

ESPO MANAGEMENT COMMITTEE – 21 NOVEMBER 2019

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Report.

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 19 September 2019.

Overall Financial Performance

- Overall financial performance to September 2019 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	26,432.5		26,798.6		25,861.6	
DIRECT	9,613.5		9,117.7		9,959.3	
GAS	6,092.8		5,754.2		6,324.7	
CATALOGUE ADVERTISING	735.7		647.3		638.6	
REBATE INCOME	3,383.1		2,414.1		3,109.4	
MISCELLANEOUS INCOME	159.2		76.2		42.9	
TOTAL SALES	46,416.8		44,808.1		45,936.3	
TOTAL MARGIN	13,289.7		12,212.6		12,449.1	
TOTAL EXPENDITURE	9,769.0	21.0%	9,640.0	21.5%	9,160.7	19.9%
As % of Total Sales Excluding Gas		24.2%		24.7%		23.1%
TRADING SURPLUS	3,520.8	7.6%	2,572.6	5.7%	3,288.3	7.2%

- Overall trading surplus is ahead of budget by £948k and last year by £232k. The variance to budget is caused by the early delivery of some one-off outstanding rebate income from Crown Commercial Services, this was budgeted for later in the year. It is expected that the variance will narrow through Q3 though we remain cautiously optimistic that we will meet our full year surplus target and possibly slightly exceed it.
- Total sales at £46.4m are ahead of budget by £1.6m.
- Store sales £0.4m adverse to budget and £0.5m favourable to last year. The performance during peak has been strong both in terms of value and customer service. It is anticipated that our sales compared to last year will narrow in Q3 as exercise books were shipped later last year. This has not occurred this year hence there will be a timing difference to the income. By the end of November we will have a truer year on year comparison.
- Direct sales are £0.6m ahead of budget YTD as a result of strong MOD sales.
- Rebates are £1.0m ahead of budget and £0.3m ahead of last year. The key comparison is to last year.
- Eduzone sales are encouraging with the rolling 12 month sales now over £800k and growing. Overall profitability year to date is within £12k of budget and growing. We expect the full year result to be in line with budget.

The balanced scorecard is attached at Appendix 1.

ESPO Operational Progress

3. In September ESPO processed £4.605m of customer orders making 24,766 customer deliveries. Warehouse picking was performed at a rate of 32 lines per hour, in line with the target of 32 lines per hour. The error rate detected by QA was 1% which is an improvement on the budget of 3%. The YTD average order value for stock orders was £193.78 which is £11.94 higher than this time last year.
4. Operational and supply chain YTD costs were £5.520m against a budget of £5.352m, which is £168k above budget. Warehouse costs YTD have been adjusted to show a net overspend on budget on agency staff, due to increased peak sales activity in June and July with posting of agency invoices in September that relate to July and August.
5. Unbudgeted external storage costs have been incurred in September due to the lack of warehouse space in ESPO's Leicester depot. Distribution costs were impacted by the unbudgeted vehicle renewal provision and repair and maintenance costs. Eleven large goods vehicles, that have been replaced, have been retired and sent to auction and will be shown in miscellaneous income. Certain one-off training and premises costs occurred in the first quarter which will balance out over the course of the financial year. Total

operational costs as a percentage of stores sales were 21% in line with budget.

6. In the busy back to school period the customer services team processed 33,342 customer orders valued at £4.04m. Online and electronic converted orders in September were at 53.1%. Direct deliveries valued at £1.678m are being managed from suppliers to customers. Across Customer Services, Directs and the Catalogue Admin the teams handled 13,648 telephone calls. The abandon call rate was 5.6% with an average waiting time of 18 seconds. ESPO's FEEFO customer service rating was 88%.
7. The Customer Experience Manager has started a series of improvement plans designed to improve the customer journey. There is now one customer facing team under single management with a series of planned training events to create a cohesive team capable of resolving customer queries in one pass and reducing the number of touch-points within the organisation. The weekly trading meeting has been combined with customer experience to ensure that progress is monitored and managed.
8. The stock optimisation team maintained product availability at 98.72% with 123 lines out of 9,871 temporarily unavailable; stock value was £6.783m with a stock turn of 6.59. ESPO has had to rely on external storage to manage its stock holding requirements to meet its sales commitment. This includes exercise book stock held at KCS in Maidstone, at the port of Felixstowe and by its printer in Poland. A long term strategic solution to address this space requirement is currently being developed.
9. Facilities management in September comprised of the introduction of new signage to guide both delivery drivers and visitors to the site; replacement doors in the goods-in and yard access areas and the recommencement of the mesh-decks installation into the bulk storage racking. Two types of powered pallet trucks are being trialled for use on large goods vehicles to help drivers move heavy loads into customer's premises.
10. There were three accidents in August. An agency worker sustained a small cut to the forearm after cutting a box towards them self. Induction training will now include the safe use of safety knives. A warehouse picker sustained an injury to his ankle after the pallet truck he was pulling struck him on the leg. Root cause appears to be user error with no further action required. A member of the marketing team cut their finger whilst putting up an exhibition stand. No further action required.
11. ESPO is investing in staff training as a means of managing health and safety risk. Eleven staff completed a three day first aid at work qualification. The H&S manager recorded observations of fork lift truck drivers in line with HSE guidance. Fork lift truck assessor training has been undertaken by four supervisors which will enable them to carry out observations and arranged training if required. A new role of driver trainer is being recruited which will be used to strengthen the delivery of H&S processes throughout the driver resource. First day induction training for warehouse staff has been updated

with new forms to ensure consistency across all shifts. A driver specific eye test for staff driving more than 2,500 business miles p.a. has been added to the Vision Express account. An LCC audit on health & safety is planned for November.

12. The catalogue portfolio for 2020/21 has been agreed. This includes the Primary and Secondary main catalogue; Early Years; Eduzone; Corporate; ETL Corporate. Through this portfolio ESPO will be able to expand its offering into the corporate market.
13. The pricing strategy for each series of catalogues is being formulated and will be agreed by the Leadership Team. Following a tender exercise a printer has been selected for the 2020/21 main catalogue. The circulation list data for new catalogues has been refined to ensure that the correct catalogue is sent to the appropriate customer. This data is now owned by the Customer Experience Manager. A proposed publishing timetable has been created to ensure that the new catalogue portfolio is managed in line with business requirements. The team is looking to finalise supply arrangement for exercise books for the period up to March 2021.
14. The ESPO SmartBuy range is being re-vamped with a new design and colour palette and will be rolled out by ESPO's suppliers. Year to date supplier funding for catalogue is at £735k which is 13.7% above budget. Finally the new products added to the 2019/20 catalogue have achieved YTD sales of £3m.

Staffing

15. Sickness absence continues to be well managed and our overall levels have now reached record lows. Managers continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner and ensure these reductions are sustained.
16. The completion rates for our mandatory training courses have maintained their high level following the recent emphasis that was recently placed upon them over the summer. Opportunities for further development were scheduled for the half term break in October, with a particular focus being provided on Equality & Diversity for those staff members who either undertake deliveries or work in the warehouse. This has resulted in all of the mandatory training courses now being above our target completion rate.
17. Further sessions of the ESPO corporate induction were also arranged for October to ensure that new employees receive all the necessary knowledge about the organisation. This session covers topics such as our values, structure and support available for them to succeed in their role.
18. The results of the staff survey have now been analysed, and following a healthy response rate of 52% some clear positive feedback can now be evidenced. This includes 86.5% of responses feeling that ESPO is a good employer, with 83% also confirming that they felt trusted to carry out their job

effectively. There was also good feedback regarding management practices, with 84.5% stating that their manager supports flexible working and 78.6% stating that their manager values their ideas and opinions. Development areas however are focussed on change, especially around communication and the reasons why changes are necessary. This area will continue to be developed over the future to ensure that staff remain engaged with the progress being made by ESPO.

19. This progress also includes areas such as Customer Services, where ESPO are continually looking at how we can improve the service we provide. Following the recent appointment of a Head of Customer Experience, our customer service teams are being reviewed to ensure that they continually meet changing needs. It is expected that following this review, changes will be implemented early in 2020 so that we can build upon our current successes and meet our growing demand.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register.

20. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2.

Resources Implications

None arising directly from this report.

Recommendation

Members are asked to note and support the contents of this report.

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

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