

Presentation for ISSA-Event 2016 in Mainz

Current trends and challenges in the German Cleaning Industry





Who we are

Cleaning Markets – A division of DTO Research

About Cleaning Markets

About us



Business Unit of DTO which is specialized in the cleaning industry sector

Number of employees: 14 (DTO total)

Headquarters: Düsseldorf (NRW)

Founding year: 2008

Core segments



Commercial vehicles, cleaning products and machinery, chemicals and medical

Languages



Expert interviews in: German, English, Spanish, Portuguese, French, Russian, Turkish and Japanese

USP



Market information in less transparent markets, cooperation with service providers to assist our customers by new product developments and live product tests

About DTO Research

Our global footprint



Abstract references



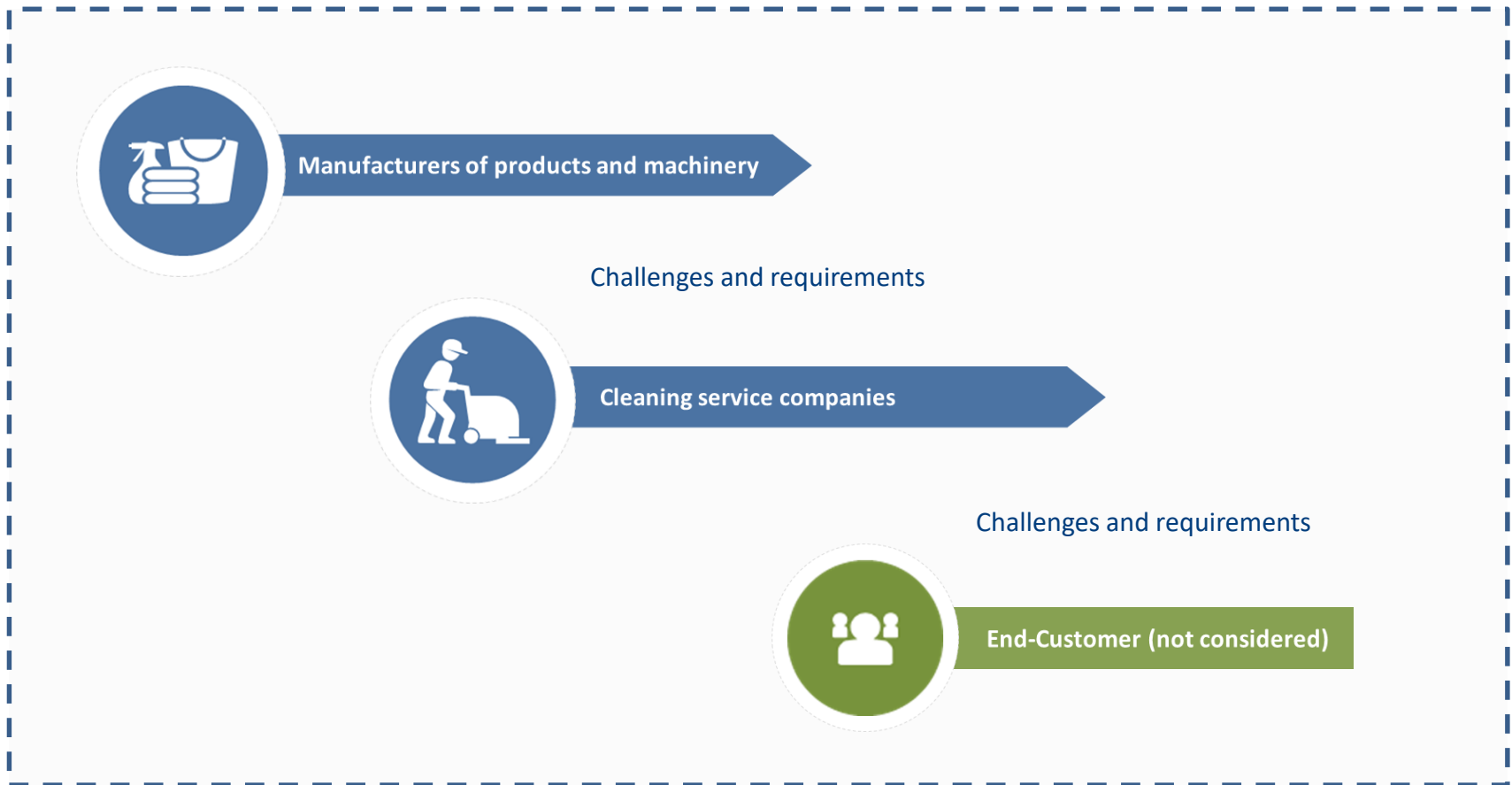


Introduction and methodology

“Two main perspectives on the market”

What was considered in the small survey

Snapshot of the cleaning market



Introduction and market environment (1)



- In Germany there are around 2,700 service companies in the cleaning sector
- Approximately 90 percent of them are organized in the Bundesinnungsverband „Die Gebäudereiniger“
- In 2014 the turnover was around 14.7 billion Euro and is increasing steadily
- With 85 percent and more, labor costs are the biggest cost factor while products and systems are only responsible for around two percent of total costs
- Revenue-based the German cleaning market is number one in Europe
- The market segment of commercial customers is mainly saturated what leads to an enormous predatory competition
- In their traditional business segments the cost pressure for service providers is extremely high and cost cutting measures are very important to remain competitive
- End-customers in some cases in-source cleaning activities (commercial and municipal customers)

Introduction and market environment (2)



- Manufacturers have to deal with a heterogamous user structure with varying educational levels and need structures
- Ability to use economies of scale is not always given due to different intercultural requirements, laws and customer preferences
- For manufacturers it is often difficult to adapt products toward the needs of service companies and the requirements of end-customers especially when tenders are involved
- Trendsetting is often difficult because of the mainly conservative market. Often trends and innovations are driven by legal changes.
- Very high competition in segments of less complex or innovative products
- For manufacturers there is a high demand for differentiation and innovation due to the enormous cost pressure which is forwarded by the service companies
- The tendency toward single-supplier strategies by service companies make it often necessary for a manufacturer to use different sales channels which also affects the margins negatively

Source: Die Gebäudedienstleister – Bundesinnungsverband; own interviews; Institut der deutschen Wirtschaft

Methodology

Methodology for data generation:

- 10 guideline assisted telephone interviews with:



Product and machine manufacturers

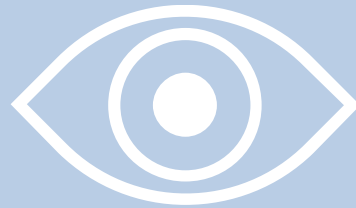


Cleaning companies



Associations

- Only a snapshot of the B2B segment and not a representative survey



Interview results

“The need for innovation and differentiation in a price driven market”

Current challenges in the market

“What are currently the biggest challenges in the market?”



- Development of new business models for differentiation and cost cutting
- Optimization of work and communication processes
- Find solutions to minimize negative effects caused by ongoing staff changes
- React on the lack of transparency especially in the tender business

- Development of new solutions to reduce manpower needed by cleaning companies
- Find new ways of communication to get a closer relationship with the product/machine user
- Make products more simple and efficient
- Find ways to attract cleaning companies toward innovative product solutions
- Adapt products toward different markets

Source: Own interviews

Quotes from the interviews

“Due to the high cost pressure in the market new solutions which can save manpower are necessary. We as a manufacturer of cleaning machines work intensively on that kind of solutions.”

(Head of development, cleaning machine manufacturer)

“The challenges we have to face are the same for a long time. For cleaning companies the market is less transparent. Especially when tenders are involved it is very difficult to make suitable offers. Furthermore we have to face an enormous cost pressure.”

(General manager, cleaning company)

“Manufacturers try to launch real innovations from time to time. But you have to differentiate between products that seem to be a trend because of a high media presence and products which really succeed in the market. Especially cleaning companies are very conservative and it often takes long to change their attitude toward new technologies.”

(Product manager, cleaning equipment manufacturer)

“Our service can be replaced very easily. The only chance you have is to open up new business segments. These may be new business models in the traditional cleaning or services apart from the segment.”

(Head of BU, facility management company)

Current trends in the cleaning industry

“What are the major trends discussed at the moment?”



- Telematics and digital (GPS and RFID) solutions for machine and fleet management
- Robotics
- Sustainability and effectivity in machine technology (e.g. recycling, battery-technology or electric engines → less water and less energy)
- Optimization of communication toward the customer by using different sales channels (e.g. three-stage distribution)
- Ways of simplifying the communication toward the customer (e.g. ISS or Dussmann direct)
- Stronger integration of the cleaning staff in problem solving processes
- Find segments to expand business in the cleaning sector and other fields of business



Source: Own interviews

Quotes from the interviews

“Flat communication structures and processes toward us and the service companies are necessary in the focus of new developments. These may be video tutorials or digital feedback and support solutions.”

(General manager, cleaning machine manufacturer)

“While sustainability becomes more and more important for cleaning machinery this trend has only a limited impact in case of organic cleaning chemicals. Only some municipalities and bigger companies request them. While a certain market has already established, it is not expected to grow significantly in the close future.”

(General manager, cleaning product supplier)

“Cleaning staff will be more and more involved in the product development and problem solving process.”

(Business development manager, cleaning equipment manufacturer)

“All current trends are driven by a simplification of machine usage and communication structures.”

(Head of technology, cleaning machine manufacturer)

“In fact there are main trends according to cleaning machinery. These trends are machine maintenance with help of telematics and cleaning robotics. But while telematics are already often used in bigger machine fleets, robotic technologies are not ready for the market yet.”

(General manager, cleaning company)

Innovation and differentiation - manufacturers



“The cleaning industry is often described as less innovative in case of new product or machine developments. What is your opinion about that?”

Cleaning machinery

Level of innovation

- Is said to be the most innovative and heterogeneous segment
- Features of different brands are said to be more nice to have than essential
- Disadvantage: new technologies are used to avoid customer migration



Cleaning equipment

Level of innovation

- Segment with frequent innovative thrusts which are manufacturer driven
- Differentiation is mainly possible by service and sustainability
- Combination with telematics is said to be a future application



Cleaning chemicals

Level of innovation

- Is said to be the less innovative segment in the cleaning industry
- All major providers have a product range which is around 90 percent comparable
- New products are unique in the market for a maximum period of one year



Source: Own interviews

Quotes from the interviews

“Major innovations in the cleaning industry are mainly driven by legal changes. Often the attitude toward innovative products is positive as long as they do not cause additional costs. Basis for nearly all future innovations in the industry will be a higher work efficiency.”

(Head of BU, cleaning machinery association)

“Major innovations in the market are mostly driven by the manufacturers while product improvements and modifications are often based on customers advice.”

(Key account manager, cleaning machine and equipment manufacturer)

“Real innovations in the segment of cleaning equipment do rarely exist. This might be changing if telematics and digital solutions are also used for technically less complex products.”

(General manager, cleaning machinery manufacturer)

“The portfolio of chemical manufacturers is mainly similar. All of the huge providers have nearly the same product range. Innovations are often copied and do not reserve their exclusivity for more than one year. More differences exist in the segment of cleaning machines.”

(General manager, cleaning company)

Innovation and differentiation – service companies



“The cleaning industry is often described as less innovative in case of new product or machine developments. What is your opinion about that?”

Huge cleaning companies

Level of innovation

- Open up new business areas
- Forward integration toward the traditional cleaning business of SMEs
- Use more innovative and sustainable products as a tendency



Small and medium sized cleaning companies

Level of innovation

- Face an enormous cost pressure
- Mainly focus on the core business (maintenance cleaning)
- Purchasing decisions are mostly price focused



Cleaning companies in general

- Do not initiate product innovations but can deliver important input for the optimization of existing products and machines
- Complain that their requirements are often not considered in an early stage of product or machine development

Source: Own interviews

Quotes from the interviews

“Huge facility management companies try to insource as much services as possible to generate profit. Smaller cleaning companies try to cut costs by purchasing cheaper products. Their business models are less flexible.”

(General manager, cleaning company)

“Innovations always have the target to optimize personnel costs. New business concepts try to increase efficiency and optimize communication structures. Also new business segments like catering, security or personnel placement are opened up by huge cleaning companies.”

(General manager, cleaning company)

“Especially small and medium sized cleaning companies have a very conservative attitude. They will only innovate if they have to, because of legal changes or customer requests.”

(Division manager, cleaning company)

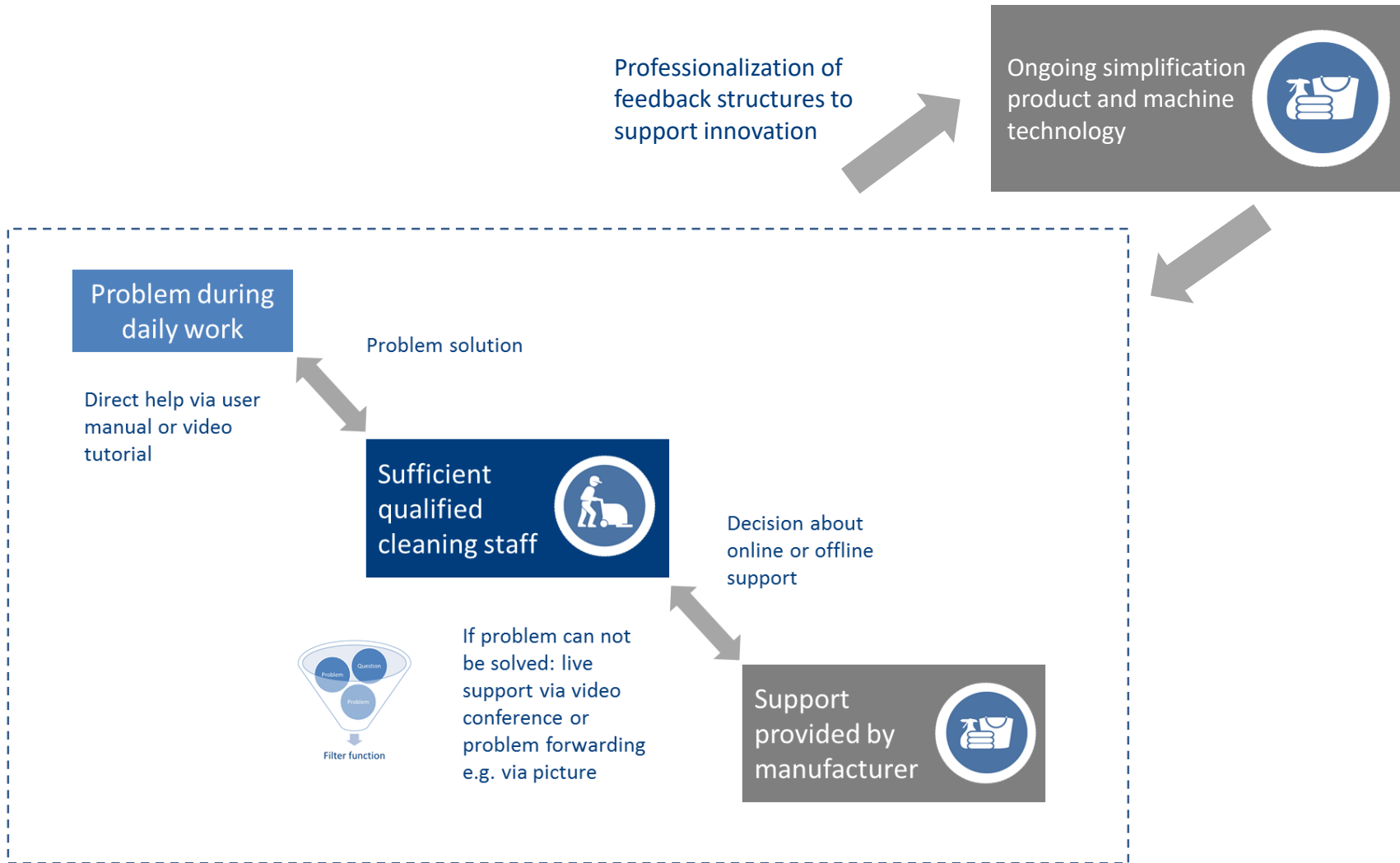
Robotic and telematics



- Robotics and telematics are currently the most discussed trends in the cleaning branch
- But these two segments have totally different development stages
- While telematics is already used for fleet management by huge cleaning companies and municipalities, robotic is still in a test phase
- All of the interview participants think that robotic is a very important future topic but do not see a quick breakthrough of the technology
- Telematics is said to be responsible for the next major change in cleaning technology which will soon be established in the market
- The technology will also change the communication structures between service companies and manufactures and can be seen as basis for new business models
- According to the interview participants the technology will have an impact toward cleaning machinery and equipment

Source: Own interviews

Simplification of communication structures



Source: Own interviews

Quotes from the interviews

“Telematics, especially the remote management of machines, is a huge topic in the market. For companies which have a lot of machines in their fleet this is already a common technology.”

(Division manager, cleaning machinery association)

“We have once tried a robotic solution but the results were poor. In my opinion this is not a sophisticated technology yet, but will become important in the future.”

(Area manager, cleaning company)

“The digital optimization of fleet management is a very important issue. But there are still some problems to solve. The interfaces between the manufacturer, general contractor, sub-contractor and wholesaler should be optimized.”

(General manager, cleaning company)

“Robotic solutions will become very important in the future. Currently they are in a test phase and are only used as prestige tools or in companies which provide parts for those machines.”

(General manager, cleaning company)



Conclusion and recommendations

“Communication and simplification leads to innovation”

Conclusion and recommendations

- Due to the high cost pressure innovations are essential
- Innovations are not expected and initiated by the cleaning companies
- Industry is very conservative and innovations only penetrate the market slowly
- That makes it necessary to integrate users more into the innovation processes
- An optimization in communication and a stronger integration of cleaning staff in problem solving processes will be important factors for the manufacturer's business models
- Innovation strategies in many cases should be professionalized and structured
- Online user communities can become an important tool in the future



Conclusion and recommendations

- Due to the business expansion of huge cleaning companies toward the traditional businesses of SMEs, the competition for them will increase in the near future
- For all cleaning companies the opening up of new markets is essential
- Communication and work processes have to become more flat to decrease costs





Sichere Orientierung, dank perfekter Ortung

Contact details

Cleaning Markets – a division of DTO Research
Benrather Schloßallee 33
40597 Düsseldorf

+49 211 / 179 660-0
info@dto-consulting.de
www.cleaning-markets.de

Cleaning Markets



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