Laundry and dry cleaning services in the US are provided by 30,000 companies with combined annual revenue of $20 billion. Large companies include Coinmach and Martin Franchises. The industry includes 20,000 companies that provide retail laundry and dry cleaning services; 9,000 that provide services through coin-operated laundromats; and about 1,000 that provide commercial/industrial laundry services. The industry is highly fragmented: the 50 largest firms hold only about 40 percent of the market.

COMPETITIVE LANDSCAPE

Demand is related to consumer income and population growth. The profitability of individual companies depends on efficient operations and favorable store locations. Large companies have efficiencies of scale in centralized cleaning operations. Small companies can compete successfully by owning favorable locations or providing special services. The industry is labor-intensive; average annual revenue per employee is just $60,000.

PRODUCTS, OPERATIONS & TECHNOLOGY

Major products are consumer dry cleaning services, commercial laundry services, and coin-operated laundry services. Retail dry cleaning stores account for 40 percent of industry revenue, commercial launderers for 30 percent, and coin-operated laundromats for 15 percent. The additional remaining 15 percent of industry revenue consists of shoe and clothing repair services and washing machine "route" operators who service machines in apartments.

Retail dry cleaning operations consist of collecting and tagging clothing, operating the actual dry cleaning machinery either on the retail premises or at central facilities that serve a number of stores, and pressing, bagging, and returning clothing to customers. Average annual revenue for large retail locations is about $500,000. Commercial dry cleaners service hospitals, hotels, and restaurants. Commercial dry cleaners may provide specialized services, such as "clean room" laundry facilities that serve chemical, semiconductor, and pharmaceutical markets. Commercial laundry companies often also manufacture and lease uniforms. Average annual revenue for commercial launderers is about $5 million.

Coin-operated laundries (laundromats) provide washers and dryers for people who don't have laundry facilities in their own home. Most are single-location companies, with annual revenue under $300,000. In addition to operating retail locations, companies install and service laundromats in private buildings such as apartment complexes or college dorms under long-term contracts (so-called "laundry routes"). Mac-Gray services 30,000 laundry rooms. Operations mainly consist of money collection and maintenance.

Equipment is the largest investment for both dry cleaners and laundromats, and includes washer-
extractors, finishing and ironing machines, folders, equipment computer systems, and dryers. Usually leased or financed from manufacturers or distributors, equipment is less expensive if rebuilt rather than new, and several equipment companies specialize in rebuilding machines for resale. Typical laundromat washers and dryers cost $700 to $2,500 each, depending on capacity.

SALES & MARKETING

Retail dry cleaners depend heavily on store location to attract customers. Dry cleaners estimate that businesspeople may spend between $500 and $1,500 annually, but the average annual dry cleaning bill for a typical family is under $150. Repeat business and customer retention are crucial to success. Owners of coin-operated machines in apartments buildings either pay the landlord a fixed monthly fee or a percentage of the revenue.

FINANCE & REGULATION

Revenue for retail cleaners and coin-operated machines is seasonal in vacation or college markets. Transactions are mainly in cash. Receivables may be high for commercial launderers. Periodic capital investment is required to replace older equipment.

Many retail and coin operations are franchises, with the franchiser offering management advice, marketing, and equipment installation. Franchises offering turnkey or startup business programs for several thousand dollars are common.

Dry cleaners are subject to state and federal regulations concerning workplace and environmental emissions and disposal of chemicals used in the cleaning process. "Perc" (perchloroethylene) is a toxic degreasing agent commonly used in the cleaning process by many establishments that operate older equipment. Some establishments today use alternatives to perc, such as petroleum, liquid carbon dioxide, and water-based cleaners.

REGIONAL & INTERNATIONAL ISSUES

Demand for cleaning services grows most rapidly in markets with high population growth. States with the highest population growth in recent years were Nevada, Arizona, and Florida. States with the lowest growth were Massachusetts, New York, and Ohio.

HUMAN RESOURCES

Most jobs in laundry require few skills and pay is accordingly low. Hourly earnings are well below the average for all US workers. The illness and injury rate is five cases per 100 workers per year, equal to the average for all US businesses.
Few Dry Cleaning Fluids Found in New Orleans’ Water - Initial tests by the EPA indicate that the water around New Orleans isn’t as hazardous or toxic as many believed it would become after Hurricane Katrina. For example, EPA tests show that the high levels of chemicals such as dry cleaning fluids that many predicted would be present in the water simply weren’t. Cleaning chemical compounds were detected, but only at very low levels.

Whirlpool Introduces Dry Cleaning Alternative - Whirlpool’s Fabric Care line introduced a new appliance, the Fabric Freshener, that directly targets the dry cleaning industry’s customer base. A consumer uses the Fabric Freshener by putting up to two garments in a special bag, fills the attached tank with water, closes the bag, turns the appliance on and comes back half an hour later to fresh, unwrinkled clothes. It works on a variety of fabrics and extends the time needed between visits to the dry cleaner. Whirlpool built the product, which retails for $249, partly in response to a survey showing that 75 percent of people go to dry cleaners for ironing and odor removal, not to remove stains.

Garment Bag Advertising Launched in Canada - Two recent college grads founded Statements Media and launched their first campaign by printing advertisements on 125,000 dry cleaning bags distributed throughout the greater Toronto area. Both independent and chain cleaners signed up to participate in the campaign and Statements inked a deal with the Canadian Korean Dry Cleaning Association. While this is a first for garment bag ads in Canada, it’s not completely new to the US: ABC advertised the launch of the second season of Desperate Housewives by sending dry cleaners nationwide garment bags imprinted with the show’s catchphrase: “Everyone has a little dirty laundry.”

Family-Owned Dry Cleaner Closes After 151 Years - San Francisco’s oldest dry cleaner, GF Thomas Dyeing and Cleaning Works, closed its doors August 2005 after 151 years in business. Believed to be the oldest family-owned dry cleaner in the US, it’s certainly one of the oldest businesses in San Francisco, as it was founded during the Gold Rush. Idle for several years, the dry cleaning machines below the shop were unusable due to tougher industry environmental regulations. GF Thomas, like many small dry cleaning shops that cannot afford new equipment, was forced to send its customers’ clothes out to a larger dry cleaning plant for cleaning for the past several years.

Recycling Grey Water - Recycling wastewater, or grey water, is a relatively new concept within the laundry industry but one growing in popularity as state and local governments impose tighter restrictions and as sewage charges and fuel costs increase. Many municipalities now offer incentives to companies with high water usage to either conserve water or reduce discharge. Recycling occurs at laundries with the processing of “grey” water through a filtration system that recycles the water back into the wash process. Key elements in implementing a wastewater recycling program are knowledge of relevant laws, a clear understanding of potential savings and costs, and good vendor relationships.

CRITICAL ISSUES

Perc Liability - Most dry cleaners use the highly toxic solvent perchloroethylene ("perc"), although
industry use has dropped by two-thirds in the past decade. Dry cleaners, and to an extent, laundry mats, must deal with perc and other toxic waste created by the dry cleaning process. Besides lawsuits, many dry cleaners pay special state taxes, higher insurance premiums, and for costly spill cleanup. As alternative technologies become more cost-effective, an outright ban on perc use in dry cleaning could result. More dry cleaners that use perc are having trouble getting leases renewed, due to health and environmental concerns of the property owners.

- Of an estimated 5,856 dry cleaners and laundry facilities operating in California, 85 percent use the toxic solvent perchloroethylene, according to a recent California Air Resources Board survey.

**Vulnerability to Higher Energy Costs** - Energy costs are a major concern for dry cleaners and laundries. Cleaners, who must run huge boilers in the cleaning process and may also operate a fleet of delivery trucks, feel the pinch of higher natural gas, gas, and electricity costs. Operating margins, which tighten as energy and fuel costs rise, are impacted by diesel fuel for laundry truck fleets; bleach and plastic, made in part from crude oil; and natural gas, which powers laundries. Small businesses have a tough time passing cost increases to customers. A comprehensive energy-savings plan can cut a laundry's energy costs by up to 20 percent. Some dry cleaners or laundromats shop for cheaper electricity suppliers or brokers to decrease their electricity bills.

- The price of natural gas rose 6.4 percent in September 2005 compared to a year-ago; electricity jumped 28.1 percent, adding to dry cleaning and laundry facilities' operating costs.

**OTHER BUSINESS CHALLENGES**

**Vulnerability to Government Regulations** - Dry cleaners are subject to strict regulations from EPA, OSHA, and state and local agencies. They must control water, groundwater, and air emissions, and properly dispose of chemical hazardous waste. Due to the high flammability of some cleaning solvents, worker safety is a primary regulatory issue, as are plant layout, employee safety gear, and fire protection systems.

**Lower Demand Due to Casual Attire** - Changes in the business, school, and social world toward less formal dress codes have decreased demand for cleaning services. Newer fabrics also resist more wrinkling and stains.

**Competition from "At Home" Dry Cleaning Products** - National consumer products companies like Proctor and Gamble and Dial have products that dry-clean at home, which may reduce the number of trips to the dry cleaner. These products, which look like miniature chemical sets, provide an economical method to deodorize and spot-clean "dry clean only" garments. Some analysts predict that the home dry cleaning market will reach $750 million in five years.

**High-Tech Fabrics Hard to Clean** - Some garments have invisible high-tech finishes that are very difficult to clean. When a cleaner receives such a garment made with sulfur dyes or resin finishes, the cleaning process will sometimes weaken the fabric and often produce garment tears.

**Poor Public Image** - The industry ranks as one of the worst for customer complaints about deceptive pricing, poor repair work, and lost items.

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**Trends and Opportunities**

Provides insight into business trends and industry opportunities

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**BUSINESS TRENDS**

**Technology** - Larger laundromat operators use computer-tracking to monitor and control cash shrinkage, detect theft, and monitor machine use and performance. Some new cleaners are focusing on new cleaning technologies, like environmentally sensitive equipment, and some are concentrating on technology that improves logistics and efficiency. Laundry mat operators are installing machines that accept bank and university debit cards and "smart" cards, to reduce vandalism, improve security, store data, and allow modest price increases. Streamlined truck routes are calculated using special logistics software.

**Declining Perc Demand** - International Fabricare Institute (IFI) claims that the industry has reduced its consumption of perc by around 70 percent over the last ten years. Improvement could be partly due to dry cleaners’ continued efforts to improve operating practices and further investment in even more expensive
and efficient equipment, or it may be partly due to a decline in dry cleaning volume. Factors contributing to the decline in perc use include more efficient equipment, improved work practices, and alternative dry cleaning technologies.

**State Cleanup Programs** - Several states have attempted to address the problem of dry cleaning site contamination through a state-mandated dry cleaning site remediation program. In these programs, dry cleaners agree to pay into a cleanup fund and, in some cases, employ certain equipment and operational requirements in exchange for receiving relief if an environmental cleanup of their site is needed. In Florida, cleaners pay a surcharge of $5 per gallon on perc and a 2 percent gross receipts tax. The average payment per Florida cleaner to the fund is $5,138, according to the State Coalition for Dry Cleaner Remediation.

**Environmentally Friendly Techniques** - About 6,000 dry cleaning establishments today use alternatives to "perc" dry cleaning, such as petroleum-based solvents, liquid carbon dioxide, and water-based cleaning. The industry's main concern is that the machines for these methods are very expensive, costing from about $28,000 for a professional wet cleaning machine to about $125,000 for a carbon-dioxide cleaning machine.

**Internet Laundry Services** - To date, traditional dry cleaners have remained unfazed by Internet laundry services, saying that customers want personalized service from a shop they know and trust. As Internet laundry services become more accountable and more convenient, the potential for market share seems certain.

**INDUSTRY OPPORTUNITIES**

**Professional Wet Cleaning** - A new process being used in the US for cleaning in water, wet cleaning, uses special technology, detergents, and additives to minimize adverse effects on fabrics. Experts predict that wet cleaning, of all the viable cleaning systems available, will probably make the biggest gains in the next five years, with many dry cleaning plants easily transforming to wet cleaning by 25 to 40 percent. Some dry cleaners in parts of US and Europe are already up to about 40 percent wet cleaning.

**Expanding Services** - Increased discretionary incomes and lifestyle changes have created new lucrative markets for dry cleaners, such as wash-and-fold services that charge per pound, and pickup and delivery services. Other services include button and zipper replacement, tuxedo rental, shoe repair, monogramming, and reweaving. Additional products, such as shoe laces, lint rollers, or moth repellent, can be sold on site.

**Smart Laundry Machines** - USA Technologies offers "smart" washing machines and dryers to college campuses. Called e-Suds, the system replaces traditional coin-operated technology with a system that enables students to pay using a cell phone or swiping an ID card. e-Suds is expected to reduce vandalism while allowing owners to remotely monitor soap supply, machine performance, and maintenance demands.

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**CONVERSATION STARTERS**

**What actions has the company taken to reduce its perc demand and liability risk?**
Most dry cleaners use the highly toxic solvent perchloroethylene ("perc"), although industry use has dropped by two-thirds in the past decade.

**How can the company cut energy costs?**
Energy costs are a major concern for dry cleaners and laundries.

**How is the company reducing its vulnerability to government regulations?**
Dry cleaners are subject to strict regulations from EPA, OSHA, and state and local agencies.

**What opportunities does the company see in wet cleaning methods?**
A new process being used in the US for cleaning in water, wet cleaning, uses special technology, detergents, and additives to minimize adverse effects on fabrics.

**What types of ancillary services is the company selling to customers, and for what gain?**
Increased discretionary incomes and lifestyle changes have created new lucrative markets for dry cleaners, such as wash-and-fold services that charge per pound, and pickup and delivery services.

**Does the company use, or plan to use, "smart" coin machines?**
USA Technologies offers "smart" washing machines and dryers to college campuses.

**QUARTERLY INDUSTRY UPDATE QUESTIONS**

**What impact might new household appliances have on consumer demand for dry cleaning?**
Whirlpool introduced its Fabric Freshener appliance to directly target the dry cleaning industry’s customer base, extending the time clothes can be worn between professional launderings.

**How does the company conserve and recycle water?**
Recycling wastewater is a relatively new concept within the laundry industry, but one growing in popularity as state and local governments impose tighter restrictions and as sewage charges and fuel costs increase.

**OPERATIONS, PRODUCTS AND FACILITIES QUESTIONS**

**Is the company a retail cleaner, industrial/commercial cleaner, or an operator of coin-operated laundry rooms?**

**How many locations does the company have? How many plant or cleaning facilities?**
Most companies have a central cleaning facility and several drop-off points for customer convenience.

**How old is the company’s cleaning equipment?**
Equipment is the largest capital investment for both dry cleaners and laundry mats, and includes washer-extractors, finishing and ironing machines, folders, equipment computer systems, and dryers.

**Does the company lease or finance its equipment? Under what contract terms?**
Leasing equipment allows the company flexibility in getting newer technology when its contract expires.

**Has the company tried selling nontraditional services such as wash-and-fold or pickup and drop-offs at homes and businesses?**
Increased discretionary incomes and lifestyle changes have created new markets, including wash-and-fold services that charge per pound, and pickup and delivery services.

**Does the company use traditional perc or petroleum cleaning methods, or alternatives such as liquid carbon dioxide or water-based cleaning?**
Dry cleaners, and to an extent, laundromats, must deal with toxic perc and petroleum waste created by the dry cleaning process.

**What actions has the company taken to reduce its demand for perc?**
In the past ten years, cleaners have reduced use of perc. Contributing to the decline has been more efficient equipment, improved work practices, and alternative dry cleaning technologies.

**CUSTOMERS, MARKETING, PRICING, COMPETITION QUESTIONS**

**If an industrial service company, how many customers does it serve?**
A varied customer base is safer from a contractual point of view, as depending on one large customer leaves the company more vulnerable.

**How does the company differentiate itself from the local competition?**

**How have at-home substitute products impacted company revenues?**
For example, the Personal Valet Clothes Care System, a cabinet-sized garment refresher for the home, is available to remove odors and wrinkles. Although it can't remove stains or clean garments, it's expected to reduce consumer trips to the dry cleaners by 75 percent.

**What is the actual cost for the dry cleaner per piece?**
Pieces are important because they provide a constant measure of cost. With accurate information about...
costs per piece, a dry cleaner can be well-positioned to price services to ensure profitability.

**Is the company exposed to seasonal changes in customer levels?**
Some seasonality exists in locations that depend on resort areas or universities for their route or walk-in business.

**Does the cleaner specifically market for the casual clothing segment?**
Many dry cleaners don't actively market to get casual garments into their operations; the impact of casual dress varies regionally.

**How does the company entice repeat business?**
Repeat business and customer retention is crucial to success.

**What are the main complaints from the company’s customers and how does the company address them?**
Lost items, damaged garments, and stains are the top three complaints that consumers report against dry cleaners, according to the Better Business Bureau (BBB). When resolving a complaint in good faith or to the customer's satisfaction, dry cleaners have an unusually low settlement rate, 34.6 percent compared to 66 percent for other businesses monitored by the BBB.

**REGULATIONS, R&D, IMPORTS, AND EXPORTS QUESTIONS**

**What types of employee training does the company need to maintain required licenses?**
Poor operator training is a major cause of accidents in this industry. New state regulations are being instituted to required boiler operator license holders to complete training before cleaners' licenses are renewed.

**Does the cleaner participate in a state dry cleaning site remediation program?**
Several states have attempted to address the problem of dry cleaning site contamination through a state-mandated dry cleaning site remediation program. In these programs, dry cleaners agree to pay into a cleanup fund and, in some cases, employ certain equipment and operational requirements in exchange for receiving relief in the event an environmental cleanup of their site is needed.

**How can the company cut energy costs?**
Following a comprehensive energy-savings plan can cut a laundry’s energy costs by up to 20 percent. The first step is to audit energy use.

**Has the company had any claims filed against it for regulatory violations?**
Dry cleaners, subject to strict regulations from EPA, OSHA, and state and local regulatory agencies, must control water, groundwater, and air emissions, and properly dispose of chemical hazardous waste.

**ORGANIZATION AND MANAGEMENT QUESTIONS**

**Is the company part of a franchise?**
Franchise operations are easy to set up for a fairly low investment.

**How high is annual personnel turnover?**
Labor is a difficult aspect of the industry because of the low pay.

**FINANCIAL ANALYSIS QUESTIONS**

**How does the company access sufficient debt or cash flow for planned capital expenditures?**
A main concern for companies is maintaining a debt leverage rate that allows access to sufficient capital to replace equipment and apply new technologies when necessary.

**Does the company deal only with cash receivables or does it offer credit?**
Most small dry cleaners and coin-operated laundry mats are “all cash” businesses.

**How has the trend toward more casual, washable attire affected company revenues?**
Most dry cleaners have suffered slower business due to more casual business attire.

**If an operator of coin machines, does it lease or own the machines?**
How can the company protect itself from margin squeezes due to fluctuating operating costs?
Coin laundries aren’t designed to react well to market fluctuations, as they’re limited to increasing their
prices by twenty-five-cent increments and their locations limit their ability to expand capacity. Any small
laundry doing less than $10,000 a month in sales is in danger of folding, according to laundry consultants.

BUSINESS AND TECHNOLOGY STRATEGIES QUESTIONS

What techniques does the company use to choose new locations?
Some companies study demographics and household make-up in the area.

What types of ancillary services are the most lucrative for the company?
Companies are becoming more innovative: many pick up and deliver dry cleaning. Other services include
button and zipper replacement, tuxedo rental, shoe repair, monogramming, and reweaving. Additional
products, such as shoe laces, lint rollers, or moth repellent, can be sold onsite. Laundromats can contain
vending machines and computer games.

If a laundromat, do the company’s machines accept debit or smart cards? Is the company
considering implementing such machines?
Driven by technology, consumer demand, and demand on college campuses and apartments, laundry mat
operators are installing machines that accept bank and university debit cards and “smart” cards.

Is the company considering using wet cleaning?
Some dry cleaners in parts of US and Europe are already up to about 40 percent wet cleaning.

Industry Forecast
Delivers a longer term view of the projected growth of the industry

US personal consumption expenditures for cleaning, laundering, and repair of clothing and shoes, which
are major drivers for dry cleaning and laundry facilities, are forecast to grow at an annual compounded
rate of 7.9 percent between 2005 and 2008.

Dry Cleaning, Laundry, Related Services Growth Recovering

Source: IERF, Inc.
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