

Purchasing Insights— Contracted Food Services

Brought to you by:



PUBLIC
SPEND
FORUM

Contracted Food Services Overview

Food services are contracted by every type of organization—commercial businesses, institutions like universities and hospitals and governments. There are many techniques to improve sourcing of this service to manage costs and satisfy customers.

Service Offering Overview

Service providers are typically under a long-term contract and mainly provide meals, snacks and beverages.

Often this service is structured cafeteria-style with food service contractors preparing and serving meals in locations such as:

- Schools
- Company offices
- Government offices and facilities
- Hospitals
- Prisons
- Military installations
- Sports/Entertainment facilities

Competitive Landscape

The top three players, Compass Group North America, Aramark Corp. and Sodexo, account for ~83% of total FY15 revenue. The remaining 17% of the market is broken up by thousands of small and regional providers.

Figure 1 shows the top 10 providers by revenue.

Figure 1.

| Rank | Company Name | FY 2015 Revenue | FY 2014 Revenue | Percent Change |
|------|-----------------------------|-----------------|-----------------|----------------|
| | Total | 41292 | 39368 | 5% |
| 1 | Compass Group North America | 14500 | 13600 | 7% |
| 2 | Aramark Corp. | 9950 | 102332 | -3% |
| 3 | Sodexo, Inc. | 9800 | 8800 | 11% |
| 4 | Delaware North Companies | 2800 | 2800 | 0% |
| 5 | Centerplate | 850 | 850 | 0% |
| 6 | Elior North America | 637 | 498 | 28% |
| 7 | AVI Foodsystems, Inc. | 625 | 615 | 2% |
| 8 | Healthcare Services Group | 527 | 447 | 18% |
| 9 | Thompson Hospitality | 525 | 499 | 5% |
| 10 | Guest Services, Inc. | 388 | 388 | 0% |

State of Competition

As of 2015, the US contracted food services industry had revenue of ~\$41 billion.

Food services is an industry that benefits from economies of scale in food and equipment purchasing, off-site food preparation and distribution, which explains the large market share by Compass Group North America, Aramark Corp. and Sodexo, Inc. The remaining providers are small and regional players that can compete by providing specialized products or catering to local markets.

There is growth in this market as more organization outsource functions like food services, rather than trying to do them in-house.

The top players in North America compete on price and service. In recent years, competitors have distinguished themselves by reducing staff turnover which has led to better client service and, in turn, allowed them to maintain their long-term contracts with long-standing clients.

Distribution Value Chain

There are three main components in the value chain for contracted food services:

- **Food Distribution Providers** – these are generally wholesalers that provide bulk food products to food service contractors
- **Food Service Contractors** – companies like Aramark and Compass Group that have multiyear contracts
- **Commercial Businesses, Institutions, Government** – organizations that outsource their food services, often to lower costs and increase efficiency

Figure 2.



Contracted Food Services Contract Types

Costs associated with contracted food services are:

- Food
- Beverages
- Supplies
- Labor

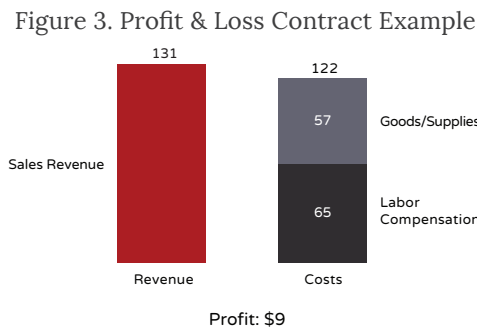
The cost to the organization procuring these services depends on the type of contract used.

Contracts are generally for fixed terms and normally have a duration of at least one year. Food services contracts that require large capital investments, such as those for sports, entertainment and recreational services often have longer fixed terms that range from five to fifteen years.

The two general contract types are:

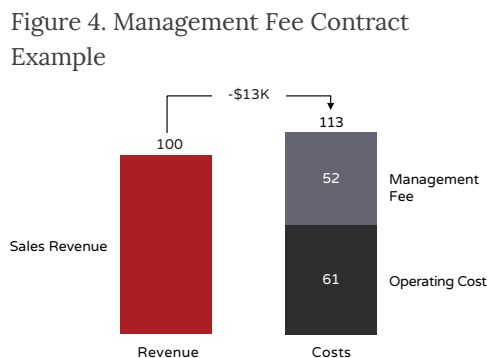
1. Profit and loss contracts

- Food service contractor receives all revenue from the provision of service at a client location, but also bears all the expenses
- In this type of contract the client is the “host” that allows a food contractor to provide food on its property
- One major food services contractor has 70% of its food services contracts functioning as profit and loss
- **Pro:** service contractor bears more of the risk
- **Con:** price likely to be higher due to risk assumed by contractor
- **Example:** A large government agency may want to provide a cafeteria option to its employees. They will create a profit and loss contract in which the food service provider is able to operate in the agency’s building, but is responsible for all the purchasing of food and cooking equipment and gets to keep all revenue



2. Management fee contracts

- Organizations agree to pay the food service contractor a, often fixed, “management” fee as well as to reimburse all operating expenses
- Issues with these contracts arise when contractors do not manage the costs or optimize revenue, which causes the client to lose money
- **Pro:** generally better pricing
- **Con:** higher risk to customer
- **Example:** Common at places like universities where a captive audience lowers the risk for the university— many freshmen are required to pay for a meal plan, which means that the food service receives a certain set amount of revenue that will likely cover the operating costs and management fee.



Savings and Procurement Strategies

Organizations should focus on a few key elements in their contracts in order to drive savings:

- **Improving purchasing of supplies** – food supplies and the required capital investments are a large cost driver in food services; it is important to develop robust practices around procurement and management of supplies to control costs
- **Capacity management** – significant food waste, especially of more perishable items, occurs when food providers are not in tune with the customer palates and demand; over-purchasing and having to throw away food that has gone bad is highly inefficient—managing inventories and identifying areas where supply outstrips demand can help organizations in resource allocation and supply purchasing practices
- **Standardization** – although there is often a desire to provide variety in food, trying to limit the number of distinct vendors and products is valuable because it increases predictability, allows for more bulk purchasing and facilitates tracking cost trends
- **Competitive bidding** – broadening the competitive landscape away from the top 3 food service contractors to include small and regional contractors, that often have unique offerings or different value propositions, helps to ensure the enterprise finds the best offering for its needs
- **Appropriate contract selection** – understanding the risks associated with different contract structures and what best fits an organization is key; for example, enterprises with captive food audiences face less risk in a management fee contract

In procuring food services, primary focus should be placed on finding the appropriate contract structure as well as determining the best level of standardization.

Sources: Censeo expertise; <http://www.firstresearch.com/Industry-Research/Food-Service-Contractors.html>; “Research and Markets: 2012 Report on the \$34 Billion US Food Service Contractors Industry Featuring ARAMARK, Centerplate, and Delaware North”, 28 June 2012, http://www.researchandmarkets.com/research/tmjlr/food_service_contr; Aramark, <https://www.sec.gov/Archives/edgar/>

The insights presented within this document are not meant to be comprehensive. We recommend anyone using this information to complement with their own market intelligence. Posting of this publication to any site or community server without written permission of Public Spend Forum is forbidden. However, we encourage you to share and post links to the content with your network.

For further insights on this and other categories, visit www.censeoconsulting.com