CHARACTERISTICS OF REFURBISHING RETAILERS AS CLIENTS OF THE CONSTRUCTION INDUSTRY

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This paper draws on current research work funded by EPSRC on a project entitled "a scoping study to develop a good practice framework for retail client refurbishment programmes". The research premise is that the construction industry tends to give poor service to refurbishing retailers who are estimated to spend in excess of £1billion per annum on construction work. Further, that a better understanding of the needs of this group of clients is required before the quality of service can be improved.

This premise was explored against a background of a typological study of construction clients. The accepted four categories were challenged to include a fifth client type, refurbishing retailers. This paper explores the characteristics of refurbishing retailers in their approach to construction services through the description of a five level project life cycle. The paper identifies the fact that much of the work carried out by refurbishing retailers is driven by quality and time and is largely undertaken by multi-skilled, regional construction organisations. The paper concludes by recognising the necessity for the construction industry to become more familiar with this group of clients as they seek continuous improvement strategies to obtain better value for money.

Keywords: refurbishment, retailing, process mapping, briefing, value for money.

INTRODUCTION

In the past retailers were seen as simple and parochial businesses requiring little management skill. Manufacturers and wholesalers controlled the traditional distribution chain, the retailer's role was to buy goods from the range offered and sell them on to the consumer. The main competitive advantage for the retailer lay in merchandising - the skill in choosing an assortment of goods for sale in the store. Manufacturers decided what goods were available, and in most countries at what price they could be sold to the public.

Currently, the traditional supply chain, powered by manufacturer 'push', is becoming a demand chain, driven by consumer 'pull'. In most countries resale price maintenance - which allows suppliers to fix the price at which goods can be sold to the final customer - has been either abolished or by-passed. Retailers have won control over distribution not just because they decide the price at which goods are sold, but also because both individual shops and retail companies have become much bigger and more efficient.

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Today the retail industry is the largest, single industry in the developed world, employing between 7% and 12% of the workforce. Ranked by turnover, 18 of the top 100 European companies are retailers. Europe's biggest retailer, Germany's Metro group, had a turnover of approximately £32.5 billion last year. Each of Europe's top half-dozen food retailers has sales larger than any of the continent's food manufacturers except Nestle and Unilever. The sourcing of goods has become an international activity. For example, JC Penney, an American middle-market department store, buys its goods from suppliers spread across 50 countries and Saks, a mid-sized American department store chain, has become American Airlines' second-largest freight customer. (Reid: 1995)

RETAILERS AS CONSTRUCTION CLIENTS

It has been stated (Kelly *et al*, 1992) that construction industry clients fall into four identifiable categories, these being:

Knowledgeable regular procurers of construction. These clients have a fairly consistent relationship with the construction industry for new-build work. They tend to be innovative in terms of procurement and follow a structured organisational process.

Irregular, less knowledgeable procurers of construction services. These clients tend to have no formalised relationship with the construction industry and purchase services on a one-off basis.

The public sector. These clients have characteristics similar to those of knowledgeable regular procurers but can be distinguished from them by reference to financing, audits and public accountability.

Developers. Again similar to knowledgeable regular procurers excepting that the motivation for construction is driven by opportunity rather than need.

Retailers as clients would generally fall into the first category being knowledgeable regular procurers. However, there is a subset of this group who tend not to build new but refurbish existing, often High St, premises. Refurbishing retailers carry all of the knowledge characteristics of their new build compatriots but tend to commission a large quantity of relatively low value work. Several definitions of the term "refurbishment" exist in the literature but the ones given by CIRIA and the RICS are used in this study.

> *Refurbishment is taken to mean construction work to an existing building to update or change the facilities which it provides, and may include, or be carried out in connection with, some new build extension of accommodation. It goes beyond mere maintenance or repair, though it may well include opportunistic work of this nature. (CIRIA: 1994)*
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> *Refurbishment is any building work that enhances the external and/or internal structure or aesthetic of a building (RICS: 1997)*

AIMS AND OBJECTIVES OF THIS RESEARCH

The aim of this research is to develop, implement and benchmark a continuous improvement strategy within the annual refurbishment programmes of five major retail sector clients and their construction supply chains. As a consequence of this work a good practice framework will be derived for ensuring that retail sector refurbishment programmes are formulated and delivered effectively. The resulting Good Practice Framework will be validated across collaborators and also using wider retail client and construction industry supply chain inputs.

The objectives of the research are:

To undertake a pilot study comprising a literature review, one to one interviews and workshops with five major retailers to understand the nature of the problems associated with retail refurbishment.

To design and conduct a series of longitudinal studies of refurbishment programmes within each collaborating retail client. The short time scale of projects within annual refurbishment programmes will also facilitate implementing continuous improvement on successive projects within that framework.

To design, implement and monitor a continuous improvement strategy, as longitudinal studies, within the collaborating retail clients using benchmarking within and across annual refurbishment programmes.

To develop a draft good practice framework and guidance note from literature, the longitudinal studies and benchmarking activity.

To test, validate and commence the implementation process for the good practice framework and guidance note in different UK retail sectors through a validation conference and a launch seminar.

To test and validate the relevancy of the Construction Best Practice Programme benchmarking KPIs on annual refurbishment programmes and also individual projects in the retail sector.

This paper reports on the six-month pilot project comprising the literature review, one to one interviews and workshops with five major retailers to understand the nature of the problems associated with retail refurbishment.

RESULTS OF RESEARCH WITH COLLABORATORS

The collaborators for this project are Arcadia Group plc (fashion retailer), Boots plc (retail chemist), Borders (UK) Ltd (retail bookseller), Halifax plc (financial services retailer) and Pizza Express (restaurant retailer). All companies are well-known high-street names excepting Arcadia whose 15 brands include Top Man, Burtons, Evans, Principles and Dorothy Perkins. These retailers tend to lease High St locations and have considerable experience of refurbishing retail outlets.

Research with the collaborators began by analysing the wheel of retailing (Brown: 1988), figure 1, in order to position each collaborator. The wheel of retailing was seen, by the collaborators, to be deficient in that it needed a fourth segment as illustrated in figure 2. With reference to the revised wheel Borders (UK) and Pizza Express are considered to fall into the category of the entrant with aggressive marketing and expansion. Arcadia and Halifax are positioned on the borderline between established and mature and Boots see themselves as a mature retailer moving into the transforming stage.

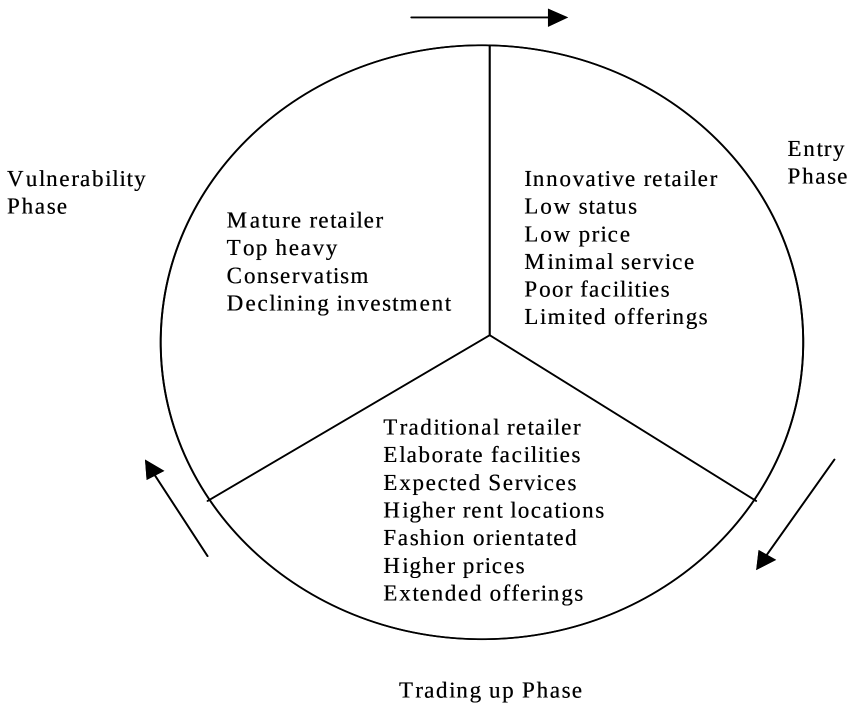

Figure 1: The Wheel of retailing (Brown, 1988)

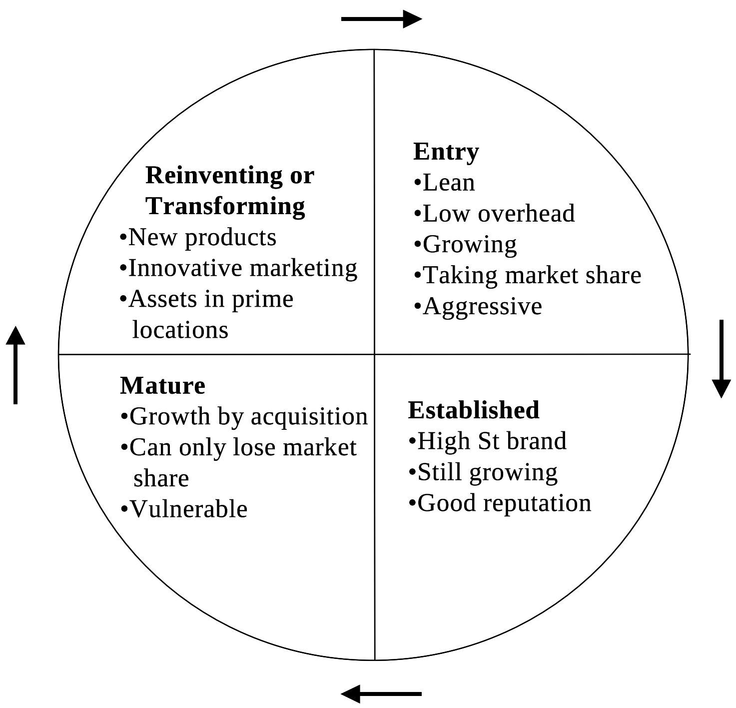

Figure 2: Revised wheel of retailing

THE REFURBISHMENT PROJECT LIFE CYCLE

The research methodology used for this pilot project involved a series of one-to-one interviews with each of the collaborators followed by workshops to synthesise and analyse the results. A five level project life-cycle was seen to operate comprising:

Business strategy.

Refurbishments strategy.

Procurement strategy and management.

Design management.

Construction.

Business Strategy
Attitudes towards refurbishment within the retailer's organisation has a direct impact on how the refurbishment programme is set up, organised, prioritised and run. Within the collaborators the two new entrant companies saw the acquisition of property and thereafter refurbishment as being core business. Others saw this as being an enabling activity. All considered refurbishment expensive to carry out with the majority of the spend going on mechanical and electrical services. Those aspects of company strategy that affect refurbishment were identified as follows:

Branding of goods and services. The brand was seen by all to be key in the refurbishment activity and could not be compromised. The brand therefore tends to determine what is incorporated in the final product. However, value for money is becoming increasingly important and therefore slight variations to strict branding and standard specifications are being tolerated. It was acknowledged that mismatches between the overall corporate strategy and the refurbishment strategy could have expensive consequences.

Mergers and acquisitions. This is a trend that is set to continue as part of the rationalisation programmes within the retail sector in general. Mergers result in activity to rationalise duplicated outlets and the incorporation of one brand into another.

In the selection of property, retailers are more concerned with appropriate locations, traffic flows and drawing power rather than with the condition of the building and its refurbishment implications. The majority of properties held by the collaborators were subject to a 25 year lease with a 10 –15 year breakout clause.

Refurbishment Strategy
The unknowns in the refurbishment equation tended to be the acquisition of outlets through merger or takeover and the difficulty of budgeting for refurbishment work. The former was accepted to be always an unknown but the latter was an area of potential improvement. Areas that proved less of a problem were:

Refits, the refurbishment of an existing unit already owned by the retailer.

Maintenance, minor refurbishment work or routine improvements to an existing unit.

New-build, taking on a new unit in a newly constructed building where there are no uncertainties in terms of what will be available.

Fitting out and shop fitting, the final stage where furniture, fixings and painting is carried out.

Several drivers for the need to refurbish were identified. Most of the collaborators operate in distinct business regions throughout the UK and the decision to refurbish is taken at regional level. How this decision is arrived at is not entirely clear but payback through increased sales plays a major part. Once the decision is made, the project manager and refurbishment team agree on the method of achieving the best solution in the space available. The project manager in charge of the refurbishment project establishes the brief in conjunction with the internal client. Some refurbishment is carried out on a cyclical basis where factors such as age of the building, condition of fixings and general aesthetics influence the decision. New concepts, driven by the Marketing Department, can also be influential in the refurbishment of certain stores. Most of the collaborators refit an outlet every five to seven years whereas major refurbishments happen as and when they are needed. Routine maintenance occurs according to a schedule or when required.

Procurement Strategy

None of the collaborators had an explicit procurement strategy but tended to use regional contractors or a national contractor with regional offices which had been successfully used before. Long-term relationships were seen as important but current agreements with contractors and suppliers tend to be ad-hoc in nature. Collaborators had experience of traditional serial tendering and framework agreements. Within the very short project time frame the 5-weeks required for the tender process was seen to be extremely expensive and all collaborators agreed that ways had to be found to shorten or abolish the tender process. In respect of consultants some retailers maintained large in-house teams whereas others out sourced as much as possible, retaining an in-house project management function. It was recognised that outsourcing leads to a loss of intimate knowledge of the business but retained flexibility.

Bulk purchasing of long delivery items such as special carpets and fittings is an avenue that has been explored by several of the collaborators with mixed results. It is not a strategy that is pursued at present.

Design Management

There was a difference within the collaborator group with regards to the existence and use of model solutions, standards and guidelines. Generally the older and more established the organisation the more specific the standards and design guidance. Most collaborators had a model solution that tended to be based on a rectangular floor plan. It was estimated that it was possible to follow the model solution in 70% of cases with minor modifications; the remainder required a new approach. A trend at present is to use the Concept approach whereby a new concept store is rolled out and tested. Lessons learned are fed back into the refurbishment process for use on other projects. This strategy gives the business units a freer rein. Often more money is available for concept solutions, as they are perceived to give a real competitive advantage compared to normal refurbishments.

Mechanical and electrical services were perceived to account for a large proportion of the overall costs of a refurbishment project ranging from 20% to 40% of the total spend. All collaborators felt that more is spent on mechanical and electrical services than should be the case and highlighted it as an area of design that needs to be challenged.

Retail refurbishment is undertaken against a backdrop of a highly dynamic market demanding change. Change management and when to freeze the brief and design are key issues in the area of design management that have yet to be addressed. It is likely that an answer may lay in encouraging practical creativity within a set of appropriate design guides, improving design co-ordination and ensuring accurate surveys of building assets.

Construction

The timescale of a typical refurbishment or fit out project from the realisation of an opportunity to trading is; 12 to 15 months for a new-build project, and 9 to 12 months for a refurbishment project. Within these timescales the following is generally the case:

6 to 8 weeks to put together the business case.

4 weeks for business case approval.

6 to 8 weeks for design and pre-site preparation.

5 weeks for tendering.

10 to 20 weeks for construction.

A prime question is whether this programme could be shortened and made more effective. There is recognition than improvements could be made in planning and programming, information gathering and the selection of the appropriate contractor.

In commenting on the performance of the construction industry it was highlighted that the final product was only as good as the person doing the job. It makes no difference if a reputable company is employed if they do not put the appropriate person on the job. Contractor mobilisation times were perceived to be very slow. On completion the contractor's ability to deal with snagging effectively is vital for trading and ideally there should be zero defects at opening.

It was felt that there were insufficient post completion studies of projects in order to learn aspects of projects success and failure. Both should be recorded and communicated to design teams. It was also recognised their better after-care was required to assists store management. Ideas in this regard were a help desk and store support for first 12 months.

CONCLUSION

This paper has highlighted the importance of the retail industry as a customer of the construction industry and has demonstrated the importance of the refurbishing retailer as a subset of the main group. This subset is likely to become larger as the traditional supermarkets move into the vulnerable mature stage and begin to lose market share to, for example Walmart. An initial reaction is to begin to open Metro stores in High St locations. The construction industry has to be aware of the potential of this client sector and the opportunities for understanding and satisfying this large market. Further funding is being sought from EPSRC to continue this project and meet the aims and objectives.

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