

## Customer & Market Due Diligence Of Cleaning Services Provider: Establishing Niche Market And Competitive Dynamics

**The Challenge:** Our client, a large PE firm, was looking to acquire a leading provider of commercial cleaning services as an add-on to its portfolio company focused on providing janitorial services. Our client was attracted to the target's leading position in multiple niche end-markets and its long-standing customer relationships. However, our client wanted to get a better understanding of the size, growth outlook, recession risk, and competitive dynamics of each of these niche end-markets. To this end, Gotham was asked to conduct a 3-week customer & market due diligence in order to establish: (1) the target's reputation and competitive positioning in each of its end-markets; and (2) the market dynamics of and growth outlook for the target's service offerings.

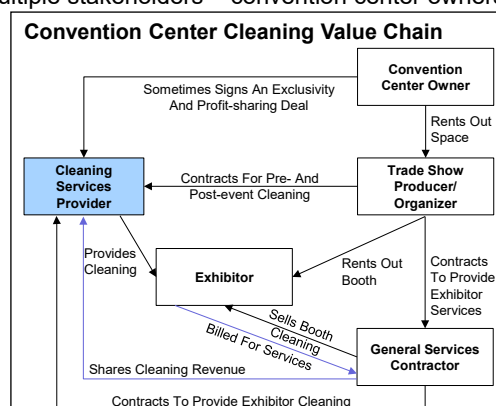
**Deciphering Multiple Niche End-markets:** Gotham undertook a robust assessment of each end-market by:

- Conducting 40 interviews with and 266 online surveys of buyers procuring cleaning services across multiple end-markets to gain insights into service needs, outsourced labor trends, purchase dynamics, and the target's reputation/competitive positioning
- Leveraging government and industry data and performing secondary research to establish market structure, growth drivers, changing service needs, the impact of covid and post-covid recovery, and the recession risk for each of the target's end-markets
- Building market sizing model for each end-market by quantifying service needs, translating them into a market size, and establishing projections based on demand drivers
- Developing the competitive landscape for each end-market by establishing key players, their market share, and differences in service quality, price, reliability, and geographical presence.

**The Aviation Services Outsourcing Depends Upon The Criticality Of The Service And The Size/Importance Of The Airport** Airlines are responsible for the day-to-day operations of their planes and terminals, requiring both above-the-wing services (e.g., cabin cleaning, de-icing, wheelchair assistance, catering, customer service) and below-the-wing services (e.g., ground handling, cargo security, cargo warehousing). These services make up a \$5B+ market, expected to grow at 5.5% CAGR. Airlines employ a mix of in-house and outsourced services, with the decision to outsource depending on both service and airport type. Airlines typically keep critical and passenger-facing roles in-house and maintain many in-house capabilities within their hubs and larger stations, while outsourcing more in smaller airports. Moreover, multiple providers are employed in larger stations, while bundling of services is more common in smaller stations due to lack of scale. The procurement process differs by service, with corporate procuring onboard experience services, and cargo and passenger services being procured by the station manager. Airlines generally renew provider contracts unless there are service shortfalls. The competitive landscape is relatively consolidated with 8 aviation-focused players commanding >50% of this market, and smaller players having a strong presence in a few smaller stations.

**The Complex Conference/Trade Show Services Market Has Almost Recovered From Covid Slump And Is Poised To Grow**

The conference/trade show market declined significantly during covid but has almost reached pre-covid levels now and is expected to grow at 8.3% CAGR moving forward. This market is complex, comprising multiple stakeholders – convention center owners, show organizers, general services contractors (GSCs), and exhibitors. Convention centers rent out their space for events organized by show organizers (e.g., Informa) who develop and operate trade shows and rent out booths to exhibitors. Show organizers often hire GSCs (e.g., GES, Freeman) to manage services at their events. Service providers are typically contracted by GSCs through an informal selection process, with preference for providers having extensive trade show experience. Some large show organizers also have contracts with service providers, requiring GSCs to use their preferred providers. Providers are generally given a national contract with specific shows allocated to them and contracts have a high renewal rate due to the importance placed on existing providers' familiarity with the venue/show. The trade show cleaning services market is highly consolidated – 2 players account for ~60% of the spend, 'exclusive' convention centers that mandate the use of their in-house janitorial staff make up another ~35%, and smaller local players comprise the remaining 5%.



**Hotels Are Increasing Use Of Outsourced Services And Contract Labor In Light Of Post-covid Labor Shortages**

Hotels have been facing labor shortages for cleaning roles because a significant number of employees switched industries during covid. This has resulted in greater reliance on outsourcing services and contract labor. While janitorial work is generally outsourced, kitchen and F&B/banquet departments use contract labor, and housekeeping employs a mix of both. Hotels only employ a base number of in-house staff and use contract labor to meet additional staffing requirements, particularly during high occupancy. The general manager hires contract labor and outsourced services, with contracts typically lasting 2-3 years. GMs from Marriott and Hyatt must choose from providers with master service agreements, while Hilton allows GMs to hire local companies. The highly fragmented hospitality staffing market has a mix of national and local players, with most customers preferring local agencies.

**Sports & Entertainment Cleaning Requirements Are Event-based And Specialized**

The sports & entertainment end-market experiences event-based traffic and has distinct service requirements as janitors need to work quickly and efficiently during turnovers, understand crowd flow to be able to prioritize cleaning areas, and know how to operate heavy-duty cleaning machines. Most cleaning services in this market are outsourced due to its event-based nature.

**The Outcome:** Gotham's deep dive into the cleaning services market provided our client with clarity on the target's competitive positioning in multiple niche end-markets, as well as on the market size of and future growth outlook for each of these end-markets. This fact-based view allowed our client to gain confidence in the target's potential and move forward to close the deal.