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Calveta Dining Services, Inc.: A Recipe for Growth?

On a June day in 2009, Frank Calveta, president and chief executive officer of Calveta Dining Services, Inc., struggled as he prepared to present growth strategies to his father, founder and former CEO Antonio Calveta. Calveta was a $2 billion, privately held firm that managed food service operations for nearly 1,000 senior living facilities (SLFs) in the United States. When Antonio retired in 2007 after 35 years of leadership, he named his eldest son, Frank, CEO and told him to double the company's revenues within five years. Two years in, Frank confided, "I can't let my father down. I can't abandon the special company culture we have or risk our reputation for quality food service. But after two years in this job I still don't have a credible strategy for meeting those two promises and also growing the business as aggressively as my father wants."

Calveta Background

Calveta Dining Services was built on Antonio Calveta's passion for food and traditional family values. Having immigrated from a poor village in southern Italy, Antonio, often working 16-hour days, grew into a shrewd, competitive restaurateur. Beginning in 1966 with a neighborhood restaurant in Brooklyn, New York that featured old family recipes, Antonio eventually started a second restaurant and then a third.

Antonio recounted how his company had entered the senior market in 1972:

> I knew a nursing home manager through our church parish. Bushwick Seniors Home, it was called. He asked if I would come by and try their food. Back then, nearly all SLFs did their own cooking and serving, but a lot of them knew they weren't very good at it. I told my acquaintance that I could make better food that was also more nutritious for their residents and would not exceed their current food budgets. Then I spoke to the families of residents, who wanted not only higher-quality food but also more personalized service. My friend spoke to the board and then told me he'd take me up on my offer if I got the necessary licensing, which I did. Other companies were already in the SLF food business, but I decided that, with the right group of employees, I could get a share, maybe eventually a big share.

HBS Professor James L. Heskett and writer Patricia Girardi prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There may be occasional references to actual companies in the narration.

By June 2009, Calveta Dining Services ran food services for 976 SLFs and employed 15,000 people. Five hundred worked out of the company's Brooklyn headquarters in corporate support functions including finance, marketing, human resources, and "culinary development." The rest of Calveta's employees were account managers and directors, chefs, and food service workers. Calveta staff operated all aspects of resident dining facilities at a client SLF, including menu development, meal preparation and service, and implementation of special programs such as themed dinners and family events.

The Senior Living Market in Dining Services

According to the Centers for Medicare and Medicaid Services, there were roughly 18,000 nursing homes in the United States in 2008. Sixty-six percent of the facilities were operated for profit, 27% as not-for-profit, and 7% were government owned. Of these facilities, 55% were run by large chains.[1] With a weakened economy and political pressures to reduce Medicare and Medicaid costs, all types of facilities were constantly stressed to contain operating costs.

Outsourcing the dining services functions appealed to SLFs because they didn't view food service management as a core competency. Dining services contractors provided SLF managers with culinary expertise, negotiating power with food suppliers, and efficient operational processes. SLF managers could provide high-quality meal service at lower cost than a program they managed themselves.

In 2008, Calveta's $2 billion in annual revenues from 976 domestic SLFs represented an estimated 10% of the total market, making it the fourth-largest competitor. The segment had enjoyed strong growth for well over a decade, and Calveta had outpaced the industry average, growing revenues by 52% in the past three years alone. For the firm's major competitors, however, SLFs were just one division of their business. Calveta's total revenues were dwarfed by global dining service competitors Culinair ($22.0 billion), Robertson ($20.4 billion), and Pinehurst ($13.1 billion), all of which operated internationally and had diversified into the hospital, education, sports, and business & industry sectors. Selected financial information for Calveta for the years 2005 through 2008 is shown in **Exhibit 1**.

The Challenges of "Antonio's Way"

Five basic goals, often referred to as the backbone of "Antonio's Way," were posted in Calveta's offices and displayed in its annual reports:

1. To provide the highest quality food and personalized service to the residents of the SLFs we serve.
2. To hew to the budgets of our SLF clients and our own company.
3. To innovate constantly, developing new service features as determinedly as new menu items.
4. To develop every Calveta employee to his or her full potential.
5. To grow profitably, generating the funds needed to generate even greater growth in future years.

[1] Centers for Medicare and Medicaid Services, 2008.

Frank Calveta explained:

> These goals are part of what we call Antonio's Way—a set of principles we are determined to live by. The first four are our reason for being—it's about doing quality work, but it's also about bringing out the best in our people and giving them lots of opportunities. But the fifth goal—growth—captures another, truly key ingredient in our mission. By growing the company, we grow the ranks of chefs, managers, and executives who've been trained in these values, and thus we make the world a better place. Research analysts often ask me what the relationship is between service and profits. I tell them that for Calveta, it's people that provide the connection between the two.

A listing of Calveta's values, along with desired behaviors, is presented in **Exhibit 2**.

Trained as an accountant, Frank had been chief financial officer of Calveta for 10 years. Having been chosen to replace his father as CEO over his other siblings, including his highly dedicated (and highly vocal) sister Jennifer, Frank was determined to succeed in his new leadership role. He constantly reviewed the company's ongoing efforts to execute on the five core goals his father had established.

Jennifer Calveta, who had worked her way up through the ranks to chief operating officer, was convinced that preserving the company culture and achieving such aggressive growth were conflicting objectives. She worried that the organization already showed signs of strain, "and I'd rather save the culture than spread ourselves too rapidly into new businesses." More than one of her colleagues on Calveta's executive team agreed—as her brother Frank well knew.

Goals 1, 2, and 3: Food, Service, Budgets, and Innovation

The quality of food that Calveta prepared almost invariably received high ratings from SLF residents and managers. Antonio discovered at Bushwick Senior Center that older people, though often on restrictive diets for health reasons, enjoy the bolder flavors that fresh ingredients deliver. "Fresh was the mantra," said one of the original Calveta chefs. "Our competitors tended to use canned ingredients. It took them years to catch on."

The goal of providing customized service was intertwined with the quality of the food. Unlike larger competitors, who relied on highly regularized systems and standards to serve a large number of clients efficiently, Calveta built its local food service teams and menu offerings to serve each facility uniquely. For example, to serve an SLF whose residents were largely Hispanic, a Calveta manager would hire cooks proficient at creating authentic Hispanic dishes.

Waitstaff treated guests like family, following behavioral rules that Antonio had set down (e.g., Rule 7: "Know, and say at least twice, the name of every diner you are serving").

Food and service routinely won enthusiastic praise from residents:

> "I didn't think I'd have to retire to a nursing home to taste roast beef this good!"
>
> — Ed Menillo, Crossroads Nursing Home

> "I wish the waitstaff in restaurants were half as nice as Nick and his team are here."
>
> — Alice Shipley, Bright Corner Senior Living Center

Calveta also distinguished itself from competitors through its cost-control model—"a mix of gourmet and skinflint," as Jennifer Calveta described it. The food buyers negotiated low prices by agreeing to sign long-term contracts with the best vendors. The demand for freshness itself could yield savings. For example, Calveta made its pizza dough from scratch, saving roughly $1.00 per pizza shell over the pre-made product. The company also had clever ways to discourage waste, like incorporating leftover cookies into creative desserts. Chefs carefully controlled portions, and employees meticulously extracted condiments from their containers.

Jennifer Calveta was especially strong on the principle of continuous innovation. For example, in an effort to provide more personalized service to bedridden residents, Jennifer in 2006 devised "At Your Service"—a catering program that allowed residents to pre-order their meals for the next day. Calveta staff delivered menus each morning and returned early afternoon to collect residents' selections, which they submitted to the kitchen via personal digital assistant (PDA). The service not only made residents feel more cared for, it also helped kitchen staff to plan for appropriate ingredient quantities. The program earned industry recognition (and fueled rumors that Jennifer, not Frank, would be appointed CEO upon Antonio's retirement).

Goal 4: Developing Employees

As a young man, Antonio received a number of lucky breaks, including seed money for his first restaurant from a generous benefactor. Although he became a wealthy businessman, Antonio remained devoutly religious and never forgot his humble roots. He seldom fired an employee (unless he or she displayed a "bad attitude"), preferring to patiently train cooks and servers to excel. His ideas shaped Calveta's human resources philosophy.

Human Resources Culture

Calveta Dining Services supported promotion from within, frequently from the front-line employees who'd worked at SLFs. The average tenure of senior executives, many of whom started with the company shortly after its founding, was 25 years. Of necessity, however, many recent entry-level managers had been recruited from regional culinary or business-degree programs. Partly because Calveta's total manager compensation was highly competitive, few managers left of their own choosing. Benefits included generous pension plans, stock options, and performance bonuses. Bonuses could represent up to 60% of a manager's salary.

Although Calveta was motivated by altruistic goals, underachievement was not tolerated. Employees were given a wide berth for mistakes, but not for a poor attitude: if employees behaved in a way that suggested negative attitudes (by making inappropriate remarks, for example, or showing up late for a shift), they were dismissed.

HR Approaches and Programs

Although Calveta's human resources strategy included a pay-for-performance plan, it distinguished itself by emphasizing other aspects of employee motivation and development: wide-ranging training programs, constant feedback, and frequent recognition. "Keep them learning, keep them growing!" was a major mandate in "Antonio's Way."

Calveta's commitment to developing every employee led to the creation of an aggressive management-progression structure. Although roughly 80% of Calveta's food service managers were graduates of top culinary schools, the company set (and usually met) a goal of developing 20% of its management trainees from the front line.

In support of this goal, Calveta offered extensive educational programs, ranging from basic literacy to advanced culinary courses. Company leadership routinely assigned readings, both motivational and instructive, to all staff levels. At monthly "How Calveta Works" seminars, managers explained details of finance and operations to line cooks and managers alike. HR staff customized development programs to address individual SLF client needs; one supervisor, for example, learned sign language to communicate more clearly with a client's deaf residents. A robust employee intranet delivered manager guides, training videos, and guidance on culinary standards; it also prominently announced employee achievements and the distribution of special scholarships.

Calveta's career progression program started with the first interview. Interviewers screened potential employees not just for basic food service qualifications, but also for a drive to succeed. Executives pushed middle managers to constantly identify employees who could be promoted—and, as a result of Calveta's rapid growth, employees found unusually abundant opportunities to advance. A traditional career path might take a committed employee from entry-level food staff to coordinator, then to supervisor and ultimately to manager. Calveta also emphasized functional flexibility: If, say, a manager wanted to train as a chef, the company tried to facilitate the shift. Moreover, employees rotated from one account to another, as Calveta regarded positions with larger accounts as more prestigious and regarded a transfer to one of those accounts as a promotion. The company frequently elevated successful food service directors into regional or corporate management.

Calveta's investment in employee development led to retention rates nearly 40% higher than the industry average. Twenty-year employee Mario Ricci seemed to speak for many long-term Calveta workers: "I was eager as a young guy, but I had little education and I didn't think I'd have much of a career. But over the years I went from the dishroom through six job levels to regional chef—a big job. I can't imagine that any other company would have given me the same opportunities." Summary data from Calveta's 2008 employee-satisfaction surveys are presented in **Exhibit 3**.

Goal 5: Growth

Frank had recently read The United States Census Bureau's projection that, due to the aging of the Baby Boomer segment, the number of elderly would climb from 39 million in 2009 (12.8% of the U.S. population) to 72 million (20% of the U.S. population) by 2030. Many analysts understandably predicted that the number of elderly living in SLFs would increase considerably. Moreover, Jennifer liked to point out that just 25% of SLFs contracted for food service, meaning that 75% remained potential customers.[2] But despite the growth of an aging population, and despite Calveta's impressive business growth, it seemed highly unlikely to Frank and the executive team that the company could double its revenues in five years unless it branched out beyond the SLF segment. Providing food service to the hospital segment made sense intuitively, especially because it too was, at least in theory, the beneficiary of an aging demographic. Unfortunately, as Calveta remained focused solely on SLFs, several wealthy competitors had become deeply entrenched with hospital operators, often locking in long-term food service contracts. Moreover, Frank feared that Calveta's solid reputation as a leader in the health-care sector might become threatened as its relative size shrank versus the competition. And despite growth in the hospital sector, Frank and his executive team knew that hospitals were, in the aftermath of the 2008–2009 recession, facing cutbacks in equipment and service due to decreases in charitable donations, reduced government assistance, and declining patient-stay lengths. Calveta expected such cutbacks to result in hospital closings, possibly reducing the potential market size.

But when Calveta had explored market opportunities beyond the hospital segment—and even beyond the food business—the results were discouraging. In 2006, for example, Frank had

[2] Datamonitor Research, June 8, 2010.

recommended adding custodial services to Calveta's portfolio through the potential acquisition of Facility Services Solutions (FSS)—a $500 million cleaning services company that provided housekeeping and facilities management services to hospitals and SLFs. Discussions fell apart, however, when Calveta noted that margins in the cleaning services industry were so low that he questioned whether his company could operate FSS profitably.

Frank had also considered moving into the education sector. However, after making an unsuccessful bid for one of New York's state university food service contracts in 2007, Calveta executives concluded that the firm didn't yet have the infrastructure to support a large university's demands for multiple campus food service locations, ready access to national retail brands (e.g., McDonalds and Chipotle) to fill "food courts," and marketing insight into the student demographic. Preliminary discussions about running concessions at professional sports stadiums didn't pan out any better; said one stadium operations manager: "You feed old people, and you're great at it. But our average fan is 28, not 88. What do you know about satisfying his tastes?"

By 2009, the hospital segment, for all its shortcomings, seemed to offer the best opportunity, if only by default. It presented a more logical fit with Calveta's core competencies, and once the economy was back on track, growth in hospital budgets would surely come—the demographics seemed to mandate that. Moreover, hospital administrators might perceive Calveta's skills at cost control as a means to containing expenses. Trends toward the provision of fresher, more healthful menu offerings for both patients and visitors would also work in Calveta's favor.

Still, when Frank considered the financial challenges of getting into the hospital segment, the upbeat angles seemed a bit pie-in-the-sky. In line with old-school traditions, Calveta shouldered little debt. Because the company had been able to fuel its growth through prudent cash flow management, it did not need to rely on debt to finance kitchen equipment and renovations. If Calveta chose to pursue growth through acquisition, however, its no-debt philosophy would almost certainly need to be set aside.

Calveta's unique culture also served as an impediment to growth through acquisition. Other food service providers relied on either culinary standards or systems over service—gourmet menus or operations processes were emphasized over employee development. In fact, just prior to Antonio's retirement in 2007, the sale of Northwest Gourmet, a regional food service provider based in Seattle with annual revenues of $350 million, presented what seemed like the perfect growth opportunity. The company had an outstanding reputation within the SLF market, and its Northwest presence would enable Calveta to expand its footprint in the Western part of the country. Upon further investigation, however, Jennifer expressed concerns that Northwest's employees would have great difficulty adopting "Antonio's Way." Food costs were exceptionally high due to the company's emphasis on gourmet ingredients. Few cost control procedures, such as portion control standards, were in place. Training revolved around culinary trends, as opposed to superior service delivery or individual employee development.

Customer Reaction to Employee Departures

Prior to 2007, fewer than 2% of Calveta's SLF customers terminated their agreements every year, a rate 25% below the industry average. Feedback provided in annual client surveys indicated that such customer loyalty was, in large part, a result of Calveta's exceptional service levels. Lost contracts typically resulted from changes in management at an SLF; only rarely did an SLF drop Calveta citing poor performance. Just recently, however, one of Calveta's signature accounts in New Jersey defected to another service provider because it was dissatisfied with frequent changes in the Calveta account manager assigned to that facility.

For several years, Frank Calveta had heard about such defections, and he believed that the vice president of account management had been dealing with them effectively. However, since he'd begun reading the company's annual client satisfaction survey results from the perspective of the CEO's chair, Frank recognized that client frustrations with employee progression policies had worsened. In the survey covering 2008 performance, comments from two of the more vocal clients were especially biting:

> We've contracted with Calveta for nearly 20 years, but now we're considering switching vendors. They have this employee-growth program that moves managers to bigger SLFs or bigger jobs in the company. From 1994 to 2004 they assigned seven different facility managers to our place. During each new manager's break-in period, quality slipped—the service was less efficient, and the line employees were stressed because the manager wasn't always sure what he or she was doing. We told our Calveta account manager that the turnover was having unpleasant consequences. Calveta finally assigned us a facility manager who's been in place for four years. Last year we learned that they were going to reassign her, but we told the account manager, if she goes, we go.
>
> —Seaside Commons Senior Living Center

> We stuck with Calveta for years partly because of their likeable, dedicated people who have provided excellent service to our residents. But this year we decided not to renew our contract. In two years we lost most of our residents' favorite Calveta employees as they moved on to other accounts. When our favorite pastry chef was promoted to a larger facility, that was the last straw. To this day, we are still getting complaints from our residents about "letting Ruth go."
>
> —Sullivan Convalescent Home

Frank wondered if the organizational structure of the firm wasn't partly to blame for this customer dissatisfaction. While he'd been CFO, Frank had expressed concern that the design of the organization might have gotten knocked out of alignment as the company grew, but little had been done. (Jennifer, speaking as COO, had disagreed.) Upon reading these latest surveys, Frank decided to have another look at the company's organizational chart.

Organization, Communication, and "Antonio's Way"

Calveta divided its operations into 12 regions, each managed by a Regional Vice President who reported into Calveta's corporate executive team. Organization charts representing Calveta's corporate executive structure and that of a typical Calveta region are depicted in **Exhibits 4** and **5**. The organization's structure as geographic regions and districts was formed to support the robust increase in new accounts. Some positions were also created to provide a career path for promising managers.

Each Regional Vice President supervised a Director of Operations and up to six Area Managers. Area Managers handled both operations and sales in their geographic areas, including obtaining contract renewals for existing accounts. They also participated in sales proposals and presentations as experts in Operations. Reporting to each Area Manager were Account Managers and Directors. Each Account Manager or Director managed a single SLF account. Managers were assigned to small accounts, Directors to larger accounts. Each region also employed a Regional Chef and up to eight sales representatives who pursued new business.

In addition to an Account Manager or Director, Calveta assigned to each SLF a chef, a marketing manager, and one or more supervisors. Supervisors managed both front-of-the-house (greeters, servers, bussers) and back-of-the-house (cooks, dishwashers, etc.) employees. Depending on the dining programs offered at the SLF, Calveta might also staff the account with a dietitian or catering director. Overall, the quantity of workers in each role varied widely from one account to the next, based on the number of residents, the food service options, and client demands.

Frank had vaguely assumed for some time that, as the company grew, it would be increasingly difficult for Calveta executives to disseminate the core values of Antonio's Way throughout the work force. As he looked over the organization charts, he considered the impact that the structure might be having within the business.

Internal survey feedback from senior management revealed growing problems:

> "We need to stay close to the person who is closest to the customer. But with the growing number of accounts in my region, it has become much harder to stay close to the front line."
>
> —Robert Grello, Regional Vice President

> "As I visit our accounts, I see less and less of the Antonio Way. I've worked here since my father started the company, and I worry that employees aren't getting the same level of commitment and strong leadership that they've received in the past. True, it is more challenging to devote the same personal attention to each employee that we used to. But if we're all so busy that we can't nurture our people, we've lost the magic that led to our success."
>
> —Jennifer Calveta, Chief Operating Officer

Frank paused in his reading to consider what seemed like an important fact. Over the years, Calveta's president and CEO met with every new employee. By 2009, with 1,000 management trainees joining the company in just 12 months, this was no longer possible.

Frank also worried about a rising diversity in the skills of area and account managers. Recent college and business school graduates who entered the business lacked the industry experience of counterparts who had worked their way up through the ranks. Frank worried too that new management wouldn't adopt the company's core service values as easily as more tenured staff. Jennifer was quick to point out that it was becoming harder to find operations managers who fully embraced Antonio's Way. "And if they aren't in sync with Antonio's values within two months on their first job, they probably won't ever be in sync. We certainly can't afford to train it into them. Our training budget is already maxed out."

Preparing for Big Decisions

Frank sat at his desk with a blank sheet of paper. He began a preliminary pencil sketch of a new organizational structure that could accommodate significant growth while preserving the company's core values. He considered the possibility of creating separate business units to accommodate a possible expansion, dividing the sales and operations functions completely, creating additional regions or districts, and eliminating management levels.

Several days later, Frank received a call from Jim Fleer, the CEO of Great Southwest Dining Service (GSD) in Phoenix. Like Calveta, GSD was a privately held firm that served SLFs, and its geographical coverage did not overlap with Calveta's. In 2008 GSD had produced revenues of $1.5 billion; over the past three years, revenue growth was 20% shy of Calveta's level. Fleer told Frank that the three biggest financial partners behind GSD had had a serious falling out, the culmination of tensions that had simmered for years, and they wanted to sell GSD. Great Southwest did not have a reputation for serving gourmet fare, but Calveta was not opposed to the idea of extending his company's market reach into new segments.

After hearing the rest of Fleer's initial approach and agreeing to speak to him again the next morning, Frank did some financial calculations using various growth projections for both GSD and Calveta over the next three years. In the more ambitious scenarios, Frank perceived the opportunity to meet—or at least come close to—the revenue goals his father had set. He then did a back-of-the-envelope evaluation of the debt Calveta would incur: his eyes popped. But he calmed himself by acknowledging that businesses roughly comparable to Calveta often took on heavy debt successfully and that in some situations borrowing was the only path to growth. He'd need to find a supportive banker, but Calveta's balance sheet should be helpful in that quest. Frank decided to speak to Jennifer about the opportunity.

"Those guys from Great Southwest don't have the best reputation," she said. "I know them from years of industry conventions. They've had labor problems and substantial turnover in their management ranks. I don't know what dad would think of them."

Frank was silent as Jennifer left his office. He knew that Jennifer's perceptions of GSD were probably correct. But he was confident that maybe Calveta's best managers could slowly move GSD's culture toward Antonio's Way. Frank then called two friends in the business who operated out west; they said GSD was barely profitable but seemed to have great potential if it could retain its customer accounts. Frank considered what he should say next to Jim Fleer.

Exhibit 1 Selected Financial Information, 2005-2008 (in $ millions unless otherwise noted)

	2008	2007	2006	2005
Operating Results				
Operating revenue	$2,021	$1,845	$1,645	$1,331
Expenses:				
Cost of services rendered and products sold	1,833	1,676	1,508	1,206
Depreciation and amortization	76	75	64	55
Selling and administrative expenses	27	28	25	23
Federal and state income tax	20	15	10	11
Net income	65	51	38	36
Net income as a % of revenue	3.20%	2.80%	2.30%	2.70%
Financial Position				
Current assets	$ 270	$ 253	$ 225	$ 201
Property, plant & equipment	183	174	157	133
Total assets	453	427	382	334
Current liabilities	272	260	228	182
Equity	181	167	154	152

Exhibit 2 Values and Desired Behaviors: Core Elements of Antonio's Way

Values	**Desired Behaviors**
Quality	Food is freshly prepared and to our guests' tastes.
Service	Servers provide exceptional customer experiences at every contact.
Charity	Employees help each other and the less privileged during work hours and in their home lives.
Education	Calveta staff strives for continuous improvement.
Respect	Employees respect each other, our clients, and our guests.
Growth	Staff proactively identifies opportunities for new and/or enhanced revenue streams.
Profitability	Employees actively search for and implement cost-reduction practices and productivity improvements.

Exhibit 3 Employee-Satisfaction Survey Results, 2008

I am satisfied overall as an employee of this organization.	
Satisfied or Very Satisfied	90%
Unsatisfied	10%
I receive feedback that helps me improve my performance.	
Satisfied or Very Satisfied	88%
Unsatisfied	12%
I receive the training I need to do my job well.	
Yes	89%
No	11%
I have adequate opportunities for professional growth in this organization.	
Yes	92%
No	8%
This organization respects its employees.	
Yes	86%
No	14%
In this organization, we maintain very high standards of quality.	
Yes	87%
No	13%
My job is important in accomplishing the mission of the organization.	
Yes	85%
No	15%

Exhibit 4 Executive Organization Chart, June 2009

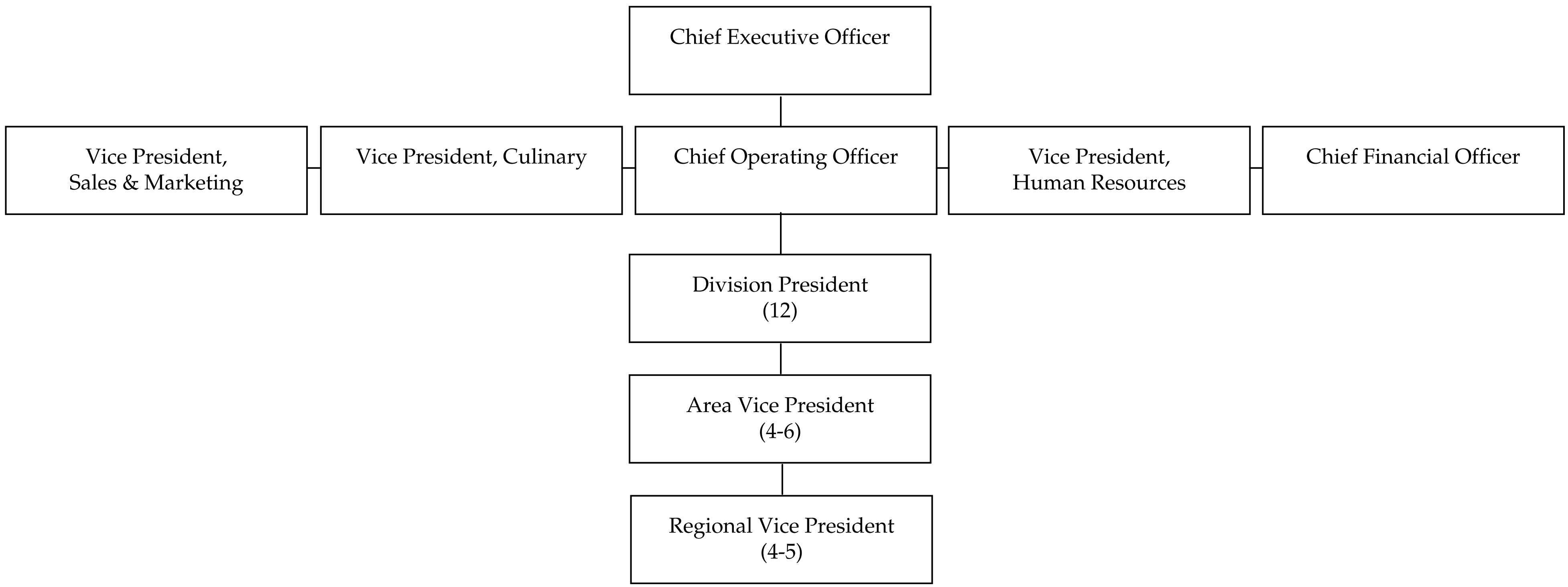
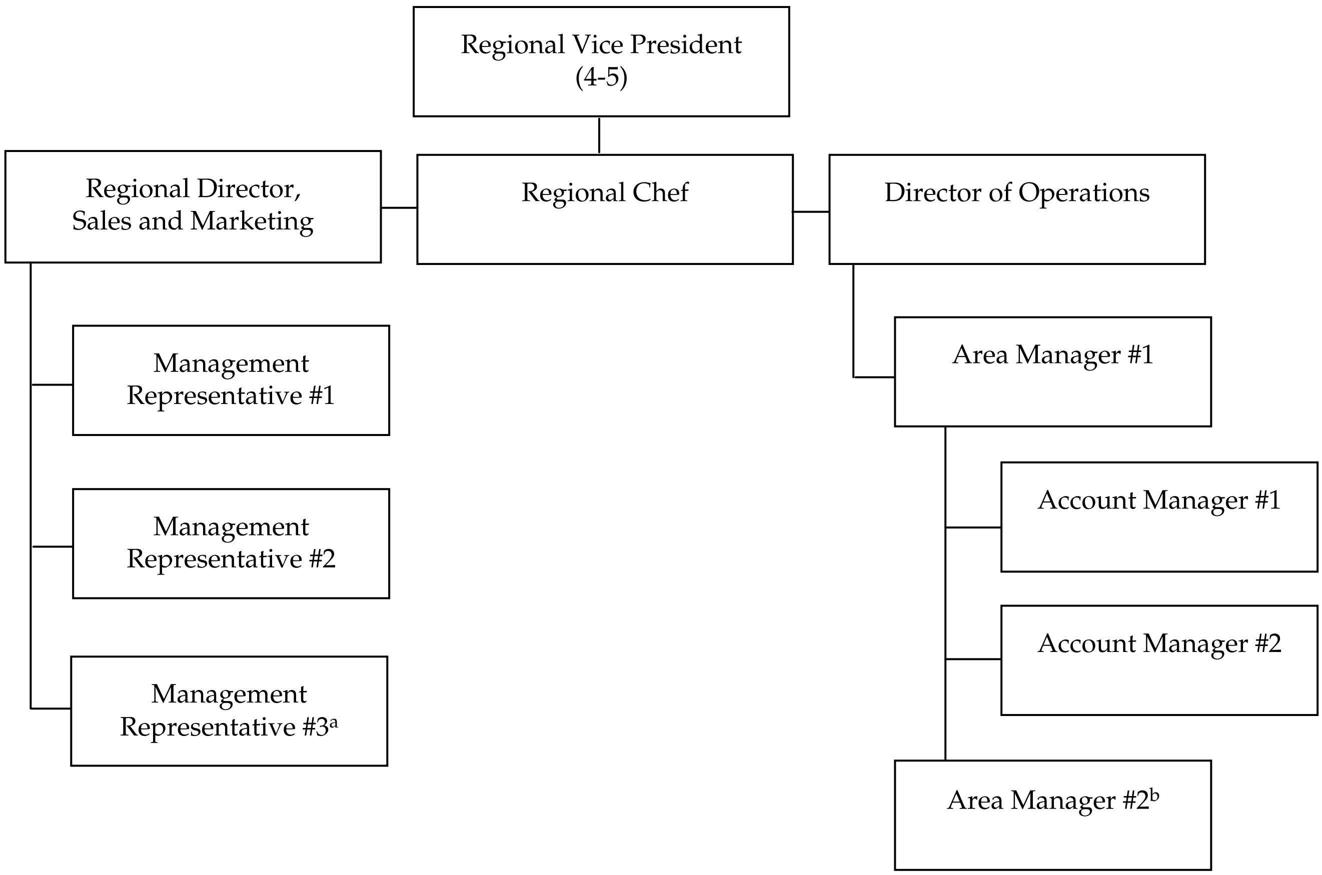


Exhibit 5 Typical Regional Organization, June 2009



[a] Up to 7 or 8 Management Representatives selling to prospective accounts.

[b] Up to 6 Area Managers divided by geographic market.