Some Reflections - and Projections: 2

Professor John A. Dawson

The Review of Statistics for the Co-operative sector for 1988 provides an opportunity to make comparisons not only with previous years but also with other organisations in the retail sector. Generally, from a retail perspective 1988 was a year of substantial growth in sales volume. The index of retail sales value for the UK rose from 176 in 1987 to 194 in 1988, representing an increase of 10% over the year. The consolidated turnover of the retail societies rose by 8.0%for the year. It rose by 18.0% and 14.5% for Sainsbury and Tesco in respect of their accounting year 1988-89. The large grocery-based retailers averaged a growth of 12% in 1988.

Growth Rate and Market Share

Few Co-operative societies come close to matching the growth rate of Sainsbury, Tesco, or the large retailer average, although it must be remembered that some figures, including Tesco, now include the full effect of recent acquisitions (in Tesco's case: Hillards). Of the larger societies Lincoln and Northern show increases, 19.0% and 19.2% respectively, in excess of that of Sainsbury, but 10 of the largest 20 societies (excluding CWS and United) failed to increase sales at the level of the UK national increase in retail sales.

Perhaps of more concern is that six of these "slow growth" societies are in the top ten of largest societies. The slow growth of large societies and the faster growth of the medium-sized societies is again present in the 1988 figures -as it has been for a number of years. The inevitable result of the large societies' failures to grow at the national rate is the loss in market share by the Co- operative sector as a whole as the 10 largest societies now represent 64% of the sector. In 1988 the market share of Co-operatives was 4.4, down from 4.5 in 1987, and if only food is considered the share is 7.7%, again down on1987 and down from 8.5% five years ago.

Sources of Income, Surplus, and Investment

Within the overall sales volume of the Co-operative sector, the shift in source of income, apparent in recent years, continued in 1988. Growth in travel, funeral and motor trades was above the overall level of sales increase. Comparison of 1978 and 1988 is instructive. In both years, 61.4% of sales were accounted for by food, but were accounted for by food, but the travel, funeral and motor trade sales have increased from 6.4% of the total to 13.4%. This growth has been, mainly although not exclusively, at the expense of the non-food sales. Although the switch into services provides a good vehicle for potential growth, it has been partly at the expense of the higher margin non-foods rather than the lower margin food products.

The margin level in 1988 was slightly up on 1987. Trading surplus is now 2.1% compared with 1 % five years ago. Even at 2.1 %, it remains low and below the 2.5% widely sought in the sector, and well below the prevailing level of most large firms in the capitalist sector. Of the top ten societies only four achieve a trading surplus over 2.5%, and interestingly all four show increases in sales of below 8% - the average for the sector. Even amongst the more rapidly expanding medium-sized societies, only with Lincoln and Ipswich is rapid growth associated with a reasonable level of trading surplus (4.6% and 5.1% respectively).

There was continued growth in fixed assets during 1988.Property revaluations are partly responsible but substantial investment has taken place in some societies. Net assets for the sector are now close to £1 billion and four societies have fixed assets of over £100 million. Both asset base and reserves have improved notably in recent years.

Conclusions from the Statistics

From this broad statistical picture several conclusions can be drawn:

- The Co-operative sector as a whole has improved its financial and trading position slightly in the last year.
- The sector still lags behind the capitalist sector on a wide range of the usual operational and financial indicators (these indicators however are designed with the capitalist sector in mind and so measure meaningful concepts for that sector)
- A very substantial and solid asset base exists which underpins the Co-operative sector.
- Food retailing remains the dominant activity despite attempts to diversify activity.
- The variation from society to society is extreme; differences have always been present but there is a suspicion that the difference is widening with the poor societies getting worse and the good societies trading very well indeed.

Implications for the 1990s?

Starting with the pattern revealed in these figures, which is a pattern created not just in one year but over many years, it is perhaps useful to consider how the Co-operative sector will move in response to the challenges in the 1990s. The 1990s are only a few weeks away. What then do the early 1990s hold? Some forecasts can be made with reasonable accuracy, at least for the early years - other parts of the crystal ball are more hazy. The following table provides a summary of some macro-economic variables.

Macro-economic Performance and Forecasts

% change on year	**1987**	**1988**	**1989**	**1990**
GDP	3.6	3.8	1.9	2.9
Consumer spending (nominal)	9.4	11.8	8.6	7.7
Consumer spending (real)	5.2	6.5	3.0	2.8
Personal disposable income (nominal)	6.6	10.0	8.8	8.2
Personal disposable income (real)	3.3	4.8	3.2	3.0
Savings as% PDI (average)	5.6	4.1	3.7	3.1
Consumer expenditure on food	0.3	0.7	0.2	1.3
Consumer expenditure on durables	7.5	10.1	4.0'	2.5

Growth of Demand Slows?

Recent years have seen rapid increases in consumer expenditure (6.5% in 1988 for example). These high levels of increase in aggregate demand are unlikely to be sustained and 3.5% to 4% are much more likely in the early 1990s. The Co-operative sector has grown, albeit slowly, in the recent years of rapid expansion of demand. Can real growth still be sustained when demand growth slows?

Changes in Labour Markets

Labour markets are changing rapidly. The reduction in the numbers of school leavers will hit most strongly those sectors which recruit heavily from this source - the retailers. Whilst the difficulties in the recruitment of sales staff may be overcome by looking to recruit from older age groups, there is a more difficult problem embedded in the changing labour market. This is the impending shortage of management. Substitution of older age groups is not an adequate solution in this case. The differences in performance of various Co-operative societies imply considerable differences in managerial effectiveness. The shortage of management in the 1990s is likely to exacerbate these differences.

More Intensity and Variety of Competition

The continuous restructuring of the retail industry shows little sign of abating with competition increasing in intensity. A greater variety of competition, usually implying more investment, is likely in the 1990s. Are the financial and marketing systems being created fast enough in the Co-operative sector to meet the changes likely in the early 1990s?

There is also the consumer to consider. Increasing sophistication and a more critical approach to products and services seem likely characteristics of consumers in the early 1990s. New product development and well organised retail operations will be necessary to provide retailers with a competitive edge. These changes may put pressure on retail margins - a pressure which some retailers in the capitalist sector are more able to give way to than perhaps in some parts of the Co-operative sector where low margins prevail.

Can Management Meet the Changes?

The Review of Statistics for 1988 shows the sector to be moving along a particular development path. Movement continues to be slow, and the ultimate question must be, "Is management of the sector changing as quickly as the trading environment?" If the simple answer is yes, then the next year's figures will show a sustained improved performance of the sector; if the answer is no, then at this time next year we will be looking at a loss of market share and sales growth below that of competitors.

The Author

PROFESSOR DAWSON is Fraser of Allander Professor of Distributive Studies and Director of the Institute for Retail Studies at the University of Stirling.