

Part II

Business Profile: Maintenance Problems

One of the main problems of a building services contractor is the high turnover rate among his employees. Industry sources indicate that most remain on the job for a period of 2 to 6 months. This is an annual turnover rate of 200 to 600 percent. This situation, again due to the moonlighting nature of the job, has caused a premium to be placed on reliability by the building services employer.

The high turnover rate has also procedures for the potential building services company. Many job application forms now contain rather pointed questions involving: the reason the applicant desires work; whether or not he is buying a home; how long he has been on his present job, etc. The whole object of such screening is for the contractor to acquire a "solid" employee who will have an interest in working and who will stay on the job. Equipment required in the building services contractor field has been relatively basic in the past. A sample inventory of equipment is:

Sweeper, Buffer, Brushes, Floor pads, Extension cords, Mop bucket-round-oval, Wringer, Mop, Dust mop handle, Dustpan, Trash containers, Water pails, Pushbroom, Strawbroom, Rubber gloves, Uniforms, Smocks, Shirts, Ammonia, Bowl cleaner, Cleanser, Disinfectant, Furniture polish, Liquid detergent, Floor finish, Plastic bags, Sanitary napkins - Toilet seat covers - Paper towels - Recently, technological advances and greater sophistication have affected the equipment used by the building services contractor. In addition to the list of basic items reproduced above, such machines as institutional vacuums, high pressure cleaners, and power sweepers with centrifugal clutch are now available. These technological advances have affected profitability positively and have somewhat reduced labor requirements in the industry.

One major piece of equipment used by the building services contractor is a truck. The new entrepreneur may at first transport machines and supplies in a car or station wagon. Usually, however, the enterprise will develop to the point where one or more trucks are needed. In a survey performed by Building Services Contractor, the average number of trucks in operation per firm surveyed was 4.3.

The same survey noted that 92 percent of building services contractors keep a warehouse of expendable cleaning supplies, with the average firm keeping 54 days of normal consumption on hand. Being able to keep such stock on hand is a problem to be dealt with by any new entrepreneur.

There are definite economies of scale accruing to a building services contractor. These usually begin at annual gross revenues of \$500,000 and include savings on supplies, which can then be purchased directly from the manufacturer rather than from the distributor, savings on machines (with fewer having to be purchased for each additional \$100,000 of income), and easing of credit binds for the growing business.

4. Competition

The largest form of competition the building services contractor has to face outside of his own industry is in the form of buildings which do their own in-house maintenance. This alternative is becoming more and more rare, however, as building administrators realize the advantage of contracting with a

maintenance company. The building administrator is relieved of the worry of hiring and firing of maintenance employees, can rely on the contractor's use of more specialized labor, obtains the use of more advanced and complex equipment, and has no inventory problems in this area.

The growing market for the building maintenance services industry does not insure high margins and ease in securing work. However, a great many small contractors in this field assure intensive bidding competition, with the emphasis on shaving prices. Cost of maintenance is a primary determining factor in the choice of a building services contractor, and the building owner will, reputation for quality and reliability being equal, choose the contractor who comes in with the lowest bid for the job required. In this type of price competition, the large contractor has some advantages, the small contractor others. The large contractor may be able to provide equipment and supplies at a less costly rate than his smaller competitor because of economies of scale; the cost of "gearing up" to do a job, especially a large one, may be lower for him. On the other hand, the small contractor has lower overhead, due to lower direct expenses and less equipment, and may be willing to have a smaller profit margin for the sake of getting the job and developing his reputation.

The problem of estimating must again be stressed. The small contractor, and especially the new entrepreneur, must be particularly careful in his estimating procedures. A net deficit is likely to result from inaccurate decisions about costs and personnel requirements, and although a contractor may be willing to reduce his profit margin, maintaining a loss is hardly a sound business practice.

5. Ease of Entry

The ease of entry into building services contracting is attested to by the large number of firms beginning operation each year. There are no licensing requirements in this industry, and many contractors begin with no more than experience in the cleaning field, determination, and a small amount of capital. Because many businesses begin with no more than the owner and operator (and perhaps one other

part-time employee), qualified employees do not present an immediate problem for the prospective entrepreneur. At this stage, no office or storage space is required, and a new enterprise can be operated from the entrepreneur's home. Between \$1,200 and \$1,500 monthly contracts may be sufficient to begin an operation if accurate cost estimation and time allocations have been made. The failure rate of building services contractors is, according to industry sources, higher than the combined rate for all businesses. Some of the reasons for failure cited by trade authorities include: overextension, resulting in inability to complete jobs properly and to the satisfaction of the client; poor estimating procedures, resulting in cost overruns and unprofitable contracts; lack of managerial experience, resulting in higher than usual labor turnover; competitive weakness because of lack of established reputation; and general administrative difficulties.

In addition, industry sources indicate that experience in the building maintenance field is almost essential to the success of an enterprise. The majority of contractors interviewed stated that they had worked for 6 months to 2 years in the field before attempting to branch out into independent operation, and many noted that it was this early experience that helped to insure their success.

6. Financing

It is difficult to estimate the capital requirements of a new or prospective building services contractor. Industry sources indicate that a rough rule of thumb is: have available capital in the amount of three times the expected first month's gross income. For example, an entrepreneur who has secured a contract that will produce monthly gross receipts of \$1,500 will be able to begin operations with \$4,500. This amount will cover the cost of supplies, salary for the entrepreneur and any employees he might require, and working capital requirements needed to carry him through the timelag in payment for past services.

There are no special programs or sources of capital for establishing a building services contractor. The Small Business Administration, however, has

been quite active in providing regular business and economic opportunity loans in this field, a large portion of which have been to minority entrepreneurs.

Another form of organization and source of capitalization that is becoming increasingly popular in this field is the franchise arrangement. One of the largest franchise operations provides such assistance as training programs, managerial assistance, continuing counseling, working equipment, supplies, advertising and promotions for a nominal fixed fee.

7. Profitability

As noted above, the reasonably successful building service contractor can expect an average of about 5 percent profit on net receipts. The industry can be expected to grow at about 15 percent per annum.

Factors tending to decrease profitability are: inaccurate cost

estimation; the high labor turnover, with resultant costs; frequent theft of equipment and supplies; and overextension of operation.

8. Dependence on Outside Factors

The field of business maintenance contracting is less subject to the effects of economic conditions than are many industries. Building cleaning and maintenance needs exist irrespective of business cycles, and purchasers of these services usually think of them as fixed costs. One effect of the business cycle, however, is the decrease in construction during times of recession, in turn causing a decrease (or, more accurately, a less rapid increase) in the contractor's potential business. The availability of credit would most likely affect the building services contractor less than other areas of the economy.

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