

Committee: FINANCE AND RESOURCES

Date: 9 May 2007

Report: RETAIL SERVICES FINANCIAL PERFORMANCE REPORT

Purpose of the report

1. To build on the report presented to Members in August 2006 and present details of the financial performance of Retail Services during 2006/7. Details are also provided of factors that have affected performance, planned actions and a brief outline of the current position regarding the Turntable project.

Strategic Planning Framework

2. The information and recommendation(s) contained in this report are consistent with the Authority's statutory purposes and its approved strategic planning framework:

- ***Best Value Performance Plan objectives***

Plan and manage all aspects of the Authority's business so as to make the most effective use of our resources.

Introduction

3. At the meeting of this committee on the 19 February 2007, members requested a further update on the performance of Retail Services. The following report focuses on financial performance rather than on the "enjoyment and understanding" aspect, for which the service is primarily managed.

Background

Aims of the Retail Services

4. Retail Services exists to promote the second purpose and to provide a source of income for the Authority. The Service's product range is selected to complement the values and objectives of the Authority, and products are either branded with the national park logo or are relevant to the achievement of the statutory purposes. Products are selected that can be sourced locally wherever practicable, although this may mean that a lower profit margin is achieved on such goods.
5. The minutes of the Finance & Resources Committee dated 17 July 2000 (minute 91) stated that the 'primary purpose of the operation was not to make money but to promote understanding of the national park'. It was also recognised that in the years

preceding this 'the operation had been significantly reduced in scale, particularly when compared to other National Parks'.

Organisational Structure and Activities

6. Retail Services operate from a leased warehouse facility in Horton in Ribblesdale. The service itself is provided by two full time staff; a Retail Services manager and a retail services assistant. As well as storing retail stock products at the warehouse, some additional support activities are also carried out:

- Storage and Distribution of Publications to National Park Centres, Tourist Information Centres and local attractions e.g. 160,000 copies of The Visitor, 16,000 copies of the Yorkshire Dales Accommodation guide (as a contribution to the Joint Promotions Initiative). The geographic spread of this activity covers the area between Northallerton, Bentham and Howarth. A further 200 boxes of various leaflets are currently stored at the warehouse.
- Purchase, storage and distribution of stationery for the National Park Centres.
- Storage and distribution of Education packs for the Education Service.
- Supply of stock items for Authority purposes (e.g. maps).
- Wholesale activities – local retailers can purchase stock items at a 35% discount on the retail price for resale through their own outlet. This makes a loss, but is seen as a valuable service by those businesses which take advantage of it.

7. The costs of the above activities are absorbed within the general Retail Services overheads, primarily within staff costs.

Financial Performance

8. The table below summarises the financial performance of retail activity for the year 2006/7 (Budget and Actual) and compares this with the previous year. The table also shows the budget targets that were set in 2007/08, and which were reduced to take into account the decline in retail services performance following the closure of Clapham and Sedbergh National Park Centres.

9. It had been hoped to negate the impact on sales of the closures mentioned above by closer management of the gross margin (or mark-up) of goods sold, and although the gross margin was 'managed up' to an average of 40%, the size of fixed costs and certain other factors (see paragraph 11) have meant that the original net profit target has not been achieved for the past two years; however, total sales and net profit have increased by 9% and 5% respectively, when comparing the result for 2006/07 with that for 2005/06 (see paragraph 10). Average spend per visitor and average spend per transaction are also given below.

Summary of Retail Financial Performance 2005/6, 2006/7 and target for 2007/08

Year	Centre Visitor Numbers 000's A	Sales Income £ 000's B	Cost of Sales £000's C	Overheads £000's D	Total Direct Costs £ 000's E = (C+D)	Net Contribution £ 000's F = (B-E)	Gross Profit (%)	Net Profit (%)
2005/06 Budget	-	282	169	73	242	40	40	14
2005/06 Actual	495.1	217	135	68	203	14	38	7

2006/07 Budget	-	305	183	82	265	40	40	13
2006/07 Actual	524.3	237	141	75	216	21	41	9

2007/08 Budget	-	274	164	87	251	23	40%	8%
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Average Spend Data

Year	Visitor Numbers 000's	Spend per Visitor £	Spend per Transaction £
2005/06	495.1	0.44	3.18
2006/07	524.3	0.45	3.27

10. The retail environment has remained challenging during 2006/7, however, despite this sales income has increased by 9%, leading to an increase in net contribution of 50% and an increase in net profit of 29%. This has been achieved by increasing gross profit margins (from 38% to 41%) and improving the product range and displays (spend per transaction has increased from £3.18 to £3.27), as well as being helped further by an increase in visitor numbers.

11. Two specific factors have had a negative impact on the final profit figure:

- Additional staff costs have been incurred in order to provide cover for long term sickness absence. Although the absence was for almost all of 2006/07, the additional expenditure was incurred solely in the summer season, and was necessary to enable Retail Services to continue operating effectively during the peak season. The additional costs (included in the overheads in the previous table) total £6.2k.
- Malham NPC was closed for refurbishment during the final trading quarter. This has resulted in estimated loss of sales equating to £6k and a loss in net profit of £2.4k. In addition to this, a sum of £1k was spent on refurbishing the retail displays, with the expectation that this will increase spend in 2007/08.

12. If the figures shown in the previous tables were to be adjusted to take into account these factors, the net contribution would have risen to £31k.

13. The previous Retail paper mentioned the effect that the closures of Sedbergh and Clapham have had on sales income. Although work in those localities was to some extent continued by partnerships with the new operators of Sedbergh TIC and the existing operators of Clapham TIC, because we do not employ staff in these centres or pay for utilities and services, the operators are not obliged to purchase retail goods

from us. Sales to these centres are minimal and the costs in continuing these partnerships are as previously reported at the full Authority meeting in March 2007.

Plans for 2007/08

14. The Turntable project is still ongoing, but has had some delays. Yorkshire Culture has been successful in securing funding for the YDNPA. This funding is to enable us to have business plans drawn up for the three main elements of the Turntable project, starting with a plan for Retail. Although the funding for the business plans was agreed in January, there have been delays in the tender process required to engage consultants to carry out the work. A firm of Consultants have now been appointed and they will meet to agree the next steps in mid May. Potentially, the business plan which results from this project could have a large impact on the Retail Service. So until the business plan materialises it is intended that plans for 2007/8 are focussed on continued internal improvements. These fall into the five key areas outlined below.

Improving Margins

15. The work on improving the overall profit margin will continue. This currently averages 41% across the range of retail products and target is to increase this to 43% during 2007/08. Low profit items will continue to be removed from the product range. We are also examining our pricing structure, as it is believed that we generally price cheaper than similar retail outlets. Carefully managed bulk buying should also contribute to an increase in margins.

Retail Displays

16. Work was carried out during 2006/07 to identify sales trends across the range of retail products. This will enable us to adjust displays throughout the year, to respond to anticipated customer demand. This work has been done by breaking down the component parts of the 'spend per transaction' figure to identify the income generated by each product category at each National Park Centre for each month of the year. A display plan is being produced which will enable Information Centre Managers, in conjunction with Retail Services staff, to organise the displays to achieve greater sales.

Display Materials

17. Promotional material is being introduced which will emphasise the link between the visitor's experience, the goods that they purchase and the work done by the Authority. This link is our unique selling point and has not been fully exploited. Promoting the fact that we are not a standard retailer, and that a customer's purchase contributes to the upkeep of the National Park and the continuation of their experience, should increase sales.

Branding

18. We intend to continue working with the Communications Team in order to raise the profile of the Yorkshire Dales National Park brand. This has worked successfully during 2006/07, with the introduction of new packaging to some lines and the introduction of a premier 'black and gold' range of souvenirs.

Product Range

19. There will be a number of changes to the product range this year. During 2006/07 we experimented with a range of recycled goods. For ease of implementation, these were purchased direct from an intermediary at a lower than normal mark up (also on a sale or return basis in order to minimise the risk). Taking on board the lessons learned, we are now in negotiations to buy a range of items direct from a supplier at a more commercial mark up. These will form a central part of our retail range, emphasise the Authorities values, and contribute to the principle outlined in paragraph 17.

RECOMMENDATION

20. That Members:

- a. note the information on the financial performance of the Retail Service and the context of that performance; and
- b. note the further work to be undertaken.

Kevin Smith
Retail Services Manager

24 April 2007

Background documents: none