

# THE CHRONICLE OF HIGHER EDUCATION

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## The Companies That Colleges Keep

**From food services to bookstores to campus security, outsourcing has become the way to do business**

By BEN GOSE

Follet runs the Stanford Bookstore. Aramark prepares the meals at Yale University. And Barnes & Noble manages the Harvard Coop. The nation's most prestigious universities -- and many others in academe -- increasingly contract out portions of their campus operations. The trend is being fueled by cutbacks in federal and state support for colleges, by a growing consensus that colleges should focus on teaching and research, and by corporations that see an attractive market opportunity on the nation's 3,500 college campuses.

The economics of outsourcing can be compelling for colleges, and in the past decade many college officials have changed their thinking about it. Fears of a corporate intrusion into the halls of academe have given way to soul-searching over whether the typically higher costs of self-operation are worth continuing.

"Eight or nine years ago, everyone was asking the question, Should we contract out or shouldn't we?" says David Lord, business manager at Colorado College. "Now outsourcing is definitely a reality, and the conversation has changed to, How do we do it well?"

The trend is changing the nature of the jobs held by people who oversee campus auxiliaries, which account for more than 10 percent of revenue at four-year institutions. When Mr. Lord arrived at Colorado, a decade ago, he was a full-time, hands-on manager of people. Now the college contracts out many of its auxiliary functions -- including food service, custodial services, real-estate management, laundry, and vending -- and he has become largely a deal maker and a liaison to outside companies. "My job is now a lot more about managing contracts," Mr. Lord says. "I like it a lot more. I'm at a small school, and running housekeeping and food service is probably not the best thing for me and others on the management team to be spending our time on."

Comprehensive data about outsourcing is hard to come by. Colleges contract out dozens of functions, and no association compiles data for all of those areas.

In many operations -- including food service, bookstores, printing, vending, laundry, parking, and security -- outsourcing has become relatively common. More than 1,400 college stores (the vast majority are bookstores) are run by outside companies, nearly twice as many as in 1992, according to the National Association of College Stores. And about 60 percent of the food and beverage sales on college campuses in 2004 were handled by contract operations, according to the National Restaurant Association.

Corporations are making inroads in other areas, too, like information technology, facility

maintenance, and the financing, construction, and management of student housing. Colleges have also experimented with outsourcing in other functions, including student health services, alumni relations, and business offices, but the results are mixed.

Money is the No. 1 reason that colleges contract out an operation. In a recent survey of outsourcing trends at 325 colleges conducted by an administrator at Jacksonville State University, in Alabama, college officials named "costs savings" and "revenue generation" as their top two reasons for outsourcing.

Small colleges may have the most to gain from outsourcing because they often lack both the financial resources and the staff expertise to handle auxiliary operations on their own. But large public universities, which have generally seen the portion of their budgets covered by state appropriations drop sharply, have embraced the trend as well.

The University of Georgia contracted out its first major campus function this year, handing its bookstore over to the Follett Higher Education Group. In the fiscal quarter that ended in September, Georgia's bookstore was \$300,000 ahead of where it had been in the same quarter in 2003, when it posted a loss. One possible explanation: In October Follett had 70 percent of inventory on display; a year earlier Georgia's own managers had 70 percent of inventory in storage. The greater visibility may have helped increase sales.

"We have one bookstore; Follett has hundreds," says Henry M. Huckaby, senior vice president for finance and administration. "They have the marketing and purchasing power to make the bookstore a success here."

The pitch from corporations can be hard to resist: Give your management headaches to us. We'll buy your inventory (Georgia netted \$5-million from Follett). You'll benefit from our ability to buy in bulk and our expertise from operating on dozens, if not hundreds, of other campuses. And we'll do it all with cheaper labor, which means bigger profits to share with you.

When the bookstore at the University of South Carolina at Columbia was self-operated, the managers kept the same size staff year-round, despite the peaks and lulls inherent in a campus-bookstore business. As state employees, the workers enjoyed generous health-care and retirement benefits. "Labor was eating us up," says Richard D. Wertz, a professor of higher education at the university who served as vice president and director of business affairs for 18 years. "We were paying a tremendous amount of money for people that we wouldn't always use."

Before South Carolina contracted out the bookstore, to Barnes & Noble, in 1992, it rarely netted as much as \$100,000 per year. Now it nets about \$500,000 per year, through a deal that guarantees the university a cut of gross sales.

South Carolina also outsources food service, vending, arena concessions, and trademark and copyright protection. "You start looking around, and you say, Who needs this?" Mr. Wertz says.

He is most proud of a deal he struck to outsource the functions of the campus office that sells items like notebooks and pencils to professors. The operation had an annual payroll of \$250,000

and an inventory of \$1-million. Forms & Supply, a company based in Charlotte, N.C., offered to absorb the payroll, buy the inventory, and give professors and other employees a 50-percent discount on every item sold."That one was a no-brainer," Mr. Wertz says.

While some scholars still lament the "corporatization" of higher education, the main arguments against outsourcing these days have shifted to the impact on the salaries of the relatively low-income employees who work in many auxiliary services. On several campuses, including Colorado College, the University of Michigan's Medical Center, the University of New Orleans, and Wesleyan University, students have aligned with food-service workers fighting for better pay or benefits.

In 2003 a student group called Colorado College Fair Labor persuaded the college to commit to a "living wage" -- a minimum of \$9.64 an hour -- for every worker on the campus, including those employed by contractors. Previously the food-service contractor, Sodexo Campus Services, had been paying some entry-level food-service workers \$5.15 per hour, the federal minimum wage.

The student group was so pleased with the new contract that it issued a release calling Sodexo "a good choice for universities who want to do business with an ethical company." Mr. Lord, the business manager, says the college now offers better pay for food-service and janitorial jobs than any other employer in Colorado Springs, which enables the college to hire and retain good workers.

But the costs were largely passed along from Sodexo and the local custodial contractor to the college, which means that the bulk of the increase eventually falls on the students. "Now students will come in and ask me why it is so much cheaper to get food downtown at McDonald's," Mr. Lord says.

Sodexo's willingness to renegotiate its contract with Colorado reflects a growing awareness among corporations that one-size-fits-all doesn't sell in the higher-education market. Sodexo and Aramark, the two biggest operators of campus food services, each conduct in-depth surveys of students' food preferences before they craft menus for a new client. Aramark has an organic-food program at Yale and buys milk from a campus dairy operation at Middle Tennessee State University. Sodexo has developed its own branded restaurants, like Jazzman's Cafe and Pandini's, which charge colleges lower commissions than national franchises and allow a campus to retain a unique look.

"You have some clients who don't want a national brand on their campus," says Tatjana Keuper, senior vice president for marketing at Sodexo. "They might not want it to look like an airport lounge."

The bookstore contractors at Harvard (Barnes & Noble) and Stanford (Follett), meanwhile, have made their corporate presence largely invisible, since the universities themselves have greater name recognition than the companies. "The Stanford Bookstore -- what better brand is there?" says Scott Deaton, executive vice president for marketing at Follett. "In the eyes of students, it's just a better bookstore. They don't know we're involved at all."

A few companies that specialize in building and managing college housing have agreed to subcontract "residential life" activities back to their college clients, since many colleges view that area as central to the student's educational experience. "When you carve out the residential-life function, there's a lot of logic to hiring someone to manage the maintenance of the housing," says Bill Harris, vice president at Allen & O'Hara Education Services, a development-and-management company, based in Memphis, that specializes in college housing.

Outsourcing has seen its share of failures. In 1997 the University of Pennsylvania signed a 10-year deal with the Trammell Crow Company to have it manage and maintain campus buildings as well as off-campus properties owned by the university. The arrangement, which quickly soured, ended in 2002, when the company saw less profit than expected, and the university decided that it could manage the operation more efficiently on its own.

- In 2001 Wallace's Bookstores, which at the time was the nation's third-largest college bookseller, with operations on 74 campuses, declared bankruptcy. Several colleges were forced to put up their own money to keep their shelves stocked with textbooks after publishers refused to sell to Wallace's on credit.
- In the mid-1990s student-health clinics seemed a ripe area for outsourcing. An upstart company, Collegiate Health Care, promised better service than college clinics typically provided and signed up at least 10 clients, including Oberlin College and Radford University. The company went bankrupt in 2001, forcing many of its clients to scramble to provide health services to students.

Most of the colleges said they were happy with its performance to the very end. "There just wasn't any return on investment for the company," says Stephen D. Blom, director of health services at Colorado State University (which had no relationship with Collegiate Health) and a former executive director of the American College Health Association. "College health clinics," he explains, "are doing mostly primary health care for a fairly healthy population, a lot of whom are uninsured or underinsured." For now, he adds, outsourcing of college clinics is "just not happening."

- Georgetown College signed an unusual outsourcing contract in 2000, hiring a close neighbor in Kentucky, Host Communications, to handle alumni affairs. The deal dissolved after less than a year, and Georgetown now has one of its own alumni running the office. "We decided it would be better if it were done from within," says Jim Durham, a college spokesman. "You really do need people who know the school to reach out and touch the alums."

Even when outsourcing is successful, it can be full of challenges. In October, while presenting a study on outsourcing at the annual meeting of the National Association of College Auxiliary Services, Joe Whitmore, director of planning and analysis at Jacksonville State, told a story about a plan hatched by Sodexo some years ago to "change the color concept" in the university's cafeteria. The switch from red and white -- the team colors, which appear in high-profile areas around campus -- to yellow and orange was imminent when word got back to Mr. Whitmore. In lengthy talks with Sodexo, he fended off the change.

"But it turned into a three-week ordeal, and there's a cost associated with that," says Mr. Whitmore, who makes clear that he is happy with Sodexo's management of the university's food service. "I was spending time I could have been spending on something else trying to keep mustard-yellow paint off the walls."

In Mr. Whitmore's study of outsourcing, the most common misgiving about contracting out an operation -- voiced by 92 percent of the campus officials who responded -- was "loss of institutional control."

Just such a concern has led Bowdoin College, which is ranked No. 2 by the Princeton Review in a student-satisfaction survey examining food quality, to insist on operating its own food service. (The other two in the top 3 -- in Illinois and Colby College outsource their food services, to Bon Appetit Management Company and Sodexo, respectively.)

Mary McAteer Kennedy, Bowdoin's director of dining services, notes that some food-service contractors have signed exclusivity deals with food-and-drink producers that may lower some costs but also limit the number of vendors with which they can work. Bowdoin and nearby Bates College have joined with the Maine Sustainable Agricultural Society to buy produce directly from local farmers. Bowdoin buys ethnic ingredients for special meals from a store in Portland, and fish and shellfish from local vendors. The college trims all its own meats, grinds its own hamburger, and occasionally cooks whole pigs.

While the vast majority of Bowdoin's 1,700 students live on the campus, 97 percent of the 125 off-campus students participate in the college meal plan, Ms. Kennedy says. The food-service operation generates enough revenue to meet the college's goals, including covering administrative costs and debt service.

"I don't think we'd see any additional financial contribution from contracting it out, and there would probably be less satisfaction from the students," Ms. Kennedy says.

Stephen Mead, business manager at Wheaton, which ranked No. 1 in the Princeton Review survey, notes that some contractors, too, are nimble enough to work with local producers. On the Web site of the Bon Appetit Management Company, which works with Wheaton, the company says it buys "millions of dollars worth of products each year from local farmers and artisans."

Bon Appetit's food is clearly a hit with students, and Mr. Mead describes the relationship as "comfortable and successful." But he also likes knowing that he could sever the relationship if the company's performance ever slipped. That would be a more difficult step to take if food service were handled by college employees. "Sometimes when you have an operation in house -- whether it's food service or something else -- people defend it to the bitter end even if there are other options that should be explored," he says.

The second-greatest concern cited about outsourcing in Mr. Whitmore's study was "loss of potential revenue." Indeed, while most colleges that enter into outsourcing contracts look to save money, others are strong advocates of self-operation because they fear that outsourcing will set them back financially. If Company X can make a healthy profit and still afford to share revenue

with us, they reason, how much more money would we make if we operated this thing on our own?

The first president at California State University at San Marcos set a goal of having the institution operate its own food service when the institution was founded, in 1989, even though he didn't think the university could afford to go that route at the time. Over the years, however, San Marcos steadily set aside reserves collected from its contract with Aztec Shops Inc., a nonprofit company at San Diego State University that runs that campus's bookstore and food service and various other businesses.

Two years ago the food-service operation at San Marcos finally made a break from Aztec (the company continues to operate the campus bookstore). The university evaluated offers from other companies but eventually hired one of its own staff members to take over the operation. The university spent nearly \$1-million that it had been keeping in reserve to upgrade its offerings -- it added a Starbucks and a convenience store, and modernized the main kitchen -- and officials believe that those investments will pay off over time.

"In four years, we think we'll be ahead of where we would have been with an outside vendor," says Marti Gray, executive director of the Cal State San Marcos Foundation, which handles auxiliaries for the university.

Of course, the financial benefits of self-operation exist only if a college can run a service as well -- or nearly as well -- as a company that specializes in that business. More and more colleges are unwilling to make that bet.

The Georgia Institute of Technology is in the midst of \$190-million project to expand its campus across a busy freeway into midtown Atlanta. The project includes a new hotel and campus bookstore, and retail space to be leased out.

Georgia Tech had been making a profit on its old bookstore, but the new one is designed to appeal to nonstudents as well, putting it in head-to-head competition with existing city bookstores. That's why the university brought in Barnes & Noble.

"We know how to run a college bookstore, but we are not retailers in the sense of competing in the larger market," says Rosalind Meyers, associate vice president for auxiliary services. "We wanted a company that understood retailing and the marketplace, and that could operate a superstore to bring people to the other retail shops that we have there."

Some outsourcing advocates believe that university administrators should bring that perspective to every auxiliary function: If you can't provide best-in-class service, get out of the business and find an outfit that can.

The City Colleges of Chicago announced in 2001 that it would outsource its finance department to American Express Tax and Business Services, as part of a broad reorganization that also involved contracting out information technology and some building maintenance.

American Express now handles budgeting, financial reporting, general accounting, grants, accounts payable, purchasing, payroll, and student aid for the college system. A company employee, Abe Eshkenazi, even serves as vice chancellor and chief financial officer of the system, participating in meetings involving the president and other top officials.

Mr. Eshkenazi concedes that his is an unusual case: Since the CFO is heavily involved in strategic planning, most colleges are unlikely to outsource the job. But he thinks that many other operations in the finance office -- even student aid, an area in which many colleges promote the personal touch -- are ripe for outsourcing.

"Everybody thinks they're unique," Mr. Eshkenazi says. "That's what really challenges the outsourcing process. If you think you're unique -- you think nobody else can do what you do -- you'll never consider outsourcing."

**2002 REVENUE GENERATED BY AUXILIARY SERVICES**

Auxiliary services are defined as operations that furnish a service to students, faculty members, and staff members, and include such operations as residence halls, food services, student health services, college stores, and movie theaters.

Type of institution	Amount of total revenue	Percentage of total revenue to institutions
Public 4-year	\$14.8-billion	10.2%
Public 2-year	\$1.7-billion	5.4%
Private 4-year (nonprofit)	\$8.7-billion	10.7%
Private 2-year (nonprofit)	\$39-million	6.5%
Private 4-year (for profit)	\$106-million	3.6%
Private 2-year (for profit)	\$67-million	3.3%

**SOURCE:** U.S. Department of Education

**MAJOR PLAYERS IN COLLEGE OUTSOURCING**

Aramark Education

Headquarters:

Philadelphia

<http://www.aramarkhighered.com>

Number of college locations:

Approximately 600

Number of employees at colleges:

More than 38,000

Types of services:

Food service, catering, facilities management, building commissioning, capital-project management

Examples of clients:

Berklee College of Music, James Madison U., Oberlin College, U. of Florida, U. of Southern California

Barnes & Noble College Booksellers

Headquarters:

Basking Ridge, N.J.

<http://www.bkstore.com>

Number of college locations:

525

Number of employees at colleges:

Approximately 10,000

Types of services:

Bookstore, cafe management

Examples of clients:

Columbia U., Harvard U., Northern Virginia Community College (six locations)

#### Chartwells

Headquarters:

Rye Brook, N.Y.

<http://www.cgnad.com>

Number of college locations:

220

Number of employees at colleges:

Not available

Types of services:

Food service, catering, vending, concessions

Examples of clients:

Louisiana State U., Northeastern U., U. of Miami, U. of Utah

#### Follett Higher Education Group

Headquarters:

Oak Brook, Ill.

<http://www.fheg.follett.com>

Number of college locations:

709 (including 23 in Canada)

Number of employees at colleges:

8,000

Types of services:

Bookstore, cafe management, wholesaling of used college textbooks

Examples of clients:

College of DuPage, Maricopa Community College District, Spelman College, Stanford U., U. of Notre Dame

#### Sodexo USA Campus Services

Headquarters:

Altamonte, Fla.

<http://www.sodexhousa.com>

Number of college locations:

More than 900

Number of employees at colleges:

Approximately 50,000

Types of services:

Food service, catering, facilities management, laundry, construction management

Examples of clients:

Arizona State U., Bowie State U., Tulane U., U. of Hawaii at Manoa

SOURCE: *Chronicle* reporting, based on company information in December 2004

**COLLEGE STORES MANAGED BY OUTSIDE COMPANIES**

Number:	721	855	985	1,072	1,206	1,334	1,409
Year:	1992	1994	1996	1998	2000	2002	2004

Number of stores	1992	2004
Barnes & Noble	237	428
College Book Stores of America	23	100
Follett	343	675
Matthews	17	24
Nebraska	7	13
Other	94	169

SOURCE: National Association of College Stores

**OUTSOURCING: COSTS DOWN, REVENUE UP**

A recent survey of outsourcing trends at colleges and universities found that cost savings and revenue generation were the top two reasons for contracting out an auxiliary service. But the survey also found that morale has suffered at many institutions that outsource operations, and that more than a quarter of colleges have experienced challenges in finding the right contractor. The following are some highlights of the survey, based on the percentage of colleges that responded to each item:

**Areas currently outsourced by institutions:**

87%	Food service
81%	Bookstore
44%	Landscaping/grounds
36%	Housekeeping/maintenance
29%	Parking/security
12%	Housing
4%	Computer services

**Areas that may have been outsourced in the past but are currently being institutionally operated:**

11%	Bookstore
6%	Food service
2%	Parking/security

**Primary factors in determining whether to outsource an operation:**

90%	Cost savings
85%	Revenue generation
79%	Service/quality
72%	Management expertise
66%	Personnel issues
56%	Institutional funding
17%	Political pressure

**Primary concerns considered by institutions in determining whether to outsource:**

92%	Loss of institutional control
88%	Loss of potential revenue
86%	Employee morale

86%	Employee morale
61%	Security/liability
44%	Slow reaction to problems
22%	Local management
10%	Competition
<b>If bookstore is currently outsourced, what is your institution most likely to do at the end of the contract period?</b>	
35%	Competitive bid process
34%	Issue a request for proposal from other vendors
22%	Extend the current contract
5%	Don't know/not sure
4%	Return to institutional operation
<b>The most difficult part of outsourcing:</b>	
40%	Employee morale
27%	Selecting the right contractor
20%	Managing the contractor
12%	Writing the proposal for selection of contractor
<b>Will continue to use outsourcing and search for additional areas for outsourcing:</b>	
51%	Definitely yes
37%	Probably yes
8%	Unsure
4%	Probably not
Based on a mail survey of 1,618 colleges and universities that belong to the National Association of College Auxiliary Services. The survey had a response rate of 20 percent (325 institutions).	
<b>SOURCE:</b> Survey conducted by Joe Whitmore, director of planning and analysis at Jacksonville State University.	

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