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INDUSTRIAL CLEANING: Outsourcing versus in-house production

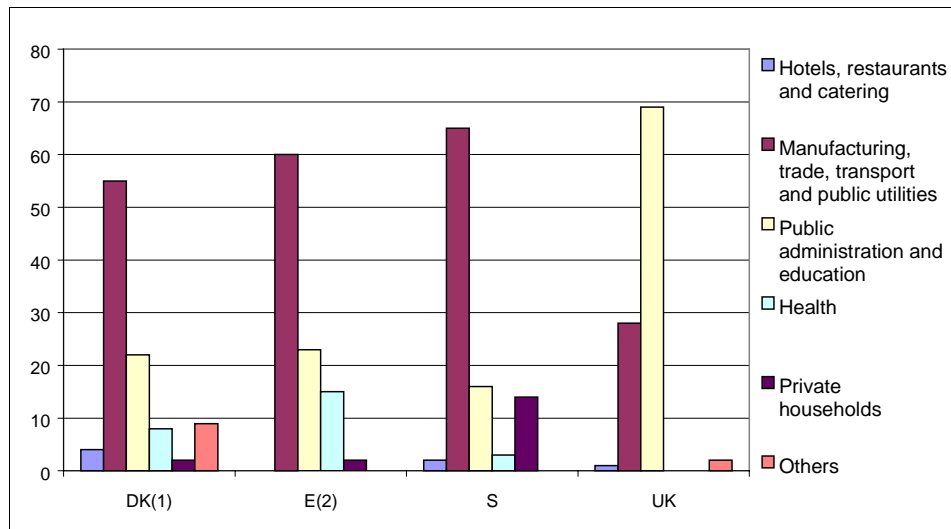
Kjartan Björnsson

The distribution of turnover by market segment indicates that cleaning services are not outsourced to the same extent in the different Member States of the EU. More than 80 % of annual turnover in industrial cleaning derives from two groupings: manufacturing, trade, transport and public utilities, and public administration and education. Horeca, health and private households are very small market segments for the industrial cleaning sector. Industrial cleaning makes up 3 % of total employment in the private sector; most of the employees are female and work part-time.

Outsourcing of cleaning activities

"Other market services" experienced high growth from 1985 to 1995, when their share of the number of wage and salary earners increased by approximately 50 %. This was partly due to outsourcing, since the increased competition facing the businesses in this branch in the 1990s led them to refocus their strategies. Larger enterprises used to control the whole production process, but they now tend to outsource non-core activities.

Figure 1 - Breakdown of turnover by client, 1996



Spain: Others is included in Manufacturing trade, transport and public utilities as is for Hotels, restaurants and catering

(1) Survey data, non grossed up

(2) 1995 data

The results presented in this edition of *Statistics in Focus* are based on a pilot survey of industrial cleaning in four Member States. The number of responses accepted was 120 (DK), 3 176 (E), 250 (S) and 250 (UK) respectively. Because there were so few good responses to the survey, the results should be treated with caution.

The most interesting result is that more than 80 % of annual turnover in industrial cleaning derives from customers in two groupings: manufacturing, trade, transport and public utilities, and public administration and education. This suggests that cleaning activities have been outsourced to a larger extent from these sectors: cf. Figure 1. However, since the total demand (in-house plus purchased) for cleaning services by sector is unknown, this can only be an indication.

A second finding is that the public administration and education market segment in the UK is more than three times the size of those in the other countries surveyed. The substantial privatisation process in the UK since the beginning of the 1980s may explain this.



Private households are not currently a large market for the industrial cleaning sector. The example of Sweden shows that there is considerable growth potential for industrial cleaning in this area, however.

In Denmark, moreover, the government provides financial support for households that hire cleaning firms. This is done primarily to restrict the use of black-market labour, and secondly because industrial cleaning is seen as an important source of jobs, especially for relatively low-skilled people.

Industrial cleaning firms receive only a very small share of the annual turnover from activities in the hotels and restaurants sector, which indicates that cleaning activities tend to be in-house in the Horeca sector.

Large enterprises in industrial cleaning

The 27 000 enterprises in industrial cleaning employ more than 660 000 employees in the four Member States surveyed. This corresponds to 3 % of the 22 million employees in the services sector in the four countries: cf. Table 1.

In terms of annual turnover the weight of industrial cleaning is considerably smaller. This is due principally to a relatively high turnover in the wholesale and retail trades, and also to a higher share of part-time employees in industrial cleaning than in services as a whole: cf. Table 4.

Table 1
Basic economic indicators for industrial cleaning: country totals, 1996

Indicator	DK	E ⁽¹⁾	S	UK
Enterprises	4 837 ⁽¹⁾	12 402	3 040	6 647
- share of services (%)	2.8	0.7	1.6	0.3
Employees	18 018 ⁽²⁾	222 337	31 437 ⁽²⁾	394 197
- share of services (%)	2.1	3.3	2.6	2.9
Turnover⁽³⁾	808.5	2 556.3	1 144.3	3 586.9
- share of services (%)	0.5	0.4	0.5	0.1
Gross value added (at factor cost) ⁽³⁾	614 ⁽¹⁾	2 190	848	2 828 ⁽⁴⁾
Exports ⁽³⁾	9	1	:	39
Personnel costs⁽³⁾	447 ^(1,5)	1 989	655	2 014
- KECU per employee (industrial cleaning)	25	9	21	5
- KECU per employee (services sector)	34	:	30	13 ⁽⁶⁾

- (1) 1995 data
 (2) Full-time equivalent
 (3) Mio. ECU based on the annual averages of the exchange rates
 (4) At basic prices
 (5) Only wages and salaries. Social contributions are not included
 (6) 1994 data
 : Not available

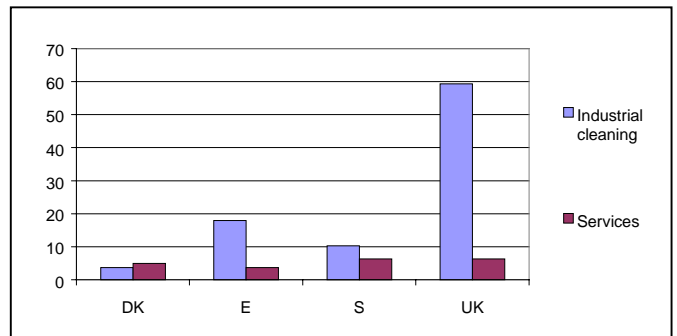
Source: Eurostat, National Statistical Institutes

Gross value added per employee in the industrial cleaning sector is quite small, which may indicate relatively low labour productivity. Since personnel costs amount to approximately 3/4 of gross value

added in industrial cleaning; wage-adjusted labour productivity is indeed relatively low¹.

Industrial cleaning appears to be quite important to employment generation in the EU, although there are wide differences between the four participating countries. The number of employees per industrial cleaning firm ranges from four in Denmark to 60 in the UK. Other than in Denmark, firms in industrial cleaning tend to be larger than in the other service sectors: cf. Figure 2². More than 80 % of cleaning businesses in Denmark have no employees – a higher share than in the other countries surveyed.

Figure 2 - Number of employees per enterprise



It is hardly surprising that export in industrial cleaning is very limited. Cleaning services can be carried out only on site and businesses would therefore rather operate through foreign partnerships or affiliates than engage in traditional export.

The enterprises in industrial cleaning were also asked whether they belonged to a group or another firm. The share of foreign-owned companies is small except in Spain, where they account for 13 % of the total number of enterprises belonging to a group or owned by another enterprise.

Relatively little dependence on clients

Industrial cleaning firms do not therefore depend on the international market, and most of their annual turnover derives from manufacturing, trade, transport and public utilities.

The next step is to analyse the degree of dependence and vulnerability of industrial cleaning. This is done by calculating the weight of the three biggest clients in terms of the annual turnover of each enterprise.

Almost 60 % of industrial cleaning firms in the UK depend on only three clients for more than 50 % of their annual turnover. These firms are therefore highly dependent on only a few clients. On the other hand, fewer than 20 % of enterprises in Spain depend on only three clients for more than 50 % of their annual turnover: cf. Table 2.

⁽¹⁾ The wage-adjusted labour productivity for the business services sector as such is 65% (FATS, 1998).

⁽²⁾ Enterprises in Europe 1998, fifth edition

Bearing in mind these differences between countries, dependence on large clients seems to be similar to that of the software and computer services branch³ In engineering services, however, some 40 % of firms depend on only three clients for more than 50 % of their turnover - apparently a higher rate than in industrial cleaning⁴.

Table 2
Number of enterprises by turnover share of the three biggest clients, 1996 (%)

	DK	E ^(1,2)	S	UK ⁽²⁾
Less than 10% of turnover	:	27	34	7
10 - 49% of turnover	:	54	33	36
50% or more of turnover	:	19	33	57
Total	:	100	100	100

(1) 1995 data

(2) Survey data, non grossed up

: Not available

Source: Eurostat, National Statistical Institutes

The vulnerability of industrial cleaning firms shows no country-specific differences that are similar across the business service sectors surveyed. Spain, for instance, is least vulnerable in industrial cleaning and most vulnerable in software and computer services. In the UK the situation is the opposite.

Many women working part-time in industrial cleaning

It is claimed that industrial cleaning provides employment opportunities for lower-skilled employees. Indeed, most employees in this sector are classified as cleaning staff and do not therefore occupy positions in administration or management: cf. Table 3.

In the four Member States surveyed, 37 % to 73 % of employees in industrial cleaning work part time. Part-time figures in the services sector in the same

countries range from 10 % in Spain to 31 % in the UK. Part-time employment is therefore highly dominant in industrial cleaning: cf. Table 4.

Table 3
Employees by occupation, 1996 (%)

	DK ^(1,2)	E ^(1,2)	S	UK ⁽²⁾
Directors, managers, administrative staff	5	3	:	14
Cleaning staff	90	94	:	81
Other	5	3	:	5
Total	100	100	:	100

(1) 1995 data

(2) Survey data, non grossed up

: Not available

Source: Eurostat, National Statistical Institutes

This may explain why, except in Sweden, the share of female employees is higher in industrial cleaning than in the services sector as a whole. Whereas between 3/5 and 4/5 of employees in the industrial cleaning sector are female, only about half of those in services as a whole are women.

Table 4
Employees by working time and gender, 1996 (%)

	DK ^(1,2)	E ⁽¹⁾	S	UK
Full-time	63	48	56	27
Part-time	37	52	44	73
Total	100	100	100	100
Part-time (services) ⁽³⁾	27	10	30	31
Male	21	21	43	28
Female	79	79	57	72
Total	100	100	100	100
Female (services) ⁽³⁾	53	45	59	54

(1) 1995 data

(2) Survey data, non grossed up

(3) Labour force survey, 1996

: Not available

Source: Eurostat, National Statistical Institutes

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The pilot survey on industrial cleaning was launched in 1996/97 as part of a larger survey of the business services sector. Four pilot surveys were initiated with the aim of testing the feasibility of collecting statistical information for business services that goes beyond the basic requirements of Annex 1 of Regulation 58/97 concerning structural business statistics.

The results of the pilot surveys on engineering services and software/computer services have already been published. In the course of next year, the main findings of the survey on labour recruitment will be presented in a more comprehensive publication covering the results of all four pilot surveys on business services.

³ *Statistics in Focus, Distributive trade, services and transport, 1998:9.*

⁴ *Non-published results from pilot project.*

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For information on methodology:

Kjartan Björnsson, Eurostat/D2 - L-2920 Luxembourg

tel. (352) 4301 35586, fax: (352) 4301 32600,

e-mail: kjartan.bjoernsson@eurostat.cec.be

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