Some Reflections on the Figures

1. James Wood

The provisional 1987 Co-operative statistics, compared with the same report for 1986, show a rate of progress unmatched by any major competitor in improvement terms on a like-for-like basis. Competitive organizations have posted larger sales increases and larger profits, but the improvement in the Co-operative trend for both 1986 and 1987 is quite dramatic.

The availability of the information is in itself refreshing providing as it does, inter-Society performances. There is no better way to spur management action in those areas where it is required than simply to make the facts known on a comparable and timely basis.

Particular Improvement by C.R.S. and C.W.S. Retail

Looking at the individual performances, the improvement is widespread, particularly in 1987, though the 1986 information also showed a strong trend in the right direction.

Certainly the CRS and CWS Retail, as the two largest sectors with the most difficult job to do, having regard to their makeup, showed particularly gratifying improvement, and make a strong case, in the best interests of the Co-operative movement, for greater and faster consolidation by those Societies that continue to "live off their balance sheets" beyond the point that they reasonably should.

A Favourable Environment for Retailing

One must recognize, of course, the environment in which these results have been achieved. 1987, as in a number of prior years, has been favorable for all retailers.

With low inflation rates and low taxes in more recent times, there has been a higher level of consumer income available, and food retailers in particular have not only attracted additional sales, as other retailers have, but have also earned higher margins from selling better quality products with added value at higher prices.

In other words, in this relatively inflation-free environment of recent times, the customer has been encouraged to "trade up."

Additionally, because of changing life styles with the majority of housewives working outside the home, shopping habits have changed , as have the peak trading times and the type of products that are sold.

Co-operative Strength in Small Stores

The customer, on average, will shop more often and will use more than one store for local shopping trips, and there has been a return in popularity of the small neighborhood shops because of this trend.

The major multiples, almost without exception, have ignored this trend and the small store business, and have continued to concentrate their efforts exclusively on further development of superstores.

The Co-operatives, therefore, have a potentially unique advantage in these circumstances as the only national chain with the large population of small stores that fit nicely into this growing niche of convenience.

Sales - Overall Increase but Some Exceptions

It is surprising, therefore, to note that the food and non-food divisions of the societies in 1987 only recorded between a 1 and 2% sales increase. Obviously a large number of societies show very significant increases but the overall average is reduced disappointingly by a number of societies showing sales decreases.

One is tempted to ask the question: if these units do not perform well in such a favorable climate, when can they be expected to perform?

Importance of Size in Retailing

On an overall basis, however, sales show a favorable picture and the Co-operatives still rank as the largest retailer in the U.K. at over £5,300 million and, though Sainsbury claim the highest sales in 1987, their figures include the sales of a newly acquired subsidiary in the United States.

It is certain, however, that either Sainsbury or Tesco will take over the No. 1 spot in the U.K., by 1989 at the latest.

Is that so important? Size *is* important in retailing in making possible economies of scale and in the ability to specialize and, therefore, loss of market share should not be accepted too easily. Indeed, consolidation and the benefits of scale have obviously been a factor in the improved performance of Co-operatives in recent years.

Capital and Reserves

The balance sheet data of the Societies also show a healthy financial picture. Share capital and reserves at a total of £766 million compare, for instance, with Tesco, generally regarded as a well managed company, with a capital base calculated on a similar basis of £870 million.

Tesco's capital base services a similar level of sales to that of the Co-operatives, but the difference is that it provides approximately three times the amount of net surplus/profit. Why should this be so? The Societies as stated are at no disadvantage in available capital terms providing the use of capital is directed a little more wisely in the future than perhaps in the past.

In fact, Societies have an advantage in that their competitors are subject to shareholder demands for constant and increasing dividends. Tesco for instance, pays out the equivalent of 30% of its post tax profits in dividend, which roughly equates to 1-1/4% of sales, and that is a normal ratio of dividend payment for other multiples. The Co-operative policy is not clear from the analysis but there is obviously no such constant drain upon its capital.

Therefore, the differences in surplus/profit performance are in trading policy, strategy and structure, rather than the lack of available resources.

Differences from the Multiples

The important points of difference between the Co-operatives and multiples in assessing their respective performances are as follows:

- The Co-operative movement has constantly reduced its store base in recent years and, specifically, the number of superstores has remained about the same since 1985 at about 65 (1986/1987 Provisional Co-operative Statistics).

- The five major multiples, which account for 66% of total U.K. business, have reduced their store count from 3,890 in 1980 to 2,510 in 1987.

- Argyll and Gateway have absorbed eight major multiples (profitable ones) in the past six years - Allied, Pricerite, Hinton's, Safeway, Fine Fare, International, Key Markets and Lennon's.

- Of the 1,380 reductions in store count of the five multiple companies, Argyll and Gateway's store count reduction accounted for 1,180.

- Argyll and Gateway resemble the Co-operatives in their growth by merger and subsequent rationalization. The two companies now account for 22% of total U.K. business and, as illustrated later, have been able to generate margins through consolidation nearly equal to that of the other three leading multiples.

- The five multiple companies have increased their selling square footage with new store openings, net of closures, by 24% since 1985.

Comparisons in Sales with Multiples

Despite this impressive consolidation and store renewal programs by the multiples, the Co-operatives compared well in sales for 1987 with an overall increase of 5.9%, in addition to the 1986 increase of 4.2%, that is if one compares multiple figures on a like-for-like basis.

For instance, Tesco reports a sales increase for 1987 of 14.6%. Without the acquisition of Hillard's during the year, the increase would have shown 6%. Adjusting for the 53-week year in 1986, in fact the real increase was 8%. Both Sainsbury with a reported sales increase of 24%, and Argyll, with a 60% increase, contained similar anomalies.

After eliminating the factors which create this distortion, the sales performance of the five major multiples in 1987 was as follows:-

Sainsbury	+ 12.3%	Excluding the acquisition of Shaw's USA and the reults of "Home Base."
Tesco	+ 8.0%	When the effect of Hillard's acquisition is added in the comparative 1986 year, and taking into account the effect of the 53rd week in 1986.
Argyll	+19.6%	After adding the Safeway acquisition figures to the 1986 comparative year
Gateway (DEE)	+7.0%	This is an estimated figure and could be optimistic, based on a half-year result of only +3%.
ASDA	+14.5%	This is for the superstore business, after deducting MFI figures.

Importance of New Stores

Both Sainsbury and ASDA had an impressive number of new stores in the past year, and Argyll's sales results were favorably influenced in its existing operations by the acquisition of Safeway.

Therefore, the Co-operative Movement's disadvantage was reflected only in its inability to provide an equivalent number of new stores to that of its competition.

Multiple companies are able to generate this level of new store activity from their own cash flow, and this they achieved from a higher level of retained earnings, and higher levels of depreciation because of the greater capital expenditures.

Surplus/Profit Comparisons

The following is a comparison of net surplus after share interest for the Societies, which is presumed to be the equivalent of the pre-tax profit line for multiples in the 1987 year:-

	Pretax Profit	Increase	1987 Ratio	1985 Ratio
Sainsbury	298	20.6%	6.0%	5.3%
Tesco	241	22.0%	5.9%	3.0%
Argyll	175	6.0%	*5.1%	3.3%
Gateway (Est.)	170	11.2%	4.7%	2.8%
ASDA (Est.)	160	28.0%	6.9%	5.5%
Co-operatives	83	36.0%	1.7%	0.5%

*(Before reorganization costs of £44 million in connection with the Safeway acquisition).

As in the sales comparison, the Co-operative Movement's net surplus improvement ranks the most impressive, but in absolute terms, of course, it falls short of the multiple profit by about two-thirds.

Capacity for Further Development?

Competitors' development plans are as ambitious in the future as they have been in the past, a fact that is published in the annual statements, and therefore multiples will gain market share with their new superstores.

Co-operatives can only generate a comparable level of development by making more cash available, and they can only do this by combining assets to make them more productive.

The 1987 Co-operative statistics illustrate that the opportunity for further merging of under-performing societies still exists, and the rate of net surplus will be greatly enhanced as it has been in the past - by further consolidation.

The Author

JAMES WOOD worked in retail Co-operative societies in Britain from 1944 to 1965 and attended the Co-operative College in 1955-6. After service with various large retailers at home and overseas, he was appointed, in 1980, Chairman, President and Chief Executive Officer of the Great Atlantic and Pacific Tea Company Inc. which until 1973 had been the largest food chain in the U.S.A. and one of its largest manufacturers. He led its turnaround and in 1982 was one of the ten executives selected nationally in the Gallagher Presidents' Report for "Best corporate performance, big business category".