

## Some Reflections on the Figures

### 3. Professor Noel Branton

The rise in profitability in 1987 to 2% (from 1.7% in 1986 and 1.4% in 1985) combined with a fall in total market share to 4.5% (from 4.7% in 1986 and 4.9% in 1985) would require detailed analysis for a complete explanation. Nine societies went out of business which may have eliminated some sources of loss whilst also reducing Co-operative sales. Some societies may have reduced costs without this being reflected in increased sales in the short period. These points are speculative and may be wide of the mark.

When the turnover of the Movement is compared with that of private sector retailing, the societies performed better than small retailers in the food trades as might have been expected, but the non-food sectors continue to present a depressing picture. A research project published by the Manchester Business School in 1987 suggests that the decline of the small retailer in face of the competition of large retailing organisations may be coming to an end. The authors think that he will survive because of the convenience and service which he can offer. The survey is far less optimistic on the subject of Co-operative retailing.

#### Factors of Influence on Performance

The composition of the groups of societies based on turnover would appear to be fairly stable as shown by the two sets of Figures in my possession (1985 and 1987). There are marginal transfers between the groups in both directions and, as might be expected, the order within a group changes from year to year. It is worth considering how far these detailed figures may offer some indication of factors leading to improved performance.

##### *1. Size of Society*

On the basis of the tabulation we may ask whether there is any relationship between the size of a society as measured by turnover and its trading surplus expressed as a percentage of sales. Co-operative Retail Services and CWS Retail Division are far and away the largest retail organisations. But CRS, consistently the more successful of the two, underperformed as compared with five societies in Group 2 (the thirteen societies with the largest turnover after CRS and CWS), one in Group 3 (the next eight societies) and four in Group 4 (the next fourteen societies). Even in Group 8, with annual turnovers of less than £2m, no fewer than eight societies show a better result. Admittedly

there may be special factors at work in this last group but on making a comparison with 1985 the same superior performance was achieved in a number of cases.

Clearly size as measured by turnover is not in itself a factor which will guarantee success. One explanation is offered by the study produced by the Manchester Business School. It points out that despite repeated declarations to reduce the number of societies to about twenty-five, there still remain about one hundred (now 91). It goes on to make the point that unless and until the Movement can centralise its operations and develop a definite role and identity, it will always be at a disadvantage compared with the multiples and liable to further erosion of market share. George Donkin makes a similar point in his article in issue 62 of the Journal.

## *2. Location*

A second factor to be considered is the location of the trading area of a society in relation to the "North-South Divide". Where unemployment is heavy and spending power in consequence low, a society cannot be expected to produce the same results as in the prosperous areas. Leeds cannot hope to show the same results as the Channel Islands. Turnover will be lower and will be concentrated on less profitable items.

## *3. Management*

This brings us to that much discussed and critical factor in explaining differences in performance - the quality of management of a society. One can only make the not very helpful generalisation that in many cases the quality of Co-operative management needs to be improved. Here again, what George Donkin has to say about retail strategy is very much to the point.

It must be appreciated that the work of management can be made more productive by making the best possible use of new technology both in the stockroom and at the point of sale. This is now starting to make an impact on retailing. Computer systems and electronic point of sale (Epos) installations improve both stock control and management information. The benefits of laser scanning are a speedier service at the checkouts, and fewer mistakes (accidental and deliberate) in charging. In the opinion of many managers, however, the greatest benefit is the improvement in management information and control.

Electronic funds transfer at the point of sale (Eftpos) permits a direct debit of the cost of purchases to the customer's bank account. This is still largely at the experimental stage. Progress is slow on account of the disagreements between banks and traders over the question of the most appropriate system. Nonetheless

development must be closely watched. The cost of retail computer technology has fallen appreciably in recent years, though the outlay required is heavy. A recent survey made on behalf of ICL showed that many supermarket operators intend to increase their investment in information technology equipment this year.

#### *4. Sales Mix*

The absence of a breakdown of the figures of turnover for the individual societies as between food and non-food sales makes it impossible to assess the extent to which a good performance is due to sales in the more profitable non-food sector. In both sectors, however, significant changes are in progress which offer both opportunities and threats to the societies.

#### *Food and Drink -*

Although the amount of money spent on food may be more or less static, there are significant changes occurring in this sector. A report on food and drink retailing has criticised the retail majors for devoting the bulk of their advertising expenditure to price cuts and price promotions during a period of economic recovery. It was argued that whilst the quantity of food bought will not increase no matter how much prices are cut, the value of food and food connected services can be increased.

This view has now become accepted and there has been a shift of emphasis from price to quality and value for money. Supermarkets and superstores are giving more space to higher margin fresh foods. More added value convenience products are available and these also increase margins. The outstanding example is provided by Marks and Spencer which now has food sales over £1bn a year by concentrating on high margin foods rather than trying to compete at the low margin end of the market.

Another factor to be taken into account in food retailing is the impact on health. Although the general pattern of food purchases has remained much the same for the past twenty years, marked changes have occurred in the consumption of individual foods. Increases in consumption of low fat milks, fresh poultry, wholewheat and wholemeal bread and fruit juices have occurred.

#### *- And Non-Food*

Important changes are occurring also in the non-food sector. One source of pressure arises from the fact that an increasing amount of the consumer's spending power is being diverted to non-retail products and services such as holidays, housing, cars and entertainment. As British retailing approaches a condition of maturity, change has become essential since traditional methods of increasing turnover - opening a new branch or extending the range of

merchandise - can no longer be relied on to produce results.

### **Short Term Economic Prospects**

The document stresses the uncertainties attending short term forecasting in the current situation. In writing this assessment some three months later, all the uncertainties still remain. An adverse trade balance is growing more rapidly than predicted but the message conveyed by the figures is uncertain because of changes in the method of recording. In any case, these figures are subject to frequent and drastic revision.

Then there is the continuing problem of interest rates. At the time of writing, sterling has fallen in relation to the dollar and the D-mark so that it has proved possible to raise interest rates to check what appears to be the increasing danger of inflation. Whether this will also check the relentless rise in the volume of consumer credit is a very open question. The high rates of interest charged on bank and "in-house" credit cards seem to be no deterrent.

Unemployment has continued to fall placing extra spending power in the hands of consumers. Pay rises in excess of inflation produce the same result. The Budget tax reductions will now be coming through, though since these are biased towards the higher income groups the major impact may not be on retailers.

### **The Author**

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