

## THE CONSUMER MOVEMENT

by

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It is now just over 10 years since the radical recommendations of the Joint Re-organisation Committee began to be implemented with the election of a new part-time C.W.S. Board which met for the first time in May 1966. It might therefore be timely to review some of the developments - both the achievements, and a few of the inevitable disappointments - of the past decade.

Across the whole field of retailing, and especially food retailing, the late 1950's marked the start of a remarkable period of fundamental change in retail organisation and retail techniques. Through ambitious mergers, a number of today's retailing giants began to emerge. The first supermarkets began to appear, and the Co-operative Movement started to lose the lead in retailing innovation which it had established for itself with the introduction of Self-service during the 1940's. Soon, partly through these improved retail techniques, and finally through legislation, resale price maintenance was swept away, and Societies began to suffer the effects of entirely new forms of competition.

Co-operative market shares started to slide, right across the board, from the mid-fifties onwards, and the overall share of U.K. retail trade slipped from 11.9 per cent to 10.3 per cent between 1957 and 1963 (and fell lower still in later years). During those six years, C.W.S. sales - excluding subsidiaries - advanced only slightly; indeed they had shown no increase at all after 1960.

This was the background to the setting-up of a Joint Re-organisation Committee in 1964. It was the Movement's third major post-war attempt at re-organisation, following the Independent Commission and the National Federation Negotiating Committee.

#### Experience post-J.R.C.

In the decade from 1966, the overall share of retail trade taken by Multiples increased by 20 per cent: the share taken by Independents decreased by 10 per cent (from 55 per cent of the total market to 50 per cent), and Co-operative share has fallen by 19 per cent (from 9 per cent to 7 per cent).

Across the decade the Co-operative share of retail trade has fallen as follows:-

|                | <u>1966</u> | <u>1975</u> |
|----------------|-------------|-------------|
| All retailing  | 8.6%        | 7.0%        |
| Food Shops     | 13.9%       | 11.7%       |
| Non-Food Shops | 4.4%        | 3.4%        |

Superficially, this picture is extremely depressing.

In longer perspective, however, the trend towards declining Co-op retail share has been arrested. On the basis of the performance in the ten years prior to J.R.C., overall Co-op retail share might now be expected to be around 5 per cent; in 1976 it was in fact 7 per cent - not a great difference it may seem, but the sterling difference between these two figures is well over £500 million.

But the recovery is still precarious, and it would be unwise to conclude that the problem has now been cracked. In addition to putting pressures on margins, profitability, and even viability, of retail outlets, particularly those of below average size, the past few years have witnessed some important trends in retail distribution. Many of the largest and most influential Multiple organisations have continued to extend their product ranges, e.g. the development by Marks and Spencer of its food trade, its diversification into footwear, household linen, etc.; Tesco's development of "Home 'n' Wear"; Boots' widespread development into non-chemist lines.

#### The conditions for progress

Clearly, the essential feature of the U.K. retail market, now as in the mid-sixties, is that the Movement must develop approaches to retailing which will adequately combat the advance of the multiple groups. The only major difference is that, compared to the time of J.R.C., the Multiples are now even stronger, and Co-ops even weaker (at least in terms of market share) than was then the case. The basic analysis of the problem facing the Movement upon which the J.R.C. report was based has been strengthened with the passage of ten years.

The J.R.C. above all recognised the need for what it called "a true identity of interest and objective" between Retail and Wholesale Societies. It saw the C.W.S. as "the focal point of trading co-ordination in the Movement ..... able unreservedly to pursue marketing and advertising policies with, as their main objective, the expansion of retail trade." But the Joint Committee acknowledged that this in turn required a complete change of attitudes within, and relationship between, the C.W.S. and Retail Societies. It is worth repeating here some of the J.R.C. Report's key references to this vital issue:-

"If the C.W.S. is to play a full part in the future progress of the Movement, steps must be taken to replace the outmoded buyer-seller association with Retail Societies by a new relationship enabling C.W.S. activities to reflect a common interest and purpose."

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".... it can be clearly demonstrated that in the non-food trades individual Societies operate on a scale far smaller than their competitors and that in the food trade the tendency is for their scale of operations to outgrow even that of bigger Societies."

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"Though a fairly high proportion of most Retail Societies' purchases is made through the C.W.S., the Wholesale Society is not able to use the Movement's potential buying power to maximum advantage. Not in the best position to

negotiate from strength, the C.W.S. has difficulty in planning the movement of goods on a national scale. There is no adequate machinery by which this can be done. Yet the need is urgent if the Movement is to compete in power and efficiency with its organised rivals."

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".... a greater degree of integrated action must be secured by collaboration between Retail Societies and the C.W.S. and that effective collaboration will be achieved only when the relationship between the C.W.S. and Retail Societies is such that the C.W.S. is no longer forced to act as an independent organisation competing for Societies' trade on a day-to-day basis."

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"The first essential is that the C.W.S. should have assurance of support from the Retail Societies. The degree of support already accorded to the C.W.S. is fairly large and varies little from year to year. But this does not enable the C.W.S. to plan on the basis of a known market since the constituent elements in the total trade may vary according to the unco-ordinated demands of the individual buyers."

"Co-operative trade is so wide and is so varied in its forms that it is impossible to draft a simple scheme to cover the requirements of every section. Solutions for each will have to be worked out according to trading conditions prevailing in that section."

### Progress towards improved relationships

Whilst it most certainly cannot be argued that retail-wholesale attitudes and relationships have yet been transformed, in a number of ways action has been taken towards the fulfilment of the J.R.C.'s aspiration hereon.

First of all, the C.W.S. re-organisation of 1966/67 led to a fundamental reversal of policy with regard to C.W.S. productions. Previously, the range of goods offered to retail societies by their central organisation was severely limited by defensive considerations for the interests of the various C.W.S. productive units. This policy was obviously incompatible with the concept that the C.W.S. should become the sole source of supply for retail societies, and it was quickly abandoned. Current policy rests squarely on the sound J.R.C. concept that "the role of C.W.S. enterprises should be to provide retail societies with a supply of goods which they can sell with positive advantage to themselves and their members."

In recent years, therefore, a number of C.W.S. productive and ancillary operations have had to be discontinued, and the C.W.S. has withdrawn from the production of furniture and bedding; paint; hosiery; metal boxes; cutlery; fine china; rope and twine; quiltings; and domestic holloware. There has also been considerable rationalisation of other C.W.S. productive operations.

So far as C.W.S. production is concerned today, the one basic consideration is: what is in the best interests of retail societies? And although C.W.S.

productive operations have been so drastically reduced and rationalised, they play a more vital role today than ever before in the Movement's overall marketing stance vis-a-vis the ordinary consumer. All now appear under the "Co-op" symbol, they constitute a true "house brand" and total sales under the Co-op label during 1976 amounted to £314 million, at wholesale prices, including £285 million in Food; and £29 million in Non-Food. Every single one of these sales helps to re-inforce the overall impact of the "house brand" and materially helps to put over the image of a unified Movement.

The adoption of the CO-OP symbol (and the complementary step of dropping the letters C.W.S.) helped significantly to emphasise the complete identity of interest between wholesale and retail. C.W.S. advertising consistently put over the same basic message (as it still does, at an aggregate cost of some £3 millions a year, substantially drawn from suppliers). And so, with enthusiastic support from most retail societies the symbol's use has been extended, throughout the country, to Co-operative shops and warehouses; vehicles; staff uniforms; and stationery. This thoroughly co-ordinated programme has unquestionably been one of the most effective achievements of the post-1967 recovery.

On the back of it, "Operation Face Lift" was launched (now superseded by the Retail Store Development Programme) and this too has helped to give the Movement a better and more uniform image. Special terms negotiated with a restricted list of equipment suppliers have once again demonstrated in practical terms, the benefits of collective action.

Concerted action of this kind depends for its success on the closest consultation and collaboration between retail and wholesale societies. This is the foundation of C.W.S. trading policy: the nature and content of national advertising, for example, is determined in the closest consultation with representatives of retail societies on the various Technical Panels and the approach varies according to the needs of the retail outlets. In every case the objective remains the same - the expansion of Co-operative retail trade.

That same objective has conspicuously underlain the development of regional warehousing in recent years. Though this development has encountered some of the predictable and natural problems that always accompany organisational change, it represents the most far-reaching attempt, so far, to implement J.R.C. recommendations. The warehouses operate on a cost plus oncost basis, and there is complete disclosure of information to participating societies, with comprehensive involvement of retail officials in policy. These societies will soon account for approximately 50 per cent of the entire Movement's grocery trade.

In the area of Non-Foods there has been considerable extension of the type of marketing scheme which, at the time of J.R.C., were merely embryonic, but which nevertheless the Committee warmly commended. Comprehensive schemes now operate in all the main non-food groups - Drapery and Fashions; Housewares: Men's Wear and Footwear.

One completely different aspect of the new role of the C.W.S. in its relationships with retail

societies has been the development of the Dividend and Bonus Stamp Scheme. This scheme has added a new relevance and dimension to the distribution of dividend in today's climate of intensive competition, abolition of resale price maintenance and, of course, the progressive reduction of dividend rates. Indeed, in recent years, one of the principal advantages of stamps has been their effectiveness in pegging distribution, and maximising profit retentions for much needed developments.

Common central services of practical assistance to retail societies in their own management and organisational practice have also been developed, e.g. accountancy computer packages now used by many societies; staff operating manuals and training packages and other professional services - such as site assessment; property development; promotional packages for new or refitted stores. In all these areas, the emphasis is severely on the practical as distinct from theory, and the objective always is the better organisation and further development of Co-operative retail sales.

#### A task still not completed

But the Movement still faces serious problems of trade development; organisation; and structure, and the pace of competition is certainly not slowing.

Yet as we look to the future, the main challenge we face is not from our competitors, but from incipient divisions within our own ranks. The progress in retail-wholesale collaboration that has been made these last few years will be thrown away if individual societies succumb to any misconceived ideas of self-sufficiency and independence. The best interests of

every society will surely be secured only by the determined pursuit of policies aimed at the survival and growth of the whole Movement as a trading entity. This is a truism which has not yet met with general acceptance.

Despite the successes of the past decade, few would deny there has been insufficient progress in the rationalisation and co-ordination of retail inventories, especially in non-food. Within retail societies, pre-J.R.C. purchasing methods and purchasing organisations have been retained, virtually intact.

It is, of course, essential to keep in mind that the term "non-foods" comprises a large number of completely distinct specialist trades. The fact that more than 90 per cent of Retail Societies' Electrical, Radio and Television trade, for example, is today conducted through the C.W.S. is in sharp contrast with the situation in other non-food departments. In the case of the E.R.T. trade, branding is so strongly established as virtually to dictate the stock range (and uniformly so in all parts of the country). Conversely, the apparel trades are completely different: branding is not nearly so important and the range of stock options is almost infinite. Researches conducted within societies over the years have demonstrated the extreme diversity of stock ranges between one Retail Society and another - and the diversity multiplies the greater the number of separate Societies examined. Behind this situation there are complex and very difficult questions surrounding the profit accountabilities of individual retail departmental managers. But it is worthwhile to reflect on the contrasting scene between the E.R.T. trade and the apparel trades:-

1. Co-operative penetration of the U.K. apparel market has fallen drastically and continuously since the War and is still falling. The C.W.S. is involved with less than half of Retail Societies' aggregate purchases. One variety chain store organisation has increased its sales of apparel and footwear goods during the past twenty-five years by over 800 per cent (without adding to the number of its stores), whilst in the same period, Co-operative sales have increased by only 60 per cent.
2. The Movement's E.R.T. trade - in sharp contrast - has consistently improved, e.g.

|                  | <u>% Market Share</u> |             |
|------------------|-----------------------|-------------|
|                  | <u>1969</u>           | <u>1976</u> |
| Washing Machines | 7.1                   | 12.8        |
| Refrigerators    | 5.2                   | 7.1         |
| Floor Care       | 8.7                   | 11.5        |
| Colour T.V.      | 2.7                   | 3.9         |
| Mono T.V.        | 2.2                   | 6.8         |

In 1975 the Movement's recorded retail E.R.T. sales represented approximately 29 per cent of its total non-food trade; a proportion that has more than doubled during the past ten years. This represented a market share of 7 per cent: small indeed, but it has increased consistently over the past six years during a period when the Movement's share of the total non-food trade has fallen and when the E.R.T. trade itself

has been the area of the fiercest price competition with the emergence of the out-of-town discount operators.

These figures and performances are acknowledged to be the result of successful retail-wholesale collaboration.

It does not seem unreasonable to expect that similar collaboration in the apparel field will yield similar benefits. But if the C.W.S. is really to operate as sole supplier to retail societies in any such product range, there will have to be agreement by all concerned on the range itself (right down to option level); the complete elimination of any competitive products; the retail selling price; the promotional programme; and arrangements for appropriate updating of the original selected range; and for adequately measuring sales and making returns thereon to the C.W.S. Each of these has proved to be a matter of considerable difficulty, but unless a practical solution is evolved, there is little hope of any upturn in the Movement's performance in the main apparel trades.

Meanwhile, the consequences for the C.W.S. are first, that it has still not realised the full economics in the use of management resources which J.R.C. rightly associated with a C.W.S. acting as the focal point of an assured Co-operative supply system. Secondly, planned purchasing for the Movement as a whole still depends on the C.W.S. taking speculative risks in estimating potential demand, and this connotes a competitive relationship wherein the C.W.S. must earn profits to cover against the possibilities of unexpected losses.

The consequences are equally significant for retail societies. They are still having to forego the tangible benefits of rationalised stock-ranges and of collective procurement across the board. More important, they are not yet reaping the advantages of better utilisation of their own management resources, because (with the exception of regional grocery warehouse participants) retail Societies' departmental officials have not been significantly relieved of their buying function.

Another field of endeavour which must not be neglected is to pursue a continuing improvement in the general operational standards of Co-operative retailing. It is obvious that the existing Co-operative shop structure, despite the rationalisation measures of the late 1960's, requires substantial renewal and re-development. Meanwhile, like any other business or individual, every society must continue to make the best of what it has and (to adopt an expression by the Independent Commission) this surely means striving to bring the performance ratios of all societies up to those of the best societies. Only modest improvements in the general level of sales productivity related to floor space - still leaving the Co-operative averages sadly below those of its best competitors - could increase overall Co-operative trade significantly. Likewise, equally modest improvements in stock-holding, based on rationalised ranges, could make sizeable reductions in capital commitments, and so contribute to liquidity.

#### The opportunities - and the challenge

Arthur Sugden, Chief Executive Officer of the C.W.S. has referred to the need to extend the boundaries of Co-operative retail trade, and in so doing he

complained of the extent to which the Movement, in its approach to development, has seemed to become rooted in orthodoxy. For many years there has been far too little development of completely new fields of trade, and equally, the Movement has not been as willing (as it was in the early 1960's when it established the Shoefayre chain) to think in unorthodox organisational terms for the purpose of new trade development.

During the last twenty years, total consumer spending, in real terms, has risen by well over 50 per cent - indeed the yearly average has been 2.6 per cent. It seems conservative - despite current economic problems - to postulate any lesser degree of expansion for the next 25 years. The pattern of expenditure will, of course, continue to change - and possibly even more significantly than in recent years. This could have an important bearing on Co-operative trade. Certainly, looking ahead twenty-five years, the proportion of consumer expenditure going on Food and other convenience goods - clothing even, and drink and tobacco - will continue to fall. One estimate puts it at 33 per cent of the total by the end of the century, against 44 per cent today. The growth sectors - against the prospect of progressively shorter working weeks and longer annual holidays - will clearly be those concerned with leisure pursuits of all kinds - such as private motoring; sports equipment; holidays; and second homes (both fixed and mobile).

These demand shifts will clearly require greater flexibility on the part of the Co-operative Movement, a greater readiness to use unorthodox organisational forms; and a greater capacity, certainly, to adopt and indeed to initiate new retailing techniques.

There is ample evidence already of increasing mechanisation in the home (and of the trading opportunities so created). It is equally likely that there will be increasing automation in retailing - for example, automatic purchase and stock recording through the check-outs.

The steady raising of educational standards, backed by increasing real incomes, has already bred a generation of more discriminating consumers. It is our special responsibility, as co-operators, not only to meet, but to anticipate the resultant demands of tomorrow's consumer for better quality goods, new types of credit facilities; improved services; and top-class shopping amenities.

Retail distribution will continue to be a highly competitive industry. The pace of change in retail techniques will show no slackening, and the very demographic structure of Britain, coupled with consumers' increasing mobility will continue to force some re-location of the retailing function of which superstores and hypermarkets are only one manifestation. It is, therefore, to be expected that there will be further developments of larger-scale retail units in unorthodox locations; and stronger efforts, correspondingly, to safeguard existing shopping centres by re-development, pedestrianisation schemes, and so on.

All of this re-emphasises the need for a unified Co-operative Movement strong enough, both in capital and management resources, to play a significant (and increasing) role in the satisfaction of consumer needs in the 1980's and beyond.

This must mean a rededication, and redoubling of efforts, along the lines of J.R.C., to make the C.W.S. the "focal point of trading co-ordination in the Movement". This carries no implications of dominance from the centre: on the contrary, the Movement's only hope of sustained advance is in making the central organisation into a highly effective support and servant of an increasingly successful retailing operation.