

Appliance sales and servicing

12.1. The North Board's 1985 Corporate Plan outlines the following strategy for its appliance sales and servicing activities:

'Strategy

It is through the sale of electrical appliances that the Board seeks to increase customer demand for and satisfaction with its primary product, electricity. This function is one of high public visibility, and one in which the Board competes directly with the private sector. The Board is aware of competitors' concern that no cross subsidisation of sales or servicing activities should distort free trade, and that customer satisfaction can only be gained by constant attention to detail in this competitive area. The Board's strategy is to:

1. Ensure that appliance sales and servicing activities operate profitably in support of the main business, making a positive contribution to the electricity trading account and earning an appropriate return on capital employed.
2. Encourage the sale of all electrical appliances, in particular those that help to ensure the most efficient use of electricity and of the Board's supply system. Wherever possible it will promote British made products which are BEAB approved.
3. Operate a revised Code of Practice for Domestic Appliance Servicing, and continue to seek maintenance contracts in the Commercial, Industrial and Domestic (Extracare) areas.
4. Maintain sufficient market share to ensure the protection of consumer interests and to influence British electrical appliance manufacturers.'

12.2. In 1984-85 the turnover from appliance sales and servicing activities together was £15.7 million (including £350,000 instalment credit charges) compared with turnover on electricity supply account of £277 million. The two activities contributed £0.9 million to the North Board's profit before interest compared with £63.8 million before interest on the electricity supply account. The number of staff wholly or partly employed on appliance sales and servicing at 31 March 1985 was 310 compared with the total of 3,830 employed by the North Board.

Appliance sales

12.3. Appliance sales have a long history of profitable operation though the recession of the early 1980s had a considerable effect on turnover and gross margins resulting in a sharp reduction in net profit. To counteract this the North Board introduced a programme to improve efficiency and reduce costs and also launched a more aggressive marketing approach to its selling activities. The North Board told us that over the last three years there has been a substantial improvement in performance and that appliance sales are again highly profitable (see paragraph 12.17).

12.4. Since the start of the recovery from recession, the North Board's profit objective has been to earn an acceptable return on capital employed in the longer term jointly with the servicing activity. The North Board regards the appliance market as volatile responding rapidly to changes in market forces and the economic climate. It therefore looks to the joint sales and servicing accounts achieving an acceptable level of return over an extended period rather than on a year-by-year basis. The North Board has considered a minimum return of 5 per cent on capital on a CCA basis averaged over four years to be an appropriate target for the joint appliance and servicing activity.

12.5. The North Board sells a wide range of electrical appliances and a limited range of radio and audio products, but not the more specialist high fidelity audio equipment or computers. It told us that it would be difficult to offer its usual standard of service in relation to such specialist equipment.

12.6. A television rental franchise is operated within the larger shops by Focus. Some years ago the North Board undertook the sale of televisions throughout its territory but failed to establish a strong position in this market. This, coupled with the swing away from buying in favour of rental at that time, gave rise to the decision by the Board to introduce 'Focus Television Rental'. Televisions are still offered for sale in some remote areas where Focus has not begun operations. In the areas where the North Board sells radios, audio equipment and televisions, repairs are carried out by 'Constant Care' (Clydesdale) or other private repair agents.

12.7. In the major towns and cities the North Board's shops are in direct competition with other retailers, such as Curry and Clydesdale, and the discount operators, such as Comet and Connect. In the more rural locations, competition is more limited, but it is rare for the North Board to be the only electrical retailer in any one location.

Extended credit sales

12.8. There was a marked decline in the percentage of income derived from credit sales between 1979-80 and 1981-82 due to the North Board tightening its consumer credit checking. This produced a substantial reduction in bad debt and turned credit financing from a loss-making to its current profit-making position. The levels of extended credit sales and total income over the past five years were:

TABLE 12.1 Total and extended credit sales, 1979-80 to 1984-85

	<i>Total sales</i>	<i>Extended credit sales</i>	
	£'000	£'000	percentage
1979-80	7,599	1,892	24.9
1980-81	8,047	1,747	21.7
1981-82	8,656	1,450	16.8
1982-83	9,886	1,690	17.1
1983-84	11,659	1,992	17.1
1984-85	13,982	3,146	22.5

Source: NSHEB.

12.9. The credit facilities offered range from periods of 12 months to a maximum of 36 months with an annual percentage interest rate of 27.3 to 27.9 per cent depending upon the term of agreement. Funds to finance credit sales are part of the working capital of the North Board. The level of working capital required for credit sales is determined monthly and interest is charged to the credit sales account at current rates.

Market shares

12.10. The North Board's estimates of its market shares in the major appliance groups for the years ending 1979 and 1984 are given in Table 12.2. The substantial fall in its market share for cookers is largely a result of the development of built-in cookers sold by kitchen specialists.

TABLE 12.2 The North Board's estimated market shares in its area

	<i>per cent</i>	
	<i>1979</i>	<i>1984</i>
Cookers	81	60
Home laundry	13	19
Tumble dryers	23	21
Dishwashers	—	11
Refrigeration	24	17
Fridge/freezers	13	15
Freezers	20	18
Storage heaters	99	84
Microwave ovens	—	16

Source: NSHEB.

Other shop activities

12.11. Over 40 per cent of accounts are settled through the North Board's shops. In addition the shops' staff answer queries on accounts and give advice on methods of payments, change of tenancy and debt. Facilities provided allow the customer to pay by cash or cheque, to purchase or redeem electricity savings stamps and to obtain information and advice on payments schemes.

Appliance servicing

12.12. The North Board told us that its appliance servicing activity provides an essential back-up to the appliance sales function. Most appliance retailers, even the discount stores which started without a repair function, have found it essential to offer an appliance repair service. The North Board emphasised, however, that repair services are expensive to run, especially in large areas with small populations.

12.13. For at least the last ten years the appliance servicing function has run at a loss in the North Board's territory but a major exercise, similar to that described in paragraph 12.3 for appliance selling in the early 1980s, has resulted in an improvement in performance. The current cost loss in 1979-80 of £181,000 was reduced to £10,000 in 1983-84 and was turned into a small

profit of £66,000 in 1984–85. However, the North Board has accepted that so long as it is prepared to provide an appliance repair facility throughout its district, the account is unlikely to be able to earn an acceptable return on a continuing basis on its own. The North Board takes the view that provided the sales and servicing accounts together earn an acceptable return on capital employed, then the servicing activity must be maintained. The profit objective for the account is therefore at least to break even and jointly with appliance sales to earn an appropriate return on capital employed (see paragraph 12.4).

12.14. In the towns and cities there is strong competition from small electrical contractors and retailers. In the more remote areas the North Board is often the only servicing organisation prepared to undertake the work because of the very high cost of travel. A code of practice for electrical appliance servicing has been prepared and published jointly by the two Scottish Boards.

12.15. The appliance servicing function is involved in the following types of business:

- (a) domestic appliance and minor (other) repairs both in the home and in the North Board's workshops, chargeable to the customer;
- (b) 'Extracare' insurance repairs of domestic appliances chargeable to the insurance company operating the Extracare scheme;
- (c) 'in-guarantee' repairs on appliances sold through the North Board's own showrooms and on appliances sold by other retailers undertaken for most major appliance manufacturers;
and
- (d) appliance maintenance contracts mainly for local authorities obtained in competition with the private sector.

In addition the department carries out inspection and maintenance of electrical installations.

Contracting

12.16. The North Board does not carry out electrical contracting work and sub-contracts virtually all wiring work to the private trade. Only minor jobs associated with small repairs to wiring or small wiring alterations to accommodate a new appliance sold by the North Board would, on occasions, be carried out.

Trading results

12.17. The last six years current cost trading results for the appliance sales and servicing accounts separately are shown in Table 12.3. They show the improvement in the results of the appliance sales account since 1981–82 and the gradual elimination of losses in the servicing account referred to above. The North Board does not expect the very high return achieved in 1984–85 to be equalled in the current year.

TABLE 12.3 Appliance sales and servicing accounts—current cost trading results

	1979-80	1980-81	1981-82	1982-83	1983-84	£'000 1984-85
<i>Appliance sales</i>						
Turnover	7,985	8,386	8,955	10,234	12,113	14,332
Profit	334	162	248	368	673	868
<i>Servicing</i>						
Turnover	758	962	1,022	1,142	1,247	1,387
Profit (loss)	(181)	(149)	(58)	(84)	(10)	66
<i>Capital employed (appliance sales & servicing)</i>	4,680	4,946	4,633	5,434	5,788	6,188
						<i>per cent</i>
Return on capital employed in the combined activities	3.3	0.3	4.1	5.2	11.5	15.1

Source: MMC derived from NSHEB data.

Notes:

1. Appliance sales turnover includes instalment credit charges.
2. The profits shown above are derived from the profits shown in the annual accounts but differ from the latter in the following respects. They are on a current cost rather than historic cost accounting basis and are net rather than gross of indirect costs which have been allocated to the two activities on the basis of the North Board's management accounts.
3. The profits shown include instalment credit charges less costs of administration and bad and doubtful debts. Instalment credit financing costs have been added back to the profit figures to show profit before interest.
4. Capital employed is average stock and work in progress. Debtors (ex-ICS) and creditors net to zero. The appropriate shares of shops, stores and depots are included. Instalment credit debtors are included.

The allocation of costs

12.18. The North Board charges direct costs to the appropriate activity. Salaries in the Area Commercial Departments which include the shop staffs are allocated to reflect the time spent by staff on their various activities. Indirect shop costs are allocated as shown in Table 12.4.

TABLE 12.4 Allocation of indirect shop costs (other than salaries)

Size of shop	Percentages allocated to:		
	Appliance sales and servicing	Consumer service	Meter-reading, billing and collection
Large	60	25	15
Other	45	35	20

Source: NSHEB.

12.19. The North Board's allocation of costs is based on estimates of the time spent by shop staff on each of their various activities; the accuracy of these allocations has been confirmed by a method study. The initial allocation was laid down in 1977, revised in 1981 and again in April 1984. The revisions reflected changes in the time spent on sales, servicing, account collection and consumer service. A self-monitoring survey was operated in January 1983 for two weeks to check the accuracy of the current allocations.

Customer survey and complaints

12.20. The North Board carried out a postal survey of customers who had had appliances delivered during the week beginning 13 November 1984. Of

the 713 questionnaires sent out, 54 per cent were returned. The questionnaire covered the helpfulness of shop staff, the reliability and promptness of delivery and the attitude of the delivery team.

12.21. The survey showed high levels of satisfaction with nearly all aspects covered. The highest level of dissatisfaction recorded was in respect of delivery times in the Dundee and South Caledonia Areas where 18 per cent of respondents (22 out of 124) said they were not satisfied with the time taken to make delivery. Nevertheless 98 per cent of respondents in each Area said they would buy another appliance from the North Board.

12.22. The North Board monitors complaints received in each Area under a variety of headings including appliance sales, delivery charges, repairs and maintenance. An analysis of complaints under these headings is shown in Table 12.5.

TABLE 12.5 Analysis of complaints about appliance sales and servicing

Area	Nature of complaint	1980	1981	1982	1983	1984
All Areas	Delivery	5	6	4	13	15
	Condition	24	15	8	7	5
	Miscellaneous (inc charges)	28	15	9	18	7
	Repairs, maintenance and spares	85	47	50	55	46
	Total	142	83	71	93	73

Source: NSHEB.

Appliance servicing: performance analysis

12.23. The North Board has analysed its performance on the appliance servicing estimates for the financial years 1979–80 to 1984–85. The analysis shows that the North Board now answers about 47,500 on-site service calls a year and achieves an on-site repair in 97 per cent of cases—about 70 per cent on the first call. This compares with the objective stated in the North Board's Code of Practice of at least 80 per cent of service jobs being completed on first visit. Over the period the number of on-site jobs completed within three days has fallen from just above 23,000 to about 21,800 or from about 55 per cent to about 47 per cent of all on-site repairs. Similarly the percentage of on-site jobs completed within 18 days of the call has slipped from about 87 per cent to about 84 per cent.

12.24. The Code of Practice acknowledges that the main objectives may be difficult to achieve in certain Areas. In the North Board's remote rural Areas where the distances involved are great and only one or two service electricians may be covering them, the practice is to accumulate a number of jobs in a particular direction so that travelling time between jobs is kept as low as possible. This may mean delaying first visits for a week or more in some instances.

Conclusions

12.25. We regard appliance sales and servicing as being a quite separate activity from supplying electricity and as such should earn an adequate rate of return in its own right. The North Board regards five per cent per annum on a CCA basis averaged over four years as a minimum return for the two activities combined. We believe this to be adequate and recommend that the North Board should formally adopt this as the minimum return for these activities.

12.26. To enable the performance of these activities to be compared against their target and against similar activities undertaken by other boards we recommend that turnover, profit and capital employed for the combined appliance sales and servicing activities on a CCA basis should be shown in the annual report and accounts. This information should be provided in addition to the historic cost data already published on the two activities separately.