

A New Look at Institutional Food Service Management

by
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Institutional food service management, especially by contract management companies, offers unrecognized career opportunities for many of today's hospitality students. It is one of the best kept secrets in the food service industry. This article endeavors to provide a new look at and overview of the industry as it has evolved and now stands.

Food service management as a discipline has evolved into a segmented industry. Each segment now has its own identity, offers its own career opportunities, and requires its own academic curriculum. One of those specialized segments is institutional food service management.

The term "institutional" is widely used but differently defined by various managers and organizations and academic institutions. Some use the term "non-commercial" to identify the institutional market. Others use both terms interchangeably and synonymously.

The National Restaurant Association produces an annual survey of gross national food service sales, using three basic categories: commercial, institutional, and military. Figure 1 details their 1989 summary with classifications and sales dollars.

Restaurant Business magazine provides a similar annual report using the following categorical breakdowns: commercial/contract (restaurants, bars, taverns, in-flight), institutional, and military. No further breakdown is given for categories two and three.

Restaurant and Institutions magazine provides an annual summary of comparison sales and number of units between institutional and commercial segments of the food service industry. Figure 2 is a summary of their 1990 report.

The academic community has its own definitions of "institutional" as it refers to curriculum regarding food service management. Some two and four-year schools and colleges refer to themselves as Hotel, Restaurant, Institutional (HRI) Management Schools. Each school or college has its own view of what constitutes "institutional" food service as a management discipline.

The International Foodservice Manufacturers Association (IFMA) prepared an in-house study, "Food Service: A Segmented Industry," in 1987.¹ IFMA is a trade organization with a membership that

Figure 1
National Restaurant Association Survey
1989 Food Service Sales by Sector

Commercial Food Service	1989 Sales (billion \$)
Eating places	\$147.1
Drinking places	10.3
Food service contractors	12.8
Hotel/motel restaurants	13.9
Retail, vending, recreation	<u>17.9</u>
	\$202.0
Institutional Food Service	
Business, school, hospitals, nursing homes and others which operate their own food service	\$ 24.2
Military Food Service	
Base exchanges, officers, clubs, NCI food service	\$ 1.1
Total	<u>\$227.3</u>

Source: *National Restaurant Association, 1989*

includes all major food equipment and supplies companies, with an emphasis on marketing to the food service industry. They have identified 12 different segments as those that comprise the total food service industry. Their table of contents lists the following industry segments: full service and quick service restaurants and food services in these areas: health care, elementary and secondary schools, colleges and universities, hotels/motels, military and correctional, transportation business and industry, retail and convenience grocery, recreation, contract, and vending. IFMA does not use the term "institutional" for any of their described segments.

As can be seen, the term "institutional food service" has been defined and evaluated in different ways, by different organizations and interested groups. Generally, an institutional food service is located within a business or facility whose primary mission is not food service.

Institutional food service will be used to describe all areas of the food service industry that are not primarily in the business of offering a public food service facility operated solely to make a profit from the service. The major categories for this description are as follows:

Figure 2
Institutional and Commercial Segments
Estimated Sales and Number of Units

Institutional Segments	Estimated 1990 Sales (billion \$)	Estimated 1990 Real Growth	Estimated 2000 Real Growth	Units
Employee Feeding 16,000	\$16.19	0.9%	1.3%	
Schools 89,000	13.26	1.1	1.3	
Hospitals	10.77	0.1	0.0	6,985
Colleges and universities	7.22	0.0	0.2	3,350
Military	5.57	0.1	0.2	3,320
Nursing homes 14,925	3.79	2.1	2.4	
Transportation	3.15	1.7	1.3	155
Daycare 40,000	2.42	2.4	1.8	
Elder care	0.94	2.7	3.0	4,075
Total 187,810	\$65.48	0.9%	1.0%	
All commercial segments total 476,297	165.43	72%	72%	

Source: *Restaurants and Institutions*, (January 10, 1990), p. 22.

- * business and industry food service
- * primary and secondary school food service
- * college and university food service
- * health care food service
- * correctional institutions
- * some areas of contract food service/vending

These are six of the 12 segments described by IFMA as comprising the total food service industry. Each of these segments is also contained in most other industry surveys, although they may be used under a different rubric. Regardless of the rubric used, they contain the common descriptions used by all industry analysts as being institutional.

The term "commercial" is defined as "having profit as an aim." The term "non-commercial" is defined as synonymous with institutional. Although many contract food service companies are engaged in the management of various segments of the non-commercial food service area, and they do so for a profit, that profit is not usually derived from a commercial food service but from managing a non-commercial or institutional operation.

Business and Industry Food Service Has a Long History

The genesis of business and industry (B & I) food service began in Scotland around 1800. Warner² reports that Robert Owen, the operator of a mill, opened a large "eating room" for his employees. This was a place where employees could sit down and eat a lunch meal they had brought from home.

Stokes³ states that the cafeteria method of service, which was to become prevalent in employee food service operations, was developed by the Ogontz Lunch Club for Women in Chicago. It was installed at the YWCA in Kansas City around 1891. Stokes further offers that the earliest known industrial (B & I) food service in the United States was in the Bowery Savings Bank in New York in 1834. Service was to all employees, sit down waitress style, and without cost to the employee.

What is believed to be the first company-managed employee cafeteria was installed at the Plymouth Cordage Co. in Plymouth, Massachusetts, in 1902. The company constructed a building that housed a kitchen, two cafeterias, and a recreational facility for its employees. Prior to this installation, lunch rooms and table service dining were the accepted methods of providing an employee food service.

Meakin⁴ prepared a survey that listed over 50 firms in the United States that were providing some form of employee food service at that time. Today the employee food service operation is common. The cafeteria is the most prevalent type.

The first known contract management company of employee food service operations (then called an industrial caterer) was N.W. Cease. In 1904 he and his brother opened a cafeteria on the premises of the

American Locomotive Works, in Dunkirk, New York, with the permission of the company. Food service contract management companies are multi-billion dollar corporations.

Business and industry food service is a term commonly used by all of the national contract management food service companies. Harbingers to this term were inplant and industrial food service. Definitions descriptive to this area are plants and factories, office buildings, and food service vending. These facilities provide services for employees, usually as cafeterias, executive dining and company guest dining, the latter two usually as sit down waitstaff service.

Service is on company premises, providing mid-shift meal service and coffee break service. The mid-shift meal is usually lunch, but may be dinner or an overnight meal in a plant or factory. Many of the operations offer breakfast service to arriving personnel, particularly in urban areas and in three-shift factory operations. Coffee break service is often provided by vending machines, strategically placed throughout the facility. Some locations still utilize portable carts for the coffee service. Full-line food service vending is also used for remote areas and off shifts, depending on the facility. Where it is used, it is usually part of the food service management responsibility.

B&I food services are managed by both the contract management companies and the business organization providing the service. The term used for the latter is "self operators." Contract management companies operate a major portion of this segment with an 80 percent penetration in locations with over 500 employees. Self operators manage the remainder.

Depending on which organization has prepared the survey, this segment is describes as being 6 to 8 percent of the total food service industry. There are an estimated 16,000 individual unit locations. The *Restaurant and Institutions* survey (Figure 2) indicates that 1990 sales for this segment were \$16.19 billion; real growth is .9 percent and estimated year 2000 real growth rate will be 1.3 percent.

Primary and Secondary School Food Service Dates to 1853

Primary and secondary schools in the United States have a long history of providing food service to students. Serving food at school began with volunteer efforts of the Children's Aid Society of New York in 1853.

In the early 1900s lunch service in schools was primarily a volunteer effort. In 1921 the Chicago Board of Education claimed that it was serving lunch in all of its high schools and most of its elementary schools. Van Egmond Pannell⁵ reports that the first federal funding for school lunch programs came from the Reconstruction Finance Corporation in 1932 and 1933. Those funds paid labor costs for lunch preparation in several southwestern Missouri towns. By 1934 the program had expanded to 39 of the then 48 states.

In 1935 the Works Progress Administration (WPA), a Roosevelt era welfare type program, assigned women in needy areas to the school lunch program, and paid the labor costs. By 1941 the WPA had standardized menus, recipes, and procedures and was operating in all 48 states, the District of Columbia, and Puerto Rico. This encompassed over 23,000 schools serving over two million lunches daily and employing over 64,000 people.

In 1946 the National School Lunch Act was passed. It provided funding of \$231 million to offer 4.5 million children lunch at school, with a subsidy. By 1979 over 27 million daily lunches were being served in over 94,300 schools and institutions.

The National School Lunch Program (NSLP) was enacted in 1946. Its purpose was stated in that law's introduction: "... as a measure of national security, to safeguard the health and well being of the nation's children and to encourage the domestic consumption of nutritious agricultural commodities and other food..." The catalyst to this law was a review of a study of malnutrition among World War II (WWII) draftees at their initial physical examination. A need for use of the overproduction of flourishing farms developed during WWII. These farms were producing various agricultural commodities, in excess, that did not have a ready market.

Additional public funding was made to the school lunch program by the 1966 Child Welfare Act. This program helps provide a nutritious lunch to undernourished children, either free or at a reduced price. Lunches at a participating school are usually priced between 25-75 cents below a non-participating school. Any non-profit primary or secondary school is allowed to participate, providing its tuition is less than \$2,000.

Schools May Receive Varied Assistance

A participating school, agreeing to carry out federal regulations, may receive either a cash reimbursement or a commodity assistance for a non-profit food service. This is under the NSLP administered by the U.S. Department of Agriculture at the federal level and by the Department of Education at the state level. At this present writing payments and commodity rates are as follows:

Paid	\$ 0.1475
Free	1.5325
Reduced Price	1.1325
Commodities	0.1325

Rates are increased annually based on the Consumer Price Index. The NSLP and some other programs are exempt from potential cuts under Gramm-Rudman legislation as entitlement laws. The paid program is not exempt.

Food service managers directing a school lunch program must be familiar with all subsidy and commodity programs. This is an

industry segment requirement not present in other food service industry segments. Commodity programs are very complex, requiring substantial administrative efforts.

Management companies (contract management) became active in the National School Lunch Program in 1969 when Congress amended the law to allow them to do so. Prior to that time a school district could not qualify for the NSLP funding if it allowed a management company to operate its program. During the White House Conference on Nutrition and Health⁶ it was reported that some school districts were not meeting the nutritional needs of children at school. As a result, Public Law 95-166 was passed, allowing school districts to utilize an outside management company without losing their qualification rights for NSLP and commodity support.

In 1990, management companies operate an estimated 8 to 10 percent of all school district programs. This is expected to double or triple over the next 10 to 15 years as school districts opt for a more painless way to operate the school lunch program under their responsibility. The contractors sell the idea that they can eliminate the operating loss that may now be occurring, eliminate personnel problems, assist in capital investment needs, eliminate complacency among school food service personnel, and provide trouble-free, no-hassle management.

The school lunch program has become a major potential market for contract management companies. This is anticipated to continue.

Land Grant Colleges Initiated Food Services

The Morrill Act, passed by Congress in 1862, granted public lands for the establishment of educational institutions. These became known as land grant colleges. Each of the schools established contained a food service facility for both students and faculty.

In addition, numerous endowed institutions were formed by religious and private organizations. Kotschevar⁷ reports that by 1986 there were over 2,500 schools and colleges, each with a professionally-managed food service.

The average food service in a modern school or college provides various types of service to students, administrative employees, and faculty. Most schools with dormitories provide a meal plan for occupants. This may be a 15-meal, 19-meal, or 21-meal plan, depending on the institution. Plans allow for full cafeteria service to resident students, depending on the plan selected.

Payment is usually made by the student as a "board rate" for the semester. This entitles the student (boarder) to eat at established locations within the constraints of the plan selected.

Many institutions also provide a faculty dining facility. Some also provide an administrative employee facility, very similar to the employee cafeteria and executive dining room facilities provided in the B&I segment of the industry.

An additional food service found on many campuses is the rathskeller where beer is usually sold, in addition to a small a la carte

menu. Often this is part of a student union building that houses other student activities such as a bookstore, lounge areas, etc.

Catering can be an important part of the campus dining service. Most major campus operations, particularly those managed by a contract company, offer a catering service to both student and other groups present on the campus. This service can comprise up to 5 percent of total food sales of the location.

A comparatively new food service making its way to the campus is the various fast food franchise operations. The pizza segment in particular has become increasingly popular. Some locations operated by the contract management companies have a fast food franchise, also operated by the management company. Others offer a single product, (*i.e.*, pizza, donuts) from a brand name franchise. This is becoming a popular trend. The contract management companies call this effort "branding."

Health Care Food Services Offer a Variety

Stokes⁸ reports that crude hospitals were known in India and Egypt as early as six centuries before the Christian era. He further relates that the first hospital was established in England in 1004, and the first on the American continent in Mexico in 1524. It was not until the 19th Century that modern standards of treatment and dietary management were formed.

Present day health care food service may take place in a hospital, a nursing home or extended care facility, an elder care center, or a retirement home.

The advent of Medicare, and its control over allowable expenditures of hospitals (known as diagnostic related groups or DRGs), has had an effect on the management of a health care food service operation. Hospitals in particular are affected by this governmental control.

*** Hospitals:** Hospitals fall into three basic categories, voluntary, proprietary, and governmental. Voluntary hospitals are generally a non-profit institution. Proprietary hospitals are operated for a profit the same as any other business. Governmental hospitals are operated by cities, counties, states, and the federal government. The Veterans Administration operates a complete chain of hospitals in all areas of the country.

*** Nursing homes:** Nursing homes and extended care facilities provide services similar to hospitals, but without their full range of medical services. Patients in a nursing home or extended care facility are usually there for a longer period of time to recover from a hospital confinement, or to be treated for a long-term illness.

*** Elder care centers:** These are similar to child care centers, but are for the elderly. Just as parents are responsible for the well being of their children, and often leave them at day care centers while they

are at work, some people have the duty to care for an older parent. These parents are often placed in an elder care center during the day. This is becoming an increasingly popular method of caring for the aging population of America.

*** Retirement homes:** These locations are rapidly becoming a major segment of the health care food service industry. Residents are neither sick or in need of daily medical attention, but do wish to receive daily meal service prepared by others, and served in central dining facilities. Many retirement homes are operated by the various levels of governmental agencies. There are also a wide variety of retirement homes operated for profit by real estate and/or hotel companies. Regardless of the management or ownership, these locations offer an institutional type service to a resident elderly population.

A hospital food service operation may encompass a wide variety of food service facilities. Sullivan⁹ reports that hospitals have the following services:

- * patient food service (personalized diet room service)
- * cafeterias (employee and guest meals)
- * vending (contract or independent)
- * short order (coffee shop, snack bars)
- * table service (special luncheons and dinners)
- * banquet (special activities)
- * tea service (retirement, promotion parties)

Not reported by Sullivan, but existing in many hospitals, are special dining facilities for doctors. These provide a service to staff doctors much in the same manner as the executive dining room in a B&I location.

Hospital food service management is among the most complex of any area of institutional food service management. In some states the food service director must meet specific requirements. Sullivan reports that in Michigan the director of a medical food service must meet qualifications and guidelines established by the state department of health, federal guidelines for participation in Medicare and Medicaid programs, and standards for the Joint Commission on Accreditation of Hospitals (JCAH). While these are stringent standards, they are rapidly becoming more common in this field.

Correctional Food Service Is Relatively New

Correctional food service facilities are operated by various city, county, state, and federal agencies. While the majority are operated by the responsible agency as a self operated facility, many contract management companies are now active in this field. This is a relatively new market for the contractors.

When a correctional facility contracts out its food service, a request for proposal (RFP) is prepared by the responsible agency and bids are received from the contractors. The bidding process usually requires the bidders to present a proposal detailing their proposed method of operation, the professional staff they will provide, and the cost per meal they will charge for the service. The successful bidder is awarded a multi-year contract reflecting the terms of the RFP. In some cases the bidder also provides a capital investment to improve the food service facility. This is the case when an agency does not have sufficient capital funds for self improvement and is often one of the reasons for them to utilize a management company.

A recent development that portends the future of contracting in this segment is the complete funding, construction, and management of the entire correctional facility by a contract management company. It remains to be seen how this new phenomenon will progress.

Vending Is Not New

Food service/vending is an integral part of almost all institutional food service operations. The use of vending machines to deliver food service to off shifts, remote locations, and other similar situations is routine.

Vending is not a new phenomenon. It actually dates back to 215 B.C. Schreiber¹⁰ reports that Hero, a Greek, wrote in a book of that time titled *Pneumatika* about a machine that dispensed holy water when five drachmas were inserted.

Modern day food service/vending originated about 1960. At that time the fresh brewed coffee vending machine was invented. Around the same time the post mix soda machine, complete with flaked ice, came on the market. These two machines were the catalyst of today's combined contract food service and food service vending companies.

Prior to beverage vending, contract food service companies were basically regional in nature. Vending companies were mainly small, family-owned businesses with some multi-unit vending companies operating regionally. Coffee and soda machines, producing large amounts of cash flow, allowed the regional vending companies to make a number of both food service and vending acquisitions. In this manner they became national food service and vending organizations. Today, all the major contract management companies are actually food service and vending companies.

Institutional food service vending now provides many of the menu items available on the manual cafeteria menu. Hot and cold beverages, hot and cold meals, snack items and more are all available through a vending machine. Modularly installed groups of machines (banks) are installed along with coin changers, microwave ovens, condiment stands, and tables and chairs. B&I cafeterias utilize vending machines to supplement their service and to provide off shift service, coffee breaks, and other similar service. Both health care and campus dining locations usually use vending as a supplementary food service for the same reasons.

Today institutional food service managers require a working knowledge of vending operations to be successful. They must be aware of the basic principles of vending machine operation, and have a working knowledge of the economics of vending. Food service vending is an integral part of the average institutional food service.

Institution Food Service Contractors

The National Restaurant Association (1989) reports that the total food service industry has over eight million employees and projects that the industry will employ 11.4 million by the year 2000. NRA estimates that about one-third, or 2.2 million, of the present employees are in the institutional food service sector.

Institutional food service contractors are estimated by some researchers to operate the following:

- 80 percent of business and industry locations
- 40 percent of campus dining locations
- 15 percent of health care locations
- 15 percent of school locations
- 5 percent of correctional locations

Hard data accepted by all groups are difficult to come by. Different researchers have arrived at different results. One fairly reliable source of information is the annual 400 issue of *Restaurant and Institution* magazine. Their survey, "Institutions 400," lists the top 400 sales grossing food service companies in America. Among that group are all of the major and other institutional food service contract companies. An excerpt summary of contractors from this survey is shown as Figure 3. It indicates that contractors have approximately 15,719 locations with an annual sales estimate of \$11.4 billion. This represents 5.01 percent of the NRA's total food service industry sales of \$227.3 billion.

Contract management companies are a major force in the institutional food service segment. They are expected to continue as such and grow substantially, as more and more businesses and institutions contract out various services that are supplemental to their primary mission.

Institutional food service management is now a bona fide industry segment, with its own specialized management and academic needs. Students seeking future career opportunities in food service management are often oblivious to the career opportunities in this area. Few schools or colleges offer specialized curriculum or guidance to that end.

Trade (management) associations exist in each of the specialized areas of institutional food service management. They are all looking for additional academic attention to their specific discipline. Many of them provide scholarships to different schools for different purposes.

Some text materials exist for specialized areas, i.e., health care, school food service, etc., but there is no comprehensive text to

Figure 3
Sales and number of units
by Contract Food Service Companies

Company	Gross Sales (\$ millions)	# Units
Marriott Food Service	3,950.0	2,390
ARA Services	2,500.0	2,600
Canteen Co.	1,369.9	1,972
Service America Corp.	1,100.0	1,500
Morrissons Custom Mge.	580.0	892
Seiler Corp.	376.1	487
dAka Food Service	270.0	283
Service Master Corp.	219.0	273
The Wood Co.	172.7	284
Trusthouse Forte Services	124.0	505
Greyhound Food Mge.	100.0	120
Professional Food Mge.	90.0	134
Food Dimensions, Inc.	85.0	120
Valley innovative Mge.	79.2	125
Sanese Services, Inc.	65.0	62
Universal Services	60.0	134
Southern Food Service Mge.	45.0	80
Sanos & Company	44.4	825
Nutrition Mge. Services	40.0	50
Lackmann Food Services	39.3	48
Corporate Food Service	36.9	50
CVI Service Group	34.7	50
FLIK International	31.0	70
Blue Ribbon Services	30.0	65
Total	\$11,393.0	15,719

*A wholly-owned subsidiary of the Marriott Corp.

Source: *Restaurant and Institutions*, (July 25, 1990), p. 28.

utilize as a curriculum aid to a course for institutional and contract food service management.

The time is long overdue for the academic community to address this issue. Institutional (or non-commercial) food service management has come of age. It should be part of the curriculum of every HRI and hospitality school or college.

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