



How to achieve a nil subsidy contract

To inspire confidence and spread knowledge, we have developed bartlett mitchell's recipe for success guides for workplace and contract catering. You can download other guides from our website www.bartlettmitchell.co.uk/category/expert-guides

As clients move away from cost plus contracts, nil subsidy contracts are becoming increasingly popular. Nil subsidy contracts are not always easily achieved and are only successful where there is a high volume of customers to generate the required sales. A nil subsidy solution can have a lower percentage uptake of site population than a subsidised service because tariffs will typically be higher. To achieve nil subsidy, the relationship between tariff, gross profit, operating expenses, labour costs and caterer's income need to be carefully balanced. Our guide describes each of these elements and what clients need to consider.

Tariff / sales volume

A lower subsidy typically means a higher tariff. This can be a barrier for employees using an in-house facility as opposed to the external competition. In order to establish the correct tariff, typical questions that are asked include;

- What are your employees' catering expectations?
- What is the average salary?
- What is the internal and external competition?
- What price point are employees used to?
- What are the demographics of the customer base?
- What is the company's attitude to catering and its position within their HR benefits policy?

Effective marketing and merchandising will help drive sales, but unlike a retailer or commercial venue, the potential customer base is capped and it is, in the main, repeat business. Similarly, discounting or special offers will only have a limited impact on driving sales. So, it's vital to get the tariff right.

Food cost & gross profit (GP)

- Food cost and gross profit are directly linked; the cost of food products will be largely determined by ingredient quality and availability which impacts the market price.
- Caterers make a different GP on each product, which is dictated by what customers are willing to spend, as well as the mix of products they buy (sales mix).
- Hot beverages and breakfast items often deliver the highest GP, in contrast soft drinks and retail products typically deliver a lower GP.
- In general, customer expectation is that an in-house caterer's prices should be less than the High Street, however in a nil subsidy contract this gap is typically much less.
- The overall GP will depend on the products sold and the actual sales mix.

Labour

- Labour is usually the highest cost for any contract.
- Great team members need to be paid very competitive wages and the difference great team members can make should not be underestimated.
- Labour is generally a fixed cost due to a core team being required on site.
- The core team required depends on the client's service, opening hours, range of food offered, volume of food made on site and bought-in items.
- The level of business needs to be enough to support the labour, hence the importance of the number of employees on site.
- We recommend there are a minimum of 900 -1200 potential customers on site to run a nil subsidy contract.

Operating expenses

The client typically still pays the costs towards running a nil subsidy contract. Additional operating costs often sit outside the caterer's budget i.e. hospitality services and free issue costs.

A nil subsidy budget can be tight - only the direct cost of sales should be included. All costs for new equipment, repair work, rentals or leases need to be considered separately.

Management fee

The management fee is for providing the knowledge, expertise and payment for managing the service. It will also include the caterer's profit.

The fee covers all legislative requirements, as well as HR and training, payroll, management support and food development. nil subsidy contracts pose a higher risk for the caterer and therefore the management fee will reflect this and is often a higher management fee than a cost plus contract.

Next steps

Contact us if you would like to discuss how we can assist you in achieving a nil subsidy catering contract.

Glossary A-Z

Gross profit (GP)

The difference between the food cost and revenue that normally offsets part or all of the operating costs.

Labour costs

All the costs related to the employment of the team.

Management fee

Revenue received directly for operating the service to cover costs for employing and managing the people and services needed to deliver the service.

Operating expenses

Costs other than food, disposables (cups, napkins etc.), cleaning, consumables, uniform, laundry, postage, stationery, computer costs, equipment maintenance, kitchen deep clean, cash collections, equipment hire, quality assurance audits, light equipment replacements, travel costs, recruitment and advertising, marketing and promotion.

RRP

Recommended retail price.

Sales mix

The range and quantity of products sold.

Service level agreement (SLA)

Part of a service contract where the level of service is formally defined. The caterers income (however earned i.e. management fee) can be incentivised either on sales and/or SLA.

Subsidy

The bottom line cost to the client for a caterer to provide the catering service where the sales income is less than the costs of operation.

Tariff

Selling price.

5 ways bartlett mitchell powers your business

Great food, eaten in great surroundings, can make a huge difference to your business. It's our job to help you make the most of this, in five ways...

1. Attracting the best people

Today's employees expect more from their workplace, and the food you provide is a crucial part of that – especially as many people now care more about what they eat. We can help you enhance your 'employer brand' by creating a food and drink offer that sets you apart from other companies. You'll have a happier, healthier, more engaged workforce, and find it easier to recruit and retain the most talented people.

2. Improving productivity

Well-fed employees are more productive. In 2013, the Journal of Occupational & Environmental Medicine argued that employees who eat well are 25% more likely to perform better. And, of course, if there's an appealing restaurant or café in the workplace, they will stay on site. More importantly, taking lunch and coffee breaks with colleagues encourages interaction. People talk more freely, information flows more easily, and your business benefits.

3. Enhancing your reputation with customers

When customers and other guests visit you, you want them to enjoy the experience and be impressed by your workplace. An appealing, well-run café, restaurant or executive dining facility, serving great food, says a lot about your business. We can ensure your food, drink and hospitality reflect your brand style and values, and uphold its reputation.

4. Providing return on investment

Every square foot of your business premises is highly valuable, and the space you dedicate to catering and hospitality has to work hard for you. We ensure these facilities work efficiently and cost-effectively, making best use of your resources. Also, choosing us to manage your food and drink services leaves you and your team free to focus on running all the other vital aspects of your business.

5. Collaboration

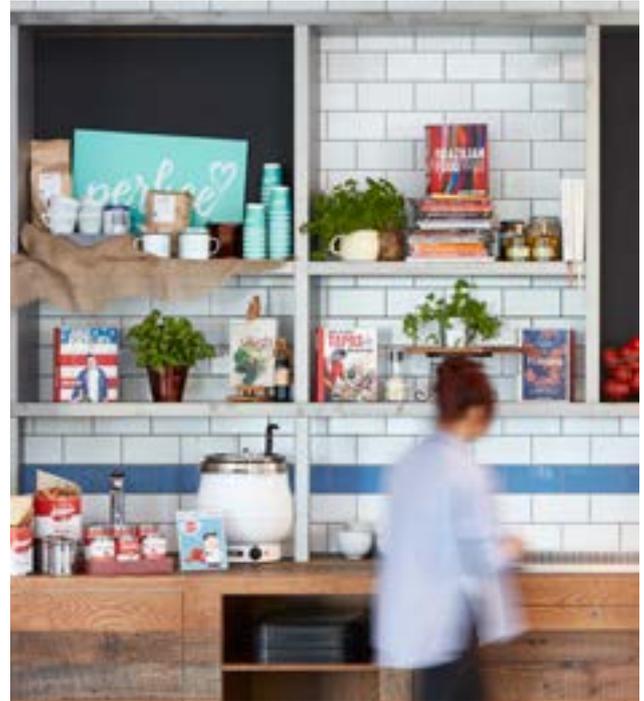
You want your business to have a positive impact on the environment and your community – and your customers, staff and shareholders want to know about it. We can boost your reputation as a responsible organisation through our strong track record in sustainability. Our achievements become your achievements. And inspiring stories – like the Thirsty Planet water we sell helping to pay for clean water in Malawi – can be associated with your brand.

About bartlett mitchell

bartlett mitchell is a multi-award-winning contract caterer. Our experienced, energetic and enthusiastic team takes a fresh approach to food and drink – with delicious results for you and your business.

We've grown steadily to a team of over 800 experienced foodies, serving 40,000 customers every day in over 90 locations in the UK.

We're also a responsible company, and can help yours to be one, too. We were the first contract caterer to achieve the Sustainable Restaurant Association Three Star Champion Status, known as the Michelin stars of sustainability.



Fresh ideas every time

Because we're an entrepreneurial business, we don't have a one-size-fits-all template that we attempt to force on each client. Our catering focuses on tailor-made solutions using innovation. We take time to develop bespoke ideas to match the client culture, employees' tastes and the physical environment.

We also recognise the importance of value for money. We work as a tight, agile team to develop solutions that reduce costs and use resources more smartly.



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