

THE "S" WORD

While there are negative connotations associated with "subcontracting," the business model is prevalent because it works. We ask vendors and retailers what it takes to create a successful relationship among retailers, vendors and subcontractors. | **Jaime Lackey**

The word "subcontracting" may invoke concerns about costs and quality workmanship, but retailers, restaurateurs and vendors acknowledge that subcontracting is beneficial. It creates increased profitability for vendors and increases value to their clients.

Managing contractors just makes more sense than hiring technicians, says Ron Prager of Brinco Mechanical Services Inc. He explains, "At our current volume, we could easily set up a model where we perform the majority of the work with our own technicians. Or, we could set up a blended model where we self-perform some work and contract out other work in each region



"Vendors have more buying power in some of the more remote markets by bundling several retailers together to provide more work to a subcontractor than I could offer with my fleet of stores," says Wayne Knaub of Charming Shoppes, Inc., which has more than 2,400 Lane Bryant, Fashion Bug, Catherines, Lane Bryant Outlet and Petite Sophisticate Outlet stores.



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we service. At Brinco, we feel that we can deliver faster, better, higher-quality service using the correct local contractors than is possible with any other model."

Retailers also look at vendors as a one-stop shop, says Mario Vega of The Gymboree Corporation. "If Gymboree hired locally, we would probably have to manage more than 5,000 vendors. If we are working with a national vendor, then we don't have to manage the mom-and-pop vendors they are contracting to."

From the client's perspective, working with a facility management company is a way to allow staff to focus on other issues, says Lloyd Stern of AIC Facilities Management. "When you are hiring a facility management company, it is equiva-

lent to having an extra staff at your disposal at minimal cost. The management company can dispatch and track hundreds of jobs at a time without tying up your resources. This frees up [the retailer's full-time staff] to deal with larger business-critical items while still having someone monitor the smaller items that come up day in and day out."

Prager adds, "Local contractors who cover a limited geographic area provide technician density that far exceeds the capability of self-performing national and regional contractors. This allows for faster response time, better supervision, and the ability to put multiple people on a job quickly. This model also allows the vendor to have multiple contractors available to

service a site. When you have multiple contractors who are capable of servicing a site, you have the ability to get a second opinion quickly or to bring in a second contractor if the first contractor is not performing adequately.”

Another benefit, according to Prager, is that “a vendor can leverage his position with a local contractor by combining the sites of many clients into a single package. The vendor then becomes the contractor’s most valued customer and is assured that his sites will be serviced even when there is not enough manpower to service all sites that require service. On an extremely hot day, no self-performing HVAC contractor can respond to all of his service call requests, due to a limited number of technicians. The most valued customer receives service as opposed to the individual with two or three sites.”

Wayne Knaub of Charming Shoppes agrees: “Vendors have more buying power in some of the more remote markets by bundling several retailers together to provide more work to a subcontractor than I could offer with my fleet of stores.”

However, the cost of using subcontractors is a point of concern for many companies. As Knaub says, “The vendors that use a subcontractor database for call dispatching charge a mark up to ensure that the subcontractor has proper insurance documentation, to provide centralized billing and customer service, etc. Some retailers have the staff to use all local/regional vendors, other retailers strictly use vendors with subcontractors and pay the mark ups and then some use a combination of the two. We use a mix of both.”

Vega also cites costs as a concern, saying typical mark-ups by vendors run 18 to 22 percent. He notes, “Our goal is to eliminate mark up costs as much as possible by working directly with vendors rather than having any work subcontracted out.”

But Prager says that the perception of the costs is misleading. He explains, “Some retailers or restaurants view subcontracting as negative because of the perception that they are paying more for a particular service and that the vendor is simply brokering the work. This perception is a result of vendors who have no expertise in the work they are performing, or vendors



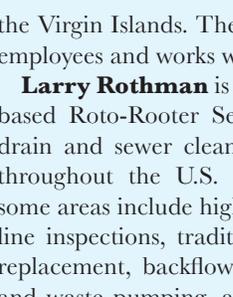
Wayne Knaub,
Charming Shoppes



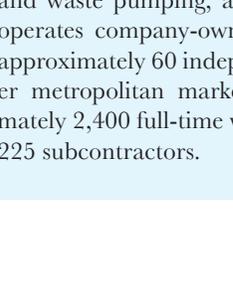
Mario Vega,
Gymboree



Doug Koskey, Metro
Corral Partners



Lloyd Stern, AIC
Facilities Management



Ron Prager, Brinco
Mechanical Services



Larry Rothman,
Roto-Rooter

OUR PANEL OF EXPERTS

Wayne Knaub is associate director of facilities and energy management with Bensalem, Pennsylvania-based Charming Shoppes Inc. The company has more than 2,400 Lane Bryant, Fashion Bug, Catherines, Lane Bryant Outlet and Petite Sophisticate Outlet stores nationwide.

Mario Vega is senior manager of repairs and maintenance with San Francisco-based The Gymboree Corporation. There are currently 740 Gymboree stores open in the U.S. and Canada, with plans to have approximately 800 open by the end of the year.

Douglas Koskey is the facilities director with Orlando and Atlanta-based Metro Corral Partners, a franchisee company that owns 24 Golden Corral restaurants in Georgia and Florida.

Lloyd Stern is director of facilities with New York-based AIC Facilities Management. AIC offers a variety of services to retailers, including plumbing, electrical, HVAC, janitorial and full build-outs. The company has 542 full-time employees and works with several thousand vendor partners to handle such a broad range of services in its coverage area, which includes the U.S., Canada, Guam, Puerto Rico and the Virgin Islands. AIC offers some self-performing janitorial services in certain areas of the U.S.; other services are handled through managed programs.

Ron Prager is executive vice president of Freeport, New York-based Brinco Mechanical Services Inc. Brinco manages HVAC and refrigeration maintenance, service and installation for national retail chains, restaurants, offices, and industrial buildings in the United States, Canada, Puerto Rico, and the Virgin Islands. The company has more than 75 full-time employees and works with more than 1,500 contractors.

Larry Rothman is director of plumbing with Cincinnati-based Roto-Rooter Services Company. Roto-Rooter offers drain and sewer cleaning, as well as full-service plumbing throughout the U.S. Other service offerings available in some areas include high-pressure water jetting, video camera line inspections, traditional and trenchless pipe repair and replacement, backflow inspections and repairs, grease trap and waste pumping, and drain care products. Roto-Rooter operates company-owned branches in 25 states and it has approximately 60 independent franchise contractors in smaller metropolitan markets. The company employs approximately 2,400 full-time workers and works with approximately 225 subcontractors.

— Jaime Lackey

who simply pass the contractor's quotations and invoices through without managing the process."

He adds, "We are a management company working for the client to deliver maximum value from the best qualified contractors we can find. Note that we call these people 'contractors' rather than 'subcontractors.' The word 'subcontractors' describes a relationship where the contractor sells a service to the owner and then buys it for as little as possible and keeps the difference. That is not how we operate. We use our experience and expertise to force contractors to deliver maximum value to our clients in order to earn our management fee."

Furthermore, Prager says, "Clients benefit from the vendors' knowledge and experience with respect to a technical trade. No facility manager can have technical expertise in every discipline that matches the expertise of a vendor in that trade. Retailers are able to cut their internal costs as far as staffing and data mining when a vendor handles a large portion of their work. I know retailers who use both self-performing and subcontracting vendors and track their total costs on a square-foot basis. To their surprise they have found that the subcontracting model may actually provide lower cost and better value."

Stern also cites lower costs as a benefit of working with companies that hire subcontractors. "We are able to be very competitive in price due to the amount of work we do with subcontractors," he explains.

Another reason that companies subcontract is to provide a broader range of services. "Use of contractors allows us to provide complete restorative services from qualified individuals following a major repair," says Larry Rothman of Roto-Rooter Services Company. "Subcontracting allows Roto-Rooter to offer complete service from professionals with training and skills outside of the plumbing and drain industry."

Typically, the company hires subcontractors to handle excavation, electrical, landscaping, concrete and blacktop, and some structural work. "We do not contract out our core business of full-service plumbing or sewer and drain cleaning," says Rothman.

The concept of a "core trade" is key

VERIFY YOUR VENDORS' COMPETENCY

When choosing vendors, the interview is crucial. Our experts suggest questions that should be on your interview list — and questions that your vendors should ask their subcontractors.

QUESTIONS RETAILERS SHOULD ASK VENDORS

- Give me a list of references from five clients with similar-sized stores or restaurants. (Make sure the company is familiar with the type of business that you run.)
- How many years have you been in business?
- What is your company's core focus?
- What is your in-house training for customer service?
- What is your training process for technicians?
- Do you provide any recertification, updating or retraining of your technicians?
- What are your hiring criteria?
- Who will be my account manager and what is his/her background?
- What support do you provide during normal hours and outside of business hours? Do you have people on staff 24 hours a day to provide assistance (not just an answering service)?
- How are quoted jobs handled, and what is the turnaround time for quotes?
- How many subcontractors do you assign to each site for a single trade?
- What is the average response time for emergency calls?
- What are my assurances that you will show up when I need you?
- Do your guarantees carry through your subcontractors?
- What process is used to manage your subcontractors?
- What is your payment structure? How do you pay subcontractors? ("If vendor A pays in 60 days but vendor B pays in 30 days, who do you think the subcontractor will want to work with?" says Mario Vega of The Gymboree Corporation.)

- How are you insured? (i.e., how is my business protected and by whom?)
- When your technicians come in to my store or restaurant, will they be clean? Do you have a dress code and appearance code?

Our experts also suggest that retailers consider their specific needs — reports, web page access, billing processes, etc. — and ask the vendors up front if they will be able to support specific requests in these areas.

QUESTIONS VENDORS SHOULD ASK SUBCONTRACTORS

- Give me a list of comparable retail clients.
- Who will be my main point of contact? What is his/her industry expertise and job experience?
- How many people are on your staff and what capacity do they serve?
- What is the training process for your technicians?
- Are your technicians uniformed or otherwise identified?
- What is your procedure for issuing purchase orders?
- What are your procedures for operations and internal accounting, including the timeframe for in-house invoices? ("If subcontractors don't send out invoices for 60 days, then the vendor is delayed in billing the client," says Vega.)
- How are service calls handled during business hours?
- How are service calls handled after business hours?
- Can you meet the service level agreement that I have with my internal customers?

Vega also suggests looking into the subcontractors' financials. "You don't want to hire someone working out of their garage," he explains.

— *Compiled by Jaime Lackey*

when some retailers choose vendors. Vega prefers to work with self-performing vendors on a regional and national level because of the vendors' focus. He says, "If a regional vendor is very strong in its area (HVAC, etc.) and has its own people but is only active in one or two states, I'll lean toward that company. If all a company does is HVAC, then I know they have the expertise and in-house experience that I want. I know they have the skill set, the background and the understanding of the HVAC business. This isn't a national company that gets an invoice from an HVAC subcontractor and doesn't understand it. I want to know the background of the account manager, who has to look out for the interest of the client. I want someone who knows costs — whether an invoice reflects industry standard or is too high.

"With a self-performing company, you generally get the quality of work and sense of urgency you want to see in your vendors. When there is an issue, you are talking directly with someone who knows the status of the job, not going through two or



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three layers of people,” he says. “But you’re not going to get self-performing vendors all across the country.”

When he works with companies that subcontract, he still looks at the vendor’s core trade. “For example,” he says, “I work with a national vendor who does our electrical and signage. They subcontract everything, but electrical and signage is all they do. I’m looking at their skill set and I’ll always lean toward the company that focuses on a core trade.”

What does it take to create a successful

business model when working with subcontractors? It is important to find the right partners and to have good communication among all parties.

“It is important for both the contractor and vendor to have clear expectations about quality of materials and workmanship, time frames, warranties and pricing,” Rothman says.

“Vendors must provide information in both directions,” Vega says. “A good relationship involves communication of expectations and making sure resources — like



A Roto-Rooter technician at work.

owner-supplied materials and paint specs — are available.”

“There is only one way to create a good relationship with a client,” Prager says. “We attempt to set [realistic expectations of] performance levels with both our contractors and clients. Then we encourage our employees and contractors to attempt to deliver performance that exceeds those levels. When we make a mistake, we have the integrity to admit to the error and we try to find a way to mitigate any cost to the client.”

From the vendor perspective, Stern says, “The sub has to be someone we feel comfortable with and when they go into our customers’ stores, the customer feels comfortable with them.”

From the retailer and restaurateur perspective, he adds, “The key is finding a facility management company that they work well with and trust.”

According to Douglas Koskey of Metro Corral Partners, the keys to a successful relationship among vendors, subcontractors and clients are “honesty, reasonability, reliability.” He says, “Our franchise brand as well as our franchisee holds itself to a policy that we treat our vendors with the same respect as our guests. We strive to utilize our vendors wisely, not waste their time and pay them promptly for their services.”

Quality assurance is also a big factor in the success of business models that involve subcontracting. As Koskey says, “We have many locations and many different managers. How can they be assured that subs who come into the restaurants carry the same credentials and protections as the vendor?”

He continues, “Subcontractors must conform to the same standards as the vendor in terms of liability, responsiveness, professionalism, experience and billing (through

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He also says that vendors and subcontractors must meet certain requirements. “For example, they must be bonded and insured. They all understand that 24/7 is a possibility, though we try not to abuse that. Larger companies are required to background check their employees; smaller companies are usually one or two people and we check them out as is possible.”

How do vendors and management companies assure their clients that the work performed by subcontractors will meet expectations?

Roto-Rooter has a representative on the jobsite whenever a subcontractor is performing work for which Roto-Rooter is responsible. “We stand behind our work and the work of those hired by us,” Rothman says. “Quality work and reliability are probably the two most important criteria in selecting a subcontractor. We will work as much as possible with the same subcontractors, as we believe a strong working relationship best serves the customer and Roto-Rooter.”

AIC does background checks on all of its vendors. “If we would not use them in our own homes, we will not send them to our customer’s place of business,” Stern says. “And we grade all of our contractors based on customer feedback. We also have field managers check up on projects to make sure that they are completed satisfactorily.”

When choosing subcontractors, AIC looks at a company’s track record and how long the company has been in business, checks out references and interviews someone at the company.

Brinco employs individuals with a high level of technical expertise, Prager says. “Work orders and invoices are all reviewed by technicians with a minimum of 10 years’ field experience. We also send technical experts out to spot check work or deal with complex issues. In addition, if we suspect that a contractor is not being truthful, we obtain and pay for a second opinion. Contractors are required to account for their time and report resolutions via our automated IVR (Integrated Voice Response) system.”

He adds, “We have an intensive quality control process. This process combined with our single-trade expertise allows us to

assure quality service. We will gladly make site visits with any of our clients to inspect work recently performed by a contractor.”

When choosing contractors, Brinco looks at a number of criteria, including the type and size of the projects that contractors are currently working on, how the companies pay their bills, and the number of employees the company has.

And what do vendors do when things

go awry despite the quality assurance processes? These three vendors say they find better subcontractors.

According to Prager, “We have never had a truly bad experience with a contractor. We have had contractors who did not perform up to our requirements, and we terminated the relationship. The difference between employees and contractors is the difficulty in replacing employees.”



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Stern says, "In most cases, negative experiences are minor issues and we can coach our vendor so it does not happen again. We are hiring for the long term, so a few minutes spent with a good subcontractor is well worth it. When that does not work out then we simply will no longer use the services of that subcontractor again."

And Rothman says, "It happens from time to time that something goes wrong with a job or the subcontractor does not meet expectations. In these cases, we try as hard as possible to work with the contractor to come to a satisfactory solution. If this does not happen, we will make a change in subcontractors. From the customers' point of view, we understand that Roto-Rooter is the responsible party, and a subcontractor's poor performance will shed a negative light upon us."

"There are challenges unique to both the vendor and the retailer side. Regardless of which side you're on, you spend a large majority of your time chasing after the few mishaps you have," Knaub says. "We follow up with subcontractors every day.



Metro Corral Partners owns 24 Golden Corral restaurants in Georgia and Florida.

Sometimes they perform work that isn't up to our standards and other times they misunderstand what our expectations are. It's the vendors that promptly rectify those issues that rise to the top." **PRSM**

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