

BUSINESS PROFILE — MAINTENANCE SERVICES

RECOMMENDATION

Building maintenance service is one of the fastest growing industries in the United States today. The growth of the service sector of the economy, the increasing urban concentration, and an ever-growing tendency for office building owners to "contract out" their office building cleaning needs combine to support a current industry growth rate of 15 percent. The attractiveness of this market and its relative ease of entry have caused a high level of competition among building maintenance contractors. Firms obtain business largely on the basis of price competition in bidding, though an established reputation for reliability is also important. These industry characteristics, along with the labor intensive nature of building maintenance services, underscore the importance of managerial skills to success.

The building maintenance industry employs a large number of minority workers, and there exists a growing number of such persons with experience in supervisory positions. An experienced maintenance crew supervisor, who acquires independently or through franchiser training practical skill in cost estimating, bidding, and employee management, can earn a moderate return on his time and invested capital in the building maintenance service business.

DESCRIPTION OF THE INDUSTRY

A. Identification

Building maintenance services are included in Standard Industrial Classification (SIC) 7349, Miscellaneous Services to Dwellings and other Buildings, described as:

Establishments primarily engaged in furnishing, to dwellings and other buildings, specialized services not elsewhere classified, such as janitorial services, floor waxing, office cleaning.

Building maintenance contracting is a service-oriented activity providing janitorial and related services to homes, small businesses, commercial office buildings, hospitals, apartment houses, government offices, factories, hotels, motels, schools, etc. Services provided include such things as:

- Dusting, dustmopping of floor areas.
- Other floor cleaning, including vacuuming, floor waxing and buffing, wet mopping, and stripping and machine scrubbing.
- Toilet room cleaning.
- Cleaning of stairways and landings, as necessary.
- Cleaning of walls, woodwork and partitions.
- Cleaning of building exterior.
- Window washing, as necessary.

Sample building maintenance specifications, detailing the required services, are attached as appendix A of this report.

In addition to those services listed above, a building maintenance contractor may provide what is known as the "total maintenance concept." This includes the provision of heating, air conditioning, and electrical engineers, painters, carpenters, yardmen, and garage personnel. Other operations handled under such a contract might include elevator operators and dispatchers, guards and lobby dispatchers, and specialized personnel who might be required by the particular building or institution.

There is a decided trend toward this total concept form of building maintenance. If a building services contractor is not himself

equipped to handle all the above-mentioned services, he may contract with the building owner to provide them, then subcontract those services which he himself is not equipped to perform. This tends to make the building maintenance contractor more attractive to his prospective client. A building owner or manager is interested in receiving the best maintenance at the lowest possible cost with the least visibility. This is best provided by the one contractor who renders all the services

the building. In the total concept plan, the contractor in effect serves as the "middle man," presenting the building owner with a completed product - a clean and efficiently run building.

Characteristics

1. Nature of the Product

The building maintenance contractor serves building owners and/or managers. He provides these clients with a continuing service - a clean and well run building. The reliability of the building service contractor is being purchased as well as his cleaning ability - the assurance that the work will, in fact, be performed. Thus, the product can actually be broken down into two components: quantity and quality of cleaning and other building maintenance functions and the assurance that those functions will, in fact, be performed.

Building maintenance services are usually provided to building owners and managers on a contract basis. Contracts are generally for 1 year, with either party entitled to terminate upon 30 days' notice. Since building maintenance and janitorial services are performed on a continuing basis, the contractual system is the most efficient manner to insure the provision of these services. A sample Professional Building Maintenance Agreement is attached as appendix B.

2. Nature of the Customer

The customer of a building services contractor is the building owner or manager. As discussed above, the client must have the services provided by the building contractor - that is, he must have a clean, serviceable building. However, in order to achieve this goal, he may have the option of: (1) doing his own janitorial and other maintenance work; or (2) contracting such

work to the building services. Which of these options will be chosen depends upon the size and complexity of the building to be maintained and the costs of performing the maintenance work with in-house staff compared to contracting out the work.

Building owners are finding - to a greater and greater degree - that it is more economical for them to contract out their janitorial and building maintenance functions. A firm devoted to maintenance work can afford to use the more advanced equipment being developed and can rely more heavily on specialization of labor. The result is that the contracting firm can usually do a better job for less money. Thus, a building owner will generally include the cost of a building maintenance contractor when computing the overall cost of the building. On an average, if a commercial office building rents space at \$6.50 per square foot, it will assume that maintenance costs will be \$.50 per square foot per year.

The customer will choose a building services contractor on the following basis:

- a) the contractor's ability to provide quality service;
- b) the contractor's reliability to assure that such services will, in fact, be provided; and
- c) the cost which will be required for these services.

On the other hand, how does the building services contractor decide for whose work he will bid? In undertaking market analysis of potential customers, the building services contractor will take into account such things as: the number of commercial, government, or other serviceable buildings or businesses in his market area; the amount, types, and degree of completion of new construction; the amount of potential business already accounted for; the possibility of providing services to those buildings already accounted for at a less expensive rate (due to the new contractor's lower overhead, lower salary requirement, or greater efficiency), etc.

The number and types of customers of a building services contractor will also depend upon certain characteristics of his own operation. These might include: number of employees on the payroll at a given time; number of potential employees in the market areas; amount of equipment on hand or available; capital required for expansion and possibility of obtaining it.

Major locational determinants

include the location of potential customers in relation to the dwellings of the contractor's employees and the location of the customer with respect to the contractor's place of business and storage supply. The contractor must decide if a building is, for example, so distant from the location of the cleaning equipment and the employees needed to do the cleaning that it is impractical for him to service it.

All of these factors are included in the contractor's estimating calculations. Cost estimating is one of the major skills required of the building services entrepreneur. He must accurately measure the above-listed factors, decide what weight to give each, and translate these decisions into a price which will be competitive and which will at the same time provide him with an acceptable profit level. These estimating procedures are discussed in greater detail below. An example of one possible estimating procedure is attached as appendix C of this report.

3. Technology

Building services contracting has traditionally been a labor intensive business. The main expense item of any contractor is his payroll. In a sense, the contractor is merely a "labor broker" who handles personnel problems for the building owner.

The new or prospective entrepreneur is likely to need a wide range of skills, preferably gained by experience as he develops an enterprise in the building maintenance field. He will probably do much (if not all) of the actual cleaning work at first, as well as the estimating of new jobs and the selling of his services. When the operation expands, the entrepreneur, while still cleaning, estimating, and selling, will have to train his new employees. In addition, growth will bring problems of accounting, inventory control, purchasing procedures. He will have to have a relatively high degree of proficiency to operate a successful establishment.

Once a business has become established, the entrepreneur of a building maintenance service can usually take out as profit 5 percent of the net receipts of the business, according to informed industry sources. The percentage will vary, of course, depending on:

- a) the accuracy of entrepreneur's estimating procedures. If the entrepreneur does not estimate properly,

profits built into business contracts will be consumed by costs overrun.

b) the extent of the competition on the contract. In some instances the entrepreneur will cut profit margins in an effort to win contracts.

c) the amount the entrepreneur wishes to reinvest in the establishment. This in turn will depend on the desired rate of growth.

The employees of a building services contractor are, for the most part, unskilled. (The major exceptions to this are window cleaners and any engineers provided.) Any training received is usually on-the-job, although some larger contractors are beginning to use classes to supplement this training.

Most employees used by the building services contractor are women, who are used for all but the heavy work. The majority of the employees in this field, particularly in the larger urban areas, are minority group members. Since most of building contract work is accomplished during the nighttime hours, it provides an excellent "moonlighting" job and a source of income for those with little formal training or education.

Wages rates for employees hover around the minimum wage rates applicable. In larger urban areas, wages are usually somewhat higher. In Washington, D.C., for example, with a minimum wage of \$1.65 per hour, the wages of building service employees range from \$1.75 to \$2 per hour, with \$1.90 per hour the average rate. Window cleaners' wages are higher, often ranging from \$4 to \$4.50 per hour and up.

In some locations, wage rates and availability of labor may be somewhat affected by unionization. (The building services industry is covered by the Building Service Employee Union, as well as others for the more specialized employees.) This is mainly true in highly industrialized towns which are in any case predominantly union. Elsewhere, the moonlighting nature of the jobs and rapid turnover among the employees have prevented unionization from taking hold.

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