

IBISWorld Procurement Report: 50796464 Janitorial Services

This report was provided to
Government of The Cayman Islands (2126186416)
by IBISWorld on 22 May 2017 in accordance with their license agreement with IBISWorld

Deonta Smith
December 2016



About this Report

This report is intended to assist buyers of janitorial services. Services are most commonly conducted for buyers operating in educational, municipal, commercial and industrial facilities. Janitorial services are provided on a contract basis, though the frequency at which they are provided (e.g. daily or weekly) varies. The services offered include building and office cleaning, deodorizing, restaurant kitchen cleaning, service station cleaning and degreasing, as well as window cleaning.

Table of Contents

2 At a Glance	10 Total Cost of Ownership	18 Switching Cost
3 Executive Summary	11 Product Specialization	19 Purchasing Process
4 Price Environment	11 Related Goods	19 Buying Basics
4 Price Fundamentals	12 Substitute Goods	19 Buying Lead Time
4 Benchmark Price	12 Regulation	19 Selection Process
5 Pricing Model	13 Quality Control	19 Buying-Decision Scorecard
6 Price Drivers	14 Supply Chain & Vendors	20 Key RFP Elements
6 Input Cost Drivers	14 Supply Chain Dynamics	22 Negotiation Questions
6 External Demand Drivers	14 Supply Chain Risk	23 Buyer Power Score Components
8 Recent Price Trend	15 Geographic Locations	24 Jargon & Glossary
9 Price Forecast	15 Imports	
10 Product Characteristics	15 Competitive Environment	
10 Product Life Cycle	15 Market Share Concentration	
	15 Vendor Company Types	
	18 Market Profitability	

At a Glance

Recent Price

1.2%

The price of janitorial services has been increasing steadily during the three years to 2016 due to strengthened demand stemming from growth in the number of businesses and a reduction in office vacancies

2013-2016

Forecast Price

1.1%

Service prices are expected to rise further through 2019 on the back of continued growth in demand, as well as rising soap and cleaning compound prices.

2016-2019

Growth percentages represent annualized data.

Market Characteristics

Availability of Substitutes

LOW

Market Share Concentration

LOW

Product Specialization

MEDIUM

Switching Costs

LOW

Market Risk

Recent Demand Driver Volatility

MEDIUM

Recent Price Volatility

LOW

Vendor Financial Risk

LOW

Supply Chain Risk

LOW

Buyer Power Score

4.0

See p. 23 for details.

Benchmark Price

\$650

per month

Key Price Drivers

Price of soap and cleaning compounds

Average wages – janitorial services

Office rental vacancy

Number of businesses

Value of private nonresidential construction

Major Vendors

Aramark Corporation <5%

ISS World <5%

ABM Industries Inc. <5%

The ServiceMaster Company <5%

UGL Ltd. <5%

Vendor Cost Benchmarks



Arrow indicates trend during past year and next year.

Executive Summary

Buyer Power Score



The IBISWorld Buyer Power Score is a weighted score based on a number of quantitative and qualitative criteria associated with buying a product or service. The score is calculated between 1 and 5, with 1

signifying low buyer power and 5 meaning high buyer power. The more power a buyer has the greater leverage they have to get lower prices and better contract terms. For more information see page 23.

Executive Summary

The market for janitorial services has a buyer power score of 4.0 out of 5, which indicates mixed negotiation conditions for buyers. This market is highly competitive, wherein the price of services has been increasing at a slow and steady rate from 2013 to 2016.

During the past three years, demand for janitorial services has been growing. Rising demand has encouraged new janitorial service firms to take advantage of the market's low barriers to entry, resulting in more than 890,000 suppliers offering market services. Because most janitorial service firms are nonemployers that compete on the basis of price, the continual entrance of new players increases price competition in the market, boosting buyer power. Moreover, the wide geographic distribution of suppliers provides buyers with access to a number of independent operators and janitorial service franchisees that can suit their needs.

However, a moderate level of specialization works against buyer power.

Buyers that require specialized services generally have less leverage because fewer companies specialize in niche markets (e.g. healthcare) compared with those that provide more generalized services. Thus, niche buyers typically only source from large, experienced janitorial firms, which decreases their supplier options and negotiation power.

Rising service prices also negatively influence buyer power. The price of janitorial services has been rising during the three years to 2016 on the back of expanding demand stemming from the rising nonresidential construction levels and strengthening business activity. In the three years to 2019, demand for janitorial services will remain robust as nonresidential construction activity continues to strengthen, encouraging suppliers to raise prices. Suppliers will also raise service prices to recoup purchase costs associated with the rising price of soap and cleaning compounds.

Price Environment

Price Summary

Three-year Price Trend

1.2%

Three-year Price Forecast

1.1%

- Factor is a threat to buyer
- Factor should be investigated
- Factor is not a threat to buyer

Producer Price Index – Price of Janitorial Services vs. Sector



SOURCE: IBISWorld

Price Fundamentals

Average Price	\$650 per month
Price Range	WIDE: \$100 to \$5,000 per month
Key Pricing Factors	Type and depth of cleaning Size of workspace Frequency of Cleaning Geographic location

Benchmark Price

In 2016, the average rate for janitorial services is estimated at \$650 per month. However, service prices range widely from \$100 to \$5,000 based on the type and depth of cleaning, size of the workspace being cleaned, cleaning frequency and geographic location.

The type of cleaning performed has the greatest impact on janitorial service prices. Standard cleaning services performed for small office spaces with only a few employees are priced at the lower end of the spectrum. These services typically consist of only vacuuming and waste collection, which are performed with minimal costs incurred by the supplier. However, the inclusion of special services (often performed in larger office spaces) will prompt suppliers to charge more for janitorial services. Special services include deep

cleaning work such as floor waxing and polishing, exterior window cleaning, exterior power washing and carpet extracting. Because these services require more equipment, cleaning compounds, and time and labor to complete, suppliers charge buyers more for these services.

The size of the workspace also determines the amount buyers will pay for janitorial services. Lower rates are offered to buyers with smaller workspaces due to the fact that fewer materials and less labor are required to complete standard services. Buyers with large office spaces can expect to pay higher rates ranging from \$800 to several thousand dollars per month. Buyers with large offices are generally charged a higher monthly price than small offices because more labor and materials are consumed when cleaning spaces with a larger square footage.

Price Environment

Price Fundamentals continued

The frequency of cleaning also impacts the price buyers pay for janitorial services. There are a number service frequency options available to the buyer, including having services performed on a daily basis or three to four times per week. A company that has its floors vacuumed once per week will be charged a lower rate than a laboratory that needs a variety of surfaces cleaned on a daily basis. The difference in price is due to the higher amount of materials consumed in providing service more frequently.

Geographic location is another key determinant of price. Regardless of company size, price varies depending on where the services are performed because wage rates vary by city and state. Areas with a higher concentration of commercial business activity, such as California and New York, will have higher wages, causing suppliers to charge more for janitorial services.

Pricing Model

Janitorial service providers typically provide two different types of contracts: fixed pricing and time and materials pricing. These pricing models are used for work that is being completed on a routine basis. Fixed-price arrangements mean that one price is paid for a set service. For example, a client may pay \$100 per month for standard services (e.g. dusting, vacuuming and the emptying of trash cans). The services include all the costs associated with cleaning supplies. Under a time and materials pricing model, the client agrees to pay for all associated costs, including labor and supplies (which are variable), plus an allowance for profit. It is important to note that time and material contracts are typically short-term service agreements.

In addition to routine work, janitorial companies offer tag work, or extra service work. Tag work is generally provided on an as-needed basis using a time and

Geographic Pricing

City	Average Price (\$)	Difference from National Average (\$)
Atlanta, GA	623	-27
Boston, MA	870	+220
Charlotte, NC	579	-71
Chicago, IL	766	+116
Dallas-Fort Worth, TX	550	-100
Denver, CO	652	+2
Detroit, MI	689	+39
Houston, TX	567	-83
Los Angeles, CA	729	+77
Miami, FL	569	-81
Minneapolis, MN	721	+71
New York, NY	854	+204
Philadelphia, PA	709	+59
Phoenix, AZ	618	-32
Riverside, CA	743	+93
San Diego, CA	737	+87
San Francisco, CA	795	+145
Seattle, WA	811	+161
Tampa, FL	595	-55
Washington, DC	704	+54

SOURCE: US Bureau of Labor Statistics

materials pricing model. For example, an office's windows might need to be cleaned based on varying time frames. These services are generally negotiated at the time they are needed, or the prices are predetermined and stipulated in the contract.

Most contracts are fixed-price arrangements that are signed on one- to three-year terms. Within these contracts, buyers can agree to pay either pay the value of the contract upfront or have payments amortized over the life of the term. Fixed-price contracts reduce the risk for buyers because short-term fluctuations in the supplier's purchases costs do not necessarily flow through to the monthly bill. Alternatively, buyers that purchase from a service provider using a time and materials model may feel the effects of short-term price

Price Environment

Price Fundamentals continued

fluctuations for cleaning agents or other inputs. Profit margins on contracts are generally inversely proportional to the size of the contract, meaning that large-scale contracts are more price competitive than small or stand-alone

agreements. Because large contracts offer the lowest profit margin for janitorial service providers, increasing the number of services or office locations included in each contract can reduce the overall cost for buyers.

Price Drivers

Price Driver
Volatility Level

MEDIUM

Price driver volatility for janitorial services has been moderate in the three years to 2016. The number of businesses in the United States, office rental vacancy rate and value of private nonresidential construction are key drivers of demand for janitorial services. Significant volatility in the value of private nonresidential construction in the past three years has been boosting average driver volatility. Conversely, input cost and the remaining demand drivers have remained relatively stable, keeping driver volatility moderate rather than high. Fortunately for buyers, price competition among vendors has helped stabilize market prices.

Input Cost Drivers

Price of soap and cleaning compounds: Janitorial service providers make a variety of purchases, which account for an estimated 19.1% of revenue in 2016. Soaps and cleaning compounds are among the key materials needed to provide janitorial services. In particular, soaps, degreasers and bleaches are used to clean floors, countertops, desks, windows and carpeting. In the three years to 2016, the price of soaps and cleaning compounds has been growing at an estimated annualized rate of 0.5% driven by fluctuations in the price of raw chemical materials. IBISWorld forecasts soap and detergent prices to continue trending upward at an average annual rate of 1.2% from 2016 to 2019. Rising soap and cleaning compound prices increase operating costs for suppliers, which they

pass to buyers in the form of higher prices for janitorial services.

Average wages – janitorial services:

Wages and employee benefits make up the largest expense for janitorial service providers, accounting for an estimated 52.3% of revenue in 2016. The unskilled nature of janitorial work means that service providers have strong control over the cost of labor. The average wage for janitors has been low in the three years to 2016, rising at a steady average annual rate of about 0.5%. In the three years to 2019, average wages are projected to remain essentially flat, increasing at an average annual rate of 0.1%. This negligible increase in average wages is unlikely to significantly impact prices. However, because many employees in this market are paid minimum wage, average wages may spike in the event that new federal minimum wage legislation is passed. Such an event would increase costs for suppliers, leading to higher service prices and lower buyer power.

External Demand Drivers

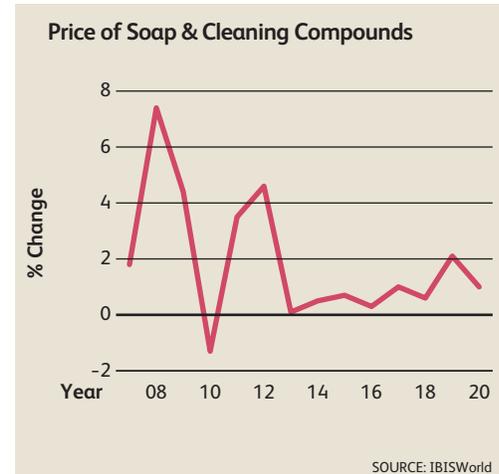
Office rental vacancy: The office rental vacancy rate is driven by macroeconomic conditions, including trends in the labor market and corporate profit. A decline in the office rental vacancy rate indicates that more office space is being filled, which increases the need for janitorial services. From 2013 to 2016, office rental vacancy has been declining an estimated 2.2 percentage points. During the period, rising

Price Environment

Price Drivers continued

consumer spending levels and falling unemployment rates have prompted businesses to open more establishments to take advantage of rising consumer demand for goods and services. Increased demand for market services gives suppliers the leverage to increase prices and still retain business, harming buyers. However, IBISWorld projects that office rental vacancy will rise 0.9 percentage points in the three years to 2019 as business investment wanes.

Number of businesses: An increase in the number of businesses boosts the size of the pool of potential buyers for janitorial services. Spurred by rising consumer spending, the number of businesses has been growing at an estimated average annual rate of 1.5% during the three years to 2016. IBISWorld forecasts that this trend will continue in the three years to 2019, with the number of businesses growing at an annualized rate of 0.8%. An increase in the number of businesses will reduce



buyer power by bolstering demand for janitorial services, thereby contributing to higher service prices and making suppliers less reliant on any one client for business.

Value of private nonresidential construction: The value of private investment in nonresidential construction includes expenditure on

Price Driver Statistics

	Price of Soap & Cleaning Compounds (Index)	Change (%)	Average Wages – Janitorial Services (\$)	Change (%)	Office Rental Vacancy (%)	Change (%)	Number of Businesses (Million)	Change (%)	Value of Private Nonresidential Construction (\$b)	Change (%)
2006	110.50	4.40	15,125.93	0.00	11.60	-4.90	7.60	1.40	451.50	7.20
2007	112.50	1.80	14,588.18	-3.55	9.80	-15.50	7.71	1.40	509.00	12.70
2008	120.80	7.40	14,542.99	-0.30	11.80	20.40	7.60	-1.30	540.20	6.10
2009	126.10	4.40	14,463.37	-0.54	14.90	26.30	7.43	-2.20	438.20	-18.90
2010	124.40	-1.30	14,286.15	-1.22	15.40	3.40	7.40	-0.50	366.30	-16.40
2011	128.70	3.50	14,087.75	-1.38	16.90	9.70	7.35	-0.60	374.70	2.30
2012	134.60	4.60	14,381.10	2.08	16.00	-5.30	7.43	1.10	423.10	12.90
2013	134.70	0.10	14,033.31	-2.41	15.60	-2.50	7.49	0.80	428.80	1.30
2014	135.40	0.50	14,243.32	1.49	14.85	-4.80	7.56	1.00	472.90	10.30
2015	136.30	0.70	14,246.99	0.02	14.05	-5.40	7.76	2.70	452.10	-4.40
2016	136.70	0.30	14,236.59	-0.07	13.45	-4.30	7.83	0.80	454.21	0.50
2017	138.10	1.00	14,255.33	0.13	13.92	3.50	7.90	0.90	472.53	4.00
2018	138.90	0.60	14,264.36	0.06	14.19	1.90	7.97	0.90	493.64	4.50
2019	141.80	2.10	14,277.91	0.09	14.35	1.10	8.03	0.80	514.62	4.20
2020	143.20	1.00	14,302.65	0.17	14.40	0.40	8.09	0.80	537.04	4.40

SOURCE: IBISWorld

Price Environment

Price Drivers continued

office buildings, hospitals, factories, schools and a variety of other structures that require janitorial services. As the number of nonresidential buildings increases, there is more space for janitors to clean, resulting in higher demand for janitorial services. Historically low interest rates have encouraged businesses to borrow and expand their operations; specifically, the value of private nonresidential construction has been growing at an estimated average annual rate of 1.9% from 2013 to 2016. IBISWorld projects that the value of nonresidential construction will continue to increase at an average annual rate of 4.3% from 2016 to 2019. Rising construction activity will

Vendor Average Cost Structure	Proportion of Revenue (%)
Profit	6.8
Wages	52.3
Purchases	19.1
Overhead	21.8
Rent & Utilities	3.3
Marketing	1.2
Depreciation	0.9
Other	16.4
Total	100.0

SOURCE: IBISWorld

contribute to an increase in service prices, which will diminish buyer negotiation power.

Recent Price Trend

Three-Year Average Annual Price Trend:
1.2%

Price Volatility

LOW

The average price of janitorial services has been increasing at an estimated annualized rate of 1.2% in the three years to 2016. Rising demand has been the primary contributor to recent price growth. Fortunately for buyers, stiff market competition has prevented janitorial service prices from rising more rapidly.

During the period, strengthening consumer spending has propelled growth in business activity. As consumers have begun to spend more, businesses across the economy have opened more establishments or have expanded their facilities, thereby spurring higher demand for janitorial services. Specifically, the number of US businesses has been rising in the past three years. In addition, office vacancy rates have trended downward, meaning that more businesses have been seeking nightly or weekly janitorial services for their occupied office spaces. Finally, the value of private nonresidential construction has increased, thereby increasing the

amount of office space that needs to be routinely cleaned. Unfortunately for buyers, these trends have led to rising demand for janitorial services, which has empowered suppliers with greater pricing leverage.

Changes in supplier material costs have also contributed to price growth. In particular, suppliers require various soap and cleaning agents to perform janitorial work. During the past three years, the price of soap and cleaning compounds has been rising. This trend has pushed up suppliers' operating costs, encouraging them to raise service prices to protect their profit margins.

Nevertheless, prices for janitorial services have displayed a low level of volatility, providing buyers with the ability to budget accurately for their janitorial expenses. Heavy price competition among suppliers contributes to low price volatility in that it forces suppliers to keep price growth in line with market trends or else risk losing business to competitors.

Price Environment

Price Forecast

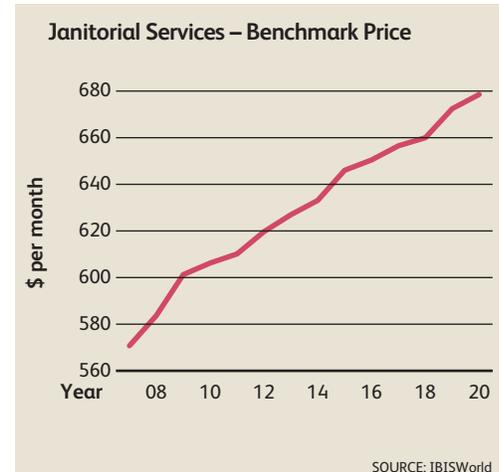
Three-Year Average
Annual Price
Forecast:

1.1%

In the three years to 2019, the price of janitorial services is forecast to continue rising at a rate of 1.1% per year on average on the back of continued demand growth. Due to strengthening economic activity, businesses are expected to expand and capitalize on rising consumer spending levels. Consequently, a rise in business activity will boost foot traffic into brick-and-mortar retail locations in place and raise demand for janitorial services. In addition, nonresidential construction activity is projected to continue growing. As historically low interest rates continue encouraging borrowing, IBISWorld anticipates strong growth in the construction of retail and other commercial facilities, private educational facilities and private healthcare facilities. Heightened construction activity will underpin demand for janitorial services, prompting suppliers to raise prices.

Meanwhile, strengthened demand among service providers will facilitate growth in demand for soap and cleaning compounds, which will cause the prices of these key inputs to rise. This increase in input costs will trickle down to buyers in the form of higher service prices as suppliers attempt to compensate for heightened purchase costs.

Changes in suppliers' wage costs, which make up suppliers' largest operating expenditure, also have the



potential to raise costs for suppliers and lead to higher prices for buyers. Although there are no current changes to wage regulations anticipated at the federal level, some states, including California and Washington, have already enacted such measures. Fortunately for buyers, suppliers' wage costs are expected to remain flat throughout the forecast period. Stable wage costs will afford suppliers more flexibility in price negotiations with buyers.

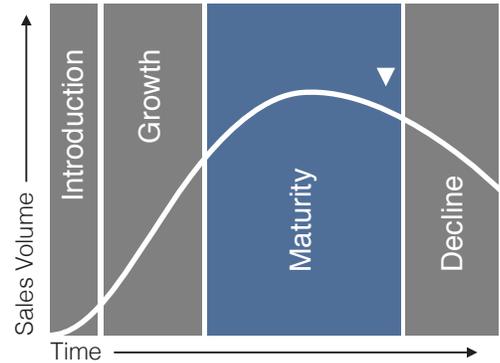
Price volatility is anticipated to be low in the three years to 2019. The continual entrance of new players into the market will help warrant strong price competition, thus buoying buyer negotiation power. Still, buyers should consider locking in long-term agreements to hedge against steadily rising prices.

Product Characteristics

Product Life Cycle

Janitorial services are widely adopted across many sectors of the economy and are not at risk of becoming obsolete. Although new products have been developed to aid janitorial services, little change has occurred in the services themselves, which allows buyers to readily compare services from different suppliers. Thus, janitorial services are considered to be in the mature stage of the product life cycle and the buying process is routine. In line with commercial business growth, janitorial service sales have been trending steadily upward through 2016 and are forecast to continue rising through 2019.

Life Cycle Stage: **Maturity**



Life Cycle Factor	Janitorial Services Characteristics
Price Trend	The price of janitorial services has been rising slowly and steadily during the past three years. Price growth is expected to trend steadily upward in the next three years. Furthermore, low barriers to entry ensure that the market is saturated with suppliers of all sizes, which contributes to price competition across the market.
Product Change	The services provided by janitorial companies have remained unchanged for years; however, companies have increasingly offered value-added services, including maintenance, as a way to increase the potential value of contracts and attract clients that want to deal with as few vendors as possible. This movement toward complementary services is indicative of a mature product.
Distribution Scope	Janitorial services are ubiquitous in business, government and multifamily residential buildings across the United States. The large number of vendors causes considerable price competition, which has ultimately limited price growth during the past three years. This factor also increases negotiating power by making it easy for buyers to get multiple bids and pit providers against each other to get the best deal.
Marketing Trends	Marketing trends have remained relatively stable in recent years, with many companies relying on mailers to find new clients. Although small operators tend to rely on word-of-mouth recommendations, an increasing number of companies have websites that give an overview of services, prices and contact information.

Total Cost of Ownership

Total Cost of Ownership

LOW

The total cost of ownership is low for janitorial services because there are generally few ongoing costs that result from hiring a janitorial services company. The majority of contracts use a fixed-price model, so hidden costs should be few. Fixed prices generally include all costs associated with labor

and materials, such as the purchase of soaps, detergents and other cleaning agents. Contracts that are based on a time and materials pricing model are more likely to lead to unexpected costs because the cost of supplies can increase. Nevertheless, the price of cleaning agents does not typically change drastically.

Product Characteristics

Total Cost of Ownership continued

Hidden costs can also arise when contracts are unclear about the services that are or are not provided. Given a

clear and thorough contract, there should be no hidden costs for buyers of janitorial services.

Product Specialization

Product Specialization

MEDIUM

There is a medium level of specialization occurs for janitorial services. Depending on the specific needs of the client, different services can be provided at different intervals. For example, exterior window cleaning can take place a couple of times annually while vacuuming or mopping can happen daily. Furthermore, the types of services offered can be customized. For example, if the dishes are washed and the floors waxed, prices will be relatively higher than if the services are not included.

Given that most business, residential, commercial and industrial work spaces are customized, janitorial service

providers take the differences in size, materials and uses of individual spaces into account when formulating a price. Although the services provided to buyers can be relatively standard, such as mopping and vacuuming, other factors are also customized for clients, including frequency and intervals of specialized services. In terms of buying power, specialization can work to a buyer's advantage or disadvantage. A buyer that has relatively standard needs will have more options when it comes to finding a service provider, compared to a buyer such as a hospital, which has specific standards to uphold.

Related Goods

Some janitorial service providers offer additional services to customers beyond standard cleaning options. Many of these services, such as window washing, are offered directly by janitorial service vendors on an as-needed basis at a fixed price; however, some companies also provide noncleaning services. Most of these services compete directly with

operators in more niche industries, such as building maintenance. The majority of companies that offer related services are larger operators that provide a variety of property management-related services. Bundling these services typically helps buyers gain leverage when it comes to the bargaining table, because high value contracts are more price competitive.

Related Goods	Description
Landscaping & Grounds Maintenance	In addition to janitorial services, some vendors offer landscaping and grounds maintenance. This includes everything from tree trimming and care, to parking lot maintenance and pest control. On a contract basis, these services are only relevant for certain types of buyers, including companies that own their own facilities or property management companies that outsource these jobs.
Building Maintenance	Some firms also offer building maintenance services. Maintenance services largely revolve around maintaining the fixtures around the building, such as lights, plumbing and HVAC systems. Building maintenance services ensure the continued habitability for individual tenants and perform cosmetic enhancements beyond those carried about by janitors, such as painting.
Building Management	Building management services take building maintenance a step further, with vendors handling administrative tasks, including rent collection and the coordination of third-party contractors. Like the services above, building management is only relevant to companies that own their own property.

Product Characteristics

Substitute Goods

Availability of
Substitutes

LOW

For most buyers, there are no alternatives to outsourced janitorial services aside from bringing the job in house. However, bringing janitorial activities in house is generally more expensive than outsourcing. Buyers that own their own property or have lengthy leases can also

consider property management services, which typically include cleaning work along with a variety of other services. A lack of substitutes limits the ability of the buyer to leverage alternative products or services to obtain better pricing, which hurts buyer power.

Regulation

Regulatory
Change

LOW

In general, there are few regulations required of janitorial service providers that buyers need to be concerned with, and regulatory change comes slowly. Regardless, buyers should seek out vendors that are bonded and insured to protect against costly lawsuits. Being bonded means that a company has money available to a client in the event that a claim is filed against a company. The bond is under the control of the state and not the company, which provides a form of protection for clients. Being insured helps protect a buyer against claims filed by janitors while on the job. This is important given the nature of janitorial work. On a daily basis, janitors handle hazardous materials and walk on wet floors.

Minimum wage regulations can have a significant effect on the janitorial services market. Suppliers, especially smaller enterprises with lower profit margins, will face heightened wage costs in the event that minimum wages are raised. These costs are ultimately borne by buyers as suppliers offset labor costs by increasing service prices.

Consequently, buyers in states with high minimum wages, such as Washington and California, will pay more for janitorial services, which is detrimental to their negotiating power. However, minimum wage laws tend to be rolled out gradually, which gives buyers some time to adjust for rising prices.

Like other industries, janitorial service providers must abide by all relevant occupational health and safety provisions, including the use and storage of cleaning compounds. Operators are subject to various federal state and local laws regulating the discharge of harmful chemicals into the environment. These regulations relate to the use, storage, transportation and disposal of waste and hazardous substances. Furthermore, illegal workers may find employment in this market, which can reflect poorly on the service provider. Illegal workers that are working on a client's premises may cause legal troubles, in the form of financial penalties established in the Immigration Reform and Control Act, at different levels of the supply chain, even if the client does not employ them directly.

Product Characteristics

Quality Control

Key Quality Factors	Reliability Thoroughness Trustworthiness Provision of value-added services
----------------------------	---

Service quality is largely based on a supplier's reliability of sticking to the terms laid out in a contract. If the services deviate from those terms, or if the quality is not up to a reasonable standard, new suppliers should be considered. For this reason, the "opportunity to cure" clause can be important on new contracts because it gives the buyer an understanding of service quality. The "opportunity to cure" clause is a probationary period that lasts for a set amount of time, generally one month to three months, for a client to assess the level of service provided.

Aside from reliability, janitors should be thorough in their cleaning, taking time

to adequately clean soiled surfaces. In this sense, janitors also must have the appropriate cleaning products to ensure that common areas are sanitary for use. Inadequately cleaned surfaces can be a safety hazard in some environments, so buyers with such needs are advised to choose thorough janitorial service providers.

Trustworthiness is also important because crews have access to offices when buyers are not present. Untrustworthy service providers or subcontractors may cause great harm to buyers in the form of lost or stolen property. Finally, the provision of value-added services, such as window cleaning, can also differentiate vendors.

Supply Chain & Vendors

Supply Chain Dynamics

Supply Chain Risk

LOW

Average Vendor Risk

LOW

Supply Chain Risk

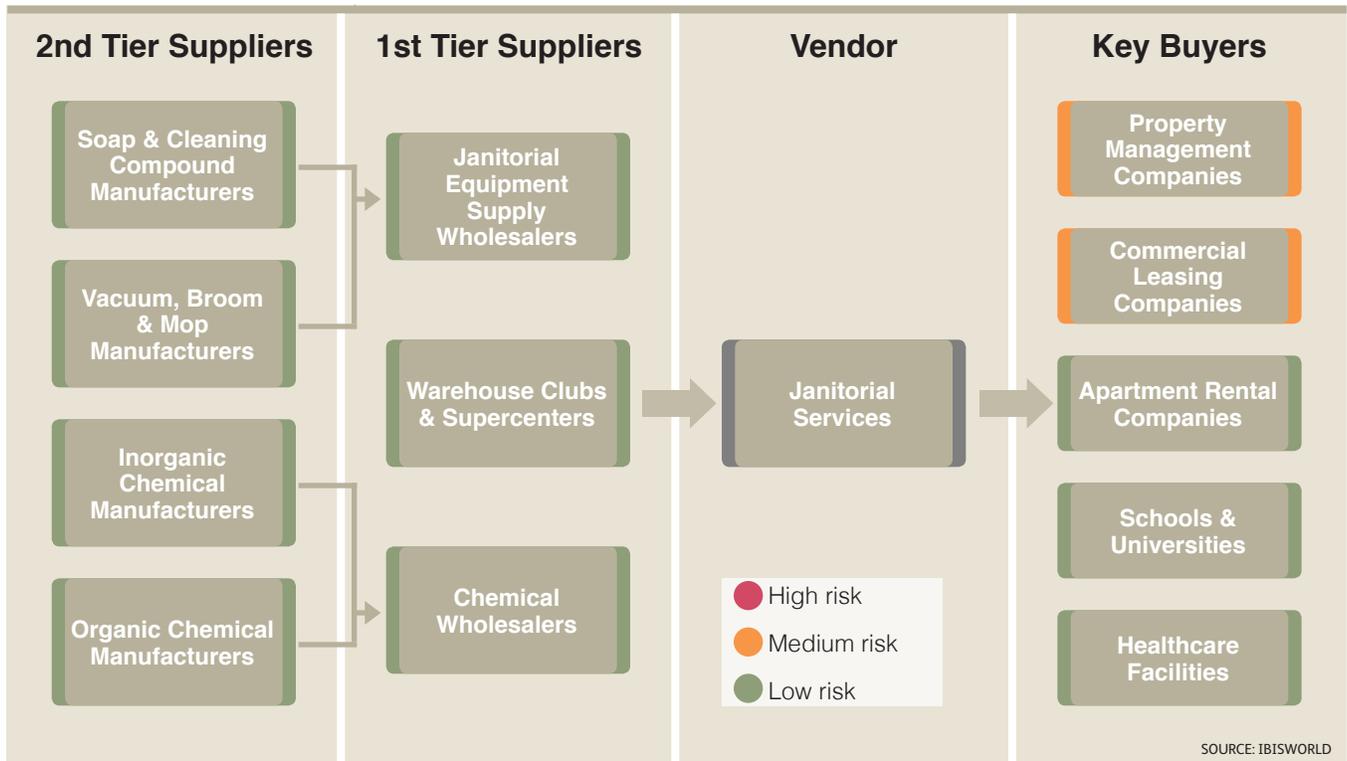
There is little risk associated with the supply chain for janitorial services, largely because the market relies heavily on low-wage labor as an input, and the average wage has been relatively steady from 2013 to 2016. As a result, most of the risk associated with janitorial services is due to fluctuations in the prices of key inputs.

Many of the costs associated with chemical purchases are dictated by prevailing market rates. Increases in the price of chemicals due to fluctuations in the price of inorganic and organic chemical compounds raise costs for janitorial service providers. Nevertheless, chemical manufacturers generate the highest profit margins in the market's supply chain. These high margins allow first tier cleaning supply vendors and supercenters to use their considerable bargaining power to obtain volume discounts, which are passed down to

janitorial service suppliers in the form of lower prices for inputs.

Unforeseen circumstances that affect the supplier's employees can significantly impact the availability and quality of janitorial services. For example, if an employee involved in daily or weekly cleaning becomes ill or suffers an injury or accident, the supplier may be unable to provide services. For small companies, this occurrence can put a serious strain on their ability to handle jobs. In contrast, large operators are more likely to have reserve staff to fill temporary gaps.

Overall, buyer-related risks are low in the market for janitorial services. The purchasing power of property management and commercial leasing companies tends to fluctuate with interest rates and the health of the overall real estate sector, which contributes to some risk in their buying behavior. Still, apartment rental companies, schools and



Supply Chain & Vendors

Supply Chain Dynamics continued

healthcare facilities are stable buyers of janitorial services.

Geographic Locations

Janitorial service providers are found in metropolitan areas throughout the United States, thus, finding a service provider should not pose a challenge to buyers. Furthermore, there are few risks associated with the continuity of services based on location. The distribution of janitor service companies is based mainly on business and population density levels. As such, large cities (e.g. California, Florida, New York and Texas) tend to have a greater number of service providers, which can boost negotiating power by increasing price competition. Generally, buyers should not focus on choosing a supplier based on the supplier's location because the services are conducted on the client's site. The use of a national provider, however, can reduce overall costs if a buyer has operations in multiple cities. As a result,

large contracts tend to be more price competitive than smaller ones. Consequently, buyers that sign a contract for multiple offices are likely to receive a better price.

There is a low degree of globalization among janitorial service providers. However, some companies operate on an international basis. For example, UGL Limited is based in Australia, but its subsidiary, DTZ, has operations in the United States. In spite of such exceptions, most providers are domestically based and serve their local area.

Imports

Given the service-based nature of operations, traditional trade does not occur in the provision of janitorial services and there are no imports. Most vendors operate on a local or regional basis and do not have the capacity to offer services overseas. However, some international operators, including UGL Limited, are based overseas.

Competitive Environment

Market Share Concentration

LOW

Market Share Concentration

In 2016, the top four janitorial service providers account for less than 10.0% of total market revenue, indicating low market share concentration. IBISWorld estimates that there are more than 890,000 cleaning service suppliers in 2016. However, an estimated 93.1% of these firms are nonemployers that primarily offer residential cleaning services rather than commercial janitorial services. Low barriers to entry and minimal capital investment requirements ensure that there are a large number of janitorial service providers that buyers can choose from. The large number of operators increases price competition, which boosts buyer power. In the past three years, market share concentration has been decreasing as additional firms have

entered the market to meet increasing demand, further benefiting buyers by raising the number of suppliers available to choose from. Market concentration is forecast to continue decreasing in the three years to 2019.

Vendor Company Types

Although several vendors have a national presence and brand name, most janitorial service providers are small private local operators. This characteristic is due to low barriers to entry into the market, including few capital costs and the unskilled nature of janitorial services. The significant degree of fragmentation among vendors benefits buyers by contributing to competition, which leads to lower prices. The large selection of janitorial service providers also helps ensure that buyers

Supply Chain & Vendors

Competitive Environment continued

are able to find one that fits their budgetary and service needs.

Small independent operators and franchisees: Most janitorial service companies are small and offer services on a fixed-price basis. IBISWorld estimates that 97.6% of suppliers are small independent operators or franchisees, the majority of which provides only residential cleaning services. Among operators that have employees, 76.6% have fewer than 10 employees, which classifies them as small companies or nonemployers. This supplier segment has low capital and marketing costs. Consequently, these savings are passed

onto buyers through lower prices.

However, small companies can only provide a limited scale of work. Although a crew of five employees might be able to empty an office building's trash cans overnight, they might not be able to provide services for a large client that owns multiple buildings. As such, smaller operators tend to serve small businesses.

Franchisees operate under the name of their franchisor, giving smaller operators credibility to which they would otherwise not have access. Consequently, franchise operators tend to garner interest from larger commercial clients, which ultimately aids their operational growth. However, the ability to serve

Vendor Statistics – Janitorial Services

	US Product Market Share (%)	Market Share Performance (3-yr trend)	Total Revenue (\$m) ¹	Profit Margin (%)	Financial Risk Level ²
Aramark Corporation	<5	Increasing	14,416	5.2	High
ISS World	<5	Increasing	11,650	5.7	Low
ABM Industries Inc.	<5	Increasing	4,898	1.5	Low
The ServiceMaster Company	<5	Steady	2,594	18.8	High
UGL Ltd.	<5	Increasing	2,155	-7.8	Medium
Coverall North America Inc.	<5	Steady	100-250	N/A	N/A
Marsden Holding LLC	<5	Steady	100-250	N/A	Low
Jani-King International, Inc.	<5	Steady	100-250	N/A	N/A
Red Coats Inc.	<5	Steady	100-250	N/A	N/A
IH Services Inc.	<5	Steady	100-250	N/A	N/A
United Building Maintenance Inc.	<5	Steady	<100	N/A	N/A
Kellermeyer Bergensons Services	<5	Steady	100-250	N/A	N/A

1: Revenue refers to the latest financial year for which data is available. Private company revenue is expressed as a range.
2: Financial Risk Level is based on the Altman Z-Score, which uses a formula to predict a company's risk of bankruptcy. See Glossary for more details.

SOURCE: IBISWorld

Supply Chain & Vendors

Competitive Environment continued

large buyers comes at a cost to franchised vendors. Not only do large contracts have smaller margins, but franchisees must also make marketing and royalty payments to their franchisor.

Furthermore, franchisors may enforce pricing schedules on franchisees, which can ultimately limit the bargaining power afforded to buyers.

Large operators and franchisors:

Large operators and franchisors comprise the other 2.4% of the supplier segment, serving clients on a regional and national level. Several of the largest competitors are franchisors, including Jani-King, Coverall and ServiceMaster; most franchisors also operate their own establishments as well as license their name to franchisees. Other large janitorial service providers, such as Red Coats, strictly have their own operations.

Given the fragmentation of the market, the large players still account for a small portion of the available market share. Although the prices charged by small suppliers may be lower, large operators can provide a buyer with more

benefits, including reliability. For example, a small local provider might need vacation or sick leave, whereas a larger provider can send in a substitute employee. Large businesses that need cleaning services on a regional or national basis can benefit from signing one contract for multiple locations rather than signing several local contracts, especially given that larger contracts are more price competitive.

Supplier diversity: The janitorial services market contains a large number of women- and minority-owned businesses. In fact, about 67.5% and 53.9% of enterprises in this market, respectively, are considered women- and minority-owned. By comparison, women and minorities represent only about 19.4% and 17.5% of total business owners in the overall economy, respectively. Conversely, the percentage of veteran-owned businesses lags behind the economy. Consequently, buyers seeking to diversify their supply chain will be more likely to do so when looking for a women- or minority-owned vendor rather than a veteran-owned business.

Supplier Diversity

Ownership Category	This Market (%)	Overall Sector (%)	Overall Economy (%)
Women	67.5	20.7	19.4
Minority	53.9	14.9	17.5
Veteran	6.7	7.1	7.5

Ownership is defined as owning at least 51 percent of a firm, which is the definition used by the Small Business Administration for government procurement programs.

SOURCE: IBISWorld and US Census Bureau

Supply Chain & Vendors

Market Profitability

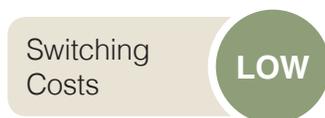


IBISWorld estimates that the average operating profit (earnings before interest and taxes) for janitorial service providers is 6.8% in 2016, which is considered medium. Moderate margins provide little room for suppliers to decrease prices further. In addition, competition is prevalent among janitorial companies, and inputs (e.g. wages and purchases) make up a significant share of suppliers' revenue. All of these factors limit the discounts buyers can obtain. Nevertheless, the large number of janitorial service providers helps ensure that buyers will find a vendor that fits their budget and service requirements. In the past three years, rising demand for janitorial services and stable input costs for suppliers has prompted a rise in the average supplier's profit margins.

IBISWorld anticipates that profit margins will continue rising in the three years to 2019.

Large operators tend to have lower margins because they rely on big contracts, which are more price competitive, and have higher marketing and capital expenses compared with smaller suppliers. However, the impact of these factors is mitigated by large operators' ability to purchase supplies in bulk. Companies that serve a niche market can garner higher profit margins due to the higher prices they can charge. Generally, suppliers have low bankruptcy risk due to stable baseline demand for janitorial services. As such, suppliers are likely to maintain steady operations, thereby benefiting buyers with continuous access to janitorial services.

Switching Costs



The cost of switching between janitorial service providers is low, which increases buyer leverage. Although some vendors offer multiyear service arrangements, most contracts are signed on an annual basis. As a result, the opportunity to switch between providers occurs yearly for most buyers. Buyers that switch contractors mid-contract may incur a penalty for an early termination and lose access to specialized services if the vendor is providing services beyond janitorial work. The majority of switching costs incurred by buyers are related to

evaluation costs, including the managerial time and effort that is required to research and evaluate new providers. Buyers also run the risk of a diminished service level when switching providers; however, many buyers that switch are unhappy with the service level they are currently receiving. In this case, buyers should opt for companies that offer an "opportunity to cure" clause in their contracts, which reduces the buyer's risk by giving a probationary period to evaluate the service level of the new provider.

Purchasing Process

Buying Basics

Buying
Lead Time

SHORT

Buying Lead Time

The buying lead time for janitorial services is generally short because of the simplicity of the service. Many companies provide a preliminary estimate over the phone or internet based on the square footage and the desired services.

Someone then comes to the office or building to provide a formal figure based on more specific information gathered, such as surface types and number of windows.

Buyers should receive more than one estimate for a better idea of standard service pricing. Many companies provide same-day estimates, so the RFP process can be completed in a very short amount of time. Some janitorial service providers can offer services within 24 hours of a contract's signing. If desired, some janitorial service providers will even send a cleaning crew on the same day that an estimate is provided. While the majority of contracts are written for a single year, some companies offer short-term contracts and multiyear contracts. ABM Industries, the largest player in the market, notes that most contracts are signed for periods of one year, although extended durations are available, including three-year contracts. Contracts for many companies contain automatic renewal clauses for buyers' convenience.

Selection Process

Janitorial services are typically procured using a leveraged buyer-supplier relationship, which is common in markets where the service presents a high value to the buyer and has low market

risk. Janitorial services are moderately specialized as suppliers offer customized solutions to buyers based on the size and type of workspace. Although buyers can opt to perform the service themselves, this option can be less practical and might not yield the same quality results. The moderate level of service specialization and a lack of effective substitutes highlight the importance of the service for buyers.

On the other hand, buyers benefit from the low level of market share concentration and low price volatility. Because suppliers are less dependent on critical inputs to provide services, buyers should not expect any major price swings. Moreover, buyers can leverage the fragmented and highly competitive nature of the janitorial services market to elicit lower prices from suppliers that seek to win business. Moreover, a plethora of suppliers and their widespread distribution throughout the country allow buyers to shop around should the relationship with their current supplier diminish.

Buying-Decision Scorecard

The Buying-Decision Scorecard outlines the key criteria a buyer should consider when purchasing this good or service. When weighing the importance of each factor, we assume that a buyer has narrowed down potential suppliers to those that meet the technical and price criteria specified in the RFP. The criteria and weights assigned below can be used as guidelines to help further differentiate already qualified vendors.

Purchasing Process

Buying Basics continued

Buying-Decision Scorecard		
Factor	Weight (%)	Description
Technical Factors	70.0	
Service Level	25.0	The thoroughness and reliability of a vendor are important because they dictate the quality of work a supplier is able to provide. A buyer that picks strictly on price is more likely to be impacted by service disruptions.
Capacity	20.0	For buyers with extensive needs, capacity is a factor to consider when looking for janitorial service providers. Small operators might be unable to clean expansive buyer facilities, whereas large players can provide services on a regional basis.
Reputation	15.0	Reputation has an impact on the level of quality that can be expected by buyers. Franchisees typically have a service formula that helps ensure buyer satisfaction and helps guarantee a level of success that is upheld by the parent company.
Niche Services	10.0	Buyers in some markets, such as healthcare, should consider whether a vendor has specialized experience. Buyers may also opt for cleaning companies that emphasize other specialized services, such "green cleaning."
Cost	30.0	
Price	30.0	Given the large number of operators, janitorial service providers are highly price competitive. Furthermore, the services offered by operators do not vary greatly, and choosing one provider over another often boils down to price.
Total	100.0	

Key RFP Elements

Specific information to impart to suppliers in the RFP includes:

- The location and layout of the facilities to be cleaned, including the type of facilities, the number of rooms and square footage
- A list of surfaces that will need to be cleaned, such as carpet, tile, countertops and windows
- The square footage, number of panes, or other measure of each surface
- A list of services that will be required on an ongoing basis, along with other desired services the supplier can provide
- Offer details related to security and after-hours accessibility as needed

Specific information to gather from suppliers in the RFP includes:

- Details on how pricing will be determined and the associated price lists for "tag work" that is provided on an as-needed basis
- Details on scheduling and capacity constraints
- The vendor's employee selection criteria, as workers will generally have access to buyer facilities after hours
- Related service offerings, the bundling of which can provide cost savings to the buyer
- Assurance that vendors are licensed, bonded and insured

Purchasing Process

Key RFP Elements continued

Standard Elements in an RFP

Overview & Scope	This tells the vendor about your company, why your company needs this product and what you hope to achieve from its purchase. Deadlines for steps in the procurement process should be clearly defined in the section.
Vendor Qualification	This section details the features a winning company must possess, such financial size, scope of work completed or geographical reach. This section will also explain the criteria used in evaluating the bid and its relative importance in your scorecard. This section might disqualify some companies, such as suppliers to your competitors.
Technical Specifications	This section details the technical and functional specifications of the product you want. The more detail provided, the shorter the procurement cycle since all vendors are bidding to the same, exact specifications. Further, if all needs are specified there is less chance of additional costs will surface down the road. This section will also look at service level agreement needs.
Financial Factors	This section is where vendor quotes prices for the product or service being supplied. This section should specify cost breakdowns, billing frequency (with specific dates, time periods), billing methods (mode of payment, including currency) and taxes.
Legal Framework	This section should reference the legal jurisdiction in the event of a dispute, methods for arbitration and contract termination mechanisms. Nondisclosure agreements are also part of this section, as are escrow agreements (mainly in the event of shared proprietary knowledge).

Negotiation Questions

Issue	Questions
<p>Capacity: Vendor capacity can pose a constraint for buyers with large facilities. Buyers should choose a supplier that can service all of their facilities, as larger contracts are more price competitive.</p>	<ul style="list-style-type: none"> • How many cleaning crews does your company have available? • How many people are assigned to each cleaning crew? • Will you be able to continue our contract if we decide to expand our operations? • How quickly are you growing? Do you ever experience capacity problems associated with growth in the number of clients? • Do you ever use subcontractors? If so, how are they evaluated?
<p>Competition: Competition among janitorial service providers is high and impacts price and service levels. Buyers can use this to their advantage to get a competitive rate or additional services.</p>	<ul style="list-style-type: none"> • What do you do to keep your rates competitive? • What competitive advantages do you have that your competitors do not? • Why should we pay more for your services if your competitor is offering me the same for less? • How do you keep clients from switching providers year-to-year?
<p>Reputation: Vendors that have a strong reputation are less likely to receive complaints about service quality and security breaches.</p>	<ul style="list-style-type: none"> • How do you screen your employees? What measures do you take to ensure security risks are minimized? • Do you have client references that we can contact? • How often do you receive complaints from clients about service or security issues? • How many clients do you currently serve? What type of company do you typically serve?
<p>Breadth of Services: Although most vendors offer the same general services, some companies specialize in niche markets or offer specialized services.</p>	<ul style="list-style-type: none"> • Do you specialize in my industry? If not, do you have other clients with needs like ours? • What kind of tag work services do you provide? How much do you charge for these services? • Do you offer any related services that can be bundled with a standard cleaning contract? • Do you offer green cleaning services?
<p>Franchise Operations: Many of the largest janitorial service providers have franchisees. Franchise operators can have an impact on service quality and the expectations of buyers.</p>	<ul style="list-style-type: none"> • Are you part of a network of franchises? • Given your relationship to a parent company, how does your franchisor's approach differ from other competitors? • What guidelines does your franchisor set on you? • What additional costs do you incur that other companies do not and how are these costs passed onto buyers?
<p>Customer Support: Suppliers should be available to provide prompt support and resolve any problems the buyer has with the service. Any downtime in service can be detrimental to the buyer's business.</p>	<ul style="list-style-type: none"> • What is your client renewal or repeat business rate? Why do companies renew their contract with your business? • How do you evaluate customer satisfaction and how frequently? Is this made available to clients? • How have you changed your service in response to customer complaints and suggestions? • If you encounter issues or your client is not satisfied, what steps do you take to address the issue?

Buyer Power Score Components

Price Trend

Factor	Definition	Weight	Score
Recent Price		40%	4
Favorable	Compound annual growth rate in benchmark price over the past three years 0.1-1.4%		
Forecast Price		60%	4
Favorable	Compound annual growth rate in benchmark price in the next three years 0.1-1.4%		
Weighted Score		50%	4.0

Market Structure

Factor	Definition	Weight	Score
Availability of Substitutes		35%	1
Low	There are few viable substitutes for this product/service		
Market Share Concentration		25%	5
Low	The top four suppliers of this product/service have less than/equal to 29.9% market share		
Product Specialization		25%	3
Medium	The product/service is assessed as having a medium level of specialization		
Switching Costs		15%	5
Low	The cost of switching from this product and/or supplier is assessed as low		
Weighted Score		20%	3.1

Market Risk

Factor	Definition	Weight	Score
Price Driver Volatility		25%	3
Medium	Average absolute difference in percentage change of external drivers 2.0-3.4%		
Recent Price Volatility		25%	5
Low	Average absolute difference in % change in price over last 3 years < 1.0%		
Vendor Financial Risk		25%	5
Low	The average level of financial risk for product/service vendors is assessed as low		
Supply Chain Risk		25%	5
Low	The average level of product/service supply chain risk is assessed as low		
Weighted Score		30%	4.5

Overall Buyer Power Score 4.0

IBISWorld's Buyer Power Score is a calculation based on weighted quantitative and qualitative factors that measure a buyers' ability to negotiate lower prices and favorable contract terms. The higher the Buyer Power Score, the greater the average buyer's negotiating strength for this product. The overall score is composed of three components:

- 1) **Price Trend:** compares this product's average recent and forecast price change to the economy-wide inflation rate
- 2) **Market Structure:** assesses the availability of alternatives and ease of purchasing in this product's marketplace
- 3) **Market Risk:** measures elements of volatility and risk impacting a buyer's confidence in making long-term deals with suppliers of this product.

Jargon & Glossary

Jargon

Tag Work Extra service work that is performed on an as-needed basis and that is not predefined by an existing contract.

Opportunity to Cure A clause included in some contracts that establishes a probationary period, allowing a client to test the service level offered by a vendor.

Building Service Contractors Association

International An organization of building service providers that self-governs with a board of directors and evaluates candidates for membership.

Glossary

HS The Harmonized Commodity Description and Coding System is maintained by the World Customs Organization as a standardized system of names and numbers for classifying traded products.

Life Cycle All products and services go through periods of growth, maturity and decline. IBISWorld determines a life cycle by considering factors such as pricing trends, the level and speed of product or service change, the extent of a product's distribution and the maturity of marketing trends.

Market Share Concentration Determined by the market share of the top four vendors for a given product or service: high is when the top four vendors account for more than 50.0% of the product or service market share, medium is from 30.0% to 50.0%, and low is less than 30.0%.

NAICS The North American Industry Classifications System is the standard by which industries (not products) in the United States, Canada and Mexico are classified.

Price Driver Volatility Level Determined by the average absolute difference in the percentage change of input cost items and external demand drivers over the past three years: high is 3.5% or greater for all drivers, medium is from 2.0% to 3.4% for all drivers, and low is 1.9% or less for all drivers.

Price Range The difference between the upper and lower price bounds divided by the benchmark price: wide is greater than 50.0%, medium is from 25.0% to 50.0%, and narrow is less than 25.0%.

Price Volatility Level Determined by the average absolute difference in the percentage change of the benchmark price over the past three years: high is 3.5% or greater, medium is from 2.0% to 3.4%, and low is 1.9% or less.

Producer Price Index (PPI) This index represents the change in the amount that producers receive for their products or services, as opposed to the prices that consumers pay for them.

Profit IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

Profit Level Determined by the average profitability of the industry in which a product or service vendor operates, compared to the average profit margin for all industries in the US. There are around 700 industries in the US classified using the NAICS taxonomy (see NAICS).

Total Cost of Ownership Level Determined by the total cost of ownership as a percentage of the benchmark purchase price per year: high is when the total cost of ownership is greater than 100.0% of the benchmark purchase price per year, medium is from 50.0% to 100.0%, and low is less than 50.0%.

UNSPSC Coding for each report title is based primarily on the United Nations Standard Products & Services Code. The code is a hierarchical classification codeset of expenditure items.

Wages The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

Z-Score The Altman Z-score formula is used to help predict a company's chances of going bankrupt within the next two years. The Z-score uses multiple corporate income and balance sheet values to measure the financial health of a company. Z-scores above 2.9 are defined as having a low financial risk level; scores between 1.23-2.9 are at a medium risk level and scores below 1.23 are a high financial risk level.

At IBISWorld we know that industry intelligence is more than assembling facts

It is combining data with analysis to answer the questions that successful companies ask

Our procurement and strategic sourcing research helps clients engage and negotiate effectively with suppliers, internal stakeholders and C-level executives. Our insight on price trends, major suppliers and supply chain risk helps clients better manage the entire sourcing process.



Who is IBISWorld?

We are strategists, analysts and researchers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our Procurement and Industry report collections. When tough business decisions need to be made, our suite of products give you deeply researched answers quickly.

IBISWorld Membership

IBISWorld offers tailored membership packages to meet your needs.

Disclaimer

This product has been supplied by IBISWorld Inc. ('IBISWorld') solely for use by its authorized licensees strictly in accordance with their license agreements with IBISWorld. IBISWorld makes no representation to any other person with regard to the completeness or accuracy of the data or information contained herein, and it accepts no responsibility and disclaims all liability (save for liability which cannot be lawfully disclaimed) for loss or damage whatsoever suffered or incurred by any other person resulting from

the use of, or reliance upon, the data or information contained herein. Copyright in this publication is owned by IBISWorld Inc. The publication is sold on the basis that the purchaser agrees not to copy the material contained within it for other than the purchaser's own purposes. In the event that the purchaser uses or quotes from the material in this publication – in papers, reports, or opinions prepared for any other person – it is agreed that it will be sourced to: IBISWorld Inc.