

Co-operative Congress SCS Fringe Meeting

Co-operative Versus PLC: Marketing Our Co-operative Advantage

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The title of my presentation is 'Co-operative versus PLC (marketing our co-operative advantage). This is, in fact, the question that I posed when taking over as Chief Executive at Leeds Society three years ago. So, I want to explain how we answered that question at Leeds and, hopefully, generate discussion and debate about what implications, if any, that might have for other co-operatives.

When I took over as Chief Executive in April 1997 the Society had just recorded a net loss of £117k for the previous trading year and was heading for an even greater loss in that year, which, indeed, turned out to be nearly £200k. The Society was one of the most unprofitable out of the forty in the retail co-operative movement and, apart from certain previous years when it had enjoyed major asset sales, eg the dairy, had a history of continuous decline.

Another problem was that the employees did not know why we had members and the majority of members did not participate in the business, either from a trading point of view or a democratic point of view. All we were interested in was customers.

Perhaps, even more worryingly, the major stakeholders, members, customers, employees and the general public, did not seem to understand why the Society existed, or why it should continue at all, either as a co-operative, a plc or other type of business structure. There seemed to be no real benefit to the different stakeholders in continuing with the enterprise in its current form. Most were likely to be 'better off' if the business was transferred to another co-operative society or converted to a plc, or even wound up, and the assets shared out amongst the current members. It seemed to me that the only people who were getting a benefit from the continuation of the business as an independent co-operative society, compared to these other alternatives, were a handful of members, including the Board plus the senior management. It was these people who would lose out if we did not continue as an independent co-operative society, as the rest of the stakeholder groups were likely to be better off in terms of employment conditions, service, profitability, shareholder benefits, quality of stores, etc.

I challenged the conventional view, usually put forward by management, that all we had to do was improve our trading and financial performance and we would be justifying our existence. The view was that once we reached a certain level of profitability we could pay out a dividend in one form or another, give money to charity and the community, etc. I argued that if this was our objective then it was likely to be achieved more quickly by transferring the operation to another co-operative society. Alternatively, if maximising financial performance was our ultimate criteria then conversion to a plc or selling the business to one or more plcs would be the best course.

I felt the question of 'co-operative versus plc' could only really be answered if we knew what we were trying to achieve. What was our purpose? Why do we exist? Why were we created? Where do we want to get to?

You will remember Alice in Wonderland: When Alice met the rabbit at the crossroads she asked the rabbit 'Which road do I take?' 'Where do you want to get to?' said the rabbit. 'I don't much care.' said Alice. 'Well then' said the rabbit 'it doesn't much matter which road you take.'

It seems clear to me that the acid test of deciding whether we can justify our continued existence is whether if, given a free vote, our members would agree to keep the Society as an independent co-operative. Alternatively, would they vote to a) transfer to another co-operative, b) sell it or convert to a plc or, indeed, c) wind it up and share out the assets?

I believed, and still believe, that if the alternative benefits of these options were properly put to all the members they would probably not vote to keep Leeds as an independent co-operative society and certainly not, if there was a 'windfall' payment on offer. I would suggest that probably the only organisation within the consumer co-operative movement in the UK where the consumers would vote to keep their organisation independent is The Co-operative Bank, and the irony is that they have not got any members.

I also believe that if we were simply financially successful the members would still be likely to vote to sell or demutualise, if given a free choice. The analogy I use here is Halifax Building Society. The Halifax was the most successful building society in the country, from a financial point of view, and yet when its members were offered a financial inducement and given a free vote they voted to sell it off by a large majority. In my opinion, that was because the members did not see they were getting any benefit from the organisation staying as a mutual that they could not get from a plc.

So if our purpose is to maximise financial performance then I

believe we have a lot better chance of achieving that if we convert to a plc.

Let me stress that I do fully appreciate the need for financial success and good business practice. We need to have the best in modern retailing and make sufficient surplus to plough back into the business to ensure our longevity. The Co-operative Bank recognises that it is not only its ethical stance that has led to its success but the fact that its products and services are as good, if not better, than its competitors, and its ethical stance is the tie-breaker.

So returning to Leeds Society, if maximising financial performance is not our purpose then what is? I hear a lot in the Movement about strategy and the need for a good strategy, but a strategy for what purpose? What is that strategy trying to achieve? Management strategy is often to maximise financial performance but I suspect that is not what the members see as the purpose of the organisation. I also hear a lot about a successful co-operative business, with the emphasis on all three words, but what for, what is the purpose of that?

We know that in a plc its purpose is to maximise shareholder returns. It is clear and simple and everyone is focused on it.

But what is ours? What is our vision? What do we want to see? Where are we trying to get to?

In Leeds Society we clarified our vision as a better society, meaning society in its broader sense. The Society was formed in 1847 to make the lives of its members better, the society in which they lived better. In the beginning it was to give themselves unadulterated bread, and went on to groceries and shoes and clothes and travel and opticians and funerals. But the intention was that these were only a means to an end. As I have said in Leeds, our vision is a better society, a society where there is no discrimination, where everybody has worthwhile work, where everybody has a decent standard of education and a decent job, where people are not ripped off and there is no underclass. That is what we want to see.

We probably will not see it in my lifetime. But, like Martin Luther King – “we have a dream” that one day that is the society we will have. In the meantime, our purpose is to work towards creating that better society and selling tins of beans or holidays, or opening residential care homes are all aimed towards that purpose.

So I come back to the question ‘co-operative versus plc’ and would argue that it’s no question at all. It is not about ‘co-operative versus plc’, which I think is the question we have been trying to answer wrongly for the last fifty years. To my mind, it is like saying Manchester United versus the Australian cricket team, and equally marketing our co-operative advantage is wrong. It is marketing our co-operative difference that is the issue. Manchester United does not

have an advantage over the Australian cricket team – it has a 'difference'.

Just like Manchester United and the Australian cricket team, co-operatives and plcs are totally different animals: we are not pursuing the same purpose, or we should not be; we have not got the same vision, or we should not have. The problem is people understand there is a difference between Manchester United and the Australian cricket team – they don't understand the difference between a co-operative and a plc.

So, going back to when I started at Leeds, we decided it was not a question of 'co-operative versus plc'. There was a reason for Leeds Society to continue to exist. It had a purpose; that of creating a better society. We also acknowledged that we were not living up to that purpose. We had to look at the question of how to make sure that, given the opportunity our members would vote to keep their business as an independent co-operative. We agreed that we had to improve the financial performance of the business, that we had to improve the quality of the shops, the products and the service, but also that we had to find out what the members wanted, what their needs were and how we would meet them. Did they want us to run food shops, or just home delivery, or just everything by the Internet? Would they rather have children's nurseries or travel units? Did they want us to run Daimler garages or holiday superstores?

We therefore had a job to do on improving our financial performance and trading standards and we've made good progress in that area, making small but still nevertheless - profits - in the last two years. We have improved the fabric of our shops considerably, closed loss-making stores and opened profitable new ones.

Perhaps more importantly, we have started to work towards our vision and market our co-operative difference. Sean Bish, our Membership Manager, has started on what will be a long road of creating greater member involvement. All of our staff have had the 'Missions and Values' training and training continues on understanding membership and promoting membership amongst everyone of our employees. We are doing a lot of work on how we live by our values day to day and putting the co-operative difference at the core of what we are about. We are doing a lot of work on how we live up to our values in terms of equality for employees, members, customers and the community and how we can be more environmentally friendly. We are trying to be more open and honest, and more socially responsible. These values are not just words, they have got to be lived.

We recognise that marketing of all forms has a significant role to play.

We are trying to find out what our members believe is a better society and to campaign on those issues that are important to them. This includes press features, media releases, advertising hoardings, newspaper advertising, etc. We also recognise that it is crucial that this is not just an external strategy; something which is the responsibility of the Membership Manager or the Marketing Manager. It should go to the very core of our business and be demonstrated inside our trading units and embraced by our Trading Managers. And it is all our Managers who have helped create this vision and this strategy, the Head of our Food, Funeral and Travel operations, plus our Personnel Manager and Chief Accountant. I believe that is very important because, in most Societies, it seems to me these questions would, if tackled at all, be left to the Membership Manager so that the traders could 'get on with selling tins of beans, etc'

We want people to know when they go into our shops that we are a co-operative. We have a co-operative difference. We are not just a retailer but an organisation that is trying to improve the lives of its members and create a better society for everyone. Selling tins of beans or holidays is a means to that end.

We have done a lot in three years but I would say we have still only scratched the surface. There has been a lot of frustration in moving this agenda forward but the issue that has caused me most concern is that generally it has been the management team pushing the matter rather than the members. In my view, that is wrong – it is the members who should be deciding on the vision and purpose, and not the management. The management should understand the vision and purpose so that they know why they are trying to sell more beans and make more profit. If you leave it to management to decide on the vision and purpose then I think that, in most cases, what you will get is 'make more profit'.

If we had a free vote today I still think our members would sell us off. But I think that is because we have not yet convinced them, or at least enough of them, that their Society is different to a 'normal' business, and what that 'difference' means. However, if we continue to shout and exhibit our co-operative difference, I am convinced we can turn that round.

Thank you for listening to me and I hope I have stimulated some debate.

Alan Gill is Chief Executive of Leeds Co-operative Society and was speaking at the Society for Co-operative Studies Fringe Meeting at the 2000 Congress in Manchester.