ESPO

MANAGEMENT COMMITTEE – 14 SEPTEMBER 2022

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

1. The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 29 June 2022.

Financial Performance – 3 months to June 2022

Summary

Year to June 2022 – Period 3					
£m	**Actual**	**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	14.8	2.0	16.0%	1.6	12.0%
Direct Sales	5.4	1.3	31.5%	1.2	28.8%
Rebate plus fee income	2.4	0.4	22.6%	0.4	17.5%
Total Sales (Exc Gas)	**22.5**	**3.8**	20.1%	**3.1**	16.2%
Stores Margin %	32.8%	2.1%		2.9%	
Directs Margin %	14.3%	(0.5%)		(0.3%)	
Total Gross Margin	8.7	1.5	21.5%	1.5	20.3%
Total Expenditure	6.2	(0.3)	(3.9%)	(0.5)	(7.6%)
Trading Surplus	**2.6**	**1.3**		**1.0**	
Trading Surplus %	11.4%	4.6%		3.1%	

2. After 3 months, **a surplus of £2.6m has been made which is £1.3m better than budget**.

3. Following the launch of the new catalogue on 1 April, trading has performed well with **volumes being ahead of budget**. This is despite catalogue selling prices increasing by more than normal this year due to the high levels of inflation on the cost of goods that we have experienced. The budget was cautious regarding sales volume, recognising the financial pressures that our schools are facing and we have been pleasantly surprised by the result although it has increased pressure on product availability. Some of the additional volume is from customers bulk buying early and so we may see sales slow in the second half of the year.

4. Rebate income from our frameworks is £0.4m ahead of budget.

5. The surplus is £1.0m better than last year, with Directs and Rebates in particular benefitting from entering 2022/23 with strong order pipelines (remembering last year schools were closed until March 8th).

6. Costs continue to be tightly controlled with expenditure of £6.2m slightly higher than budget due to the costs of fulfilling the additional sales volume.

7. For the full year, the budget is a surplus of £5.7m. There remains further opportunity in rebate income given inflation and the strong 21/22 final outturn. Catalogue trading in July, whilst ahead of last year, didn't continue at the same pace as June and we remain cautious about the impact in the second half of the year of customers stocking up. We're also mindful of the impact of the increasing cost of goods and the Local Government Pay Award for 22/23. At the time of writing, a proposal from the national employers was announced last week and we estimate this to have a cost to ESPO of c£0.8m, of which £0.25m is budgeted.

8. Considering all this, **our latest guidance for the full year is a trading surplus in the range of £5.6m - £6.1m.** (Budget = £5.7m)

Sales and Margin

Sales and Margin						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Stores Sales	14.8		2.0	16.0%	1.6	12.0%
Direct Sales	5.4		1.3	31.5%	1.2	28.8%
Rebate income	2.4		0.4	22.6%	0.4	17.5%
Total Sales	**22.5**		**3.8**		**3.1**	
Stores Margin	4.8	32.8%	0.9	2.1%	0.9	2.9%
Directs Margin	0.8	14.3%	0.2	(0.5%)	0.2	(0.3%)
Rebate income	2.4		0.4	(0.5%)	0.4	(0.3%)
Gas Margin	0.1	2.4%	0.0	(0.0%)	0.0	0.0%
Catalogue Advertising	0.6		(0.0)		0.0	
Misc	0.0		0.0		0.0	
Total Gross Margin	**8.7**	**38.7%**	**1.5**	**0.5%**	**1.5**	**0.9%**

Gas						
£m	**Actual**		**B/(w) than Budget**		**B/(w) than LY**	
Gas Sales	4.4		0.3	8.4%	0.7	17.6%
Gas Margin	0.1	2.4%	0.0	(0.0%)	0.0	0.0%

9. Total sales up to June 2022 were £22.5m, which was £3.8m better than budget and £3.1m better than last year, with trading starting strongly despite ESPO needing to increase prices to a higher degree than normal due to the inflationary price increases that we have seen across our range of goods.

10. **Stores sales were £14.8m and £2.0m / +16% better than budget**. Customers have made good use of our discount windows to 'stock up', perhaps to safeguard their supply and anticipating further price increases, and as a result we don't expect sales to continue at this pace for the rest of the year. Demand for paper-based products has been particularly strong due to some supply challenges in the market.

11. **Gross profit margin % for Stores at 32.8% is ahead of budget** and this is mainly timing. In this quarter, margin is benefitting from stock in the warehouse purchased last year at lower prices, particularly on categories which saw high levels of inflation like paper. As the impact of price rises takes effect margin will return back to budget for the full year.

12. Global supply challenges from issues such as Covid and the war in Ukraine continue to impact stock availability, and significantly higher sales than expected have resulted in availability reducing to 94% at the end of June. Product availability is closely monitored and managed to fulfil customer orders as promptly as possible and our availability does reduce slightly in the summer linked to our peak demand period. These issues affect the entire market, not just ESPO, and we have seen competitors affected in a similar or worse way with a number of new customers approaching ESPO as a result.

13. **Directs sales were £5.4m and are £1.3m ahead of budget.** We saw strong orders (and sales) through 21/22 and we entered 22/23 with a strong pipeline of orders.

14. **Gross profit margin % for Directs at 14.3% is 0.5% behind budget**, but this is largely due to the mix of product sold and is expected to normalise as sales increase through the year.

15. **Rebate income of £2.4m is £0.4m ahead of budget** and continuing to perform very well with a wide range of frameworks offered and a good pipeline in place of contracts secured for the future.

16. **Income from our gas service is in line with budget**. This service relates to a customer bill validation service, and also acting as a procurement agent on behalf of customers where we buy their gas on their behalf. These attract a fixed charge and so ESPO's trading surplus isn't exposed to the price volatility seen in the gas market. The customer ultimately bears this risk, but part of the service involves ESPO using our expertise and size to forward buying gas to manage this risk more effectively and in line with the agreed risk profile for the service.

17. Our other income from selling advertising space in the catalogue and misc. income like bank interest are all largely in line with budget.

18. **Overall gross profit margin at £8.7m is £1.5m better than budget.**

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	3.1	0.2	(0.0)
Agency/Contract	0.6	(0.2)	(0.2)
Total	**3.7**	**0.0**	**(0.2)**
Overhead Expenses			
Transport	0.8	(0.1)	(0.1)
Warehouse	0.2	(0.0)	0.2
Procurement	0.0	0.0	0.0
Sales & Marketing	0.4	(0.0)	(0.0)
Finance	0.4	(0.0)	(0.3)
IT	0.4	(0.0)	(0.1)
Directorate	0.1	(0.0)	(0.0)
Total	**2.4**	**(0.3)**	**(0.3)**
Total Expenditure	**6.2**	**(0.3)**	**(0.5)**
As % of Total Sales Excluding Gas	**27.4%**	**4.2%**	**1.8%**

19. **Total expenditure of £6.2m was £0.3m higher than budget** due to higher transport costs associated with fulfilling the additional sales volume. We retain a continued focus on strong cost control across all areas.

20. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. This KPI is 27.4% and is 4.2% better than budget and shows costs are being controlled in relation to sales activity.

ETL/Eduzone

21. ETL and Eduzone are ESPO's limited companies which service the private sector.

ETL and Eduzone			
£k	**Actual**	**B/(w) than Budget**	**B/(w) than LY**
Eduzone Sales	132	(70)	(60)
ETL Sales	502	429	467
Total Sales	634	359	407
Eduzone Gross Margin	42	(29)	(26)
Eduzone Gross Margin %	32.1%	(3.3%)	(3.7%)
ETL Gross Margin	70	35	58
ETL Gross Margin %	14.0%	(34.4%)	(20.3%)
Total Gross Margin	113	6	32
Eduzone Expenditure	(69)	3	4
ETL Expenditure	(47)	(27)	(37)
Total Expenditure	(116)	(24)	(33)
Trading Surplus	(3)	(18)	(1)
Trading Surplus %	(0.4%)	(6.1%)	0.3%

22. ETL, our business serving international and private sector customers, has started particularly strongly mainly due to a large furniture contract which was fulfilled in Q1. Whilst generating incremental margin (£), as it is furniture the margin % is slightly lower than normal/budget. Sales to international distributors are also growing.

23. Eduzone, our business focusing on early years in the UK, is slightly behind budget, with sales from one larger customer stalled across April to June whilst our 22/23 prices were reviewed and agreed.

24. Overall margin £ is largely in line with budget and costs are being controlled. ETL costs are higher due to its increased sales.

25. Overall, a £3k loss has been generated to the end of June which is largely in line with the budget target and last year. Typically, these businesses are more profitable later in the year due to the cost of the catalogue which is incurred at the start of the year.

26. The full year budget is a surplus of £100k and we expect to be largely in line with this.

Full Year Expectation

27. The ESPO full year budget is a surplus of £5.7m. At time of writing, we are still to complete our peak summer trading period. There are however several risks and opportunities emerging, the most significant being:

    a. Sales volumes at the start of the year have far exceeded our expectation. Whilst this gives reason to be optimistic, we are seeing customers make greater use of discounts and what looks like some bulk/advance buying. This could result in sales slowing in the second half of the year when schools return after the summer break.

b. Product cost inflation. ESPO is well known for trying to hold the pricing set out in our catalogue to give customers certainty and an ability to plan their own budgets across the year. High levels of product cost inflation either create additional risk to our budgeted surplus (if we absorb them) or require some deviation from catalogue pricing. As usual, we are trying to protect our customers (which are mainly schools) from the impact as much as we can.

c. Framework income via rebates performed well in 21/22 and our baseline for 22/23 starts approximately £0.3m higher than we had assumed in the budget. In addition, our framework income is likely to benefit from inflationary increases that suppliers apply, de-risking some of the above risk.

28. The Local Government pay award. An offer was announced in late July from the national employers which (simplified) was a fixed increase of £1,925 per person. Back in January we budgeted for a 2% increase for 22/23. At time of writing, we are costing the impact but we estimate this to be in the region of £0.8m which would be a 6% average increase across ESPO.

29. Considering all this, our latest guidance for the full year is a trading surplus in the range of £5.6m - £6.1m. (Budget = £5.7m)

<u>ESPO Operational Progress</u>

30. In June ESPO's distribution centre picked and dispatched 249,593 order lines, valued at £7.929m and the transport fleet with couriers made 28,606 deliveries. The peak trading period of June and July was successfully managed, with all customer delivery promises met on time. Warehouse picking was performed at a rate of 27 lines per hour against our target of 32. This is partly a function of the inexperienced agency staff that are employed during the peak season and partly due to a change in the pick profile with greater pack content. The error rate detected by QA was 3% against the budget of 3%. The average order value for stock orders YTD to June was £234.64 compared to £212.80 last year. Operational and IT costs year to June were £3.299m against a budget of £3.056m. Stores sales to June were 16% higher than budget driving higher transport and picking costs.

31. Activity levels across all customer channels were buoyant in Customer Services and the team handled 8,728 calls across the five customer service channels. In terms of call response, the average speed of answer was 51 seconds against a target of 30 seconds. This reflects the increase in calls in the Directs channel checking on delivery times and the current vacancies in the CS team. The team processed 40,177 customer orders valued at £10.177m which includes the orders for the annual summer holiday offer which will be delivered in August. Online and electronic converted orders were at 65% of the total reflecting an increasing trend towards digital ordering via e-catalogues or through the web. Direct orders currently valued at £3.001m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. Call performance remains positive, with over 91% of all incoming calls answered.

32. Stock availability averaged 92.9% in June, stock value was £7.6m with a stock turn of 6.3. Following earlier disruption in the supply chain we are hopeful that outstanding customer orders will be substantially fulfilled in September. Customers are being kept informed of the latest stock availability through a new improvement to the website which provides visibility of products that have an extended lead time but are still available to order. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at KCS in Maidstone and by its printer in Poland.

33. Facilities management in June included a number of scheduled repairs to the in-rack sprinklers and high-bay racking; mobile and fixed printers; warehouse lighting; warehouse doors and emergency call point repairs. Upgrades were made to the building lighting with LED replacements and the fire damper between the warehouse and offices was serviced. There were also inspections to fire safety system, pest control, intruder alarm and CCTV system with various repairs to and maintenance of equipment throughout the Grove Park facility.

34. There were two minor health and safety incidents in June where a warehouse operative cut their thumb on a paper roll dispenser; tape has been applied to bolts on all applicable paper roll dispensers as further precaution. An office worker spilt hot water onto hand whilst making drink using water from the Hydroboil. No defects were identified with the Hydroboil and it was concluded that this was user error. The safe system of work has been updated for forklift re-charging following a near-miss incident. Similar updates were undertaken on the system for unloading supplier’s delivery vehicles and on retrieval from the high bay racking.

35. The IT helpdesk handled 683 enquiries with a 100% satisfaction rating from internal customers. We will be installing a replacement WIFI system into the warehouse and office settings during August and September which will provide much greater strength and resilience into the signal for RDT’s and other mobile devices.

36. The work to automate transport planning is making good progress with middleware being written for extracting delivery data from System 21 for input into the Roadshow scheduling system. Eventually this process will be fully automated allowing customer data to be uploaded into the scheduling system which will create a daily transport schedule in a much shorter time and offers greater long-term operational and service benefits.

37. Following the update given to Management Committee in June. The project to extend the Grove Park warehouse is moving forward under the governance of the Project Board. The focus is now on preparing for planning permission and construction contractor procurement with an expected completion of the project in Q2 2024. Further updates will be provided to Management Committee as the project progresses.

Staffing

38. Sickness absence continues to be well managed, and covid infection rates are now decreasing in line with the national picture. Safe working arrangements remain in place for staff in the office to ensure that the potential of any work-based outbreak is reduced as far as is practicable. Reminders have also been provided to staff on the steps they need to follow if they test positive for Covid, to ensure that everyone remains extra vigilant.

39. The national negotiating body for Local Government pay have responded to the Trade Unions pay submission for 2022/23 and have made a final offer of £1,925 on every spinal point, plus a 4% increase on expenses. At the time of writing, this offer has already rejected by Unite with Unison's response expected by the end of September.

ESPO Risk and Governance Update

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

40. 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

The Management Committee is asked to note and support the contents of this report.

Officer to Contact

Kristian Smith, Director
k.smith@espo.org
Tel: 0116 265 7887

Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract