

ESPO MANAGEMENT COMMITTEE – 4 MARCH 2020

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

- The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 21 November 2019.

Overall Financial Performance

- Overall financial performance to December 2019 is outlined below:

Summary P & L

COMBINED PRELIMINARY RESULTS	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
SALES						
STORES	34,579.2		35,664.5		34,211.4	
DIRECT	14,275.0		13,483.7		14,404.3	
GAS	9,752.7		9,037.3		9,933.3	
CATALOGUE ADVERTISING	760.1		673.6		664.9	
REBATE INCOME	5,347.7		4,014.8		4,957.3	
MISCELLANEOUS INCOME	250.1		115.3		59.0	
TOTAL SALES	64,964.7		62,989.3		64,230.1	
TOTAL MARGIN	18,549.5		17,208.2		17,481.3	
TOTAL EXPENDITURE	14,474.6	22.3%	14,282.5	22.7%	13,825.8	21.5%
As % of Total Sales Excluding Gas		26.2%		26.5%		25.5%
TRADING SURPLUS	4,074.9	6.3%	2,925.7	4.6%	3,655.5	5.7%

- Overall trading surplus is ahead of last year by £419k. The full year target is a surplus of £5m and we are forecasting a range of £5m to £5.2m. The budget targets for rebates in Q4 included a number of anticipated one offs that have already been achieved, that will cause the variance to budget to narrow over the remainder of the year.
- Total sales at £64.9m are ahead of budget by £1.9m.
- Store sales £1.0m adverse to budget and £0.3m favourable to last year. The performance during October and November was disappointing compared to budget but our investigations indicate that it was in line with the market.
- Direct sales are £0.8m ahead of budget YTD as a result of strong MOD sales.
- Rebates are £1.4m ahead of budget and £0.4m ahead of last year. The key comparison is to last year.
- Eduzone sales have stabilized with the rolling 12 month sales now approximately £800k.

The balanced scorecard is attached at Appendix 1.

3. Each year as part of our budget planning we update the Medium Term Financial Strategy (MTFS) for ESPO. This year we are developing a Long Term Financial Strategy (LTFS) to cover the next eight years to allow for investment to realise greater returns. This will be presented in detail through Chief Officer Group (COG), Finance and Audit Sub Committee and Management Committee during the next reporting quarter.

ESPO Operational Progress

4. In December ESPO's distribution centre processed £1.789m of customer orders and the fleet made 12,563 customer deliveries. Warehouse picking was performed at a rate of 36 lines per hour, an improvement on the target of 32 lines per hour. A new target of 40 lines per hour is to be adopted in the new financial year. The error rate detected by QA was 2% which is an improvement on the budget of 3%. The YTD average order value for stock orders was £171.01 which is £9.25 higher than this time last year.
5. Operational and supply chain year to date costs were £8.011m against a budget of £7.834m, which is £177k above budget. Warehouse costs show a net overspend on budget on agency staff. Above budget external storage costs have been incurred to meet the increased product storage requirements of the business. Distribution costs were impacted by the unbudgeted vehicle renewal provision and repair and maintenance costs.

6. Certain one-off health and safety training costs were incurred in the second and third quarters, together with building maintenance costs associated with the fabric of the Grove Park property. ESPO is currently benchmarking its warehouse operational costs with other organisations within the educational supplies market and from wider industry. This will help to identify improvement opportunities. Total operational costs as a percentage of stores sales were 23.2% against a budget of 21.71% which is partly a reflection of the recent downturn in stores sales.
7. The customer services team processed 17,523 customer orders valued at £1.957m. Direct orders currently valued at £873km are being managed from suppliers to customers. Across Customer Services, Directs and the Catalogue Admin the teams handled 5,359 telephone calls. The average waiting time of six seconds. ESPO's FEEFO customer service rating was 96%. We were delighted to learn that ESPO have been awarded the Platinum Trusted Service award. This means that ESPO has consistently been delivering excellence to its customers over multiple trading years and have reached the highest level of accreditation as a result.
8. As part of ESPO's recent membership to the Institute of Customer Service, ESPO launched both an internal and external customer satisfaction survey. The survey asks a comprehensive series of questions to gain an in depth understanding of our customers and staff view of our current service provision alongside any expected service improvements. Based on the results of the survey which will be made available to ESPO in March, a review will take place of the findings. Following this review a transformation plan and roadmap will be created to drive through our customer experience improvements across the business, in turn enabling ESPO to provide excellence in customer service both internally and externally. This transformation plan and the subsequent changes will support our journey towards accreditation by the Institute.
9. Ongoing improvements plans are in place with a number of workshops being held with key stakeholders and staff across the business to transform our processes and customer experience. The recently established Customer Experience Improvement Group continues to enable and drive through the changes required. Our staff are involved in identifying and looking at solutions for service improvements through the implementation of a staff improvement log.
10. A number of telephony improvements have been identified, including ESPO's front end voice messaging. ESPO Leadership team have decided to engage with a supplier to develop a series of ESPO branded waiting and promotional messages, with the aim to reduce dropout rates during call holding periods and promote our services and promotional activity.
11. An action plan for our Customer Services Team to restructure will create the platform for the creation of multi-skilled teams, enabling a 'one touch'

approach to our Customer Service Delivery. A new structure shall be in place by April 1st 2020.

12. The stock optimisation team maintained product availability at 99.26% with 74 lines out of 9,871 temporarily unavailable; stock value was £6.140m with a stock turn of 7.21. ESPO continues to rely on external storage to manage its stock holding requirements. 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 as part of a longer term financial plan.
13. Facilities management in December comprised the annual service from Defensor of our fire alarm equipment, the five yearly legionella inspection, completion of mesh deck installation in the warehouse high bay area, service and repair of stretch wrapping equipment in the warehouse. Repairs and installation of lighting and sockets to various parts of the building were completed and various repairs and maintenance of equipment throughout the building.
14. There were two minor accidents in December. An agency worker sustained a small cut to the shoulder whilst constructing a pallet cage. There were no obvious signs of sharp edges, the cages were checked and re-training was provided. An agency driver alleged a back strain whilst using a hand pallet truck on the tail lift of his vehicles. An investigation suggested poor manual handling technique.
15. The Annual Health & Safety Management Review was updated and agreed by ESPO Leadership Team. This has been launched with Heads of Departments and will be monitored at weekly and monthly scheduled meetings. Delivery driver 'packs' have been completed with new induction sheets, training records and overarching training matrix created. All drivers will have comprehensive evidence of training and competence and programme of ongoing observation in place.
16. The catalogue portfolio for 2020/21 includes the Primary and Secondary main catalogue; Early Years; Eduzone and Corporate catalogues. Over 1,000 new stock lines including science, sport and outdoor activity have been added together with 4,000 new direct lines. This is aimed at supplementing our categories in the secondary school sector. The catalogues will include the new ESPO SmartBuy branding. The Catalogue Team are busy preparing pages for the 2020/21 catalogue range in preparation for the print cycle. The pricing strategy for each series of catalogues has been formulated and agreed by the Leadership Team. A proposed publishing timetable has been created to ensure that the new catalogue portfolio is managed in line with business requirements.

Staffing

17. Sickness absence continues to be well managed and our overall levels have decreased again. The reductions evidenced over the last 12 months have been continually seen every month, and this provides great confidence that these reductions will continue to be sustained in the future. Managers remain fully embedded with our approach and they continue to work with HR to implement appropriate support plans to help individuals return to work in a timely manner. As a result of our improvements, the sickness target has now been reduced to an average of 7.5 days per person (over a rolling 12 month period). This target ensures that ESPO continues to stretch our performance levels to be one of the lowest within our comparator group.
18. The completion rates for our mandatory training courses have increased again, and as a result of these improvements the target completion rates have subsequently been increased to 90%. Whilst this is challenging, it will ensure that training and development remains a focus for our managers and staff. Ensuring that staff have the necessary skills and knowledge to undertake their roles successfully is key for our service delivery.
19. Induction sessions based on both a corporate welcome and also more specific Health & Safety issues have continued to be delivered to new employees. Staff wellbeing is an important aspect for ESPO and the Leadership Team will also review the Wellbeing Strategy in March to ensure it still provides the correct strategic direction.
20. ESPO announced its employee of the year awards as part of its Christmas close down event. This year winners were Andreea Czirik, Operations and Supply Chain Analyst for Employee of the Year, Jamie O'Connor, Customer Relationship Manager for Excellent Service Award and Attila Brezsa, Warehouse Operative and Haleema Patel, Marketing Officer, for People's Champion Award.
21. To ensure the delivery of our future commercial journey, ESPO will need to review the structure of its Leadership Team and senior managers so that it is resourced to meet future demands and changing markets. It is expected that some changes to roles and responsibilities will occur as a result, ensuring resources and attention are allocated to the right areas. It is expected that these changes will be in place during the summer of 2020.

ESPO Risk and Governance Update

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

22. 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.

Coronavirus outbreak

23. As a group, coronaviruses are common across the world. Typical symptoms of coronavirus include fever and a cough that may progress to a severe pneumonia causing shortness of breath and breathing difficulties. Generally, coronavirus can cause more severe symptoms in people with weakened immune systems, older people, and those with long-term conditions like diabetes, cancer and chronic lung disease. Novel coronavirus (COVID-19) is a new strain of coronavirus first identified in Wuhan City, China. The government has introduced regulations to reduce the risk of further human-to-human transmission in this country by keeping individuals in isolation where public health professionals believe there is a reasonable risk an individual may have the virus.

UK Impact

24. As of 13 February nine patients in England have tested positive for coronavirus. Based on the World Health Organization's declaration that this is a public health emergency of international concern, the UK Chief Medical Officers have raised the risk to the public from low to moderate. This permits the government to plan for all eventualities. The risk to individuals remains low.

Perceived Risks to ESPO

Supplier Shortages

25. With many educational suppliers manufacturing overseas and with the connectedness of the world economy there is a risk that certain product lines will be in short supply. Coupled with the extended lead times for products that are transported by sea, any supply problems are unlikely to be resolved quickly. This risk will have an impact on ESPO's competitors. Mitigation is to source products closer to the UK. Currently we are contacting suppliers to establish which suppliers purchase stock or components from China.

Staff Shortages

26. If the virus becomes more widespread we can anticipate staff shortages across the business. We should also recognise that schools may close in order to reduce further infection. ESPO would utilise its relationship with a wide range of staff agencies to source both operational and admin staff. In terms of operations we would call upon support from staff elsewhere in the business with previous warehousing experience and from the management team. For those roles that allow remote working this would be encouraged together with the use of teleconferencing and skype meetings to coordinate and agree activity.

Health Advice

27. ESPO continue to monitor Government advice and act accordingly. To date, Public Health England and the WHO have declared the risk to individuals in the UK as low. Internally, ESPO continue to promote good handwashing and hygiene practices and have increased the availability of antibacterial wipes and cleaning equipment. Our contracted cleaning contractors disinfect door handles and hand rails as part of our contract. Should a member of staff contract coronavirus EPSO will liaise with PHE directly at County Hall and follow any recommendations. Should isolation be required our Smarter Working Policy provides guidance on staff working from home and where necessary individual risk assessments will be completed. In the event there is a requirement for an extended number of staff to work from home all available lap-tops provide to staff across the business will be recalled and distributed accordingly.
28. ESPO recognises the risk posed by the coronavirus and has established team responsibilities to examine developments and possible actions to mitigate the impact on the business as well as updating its risk register. This will include discussions with local authority stakeholders and government guidelines to adopt a best practice response to the threat as it emerges and to keep customers and staff informed.

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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