

The National Center for  
Nutrition Leadership

## Effective Cost Management for Today's Economy – Part IV

September 28 , 2010

*We will start at 2:30 PM. Please mute your phones #6*

Presenter



Audrey McCool

Moderator



Magda Hageman-Apol

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## EFFECTIVE COST MANAGEMENT FOR TODAY'S ECONOMY

**Webinar Series Part IV:  
Contracting for Products  
and Services**

Audrey C. McCool, EdD, RD, LD

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## AGENDA

- ▣ Review of the Control Process
- ▣ Contracting as a Purchasing Alternative
- ▣ Purchasing/Contracting Objective
- ▣ The Contracting Process
- ▣ Specifications
- ▣ Rationale for Specifications
- ▣ What's in a Specification
- ▣ Sample Specifications
- ▣ Contract Monitoring
- ▣ Taking Remedial Actions

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## FOODSERVICE SYSTEM

INPUTS (PROGRAM FACILITIES, MENU,  
FOOD PRODUCTS, LABOR)



PROCESSING (FOOD PRODUCTION, STORAGE,  
PACKAGING, DELIVERY)



OUTPUTS (QUALITY MEALS THAT ARE SAFE  
FOR CLIENTS TO EAT)

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## Effective Cost Management

- ▣ Managing costs effectively means OPTIMIZING costs relative to the revenue anticipated for your program.
- ▣ It does NOT mean your costs are reduced to the minimum possible



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## The Control Process

- Set Standards
- Implement Standards
- Collect Operational Data
- Identify Variances
- Determine Variance Significance
- Investigate Causes of Significant Variances
- Determine Appropriate Remedial Action
- Implement Remedial Action
- Collect New Operational Data
- Repeat Above Steps



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## Effective Cost Control

Effective cost control is achieved through the development and consistent implementation of an effective control process throughout the entire foodservice system



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## Contracting Is Purchasing

❖ Contracting is an approach to purchasing products and services that incorporates a bidding process.

❖ **Therefore, contracting is purchasing.**

❖ Thus purchasing, receiving, and storage practices important for effective cost management apply to contracting for products and services.



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## Purchasing Alternatives

### Purchasing Alternatives

- ❖ Cooperative Purchasing
- ❖ Prime Vendor - MOW Program
- ❖ Local Suppliers
- ❖ Bid Purchasing
- ❖ Daily/Weekly Quotations
- ❖ Contracting



Consider the advantages (possible cost savings) and disadvantages (possible program costs) for all possible alternatives for your program

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## Contracting

- ▣ May think of contracting as process for purchasing SERVICES – for example,
  - Meal production services
  - Meal packaging services
  - Cleaning or pest control services
- ▣ Contracting process also used in the purchase of products – both foods and materials



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## PURCHASING (and CONTRACTING) OBJECTIVE

TO OBTAIN:

*THE RIGHT QUALITY*

*IN THE RIGHT QUANTITY*

*AT THE RIGHT TIME*

*AT THE RIGHT PRICE*

*FROM THE RIGHT SUPPLIER*

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## Match Products And Services To Your System



Your product and service requirements MUST reflect your production capabilities and your storage facilities, i.e. the type of foodservice system you have for your program.

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## Contracting

- The contracting process parallels the purchasing process
- Contracting can be used to acquire either products required by the program or for services
- Any part of or all of the services provided by a program or the services needed by a program may be obtained via a contract with an outside supplier



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## Contracting



Successful contracting means that:

- the program knows exactly what is desired;
- has communicated very specific requirements to the contractor ;
- Follows up consistently to be sure contract terms are met and the products/services provided comply with expectations
- Where variances from the contract are found, actions are taken to ensure contractor compliance to requirements

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## Contracting Process

Most contracts are established by means of the bid purchasing process.

**Contracting/Bid Purchasing Process:**

- Develop detailed specifications for the desired product(s) or services
- Research possible suppliers to identify as many potentially qualified suppliers as possible
- Submit the specifications for the desired product(s) or services to all potentially qualified suppliers

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## Contracting Process

### Contracting/Bid Purchasing Process, Continued:

- Request that sealed bids be submitted by a stated deadline
- Once the deadline for bid submission has passed, open all received bids and evaluate them relative to the specifications submitted to the potential suppliers
- If no one bid meets all requirements, select the most promising and negotiate with the supplier(s) until an agreement is reached that is acceptable to both parties

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## Contracting Process

### Contracting/Bid Purchasing Process, Continued:

- Be sure that a time period for which the contract will be in effect is clearly identified
- Prepare and sign the contract
- Begin working with the contracted supplier
- Conduct periodic reviews of contractor performance
- When contractor is not performing to standard (the contract and related specifications), identify necessary remedial action(s)
- Work with contractor to bring performance into contract compliance



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## Contracting

Contracting can be a cost effective approach to the acquisition of products and services when the process incorporates careful preparation of specifications, the bidding process is carried out carefully and thoroughly, and there is consistent oversight of a contractor's performance to ensure contract compliance.

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## Specifications



Clear, detailed specifications are essential for the contracting process

- A specification may be defined as a ready reference to the standards by which you measure the products or services you specify for purchase and inspect or monitor upon delivery.
- Specifications are a communication tool between you and your suppliers

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## Specifications

Good specifications improve meal quality and save money as programs can:



- Attract more meal clients
- Make better overall use of available funds
- Be better able to check that products received are products ordered in terms of both quality and quantity
- Have better control in the receiving process
- Verify that contractors are providing quality services that meet program standards

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## Specifications

Good specifications used in the bidding process for multi-year contracts help programs AVOID:

- Being locked into low quality meals for a long time
- Having unacceptable product substitutions by suppliers
- Having unhappy clients
- Having excessive plate waste



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## Specifications



- Good specifications enhance meal quality
- Quality meals provide greater nutritional benefits to clients because they are more likely to be eaten by program participants who are at high nutrition risk
- For more information on specifications, you can access the following web site:  
[http://nutritionandaging.fiu.edu/creative\\_solutions/bid\\_specs.asp](http://nutritionandaging.fiu.edu/creative_solutions/bid_specs.asp)



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## Specifications



Good specifications for the contract bidding process include:

- A short, clearly written description of the desired product or service
- The quality of the product
- USDA or industry standards
- Pack, size, can size or weight, and yield per unit
- Case size, where appropriate
- The performance standards expected for a service

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## Product Specifications

- Are essential for product quality and consistency
- Are needed for all items purchased
- Can be developed specifically for your program or can be "borrowed" from various reference resources such as:
  - Meat Buyer's Guide
  - USDA grading standards
  - Federal product standards
  - Product suppliers such as the produce industry or canned foods packers
- Multiple references for food product specifications are available on the Internet.



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## Sample Product Specification

### Sample Specification



#### BEEF PATTY

Beef U.S. Grade Good or Better not to exceed 25 percent fat, 2.67 ounce patty, six patties per pound, no soy, meat by-products, binders, or extenders. Meat shall be free of bone.

Meets Institutional Meat Purchase Specification #1136.

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## Sample Product Specification

### Sample Specification



#### APPLESAUCE

Quality: GRADE A

Style/Variety: REGULAR OR CHUNKY

Count Size: 6 / #10

Condition: CANNED

Description: LIGHT GOLDEN IN COLOR; FREE FROM PARTICLES OR SEEDS.

LIGHTLY SWEETENED.

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## Sample Product Specification



### Sample Specification

#### BANANAS



Quality: No. 1

Style/Variety: PETITE - 5/6" LONG

Count Size: 150

Condition: FRESH

Description: PLUMP, FIRM, BRIGHT COLORED FRUIT, FREE FROM SCARS AND BRUISES. FRUIT SHOULD BE SOLID YELLOW

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## Meal Specifications

Meal Specifications must incorporate:

- Federal and state menu requirements for:
  - Portion sizes for meat & meat substitutes, milk, fruits and vegetables, fats, and desserts
  - Food standards, i.e. meat grades, use of whole grains, fat content of milk, etc.
- The “condition” of the meal, i.e. hot, refrigerated, or frozen
- How the meal is to be packaged



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## Sample Specification Form

Sample form that could be used for writing product specifications:

Product Name: \_\_\_\_\_

Quality: \_\_\_\_\_

Style/Variety: \_\_\_\_\_

Packing Medium: \_\_\_\_\_

Count Size: \_\_\_\_\_

Condition: \_\_\_\_\_

Description:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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## Contract Monitoring

- ❖ The contracting process is NOT completed when the contract is signed.
- ❖ Continual monitoring of the contractor's performance is essential throughout the duration of the contract
- ❖ Monitoring requires:
  - ❖ Comparison of contractor performance to product or service specifications and contract clauses
  - ❖ Evaluation of identified deviations
  - ❖ Determination of appropriate remedial actions
  - ❖ Implementation of remedial actions by the contractor



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## Contract Monitoring

Remedial actions might include actions such as:

- ✓ Contractor simply returning to performing to standards (assuming deviations are minimal)
- ✓ Compensation paid to the program by the contractor for deviations such as substitution of inferior products or other significant deviations
- ✓ Termination of the contract if deviations are major and contractor is unable or unwilling to perform to standards

Programs should NOT be afraid to terminate a contract when the contractor's performance is unacceptable and/or not in compliance with the contract



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## summary



TO OPTIMIZE COST MANAGEMENT -

- Standards are essential for all aspects of a program's foodservice operations
- Cost analyses and efforts to control costs should focus on variable costs which are controllable in the short run at the program level.
- Analyses should be conducted on a regular basis. When significant variances are noted, appropriate action should be taken.



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## summary

Applying the control process to contracting for products and services:

- ❖ Match products and services to your system
- ❖ Contracting is a purchasing alternative which incorporates a bidding process
- ❖ Clearly defined product and service specifications are essential
- ❖ Cost effective contracts result from the careful preparation of detailed specifications & a careful & thorough bidding process
- ❖ Ongoing contract monitoring is integral to successful cost effective contracting



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## QUESTIONS????

If you have any questions specific to your program and want to follow-up this Webinar with a discussion of your question - you are welcome to contact Dr. McCool.

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