

# Membership in the New Economy

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## Summary

At last year's Co-operative Congress Poptel sponsored a session on 'Membership in the New Economy', chaired by Iain Macdonald of CWS. This paper summarises some of the themes of that seminar.

Without doubt co-operative societies have a tremendous opportunity to define what a democratic, consumer-orientated business could look like in the 21<sup>st</sup> century. They have significant economic weight. They are the country's largest 'social enterprises'. They are rooted in co-operative and community values but operating in a new\* and rapidly changing business environment. That new environment includes what is often referred to by the ill defined term the 'new economy'.

As co-operative societies review their role and structure, dot.com entrepreneurs and Internet marketers are struggling to find that elusive thing which will define their success or failure: consumer affinity and trust. To help them (and us) new tools are providing on-line advertisers with ever more effective methods of tracking and targeting individual consumer preferences.

And as we seek to define new ethical standards, businesses generally are seeking to portray themselves as socially aware, with concern for the environment and ethical issues. But the one thing none of them can copy is our unique co-operative ownership structure. This is the heart of our co-operative advantage and it gives us 'sticky' customers. In the new economy our members are without doubt one of our most significant assets.

In this paper I take it as given that co-ops will continue to develop business opportunities through the new digital channels - e-commerce, interactive TV, potentially WAP. This paper seeks to provide an outline of how the new co-op could use the new technologies to develop its relationship with members, to increase the number of customers who become members and to make processes of participation more effective in the 21<sup>st</sup> century.

## The Context

Internet growth rates remain staggering. Below are a few statistics culled from surveys over the past couple of months.

- In the US PCs are now as common as stereo systems. More than 50 per cent of households will have Internet access by 2001 and more than 1 in 3 will have purchased goods or services online.<sup>1</sup>
- Internet-influenced retail spending will top USD235 billion this year and USD831 billion in 2005, according to Jupiter Communications.<sup>2</sup>
- US Internet users will spend USD8.8 billion at online grocery stores in 2004, in comparison with USD200 million in 1999 according to IDC's new report, *Online Grocery Market Forecast and Analysis, 1999-2004*.<sup>3</sup>
- The growth of interactive television and the mobile Internet will drive UK b2c revenues to GBP20 billion (USD30.7 billion) by 2005, according to a new report from Fletcher Research.<sup>4</sup>
- According to PEIM, 107.8 million Europeans, or 34 per cent of the total population, have Internet access. 75.9 million people had used the Internet in the fortnight before the survey was carried out. Over 53 per cent of Swedes had used the Internet in the 14 days previous to the survey. The corresponding figure for the UK, the Netherlands, Switzerland and Austria was about 33 per cent.<sup>5</sup>
- Older Internet users now comprise the fastest growing demographic group in the US Internet market, according to Media Metrix.<sup>6</sup>

### **The Importance of Membership in the New Economy**

By any standards the Internet, new interactive digital TV and, possibly, third generation mobile phone services and wireless applications (WAP) are set to become major sales channels in the near future. Critical questions facing all retailers as they enter the 'New Economy' are how to use these channels successfully to build, or consolidate, brand and sustain customer loyalty.

Potentially co-operatives have a significant advantage over their non-co-operative rivals. That advantage is membership. Members, with a sense of ownership and belonging are more likely to stay loyal to their co-operative than mere customers of competitors are. Indeed research in at least one society, Oxford, Swindon & Gloucester (OSG), suggests that members are significantly better customers than non-members for their traditional retail operations.

That gap is likely to widen on the Internet since the technology encourages customer promiscuity: a company's competitors are no more than a mouse-click away. Starting from the assumption that

co-operatives can compete commercially, and that the thesis of 'marketing our co-operative advantage' can be made to work in practice, co-operatives are potentially big winners in the new game. Co-operative ownership and therefore membership, is the only thing the competition cannot copy. For many dot.coms getting customers as 'sticky' as co-op members is the Holy Grail. In the new economy, members should mean very good business indeed.

But this only holds water if members actually feel a genuine sense of belonging, ownership and involvement. This is where work needs to be done and where the Internet becomes an important channel encouraging greater participation and disseminating the co-operative message to a new, younger generation that need to be reached.

All customers should be a rich source of feedback and knowledge to help co-ops improve their businesses. This is even more the case with members who have an explicit relationship of trust with their co-op. The process of knowledge extraction should take place at every level of interaction with the organisation - whether it be face-to-face in the shop, or through the Internet. At this level the Internet simply provides a more convenient means of gathering information than the short, *over* the counter, transaction.

## **New Forms of Participation**

Where the Internet really adds value is in the process of encouraging a wider spread of active participation than through the traditional co-op committee structure alone. Other membership organisations that Poptel works with have made significant steps forward in gearing up for new forms of participation. Some are trade unions, some charities, others are business networks.

In all cases the significant factor is that the leadership has realised that up to 25 per cent of their members are already on-line. They understand that their traditional rivals and new competitors are already addressing that on-line audience. They have decided to leverage the benefits of modern communications to improve the efficiency of information flows within the organisation, and its presentation to the outside world. Some have focused on moving all their most useful information on-line. Others have connected up their national networks of local branches and lay officers to improve information flows. Some are offering Internet access as a membership benefit. Others are using the Internet to generate additional income. All are seeking to extend their knowledge base by harnessing the expertise that lives outside the traditional HQ and staff structure; the expertise of their members. The ones that will gain the greatest advantage are those that can most effectively use

the feedback from increased communication in ways that enable them to deliver better services and better meet their core objectives.

### **What might this look like for a new co-operative society?**

The traditional structures of participation - members electing local committees, in turn electing reps to regional and national boards in a pyramid structure, each level meeting on a monthly basis - worked for our great grandparents and grandparents who built the co-operative movement. To some extent, and for some people, they work today. We have a corporate governance structure, which is recognisably democratic in a representative way.

But we honestly cannot say that our structures appeal to the mass of our members let alone encourage our customers to become members. In a recent survey conducted by OSG involvement was seen by one respondent as "*something for people with time on their hands, or people who like that sort of thing*". Those of us who participate are the people 'who like that sort of thing', and we have to admit that we are quite unusual. Our movement continues to use 19<sup>th</sup> and early 20<sup>th</sup> century membership structures, and they provide few of the benefits that we should be seeking in a 21<sup>st</sup> century business.

If we were to build a new co-operative society from scratch using the communications tools available to us today, it would look quite different from the co-ops we have. Rather than being the place that our democratic processes begin and end, our local activists - the committee members - would become contact points enabling the wider membership to engage. And they would be much more integrated with local management.

Rather than operating as a small sect, discussing amongst ourselves why the co-operative way is best, we would involve our wider membership - and our customers - in the discussion about our future. We would use the new technologies to do this in ways *that are convenient to them rather than convenient to us*. In the process we would unlock the knowledge and understanding of all of our members - our best customers - not just our lay activists.

Using these new tools we would seek to ensure that all of our members are armed with the latest information on why the co-op is the best place to shop, its ethics and how the co-op supports local communities. All would be equipped to become more effective evangelists. The mantra of 'Marketing Our Co-operative Advantage' would cease to be a task just for the marketing professionals. It would become a task that all of our members could take on, and they would do it willingly and happily. As a 'social enterprise' our

business has multiple bottom lines. They need to be communicated at all levels to derive the real benefits of this fantastic co-operative idea.

Obviously we would want this new society to be highly customer focused. Consequently we would use the new technologies to enable much richer processes of communication between our customers, our members (the owners), their reps, and that other stakeholder group - the staff. We would put in place new methods for consultation and feedback on how the society is perceived. In the process we would be gather much greater intelligence about what works and what needs to be changed.

We would also make it easy for our customers to become members, not make it difficult. Any customer can walk into a store and buy a tin of baked beans in seconds. In some societies it can take up to six months to become a member. Ideally people should be able to sign up in the store, on-line or, soon, through interactive TV - in exactly the same ways that they will be able to shop with us.

Our forefathers who created the co-operative movement used the organisational tools and methods of communications that were available then. If we were to create a new society, using the tools that are available today, we would create one of the most innovative businesses in the new century. Our members would be able to engage in ways that fit in with their busy lives, rather than us challenging them to fit in with ours. We would give our members a much greater sense of belonging, and ownership. We would truly have found the new economy Holy Grail: membership, trust, affinity - and better business. Our rivals would look at our model with envy.

## **Technologies to Support Membership Development & Participation**

A range of Internet technologies to support member participation is available. The technologies that are chosen and how they are combined depends on strategic objectives, knowledge of the membership and available resources. The major costs are only partially in the technology. The bigger issue is the organisational change needed to successfully harness the potential.

Poptel helped many large organisations to grapple with these issues over a number of years. Perhaps the key point for co-ops is to make it as easy as possible for people to become active members without forcing them down one particular route - 'join a committee', 'attend inconvenient meetings in inconvenient places', or indeed 'just use e-mail'. The task is to help customers to become active members in ways that are convenient and productive.

Arguably the deployment of new on-line technologies needs to serve three complementary ends: access to on-line services,

*content*- useful information, with the purpose of *adding value* to our members' and customers' experience of the co-op. Below are some examples of what this might mean in practice.

### *Access*

- Equip the lay activists to become information points and to be evangelists in their local communities by ensuring they can connect to the Internet. Currently that might mean providing a free or subsidised PC, printer, Internet access and training for board members and local reps. Other organisations have found this pays dividends - and the costs do not necessarily have to be met from the centre.
- Add value to membership and encourage members to link to the co-op on-line by offering a branded Internet service plus low cost phone calls. Poptel is currently working with the Phone Co-op to structure exactly such a package on a consumer co-op model. The Internet component will offer a range of tariff structures (eg local call charges for access but no monthly fee, or free Internet calls with a monthly subscription). Low cost phone calls are a potential benefit for all members. One of the regional societies has asked for a joint Poptel/Phone Co-op quote for this service.
- For those without the resources or inclination to access services at home, provide access in-store, and in the process turn every co-op shop into a superstore, selling the full range of goods and services on-line. United Norwest has recently introduced exactly this innovation. In the process each store can be turned into a community access point for the Internet. If the co-op had the capacity to provide training and support co-op shops would become politically very fashionable in the government's drive to wire up the UK. Access can be provided as cheaply as a PC and ISDN line, or with greater sophistication using kiosk technology.

### *Content*

Use the web not just as a promotional tool, but as a resource for member participation:

- Provide e-mail discussion lists and forums - to keep members informed and enrich the knowledge base of the organisation. Keep some discussion lists private for committee reps and board members. Others can be made

open for member and customer feedback. Use distribution lists to send out regular e-mail bulletins.

- Offer e-mail links to board members and key staff, and seek feedback on the big issues. Run on-line hustings before board elections (something Poptel has been asked to help with by a regional society).
- Make the website much more interactive by including polling on issues to support board and management decisions, feedback forms, links to discussion forums, links to community projects and ethical issues. According to the Co-operative Union the combined spending on community projects is £6m per year. We should trumpet the fact on the Internet.
- In collaboration with the Co-operative Union's [www.co-operatives.net](http://www.co-operatives.net) site turn the website into a portal into the world of co-operation with regular news updates, access to useful information and a much more friendly way to encourage people to shop on-line.
- Add tools to support campaigns - eg e-mail your MP (developed by Stand.org), provide links to campaigning groups, feature banner ads and banner exchanges with sympathetic organisations.
- Provide links to local co-op facilities and local representatives.
- Encourage people to sign up for membership on-line. "Become an Owner, Register Here". Then take the data directly into the membership database. One step further is to provide a facility to allow members to amend their own details on-line. Potentially the membership database would be more up to date with less administrative effort.
- Offer inducements for customers and members to revisit the website and to buy on-line - for instance create a co-operative version of beenz.com perhaps adding points to a member or customer's dividend scheme.
- Add web personalisation facilities to support member preferences, delivering the information they want. At the same time incrementally get more information from customers and members, and track their preferences.
- Add contact management facilities to allow members to link to each other.

### *Adding co-operative value*

Any or all of these options only make sense if they add value to the co-op's operations. In the new economy the value of membership cannot be overstated. If the co-op sector were a dot.com the combined membership alone would make it worth billions. But in the

real economy of bricks and mortar retail, spending hard-earned cash on new technologies needs a clear and compelling justification. The essential point is that they should add to the multiple bottom lines that a co-op has by making much richer use of that resource called membership.

In the end the questions are simple:

- To what extent does the co-op sector believe that its future lies in building services which use the new tools?
- To what extent does the co-op sector believe that building membership, and supporting that growth in innovative ways, will add value to the business?
- To what extent does the co op sector believe that taking advantage of the new tools will provide new ways of organising members so that shared knowledge can be harnessed more effectively?

At Poptel we know that other membership organisations in other sectors have answered questions like these. Nobody gets all of the answers right all of the time. But those that don't try - get them wrong, all of the time.

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## **Notes**

All quotes are from NUA Internet Surveys (<http://www.nua.ie>) published during May and June 2000.

- 1 Forrester Research: PCs Now As Common As Stereo Systems
  - New research from Forrester indicates that more than 50 per cent of US households will have Internet access by 2001 and more than 1 in 3 will have purchased goods or services online.
  - Forrester predicts that growth in the future will be driven by increasing numbers accessing the Internet from outside the home and then a growth in those using interactive televisions or games consoles to go online.
  - PC ownership is now widespread and PCs are seen as common appliances rather than examples of cutting edge technology. Forrester analyst Patrick Callinan commented that PCs are now "as common as the stereo system".



- Despite this, 55 per cent of households without computers say they don't need one and almost 20 per cent of all households say they will never go online. These non-adopters tend to be lower paid and less educated.

<http://www.forrester.com/ER/Press/Release/0.1769.316.FF.html>

## 2 Jupiter Communications: Retail Sites Heavily Influence Offline Spend

- Internet-influenced retail spending will top USD235 billion this year and USD831 billion in 2005, according to Jupiter Communications.
- Internet-influenced or "web-impacted" spending includes both online purchases and offline purchases that were researched or first discovered online.
- The Internet will influence 75 per cent of all retail spending in 5 years' time, up from 43 per cent in 1999. About USD200 billion will be spent at retail websites while consumers will research another USD632 billion worth of purchases on the Internet and then buy them in a bricks and mortar store.
- Already, over 68 per cent of online shoppers say they have researched products online and then purchased at a bricks and mortar store and a further 47 per cent say they have researched goods on the Internet and then purchased them over the telephone.
- Jupiter says that these results show the importance of integrating retail business across channels and fully incorporating websites into their overall strategy, so that consumers' offline product choices can be influenced online.

<http://www.jup.com/company/pressrelease.jsp?doc=pr000518>

## 3 IDC Research: Online Grocers Will Succeed Eventually

- US Internet users will spend USD8.8 billion at online grocery stores in 2004, in comparison with USD200 million in 1999, according to IDC's new report, *Online Grocery Market Forecast and Analysis, 1999-2004*.
- Despite this optimistic prediction, online grocers can expect difficult times ahead. They will have to spend at least USD25 million to become established players and this figure does not include customer acquisition costs, which are high in this market.
- They will also have to suffer low product margins, heavy competition and other problems that are faced by grocers in general, such as achieving capital efficiency and overcoming obstacles to market penetration.
- IDC says that profitability is possible for online grocers, particularly if they aim at older suburban markets and expand their product ranges to include higher margin goods and services.
- These would include health and beauty products, pet supplies, household cleaners, dry cleaning, video rental and prepared foods.

<http://www.idc.com/e8business/press/EBIZ22126PR.stm>

#### 4 Fletcher Research: 82C Revenues Set to Soar in UK

- The growth of interactive television and the mobile Internet will drive UK b2c revenues to GBP20 billion (USD30.7 billion) by 2005, according to a new report from Fletcher Research. Revenues for 2000 are expected to hit GBP1.7 billion (USD2.6 billion).
- The report, *UK Online Retail: From Minority to Mainstream*, says that 7.5 per cent of all retail sales in the UK will be made online by 2005, up from only 0.25 per cent of all retail sales in 1999.
- Highest revenues this year will be made in the leisure travel and computer products categories, which will be worth GBP490 million (USD752 million) and GBP410 million (USD 629 million) respectively.
- Fletcher says that 50 per cent of UK online shoppers have purchased books online and predicts that this market will continue to be hugely competitive as established pureplays vie with traditional retailers and Net newcomers.
- The online grocery industry in the UK is also tipped for success, despite the problems experienced by such retailers in the US.
- The report forecasts that consumers will want more personalisation and more sophisticated navigation systems. Online shoppers like to know where they are in the buying process but only 17 per cent of b2c sites currently offer this feature.
- Retailers will offer these services in the future and will also concentrate on improving fulfilment, integrating retail channels and offering dynamic pricing.

<http://www.fletch.co.uk/content/press/Retail2000.html>

#### 5 Pro Active: Digital Divide Still Apparent in Europe

- Internet penetration in Europe varies widely from country to country, according to the first results from the Pan European Internet Monitor (PEIM), which is run by Pro Active International.
- According to the PEIM results, 107.8 million Europeans, or 34 per cent of the total population, have Internet access. 75.9 million people had used the Internet in the fortnight before the survey was carried out.
- Only 2.6 per cent of Europeans had made an online purchase in the fortnight before the survey.
- Penetration continues to be highest in Scandinavia. Over 53 per cent of Swedes had used the Internet in the 14 days previous to the survey. The corresponding figure for the UK, the Netherlands, Switzerland and Austria was about 33 per cent.
- Penetration in France, Italy, Belgium and Germany are still below the European average although the overall figure for Germany is weakened by the low penetration in the former East Germany. Penetration in the former West Germany is about the same level as in the UK.

- In Spain and Portugal, less than 8 per cent of the population had been online in the previous 14 days.
- Liesbeth Hop, the CEO of Pro Active International commented: "These first results of the Pan European Internet Monitor show that Internet in Europe is starting to catch up at high speed, although we still see very large differences between Northern, Southern and Western Europe."

<http://www.proactiveinternational.com/press/english/UKPEIM1.html>

## 6 Media Metrix: Older Users Take to the Internet in Drove

- Older Internet users now comprise the fastest growing demographic group in the US Internet market, according to Media Metrix. One fifth of US Internet users are aged between 45 and 64 and more and more people in this age group are going online.
- The Media Metrix study shows that users in this age group access the Internet more often, stay online for longer and visit more websites than younger users.
- People who fall into this demographic are highly desirable targets for advertisers as they have the most credit cards and use them most frequently. They also have the highest percentage of frequent fliers and are more likely to own large-screen televisions and satellite dishes and to purchase technological gadgets of all sorts.
- The most visited site for people in this age group in December 1999 was thirdage.com, followed by shopintuit.com and whoohoo.net. Customercast.com was the fourth most popular site, while mallandmore.com came fifth.

[http://www.mediametrix.com/PressRoom/Press\\_Releases/04\\_04\\_00.html](http://www.mediametrix.com/PressRoom/Press_Releases/04_04_00.html)