

**Pay Per Meal: A Results-based Approach to Residential Dining**

**Diane Reynolds, Director**

**Dan McDonald, Assistant Director**

**Dawn M. Dixon, Administrative Assistant**

**Virginia Commonwealth University**

**The Department of Business Services**

**Abstract:**

*Virginia Commonwealth University's ("VCU") Department of Business Services manages auxiliary operations including Dining Services and has implemented a new results-based residential dining agreement with the principle objective to enhance campus life by providing diverse selection of quality food products and services.*

*Historically, residential dining agreements and contract fee schedules were based solely on the number of meals contracted. Like many other universities, the fee VCU paid to the contractor was based on the number of contracts sold. Paying the food service provider per meal plan contract resulted in the chief objective of the contractor to offer the most attractive dining contract pricing in order to sell more dining agreements. However, it can be argued that this process could encourage the contractor to reduce quality and limit services to decrease its costs and compensate for aggressive contract pricing. After students purchased a meal plan, the service contractor had little incentive to encourage its customers to use it. In fact, if customers did not use the dining plan they purchased, the contractor's expenses were reduced and its profits increased.*

*VCU Business Services sought a solution that would create an environment where the chief objective of the contractor and the university are one in the same. Consequently, VCU Dining Services developed a pay-for-performance agreement structure that rewards the contractor based on the number of meals actually served. In this free enterprise structure, the contractor is compensated each time a customer uses the contractor's services, as opposed to being paid solely on the number of contracts sold. The contractor is no longer tempted to reduce quality to decrease costs and increase profits. In order to be successful, the contractor's focus becomes growing meal sales to generate additional revenues. Logically, better food quality, friendlier service and professional marketing will result in more meals consumed leading to increased profits for the food service provider and improved customer satisfaction.*

**Introduction to the Organization:**

Virginia Commonwealth University (“VCU”) is the most comprehensive urban university in the commonwealth and a top research university in the nation. VCU is located on two campuses that border downtown Richmond providing history and innovation to the diverse student population. The current enrollment for this public institution includes 25,001 students. Comprised of ten schools, one college, the VCU Health System, and the Inger and Walter Rice Center for Environmental Life Sciences, VCU offers more than 130 undergraduate, graduate and professional degrees. The university is a Carnegie I Research University, founded in 1838, and is noted as one of the three largest research doctoral institutions located in the Commonwealth of Virginia.

**Statement of the Problem/ Initiative:**

In the past Virginia Commonwealth University clearly defined the residential dining agreement’s deliverables with a food service provider and negotiated a dining contract fee schedule based on the number of meals contracted. The fee paid by the university covered the contractor’s expenses and provided an appropriate profit for the contractor. VCU added a margin to the cost price to cover university expenses and retailed the meal plans to its students.

Like many universities, VCU paid the food service provider based on the number of contracts sold. Specifically, the number of contracts/ participants was multiplied by the number of days a participant was enrolled in a meal plan. This amount was multiplied by the daily rate associated with the particular meal plan to arrive at a payment amount for the contractor. The contractor offered the most attractive dining contract pricing in order to sell more dining agreements. After the meal plan was purchased, the service contractor

had little incentive to encourage students to use it. In fact, if students did not use the dining plan they purchased, the service provider's expenses were reduced and its profits increased. It can be argued the process actually encouraged contractors to reduce quality and limit services to compensate for aggressive contract pricing.

Although pricing is important, VCU Dining Services' principle objective is to enhance campus life by providing a diverse selection of quality food products and services. To be successful in its partnership, the food service provider and Dining Services must have a common goal.

**Design:**

VCU Business Services sought a solution that would create an environment where the chief objective of the contractor and of the university was the same. Under such a plan the contractor is rewarded for:

- Providing inviting food service programs that support the university's academic, social and cultural objectives,
- Increasing the number of meal contracts sold,
- Maximizing the meal participation rate, (meals consumed)
- Attracting additional retail customers, and
- Sustaining an adequate financial return to meet dining program requirements.

Consequently, VCU Dining Services developed a pay-for-performance agreement structure that rewards the contractor based on the number of meals actually served. In this free enterprise structure, the contractor is compensated each time a customer uses the contractor's services. Therefore, the contractor's chief objective is to encourage customers to purchase and use meals at the residential restaurant by:

- Maintaining a variety of quality food concepts,
- Creating clean, safe, exciting, and attractive dining environments,
- Enhancing dining options and food diversity,
- Providing exceptional services and convenient operating hours,
- Effectively marketing the dining services program, and
- Providing fast, efficient service.

By accomplishing the objectives noted above the contractor will increase the number of meals consumed that will result in additional compensation.

**Implementation:**

As part of the request for proposals' financial requirement, each contractor was required to propose a schedule with a "price per meal served" that when multiplied by the estimated total number of meals served would provide funding support necessary for the contractor to fulfill its obligations of the agreement. The price per meal served components included all the costs associated with providing the contract services, as well as all appropriate profits and fees. The contractor's payment is calculated by multiplying the actual number of meals served times the university's contract cost per meal.

With a cost price per meal served set for each year of the contractual agreement, the ~~cost~~ retail price for each plan is calculated by multiplying the estimated number of meals consumed in each plan by the cost price per meal to arrive at the total estimated cost per plan. To establish a retail price, the university adds an acceptable margin covering expenses to the total estimated cost for each plan.

The risks and benefits associated with the missed-meal factor are now transferred to the university. The contractor is no longer tempted to manipulate the participation rate

in order to reduce its costs and increase its profits. The contractor's focus now becomes growing meal sales to generate additional revenues. The more meals served the greater the revenues paid to the contractor. Logically, better quality food, friendlier service, and professional marketing will result in more meals served by the contractor.

**Benefits:**

Benefits of the pay per meal contractor compensation plan include:

- The Contractor has a vested interest in the number of contracts sold,
- The Contractor is rewarded for maximizing meal plan participation (meals consumed),
- The Contractor has no cap on total income,
- The process resembles the results-based retail dining model,
- The free enterprise approach of the process encourages entrepreneurship,
- Contractors cannot manipulate the missed meal factor to their advantage, and
- The contractor must provide quality food products and services and provide an effective marketing campaign to grow the number of meals consumed, and
- The Contractor and the university have a shared goal of growing sales.