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Extracting Value from Real Estate and Facilities Management Services in the Retail Industry

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Once upon a time, a retailer's store profitability was the simple metric that determined store portfolio growth or contraction, as store sales were the retailer's single source of revenue and the highest predictor of future growth. With stores now being but one of many channels retailers use to attract and retain customers, savings from lower store operational costs can help finance the retailer's multi-channel investment and operational cost requirements. This means retailers are extracting savings from their store operations to fund other revenue generating initiatives, with limited impact on overall store operations.

It's not just under-performing retailers that are seeking cost savings in this economy, as in past retail cycles. Both high and low performing retailers are focused on real estate and facilities management cost reduction to simultaneously expand their portfolio in key markets, contract in under-performing markets and fund non-store channels to reach their customers.

Value from Real Estate and Facilities Management Services

Retailers can extract value from facilities maintenance (FM) services to fund these multi-channel initiatives by consolidating vendors and aligning FM services with their portfolio needs. For example, retailers that provide their own FM services, rather than receiving these services from their landlords, can partner with mature, national facility service providers to improve performance reporting, provide FM management systems, reduce internal risks, introduce best practices and lower overall costs.

In 2018, there are opportunities for retailers in the real estate marketplace to lower their lease costs as retail experts suggest that the retail store market is over-saturated and many retailers will be reducing their store portfolios. What does this mean for retail tenants? Store closures will place pressure on landlords to retain existing tenants AND attract new tenants with competitively-priced lease terms and flexibility.

Partner with Facilities Management Service Providers

Many retailers may be responsible for their own facilities maintenance services, depending on the terms of their leases or their ownership of facilities. The services these retailers must manage typically include:

- **Exterior Services –** such as snow removal, parking lot sweeping, and landscaping;
- **Mechanical, Electrical and Plumbing Services –** such as heating and cooling systems, lighting and fire suppression; and
- **Cleaning Services –** such as janitorial and waste disposal services.

Historically these services were managed by the retailer's corporate real estate team, which would either self-perform these services with internal company staff, or contract separately for unique services with local contractors. This resource-intensive model has become outdated as the FM services market has matured. Today there are a variety of national outsourcing providers migrating retailers from self-performance to a level of outsourcing that meets their service level expectations – at lower costs and with improved processes and systems.

The benefits to the retailer are clear:

- Variable Costing
- Linked Cost and Reporting Systems
- Incentives for Cost Reduction
- Access to FM SMEs
- Risk Transfer to Provider
- Continuous Improvement

We've found that operational cost reviews for facilities maintenance services for large retailers can identify cost savings of 15-20 percent of insourced services and local contracting costs. The processes to capture these savings focus on comparing costs and service levels against industry averages for similarly-sized competitors, and facilitating working sessions between potential bidders and the retailer. Preparing and evaluating market proposals, negotiating terms, developing implementation schedules and designing pilot programs specific to the retailer's current organizational, timing and resource needs complete the first stage of activities before implementation.

Rationalize Your Store Portfolio

Retailers can also extract value from their real estate holdings by rationalizing their portfolio, essentially aligning their lease/occupancy requirements with market offerings. Rationalization is the process of understanding the profitability, occupancy costs (non-labor store operating and lease costs), and competitor/population density influences on the retailer's portfolio, to assist in identifying potential opportunities for store openings, closures, and targeted lease re-negotiations.

The process includes the following activities:

Store Performance and Demographic Information

- Obtain relevant store performance metrics
- Collect trade area demographics by store
- Prepare a store-by-store analysis ranking each store's demographic favorability/attractiveness
- Create GIS maps of demographic areas of interest, and location of retail competitors in the key store markets

Market Analysis

- Acquire all electronic data files on leases in sortable abstracts
- Conduct market research on similarly sized leases and locations of competitors
- Prepare a store-by-store market analysis showing favorable rate variances or stores expected to have favorable rate variances
- Outline all potential occupancy outcomes

Implementation Plans and Expected Outcomes

- Assign occupancy outcome options to all leases based upon market variances and demographic data analysis,
- Establish timetable for lease negotiations based upon lease term or exit clauses
- Synthesize the market, demographic and lease timing data to develop a prioritized list of leases for renegotiation that offer the highest potential value to the Retailer

Retailers can take advantage of a saturated real estate market to rationalize their portfolios and lower their lease costs.

Conclusion

Retailers can extract value from facilities maintenance services to fund multi-channel initiatives by reducing costs through the consolidation of vendors and the alignment FM services with the portfolio needs. Additionally, retailers can take advantage of a saturated real estate market in 2018 to rationalize their portfolios and opportunistically lower their lease costs, as retail experts opine that the retail store market is over-saturated and many retailers will be reducing their store portfolios.

Together, these initiatives can deliver not only financial savings for operations and other initiatives, but both initiatives will improve the retail organization, through well managed real estate leases, and improved facilities management systems, reporting, best practices and fewer risks.