

First Case for Class

One-Day Laundry Company¹

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The One-Day Laundry Company recently surpassed its chief competitor to become the largest laundry and dry-cleaning company in Syracuse, New York. Only 4 years ago, the company was merely one of many neighborhood dry-cleaners in the Syracuse area, and was about seventh or eighth in size. The rapid growth began when the company changed hands in 1966.

The company was founded by Charles W. Brown in 1932. Located in the downtown section of Syracuse, the firm quickly gained a reputation for quality work and friendly service. The business was profitable and provided a comfortable living for Mr. Brown and his family for many years. About a year before the owner's death in 1955, he followed the trend to move to the suburbs and relocated the plant near an older, middle-class neighborhood. His widow ran the business for the next 10 years, until she was forced to sell it because of ill health. Richard W. Silsby and Roger L. Swain purchased the business in the summer of 1966.

Mr. Silsby, a native of Ohio, graduated from Michigan University with a degree in personnel management in 1963. From 1963 to 1965 he was the manager of a dry-cleaning company in Syracuse. Silsby saw the advertisement to sell the One-Day Laundry in the newspaper and was immediately interested. He felt that the potential for a dry-cleaning business in the Syracuse area was a promising one, and also saw this as a chance to be his own boss. Mr. Silsby was able to persuade Mr. Swain, whom he met at a civic club, to leave his job with a state agency and form a partnership to purchase One-Day. Mr. Swain is 32 years old and has a degree in accounting.

The new owners decided to expand operations rapidly by borrowing heavily and reinvesting all profits for the next 5 years. During the first year of operations one dry-cleaning plant and one combination dry-cleaning and laundry plant were purchased. Three dry-cleaning plants were added in 1968 and one more in 1969. Two combination dry-cleaning and laundry plants were added in 1969. In addition, five pickup stations were established. Gross sales increased from \$90,000 in 1966 to over \$750,000 in 1969.

¹ This is a disguised case. That is, the facts in it are based on a real company. But the names of the persons involved, the location, and the quantitative data have been changed because the company requested it. It serves no useful purpose to try to determine which company is the "real" company.

Mr. Silsby is operations manager and director. He supervises purchasing, advertising, production, personnel, and transportation. He spends most of his time troubleshooting, traveling to various plants. Mr. Swain serves as treasurer, accountant, and finance officer. Since he spends most of his time at the main plant, he also acts as manager of that plant.

How One-Day operates

Plant 1 is the original facility and is used for laundry, dry cleaning, and clothes storage. It is located in a deteriorating neighborhood on a heavily traveled street. The area has been the subject of much local criticism due to its high concentration of businesses and generally inadequate parking space. There is room for three cars in One-Day's parking area. Curb service is featured.

Plant 2 is a dry-cleaning plant located near Syracuse University and close to a number of apartment buildings. It is a modern building on a main traffic route. Parking is adequate.

Plant 3 was the first plant built by the partnership. It has both dry-cleaning and laundry facilities, and contains the cold-storage vault used by the whole company. It is a physically attractive building located on a commercial street next to a middle-class neighborhood and close to a number of high-income apartments.

The fourth plant is a dry-cleaning establishment located in the same building as a self-service laundry (not owned by the company). The neighborhood contains rather cheap houses and includes a large primary-secondary educational complex. Parking is shared with a grocery store. On the day the case writer visited the outlet, there was a great deal of litter strewn both inside the building and on the parking lot. On this and a subsequent visit, the attendant was very slow in appearing.

Plants 5, 6, and 8 are all dry-cleaning plants located in newer, middle-class suburban areas. In all cases, the buildings are less than 5 years old and are well maintained. Plant 7 is a combination dry-cleaning and laundry unit in an old and somewhat aristocratic neighborhood.

The ninth unit is in the process of being built. It is One-Day's first venture into the northwest section of Syracuse, an area which consists of luxury housing and some lake shore apartments. The new facility will be a combination of dry cleaning and laundry.

The five pickup stations are located in areas where customers do not have ready access to any of One-Day's main facilities. Most are located in neighborhood shopping centers. In each instance, these stations share the same building with coin-operated laundries owned by another firm. One attendant takes care of both facilities.

One-Day Laundry is a full-service company, serving the laundry, dry-cleaning, and clothes storage (both normal storage and cold storage for furs) needs of their customers. These services are available at all stations. If the receiving station does not have the facilities to perform the desired work, the items are transferred to another station and then returned to the original station for pickup. One-hour service is available for all dry-cleaning. Laundry is on an "in-by-nine, out-by-five" basis. In most areas of the city, laundry accounts for

about 30 percent of the business. Near the university, however, it amounts to nearly 60 percent of the total volume. "Instant" curb service is advertised. A study showed that the average time spent by a customer at a drive-in facility is 2 minutes.

The full cycle for dry-cleaning operations includes the actual dry-cleaning and drying process, steam pressing (pants, coats, and dresses), steam finishing (pants), clothes wrapping, racking, and delivery.

In the laundry, clothes are marked, and then washed and dried. Shirts, pants, and dresses undergo both a preliminary and a final steam pressing. Sheets are pressed only once. After an item has been pressed, it is folded or packaged for delivery.

The equipment for a laundry facility consists of a boiler and compressor to supply steam, washing machines, a dryer (although most clothes are ironed wet), three or four types of ironers, a packaging rack, and a repair area. The dry-cleaning equipment includes a dry-cleaning machine, a dryer, a number of semiautomatic ironers, a packaging rack, and a repair station. With the exception of the original plant, the equipment is fairly new and modern in design. The equipment in the old plant is less efficient and has caused some maintenance problems. Mr. Silsby stated that labor is the major production cost in this industry, and that they are using automated equipment wherever possible. He added that he subscribed to an industry periodical, and that he closely followed any recommendations on how to improve efficiency.

The design of the work areas in most of the plants is generally good from the standpoint of efficiency. Storage areas are inadequate, however. For example, the passageways at some of the plants are cluttered with large drums of detergent. There are no plans to expand existing facilities although they are presently operating at 80 to 90 percent capacity. Management would rather build new plants to meet future needs than expand old ones, as they feel that small plants are more efficient.

One-Day's market

Mr. Silsby said that as far as he can predict, One-Day Laundry will limit its marketing area to Syracuse. Syracuse, which is the fourth largest city in New York, is located midway between Albany and Buffalo. The city contains a wide variety of medium and light industry, with products such as machinery, metal products, paper products, auto parts, and clothing. The town also has four colleges, including Syracuse University. It is not a rapidly growing community. In fact, the population actually declined from 220,000 in 1950 to 216,000 in 1960. Many seem to be moving from Syracuse to other metropolitan areas in the state.

One-Day serves many types of persons in the community, and management has tried to vary its promotion accordingly. For example, an appeal is made to the town's established residents with advertising slogans such as "Serving You with Quality for Over 35 Years," and "We Care—and Have Cared for Over 35 Years." On the other hand, ads are placed in a student newspaper emphasizing the growth and progressiveness of the company. Members of the football team sometimes pose for these ads. Some advertising is aimed at the town's wealthier residents, giving assurance that expensive clothes will be

handled competently, and explaining in detail the elaborate precautions taken in clothes and fur storage. Delivery service is furnished to a small number of customers who live in the town's most exclusive residential area. Delivery service is not provided to other customers.

One-Day advertises on radio, on television, and in the newspapers. Radio advertising consists of spots on the 7:30 morning and 6:15 evening weather reports of a local station. Sixty-second television commercials are placed on an eleven o'clock news program on Sunday and Monday nights. It is estimated that 85,000 people watch this program. Ads are placed in a major newspaper every few days although management does not feel that this has yielded worthwhile results. Mr. Silsby said that at one time they tried a direct-mail campaign, but did not find it very effective. Mr. Silsby writes all of the company's advertising copy and delivers the television advertisements himself. The total advertising budget is \$1600 a month. An independent organization estimates that 168,000 people are being reached by the advertising campaign. Occasionally, one of Mr. Silsby's children delivers the television commercials.

One-Day's prices are comparable to those of competitors in the area, with one exception. A fast-growing chain, Styler Cleaning and Laundry, is under-selling all the others. Mr. Silsby commented, "They're wearing out their equipment, but they're not making any money. I don't think they can keep offering such low prices for very long." He admitted, however, that he was surprised that they had been able to keep prices low for as long as they had. Styler dropped prices to a level about 10 to 15 percent below the prevailing rates in late 1968 and has not raised them since. Styler is now the second largest of the three major chains in the area.

The One-Day marketing concept contends that all dry cleaning and laundry are basically the same. "We're selling service, and nothing else," said Mr. Silsby.

There's not much difference in quality from one outfit to the next. Even if there is a difference, people are not apt to notice it. What they do notice, however, are things like how fast they are waited on, whether or not they can get a nearby parking place, how friendly the people behind the counter are, and whether or not the ashtrays have been emptied recently. It's the little things that really make the difference.

Mr. Silsby said that persons employed to work behind the counter are carefully selected on the basis of appearance and personality. Many college students are hired part-time for this job.

Personnel

Mr. Silsby does all the hiring and firing. In reference to hiring policies, he said, "My first impression of a person usually determines whether or not he gets hired. I look at his personal appearance, personality, interest in the job, and whether or not he's got a wine bottle in his pocket." All references are checked, and no applications are taken over the phone. The company does not discriminate racially, and this is reflected by the fact that nearly one-third of the work force is black.

Labor turnover, a serious problem in most cleaning businesses, is no problem to One-Day. Management feels that this is largely due to the fact that their

pay scales are above the area average for the industry. The major job categories and hourly wages are as follows:

1 Laundry pressers	\$1.40 per hour
2 Dry-cleaning pressers	\$1.80 to \$2.10 per hour
3 Dry-cleaning operators	\$2.20 to \$2.60 per hour
4 Checkers	\$1.70 per hour
5 Laundry markers	\$1.40 per hour
6 Front personnel	\$1.40 per hour
7 Managers of outlets	\$100 per week, plus 3 percent of sales

Mr. Silsby said that each worker is guaranteed a minimum weekly wage of \$50, regardless of how many hours he or she has worked. Time and a half is given for all time over 45 hours.

Fringe benefits include a "surprise" cake given on an employee's birthday, cokes sold at cost, with free cokes during rush periods, a 50 percent discount on all work, and a 1-week vacation. In addition, a \$5 award is given to all employees when no garments are lost in a given month. This is awarded for most months.

Promotion, like hiring, is based on Silsby's personal evaluation of the employee. Mr. Silsby emphasized that qualified employees who have the desire to "better themselves" have the opportunity to work up in the organization. Part of the 135-member work force comes to work at 7 A.M. and works until 4 P.M., whereas the others work from 8 A.M. until 5 P.M. Only the dry-cleaning staff works on Saturday, working from 8 until 11 A.M. There are two coffee breaks per day, one at 10 A.M. and the other at 3 P.M.

Most training is done on the job. Many applicants have had previous experience in the production end of the business, and an effort is made to hire these individuals. If their past experience has been limited or specialized, they are rotated through a number of jobs so that they will be able to work wherever needed. There is no educational requirement for production workers. The front workers, who are often high school or college students, do not normally have prior experience. Mr. Silsby trains them personally, emphasizing the importance of good customer relations.

There are no written personnel policies. Mr. Silsby has a number of informal policies that reflect several precepts which are especially dear to him. These include:

- 1 Never ask of a man what you would not do yourself.
- 2 The success of the company depends on the worker, and workers produce in a direct relationship to the way management treats them.
- 3 Employees are people, and they bring their personal troubles to work with them. Help the employees solve their problems, and they work better. (Mr. Silsby has been known to cosign notes, secure legal aid, and perform other services for his employees.)
- 4 The workers are sensitive to changes in production processes and management. It is better to explain things than to have the employees come to the wrong conclusions.

Mr. Silsby pointed out that the employees have a strong sense of identification with the company, and that this would tend to thwart any attempts at unionization. Many cleaners in the area, including One-Day's two largest competitors, are unionized.

One-Day has no centralized personnel records. Records for each employee are kept at the plant in which he works for a period of 1 year.

⑤ Low fixtures costs.
= more common
① stock offered

Financing at One-Day

The company has relied upon debt to provide the funds for its rapid expansion. All new locations are 100 percent debt-financed with 5-year notes. It costs the company about \$35,000 to set up a dry-cleaning plant, and about \$75,000 to build and equip a full-service plant. Everything needed to start a facility is financed with a "package" note at the company's bank. Pickup stations are leased. Mr. Swain said that the break-even points for pickup stations, dry-cleaning plants, and full-service plants are \$400 per month, \$4000 per month, and \$8500 per month, respectively.

Short-term debt is occasionally used to finance inventory. Mr. Swain said that he never used a budget, but he prepared trial balances monthly. Balance sheet and income statements are prepared semiannually. Depreciation is figured on a straight-line basis which assumes an 8-year life for all machinery and equipment.

Mr. Swain said that he was worried that the financial structure of the company was becoming debt-heavy. "I'm not certain that we can continue to expand indefinitely using long-term debt as a source of funds," he said. "The way I see it, we're driving ourselves up against a wall as far as future financing is concerned. The more we go into debt, the higher interest rates we must pay to offset the increased risk." He continued:

- This also limits the possibility of future equity financing, since investors would not be willing to pay as much for the stock because of the risk factor. No, I'm becoming more and more convinced that we should start a franchising operation.

- He went on to describe the details concerning a franchise plan which he has been "playing around with." Under this plan, the original partnership would act more or less as a holding company, owning two-thirds of the new plants and providing "professional services" for a fee. The franchise holder would put up \$10,000 of his own money. Seven thousand of this would pay for the franchise. \$2000 would go into "paid-in-surplus," and \$1000 would go into "paid-in-equity." He would then be entitled to draw \$11,000 in salary plus one-third of net profits. The controlling partnership would pay two-thirds of expenses and take two-thirds of the profits. For 5 percent of sales, the parent company would furnish advertising and bookkeeping services. Laundry service would be provided to plants having only dry-cleaning facilities at a 25 percent discount.

"I think that in the long run this arrangement would work out best for us," Mr. Swain concluded.

I've talked it over with Dick, but he's not willing to go along with the idea at the present time. He's concerned that we might lose control over the operation, and that it would be difficult to maintain our quality image. I feel just the opposite about this. It's becoming virtually impossible for two men to personally supervise the entire chain. Why, we're spending almost all of our time traveling from one unit to another as it is. Right now, we're placing an enormous reliance on the individual plant manager. If they owned a piece of the action, they would work even harder to increase sales.

The two partners are still arguing over the possibility of a franchise operation.

Appendix

TABLE 1 ■ ONE-DAY COMPANY, INCOME STATEMENT
For years ending December 31, 1967 to 1969

Financial statement	1967	1968	1969
Net sales	223,200	460,800	750,600
Cost of sales	129,456	249,754	399,319
Gross profit	93,744	211,046	351,281
All other expenses net	84,905	194,918	328,763
Profit before taxes	8,839	16,128	22,518
Income taxes	1,607	3,779	5,929
Net profit or loss	7,232	12,349	16,589

TABLE 2 ■ ONE-DAY COMPANY, BALANCE SHEET STATEMENT
For years ending December 31, 1967 to 1969

Financial statement	1967	1968	1969
<i>Assets</i>			
Cash	15,948	24,735	47,211
Receivables net	22,244	44,329	54,622
Inventory net	8,542	13,880	21,614
All other	7,204	9,483	11,454
Total current	53,938	92,427	134,901
Fixed assets net	172,816	258,545	386,929
All other	17,821	21,118	21,151
Total noncurrent	190,637	279,663	408,080
Total assets	244,575	372,090	542,981
<i>Liabilities</i>			
Due to banks	27,834	40,702	59,061
Due to trade	17,221	34,261	53,293
Income taxes	1,603	3,712	5,929
All other	6,454	9,210	14,431
Total current	53,112	87,885	132,714
Long-term debt	169,809	261,218	387,157
Total debt	222,921	349,103	519,871
<i>Equity</i>			
R. W. Silsby	10,000	10,000	10,000
R. L. Swain	10,000	10,000	10,000
Earned surplus	1,654	2,987	3,110
Total liabilities and equity	244,575	372,090	542,981