

Reasserting the Co-op Advantage Consumer Co-operatives

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I have been asked today to give you "the consumer co-operative perspective", I am not sure after something like 22 months in this venerable Movement I am fully qualified to give you such the definitive consumer Co-op view. However, I would like to give you a personal perspective. I hope this is informed not only by my time as Secretary of CWS but also by my 8 years in the building society movement, five years working for plcs, and the first five years of my working life working for yet another business structure, a partnership. Perhaps this eclectic employment record covering a wide spectrum of ownership structures does hopefully give me at least an unusual perspective.

Of particular interest might be my experience in senior management at the former Bristol & West Building Society. This is, I think, pertinent to your symposium today. Like the Consumer Co-operative Movement, the building society movement (in my view) had in the last half of the twentieth century lost its way; developed in the 19th century, driven by those same self-help mutual support ideas that drove the early greats of the Co-op Movement, boards and managements had become unaccountable to their membership. So, to illustrate the point, contested elections were almost unheard of, though an honourable exception to this was the former Co-operative Building Society, latterly the Nationwide, which always appeared to have dissident groups and contested elections. Performance and market share were deteriorating, forcing huge consolidation. 2,286 building societies in 1900 had shrunk to 96 by 1996 and less than 70 now.

Managements were often tired and unimaginative while "membership" was a barely understood concept by most "customers" or managers; the breaking of the building societies' monopoly on mortgage lending in the 1976 Banking Act triggering much of the economic decline. In short, they had become self-perpetuating oligarchies with little justification for existence outside the provision of gainful employment to managements and Boards who were in practice answerable to no-one. Those of you involved in the Co-operative Movement for longer than me might perhaps see some resonance of this picture and feel like your building society cousins who regulated like co-operatives by the Registry of Friendly Societies at five minutes to midnight are finally waking up

to the need to reassert the Building Society Advantage.

In this presentation, I shall borrow freely from Roger Spears' Co-op Membership Strategy for Co-operative Advantage, Dr Davis and John Donaldson's Survey, and Richard Bickle and Alan Wilkins' Evaluation since like any good democrat I like to quote freely from sources I agree with, and I am pleased to say I agree with the thrust of these works.

As a recent interloper to the Co-operative sector, I arrived not only attracted by its values and principles but also drawn by its commercial potential. My experience has not shaken my belief in the values and principles while my view of its commercial potential remains undoubted. If anything, I believe I had underestimated the potential power of the sector.

The underlying goodwill to the Movement at a time when undiluted Thatcherite economics and denial of "society" are rejected by our communities; the sense of trust in the brand; and the fundamental strength of a model not dependent on the short-term vicissitudes of the stock market which will allow for long term business planning linked to the virtuous circle of co-operation are all latent forces awaiting an opportunity to burst forth. However, I am now somewhat better informed on the obstacles that must be overcome if we are to reassert the Co-operative Advantage and realise our full commercial potential and to provide meaningful benefits to members which I believe is essential to creating mass democratic member participation. These obstacles might be best summarised as Tony Blair's forces of conservation which I believe come through in the three reports referred to earlier. The commercial co-operative sector has far too long allowed second-rate business performance to dissipate the marvellous wealth inherited from co-operators of the nineteenth and early twentieth centuries. The likes of Rochdale Pioneers were not a soft touch, they were tough and ultimately successful businessmen with social consciences who realised the power of those motivated and empowered to help themselves. If we are to realise the advantages, they did that spirit must be recaptured.

The Transfer of Engagements from the failing CRS to the CWS on 2nd April this year created perhaps the greatest opportunity in recent memory for the enlarged CWS to lead a consumer Co-op return to those halcyon days of the first half of the twentieth century. It is my view (but then as Secretary of CWS you might say I would say that wouldn't I) that any reassertion of former strength will have to be led by the now massively commercially pre-eminent CWS. At the very heart of such a return will have to be significantly improved business performance. It can not any more be acceptable nor

indeed, is it sustainable in the long term that a consumer Co-op fails to deliver business performance at a level expected-in other sectors. This in my view must be a key component to making membership meaningful.

CWS does now have some very strong core businesses.

1. Its Bank has a reputation for innovation (exemplified by its Smile internet offering), social responsibility (for example its high-profile stance against landmines) and increasingly profitability with continued year-on-year growth over the last decade.
2. Its insurance subsidiary CIS is a regular high achiever in a number of industry performance tables.
3. It is now the UK's largest undertaker with approaching 16 per cent of the UK market.
4. It is rapidly establishing itself as the UK's largest independent travel agent with the reputation as the honest travel operator. This stance underlying the high profile "Customer's right to know" campaign with its tag phrase "we'll tell you what the brochure won't".
5. Finally, the sea change in Retail strategy away from large superstores towards convenience stores and market town outlets has seen a slowing in the CWS food retailing decline if not yet a full turnaround in fortunes.

But no one within CWS would claim that its business performance is presently acceptable. What the changes currently being brought about by Graham Melmoth and the CWS Board will hopefully (and indeed must do) is provide a platform for a successful, ethical, and socially responsible business.

In a number of these areas, notably funerals and convenience store shopping, CWS already has significant market share but now in banking and the independent travel sector, CWS is starting to develop not only a solid reputation for fair dealing and value but also to establish substantial market shares albeit so far in niche areas. While I agree with the thrust of Peter Davis and John Donaldson's analysis, I believe it would be unfair to suggest that either in Smile or Travelcare CWS has failed to offer appropriate or adequate responses to the strategic questions posed by their respective commercial environments or an external consumer and social trends. However, I think the criticism is valid when one looks over history in the CWS and the Movement as a whole.

Clearly the Movement's inability to come together on procurement has and continues to hamper societies' ability to

compete successfully. While in food retailing, CRTG is perhaps the most successful example ever of co-operation among co-operatives, yet still two significant societies remain outside CRTG including what is now the consumer co-operative sector's second largest society. In non-food retailing, the funeral business, Travel, and the large motor businesses, even the successes of CRTG have proved beyond the grasp of societies. Clearly critical mass is essential for the well being of societies. I am afraid the 6th principle of Co-operation among Co-operatives is too frequently absent from the reality of consumer co-operation. It is, I would suggest, self evident in areas where societies' overall market share has been in decline, it is increasingly essential that purchasing power is pooled and it is to be hoped that the Co-operative Commission has focused on this area.

In *Co-operative Human Resource Management*, I share the observation of the Davis/Donaldson report. Succession planning (widespread in most sectors) appears new to many co-ops while the fact that wholly laudable yet, dare I say it, mundane Co-operative Values training programme appeared so radical is in itself damning. However, I can only assume that no-one with experience of CWS was spoken to by Messrs Davis and Donaldson when they report that no respondent was able to identify a single programme of development concerning co-operative values for first line supervisors. At the risk of being controversial, I would also suggest that broader human resource reform is key to unleashing the power of co-operation. It shocked me on arrival to discover not only that the old "command and control" school of management was still to be found in parts of the co-operative movement but that the old trade union (across the board) negotiated salary increases which owes more to Harold Wilson's era of beer and sandwiches at Downing Street with trade union barons is still all encompassing in the consumer co-operative movement. Within an underperforming business a move to performance-related pay, I suggest, is essential. In CWS we have sought to raise the profile of our training department. Investors in People accreditation is hopefully close for the whole organisation and already obtained in many divisions. While throughout the emphasis has been on introducing a co-operative way of working.

I have deliberately left the issue of membership to the end of my presentation for it is true that without a successful business there can be no long term consumer co-operatives as we know them. As I say, societies have for too long been living off the capital built up by our forebears in the co-operative movement and not renewing and building on those assets. However, there is, of course, the other half of this equation. Without a vibrant and meaningful membership,

there can be absolutely no purpose or point to consumer co-operatives. I laboured the point at the outset of my presentation concerning building societies only because it is equally true of Co-ops, and we will slide (or perhaps I should say continue to slide) down the slope that building societies have gone down which ultimately leads to the conclusion in their case that the building societies should cease to exist. A view regrettably many in that sector have come to urged on by senior management enticed by the riches that await them.

Roger Spear's discursive paper drawing as it does the distinction between customers and members only partly addresses this complex issue. The blurring of lines by CWS and others between real member dividend and loyalty card schemes adds a further level of complexity. While at one level the CWS and indeed the old CRS had many members, it was a reality certainly in both these societies that very small numbers of active members would elect officials and I think his questioning of how representative of the whole membership such election processes are is entirely valid. I know one former CRS Director's view is that co-operative board directors' principal role is to represent the small number of active members. This raises difficult issues when membership is unclear and confused but I disagree, and I entirely accept the suggestion that a broadening of membership to the wider consumer base is wholly desirable and boards both legally and morally are elected to represent the whole of membership. This means addressing the wishes of a silent majority whose primary concern is economic participation and reward. Paradoxically, the misnamed CWS dividend card has widened membership - by over 10 per cent or 70,000 new members last year - though to what extent it has increased democratic participation is questionable. Many members who joined when taking out a so called dividend card perhaps do not even realise they are members, while some dividend card holders who are not may believe they are members.

Membership to coin a phrase must be made meaningful and that means, I believe, at the very least financially meaningful. Lincoln Society has for long made this point and I have little doubt that CWS Will follow this lead reintroducing a "real" dividend before too long.

I know there are those (notably at the Oxford, Swindon & Gloucester) who believe all members can be induced to be active in the democratic structure. While I share the goal, I firmly believe that this is wholly unrealistic; for many economic participation is and would always be sufficient, whether such participation partaking in your dividend in Lincoln Co-op or enjoying subsidised wine from that wonderful Co-operative, the Wine Society. For others, perhaps a passive association with the ethics adds a layer of involvement - but

that does not mean such people want to attend meetings or vote on constitutional issues!

In the CWS group, membership offers even greater complexities. We presently offer no avenue for membership through our Travel and Funeral operating Divisions while customers of our wholly owned insurance co-operative, CIS, have no ownership options in that society (CIS) let alone the parent (CWS); Bank customers, perhaps less surprisingly since this is a wholly owned pie subsidiary, also have no membership opening. A radical solution would surely involve a real dividend for member businesses undertaken with any business within the CWS Family of Businesses. This is a matter which I know has exercised the Co-operative Commission whose report I now eagerly await and has been the subject of some discussion between the Registry of Friendly Societies and me. As I say, I personally would like to see the whole of the CWS Family of Businesses open up to customer membership with members partaking in profit across the whole group.

If we are to realise the Co-operative advantage, societies must rediscover the principles of open membership; with rewards linked to trading (ie a real dividend) and broad member (to include at least a very high proportion of customers) democratic participation. While this appears a long way off, things can change quickly: The Co-op sector has for many years been in a vicious circle, poor performance leading to limited member economic participation leading to dwindling active membership leading to poor performance etc. If we break out of this cycle, the reverse effect is possible - improved performance, leading to improved member economic participation, leading to increasingly active membership, leading to better performance etc. The turnaround at the Co-op Bank showed that a loss making entity which CWS would have disposed of if it could have found a buyer in the late eighties can become one of the Movement's gems once perception is altered and performance improved. This non I&P subsidiary of the Movement's hugely important constituent society is hopefully a harbinger of future success and the reassertion of the Co-operative difference.

I should like to leave with the key findings of our social audit project which we hope to be publishing soon. This research was conducted with individual members, committee members, customers, and community dividend award recipients within the CWS. The results, while perhaps somewhat disturbing, do, I think, add credence to some of the findings of your own research and my remarks today.

The key findings of the research illustrated that:

- Members wanted information on products and services rather than wider membership issues.
- Active members regarded the reintroduction of a specific membership benefit as important.
- membership activities should be focused on in-store events.
- Customers were generally more positive about the Co-op than members, spending more money, however, current customers who were also members were the most positive.
- The membership base was older than the customer base.
- Ethnic minorities were underrepresented in the committee structure.
- Committees were generally felt to meet their objectives and were well administered, with good training support.
- Significant levels of uncertainty amongst committee members on the application and effectiveness of the national membership strategy
- Customers and members considered ethics and the environment were important issues for food retailing.
- Customers and members considered that responsible retailing should be focused on local issues.
- A judgement of the value of membership to an individual was usually based on personal experience of shopping in a Co-op. shop
- General view that membership should be promoted more in-store.

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