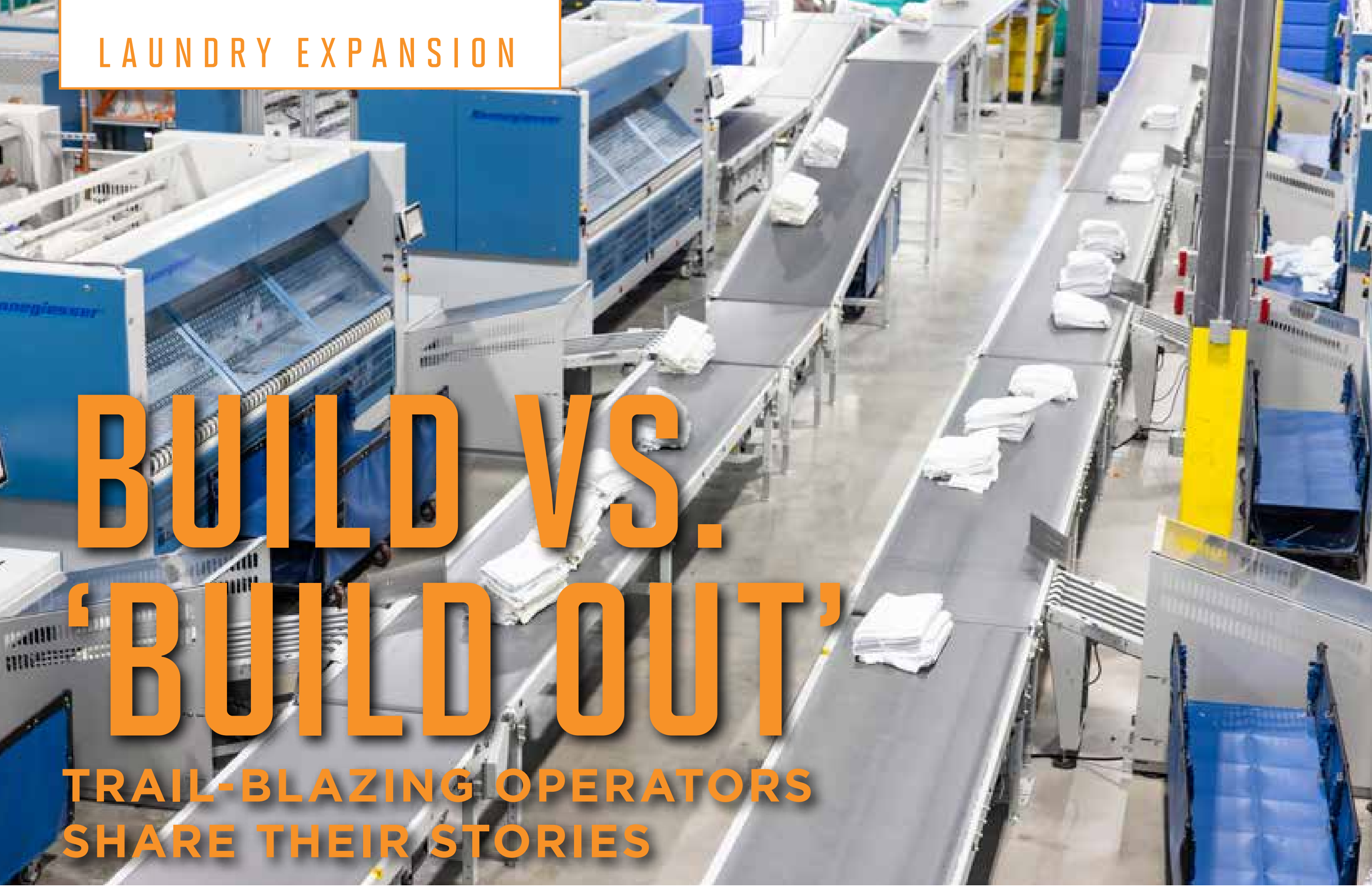

PHOTO CREDIT: NOVO Health Services

# BUILD VS. 'BUILD OUT'

## TRAIL-BLAZING OPERATORS SHARE THEIR STORIES

Laundry execs and a consultant discuss expansion efforts amid inflation, permit delays and a tight real estate market

*By Jack Morgan*

While it may not always be sunny in Philadelphia, the sun's shining these days on Arway Linen and Uniform, a local food and beverage (F&B) launderer that endured catastrophic losses during the COVID-19 pandemic. Arway, an independent operator, is poised to open a new plant next year, about a mile from its current location, that will allow it to dramatically increase productivity and efficiency.

"So today I have 78 people in my plant," says Mario Stagliano, a partner at Arway Linen. "That figure doesn't include maintenance, service reps, or managers. To do the same volume that I'm doing today in that new plant, I'll only need 28 people. My utilities will be cut in half, including laundry chemicals. That's part of our savings that we had to project."

### GROWTH THROUGH EXPANSION

Arway is a union plant, so if the laundry requires fewer staff, any layoff decisions will hinge on seniority. But Stagliano says that he very likely can accommodate any current employees who want to transfer to the new facility and possibly more because the opportunities for growth as the F&B market recovers from the COVID-19 pandemic are significant. "Here's the deal, Philadelphia has a market that's the sixth-largest metro area in the country," he says, adding that there is a distinct possibility that Arway will acquire some rival launderers in the near term. "Philadelphia has 12,000 eating establishments. I have 1,000 contracts and we operate within a 70-mile radius. So I am confident that I can do more business within a 10, 12, 15-mile radius between acquiring smaller businesses and growing in new geography and doing more within the market that I have."

Stagliano expects to open the new plant by mid-2024. Arway's current site is a landlocked 35,000-square-foot (3,251-square-meter) low-ceiling facility in a residential neighborhood. There's no room to expand there. Quite simply, Arway is maxed out at its current site, with mostly aging equipment, including conventional washer/extractors and manual loading/unloading of goods. "I cannot put another piece of business on in my current building," he says. "We turn down business constantly." Even if Arway adds accounts gradually, he's confident that in the new location the company can easily boost its volume by 50% or more in short order. That increase, coupled with the lower payroll and water/energy/chemical costs will help fund this expansion. "Phase I of the new equipment will allow me

to double my business, and my current volume can support the entire project with the new debt service because of savings in labor and utilities," Stagliano says. The question is how fast he can bring on new customers and add throughput to the new, 80,000-square-foot (7,432-square-meter) plant that previously housed an auto-salvaging operation. "I'm not worried about filling it up," he says of the laundry. "I just want to make sure that as I fill it up, that new debt obligation is easier to service." Arway currently is processing about 215,000-260,000 lbs. per week (97,952-117,934 kg.). He anticipates that figure could rise to 400,000 lbs. (181,436 kg.) per week during phase I of the new plant, which will feature soil-sorting, finishing, washer/extractors and a Futurail system from JENSEN, along with two PulseFlow® tunnel washers from Pellerin Milnor Corp. Competition between the two vendors was fierce, but Arway elected to go with a hybrid approach on equipment purchases. They've taken steps with both vendors to ensure that all the equipment will work harmoniously. "We made sure that everything can link and sync and talk and play nicely together," Stagliano quips, adding that Arway management is convinced that this approach is in the company's best interests.

Of course time will tell how successful Arway is with its new plant, starting next year. Stagliano has no concerns about gaining return on the company's $25 million investment in the new facility. He'll partially offset the costs by selling the existing plant—and by boosting Arway's growth potential in the new laundry. "This will help us get to more than double what we are now," Stagliano says. "Now that will keep us busy for a little bit, right?

Another company in a similar fix with limited capacity, no tunnel washer and significant F&B business is Continental Linen Service (CLS), Kalamazoo, MI. For co-owner and Senior Vice President Sarah Wrubel, the answer was to build out the current plant to process additional laundry. "CLS was at our peak wash capacity, and we could not increase volume without adding new machinery," Wrubel says. "It was time for us to invest in a tunnel washer to pump a lot more poundage through our plant.

The company purchased a Kannegiesser tunnel washer, and several other pieces of machinery for its wash aisle, while adding 11,000 square feet (1,021 square meters). The project kicked off in early 2022, and a ribbon-cutting ceremony was held in December of last year. Wrubel says that while the company had a few challenges, they're pleased with the results. "We had our share of hiccups due to the complexity of our project, but overall, we are

thrilled with the additional capacity," she says. "In regard to our ROI, we are not feeling the impact on water savings as much as we would have liked due to new growth and the rising costs for incoming water. With that said, we literally would have been unable to continue to grow unless we made a large investment in our production infrastructure."

One such "hiccup" was dealing with local governing authorities to grant building permits and other approvals for the project to go forward. Wrubel says her experience in this area was difficult at times. "The beginning stages of our project was frustrating because the site-planning process with the City of Kalamazoo took approximately five months," she says. "Due to this delay, our entire project was pushed back."

A third company seeking to expand, in this case by opening a new plant in a new building in South Florida, reported similar difficulties in dealing with building permits. Shane Ledbetter, senior VP of operations for NOVO Health Services, an Atlanta-based group, says he was not prepared for the level of scrutiny applied his company's request for permits required by officials from both Dade County and Miami Gardens, where the new plant is located, about a half hour north of downtown Miami. "The biggest challenge that we ran into, honestly, was the permitting side of it," says Ledbetter. "We were typically throughout the process, always ahead of the game in terms of having materials on site, physically being ready to move forward, and just waiting on the massive amount of permitting that's required in this market. He noted that NOVO worked with ARCO/Murray, which has vast experience in dealing with local authorities on building projects. Even they were struck by the rigors of the process in South Florida, he says, noting that they said it was among the most difficult challenges they've experienced. Still, having an outside adviser was helpful, Ledbetter says. The process was long and detailed, but it never stymied the project. "There were a number of unexpected delays that took a bit longer than we had expected," Ledbetter says. "Typically, what we were finding is it wasn't that the inspections and permits were more stringent. They weren't coming in and finding issues and saying, 'Oh, you've got to fix this, change this.' There were just more inspections, and it took longer to get them through and the time to get that permit through the different offices in the city. That was one of the things we found unusual is multiple permits had to go through multiple offices."

Ed Kwasnick, ARCO/Murray's director of business development, says the delays in South Florida and other jurisdictions that ARCO/Murray serves across North America are experiencing similar issues with permitting. He says a number of factors are driving this slowdown in permitting approvals. "It's for the same reason that we're all struggling to find labor right now because during COVID many of those people in the municipality that were doing the permit approvals, they took early retirement," he says. "They were laid off right? They were let go and now all of a sudden you have twice as much construction occurring and you don't have the people to cover it. So it's not that they don't want to approve it. It's just taking them twice as long because they have so many construction projects and so few people."

Kwasnick suggested that companies considering building plans should take steps well ahead of time to brace for delays in the approval process. "We just had this conversation with a healthcare system in the Midwest," he says noting that this client, similar to NOVO, is in the process of contracting for a new building. "It was probably around 18 to 20 months pre-COVID; it's probably closer to 24 now."

For NOVO, there was little choice but to accept the challenges of post-COVID construction. Since NOVO had no building to expand or refurbish, the choice of building new was a "no-brainer," Ledbetter says. The company's 80,000-square-foot (7,432-square-meter) plant is one section of a much larger warehouse-style building in an industrial park. "We committed to our portion of it as they were building it," he says. Opened in March 2022, Ledbetter, who's overseen other "green grass" building projects in previous jobs, says this one was relatively simple, despite the permitting delays. "It almost sounds like it's not true, but honestly this one went incredibly well," Roughly 90% of the workforce from CSI, the OPL that NOVO had previously managed before it closed, came over and took jobs at the new NOVO plant. Among these staff was General Manager Dragan Grabovac. Shifting throughput from the OPL to NOVO also gave it a base for pursuing additional healthcare laundry business as part of a gradual ramp-up. The plant has two Kannegiesser tunnel washers, each with 17, 240 lb. (110 kg.) modules. These machines are processing a significant share of the plant's throughput of roughly 120,000-140,000 lbs. per day (54,431-63,502 kg.). The plant also has five ironer lines, an extensive ETECH overhead rail system, RFID tracking of garments from Positek RFID and other high-tech features. NOVO Miami is engineered to process up to 60 million lbs. (27 million kg.) per year. They're currently at roughly 40 million (18 million kg.), Ledbetter says.

Other companies needing to relocate or establish a plant in a given market could consider leasing an existing building with adequate utility access, as Arway did. But Kwasnick noted that in the post-COVID economy that's difficult to do because the demand for commercial real estate, especially warehouse space, is strong. "There is a shortage of warehouse-type facilities," he says. Finding properties that meet the needs of a laundry, such as 50,000-80,000 square feet, with 28-foot ceilings in the right location with access to the proper utilities has grown increasingly difficult since COVID, he says. "Those buildings have been gobbled up by developers who are expecting to sell or lease

them as distribution centers to companies such as food distributors and online shopping businesses like Amazon." Too often, what's left in the market is "garbage," with 17-foot ceilings and structural problems common to buildings constructed 50 years ago or longer. However, that still leaves another alternative for companies looking to grow or relocate their operations: expanding by buying out other laundries.

## GROWTH THROUGH ACQUISITION

Patrick Garcia, president of Division Laundry, San Antonio, wanted to expand his family-owned healthcare business. He saw an opportunity to make a major move—acquire two Angelica plants; one in Houston; the other in Dallas—that the investment firm Kohlberg Kravis Rogers (KKR) were looking to sell. Division closed the deal for the two plants in February 2022, after two-plus years of negotiations. When we recently interviewed Garcia about his experience, he emphasized the critical role that due diligence played in making this deal successful. Before making a commitment that effectively tripled the size of his independent laundry's business, Garcia had to determine that the aging Angelica plants were in acceptable shape. Both were 1950s-vintage buildings. Because of their age and history, he had to make sure there were no major environmental or other issues that could scotch the deal. "They had a similar flow plan, workspace layout, things like that," Garcia says. "So one of the big keys in buying properties that you're going to refurbish is that you have to make sure that your insurance underwriters are going to be able to tell you. 'Yes, it's insurable." Investigations centered on structural integrity, particularly of the roofs of each building. Garcia and his team were constantly asking 'themselves, "'Do you know what it is you're walking into?' So we made many, many, site visits to the plant before the acquisition."

As it turned out, both buildings had some issues—such as aging pipes and lots of inoperative equipment—but nothing that would necessitate Division backing out of the deal. Acquiring two a fully equipped, operational plants took a lot of research. For example, the Dallas plant had a JENSEN tunnel washer. Division brought in JENSEN technicians to assess this equipment. "I had Jensen come in before we bought it," Garcia says of the Dallas plant. They did an analysis of the condition of the tunnel and they gave us an idea of what it was going to cost to bring it up to speed after the acquisition. We went after it and we did everything that needed to be done."

In the Houston plant, staff were operating Ellis Corp. washer/extractors and a few G.A. Braun machines. Garcia hadn't worked with the Ellis machines before. Some were inoperable; others needed upgrades. "Ninety-nine percent was Ellis," Garcia says. "So what we did is we moved all the Ellis machines out that were beyond repair. We purchased rebuilt Ellis machines and moved a number of new rebuilt Ellis washers to the Dallas plant." Overall, Garcia says he's been pleased with the performance of the Ellis equipment. "That's amazing what those Ellis washers can do," he says. "Really, I mean Division never had an Ellis washer. But after the acquisition we did and it's been good."

The Dallas plant, it turned out, needed the most refurbishing, Garcia says. "Houston was OK. Dallas needed more band-aids. In the small-piece finishing department, we saw the need to purchase four new small-piece folders. Three Kannegiesser and one Chicago. So we really beefed up the capacity and efficiency in that area. We moved out a couple of ironers that weren't working, and then we're rebuilding an ironer in Dallas."

The two plants are now producing 25 million lbs. annually, and Garcia sees room for growth, as the healthcare market in both cities is experiencing a robust expansion. Amid the transition, the two plants experienced some deterioration of their customer bases. But Garcia is confident his team can win them back and emulate the growth path that Division has experienced in San Antonio. Virtually all of the Angelica staff transferred to Division. Garcia says many Angelica employees were pleased that his company is family owned and has a good reputation. "What helped a lot is we provided employees with the history of our family business," Garcia says. "A lot of people were extremely impressed. They were also very happy to know that a family is buying the business, which meant a whole different culture than they were working under at that time." Other changes that helped smooth the transition was the fact that Division increased pay and improved benefits. "We also paid more money," he says. "So from one day to the next everybody was earning more money per hour. We thought it was important to address the pay issue at that time. And we offered a 401K, which they never had before."

Garcia credits the successful acquisition to "timing and countless hours and dedication from family members to make it all happen." As the company has done since its founding in 1939, Garcia says the Houston/Dallas plants will follow the Division's "two pillars" of commitment to excellence. These include 1) keeping promises to customers and 2) outperforming competitors in terms of quality. "The day after acquisition we had to address quality," he says. "We had to raise the standards."

Bottom line? Each of these four companies has blazed its own trail to growth by either refurbishing, expanding, building or acquiring new plants or enhanced production capabilities to better serve their respective customers. And in each case, it appears that these investments are earning them significant ROI. TS

**JACK MORGAN** is senior editor of *Textile Services*. He can be reached at 877.770.9274 or *jmorgan@trsa.org*.