Varney Cleaning Services[1]

Louis Jacques Filion[2]

Abstract

Brendan Varney started with nothing and went on to build a highly successful business in cleaning, a sector that is easy to enter but where competition is fierce. Why was he so successful? Instead of developing a business in the usual way, he built a social system composed of semi-independent units forming a self-developing enterprise. The 500 collaborators earn up to 25 percent more than they would if they were working for someone else. However, the firm is now facing a major challenge, as it considers speeding up the growth process by setting up a franchise system. Brendan Varney cannot make up his mind, and is wondering if the idea will work.

Excerpts from Interviews with Brendan Varney

My background

There's only one entrepreneur in my family. One of my uncles - my mother's eldest brother - used to be a self-employed carpenter and went on to become a successful builder. My father is a long-distance truck driver. I have four older brothers and sisters, so my mother had too much to do at home to go out to work.

I have a degree in sociology, and I've also taken a number of accounting and management courses. Like my brothers and sisters, I had to work to pay for my education. My uncle used to employ me during the holidays. When I was at high school, I had a newspaper delivery round and worked in the local hardware store on weekends. When I left high school, I took a one-year car repair course, and then worked full-time as a mechanic in a garage. When I was 20 I was involved in a fairly serious accident that damaged my spine. The doctors operated to straighten it out. The operation went well, but I was completely immobile for a year. It gave me a lot of time to read and think about what I could do with my life.

One of my customers at the garage was a philosophy teacher at a local college. He said the future lay not only in technology but in understanding human beings as social animals! I had long discussions with him, and over the years we became friends. What he said fascinated me. After I injured my back I didn't want to work as a mechanic any more, and decided to go to college to study social science. I got a weekend job in a hardware store, and other odd jobs during the week. I also met Sarah, who was in her last year of teacher training, and we decided to live together.

After my degree I didn't find a job, so I started to do all kinds of things - repairs, yard maintenance, and so on. I was also working part-time in the hardware store, and started advertising on their notice board. I gradually began to build up a customer base, mainly for yard work. I already had a pickup truck and didn't need to buy much other equipment. In the fall, I offered other types of maintenance services - repair work, cleaning, and so on, whatever I thought I could manage. I put together a list of people I could call on when I had too much to do, or for things I didn't know how to do myself, such as household

[1] This case is based on interviews with an entrepreneur in the cleaning sector. Names and places have been changed.

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cleaning. That's how Varney Cleaning Services began. I'd never considered starting a business. It just seemed to happen.

The beginning of the business

I didn't need to borrow money to start the business. At the time we didn't have children. My spouse was, and still is, working as a teacher in a high school and was earning enough to keep us. I had no money and a few debts from my college days. Things happened gradually. My uncle, the one who was a builder, helped me out a lot. He'd just retired and was bored. I asked him for advice and he became a kind of mentor. He worked with me for two years for almost no pay. We used a lot of his equipment for the maintenance and repair jobs, but gradually we started doing more cleaning work because that's where the demand was.

I'd become fascinated by the possibility of developing a company that would be a kind of social system, one where there was something for everyone. I didn't know much about business, so I decided to concentrate on the aspect of social structure, which had been one of my main interests at college. I used to dream of the kinds of systems I could develop, but never managed to design one in the area I knew best, construction.

After the second year, we had six employees, two of whom worked in the cleaning sector. When I look back, those first two years were a time of learning, as I tried to understand the market and how to run a business. When I came back from vacation in the second year, I decided to concentrate on cleaning, because the demand was greater. I devised a system where everyone would contribute and benefit. It took me a year to get it off the ground, and it's still not ideal. We've all worked hard. Five years in, we had about 200 collaborators. Most of our work was in residential, commercial, industrial and institutional cleaning. I hadn't studied management much, so I didn't have a model to structure my activities. I just followed my intuition.

There are slight variations in the amount of business we do in each sector from year to year. At the end of last month, the figures were: residential 35 percent, commercial 20 percent, industrial five percent, institutional 35 percent, and others five. We're currently trying to develop the industrial and residential sectors. We still do a bit of repair work, but it's become a very small division, completely separate from the rest of the company. It employs four people, three of whom used to work for my uncle. They've been with us from the start. We operate exclusively in the southern portion of the greater metropolitan area where I live, in a potential market of almost a million people. You'll see our name everywhere, especially in the newspapers. Our website is attractive. We're the only cleaning enterprise that advertises on buses and on television. We do radio shows. You may have heard that we're considering starting a franchise system so we can move into other cities. Our strength lies in our staff selection approach. We invest a lot of time in this, because our people are our most important resource.

Staff selection: the key to our success

The criteria we use for staff selection are based on human values. It's important to find people who are willing to learn and adjust to their team. Will they fit in with the others? Do they share our values? Are they honest? Are they loyal? Can they be relied on? Are they energetic? Can they do the work properly? Most enterprises in our sector have a high employee turnover. Hiring interviews last between 10 and 15 minutes. But if people want to work for us, they go through three or four interviews lasting about an hour each, and then have to take a test on a real problem that we've encountered or are currently trying to solve. They have to come up with one or two potential solutions that are innovative, realistic, applicable and acceptable to the team concerned. Sometimes we're able to identify the right

team for them at that point. They're also asked to develop a strategy for the firm as a whole. After that, we sit down and talk to them, to see what they're made of. When you've met someone three or four times, for an hour each time, especially when they're not in a position of strength, you can really form an opinion of them. We show them the figures too. They can see what we've done. We focus on who they are, to see whether they'll fit in or not. There are a lot of people out there looking for jobs, but they don't really want to get involved and work creatively. Of course, this is very demanding in terms of time. About 50 percent of candidates are eliminated or give up after the first interview and only 20 percent will be hired at the end of the process. After that, turnover is very low. Most people stay for years.

Training

Our employees are entitled to one hour of training for every week of work, or half a day's training per month. When they first come to us, new employees receive five days of compulsory classroom training plus five days of on-the-job training. It's a kind of probationary period. Despite the rigorous selection process, three percent of candidates are let go after this first stage. Once the introductory training is complete, our employees can select subsequent training from a set of options. All our courses are practical and were designed specifically for us. They focus on quality, management, human resource management, customer relationships, marketing, sales, negotiation, and so on. They help our people become more professional in all sorts of ways, and they help with induction too. They learn how to do their jobs well, how to select good people, how to talk to customers, how to sell our name and services, how to use social networks to recruit customers, how to manage their time, how to work on quality and how to be productive. In the early days, we employed a consultant on a contractual basis to design the training for us. He had a lot of experience and was highly competent. We hired him full-time in his second year with us.

Business model

I don't know much about business models. The enterprise is based on a semi-democratic system where everyone is a member of two groups: a work team and a policy group. I've designed it as an improved version of the 3M model. My aim was to have a structure that would allow people to be as entrepreneurial as possible within an organizational framework. The person who creates a work team becomes its initial coordinator, then elections are held every year. Appointments have to be ratified by the Human Resource VP. Each team is structured like a mini-enterprise, with activity leaders in charge of sales, quality, inspection and recruitment. The leaders are appointed by the elected coordinator after consultation with the team members. They perform their management tasks in addition to their regular work, and are paid an additional allowance. Each team is composed of 15 people, and can employ part-timers or temporary staff if necessary, for example if it wins a major institutional contract. Each team operates within a specific geographical area and the whole system is based on the principle of quality. Everyone is responsible, as though it were their own enterprise. Each team has to develop its own market, assign its own resources and make the decisions that concern it, but within a set of general rules that apply to the whole enterprise. For example, specific procedures apply to staff selection and evaluation, tenders and quality control. Everyone is involved. The members are the ones who make the system work. The more responsibility they have, the more interested they become. Profits are shared accordingly. No two employees are paid exactly the same. We pay hourly rates that are task-based rather than seniority-based, but we also have a bonus system based on the revenues that each individual generates for the enterprise. For example, if you introduce a new customer, you receive five per cent of the first year's billings, which is equivalent to half the profit. The policy groups meet once a month. They are composed of people selected from different work teams who are free to accept these yearly appointments. They get together to discuss possible improvements or changes to the system and make

recommendations to the Executive Committee. You can't function in this kind of system if you just want to do your job. You have to participate, get involved, be innovative and contribute to the renewal and growth of the enterprise as a whole. People are free to decide whether or not they want to join us. But if they do join, they have to abide by the rules. Everyone has to pull in the same direction.

My job

My job is to give direction by providing a coherent vision. I spend most of my time on market research, market analysis, meetings with potential customers, marketing, sales, and thinking about how we can sell our product and make the general public understand what we do. I suppose you could say my everyday work is mainly in marketing. But I've sometimes had to spend a lot of time on finance too. For me, it's the hard part of being in business. I also travel every year to a foreign country to look at how companies operate in our sector. I have a special interest in Japanese firms because I think they're among the most technically innovative. I once saw a robot cleaning windows on a skyscraper. I'm not saying we'll go out tomorrow and buy a robot, but I've seen some over there and I know what they do. The way my enterprise is structured was also influenced by the way the Japanese operate their cleaning sector firms.

What our customers buy

Our customers buy our quality. They buy our market position and our serious approach. Some of our biggest customers say things like, "I chose Varney Cleaning Services because I knew you had a reputation for quality that you'd want to protect, and I knew you were in a position to spend $50,000 on the equipment needed to do the work." We have a reputation for being serious and reliable, because we always do what we're hired to do.

What makes us successful

We've been in business for 12 years. In the last five years we've hired about 50 new people every year and now have roughly 500 collaborators. That's a lot of people for a service sector company. We tried to grow by acquisitions, but it didn't work because people couldn't adjust to our culture. Apart from our hiring approach, I think one of the main reasons for our success is our strategy. You have to know where you want to go. You have to be coherent, focused and different, not only on the market but also in the way you organize and operate your enterprise. It's fundamental. You have to have a vision, and set specific goals every year. You have to employ the right people, use all the brain power at your disposal, and pay people fairly. Everybody has to win in the system. We aren't rich, but we live well. We work in a friendly environment where there's a good quality of life.

Governance

We have a six-member Advisory Board, composed of my uncle, the college philosophy teacher I mentioned earlier, three entrepreneurs (including two women), and the CEO of a home for seniors. We meet four times a year and talk at length about market trends and where we should focus in the future.

In management, nobody gives or takes orders. We have a set of rules and we follow them. If someone needs advice, they go and see the person with the most experience or the person most likely to be able to help. If you want to be pedantic about it, I suppose you could say that 15 of our people need to consult me more often than the others: the accounts, finance and administration manager, the consultant we employed to run the training courses, the Human Resource VP, eight team coordinators

and the carpenter in charge of the repair service. There are four of them in that unit, and I'm thinking of forming a separate enterprise because the repair operation has nothing to do with what the rest of the company is doing now. We have two people in administration who take care of tenders, bank reports, financial statements and things like that. We have a receptionist. I do most of my own secretarial work.

Collaborators

We don't have a union. It would be extremely difficult with our system. However, there are several ways of increasing your income if you work for Varney Cleaning Services. For example, you could do cleaning work in the evenings and canvas new customers during the day, or vice-versa. Depending on their contributions, our collaborators are paid 15 percent to 25 percent more than our competitors' employees.

Strengths and weaknesses of the enterprise

Our weaknesses are always temporary and growth-related. In principle, we manage to overcome them. Sometimes it takes time to make new coordinators understand that they need to control their expenses. As far as strengths are concerned, I'd say the main one is the quality of our people and the fact that we put them to good use. It always comes back to that. Information is a strength too. We need to have good information on what's happening in our market, within the firm itself, and elsewhere. We have very tight budgetary controls. I do very little checking. I trust people. The atmosphere you create is more important than any control you could impose. If people want to steal or skimp their work, they'll always find a way. Even so, we try not to make that sort of thing too easy. Because of the way we're structured, we can operate without inspectors. All our competitors hire inspectors and pay them well. This is one of our major competitive advantages and one of the reasons we're more profitable than others in our sector.

The entrepreneurial craft

I pay people to manage the enterprise. It's not my job. I'm not a manager, I'm an entrepreneur, which is a job in itself! An enterprise is a social system. It needs direction. Being an entrepreneur means being able to step back to see things clearly, juggle with an existing or emerging problem, lend a hand where necessary, and work with other people to solve the problem. You have to grow as a person and help the others do the same. It sounds simple, but it takes time. I can imagine the position I'll be in when the enterprise has doubled, tripled and quadrupled. That's why I don't set limits on growth, but I try to be careful. Will we succeed? That's another matter. We might start losing money. The future will tell. It's all part of the risk. And of course, I enjoy everything I do as an entrepreneur. Being an entrepreneur is a way to give yourself a work environment where you can keep learning, developing and being creative. It makes me happy to see that everyone's involved, and that others also have the pleasure of seeing the enterprise progress.