrator with previous experience with a foodservice management company joins the campus community;

> “IF YOU CAN’T MEASURE EVERY PART OF YOUR BUSINESS, YOU CAN’T MANAGE OR GROW IT”
>
> *- PETER DRUCKER*

C. student dissatisfaction with the current dining program/management appears to be high. Areas that generate the highest levels of student dissatisfaction, include but are not limited to:

a. dated and unappealing dining facilities

b. the high cash cost (average check) of retail dining

c. limited hours and/or limited menu selection between breakfast, lunch and dinner meal periods in locations that are open continuously from 7 a.m. – midnight

d. inconvenient locations

e. the price of the mandatory meal plans

f. students’ inability to spend their meal plan money in off campus locations, especially at night and on weekends

D. the school is living with unacceptable levels of financial performance and in some cases subsidizing their dining program

E. HR and financial challenges associated with full time and/or student labor and, in some cases, collective bargaining agreements and a 10-month employment calendar has become overwhelming.

Culture counts

There is no right or wrong answer when it comes to determining the best option for your campus. Different models work for different reasons for different campuses.

However, there is one universal truth. The optimum campuswide dining program for your campus respects and responds to your unique campus culture, philosophy, campus topography and the geographic locations of the academic core, housing, recreational venues, library, campus centers, commuter parking lots, etc. The optimum dining program developed through the prism of "social architecture" can transcend dining and increase:

1. fall freshman to fall sophomore student retention

2. housing occupancy

3. average GPAs

4. graduation rates

5. acceptance yield (the number of students that actually enroll after receiving an acceptance letter)W

When working with our clients, we use the following two-step process to identify the optimum business model.

Step 1: Facilitate an independent process of discovery and use the findings to develop a campuswide strategic plan that provides creative solutions, strategies and action steps to address problem areas that may be affecting customer dissatisfaction, lower meal plan participation and drops in revenue.

Step 2: Determine which form of management, taking into consideration a host of variables specific to each campus, will most likely result in the successful daily execution of the program the school developed and approved in the campuswide strategic plan.

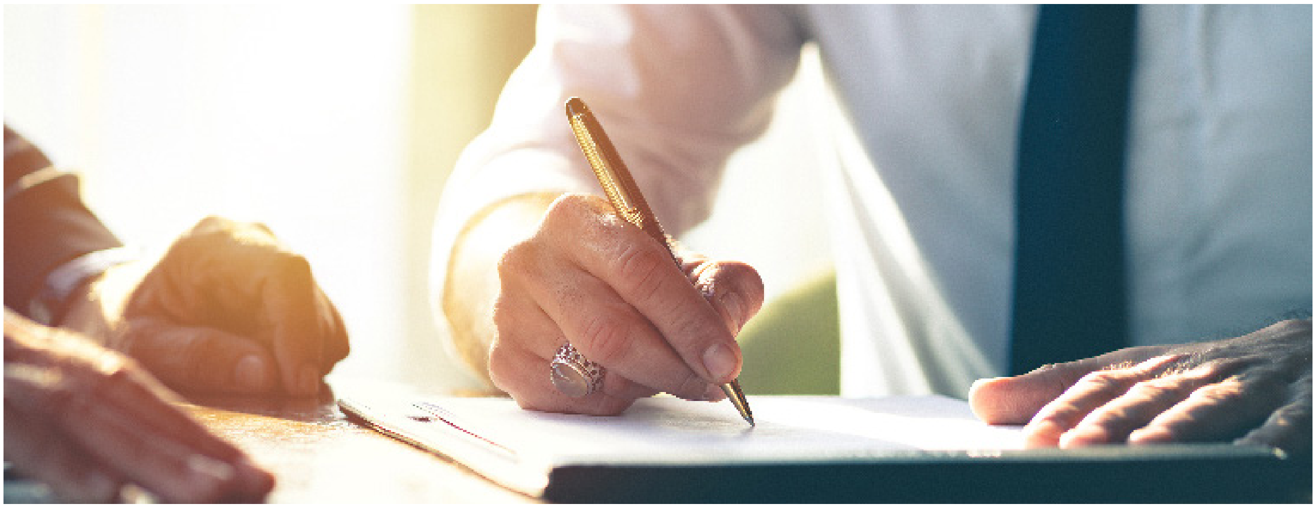
One common and flawed strategy many campus administrators fall victim to is using a foodservice management company as their dining program consultant/expert (either by looking to their current contractor for answers/new strategies and/or issuing a vague RFP that allows contractors to provide their solutions without any on-site research, e.g. plug and play).

A common misconception is that once a new contract is fully executed and commences, the pressure for the school is off and there is no major role for the school to play regarding the successful day-to-day execution of the new program with the new management team/company. This is an Achilles heel, and in the end it will undermine almost any possibility for the long-term success of the new foodservice management contract. Therefore, regardless of whether a school chooses a self-operated or contracted-management model, the school should remain heavily involved in the day-to-day administration of a foodservice management contract (compliance) and, of course, the self-operated dining management model.

Here are six factors to consider when weighing the self-op vs. contracted question:

1. Commitment

How committed is your 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 administrative staff, to confront and successfully address the human resource challenges (salaries, wages, benefit packages, the use/availability of student labor, etc.) that will vary dramatically depending on if the school is a public or private institution.



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2. Compliance

How committed is your school to hiring at minimum, one full-time person who is solely dedicated to the day-to-day contract administration of a new food service agreement? The responsibilities of a team of contract administrators, in many ways, is not different than a successful approach would be to managing a self-operated dining program. These contract administration requirements include, but are not limited to:

1. Reviewing and directing the foodservice contractor;

2. Monitoring the financial performance of all foodservice outlets and programs;

3. Establishing verification mechanisms in place to assure accurate financial reporting and payment;

4. Overseeing physical plant requirements such as equipment replacement, capital improvement projects and alternative space improvements;

5. Reviewing the annual budget for the college's foodservice-related income from meal plans, cash, catering sales and special events;

6. Reviewing service and quality levels delivered to the students, faculty and staff;

7. Ensuring customer service satisfaction monitoring; and

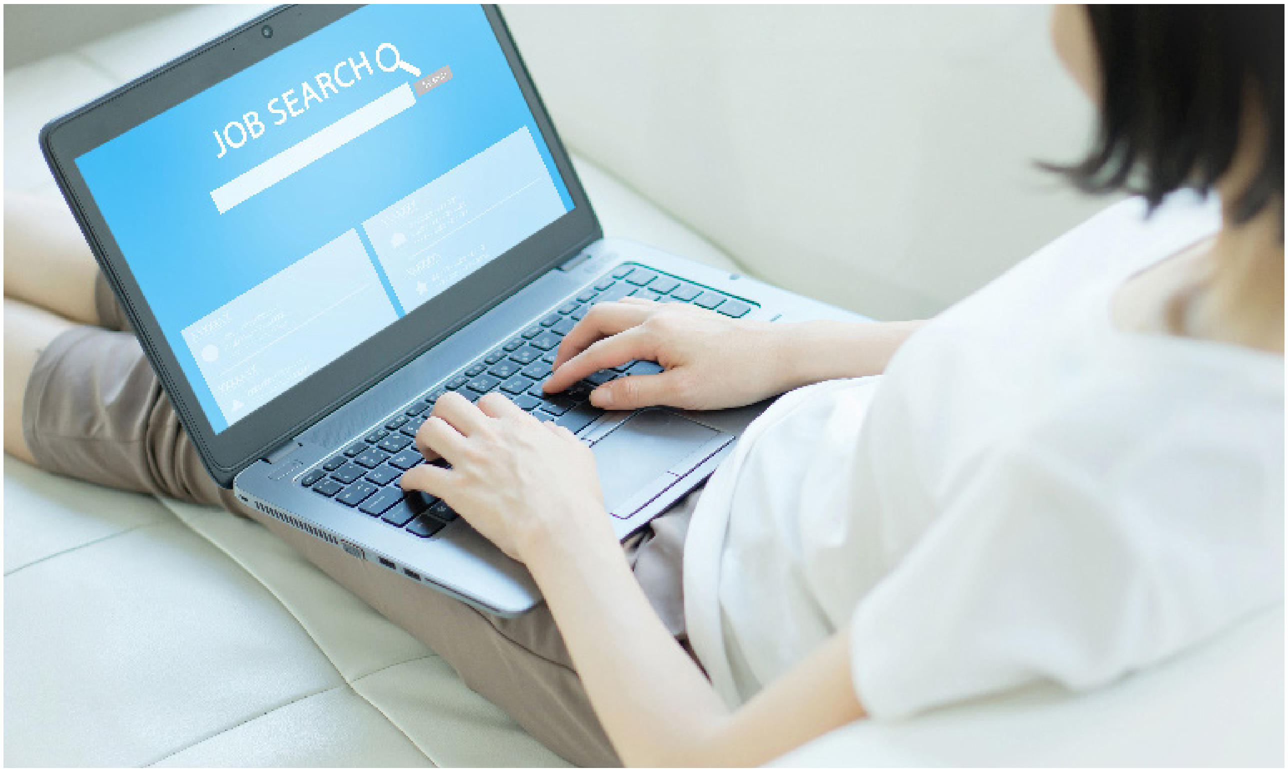
8. Overseeing daily operational contractor contract adherence.

3. 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, the catering manager and the executive chef. One of the perceived advantages of contracted dining services is that a contractor has unlimited resources to use in identifying highly skilled managers (a deep bench).

While it's true that foodservice management companies usually do have many qualified managers in their ranks, any college can have access to the same type of talent on the open market. An aggressive internet search will produce a wide variety of hiring platforms, headhunters and job posting through NACUFS, NACAS, NACUBO, word of mouth, LinkedIn, 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.



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4. 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 typically packaged with a contract offer.

Capital investment from a contractor is tantamount to securing a loan from the Bank of (fill in name of contractor here). As long as you are aware of the potential perils of accepting a capital investment from a contractor, then go ahead and proceed with caution. Remember, whatever this "loan" is labeled as in the glossary of terms in your contract, the investment will be paid back by the college or university in one form or another. If, the school, or the contractor terminates the contract 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 30 days of departure.

We often characterize this contract requirement as terms that "Good Fellas" would envy. It may not, on its face, seem harsh if you desperately need the money. However, consider this.

Let's say that a few months or years into a five- or 10-year contract, the contractor requests that you renegotiate a salient set of terms or conditions in your contract in order for it to be more profitable for the contractor, even if it results in a reduction of service for your students. You say under no circumstances will you agree with the reduction of service to students or the increase in cost of providing those services that will be shifted to the school. So the contractor agrees to disagree and exercises its right, as stipulated in your contract, to terminate the contract. This is when the buy-out clause kicks in and you are contractually required to write a check anywhere within 24 hours to a few weeks of termination for 100% of the unamortized portion of the capital investment.

Some clients have referred to this as a hostage fee when they were forced to acquiesce to the demands of the contractor at the expense of the students and the school. So, buyer beware. Even if the school has the money and can write the check, because of the political and administrative challenges and obstacles in securing a new contractor, the school often chooses to acquiesce to the demands of the current contractor.

When considering a capital investment, it is important to have already independently appraised your dining program to know what it is worth in terms of capital investments and commissions over the proposed term of the new or renegotiated agreement.

Recently our team completed a self-op vs contract evaluation for a very large self-operated dining program. We conducted an independent financial appraisal of the self-operated dining program and concluded that the nearly $100,000,000 that was being entertained for a capital investment from a contractor would actually cost the university $300,000,000. That's what their program was worth in the current form, and therefore, that's what they would lose, in exchange for what, on its face, would appear to be a no brainer of an extraordinary number for a capital investment. It is important to evaluate the strings attached, the perils and the cost of capital obtained in this way as it may be higher than it might be from other sources. But if an institution does not have another source of capital, such arrangements may well be an attractive and appropriate 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.

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5. 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 storerooms

· Daily adjustments of standardized recipes and inventory and purchasing requirements based on input from chef/ managers and area managers, assistant directors and purchasing.

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, 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 such tools as part of its package.

6. Decision making

For a self-operated college dining service department, all decisions are based on what is in the 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 the campus's needs.

H. David Porter, FCSI, is the President & CEO of Porter Khouw Consulting Inc., a foodservice strategic planning and design firm based in Crofton, MD. He is also the author of The Porter Principles: Recruit & Retain More Students & Alumni, Save Millions on Dining and Stop Letting Foodservice Contractors Eat Your Lunch. He can be reached at : david.porter@porterkhouwconsulting.com