

## HOSPITALITY SERVICES — EATERY CHALLENGES

*Richard Bloomfield wrote this case under the supervision of Elizabeth M.A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Version: 2023-04-12

It was May 15, 2015, and Kevin McCabe, the associate director of Hospitality Services (HS) at Western University (Western), London, Ontario, Canada, had some tough decisions to make regarding food sales at The Nucleus<sup>1</sup> eatery in the Natural Sciences Centre and at the eatery in the nearby Medical Sciences Centre. Together, these two destinations were the second-largest generator of food sales on Western's campus, outperformed only by Centre Spot, located in the University Community Centre (UCC).

Demand at The Nucleus had outstripped its capacity, causing long wait times and severe bottlenecks in service, especially at its full-service Tim Hortons outlet. Seating capacity was also well short of demand, and no additional space was available for expansion in the Natural Sciences Centre. McCabe was also under pressure to close the Medical Sciences Centre eatery due to its lack of profitability. However, if this eatery closed, McCabe expected that an increase in traffic would put further strain on the nearby Natural Sciences Centre eatery The Nucleus.

### FOOD SERVICES IN CANADA

The food services industry in Canada, including full-service restaurants, institutions, caterers, and drinking places, generated \$71.1 billion<sup>2</sup> of revenue in 2014.<sup>3</sup> Overall, the 3.9 per cent growth in the food services industry had outpaced the Canadian gross domestic product<sup>4</sup> growth of 2.0 per cent.<sup>5</sup> Ontario, however, had experienced a 4.6 per cent growth in 2014.<sup>6</sup> The industry was competitive, resulting in operating profit margins ranging between 2.6 per cent and 3.6 per cent, depending on the level of service provided.<sup>7</sup> For example, full-service restaurants often earned lower margins due to higher labour costs.

<sup>1</sup> For the purposes of this case, Einstein's Library, located immediately next to The Nucleus eatery and containing a "We Proudly Brew Starbucks" counter is considered to be part of the same operation.

<sup>2</sup> All currency in Canadian dollars unless otherwise specified.

<sup>3</sup> fsStrategy Inc., "2014 Canadian Institutional Foodservices Market Report," February 2014, accessed November 27, 2015, [www.restaurantscanada.org/Portals/0/Non-Member/2014/Research\\_Canadian-IFS-Market-Report-SAMPLE.PDF](http://www.restaurantscanada.org/Portals/0/Non-Member/2014/Research_Canadian-IFS-Market-Report-SAMPLE.PDF).

<sup>4</sup> Gross domestic product (GDP) refers to the total value of goods produced and services provided in a country during one year.

<sup>5</sup> Trading Economics, "Canada GDP Annual Growth Rate, 1962–2015," accessed November 27, 2015, [www.tradingeconomics.com/canada/gdp-growth-annual](http://www.tradingeconomics.com/canada/gdp-growth-annual) and <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

<sup>6</sup> Statistics Canada, "Monthly Receipts for Food Services and Drinking Places, by Province and Territory," September 2014 to September 2015," accessed November 27, 2015, [www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ92-eng.htm](http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ92-eng.htm).

<sup>7</sup> Statistics Canada, "Food Service and Drinking Places (Ontario)," 2008–2011 (preliminary), February 25, 2014, accessed November 27, 2015, [www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/serv42g-eng.htm](http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/serv42g-eng.htm).

## INSTITUTIONAL FOOD SERVICES

Institutional food services often operated differently from their commercial counterparts. University food services exemplified this difference due to their self-contained geographic locations, and less focus on profitability; rather, financial success was often defined as the operation breaking even (no profit or loss) annually. In addition, most on-campus food services considered student satisfaction of the most importance and this satisfaction was viewed as a critical component of an esteemed academic institution. Institutional food services between different universities regularly shared information to better understand evolving consumer demands. Publications such as *Foodservice and Hospitality* and *Campus Dining Today* were key resources for sharing these institutions' success stories.

## HOSPITALITY SERVICES AT WESTERN UNIVERSITY

HS was in charge of all food services offered at Western. HS managed five divisions: cash operations, residence operations, conference operations, catering, and vending services. HS reported to Western's management, and each division was treated as a separate profit centre. HS employed more than 600 staff across 20 separate campus operations.<sup>8</sup> Although HS was a division of the university, it operated as an independent business, with its own set of corporate goals (see Exhibit 1). Each year, HS paid an occupancy fee to Western for the space occupied by the restaurants and general dining areas.

Cash operations represented HS's second largest division with fiscal 2014 gross sales of \$11.2 million. This division was responsible for opening new restaurants on campus and the current performance of existing operations. This division strove to provide Western's campus with both the most popular restaurants and the highest level of convenience. HS regularly conducted market research surveys across campus to better understand the needs of the student, staff, and faculty markets.

### Kevin McCabe

Food services had always been a passion for McCabe, a Western alumnus. Prior to becoming the assistant manager for Snack Bar Operations at Western (1992 to 1999), McCabe had been a district manager for McDonald's (1987 to 1991). Since 1999, McCabe had been HS's associate director, assuming the roles of financial controller, franchise developer, and operations and concept developer. In 2005, McCabe was elected the president of the Canadian College and University Food Service Association, a testament to his extensive food services experience. In 2012, Great Hall Catering was merged into McCabe's existing portfolio.

Over the past 11 years, HS had earned positive financial results despite rapidly changing consumer tastes over the same period. McCabe reported to HS's director Frank Miller. The two men had been working together for more than a decade, during which time they developed a very strong relationship.

During McCabe's time as associate director, Western's HS had consistently ranked second or third in the *Globe and Mail*<sup>9</sup> survey for top university food service departments in Canada. Western HS's goal was to achieve, through constant menu innovations, the *Globe and Mail*'s national first place spot as voted by students.

<sup>8</sup> Western University, "About Hospitality Services," accessed June 12, 2015, [www.hospitalityservices.uwo.ca/aboutus.cfm](http://www.hospitalityservices.uwo.ca/aboutus.cfm).

<sup>9</sup> The *Globe and Mail* was the number-one nationally syndicated newspaper in Canada based on weekly readership of almost one million. Susan Krashinsky, "Globe Readership Climbs, in Print and Online," *Globe and Mail*, August 23, 2012, accessed November 27, 2015, [www.theglobeandmail.com/report-on-business/globe-readership-climbs-in-print-and-online/article575297/](http://www.theglobeandmail.com/report-on-business/globe-readership-climbs-in-print-and-online/article575297/).

## Consumers

HS categorized its customers into two main groups: students and employees (faculty and staff). Overall, the buying behaviour of these groups was constantly changing. For example, greater consumer awareness of the importance of a well-balanced lifestyle, including healthful and often ethically sourced fresh foods, had demanded that menu offerings evolve at Western.

### Students

By 2015, more than 31,000 students attended Western, of which 90 per cent were full-time students.<sup>10</sup> During the school year, students had busy and varied schedules, often balancing extensive extra-curricular activities with demanding academic expectations; consequently, students often required and expected fast service during their 10-minute breaks between classes. As well, typically, a lunchtime rush occurred between 11 a.m. and 2 p.m. on weekdays with sporadic demand throughout the rest of the day.

Students had increasingly demanded healthier and more nutritious food options; however, they still expected familiar brand names. They also valued friendly service and were price-conscious because many were living on student loans. The momentum of recent food education trends had influenced students, demonstrated by their willingness to spend more money if they knew the food was healthful and of higher quality.<sup>11</sup> In general, the student population was a much more discerning group than five years earlier. Furthermore, student demands had driven a rapid and steady increase in international cuisine.

### Employees

Almost 4,000 full-time faculty and staff were employed at Western.<sup>12</sup> Many faculty and staff brought their own lunches from home and used the university-supplied shared fridges or common kitchens. Faculty and staff also frequently purchased food on campus, and their criteria for food services were similar to those of the students. Typically, a freshly prepared meal with the highest quality ingredients was the most important purchasing factor for this group. Generally, employees selected restaurants that were located closer to their offices, and had lunch breaks that coincided with the students' peak demand times, although faculty and staff usually had more time to eat their lunch.

## THE NUCLEUS AND MEDICAL SCIENCES EATERIES

Centrally located on campus, the Natural Sciences Centre building was next to the Medical Sciences Centre building and both were adjacent to one of the busiest bus stops at Western (see Exhibit 2). Being a short distance from the Social Sciences Centre, these eateries not only served science students but also frequently attracted many social science students<sup>13</sup> who chose not to buy their food at the Centre Spot in the UCC, the largest eatery on campus. The UCC was adjacent to the Social Sciences Centre building. Due to its central location on campus, the UCC was often extremely busy, especially during peak hours. In addition, multiple university-sponsored events and promotions frequently occupied significant space in the UCC during the school year, steering more foot traffic to the building. The Medical Sciences Centre eatery was located in the middle of the Medical Sciences

<sup>10</sup> Western University, "Facts & Figures 2013-14," accessed November 27, 2015, [www.uwo.ca/about/whoweare/facts.html](http://www.uwo.ca/about/whoweare/facts.html).

<sup>11</sup> Quality food was increasingly defined as not only fresh but, when possible, also ethically and locally sourced.

<sup>12</sup> Western University, "Facts & Figures 2013-14," op. cit.

<sup>13</sup> Social Science was the largest faculty on campus with 6,674 undergraduate students enrolled in 2015.

Centre building, and students often had a hard time finding it, so they opted for The Nucleus, located near the Natural Sciences Centre building's front entrance (see Exhibits 3 and 4). During peak hours, lineups at The Nucleus were very long and often no seats were available in the dining area.

Alongside other miscellaneous university food offerings (including drinks, soups, bagels, and other small food items sold directly by HS), The Nucleus eatery operated four different franchises: Mucho Burrito, Pizza Pizza, Teriyaki Experience, and Tim Hortons. A "We Proudly Brew Starbucks"<sup>14</sup> counter was also available in Einstein's Library but McCabe did not treat this operation as a separate franchise. Although Einstein's Library provided some additional seating close to The Nucleus eatery, the combined 243-person seating capacity was not sufficient for demand, nor did it help shorten the lineups for hot food in The Nucleus. The Medical Sciences Centre eatery was smaller and, beyond the university's miscellaneous food services, housed only two franchises: Tim Hortons<sup>15</sup> and Teriyaki Experience.

HS could not rent more space in the Natural Sciences Centre for seating, but McCabe wondered what else could be done to fix this problem. The Nucleus and the Medical Sciences Centre eatery represented 18.7 per cent of HS's gross sales;<sup>16</sup> however, despite growth and consistent profitability year over year at The Nucleus, the Medical Sciences Centre eatery had struggled to remain profitable in recent years (see Exhibits 5 and 6). With pressure from Western's administration to close the least profitable operations, McCabe wondered how he could best manage the extra demand at The Nucleus if the Medical Sciences Centre eatery were to close. Or should the Medical Sciences Centre eatery be closed?

Equally under consideration, McCabe also wondered whether the current franchise offerings still fit the desires of Western's rapidly changing customers. He compiled information on each franchise to better compare their individual successes (see Exhibit 7).

HS incurred numerous indirect costs annually. McCabe believed that it made the most sense to allocate these indirect costs equally across all restaurants; however, he used a different allocation rationale for equipment and repairs, telephone expenses and occupancy charges. In general, as the franchise aged, more money had to be spent to maintain it; therefore, McCabe allocated these costs based on the age of the restaurant (see Exhibits 8 and 9). Because the telephone was not directly related to an individual franchise, the entire expense was allocated to miscellaneous university food sales. Finally, occupancy charges were allocated based on sales volume using the rationale that a busier franchise likely occupied more seating space.<sup>17</sup>

## MOVING FORWARD

Previous expansions in the UCC food services offerings had proven that the largest deterrent to sales were long lineups. If students saw a long lineup, they simply chose not to make a purchase. This response became abundantly clear when HS opened a Starbucks franchise between The Spoke<sup>18</sup> and a Tim Hortons franchise in the UCC. Despite coffee sales driving all three of these restaurant's revenues, HS experienced no cannibalization of sales. In fact, Tim Hortons' sales actually increased 7 per cent the year after Starbucks' opening.

<sup>14</sup> "We Proudly Brew Starbucks" indicated the right to sell Starbucks coffee at a single location, not a franchise store.

<sup>15</sup> The Tim Hortons in the Medical Sciences eatery did not offer a full menu, only beverages and pastries.

<sup>16</sup> In fiscal year 2014, The Nucleus earned \$320,952 of profit on \$1,750,549 in sales, and the Medical Sciences eatery lost \$7,417 on \$274,473 of sales.

<sup>17</sup> The cost of occupancy related to space rented from the University, and the amount increased by 3 per cent annually regardless of sales volume.

<sup>18</sup> The Spoke, a cafe and social space owned by the student government, served certified fair trade coffee and a small menu of lunch items.

Later, a new express Tim Hortons “pop-up” model was presented to McCabe. In this scenario, a booth allowed customers to choose and fill their own coffee before checking out. The booth could be installed for no additional capital costs; however, Tim Hortons would charge a higher royalty fee of 8 per cent for this operation model based on its convenience. Although this alternative was attractive, McCabe knew it would occupy currently used seating space from The Nucleus’s already cramped dining area.

## CONCLUSION

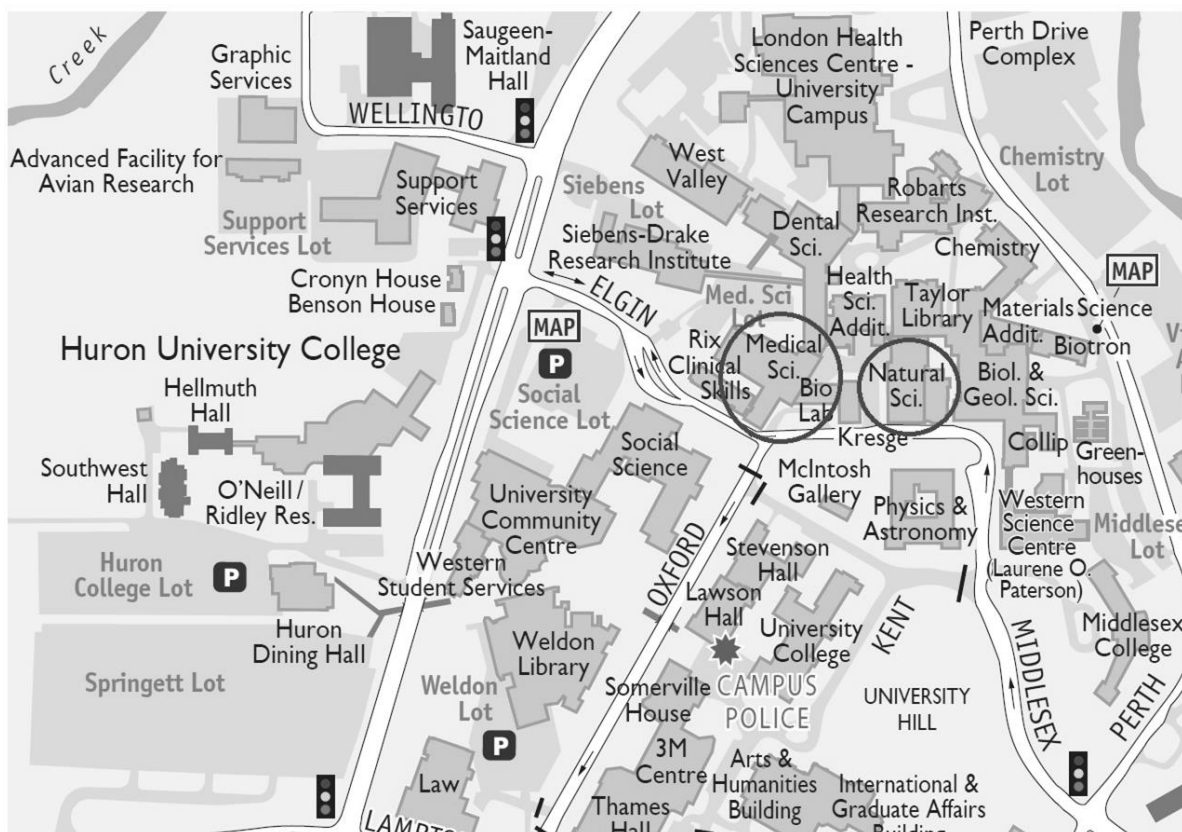
Regardless of his final decision, McCabe wanted to examine each franchise’s profitability at both The Nucleus and the Medical Sciences Centre eateries. Once he completed his assessment, McCabe believed he would have a better idea of how to tackle the current capacity and profitability issues.

### EXHIBIT 1: WESTERN UNIVERSITY'S HOSPITALITY SERVICES DIVISIONAL GOALS, 2014–2015

1. To build Hospitality Services sales through great food offerings, new menu and service development, nutritional programming, and by meeting diverse dietary needs, while continuously providing exceptional, fast, friendly, and efficient customer service.
2. To achieve financial success in all divisions — with open dialogue and cost effective solutions.
3. To champion sustainability initiatives such as local purchasing, use of bio-degradable products, expansion of the composting program, provision of organics and fair trade coffee, and effectively marketing these initiatives to our clientele.
4. To receive a Fair Trade Campus designation through the utilization of local, fair trade organic coffee suppliers in all non-franchised coffee locations.
5. To encourage and support the further education and personal development of all Hospitality Services staff, offering the potential and opportunity for continued growth.

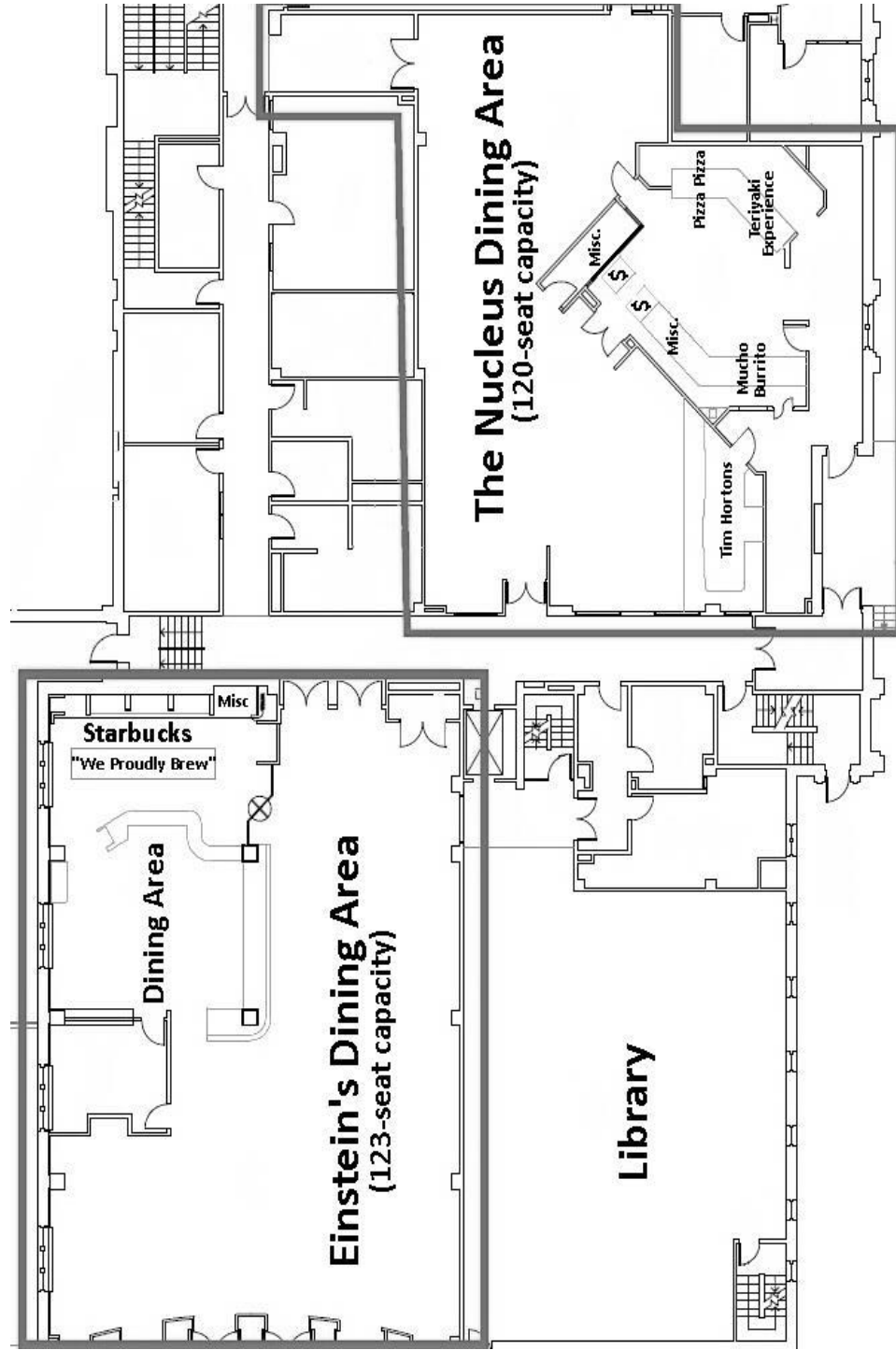
Source: Excerpt from Western Hospitality Services, accessed June 15, 2015, [www.hospitalityservices.uwo.ca/staff/divisional\\_goals.cfm](http://www.hospitalityservices.uwo.ca/staff/divisional_goals.cfm).

### EXHIBIT 2: LOCATION OF NATURAL SCIENCES CENTRE AND MEDICAL SCIENCES CENTRE ON WESTERN UNIVERSITY'S CAMPUS



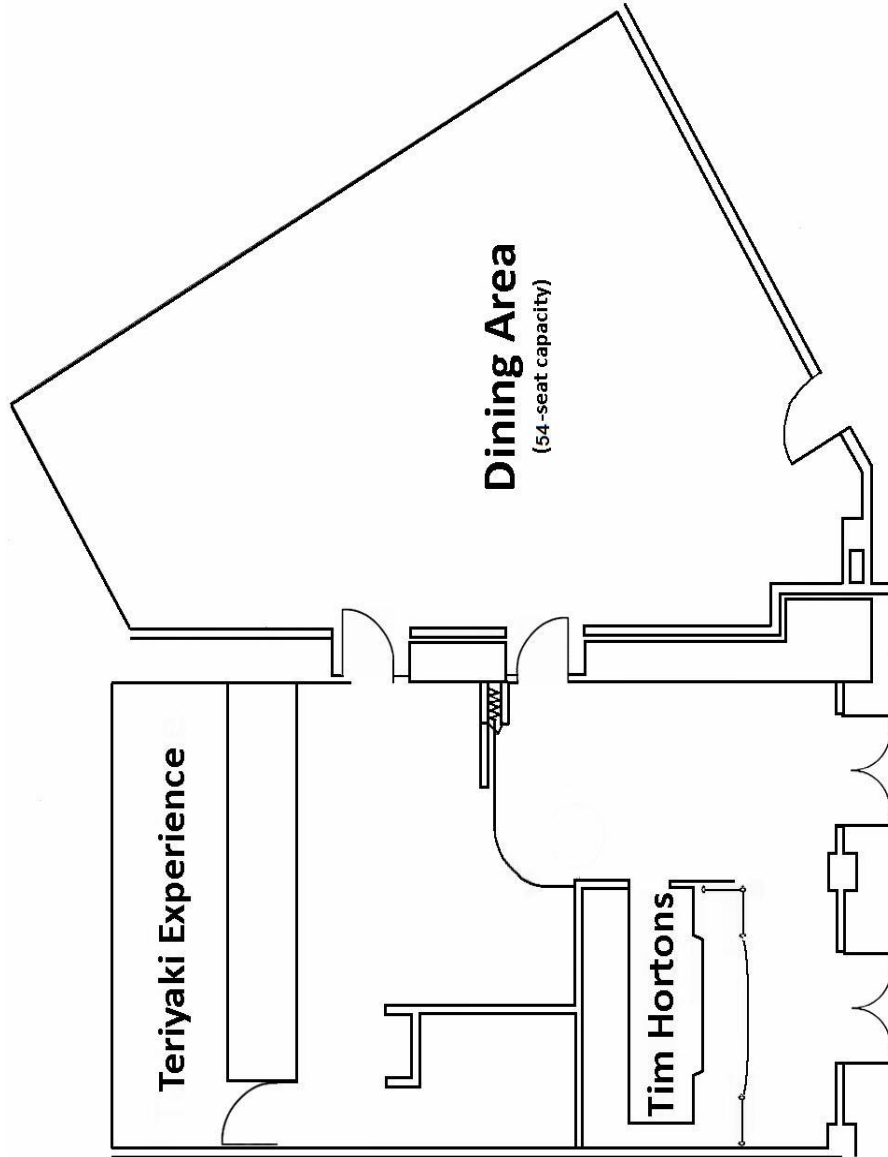
Source: Western University Geography Department.

EXHIBIT 3: LAYOUT OF THE NUCLEUS WITHIN WESTERN UNIVERSITY'S NATURAL SCIENCES CENTRE



Source: Western Hospitality Services.

EXHIBIT 4: LAYOUT OF WESTERN UNIVERSITY'S MEDICAL SCIENCES CENTRE EATERY



Source: Western Hospitality Services.



**EXHIBIT 5: THE NUCLEUS (NATURAL SCIENCES CENTRE)**  
**Statement of Earnings (for the year ending April 30, 2015)**

|                       |                    |              |
|-----------------------|--------------------|--------------|
| <b>REVENUE</b>        |                    |              |
| Net sales             | \$1,815,535        | 100.0%       |
| <b>EXPENSES</b>       |                    |              |
| Food and beverages    | (632,200)          | 34.8%        |
| Salaries and benefits | (586,446)          | 32.3%        |
| Franchise royalties   | (76,261)           | 4.2%         |
| Paper <sup>19</sup>   | (71,405)           | 3.9%         |
| Cleaning              | (13,678)           | 0.8%         |
| Linen and uniforms    | (4,722)            | 0.3%         |
| Utensils              | (2,266)            | 0.1%         |
| Equipment and repairs | (19,030)           | 1.0%         |
| Advertising           | (948)              | 0.1%         |
| Telephone             | (1,422)            | 0.1%         |
| Miscellaneous         | (3,870)            | 0.2%         |
| Occupancy             | (60,684)           | 3.3%         |
| Bank charges          | (11,050)           | 0.6%         |
| Total expenses        | <u>(1,483,982)</u> | <u>81.7%</u> |
| Profit                | <u>\$331,553</u>   | <u>18.3%</u> |

Source: Western Hospitality Services.

**EXHIBIT 6: THE MEDICAL SCIENCES CENTRE EATERY**  
**Statement of Earnings (for the year ending April 30, 2015)**

|                       |                  |              |
|-----------------------|------------------|--------------|
| <b>REVENUE</b>        |                  |              |
| Net sales             | \$275,945        | 100.0%       |
| <b>EXPENSES</b>       |                  |              |
| Food and beverages    | (83,690)         | 30.3%        |
| Salaries and benefits | (114,222)        | 41.4%        |
| Franchise royalties   | (15,808)         | 5.7%         |
| Paper <sup>19</sup>   | (14,438)         | 5.2%         |
| Cleaning              | (1,698)          | 0.6%         |
| Linen and uniforms    | (654)            | 0.2%         |
| Utensils              | (621)            | 0.2%         |
| Equipment and repairs | (9,205)          | 3.3%         |
| Advertising           | (243)            | 0.1%         |
| Telephone             | (333)            | 0.1%         |
| Miscellaneous         | (2,820)          | 1.0%         |
| Occupancy             | (24,188)         | 8.8%         |
| Bank charges          | (2,817)          | 1.0%         |
| Total expenses        | <u>(270,737)</u> | <u>98.1%</u> |
| Profit                | <u>\$5,208</u>   | <u>1.9%</u>  |

Source: Western Hospitality Services.

<sup>19</sup> The item "Paper" refers to the cost of napkins, coffee cups, paper plates, and take-out containers. Tim Hortons and Miscellaneous sales consumed 80 per cent of this cost which would be split evenly, while the rest was allocated, based on sales volume, among the remaining franchises.

**EXHIBIT 7: THE NUCLEUS AND MEDICAL SCIENCES CENTRE EATERIES<sup>20</sup>**

| <b>MUCHO BURRITO</b>  |                            | <b>PER CENT OF SALES</b> |                         |
|---|----------------------------|--------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>Canadian fresh Mexican grill that avoids the use of artificial flavours and preservatives</li> <li>Prepared as ordered in front of the customer</li> <li>Represents 12.6 per cent of sales at The Nucleus</li> </ul> | <b>Costing Information</b> | <b>The Nucleus</b>       | <b>Medical Sciences</b> |
|   | Food costs                 | 41.2                     | N/A                     |
|   | Salaries and benefits      | 43.0                     | N/A                     |
|   | Franchise royalty          | 7.0                      | N/A                     |

| <b>PIZZA PIZZA</b>  |                            | <b>PER CENT OF SALES</b> |                         |
|---|----------------------------|--------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>Canadian quick-service restaurant offering, almost exclusively, pizza slices</li> <li>Prepared in advance and kept ready under heating lamps</li> <li>Represents 7.2 per cent of sales at The Nucleus</li> </ul> | <b>Costing Information</b> | <b>The Nucleus</b>       | <b>Medical Sciences</b> |
|   | Food costs                 | 33.8                     | N/A                     |
|   | Salaries and benefits      | 30.4                     | N/A                     |
|   | Franchise royalty          | 6.0                      | N/A                     |

| <b>TERIYAKI EXPERIENCE</b>   |                            | <b>PER CENT OF SALES</b> |                         |
|--|----------------------------|--------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>North American restaurant offering Asian-inspired alternatives to typical fast-food options</li> <li>Food is grilled fresh as ordered</li> <li>Represents 7.3 per cent of sales at The Nucleus, and 13.8 per cent of sales at the Medical Sciences Centre eatery</li> </ul> | <b>Costing Information</b> | <b>The Nucleus</b>       | <b>Medical Sciences</b> |
|  | Food costs                 | 39.2                     | 38.5                    |
|  | Salaries and benefits      | 31.0                     | 33.5                    |
|  | Franchise royalty          | 5.5                      | 5.5                     |

| <b>TIM HORTONS</b>   |                            | <b>PER CENT OF SALES</b> |                         |
|--|----------------------------|--------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>Canada's largest quick-service restaurant specializing in coffee donuts, muffins, various pastries, sandwiches, and soups</li> <li>Does not offer fair trade coffee</li> <li>Represents 35.5 per cent of sales at The Nucleus and 71.0 per cent of sales at the Medical Sciences Centre eatery</li> </ul> | <b>Costing Information</b> | <b>The Nucleus</b>       | <b>Medical Sciences</b> |
|  | Food costs                 | 29.0                     | 25.0                    |
|  | Salaries and benefits      | 35.6                     | 40.1                    |
|  | Franchise royalty          | 7.0                      | 7.0                     |

<sup>20</sup> Unless otherwise noted, costs cannot be directly traced to each individual restaurant.

**EXHIBIT 7 (CONTINUED)**

| <b>"WE PROUDLY BREW STARBUCKS" COUNTER</b>   |                            | <b>PER CENT OF SALES</b> |                         |
|--|----------------------------|--------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>North American quick-service restaurant that sells specialty coffee beverages, and a variety of pre-made treats</li> <li>Does not offer full meal options or fair trade coffee</li> <li>Represents 15.3 per cent of sales at The Nucleus</li> </ul> | <b>Costing Information</b> | <b>The Nucleus</b>       | <b>Medical Sciences</b> |
|  | Food costs                 | 16.8                     | N/A                     |
|  | Salaries and benefits      | 26.6                     | N/A                     |
|  | Franchise royalty          | N/A                      | N/A                     |

| <b>MISCELLANEOUS</b>  |                            | <b>PER CENT OF SALES</b> |                         |
|---|----------------------------|--------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>Includes food and beverages sold by Hospitality Services and not by franchises: soups, bagels, drinks</li> <li>Represents 22.1 per cent of The Nucleus, and 15.2 per cent of Medical Sciences sales</li> </ul> | <b>Costing Information</b> | <b>The Nucleus</b>       | <b>Medical Sciences</b> |
|   | Food costs                 | 51.9                     | 47.8                    |
|   | Salaries and benefits      | 25.9                     | 54.6                    |
|   | Franchise royalty          | N/A                      | N/A                     |

Note: N/A = not applicable

Source: Western Hospitality Services.

**EXHIBIT 8: YEARS OF OPERATION FOR FRANCHISES IN THE NUCLEUS EATERY**

| <b>FRANCHISE</b>    | <b>YEARS IN OPERATION</b> |
|---------------------|---------------------------|
| Mucho Burrito       | 5                         |
| Pizza Pizza         | 12                        |
| Teriyaki Experience | 12                        |
| Tim Hortons         | 20                        |
| Starbucks           | 5                         |
| Miscellaneous       | 20                        |
| Total               | 74                        |

Source: Western Hospitality Services.

**EXHIBIT 9: YEARS OF OPERATION FOR FRANCHISES IN MEDICAL SCIENCES CENTRE EATERY**

| <b>FRANCHISE</b>    | <b>YEARS IN OPERATION</b> |
|---------------------|---------------------------|
| Teriyaki Experience | 5                         |
| Tim Hortons         | 20                        |
| Miscellaneous       | 20                        |
| Total               | 45                        |

Source: Western Hospitality Services.