

# How to Buy Catering Services



Not only are catering companies defined by the market they serve, the type of contract between parties and where the element of risk is placed is also a defining issue.



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### Introduction

The aim of this booklet is to give some practical advice on how to select a catering contractor on the basis of best value for money rather than just the lowest cost tender received.

The first section of the booklet provides an overview of the current market structure, together with a description of the principal types of contract currently in use. The body of the booklet gives practical advice on the management of a catering tender. In addition to the advice in the main text there are further sources of information contained in the appendices.

### Definition of the contract catering market

Buying catering services generally entails scrutinising a sample number of contract caterers. As the name implies, these are companies which specialise in providing catering at a client's premises in exchange for an agreed length of contract. These companies are generally, but not always, different from commercially oriented high street caterers.

Not only are catering companies defined by the market they serve, the type of contract between parties and where the element of risk is placed is also a defining issue. This is explained further in section 2.2.

### Catering contracts market

The UK contract catering industry is a typical oligopoly. That is to say, it is dominated by four organisations: Compass Group, Sodexho, Aramark and Elinor and populated by a large number of significantly smaller companies. The two largest companies operate over 7,000 and 3,000 contracts nationwide, respectively; Aramark and Elinor operate approximately 1000 and 780 contracts respectively, whereas a medium sized contractor operates up to 300 contracts. The majority of contractors operate under 50 sites each.

Given this large number it is inevitable that the majority of contractors are local, typically serving an area the size of the Thames Valley. Regional contractors would generally serve an area the size of the South East of England or the Midlands. Some caterers may specialise in a type of market or service, such as schools catering, cafés, or directors' dining. This number in the marketplace gives the purchaser a huge choice. However, it is important to carry out some pre-qualification to ensure that only companies which are experienced in catering for the specific needs of the client organisation, be it a café, vending, or client dining rooms, are invited to tender.

Additionally, each contractor must be able to support the geographic location of the client site satisfactorily.

### Market trends

For at least twenty years these four large contractors have dominated the market. However, this dominance has increased significantly in the last decade by fairly aggressive acquisition of smaller contractors. The motivation behind this trend is twofold: namely, strengthening their position in an existing market sector or gaining an entrance into a new one.

At the time of writing the four largest companies have the following contractor names operating under their respective umbrellas:

Parent	Contractor	Market Focus
Compass Group	Burrest Restaurant Associates RA Dining RA Hospitality Inc. Roxx Fine Dining RA Business Services Milbams Medirest Scolarest & Chartwells Sport Leisure & Hospitality Quadrant	Business & Industry - nationwide Corporate Clients Staff Restaurants, Café, Vending Hospitality, Meeting Rooms Reception, Switchboard, Room Management Commercial – Historic / Destination sites Healthcare - nationwide Education – nationwide Leisure, Events and Sporting Occasions Compass has a 49% share in the catering arm of Royal Mail.
Sodexho	Sodexho Directions Table Sodexho Prestige Universal Sodexho	Business & Industry, Education, Defence, Healthcare - nationwide Business & Industry, Fine Dining – London Leisure, Events, Sporting and Commercial Remote Sites
Aramark	Aramark Parallel	Business & Industry, Fine Dining, Education, Government - nationwide Commercial Sites – nationwide
Ellor	Avenance Blance Digby Trout Restaurants	Business & Industry, Fine Dining, Education, Defence - nationwide Commercial Sites – nationwide Commercial – Historic / Destination sites

## Types of catering contract

### Introduction

A basic knowledge of how catering contractors generate income helps in the understanding of the usual catering contracts in operation. Generally, contractors earn income in two primary ways, via a management fee and/or retained supplier discounts. Typically, their earnings from these two sources will range from 2.5% to 10% of contract turnover, depending on the size of contract (contract turnover in this case is calculated as subsidy less management fee, plus cash sales).

A management fee is the most common way for a contractor to earn income. Usually a sum is agreed annually between the client and contractor and is charged on the monthly catering trading account. Contractors can also earn revenue from supplier discounts. Catering contractors negotiate with suppliers to deliver goods to their contract sites. The price will be based on the cost of the goods to the supplier plus the cost of delivery, associated administration, and profit. In addition, there will be a mark-up on this to cover 'discounts' returned to the catering contractor. They are variously known as Drop Discounts, Volume Related Discounts, Royalties, Loyalty Bonus, and Over-riding Discounts. The earnings from this source can be considerable: up to 50% of the volume of some types of produce.

However, as client companies have become more aware of this practice, there has been a trend towards sharing some, if not all, of the income with clients or moving to 'net into unit' purchasing. As the name suggests, net into unit purchasing is when produce is invoiced at catering site level at the lowest price without any margin for return to the catering contractor.

One must be aware that contractors need to earn a minimum from a contract, so if their income from supplier discounts is diminished it will generally necessitate an increase in management fee. However, the advantage of having income shown as management fee is that it is transparent and comparable between contractors, unlike that earned from discounts. This is useful for comparison when in a tender situation.

### 'Cost-Plus' contract

Under this arrangement the client pays all the operating costs such as food, labour and sundries plus, as the name suggests, a management fee to the contractor to supply and process these materials/skills. Any cash received is processed by the contractor and credited against the costs. This is illustrated in the table below:

	£
Cost of food	400,000
Cost of labour	300,000
Cost of sundry items	30,000
Cost of Fee	50,000
Total	780,000
Less sales of food	500,000
Difference = subsidy	280,000

The subsidy in this case is £280,000 per annum. However, the total of the subsidy depends on the tariff charged for the food. Indeed, some companies free issue the food to their staff. If this were the case in the illustration above the subsidy would be £780,000 per annum. It can be seen that the element of risk in terms of cost rests firmly with the client. As a consequence of paying the costs and shouldering the risk, the client also retains control over elements such as service levels and menu tariff.

### Fixed price contract

A fixed price contract is at the other end of the spectrum to a 'cost-plus' contract. Its most basic form is where an annual cost of catering is agreed between parties at the commencement of the contract. The client pays equal monthly instalments to the contractor for the term of the contract. It is then up to the contractor to provide the service and generate an element of profit within the total cost agreed.

An example of this is given below. In this case the client pays the catering contractor £52,500 per month (£630,000 divided by 12 months). Any profit generated would be retained by the contractor.

	£
Cost of food	400,000
Cost of labour	300,000
Cost of sundry items	30,000
Total	780,000
Less sales of food	500,000
Difference = profit to contractor	280,000

The element of risk rests with the contractor and as such they may retain a high degree of control over the menu range, tariff, service levels and opening times after they have been awarded the contract.

### Hybrid contract

The structure of this contract is based on the 'cost-plus' model. The earning potential of the contractor can increase or decrease based on their performance in both financial elements such as:

- sales volumes
- gross profit targets
- labour and sundry costs

and on qualitative elements such as:

- menu range
- service levels
- staff appearance



- health and safety standards

An agreed percentage of the base management fee is “put at risk”. This is usually between 25% and 50%. Each of the elements listed above is weighted according to the importance attached to that element. Each is scored and the result is then reconciled, usually once a quarter, and the fee adjusted upwards or downwards accordingly. A sample of the incentive parameters is shown in Appendix A.

### **Nil subsidy**

How a subsidy is calculated is illustrated in 2.4. Nil subsidy refers to a site where all overhead costs such as food, labour, sundries and contractor earnings are recovered by the gross profit earned from sales. On occasion, the caterer is also required to recover the rent, rates and energy costs.

This sounds like the perfect solution for many organisations. However, before launching headlong down this route it is worth understanding that there are certain prerequisites for this type of operation to be successful. Specifically:

- a high volume of customers to generate high volume sales
- a tariff which achieves a high gross profit, usually controlled by the caterer. This has to be of sufficient volume to cover all the raw material, labour and sundry costs
- a style of catering service which minimises the labour costs.

Often a nil subsidy contract operates on the ‘fixed price’ model, whereby the fixed price is based on the client not incurring any subsidy.

### **Why is buying a service (catering) different?**

Different to what, one may ask. In this case the “what” is seen as a product. Products are generally easy to specify and evaluate on their size, shape and ability to perform the function bought for. Products are invariably manufactured some time before their use and can easily be inspected for any deviation from the norm. A service is very different in this respect. Services are differentiated from products by the following characteristics:

- Intangible you cannot touch, see or own a service
- Variable the human element brings differences to the service provided
- Perishable it cannot be produced before required or stored to meet demand
- Inseparable production and consumption are closely associated

It is the very nature of these characteristics which puts the emphasis on people, processes and performance. Due to the intangibility, perishability and inseparability, people become the representation of the service; therefore how the customer perceives those people is all important. Again, because humans deliver the service, it will vary; therefore quality of the processes and performance need to be viewed or sampled to ensure that it reaches the standard required.

This is where the people element comes to the forefront. The difference between two contractors can begin to emerge by applying the following general questions to each of the contractors:

- How do the catering staff manage a particular situation?
- What is the service delivery like?
- How can one distinguish between the quality of one service and another?
- Who provides better support and why?

- Which company is better value for money when the proposed costs for the service are different?

The second half of this booklet provides a structure to help the layman with answering these questions and to identify the most appropriate contractor for a particular set of circumstances.

### Why provide catering services at all?

This is the most crucial question the organisation must ask itself. In order to get the best value from your catering service and therefore your contractor, the organisation must be clear why they are providing catering to their staff. As with nearly all aspects of running a business, if there is a clear policy then the lesser decisions further down the process are made a lot easier.

The reasons for providing catering are many and varied. For instance, some companies provide a main meal at no cost to their employees as part of their remuneration package. In this case it may be that the provision of a catering service is seen as a greater value than the cash alternative. Another company may provide a service because they are located in an isolated area and do not wish staff to leave the premises. Some companies use dining as a business development tool and maintain very high standard dining rooms.

### Translating the reasons into catering objectives

Once there is a clear picture of why the company is providing a catering service, a more detailed scenario of exactly how it is to be operated can be formed. For example, the following sample of questions can be used to build up a picture of the service a company wishes to provide.

### Range and style of services

- Is there to be a full service restaurant or a pre-prepared and made-to-order sandwich service?
- What is the range of food to be provided?
- Is there a comprehensive range of hospitality services?
- How are beverages to be supplied (vended, over the counter or by trolley service)?

### Tariff policies

- Is the tariff designed to return a gross profit, to recover just the cost of food and VAT or free issue?
- If a gross profit is to be generated, what level is appropriate or achievable?
- What effect will different gross profit targets have on the tariff across a range of items?
- If the service is free issue, what is the daily allowance?
- Are the hospitality service costs absorbed centrally or recharged to individual cost centres? If so, what costs are re-charged?

### Financial objectives

The financial outcome of the catering service, be it a subsidy or a profit, will be driven by the range of services and the tariff policy adopted. For example, if a policy of free issue meals is adopted, the cost to the organisation will be considerably higher. Conversely, a gross profit will reduce the subsidy.

If it is a greenfield site, the specification can be formed from scratch. If it is an existing service, each area can be reviewed in light of new business objectives.

### Sourcing catering services

#### Sources of information

There are a number of organisations that provide information on reputable catering contractors. A selection, together with their addresses and contact numbers, is listed in Appendix B.

#### Networking

The information received from the organisations at Appendix B is likely to be of a factual nature such as address, number of contracts, geographical spread and core markets served. In addition, it is worth carrying out some background investigation covering the following topics:

- who they currently cater for
- what the support and service is like are they a growth business or in decline?
- are they growing so fast that it would affect their support for you if you were to select them?
- have there been any significant developments or reorganisation in the company recently?

Another valuable source of information is the catering consultant. A list of reputable consultancies can be obtained from the Institute of Hospitality or Food Service Consultants Society International (FCSI) - see Appendix B.

### The tendering process

#### Introduction

Our recommended approach to sourcing catering services is to place them out to competitive tender. Not only does this enable examination of your current investment, it also gives a chance to review current catering trends and their relevance to your organisation. A more detailed examination of the process appears below.

#### The structure of the tender process

This is a familiar process for buying many goods and services. However, each stage is important in order to gather information and to test which contractor offers the best service.



Of equal importance to getting the various elements of the tender process in the right sequence is planning enough time to complete all the activities and the evaluation. An example of the schedule required is as follows:

Activity	Timing
Gather information & compile tender document	Weeks 1 & 2
Send tender document to contractors	Week 3
Contractors' survey site	Week 4
Site visits	Weeks 5 & 6
Tender documents returned	Week 8
Presentations	Week 9
Tender evaluation	Weeks 10 & 11
Meetings to discuss evaluation	Week 12
Appoint successful contractor	Week 13
New contract commences	Week 17

As with all projects, time can be reallocated from one area to another. However, it is important not to underestimate the time it takes to get replies to queries or to convene meetings with the stakeholders to discuss the options.

Additionally, it is recommended that more than one person is involved in the exercise. Ideally, a small number of representatives with different skills or aspects of involvement, such as facilities management, finance, hospitality user, for example, are seconded to provide broader feedback of the process.

### Specifying the catering services

It is recommended that the document be in the form of an output rather than an input specification. The reason for this is twofold, namely:

- it specifies each service required without pre-empting the food/service offer
- it elicits bespoke responses from the contractors which identify how they would approach the contract.

Ultimately, this arrangement will help differentiate between the contractors and facilitate a decision as to who should be awarded the contract.

The detail for each service should include points such as:

- name of service
- times required
- potential customer numbers
- menu range
- service standard required
- tariff policy



An example of which could be as follows:

### **Lunch Service**

Monday to Friday	12noon to 1.30pm
Shift A	12noon to 12.30pm 50 employees
Shift B	12.30pm to 1pm 60 employees
Shift C	1pm to 1.30pm 70 employees

Menu to include the following as a minimum:

2 Hot Main Courses  
2 Vegetables  
1 Potato Dish  
A Selection of 4 Salad Entrees  
A Daily Selection of 4 Plain and 2 Composite Salads  
A Selection of 6 Pre-prepared Sandwiches and Filled Rolls  
1 Hot Sweet  
1 Cold Sweet  
Soft Drinks, Confectionery and Proprietary Snacks

Please propose a tariff that will recover the cost of food, VAT and 30% gross profit.

The specification process will need to be repeated for all the services. This could possibly include services for the breakfast, lunch, supper and night restaurant, meeting rooms, vending (beverage, snack, food and soft drinks) client, directors' and managers' dining rooms.

The drafting of the current service specification is usually a good time to review whether the organisation wishes to continue a service at all or in a different format.

Two examples could be as follows:

- A dining room where meals have been silver-served and the wish is to move to the more in-vogue plated service.
- The introduction of a made-to-order sandwich bar instead of pre-prepared goods.

### **The tender document**

Once the specification is completed it can be inserted into a tender document.

The recommended basic structure of the document and some of the headings which need to be considered for each area is as follows:

Introduction	<ul style="list-style-type: none"><li>• General background to the company</li><li>• Overview of the catering services</li><li>• The reason for tendering the service</li></ul>
General information given	<ul style="list-style-type: none"><li>• Timetable</li><li>• Response format</li><li>• Contract type</li><li>• Costs to be included and not included</li><li>• How the contractor generates earnings</li><li>• How TUPE will be handled</li></ul>
Detailed specification	As identified in the above section
Information requested	<ul style="list-style-type: none"><li>• Sample menus for each service</li><li>• Description of support resources</li><li>• Job matrices, specifications, descriptions</li><li>• Company policies</li><li>• Service innovation and alternative options</li></ul>
Financial pro-formas	<ul style="list-style-type: none"><li>• A shopping basket of relevant goods</li><li>• Cost and sales analyses relevant to the services specified</li><li>• Labour schedule and costs</li><li>• Miscellaneous costs</li><li>• Management fee</li><li>• A total cost summary of the individual analyses</li></ul>

### Who to invite to tender

#### Invited short-list based on market knowledge

Some organisations have detailed knowledge concerning the contractors they wish to invite to tender. If this is not the case, an alternative is to hold a pre-qualification exercise to help identify those who have the necessary resources and attributes to supply the service satisfactorily.

#### Pre-qualification process and selection criteria

This is a matter of preference and perhaps deference to specific purchasing regulations within your organisation. The recommended number of contractors to invite to tender is generally four. This is to optimise the choice of provider against the time taken to manage the tendering process and evaluate all the information collected.

The selection criteria used to identify appropriate contractors will be driven by the needs of the organisation. An example could be that of an extremely busy and rapidly changing catering service where a high level of support and attention is required. The area manager will need to be on site regularly.

Therefore a question to ask could be: "What is the average number of contracts an area manager is responsible for?"

Generally, the lower the number a manager has to manage the more time they will have to allocate to each contract. Differentiating scores can then be given for under 10:1; 10-12:1; 13-15:1; and 16:1 and over. This pattern of questions can be repeated for pertinent issues. Once

preferred contractors have been selected and have confirmed they are interested in proceeding, the tender document can be dispatched.

### **Site survey**

It is recommended that the shortlist of contractors is invited on site to view the current facilities and services. This raises the issue of collusion. The profile of the market identified that the market is very competitive, which therefore reduces the likelihood of such collusion. It also emphasises the importance of knowing who owns whom.

The positive side to inviting all parties together is that it saves time by not having to duplicate the process four times over and it also ensures that all contractors receive identical information.

The reason for them to view the site is fourfold, namely:

- to view the facilities, equipment, services and standards required
- to test their understanding of the tender document and to clarify any points raised
- to give the contractors an opportunity to ask questions about the organisation and its objectives
- to establish a relationship and a knowledge of the contractor's management style

The more the contractors have an understanding of the facilities and the culture of the company, the more accurate and tailored the responses should be.

### **Site visits**

It is strongly recommended that visits are arranged to view operations currently run by each contractor. Although this may appear as a heavy investment of time in the process, it will afford much greater understanding of the written tender responses and illustrate what is being described during the presentations.

These can take place while the contractors are completing the written response. This not only foreshortens the timetable, it also enables the contractors to tailor their responses to specific issues raised during the visits.

The visits should be relevant to the services specified within the tender document and bear a relation to how each particular contractor proposes developing the services at the site. There is a great temptation for contractors to escort potential clients to their biggest and best flagship operation. However, if the services bear no relation to the tender specification then the visit is wasted.

Equally, there is a great temptation to be dazzled by the facilities and the décor of the food service area rather than the input of the caterer to the service. It is best to focus on elements that are transferable, such as the menu choice, food presentation, customer service, restaurant signs, merchandising and marketing materials plus the managerial style and control system on offer.

It is a good idea to request to meet the area operations manager from each contractor who would be responsible for the contract should they be successful. Meeting operational staff is another way of identifying if a relationship between the two companies is likely to develop.

Basically, you are asking "Can I work with these people?" and "Does their style suit the organization?"

On a practical level, it is recommended that only two visits per week are scheduled. Not only is it difficult to find the time to leave the office four days out of five, it is also difficult to digest all the food offered!

### Evaluation of the written document

As highlighted at the beginning of this booklet, the lowest cost does not always represent the best value for money. In evaluating the written and financial response some means must be devised to identify which is the optimum bid. The simplest way is to break down the elements of the document into component parts as follows:

- food
- labour
- miscellaneous
- management fee

These headings can be broken down again as illustrated:

Category	Area	Element
Food	Staff restaurant	Proposed menus Sales volumes Food cost Gross profit
	Hospitality	Proposed menus Food cost
	Vending	Cup cost
Labour	Management staff	Each area can be evaluated as follows: number weekly hours hourly rates total cost
	Chefs Other kitchen staff	
	Service staff	
Miscellaneous	Disposables	Each area should be scrutinised for appropriate volume and unit cost.
	Cleaning materials	
	Uniforms	
	Laundry	
	Stationery	
	Merchandising materials	
Management Fee	Fee at risk	Fee proposals should be weighed against which is the most appropriate response in these criteria.
	Benefit of a longer contract	
	Area support	
	Head Office resource	
	Training support	

Each bid should be interrogated systematically, for service/product quality versus cost in each category as relevant to your specific site. The criteria used will vary from site to site and will depend on the service level specified.

Normally, the following questions need to be asked:

- Do I believe the sales volumes/gross profit/cost per head are achievable?
- Was this demonstrated on the site visit?

- Do I believe this contractor?
- Is this relevant to the specification and tender document?

From each category a strong contender should emerge.

### **Presentations**

Presentations may be approached in two main ways:

1. Either, all four contractors are required to illustrate their proposals approximately a week to two weeks after the submission of the written element. This will allow time for reading through all the submissions, initial financial comparisons and compilation of questions for each contractor.
2. Alternatively, it may become obvious from the financial and service responses and the site visits that there is a shortlist of contractors. If so, it may be time better spent concentrating on these contractors.

### **Negotiations**

The points to discuss and agree at this point could include:

- Final operating budget (Service requirements or volumes can change during a catering tender exercise)
- Contractor earnings and any appropriate incentive schemes
- TUPE details and their implications on the budget and contract
- Payment terms
- Invoice layout and supporting documentation requirements

If applicable, you will also need to express your requirements concerning the lead-in time and handover details between contractors.

Additionally, it is good practice to debrief the unsuccessful contractors.

### **The contract**

One of the most efficient ways of determining the Terms and Conditions is to adapt the contractor's standard contract.

A checklist of main points to be included in a contract is illustrated in Appendix D.



### Appendix A - Sample Incentive Parameters

BAND	SALES	GROSS PROFIT	LABOUR/ MISC. COSTS	QUALITY	HEALTH, SAFETY & HYGIENE
1	3% or more under budget	3% or more over budget	3% or more over budget	Unacceptable standards	Unacceptable standards
2	1% to 3% under budget	1% to 3% over budget	1% to 3% over budget	Standards not being achieved in some areas. Some repetition of complaints	Standards not being achieved in some areas. Some repetition of complaints
3	Achievement of budget +/- 1%	Achievement of budget +/- 1%	Achievement of budget +/- 1%	Agreed standards being achieved in all area.	Agreed standards being achieved in all areas
4	1% to 3% over budget	1% to 3% under budget	1% to 3% under budget	Standards being exceeded in several areas	Standards being exceeded in several areas
5	3% or more over budget	3% or more under budget	3% or more under budget	Exceptional standards in all areas	Exceptional standards in all areas

The monetary value attached to the above percentages is dependent on the management fee and the percentage of that fee which is at risk.

## Appendix B - Sources Of Information

### **Institute of Hospitality**

formerly Hotel, Catering and International Management Association (HCIMA)

Trinity Court  
34 West Street  
Sutton  
Surrey  
SM1 1SH

Tel 020 8661 4900

Fax 020 8661 4901

Website : [://www.instituteofhospitality.org/](http://www.instituteofhospitality.org/)

### **The Association of Catering Excellence (ACE)**

Bourne House  
Horsell Park  
Woking  
Surrey  
GU21 4LY

Tel 01483 765111

Fax 01483 751991

Website : [://acegb.org/](http://acegb.org/)

### **Foodservice Consultants Society International (FCSI)**

Bourne House  
Horsell Park  
Woking  
Surrey  
GU21 4LY

Tel 01483 761122

Fax 01483 751991

Website : [://www.fcsi.org/](http://www.fcsi.org/)

## **Appendix C - Relevant Legislation**

The Food Hygiene (England) Regulations 2006  
The Food Safety (General Food Hygiene)  
Regulations 1995  
Food Safety (Temperature Control) Regulations 1995  
The Health and Safety at Work Act 1974  
The Control of Substances Hazardous to Health  
Regulations 1988 (COSHH)  
The Food Premises (Registration) Regulations 1991

### Appendix D - Contract Issues

The following checklist identifies some key headings which may be included in the terms and conditions with a catering contractor. They have been divided into two areas, defined as that which usually falls into the contractor's and client's area of responsibility. The list is not exhaustive and does not take account of local issues pertinent to a particular site.

#### **Contractor's responsibilities**

##### 1. Services required of the catering contractor (could attach the specification)

- Catering
- Vending
- Cleaning
- Hygiene, health and safety standards
- Operating budget, management reports
- Computer software details

##### 2. Staff issues

- Employment of qualified/trained staff
- Ensure staff act responsibly while on client's premises
- Pay wages, NI and PAYE, manage statutory holidays and sickness allowances according to contracts

##### 3. Finance

- Pay food, labour, miscellaneous costs in line with annual operating budget
- No training or insurance % or charges
- Keep adequate records of expenses
- Recharge within (XX) days after the calendar month trading period (dependent on requirements)
- Provide reasonable/agreed management information
- Act as principle/agent for VAT

##### 4. Other

- To uphold legal standards of employment/hygiene, health and safety, insurances, local by-laws.
- Length of contract
- Three-month notice period in writing by either party

#### **Client's responsibilities**

##### 1. Services

- Maintain suitable premises, including water, power, refrigeration, ventilation, drainage, refuse facilities, outside telephone line
- Provide a catering office, computer hardware, safe
- Pantries, beverage making facilities
- Cleaning that is not responsibility of catering contractor

##### 2. Staff

- Staff changing/toilet facilities, (separate if over five members of staff)
- TUPE/redundancy clause

##### 3. Finance

- Reimburse reasonable costs related to the annual operating budget
- Deposit arrangements, usually one twelfth of the labour costs
- Statement of management fee
- Performance scheme/payment
- Period of time in which invoices to be paid

#### 4. Other

- Insurance for injury due to faulty premises/equipment

## General

The following could also be attached, if relevant:

- The annual budget
- The performance related scheme
- Serious breach of contract details
- Liquidation clause for either party
- Three months notice in writing is recommended



## Appendix E - Glossary

### Discounts

Catering contractors negotiate 'into unit' purchase prices with suppliers for each product. These are known as gross prices. They are then charged the 'true' cost of the food (net prices) by the supplier. Discounts are the difference between gross food costs and net food costs. Typically they range between 15% and 30% of the lowest purchase price. Contractors also benefit from volume and over-rider discounts. Note that it is important not to concentrate excessively on discounts returned, as these are simply negotiated figures. The key factor to consider is the net price the caterer pays for the food.

The following are terms associated with discounts:

#### Drop discounts

A discount credited to the unit for orders greater than the minimum drop value.

#### Loyalty bonus

Another name for discount.

#### Over-riding discounts

Discounts credited to the contractor by manufacturers based on the total annual purchase of a particular brand, for example, Coca Cola or McDougall products.

#### Royalties

Another name for discounts.

#### Volume-related discounts

Discounts credited to the contractor by suppliers based on the total annual purchase of products. Often there is a higher percentage returned for higher volumes or trigger points.

#### Free issue

Goods and possibly services that are distributed by the contractor on behalf of the client for which there is no immediate payment. An example could be tea and coffee served in meeting rooms. The cost of providing each service is agreed and identified on the trading account. Often, the contractor will support these figures with cost codes to be recharged to client departments.

#### Gross profit

The difference between net sales (sales minus VAT) and the cost of providing those sales. Gross profit can be identified for individual trading areas, such as staff restaurant, café or shop.

#### Minimum drop value

Caterers and suppliers agree a minimum order value per delivery per site to ensure that the supplier maintains profitability.

#### Input specification

This specification not only details the schedule of services but also exactly how the service should be provided. The information given includes the staffing levels and employment costs.

#### Output specification

This specification will detail what services are required, the volumes, when and to what standard, but requires the contractor to describe what food and labour are required to fulfil the specification. This approach should elicit a higher degree of differentiation between the responses.

**Silver service**

Service by waiting staff with spoon and fork from serving dishes to the plate.

**Subsidy**

The total cost incurred by the client company for each service.

**Tariff**

The selling price of menu items to customers.

**Tariff policy**

Generally, the tariff is linked to achieving an overall financial target. This can range from issuing the food free of charge to employees where a cost per head is agreed, through recovery of the food cost plus VAT, to a tariff to generate a high gross margin.

**Trading account**

A statement of actual trading by the contractor. It usually identifies net sales (if applicable), costs, including labour, miscellaneous and management fee. The actual results may be compared against budget figures and a variance identified. Trading accounts are most commonly issued on a four-weekly or calendar monthly basis.

**TUPE**

Transfer of Undertakings (Protection of Employment). This is a complex piece of employment legislation. However, as far as the catering contract is concerned, all staff are entitled to transfer from one contractor to another on their current employment terms and conditions.

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