Managed-Services Companies

The On-Site Food-Service Segment

by Dennis Reynolds

Four large managed-services companies are setting the rules for on-site food service. How do they differ from each other, and how do they use branding as a competitive strategy?

Managed-services companies dominate the on-site food-service sector of the hospitality industry, a sector that is now viewed as mature given its exponential growth in recent years. Consider, for example, that on-site food service witnessed record sales of $76 billion in 1996.[1]

These companies, historically referred to as contract-management companies (or "contract feeders"),

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[1] Daniel Puzo, "Industry Forecast," *Restaurants & Institutions,* January 1, 1997, p. 29.

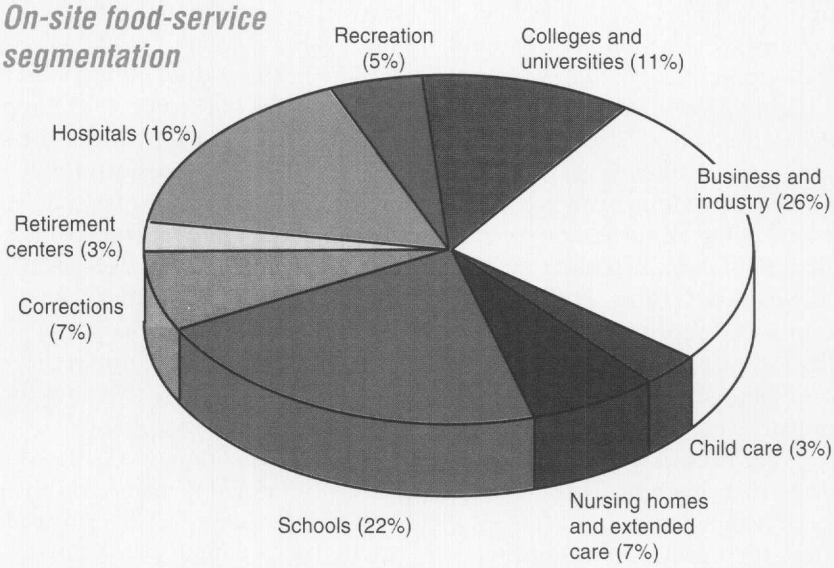
exhibit the distinctive characteristics of traditional chain-restaurant organizations, managing food and related services in a multiunit environment with a reliance on a trade name. In this industry segment, changing customer demand and a business climate in constant flux require rapid adaptation. Like most quick-service restaurant companies, managed-services operators depend on brand management as a vehicle for growth. Surprisingly, it was not until 1994 that this segment was recognized as an integral component of the chain-restaurant industry.[2]

On-site food service can be defined as food outlets in business and industry, schools, universities and colleges, hospitals, skilled-nursing centers, elder-care centers, correctional facilities, recreation facilities such as stadiums, and child-care centers (see the box on page 93).[3] Even in those settings, where the market is captive, a managed-services company can succeed only if it provides a high-quality product with a high perceived value.

The Market and Its Leaders

The business-and-industry, school, and hospital markets constitute the bulk of the on-site food-service industry in the United States (see Exhibit 1).[4] Those are also the core business lines for many of today's managed-services companies.

Exhibit 1
On-site food-service segmentation



Determining what percentage of each segment is accounted for by managed-services companies (as opposed to self-operated food-service departments or divisions) is complicated; it is difficult to find numbers on which everyone agrees and to know on what those numbers are based. It is nevertheless possible to arrive at a rough estimate based on feedback from several companies and from business managers in each of the industries (see Exhibit 2). One can conclude from the figures that all the segments except business and industry offer tremendous possibilities for managed-services companies to gain market share.

Exhibit 2
Markets served by managed-services companies

Market segment	Estimated percentage operated by managed-services companies
Business and industry	80–85%
Colleges and universities	50–55%
Hospitals	40–45%
Recreation	35–40%
Nursing homes, extended care	15–20%
Retirement centers	10–15%
Schools	10–15%
Child care	5–10%
Corrections	5–10%

Managed-services companies can be divided into two categories. The first group comprises numerous small and midsize companies. They generally target geographic regions, are organizationally centralized, focus on a limited number of market segments, and concentrate on a single core service—for example, food service versus, say, a combination of housekeeping and facilities-maintenance services. Annual revenues vary considerably but are generally less than $250 million.

The second group comprises four large companies: Compass Group, Sodexho, Marriott Managed Services, and ARAMARK. Maximizing the economies resulting from

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[2] Christopher Muller and Robert Woods, "An Expanded Restaurant Typology," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 35, No. 3 (June 1994), pp. 27–37.

[3] For the history of each segment of on-site food service, see: Lendal Kotschevar, *Foodservice for the Extended Care Facility* (Boston: CBI Publishing, 1973), pp. 1–13; Dorothy Pannell, *School Foodservice Management* (New York: Van Nostrand Reinhold, 1990), pp. 1–11; Mickey Warner, *Noncommercial, Institutional, and Contract Foodservice Management* (New York: John Wiley & Sons, 1994), pp. 4–16; and Bessie West and LeVelle Wood, *Foodservice in Institutions* (New York: Macmillan, 1988), pp. 6–21. Military and transportation-related food services (e.g., airlines), once considered part of noncommercial food service, have become highly specialized and distant from their on-site roots. They are no longer considered part of the industry segment.

[4] Puzo, p. 29.

multiunit operations, they dominate the U.S. market and are also the world's leading managed-services companies. Each operates in a number of segments, and all but Compass are highly diversified in the managed services they offer. With a lion's share of the market in each market segment, these four firms are notable for exhibiting all the characteristics of major-brand chain restaurants.

Compass Group. For some time Compass Group, based in the United Kingdom, has called itself the world's largest managed-services company despite being the only one of the big four to offer only food-service management. Now, with several recent acquisitions (i.e., Eurest; the business-and-industry and vending accounts of Service America in the United States; and an 11.2 percent stake in Generale de Restauration in France), the company is unquestionably the largest managed-services provider. The company, traded publicly in the United Kingdom, was founded in 1987 with the buyout of the contract-services divisions of Grand Metropolitan. Compass has strong market positions and does substantial business in the United Kingdom, continental Europe, and the United States.

Compass Group USA, with headquarters in Charlotte, North Carolina, epitomizes the parent company's vision of sticking to a single business and targeting all resources to that end. The U.S. division is focused on four lines of food service that it manages under three banners: Eurest Dining Services (business and industry), Bateman (health care), and Canteen (vending and education). This year the company has plans to create Chartwells, a division that will focus exclusively on education accounts. The new structure will mirror the parent firm's configuration of establishing one division for each of the four main business lines. Recently the company has begun delving into the corrections market, with limited success.

The business-and-industry division is by far the largest for Compass Group USA. As a 1995 capstone for that division, Compass captured what it claims is the largest single food-service contract in U.S. history—a $250-million, five-year agreement with IBM that includes 29 sites and a captive market of 100,000 employees. It hopes that the contract will increase revenues for the U.S. division by 5 percent.

Unlike its competitors, the company does not seek name recognition for the corporate flag; instead, each of its segments has its own brand name. Also unlike its competitors, and perhaps because of its recent acquisition activities, Compass is somewhat reticent about releasing information about the corporation. Maybe not coincidentally, it was the last of the big four to launch a site on the worldwide web.

Sodexho. Sodexho was founded in Marseille, France, in 1966. The company's founder, Pierre Bellon, sought to translate his family's experience in hospitality services on ocean liners and cruise ships to business and industry, schools, and health-care facilities. The company quickly looked outside the immediate market and within five years had established a presence in Belgium. Expanding at a modest rate, it extended its operations to North and South America in the early 1980s and went public on the Paris Bourse in 1983.

The U.S. division, Sodexho USA, began with the acquisition of the Seiler Corporation in 1985. Other major acquisitions in California, Michigan, and New York resulted quickly in a formidable presence in the United States, but the U.S. division did not adopt the parent's name until 1993.

The recent three years have been the most consequential for both the parent and Sodexho USA. In 1994 Gardner Merchant, a company with significant market share in several countries and one of Compass's chief rivals in the United Kingdom, purchased Morrison Hospitality Group, a contract-services provider based in the southeastern United States. A short time later Sodexho acquired Gardner Merchant. That move boosted Sodexho, a company already well established in many countries, to the number-two position in the global managed-services-company standings.

Today Sodexho is focused on its core businesses in the health-care, schools, colleges, and business-and-industry segments. It has apparently benefited from the transition process that followed the Gardner Merchant acquisition and is already making strides in the market as a result of its new composition. For example, Gardner Merchant has long enjoyed a reputation as a merchandising expert with a strong retail orientation and Sodexho was previously known primarily as a cost-efficiency specialist. Today, these two areas of proficiency are blending to the mutual benefit of Sodexho and its clients.

Marriott Managed Services. Marriott Managed Services, or MMS, is an effulgent offspring of its publicly traded parent, Marriott International. Both the parent and MMS are based in Washington, D.C. Called the food and services management division until the early 1990s, MMS grew from a small catering business; its growth spurts resulted from acquisitions such as Manning, Service Systems, Saga, Stouffer's food service, Gladieux, and Quorden. Marriott acquired TaylorPlan in 1995 and Russell and Brand in 1996 to aid its expansion efforts in the United Kingdom. As of year-end 1996 MMS accounted for almost a third of the annual revenues of its parent company.

The name change to MMS marked a new direction in business strategy. The company is now nationally organized by business lines; each business unit operates with a large degree of autonomy. Operations are divided into four distinct divisions: Marriott corporate services, Marriott education services, Marriott health-care services, and Marriott school services.

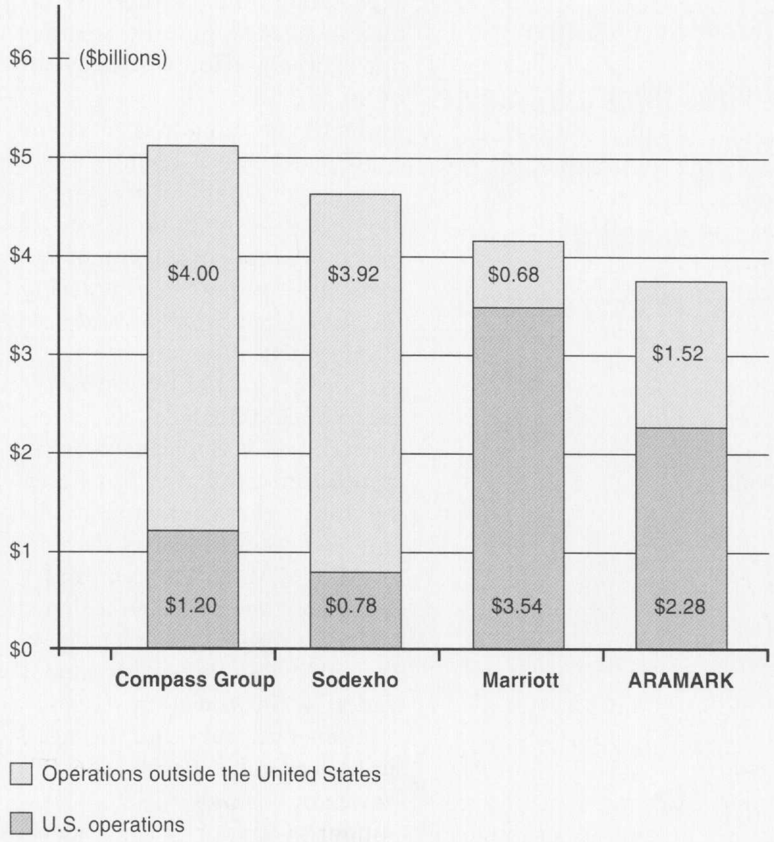
As of this writing, Marriott Managed Services is the largest managed-services provider in the United States and the third largest managed-services company in the world.

ARAMARK. Although it is a global competitor based in the United States, ARAMARK is a private company. With its roots in vending dating back several decades, the company in its current form was founded in 1959 under the name Automatic Retailers of America, or ARA. For the next 20 years the firm grew in size and scope through diversification and acquisition. Then, in 1984, its founders fended off a hostile takeover and took the company private through a leveraged buyout. With a new focus and a thriving entrepreneurial spirit, ARA assumed a new corporate identity in 1994 as ARAMARK, reflecting its diversification and goal of competing globally.

ARAMARK is different from the other big-four firms in its diversification strategy, which stretches beyond traditional managed-services product lines. Included in its portfolio are uniform rentals, periodicals distribution, and child-care operations. Moreover, ARAMARK is not only privately owned but also majority owned by over 1,450 direct managers. The company is currently ranked a close fourth in the global marketplace.

Exhibit 3

1996 revenues from managed-services operations (estimated)



Note: Figures are adjusted to reflect only sales from managed-services operations.

Comparing the Leaders

The acquisition and occasional divestiture activity of those four firms, their diversity, and the nonmanagement services the parent companies offer make a financial comparison difficult, even with data supplied by the companies. While food-service management is the traditional business line of each of the three diversified managed-services companies and the only business line for Compass, it is difficult to break out food and beverage sales concisely, since other managed services—for example, housekeeping—are often bundled with food service. A rough comparison is, however, possible for the purpose of illustrating the size and scope of the leaders (see Exhibit 3).

Despite their distinctive organizational qualities, the industry leaders have a number of similarities. First, their size is largely the result of mergers and acquisitions as well as internal growth. Moreover, all four firms are financially positioned to support continued growth through additional acquisitions.

Second, the companies share a philosophy of protecting earnings by diversifying locations and serving different market segments. With

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penetration in several countries, these large firms have protected themselves from recessionary conditions in any one country. Similarly, by serving several market segments at the same time, a temporary downturn in any one industry segment is not likely to seriously damage any of the big four.

Third, by using diverse systems approaches such as country-specific management-training programs; employee-incentive programs;[5] automated financial-management systems; and computerized ordering, inventory-management, and menu-development programs the companies share a goal of maximizing productivity and financial efficiency for their clients. It is managed-services companies' acumen in those areas that makes them attractive to clients.[6] Another similarity shared by ARAMARK, Marriott, and Sodexho is their success at branching out beyond food service. For example, those three companies are leaders in housekeeping, facility maintenance, and other managed-services products besides their food-service operations.

Fourth, all four of the leaders use branding as a vehicle to maximize sales in all segments, as discussed below.

Branding in On-Site Food Service

Every managed-services company uses branding, but none does it as artfully and effectively as the big four. Each of them uses national and house brands to help differentiate itself from its competitors. These giants concentrate resources on their respective branding efforts differently, however.

How the big four do it. Compass has made its signature brands the focus of its branding strategy. While the company does have limited agreements with quick-service restaurants, its attention is currently geared toward a portfolio of proprietary brands that it calls "new famous foods." The company's commitment is so strong that it has a dedicated subsidiary that focuses only on those house brands. They include Not Just Donuts; Upper Crust, a selection of sandwiches prepared on French baguettes; and Ritazza, a gourmet-coffee concept.

Sodexho's three-tier strategy is somewhat more balanced between its use of house brands and national brands. First, it uses its assortment of signature brands to furnish clients with national-brand quality while ensuring flexibility in implementation and costs that are lower than national brands. Second, it uses manufacturers' brands to augment its established signature concepts—for example, pairing Coca-Cola products with its signature pizza line or Columbo frozen yogurt with its healthful Tasty Lite Cuisine menu items. Third, in cases where a national brand would allow the operator to maximize local-market penetration while maintaining respectable margins, it incorporates the national brand—say, Dunkin' Donuts—as either an anchor operation or a kiosk-style add-on to complement a variety of manufacturers' brands or one of Sodexho's signature concepts.

Sodexho cites several examples of success with the three-tier approach. Perhaps the most impressive is its food-service operation at DePaul

[5] The companies may use programs targeting goals such as employee safety, which are often packaged and marketed as "games" for the employees. For example, to control workers' compensation claims, a scorecard is posted in the kitchen and the number of cumulative days during which no accidents occur is displayed. At certain thresholds, say, 60 days, employees receive rewards (such as a free lottery ticket for each person). As the length of time between accidents increases, the prizes become more lavish (for example, movie passes). When someone is hurt, the counter is reset and the game begins again.

[6] For a discussion of on-site productivity maximization, see: Dennis Reynolds, "Parsimony and Productivity Paying Off," *Nation's Restaurant News*, Vol. 28, No. 15 (April 11, 1994), pp. 26, 70.

University. Responding to customer requests for popular name-brand restaurant products, the company augmented its house concepts with national brands. After the addition of Pizza Hut and Dunkin' Donut brands, the operator witnessed a 700-percent increase in pizza sales and a 400-percent jump in doughnut sales.

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Marriott perceives branding as the lifeblood of its food-service programs. It incorporates such national brands as Pizza Hut and Taco Bell in some accounts but is focusing on its relatively new signature brand, Crossroads Cuisines, as an enhancement strategy in its business-and-industry division. The concept, which incorporates 17 dining stations and 600 recipes when fully deployed, appears to be initially successful; units that use the Crossroads name and concept have experienced an average increase in sales of 14 percent.

In its education division, Marriott has embraced one of the more recent trends in food service: wraps, or soft tortillas, that can be filled with various ingredients. Branded as Cyberwraps, the new signature product line has a low entry cost and high product appeal. Marriott is banking on the trend with a rollout at its 550 college and university accounts.

ARAMARK candidly views branding as a way to increase sales. The company has agreements with Burger King, Subway, Starbucks, KFC, Taco Bell, and Pizza Hut. Like its competitors, the company also has a host of signature brands. ARAMARK's house brands are reputed to be the result of the sales force's listening to the needs of prospective clients who requested options such as special dishes cooked to order and exhibition cooking. That may explain the dizzying number of ARAMARK house brands, most of which can be scaled to fit operations of various capacities.

Don Lawry, vice president of marketing for ARAMARK's global food and support services division, views the output of a food-service operation as 20 percent product and 80 percent peripheral attributes. Even if the product is exceptional, he claims, brand recognition and appeal are the overriding factors in increasing perceived value, and in turn, unit-level revenues.

Emotional appeal. All four of the companies view branding as a vehicle for increasing capture rate, though each approaches the practice differently. It is evident that the strategy of incorporating a single brand—one targeted at a wide audience—is no longer adequate. Indeed, branding has assumed an almost human personality. It seems that managed-services companies must inject character and emotional appeal into signature brands, and they must also use well-known national brands to reap the benefits of brand equity.

Because a brand name can contribute to perceived quality, manufacturers' brands, married with signature and nationally recognized concepts, are thought to add quality appeal to menu items. Grey Poupon, for example, has a long history with operators who market the name of the mustard with the implication that a sandwich with Grey Poupon is better than one with garden-variety mustard. That strategy appears to be effective, but how much extra will a customer pay for the perceived increase in quality? That is the question that operators are struggling with as they attempt to add the perception of value (and to thereby increase sales) without increasing costs.

A clear trend. The leaders are quietly but effectively shifting from program-driven food services—operations with basic menus adorned with a few signature, national, or manufacturers' brands—to market-driven services, wherein the persona of the operation is an extension of the social identities of its customers. The market-driven food-service operation, which is quickly becoming the norm, maximizes the response to its customers' needs. It is also the next generation of the old practice of bundling. In this iteration, however, brands, concepts, and ambience are bundled to capture the most customers in each day part. For example, a food-service facility operated by a managed-services company may modify an employee cafeteria to resemble a French *pâtisserie* in the morning, offering everything from freshly baked croissants to espresso and Dunkin' Donuts products, and then retool the operation at lunchtime to include the full Burger King menu line, signature-brand Chinese cuisine, and a salad bar to rival any free-standing restaurant, with all items prepared by cooks in full chef whites and counter personnel in white tuxedo shirts and bow ties. The same cafeteria may then be used for a special event at dinner complete with candles, linen tablecloths, and prime rib carved to order, with guests ending their dining experience with raspberries flambé served over Ben and Jerry's ice cream.

Branding in its many forms has been a part of the food-service industry for a long time, and today's savvy managed-services operators are building on the tradition to maximize capture rates. That does not necessarily mean, however, that they will thrive indefinitely as the market shifts. Indeed, to be a leader in the on-site arena, a company will have to be able to effectively match its host of brands—including every possible combination of national, signature, and manufacturers' brands—with every one of the target markets in which it competes.

The Future

The disparity between the major players and the smaller companies will continue to grow in the next decade as the economies of scale and technological advances of the industry giants pose increasingly higher competitive barriers for second-tier organizations.

That trend has already been witnessed in other segments of the chain-restaurant industry where leading companies have adroitly employed name recognition, product appeal, and the ability to adapt quickly and to exceed (or define) customers' expectations on a global scale.

In the United States the trend will be for international managed-services companies to look here for growth—both through increased sales and new contracts and through acquisitions. That trend is due in large part to the attraction of coveted "trophy" business-and-industry accounts, which help build corporate image for the managed-services company that runs the food service, and to the tremendous growth potential in segments such as child care and corrections. Moreover, smaller markets such as Great Britain will become saturated more quickly than the United States, making the U.S. market more enticing for companies that want to grow quickly.

The upshot for managed-services firms competing in the United States is that the competition will become fiercer and the margins, slimmer. For clients, the advantages of eliminating their ancillary food-service operations by hiring an outsider to perform that function will continue to increase.

Technology—and the training it requires—will also play an increasingly important role. At the corporate level, worldwide-web sites will be increasingly popular (and necessary) venues for recruiting employees and marketing the line and scope of services offered. Web sites will also become important forums for marketing the managed-services companies themselves to prospective clients. At the unit level, managers will need to be masters of the technology designed to enhance the operation—and companies will need to ensure that those individuals are properly trained.

It is already a given that unit managers must be able to communicate via e-mail with their respective corporate headquarters and client representatives. In the near future they will also need to adapt to technology that facilitates perpetual inventory maintenance, computerized nutritional assessment of individual menus (particularly in health-care settings), automated financial reporting that allows real-time cash accounting, and concept mapping designed to optimize handling of critical-control points for food products.

The managed-services segment of the food-service industry is now part of the global environment; it requires a previously unimaginable level of consumer research, product development, and design achievement. That means that managed-services providers will not only be faced with the difficulties afflicting the other segments—for example, shrinking labor pools and increasing demand for skilled workers—but they will also need to respond organizationally to the new demands of the game. It is a game in which only a few companies will capture most of the business. Organizational communication, technological innovation, and creative human-resources management will be the focus of every leading company.

As a result of those factors, however, one thing is sure: The on-site food-service segment will be one of the most exciting segments and will also be in the spotlight as the giants vie for global position. It is a far cry from the time when on-site food-service companies were known simply as purveyors of cafeteria and hospital food. CQ