

NATIONAL CONTRACT CLEANERS ASSOCIATION



**A GUIDE TO THE
FUNDAMENTALS OF
ESTIMATING AND TENDERING
FOR
CONTRACT CLEANING WORK**

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Note

Whilst reasonable care has been taken to ensure the accuracy of the information contained in this guide, the Association cannot accept any responsibility for any errors or omissions caused by the use of any information shown herein.

A GUIDE TO THE FUNDAMENTALS OF ESTIMATING AND TENDERING FOR CONTRACT CLEANING WORK

INTRODUCTION

Estimating is considered one of the very responsible duties of a person/s employed in a contract cleaning organisation.

Much estimating is done in connection with competitive tendering, and it should be understood any one of the following results may occur:

✍ **Over estimating**

Will probably result in you not getting the contract.

✍ **Below competent estimating**

Being a little below competent will probably get you the contract, but will not cover your costs.

Stress above has been made on the word **competent**; so as to highlight that competency in estimating is all important.

Estimating in essence calls for a good understanding of the contract cleaning industry which will include inter alia key elements such as:

- ? Cost of labour
- ? Cost of consumables e.g. chemicals
- ? Cost of cleaning equipment
- ? Overhead costs
- ? Profit

Competent estimating is therefore an evaluation of all the costs together with the profit mark up to enable the contract cleaner to establish a selling price for services rendered.

1. WHAT ARE THE COSTS INVOLVED IN ESTIMATING FOR A CONTRACT?

Broadly speaking they can conveniently be divided into two groups:

Direct costs: These comprise prime costs, material and labour, plus other costs both fixed and variable which can be directly attributed to a single cleaning contract.

Indirect costs: These are costs which cannot easily be segregated or identified with a specific contract. Indirect costs are generally referred to as the Company's "overheads".

2. FACTORS WHICH INFLUENCE ESTIMATING

In order to produce competent estimating one must be able to evaluate the above costs as accurately as possible bearing in mind that some of these are often hidden or forgotten about which can influence the overall estimate e.g.:

- ? Quality of labour and its variable outputs.
- ? Weather conditions can affect output.
- ? Transport breakdowns.
- ? Reliability of labour.
- ? Shortage of cleaning materials.
- ? Availability of basic on-site services.
- ? Site expenses e.g. Storage
- ? Strike action.

Some clients show more consideration to the cleaning contractor than others.

However, at the end of the day the estimator must realise that in reality there is always an element of risk.

3. DIRECT AND INDIRECT COSTS

Let us now have a closer understanding of the various elements which make up these costs.

- ✍ **Materials (direct costs):** This important element which is required to carry out the cleaning process can conveniently be divided into two categories:
- ✍ **Consumables(direct costs):** These are items that have a limited expectancy and that are normally discarded e.g. mop heads, floor pads, cloths, vacuum bags, black refuse bags, etc.
- ✍ **Chemicals(direct costs):** Again these can still be termed consumables and consist of any substance that serves as a cleaning agent or performs a chemical function in order to achieve the desired result e.g. floor dressing, detergents, disinfectants etc.

In addition, consideration should be given to three important issues in respect of the above namely:

- ? Wastage factor
- ? Pilfering factor
- ? Possible costs of escalation, if a firm price is to be given.

As you will perceive, the matter of having a good understanding of all these elements which fall under direct costs is substantial and this aspect is not covered under the scope of this guide.

- ✍ **Machinery:** This can be classed as any element of hardware e.g. vacuum cleaners, rotary machines, automatic scrubbers/driers, mechanical sweepers etc.

✍ **Equipment:** This can be classed as any hardware that has wheels or castors, or is used in conjunction with such items as: janitorial trolleys, mopping units, buckets and mop handles etc.

Don't forget at all times hardware incurs a maintenance cost to keep it in good working order.

✍ **Labour:** Generally speaking in the estimate make-up, the cost of labour is by far the greater cost on a percentage comparison basis. As labour can represent anything between 70 – 80% of the cost of the total contract price, an understanding of this cost is vitally important for estimating purposes.

This cost is the total on-site cost of the labour required to carry out the cleaning and will normally include inter alia the following:

- ? The basic wage itself
- ? Bonuses
- ? UIF
- ? COID
- ? Provident Fund
- ? Annual leave
- ? Annual leave 4th week
- ? General absenteeism
- ? Sick leave
- ? Maternity leave
- ? Family responsibility leave
- ? Family Crisis Fund
- ? Uniform costs
- ? Skills development levies
- ? BCCCI Levies
- ? Travelling allowances
- ? Night shift allowance
- ? Allowance for overtime
- ? Sunday time
- ? Public holiday time
- ? Productivity of the labour force
- ? Possible cost of labour escalation
- ? Etc etc

To the above you need to cost in any other considered direct costs such as a full time site supervisor/s.

The determination of the on-site cleaning labour force required is a consideration of understanding the specification of the work to be cleaned, coupled with anticipated labour productivity.

The output of different cleaners can vary between one and another and also between the working periods of the same person. Of course the aspect of worker training (skills) is another factor that should be taken into account.

With this degree of variance it would seem to be a hopeless task, however, at the end of the day a competent estimator has the analysed data of his/her own past experience which obviously is the best guide bearing in mind for what is impossible to one estimator can be quite possible to another!

KWAZULU NATAL – LABOUR COSTINGS

Wage rates and conditions of employment for employees in the contract cleaning industry are negotiated between the Employers (represented by the NCCA) and the Employees (represented by numerous Trade Unions). The resultant of these negotiations which applies to the whole of Kwa-Zulu Natal, is published in a Government Gazette, termed the Main Agreement for the Bargaining Council for the Contract Cleaning Services Industry (Kwa-Zulu Natal).

With effect from the 1st March 2010 there will only be one wage rate in Kwa-Zulu Natal being R9.16 per hour

As labour can represent anything between 70 – 80% of the cost of the total contract price, an understanding of this cost is vitally important for estimating purposes.

Set out below is an example (based on the current amendments to the Main Agreement, of the typical monthly cost to the Employer of a cleaning worker, based on a 40 hour working week (8 hours per day x 5 days), taking into account other considered direct costs to the Employer over and above the actual wage rate.

ACTUAL WAGE RATE COST PER MONTH

Hourly rate x hours per week x 4.33 (being the average number of weeks in a month).

Calculation: $R9.16 \times 40 \text{ hours} \times 4.33 =$ **R 1,586.51**

ANNUAL BONUS – PAID DURING THE MONTH OF DECEMBER

An amount equivalent to 4 times the employee's weekly wage. An allowance has been made for the statutory costs at 3%

Calculation: $R9.16 \times 40 \text{ hours} \times 4 = R1401.60 \times 1.03 / 12 \text{ months} =$ **R 125.80**

UNEMPLOYMENT INSURANCE FUND

This is calculated as a straight percentage of the monthly wage rate.

Calculation of employer contribution: $R1586.51 \times 1\% =$ **R 15.87**

COMPENSATION FOR OCCUPATIONAL INJURIES & DISEASES ACT (COID)

Most Employers still know this as “Workman’s Compensation” insurance There are two percentages to consider eg: normal cleaning workers at .5% of their monthly wage, or specialised window cleaners who work at level, at 1.62% of their monthly wage. For this example the percentage for the normal worker has been allowed.

Calculation of employer contribution: $R1586.51 \times .5\% =$ **R 7.93**

PROVIDENT FUND

This became applicable as from 1st December 2001 at an equal rate of 8% Employer and 8% Employee contribution.

Calculation of employer contribution: $R1586.51 \times 8\% =$ **R 126.92**

ANNUAL LEAVE (normal)

The Labour Relations Act, requires the Employer to pay 21 consecutive days annual leave on full remuneration for every year of completed service which equates to 15 working days?

Calculation: $R9.16 \times 8 \text{ hrs} \times 15 \text{ days} = R1099.20 / 12 \text{ months} =$ **R 91.60**

ANNUAL LEAVE (4th week)

If an employee has been employed for 10 years or longer he is entitled to an additional week’s annual leave. We have made allowance for 10% of the total staff compliment benefiting from this This will have to be costed in.

Calculation: $R9.16 \times 8 \text{ hrs} \times 5 \text{ days} = R366.40 \times 10\% / 12 \text{ months} =$ **R 3.05**

ABSENT / SICK DAYS / MATERNITY LEAVE / FAMILY RESPONSIBILITY LEAVE

It is strongly recommended in the labour cost make-up that you make provision in this regard, as it is going to happen. Most probably you will then have to compliment your on-site cleaning team with a casual employee which creates an extra work load on your administration staff. This is even more important with the pandemic of HIV/AIDS. In consideration of this it is recommended a “norm” of say 7% of the monthly basic wage be built into the costing to cover for these eventualities.

Calculation: $R1586.51 \times 7\% =$ **R 111.06**

UNIFORMS / OVERALLS

You are required in terms of the Main Agreement to provide in serviceable condition and free of charge any uniform, overall, gumboots, or other protective clothing. e.g: Allow an issue of say two uniforms in a twelve month period.

Calculation: $2 \times R162.00 / 12 =$

R 27.00

SERVICES SETA 23 – CLEANING CHAMBER

It should be noted if you are registered with the South African Receiver of Revenue (SARS) i.e. as an employer and your annual turnover is in excess of R6 000 000 per year, or you have a payroll in excess of R500 000 per year then you are required to pay to SARS a 1% monthly levy on the total of your organisation's remuneration bill. i.e. wages and salaries. Eighty percent (80%) of this is then paid over by SARS to the SETA for skills development. In the example only the said percentage on the direct labour cost has been taken into account. The salary content should be recovered in your overhead costs.

Calculation: $R1586.51 \times 1\% =$

R 15.87

NCCA MONTHLY EMPLOYEE LEVY

As a member of the NCCA you are currently levied at R1.53 per cleaner per month. As of the 1st April 2010 =

R 1.53

BARGAINING COUNCIL LEVY

All companies must pay a levy of .05% of the basic wage per month per cleaner in the company's employment. The cleaner also pays an equal amount but this is deducted from his monthly wage.

Calculation of employer contribution: $R1586.51 \times .05\% =$

R 7.93

FAMILY MEDICAL CRISIS PLAN

Every employer must deduct from an employee a 3% contribution to the above fund, the employer must then make up the difference between the deduction and the cost per employee per month being R54.00. However we would strongly advise that one costs in 3% of the basic wage to cover the additional difference in the employees with lower hours per week.

Calculation of employer contribution: $R1586.51 \times 3\% =$

R 47.60

TOTAL MONTHLY COST

R 2,168.66

TOTAL HOURLY COST

Calculation: $R2168.66 / 4.33$ (weeks per month) / 40 (hours per week)

This hourly rate can be applied to any worker working any number of hours per week

R 12.52

Notes:
Whilst the Labour Relations Act requires the Employer to pay one week's wage severance pay for every year of completed service, this has not been costed into the above example. The reason for this is that Employers should make every employee sign a "fixed term" contract, i.e. this being for the duration of the cleaning contract, hence no severance pay comes into the reckoning.
From this example you will note from a start amount of R1586.51 per month, that there is an increase of R582.16 which has been added on in order to cover all the additional costs that you as an Employer must take into account in the estimating and tendering process. This equates to a percentage increase of say 36.69%.
Remember the above example is based on a cleaner working for a month at what is termed "ordinary hours of work", and at the actual wage rate applicable as at 1st March 2010 i.e. R9.16 per hour.
Remember the above example is based on a cleaner working for a month at what is termed "ordinary hours of work", and at the actual wage rate applicable as at 1st March 2010 i.e. R9.16 per hour.
Remember that you must pay a night shift allowance to any person working between 18:00 and 06:00 and supply transport if they finish work between 21:00 and 04:00. The night shift allowance is paid at 10% of the hourly rate. i.e. $R9.16 \times 10\% = R0.92$ per hour worked.
Sunday time is paid at double time as is public holidays, however should an employee ordinarily work on a Sunday then you can pay Sunday time at time and a half. An additional 3% needs to be added to cover the statutory cost.
Also bear in mind each business can vary in the way it is structured, and therefore this example could be slightly different dependent on the individual circumstances.
When work is performed outside ordinary hours the wage rate increases as laid down in the Main Agreement. As such, the cost build-up will obviously differ somewhat from this example. An additional 3% needs to be added to cover the statutory cost.

✍ **Overheads (indirect costs)**

These are all the other costs of running a business which are not direct costs. These will include:

- ? Advertising
- ? Audit fees
- ? Bank charges
- ? Bond repayments
- ? Capital purchases i.e. transport, PC's furniture, machinery and equipment
- ? Donations

- ? Entertainment costs
- ? Insurances
- ? Legal fees
- ? Electricity and water
- ? Maintenance costs
- ? NCCA subs and levies
- ? Postal services
- ? Provider fees:e.g. cell phones, internet
- ? Printing and stationary
- ? Rent
- ? Running costs e.g. petrol
- ? Refreshments e.g. tea, coffee, etc
- ? Skills Development levy
- ? Salaries including bonuses, pension, health care etc
- ? Telephone and fax costs
- ? Transport and accommodation costs
- ? etc etc

Arising from the above it must be borne in mind that overhead costs can vary in a company during the course of a year, and also from company to company.

Similar to the hardware story, it is most unlikely you can charge all your overhead to one contract. By keeping accurate financial records, the overhead costs of a business are easily calculated and are normally recovered from contracts on a proportional basis. Most businesses charge overheads to individual contracts as a percentage of the total direct costs.

4. PROFIT

This is the final element that has to be taken into consideration, as you are surely in business to make profit, often call the "bottom line".

Again this factor must be the judgement of the estimator and management to arrive at what they consider is a fair return for services rendered.

5. OTHER FACTORS WHICH MUST BE CONSIDERED PRIOR TO PREPARING THE ESTIMATE

You must carefully assess the type of job you are pricing with particular reference to:

✍ **Viewing floor plan drawings.**

✍ **Visiting the site**

A site visit is absolutely essential to verify any information you have been given in the tender enquiry, and to collect your own information to identify any practical problems which may affect the manner in which you are to carry out the job.

✍ **Study carefully the proposed cleaning specification.**

The cleaning specification plays an extremely important role in the price build-up.

The specification attempts to objectively define how clean a building needs to be, subject to the client's willingness to pay for it. This can vary from building to building, and also in specialised areas within buildings.

In summary, a detailed specification is therefore needed to describe each area in a building, together with a list of tasks and frequencies and an indication of the level of cleanliness of each task i.e. Superior, Standard or Basic. A detailed specification also ensures that tenderers are competing on a "level playing field", to provide the same standard of service required by the client.

✍ **If there is no specification prepare one by establishing the client's needs .**

✍ **Study the proposed contract documents. If there is no agreement then use the NCCA standard recommended agreement.**

✍ **Ask the client questions if you do not understand the tender requirements**

✍ **The Contract Documents**

Most enquiries to submit a cleaning tender are accompanied by documentation which sets out the proposed conditions of contract between the Client and the Cleaning Contractor.

This document must be carefully scrutinised as some of the requirements can have additional cost implementations which must obviously be taken into account.

Do not underestimate this document, if in any doubt ask the client to explain.

Also, if you do not agree with any particular requirement/s then rather qualify your tender accordingly.

6. THE ESTIMATE

At last you have, all being well, now gained sufficient understanding of this important subject in order to be able to set about compiling the estimate. In the contract cleaning industry this is generally based on a monthly "lump sum" price being quoted normally for a minimum period of one year, which hopefully can be extended for another year or more, subject to escalations which have to be negotiated with the client.

7. AGREEMENT BETWEEN PARTIES

Always bear in mind before signing a contract agreement changes can be made i.e. alterations, omissions, and additions, this being dependent on the circumstances of the individual contract.

TENDERING

The tendering process is simply the function of submitting your estimate for the contract cleaning work to be executed. In essence therefore, this is your offer (often called a quotation) which takes into account all the conditions as set out in the tender enquiry, and furnishing this in writing to the client/customer.

There is always a closing date and time for the submission of the tender and where it has to be delivered. Sometimes there is an official tender opening when the various tender prices submitted are read out to any of the tenderers that may be present. Always bear in mind clients always covers themselves by stating in the tender enquiry that **“the lowest tender may not necessarily be accepted”**, or words to that effect.

It is recommended that apart from the above, that you always send with your tender a covering letter on a company letterhead, and also take the opportunity to enclose a CV of your company, registration certificate from the Bargaining Council, NCCA membership certificate and any other relevant information. This letter is a good “tool” to highlight any particular qualifications to the tender that you may wish to make as deemed necessary.

HERE'S

TO

COMPETENT

ESTIMATING

The National Contract Cleaners Association has standard documents and statistics on their website www.ncca.co.za that can assist entrepreneurs starting out in the Industry; however these are only available to members. Find out more from the Durban Branch office, the contact details are listed on page 1.