

Co-op. Great BritainEXPERIENCE FROM AUSTRIA

by

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(We print below a statement by Professor Rauter on the "basic ideas and reasons" for the "national society" Konsum Austria. This is taken from a recent address he gave and - regrettably - we cannot include the full passages in which he dealt with the post-war background of the Austrian Consumer Movement and its present situation - which have many correspondencies with the British position. However, by way of introduction to the main excerpt, we include one or two short quotations giving some salient features of the Austrian Movement.)

The Framework

"The realization of this structure plan started in 1969/70 and brought a considerable shift in our network:

- while in 1967 the co-operative sales floor amounted to 154.000 m² (square metres) we now hold at 410.000 m²

- in the same time it was possible to increase the turnover in retail business from 4.5 milliard Austrian Shillings to 16.7 mrd AS
- the membership increased from 480.000 in 1967 to approx. 730.000 in 1977, this means that every fourth household in Austria is a Co-operative member household
- the number of shops was reduced from 1.519 to 1.166 during the same time
- the dividend paid to our members increased from 80 mio (million) AS in 1967 to about 200 mio AS in the past year
- the number of employees in the consumer co-operatives that is without the central organization increased from 10.400 to 14.800 during the past decade."

Problems

"And now a few remarks on the economic development in our movement which was mainly marked by continuously decreasing returns and a diminishing operating surplus. This is specially

due to the extremely high amounts of investments which were necessary in order to extend our market position. Based upon Co-operative principles to operate at a rather low price level, just in times of keen competition and to keep small shops still running led to this deterioration of finances.

"In spite of raising own capital in absolute figures its share decreased with regard to the huge investment volume.

"But nevertheless in the past decade it was possible to mobilize capital reserves by rationalization. A visible expression of these efforts could be noticed by a permanent decrease of overheads in percentage of sales and by a reduction of siting direct costs.

"But these possibilities were largely exhausted and the returns were continuously diminishing. Moreover the purchases of our regional societies from the Co-operative Wholesale organization and from our own production plants were not in line with our retail growth.

"So far one can obviously see a discrepancy between our market position and our economic situation. A responsible management is not permitted to ignore such a develop-

ment, of course, and must take any thinkable measure to ensure productivity and economic efficiency for the movement in the long run."

"Simplifying one can find the main reasons by the hitherto existing Co-operative structure which lastly hindered collaboration between our wholesale organization and their production plants and the regional societies, which doubtlessly prevented our movement from a unified and powerful performance."

KONSUM AUSTRIA

"As mentioned before there were 16 independent regional consumer Co-operatives plus some local societies. Together they have owned ZENTRAALKONSUM which comprised the FORUM chain of department stores, the wholesale organization GOEC and the central production facilities.

"Out of these 17 independent co-entreprises and their subsidiaries we have now created only one single Co-operative Organization KONSUM AUSTRIA with the head office placed in Vienna. The owners of this consumer Co-operative are the member households. Unfortunately there are still 2 regional societies which don't yet join the new organization but it might be expected that they will be amalgamated in the future.

"The objective of this concentration of forces is primarily the maintenance and growth of our movement as Austria's leading consumer organization and retailing enterprise. Optimal service to members' households will still remain as our primary task.

"What are the main features of the new KONSUM AUSTRIA, what will be the essential advantages of a unified KONSUM AUSTRIA in practical business?

"There is to mention

- the improvement of efficiency by centralized purchasing
- a pooling of our sales promotion efforts
- the development of our marketing activities in order to take better advantages of existing chances in the market
- the strengthening of own production by creating new lines of products and more effective use of capacities
- there are possibilities of rationalization in administration
- the development of financing facilities
- centralized advertising
- that we can make more intensive use of computerized data processing, especially in the field of inventory and stock control and in our transport system.

The Democratic Structure of KONSUM AUSTRIA

"The decision-making structure will consist of several layers of democratically elected councils.

- on the local level, for one or several stores the members' meetings will elect members' councils and the delegates to the general assembly. These members are also the delegates to their respective regional assembly. One delegate can represent a maximum of 1.000 votes.
- The regional assemblies are presided by the chairman of the region and consist of the regions' delegates to the general assembly.
- The regional assembly elects the regional council which also includes workers' representatives and one representative of the Co-operative womens' organization. The regional council elects the regional chairman. The professional regional directors of KONSUM AUSTRIA must be present at the meetings of the regional councils too.
- The general assembly consists of members' delegates and this is the top authority of KONSUM AUSTRIA.
- The general assembly elects the supervisory board on the basis of regional representation. Workers' representatives will also be members of the supervisory board. The supervisory board can

delegate its current tasks to an executive council and to different commissions.

- The board of directors is nominated by the supervisory board and elected by the general assembly. At present it consists of 13 members. It is presided by a honorary chairman and consists of 7 central department directors and 5 regional directors, all of them as professional managers. This Executive Board is in charge of all business activities and carries the overall-responsibility for the balance sheet of KONSUM AUSTRIA.
- Decisions on certain matters may be reserved by the statutes to common meetings of the board of directors and the supervisory board."

Regional and Departmental Organisation

"As I said before there will be 5 regions:

- East consisting of Vienna, Lower Austria and Northern Burgenland
- Upper Austria
- West comprising Salzburg, Tyrol and Vorarlberg
- Carinthia
- and Styria, consisting of Styria and Southern Burgenland.

"On the other hand there are 7 central department branches like

- Marketing and Public relations
- Purchasing and Distribution
- Production Plants
- Accounting and Finances
- Legal Affairs and Staff
- Planning, EDP and Construction
- and Members' Organization, Training and General Administration.

"As far as it concerns personnel and staff in general I should like to point out that no reduction of personnel is envisaged in connection with the merger, especially as further growth is to be aspired. However, there may be a shift and certain regroupings of personnel.

"In connection with the aspect of labour division between the central departments and the regions we can say that basic policies for all departments will be formulated by the central board of directors.

"For current affairs every member of the board of directors will preside over working groups which includes the managers from the region concerned. Different points of views between the department director and the regional director are settled by the Executive Board.

"Our marketing and sales concept is based upon 3 sales divisions or sales branches:

- There is one manager responsible for small shops and food stores up to 1.000 m2 sales floor
- one for hypermarkets and self-service department stores
- and one manager who is responsible for the department stores of the FORUM group
- The management for co-operative services like for restaurants, travel agencies and other special stores is a line for its own.

"Our new cost accounting is organized in such a way that the economic efficiency of each scope of responsibility can exactly be planned, measured and controlled. Of course, contacts with banks outside the movement will still be necessary but they have to be kept within the frame of common policies. Besides, full information to the department director has to be guaranteed.

"Our purchasing policy is basically effectuated by the respective central branch. Those items where regional or even local purchasing is useful, especially with regard to perishable goods are clearly defined.

"The organization and members' affairs are clearly regulated by the statutes.

"The regional employees are fully responsible to the regional director as far as discipline is concerned. Appointments and dismissals are decided by the board of directors upon the proposals of the regional director.

"With regard to our planning and budgeting system we are setting yearly plans for every operating unit which has to be coordinated between the region and the sales division manager concerned. These budgets and plans are taking reference to the sales amount, the gross margin and the siting direct costs and - as a result of it - to the contribution of overheads.

"The Executive Board has to decide on short-term, medium-termed and long-range investment plans. The yearly investment plans must be approved by the common meeting between the board of directors and the supervisory board. In general investment plans are worked out by department director and the regional director concerned in accordance with the planning department and the department for financing.

"This planning system is based upon the principle that all the people concerned should actively participate in budgeting and planning within their function. Every solution on organizational and economic problems must agree with the basic principles of KONSUM
AUSTRIA

- to improve our present purchasing conditions by concentration of Co-operative purchases
- to increase the share of Co-operative brands
- to reduce costs and
- to make an optimal use of our Co-operative funds."

Advantages in Practice

"What does this mean in practice?

"Compared to the sales of the former largest regional Society the turnover of KONSUM AUSTRIA is trebled. The raising purchasing power must doubtlessly take effect on gross margin and economic efficiency basically provided that purchasing is organized on our joint purchasing power.

"Aside from local supply of daily fresh goods this means that all the other orders must be placed centrally, which is also applied to the supplementary assortment.

"As I mentioned before an essential improvement of purchasing conditions by joint purchases highly demands for tightness and standardization of the assortment and central control of price policy with regard to the budget of quantities.

"This central control is regulated by the central sales manager who is responsible for price policy within the frame of sales budgets, the margin, direct costs and the operating surplus. But this requires accordance with the regional sales managers. Besides from this aspect it seemed to be useful to fix a certain latitude in price policy for regional or local differences which might be caused by the competition - corresponding with the different sales divisions.

"Aside of membership and concentrated purchases our own Co-operative production is another very important factor. In 1977 our own production amounted to nearly 3.4 mrd AS based upon manufacturing prices which is about 22% of our total sales in retailing.

"Altogether we are owning 88 production plants with about 2.500 employees. As a consequence of the separation of responsibility long range planning of production and investment planning has hardly been possible in the past.

"Resulting from this we now have some mechanically obsolete production plants which are not fully competitive any longer. On the other hand there were some new plants with a rather high technical standard but only a very low output. KONSUM AUSTRIA is now offering the opportunity to increase the output of Co-operative brands, even in such cases where the economic risk for large investments has previously been too high.

"Yet in the short run it will be possible to place our own brands at a corresponding position to its margin compared to similar products of our competitors.

"It will be up to the regional sales manager to take care of the right presentation and to set priorities with our brands in the shop network. In the long run we must endeavour to profile our image by an intensified policy of Co-operative brands in order to increase sales and the operating surplus of our production plants, and it will be the top target for the production branch management to achieve an adequate productivity and economic efficiency in each of our plants.

"Certainly there are considerable possibilities and chances of a reduction of costs but of course in most cases this can only be achieved in the long run. Just for that very reason this also had demanded for a swift realization of our new management conception.

"In the long run we must particularly take into account the economic consequences of our investment policy. Whereas investment policy, distribution and sales policy formerly was considered only from the viewpoint of the different regional co-operative societies respectively and of the GOEC, our wholesale branch, it is now possible to consider this aspect from the national viewpoint of minimizing costs.

"But with regard to the long term character of investment decisions and their consequences this process of structural change will take a longer period, of course.

"Within a shorter period we can probably realize only some possibilities of a reduction in staff expenses but merely so far as we shall try to keep the additional staff that will be needed with regard to the expected growth and turnover as low as possible.

"But we are convinced that we shall be able to keep the increase of labour costs below the average economic growth of KONSUM AUSTRIA because many administration activities in the past, like in purchasing, production and marketing have been done parallel at several levels and sites.

"From the aspect of our distribution system KONSUM AUSTRIA is also ensuring a more rational handling of central accounting. With the installation of EDP in each of the 5 regions better economic transparency can obviously be achieved. As a result regional weak points can shortly be investigated and suitable measures for improving the situation can be set immediately.

"By using EDP on the central and regional level there is now the chance to practise an efficient labour division concerning many problems of administra-

tion like in staff-accounting, financing and in operating business in the shop network.

"As I have mentioned before another reduction of costs can be achieved in a number of other expenses, like advertising where we obviously operate more effectively with the same budget by lowering the costs in relation to the sales or - on the other hand - we can reach the same effect as in the past but with a considerably smaller budget.

"Furthermore we are convinced that many expenses can be reduced in the future by more standardization in purchasing, warehousing and transportation and all the other purposes which are necessary for running wholesale business and marketing in its broadest sense."

Financing the Movement

"And now a few words about financing. When we speak on finances within our movement our financial department can not be seen isolated from the structure of KONSUM AUSTRIA. The Co-operative bank, the former ZENTRAKASSE of the Co-operative Societies has always closely and effectively collaborated with the financial department of ZENTRAKONSUM.

"The extension of this involvement directed to the regions is an essential element for further favourable economic development. The future financial power

of the KONSUMBANK will highly depend on the financial strength of KONSUM AUSTRIA and vice versa as both branches are economically and administrative closely linked.

"No doubt, the foundation of KONSUM AUSTRIA has considerably improved the chances for further economic progress of our Co-operative bank. With regard to the close ties between the KONSUMBANK and KONSUM AUSTRIA there are 3 different kinds of business activities which must be distinguished

- purely independent branches of the KONSUMBANK
- small units and counters in Co-operative hypermarkets called "Minibank"
- and certain activities in our shop network.

"The endeavoured aims of Co-operative financial independence will be reached by middle and long-term cooperation with our befriended banks and credit institutes."