Overview of Discussion

• Current higher education dilemma
• Resources required for Dining Services operations
• What prompts outsourcing discussions
• Advantages and disadvantages to outsourcing
• Dining Services operating strategy in CSU’s
• Case Studies
• Decision-making considerations
• Summary
Current Higher Education Dilemma

- Decline in California State funding
- Aging of university facilities
- Lack of funding for repairs, maintenance and equipment
- Lack of capital funds for building growth and replacement
- High cost of retirement and benefits
- Changing textbook business model
- Changing demographics, technology and trends
- Reliance on greater university contributions

Results

- Auxiliaries competing for greater market penetration and more profitable dining performance
What Auxiliaries Need
Dining Services Operations and Business Model

- University commitment to operating philosophy
- Strategic plan
- Human capital
  - Well-qualified leadership
  - Spirit of service
  - Operations, culinary and financial expertise
  - Support services
  - Systems for purchasing, food safety, nutrition and wellness, and sustainability
  - Facility management
- Deferred maintenance and capital funds for growth
What Initiates the Outsourcing Discussion?

- Current program mismanaged
- Lack of vision for program development and addressing industry trends
- Inability to build and sustain viable management team
- Lack of subject matter expertise
- New administration who has experience with outsourcing at another campus
- Capital improvement requirements
- Customer dissatisfaction
- Cost of support structure and benefit funding
- Dining Services subsidized by other departments
- University seeks greater contributions
Advantages and Disadvantages of Outsourcing

- Management
  - Regardless of business model, ultimate ability to perform directly related to *level of leadership, management skill and knowledge of the Director*.
  - Perception that contractors have *unlimited* resources; however, universities have access to the same type of talent in the marketplace.
  - Having said that, contractors have the ability to transfer management to isolated areas where recruiting options are limited to the institution.
  - More perceived control over management and results if self-operated.
Advantages and Disadvantages of Outsourcing

- Capital funding
  - Investment by a contractor is not a “gift” but funded through the university dining services enterprise.
  - Typically amortized over length of contract at 5-6%.
  - Initial capital resources from a contractor might be considered a signing bonus to secure a contract offer.
  - Auxiliary ability to borrow funds directly related to current size of debt.
- Texas A & M: Outsourcing their $92mm dining service; received $46 million dollar advance when contract signed.
Advantages and Disadvantages of Outsourcing

● Systems
  ● The big advantage a contractor has are the systems and tools they bring to the university.
    ● Financial and accounting
    ● Operating statements by unit
    ● Inventory and purchasing systems
    ● Recipes and production planning
    ● Nutrition information based on standardized recipes
    ● Marketing expertise
    ● Training programs
Advantages and Disadvantages of Outsourcing

- Work force
  - Outsourcing may offer the opportunity to right size the workforce and move the older or difficult employees into retirement or resignation.
  - Benefit costs and retirement costs move to the Contractor operating statement, saving the University future reserves.
  - Often a morale issue for employees when they are outsourced after many years of loyalty to their university.
  - Concerns among the university community as to how these folks who have served them for years and are friends will be treated.
  - There is no bus full of workers that are going to displace the personnel as is sometimes feared.
  - Union agreements may need to be re-negotiated.
Advantages and Disadvantages of Outsourcing

• There’s No Free Lunch....
  • Contractor business models build about a 6-8% net income after all expenses, including direct costs, management fees, debt amortization and contributions.
  • Dining Services’ profitability may be greater or less than forecasted return to the university by a contractor.
  • Contractors secure food rebates that may be 10-20% of the Cost of Goods Sold reflected in the operating statement. Universities will never see this money.
  • Universities can become a member of a Group Purchasing Organization and receive rebates and reduction of food cost of about 5%, dependent on their current purchasing patterns and product mix.
  • Bottom line: The customer always pays for the operating model, regardless if self-operated or contract.
  • The difference is self-operation is committed to funds back to the university.
California State University Auxiliaries

Dining Services Business Model
CSU Auxiliary Organizations That Manage Dining Services Functions

- Associated Students
- Student Unions
- Foundations
- Commercial Auxiliaries, Enterprises
- Athletic Corporations
Options for Auxiliaries-MANY!

- Auxiliary leases or self-operates total campus in non-competitive on campus environment
- Two Auxiliaries operate and/or lease on campus in a direct or indirect competitive environment
- Three Auxiliaries operate and/or lease on campus with a direct or indirect competitive environment
- Contractor operates one or more entities on campus in competition with other auxiliaries
- Contractor operates all dining services locations
- There is a combination of different contractors, auxiliaries and local restaurants operating dining services on campus.
Potential Contract Options

• Major contract providers
  • Chartwells/Compass Group
  • Aramark
  • Sodexo
  • CulinArt

• Specialty contract provider
  • Bon Appetit/Compass Group
  • Patina Restaurant Group
  • Guckenheimer

• National Brand Franchisee
• Local restaurant, regional brand
• Hotel (catering services)
# CSU Dining Service Operating Strategy

<table>
<thead>
<tr>
<th>Campus</th>
<th>Operator</th>
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<tbody>
<tr>
<td>Channel Islands</td>
<td>University Glen Corporation</td>
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<tr>
<td>Chico</td>
<td>ASI</td>
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<tr>
<td>Dominquez Hills</td>
<td>CSU DH Foundation</td>
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<tr>
<td>Fullerton Commercial/Residential</td>
<td>Titan Shops/Brands/Armark</td>
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<tr>
<td>Humboldt</td>
<td>Auxiliary</td>
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<tr>
<td>Long Beach</td>
<td>49er Shops/ASI/brands</td>
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<tr>
<td>Los Angeles</td>
<td>CSULA Auxiliary Services</td>
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<tr>
<td>Northridge</td>
<td>The University Corporation/brands</td>
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<tr>
<td>Pomona</td>
<td>Cal Poly Pomona Foundation/brands</td>
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<td>Sacramento</td>
<td>University Enterprises/ASI/brands</td>
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<td>San Diego</td>
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<td>San Jose</td>
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<td>SLO</td>
<td>Cal Poly Corporation</td>
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<td>Sonoma</td>
<td>Sonoma State Enterprises</td>
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<td>Bakersfield</td>
<td>Aramark</td>
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<td>East Bay</td>
<td>Aramark</td>
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<tr>
<td>Fresno</td>
<td>Sodexo</td>
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<tr>
<td>Maritime</td>
<td>Chartwells</td>
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<td>Monterey Bay</td>
<td>Sodexo</td>
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<td>San Bernardino</td>
<td>Sodexo</td>
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<tr>
<td>San Francisco</td>
<td>Chartwells/ASI/University Corporation</td>
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<tr>
<td>San Marcos</td>
<td>Sodexo</td>
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<tr>
<td>Stanislaus</td>
<td>Chartwells</td>
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Case Study
Contract to Self-Op Conversion

• CSU Channel Islands Dining Services operated by contractor.
• Director at CSUN offered advising services to university to assist in dining service assessment and development.
• CSUCI hired Director to manage contracted dining services.
• University Glen Corporation (UGC) who did not have commercial services site authority took over responsibility.
• Dissatisfaction with services and financial performance led to self-operation conversion.
Case Study
Contract to Self-Op Conversion

• Requirements for self-operation:
  • Establish support systems UGC, accounting, budgeting, human resources, information technology, purchasing
  • Hire Chef, management, and personnel
  • Develop operational goals and priorities

• Results:
  • Strong leadership positioned to direct organization
  • Auxiliary invested in institutional success
  • Keep monies on campus
  • High level of customer satisfaction
  • Financial turn-around of $300,000
  • Improved culture and personal connection with campus
Case Study
Self-Op to Contract Conversion

- University in transition and economic downturn.
- 1200 students predominately residents with a meal plan; self-operated since inception.
- $5.2mm income and 35% contribution to university-Love those meal plans!
- Good to excellent customer ratings
- Good campus image with exception of President’s wife perception of catering.
- Facilities outdated and in need of deferred maintenance, renovation and equipment replacement.
- University seeks greater guaranteed contributions and $1.5mm capital funding with matching university funds.
Case Study
Self-Op to Contract Conversion

- University gives Dining Services (DS) the opportunity to propose on continued self operation
- DM & A Webb worked with dining services to prepare business strategies and proposal.
- DS proposal included:
  - Strategic plan and business evaluation.
  - Detailed tactics to meet expectations.
  - Net contribution to university $2.0-$2.5mm each year over 5 years.
  - Additional $500k/year for 4 years for capital funding.
  - Space plan and concept development for all locations.
Case Study
Self-Op to Contract Conversion

• Contractor awarded the account:
  • Guaranteed financial expectations.
  • Established systems and technology to manage the business.
  • Transferred all personnel including Director to their payroll.
  • Assigned Resident District Manager to oversee the account.
  • Contractor managed the transition successfully by maintaining the management and work force and promoting a solid partnership environment.
Outsourcing Decision-Making Considerations

- **Human resources:** How will employees be affected? Who will manage the contractor?
- **Financial:** Direct and indirect costs to the institution. Do you want funds to stay in university system or go elsewhere?
- **Service Quality:** How each alternative will meet the campus needs?
- **Legal and ethical considerations:** The level of risk and potential liability by each option?
- **Mission and Culture:** The effects of choosing an option inconsistent with institution’s culture.
- **Management control and efficiency:** The likely effect of each option on the institution’s ability to control the direction and priorities of the organization.
Outsourcing Decision-Making Considerations

- Methodology for evaluating outsourcing
  1. Identify key participants
  2. Develop an analytical framework
  3. Develop strategic plan for next 5-10 years
  4. Assess the current environment
  5. Identify customer requirements
  6. Develop an operational design
  7. Identify possible alternatives
  8. Review legal, ethical and community considerations
  9. Select the preferred alternative
  10. Establish a continuous improvement and assessment process
Outsourcing Decision-Making Considerations

• Methodology for evaluating outsourcing
  • Identify key participants
    • Who are the key stakeholders and their vested interest and point of view?
    • What are their organizational goals and priorities?
    • What is the satisfaction level and confidence in the existing organization?
    • What is their past experience with contract and self-op organizations?
    • Who are the decision-makers?
  • Develop an analytical framework
    • What analytics will be used to evaluate the current organization?
    • Who will perform these analytics and develop a position on comparison to industry best practices?
Outsourcing Decision-Making Considerations

- Methodology for evaluating outsourcing
  - Assess the current environment globally
    - Benchmark customer satisfaction through intercepts, focus groups and surveys: food quality, taste, variety, service, environment, cleanliness, and price/value
    - Benchmark buying behaviors on and off campus
    - Benchmark per capita spending against similar universities
    - Research the national trends in the Millennial Generation Lifestyles - understand the culture!
    - Benchmark financial performance for retail, residential and catering
    - Measure the demand and capacity on campus and determine gaps in meeting the demand - where and what
Outsourcing Decision-Making Considerations

• **Methodology for evaluating outsourcing**
  
  • **Assess the retail environment**
    
    • Concepts, menus and pricing—Millennial Generation and trends
    
    • Authentic, fresh ingredients and presentation
    
    • Décor, visual merchandising, atmosphere—does location compel the customer to return?
    
    • Appropriate staffing levels for demand (have you measured the area demand of the campus versus capacity to provide service)
    
    • Spirit of service everywhere!
    
    • Menu engineering (popularity versus profitability by location)—are you serving the right menu for the population with the appropriate pricing strategy?
    
    • Evaluation of systems and controls, sanitation, purchasing practices, food production and food safety
    
    • Financial performance
Outsourcing-Decision-Making Considerations

- **Methodology for evaluating outsourcing**
- **Assess Residential Dining Programs**
  - Concepts and menus
  - Authentic, fresh ingredients and presentation
  - Décor, visual merchandising, atmosphere
  - Appropriate staffing levels for demand (have you measured the area demand of the campus versus capacity to provide service)
  - Spirit of service everywhere!
  - Meal plan variety
  - Participation by plan
  - Missed meals by plan
  - Food cost per meal
  - Price per meal for meal plan
  - Food waste
  - Overall financial performance
Outsourcing Decision-Making Considerations

- **Methodology for evaluating outsourcing**
  - **Assess Catering Program**
    - Interview of stakeholders-who is the key stakeholder and what does it take to make them happy?
    - Is the President and wife happy with services?
    - Assessment menu and pricing
    - Is the food good? Is the service good?
    - Assessment presentation and décor
    - Timely and correct follow-up, delivery or set-up
    - Timely invoice processing
    - Are we priced right and meeting financial expectations?
    - How do we compare to other campuses?
Outsourcing Decision-Making Considerations

- Methodology for evaluating outsourcing
  - Identify Customer Requirements
    - Industry trends
    - Hours of operation and accessibility take-out and delivery
    - Product selection
    - Payment options
    - Special services
    - Technology
    - Nutrition and wellness
    - Social media
    - Sustainability
    - Jobs
Outsourcing Decision-Making Considerations

• **Methodology for evaluating outsourcing**
  • **Develop Operational Design**
    • Organization, Vision, Mission, Strategic Objectives
    • Strategic plan for next 5 or more years
  • **Identify possible alternatives**
    • Conduct feasibility study on each alternative to determine which alternatives meet university requirements
  • **Review legal, ethical and community considerations**
  • **Select preferred alternative**
  • **Implement or if outsourced, prepare a Request for Proposal**
  • **Establish continuous improvement and assessment process for either business model**
Summary

- Growing use of outsourcing reflects administration’s perception that it will reduce costs while continuing to provide essential services.
- Successful outsourcing requires careful, comprehensive evaluation and planning by management.
- What best serves the institution?: Not only what is most cost effective but what will provide the most consistency, timeliness and overall quality in meeting university goals.
- CSU Auxiliaries were created to provide alternative business models that work in their institutions.
- These businesses may incorporate any combination of alternatives that best meet the campus goals.