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Aramark's Entrée

Can the American outsourcer dish it out to its European rivals?

CEO JOE NEUBAUER



Austria.....€4.35	France.....€4.15	Greece.....€3.50	Lebanon.....LL5.500	Netherlands.....€4.50	Spain.....€4.05	United Kingdom.....£2.95
Belgium.....€4.35	Germany.....€5.60	Italy.....€3.80	Luxemburg.....€4.35	Norway.....Kr 40	Switzerland.....SFr 7.50	United States...US \$4.95

Low-hanging fruit: Aramark's Joe Neubauer plans to push abroad.



Sprinklers to sausages

Three isn't a crowd to Aramark in the global race to service just about anything that a company, campus or event needs to have done.

BY ALEXANDRA KIRKMAN

Jack Welch famously said that he did not want General Electric in any business where it couldn't be No. 1 or No. 2. That wisdom needn't apply universally, but in the far-flung enterprise of contracting for food and other services at places of employment and entertainment the world over, scale becomes critical.

So Joseph Neubauer's newly public Aramark is gearing up from its No. 3 position. Based in Philadelphia, Pennsylvania, the concern is big enough—it

had \$7.8 billion in revenue in 2001 and has 200,000 employees. But its global rivals for this outsourcing business, the U.K.'s Compass Group and France's Sodexo Alliance, each have at least 40% more sales. Aramark has a strong spot in the U.S., but even that is under attack, with Compass's announced acquisition of Bon Appétit, a caterer to colleges on the West Coast of the U.S.

Neubauer, 60, who sailed to America as an immigrant from Israel in 1956, will take the fight abroad, too. Aramark already has clients in 17 nations, and hav-

ing raised \$650 million in an initial public offering in December (despite a stone-cold IPO market), it has the means.

Symbolic of Neubauer's international bent, perhaps, is Ellis Island, in New York Harbor, where for many years immigrants to the U.S. landed and went through processing. It had been closed two years when he emigrated, but he recalls seeing it as his boat docked. Forty years later he was married on the island, now a park, in the first such ceremony there. He had dibs on the head of the line: Aramark handles Ellis Island's con-

ERIC O'CONNELL FOR FORBES

cessions, audio tours and special-event services for the U.S. government.

Today only 14% of Aramark's revenue comes from overseas. Since outsourcing took off earlier in the U.S., the opportunity for growth is greater overseas. "In the U.S., we thought for a while that if you could manage something you could manage everything, but not anymore," says Neubauer. "The idea now is: *You* do what you do best, *we'll* do what we do best, and *we'll both* do better by satisfying the consumer." So his industry is a battleground everywhere, one that's worth \$340 billion by J.P. Morgan's estimate.

Since leading a management buyout in 1984, Neubauer has overseen Aramark's growth from a cafeteria outfit to a diversified service provider with a \$5 billion market value on the New York Stock Exchange. Operationally, Aramark is impressive relative to its peers: With \$177 million in aftertax income last year, Aramark's net margin was 2.3%, compared with 1.7% for Compass and 1.2% for Sodexo Alliance. Aramark's return on assets is even more favorable: In its latest fiscal year it was 5.5%, compared with 2.8% for Compass and 1.8% for Sodexo. Yet Aramark's stock, at \$26, trades at only 24 times estimated 2002 earnings, below its rivals.

One key for Aramark is a secondary business: providing company uniforms. Its big rivals aren't in this line, which yields better margins and brings in other business. Aramark also has an education-services and day-care unit, but food and building services is 75% of revenues. It handles concessions for 45 professional sports teams in the U.S. And it makes deliveries—to offshore drilling rigs in the North Sea and the Gulf of Mexico for such clients as British Petroleum. The U.S. government is another big customer: Aramark provides lodging and tours not only to Ellis Island but to such U.S. national parks as Denali National Park in Alaska (home of Mount McKinley). And it even dusts off the dinosaur bones at the American Museum of Natural History in New York City.

That last prosaic task both masks and exemplifies the vital role that outsourcers like Aramark play. When its custodians noticed how unusually dusty the dinosaur area was getting, Aramark's technicians traced the problem to air flow from the cooling system and rejiggered it.

The same team assessed the entire museum (150,000 square meters of lighting, heating, electrical and ventilation systems) and came up with a seven-year plan detailing when the equipment would have to be replaced and how much it would cost annually. The museum uses this as a basis for its capital campaigns.

"We've been with customers 20, 30, 40 years on basically a handshake—that's how we operate with most of our clients," says Neubauer. "That said, we have to prove our mettle every day." Doing so helps Aramark extend its franchise. Baylor University in Texas has been a food customer for 43 years; then in 2000 it handed facilities-management over to Aramark.

Some requests are offbeat. Besides providing food service and grounds-keeping for the 900,000 square meters of lawn space at the headquarters of Electronic Data Systems (EDS) in Plano, Texas, Aramark also maintains a herd of buffalo and longhorn steers there—part of the landscape since Ross Perot founded the company in 1962. At St. John's University in Queens in New York City, most of whose 14,000 students commute, Aramark golf carts buzz around selling snacks and beverages in the parking lots and in front of campus buildings.

Neubauer made a big bet on service extension when he bought the institutional side of ServiceMaster International's business for \$800 million in cash in November. Servicemaster's cleaning and lawn-care book extended outside the U.S. and Canada to licensing arrangements with local operators in 25 other countries. In a flash, Aramark's facilities-care roster leaped from 350 clients to 1,800 and made Aramark the No. 1 facilities-management company in the U.S.

"With ServiceMaster, it may well be that Aramark can build out its platform

in Europe with facilities management more quickly than from catering alone," says Nick Bevan, an analyst with Deutsche Bank in London. That business is vital: In January Compass inked a ten-year contract with ChevronTexaco that is worth at least \$200 million a year, much of it for building maintenance and groundskeeping. "More and more contracts are coming bundled," says Bevan.

But catering can be a good foundation. "We're not the smartest people in the world, but at the scale that we work we've probably encountered every problem there is in the system," says Neubauer, who's spent the past 23 years at Aramark. "If you serve a banquet for 3,000 people, you don't just show up in the morning and start cooking. There's a playbook, just like [one used by an American] football team." An Olympics regular, Aramark in 2000 served 1.2 million meals to 10,000 athletes plus staff at the Summer Games in Sydney.

On campus Aramark customizes to suit such longtime customers as New York University. Not long ago it opened a kosher kitchen that serves 300 meals a day. The University of Virginia is another mainstay. There food service led to child care and later to uniforms, and the latest 15-year contract renewal will see the unveiling of a new-look dining hall in 2004. With more students requesting healthful alternatives to the notorious cafeteria fare, Aramark will offer a "fresh foods" concept. Students can get pasta and fresh sauce made to order and also salads, such as a Caesar with chicken that is grilled on the spot.

Globally, there could be room for a strong No. 3 if that is what Aramark must remain. "There's still a huge untapped market out there—there's no reason to believe that there isn't enough share to go around," says Amanda Tepper, who covers Aramark for J.P. Morgan in New York (a lead underwriter for the company's IPO).

Compass, the world's largest catering company, is No. 1 in the food-service business in the U.K., Germany and Spain, and Sodexo has the top spot in France and Scandinavia. Both companies have also been engaged in the rapid consolidation of the industry.

Founded as a ship supply company in Marseille in 1895, Sodexo shifted to food service in 1966 with a single corporate dining room. Bill Fishman, the co-

► By the numbers
Literally of the scale to "feed an army."

1 billion+ Cups of coffee served by Aramark each year in the U.S.

55 Number of years Exxon has been a client of Aramark.

9,960 Salmon kebabs served daily by Aramark at the Sydney 2000 Olympic games.

founder of ARA Services, which later became Aramark, coaxed Pierre Bellon, the CEO of Sodexho, to visit the U.S. for a few weeks in 1970; he hoped to buy the Frenchman's company. But as a result of the visit, Bellon found that he liked the new line of business even more and went on expanding it. In 1995 Sodexho acquired Gardner Merchant, a caterer in the U.K., and in 2001 bagged Marriott Management Services. Sodexho now operates in 72 countries and employs more than 300,000 people.

Compass also boasts a long past and an explosive present. Founded in 1941 as Factory Canteens to feed munitions workers in the U.K., it was acquired by Grand Metropolitan in the 1960s. The company was relaunched as Compass Services in 1984 and listed on the London Stock Exchange in 1988. In 1998 Compass won the first global food-service contract with Philips to feed 270,000 of its staff. Thanks to aggressive acquisitions, Compass is active in more than 90 countries.

Aramark still finds low-hanging fruit. German sports spectators used to have to wait in long lines at the stadium concession counter. Aramark came along, and now Heinrich can get a bratwurst and beer at his seat in stadiums from Hamburg to Nuremberg. Concession sales in Germany: \$14 million. And there's plenty of room to grow: only 20% of the \$70 million German concessions market is outsourced.

A big obstacle for Aramark is the lack of partnership and acquisition opportunities in Europe. Like Compass and Sodexho, Aramark has tried to partner with local operators in the hope of eventually buying the company (as Aramark did last August with its Korean affiliate, Arakor). But the pickings are slim. "There is a lack of decent-size acquisition opportunities in catering—Compass and Sodexho have mopped up most of them," says Bevan.

One remaining opportunity is Elior (market cap: \$805 million), a French concessionaire with revenue in 2001 of \$1.8 billion and sizable concession operations, mainly roadside and airport snack bars. Elior's home base would give Aramark a foothold in Europe's largest market, where it is noticeably absent, and an increased presence in Spain. But if Elior

FIRST, VENDING MACHINES THE ODYSSEY OF TODAY'S ARAMARK

1936:

The future Aramark's cofounder Davre Davidson begins



putting peanut vending machines in factories and offices in California. About the same time, William Fishman, the other cofounder, begins a similar business in the U.S. Midwest.

Early 1940s:

Their mutual customer Douglas Aircraft brings Davidson and Fishman together during



WWII. They become friends. Each offers food service as well as vending by the war's end.

1959: Davidson and Fishman merge

their operations and name it Automatic Retailers of America (ARA).



1960: ARA

goes public, begins international expansion.

1961: Needing a presence on the East Coast, ARA acquires Slater, of Philadelphia, Pennsylvania, the largest food-service business in the U.S.



Mid-1960s: With attendance at sporting events booming, ARA

enters the leisure-services market. In 1968 it manages food service at its first Olympic Games, in Mexico City.

1984: Fending off

a hostile takeover bid, Davidson, Fishman and Joe Neubauer engineer a management buyout.



1994: ARA is now Aramark.

2001:

Company trades publicly again.




goes on the block, Bevan says, "the battle will be intense with Compass and Sodexho."

In Asia, besides Arakor in Korea, Aramark has 27% of AIM Services, one of Japan's leading food-service providers with \$450 million in sales last year. (Aramark, partners with AIM for 25 years, was the first American food-service company to operate in Japan.) But Compass isn't far behind: In December it acquired Seiyo Food Systems, a company listed on the Tokyo Stock Exchange that is one of AIM's top competitors.

Neubauer's best hope may lie in the forever promising and always perilous Latin America. Tepper says, "Aramark could get a toehold in Italy, and that would be nice, but frankly Italy would never be as big as Brazil could be for them."

"South America is an area where we will continue to expand our presence very quickly," says John Zillmer, Aramark's president of food and support services. "We're looking for opportunities in emerging markets on a very active basis." Last year the company signed a joint venture with a Chilean food-service company, Central de Restaurantes. Though Compass already has a joint venture in Brazil with a leading food-service provider, the Latin American market is completely wide open compared with Europe—with relatively little outsourcing. According to J.P. Morgan, the Latin American contract-catering market is worth \$22 billion, with only \$4 billion outsourced.

Can Aramark weather the economic uncertainties that come along with doing business in South America? One thing is certain: Grabbing market share will come a lot cheaper in Latin America than in Europe.

A potential advantage for Aramark in expanding abroad is its use of stock options as incentives, a practice that is not as widespread in Europe as in the U.S. (At least, this will help once the scandal that taints option plans lifts.) When Neubauer took the helm at Aramark in 1984, 65 managers were given stock options; now there are 4,000 managers in the stock-ownership plan. "One of my favorite sayings is 'The best manure on the farm is the owner's footprint,'" he says. "It's the best incentive in the service business." 

"We're not the smartest people, but we've encountered it all."