Contractor Success

A monthly supplement to boost your contracting business

What's your cleaning business worth?

Value is a moving target – so monitor and organize your business to be successful.

by Gary Penrod

Market watch

Market area factors that influence the value of a cleaning business include:

- Opportunity
- Labor availability
- Union or non-union
- Contiguous market areas
- Competition strength
- General business climate, including cost of insurance

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Determining the value of a cleaning business can be elusive. It's also relative.

How do you measure the value of an enterprise that provides not only the material well-being for its owners, but also a sense of pride and accomplishment for them and its management?

The answer isn't especially difficult – as long as you recognize that its value can be different to different people at different times.

Positive-ly valuable

A valuable business will have the attributes of a well-organized and administered company. Record keeping, progress reports for management, financial reports that are professionally done and timely can also affect value.

In a business that is labor intensive, track labor frequently. Make sure internal financials are available by the 15th-20th of the next month. Track labor for the current period weekly.

Here are some of the most important factors that can have positive influence on value for a firm engaged in the building service industry:

Market area

Where you're engaged in business counts. Like it or not, there is a preference for some market areas above others.

read "market watch" on this page to learn the positive values affecting a cleaning business.

Industry sector

The industry sector in which a company operates can influence perceived value. Some industry sectors are preferred above others.

Generally speaking, a company serving two or three sectors with distinct lines of demarcation is preferred over a company working in only one sector or those working in many sectors, with no

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I wanna grow up

Appropriate growth is important for three reasons:

- It helps to maintain the vitality of the management group. Challenge and opportunity for performance reward helps to maintain management vitality.
- Vitality is a perceived vale to both shareholders and prospective buyers.
- Growth indicates momentum.

– G.P.

clear operational distinction among those sectors.

Customer quality

Market sector is important, but so is the quality _ reputation, vendor relationship and financial standing – of individual customers.

Rate of growth

A sustained, manageable rate of growth is vital for a company. Some business will be lost; some will be gained.

The rate of growth needs to be manageable. Usually, a 15-20 percent annual net growth is considered to be appropriate.

Profitability

There are many reasons for a business to exist. A business provides jobs. It can produce wealth for the shareholders.

It provides tax revenue for local, state and national governments. And, it provides intrinsic value for the shareholders and management.

None of this is possible without an appropriate profit at a consistent level over an extended period of time.

There's no point of a for-profit entity to exist it there's no profit. Profit should be at an appropriate level and should be consistent.

read "I wanna grow up" on page 52 to learn why growth is so important.

Management infrastructure

People, not things, make a company work.

The management group needs to be organized in such a way to effectively carry out the company's mission.

The group needs to be creative and open to new ways to make things happen as their industry evolves.

Ultimately, shareholder management and other professional management determine whether or not a company's mission is carried out successfully and whether or not the company has the value that it can have.

Revenue balance

Overall stability of a company, its management, market area and market sector contribute to stability. So does the customer list and it balance.

A positive balance in a customer list means gross revenue and gross profit are evenly distributed.

As a rule of thumb for those engaged in the building service industry, no more than 10-15 percent of the gross revenue and grass profit should be contributed by one customer. A balanced customer list adds to value.

Customer retention

This can be a sure sign of the company's overall stability and its management's effectiveness.

Read "Risky business" on this page to learn how a company's behavior can affect value.

Eyes of the beholder

Value is in the eyes of the beholder.

Value depends on the perception of whoever is assigning value, whether a shareholder or a prospective buyer or someone else and for what purpose the valuation is being made.

The enemy of value is complacency, lack of vision, goals and planning.

Value is a moving target that's really the pulse of an enterprise. Monitor and understand it so you can maintain it, whatever it takes.

Read "Playing with value" on this page to learn how you can manipulate it.

Risky business

Risk, as perceived by different groups with a different perspective, is a factor when assigning value to an enterprise.

Often, the perception of risk is difficult to define.

Sometimes, particularly in the case of a prospective buyer, risk is subject to the tolerance of the individual making the judgment. It has subjective elements and can even be emotional.

The perception of risk is one of the most difficult aspects of having two groups, each with a different perspective, agree on value.

Financial reports should be timely and clear.

The report should provide a clear picture of where finds have been distributed. The chart of accounts should be extensive enough so as to provide a breakout for all but the most minor expenses. By doing so and by taking action where needed as a result of analysis of the expense flow, value is being maintained or enhanced.

Some perks are common among privately held companies.

Management that takes liberties to the extreme are truly lessening the value of their company – as well as putting themselves and other at risk for fraud.

Take advantage of the legal tax rules that are available. To go beyond that is to increase risk and devalue the entity.

Another aspect of perk abuse is that it has a way of being known to others and demoralizing those others in management who observe this practice.

– G.P.

Playing with value

Value can be manipulated or enhanced as necessary

Negative aspects or factors can be changed, once they're recognized as being negative/

Some changes are easy and take little time. Others are more difficult and take longer to accomplish. The result is a business enterprise that's meeting the goals of its shareholders _ whether for the long haul or for positioning for being acquired _ and one in which maintaining overall value is a day-to-day activity.

– G.P.