Cleaning Up by Cleaning House: Multiple Opportunities Exist in Cleaning Franchises

By Michael J. McDermott

If every cloud really does have a silver lining, the shiny upside of the nation's protracted real estate recession may be that more homeowners are staying put and looking to spruce up their current abodes as much as possible. That's good news for franchisees in a variety of businesses, including remodeling contractors and decorators. It's also creating new opportunities for franchises that provide cleaning, maintenance and landscaping services to both residential and commercial customers.

Homeowners are willing to spend to keep their houses looking good inside and out.

The cleaning industry has two main components, residential and commercial, and franchising plays a major role in both. The residential market includes maid services, carpet and window cleaning and similar specialty services, while the commercial segment focuses primarily on janitorial and building maintenance services. Commercial cleaning franchises tend to offer a broader range of individual services under the same banner, with each franchise providing services like carpet cleaning and floor waxing that might be supplied by separate franchises in the residential market.

The cleaning services industry is one of the fastest and most consistent growth segments in all of franchising, expanding at a rate of about 5.5% annually over the past decade, in spite of the economic downturn. The industry's gross annual billings are estimated at about $50 billion, according to research conducted by the U.S. Small Business Administration.

Among the trends driving growth in this sector of franchising are a steady increase in the number of two-income households, where families are looking for more leisure time and are willing to pay for outside cleaning services in order to get it, and the trend toward outsourcing of non-core functions such as cleaning and maintenance in the commercial and industrial sectors.

One of the most important challenges facing a potential franchisee is choosing a business that promises to have staying power for as long as you plan to continue operating it. Too often, the hot concept of the day turns out to be little more than a flash in the pan, and unwary franchisees who jumped on the bandwagon are left holding the bag.

There are no ironclad guarantees on what the future will hold, of course, but prospective franchisees should look at a number of factors when evaluating a business's likelihood of longevity.

These factors include current lifestyle and demographic trends, projected changes in those trends and reliable statistical projections on the business's outlook. Based on all those criteria, franchise cleaning services seem well-positioned to be standout business opportunities for many years to come.

Cleaning services are expected to be the second-biggest generator of new jobs through 2015 and beyond, according to the U.S. Bureau of Labor Statistics (BLS). The agency looks at both commercial and residential cleaning services in formulating its projections, but it

A combination of several relevant factors is boosting the outlook for cleaning franchises.

credits growth in the home cleaning sector fueled by increased demand for convenience, the rising number of multiple-income households, growth in the number of women working outside the home and record-high levels of disposable income as primary reasons for that expected high level of new job creation.

Maid services are growing at an annual rate of about 7%, a pace projected to hold steady at least through the end of 2012, according to research done by the U.S. Commerce Department, the BLS and Mediamark Research Inc. Several analysts expect the pace of growth

to increase significantly in the immediate future, fueled by burgeoning demand for cleaning services by baby boomers of retirement age.

Existing demand for maid services is tremendous. The Commerce Department estimates that 85% of all two-income households in the U.S. already rely on an outside service to clean their homes. In some markets, maid services actually maintain a waiting list of anxious prospective customers.

Hectic lifestyles and a never-ending push to increase productivity have become facts of everyday life for many employees, yet these consumers still value their free time. Many of them have less free time to spare than ever, so they are more than happy to pay someone else to clean their house. Empty-nesters who have suddenly found themselves once again housing adult children as a result of the Great Recession, retirees and young families are also helping to drive demand for maid services.

A maid service franchise is within reach for many prospective entrepreneurs. Franchise fees start at less than $10,000 and range up to $50,000-plus. Royalties of about 5% to 6% are typical, and many franchises levy an additional charge for advertising and marketing. Total startup capital requirements run the gamut from about $25,000 to more than $200,000.

Franchisees choose this industry for all kinds of reasons, but common ones include strong market demand, a ready availability of customers, the relatively simple nature of the business startup procedure, significant potential for future growth and the outstanding level of support offered by the best franchise companies in this segment.

"I looked at a lot of different franchise opportunities before choosing a maid service," says a Texas-based franchisee who has been in the business for about 16 years. What sold her on this concept was the reasonable hours and relatively low-stress environment it offered.

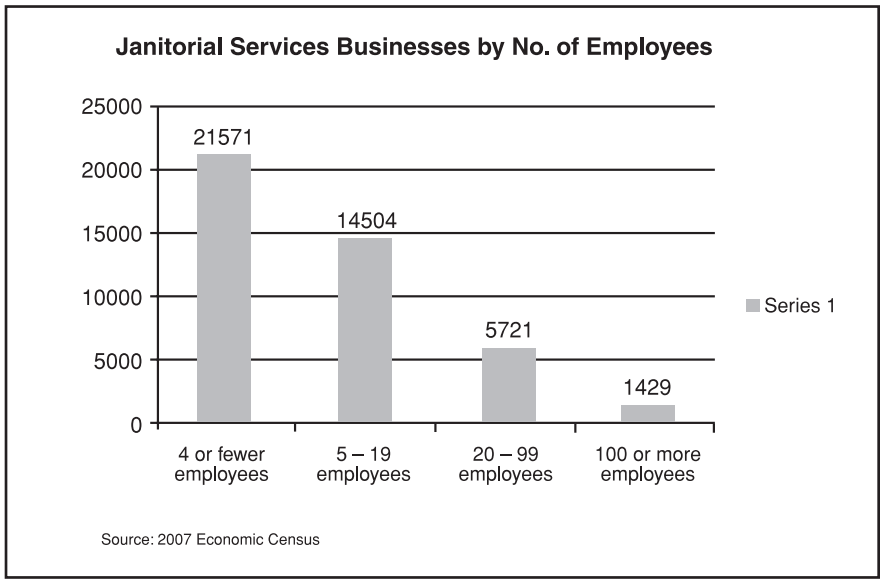
"You hear about people putting in 12 and 14 hours a day, six or seven days a week with some businesses, and I wasn't interested in that," she says. "We typically work no more than eight or nine hours a day, five days a week. Most people want their homes cleaned while they're at work, so that more or less dictates the hours we can work. And the fact that the customer usually isn't home while you're there makes the working atmosphere less stressful."

There has been a sharp decline in the number of independent businesses in this industry.

Demand for household cleaning services continues to grow, with its popularity increasing among a wide range of demographic cohorts. For many families, a cleaning service is viewed as an essential part of the household budget, not a luxury. The service is in great demand by single-parent households, dual-income middle-class households, well-to-do households, empty-nesters and retirees. The greatest increase in future demand is projected to come from those in the 55-to-64 age bracket, followed by the 45-to-54 age group.

House-cleaning was once an industry dominated by independent operators, but that has changed radically in recent years as franchised offerings have continued to grow. The BLS cites tougher regulations and the significant fines and penalties consumers may face for failing to report wages paid to domestic help as important factors behind that decline.

Consumers have also become more concerned about potential liability should a worker be injured in their home in today's litigious society, notes an economist for the BLS. "Historically, independents were pretty lax about things like bonding and insurance," he says. "With a franchise service, customers know they are getting a higher level of protection because the company will be bonded and insured. And most franchises run



background checks on the workers they hire, which is not always the case with a mom-and-pop."

Just as many of today's busy consumers do not have time to clean their homes—or simply choose to pay to have someone else do it—they are also happy to cede responsibility for keeping the outside looking nice to someone else. That creates franchise opportunities in businesses listed under Lawn & Garden Supplies/Services in the directory section of The Franchise Handbook. Some janitorial and commercial cleaning franchises also offer landscaping and grounds maintenance services.

There were almost 94,000 landscaping service businesses in operation in 2007, the last year for which Economic Census data is available. Those businesses generated almost $54 billion in revenues. The BLS puts the total number of grounds maintenance workers in the U.S. at 1.52 million in 2008 and projects that number to grow by 18% to 1.79 million by 2018.

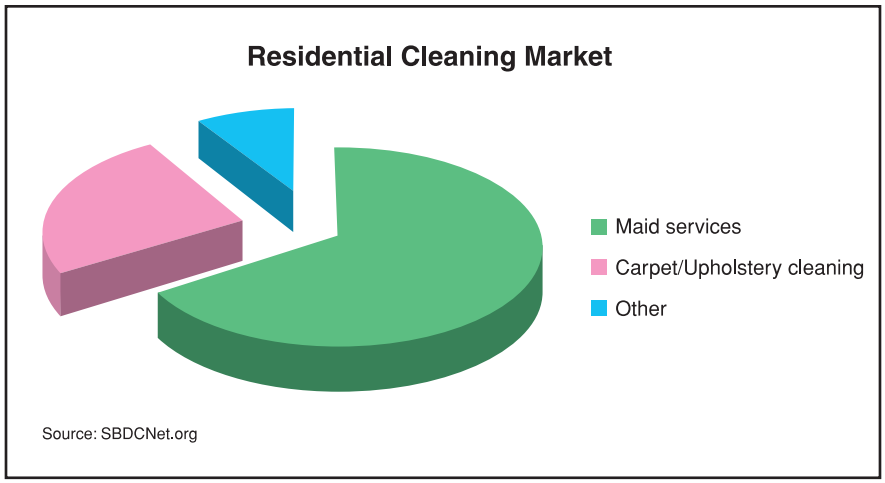
"Employment in this industry is expected to grow faster than average," says a BLS economist. "In addition, grounds maintenance workers will be among the occupations with the largest numbers of new jobs. More workers will be needed to keep up with increasing demand for lawn care and landscaping services, both from large institutions and from individual homeowners."

Major institutions such as universities and corporate headquarters recognize the importance of good landscape design in attracting personnel and clients and are expected to continue to use grounds maintenance services to maintain and upgrade their properties, the economist says.

"Homeowners are also a growing source of demand for grounds maintenance workers," she adds. "Many two-income households lack the time to take care of their lawns, so they increasingly hire people to maintain them. Also, as the population ages, more elderly homeowners will require lawn care services to help maintain their yards."

Commercial cleaning franchises are offering more value-added services to customers.

Commercial cleaning and janitorial services remain a fruitful source of franchise opportunities, with dozens of listings under the Maintenance – Cleaning heading in the directory section of this issue.



The BLS projects the number of building cleaning workers to grow by 5% through 2018, a somewhat slower rate of growth than what is expected for some other occupations, due to a decline in the pace of construction of commercial and industrial buildings in the U.S.

However, demand for commercial cleaning services is likely to increase in certain areas, such as healthcare. Many new jobs also are expected in hotels, as demand for accommodations increases, the BLS reports. More than 53,000 janitorial service businesses rang up over $33 billion in sales in 2007, according to the Economic Census. Building cleaning workers of all types numbered about 4.14 million in 2008, according to BLS statistics, and that number is projected to grow to 4.34 million by 2018.

A big trend in the commercial cleaning services sector is diversification, with companies striving to offer additional value-added services to existing customers, according to the Building Service Contractors Association International (BSCAI). With the worldwide economy experiencing slower than normal growth, generating more business from existing customers has become an important strategy for companies in this industry.

Continuing improvements to worker productivity, more robust worker retention efforts and demand for more environmentally friendly cleaning products are other trends the industry is experiencing lately. "Many firms are starting to treat green cleaning as the standard now instead of an option," says a spokesman for BSCAI. "It is a prerequisite for LEED (Leadership in Energy and Environmental Design) certification of buildings."

With so many opportunities

available in residential and commercial cleaning and landscaping, it is important to conduct a thorough and deliberate franchise search before committing to an individual business, advises Ed Teixeira, author of Franchising from the Inside Out and president of Franchise-KnowHow LLC. Three key factors he suggests keeping in mind are choosing a business that you will feel most confident marketing and operating; having the amount of experience that is required to operate the particular type of business you select; and having the necessary capital available to invest.

Once you have narrowed your choices down, Teixeira suggests gathering relevant information from each candidate and seeking answers to the following questions:

- Is your territory available? How are territories defined? Are they exclusive?
- What is the investment range for the franchise?
- How would you describe the franchise process?
- What are the steps that are followed?
- What is the initial franchise fee? What do you receive in exchange?
- What is the ongoing royalty?
- Are there any other fees, such as funds for advertising?
- What kind of support do new franchisees receive pre-opening and post-opening?
- How many franchise locations have been added to the system in the past year?
- Are there any corporate-owned locations, and if so, how many?

An important part of any franchise due diligence process involves talking to individual franchisees. Try to speak with both existing franchisees and, if possible, some who have left the system. Don't limit your conversations solely to franchisees recommended by the franchisor; try to pick some at random. Among the questions you should ask are:

- How long have you owned this franchise?
- What led you to buy this franchise? Were you referred by an existing franchisee? Did you find it through an Internet or literature search?
- How thoroughly has the franchisor lived up to the promises made to you when you first approached the company?

It is important to conduct a thorough due diligence process when considering a franchise.

- Does the franchisor do a good job of updating products, services, training, marketing, etc., as needed to keep up with changing market conditions?
- Have you ever been involved in a dispute or disagreement with your franchisor, and if so, how was it resolved?
- Does the franchise have a franchisee owners association or advisory council? If so, how effective is it, and how seriously is it taken by the franchisor?
- How do the financial results you have achieved as a franchise owner stack up against your original expectations? If they are better or worse than your original expectations, to what do you attribute the disparity?
- If you had to do it all over again, would you purchase this same franchise? Why or why not?

Another critical component of any franchise search is a careful reading of the Franchise Disclosure Document (FDD), a copy of which must be provided to you by the franchisor when discussions reach a serious stage, as required by the Federal Trade Commission. The FDD contains information that is very important to both parties for this transaction. Even if you are using a franchise attorney or consultant to review this document, be sure to read it very carefully yourself.

"Disclosure documents, required under the FTC Rule and most state laws, are the crux of the franchise protection laws," stresses Jim Meaney, a veteran franchise attorney and author of How to Buy a Franchise. The FDD and other disclosure documents "contain the ABCs of the opportunity you are exploring and disclose approximately 20 categories of information about the franchisor and the franchise offering. Nothing provides you with more comprehensive information," he says.

As critical as the FDD is, Meaney adds, it is important to note that a franchisor's use of a disclosure document does not signify any kind of endorsement or approval of the franchisor or the franchise offering by any government agency. Prospective franchisees also need to make sure they receive the most current version of the FDD, which by law must contain information no more than one year old.