Some Reflections on the Figures

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The 'Co-operative Statistics, Provisional Figures 1987', so speedily produced and keenly commented upon by the Economic and Research Services Department of the Co-operative Union, once again give plenty of room for thought.

First, the level of trading profitability rose to some 2% and gave rise to a trading surplus of £99 million in 1987. This gives modest grounds for hope. However, as the introduction to the 'Figures' points out, the rate has to be placed in context. When this is done, it does not compare with that of Sainsbury, with a margin of 6.6% and pre-tax profits of £308.4 million, and Tesco, with margins of 5.9% and pre-tax profits of £231 million. On top of this, capital expenditure by the Movement, while rising, does not match that of the biggest retailers. This means that the price of entry into the big league is rising rapidly year by year. Against this background, the size of the Movement's task is monumental.

A further comment in the 'Provisional Figures' also calls for consideration. It makes the point that the Movement's trading surplus appeared to be influenced largely at divisional level, by improved performance in non-food and dairy whereas food profit showed little change from the previous year. While the main food competitors are increasing their profits substantially in this field of retailing, the Movement's traditional core activity is making a rather limited advance in profitability.

Need for Major Adjustment of Strategy?

These two points raise the question of whether the Movement can and should be seeking a head-on confrontation with its major rivals, or whether its whole trading strategy needs major adjustment.

The head-on approach involves direct frontal attack, to drive back the Movement's competitors. To carry out this strategy needs an outstanding competitive advantage, heavy marketing support and plentiful resources of management and finance. It also requires the resources to carry out a long battle of attrition, because there is unlikely to be a speedy victory. Given that the Movement has to fight on a number of fronts simultaneously, and with the strong probability of spreading its limited resources thinly, other strategies have to be considered. These include:

1. A Flanking Strategy
A flanking strategy, which involves attacking a competitor on a weakly protected flank. Such a strategy is less likely to draw an immediate, strong response, because in the first instance, the defendant may not feel threatened.

It involves attacking with the strongest weapon available, and needs to be followed through quickly before the opposition takes counteraction. More firms use this approach than the head-on method because it tends to be a lower risk venture, with a higher probability of success.

For the Movement, this means identifying the weak spots in the operations of its main competitors, identifying its own strong points and moving quickly with plenty of back-up. The same needs to be done at individual society level, in relation to local competitors. Where these are branches of the dominant national competitors, the difficulties may seem enormous. They are not necessarily insurmountable as local customers may, for any one of a number of reasons, be ready to shop away from the large operators. However, the size of the task implicit in this approach is very considerable, especially as the weak spots of the large competitors may not be quickly recognisable.

2. Finding a Market Niche
Another approach is that of finding a market niche. This involves entering a segment that does not attract the large competitor who, for one reason or another, say, market size or specialisation, does not want to get involved. Such segments lack volume appeal and do not fit into a broad marketing stance.

The niche can be an end in itself, or it can be a foothold into a larger market. In the latter case, the niche becomes a mass market when it attracts large competitors, who see expansion possibilities in it. If a retailer goes for a niche market, he has to be sure that the niche is recognised by the customer, is distinctive and has appeal and that the package on offer can be premium priced, with an above average profit margin.

The secret of niche success is to ensure that it is the right size, and large enough to be profitable, but not sufficiently large initially to attract the very big competitors. Some niche operators are small firms, others are large but have developed the skill of operating with many small volume products.

3. Guerilla Activity
A further alternative is that of guerilla activity, which can be used by small firms competing against large operators. This approach involves surprise, flexibility and the ability to seek out highly profitable ground. It means

entering a market, making a profit, getting out and moving into something else.

4. Regional Concentration
Regional concentration offers another possibility. The idea behind it is that it is better to be a large fish in a small pond than the reverse. In addition to local market knowledge, regional concentration can give a firm the advantage of brand leadership in miniature, allied to speed of reaction and market responsiveness unavailable to the national operator. Such an approach can be a means of entry into a larger market.

5. Exploiting the Assets
Finally, there is the asset-led strategy which takes the firm's assets as its starting point and states, 'We have got these skills and resources, let us examine the market for needs which exploit them more fully.' This approach starts with what the firm has, and what it does well, and works back to the market. The risks of this approach are relatively low, the amount of investment required can be low and the competitive response is initially likely to be muted. In these factors it differs from the market-led approach where the starting point is the customer and the question is, 'What does the customer want and how can we satisfy the need profitably?'

For success, a firm needs both approaches but the tendency of many is to concentrate on the market-led strategy with its high profile. Co-operative societies have their collection of assets, resources and skills and any society could start from them and consider how best they could be used. To do this means stepping outside the preconceived, traditional society trading patterns and looking further afield.

The Central Question
In all these approaches the target is not that of mechanically searching for improved efficiency, by cost cutting, by centralisation of services, by restructuring or the closure of unprofitable operations, but of knowing what to make of a society. Should it be the same pattern as before, or has retailing changed so much that it will have to be a very different organisation to survive? These back-to-the-drawingboard questions are concerned with the business a society is in at present and what it should be in tomorrow. While it is important to look for incremental gains by manipulating the existing pieces of the Co-operative jigsaw, it is increasingly important to be ready to take risks. Most firms, when faced with problems, simply try to fix them, when

the crying need is to explore new ways of doing business. The motto should be 'Rethink - don't fix.'

Variations within and between Size Bands

Second, the 'Provisional Figures' show that there are considerable variations in performance between societies in the same size group. In group 2, (the thirteen societies with the largest turnover, after the leaders, C.R.S. and C.W.S. Retail Division) the range of trading surplus is between 5.7% and 0.2% of sales; in group 3, (the next eight societies in terms of turnover) from 4.5% to 0.2%; in group 4, (the next fourteen societies) between 8.3% and 1.2%; and wide ranges in the other groups.

These figures show that individual societies perform very differently within the same size bands. This underlines the fact that performance is dependent upon a great many factors including history, resources, style of board and management, abilities, policies and the nature of the competition.

There are also variations between size bands, with some medium and small societies out-performing some larger societies, and vice versa. On the basis of these differences within and between size bands, there would not appear to be any strong ground for arguing that any one size of society is the most efficient. Global claims are hard to substantiate on the basis of these figures.

The Movement has long argued that survival depends upon size. These figures are unlikely to encourage many societies who are currently doing well, to enter into mergers with some of their larger colleagues.

In looking at the 'Figures' and considering the question of mergers, the impact of merger on performance has to be taken into account. Evidence from both private and Co-operative quarters suggests that dislocation can be considerable and that it can take up to two or more years to harmonise the merging of two large firms. Whatever their performance record, there will be differing styles, cultures, policies and interests.

An Opportunity for Creative Thinking

The 'Provisional Figures' provide the opportunity to think about the future of the Movement in a creative way. It suggests that the Movement should be prepared to shed some of the Co-operative culture of the past, as this can lead to veneration of tradition and worship of habit. Some societies are shifting their stance and breaking with some traditional trading patterns, others are edging towards a modification of the past. Some remain in a format which brings them into direct competition with very much stronger operators, who have far greater resources and much room for maneouvre.

The 'Provisional Figures' is an aid to learning for the future and unlearning the past. Thinking about the future is not simply a matter of analysis and statistics, but also of ideas and beliefs. The Co-operative Union has provided the first part of the process, it is for societies to supply the second.

The Author

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