

# Initiative for the Future - Attachment Schedule.

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## UK & ROI Finance Director Email.

Hi All,

The UK Leadership have asked us to report back on a number of new initiatives under consideration – see attached for further details.

Please can you get back to me by Friday 9th April with a completed business case on one of these initiatives. Please make sure:

- The business case includes both financial and [non-financial](#) components
- Includes consideration of the impact on all of our [stakeholders](#), internal and external to the business.
- We consider impact to this year's and future year's [profit](#)
- You think about the [big picture](#) – i.e the economic/social environment the business is currently operating within
- You conclude by recommending whether we should, or should not, go ahead with the initiative.
- You clearly explain why you think we should, or should not, go ahead with the initiative
- You think about how best to present the information, focusing on [landing the message](#) clearly and effectively

Many thanks,

**UK & ROI Finance Director**  
**Finance**

# Scenario 1 – Drone Delivery.

## Proposal Summary

Following the technological advances in drone technology in recent years, and particularly the increase in their reliability and affordability; the business would like to explore the possibility of drones being used to deliver groceries to our customers. This is seen as one of the potential solutions towards the fulfilment of ever increasing online customer demand – particularly ‘[small baskets](#)’. There is also a strong sense that some of our competitors may be about to move into this space, and we don’t want them gain any [first-mover advantage](#). Drone delivery will also see us take a step towards achieving the [environmental commitments](#) we have made.

## Project Manager Email

Hello, I hope you are having a good week. I’ve had some meetings with teams across the business including: [Fulfilment](#), Online, [Insight](#) and Stores. Here are some thoughts from me to help with your London Drone Trial business case:

### Main Costs

The leadership have decided to explore a subscription model with a specialist drone firm. This means we will pay the firm an annual fee depending on the number of deliveries that they make each year.

- The costs that the drone firm are quoting are shown below. I have also shown the amount of deliveries we expect to make over the next three years (based on current small basket van deliveries).
- The company also charge a maintenance cost for every 10,000 deliveries we make – I’ve included the quotes for this too.

Delivery Demand	Year 1	Year 2	Year 3	Year 1 Costs	Number of annual Deliveries made		
					< 0.2m deliveries	0.2m - 1.5m delivers	1.5m+ deliveries
Today's Estimated Annual London delivery demand: 'Small Basket' (deliveries suitable for drones)	100,000 deliveries	500,000 deliveries	1,400,000 deliveries	One-off annual Cost charged by the Drone company	£500,000	£800,000	£950,000
Year 1 Costs	Maintenance cost per every 10,000 deliveries made	£5,000					

- Please be aware, the drone company say they will increase all of their prices by RPI inflation in year 2 and year 3 – **RPI is 2%**. (This has not been included in the above costs yet)
- Also, the insight team think that today’s estimated delivery demand numbers (based on van deliveries) may not be telling the whole story. They believe that given the excitement of drone delivery, years 1 - 3 delivery demand numbers should be 10% higher than shown above.

### **Current Van deliveries to London**

The Fulfilment and Product teams tell me that customers spend on average **£10** on a ‘small basket’ shop (one which delivery could be made by drone)

- The commercial margin we make on such a basket is on average **£1**
- It then costs us on average £4.50 to distribute, pick, and then deliver this product to a London address via our delivery Vans.
- The customer currently pays a delivery fee of £3 on small basket spends.

### **Proposed Drone deliveries to London**

The Online team believe that the speed of a drone delivery (max 30 mins to anywhere in London once picked) + its technological appeal means we can change our delivery pricing.

- We believe we could increase delivery fees to £6, without any loss of demand.
- The Fulfilment team also believe that to distribute, pick and then deliver to a London address via drone would cost only £3.50 – I’m waiting to hear back why there is a reduction in distribute, pick, and deliver costs with a drone than with a van – can you think why and include in your business case?

### **Other Costs**

- Training provided by the drone company will initially cost **£3,000** per store in the first year the store operates the drones. Refresher training in years 2 and 3 will cost **£1,000** per store.
- We anticipate 100 stores will operate the drones in year 1, another 50 stores in year 2 (total 150) and 50 more in year 3 (200 total)
  - We are yet to select which stores these should be – Can you comment on which type of store might be best for drone delivery in your business case?

This obviously doesn’t cover everything, but hopefully this is enough to get started with – let’s pick up at the end of the week.

### **Project Manager, Strategic Projects**

## Scenario 2 – Store Spacing.

### Proposal Summary

Recent years have seen a big shift towards online sales of General Merchandise (Non-Food), away from in-store purchases. Enhanced delivery times and ease of purchase, means people prefer to buy their TVs and other electronics in particular, online. These bulky items take up a lot of store space, and offer us relatively little margin. The business would like to explore whether we should realign some of this store space towards other more profitable product areas. Clothing has been a particular growth area for the business in recent years, and so the business would like to explore whether our F&F brand can use this General Merchandise space more profitably.

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### Project Manager Email

Hello, I hope you are having a nice week.

The leadership have asked me to work with you on the [Store-Respacing](#) initiative. They want to specifically look at reducing the store space given to Electronics, and replacing this with our F&F clothing.

The plan is to do this first within our stores in Wales. I've had a few meetings already across the business including with the Property, General Merchandise (GM), F&F and Insight teams. Here are some key points from each meeting to help with your business case calculations:

#### Property Team

- The proposed trial will take place in 15 Extra stores within Wales. The leadership would like to consider the three year impact of this change.
- The aim is to convert 2 aisles (total 40 square meters) currently dedicated to TVs and other bulk electronics, to 3 aisles of F&F clothing (total 40 square meters).
- The cost of dismantling electronics shelving will be £1800 per aisle per store. The cost of replacing with clothes racks will be £1200 per aisle per store
- Our F&F areas have wooden flooring, this costs £900 per square metre to buy and install. It costs £100 per week to maintain wooden flooring in each store.
- It will take 4 weeks in January to convert each store, during this time no sales of Electronic items will be made on the aisles to be converted.

### GM

- On average (for year 1) customers purchase **£20,000** worth of products each week from 1 electrical aisle in a Wales Extra.
- The average [operating margin](#) on these products however is only 1%

### F&F

- On average (for year 1) customers purchase **£3,000** worth of products each week from 1 clothing aisle in a Wales Extra.
- The average operating margin on these products is 12% - do you know why the operating margin is higher for clothing than electronics?  
You may want to cover this in the business case

### Insight team

- We anticipate demand for in-store electronics will decrease by 10% in year 2 and an additional 10% in year 3, because of a move to online purchases.
- We anticipate a 10% increase in demand in year 2 for clothing and a further 12% in year 3, because of the growing success of our F&F brand.

This covers most financial points and is hopefully enough to get started with - let's pick up at the end of the week.

**Project Manager**  
**Strategic Projects**

## Scenario 3 – Cashless Stores.

### Proposal Summary

3 years ago, debit cards overtook cash as the most frequently used payment method in the UK – this trend is only set to continue as payment technologies become more advanced and accessible. The business currently spends a lot of time and resources accepting cash and performing cash routines such as transportation and security. The business would therefore like to explore the possibility of making some stores in the estate cashless. Part of this would involve investing in and improving new payment technologies such as contactless – in doing so demonstrating our embrace of technological innovation.

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### Project Manager Email

Hi,

I hope you're having a nice week.

The Head of Express Stores has asked me to work with you on the 'cashless store' initiative.

We recently trialled a cashless Express store and they would like us to put a business case together to see if we should make all Greater Manchester Express stores cashless.

We already have the technology for cashless tills developed and ready to roll out. Below are some figures that may help you with the business case:

- We have 100 Express stores in the Greater Manchester region
- Each Express store has an average of 4 tills (a mixture of colleague operated and self-checkout)
- The cashless tills cost £645 each and it costs on average £150 to replace each till
- Additional maintenance for each till per year is £75

We have a number of costs currently associated with taking and holding cash:

- It takes one colleague an hour at the end of each day to count the cash for that store. If we become cashless the colleagues can go home an hour earlier.

- Shop staff receive an hourly rate of £9.30 (this includes national insurance, tax and other costs of employment).
- We currently have to pay security people to collect, transport and manage cash, on average £50 per store per week.
  - Could the reduction in transportation help with our [Environmental Commitments?](#)
- We also lose about £1,000 per store per year from theft or fake notes.

Some other things to consider are:

- We have a cost of taking card payments of 0.05% per transaction, paid to the card company.
  - Our average [transaction](#) is £17.25 in Express Stores and on average we have 780 transactions in an Express store each day.
  - Currently on average 280 of these transactions are made using cash each day. These transactions would be made by card if we move to cashless stores.
- All costs are subject to [RPI inflation](#) which we assume is 2% a year (this should be applied to years 2 and years 3 only)
- We can assume 365 annual trading days (days the stores are open) for this business case
- It could cause a lot of disruption to customer if we made the changes all in one year. Would you suggest changing the tills over 2 or 3 years instead?
- Should we be concerned about how our customers may feel if we take away the option of using cash to pay for their shop? Could we lose or gain customers?
  - Could you do some research and include this in the business case too?

**Project Manager**  
**Strategic Projects**