

**HISTORIC SCOTLAND BOARD, 26 FEBRUARY 2008****RETAIL STRATEGY****1. INTRODUCTION**

This paper seeks to update the Historic Scotland Board on the work undertaken by the Visitor Services & Business Development (VSBD) Team over the last year to develop our five year strategy for Retail. This strategy is based on the findings of the Retail Health-check completed in 2007, which provided a detailed analysis our current business under the broad headings of: sales, service, staff and systems.

**2. KEY FINDINGS OF THE 'HEALTH-CHECK'**

The key findings of the Retail Business Health-check were presented to HSB in February 2007. A copy of the Health-check and the Executive Summary is available should anyone require a copy. In summary, the following trends emerged:

**2.1 Strong Overall Sales Growth**

Retail income grew steadily over a ten year period to 2006-07, from £3.50 million to £5.55 million; an increase of 58%. This was fuelled by a rapid shop expansion programme. Historic Scotland now directly manages 70 shops across the Estate. We have also seen an increase in the volume of products/ranges. What we haven't seen over the last decade is a significant rise in visitor numbers. Rather there has been a 5% decline over the same period.

**2.2 Underlying Tensions Emerging**

Our spend per visitor (SPV) in recent years has remained around £1.99. This is a healthy SPV when compared with other heritage organisations such as English Heritage. However, given the growth in inflation over the last few years – a static SPV is a symptom of an actual decline in spend amongst our visitors. At some of our properties, the SPV has indeed declined – such as at Edinburgh Castle which has dropped from £2.11 to £2.00 over the last five years.

As we exhaust some of the 'obvious' routes to growth i.e. opening new shops and introducing new ranges, we will become more reliant on growing our spend per visitor – particularly as we are not forecasting significant growth in overall visitor numbers to our properties.

**2.3 Extensive But Unwieldy Product Ranges**

Ten years ago, most of our sites stocked little more than guidebooks, postcards and a small range of publications. Our Health-check concluded that our overall range had grown to over 10,000 products; 60% of which failed to deliver sales of over £200 per annum.

**2.4 'One Size Fits All' Approach**

Our strategy over the last ten years has been to achieve a level of professionalism and consistency across our Estate. Whilst this has been a sound strategy, it has raised the expectations of site staff who now expect a level of product and retail development that is often not commensurate with the size of their attraction. This 'one size fits all' approach is proving increasingly difficult to resource centrally, particularly as 70% of our turnover is generated by the top three properties: Edinburgh, Stirling and Urquhart Castles.

## 2.5 Basic Promotional/Pricing Activity

The Health-check established that there was no clear Retail Promotional or Pricing strategy – in contrast to Admissions.

## 2.6 Poor Management Data

The Health-check also pointed to the lack of easily accessible management data to enable the Retail Team to effectively analyse their sales. The Retail IT system is particularly 'clunky' making real time analysis of sales virtually impossible.

## 3. PROGRESS IN 2007-08

### 3.1 Sales Performance

The last five years' sales are illustrated below, which shows a slowing down of the rate of growth between 2005-07. Encouragingly there appears to have been a resurgence in 2007-08, thanks in part to some of the changes we are starting to implement as a result of the Retail Business Health-check:

	Retail Income	Actual Growth	Yr-on-Yr	Visitor Numbers	Actual Growth	Yr-on-Yr
2002-03	£5,340,959	£367,276	7%	2,704,817	-7,394	0%
2003-04	£5,587,504	£246,545	5%	2,846,173	141,356	5%
2004-05	£5,835,008	£247,504	4%	2,958,890	112,717	4%
2005-06	£5,547,739	-£287,269	-5%	2,785,198	-173,692	-7%
2006-07	£5,685,887	£138,148	2%	3,123,354	338,156	7%*
2007-08	£5,910,720	£224,833	4%	3,162,711	39,357	1%
5 Year Growth		£569,761			457,894	
% Growth			11%			17%

*\*Please note that a new method of counting visitors was introduced in 2006/07 which alters the yr on yr variance.*

### 3.2 Improvements Introduced

Throughout the last year, we have continued to make improvements based on the findings of the Retail Health-check which have also helped us clarify our strategy for the next five years. Some of the key improvements made include:

- Continued rationalisation of our product ranges – down from 10,000 to 6,000.
- Introduction of Retail Champions and regular sales meetings at our Top 3 sites.
- New product development process – with a greater emphasis on design being trialled at Edinburgh and Stanley.
- Further restructuring of the team to focus Retail on core business. Responsibility for sales analysis moved over to the Development Team; responsibility for uniforms moved over to Visitor Services.

### 3.3 Assessment of our Profitability

Over the last year, we have taken another significant step forward in the 'commercialisation' of our business by creating our first set of Trading Accounts – or Profit & Loss accounts, based on the analysis of our income versus costs over the last two full financial years. The first phase of the project was completed in January 2008.

The second phase will be to finalise how we apportion site staffing costs against our commercial income (currently all costs are apportioned against our income). And to agree a baseline using the 2007-08 Annual Accounts. It is against this baseline that we will set targets for the Retail Team to improve their cost base.

This assessment of our profitability as a business is new territory for us and plays a key role in the development of our Retail Strategy, as it highlights significant opportunities to operate the business more efficiently going forward. This in turn could assist the Agency in achieving its efficiency target, set by Scottish Ministers as part of the 2007-08 Spending Review.

### 3.4 Draft Strategy

Our Retail Strategy is currently in final draft form – awaiting the finalisation of our overall income targets provided for the 2008-11 Corporate Plan; and the targets that will fall out of the Trading Accounts for 2007-08 which should be finalised by Autumn 2008. However, sections 4 and 6 provide a flavour of the Retail Strategy for HSB.

## 4. FIVE YEAR PROJECTIONS

Our overall aim over the next five years is to grow sales by 36% to £8,016,158 from £5,910,720 (based on our forecast to the end of March 2008). This is a more challenging phase for Retail given the expected slow down in visitor numbers.

	Retail Income	Actual Growth	Yr-on-Yr	Visitor Numbers	Actual Growth	Yr-on-Yr
<b>2007-08</b>	<b>£5,910,720</b>	<b>£224,833</b>	<b>4%</b>	3,162,711	39,357	1%
2008-09	£6,229,574	£318,854	5%	3,073,247	-89,464	-3%
2009-10	£6,735,698	£506,124	8%	3,121,247	48,000	2%
2010-11	£7,175,863	£440,165	7%	3,108,747	-12,500	0%
2011-12	£7,647,703	£471,840	7%	3,198,000	89,253	3%
<b>20012-13</b>	<b>£8,154,916</b>	<b>£507,213</b>	<b>7%</b>	<b>3,248,000</b>	<b>50,000</b>	<b>2%</b>
<b>5 Year Growth</b>	<b>£2,224,196</b>			<b>85,289</b>		
<b>% Growth</b>	<b>38%</b>			<b>3%</b>		

## 5. INDUSTRY TRENDS

There is little industry data on forward trends as most organisations are still planning on an annual basis. The ALVA Financial Benchmarking Survey 2006-07 points to an overall decline in retail income of 2% year on year with an average spend of £1.70 compared to £1.74 in the previous year. This reinforces the general view that secondary spend at attractions will continue to be tough, given the current economic climate with UK consumers feeling the pinch at home, and tourists suffering from the strength of the pound – particularly in our core markets of North America.

## **6. KEY ELEMENTS OF THE STRATEGY**

As we can see from the industry trends, we are entering a more demanding phase which will require a different response, not just to grow sales but to improve the profitability of our business – an area that we are just starting to understand. We have also agreed as a starting point that we want to continue to operate our own retail business and do not want to franchise this out. The main thrust of our strategy is outlined below:

### **6.1 Tiered Site Strategy**

We will move away from a 'one size fits all' approach to our sites; to segment our properties into three categories: 'Commercial', 'Development' and 'Community'. We will attempt a 'step change' in sales at the Commercial Sites – growing income more rapidly than the last five years – at around 8% per annum. Here we will invest the bulk of our time and resources. With over 60% of our customers visiting these properties – this is where we believe the greatest return in investment lies. This footfall, coupled with investment in shop refurbishments and a fresh approach to product development will deliver the growth.

For the Development Sites we will adopt a more 'sensible' approach, seeking a slight improvement upon inflation growth at 4% per annum, as we focus on delivering the greatest change at the Commercial and Community sites.

For the Community Sites, we will retrench and attempt to hold sales at their current level i.e. zero growth. The priority here will be on operating a more efficient business. We will reduce the retail presence in our visitor receptions; reduce the stock holding at these smaller sites; and operate our distribution service more efficiently in an effort to improve our return on investment.

### **6.2 Improving Quality in Key Areas**

Further priorities will include improving: the range and quality of management reports; the frequency of customer feedback – particularly on areas such as our value for money rating and propensity to purchase; and the quality of service delivered to our visitors by sites staff.

### **6.3 Greater Focus on Distinctive Product Development**

Much of our success over the next five years depends on having the right products to offer visitors – products which stand out from the competition; reinforce our brand values; and which are commercially successful. We have already taken a different approach to developing our ranges for Stanley Mills and for the new ground floor area of the Gift Shop at Edinburgh Castle. This work will gather apace in the coming years as we invest greater time and resources in the design and development of our product ranges. Over and above this we anticipate refurbishing the main gift shops at all of our Top Three properties.

### **6.4 Greater Emphasis on Return on Investment**

As we start to understand in more detail the relationship between our costs and our sales, greater emphasis will be placed on setting and monitoring targets relating to profitability. We have already projected five year targets for both gross and net margin for Retail in the Draft Strategy. However, we need to agree a baseline following the publication of the 2007-08 accounts.

We also need to start to build a system of management reporting to enable the Retail Team to track their performance on a monthly basis. And to drive forward the projects which offer greatest efficiency savings for the Retail Team – namely the streamlining of our service to the Community sites and the review of our warehouse to either reduce costs or increase revenue.

## **6.5 Investment in IT**

The Retail Team will invest in new technology over the next five years – installing a new Admissions and Retail point of sale system.

## **7. NEXT STEPS**

### **7.1 Agree the Strategy**

Finalise the Retail Strategy document (currently in its final draft) with milestones and targets for the next five years; and clear action for the year ahead for the Retail Team, incorporating the overall Corporate Plan targets.

### **7.2 Baseline Agreed for our Trading Accounts**

Complete further work on our Trading Accounts to establish a baseline year following the publication of the 2007-08 accounts. Agree in particular the apportionment of site staff costs. This work will be completed by Autumn 2008.

### **7.3 Agree Resources**

Secure 'in principle' resources to support the strategy (subject to the provision of full Business Plans) either for additional staffing or funding resources. The key areas requiring resource over the next five years are likely to be: the analysis and improvement of our cost base; the new Retail & Admissions IT system; the investment in design and product development; and the shop upgrades at our top three sites.

## **8. SUMMARY**

This Briefing Paper is intended to provide Historic Scotland Board with an update of the progress made with developing our five year strategy; and a sense of the direction that we are taking.

Fiona Docherty, our Head of Visitor Services & Business Development would be delighted to meet individually with any Board Members to provide a fuller briefing and she can be contacted on 0131 668 8614 or at [Fiona.docherty@scotland.gsi.gov.uk](mailto:Fiona.docherty@scotland.gsi.gov.uk).

The final Retail Strategy will be circulated to the Board later in the year.

### **PETER BROMLEY**

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12 February 2008