StrategicRISK
MAY 07

ROUNDTABLE 2007

RETAIL GROUPS

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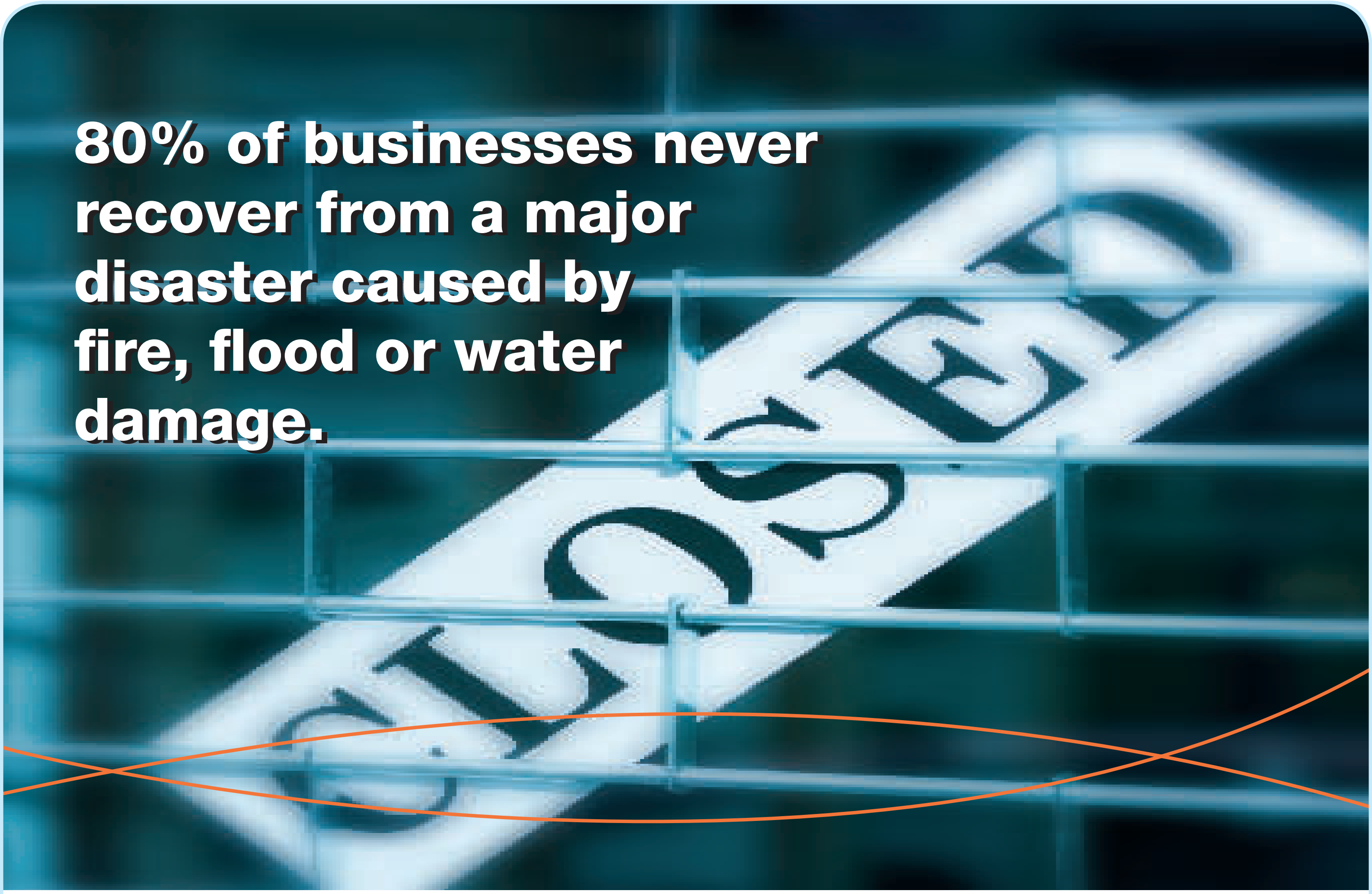
80% of businesses never recover from a major disaster caused by fire, flood or water damage.



Though there is often a tendency to focus on large scale disasters, it is often the apparently smaller risks which cause real devastation and disruption.

Roof leaks, leaking pipes, faulty electrics and poor energy efficiency have until now been impossible to detect until the damage is done. And of course the real cost of property damage is much greater than simply the cost of repair - the business interruption cost and loss of trade can be catastrophic.

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Retail groups

An introduction to the StrategicRISK roundtable discussion by **Sue Copeman**

For retail groups, it appears that only a very few risks, if poorly managed, do not have the potential to bounce back and hit your organisation where it hurts, at the level of brand and reputation. Even things like routine maintenance, such as keeping shop floors clean and dry (slips and trips are a major cause of third party claims), can not only prevent claims, but also build into the customer experience. As one of our participants commented, "You are not going to buy food in a grubby store." A sensible, on-the-spot approach to dealing with complaints before they become claims can also head off potential problems.

The key to the brand protection approach is understanding what your customers' expectations are. These can vary hugely in a retail group with several brand name businesses, and also in those retail groups that are stretching the brand. Expanding into new areas can mean facing different types of risks.

You will not build loyalty if you do not have what customers expect to buy, or if outsourced franchisees do not provide the required standard of service. So supply chain management is also crucial. Continuity and quality assurance pose more issues for risk managers, particularly when the business is outsourcing overseas or sourcing products from small regional suppliers.

Traditionally, in the UK shop workers are not among the top earners. But they are the public face of the business. So how do you incentivise them if it is not through money? Our roundtable participants suggested a range of strategies. Perhaps the most important thing is recognising that we are all customers, and that associates/colleagues/team members (apparently never staff in our enlightened retail industry) need to treat people in the way that they would like to be treated themselves.

Age discrimination legislation has also had an interesting effect on the people issue. Physical fitness clearly is a determinator of what people can do, and we all know that age affects physical ability. So how do retail stores deal with this?

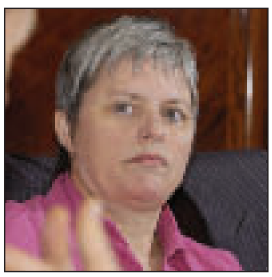
These are just some of the topics touched on in our May 2007 roundtable discussion. I hope you find it interesting!

Sue Copeman,
Editor, StrategicRisk

> **You will not build loyalty if you do not have what customers expect to buy**
>
> SUE COPEMAN

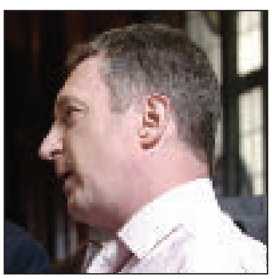
Roundtable participants

Paul Howard,
head of group insurance & risk management,
J Sainsbury plc,
chaired the discussion

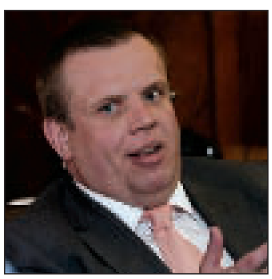


Val Butroyd,
risk & underwriting manager, group risk and insurance department,
the Co-operative Group

Andrew Bye,
interim head of group risk & insurance,
Home Retail Group plc



Richard Longster,
claims team manager,
ASDA Stores Ltd



Paul Williamson,
UK marketing manager,
Munters

John Windsor,
head of insurance,
Marks & Spencer plc

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Retail Groups

PAUL HOWARD: From a retailer's perspective, brand is probably at the forefront of most of the things that we are considering today – what is the impact on our brand from an interruption to our supply, or from selling a particular type of product. Perhaps we could start by looking at some of the issues surrounding brand, reputation and trust from a retailer's perspective.

JOHN WINDSOR: I am not sure what people such as ourselves, as insurance and risk managers, can do to protect the brand. It is the role of everyone within our companies to be thinking about the brand. Our brand is probably the most important thing in our business. If we lose our brand loyalty, we lose everything. Fortunately, my own organisation is in a position of having very strong brand loyalty, which probably saw us through the bad years that we underwent. We have now come through them, having maintained our brand and our loyalty.

I do not know, however, what we, as risk managers, can do to protect brand. All that we can do is to ensure that we do our jobs properly, as far as we can, to influence our risks and to make sure that we do not have large or repetitive claims. When we do have a claim, we should ensure that we deal with it promptly. From our perspective, customer and employee claims need to be dealt with quickly and fairly. As far as customer claims are concerned, we deal with them mainly in-house, quickly and sympathetically. It is obviously economic for retailers to deal with as many things as they can in-house.

PAUL HOWARD: When you are looking at a service provider, such as an insurer or a claims handler, what would you expect them to adopt?

JOHN WINDSOR: They have to be part of the family. We expose our brand in a few ways: we have franchises overseas and in the UK, such as BP garages and motorway service stations. We have to ensure that the franchise operator works in exactly the same way as our own company. In my area, we have recently changed our casualty insurers and we are now with a company where we have to use a third party to handle our claims, which makes an enormous difference.

We have always had our claims handled by only two companies until recently, so the most important thing there was not just a matter of best price, but of best reputation. Once we were in the ball park of feeling comfortable with the people we were talking to, the most important thing was their reputation. They are in charge of our brand, our name, our customers and our employees for a brief period of time, and they can do enormous harm. Luckily, they have not, and things have gone well. We are constantly involved in monitoring them and give them very strict guidelines as to how they can deal with things, including simple issues such as standard letters. A standard letter can be the first letter a customer or employee receives, so it has to be worded just right.

PAUL HOWARD: What's your view, Andrew, from a rebranded perspective?

ANDREW BYE: Home Retail Group is a holding company name that is not about branding. The two trading company names – Argos and Homebase – are the names one would see in the high street or on the internet. Effectively, the Home Retail brand simply brings in some best practices that were not available under the previous

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PAUL HOWARD

ownership of the business and brings more specific deliverables into Argos and Homebase best practices, where they make sense. There is not a significant amount of change from when we were in the GUS family, other than the fact that we are now on our own, so there is greater accountability together with different drivers in the business, such as margins and ensuring that the brands that we have inherited remain strong among our targeted audience.

Something that I found interesting on joining the Home Retail Group and looking at the Argos/Homebase mix, is the fact that we have strong brand loyalty, but target audiences that have different claims profiles and brand issues from the Marks & Spencer/John Lewis-type target audiences. We have different issues to deal with in terms of brand than perhaps other businesses.

PAUL HOWARD: The meshing together of two different brands within one umbrella company is possible, obviously, but what are the dynamics of that?

ANDREW BYE: The rebranded group is about ensuring that we can provide everything for the home, but there are two different target audiences within the brands. People are looking for slightly different things within the Argos and Homebase core brands. In terms of Argos, people are very much looking for things instantly. They go to a store and they want it there and then to take away with them. The brand there is based on price and availability, rather than price and quality, which works.

The Homebase audience, however, goes to Homebase to walk around and get ideas. They are looking to be informed about what they want. At Argos, they know what they want and they pick it off the shelf straight away. Homebase is all about creating images and ideas in terms of what people would like to build or how they would like to design their homes. The branding is different between the two.

JOHN WINDSOR: To a customer, the Argos and Homebase brands seem fairly similar in many ways. How are things dealt with within a group that has brands at both ends of the spectrum, ie a 'bargain basement, stack-it-high'-type of operation and a high-quality, high-value operation? That must be very difficult to deal with.

PAUL HOWARD: I can't think of one.

PAUL WILLIAMSON: It also depends on the motivation of the key objective. If Home Retail Group is to be as big a brand as Argos and Homebase, the way that you shift that is very different if you are happy to have these subgroups within the family. To try to migrate a bargain basement and a high-level retailer together is nigh on impossible, so you then have to think about what the holding company is there to achieve. Too many times, we try to over-brand it. If there are two strong brands there, why do you need another one to confuse the message?

ANDREW BYE: Home Retail Group is not looking to be a high street brand – it is just the holding company. That is the brand for the shareholder, and Argos and Homebase are the consumer brands within it. They have their own identities, so rather than trying to create a brand-new brand, it is purely an investor brand.

PAUL WILLIAMSON: The performance and objectives are going to be very different.

JOHN WINDSOR: So many companies that undergo

mergers or takeovers lose the traditional brand. There is so much historical value in the old name, but it is rebranded under another name and, all of a sudden, everyone is confused as to where that brand belongs.

ANDREW BYE: We often have people thinking Homebase still belongs to Sainsbury's, but that was a long time ago.

JOHN WINDSOR: One of the most sensible things that Wal-Mart did was to retain the ASDA identity.

RICHARD LONGSTER: The ASDA identity has been around for 40 years or more, particularly in its northern roots, from where it has spread out. Brand loyalty is particularly important: customer loyalty and brand loyalty go hand-in-hand. As long as you can retain the customer, the brand will survive.

PAUL HOWARD: You have been very successful in stretching the brand into a number of distinct areas, such as your optician service and the George range. Does that have implications in terms of people using the brand as a one-stop shop, or do they come specifically for George or for food?

RICHARD LONGSTER: Food remains at the core of what people come for. Beyond that, George was initially just a tag-on, but it has become such a significant brand its own right that it would be in the high street as George, stand-alone, if it was not for high street rents. We now have an offer called ASDA Living, with the home range and George clothing in one store, without the traditional food offering. That is going out into out-of-town shopping parks, where rents are lower and where we feel that we can make an impact.

PAUL HOWARD: From a reputation perspective, your optician service carries a different sort of risk to those that you normally face. Has stretching the brand in that way brought any issues with it?

RICHARD LONGSTER: Going into a more professional area, dealing with prescriptions etc, is stretching the

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>
> VAL BUTROYD

brand. However, 10 years ago, ASDA diversified into homeware and Allied Carpets, and we did have problems at one point. We do not want to go that far again, but want to stick to the core brand and stretch it slowly, in a controlled manner, rather than going too quickly in various directions.

PAUL HOWARD: Val, we began by looking at some of the issues surrounding branding and reputation from the perspective of a retailer and a holding company. Is the Co-operative Group a mutual?

VAL BUTROYD: We are regulated under the Friendly Societies Act. We follow best practice in corporate governance, including accounting standards. In our report and accounts, you will see that we meet plc requirements, since that is best practice, but we do have some advantages.

PAUL HOWARD: Would many of your shoppers also be members?

VAL BUTROYD: Yes – that is what we are aiming for.

PAUL HOWARD: Therefore, that will also have some sort of impact on the Co-op's brand and reputation.

VAL BUTROYD: It has gone through many changes, but over the last few years, there has been a serious concentration on identifying what the core business is, so we have moved out of a range of activities that were not seen as core business, such as non-food retailing. We still have our agricultural interest, Farmcare, and the change there lies in the way that Farmcare works with the rest of the business. Farmcare is now the main supplier to the group for potatoes and raspberries and so on, but it also supplies to competitors, which is an interesting situation.

We have concentrated on pharmacy, Funeralcare, Travelcare and food retail and worked out a new brand for them. In the last 18 months to two years, we have started to deliver the new brand, which has been extremely successful. We had a really good year last year and, where we have piloted branded versus non-branded stores, it has been shown to have significant results, which we hope will continue. We think that our brand is becoming more cohesive and that we understand the brand better. We are trying to change the image of the Co-op to somewhere people go to find something that they cannot find anywhere else, which is something that people often say.

PAUL HOWARD: A few words that have been mentioned so far include 'availability' and 'quality', which brings us to another issue on the agenda about risk management in terms of the supply chain. Another issue is globalisation and expanded product ranges. We are all competing to sell a wider range of goods, depending on where we are in the market, and to ensure a good continuity of supply. The area that I would like to explore now is the kinds of checks and balances that we have in our supply chain.

ANDREW BYE: The Argos business certainly has an established supply chain business and, increasingly, it is looking to Asia to source part of its supplies. Effectively, it has its own branded goods manufactured for it and imported into the European Union, a process which is ultimately responsible for itself. We have more of that kind of exposure as a consequence, rather than relying on branded manufacturers to be responsible for quality assurance and so on.

There is a greater reliance on establishing our own quality assurance, and on sourcing the right products for the audience and understanding how they can be used, in terms of the instructions that need to be included with them. You would not necessarily do this unless you have been a major supplier of a particular product, so there is greater awareness of the kinds of product that you make yourself, what your responsibilities are, and what the target audience would do with that product. You might end up with a claim for it, which would have an effect on the entire product range.

The other point about Asia is where the product is manufactured and how exposed the manufacturing plant is, if it is manufacturing for you to order, or if anything happens to it such as flooding. You need to balance having a top-of-the-range factory with adequate controls in place versus having a cheap product made in a factory that burns down overnight, leading to the loss of an entire catalogue of items, with no backup.

Seeing the supply chain in China is an interesting experience. Argos sells 17,000 products through its catalogue, the suppliers of which might make 50,000 units. It is difficult to find factories of a scale that can meet this kind of order. The buying team need to clarify the specifications with suppliers and ensure that the cost base is right. Rather than an insurance issue, it becomes a business risk issue.

RICHARD LONGSTER: Policing the supply chain is very important. We import product from the Far East, as well as from the UK, and we need to make sure that products are of high quality. We piggy-back on the back of our American parents and some of the product that they circulate worldwide.

PAUL WILLIAMSON: How do you make the trade-off between price and quality? I have quite a lot of experience in pharmaceuticals, and pharmaceutical companies ensure that their entire supply chain adopts their quality management systems too, since the smallest piece of rubber in an aspirin might kill someone. It is about them understanding the balance there. Given that the motivation of going to the Far East is primarily price-based, how do you manage the quality issue?

PAUL HOWARD: I do not think that it is entirely price-based; it might be that that is the only place where certain goods are made. Price is a factor, but a greater issue is the continuity and reliability of supply. If a product is dirt cheap, but supply is sporadic, availability is compromised. If you are going to do a one-off transaction, those kinds of things would come into play; however, if it is going to be a ongoing relationship, with our brand on the packaging, there would be greater emphasis on our doing exactly the same checks as we do with everyone else.

JOHN WINDSOR: It is exactly the same for us. We check every one of our food producers and their factories. We visit every single factory before we buy a product from it. There has to be continuity of supply. Flexibility is also very important. Supply must be flexible and reliable, but control is hugely important.

VAL BUTROYD: That is true, particularly when you sell a lot of Fairtrade product, since you have to ensure that all the claims that you are making for it are valid.

ANDREW BYE: Within the Home Retail brand, a lot of effort has been put into corporate responsibility and ensuring that we have similar standards to established businesses in terms of eradicating sweat shops, promoting decent working conditions and so on.

PAUL HOWARD: Does that tie in to things like the integrity of the brand?

VAL BUTROYD: It is about reputation.

PAUL HOWARD: And trust.

ANDREW BYE: In some audiences, it would be a given. People do not necessarily write in about this kind of stuff. From an investment perspective and in terms of a new corporate brand, a lot of time and effort has been spent on corporate responsibility. When we were part of GUS, there were different drivers, and we were just one of many brands in a very large business.

PAUL HOWARD: One of the issues that we are all facing now is that, given the presence of sites like YouTube on the internet, there are no hiding places, so you really must do what you say you are going to do. There are 'suck' sites which give upset consumers an opportunity to promote their gripe against large companies.

ANDREW BYE: Is it like an internally-sponsored blog site?

PAUL HOWARD: You can set up anything.

PAUL WILLIAMSON: That is where I slightly disagree with John's point about how much risk managers can do to contribute to the brand, since the most powerful consumer is one who has been upset, rather than one who is happy. Sainsbury's and Marks & Spencer have gone through phases where they have found things difficult, due to stock issues, for example, but British Airways made a promise to be the world's favourite airline, yet sometimes passengers were greeted at the check-in desk by a surly individual paid the basic wage, and all of its brand promise went out of the window.

People turned away in their droves, because British Airways had set up a promise that it was not prepared to invest in delivering.

PAUL HOWARD: Therein lies one of the key problems of being a retailer. Even in those days, you would have found some people who received a superb service from British Airways, and the problem that all of us face is the issue of consistency. All of us probably have some great stories, as well as some that are not so great. It reminds me of the 'McDonald's factor': you know what you are going to get when you go to McDonald's and you know what the standards are going to be. It is quite difficult for a food or clothing retailer to say that they know exactly what the service or experience that their customers are going to receive is going to be in any one of their stores. The issue of consistency is huge.

ANDREW BYE: Argos has quite a sophisticated product management system and runs its business through a catalogue. Most customers will have done their research in terms of what they want, before they go to a store: the best brand, the lowest price, and what features they want. People buy what they want and they know pretty much how it is going to work, so having such controlled expectations makes things work very well. Many of the claims received by Argos mirror customer expectations as to what is generally provided, apart from for a few expected breakages.

JOHN WINDSOR: We have not even touched on the physical risks in supply chain, such as warehouse security, or political and religious risks. We still run risks around distribution centres, transport, and particularly continuity of supply, since we now source from the Far East and further afield, and we need to know that our product is going to be supplied. If you have overseas warehouses, is your business reliant on one warehouse, one cutting shop, or one particular centre? You have to ensure that your suppliers have business continuity plans and that they can fulfil them. You have to impose your own standards on them.

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RICHARD LONGSTER

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> **The most powerful consumer is one who has been upset, rather than one who is happy**
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> PAUL WILLIAMSON

PAUL HOWARD: You raise an interesting point about a move to the Far East. On the food side, there is a big move back to local sourcing. On the one hand, there are the difficulties concerning global sourcing; on the other hand, there are challenges around sourcing yogurt from one small farm in Cornwall to distribute in a certain number of stores in the West Country, for example. The same concerns about standards apply to both scenarios.

JOHN WINDSOR: You are also managing customer expectations. We have said that we will be carbon neutral by 2012; we are working steadily towards that and making some huge changes. In common with many other retailers, we are labelling our products so that customers know that they have been imported by airfreight, and asking whether they are prepared to have runner beans only when they are in season. We can at least educate people to understand that, if they eat runner beans in November, they have not been grown in Kent. There is somewhat of a dichotomy: rather than discouraging people from buying a particular product, we are just making them aware of where it comes from and what the ramifications are of flying it in from, say, Kenya.

PAUL HOWARD: You are just raising their awareness.

JOHN WINDSOR: We should all be more aware of these issues and accept the ramifications, or do something about it.

PAUL HOWARD: From the Co-op's perspective, sourcing and the range of products available is another huge area. Are you the only one among us that produces too?

VAL BUTROYD: I think so. We produce our own potatoes; we wash, pack and sell them.

PAUL HOWARD: In theory, it would be easier, since you have a greater deal of control – it is 'within the family'.

VAL BUTROYD: It should be, but if it goes wrong, it can be more catastrophic, in some ways. It depends on where in the chain it goes wrong. Not long ago, we had an incident where, instead of potatoes being washed, they were being covered in petrol from the machinery. They were phoning me, asking what my advice was, but I was saying that, rather than an insurance issue, this was negligence.

We recently temporarily lost one of our regional distribution centres (RDCs) in Scotland, due to a fire that started in the seat of a stacker truck. It was in a chilled area, so the seat had to be kept warm. However, it was overheating and, although it was the middle of the night, somebody managed to find it before the warehouse burnt down. The consequences were a big clean-up and two weeks' disruption, but it added cost to our distribution to the Scottish highlands and islands, since we had to ship a lot of product from Halesowen, which is a long way to go. Within two days, however, as far as the sources were concerned, they knew no different, so that was a good test. In fact, things went quite well.

JOHN WINDSOR: That raises the issue of whether you rely on a set of reasonably sized distribution centres or one mega-shed, with resulting consolidation and reduction in costs. When things go wrong, however, what happens?

VAL BUTROYD: Last year, we opened our first national distribution centre. We opened another this year, so we now have one in Coventry and one in Thurrock. All the independent Co-ops are in our distribution chain, so while they are still independent, they share the buying power and the logistics. However, the more you concentrate something into one area, if that is where things go wrong, you have a big problem. In terms of the Scottish fire, it was just a case of deciding what we could move from Harthill to Cumbernauld and Halesowen, and where the nearest chilled depot was.

JOHN WINDSOR: The further that gets away from head office....

VAL BUTROYD: The higher the cost per unit, but that is all part of the claim.

PAUL HOWARD: Expanding this point on how consistent the approach is that we take across our stores, what about employee attraction and retention? Someone raised the point about being greeted by a surly individual, which I am sure would not happen in any of our stores. An employee working at the checkout is the customer's view of what we do as an organisation, and people generally do not like queuing, so absence management is a huge issue.

RICHARD LONGSTER: It is vital to try to energise lower-paid colleagues, because of course how they perform in front of the customer is very important. If the customer goes away with a bad feeling about the store, that will affect your reputation and your customer loyalty. It is extremely easy for a customer to go elsewhere; they have a whole range of shops to go to. What we want is for individual shoppers to come away from our stores having had a good experience. How you try to energise people and get hourly-paid colleagues to 'live the image' is important.

PAUL HOWARD: How many of the ideas that you import from the US into the UK have taken hold?

RICHARD LONGSTER: The 'front of store greeter' is the first one that you will always see in an ASDA store. We are the only retail organisation to have that. They are the face of the ASDA – the happy, smiling face that greets you as you walk into the store and makes you feel welcome, which is very important.

PAUL HOWARD: What about things like morning chants?

RICHARD LONGSTER: I have been with ASDA for five or six months. In the first week of your induction process, there is a bit of 'happy clapping'; beyond that, however, I have not experienced it further.

PAUL HOWARD: It is more about trying to generate a feeling of team spirit.

RICHARD LONGSTER: Yes – especially right at the beginning. You are now part of the team and you sing along.

PAUL HOWARD: Are your people 'associates'?

RICHARD LONGSTER: No – 'colleagues'.

PAUL HOWARD: I think that's the case for most of us.

JOHN WINDSOR: That is so important, rather than just referring to people as 'staff'. We have to make everyone realise that we are all part of the same family, all trying to do the same thing – trying to pay the mortgage – and that we have to keep the customer happy. How often do we interface with customers? Anyone at any of our stores is potentially more important than any of us sitting around this table. That is our bread and butter: keeping these customers happy.

PAUL HOWARD: Some retail chains refer to their people as 'partners'; some, such as Gap and Ikea, refer to them as 'team players'. What themes do you try to bring forward, Andrew, in order to generate a sense of community or family in your two brands?

ANDREW BYE: There is an active drive to try to get the businesses to swap skills, encouraging people to move between Argos and Homebase and to take experiences with them. In that respect, in terms of employee attraction and retention, you are not stuck in an Argos-type catalogue environment or in a Homebase-type DIY environment. The ability to move across is quite interesting for some people. There are also some benefits to the business. Although they are different types of businesses, you can gain some good ideas, not just in terms of customers but also how the stores operate and how distribution works behind the scenes. Only a very few people within Argos see the customer, whereas Homebase is very much a live environment, with many customer touch points. Other than those working in the back warehouse, employees are much more engaged.

PAUL HOWARD: John, you mentioned franchising. How do you instil the brand name across different franchises?

JOHN WINDSOR: We give people a degree of training, even though they are employed by another company. We put them in a Marks & Spencer uniform, so they have to do things the Marks & Spencer way. There are key performance indicators (KPIs) and contractual relationships. I have not heard of any difficulties with our franchises in the UK or overseas, but it is a case of constantly having to drive home the message that they are representing us.

In our own stores, we have to sell ourselves to colleagues to come and join us, because there are many areas in the country where it is now becoming difficult to attract staff. People have a choice of working for 20 different retailers and, in some parts of the country, there are not enough staff to go round, so you need to stand out in terms of wages and bonuses, and offering a good place to work, along with the paternalistic things that were commonplace years ago before disappearing. You have to treat people properly and have them realise that what they are doing benefits the well-being of the company, which translates into rewards for them.

VAL BUTROYD: The Co-op is different in that we are made up of a lot of small convenience stores rather than big superstores. A small store in a village might have colleagues who work from 8am to 10pm, but they are never all together, so doing anything with them is difficult. By the time they have stacked the shelves, cleaned up and seen to customers, there is not much time left for training, so the issue is around finding ways to make that work. There has to be something about what makes us different.

First, we are present in small villages and market towns, so we are a good part-time employer of people who quite often live just around the corner. Internally, we are looking at all sorts of schemes whereby colleagues can be nominated for an award if they have done something exceptional, and they receive an accolade in the internal journals.

We have also started what we call a Talkback survey, done by an external company across all employees in all

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JOHN WINDSOR

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the different businesses. It looks at their engagement with the business, and I am really impressed with how they have looked at all the signs where things are not good and seriously targeted them. Every senior manager has been given an objective to improve these engagement results, which sounds as if they could just go through the motions, but they are really making it work. It has an interesting effect on colleagues. People believe that you are taking them seriously.

One of the things that we are trying to do is in the area of the Co-op brand, which is not just about it being the local shop where you can organise a funeral and a holiday, but about it being different, with a political history aligned with the Labour Party, and wanting to be seen as an ethical trader. It can do that more easily, perhaps, since it does not have external shareholders to keep happy, since its shareholders are its members. These include our corporate members but because they all have the same political ethos, those issues should not be a problem. They are all in it for the same reason. We might not be the best payer, but we are a nice company to work for; we believe in what we say and we treat people right. It is these touchy-feely, intangible things that make people feel good about working for the Co-op.

Obviously, if you are isolated in a store somewhere not particularly nice, in an area with a terrible claims experience, your experience is going to be different to someone in a nice little market town. However, we look at places that do well, and at the good and the bad aspects, and at the differences. Interestingly, it might be in a fairly bad area, but if you have a good manager, sales will be good, staff will be happy and claims will be lower. It does not seem to matter where it is, so you then ask what makes this person a good manager and why they are performing in a way that makes them different to other managers. It is not just about money.

JOHN WINDSOR: It comes down to treating people properly.

VAL BUTROYD: It is also about making people feel valued and supported. Ultimately, however, commercial reality has to come first.

JOHN WINDSOR: What you said about managers is important: they need to have senior support. We put all 50,000 of our colleagues through a customer training exercise. It was a mammoth expense, but it worked. Much of it is not about reinventing the wheel, but simply reminding people what the right way is to conduct themselves. It came down from the very top in the company and had a major effect on the way that our stores treated customers. It was part of the catalyst of our improved results and, if you cannot get it right in stores, you will not get it right anywhere. Remuneration is still important, so we have an achievable bonus system and staff can see a correlation between doing the right thing and financial reward.

PAUL WILLIAMSON: The cultural thing about giving people an opportunity to make a difference is an important one. In terms of the engagement that the Co-op is doing, I have seen it across a number of different businesses. They employed Six Sigma, but in essence it is a Post-it note on a whiteboard. It might be the lowest colleague in the food chain, but because they are working on that particular machine and in that particular environment, they are best placed to make the difference. The corporate objectives and messages are very important, but the bottom-up belief is just as important. If they feel as though they are engaged and can take some responsibilities to make improvements, you will really start to make a difference.

PAUL HOWARD: I think they will if, as John said, they know there is senior-level commitment. It is the feeling of 'we are all in it together'.

PAUL WILLIAMSON: They have to see some action from it. There might be 20 ideas, 15 of which are thrown out for being silly, but if one idea is adopted, they can see that commitment growing within the business.

RICHARD LONGSTER: We are all consumers, as are they, and they know how they want to be treated when they go into a store. It is getting that balance shifted, so it is about providing that sort of experience to a customer, to treat them as they would like to be treated.

VAL BUTROYD: Last Christmas, staff were able to volunteer to work in a local store. Until we merged with United, we did not have many local stores, and a whole host of people – including our chief executive – took the opportunity of working in their local shop for a day and helping them out during their busiest time.

JOHN WINDSOR: We all do the same thing.

PAUL HOWARD: I was stacking shelves at Easter.

VAL BUTROYD: It is a good idea.

JOHN WINDSOR: It makes a difference and makes people realise what goes on.

VAL BUTROYD: It also enables people in the stores to see head office differently.

JOHN WINDSOR: Again, it is all part of the partnership: a family, rather than 'them and us'.

VAL BUTROYD: Breaking down barriers.

PAUL HOWARD: Richard alluded to the point about treating people how you would want to be treated. Many of the issues that we would face might come from a distressing incident in store, or potentially a complaint, and it is quite often how the first-line colleague deals with it that makes it a complaint but a happy customer, or a complaint and potentially a claim. What strategies do you adopt when you put that forward in stores?

RICHARD LONGSTER: We provide stores with an amount of money that they can use at the first line to deal with customer claims. They do not have to refer that to head office or to the insurance department. They have the authority to deal with claims and get them resolved in the first instance. It is much easier and cheaper to resolve claims as quickly as possible, especially when dealing with people whom you may know or have seen before, rather than having to refer it to a faceless, nameless person somewhere else.

JOHN WINDSOR: I attended a seminar recently, where someone mentioned his wife having a small incident in a store 25 years ago dealt with sympathetically and quickly, and she has been a loyal customer since then. What would have happened if she had been dealt with differently and told that her claim would have to be referred to lawyers etc? It was a case of doing the right thing, at the right time.

PAUL HOWARD: In addition, how many people would she have told about her experience?

JOHN WINDSOR: We all know that, the quicker and more informally you can deal with a claim, the cheaper it will be. If you have done something wrong, you should hold your hand up and say sorry. Apologising to the customer if there has been a case of negligence, and having them understand that you take it seriously, is really important.

PAUL HOWARD: The point there is that we might not have done something wrong, but we are genuinely sorry that the incident has happened.

VAL BUTROYD: Saying sorry is not admitting liability. That is what we tell our store managers. What worries them is that they are unsure of what they can and cannot say. A bunch of flowers and a taxi home make all the difference in the world.

RICHARD LONGSTER: Along with a few phone calls later on: 'How are you doing? Is there anything more that we can do?'

PAUL HOWARD: Another risk issue is managing our properties in terms of planned maintenance and looking at what is reasonable to do. If stores are not open, we cannot serve customers from them. Planned maintenance is always an issue that people look at as an easy target in terms of costs.

VAL BUTROYD: That is the biggest problem.

PAUL HOWARD: Val mentioned that we all have stores in 'challenging' locations, which will require more attention.

I tend to find that, if a store is well-used, it requires more maintenance than one that is not so well used or in a remote area. What sort of things do you look at in terms of planned maintenance?

VAL BUTROYD: Planned maintenance is not something that I am particularly aware of, except when I am involved in arguments about it not being budgeted for and requiring store managers to fill a pothole, for example. Things like that do not fit their schedule, and I have not yet worked out what it is that we need to make that work together. They have a set amount of money and they will have large projects, such as the rebranding and refurbishment of stores, but that should not take away from the day-to-day maintenance. If potholes are filled in straight away, there will be no more incidents; if they are not filled in, store managers are responsible for every incident that happens.

ANDREW BYE: How many of your stores do you own?

VAL BUTROYD: We own a lot. In recent acquisitions, we have gone more for leasehold, but we traditionally owned all stores.

JOHN WINDSOR: That is a lesson that we learned recently: you have to have planned maintenance, whether it is your own property or leasehold. When you are a tenant, you have to ensure that you know what the landlord's maintenance programmes are and that they are doing the job properly. We had an issue a few years ago when it appeared that the maintenance schedule was not as good as we had thought, and we had a major claim as a result. We are, therefore, now looking much more carefully at what landlords do and taking a bit more interest in that.

It is vital to try to energise lower-paid colleagues, and how they perform in front of the customer is very important

RICHARD LONGSTER

When it is your own property, budget is important. You have to make people understand, like you said, what will happen if they do not put things right. We have moved a long way from the old days when people assumed that the insurance company would pay for any claims. When you have a captive, it makes it easier to pass on a cost to colleagues at the sharp end. There might be insurance involved, but since it is coming out of our back pocket, it affects everyone's bonus. Spending £5 might end up saving £1,000.

VAL BUTROYD: One of the discussions we had was about whether we, as the insurance department, should be putting some money aside in order to say, for example, 'Here is £500 to fix that pothole'. It shifts the argument, but it does give you an element of control. If you know that, at one store, there has been more than one incident because of a repair that has not been made, we ought to be able to go in and say, 'That needs to be done now', and worry later about whether I get the money back from the retailer or whether I pay for it out of my own budget.

It is also about making people feel valued and supported. Ultimately, however, commercial reality has to come first

VAL BUTROYD

JOHN WINDSOR: If you do not have the budget yourself, you need to be in a position to influence somebody else.

VAL BUTROYD: The first claim might cost you £100; the second one might cost you £10,000.

PAUL HOWARD: If you go upstream from the claim scenario, the argument with the retailer is sometimes easier if it is about how easy it is to shop in the store. If you pull up in the car park, find a trolley and go over a large pothole as you are trying to enter the store, you are not going to want to come back – you will go to a competitor down the road, and we are all in the position of having world-class competitors. Customers are promiscuous and will go elsewhere, and we will lose them in that way.

VAL BUTROYD: It also spoils your reputation. It is like going into a store and noticing that the floor is dirty or grubby. You are not going to buy food in a grubby store.

JOHN WINDSOR: You only need a few stores like that in your chain and that is what people will think.

PAUL HOWARD: A few years ago, at an Institute of Risk Management (IRM) lecture, Clive Woodward gave the example of the Australian dentist, Paddy Lund, who is keen on customer service. In his book, Critical Non-Essentials, he gives an example of a friend who went to a renowned restaurant where it was impossible to get a table for weeks. The friend said that the toilets were quite dirty. When Paddy Lund went to the same restaurant, he found that the room was beautiful, the service great and the food was lovely, but that the toilets did not fit with the rest of the building. For him, the critical non-essential was that the toilets were not quite what you would expect. You then start to question other things about it, so if it is difficult to shop in the store, and if colleagues are surly or uninterested, those are things that will stick in people's minds more than the fact that the shop has everything that they need.

Another issue that we have all faced to a certain extent is that consumers are becoming much more certain of their own rights. Years ago, if you went to one of our stores on a Saturday morning and all the bread was sold out, it would be your own fault for getting there too late. Now, if there is no bread, the store is considered to be useless, so there is a big difference.

Having touched on planned maintenance, we could not go through today without mentioning global warming at some stage. We experienced more 'freak' weather, with the high winds and storms a few months ago. Do you think that that puts a greater emphasis on us carrying out different checks on our stores?

ANDREW BYE: That is a good point. We have to make sure that our drains are clear and that car parks are not flooded, so that customers are not prevented from visiting our stores. If it is too hot, even temporary air conditioning would help customers queuing and waiting. Alternatively, it would be nice to give out free water. Things like that might sound inconsequential, but on a hot day it might make the difference between making the experience pleasurable or not. That is not necessarily part of risk management, however.

PAUL WILLIAMSON: I went to the Business Continuity Planning 4 Retailers conference last year, where every speaker spoke about large-scale incidents. What occurred to us was the need to mitigate risks such as faulty electrics or leaky pipes or roofs, rather than the big issues. We began gaining traction with retailers on such subjects as checking electrics, doing flat-roof surveys and ensuring that pipes are not leaking. You all have very clear ideas about the impact of a store being shut or a distribution centre being closed for 10 weeks for restoration, so our approach is about how we can mitigate some of the hidden risks.

VAL BUTROYD: That is really interesting, because that makes planned maintenance way more important. If your planned maintenance is up-to-date, you will have done all of that.

PAUL WILLIAMSON: The other thing that we have been talking to some groups about is CO2 emissions and being carbon neutral, which entails checking the building infrastructure. We can identify whether heat is escaping and can start to do some planned maintenance to correct that too. We are all very clear, not only about the ecological cost of it, but also about the financial cost of heating or cooling premises that do not need heating or cooling.

ANDREW BYE: Buildings with a lot of glass just become greenhouses.

PAUL HOWARD: On the food side, you do not need a huge change in temperature to put a lot of chilled products out of temperature, which then have to be thrown away.

PAUL WILLIAMSON: In our experience, at many of the properties that we attend, incidents have been started by the most innocuous things. About two months ago, there was a small electrical fire at a store in Kent; overnight, the whole building burnt down. Those are the things that we are trying to promote to people to be mindful of, as part of their ongoing maintenance.

VAL BUTROYD: There was a case during last year's really hot weather where a store burned down. Rather than arson, it was caused by a discarded cigarette in vegetation next to the store. The fire spread to a climbing plant on the store wall and up into the eaves. During that hot weather, the minute anyone dropped a cigarette butt, it would have set fire to whatever was there.

PAUL HOWARD: On some occasions, due to the planning conditions for our stores in various places, we will have to disguise them in some ways with foliage, which can lead to greater risks of fire. We might need to landscape areas, which could affect the water table etc. Are those specific risks that you will be mitigating?

JOHN WINDSOR: They are common sense-type issues. It is the same as not leaving wheelie bins up against the building at night. A large part of it is common sense, either in the planning sense or in day-to-day operations.

PAUL HOWARD: If you really want a store in a certain location, and the proviso is …

JOHN WINDSOR: It could be the financial driver.

PAUL HOWARD: …That it must be shielded from surrounding houses by a particular …

VAL BUTROYD: You just need to ensure that it is maintained.

PAUL HOWARD: That comes back to planned maintenance.

VAL BUTROYD: It requires 10 minutes of somebody's time. One of the projects led by our surveyor is going to be looking at the way we maintain vegetation around our stores.

ANDREW BYE: For us, leaks are one of the biggest issues in terms of the injury claims that we receive, with people slipping on wet floors in store. They could be caused by drains that have not been cleared out properly before a heavy downpour; they could be caused by leaks dripping down from the ceiling following excessive rainfall; or they could be caused by water being brought in on customers' shoes. Returning to the point about giving out free chilled water to customers in stores, we decided we would have too many customers slipping and hurting themselves because people would just leave bottles lying around.

PAUL WILLIAMSON: Water causes damage so quickly too. Depending on the water pressure, a hole in a pipe can leak 20 litres of water an hour. If that goes unnoticed overnight, that is a major problem.

PAUL HOWARD: In terms of customer claims, the highest level of risk for us would be slips and trips. Colleague claims would be mostly around manual handling. What different strategies are people looking at to try to combat these kinds of issues?

RICHARD LONGSTER: It is a matter of getting people on the ground to be more aware of what is going on around them to avoid slips and trips, and the management at each store encouraging hourly-paid colleagues to not walk past rubbish in aisles, for example, but to do something about it, or to arrange for potholes in the car park to be repaired. It comes back to creating the shopping experience: you do not want people to come into a store, to see it dirty and untidy, and to find spillages on the floor. It is about encouraging people to be active rather than reactive, and to attend to something when they first see it, rather than leaving it for somebody else to deal with. If everyone thinks somebody else will do it, it will never get done.

JOHN WINDSOR: It is all about ownership: 'If you do not do it, X will happen'.

VAL BUTROYD: One of our regions has a system of sweeping logs, and our claims people liked this because it makes claims much more defensible. The rest of the regions, more or less, have a clean as you go policy. We have had a debate on this, because claims really want us to make the whole of the business use cleaning logs. But if there are only three people in a store at any one time, they do not have the resource to do it, although they will clean as they go. I charted all of this and found no difference in the claims experience – the curve is the same. Some areas were better and some were worse, and it was not the case that the region with the sweeping logs system was the best. As long as clean as you go is done properly, the number of incidents occurring is reducing. The cost of claims is going up, but the number is reducing, because we are managing it better.

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The other thing that we have been talking to some groups about is CO_2 emissions and being carbon neutral, which entails checking the building infrastructure

PAUL WILLIAMSON

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RICHARD LONGSTER: That is when the cleaning logs come into their own. If you can adopt some form of dual system, you have the documentation for when the incident occurred, and another system that will prevent the incident occurring in the first place.

JOHN WINDSOR: It makes it very difficult if you are in court without a cleaning log.

VAL BUTROYD: A court would view a small store with one centre aisle differently to a superstore, and rightly so, because what you can do is not the same.

JOHN WINDSOR: We do both, which we have to, in order to be able to defend our position. The cleaning log does not cut down on the number of incidents, but it does help you to defend a claim.

RICHARD LONGSTER: A very small store would probably not have a janitor or a cleaner. Somebody may come in early in the morning or in the evening, just to clean the shop, or there may be no one whatsoever and it may be just the responsibility of the manager to organise cleaning with the resource that they have available. It may simply come down to a floor inspection; if you can substitute a floor inspection for a cleaning log, it may give you something to work with.

JOHN WINDSOR: That is pretty much what our sweeping log is: regular checking of the condition of the floor. If it needs to be swept or cleaned, it is, but it is just a log that states that, at a certain time every day, the floor is clear.

PAUL HOWARD: Another aspect that we might consider discussing is fraud prevention.

ANDREW BYE: What has interested me, being new to retail, is a move away from paper vouchers towards electronic vouchers. This is one way of preventing theft and fraud. If books of vouchers are stolen during a robbery, or stolen by staff, it is difficult to invalidate those vouchers. With the electronic vouchers, so far, it has been far easier to manage the third-party fraud aspect, and at the same time, staff collusion has been far easier to identify. Paper vouchers seem to have almost disappeared now.

PAUL HOWARD: Vouchers are quite an interesting topic, since such a huge number are never redeemed, so the question is: how big is the risk?

ANDREW BYE: I am more interested in controlling the fraudulent aspect around people stealing them and trying to redeem them.

JOHN WINDSOR: In effect, stealing vouchers is the same as stealing money.

PAUL HOWARD: Hence procedures for vouchers should be exactly the same as they are for cash, which is what they are, effectively.

JOHN WINDSOR: Another difficult area is the corporate voucher market. It is probably more difficult to deal with electronically. We sell huge amounts of vouchers through third-party promotions. For example, if you phone one insurer for a quote, you get sent a Marks & Spencer voucher. Another channel which we need to think about is staff incentives, and it is much easier for them to have paper vouchers.

PAUL HOWARD: Perhaps finally we could briefly discuss age discrimination.

VAL BUTROYD: There are a lot of issues here. I do not know whether we have an older than average workforce, but in areas such as Funeralcare, we have tended to employ older people in the belief that they are more sympathetic with clients. The problem is that they generate more manual handling claims, since they are not young enough to be moving coffins around etc. It has already had an impact on us in terms of the number of claims that we are receiving.

We also have a scheme whereby, if someone is made redundant, they are given two years' life cover, equivalent to their salary at the time. The proviso used to be up to the age of 65, but now that proviso has gone. We are now making people redundant who are in their mid-70s, but of course the chances of people in this age bracket dying within two years of making them redundant or even while in service have to be greater. Is your experience the same?

PAUL HOWARD: We have 500 colleagues over 65; our oldest colleague is 92, and he did not start working with us until he was in his late 70s. This particular colleague is a 'trolley boy' and absolutely refuses to go into the store because he loves being outside and working with the trolleys five hours a week. He retired from his previous job in his mid 70s, but then lost his wife, so he does this for some social interaction.

Along with many retailers, we are positively welcoming over-50s to work in our stores. So far, we have not found it to be such an issue. The tasks that they do have to be risk assessed, because they will not necessarily be doing the same kinds of things as an 18-year-old. However, the same would have to be done for someone who was 4ft tall and someone who was 6ft tall; it is just looking at things in a slightly different way.