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# Procurement in the finishes, fit-out and interiors sector

An exclusive data driven report exploring procurement practices

**Researched and written by Professor Stuart Green**

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# MODERN METHODS OF PROCUREMENT

This report makes gritty reading. It points to a procurement model that undermines intent and limits innovation. A model built on mitigation rather than management of risk, a broken model that, from the outset creates unequal and adversarial relationships that ultimately means we are seldom the sum of our parts.

These parts very much come together in the finishes and interiors sector. Businesses operating at the whip end of construction, working on programmes that have often slipped, are built around ill-thought-out tolerances, clashes in spatial and functional elements of design, yet expected to make good on all the mistakes of others in delivering the vision and dreams of architects and clients.

In this rich dataset Stuart Green delivers few surprises, indeed the surprising thing is perhaps that, despite all the warnings and suggestions of eminent and celebrated experts like Latham, Egan, Farmer and more recently David Mosey, I suspect we would see little shift in the data over the last 30 years. But when we lay it out like this, when we consider the evidence in the context of the Building Safety Act, the insurance crisis and the need to be more sustainable, it becomes harder to excuse carrying on as we are.

As a construction sector we talk of Modern Methods of Construction, transformation and innovation, yet these must be led by modern methods of procurement, tendering and contractual management. Modern methods of construction are not just about offsite fabrication and digital stuff, they have to start with a modern and inclusive approach to supply chain management, one that is built on trust, respect and collaboration.

My own philosophy has always been to encourage a collaborative approach, bringing in specialist contractors early in the process, at times before we had even submitted a project for planning. Specialists that help to detail the design and make sure our cost plan works. It is especially important to secure their involvement in the identification of the risks associated

with different choices. Note that I use the word 'specialist', not 'sub-contractor' as I believe specialists stand in their own right and need to be able to bring their skills to the table.

I have a real concern with standard contracts because as soon as they have been amended, they are no longer standard and someone is seeking to offload risk onto those they see as mere "sub-contractors". There is too much effort in managing the contract rather than at the construction process and ensuring the quality of the product.

My approach has always been about supply chain partnerships, partnerships that allow us to learn from jobs and support continuing improvement. Partnerships that support investment, share risk and deliver true construction management. Far from adding cost, I believe this approach is the only way. It helps to ground vision in reality, limits the risks of design change, programme over-run, reduces conflict, delivers certainty to the construction process and ultimately is kinder on the people in it.

We put a lot of onus on the Plan of Works, but I question is it time for a parallel document to help bring a construction perspective? To set out a process that simplifies and aligns the tendering and procurement process and helps us to manage new Gateways and better supply chain management. This document can draw on documents like the Value Toolkit, the Construction Playbook and Private Sector Playbook.

Stuart Green makes the point well; that no sector can simply blame their problems on others. 'No' is a word we all must learn. Flexibility is prized in this sector, but if we keep bending over backwards, eventually we break. Not reading or absorbing the risk in contracts is excused by complexity. I know the



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specialist feels they are given little choice, and absorbing risk becomes routine, but this leads to other negative behaviours identified in the pages that follow. I firmly believe the next chapter of construction can be a new dawn for the specialist, but it is beholden on a professional, strong and well explained 'No' – if enough do this we can ensure that you will be heard and we consign unacceptable asks to the past.

There are still good projects and clients out there. A specialist can and should talk to a client about any challenges and concerns they are facing on a project and I believe a good client will listen – as developers, we need your help to make better happen.

We have a lot of challenges ahead with the next generation of buildings becoming ever more sophisticated, a new compliance landscape and the need to adapt to meet sustainability and carbon reduction targets. This sector is vital as it spans new build and refurbishment where the challenge in retrofit and upgrade works is becoming even more important. I commend this report and the challenge it sets down. I hope that the findings do resonate through the industry and give us pause for thought and motivation for action.

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# 1.0

## INTRODUCTION

Concerns about construction procurement practices are by no means new, and they undoubtedly extend across the sector at large. It has also long been accepted that procurement has a fundamental influence on project performance.

At the leading edge of the finishes, fit-out and interiors sector (hereafter the 'fit-out' sector), sophisticated contractors work with highly knowledgeable clients to deliver world class quality. Such firms compete on the basis of their capability in delivering complex projects in accordance with challenging deadlines – often in demanding circumstances. They take great pride in working repeatedly with prestige clients across a range of different business sectors. Within this context, value-based procurement is commonplace, and those involved compare well against the very best of international practice.

But this is not the experience for many firms within the fit-out sector. The day-to-day reality is that most contracting organisations are constrained by the procurement approaches within which they are forced to operate. This is especially true of those within the supply chain who operate as subcontractors. Many such firms consistently experience regressive procurement policies whereby they have no option other than to compete on the basis of low-cost tendering. They also often find themselves under significant pressure to reduce their tender prices retrospectively. Such practices serve to reinforce the much maligned 'race to the bottom' with direct adverse implications for quality, skills and training. They hence undermine the capability of the fit-out sector to respond to future needs.

There is a recurring tendency among many to focus exclusively on the supposed shortcomings of the supply chain. There is often little recognition that the procurement practices adopted by clients are directly implicated in project performance. Procurement shapes the interactions between clients and contractors from the outset, with direct implications for the entire supply chain. There is therefore an argument that meaningful change must begin with procurement.

Many within the sector would accept the need for improved levels of professionalism, irrespective of the adopted approach to procurement. There is certainly an increasing awareness of the need for improved sustainability in response to the challenges of climate change. Furthermore, few would disagree with the need to improve training and working conditions as a means of offsetting the skills crisis. Sadly, such aspirations are often squeezed out by the destructive competition of low-cost tendering.

The purpose of this report is not to propose another recipe for improvement. Any such recipe would inevitably recycle the same old messages. In contrast to previous reports, the primary aim is to furnish the ongoing debate with data. An important secondary aim is to give voice to those who work in the fit-out sector. To this end, FIS contracted the University of Reading, working in association with AMA Research, to undertake a survey of procurement practices in the UK fit-out sector. The research comprised a questionnaire survey conducted online during July and August 2022. There were 269 responses with a 100% quality rating on results. The quantitative data secured through the questionnaire survey was supplemented with 20 in-depth interviews with selected practitioners conducted in September 2022.

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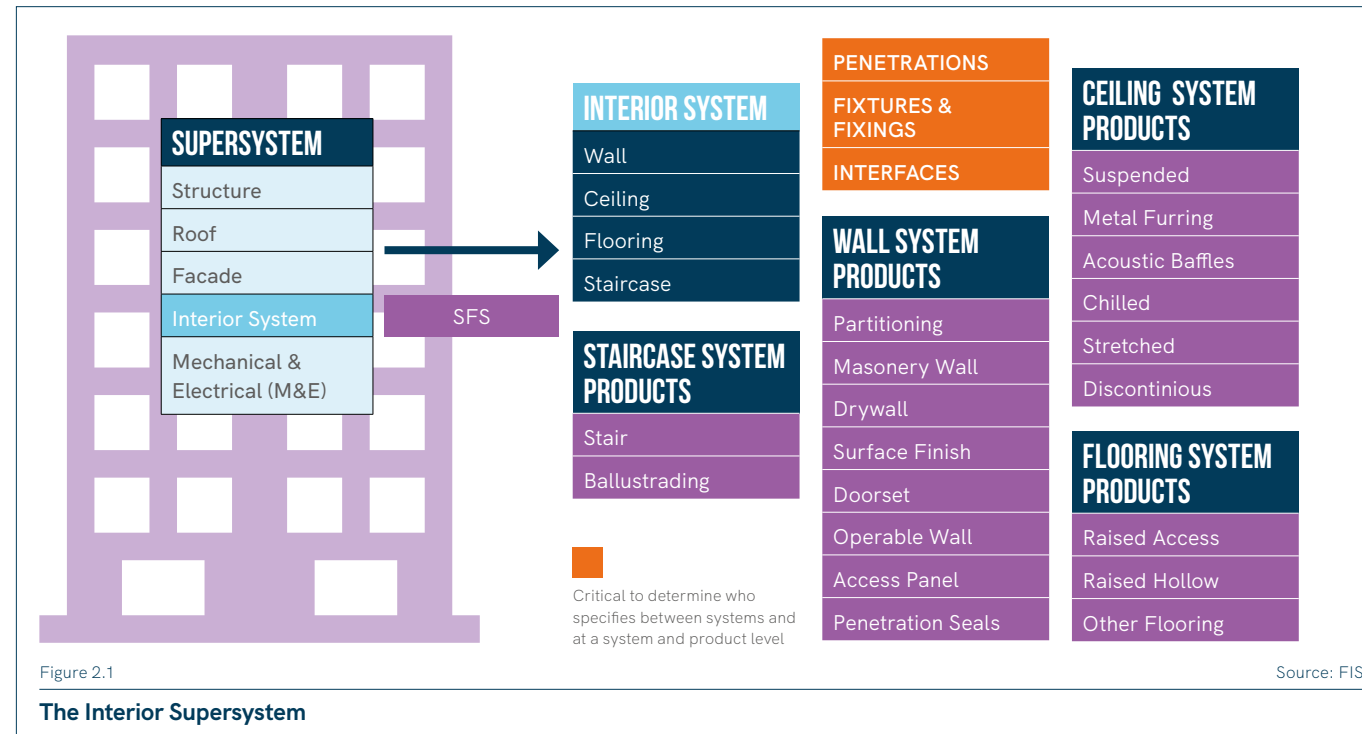
# 2.0 THE FINISHES, FIT-OUT AND INTERIORS SECTOR

## 2.1 DEFINING CHARACTERISTICS

The fit-out sector in the UK comprises a market with an annual turnover in excess of £10 billion and a workforce of around 250,000 people. In understanding the scope of the fit-out sector it is useful to think of buildings as comprising a hierarchy of systems. The interior system hence sits alongside other super-systems such as the structural system, the roofing system, the façade system and the mechanical and electrical (M&E) system. Each of these in turn might be thought of as a system which comprises a number of subsystems. The subsystems within the interiors supersystem are indicated in Figure 2.1. The fit-out sector can therefore be understood in terms of the products that are installed, the process of installing them, and the people involved in the installation.

Many fit-out contractors however have also expanded into the installation of the steel frame systems (SFS) which are used to support external cladding panels.

In essence, the fit-out sector is responsible for creating designed spaces that serve the needs of the building occupants. The sector can otherwise be described as putting the 'wow' into construction. It provides clients and building users with the interior spaces that they need for the purposes of fulfilling their aspirations. But equally importantly, the fit-out sector provides the necessary capabilities for building interiors to be continuously reshaped over time in response to changing requirements.



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## 2.2 CONTRACTORS THAT DELIVER ARE HIGHLY SOUGHT AFTER

For many prestige clients, the fit-out of their interior spaces comprises an important element of the experience which they provide to their own customers. Hence the quality of the finished product is paramount to their business success. Such clients are also hugely sensitive to programme, not least because any delay constitutes a direct hit to their bottom line. It follows that they place a high premium on contractors that consistently deliver. Such contractors thereby have a degree of negotiating power with the clients for whom they work – not least because they possess skills which cannot be easily replicated by others. However, the reality for smaller specialist trade subcontractors is often very different. In many cases they are perceived as old-fashioned ‘subbies’ whose expertise can easily be replicated by others. It follows that they possess relatively little negotiating power with the clients for whom they work. Hence they are denied opportunities for early involvement and often forced to compete primarily based on cost through no choice of their own. Many such firms have limited capacity to invest in new ways of working.

**The construction industry generally has evolved to ensure maximum flexibility. Tier 1 main contractors are structured to expand and contract relatively painlessly in accordance with fluctuations in demand and the vagaries of competitive tendering.**

The distinctive identity of the fit-out sector was forged initially in the context of commercial development. It became accepted practice during the 1980s for office buildings to be constructed on a shell-and-core basis. ‘Category B’ fit-out work was hence often undertaken by specialist contractors on the behalf of tenant occupiers. Many fit-out contractors thereby became experienced in working closely with end-user occupiers. Others however continued primarily to work on ‘Category A’ fit-out as subcontractors for Tier 1 contractors. Indeed, the opportunities for many smaller specialist fit-out subcontractors remain largely limited to working for mainstream Tier 1 contractors.

The overwhelming majority of firms with the sector are SMEs, and most of these routinely act as subcontractors to others. The diversity of contractual arrangements, coupled with the diversity of client types, accounts for the systemic complexity of the sector. Many firms within the sector strive continuously to reposition themselves within the marketplace, and others strive just as hard to protect their privileged relationships.

Notwithstanding the above, modern fit-out contractors operate across a range of sectors, including education, healthcare, retail & leisure and housebuilding. The common logic that applies throughout is that different building elements are designed for different timeframes. Structural systems are typically designed for 60 years, whereas interior walling systems and other elements of fit-out are typically designed for only 5-7 years. Finishes and fit-out work within retail and hospitality settings is especially prone to short life-cycles due to the importance of ensuring that interior spaces reflect changing brand identities. Finishes and fit-out work of this nature typically takes place in the context of existing buildings. Indeed, fit-out work is invariably a central component of retrofit. Some such buildings may even be of historic interest thereby placing an even greater emphasis on quality.

## 2.3 RELIANCE ON SUB-CONTRACTING

The construction industry generally has evolved to ensure maximum flexibility. Tier 1 main contractors are structured to expand and contract relatively painlessly in accordance with fluctuations in demand and the vagaries of competitive tendering. The widespread reliance on subcontracting is such that few can envisage operating in any other way. The same logic prevails across the fit-out and interiors sector. Few main fit-out contractors maintain any sizable directly employed workforce, preferring instead to rely on a flexible pool of subcontractors. This in part is reflective of the diversity of different specialisms.

Subcontractors in turn typically rely on a variety of forms of contingent labour. Although reliable employment statistics are few-and-far between, it is likely that more than 50% of the workforce within the UK fit-out sector are either self-employed or otherwise indirectly engaged through agencies and/or gangmasters. The high reliance on contingent forms of labour is reflective of the UK’s liberalised economy. It brings obvious benefits in terms of reduced fixed overheads. But it also creates challenges in terms of ensuring appropriate investment in skills and training. Such trends cannot be separated from prevailing approaches to procurement.

# 3.0 GOOD PROCUREMENT LEADS TO GOOD OUTCOMES

## 3.1 BLURRING OF DESIGN RESPONSIBILITIES

Procurement has always been of central importance in the debate about construction improvement. Simply put, it has long-since been accepted that there is a correlation between good procurement and good outcomes. This applies equally to the fit-out sector as it does to construction more generally. Many of the challenges can be traced back in the literature for decades. For example, the Latham (1994) report emphasises the importance of clear design responsibilities irrespective of the chosen procurement route. Yet the prevailing tendency is for contracting parties to off-load design risk onto others with an inevitable blurring of responsibilities. The result is that nobody is ever completely sure who is responsible for what.

The broader reality is that reports such as Latham (1994) make recommendations, but in practice nothing really changes. Indeed, many would argue that procurement practices in respect of design responsibility are getting worse rather than better. Yet in the wake of the Grenfell tragedy the continuous blurring of responsibility cannot be allowed to continue, not least because of the stringent requirements of the Building Safety Act.

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## 3.2 STANDARD FORMS OF CONTRACT

Latham (1994) was also very clear on the advantages of using standard forms of contract. These were seen as a means of avoiding the necessity of re-evaluating the way risk is allocated on each successive contract. The default use of standardised contract terms continues to be recommended as a recognised component of best practice. The Construction Playbook (HM Government, 2020; updated 2022) explicitly endorses standardised terms for the purposes of simplifying and speeding up procurement processes. They are also held to be important in terms of improving transparency of expectations. Yet many clients continue to seek to off-set contractual risk through bespoke onerous contract clauses.

Some clients introduce onerous clauses of their volition, others do so on the specific advice of their professional advisors. Unfortunately, such clauses set the tone for distrust and conflict from the very outset. Main contractors tend to respond by passing the risk to the supply chain. This is done by the inclusion of reciprocal clauses in their forms of sub-contract. Too often risks are nominally born by those with insufficient levels of professional indemnity insurance. Hence the perennial offsetting of risk becomes a fallacy. The reality is that when things go wrong such firms simply go out of business leaving others to pick up the tab. The default use of standard forms would not entirely solve the problem, but it would be an important step in the right direction.

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## 3.3 LOW-COST TENDERING IMPEDES LONG-TERM INVESTMENT

Procurement is widely held to be important in setting the tone for the project, and the way that contracting parties conduct themselves. The Hackett report (2018) is especially clear in emphasising the link between project outcomes and the procurement process:

**“Improving the procurement process will play a large part in setting the tone for any construction project. This is where the drive for quality and good outcomes, rather than lowest cost must start”.**

Poor procurement policies are hence recognised as being directly implicated in the race to the bottom. This includes the persistent use of non-standard forms of contract and the constant quest to offset risk onto others. Procurement processes too easily force contractors to compete on cost as the lowest common denominator. The same competitive logic extends throughout the supply chain. Subcontractors often have little choice other than to rely on contingent forms of labour. Approaches to procurement which focus exclusively on low-cost tendering hence directly impede long-term investment in the workforce, thereby reinforcing the much-maligned race to the bottom.

The onset of Brexit has undoubtedly brought additional challenges to those tasked with project delivery. Not least because the sector can no longer rely on a large contingent of migrant workers to offset labour shortages. Following the Covid pandemic, many older workers have also withdrawn from the labour market. Improved procurement cannot overcome these challenges overnight. But it can play an important part in setting the tone for what follows.

## 3.4 REPEATED CALLS A CHANGE IN PROCUREMENT

There have been numerous calls for change in the prevailing approach to procurement over many years. The Construction Playbook is but the latest in a long series of reports to advocate the need for a profound change in the way public authorities interact with the construction sector (HM Government, 2020; updated 2022). Previous calls for change were made by HM Government (2011) and the European Construction Institute (1996). Indeed, calls for more collaborative approaches to procurement have been repeated at regular intervals over at least the last 40 years. A notable example is provided by the Egan (1998) report:

**“If the industry is to achieve its full potential, substantial changes in its culture and structure are also required to support improvement”.**

However, the extent to which such demands for change have led to revised procurement approaches in practice is at best contestable. Despite all the repeated calls for culture change, anecdotal evidence suggests that the widespread commitment to procurement based on competitive low-cost tendering remains widely embedded. There is hence little reason to assume that reports such as the Construction Playbook will necessarily have any greater impact than their predecessors. The Egan (1998) report was especially clear on the theme of long-term relationships:

**“The industry must replace competitive tendering with long term relationships based on clear measurement of performance and sustained improvements in quality and efficiency”.**

Long-term relationships between clients and contractors within the fit-out sector are by no means unusual. Many claim that such relationships are of central importance in improving levels of quality and performance. But the fear is that long-term relationships remain the exception. Most firms are not given the opportunity to compete on this basis. This is especially true of those who operate as subcontractors.

Clients from within the private sector are often held to be more innovative in their approaches to procurement than their equivalents in the public sector. They are also arguably less constrained by the need for public accountability. Following the Egan (1998) report, the focus on better relationships was supposedly driven by influential private-sector clients. Yet several decades later there is still a hard-wired default assumption that ‘best value’ equates to lowest cost. Even within the most sophisticated clients there a tendency periodically to revert to ‘testing the market’.

Doubts therefore remain regarding the extent to which repeated calls for change on their own will ever translate into a sustained change in procurement practice. Hubristic notions of culture change too often lack traction when they encounter the embedded realities of how the sector operates. Furthermore, meaningful change cannot be initiated by the supply side alone. Improving procurement practice must also involve clients and the professional teams who advise them. Unfortunately, anecdotal evidence suggests that procurement practices in the fit-out and interiors sector are getting worse rather than better. What is required is a better baseline understanding of how clients and their suppliers have become locked into seemingly regressive ways of operating.

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## 3.5 POOR PAYMENT PRACTICES

A further widespread concern relates to poor payment practices, the corrosive effects of which were also highlighted by Latham (1994). The importance of fair payment practices has again been repeatedly emphasised over the years. For example, the Construction 2025 strategy (HM Government, 2013) lists equitable financial arrangements and certainty of payment as being among the critical factors which determine the successful delivery of construction projects.

Payment practices are currently monitored by the Construction Supply Chain Payment Charter as championed by the Construction Leadership Council (CLC). The Payment Charter is very clear in its ambition:

**“Fair and transparent payment practices are essential to the achievement of successful integrated working on construction projects. This Charter applies to all parties to construction contracts with the aim of helping to create a more collaborative culture and ensure a strong, resilient, and sustainable supply chain”.**

A strong, resilient, and sustainable supply chain is notably seen to be in the interests of all parties. Hence procurement cannot only be about ensuring lowest cost at the point of delivery. Such an approach would not be in the long-term interests of either the fit-out sector, or the clients which it serves. It follows that repeat clients – and those who advise them – have a collective responsibility for ensuring fair and transparent payment practices.

Similar arguments apply to Tier 1 contractors, and to firms throughout the construction supply chain. The high-quality specialist services demanded from the fit-out and interiors sector makes the need for fair payment practices especially important if long-term capability is to be preserved.

## 3.6 THE DYNAMICS OF THE MARKETPLACE

Procurement practices are forever shaped by the dynamics of the marketplace. Experience suggests that enlightened approaches to procurement rarely survive beyond the next recession. Downward pressures on price occur when available capacity exceeds demand. In contrast, prices tend to rise when demand exceeds capacity. Within current market conditions, capacity is primarily constrained by the availability of skilled labour.

Payment practices are similarly likely to vary in accordance with the balance of power between contracting parties. Firms who possess capabilities that cannot be replicated by others are more likely to be highly valued by the clients for whom they work. This is true of many firms at the leading-edge of the fit-out sector. In contrast, those whose capabilities can easily be replicated by others are likely to be less valued, and hence more exposed to the competitive pressures of low-cost tendering. Here lies the reality for many of the less celebrated firms who work within the fit-out sector, and especially for those who work as subcontractors.

Commodity price inflation has also necessitated the inclusion of fluctuation clauses that enable the contract price to be adjusted to reflect changes in the cost of materials. Such clauses are less relevant to the short-duration contracts which are common within the fit-out sector. However, the inclusion of such clauses is becoming more common for longer duration fit-out contracts. As always, the underlying issue relates to who carries the risk. And the overriding tendency is to offset as much as possible onto others.



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## 3.7 TRUST AND PRODUCTIVITY

Many of the above-described themes are reinforced in Trust and Productivity – the Private Sector Construction Playbook (Construction Productivity Taskforce, 2022). The report is endorsed by the Construction Leadership Council and is presented as the private sector response to the Construction Playbook (HM Government, 2020; updated 2022). This latest playbook claims to draw on the experience and expertise of some of the most successful organisations in the UK’s construction sector. It sets out ten key drivers for success that should allegedly underpin any project. For current purposes the most relevant of the identified drivers are as follows:

- **Form effective partnerships:** repeats the long-established complaint that teams do not collaborate effectively, with different team members too often pulling in different directions. Reference is also made to the way the unfair offsetting of risk creates tension and mistrust from the outset.
- **Adopt portfolio and longer-term contracting:** the case is made in favour of partnering as a means of delivering value and driving innovation. It is argued that the business resilience of the supply chain is boosted by a longer-term pipeline of future work. Partnering is further held to encourage investment in innovation and the workforce.
- **Involve the supply chain early:** repeats the long-established mantra in favour of early engagement with manufacturers and specialist contractors. Claimed advantages include enhanced design efficiency through an improved understanding of manufacturing, logistics and on-site buildability.
- **Allocate risk fairly and appropriately:** onerous contractual terms and liabilities are seen to regularly lead to project failure, especially when allocated to suppliers in excess of their financial capabilities. The recommendation is that risk should be allocated to the party best placed to own, manage and mitigate. But collaborative thinking among all parties is seen to be essential.
- **Pay fairly:** it is emphasised that fair payment practice is a prerequisite of trust and collaborative partnerships. Hence best practice in accordance with the Construction Act 2011 amendment should be embedded in all construction contracts as a minimum requirement.

The above drivers are useful in summarising currently accepted best practice. The recommendations are undoubtedly well-intentioned and they deserve to be taken seriously. But otherwise there is little that is new in the Private Sector Construction Playbook, or within its public sector predecessor. The underlying logic is seemingly to repeat the messages of the past in the hope that they might yet make a difference. Hence the reports represent a triumph of hope over experience. What remains in short supply is evidence of how procurement operates in practice. This is especially true of the fit-out sector.

The underlying logic is seemingly to repeat the messages of the past in the hope that they might yet make a difference. Hence the reports represent a triumph of hope over experience. What remains in short supply is evidence of how procurement operates in practice.

# 4.0

## RESEARCH DESIGN

### 4.1 AIM AND OBJECTIVES

The stated aim of the research was to explore current procurement practices in the UK fit-out sector. The broad context is provided by the prevailing belief that good procurement leads to good outcomes. The research was motivated by the absence of data that reflects the experiences of those with first-hand experience of procurement as implemented in practice. This especially true of those within the fit-out sectors whose voices tend not to be heard.

The specific research objectives were as follows:

- To evaluate the extent to which current approaches to procurement set an appropriate tone for the construction project.
- To assess progress on the role of procurement in encouraging the integration and certification of design responsibilities.
- To establish the frequency with which supposedly standard forms of contract are amended.
- To determine the extent to which prevailing approach to procurement ensure equitable financial arrangements and certainty of payment.

The research design comprised a quantitative online questionnaire survey supplemented with qualitative interviews.

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## 4.2 ONLINE QUESTIONNAIRE SURVEY

Quantitative data was initially collected by means of an extensive online questionnaire survey. This was complemented by a series of in-depth qualitative interviews. The questionnaire survey was designed to cater for the complexity of the fit-out sector and the broad diversity of clients which it serves. Different tracks through the questionnaire were followed dependent upon whether the respondents classified themselves as main fit-out contractors, specialist subcontractors or product manufacturers/system fabricators/distributors. Further routeing through the survey took place for main contractors and subcontractors on the basis of the most highly ranked procurement method. It was important to design the questionnaire to reflect the way that design responsibility is apportioned differently according to the adopted procurement methods.

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## 4.3 QUALITATIVE INTERVIEWS

The subsequent qualitative interviews were implemented following the completion of the questionnaire survey. There were 20 interviews in total. They were designed to complement the generic quantitative data realised via the questionnaire survey. Interviews were conducted with representatives from a broad diversity of firms from within the sector. They typically lasted 60 minutes and were conducted online. The Covid-19 related lockdown has served to normalise the expectation that research interviews of this nature should be conducted online.

With very few exceptions the interviews were conducted on a one-to-one basis with members of the selected firm's executive management team. However, on two occasions the interviews were conducted with two such senior representatives both of whom were present during the online meeting. The interviews were deliberately intended to be relatively open-ended in that they followed exploratory themes rather than seeking to present pre-defined closed questions. Interviewees in all cases were encouraged to talk about the issues which they felt to be most important.

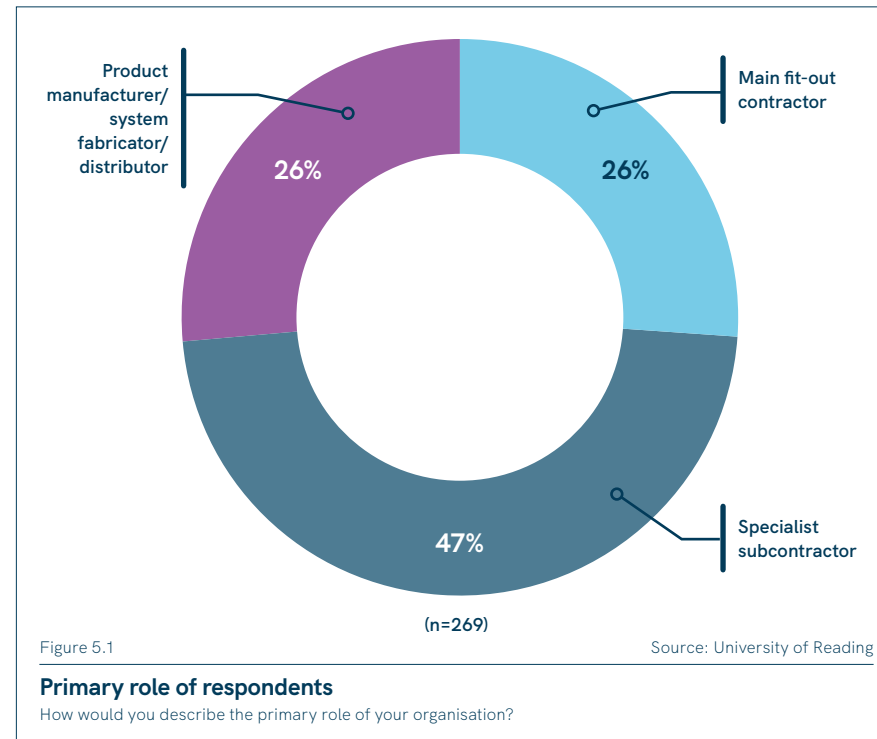
The insights from the interviews are presented in the form of summary vignettes. Given the diversity of the views represented it would be fruitless to attempt any sort of singular narrative. Firms inevitably have different experiences in accordance with where they are placed within the broader supply chain. Respondents were assured of confidentiality and hence all such contributions are anonymous. In accordance with standard ethics procedures, they were further advised that participation in the research was entirely voluntary and that they were entitled to decline any questions about which they felt uncomfortable. As it happened, the interviewees were only too willing to talk about their experiences. This was especially true of the subcontractors whose voices are too often ignored.

# 5.0 RESPONDENT PROFILE

The questionnaire survey attracted 269 responses. Not all respondents answered every question. Hence the analysis which follows is based on the completion rate for each question.

## 5.1 PRIMARY ROLE OF RESPONDENTS

The survey targeted three primary groups: (i) main fit-out contractors, (ii) specialist subcontractors, and (iii) product manufacturers, system fabricators and distributors. 26% of respondents chose to describe themselves as main fit-out contractors, 47% as specialist subcontractors and 26% opted for the broad category of product manufacturers/system fabricators/distributors (see Figure 5.1). It was recognised that the activities of some firms may extend beyond a single categorisation. Hence the categorisation is primarily about how the respondents see themselves. It is also worth stating that the label 'specialist subcontractor' was not the preferred term for all respondents. Some preferred to label themselves as 'trade contractors', and several argued that there was little in what they did that could be meaningfully described as 'specialist'.



It was recognised that the activities of some firms may extend beyond a single categorisation. Hence the categorisation is primarily about how the respondents see themselves.

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## 5.2 GEOGRAPHICAL SPREAD

The geographical spread of the respondents is indicated in Figure 5.2. The sample can be seen to have good representation across different parts of the United Kingdom. The 'other' category was largely accounted for by product manufacturers with a broader European/global presence. Several contractors also reported operations in the Republic of Ireland.

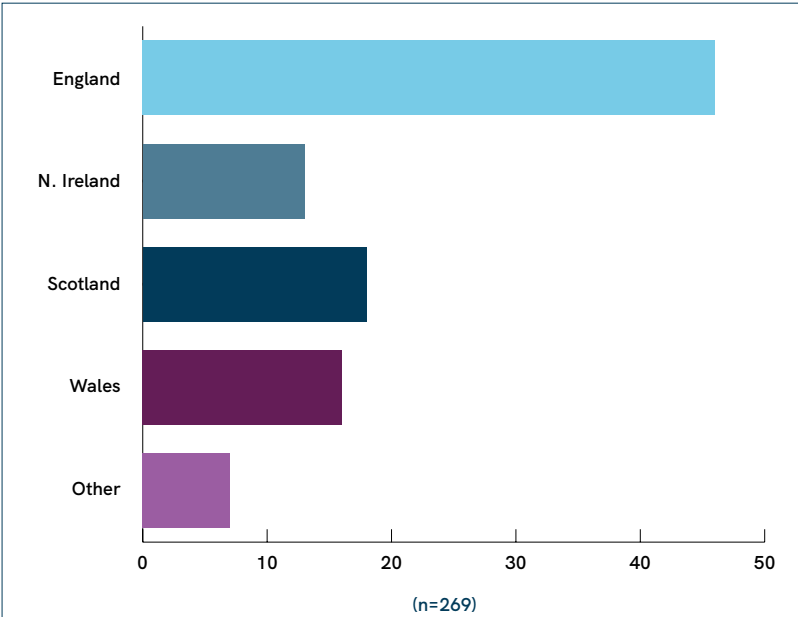


Figure 5.2 Source: University of Reading

**Geographic sphere of operation**  
Where does your organisation operate?

The 'other' category was largely accounted for by product manufacturers with a broader European/global presence.

## 5.3 INDICATIVE MARKET SECTORS

Figure 5.3 indicates the primary market sectors within which the respondents work. Each respondent was asked to specify their top three sectors. The commercial sector can be seen to have the highest representation (32%), followed by education (excluding accommodation) (15%) and healthcare (12%).

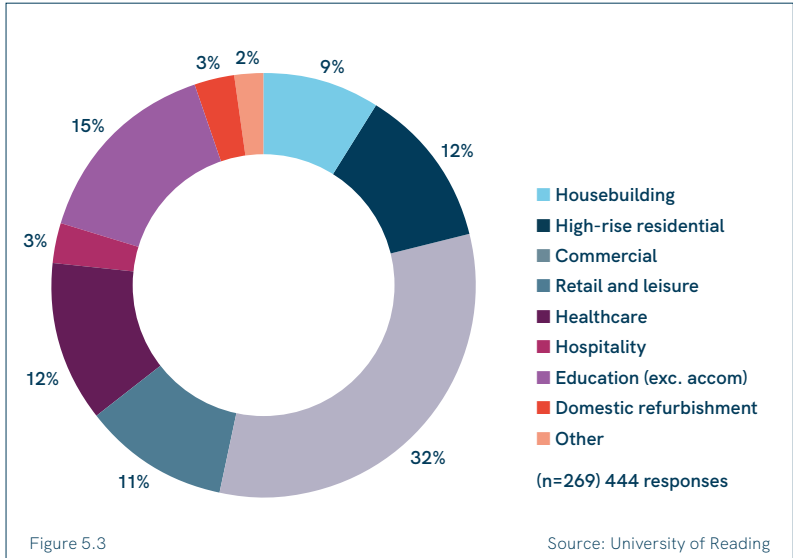


Figure 5.3 Source: University of Reading

**Market sectors**  
In the past 12 months, what sectors has your organisation been primarily working in? (Please select your top three)

The commercial sector can be seen to have the highest representation at 32%.

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# 5.4 INDICATIVE WORK PACKAGES

Figure 5.4 indicates the work packages with which the respondents are most often involved. They were invited to select as many trades as necessary to best describe an indicative cross-section of work. The four most popular categories were drylining, ceiling fixing, plastering and structural framing systems (SFS). The 'other' category encouraged a wide diversity of responses, including decorative acoustic panels, pallet racking & shelving, passive fire protection, ironmongery and washroom fit-out. The broad diversity of categories is indicative of the complexity of the sector.

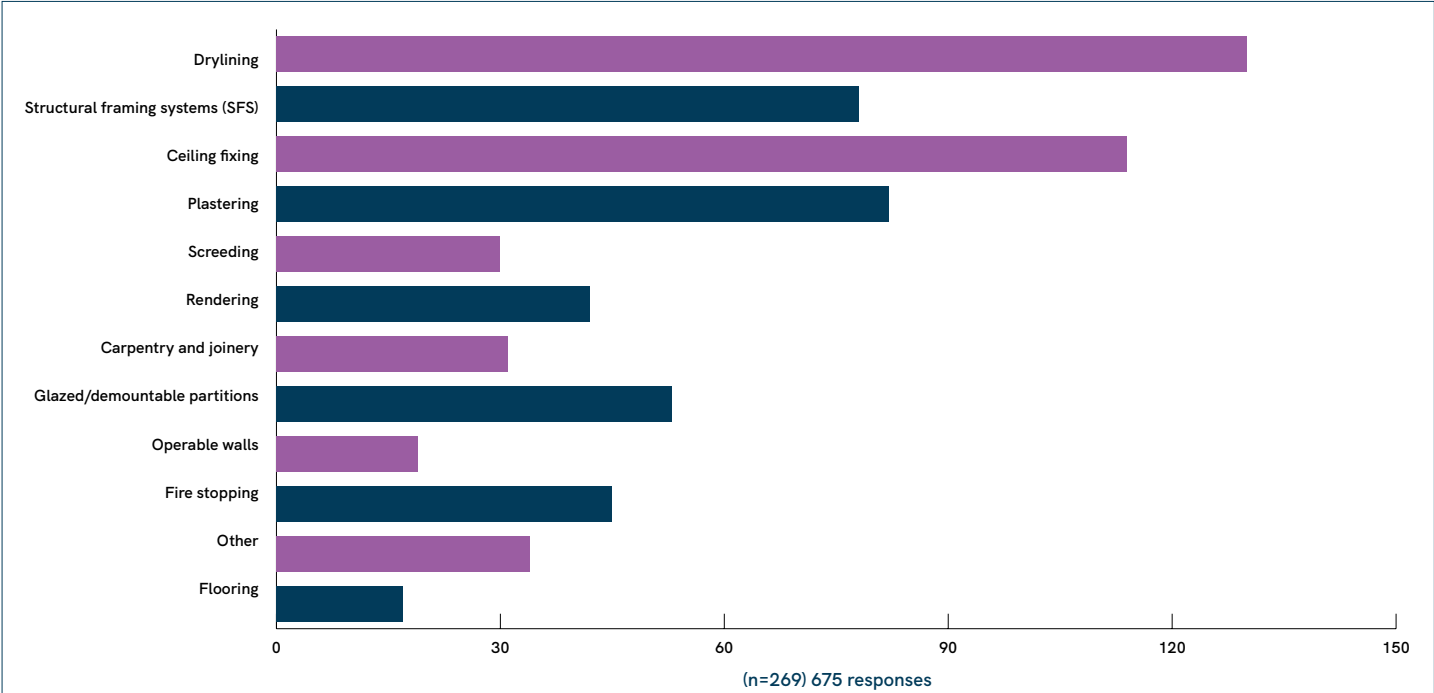


Figure 5.4 Source: University of Reading

**Indicative work packages**

With which work packages are you most often involved? (Please select all that apply)

They were invited to select as many trades as necessary to best describe an indicative cross-section of work. The four most popular categories were drylining, ceiling fixing, plastering and structural framing systems (SFS).

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# 5.5 MAIN FIT OUT CONTRACTORS

## 5.5.1 Number of employees

Figure 5.5.1 shows the reported size of the main fit-out contractors as measured by the number of employees. It is notable that only 30% of the respondents employed in excess of 250 employees. Given the widespread tendency towards subcontracting, this would be as expected.

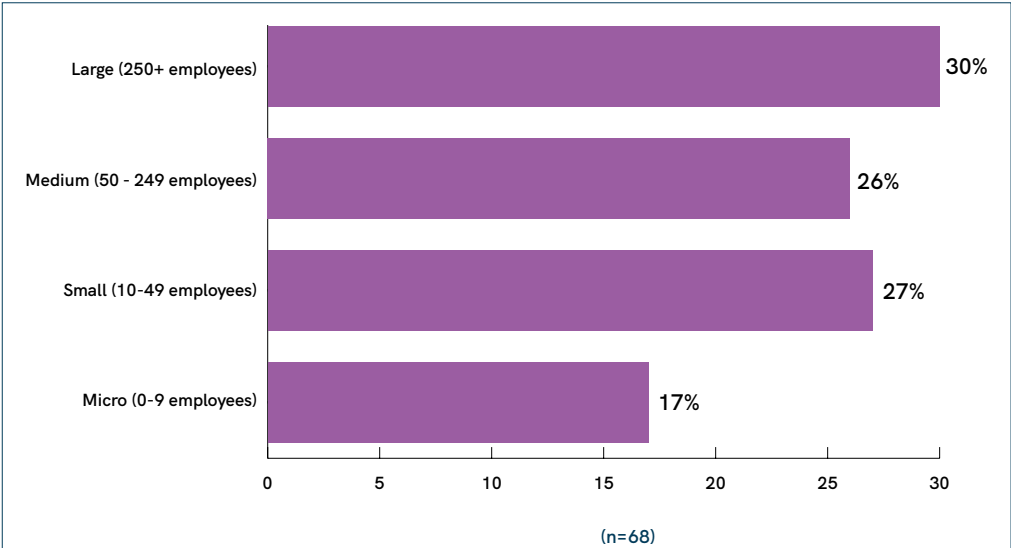


Figure 5.5.1 Source: University of Reading

### Size of main fit-out contractors by number of employees

What size of organisation do you work for?

## 5.5.2 Annual turnover

Figure 5.5.2 shows the reported size of the main contractors as measured by estimated annual turnover. The sample is broadly balanced across all categories, but with a notable 24% of responses indicating an annual turnover in excess of £500m per year. Respondents in the latter category are likely to include the most sophisticated firms within the sector. It is further notable that increased turnover does not necessarily correlate with the reported number of employees. Indeed, larger contractors are perhaps likely to rely on even higher levels of subcontracting than their smaller counterparts.

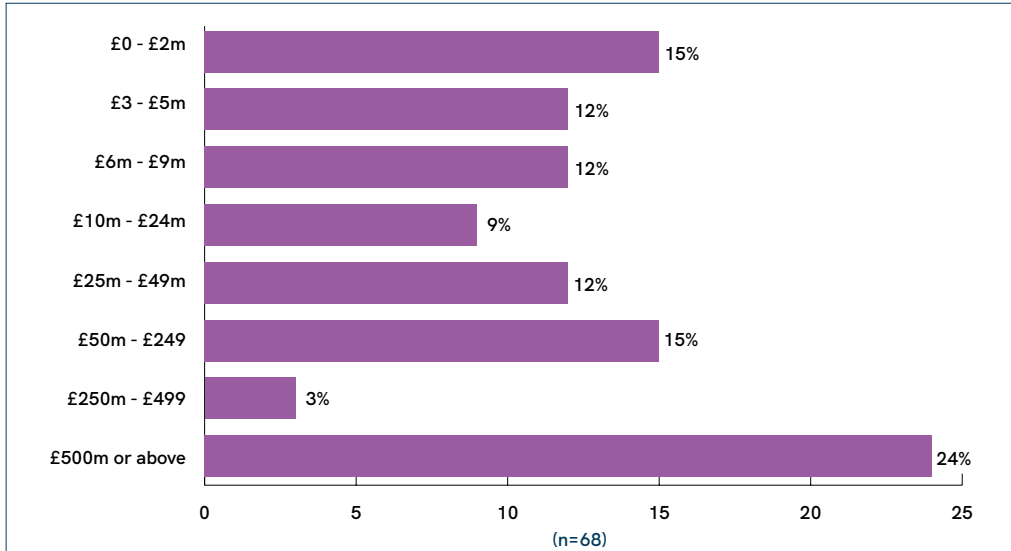


Figure 5.5.2 Source: University of Reading

### Size of main fit-out contractors by annual turnover

What is your annual turnover?

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# 5.6 SPECIALIST SUB-CONTRACTORS

## 5.6.1 Number of employees

Figure 5.6.1 shows the reported size of specialist subcontractors as measured by the number of employees. As might be expected, the profile is slanted towards small firms with only 9% of respondents recording in excess of 250 employees. The largest category at 50% are estimated to comprise 10-40 employees, with 28% employing less than 9 people. 68% of the respondents declaring themselves as subcontractors are therefore categorised as small or micro firms.

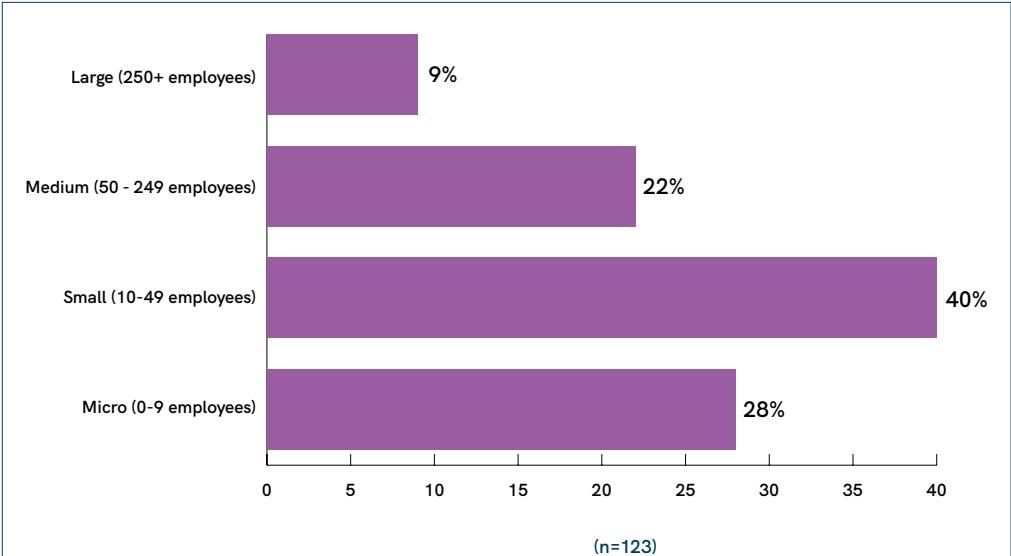


Figure 5.6.1 Source: University of Reading

**Size of specialist subcontractors by number of employees**

What size of organisation do you work for?

## 5.6.2 Annual turnover

The corresponding profile for the annual turnover of specialist subcontractors is shown in Figure 5.6.2. This is again as might broadly be expected with only 6% of the sample recording an annual turnover over £249m. In contrast, 28% of the respondents reported an annual turnover of less than £2m.

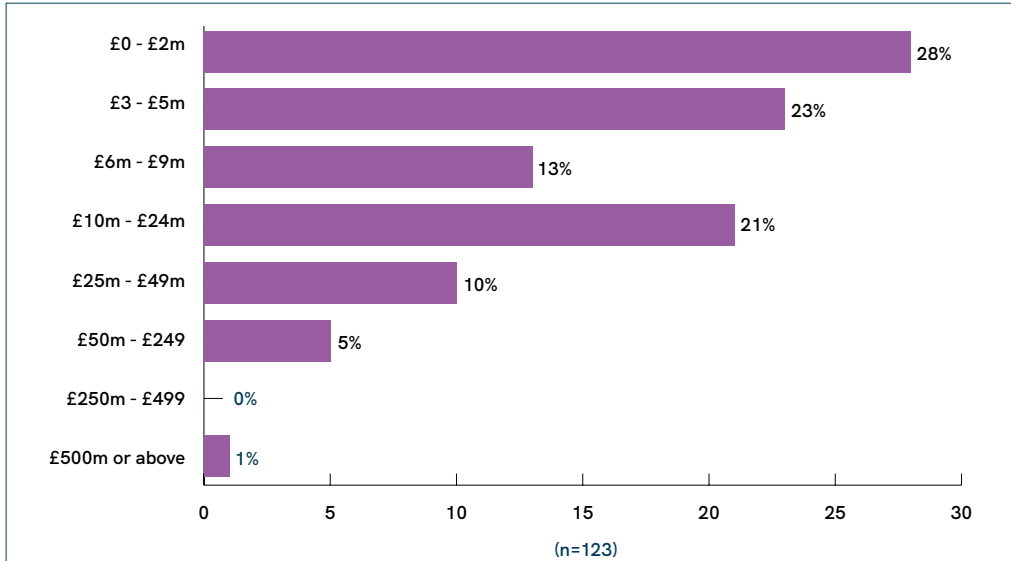


Figure 5.6.2 Source: University of Reading

**Size of specialist subcontractors by annual turnover**

What is your annual turnover?

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# 6.0 PROCUREMENT PRACTICES: MAIN FIT OUT CONTRACTORS

## 6.1 PROCUREMENT METHODS

The choice of procurement method is widely recognised to have important implications for project delivery. It also has critical implications for the allocation of design responsibility. Many clients are often reliant on the advice of the appointed professional team. Others will have their own preferences derived from experience.

Figure 6.1 shows the rank ordering of the four most used procurement methods in the fit-out sector as estimated by survey respondents. All four specified options can be seen to be in common usage, although none are in a position of market dominance. The most popular first choice option was the 'one-stop-shop' variant of design and build (D&B) ranked in first place by 42% of the respondents. Traditional procurement was ranked first by 24%, and traditional procurement with contractor's design was ranked most highly by 22%. D&B with responsibility for detailed design was much less popular at 14%.

A more nuanced picture is provided by also considering the options which were consistently ranked second. Traditional procurement with contractor's design was ranked in first or second place by 68% of the sample. The 'one-stop-shop' variant of D&B was slightly less popular being ranked in first or second place by 62% of respondents. The alternative version of D&B whereby the contractor takes responsibility for detailed design was ranked first or second by only 38%. The usage of traditional procurement was similar in that it was ranked in first or second place by 36% of respondents. It was also notably ranked in fourth place by 50% of respondents.

The broad spread of procurement methods arguably explains why the issue of design responsibility is currently so contentious. Each of the specified procurement options notably differs in terms of how design responsibility is allocated. It is therefore easy to understand how the nuances of different approaches become lost when firms are constantly working under different arrangements.

The only other procurement option which could feasibly have been included is that of Construction Management (CM) whereby individual trade contractors are directly in contract with the client. CM has notably declined in popularity in recent years such that it has no meaningful market share within the fit-out sector. Hence it was omitted from the specified schedule of options.

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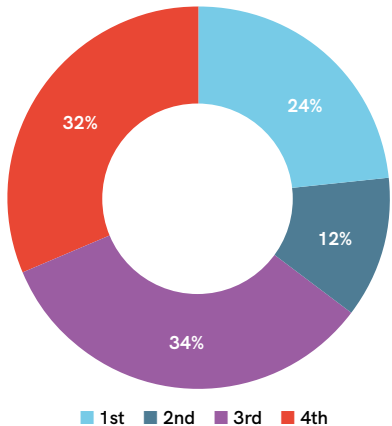
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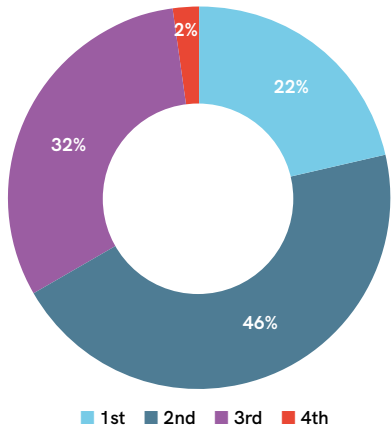


The broad spread of procurement methods arguably explains why the issue of design responsibility is currently so contentious. Each of the specified procurement options notably differs in terms of how design responsibility is allocated.

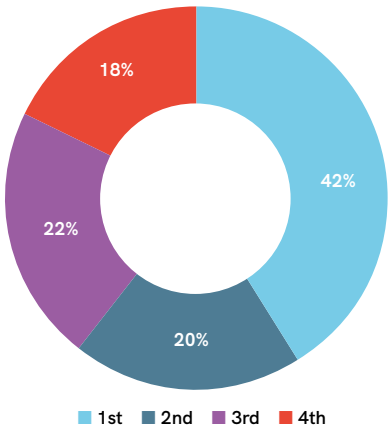
TRADITIONAL PROCUREMENT



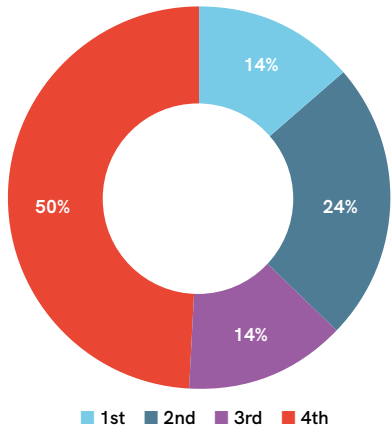
TRADITIONAL PROCUREMENT WITH CONTRACTOR'S DESIGN



DESIGN AND BUILD (ONE STOP SHOP)



DESIGN AND BUILD (RESPONSIBILITY FOR DETAILED DESIGN ONLY)



(n=68)

Source: University of Reading

Figure 6.1  
**Estimated usage of procurement methods**

Please rank the following procurement methods to show which are the most commonly used in past 12 months?

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# 6.2 TENDERING METHODS

The procurement methods outlined above can feasibly be combined with a variety of approaches to tendering. There has in recent years been a notable policy emphasis on two-stage tendering as a more progressive alternative to single-stage tendering. Two-stage tendering enables contractors initially to compete based on an outline method statement and indicative set of rates. First-stage documentation would also typically include specified allowances for preliminaries and overheads. The acclaimed advantages of two-stage tendering include the potential for clients to gain benefit from early supply chain involvement.

Numerous policy reports have also advocated a greater use of negotiated contracts. These are seen to provide a better basis for collaborative working as a means of offsetting the risk of low-cost tendering. Negotiated frameworks involving multiple projects are also increasingly popular especially among public sector clients. In previous times such arrangements have been referred to as 'serial contracting'. However, a recurring complaint from several interviewees is that procurement rarely strays beyond buying the required product at minimum cost (see Box 6.1).

“ Procurement is especially important, but it gets diluted by simply “buying” the cheapest product, this needs to be the appropriate product for the application. I also believe that more emphasis should be placed on partnering with a supplier and better scheduling, which will result in better prices and service for all parties.

Box 6.1 Source: Quote by anonymous respondent

### Dilution of procurement

Figure 6.2 shows the proportion of tendering methods experienced by main fit-out contractors over the preceding twelve months. Respondents can be seen to secure work through a range of different approaches. Single-stage tendering was the most popular option with a response rate of 38%. Two-stage tendering was the second most popular at 27%. Negotiated single projects were not far behind at 22%. Multi-project negotiated frameworks were estimated to account for only 10% of the projects in which the respondents were involved over the previous 12 months.

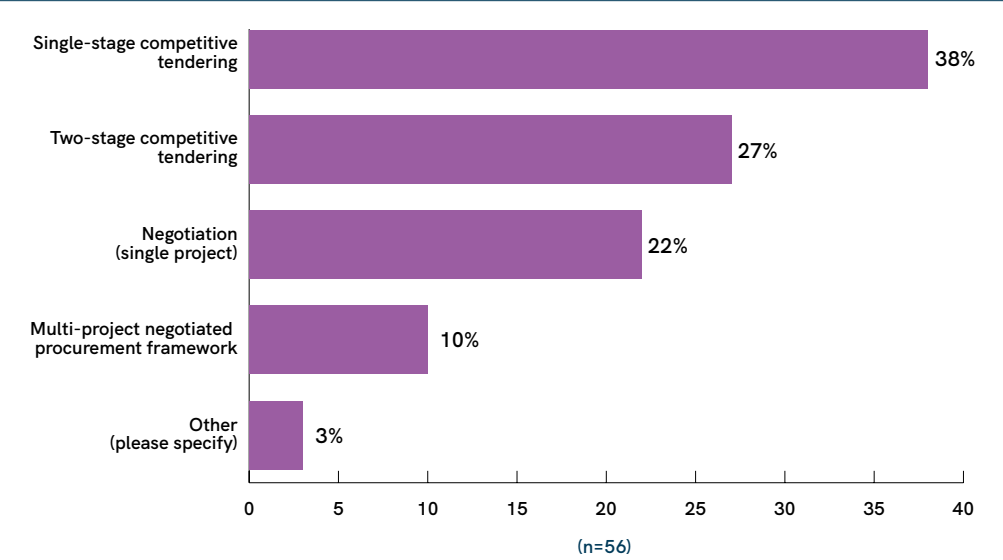


Figure 6.2 Source: University of Reading

### Average use of tendering methods

In the last 12 months, what proportion of the projects you were involved in used the following tendering methods?

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There were numerous critical voices from among the respondents in respect of the recurring insistence on single-stage low-cost tendering. Several called for more transparency through the adoption of open book approaches (see Box 6.2).



There is a need for more open book approaches to ensure that as much as possible is costed up front. This would require more knowledge of interior systems by the purchasers. The current lack of understanding on part of the buyer inevitably leads to unhappiness at the end of project. The reality in that the industry has a mean cost which rarely differentiates + or - 5%. So rather than constantly obsess about cost, why not worry more about ability to deliver quality, sustainability, financial strength, environment impact etc?

Box 6.2 Source: Quote by anonymous respondent

Call for more open book approaches

Many respondents further pointed towards the inherently wasteful nature of tendering in terms of the needless bureaucracy. The suggestion was that clients and the professional team often go through the process for the sake of ‘ticking the box’ (see Box 6.3). Such an approach gives the appearance of testing the market and yet is ultimately held to be inherently wasteful. One of the more radical suggestions was that contractors should be given the opportunity to interview the professional team prior to deciding whether or not to bid.



My best advice in terms of making things better would be to make the procurement process more honest and transparent. If there is a budget or a preferred contractor, this should be made clear from the outset. Otherwise, bidders waste time pursuing projects that are beyond their reach. If there are 5 tenderers then 80% of the time spent tendering is ultimately time wasted. That is simply inefficient. Multiply that by the number of packages on a project and it becomes a crazy statistic in pre-construction and procurement.

Box 6.3 Source: Quote by anonymous respondent

The wasteful nature of tendering

Many respondents reported very positive experiences with two-stage tendering which they saw as their preferred way of working (see Box 6.4). Consultation with the design team was frequently held to be of central importance. Several alluded to the notion of ‘partnering’ which was seen to offer a means of reducing risk for all involved.



Contractor selection after pre-qualification and a two-stage tender process has served us best over the years. This process could be refined to include a ‘partnering’ intention from the outset. Consultation, through the design team, to establish better material choices and systems to achieve better cost and time certainty for the project, would do much to de-risk the sector.

Box 6.4 Source: Quote by anonymous respondent

In favour of a partnering approach two-stage tendering

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Others were very clear on how they seek to position themselves in the market. The more sophisticated firms described how they market themselves to potential clients. This tended to be limited to the larger firms who are very focused on differentiating themselves from the competition. They seek to compete on their ability to deliver, and hence target clients who are likely to be receptive to what they offer (see Box 6.5). There is a significant part of the fit-out sector which operates on this basis.

“  
When marketing our business with potential customers, we focus on our ability to deliver, with a strong bias towards quality and customer satisfaction. This of course comes at a price. This gets difficult when most of our work comes from the public sector which is largely driven by cheapest price wins, irrespective of what is advised in the tender.”

Box 6.5 Source: Quote by anonymous respondent

Marketing on quality, competing on cost

Contractors who seek to compete on reputation were also consistently focused on maintaining good relations with the supply chain. Many talked about working with a ‘family’ of preferred subcontractors, emphasizing the importance of preserving good relationships with those upon whom they depend. They further claim to be focused on ensuring that their supply chain partners make a fair return (see Box 6.6).

“  
As a company that relies 100% on sub-contracted services, we highly value relations with our supply chain partners and with a view to improving our ability to procure, we actively seek to pay all subcontractors on time, if not early. This approach promotes resource availability at the time of procurement since we recognise that cash is the lifeblood that makes the industry work.”

Box 6.6 Source: Quote by anonymous respondent

Enlightened practices

6.3 FORMS OF CONTRACT

A further important procurement variable is the adopted form of contract. Figure 6.3 indicates the dominance of the JCT form of contract under which 72% of respondents claim to be most often appointed. The other specified options were much less common, with NEC and non-standard bespoke forms of contract sharing second place with 13% each. The ACE form of contract only just registered with a 2% response.

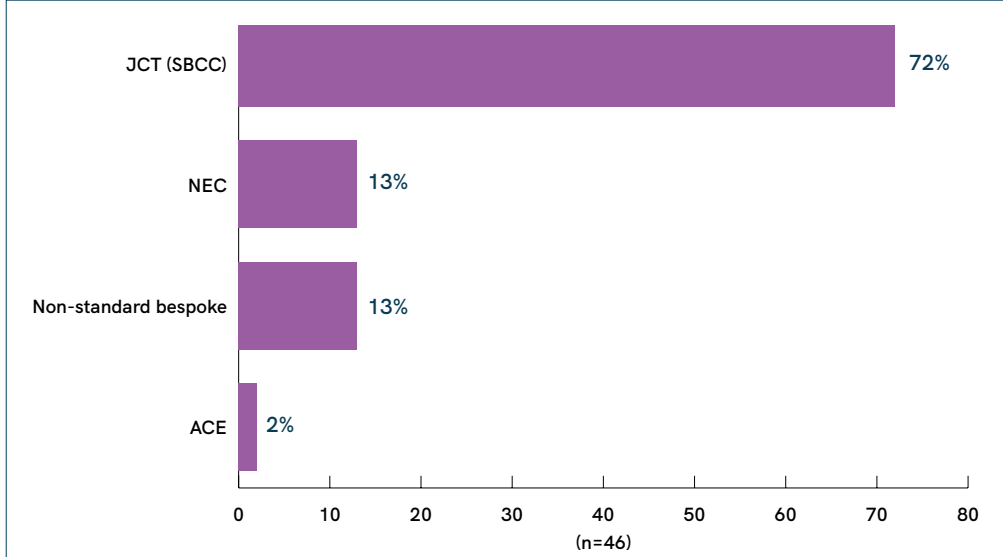


Figure 6.3 Source: University of Reading

Most common form of contract Under which form of contract are you most often appointed?

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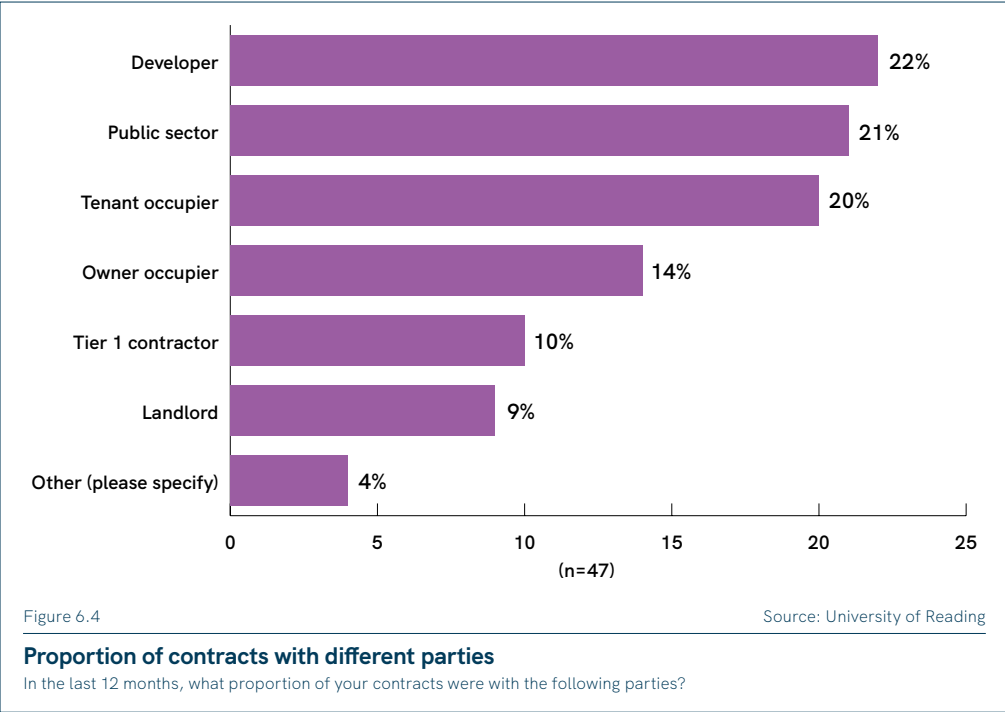
# 6.4 DIVERSITY OF CLIENTS

The complexity of the fit-out sector is further characterised by the broad diversity of clients with whom main contractors are in contract (see Figure 6.4). On average, 22% of contracts were reported to be with developer clients. The corresponding figure for public sector clients is 21%. Tenant occupiers were in turn reported to account for 20% of contracts. Owner occupiers were less popular at 14%, with Tier 1 contractors and landlords accounting for 10% and 9% of awarded contracts respectively. The 'other' category accounted for an average rating of 4%.

A recurring theme from the interviews was that main contractors are continuously striving to position themselves for best competitive advantage. Firms are invariably seeking to increase the amount of work they perform for some categories of client, while reducing their exposure to others. The different logics at work include the need to increase profitability. Certainty of turnover is also a recurring priority. But perhaps the commonest storyline related to the need to reduce the level of risk.

The above priorities directly translate into fit-out contractors seeking to reduce the percentage of work secured through cost competition. At the same time, many are cautious of becoming too dependent upon a limited number of clients. This was often seen as potentially high risk in that a breakdown in relationships with a key client could threaten the stability of the business. Other smaller contractors were entirely comfortable performing the majority of their workload for a limited number of clients. This was seen by some as a means of alleviating the risk of working for clients with whom they were not familiar.

**A recurring theme from the interviews was that main contractors are continuously striving to position themselves for best competitive advantage. Firms are invariably seeking to increase the amount of work they perform for some categories of client, while reducing their exposure to others.**



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# 6.5 CONTRACT AMENDMENTS

Figure 6.5 indicates the extent to which supposedly 'standard' forms of contract remain unamended. The results are striking. Only 11% of respondents report that standard forms of contract are **always** unamended, with a further 11% estimating that they are unamended **most of the time**. In contrast, 37% suggest that standard forms of contract are never unamended, with 33% assessing that they are **sometimes** unamended. This would seem to be a damning indictment of contractual practices within the sector, standing in harsh contrast with accepted best practice. Many saw the inclusion of unfair contract amendments as being detrimental to their preferred way of working (see Box 6.7). When the interviewees were asked why supposedly standard forms of contract were so often amended the almost universal response related to the desire to offset risk onto the support chain. The apparent tendency to routinely amend supposedly standard forms of contract stands in sharp contrast to the principles outlined in the Construction Playbook (HM Government, 2020; updated 2022).

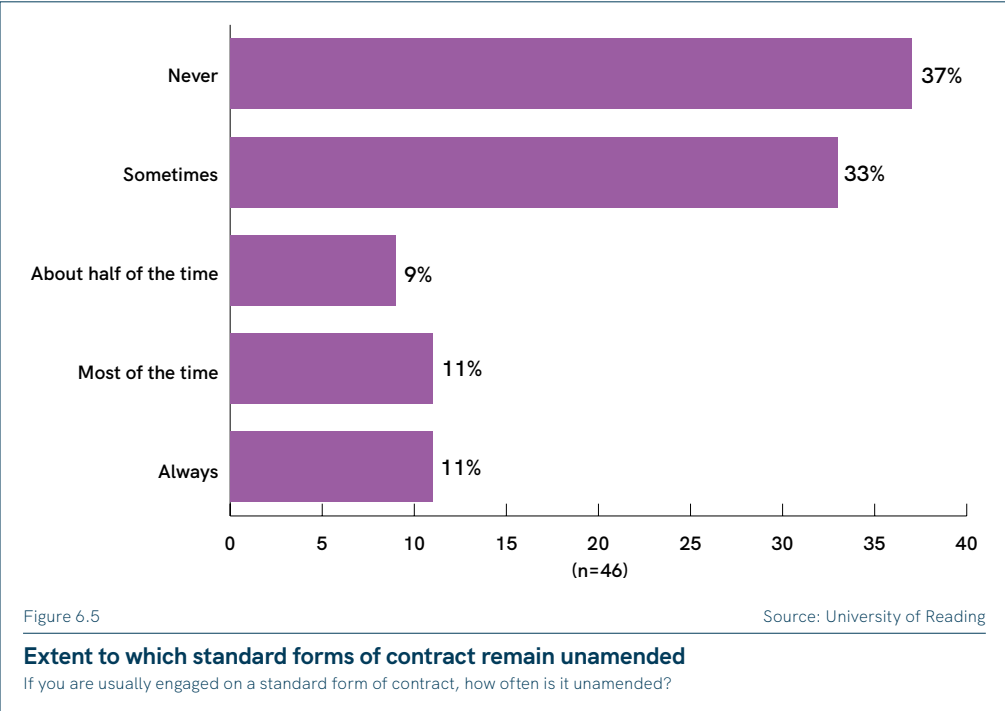


Removal of unfair contract amendments would allow us to procure with greater confidence and perhaps go to the 'right' subcontractor rather than the cheapest.

Box 6.7 Source: Quote by anonymous respondent

### Unfair contract amendments

When interviewees were asked why supposedly standard forms of contract were so often amended the almost universal response related to the desire to offset risk onto the support chain. The apparent tendency to routinely amend supposedly standard forms of contract stands in sharp contrast to the principles outlined in the Construction Playbook.



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## 6.6 USE OF PRE-QUALIFICATION QUESTIONNAIRES (PQQS)

The use of pre-qualification questionnaires (PQQs) provides a useful proxy-measure of the extent to which contractors are required to pre-qualify prior to being invited to submit a tender (see Figure 6.6). The results are somewhat mixed. 36% report being asked to pre-qualify **sometimes**, with a further 26% reporting that they of asked to pre-qualify **about half the time**. 26% estimate that they are required to complete a PQQ **most of time**. Perhaps most strikingly, only 8% report being asked to pre-qualify **always**. If the use of PQQs is equated with best practice, then the overall picture is once again decidedly mixed.

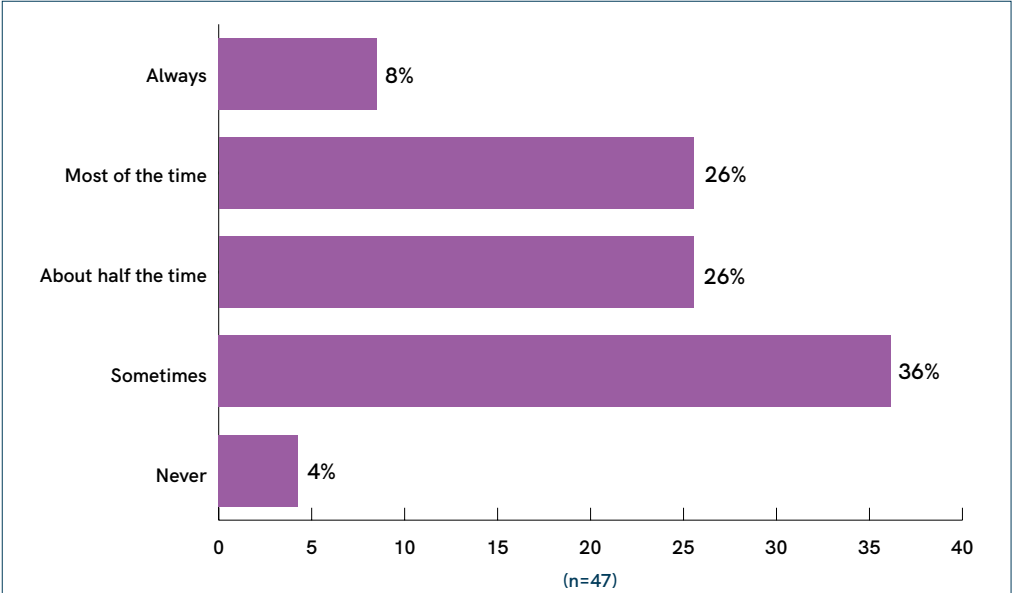


Figure 6.6 Source: University of Reading

### The use of pre-qualification questionnaires

In the last 12 months, how often have you been asked to complete a pre-qualification questionnaire (PQQ) prior to being invited to tender? (please select one only)

## 6.7 HOW MANY CONTRACTORS DO YOU TYPICALLY COMPETE WITH?

In common with the use of PQQs, the number of contractors who are typically invited to compete is a good indicator of progressive procurement practice. The reported picture in this case is much more positive (see Figure 6.7). 41% of respondents report typically competing against 4 other contractors, with a further 30% estimating they typically compete against 3. The other specified options attracted limited responses. Several interviewees described how they always make a point of finding out how many other firms they are competing with. Some even claimed that they would decline to tender if they considered they were being asked to compete against more than 4.

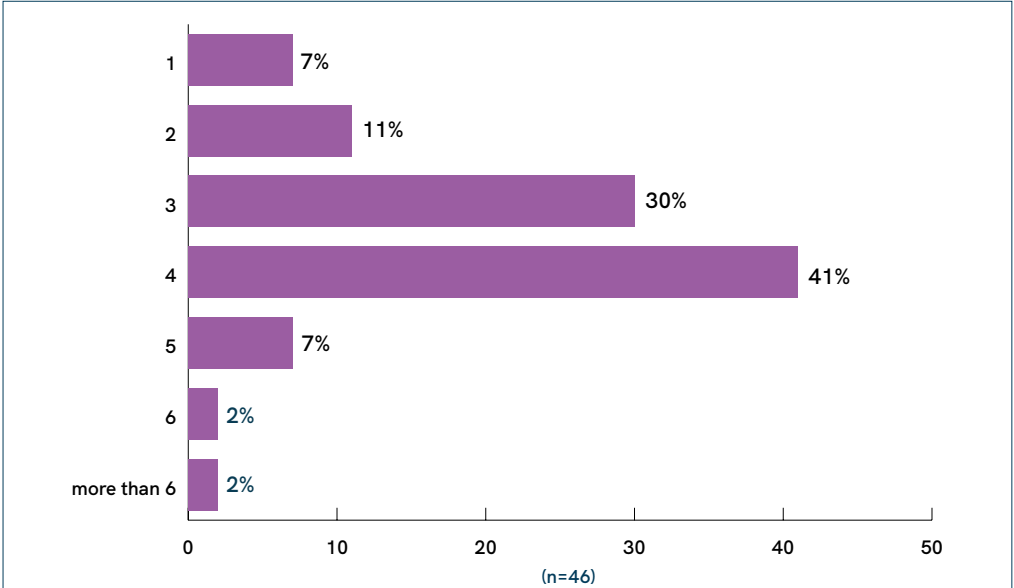


Figure 6.7 Source: University of Reading

### Typical number of competitors

What number of other contractors would you estimate you typically compete with at tender stage?



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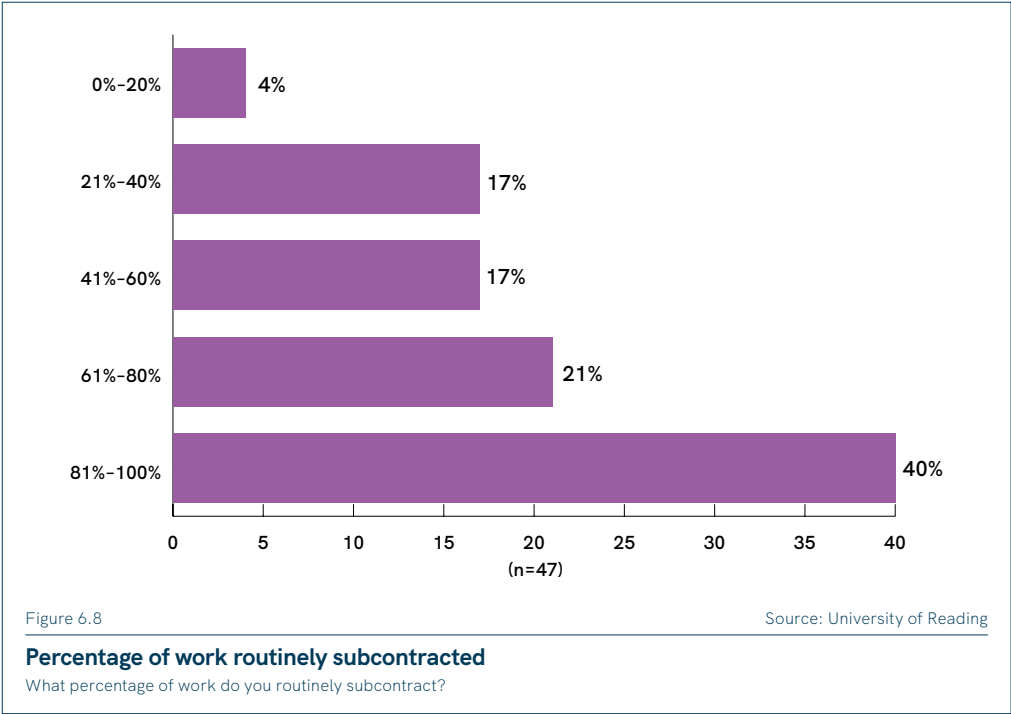
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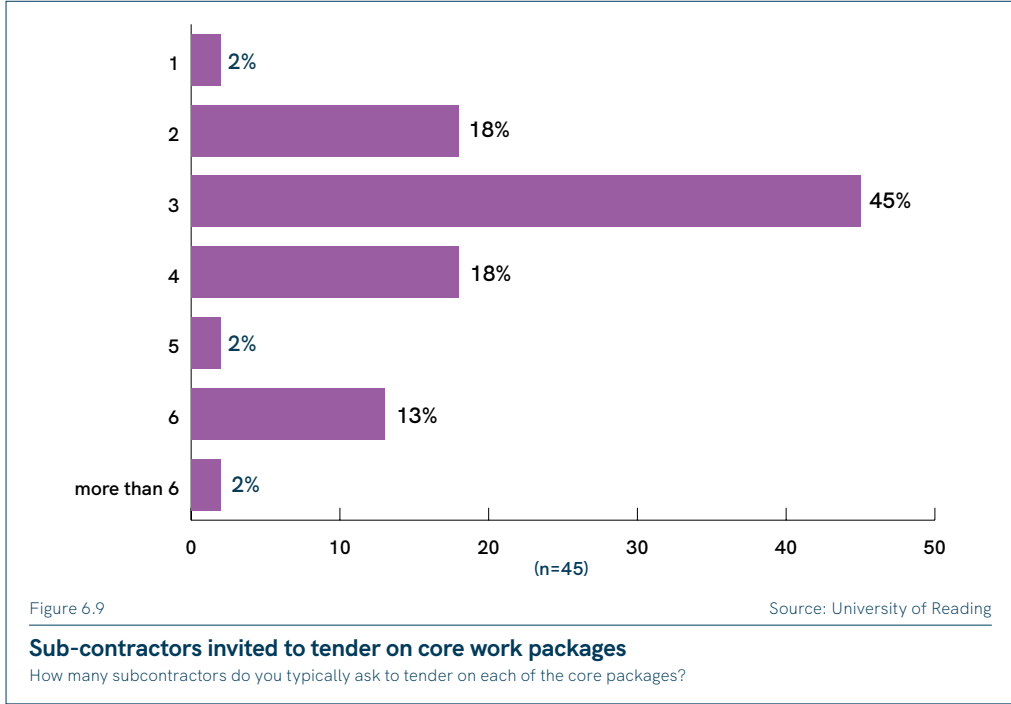
## 6.8 EXTENT OF SUBCONTRACTING

As might be expected, main contractors tend to sub-contract most of the work for which they are contracted. The overall profile is shown in Figure 6.8. The proportion of subcontracted work can be seen to increase with each category. 40% of respondents claim to routinely subcontract over 80% of their work. A finer-grained analysis reveals that 26% of the entire sample routinely subcontract 100% of the work for which they are contracted. The profile is broadly in accordance with industry norms. If anything, it illustrates that many fit-out contractors are perhaps less reliant on subcontracting than might have been expected.



## 6.9 SUBCONTRACTORS INVITED TO TENDER ON CORE WORK PACKAGES

Figure 6.9 indicates the number of subcontractors typically asked to tender on each of the core work packages. The data once again shows a mixed picture. 45% of respondents report typically inviting 3 subcontractors to tender. This would seem a reasonable number broadly in line with accepted good practice. However, the results also suggest that even those firms who claim to operate with preferred subcontractors are still keen to achieve a degree of competition. Notably only 2% of respondents routinely invite a single subcontractor to tender. 18% typically invite 4 subcontractors to tender, with 13% routinely inviting 6. A zero option was available on the questionnaire for those main fit-out contractors who routinely negotiate an agreed price with their appointed subcontractors. This option did not receive any responses.



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## 6.10 ATTRIBUTES CONSIDERED IMPORTANT WHEN APPOINTING SUBCONTRACTORS

Respondents were asked to rate the level of importance attached to a range of attributes when appointing specialist subcontractors. The respective profiles are displayed in Figures 6.10a-6.10c.

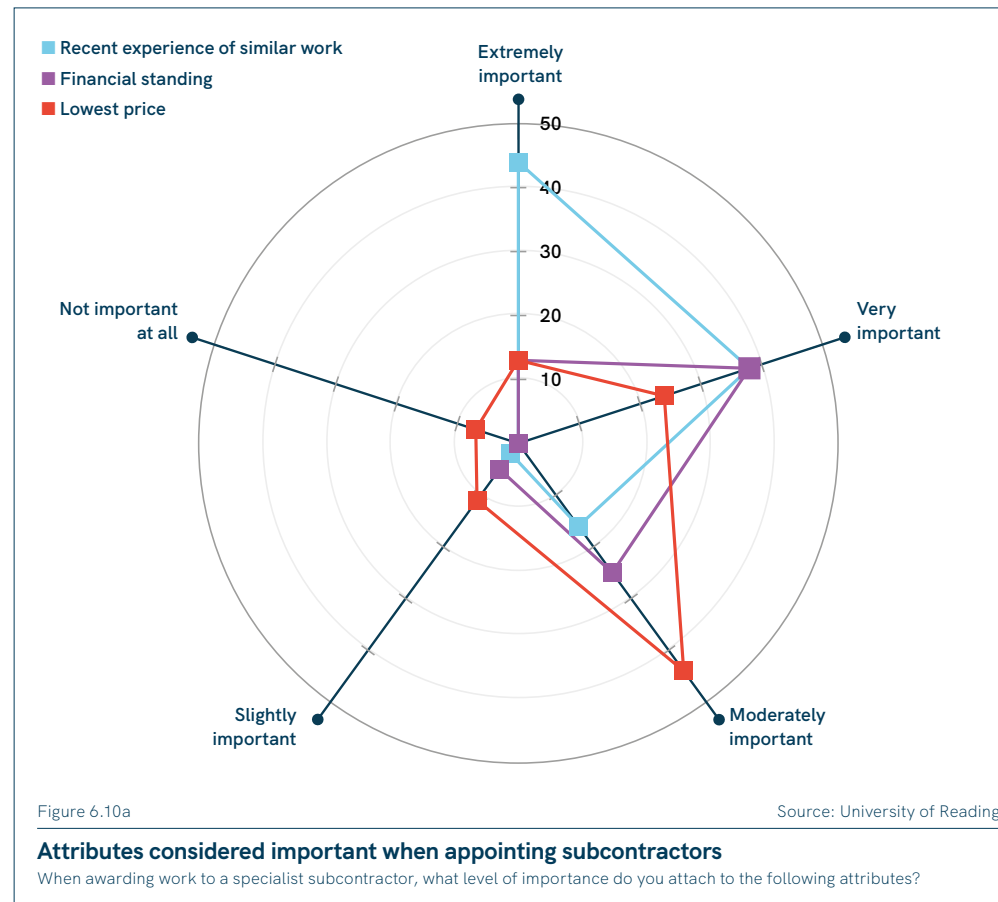
44% of respondents rated lowest cost as **moderately important** with a further 24% rating it as **very important**. In comparison, recent experience of similar work was judged as **extremely important** by 44% of respondents, and **very important** by 38%. Financial standing was also ranked highly with 38% considering it to be **very important** (Figure 6.10a).

Prior working relationships and quality assurance procedures were similarly ranked relatively highly (Figure 6.10b) The former was judged to be **extremely important** by 42% of respondents, and **very important** by 42%. Quality assurance procedures were in turn judged to be extremely important by 31%, and **very important** by 42%. The respondents were slightly more ambivalent about the reputation of subcontractors in the marketplace. 36% of respondents considered reputation to be **very important**, and 38% considered it to be **moderately important**.

Perhaps unsurprisingly given current labour shortages, adequacy of capacity was considered **extremely important** by 51% of respondents, and **very important** by 38% (Figure 6.10c). Health & safety lagged only slightly behind with 47% of respondents considering it to be **extremely important** and 36% **very important**. An expressed commitment to sustainability was judged to be **very important** by 29% of respondents, and **moderately important** by 40%.

The overall message is that lowest price was considered the least important of the listed criteria. In contrast, a high emphasis was placed on prior working relationships and quality assurance procedures. Adequacy of capacity was the most highly rated attribute. It is important however to recognise that the 9 criteria were evaluated in the absence of the pressures that inevitably shape real-world decisions.

Respondents were asked to rate the level of importance attached to a range of attributes when appointing specialist subcontractors.



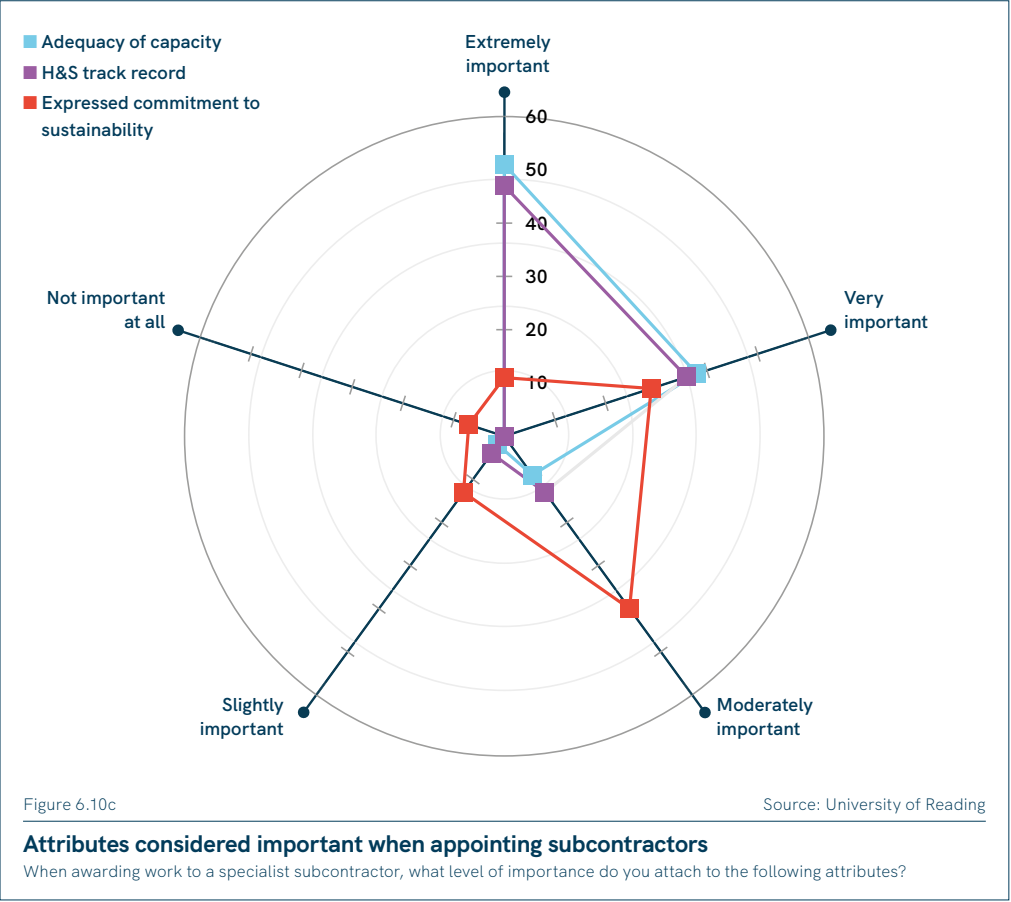
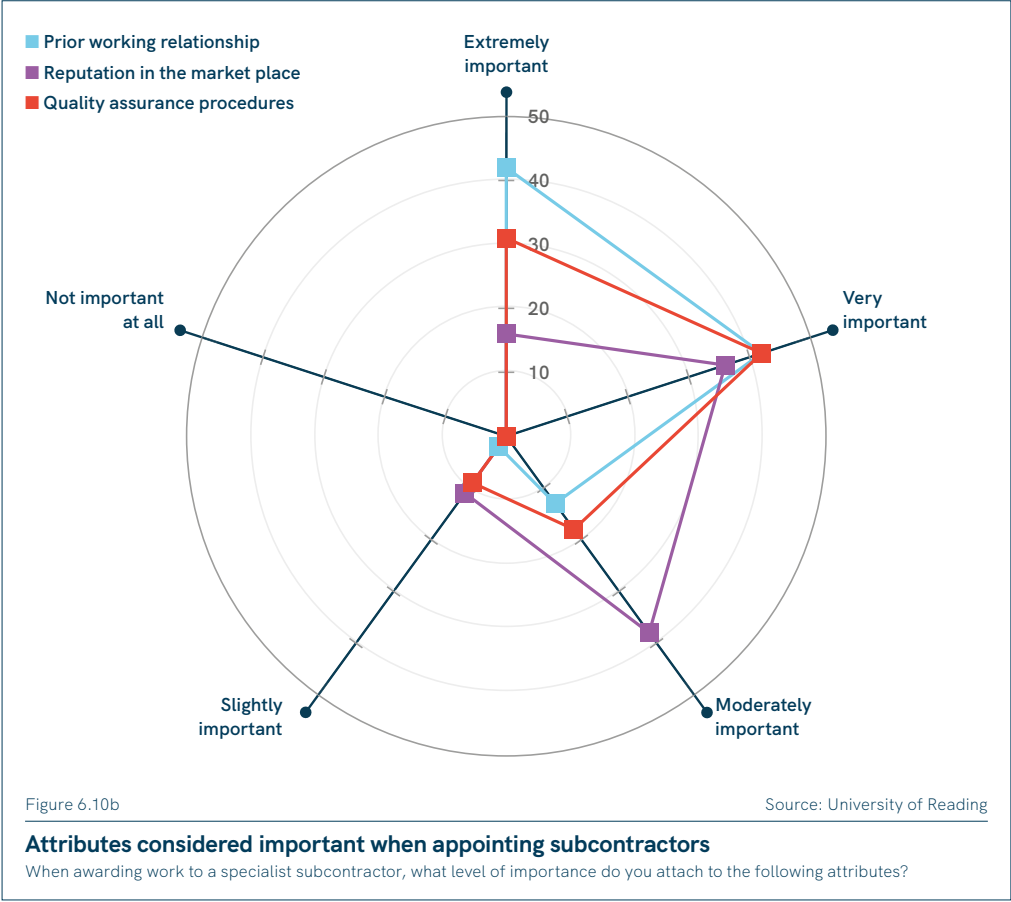
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## 6.11 STARTING ON SITE WITHOUT A FORMAL SIGNED CONTRACT

A further long-standing practice within the sector is the requirement for contractors to start on site in the absence of a formal signed contract, e.g., on the basis of a letter of intent. Although there are circumstances when such a requirement is justified, it would seem more common than might reasonably be expected (see Figure 6.11). 20% of respondents estimate that they are required to start on site without a formal signed contract **most of the time**. 15% consider this to be the case **about half the time**, with a further 40% reporting this to occur **sometimes**. Only 25% suggest that they are **never** required to start on site without a formal signed contract.

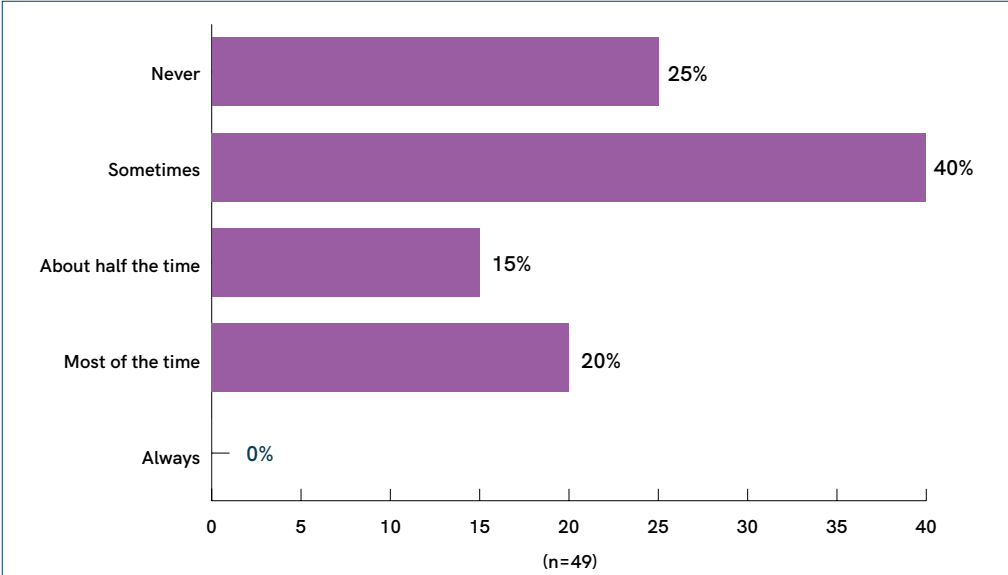


Figure 6.11 Source: University of Reading

**Extent to which main contractors are required to start on site in the absence of a formal signed contract (e.g., on the basis of a letter of intent).**

How often do you commence on site in the absence of a formal signed contract (e.g., on the basis of a letter of intent)?

## 6.12 LEAD TIME TO CONTRACT AWARD

Of further interest are the prevailing lead times from the initial point of client contact to the notification of contract award (see Figure 6.12). The initial contact may in some cases comprise an invitation to tender, in others an invitation to enter negotiations. 63% of respondents estimate that the typical lead time is in excess of 6 weeks. This was by far the most common response with only 13% of respondents opting for 5-6 weeks. Typical lead times in excess of 6 weeks could arguably imply that clients and their advisers are highly diligent in their tendering procedures. However, the interviewees tended to suggest that clients deliberately delay the finalisation of contract award to ensure the best possible price.

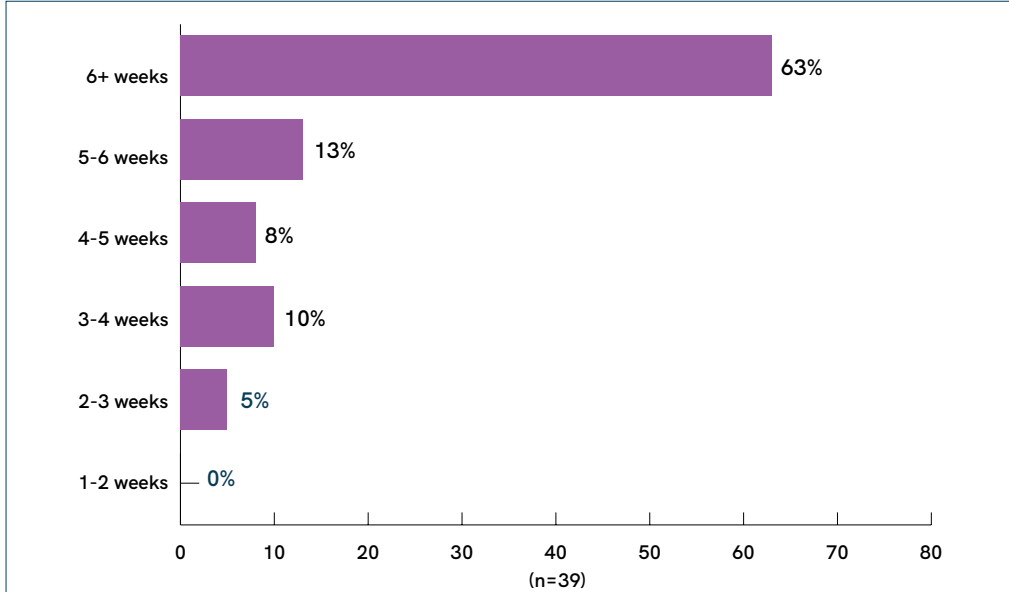


Figure 6.12 Source: University of Reading

**Lead time to contract award**

What is the typical lead time from initial client contact (e.g., invitation to tender) to notification of contract award?

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### 6.13 LEAD TIME TO START ON SITE

Irrespective of the explanation for the extended lead times prior to contract award, the net effect would seem to be a reduction of the mobilisation period within which contractors are required to start on site (see Figure 6.13). 28% of respondents report a typical lead time prior to starting on site of 6 weeks or over. However, the more telling statistic is that 56% of the sample cite lead times of less than 4 weeks. Perhaps the most striking indicator is that 13% report a typical lead time of 1-2 weeks.

Clients and their professional advisors would hence seem to be taking much longer to finalise the contract award than the time allowed for contractors to mobilise prior to starting on site. The suggestion from several interviewees was that procurement processes routinely fall behind schedule and hence mobilisation times are squeezed as a direct result. Contractors are often reportedly pressured into agreeing an accelerated start date as a condition of the contract award. The extent to which they can resist such demands is invariably determined by the willingness of other contractors to comply. Such pressures are reportedly often dressed up in the language of collaborative working thereby breeding an understandable degree of cynicism.

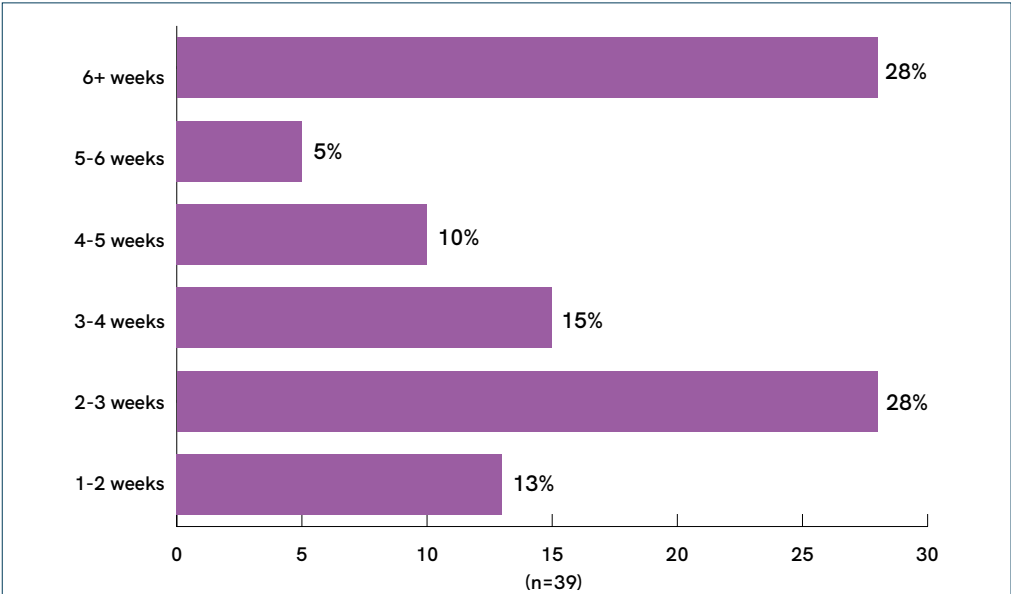


Figure 6.13 Source: University of Reading

**Lead time to start on site**

What is the typical lead time from notification of contract award to the date you are required to commence on site?

### 6.14 CHANGES IN SCOPE

A further prevailing concern relates to the extent to which final accounts routinely exceed the initial contract award due to changes in scope (see Figure 6.14). The results are again striking, with 19% of respondents reporting that the final account is **always** exceeded and a further 44% suggesting that this happens **most of the time**. Some respondents however are sceptical of the extent to which a full and correct scope of works is ever routinely available at tender stage. Such a requirement would be important for single stage-tendering, but less so for two-stage tendering approaches based on indicative rates.

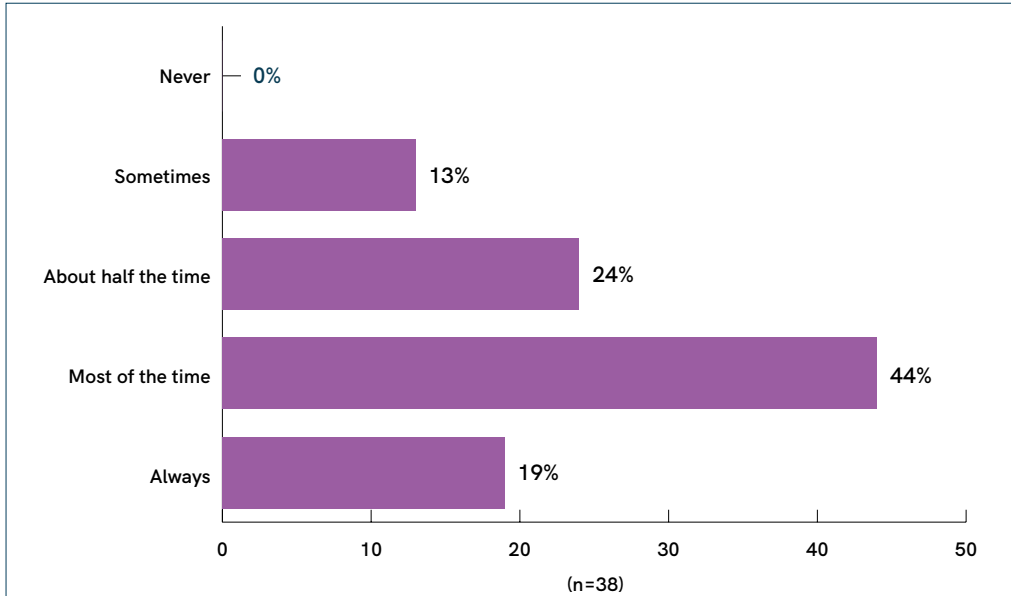


Figure 6.14 Source: University of Reading

**Changes in scope**

How often does the final account exceed the initial contract price due to changes in scope?

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# 6.15 PROVISION OF LEGAL ADVICE

Of further interest is the frequency with which main contractors seek independent professional legal advice prior to signing the contract. The results are shown in Figure 6.15.

48% of respondents claim to seek advice **sometimes**, with a further 20% seeking it **most of the time**. Larger contractors often possess professional legal expertise inhouse and would hence not routinely require external legal advice.

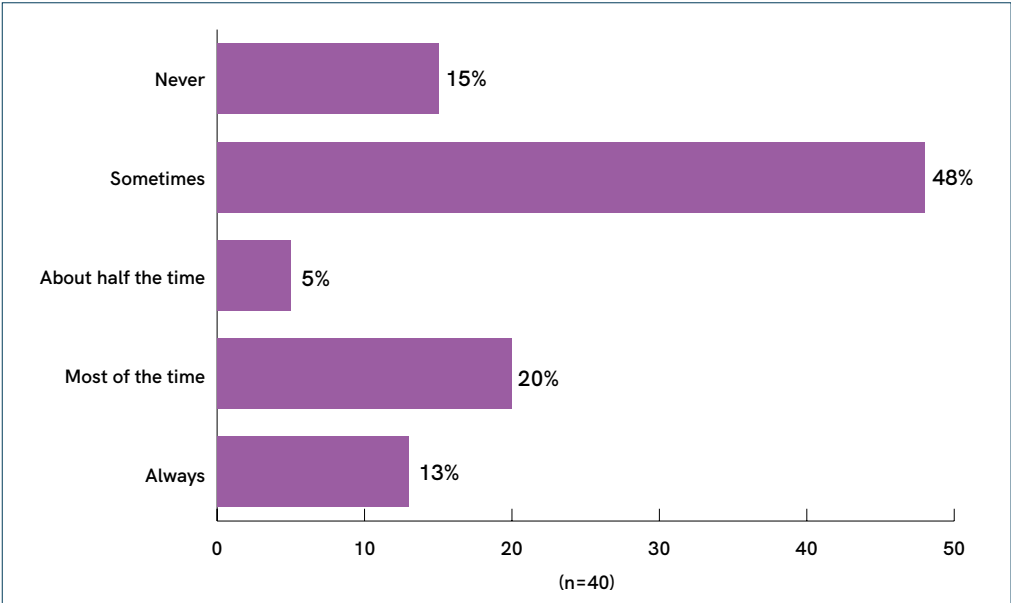


Figure 6.15 Source: University of Reading

**Extent to which main contractors seek independent legal expertise**  
How often do you take independent professional legal advice prior to signing the contract?



Larger contractors often possess professional legal expertise inhouse and would hence not routinely require external legal advice.

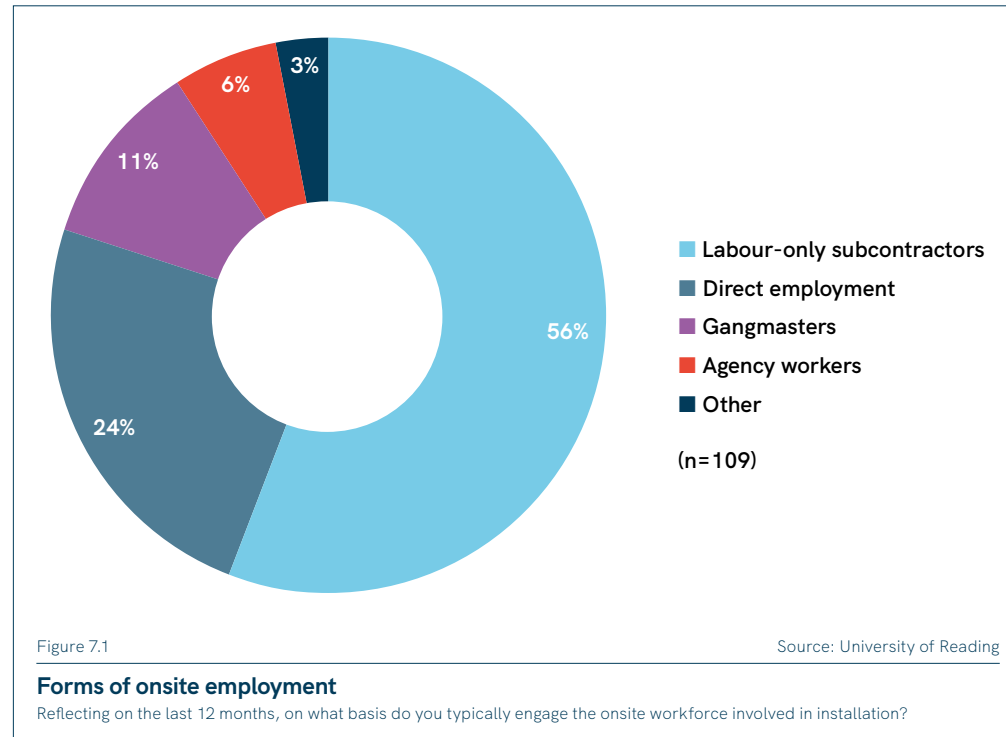
# 7.0 PROCUREMENT PRACTICES: SPECIALIST SUB-CONTRACTORS

The procurement practices that relate to specialist sub-contractors share many points of commonality with those that apply to main contractors. But there are also many important points of difference. The overriding message is that subcontractors are often at the receiving end of more regressive approaches to procurement.

## 7.1 FORMS OF ONSITE EMPLOYMENT

Procurement approaches directly affect the way subcontractors organise themselves. This relates especially to the extent to which they rely of contingent forms of labour. Respondents were asked to specify the basis upon which they engage their onsite workforce other than the 'supply and install' packages which they subcontract to others.

Figure 7.1 indicates the average specified percentage for each of the specified categories. Given the broader industry statistics the results are as expected, with a mean response of 56% for labour-only subcontractors, 11% for gangmasters and 6% for agency workers. In contrast, the average percentage for direct employment was 24%. The 'other' category includes those who declined to respond; some respondents considered the question to be irrelevant whereas others claimed not have the required data to hand.



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Notwithstanding the above, the interviewees often had very strong opinions about employment patterns within the sector. Many argued that a reliance on contingent forms of labour was central to their survival as a business. Others expressed a clear preference for direct employment while recognising that they could not compete on this basis. The contention was that any investment in a directly employed workforce would result in being consistently undercut by others. The consensus view was that the widespread reliance on contingent forms of labour presents a significant barrier to improved performance within the sector (see Box 7.1). It was also consistently emphasised that this a barrier which is not easily overcome.

Some argued that any shift to direct employment could only be achieved through a greater degree of labour market regulation. Others argued that repeated calls for a shift towards direct employment are in danger of becoming yet another stick used to beat subcontractors. It was repeatedly emphasised that Tier 1 contractors consistently avoid carrying a directly employed workforce, and hence it was seen to be hypocritical to make such demands of specialist subcontractors.



The most important route to improving sector performance would be to remove subcontract labour. There is a need to ensure that everyone competes on a level playing field that includes paying the necessary tax, national insurance, sick pay, holiday pay etc. I believe that our labour market is completely broken. Something drastic needs to change. There needs to be some sort of shift in the balance to enable companies to provide a better trained and more reliable workforce.

Box 7.1 Source: Quote by anonymous respondent

Views on subcontract labour

7.2 FORMS OF CONTRACT

Respondents were further asked to specify the form of sub-contract under which they are most often appointed. The aggregated responses are shown in Figure 7.2.

55% of respondents reported that they were most often appointed under JCT/ SBCC forms of contracts. The second most popular form was the New Engineering Contract (NEC) which accounted for 22% of the overall responses. Non-standard bespoke contracts were cited as being most common by 11% of the respondents. The 'other' category included framework arrangements and term contracts.

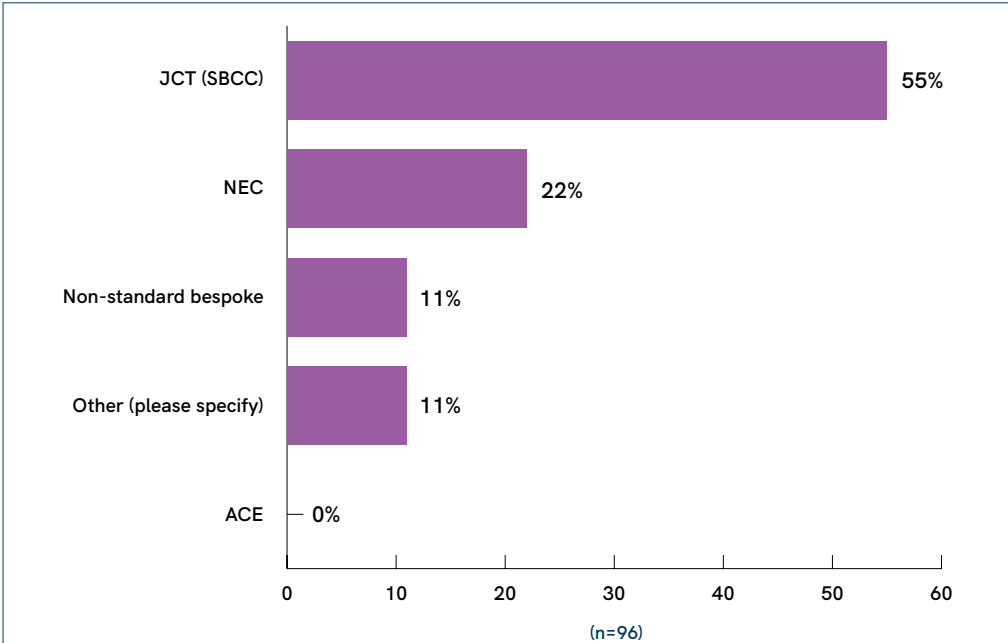


Figure 7.2 Source: University of Reading

Forms of contract for subcontractors Under which form of contract are you most often appointed?



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### 7.3 WHO ARE SUBCONTRACTORS MOST OFTEN IN CONTRACT WITH?

A further issue of importance relates to the parties who subcontractors within the sector are most often in contract with. Figure 7.3 shows that 55% of the respondents are most often in contract with mainstream Tier 1 contractors. In comparison, 23% are in direct contract with developers. The overall profile of responses is once again indicative of the complexity of the fit-out sector. Many firms notably operate as subcontractors on some projects while operating as main contractors on others. Some interviewees were very focused on the importance of the contractual terms upon which they are engaged. But others admitted that they had no real choice other than to ‘play the game with cards they are dealt’. Some interviewees openly admitted to never reading the contracts prior to signing them.

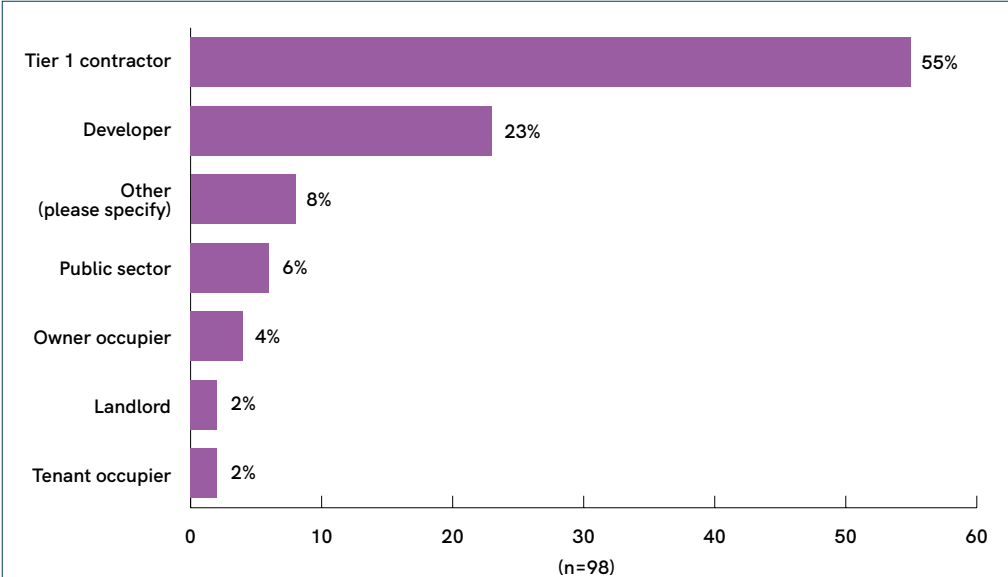


Figure 7.3 Source: University of Reading

**Subcontractors’ work profile**

In the last 12 months, what proportion of your contracts were with the following parties?

As was the case with main contractors, many interviewees talked about trying to reposition themselves within the value chain. However, others saw themselves as working in a particular market niche with little ability to do anything different. Many spoke about a desire to be less dependent upon Tier 1 contractors while at the same time recognising the difficulty of developing alternative sources of work.

Several main fit-out contractors were previously quoted in terms of their expressed preference for partnering (see Box 6.6). Many of the interviewees from the subcontractors expressed a similar preference, but also often complained that beyond the rhetoric there is little appetite for partnering in practice. Mainstream Tier 1 contractors attracted especially harsh criticism in terms of their regressive procurement practices (see Box 7.2). The most consistent refrain was that Tier 1 contractors are only ever interested in cost. Very few interviewees were optimistic about this changing in the foreseeable future.

“  
 Early engagement and a partnering approach from tender through to completion always appears to work best where the main contractor buys in to this approach. This allows us to collectively mitigate risks to all parties and highlight any gaps in the design and make commercial allowances to avoid conflict later in the project. Unfortunately, several main contractors still seem reluctant to take this approach and this appears to be primarily cost driven.

Box 7.2 Source: Quote by anonymous respondent

**Main contractors often reluctant to adopt partnering**

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# 7.4 TENDERING METHODS

The tendering methods used for engaging specialist subcontractors are illustrated in Figure 7.4. In common with main contractors, respondents frequently secured work through a range of different approaches. The average stated proportion of projects using single-stage tendering was 43%, with the equivalent figure for two-stage tendering being 27%. Negotiated single projects recorded an average response of 23%. Multi-project negotiated framework were relatively rare among subcontractors with an average response of 3%. The methods specified under the 'other' category included 'repeat business' and 'end user work'.

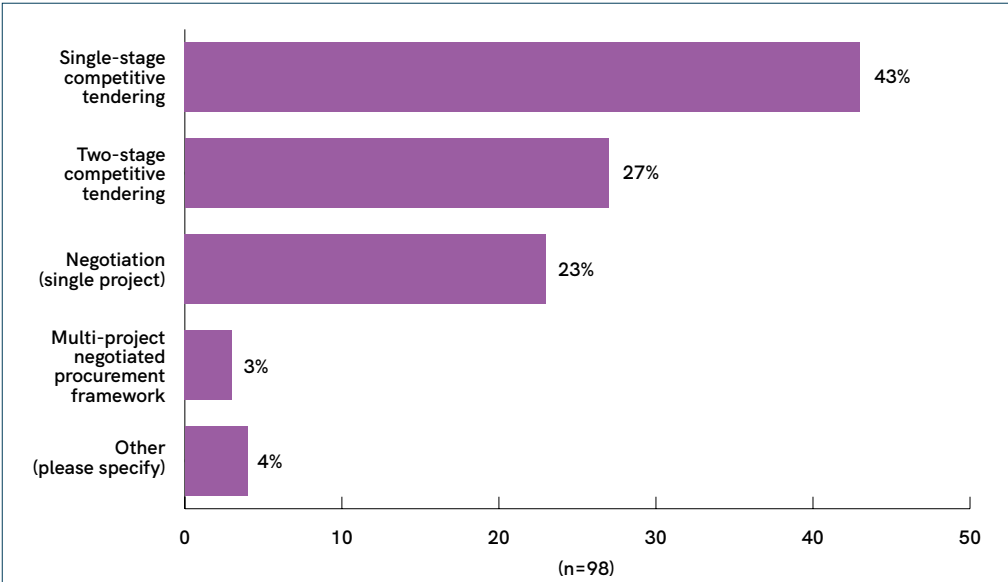


Figure 7.4 Source: University of Reading

**Tendering methods for the appointment of specialist subcontractors**

In the last 12 months, what proportion of the projects you were involved in used the following tendering methods?

Many respondents were highly critical of the culture that prevails within Tier 1 contractors, especially in terms the way they treat subcontractors. A common complaint was that main contractors repeatedly request additional information in response to a submitted tender only then to award the contract to another firm. The criticism is that the 'dialogue' is entirely unidirectional, and that cost is invariably the only criterion of interest (see Box 7.3).

Several also complained that contracts are often awarded to firms other than those initially invited to tender. Such practices are held to erode trust within the sector. There were also many calls to reduce the number of subcontractors invited to tender with a view to making an early appointment. This was seen to be especially important in terms of ensuring early supply chain involvement (See Box 7.4).

Some respondents referred to only being approached once the main contractor has secured the contract. The challenge is then to negotiate a price which preserves the main contractor's profit level (Box 7.5). Subcontractors are further seemingly often bullied into reducing their price at the end of the project if the main contractor is under financial pressure. Others complain about their lack of involvement in construction planning. A common criticism is that main contractors frequently sign up to a construction schedule with little input from those who actually do the work (Box 7.6).

“ Treatment of those tendering by some main contractors is appalling. They require ever more stringent responses to requests for value engineering options. This all takes huge amounts time. Then all of sudden they shut down correspondence completely and you've no idea what's happening. There's no need for it. It's a culture within some companies and needs to be changed.

Box 7.3 Source: Quote by anonymous respondent

**Culture among main contractors**

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# 7.5 RESPONSIBILITIES FOR DESIGN DEVELOPMENT

A particularly sensitive issue in the wake of the Grenfell tragedy is the extent to which subcontractors carry responsibility for design development. The responses are shown in Figure 7.5.

22% of respondents contend that they **never** carry responsibility for design development, with 41% responding that they are **sometimes** asked to carry such responsibilities. 16% estimate that they are asked to carry such responsibilities **most of the time**, with 9% specifying that they are **always** asked to take responsibility for design development.

However, the caveat must be added that the respondents themselves may not always be entirely clear about the responsibilities they are being asked to carry – despite the obvious implications for professional indemnity insurance. The prevailing sense of uncertainty regarding the extent to which design responsibilities are fully understood is exacerbated by the tendency to amend standard forms of contract.

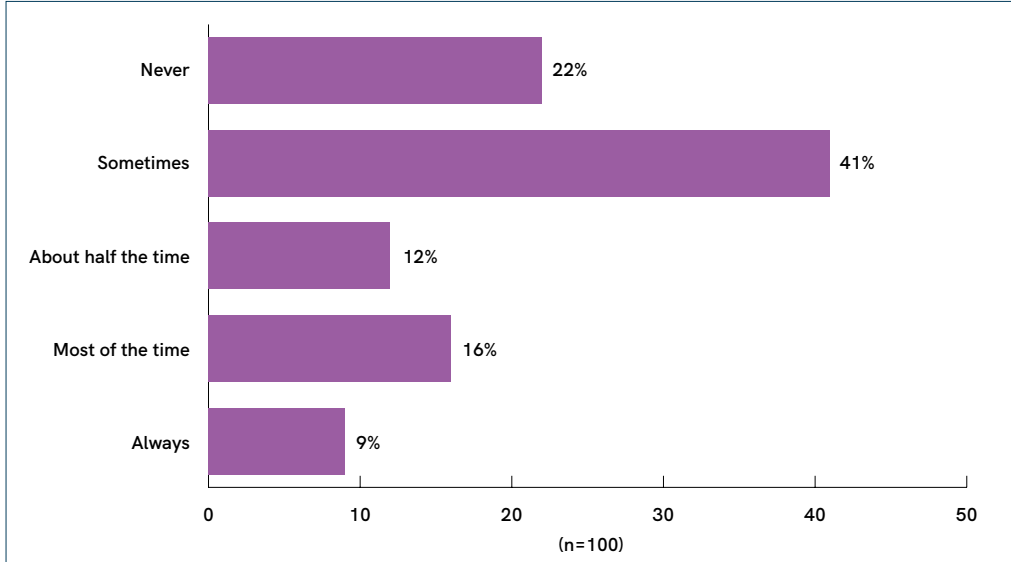


Figure 7.5 Source: University of Reading

**Responsibilities for design development**  
How often does the awarded sub-contract include specific responsibilities for 'design development'?

“  
Early engagement from main contractors needs to occur more often. They need to go out to three suppliers, select the preferred supplier and bring them into the project process as early as possible. This will be beneficial to all parties.

Box 7.4 Source: Quote by anonymous respondent

### Early supply chain engagement

“  
Our business is predominantly Design and Build where we are generally 1 of 3 approved suppliers. We don't quote for many tenders. But when we do quote it tends to be after the Main Contractor has won the project. The challenge is to negotiate an agreed price less than the original tender. This is how the Main Contractors increase their profits. At the end of a project, we are frequently asked to reduce our price as the Contractor cannot get more money from the Client. This is usually done based on not accepting variations.

Box 7.5 Source: Quote by anonymous respondent

### Tendering in practice

“  
Many issues could be resolved by the much earlier engagement of specialist subcontractors. Unfortunately, this rarely happens in practice. We are hardly ever asked about how long we would recommend to carry out the works. What tends to happen is that we are dictated to by the Main Contractor, who usually has submitted a tender programme without any involvement from those who are actually going to do the work.  
It's very frustrating that despite providing Main Contractors with a quality service over 18 years, the lowest price still is the main driver for project awards.

Box 7.6 Source: Quote by anonymous respondent

### Lack of involvement in detailed planning

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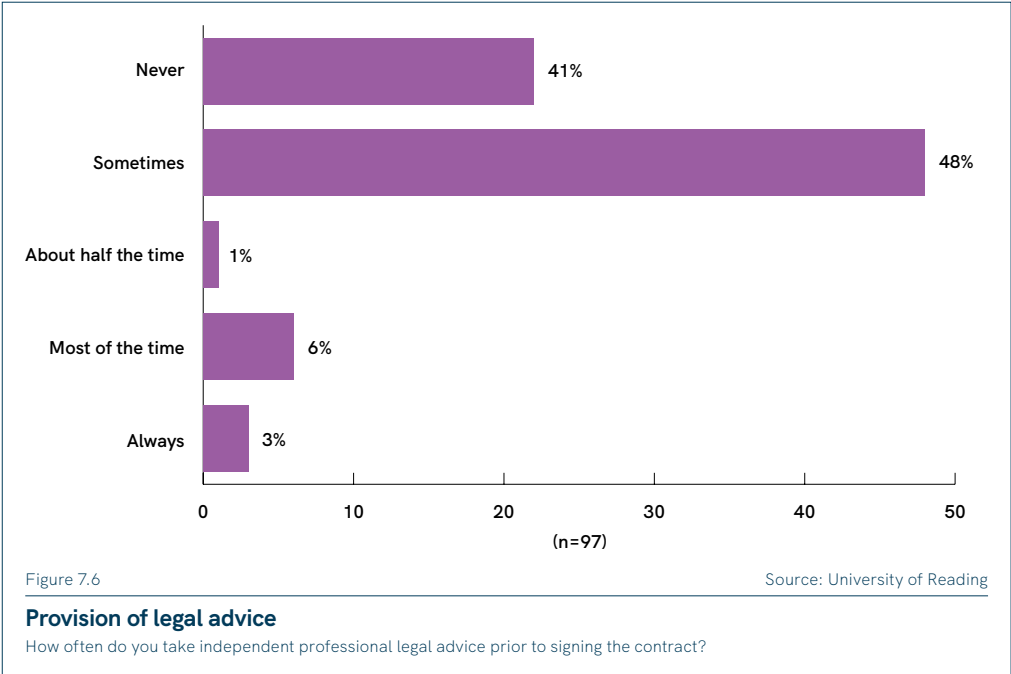
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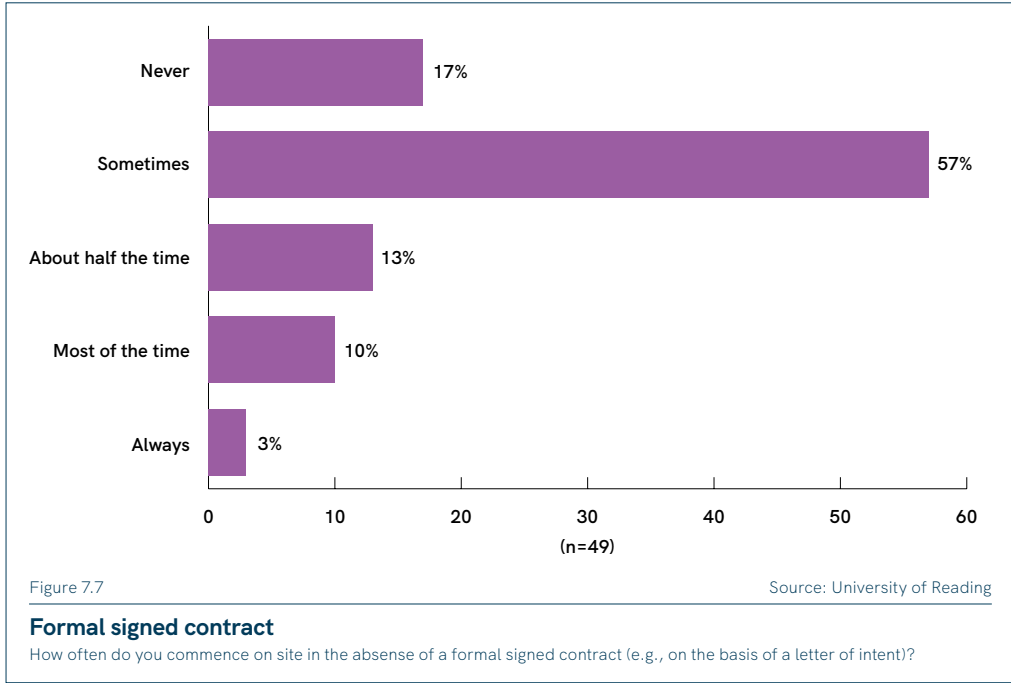
## 7.6 PROVISION OF LEGAL ADVICE

Of further interest is the limited degree to which subcontractors routinely take independent legal advice prior to signing the contract. The results shown in Figure 7.6 are stark. 41% of respondents **never** take such advice, with a further 48% only taking it **sometimes**. In combination with the tendency to amend standard forms of contract the responses raise concerns about the extent to which subcontractors fully understand the risks and liabilities routinely allocated to them.



## 7.7 FORMAL SIGNED CONTRACT

Further concerns are raised by the relative high occurrence with which subcontractors start on site in the absence a formal signed contract (see Figure 7.7). 10% of respondents claim to start on site in the absence of a formal contract **most of the time**, with a further 13% estimating this to be the case **about half the time**. 57% of the responses report that they **sometimes** commence on site in the absence of a formally signed contract, with only 17% reporting that this **never** happens. Taken in conjunction with the answers to the previous two questions, this would appear to be an issue of some considerable concern. Simply stated, it would seem that subcontractors are often unsure of their assigned contractual responsibilities.



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# 7.8 RETROSPECTIVE PRICE CHANGES

Returning to the broad theme of tendering, respondents were asked how often they are asked to reduce the submitted tender price retrospectively (see Figure 7.8). The responses are again striking, with 20% of respondents reporting that this is **always** the case. A further 45% judged this to be the case **most of the time**. Only 3% of the respondents reported this as **never** occurring.

Such post-tender price reductions were much discussed in the interviews, with many referring to inevitable post-tender requests from Tier 1 contractors to ‘sharpen the pencil’ or to submit their ‘best and final offer’. Such processes can often be protracted if the submitted tender price falls somewhat over the allocated figure in the cost plan.

The above process accounts in part for the reported lead times between initial invitation to tender and contract award (see Figure 6.12). It is also suggestive of a failure on the part of those responsible for cost planning. Many subcontractors feel that they are being made to suffer because of inadequacies elsewhere.

Discussions regarding a subcontractor’s final price often form part of a prolonged negotiation frequently referred to as ‘value engineering’. Such negotiations are invariably characterised by power inequalities between the contracting parties. Many respondents refer to being repeatedly ‘beaten up’ by the Tier 1 contractors from whom they are seeking to secure work. The practice of value engineering attracted several negative comments from the interviewees. Many saw this as contrary to the straightforward aim of properly designed solutions being installed on site by those with the appropriate expertise (see Box 7.7)



The aspiration is to have systems and interfaces properly designed by the paid design professionals (i.e. architect, structural engineer, acoustician etc) before they get to site. It then becomes important to ensure that what has been designed is not “value engineered” and is installed by competent installers as originally designed.

Box 7.7

Source: Quote by anonymous respondent

### Value engineering

The process of value engineering was reportedly often used by Tier 1 contractors to justify the award of sub-contracts to third parties who had not previously tendered. Yet this was by no means universally condemned. Some of those interviewed saw such Dutch auctions as an important source of work – not least because they reduce the need to carry their own in-house expertise in estimating (see Box 7.8). This again is another aspect of the race to the bottom.

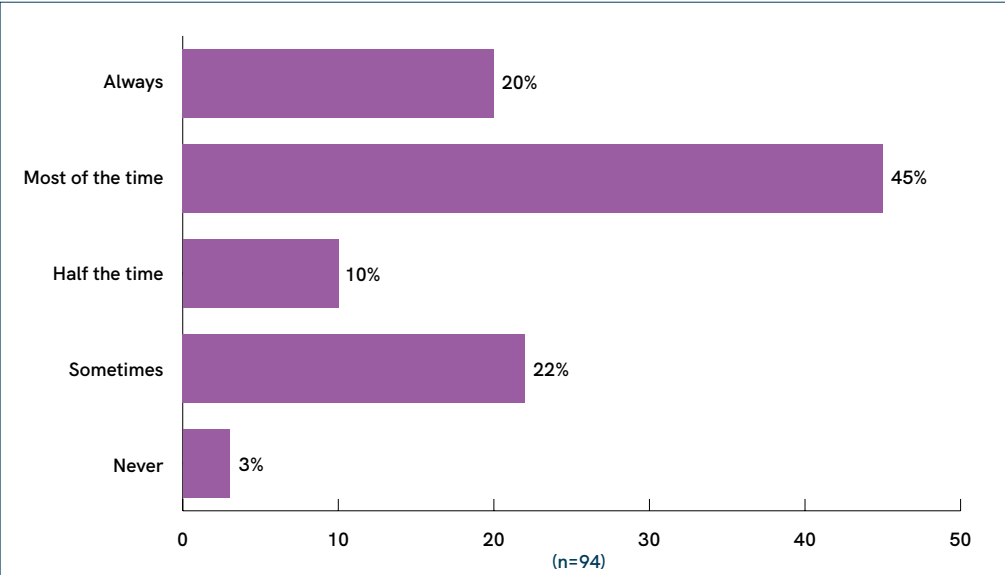


Figure 7.8 Source: University of Reading

**Retrospective price changes**  
Having formally tendered for a work package, how often are you asked to reduce the price retrospectively?



What tends to happen in practice is that you've won the tender and then it gets passed over to the construction side. You then have the project director looking at it. But he will go to his favourite subbie and ask if they can beat the price. Sometimes this works in our favour – because we are the favoured subbie – hence it saves us the trouble of preparing an estimate.

Box 7.8

Source: Quote by anonymous respondent

### Dutch auctions

The broader context within which such practices prevail is described in Box 7.9. The reference to entrenched practices suggests they are not so easily changed by repeated calls for culture change. Such practices might otherwise be described as institutionalised. In other words, they result from the way the industry is organised – not least the widespread adoption of the project as the unit of production around which competition is organised. The point is also made that subcontractors often rely on the same pool of labour as their competitors. They hence ultimately lack any unique selling point.



The whole industry is entrenched in working practices that inhibit progress. There is a general lack of trust which prevails throughout the supply chain. This results in protectionism and cynical practices. We are all to blame. Tier 1 contractors need to show more respect and flexibility to their specialist subcontractors. This would result in mutually beneficial partnerships rather than seeing them as a commodity.

Equally, specialist subcontractors need to earn respect by turning their focus onto delivering a quality service that can be relied on. We work in a very risky business and many subbies protect themselves by creating business models with very little capital value, and consequently very low levels of direct employment. This inhibits quality in my mind.

Why would a Tier 1 contractor prefer one subbie over another when they are using the same pool of labour to deliver the contract? Individual subcontractors hence have no unique selling point (USP) and are thereby allowing themselves to be commoditized.

Box 7.9

Source: Quote by anonymous respondent

### Entrenched working practices

Other respondents pointed towards systemic flaws in the tendering process (see Box 7.10). The argument here is that the pressure to conform with the predetermined budget renders the tendering process irrelevant. Front-end cost planning by professional quantity surveyors (PQSs) was also seen to suffer as result of such firms being squeezed in terms of fees, and hence limited in the level of resource they can bring to bear. Unfortunately, unrealistic early-stage cost planning often has significant adverse implications downstream. Such issues are often beyond the horizon for many subcontractors who nevertheless inherit the unenviable task of making the best of an inherited problem. It is not suggested that such circumstances always prevail. But it is nevertheless reasonable to assume that they prevail often enough to make a difference.



As an organization we have to work tirelessly and spend thousands in accreditation to work our way up the ladder to become a high-ranking subcontractor with Tier 1 contractors. It means nothing at the end of the day if you are too expensive in terms of the budget already set. Hence the submitted price at tender stage becomes largely irrelevant.

Main contractors should have to use the prices received at tender stage without any adjustments. Likewise, subcontractors should be made to honour their submitted tenders. Too often there is anarchy after tenders are submitted. New bids are thrown in, or contractors simply discount their initial price to ensure the package falls within the cost budget – or at least so it appears at the time on paper. But the job is then under-budgeted from the very beginning. Simply put, the contractor has not enough money in the budget. What follows thereafter is pain for everyone.

Box 7.10

Source: Quote by anonymous respondent

### Pressures to conform with pre-determined budget

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Further criticism was directed at PQSs in respect of their supposedly habitual advice that better ‘value’ can always be obtained from the supply chain with a little more effort. Tier 1 contractors were similarly criticized for pricing jobs at ridiculous rates, and then thereafter maintaining unrealistic ideas about the extent to which subcontractors’ tenders could realistically be discounted. Some respondents described being routinely pressurised into offering discounts in return for prompt payment.

Architects also attracted a significant degree of criticism (see Box 7.11). There is nothing new of course in contractors blaming architects for incomplete design. As with other consultants, it must also be recognised that architects are invariably squeezed on professional fees. It is hence unreasonable to hold them accountable for a level of design detailing beyond which they are paid. The tragedy is that such cycles of blame become self-perpetuating, continuously eroding trust.



Very often the architects working today just have no clue. The main contractors pass all this grief on to the specialist subby rather than dealing with the architects. Plus the main contractors are reverting back to the bad old days of subbie bashing. They use financial coshes to get their way. Hence, we all get stuck in the trap where you can’t stop but going forward is intolerable. This is even with clients you have constantly worked for.

Box 7.11 Source: Quote by anonymous respondent

Blaming others

7.9 DELAYS DUE TO DESIGN APPROVAL

A further source of delay consistently cited by subcontractors relates to the extent to which they receive approval for submitted design proposals within the specified contractual limit (typically 14 days). The survey question was specifically limited to procurement routes which include an element of contractor’s design. The results as shown in Figure 7.9 are again striking. 27% of respondents report that they **never** receive a decision within the required contractual limit with 36% estimating that they **sometimes** receive the required decision within the specified period. A further 26% report receiving a timely response to submitted design proposals **about half the time**. Perhaps most striking of all is that only 1% of respondents consider that they **always** receive the required response on time.

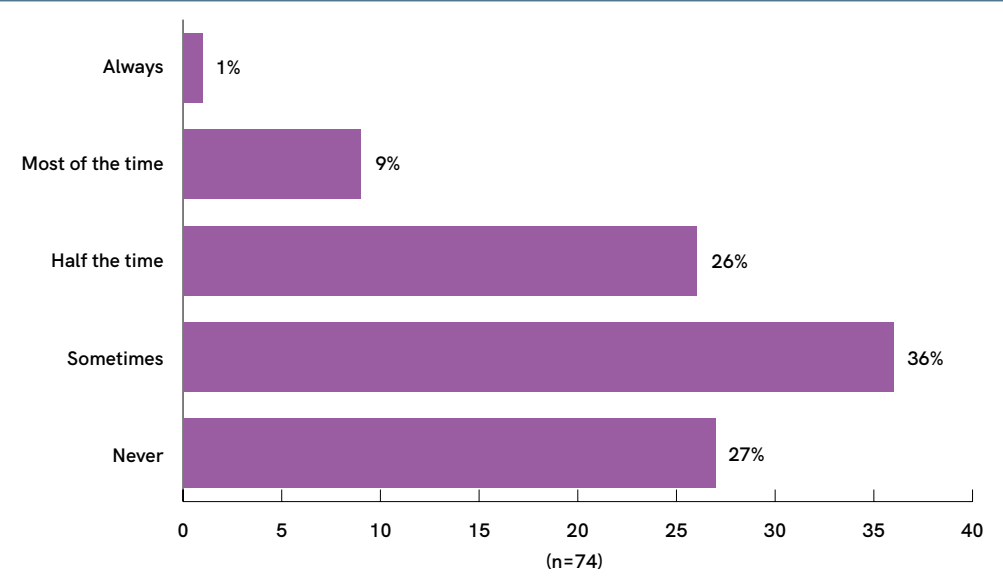


Figure 7.9 Source: University of Reading

Delays due to design approval

If required to submit design information for approval, how often do you receive a decision within the specified contractual limit (typically 14 days)?

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# 7.10 LEAD TIME TO CONTRACT AWARD

The lead time from the initial point of contact to the notification of contract award was broadly in line with that reported by main contractors. 70% of respondents estimated a lead of 6 weeks or greater (see Figure 7.10a). However, the reported lead times from notification of contract award to start on site were significantly shorter (Figure 7.10b). Remarkably, 6% of respondents reported routinely being required to start on site within 1 week, with 26% specifying a typical lead-in time of only 1-2 weeks. A further 23% of respondents reported routinely being required

to start on site within 2-3 weeks. Taking the three categories together, 55% of the sample reported being required to start on site within 3 weeks. Some respondents suggested that main contractors purposely delay issuing the contract until the very last minute. In contrast, 23% cited lead times of 6+ weeks. The latter statistic can largely be accounted for by the more prestigious projects where the awarded sub-contracts are unusually large.

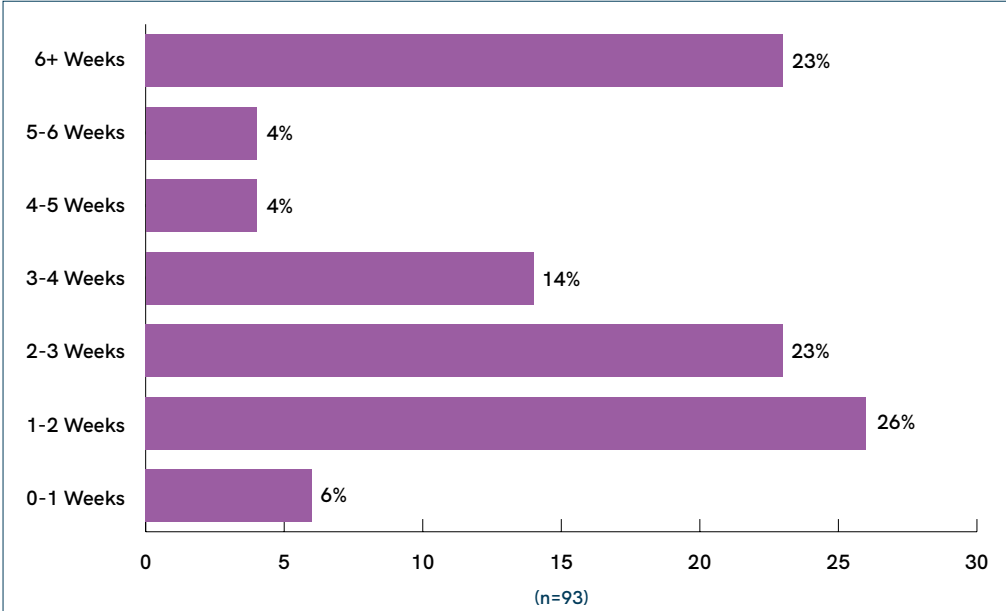
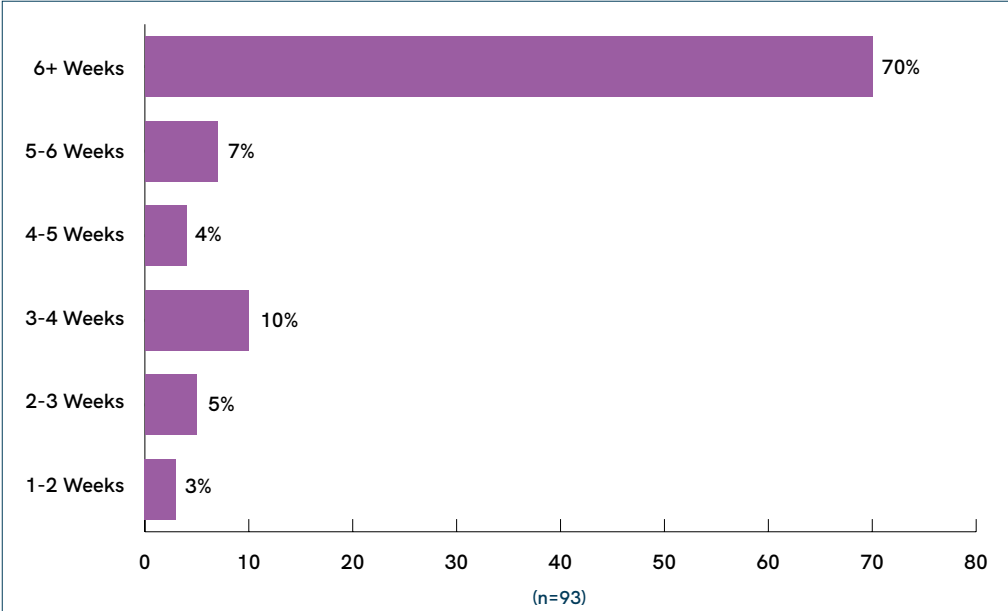


Figure 7.10a Source: University of Reading

**Typical lead time from contract award**

What is the typical lead time from initial contact (e.g., invitation to tender) to notification of contract award?

Figure 7.10b Source: University of Reading

**Typical lead time from notification of contract**

What is the typical lead time from notification of contract award to the date you are required to commence on site?

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## 7.11 COMPETITIVE FACTORS OTHER THAN PRICE

The final question of this section sought to explore the extent to which specialist subcontractors consider that factors other than price are taken into account (see Figure 7.11).

Only 8% of respondents considered that factors other than price are **never** considered. However, the largest proportion of respondents (62%) deemed such factors to be taken into account **sometimes**. A further 22% estimated that factors other than price were considered **about half the time**. Only 2% notably considered that broader factors were **always** considered. It would therefore seem that price remains the dominant factor in the appointment of subcontractors – at least when viewed from the perspective of the subcontractors themselves.

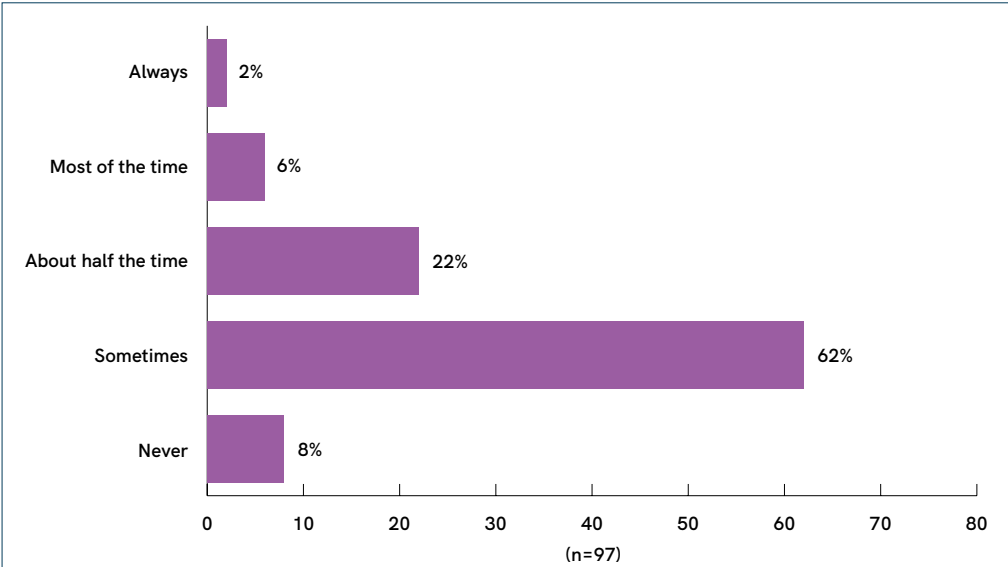


Figure 7.11 Source: University of Reading

### Competitive factors other than price

When competing for work, to what extent do you think issues other than price are taken into account?

## 7.12 USE OF PRE-QUALIFICATION QUESTIONNAIRE (PQQ)

In a similar vein to the above, respondents were asked how often they are required to complete a pre-qualification questionnaire (PQQ) (see Figure 7.12). This provides an indication of the extent to which subcontractors are formally pre-screened in accordance with criteria other than cost.

Only 6% of respondents reported that they are **always** required to complete a PQQ, with a further 19% responding that they so required **most of the time**. 44% estimate that they are **sometimes** required to re-qualify based on a PQQ, with 10% claiming that they are **never** so required. The overall picture is that the use of PQQs is at best patchy.

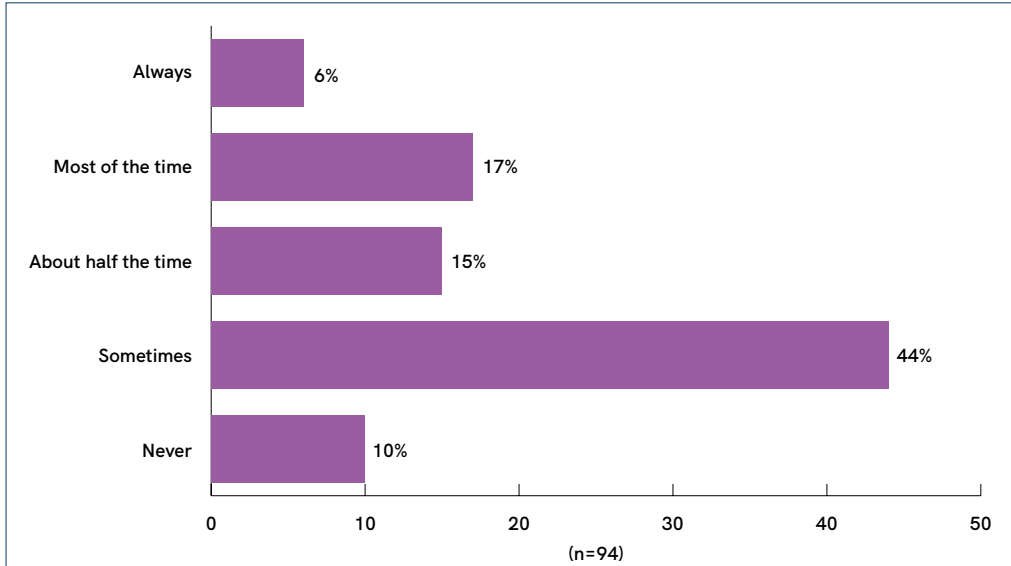


Figure 7.12 Source: University of Reading

### Use of pre-qualification questionnaires (PQQ)

Reflecting on the last 12 months, how often have you been asked to complete a pre-qualification questionnaire (PQQ) prior to being invited to tender for the sub-contract?

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## 7.13 FINAL ACCOUNT EXCEEDS INITIAL CONTRACT PRICE

The penultimate question of this section related to how often the final account exceeds the initial contract price due to changes in scope (see Figure 7.13). 34% of respondents notably considered that the final account **always** exceeds the initial contract price. A further 36% believed this to be case **most of the time**. The tendency for fit-out contracts to be routinely subject to changes in scope can be seen to have significant implications for the sector, not least in terms of how the supply chain is able to organise its resources. It also has significant implications for payment practices in that subcontractors invariably need to pursue payment for work beyond that for which they initially tendered.

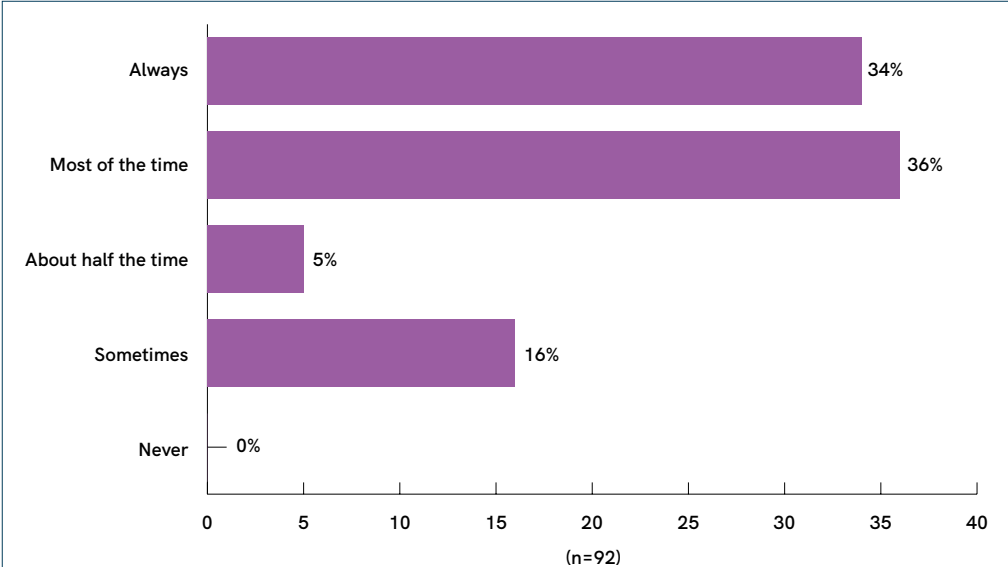


Figure 7.13  
**Final account exceeds initial contract price**  
How often does the final account exceed the initial contract price due to changes in scope?

## 7.14 EXTENDED CONTRACT DURATION

Changes in scope were also often seen to have a significant impact on contract duration (see Figure 7.14). 10% of respondents considered that the contract duration was **always** extended due to changes in scope with 46% believing this to occur **most of the time**. A further 10% considered changes in scope to impact contract duration **about half the time** with 29% expressing the view that it occurred **sometimes**. Many respondents called for a greater degree of realism in respect of project programmes. The view was repeatedly expressed that better front-end planning would result in better procurement processes and hence more realistic lead times. Some argued that subcontractors need to be stronger in terms of standing up for more sensible timelines. The view is that the commercial pressures experienced by clients are too easily allowed to impinge on sensible delivery targets.

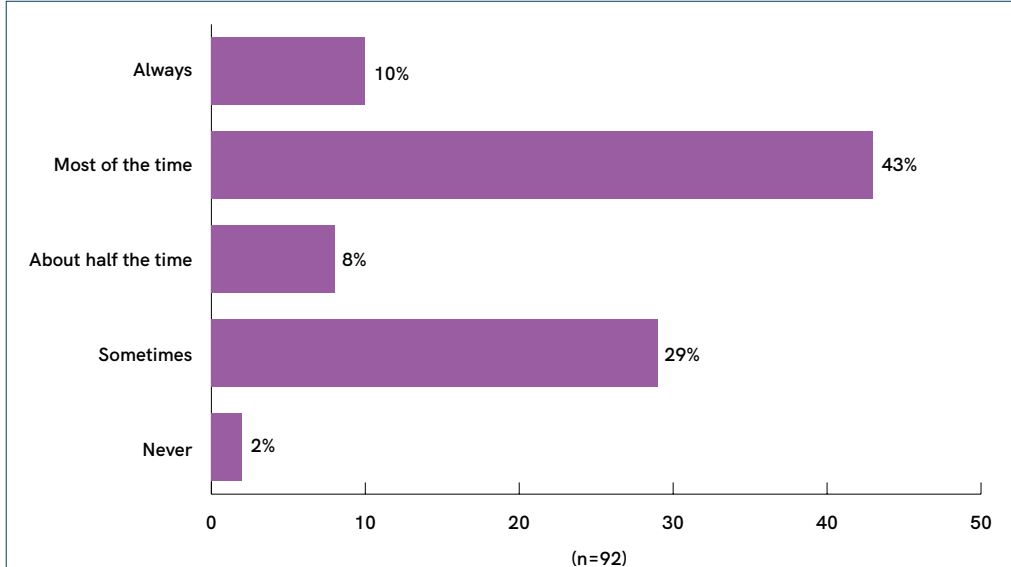


Figure 7.14  
**Extended contract duration**  
How often is the originally specified contract duration extended due to changes in scope?

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# 7.15 CAUSES OF DELAY

The final question of this section sought to identify the most commonly expressed causes of delay. Respondents were asked how often they experience delays due to a pre-determined list of causes sourced from within the broader literature. The responses are best understood as impressionistic and hence need to be interpreted with caution. Figures 7.15a - 7.15j show the profiles for each of the listed possible causes. Those causes which were ranked highly included **change in scope** (Figure 7.15a) and **delays and discrepancies in the issue of design information** (Figure 7.15b). Delays due to **restricted/interrupted access to work areas** were also ranked relatively highly (Figure 7.5d), together with those caused by **unforeseen material delivery lead-times** (Figure 7.15g).

The respondents were notably reluctant to blame delays on **labour shortages** (Figure 7.15f), **weather damage** (Figure 7.15h) and **poor workmanship** (Figure 7.15i). They were perhaps reluctant to be too critical of issues from within their own domain of responsibility. Relatively little blame was allocated to the **existing state of the building fabric**, although this could have been influenced by a relatively low occurrence of refurbishment projects within the overall sample (Figure 7.15j).

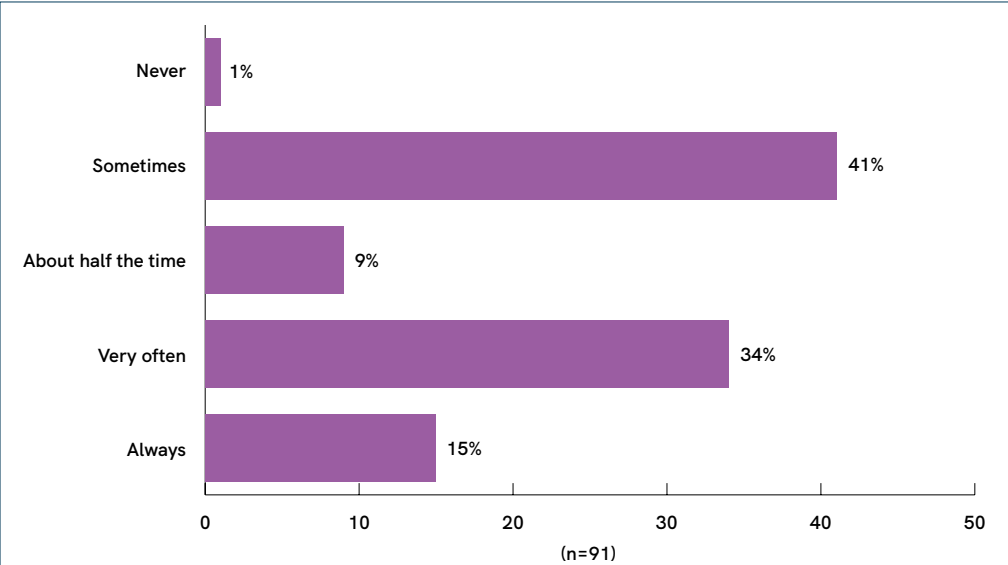
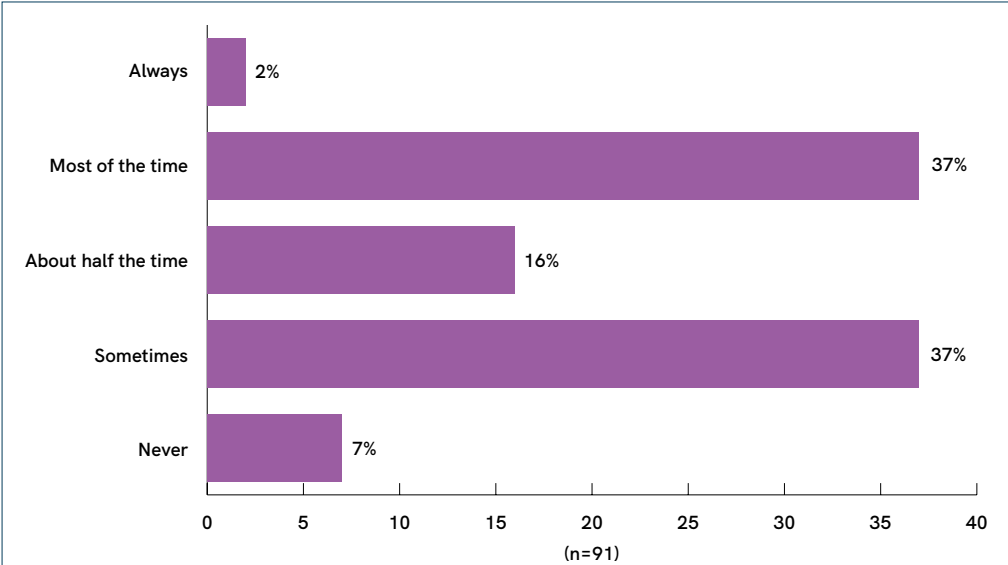


Figure 7.15b Source: University of Reading

Delays and discrepancies in the design information issued by the Architect/contract administrator

Figure 7.15a Source: University of Reading

How often do you experience delay due to change of scope during construction?

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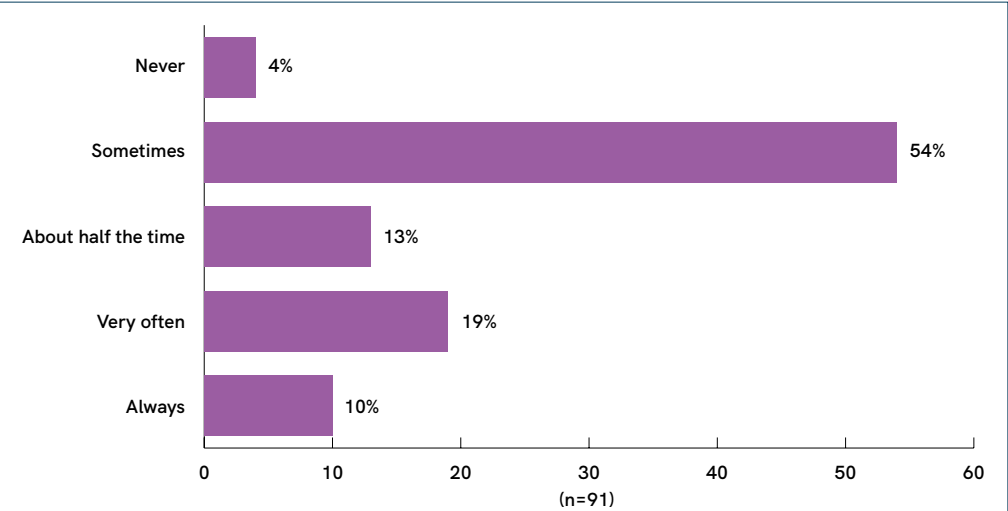


Figure 7.15c Source: University of Reading

### Delays by Architect/contract administrator approving design submissions by specialist sub-contractor

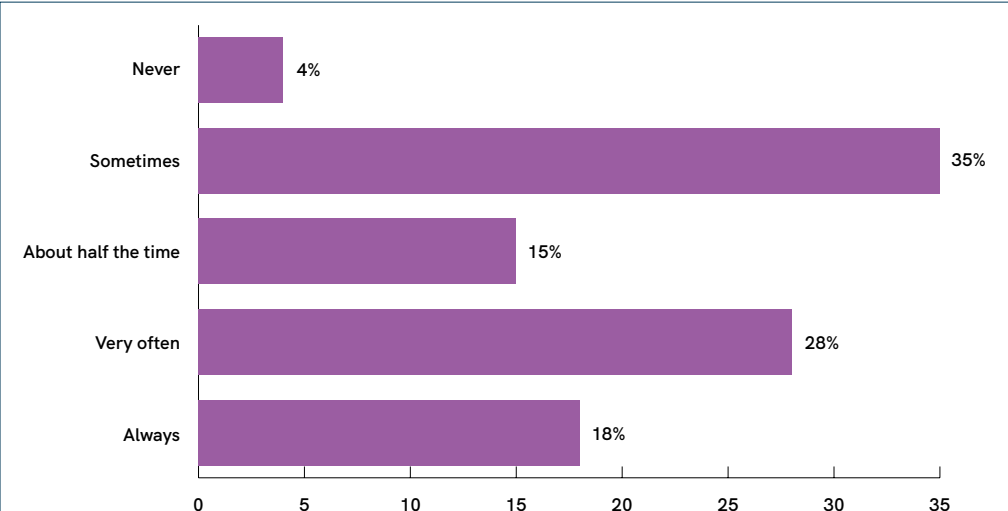


Figure 7.15d Source: University of Reading

### Delays due to restricted/interrupted access to the work area

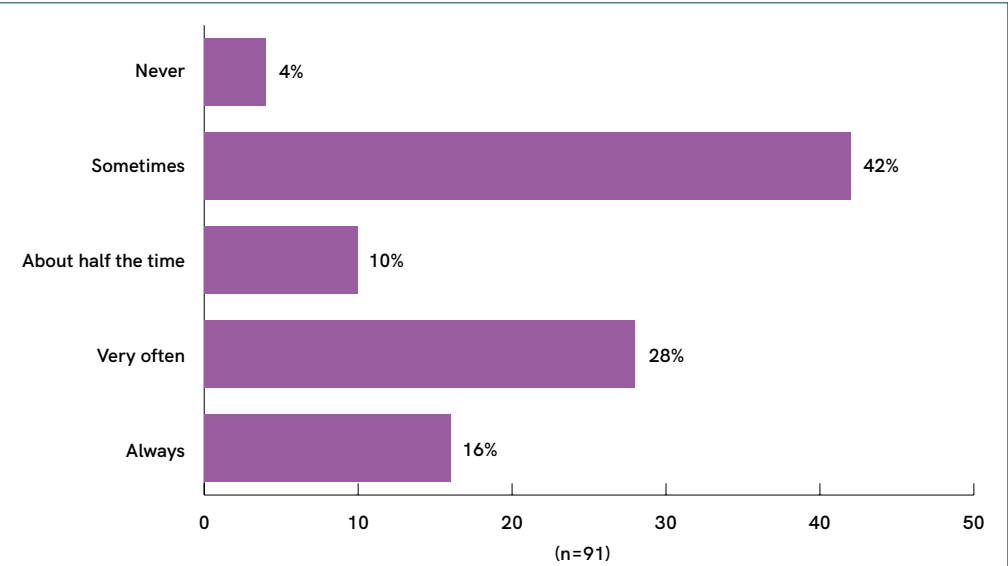


Figure 7.15e Source: University of Reading

### Rework due to damage caused by other specialist contractors

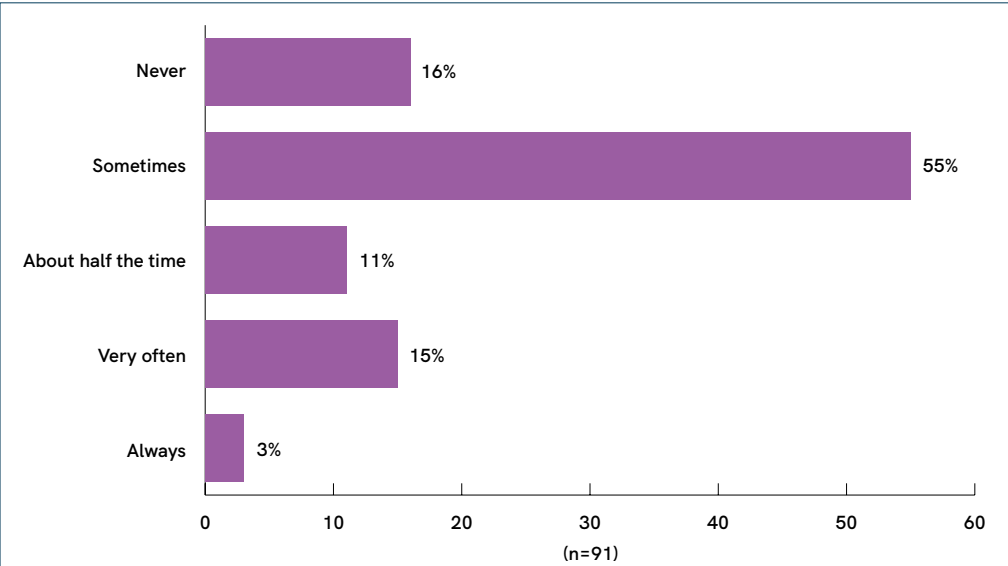


Figure 7.15f Source: University of Reading

### Delay due to labour shortages

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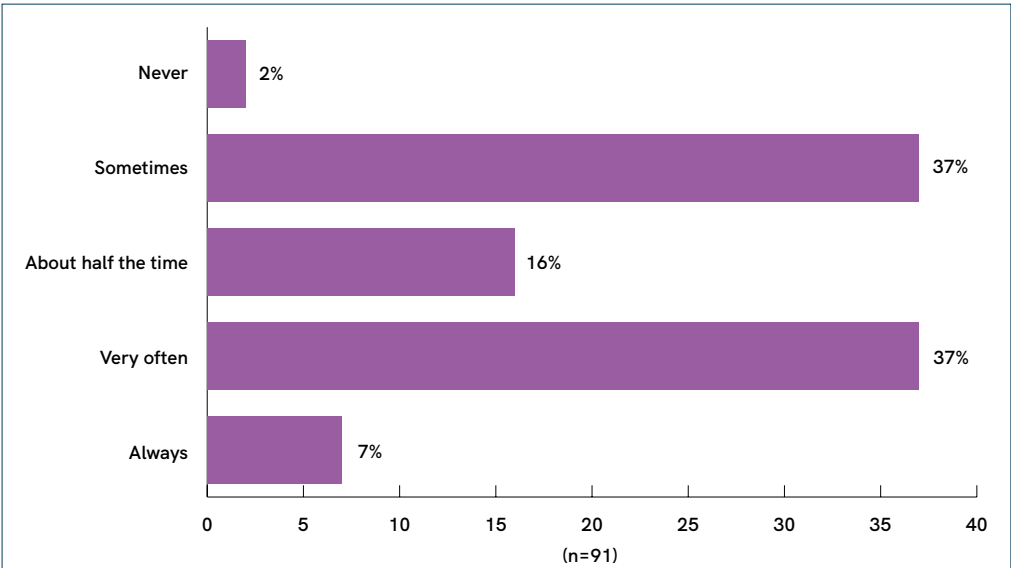


Figure 7.15g

Source: University of Reading

**Delay due to unforeseen material delivery lead-times**

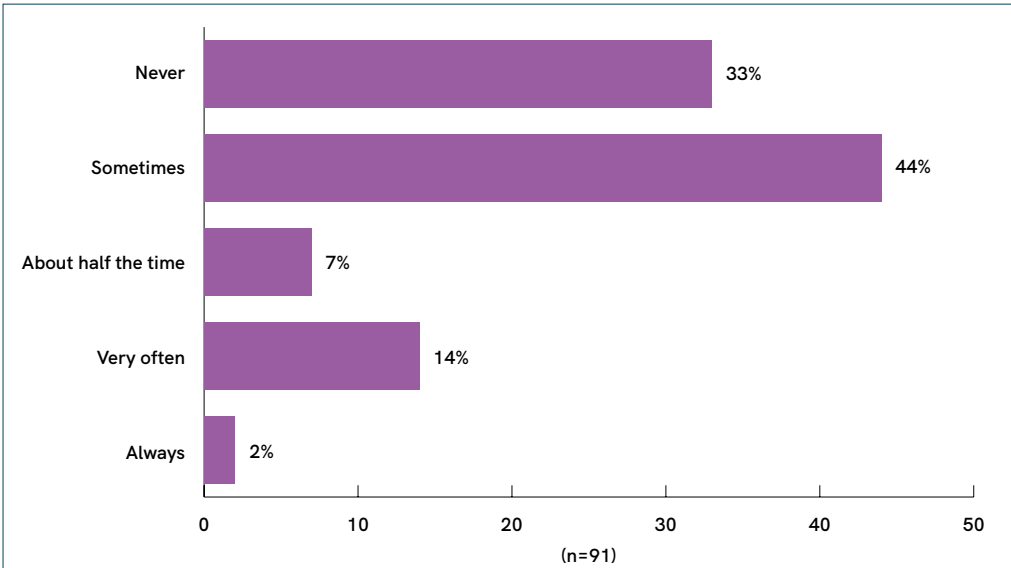


Figure 7.15h

Source: University of Reading

**Rework due to weather-related damage**

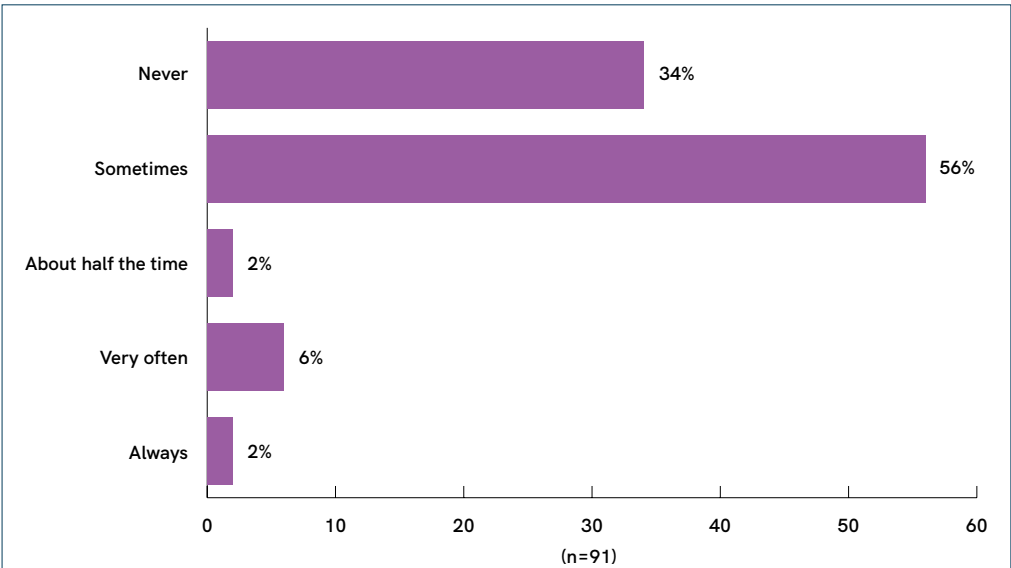


Figure 7.15i

Source: University of Reading

**Delay due to poor workmanship by contracted labour**

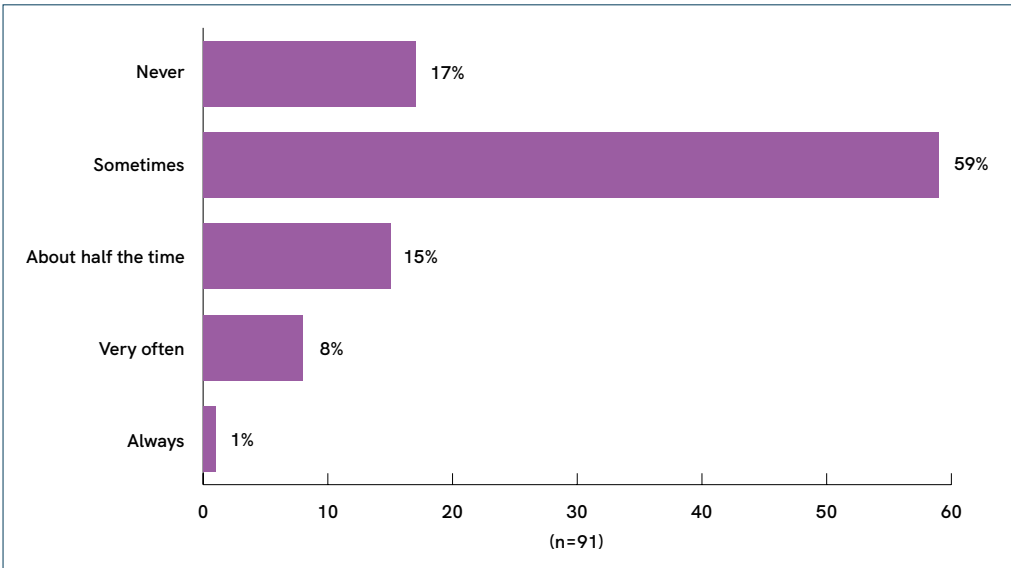


Figure 7.15j

Source: University of Reading

**Delay due to poor condition of existing building fabric**

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The interviews were perhaps more useful in understanding the complex and multi-faceted nature of the expressed causes of delay. One recurring theme was the observation that Tier 1 contractors have over several decades retreated from the responsibility of site-based construction planning. The comment was made repeatedly that Tier 1 contractors no longer possess the capability to engage in detailed construction planning (see Box 7.12). This was seen to be indicative of a long-term trend whereby Tier 1 contractors have progressively divorced themselves from the physical activities of construction. It is notable that 44% of respondents reported that there is **always** or **very often** a need for rework due to damage caused by other specialist subcontractors (Figure 7.15e). Poor construction planning could also account for the relatively high occurrence of delays caused by restricted/interrupted access to the work area (Figure 7.15d). Overall, there is significant evidence to suggest that inadequate attention is given to onsite construction planning. This would be an obvious focus of any improvement initiative.



There was a time when detailed construction programmes were orientated towards providing dedicated work areas for each subcontractor, making sure that they had unfettered access for particular periods of time. But this is not what happens these days. In truth, Tier 1 contractors struggle to source the necessary expertise. The subcontractors are required do it for themselves. It's a kind of organised chaos. Subcontractors tend to make it work because they have to. But it isn't perfect.

Box 7.12

Source: Quote by anonymous respondent

### Construction planning



# 8.0 PAYMENT PRACTICES

## 8.1 PROMPTNESS OF PAYMENT

The next section of the questionnaire considered payment practices. The same questions were presented to both main contractors and specialist subcontractors. The first explored promptness of payment (see Figure 8.1).

As might be expected, the responses suggest that main contractors are usually paid more quickly than subcontractors. A notable exception was that 7% of main contractors reported typically waiting for 60+ days from initial application prior to being paid. The equivalent figure for subcontractors was 2%. In contrast, 46% of subcontractors reported waiting for 40-59 days in comparison to only 24% of main contractors. Perhaps most strikingly, only 6% of specialist subcontractors reported being paid within 30 days. The equivalent figure for main contractors was 10%.

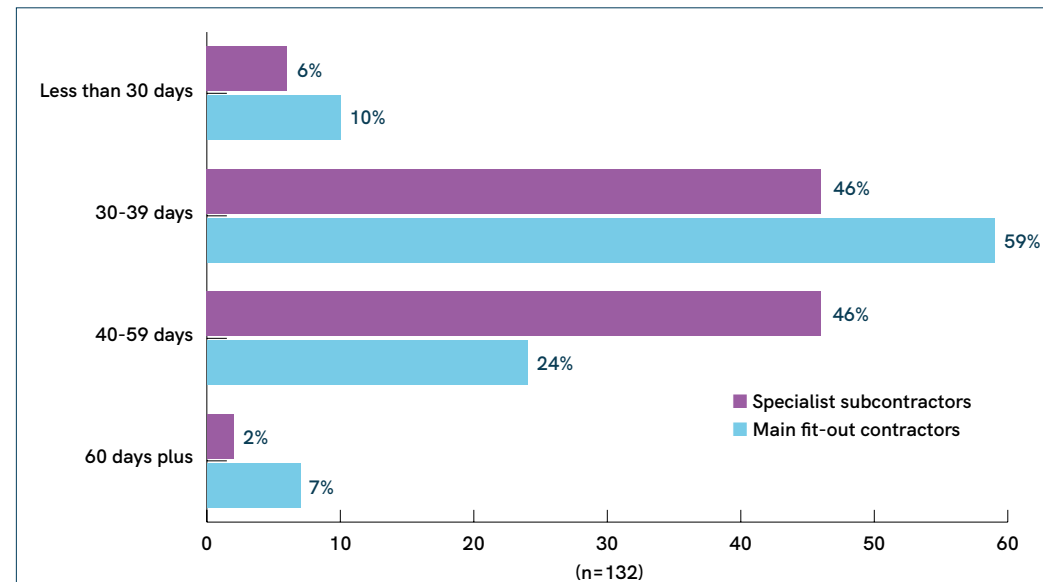


Figure 8.1

Source: University of Reading

### Promptness of payment

Reflecting on the last 12 months, how long after your initial application for payment do you get typically paid?

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## 8.2 ARE PAYMENT PRACTICES IMPROVING OR GETTING WORSE?

The subsequent question explored the extent to which payment practices are currently improving or getting worse. The results are shown in Figure 8.2. Most respondents considered that payment practices broadly **stayed the same** over the preceding 12 months. This was true for 69% of subcontractors and 68% of main contractors. Taking other responses into account, the overall picture can be seen to be getting very slightly worse for both categories. However, the trend is not especially pronounced.

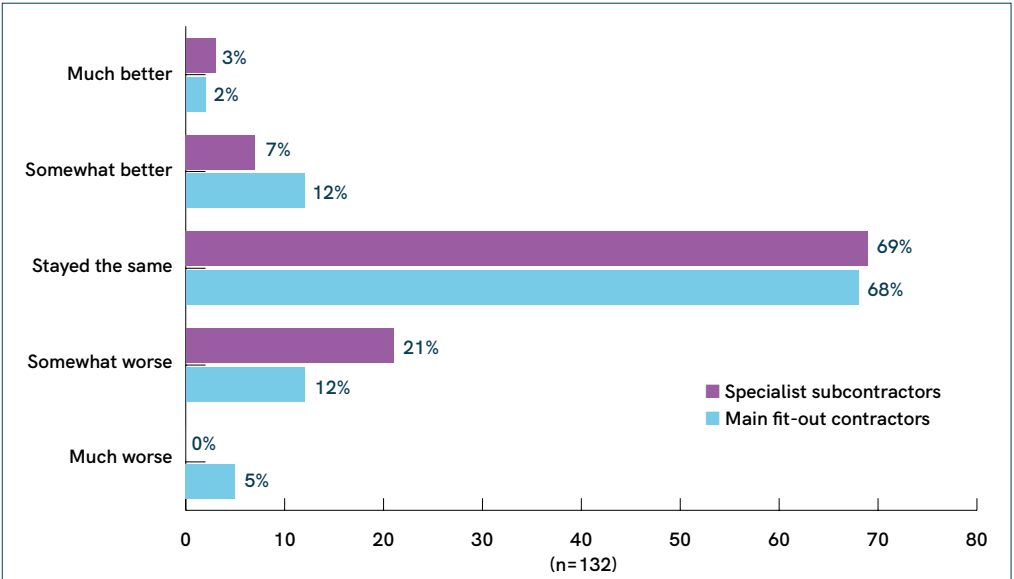


Figure 8.2 Source: University of Reading

**Payment practices improving or getting worse?**

Thinking about payment promptness, how do you think current payment practices compare to those of 12 months ago?

Several interviewees cited the biggest problem was getting paid for variations as a result of onsite instructions (see Box 8.1) This was seen to be a constant battle. Some respondents reported being reluctant to pursue such payments too hard for fear of being labelled adversarial. Many also complained about the bullying and lack of respect that they routinely receive at the hands of Tier 1 Contractors – even those they have worked with for years. Yet for many of those who work directly for end users such stories remain entirely alien. Unfortunately, the volume of work that is available from such clients is not sufficient to sustain the fit-out sector in its entirety. Hence the perennial jockeying for position within the value chain.



Our biggest issue is with obtaining payment for variations and site instructions. This is a constant battle with virtually every national housebuilder. It seems that a contra charge culture has now developed within the industry to off-set any additional expenditure encountered by the housebuilder. The solution it seems is to squeeze the supply chain.

Box 8.1 Source: Quote by anonymous respondent

**Payment for variations**

Some respondents reported being reluctant to pursue payments too hard for fear of being labelled adversarial. Many also complained about the bullying and lack of respect that they routinely receive at the hands of Tier 1 Contractors – even those they have worked with for years.



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### 8.3 RELEASE OF RETENTION MONIES

The trend in respect of retention monies is much clearer (see Figure 8.3). 32% of specialist subcontractors reported that retention monies are **never** automatically released at the contractually agreed time. The equivalent figure for main contractors is 15%. However, 51% of subcontractors report that retention monies are **rarely** routinely released on time, with a similar level of response from main contractors (50%). A further 30% of main contractors claim that retention monies to which they are entitled are automatically released **sometimes**. What is clear is the automatic release of retention money remains a huge point of contention within the sector.

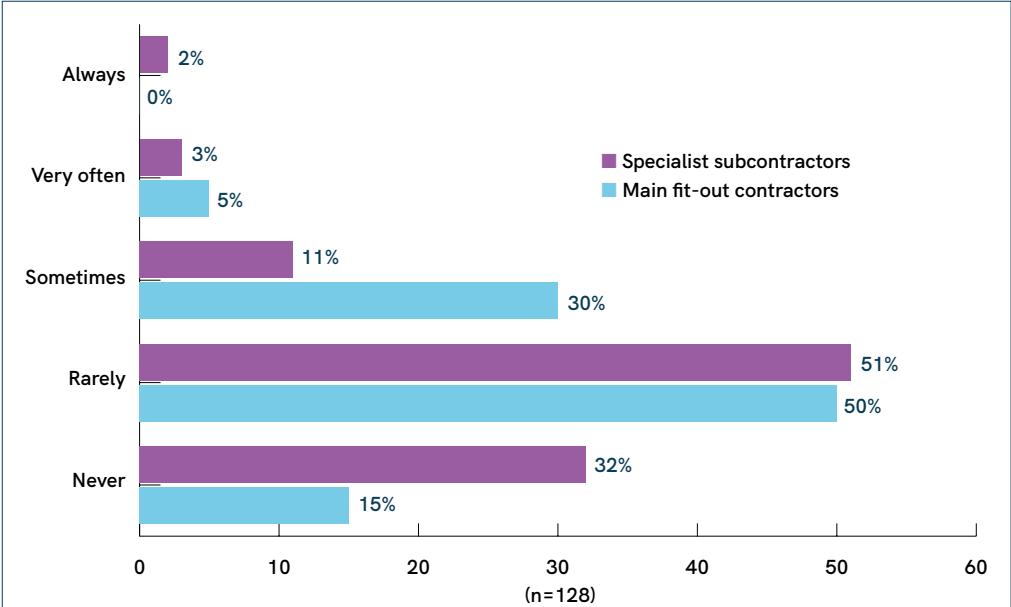


Figure 8.3 Source: University of Reading

**Release of retention monies**  
How often are retention monies automatically released at the contractually agreed time?

### 8.4 RECOVERY OF RETENTION MONIES

Equally contentious are the responses relating to how often respondents fail to recover retention monies to which they are contractually entitled (Figure 8.4). The responses suggest that main contractors are much more successful than subcontractors in ensuring recovery. 33% of main contractors report that they **never** fail to recover monies to which they are due; the corresponding statistic for subcontractors is 14%.

The other striking difference is that 35% of specialist subcontractors reported that they **sometimes** fail to recover retention monies, but that this was only true of 18% of main contractors. The explanation for the better performance of main contractors in pursuing retention monies probably lies in the resources they dedicate to effective credit control. In contrast, subcontractors typically do not possess the necessary capacity and/or expertise to ensure that retention monies are recovered. More pertinently, they contend that the necessary investment would be unlikely to realise the necessary level of return. For small firms such expertise is only required periodically, and hence it is perceived as an overhead.

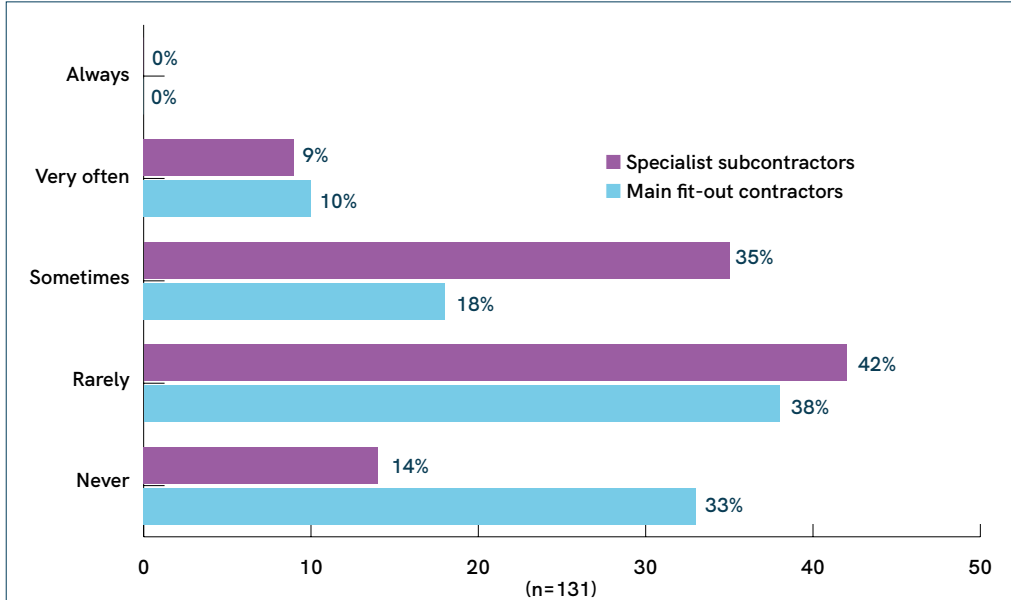


Figure 8.4 Source: University of Reading

**Failure to recover retention monies**  
How often do you fail to recover retention monies to which you are contractually entitled?

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# 8.5 ARE RETENTION PRACTICES IMPROVING OR GETTING WORSE?

The final question of the payment section explored the extent to which retention practices are currently improving or getting worse. The results are shown in Figure 8.5. In common with payment practices more generally, most respondents considered that retention practices broadly **stayed the same** over the preceding 12 months. This was true for 76% of main contractors and 74% of subcontractors. Taking other responses into account, the overall picture can be seen to be getting slightly worse for specialist subcontractors.

Reflecting on the results in respect of payment practices more generally, the overall message is that the sector is falling significantly short in ensuring equitable financial arrangements and certainty of payment. This is especially the case for specialist subcontractors who invariably lack the resources or negotiating power to offset poor payment practices. The survey responses are also notably much worse than those recorded in the recent survey by the Fair Payment Charter.

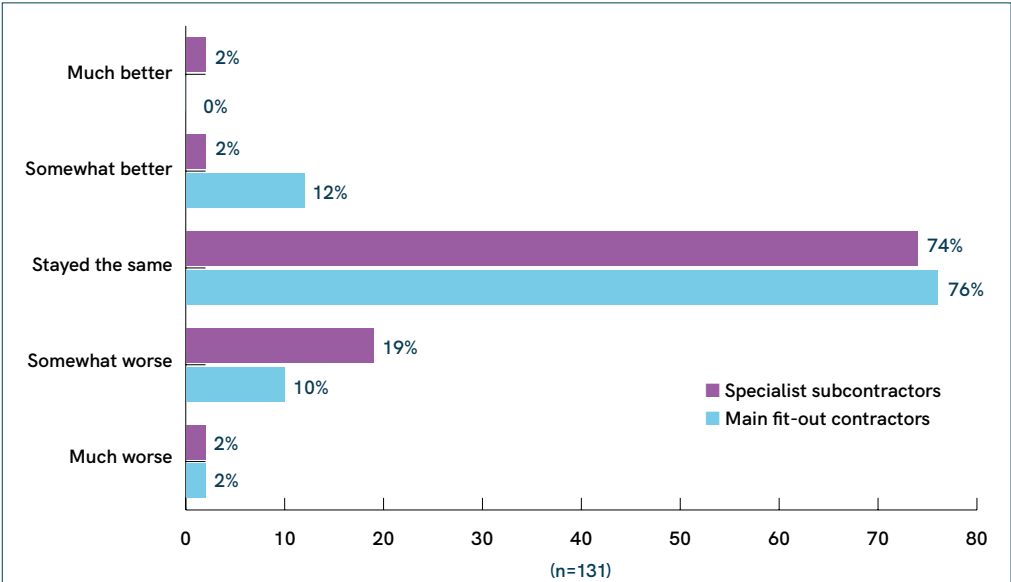


Figure 8.5 Source: University of Reading

**Retention practices improving or getting worse?**

Thinking about retention practices, how do you think current payment practices compare to those of 12 months ago?

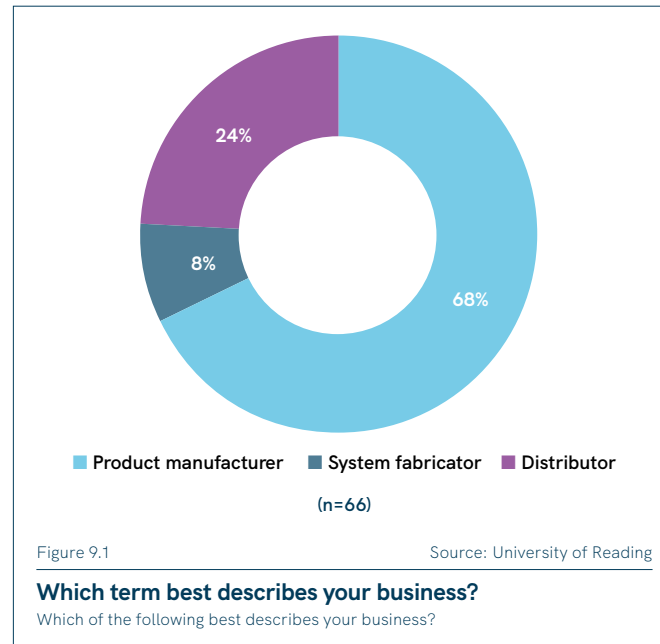


Reflecting on the results in respect of payment practices more generally, the overall message is that the sector is falling significantly short in ensuring equitable financial arrangements and certainty of payment.

# 9.0 PRODUCT MANUFACTURERS, SYSTEM FABRICATORS AND DISTRIBUTORS

## 9.1 PROFILE OF RESPONSES

The final section of the questionnaire targeted product manufacturers, system fabricators and distributors. The breakdown of respondents is shown in Figure 9.1. As previously, it is recognised that responding firms may fit into more than one category. They were however asked to select the term which best describes their business.



The final section of the questionnaire targeted product manufacturers, system fabricators and distributors.

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## 9.2 PROVISION OF DESIGN GUIDANCE

The respondents were thereafter asked to specify the frequency with which they provide different kinds of technical support. Figures 9.2a, 9.2b and 9.2c indicate the frequency with which the respondents provide detailed design guidance to architects, contractors and subcontractors. The profiles for all three groups are notably very similar.

Perhaps the most striking finding is the extent to which detailed design advice is routinely offered to subcontractors. This would seem to confirm the extent to which design responsibility is routinely assigned to subcontractors. Indeed, design guidance is provided slightly more often to subcontractors than it is to architects.

Suppliers also bemoaned the widespread lack of early engagement. They further contend that even when they are involved their efforts are often wasted (see Box 9.1).

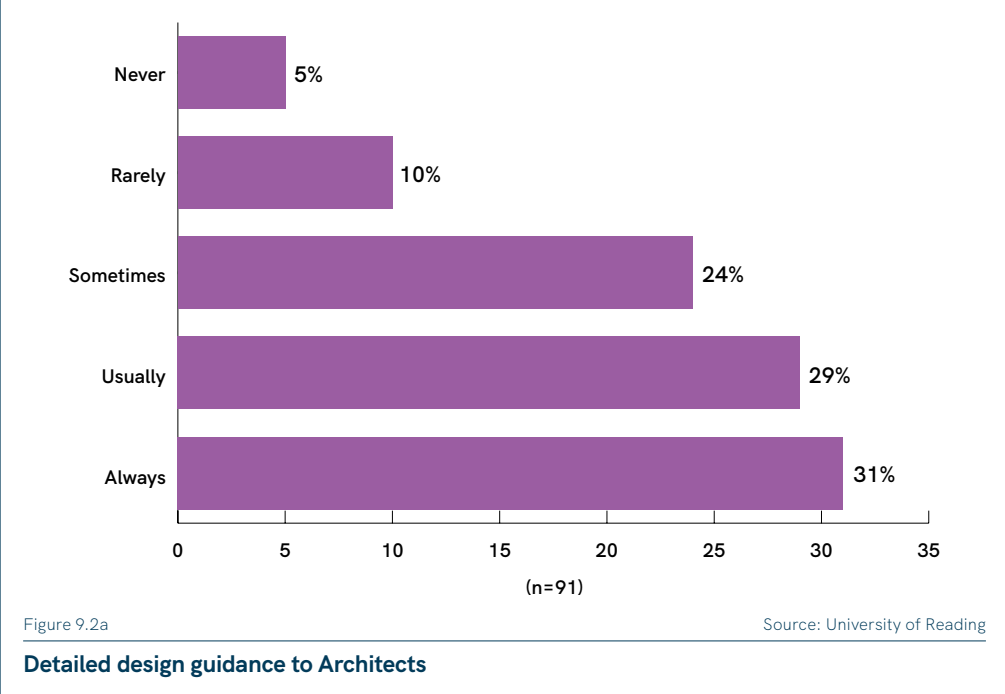


Early engagement with the supplier / product manufacturer has to happen more often. Once the contract has been awarded the main contractor takes far too long to engage with the supply chain. Their aim from the outset is to drive cost down instead of working with the specified and chosen suppliers at an agreed rate. Changing specification has to be one of the most frustrating situations for a product manufacturer. We often spend significant amounts of time progressing the design work with the specifier only for it subsequently to be abandoned. This is a huge hidden cost to product manufacturers. They need to commit earlier to preferred option and then stick with it. The endless changes work to the benefit of nobody.

Box 9.1

Source: Quote by anonymous respondent

### Frustrations from suppliers



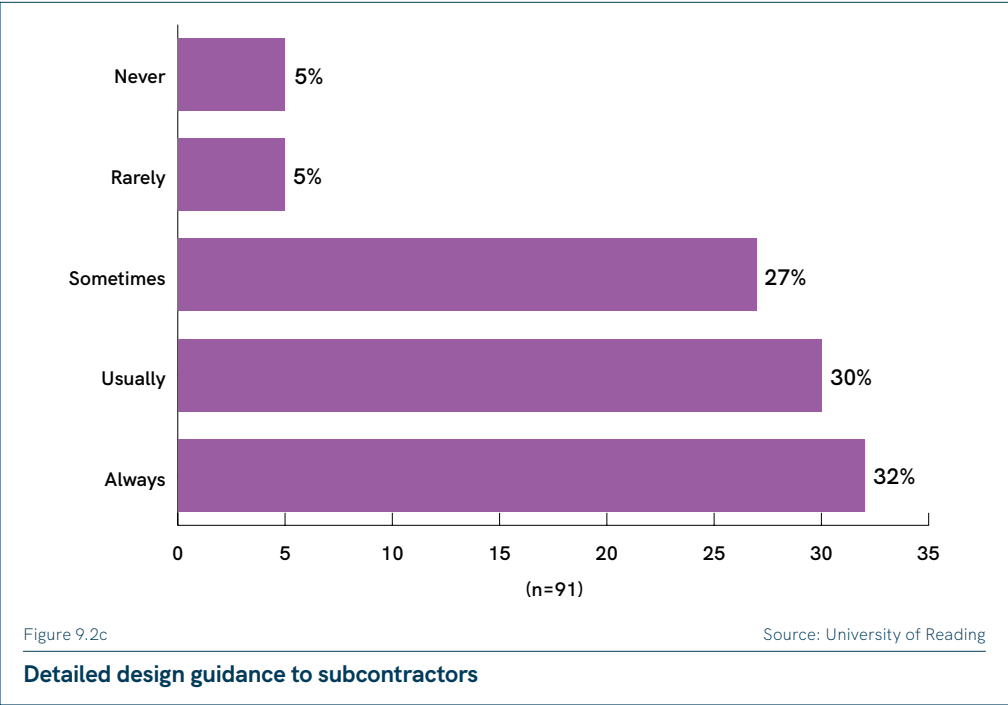
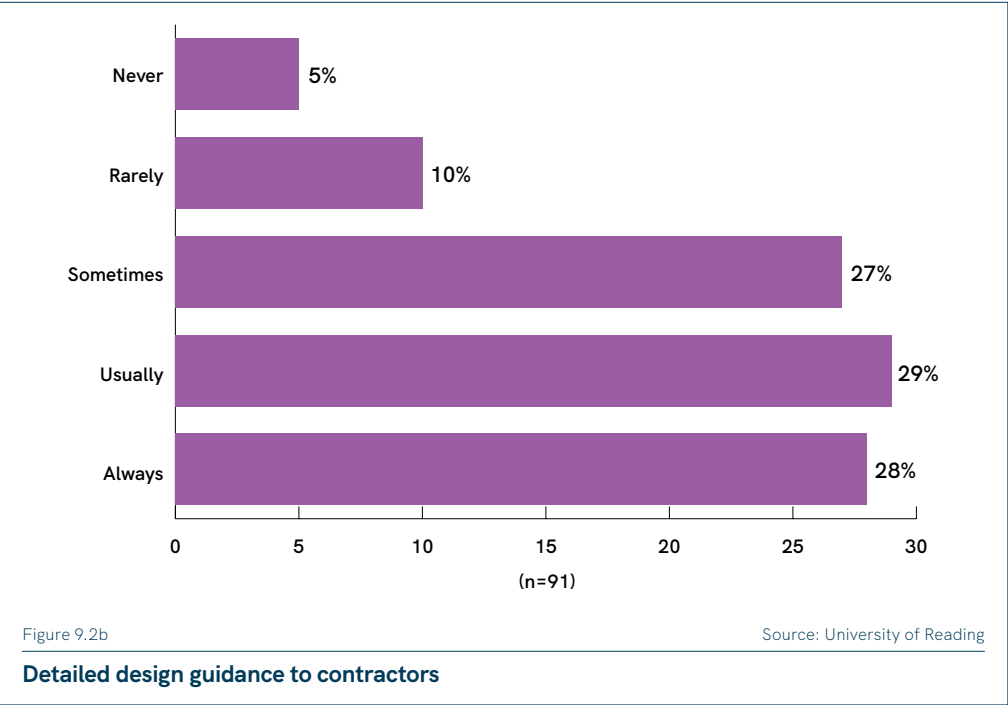
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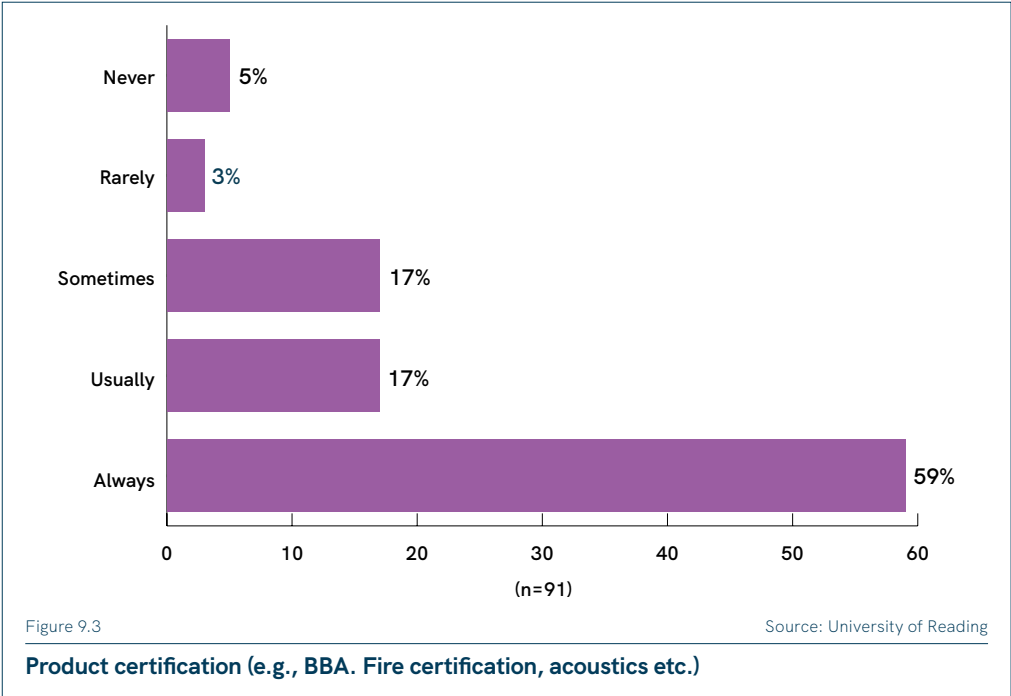
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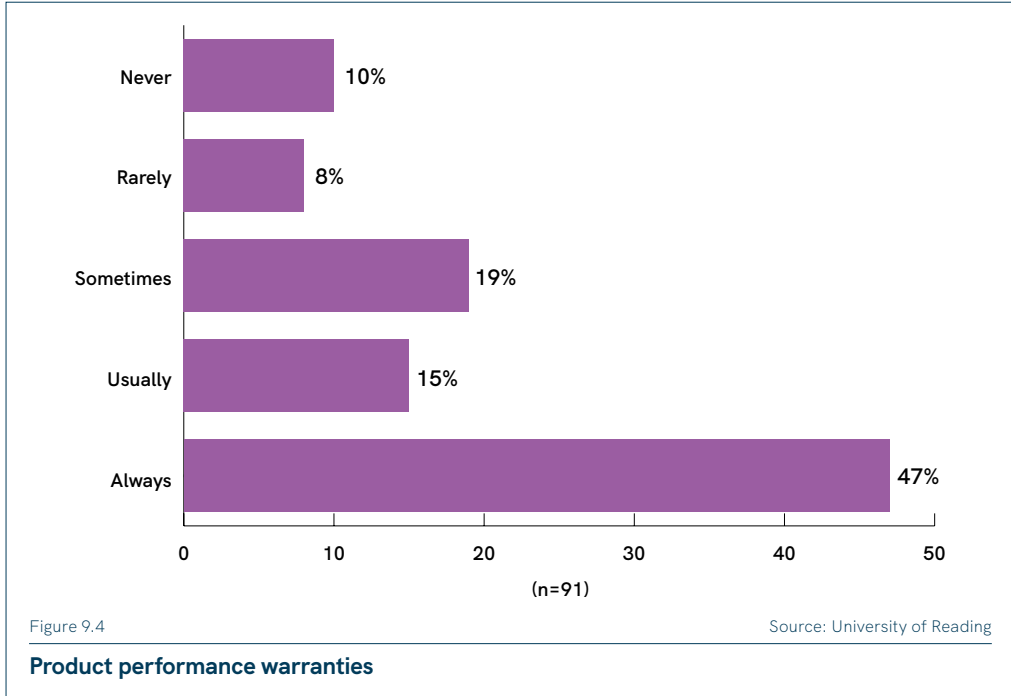
### 9.3 PROVISION OF TECHNICAL SUPPORT: PRODUCT CERTIFICATION

Figures 9.3 indicates how often the respondents are involved in the provision of technical support relating to production certification. This would seem to be a relatively common occurrence for many. The only surprise is perhaps that such advice is not offered more often. Some specifiers may of course not always feel they need such advice.



### 9.4 PROVISION OF TECHNICAL SUPPORT: PERFORMANCE WARRANTIES

Figure 9.4 shows the corresponding profile for the provision of technical support in respect of product performance warranties. The results are again as broadly might be expected. As previously, the only slight surprise is that technical support in respect of product certification is not provided more often.



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## 9.5 RECOMMENDATIONS OF APPROVED INSTALLERS

Figure 9.5 shows the frequency with which the respondents provide recommendations of approved installers. 24% of the sample claim to **always** offer this advice, with a further 26% claiming to offer it **sometimes**. However, 48% of respondents report making such recommendations **rarely** or **never**. The figures would undoubtedly be more positive if the sample was limited to product manufacturers. 65% are those claiming that they always recommend approved installers were product manufacturers. Nevertheless, there would seem to be a significant number of installers who are appointed without any recommendation from product manufacturers or system fabricators.

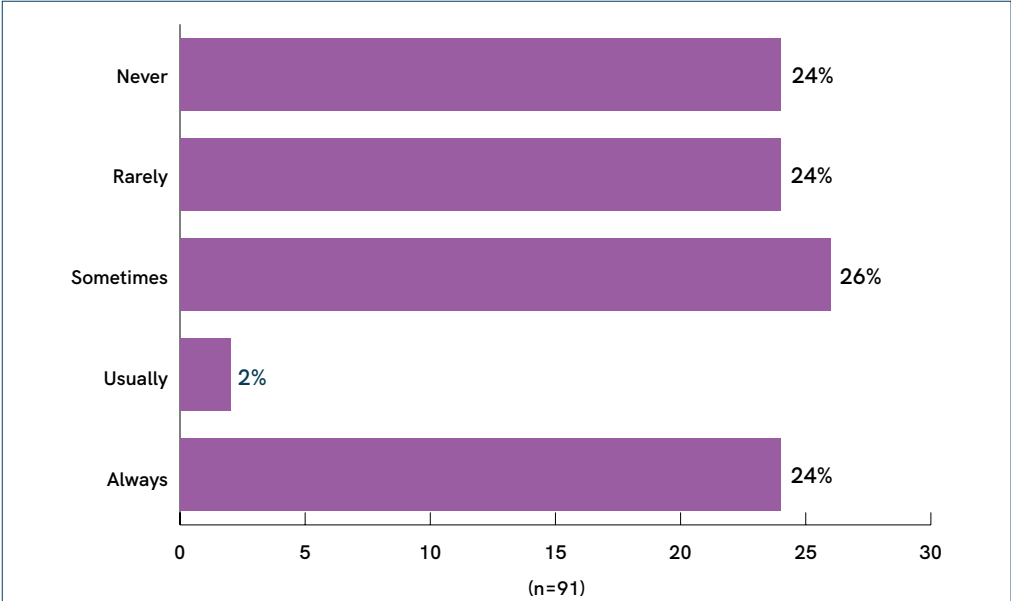


Figure 9.5 Source: University of Reading

Recommendation of approved installers

## 9.6 SITE VISITS TO INSPECT AND/OR ADVISE ON INSTALLATION

The respondents are notably more active in site visits for the purposes of inspecting and/or advising upon on site installation (Figure 9.6). Product manufacturers were again over-represented in those claiming to be **always** involved in site visits. Such occasional visits however cannot replace the need for effective supervision. Several interviewees also referred to declining standards of onsite supervision. Some even lamented the demise of the old-style clerk of the works.

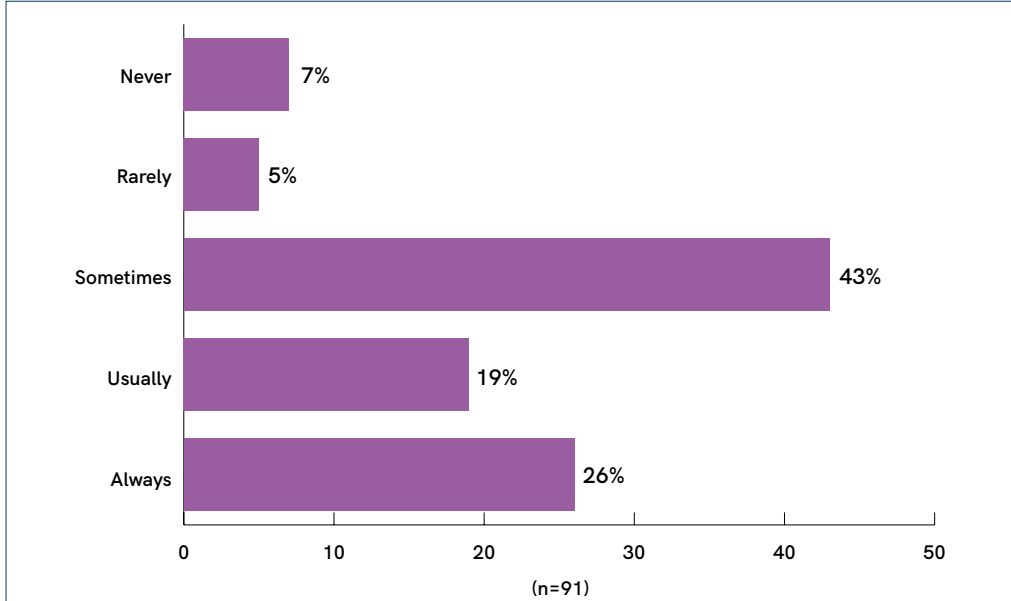


Figure 9.6 Source: University of Reading

Site visits to inspect and/or advise on installation

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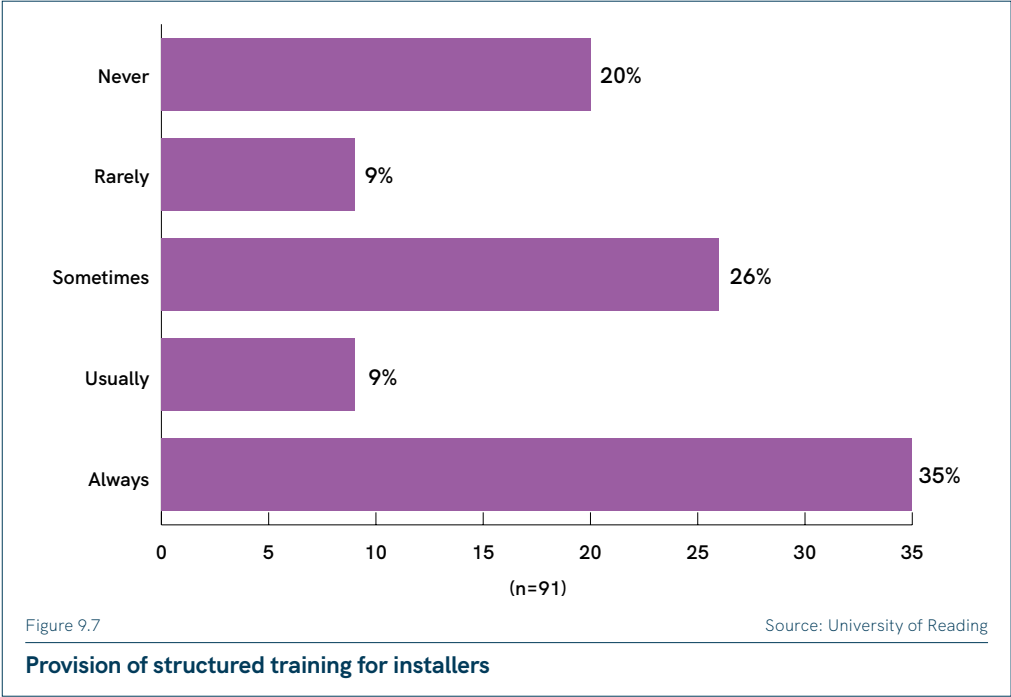
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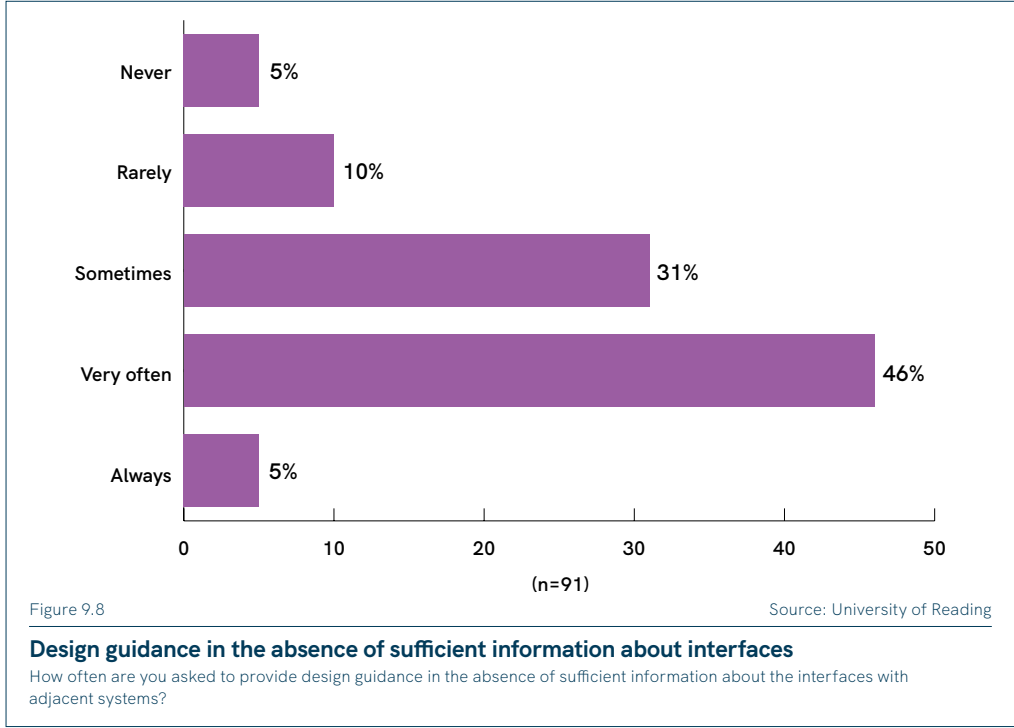
## 9.7 STRUCTURED TRAINING FOR INSTALLERS

The extent to which the respondents claimed to be involved in the provision of structured training for installers is indicated in Figure 9.7. 35% of responses claimed to be **always** involved in such training, with 9% **usually** involved. 79% of those claiming to be always involved in the provision of training were notably product manufacturers.



## 9.8 DESIGN GUIDANCE IN THE ABSENCE OF SUFFICIENT INFORMATION ABOUT INTERFACES

Of further relevance is the extent to which respondents are asked to provide design guidance in the absence of sufficient information about the interfaces with adjacent systems (Figure 9.8). It is well known that problems invariably occur at the interfaces between different systems, often corresponding with the interfaces between different subcontractors. Design responsibility for the interfaces between different systems is hence often especially blurred. Yet 46% of the sample **very often** find themselves asked to provide design guidance in the absence of sufficient information about the interfaces with adjacent systems, and a further 31% are asked to do so **sometimes**. This would seem to be an issue of considerable concern, not least in the context of the Building Safety Act.





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# 9.9 PRODUCT SPECIFICATION

Respondents were further asked about the extent to which their products are specified by architects, main contractors and/or subcontractors. They were also given the option of identifying some 'other' specifier. The resultant profile is provided in Figure 9.9. The profile is broadly balanced across the three main categories, once again indicating the extent to which parties other than the architect are actively involved in product specification. The 'other' category was notably only specified by 13 of the 57 respondents.

Respondents were further asked about the extent to which their products are specified by architects, main contractors and/or subcontractors.

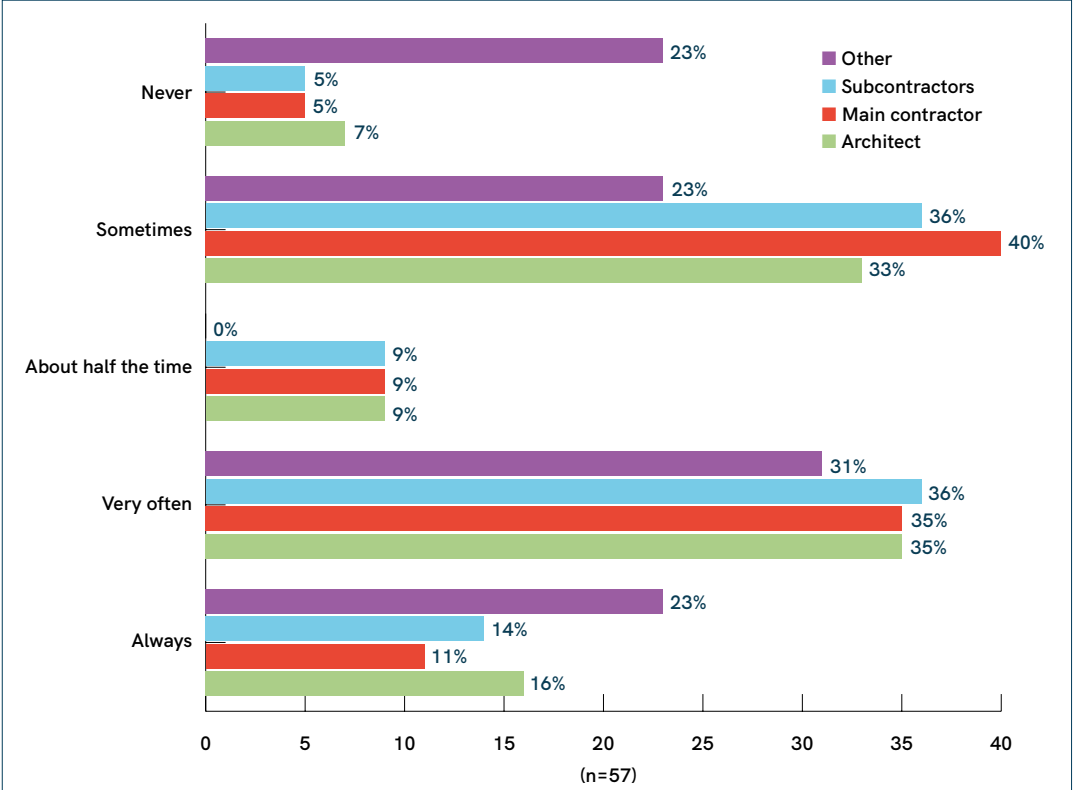
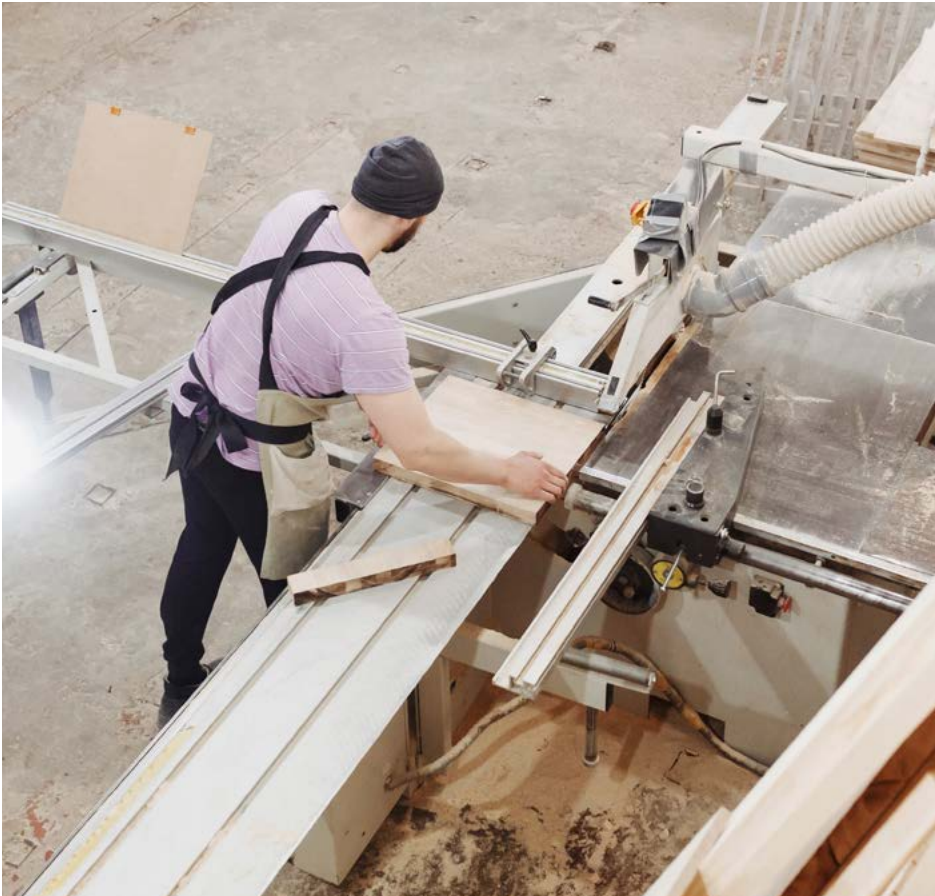


Figure 9.9 Source: University of Reading

Product specification by architects, main contractors, and subcontractors

How often are your products specified by the following?

# 10.0

## REFLECTIONS AND RECOMMENDATIONS

### 10.1 REGRESSIVE PROCUREMENT PRACTICES

The fit-out sector at large operates as an extremely competitive market with contractors often working under significant pressure to deliver in accordance with externally generated deadlines. Clients tend to be very commercially driven and hence crucially focused on delivery in accordance with a predetermined cost plan. Yet there is significant variability in the adopted approaches to procurement such that different firms often have very different experiences, sometimes even on a project-by-project basis. Leading-edge firms within the sector are often able to compete on the basis of service delivery with high levels of client satisfaction. Such firms pride themselves on their ability in problem-solving. They are further able to work repeatedly for the same clients who respect and value their expertise in project delivery. Yet this is not the reality for most firms within the fit-out sector.

Many subcontractors within the sector routinely experience regressive procurement practices. Respondents variously complained about 'subbie bashing' and 'outright bullying'. Fit-out firms also frequently suffer from poor practices in terms of payments and retentions. Especially insidious is the often-imposed requirement to provide retrospective reductions to the submitted tender price. This is euphemistically described as 'value engineering'. The tendering process is characterised by many as a means of ensuring that the submitted prices meet a predetermined budget. Several interviewees further contend that Tier 1 contractors adopt regressive procurement practices primarily as a means of preserving their own profit margin. Pre-existing delays and cost overruns are seen often to accumulate to create additional pressures for fit-out subcontractors.

However, it is important to emphasise that the overall picture is by no means uniform. Many interviewees were equally keen to cite examples of good practice. Such examples tended to

come from situations where fit-out contractors work directly for end users. The respondents were also eager to emphasise that some Tier 1 contractors are better than others. Much depends on whether the Tier 1 contractor is making a profit on the project in question.

Of further relevance is that many competing firms ultimately rely on a shared pool of contingent labour. They hence struggle to maintain a unique source of competitive advantage which cannot easily be replicated by others. This inevitably weakens their negotiating hand in comparison to those who are seen to possess distinctive capabilities. Hence such firms have little option other than to compete based on cost. But this is not the way they would choose to operate if they were given a choice. The widespread reliance on contingent forms of labour is likewise an issue of commercial reality rather than an issue of preference. To invest in a directly employed workforce would render many such firms uncompetitive. The broader problem is the current mode of competition is institutionalised such that firms struggle to compete on any other basis. Responsibility in part must reside with those who continue to advise clients that their interests are best served by forever seeking to off-set contractual risk onto others. The same tendency towards off-setting risk pervades throughout the supply chain.

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## 10.2 RISK DUMPING

The systemic tendency within the sector to offset risk to the supply chain is commonly referred to as ‘risk dumping’. Too often, this results in contractual risk being assigned to relatively under-capitalised subcontractors. Such firms are hence ill-placed to carry the associated liabilities and often lack the necessary professional indemnity insurance. Risk dumping is widely implemented through the inclusion of onerous clauses in supposedly ‘standard’ forms of contract. Indeed, some argue that the very concept of a standard form of contract is to all extent and purposes almost dead.

Subcontractors often find themselves under significant pressure to sign amended forms of contracts in the absence of any legal advice. Many argue that they have little choice other than to accept onerous clauses if they want to secure the work. Otherwise, the contract is simply awarded to one of their competitors. The ability of any given subcontractor to contest such clauses is crucially dependent upon their negotiating power. Some fear that if they complain too voraciously about unfair contract clauses, they risk being labelled as adversarial with potentially adverse consequences for their ability to secure future work. These are the realities with which many subcontractors are faced on a day-to-day basis. It is difficult to reconcile such practices with frequently espoused aspirations for modernisation.

## 10.3 COLLABORATIVE WORKING: A CONFINED OPPORTUNITY

The Construction Playbook (HM Treasury 2020; updated 2022) places great emphasis on collaborative working. This is likewise true for the subsequent private sector playbook entitled Trust and Productivity (Construction Productivity Taskforce, 2022). Yet many firms within the supply chain are denied the opportunity to engage collaboratively with the clients for whom they work. They are inherently constrained by the procurement opportunities with which they are presented. This is especially the case for subcontractors who are seldom given the opportunity to compete on anything other than cost. They are further often held in little respect by those for whom they work. Their bargaining power is limited by the perceived ease with which their expertise can be sourced from elsewhere.

The responsibility for collaborative working is often held to be shared with clients. Yet many clients lack the necessary capacity for meaningful engagement with the supply chain. Despite the exhortations of the Construction Playbook, most public sector clients have long since outsourced their expertise in construction procurement to the consultancy sector. Private sector clients likewise rarely retain significant inhouse expertise, preferring instead to rely on the advice of external consultants. Such consultants are invariably engaged on fixed-term appointments, and hence tend towards short-term imperatives. The espoused orientation towards collaborative working also sits ill-at-ease with the recognised principles of supply chain management. Clients inevitably prioritise relationships with those suppliers upon whose expertise they most depend. Others are deliberately kept at arm’s length. The ethos of collaborative working is hence applied selectively in accordance with strategic priorities.

Similar tendencies prevail throughout the supply chain. Tier 1 contractors have long since relied almost entirely on subcontractors. The prevailing logic is to seek collaborative relationships with the subcontractors upon whom they most depend. In contrast, they have little incentive to invest relational capital in those whose expertise can easily be replicated by others. But this categorically not does justify crude bullying tactics. All contracting parties deserve to be treated with fairness and respect irrespective of their negotiating power. Many subcontractors would readily trade vague aspirations of collaborative working in return for a modicum of respect. Given the widespread occurrence of highly regressive procurement practices it is hardly surprising that fit-out subcontractors are often cynical about collaborative working.

Notwithstanding the above, many clients remain stubbornly cautious of collaborative relationships due to concerns about accountability. They hence prefer to make procurement decisions against criteria which are more easily measurable. Such attitudes remain deeply rooted despite numerous recurring exhortations to the contrary. Even when clients negotiate framework agreements with preferred suppliers there are always alternative voices advocating the need to test the market to ensure value for money. Sooner or later such voices prevail.

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# 10.4 SQUEEZED BY THE ACCUMULATED FAILURES OF OTHERS

A broader issue of concern relates to the way Tier 1 contractors have become increasingly divorced from the physical activities of construction. Several interviewees cited this trend as an explanation for a perceived decline in expertise in construction planning and scheduling. Some argue that Tier 1 contractors have largely given up on the management and coordination of construction in favour of arm’s length contract trading. Too often this results in subcontractors working to unrealistic timeframes in poorly managed work environments. The evidence of this failure lies in the unrealistic lead times within which supply chain firms are expected to mobilise.

Fit-out contractors are also invariably squeezed by the accumulated failings of others. This relates to issues of both schedule and budget. Accumulated overspends and delays from the preceding activities are too often allowed to impinge upon the circumstances within which fit-out work is delivered. Issues of further concern include the cascading of responsibility for design detailing – often in the absence of fair and appropriate recompense. Deviation from allowable levels of tolerance can also accumulate over time as a project unfolds. This can often result in subcontractors installing interior systems in spaces which exceed accepted dimensional tolerances. Tight delivery deadlines and punitive penalties for delay exacerbate the challenges and directly impinge upon productivity.

**Fit-out contractors are also invariably squeezed by the accumulated failings of others. This relates to issues of both schedule and budget. Accumulated overspends and delays from the preceding activities are too often allowed to impinge upon the circumstances within which fit-out work is delivered.**

# 10.5 PRODUCTIVITY IMPROVEMENT BEGINS WITH PROCUREMENT

Notwithstanding the above, there is undoubtedly a need for many fit-out subcontractors to become more professionalised in their approach. Some would argue that in many cases they continue to be their own worst enemy. There is seemingly little excuse for subcontractors not reading the contract prior to signing it, or otherwise disregarding the allocated risks. This tendency is especially damaging given the need for a greater degree of clarity in the allocation of design responsibilities as required by the Building Safety Act. The widespread reliance on traditional procurement with contractor’s design crucially depends upon contracting parties understanding and accepting their contractual liabilities. Yet subcontractors argue that if they do not sign the contracts with which they presented then someone else will. They are hence given little opportunity to invest in more professional ways of working. This is indicative of the race to the bottom at its most destructive.

Such behaviours are ultimately best understood as symptoms of a broader systemic failure. Part of the solution would be to re-energise efforts in support of standard forms of contract. This would help ensure that different parties better understand their respective responsibilities. Standard forms of contract were deliberately designed to ensure equity and fairness between contracting parties. They also help ensure a shared set of expectations and a greater consistency of approach. Yet previous calls to this effect have had little impact. Firms within the sector have hence become locked into destructive forms of competition with little opportunity to invest in productivity improvement. In essence, Tier 1 contractors have effectively delegated the risk of poor productivity to the supply chain.

All methods of improving productivity require a degree of up-front investment from those involved (Gruneberg and Francis, 2019). This is especially true for those which require new capital equipment, but also for those which rely on innovative ways of working such as digitalisation. Productivity initiatives also invariably require the recruitment of new specialist members of staff and/or extensive levels of training. Even then there are few guarantees that the adopted approach will realise predicted returns within any given pay-back period. SMEs are hence especially ill-placed to make the necessary investments in productivity improvement. Even if they could raise the necessary finance, such firms would suffer punitive interest rates in comparison to firms with greater capital assets. The risk of achieving the required rate of return is further increased due to the absence of demand certainty and the vagaries of the tendering process. There is therefore a strong argument that meaningful improvement in productivity is dependent upon the adoption of more progressive procurement practices.

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## 10.6 RECOMMENDATIONS

### Preamble

The described research set out to explore current procurement practices in the UK fit-out and interiors sector. The findings reveal significant variability in respondents' experiences. Many fit-out contractors operate very successfully based on repeat work for prestigious clients. But the reality for others is very different. Some clients are inevitably better than others in terms of their procurement practices. The same variability in approach continues throughout the supply chain. There are undoubtedly many things that firms within the sector could do differently, but they are heavily constrained by the procurement approaches within which they operate. This is especially the case for those who work as subcontractors.

The variable approaches to procurement are best explained by the dynamics of competitive markets. Firms with specialist skills which cannot be replicated by others tend to be more highly valued by the clients for whom they work. They are hence deemed to be more deserving of collaborative approaches. Yet firms whose capabilities are more easily sourced from the marketplace are rarely given the opportunity to compete on anything other than cost. This is true for some main contractors but is especially true for those who operate as subcontractors. Such firms are invariably denied the opportunity for early engagement due to an overriding emphasis by their clients on procurement at minimum cost. Hence projects fail to benefit from the best available expertise in construction scheduling and planning. Similar arguments prevail throughout the supply chain.

The above diagnosis goes some way towards explaining why previous exhortations in favour of collaborative working have had limited impact. The same is true for the frequent exhortations in favour of culture change. The reality is that these ideas are applied selectively in accordance with the negotiating power of the contracting parties. Clients also invariably possess limited capacity to engage in collaborative relationships. They thereby focus attention on prioritised areas based on perceived risk. Procurement based on low-cost tendering thereby too easily becomes the default option. Framework approaches potentially offer an improved basis for collaboration, but rarely extend throughout the supply chain. They are also invariably time limited. Sooner or later, someone decides there is a need to test the extent to which the services provided are competitive as measured against the marketplace.

Much has recently been made of the call for a reset in relationships between public sector clients and the supply chain as outlined in the **Construction Playbook** (HM Government, 2020; updated 2022). But there is little within the Playbook on procurement which is substantively new; the same core messages have been repeated for decades. Meanwhile clients have become substantively leaner, with progressively less expertise and ever fewer resources. Hence they become much more reliant on external consultants and instrumental techniques such as the Value Toolkit (Construction Innovation Hub, 2022).

Similar arguments apply to private sector clients. Current best practice is outlined in the **Private Sector Construction Playbook** (Construction Productivity Taskforce, 2022). The advice offered is well-intentioned, but similar exhortations in the past have had limited traction in practice. The key listed recommendations in terms of construction procurement are as follows:

- Form effective partnerships;
- Adopt portfolio and longer-term contracting;
- Involve the supply chain early;
- Allocation risk fairly and appropriately;
- Pay fairly.

The challenge is how best to translate the above generic recommendations to ensure they are consistently applied in the fit-out and interiors sector. This requires change not only on the part of clients, but also throughout the entire supply chain. The targeted recommendations which follow focus not on grandiose calls for 'culture change', but on the need for practical action. Each of the bullet points listed above are addressed in turn as they relate specifically to the fit-out sector.

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## Targeted recommendations for the fit-out sector

- **Form effective partnerships:** procurement approaches based on partnerships are likely to be forever limited to those suppliers judged to be of strategic importance. However, there is no justification for the continued use of non-standard contract clauses which unfairly offset risk onto the supply chain – often onto those who are ill-placed to manage it, or to insure themselves against it. This applies to risk associated with time and cost, but it especially applies to risk associated with design. But ultimately the issue is not only about the effective management of risk. The reality is that non-standard clauses needlessly create tension and mistrust from the outset. The most effective practical step would be to adhere to the recognised standard forms of contract as long since recommended by Latham (1994). The available standard forms are specifically designed to ensure that the allocation of risk is fair and transparent. Transparency in accordance with expectations is important in terms of ensuring the allocation of design responsibility is well understood by all parties. For the sake of clarity, the term ‘standard contract’ should not be applied to any contract that has been amended.

### RECOMMENDATION 1

The sector should ban the use of non-standard forms of contract. The Construction Act should be amended and aligned with the principles of the Building Safety Act to prevent indiscriminate risk dumping. The key driver is to ensure clarity in the allocation of design responsibility.

- **Adopt portfolio and longer-term contracting:** such arrangements tend to be short-lived, and the advantages are too often unequally distributed among those involved. Rarely do they include participants from throughout the supply chain. Clients ultimately have little incentive to engage in longer-term arrangements with suppliers whose expertise can be sourced from elsewhere. Contractors are further well advised not to become too dependent upon single clients. Despite these limitations, multi-project framework agreements provide a greater opportunity for early supply chain engagement. They also bring greater certainty in terms of an ongoing pipeline of work. This in turn enables increased investment by the supply chain in technology, skills and new ways of working. In the longer term, this additional investment will benefit all parties through increased productivity. However, framework arrangements currently only account for a very small proportion of the market. Engagement through frameworks is especially unusual for subcontractors who are most often required to compete based on single-stage tendering. The continued focus on low-cost tendering serves to scatter work non-strategically and thereby reinforce negative behaviours. There is also a significant cost associated with the recurring insistence on single-stage tendering. These costs are replicated throughout the supply chain placing an unnecessary burden on all involved. The level of waste increases with the number of firms who are asked to bid for each work package. Especially pernicious is the widespread practice of pressurising subcontractors to retrospectively reduce their submitted tender price. This is not the way to organise a modern industry, especially when cost benchmarks for key trades are so readily available.

### RECOMMENDATION 2

There is significant scope for the increased adoption of multi-project negotiated frameworks. Such frameworks should extend throughout the supply chain to include a preferred network of subcontractors and suppliers.

### RECOMMENDATION 3

The default approach in cases where there is insufficient certainty about future work should be two-stage tendering. In both cases, the minimum lead times for subcontractors should be agreed at the same time as the outline schedule of rates.

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- **Involve the supply chain early:** the principle of early supply chain involvement remains compelling. However, the recurring tendency to avoid appointing contractors and suppliers until the last possible moment mitigates the potential advantages. Meaningful involvement is best ensured following contractual appointment on fair and equitable terms. This facilitates upfront planning and the agreement of key procurement milestones. At present, there is too much emphasis on delaying appointments until the latest date possible with a view to ensuring the best price. This is ultimately a false economy which acts against the interests of all parties. Needlessly delaying contractual appointments reduces the available time for essential activities such as design development, detailed construction planning and the assessment of buildability.

### RECOMMENDATION 4

Early involvement of the supply chain depends upon timely contractual appointments. Key procurement milestones should be scheduled at the earliest possible date and contractual appointments should not be needlessly delayed.

### RECOMMENDATION 5

Irrespective of the adopted procurement approach, the expectation should be that the subcontractors and suppliers named in the initial tender will be those to whom the work is awarded. Clients could feasibly ascertain the extent to which main contractors consistently work with stable delivery teams. Relevant metrics could usefully be included in PQQs.

### RECOMMENDATION 6

The key message from the data is that projects consistently overrun often through no fault of the appointed contractor. More emphasis needs to be given in the procurement process to the involvement of subcontractors in front-end construction scheduling and planning. Clashes and overlaps between trades remain far too common due to poor front-end planning.

- **Allocate risk fairly and appropriately:** onerous contractual terms and liabilities often lead to project failure, especially when risks are allocated to suppliers in excess of their financial capabilities and ability to secure adequate insurance. The fair and appropriate allocation of risk is best achieved using the recognised standard unamended forms of contract. The key issue is to ensure transparency in terms of the allocation of design responsibility and to ensure that all parties are aware of their obligations. This is best achieved through the phased use of design responsibility matrices to be signed off by all contracting parties. The Building Safety Act (2022) requires transparency in the allocation of design responsibility. Subcontractors and suppliers have a responsibility to ensure that they are aware of the risks and liabilities they are taking on, and for arranging appropriate professional indemnity insurance.

### RECOMMENDATION 7

There is an urgent need for an industry-wide training programme in respect of design liability in the wake of the Building Safety Act. A move towards project insurance would also do much to ensure that risks are clearly thought through from the outset and managed throughout the project. Training might also usefully include the requirement for design responsibility matrices to be signed off by all parties at each stage of design development.

- **Pay fairly:** the findings suggest that progress in respect of fair payment practices remains hugely problematic despite the recommendations of the Latham report (1994). The issue of retention monies also remains highly challenging. Of additional concern is the difficulty of ensuring fair payment for variation orders. Main contractors invariably invest significant resources to chasing outstanding payments. These resources could be better utilised for the purposes of ensuring improved performance. SMEs are often unable to justify such investment. The Prompt Payment Code masks what is happening on the ground with a single simplistic measure. Issues of widespread concern include the imposition of retrospective price reductions and the frequent insistence on discounts in return for prompt payment.

### RECOMMENDATION 8

There is an urgent need to progress the recommendation of the Private Sector Construction Playbook (Construction Productivity Taskforce, 2022) that best practice in accordance with the Construction Act (2011 amendment) should be embedded in all construction contracts. Such requirements should not be subject to amendments.

### RECOMMENDATION 9

There is also an urgent need for action on project retentions. These should be automatically released on every work package immediately following practical completion. A longer-term goal would be to extend the use of project bank accounts to the private sector such that members of the supply chain routinely receive payment within five days or less.

Finally, it is appropriate to offer a summary response set against each of the specified research objectives:



To evaluate the extent to which current approaches to procurement set an appropriate tone for the construction project

**3/10**  
Must do better



To assess progress on the role of procurement in encouraging the integration and certification of design responsibilities

**3/10**  
Much work still to be done



To establish the frequency with which supposedly standard forms of contract are amended

**2/10**  
Disaster zone



To determine the extent to which prevailing approach to procurement ensure equitable financial arrangements and certainty of payment

**3/10**  
More effort needed



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