

Transforming *CLEANERS INTO BUSINESS OWNERS*

Visionaries start companies and turn them into successful businesses. But when the visionary steps down, shareholders – more often than not – turn leadership over to the Chief Financial Officer.

There are many reasons for this. Chartered accountants have a combination of financial expertise, analytical skills, risk management, compliance and regulatory expertise, and are adept at controlling costs and implementing cost-effective measures.

Accountants are bound by strict ethical codes and professional standards, which inspire confidence in shareholders and stakeholders. They are trained to be objective and impartial, are detail-oriented and meticulous, and are skilled in financial planning and forecasting, which can help development of effective business strategies and long-term growth plans.

But all of these strengths which accountants bring to the table also mean that they are inherently conservative when it comes to risk-taking; tried and tested methods will normally appeal more than new and innovative ideas.

This is why although South Africans are world leaders when it comes to innovation, it takes a while for those ideas to gain traction with our business communities.

Our country is saddled with the highest level of unemployment in the emerging economies. Our corporate sector has a pile of uninvested cash waiting for a solid business opportunity, but our accountants want to see the numbers first.

What if there was a new business model that is able to –

- Quickly create a new group of successful entrepreneurs
- Allow for genuine empowerment and upliftment of workers in the minimum wage bracket
- Has a built-in safety net to protect that business from collapse, and
- Delivers a solid uptick in the bottom line?

‘Tandem franchising’ is a new concept which ticks all of these boxes. And it has emerged in one of the least ‘cool’ but most essential sectors of the economy – cleaning. An established player for more than a decade developed this new and innovative business model for the cleaning and soft service industry to empower and motivate qualifying staff members to become business owners.

The contract cleaning industry plays a significant role in South Africa’s economy, employing around 100 000 people through +/- 1 750 contract cleaning companies. Like the JSE, the employment pattern follows the 80/20 principle: a handful of the larger companies each employ between 18 000 and 20 000 cleaners. Many medium-sized companies employ around 1 000 cleaners. And around 70% of the industry comprises small and micro- enterprises, each employing fewer than 50 cleaners.



Every business, big or small, makes use of cleaning staff, but the cost structure – big or small – is the same: roughly 80% of the cost is labour with the remain 20% split between capex (cost of cleaning equipment) and opex (cleaning materials, chemicals).

The cleaning industry is dominated by a handful of large groups. Contracts are awarded through tenders, with low prices being the deciding factor.

These economic realities mean there is little or no room for career advancement among cleaners. A new recruit with almost no experience earns almost as much a worker with more than a decade of experience; and this is true across all of the industry.

One possible way for cleaners to be able to uplift themselves would be to start their own cleaning company and acquire a greater personal stake in the cleaning contract.

But starting a business for workers who do not have access to seed capital, cash flow, budgeting skills, and overall financial skills is near impossible.

Even if they are able to overcome these hurdles, the start-up cleaning company is unlikely to persuade client businesses looking for cleaning services to take a chance on their new startup venture.

THE TANDEM FRANCHISING MODEL

The 'tandem franchising' model overcomes these difficulties. Here's how this works:

- 1 The franchisor tenders for and secures a major cleaning contract with for example corporates for the commercial, industrial and or retail sectors.
- 2 The franchisor then divides this work amongst a number of franchisees.
- 3 Because of the nature of the contract, the client (corporate) will enter into a contract cleaning agreement and pay the money directly to the franchisor.
- 4 The franchisor has a franchise agreement with the franchisee.
- 5 The franchisor will do the administration for the franchisee and pay the balance to the franchisee.
- 6 The franchisee will then pay their specific expenses (such as office rent, motor vehicle) and retain the balance as profit.

So, this is an ambitious transformative strategy delivering real empowerment in a forgotten sector.

But from a corporate client perspective, this is a model which brings with it the benefits of an environmental, social,

and governance (ESG) solution, maximising benefits and boost for their spend under the amended B-BBEE Codes of Good Practice.

- **B-BBEE score enhancement** – Companies that outsource to black-owned businesses can improve their B-BBEE score, especially under the Enterprise and Supplier Development (ESD) element. A higher B-BBEE score can lead to preferential treatment in government contracts and licences.
- **Tax deductions for supplier development** – Contributions made by companies towards the development of black-owned suppliers, including those in the cleaning industry, can be claimed as tax deductions. This falls under the Enterprise and Supplier Development (ESD) contribution on the BBEE scorecard.
- **Skills development levy benefits** – By investing in training for employees of black-owned cleaning services, a company may qualify for certain benefits under the Skills Development Levy (SDL) incentives. This can also contribute to the Skills Development element of the B-BBEE scorecard.
- **Section 12H tax allowance** – This incentive, under the Income Tax Act, allows businesses to claim a deduction for registered learnership agreements. Companies that engage in learnership and skills development programmes with black-owned cleaning services can benefit from this. Specifically, they can claim an annual allowance as well as a completion allowance for each learner who completes their learnership. This not only provides a tax benefit to the company but also encourages the development of skills and employment opportunities within the outsourced service provider. The exact amounts and conditions for these allowances should be confirmed with a tax professional, as they are subject to legislative changes and specific requirements. The aim of this incentive is to encourage private sector investment in human capital development, aligning with the broader objectives of B-BBEE.

'Tandem franchising' also offers several other financial incentives for corporate clients:

- **Access to government grants and funding** – By partnering with black-owned businesses, companies can gain better access to government grants and funding aimed at supporting B-BBEE initiatives. These grants can offset costs related to training and skills development.
- **Tax incentives for employment creation** – The Employment Tax Incentive (ETI) is designed to encourage employers to hire young work seekers. Companies that outsource to black-owned cleaning franchises, which in turn hire young, qualifying employees, can indirectly benefit from this incentive.
- **Section 18A tax deduction for CSI** – If a corporate's outsourcing strategy includes elements of Corporate Social Investment (CSI), particularly in supporting social enterprise or non-profit organisations within the black community, they may qualify for deductions under Section 18A of the Income Tax Act.

- **Youth Employment Service (YES) initiative** – Companies participating in the YES initiative, which aims to create jobs for the youth, can improve their B-BBEE score. By outsourcing to black-owned businesses that employ young people, corporations can indirectly contribute and benefit from this initiative.
- **Reduced training costs** – Outsourcing to specialised black-owned cleaning franchises can lead to reduced training costs. These franchises often have their own training programmes, which means the corporate company does not have to invest as much in training in-house cleaning staff.
- **Social and Economic Development (SED) contributions** – Spending on black-owned businesses can be counted towards the SED element of the B-BBEE scorecard, particularly if these businesses are small, medium, or micro-enterprises (SMMEs).

Hans Mostert, CFO of Mila Services, who developed the financial underpinnings of the business model, says these benefits for the client translate to an allocation of R1,38 for every rand spent simply on the basis of making use of Level 1 B-BBEE suppliers: 'I think it's important to embrace BEE rather than fight against it. The parent company is a 100% black women-owned QSE — BBEE Qualifying Small Enterprise. And also, every one of the franchises will be 100% Level 1 BEE compliant. We can utilise those benefits and help grow the economy.'

The first franchises under the new model have already begun operation. The new business owners who began their careers as cleaners now are in control of their destinies.

Franchisor co-founder and owner Charlotte Khoza now hopes other industries adopt this business model: 'For me, it does something for a person from a dignity point of view ... they become contributors to the society, to the economy ... That's a win-win all round.'

AUTHOR

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