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Case Study

Rapid Group Co-operative – The Cleaning Supply Experts

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INTRODUCTION

The commercial cleaning services sector encompasses a range of specialised activities for both business and domestic needs. This includes general cleaning (e.g., floors, windows, and window treatments). There are around 29,517 businesses engaged in the commercial cleaning services sector and the entire sector was estimated to have a revenue stream of more than $12 billion (Allday, 2018). The commercial cleaning and maintenance suppliers and distributors sector that supplies the cleaning services industry is smaller, with around 262 businesses and a revenue of around $2 billion. This sector has enjoyed strong growth over the past five years of around 3.7% (IBISWorld, 2018).

Industry growth within the commercial cleaning services industry in Australia is forecasted to rise by around 3.2% over the period 2019-2024, which suggests a positive outlook for the commercial cleaning and maintenance suppliers and distributors sector. Operating within this dynamic market environment is the Rapid Group Co-operative (RapidClean), with over 60 members' stores located throughout Australia and New Zealand. The co-operative provides a cost-effective "one-stop-shop" for their customers to source the supply of products that are used in cleaning. These include cleaning fluids and materials, as well as equipment (e.g., floor polishers, vacuums, sweepers, and scrubbers), as well as "consumables" (e.g., plates, paper towels, tea, and coffee).

Founded in 1985, RapidClean commenced operations as a buying group within the Rotobic commercial floor polisher suppliers located in NSW who wished to collaborate to gain greater bargaining power in relation to the sourcing of chemicals, floor polish, floor polishing equipment and consumables. The Rotobic floor polisher was manufactured in Australia and the distributors were independent business owners. Since that time the Rotobic manufacturer has been acquired by the large German manufacturer Hako GmbH, which specialises in commercial cleaning equipment.

According to RapidClean CEO Bruce Lees, the original motivation for the creation of a co-operative remains uncertain, however, he suggested that it was a good business model for the needs of the members to help them solve their problem of enhancing their bargaining power in the market:

> *"Well, the reason for choosing a co-operative business model predates my time, but I think that it was simple, they all could own shares in it, and they could manage it. There was no management structure in those days, it was a very simple business, just half a dozen small businesses trying to buy something better than they could individually. Nothing more sophisticated than that, and I think they didn't really form a co-operative company until 1991."*

Since that time RapidClean has grown and expanded across Australia and across the Tasman to New Zealand. However, its growth has not been without its challenges and much has depended on the co-operative's ability to offer and sustainably deliver a clear member value proposition (MVP).

MAKING THE MEMBER VALUE PROPOSITION

According to Bruce Lees, the evolution of RapidClean since the 1980s has seen it grow rapidly only to face periods of downturn.

> *"It's really ebbed and flowed over the past 20 odd years, it had some really good growth, and was really starting to make some inroads into the marketplace through its buying power, and it had lots of the major players start to buy in. Then the issues that it started to have, were about the different reasons for being a member. For example, whether they were located in a capital city or a regional town."*

He explained that the largest cost for regional members is freight and as such these members were keen to have special deals on supply that included freight discounts. By contrast the members located in the capital cities were more interested in reducing costs to offer lower prices. As the freight costs to the regional members became absorbed into the wholesale prices of the city members they grew dissatisfied. This triggered an "us and them" situation between the regional and urban member communities. As Lees noted, this remains a problem through to the present:

> *"Because Australia is so big, it is one of the challenges that we still face today. How do you make sure that every member is better off for being a member? That's what nearly tore it apart."*

This tension between the regional and urban based members built up during the late 2000s to a point where it led to a split within the co-operative. In 2007-2008 a sub-group of members based in the cities set up a rival operation known as "SmartClean." Their motivation to do this was largely driven by their dissatisfaction with the co-operative subsidising freight costs for regional members. This business didn't survive.

By 2010 RapidClean had 26 members located only in Australia and no representation in Sydney or Melbourne. At that time Bruce Lees had just taken up the role of CEO and says that he did so primarily because of what he saw the company could potentially achieve rather than what it had been doing. Amongst his first actions were to visit members and talk to them about why they had joined and the value they felt they were getting from their membership.

As he explained:

> *"It was a business with potential, but no real strength in the marketplace. So, I took on the role based on the fact that I could see what this company could do more than what it was actually doing. When I went and visited the members and asked why you joined and why are you still a member, it was a case of them saying, well, we could see that if we all bought together, we'd be better off than we are individually, but why we're still members we're not really sure because most of the benefits we thought we would receive have not eventuated!"*

To address this problem, he began to take steps to offer value to members in often small but important ways. This process of continuous rather than radical change and improvement in member engagement and value creation has remained the approach taken by Bruce Lees over the past eight years. This was expressed as follows:

> *"What we have been able to do is give our members just little, or small advantages, and keep moving them forward from where they were. We continue to do this; we don't try to rebuild a business from the ground up. Each of our member businesses within the co-operative are individually unique. So, trying to make them all the same is pointless. We're not a franchise, in fact we're very separate from a franchise model."*

According to Lees the first step in communicating the MVP to members is to get a full understanding of the member's business. For example, members located in the capital cities are typically frustrated by their ability to win business on their own. Many who have joined the co-operative have lost business and they turn to RapidClean to help them regain or keep business. In addition, most members are small firms with between three and 15 employees.

These firms generally do not have dedicated marketing personnel within the business. The co-operative assists here by preparing marketing and sales materials that the members can quickly customise to add their own contact details or other specific attributes to give them a professional appearance at low cost.

Providing the members with better access to suppliers is another major part of the MVP that RapidClean can offer. This can be a particular concern for members located in the regional areas. These members often find it difficult to get access to specific brands and RapidClean can source and supply these products to them due to its bulk purchasing power. The co-operative requires all its suppliers to sell to all members regardless of where they are located.

MANAGING A CO-OPERATIVE IS NOT LIKE MANAGING OTHER BUSINESSES

This unique nature of the co-operative business model was, according to Lees, not always recognised by the management of RapidClean. Prior to taking on the CEO role there had been efforts by management to impose more uniform and centralised systems across the network in relation to stock and marketing, much as might be found within corporate or franchise business models. This approach was described as "more about power" by the co-operative's management team. However, as Lees noted the management approaches that might be relevant to corporate or franchise business models don't apply well within co-operatives, stating that "Co-operatives' weaknesses are its disciplines."

As explained by Lees, the often-idiosyncratic nature of members within a co-operative means that they cannot be managed like a franchise or corporate enterprise. One example is when the co-operative seeks to win large national group accounts where the customer wants a uniform distribution of products across the country at the same price. However, often members will not agree to stock a given product or to sell it at a standard price across the network. This, he suggested, is a common problem for co-operatives of this kind:

> *"I've spoken to some international co-operatives' CEOs who manage much bigger groups in the United States and Britain, and they say to me, just focus on making every member better off being a member and you'll be able to achieve things. But if you try to make it any more sophisticated than all you will do is upset people."*

INTERNATIONAL EXPANSION

Relatively few co-operatives expand outside their country of origin, and the expansion of RapidClean into New Zealand only took place in 2017. According to Lees, the discussions with New Zealand members commenced around three years prior to the co-operative's entry into this overseas market. This involved discussions over the potential value of the co-operative business model to the New Zealand suppliers, and a suggestion that the absence of costly freight charges, as found in Australia, would make the MVP even more attractive. However, the response from New Zealand members was not initially that warm as Lees explained:

> *"We were excited about the New Zealanders' model far more quickly than they were. In fact, at first, they were quite cynical. They obviously didn't like Australians coming and telling them what to do. We took a long time to convince four guys to throw their hand in the air and say, 'we believe', but we eventually go there and the four guys who came on were able to help us convince another seven to come on. So, within 12 months we had 11 stores in a country which is phenomenal growth. We've almost got complete coverage."*

To consolidate this rapid expansion in New Zealand, RapidClean hired a new manager to look after the network in New Zealand. This manager was an expatriate New Zealander, living in Australia, who wanted to return home to live with his family. In Lees' view this was a "perfect scenario" and ensured that a New Zealander was going to represent the Kiwi members within the co-operative. In fact, RapidClean held their 2018 conference in New Zealand to recognise the importance of the international nature of the co-operative.

One of the factors motivating the New Zealand members to join the co-operative was that they recognised the potential for RapidClean to help them compete with the large multi-national firms that generally dominate the industry. Yet, this Trans-Tasman expansion was met by the investor-owned firms who compete with RapidClean with the accusation that: "look they're owned by Australians now." While this is not the case it is a perception that might damage RapidClean's brand image, so the co-operative is working hard to maintain the "Kiwi connection" within the network. It was therefore very important to have New Zealand managers running the business operations in New Zealand.

An interesting aspect to the decision by RapidClean to expand into New Zealand was that it was a strategy driven less by profit and more by a desire to offer value to the corporate customers with which the co-operative secures its major contracts, as Lees explained:

> *"The reason for us setting up over there is not to generate profit, it is really to help engage with customers. So, where we chase a national account opportunity here, we'd regularly hear them say, 'are you in New Zealand?' We would then have to say, sorry we can't help you there. It was just hearing enough of that to convince us to realise that we probably would need to go and do something or at least explore whether there was an opportunity there."*

At the time RapidClean commenced its market entry into New Zealand, the local market there was, in Lees' words, "in a bit of a mess." A large multi-national firm had bought a local firm and then sold it, and a major family business had been restructured, and an older, established firm, needed revitalisation. All these conditions provided RapidClean with a good environment to deploy its market entry strategy:

> *"The environment there was just ripe, and so when we put up a decent business model all the guys over there said, we're in! Because individual cleaning supplies shops in Christchurch, Otago and Auckland can't supply the country so they were losing business. What's happening in our market, and perhaps most markets, is that centralised purchasing decisions have made it difficult to sell directly to smaller buyers. They are now all part of groups, with purchasing managers in the capital cities like Auckland, Sydney, or Melbourne. So, the local supplier simply can't win the business anymore."*

COMPETING IN AN INCREASINGLY CONCENTRATED AND NATIONAL MARKET

The situation in New Zealand of small suppliers having trouble in winning business due to the centralisation of procurement is a problem also found in Australia. According to Lees, this centralisation has changed the dynamics of how the small supplier need to operate. Much less value was being placed on the personal relationships within the local community and the quality of services being provided. Now the national procurement managers were predominately interested in reports relating to on-time delivery, cost control, and other non-service measures. This was a problem because the key differentiator for RapidClean's members was their service quality.

This realisation of the changing nature of the market environment led RapidClean, to create a National Account program in 2014, whereby the co-operative would collectively tender for large national and international supply contracts, and then distribute the work across its member network by encouraging its members to join these tender bids. As Lees explained, the New Zealand members were amongst the most responsive to this national account program.

To compete in this national account market, RapidClean has had to invest in the development of its internal systems to ensure that it can meet the requirements of such tenders and satisfactorily deliver against the contracts. As explained by Lees:

> *"So, we're busy trying to make sure that all that back of house stuff works. Because you can't win the national account program until you get this stuff right. So, if you've got no brand presence, if you're buying poorly, if you've got no consistency of product availability, then you can't chase a national account."*

As a network of small businesses, the co-operative serves as lead agency in bidding for large supply contracts with state governments, large contract cleaning companies that have national accounts and similar procurement deals that none of their members can do alone. This remains a key focus of the co-operative, looking for things it can do that its members cannot do by themselves.

MARKETING THE RAPIDCLEAN CO-OPERATIVE ADVANTAGE

Co-operative and mutual enterprises have been encouraged to use the strengths inherent within their business models within their marketing communications by what has been described as "Marketing our Co-operative Advantage" (MOCA) (Webb, 1996). This is something that is well understood by the RapidClean's board and management team.

In its quest to secure national and international contracts for its members, RapidClean has invested in the development of its brand. This is viewed strategically as a key asset in successfully competing for national accounts.

As Lees explained:

> *"Marketing is the big thing that I think many people underestimate. We spend a lot of time and money building the RapidClean brand through the co-operative's website, as well as via trade shows and other activities in order to build the recognition so that when our members knock on the door and say they're from RapidClean it actually means something."*

Identifying the positioning of the RapidClean brand is a potential challenge as is often the case for co-operatives. As a purchasing co-operative supporting a network of small cleaning equipment and products distributors, RapidClean must negotiate with its members over whether they carry the co-operative brand. This in turn evokes different responses from the members. Lees estimates that less than 10% of the group's overall turnover is attributed to walk-in, over the counter retail trade. Most sales are business-to-business, typically selling to large contract cleaning companies, facilities services firms and maintenance contractors. In addition, RapidClean derives a good proportion of its business from supplying to the hospitality industry (e.g., restaurants, clubs, hotels). It also sells to manufacturing companies and government agencies, hospitals, aged care, and childcare organisations, all of which need to regularly clean their facilities.

> *"The great thing about the cleaning supply industry is that almost everyone is a potential customer. Every business buys products such as paper towel, toilet paper, hand soap, or more sophisticated things like stone or timber floor care products."*

To assist its members in marketing the co-operative advantage RapidClean employs professional national account managers who take on the responsibly of winning tenders and then coordinating the large supply contracts. These contracts are then allocated to members, usually based on geographic location and area of speciality or product range. Once this is in place, the national account customer sends its orders for supplies to the co-operative, which in turn distributes these out to the members to supply the goods. The members then invoice the co-operative, which then invoices the customer. This reduces the transaction cost to the customers because they will get one invoice rather than many separate ones.

However, as important as national accounts are, this type of business is still only around 10% of the total turnover. Most the co-operative's revenue flows from its members winning contracts and the value added by RapidClean comes from assisting members to get better buying power in the sourcing of their products and increasing their access to suppliers that might not otherwise be accessible. This relates to criteria such as annual turnover that small firms would not normally be able to meet alone.

Another way that RapidClean assists both its members, and the suppliers is through the centralised processing of invoices.

As explained by Lees:

> *"So, our member will place an order to a supplier for the goods, and the supplier will invoice us at the head office, and then we will invoice the member. So, we carry the debt. The only reason we do that is that it enables us to get better terms out of the suppliers. This can result in getting a better rebate program, or better freight conditions that we can then pass onto our members. But whatever it is, it is about creating leverage. So, the supplier, like the national account program customers, wants simplicity. They don't want to chase 50 stores for payment, and we pay on time every time so there's that reliability."*

In addition to these benefits RapidClean provides all its members with space on its website, which includes a "find a store" locator designed to help guide potential customers to the members' websites. According to Lees the RapidClean website attracts over 1,000 hits a month on the "find a store" page, and the volume of online traffic has been growing at a rate of 20% to 25% per year. The website also offers a facility to take online requests for quotations from members, which are then distributed by the co-operative. The co-operative also serves as a support for its members, for example, in helping resolve disputes with suppliers or major customers.

FINANCIAL CAPITAL ASSETS AND SHARE DISTRIBUTIONS

RapidClean members all hold 500 $1 shares in the co-operative but there is no distribution of dividends or appreciation or transferability of this share capital. Any financial distributions are in the form of rebates that are issued before the final profit is assessed. These typically come from supplier rebates that can be passed onto members based on the volume of business that they have transacted, as explained by Lees:

> *"So, we might have a supplier who pays a 3%-member rebate, and then we work out what each individual member has spent with that supplier and pay their 3% back to them at the end of the financial year."*

In terms of financial capital, the co-operative has never felt the need to raise additional equity, such as via the issue of co-operative capital units (CCUs) (Mamouni Limnios et al., 2016). It has no debt and has generated surplus profits for the past decade. It also has relatively low overhead costs as it doesn't have warehouses or other substantial assets, mostly items such as motor vehicles and computer equipment. The co-operative has so few assets that when it has sought to purchase items such as company cars on credit, banks have been reluctant to lend without the directors agreeing to become guarantors of the debt. As this was not something the directors were willing to do the co-operative simply chose to buy their cars for cash.

SOCIAL CAPITAL AND NETWORKING

Although much of the initial motivation that members have to join RapidClean is driven by financial issues, the co-operative also sees its importance in terms of the building of social capital through the facilitation of networking and sharing of ideas. As explained by Lees:

> *"That collegiate environment is something that is really strong. You notice it most on people who aren't part of the group. One of the things that they are desperate for is someone to talk to. That is someone who doesn't have an agenda. Because most of their sources of information are either a sales rep, or the manager of a supplier, and of course they're going to give them their own spin on any conversation. Now, when they are part of the co-operative, they can talk to someone who has a very similar business to them and more than willing to share information on customers, products, pricing etc."*

RapidClean holds regular annual conferences designed to bring its members together where they can meet, network, and share ideas as well as have a good time. These events are generally well attended and have high profile keynote speakers who provide informative and inspirational role models for the members to hear. However, it has taken some time to build up the members confidence and acceptance of the RapidClean brand and a willingness to use it and do so proudly. Bruce Lees acknowledges that there was loss of this engagement with the co-operative's brand in the period when members were divided and splitting off to set up their own operations. However, this has now turned around, perhaps not in the case of everyone, but an increasing proportion of members particularly the newer ones.

LOOKING TO THE FUTURE

RapidClean has developed a five-year strategic plan which seeks to double the size of the co-operative's total purchasing volume. It also seeks to build up its national accounts segment, partially because this is an area that they feel will assist growth, but also because they see the trend towards significant centralisation of cleaning contracts. However, to consistently win and retain this type of business will require the co-operative to get much greater consistency and discipline amongst its members in relation to product and price delivery to customers across all regions. This is often difficult due to freight costs, but customers don't care. Yet this is a challenge for a co-operative as noted by Lees:

> *"So, where we compete with a multinational they can wash through a loss in a region, they can say we'll I don't care if I am losing money in Kalgoorlie, Geraldton, and Albany, because I'm making a profit in Sydney, Perth, and Brisbane. However, with our model we can't do that. We can't have a guy in Kalgoorlie losing money because a guy located in Sydney is making a fortune. So, that's a weakness in our model. Yet the strength we have is much higher service levels…so we push our*

branding as 'National Strength Local Service', and that is really our differentiator".

The co-operative has enjoyed double digit growth for the past eight years and the outlook for the current and future years is positive. Over coming years RapidClean anticipates that its members will need to distribute a wider range of products. Already it has opened supply contracts over hospitality goods such as cups and plates, and potentially equipment such as ovens, refrigerators, or even tables and chairs. From RapidClean's perspective there is little that they feel then cannot do.

KEY LESSONS FROM THE CASE

The RapidClean case study provides a good example of the ability of the co-operative and mutual enterprise business model to provide small to medium enterprises (SMEs) with value through collective action that would otherwise be impossible for them to achieve alone. Research into the relationship between SMEs and co-operatives suggests that the underlying business model should be viewed as a strategic network, sometimes described as a "nexus of contracts" (Sexton, 1983; 1986), or a "coalition" (Staaz, 1983; 1987). This can apply to producer co-operatives as found in agribusiness or fishing, but also in consumer co-operatives where the members are small business owners.

Mazzarol, Mamouni Limnios and Reboud (2013) proposed a conceptual model for small firms' network engagement with co-operatives. This focuses on the interrelationships between antecedent factors, processes, and outcomes. The antecedents that motivate SMEs to join co-operatives include such things as the need to secure external resources and capabilities that they cannot acquire alone. Also important is the level of external environmental uncertainty within their industry or markets. As shown in the RapidClean case, the members of the co-operative were motivated to collaborate because of rising costs and increasing competition within their industry.

However, external pressures and lack of resources are insufficient by themselves. There must also be a willingness to cooperate, a common sense of purpose and member driven focus within the process of establishing the co-operative. Once formed, the co-operative's success will depend on its ability to deliver value to its members, and to run its operations in an efficient manner. There must also be a clear link between the member firm's success and the success of the co-operative. The directors and managers within the co-operative must also pay close attention to the retention of member loyalty through active patronage, and the fostering of social capital and trust between the members and the co-operative, and the members amongst themselves.

If these processes are successfully undertaken, the outcomes for the SME members will be enhanced access to resources, information and knowledge, stronger control within the supply chain (e.g., pricing and marketing), the strengthening of social capital, and the maintenance of a sense of common purpose and pride. The RapidClean case demonstrate these processes and outcomes. They show how, via cooperation, small business operators can compete against the largest investor-owned firms.

However, the ability of the co-operative to play a valuable role for its small business members will be contingent on the willingness of the members to work together and maintain collective discipline. As the RapidClean case demonstrates, this relates to their willingness to adhere to group strategies in terms of following marketing and purchasing, information and data sharing, and even the display of co-operative branding. The idiosyncratic nature of many small business operators makes this level of discipline more challenging than is usually the case within franchise systems, or corporate groups. Such are the challenges that face directors and managers of co-operatives. As Bruce Lees, CEO RapidClean explained, the solution is potentially quite straightforward:

> *"I've spoken to some international co-operatives' CEOs who manage much bigger groups in the United States and Britain, and they say to me, just focus on making every member better off being a member and you'll be able to achieve things. But if you try to make it any more sophisticated than all you will do is upset people."*

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