

PRESS RELEASE

UK Contract Cleaning & Allied Services Market Report 2001

AMA Research has recently published a comprehensive review of the UK Contract Cleaning & Allied Services market. The report concentrates on a number of aspects of the market including:-

- Analysis of the contract cleaning market in terms of growth in end-user markets and market penetration.
- Productivity trends including longer working hours, output-led specifications and employment legislation.
- Major contract cleaning companies, healthcare support service companies, franchise networks and facilities management organisations.
- The supply and distribution of chemicals, powered cleaning equipment and manual cleaning products – market sizes, leading manufacturers and suppliers.

The report contains 110 pages and 32 tables and charts and is priced at £545.

Editors Note:

Enclosed is a summary of the report. Please use brief extracts if you wish, **but we would request that references to company market shares are not published without our prior permission.**

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- It would be appreciated if a copy of the review could be forwarded to AMA Research. Thank you.

UK CONTRACT CLEANING & ALLIED SERVICES MARKET REPORT

SUMMARY

Since the early 1990's, organisations in the UK public and 'blue chip' sectors have continued to outsource non-productive functions to reduce labour costs and management time on low-priority areas and to obtain improved quality of service, provided by companies specialising in cleaning and allied services.

The contract cleaning and allied services industry has undergone rapid growth during the 1990's, exceeding the average growth rate in the UK economy, reflecting the immaturity of the market. It is estimated that in 2000, the market for contract cleaning and allied services was worth just over **£4bn**, and is expected to show steady growth over the next three years, reaching **£5.26bn** in 2004, as illustrated below:

<u>Table 1: UK Contract Cleaning & Allied Services Market 1998 –2004</u> <u>(At Current Prices)</u>		
Year	Value (£bn)	Change (%)
1998	3.50	
1999	3.75	+ 7
2000	4.01	+ 7
2001Fcst	4.26	+ 6
2002Fcst	4.54	+ 6
2003Fcst	4.88	+ 7
2004Fcst	5.26	+ 8
<i>Source: AMA Research/Trade Sources</i>		

The main factors underpinning growth over the period 1998-2000 include:

Steady underlying growth in the UK economy, which in turn has underpinned strong growth in the business services sector and commercial construction.

Strong growth rates in commercial office, retail and leisure construction output has resulted in a significant increase in additional floor area, especially in-town shopping malls and high rise office developments.

Increases in the rates of outsourcing in both the public and private sectors. In the public sector, there has been a marked increase in the number of private-public sector partnership developments over the last couple of years. In tandem with this has been an increase in the rate of outsourcing of facilities services.

Continuing trend towards 'bundled' service contracting among larger organisations in the public and 'Blue Chip' sectors. This is resulting in higher-value contracts, thereby contributing to overall market growth.

Impact of Government and EU legislation on contractors' costs, e.g. Working Time Directive and National Minimum Wage. In certain regions of the UK, these two pieces of legislation have led to an increase in operating costs, a proportion of which have been passed onto clients.

Higher expectations from the public for hygiene and cleanliness in public places, especially in the NHS sector.

In certain end-user sectors, market potential for cleaning contractors is either near saturation or has already reached maturity, e.g. 'Blue Chip' commercial, retail, leisure, transport and central government. Growth potential in these markets, therefore, is largely dependent upon increasing levels of investment in commercial and industrial newbuild. However, since 1998, there has been a decrease in the growth rate in orders of retail and leisure newbuild, which has been feeding through to a slowdown in the growth rate for contract cleaning and allied services in these sectors. But, in the commercial sector, office newbuild continues to grow strongly, while the recent high levels of output are expected to be maintained over the medium term, underpinned by a substantial number of very large office and mixed-use developments due to come on-stream during the next five years.

The other main growth impetus will come from increased levels of outsourcing in certain key end-use sectors, in tandem with the trend towards multi-service contracts. This is expected to be most prevalent in the public sector, where around 60% of contracts are still undertaken in-house. Tight budgeting requirements among local authorities and NHS Trusts are expected to generate increasing demand for support services specialists and facilities management services contractors. This is illustrated by the recent awards of several very large multi-site contracts e.g. the STEPS contract with the Inland Revenue and HM Customs & Excise, and the Glasgow schools. In the local authority sector, the key area of demand is expected to be secondary education sector, where several large multi-site full FM contracts have recently started.

While growing construction output and increasing levels of outsourcing are expected to provide opportunities for growth, standard or 'pure' contract cleaning companies face several threats. As barriers to the contract cleaning industry are low, there continues to be an increase in competition from facilities management and the larger contract catering companies in key end user sectors e.g. MoD, healthcare and multi-site 'Blue Chip' businesses.

To date, the impact of the National Minimum Wage (NMW) and the Working Time Directive (WTD) has been relatively low key. Those mainly affected have been smaller contractors and companies operating in less prosperous areas, many of which had been paying below the £3.60 minimum set by the NMW. In contrast, larger players and firms operating within the more affluent regions e.g. South East of England, had typically been paying above this level prior to the introduction of the NMW. This Autumn, the minimum wage is set to rise again to £4.10 and is likely to have a more profound affect, particularly on smaller contractors who typically can only compete with larger companies on price.

The trend towards 'bundling' is also tending to weigh in favour of the national and larger regional contractors at the upper end of the market, where client organisations are seeking better value through 'one stop shop' service provision. This factor, together with a number of major acquisitions during the last three years, is clearly leading to a further polarisation of the market, although no company has a significant market share. The largest five - **Rentokil Initial, OCS Group, ISS UK, MITIE Group and Pall Mall Support Services** - have a combined share of around 23%. That the next rank of companies below -with annual turnovers in the range of £20-40m - only have a combined share of 6%, illustrates the fragmented nature of the other 77% of the market.

Increasing competition for fewer higher-value contracts at the upper end of the market, combined with demand for higher productivity and the impact of legislation, are generating the need for improvements in employment structure and operations. Already, there are signs of a gradual shift towards full-time labour, perceived as more cost-efficient than part-time employment. Other factors are that the market for part-time labour is becoming increasingly competitive, and that 'round-the-clock' working in some end-user sectors necessitates the use of full-time workers on day shifts.

Demand for higher productivity from customers is creating demand for more productive cleaning machines. Higher labour costs are expected to force many contractors to reduce labour input and increase investment in machines, especially robotic floor cleaning equipment for buildings with large expanses of floor areas and for multi-function cleaning machines which can efficiently perform at least two stages of floor cleaning in one pass.

The UK market for industrial cleaning equipment and chemicals is estimated to be worth around **£795m msp**. The largest sector is industrial cleaning chemicals, which accounts for around 65% of sales, i.e. approximately **£520m msp**. However, this figure is higher if sales of domestic cleaning chemicals used for commercial applications are included. Leading suppliers include **DiverseyLever, Johnson Wax Professional, Henkel Ecolab** and **Kleencare Hygiene**, although owing to high degrees of fragmentation in the product and end-user markets it is difficult to establish specific market shares.

Sales of powered cleaning equipment account for some 25% of the total market, at around **£195m**, while the remaining 10% (**£80m**), is accounted for by manual cleaning materials, although there is some overlap between domestic and commercial use.

The leading suppliers of powered floor cleaning equipment in the UK include **Numatic** and **Nilfisk-Advance**, the largest suppliers of branded machines in the commercial vacuum cleaners sector, although **Soteco** is the key manufacturer of 'badged' vacuum cleaners supplied under brands e.g. *MasterVac*. **Alto** and **Karcher** are the dominant suppliers in the market for pressure washers. **Tennant UK, Dowding and Plummer, Hako Machines, Walter Broadley, Premiere Products, Diverseylever** and **Truvox** are leading suppliers of larger items of hard floor care equipment i.e. scrubber driers, large area floor polishers etc.

The market for manual cleaning products is dominated by a handful of manufacturers, each with strengths in differing product sectors, these being Ramon Knitting, Robert Scott, SYR, Contico Manufacturing, Addis Commercial, Vileda and Numatic International.