



Exhibition Place

Item No. 35

December 6, 2011

To: The Board of Governors of Exhibition Place

ACTION REQUIRED

From: Dianne Young, Chief Executive Officer

Subject: **Review of Food & Beverage Options**

Summary:

This report seeks the Board's approval to proceed with a Request for Proposal for Food & Beverage Services at Direct Energy Centre and other buildings utilized for trade and consumer shows in the Fall 2012, with a recommendation to the Board in the Winter/Spring 2013.

Exhibition Place staff engaged fsSTRATEGY to undertake an analysis on possible future directions for the delivery of food and beverage, generally in the industry and specifically in the Toronto marketplace and at Direct Energy Centre. This review included an analysis of the alternative of an "in-house" delivery of food services and a recommendation of the optimal delivery model for Exhibition Place.

Recommendations:

It is recommended that the Board:

- 1) Direct staff to proceed with a Request for Proposals for Food & Beverage Services at Direct Energy Centre and other buildings utilized for trade and consumer shows in the Fall 2012, with a recommendation to the Board in the Winter/Spring 2013; and**
- 2) The confidential information in Attachment 1 not be released publicly in order to protect the competitive position and the future economic interests of Exhibition Place.**

Financial Implications

Approval of the recommendation to proceed with the RFP will have no impact on the Board in 2012 as costs for the consultant to assist with the F&B RFP have been included in the 2012 operating budget.

Decision History:

The Exhibition Place 2009 – 2012 Strategic Plan had a Financial Goal *To seek additional revenue opportunities* and as a Strategy to support this Goal we will *foster long-term partnerships and alliances with public and private sector organizations*.

At its meeting of August 5, 2011 the Board approved the extension of the current agreement with Servomation Inc. ("Servo") to provide exclusive food and beverage services to Direct Energy Centre and other buildings utilized for trade and consumer shows for one additional year, expiring on June 30, 2013, on the same terms and conditions of the existing agreement. Further

that the fsSTRATEGY report be referred to staff for a review and a report back to the Board and a recommendation on a preferred Food and Beverage model for 2013 and beyond.

At its meeting of May 27, 2010 the Board approved of entering into an agreement with Servo for the provision of exclusive food and beverage services in Direct Energy Centre and other buildings on the grounds utilized for trade and consumer show venues for a term ending on June 30, 2012. In addition the Board received the information that staff would be engaging a consultant to undertake an analysis on possible future directions generally in the industry and specifically in the Toronto marketplace and at Direct Energy Centre.

At its meeting of October 25, 2002 the Board approved of entering into an agreement with Servo for the provision of exclusive food and beverage services in Direct Energy Centre and other buildings on the grounds utilized for trade and consumer show events for a term ending on June 30, 2010. This report was subsequently approved by City Council at its meeting of November 26, 27 and 28, 2002.

At its meeting of October 26, 2001, the Board approved of issuing a RFP for an exclusive food service provider and on April 9, 2002, the RFP was issued through the City of Toronto Purchasing Department with a closing date of May 31, 2002.

At its meeting of April 25, 1997 the Board approved of entering into an Agreement with Servo, as the exclusive provider of food and beverage services within the Direct Energy Centre and other buildings on the grounds managed by Exhibition Place. The Agreement between the Board and Servo provided for an initial term of 5 years (January 1, 1998 to December 31, 2002) with an option for the Board to extend this Agreement for a further 5 years.

Issue Background:

The existing agreement with Servo is set to expire on June 30, 2013. Based on the review of the Food & Beverage Operations, Exhibition Place staff concur with the consultant's recommendation, noted below, that it would be in the best interests of the Board to go to the marketplace with an RFP in the Fall of 2012 and report back to the Board on the results of the RFP in Winter/Spring 2013.

Comments:

fsSTRATEGY was engaged by the Board to review all alternatives for the delivery of food services including:

- a) reviewing the existing Exhibition Place organization structure (including potential utilization of services by Cerise provided from the Allstream Centre) and how food services could be integrated, and recommend a staffing model for an "in-house" operation;
- b) reviewing inventory of existing Food and Beverage equipment and FF&E and estimating the state-of-good repair capital costs for the next 10 years;
- c) identification of the incremental costs/investments required and preparation of 10 year projections of "in-house" operations versus the existing Servo contract versus the estimated market return; and
- d) outline risks and opportunities of in-house vs. an external supplier.

As indicated in the Decision History section above, at the end of Servo's first five year term, Exhibition Place issued a RFP for food and beverage services on the grounds. While there was initially some interest from five major food services companies, in the end only Servo submitted a bid. Staff believe that the hurdle faced by the private sector in submitting a bid was the requirement to pay an upfront Opportunity Fee of \$2.1M which was the unamortized portion of the initial Capital Investment of the \$3.999M made by Servo. In addition, the Board was looking for a further Capital Investment for Ricoh Coliseum and investment in new portable equipment for Direct Energy Centre. This same scenario will not exist at the end of the existing one-year term with Servo (June 30, 2013) which will completely eliminate the buy-out on Servo's capital investment amount within the Direct Energy Centre.

fsSTRATEGY in its analysis did a review of comparable operations across North American and then looked at three possible management options for deliveries of food and beverage services at Exhibition Place which were as follows:

- a) Self-operation of foodservice. Self-operation means that Exhibition Place would have within its organizational structure a food service business unit responsible for food service delivery and sales. Exhibition Place would also have to make any necessary capital investments. fsSTRATEGY also looked at the potential of integrating the services of Cerise from the Allstream Centre with the self-operation model;
- b) Continued outsourcing of foodservice is the existing model with an agreement with the private sector; and
- c) A hybrid scenario where Exhibition Place operates the foodservices exclusively through distinct third party concession service providers and caterers (i.e. no single third party foodservice provider).

The Confidential report outlines the summary presentation of fsSTRATEGY's analysis and financial estimates related to each service delivery options and Appendix "A" to the Confidential Report is the detailed presentation provided by fsSTRATEGY to the Board at its meeting on August 5, 2011.

The overall recommendation from fsSTRATEGY was that Option (b) above to outsource foodservice through a private sector company provided the greatest cash flow to the Board based on projections over the next 10 years, and staff agree with this analysis. This direction also follows general directions set by the City with respect to manner of delivering related but non-core services.

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Submitted:

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