VALUING YOUR TALENT

Valuing your Talent at Halfords

'We're not doing this out of the goodness of our hearts. We're not training people for the sake of it. We are training people so that we can leverage that experience to drive sales. That's the strategy.' Matt Davies, CEO, Halfords

Halfords, a specialist retailer of leisure and car products, provides a useful current case study of effective human capital management reporting in action and demonstrates the importance between the successful alignment of business and HR strategy underpinned by clear HCM measures.

In May 2013, the new CEO of Halfords, Matt Davies, took the opportunity, during a discussion of the company's preliminary results to investors, to reveal the board's strategy to restore performance in the company to what he believed would be a permanently higher level (Halfords 2013).

Addressing an audience of investment analysts, and combining narrative and data in a way that would later be supported in the company's 2014 annual report, Davies took considerable care to describe the strategic challenges that explained Halfords' poor performance to date, and the human capital-centric means by which he intended to transform the company's performance.

With around 70% of its customers requiring some form of advice in order to make a purchase, Davies confirmed that Halfords was a speciality retailer. 'Specialism is something we should celebrate,' he said. 'That's our business. We're experts.'

Yet Halfords' customer satisfaction rating measured using a Net Promoter Score (NPS) ranked alongside that of low-cost organisations competing on price and generalist retailers that compete on assortment and range: not on expert service.

And because previous management teams had failed to recruit the right staff and to equip employees with the product knowledge required in their role – and because they had failed to embed a service culture into the company – Halfords had left itself vulnerable to competition from business models that were not encumbered by high staff and product choice costs.

Pointing to data that showed that more than 20% of Halfords' staff left the company in the first three months of their employment, Davies explained that measures such as employee turnover have historically illustrated a significant challenge for the business:

'Recruitment, training and retention of great people has not been part of Halfords' core focus in recent years. We consequently have a large churn of people. All the time people are leaving and joining, leaving and joining; it's like a merry-go-round.'

That explained why Halfords had experienced declining like-for-like sales in 10 of the 13 quarters prior to Davies joining the company – and why his diagnosis of the strategic challenge that confronted Halfords focused on recruitment, on training and development, and on employee engagement.

Although prior management could not see the solution, the treatment Davies arrived at was simple. He had 'never seen a specialist retailer where expertise is more important than Halfords' and the new level of service to which he was aspiring would be something that Halfords' main competitor – supermarkets – would never be able to deliver, and something which would give Halfords a clear advantage over online-only competitors that have no stores or colleagues on the ground. His message to investment analysts was clear:

'So what we need to do is we need to engage our colleagues, as we know that highly engaged colleagues result in satisfied customers. So our programme makes recruitment development, and retention of people, a core KPI. This particular investment will be the most important investment we make in the next three years.'

In all, Halfords would invest around £50 million over the period to improve staff recruitment, training and retention processes.

Davies funded Halfords' investment in HCM and additional investment in store refurbishment and digital strategy by cutting the company's dividend by 35%. That got the attention of investors, who marked the company's share price down by up to 19% on the day of the announcement.

However, based on the questions Davies received from the sell-side analysts to whom he unveiled his strategy, very few appeared to see the value in the HCM narrative that Davies related to them. In the hour or so that followed his address, Davies fielded around 22 questions from the audience – only three of which could be said to be related to the training, development and retention issues that he said were absolutely central to Halfords' strategic differentiation and performance.

Analyst questions were more concerned with:

• How much space would Davies be dedicating to parts, accessories and clothing?

• What would be the cost saving to Halfords from its business process technology investment?

• How do the company's price points compare with the competition?

• What will happen to square foot expansion?

• What is the revenue split between high-end and low-end bicycles?

• What would the company's level of capital expenditure be going forward?

• What would the depreciation charge be over the course of the company's capital expenditure programme?

• What would the change in rental on new store leases be?

Echoes of those questions have accompanied every discussion of Halfords' results ever since, and even Davies himself stopped talking at length about his company's HCM strategy when he addressed analysts.

Afterword

A great deal has happened to influence the business and share price performance of Halfords since Matt Davies gave his initial address to analysts in May 2013 – including Davies being recruited as CEO of UK and Republic of Ireland Retail at Tesco.

Commenting on results at Halfords in May 2014, Davies accepted there were many contributory factors to like-for-like sales growing at a rate of 6.8% when the company reported its interim results for fiscal year 2015 (Halfords 2014a) (and in the appreciation of Halfords' share price from a closing low of 339.3p on the day Davies announced the dividend cut to over 460.0p the day before he announced his departure to Tesco). Yet he was also convinced that the investment he made in recruitment, in training and development and in employee engagement was a major factor in the company's improved performance (Halfords 2014b).

For example, Davies was also able to report that staff turnover at Halfords had fallen from around 21% to just over 10% in the first year of his HCM strategy; that colleague engagement had risen from 64% to 80% over the same timeframe, and that the company's NPS score had increased from around 55% in the previous year and was on its way to a score of above 75% (Halfords 2014b).

References

HALFORDS GROUP. (2013) Preliminary results financial year 2013 [online]. Redditch: Halfords Group. Available at: http://www.halfordscompany.com/media/6554/prelims_combined_220513_-_final_ final.pdf

HALFORDS GROUP. (2014a) Driving the top line: interim results FY 15 [online]. Redditch: Halfords Group. Available at: http://www.halfordscompany.com/media/237183/Interims-slides-FY15.pdf

HALFORDS GROUP. (2014b) Preliminary results 2014: [transcript of a webcast on May 22 2014 with speakers Matt Davies and Andrew Findlay] [online]. Redditch: Halfords Group. Available at: http://www.halfordscompany.com/media/217702/PreliminaryTranscript-May-2104.pdf