Some Reflections - and Projections: 3

W.H. Farrow

Despite the demise of the Economic and Research Department and the re-organisation which transferred the compilation of Co-operative Statistics as a part of Information Services, the Review for 1988 duly arrived in time for distribution before Congress. Thanks to those responsible at Holyoake House are extended. As a commentator in Journal 63 on the 1987 Review remarked, the provision of figures on Societies' performances is both unique and invaluable to the Movement and we must beware in our cost cutting exercises that such services, and others of similar value, are not lost and become for ever irretrievable.

The Movement's performance in 1988 reminds me of a bright, sunny day in late February with the worst of the winter past and gone and with just a hint of spring in the offing! The returns reveal many good and encouraging trends but at the same time, particularly when compared with our better performing competitors, we should keep our feet on the ground and positively address the weaknesses which are so irritatingly, if not disappointingly, still apparent.

Comparisons with Competitors

It is always difficult to make meaningful comparisons even between retail Co-operative societies due to variations of size, structure of trade etc. but comparison with private competitors is even more difficult. I have, nevertheless endeavoured to make some comparisons by extracting relevant data from four major competitors who have reported during the last six months, Tesco, Wm. Morrison, the Burton Group, and the John Lewis Partnership. By strange coincidence, the two food operators account for 61.5% of the sample as compared with 61.4% attributable to Food (excluding Dairy) in our Co-operative Review.

The main indicators show that Co-operative *Turnover* at £5,775m was some 8% higher than the previous year. My sample of retailers posted an increase of 15.2%. Most societies registered more impressive increases for the first 8/9 months of the year, but as government steps to restrict consumer spending began to bite in the final quarter, sales increases began to taper downwards. The entire retail trade is experiencing difficulty in maintaining sales momentum in 1989 as the Chancellor's measures bite even more deeply.

Surplus

Trading Surplus at £110m improved both in amount by £11m and as a ratio to sales from 2.0% to 2.1% while in my sample of retailers it moved from £565m to £673m or from 7.1% to 7.4%. Even allowing for what must be heavier weighting of margins from Burton and John Lewis (although the latter have a sizeable Waitrose food operation) it is at this level where our competitors are so far ahead and, as we shall see, this advantage is carried through to the final divisible surplus. Tesco recorded a trading surplus of 5.5% which exceeded the ratio of all our twenty-five largest Societies while only the Ipswich Society with 5.1% was higher than Morrison's at 4.8%. Indeed, only ten Societies had trading margins in excess of 2.0% and two Societies actually returned a trading loss!

On page 6 of the Review is a table showing the allocations of the *Total Surplus* and taking the Co-operative figures for 1988 I have added the totals from the sample of private retailers, with this result:

	Co-operative		Competitors	
	£m	% Sales	£m	% sales
Net Surplus	96	1.8	665	7.3
Apportioned as:				
Shareholder Benefits	29	0.5	151	1.7
Tax and Sundry Allocations	37	0.7	214	2.3
Retained	30	0.6	300	3.3

As previously remarked the largest element in the Net Surplus is the trading profit less interest and other non-trading charges. Of the three-part apportionment it can be seen in both sectors that the Shareholders take the smallest portion while Tax and Sundry Allocations take around one third although, in the case of our competitors, of the £214m recorded almost the whole of this sum is in discharge of Corporation Tax. The bottom line shows that while 0.6% of turnover was retained by Co-operatives this compared with 3.3% from the sample of competitors.

I seem to recall an appeal by an inter-war Congress President for retail Societies to retain 1d (i.e.. 0.4p) per £ sales and, in so strengthening their Balance Sheets, become better able to meet the future with confidence. Such are the changes in retailing with the need for ever increasing amounts of capital that such a ratio is today seen as derisory, and our competitors are clearly well ahead of the Movement in this respect. Of course, an added incentive for companies (although this excludes the John Lewis Partnership which in essence is a worker Co-operative) is that the return to Shareholders is not only in the form of dividends but rather more in the appreciation of their quoted share price and the level of retained profit is a significant aspect in the determination of the strength (or weakness) of the company.

Balance Sheets.

Turning to the *Balance Sheets* of our cumulative Co-operative retail businesses it is heartening to see that Share Capital at £166 has increased by some £6m or 3.7%. I noted that two Societies with which I have had more than a passing acquaintance headed the percentage list of increases with lnvicta at 15.8% and CRS at 13.2%. Incidentally, CRS holds more than 45% of the Movement's Share Capital. My sample of competitors' records an increase in Share Capital of£6mor 1.5%.

Co-operative *Reserves* advanced by £156m to £769m, over 25%, which bettered that shown by the sample of competitors at a little over 19%. Much of this substantial allocation to Co-operative Reserves is likely to have arisen from Extraordinary items, particularly from the sale of redundant assets.

This, in my view, is sound practice by converting assets which have fulfilled their original purpose into liquid form, increasing Reserves and thus providing funds for future investment.

The next table gives a brief Balance Sheet breakdown for 1988:

	Co-operative		Competitors	
	£m	% net assets	£m	% net assets
Fixed Assets	1372	147	3295	138
Net Current Assets	(10)	(1)	(317)	(13)
Long Tenn Liabilities	(427)	(46)	(597	(25)
Net Assets	935	100	2381	100
Financed by:				
Share Capital	166	18	419	18
Reserves	769	82	1962	82

The ratio between Share Capital and Reserves (82% and 18%) in funding the asset bases, remarkably, is exactly the same in both sectors.

Differences in Net Assets
The crux of the differences between Co-operative and company practice is revealed in the build up of Net Assets.

Fixed Assets (expressed as a percentage of Net Assets) are reasonably in line with Co-operatives at 147% and our competitors al 138%. Net Current Assets, although barely significant in total, illustrate how our competitors, by dealing with all their suppliers at complete arms length, are able to extend their credit and show a substantial surplus in the funding of their ongoing operations. It is, however in Long Tenn Liabilities where the greatest differences arise for, whereas most Societies need recourse to the money markets (mainly in the form of Loans) to fund capital shortfalls for development, our competitors obtain their funds from a variety of permutations such as Debentures, Convertible Loan Stock, Cumulative Redeemable Stock, Preference Convertible Stock to name a few. Whereas Societies usually pay rates of interest tied to, and often in excess of, base or inter-bank rates our competitors pay fixed rates of interest varying in the sample of accounts I have examined between 4% and 10.5%. The Convertible Stocks carry the lower rates, but this again equates lo the level of retained surplus and is an expression of investors' confidence that, on conversion into ordinary stock, the market value of the shares will more than cover the earlier years of low interest returns.

Turnover and Market Share
The *Comparative Turnover Performance* and *Market Share Percentages* on page 5 of the Review make interesting reading.

In both Food and Non-Food divisions *volume* increases approaching 5% were secured by Co-operative trade but when the actual increases are recorded the total for these two main divisions (excluding services such as Funerals and Motor trades) show increases of 8% while the total for All Retailers recorded a 10% uplift. In the larger Food division, we recorded increases of 8% against the rapidly declining Small Retailers at 4% and Large Retailers at 11%, making an overall Food increase of 9%. In the Non-Food side of the business our decline in Clothing and Footwear and Household Goods continues.

Taking a longer term view the table giving the percentage breakdown of Departmental Sales, shows the changes in Co-operative trade over the last decade:

Department	% 1988	% 1978
Food (excluding Dairy)	61.4	61.4
Dairy	9.6	12.8
Non-Food	15.6	19.4
Motor Trades	7.2	2.8
Travel/Funerals	6.2	3.6

While Food has remained static the decline in Dairy (due to diversion to shop sales or sale of Dairy businesses) and Non-Food (withdrawal partially or fully, particularly from the apparel trades) has been balanced by increases in the growing Motor and Travel trades, together with successful efforts in expanding the Movements' share of the Funeral Undertaking business.

Market Share (again excluding the service trades) has fallen from 4.5% to 4.4% during the past year.

In Summary

In *Summar*y then I can do no better than quote from the introduction to the Review:

> "There was again areal increase in Co-operative turnover accompanied by further growth in profitability. Unfortunately, the paradox of a physically growing Co-operative sector enduring a declining share of the market remains. The pace of that decline did though slow a little following the continuation of the upturn in trade detected towards the end of 1987, and the fall in market share was, both divisionally and overall, confined to 0.1 of a percentage point."

It does then seem that there truly is a 'hint of spring' in the air for retail Co-operatives even though the rough times are not all behind us. But the retail trade is a continuously changing scene, and I cannot help but recollect that just three years ago in compiling my Congress Address I referred to the savage effect on Co-operative Non-Food trade by the emergence of specialist chains seeking out particular segments of the market. Two such chains I had in mind were Next and the Storehouse group and just look where they have landed in recent months!

So, despite the continuous efforts to write-off Co-operatives we are still there and improving and hopefully in the next decade we can begin to recover our market share with a corresponding improvement in profitability and hence retentions. Perhaps a radical review in depth, as carried out by the Labour Party in the political field over these past two years, could determine objectives and, within the principles of Co-operation, point out how they could be achieved.

The Author

W.H. FARROW was, until his retirement, Chief Executive Officer of Co-operative Retail Services Ltd. - after service as C.E.O. with United Co-operatives and North Midland Society. He has been director and chairman of the C.W.S., director of the Co-operative Bank, a member of the Central Executive of the Co-operative Union and President of Congress, a director of the Co-operative Press, and a member of the board of the Co-operative Development Agency.