

Membership and Marketing

by Nimal Wijayaratna

Co-operation has appealed to people over the years for a variety of reasons, some altruistic and idealistic, concerned with its social commitment. It is, however, arguable that historically the vast majority of ordinary members have joined the Co-operative Movement for the 'divi'. Consumer Co-operative societies in the U.K. distributed from the surplus made in trade a cash dividend to trading members in proportion to their purchases.

The Advantages of Dividend -

Arnold Bonner has summarised the advantages which payment of dividend give rise to:

- a) it encouraged people to become members and purchase from the society;
- b) it was a source of saving and an incentive to thrift; and
- c) the accumulated dividend was a source of capital to the society.

Strictly speaking, the surplus available for distribution is a residual remaining after various other claims have been met. In practice, there were usually attempts to stabilise the rate of dividend. Members came to reckon on a constant rate, including it in their calculation of prices, thus turning the system upside down.

Acceptance of the principle of dividend does not necessarily involve acceptance of the principle of a constant rate. It is not obviously logical to pay a uniform dividend when the net return on sales differs so markedly between commodities.

In principle, disposal of surplus does not necessarily mean that it must be paid to members. Societies may devote all or part of their net surplus to the provision of services, such as education, recreational or community facilities without endangering their status as a Co-operative society. The crucial factor is that, whatever the decision, it must be determined by the members democratically. But, sadly enough, it doesn't seem to happen so. Bonner rightly pointed out that, "the principle regarding dividend on purchases is not that it should be paid, but that if there is a surplus to be distributed and if the members decided that the surplus should be distributed, then it should be decided on the basis of transaction".

- And Reasons for its Abandonment

In the U.K Consumer Movement the pressures against the maintenance of cash dividend have proved for almost all societies irresistible. The costs of its administration were high. All purchases by members had to be recorded, analysed and totalled - before the introduction of electronic equipment, a highly labour-intensive and expensive exercise. Retail margins became low. And, moreover, there comes a point when the dividend payable is too small to be a significant benefit in the eyes of the member.

A more simple, less expensive and more effective method of distributing a surplus was required.

Dividend Stamps

After the publication of the Co-operative Independent Commission Report in 1958, most societies stopped paying cash 'divi' and resorted to the method of using dividend stamps as a way of distribution of surplus.

At national level, the dividend stamp scheme was originated by CWS in order to provide a service for those societies wishing to change over from traditional 'divi' to the system of dividend stamps. The concept of the stamp scheme is that any customer, whether a member of a society or not, is issued with stamps at the time of purchase of goods in proportion to the value of goods purchased. This system brought in a change to the 'Co-operative practice'. The 'divi' was paid only to members whereas both members and non-members alike benefit from the stamp scheme. Practically all retail societies, took to the stamp scheme - with the exception of three. These societies have an administrative department to record purchases of members.

No Conflict with Co-operative Principles?

Bonner's argument reflects the fact that the issue of dividend stamps does not conflict with Co-operative principles in the sense that surplus is still distributed on purchases rather than on investment. However, while the issue of dividend stamps does give a return to the purchaser, this is not in real terms a distribution of surplus as envisaged in the Co-operative principles. There can only be a dividend, and the rate can only be calculated after a surplus has been made. The value of the stamp is decided in advance and hence it can be described as a discount rather than a dividend.

Although the societies have the tendency to alter the value of stamps according to their commercial success, this surplus will go to future customers of the society rather than those who have helped create that surplus, thus showing itself more as a promotion device than a scheme supporting Co-operative principles. Therefore, any device for a discount or reward at the time

of purchase is a discount not a dividend. And pre-determined discounts can and are included in operating costs just like any other expense. The questions societies should now address themselves to are:

- i) Has the stamp outlived its usefulness as a promotional device and/or a method of distributing surplus?
- ii) How can we make the concept of membership a valuable and sought-after one?

Membership Benefit Schemes

There is a new trend emerging in the Co-ops to move away from dividend stamps and replace them with some other method of distribution. A number of societies have already made the transition from stamps, giving their members a 'dividend' in the form of a device called a 'Member Benefit Scheme'.

The 'Member Benefit Scheme' is a major shift from dividend stamps and differs slightly from Society to Society, both in terms of the special offers available in the Society and the discounts obtainable from other organisations. This kind of scheme would, therefore, appear to offer a Society much more flexibility than the issue of dividend stamps.

The Main Elements

The scheme is aimed to provide benefits to members only, as the Movement originally envisaged. It also aims to increase the membership and the sales of the society.

It consists of three elements:

- i) The issue of plastic card to the members, purely for identification purposes. It has the signature of the member, and the membership number.
- ii) A system of discount vouchers issued only to members (in some Societies this is called a 'Passport of Vouchers'). These vouchers entitle members to purchase certain "special offers" at a discount.
- iii) A free draw element which members only can enter. Societies can choose whether to use this element or not.

Membership Lists and Marketing Strategy

Member Benefit Schemes have, in addition to the obvious advantages of

increasing sales and membership, a number of valuable “spin-off” benefits. Perhaps the most important of these is the provision of accurate up-to-date mailing lists. The extensive use of lists of customers and the eagerness with which they are sought by mail order companies and marketing agencies indicate the value placed on them by private companies.

All Co-ops have an unavoidable legal responsibility to maintain a membership record and the Member Benefit Scheme enables Societies to update their records effectively. This membership list may be used by the Society to identify and target specific categories of consumers in their regions in much the same way as the system known as ACORN. (A Classification of Residential Neighbourhood). ACORN segmentation has been found to be an efficient discriminator for market targeting and, together with their own membership records, it can effectively be made use of by the Co-ops to improve their marketing strategy.

Reaction of Members

However, a survey carried out recently in the trading area of a Society which has introduced a Member Benefit Scheme, whilst indicating widespread acceptance of it, also revealed a few points, which might benefit other Societies thinking of adopting the scheme.

Firstly, the members felt that with the dividend stamps they were able to deposit the dividends in their savings accounts with the Society. That gave them a sense of identification with the Co-op’s traditional values. The new scheme does not provide such a facility. *Therefore, it would be useful if a mechanism could be developed whereby the cash-value of a special offer voucher could be credited to the member’s share or savings account.* This would enable the member to save up for larger items of merchandise and retain one of the advantages of the dividend. At the same time, the Society would also be contributing to the ‘Co-operative effort’ as it did earlier and be encouraging a “sense of belonging” in the members. Members would also retain a degree of choice as to what they spent their “dividend” on.

Secondly, there appears to be an inconsistency in the offers made available through vouchers. One voucher will offer as much as 10 per cent discount on electrical goods, whereas another voucher will offer £2.00 off groceries, spread over all the grocery items purchased by the customer. This inconsistency in the offers results in variation of advantage in that a member using the voucher to buy electrical goods will benefit more than the one using the grocery voucher.

Thirdly, the fact that the special offers relate to specific and restricted items means that a *significant number of vouchers remain unused.* Therefore, there

is no gain to the member or to the Society. However, some customers felt that the “instant benefits” provided by the scheme were an improvement on dividend stamps, where one has to wait for a long time to collect the amount that is due.

Fourthly, the scheme has a greater potential to attract more customers, because the members seemed to think that they obtained *a better return for their money by being able to buy at the time* with the use of the discount voucher, as against buying later with dividend stamps.

Fifthly, a major point revealed by the survey was *the widespread appeal of the prize draw element of the scheme*. This appeared to be one of the main attractions, and a number of Societies which operate the scheme have experienced a similar response. Such an attraction gives wider publicity to the Society and to the scheme.

Sixthly, the advertising of the special offers for a particular month is done on the first week of that month. *Arguably, it would be better if the customers knew a little more in advance what the offers were going to be*, as it is annoying just to miss out on one of the offers by buying the item before the particular offer starts. To take advantage of the scheme a member must want an item and have the money at the time of the offer. This may be why some customers feel the scheme is not as good as the stamps, because one has to buy certain things at certain times under the new scheme to obtain discount. One is tempted to ask the question: “Would customers buy goods for the sake of buying?”

It also appeared that some older customers failed to understand the scheme and so they were unable to take full advantage of it.

The survey also indicated some widely differing views, both amongst customers and staff as to the nature and objectives of the scheme. Is it intended to be a third generation dividend distribution, a direct descendant of the Rochdale Principles via the issue of dividend stamps? Is it an attempt to make the concept of membership a meaningful one? Is it just another short-term promotional event?

It appears that the scheme is also viewed as a marketing tool whilst maintaining the essence of Co-operative principles.

Final Points on Member Benefit Schemes

In order to achieve the maximum benefit from schemes of this kind, and to satisfy both the requirements of commercial efficiency and social commitment it is necessary to work out a detailed and comprehensive marketing strategy on three fronts.

- (i) The first must be aimed at the general public and should stress the unique benefits obtainable from membership of a Co-operative Society.
- (ii) The second should be aimed at changing the attitude of existing members, some of whom will still remember with nostalgia the halcyon days of the cash dividend and many of whom will have become accustomed to the collection of stamps.
- (iii) The third must include a thorough programme of staff training, dealing with both the underlying philosophy of the scheme and the details of its operation.

Cash Dividend Re-appears

It is also encouraging to note that independent Societies like the United Co-ops have resorted to paying the dividend in cash in the traditional way, using the modern electronic technology. The members are issued with a 'Golden Dividend Card' which will automatically credit shoppers' accounts with appropriate dividend at the checkout scanners. This inevitably increases the membership as well as the sales for the society. The membership records of the societies should be fully utilised to initiate marketing strategies through analysis and segmentation of membership holders. That way, the society is able to provide the services to the membership as well as increase sales in a highly competitive marketing environment as seen today.

References

Co-operative Independent Commission Report 1958, published by the Co-operative Union Limited, Manchester.

SINCLAIR, H, "*How the Co-operative Movement Faces The Future*". (A dissertation presented for the MBA, 1981-82, University of Edinburgh).

BONNER, ARNOLD "*British Co-operation*", Co-operative Union Limited - revised edition, 1970.

The Author

Nimal Wijayaratna is a Lecturer at the Co-operative College, specialising in Management and Marketing. He was formerly in Sri Lanka Civil Service with varied experience in Land Administration and Co-operative Development.