

DOES YOUR JANITORIAL SERVICE SUBCONTRACT?

CHEAP ISN'T GOOD AND GOOD ISN'T CHEAP

In my lifetime I have lost janitorial service bids to bidders who charge less. What gets me is finding out their bid is more profitable due to lower overhead. Lean operations is one thing. This I uphold. Skirting around ethics, and even the law, is another. Low bidding, due to an common and unfair business practice, is the crux of my article.

Paying individuals as subcontractors, rather than as employees, lowers a bid price. We play by the book and do NOT subcontract our janitorial labor. Competing in an unlevel playing field is frustrating.

Do not get me wrong. We enter into subcontract agreements all the time. Sometimes as the prime contractor and other times as a subcontractor. Again, what [BCI Janitorial](#) does NOT do is subcontract our office cleaning labor. There is a difference.

LOCAL SUBS FOR NATIONAL PRIME CONTRACTOR

Let me first describe the instances where we do subcontract. It is both legal and ethical. For example, when we take on the role of independent contractor for non-local clients. We cover the entire Dallas Fort Worth region (North Texas). On a consistent basis we do local work for out-of-state clients who find us on the internet. Some clients have nationwide reach. Any commercial cleaning related work orders in the DFW metroplex is a subcontract for us.

These service calls may only be single episodes or are urgent in nature. Often they are constant, on-going contracts. To our prime contractor we furnish our W-9 form and certificates of insurance. In return they provide job opportunities. At year's end they send a 1099 form for money paid to us.

We share the same customer: the job-site where the service is actually performed. Our allegiance comes first to the prime contractor conducting business with the client. My loyalty resides first with the contractor one degree above me who pays me.

SUBCONTRACTING SPECIALIZED TRADES

Now add another degree of separation to the relationship. An independent contractor specializing in a field not related to commercial cleaning. We subcontract to companies with expertise in pest control and landscaping, for example.

One of our clients finds it easier to issue our company three purchase order numbers. The main PO being for janitorial services. Another PO number is for landscaping and a third for pest control. My out-of-state client trusts us to know the North Texas market better. We locate local, reputable landscapers and pest control companies ourselves. Our client prefers we contract them as our subs.

Both subcontractors are three degrees away from the job-site client. In NO instance did we subcontract our cleaning labor. An out-of-state prime contractor subcontracted the local commercial cleaning to us. The job-site client also required landscaping and pest control. We assumed responsibility for these extra services even though it is not our forte. We subcontracted with companies who specialize in pest control and landscaping. They provide their own equipment, supplies, transportation, trained supervision and skilled labor.

Our out-of-state client does not have to show us how to do our job. Nor do they have to furnish anything for us to do our job with. We get contracts because of our independence. [Tell us where and how often and we tell you how much.](#)

In the same regard, no one in my company trains anyone on how to mix pesticides or repair irrigation. They cannot depend on me to show them how to do their job. Neither can they depend on me to provide the tools for their trade. If this were the case, they would stop being independent contractors. If they did depend on me they become my employees.



SUPPLIERS AS SUBCONTRACTORS

Here is another scenario where we do, in fact, subcontract, but we do NOT subcontract our labor. It is a new one to me but fits like the previous examples.

I submitted a janitorial bid for the [Texas Workforce Commission](#) in Fort Worth. The dollar value of the contract was more than \$100,000.00. Anything less would have avoided filling out a state mandated [HUB Subcontracting Plan \(HSP\)](#). The [Historically Underutilized Business \(HUB\) programs](#) requires it. In filling out this form I learned something new. When asked what percentage of the contract we would fulfill, I stated 100% . [BCI Janitorial does not subcontract its janitorial labor](#), after all.

Well, come to find out I was wrong in how I answered this question. The HUB Coordinator for TWC asks me, “Does your company manufacture your own mop heads and mop handles?” and “Does your company manufacture your own vacuum cleaners?”

Well, no ma’am we do not.

“Then your company is not fulfilling 100% of the contract by itself. You divert contract funds to vendors who provide cleaning supplies and equipment.”

True that.

So in this situation the subcontractor is my major supplier. The percentage of contract funds for equipment and cleaning supplies was less than 4%. Never had I viewed our lifelong vendor like this but it was important in the eyes of Texas. My definition of subcontractor broadened.

SUBCONTRACTING WITHIN A TRADE

What about subcontracting within the same trade? Happens all the time. It is legal and ethical. I seen this often in scenarios akin to the previous example.

It is common for the public sector to buy goods or services from underserved populations. They have to meet a quota. A percentage of contract funds must go to [HUB's](#), [SBE's](#), [MBE's](#), [WBE's](#) and/or [DBE's](#). This is not exclusive to the public sector either. Many enterprise size private sector companies follow the same contracting guidelines. Companies who abide by contracting quotas often have a dedicated in-house diversity department.

Diversity fosters the climate to subcontract the right way within an industry. The higher the percentage of diversity required the more opportunity for proper subcontracting. National contractors encourage small, local subcontractors to partner and meet required quotas. The prime contractor's responsibility is meeting the expected percentage of inclusiveness. The subcontracted portions of a contract are not based only on distinctive status. The independent contractors must also prove their ability to do the work.



SUBCONTRACTING LABOR (NO BUENO)

So if a prospective client asks me, “Does your janitorial company subcontract?” How do I answer? The times I am asked, there is a negative connotation to the question. Why? Well, it is because the person asking does not have the prior examples of subcontracting in mind. When a prospect asks if we subcontract, they are 99.99% of the time asking if we subcontract our custodial labor. The answer of course is:

No subcontracting here!

IRS FORMS W-9 AND 1099 VERSUS IRS FORMS W-4 AND W-2

Why is this so important to a business looking to hire a professional janitorial service? It is likely in regards to an age-old [IRS law. The employee versus contractor classification.](#) How does this matter here? It is not an issue exclusive to the janitorial industry. Paying people as contractors and not as an employee is pervasive across all trades. Employees incorrect categorization to independent contractor lowers the total cost of a bid. Not fair in so many ways.



It is not ethical, and often it is flat out illegal. Also, there exist “legal” grey areas many of my competitors operate in. Janitorial franchises. [More on this on a future post.](#)

SUBCONTRACTING TO EVADE FIXED OVERHEAD

The following is an example of what NOT to do if you are running a commercial cleaning service. Yet it is all too common. The federal minimum wage should not be the only labor cost budgeted. Appendages of said labor costs need factoring in too. For example, employer contributions for social security, Medicare, federal and state unemployment insurance. These are direct costs associated per payroll dollar spent. To keep it simple, we will leave the state and federal unemployment taxes aside.

In my industry, competitors claim to not *contract* their janitors. Yet they pay their cleaners subcontract pay. We hire employees to perform contracts. Let us assume me and a competitor both calculate \$1,000.00 of labor for a bid.

If we pay \$1,000.00 in labor, as an employer we also have to pay an extra \$62 (6.2%) for social security and \$14.50 (1.45%) for Medicare. This combined \$76.50 (7.65%) comes out of our pocket. It is a cost of doing business in the United States; and it is the employer half of the mandatory tax. The other half comes from our employees. They pay the same amount we do and we collect it. Every payday we send both contributions to the IRS. The two combined employer and employee payments amount to 15.3%. In the example of \$1,000 of monthly labor this comes to \$153.00.

The combined 15.3% cost for social security and Medicare is missing from competitors bids. Lowering a bid by \$153 using contractor pay rather than incur the cost of an employee. Too many times I lose a bid to companies who have people fill out a W-9 rather than a W-4. Subcontracted janitors get paid the full \$1,000 without taking out taxes. Sometimes cash payments! In theory, independent contractors have their own equipment and supplies. No training needed either from the prime contractor who is one degree from the client.

At year's end subcontractors receive 1099's for money received when they filled out a W-9. Filing taxes means having to finally pay the 15.3% in employer AND employee contributions . The \$153 in taxes each month gets paid by the person who cleans. **Wait. What?** *The prime contractor passed their contribution obligation to the janitors.* This is how some competitors can submit a bid with a labor budget \$153 lower than mine **By pretending not to be employers.**

SUBCONTRACTING AS A MEANS TO PAY LOWER WAGES



Sometimes we recruit people who worked with competitors who subcontract. We tell them we pay by the hour and payroll taxes get taken out. Some ask if we can pay them per contract. The reasoning is they would earn less with us because we pay taxes. It comes as no surprise *many of these folks do not pay the taxes their prime contractor passed on to them* either. They prefer contract pay because neither they, nor the contractor above them contributed. Gross checks look to be in the best interest of the person cleaning. Paychecks with net pay values on

the face of them. . . not so much.

Logic like this is necessary when competitors pay minimum wage. The current federal minimum wage is \$7.25 an hour. It took effect back in 2009. How long ago since minimum wage rose to \$7.25 an hour? It is so long ago, I did not even own a smartphone yet! \$1,000.00 a month in payroll paid out in \$7.25 increments equals 31-32 hours a week. If the sub ends up paying the employer's part the hourly rate drops to \$6.66-6.87.

[By the way BCI Janitorial pays "living wages". In Dallas county, a single person needs an \\$11 hourly wage to not live in poverty.](#) We have not paid \$7.25 an hour since the mid 2000's. [I am writing another blog about my industry and living wages.](#) What I am driving at is the \$1,000 a month of payroll is not equal between a competitor and me. Please note: \$1,000 of monthly labor translates into less hours per month the higher the hourly wage!

A competitor can buy 31-32 hours of weekly labor for \$1,000. The same monthly budget only gets me 20-21 weekly hours. Looking at it from another perspective, it would cost me \$1,477-1,525 a month for 31-32 labor hours each week. Remember, the difference will be greater when I pay better to retain loyal workers.

The headaches low wages cause operations are not worth it to my company. Not worth the up-and-down roller coaster service high turnover causes. My clients and employees are worth the higher cost in wages. Better wages improves employee retention. Employee longevity means having a workforce with advanced training. My competitors keep

covering the basics with every new crew. Better trained and better paid janitorial employees means my clients get consistent quality.

JANITORIAL VICTIMS OF SUBCONTRACTING

If there is one thing you should remember about this article then please let it be this section. The thing is many subcontractors do not do things as they should. To make ends meet they do not file taxes. Sometimes for years. Completely illegal and if you look at it a certain way it might be understandable why they would not. If they were to file taxes they would be earning less than minimum wage. I say find another employer.

This is exactly what happens in our experience. We hire people burned by other companies who miscategorize their status. The common sentiment is of being prey. They regret not knowing the difference between an independent contractor and an employee. They come asking for a W-4 to fill out because they want a W-2 at the end of the year. They want taxes taken out and often request extra federal withholding to send to the IRS. This is what happens after they finally decided to file their 1099 forms. They get hit with penalties and interest for back taxes they owe. It is at this point they discover working for subcontractor pay is NOT worth it.

SO DO WE SUBCONTRACT?

Yes all the time. Do we subcontract our labor? No way. [We only use hired employees because we can train them in our methods.](#) We teach best use of company equipment and cleaning supplies to maximize efficiency. We pay our dues to the United States and the State of Texas. Our employees home economies matter and we shy away from questionable business practices.

Doing things by the book gives a piece of mind I need to run an organization with many moving pieces. Being legit in our business dealings proves to be cost efficient for over a quarter century now. [We are in it for the long run; it shows when you see three family generations working alongside our co-workers.](#)

We are in it for the clients who we do fair business with and work with us. We are in it also for our W-2 employees and their families so they keep a high degree of dignity on a janitor's wages.

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