Problems and Prospects

by Dr. R. Johnston Birchall

This year's S.C.S. Conference 18-19 September at the Co-operative College was on the theme 'Problems and Prospects for the Small Co-operative Shop'. 75 people attended, including some who were also participating in the reunion organised by the College Ex-students' Association. It was chaired by Brian Rose, who outlined the work the SCS had done so far, including the commissioning of the report 'Save our Shop', which had been published by the Co-operative Union, and the update of this in the Society's Journal No. 60.

Steve Worthington: Keynote Address

Steve Worthington of the Institute for Retail Studies, University of Stirling in his keynote address asked some crucial questions:

1. *Are the multiples that good?* Yes: they have brought new food products into the supermarket and through their power over the manufacturers have exacted high standards, and attention to consumer preferences such as for healthy eating. Competition is no longer based on low prices but on style, ambience and customer convenience through, for example, acceptance of credit cards and long opening hours. Competition will get worse, and the centralised, specialised expertise of the multiples will be turned more and more against the only sectors they can take trade away from: the Co-ops and independents.

2. *Are the small shops that poor?* Steve gave examples of bad practices such as poor layout and restricted opening hours, yet contrasted this with some small shops such as C Stores which have managed to outflank the multiples and find a market niche.

3. *How can the small shops survive?* Several positive steps can be taken by independents:

   a. Form a buying consortium, and if unable to compete on price, offer a good service.

   b. Market to specific consumer segments such as the 'frontier' customers who are 'money poor and time rich', by emphasising cost control and reduced overheads, or to the 'sybaritics' who want convenience, style and quality, by emphasising the shop's uniqueness.

   c. Improve management techniques by formulating a business strategy.

d. Isolate cost items, relying on low energy technology.

e. Be more willing to co-operate with other traders, for instance in the provision of a shoppers' creche.

f. Respond to local customs and culture.

From Northern Ireland he showed how grocery-based independents in symbol groups have been able to dominate the C store sector, having outflanked the multiples by their knowledge of distinctive local trading conditions.

Malcolm Earnshaw: Late Late Supershops

Malcolm Earnshaw of the Late Late Supershop (UK) Ltd, a wholly owned subsidiary of CWS talked about its franchising operation.

He argued that the C store is now well established in the high street, and that its main features are well understood: it is a shop of 1-3000 sq ft, trading on a shopping parade or main through road, serving a population of 6-8000 within a half mile radius of the shop. It has extended hours, an extended range, and aims to top-up a regular weekly shopping basket bought in the superstore. Franchising offers additional long-term benefits to the C store operator. A franchisee buys a license to run a business on behalf of a company, and then pays to that company a percentage of turnover and a fee for services received. The 'Supershop' went into franchising as a response to management problems experienced in its first test-bed managed C stores. These are some of the reasons:

1. Each shop demanded a heavy capital input which, if the franchisee provided it, would save the Co-op precious investment capital.

2. An intense management resource was needed, including security intervention. The franchisee would have the incentive to provide this.

3. There were staffing problems in coping with extended hours and a large number of staff. Good managers are always being promoted to larger stores, and so the franchisee again provides the solution.

4. Turnover in the C stores was up so high that regular cash collection by a security firm was needed, and this was costing too much. The franchisee could organise regular bank trips.

5. Leakage had increased,and the franchise method was seen as the only reliable way of controlling it; the franchisee only suffers a leakage once!

6. Customers were clearly indicating that they wanted Sunday opening, yet the costs of doing this through conventional management were too high.

7. The patent office rejected the registration of the Supershop name and method, and so these could only be guaranteed by a set of manuals which franchisees can be made legally bound to operate.

Large-store type techniques of site appraisal were used, which made for stringent requirements which then led in only one in ten cases to an agreed rental and head lease being drawn up with the society which owned the property.

Conditions of Operation

A five year commitment is asked of the franchisees, with an option to renew, and those who are selected are given three weeks of intensive training, on site in an existing shop, at headquarters in Manchester, and then in their own shop. Refitting of the shop is done to an agreed specification and price, staff are recruited, and then the shop is launched with a leaflet drop to all residents. A Trade Development Advisor then stops with the franchisee until he or she is confident of being able to go it alone.

National buying terms are offered, and, because the franchisor has to guarantee payment, all bills are settled at Supershop headquarters by direct debit. A weekly trade statement is returned to the shop, and a strict check kept on the range and stock policy. The franchisee has to provide weekly till summaries, from which the product mix is analysed. Franchisees can now expect to invest £65-75,000, and to take about £15,000 in net profit in the first year. There have been no day to day problems such as are experienced in managed stores, but the franchisor has a charge to develop the business further, by developing new lines such as in-store bakery. The watchwords are: test the market, release the product, keep up standards and learn from experience.

Benefits to the Movement

The benefits of franchising to the Co-operative movement are:

a. that it retains units which would otherwise be closed and lost to the competition.

b. it protects the Co-op's traditional base in small shops.

c. it provides a return on a fixed asset.

d. it allows capital to be concentrated on other priorities.

e. it allows management resources to be diverted elsewhere.

f. it improves the image of the Co-op.

g. it protects the manufacturing, buying and distribution base of the CWS.

The results are impressive: a turnover of £5.2m in 1986, with £9m projected for 1987, and with 40% of grocery being Co-op Brand. The managed store has seen a 3% decline per year from its peak turnover, with a 16% gross profit, while the franchised shops are still registering large increases in turnover of between 10% and 60%, and are producing 18.5% to 21% gross profit, after leakage. 12 shops have been opened so far, with another 3 planned for this November.

In subsequent discussion it was observed that the Supershop had hidden management costs in that its team was paid directly by CWS. Malcolm admitted that in order to break even in the long-term, they needed 40 units. Gordon Walker, who had originally set up the Supershop, confirmed that it had been a commercially valuable learning experience, having fulfilled the wider aim of testing out the C store model so that retail societies could follow. The benefits to the Movement were in this wider sense very cost-effective.

Gordon Walker: Norwest Society

Gordon Walker recounted the recent experience of Norwest Co-operative Society in developing a C store chain.

Norwest does 50% of its turnover through 10 Shopping Giants, 22% through 13 large supermarkets, 18% through 45 Saver Co-ops and 10% through 15 'Open Later Saver' C stores. This showed that while the Society's strategy relies on the large shops, the C store programme is also very important. Gordon confirmed that the features of the C store are accurately summarised in the update published in Journal 60, but that there was a dilemma in providing a wide but shallow range, yet attempting to provide anything the customer may require. In this respect it was dissimilar to the superstore, in its inability to stock both a wide and deep range. Some sectors have to be limited while others are emphasised, and there is a need to balance a dense shop layout with customer comfort.

The objectives are (a) to maximise the shop's share of weekly customer spend, and (b) to optimise the satisfaction of passers-by. The shop cannot compete with, but must complement, the superstore.

Why has the C store grown up at this time? Four reasons can be given:

1. Social change - the smaller household, congestion caused by increased car traffic, the stresses on part-time working women, and so on.

2. Higher consumer expectations - the experience of superstores had led to a demand for higher standards in small shops.

3. Convergence of interest - different types of store, CTNs, newsagents, off-licences, grocers, all wanted to experiment with C stores.

4. Avoidance by the multiples - the mainstream multiples want to concentrate on what they do best, ie. large store developments, leaving the small shop field free for the competitors.

There are 15 Open Later Savers, developed out of the Saver stores, and an eventual target of 25 is realistic. They are 950-2500 sq ft, but the policy is changing to favour the larger stores. They are in diverse locations, trading for 78-87 hours per week, with one open on a Sunday. They have an integral off-licence, a uniform range, consistent pricing, and the results give sales per sq ft of £6-70 to £10-50, with a gross profit of 20% (excluding off licence and cigarettes). Gordon then illustrated one typical store layout with slides.

Similarities to Supershops - and Differences

There is great similarity with the Late Late Supershop, in the following respects:

a. emphasis on a grocery base and value for money.

b. a strong fascia and high interior standards.

c. rigorous site assessment before opening a shop

d. a similar size of outlet and length of trading hours.

The differences are as follows:

(i) In property management - the Supershop provides a long lease to a retail society, while Norwest retains flexibility over future use.

(ii) In investment - the Supershop entails neither a cost nor a direct return to the retail society, while Norwest has to find the capital but takes all returns. The latter also benefits from the economies of scale provided for instance by an in-house building and shop-fitting team.

(iii) In management control - the Supershop is franchisee-driven, while Norwest has to face up to the challenge of Co-operative management. Compared with the traditional small shop there has to be increased delegation, staff scheduling, customer relations, security challenges and knowledge of product range.

(iv) In retaining main-trip shopping - the Supershop has a lower basket spend (around £3 compared with £4-70 at Norwest), because Norwest has been able to refurbish shops without ever closing, and retains its core of older, less mobile shoppers.

(v) In degree of integration within the retail society structure - Norwest is able to maintain an integrated management and democratic structure, while the franchisee will always remain to some extent outside the Co-operative decision-making process.

John White: Retail Advisory Services

John White talked about his approach to the small shop problem, in working with a Co-operative consultancy group, Retail Advisory Services.

He stressed the value and potential of the small shop as an alternative way of providing a caring service to neighbourhoods and villages. He asked 'Why should the small shop survive?', and answered this with another question: 'Where else can people meet?' The shop is the only place where people can meet on equal terms regardless of status, age or degree of mobility. It need not have a bad image with customers, and some small shop-keepers are becoming more professional, and learning to price the 'known price' goods competitively.

The small shops need not be much less economical than supermarkets, considering that people tend to be more clear about what they want, and less prey to impulse-buying. yet often in the Co-op the standards, image and merchandising are out-dated, pricing is inconsistent and there is bad service and lack of staff commitment. Staff need to be trained, and to have their role in the community explained to them; they need to develop a commitment to it.

The Skills Needed

Independent shop-keepers should not fall into the trap of thinking that retailing is something anyone can do. It is one of the most complex, skilful jobs, requiring around 15 skills, for each one of which superstores train a specialist, but all of which small shopkeepers have to master! 80% of the time is spent not in the 'customer interface' but at the back, doing the books, ordering, pricing and so on. It is no wonder that around 40 shops per day are closing at present. Many small shops survive on these two slogans:

- They don't have to go out and spend the money they don't earn!

- If all else fails there's always another mug who will buy the shop!

Nobody is in the market to help the buyer of a small shop, which is why John set up the National Village Shops Survival Programme for COSIRA, and then set up Retail Advisory Services. In 12 months, over 3000 business people go through a training course, and this year grant - aid has been made available for 30 advanced courses.

The Co-operative Small Shop?
Co-operative small shops which have been closed would often have been viable if they had not been charged for management support. yet such support was often unhelpful; middle managers did not understand the need to stock the shop for local needs; they wanted ease of management and control, and so at the interface between middle management and shop staff things went wrong. Yet only the Co-op can keep small shops alive, particularly in rural areas. The private sector is too fluid, with shops changing hands on average every two and a half years, yet at a time of disorganisation of the social infrastructure no-one is doing the job of integrating communities. If the Co-op can take on this social role it can save the small shops. Members can help with marketing, with the PR exercise needed to persuade people to use the shop. Management needs to be trained in identifying community needs and in the whole social and community dimension. The Co-op is isolated from other local organisations, yet has a potential role in alleviating their problems. And people really do want something worthwhile to join.

A Model for a Community Shop
John then presented his model for a community shop:

a. It would provide a delivery service, perhaps via a community transport service such as Help the Aged provide.

b. It would be an information and resource centre, perhaps providing library services.

c. It would exploit new technology, perhaps offering computerised ordering from terminals in the shop and in other centres such as sheltered accommodation for the elderly, bringing a total shopping service to rural areas.

Questioned about the role of a local authority in such a model, John foresaw a post office type salaried role for shopkeepers as 'community caretakers', and the provision of community development workers. Questioned about the main requirement of many customers - a fast service - he envisaged the meeting of different expectations, in promotions, special shopping times for the elderly and disabled, taking the shop to the schools and so on. Questioned about the kind of help available to community shops, he cited the example of Co-operative societies such as Oxford and Swindon in helping new shops to open.

Tony McKendry: Ealing C.D.A.

Tony McKendry of Ealing Co-operative Development Agency, talked about the rescues of closed Co-op shops at Bedfont and Harefield.

Bedfont was a sad story, an example of how not to do it. There had been a great deal of anger and nostalgia when the old Co-op shop had closed, and yet a simplistic view that it could be converted into a worker co-op; it will almost certainly be out of business by Christmas. It was near a Budgen supermarket on a secondary shopping precinct, with double yellow parking restrictions inhibiting their business. They had had no training; the resources of Ealing CDA were stretched across four boroughs, and CRS were no help at all. Yet the workers were resistant to the idea of being trained, feeling that they were already the experts.

Tony had joined Ealing CDA in April 1987, by which time Bedfont was in a state; it was still only taking £2500 per week. A marketing study was commissioned, recommending the introduction of high value non-food lines, better marketing and display, longer hours and so on. £8000 was needed to put the shop on its feet. Six applicants were interviewed for the part-time jobs needed for the longer opening hours, but the workers rejected two Asian women on the grounds that they would lose all their trade; the shop served a white-racist group of customers. Shocked at such outright racism, both London Co-op Enterprise Board and Ealing CDA withdrew. The rather elderly staff are left isolated, burnt out, and without even the support from the local community which got them going; the Friends of Bedfont group has evaporated. They still think they know best, but they don't . . .

Harefield was also racist-inspired; the only store owner left in the village when the Co-op closed was an Asian, who took advantage of the situation to charge high prices. At the first general meeting, called to discuss early trading difficulties, the GLEB official's advice was to sell the shop and distribute the profits to the village. Instead, the officers decided to do without a business advisor, to take out the delicatessen and go buying themselves at cash and carries. They worked hard, but are still in trouble and, like Bedfont, have alienated their advisors and gone for low-priced grocery in an attempt to increase sales.

Neither shop is typical of a worker or community Co-op. They do not absolve the consumer Co-op society from solving their own small shop problem and using their assets effectively.

Joan Richards: Afan C.D.A.

Joan Richards of Afan Co-operative Development Agency, talked about the Gwynfi Community Co-operative.

Gwynfi is an isolated but strong community of just under 2000 people. Because all the mines have closed, unemployment has reached 65% among the youth and 42% in the older age-group. People are despondent, yet they cannot afford to move out, as their houses are worth a quarter of what they paid for them. Having run a very successful Co-operative society, which had got into difficulties in the 1970s and transferred to CRS, the villagers were determined to save the shop and the jobs it provided, by investing in a new Society. They paid £5 per share, and registered with the Co-operative Union under consumer Co-op rules.

Under their first manager, who had been appointed from within the village, the shop seemed to be doing well, but a large deficit came to light. After he left, the shop was still suffering a leakage of £200 per week, and it was only after two young members of staff were replaced that the leakage stopped. It seems that some villagers were involved in the leakage, while others who knew about it stayed away in disgust; either way, the shop lost money. After an unsettled period, the new manager has, with the help of the CDA, restored order in the shop, and reached the break-even target of £3500 per week. Joan has applied for an Urban Development Grant, and is hoping for Welsh Office approval. This will allow the restoration of the large Co-op building so that workshops can be provided for new worker Co-ops; already, 9 Co-ops have been formed in the valley because of the example of the Gwynfi Co-op.

Problems - and Hopes

In discussion, people reminisced about the problem of security in small Co-operative societies and trade unions during the last century. The trade union box which had three key-holders was cited, and the curious rule that treasurers had to be Quakers or Unitarians! The lack of economies of scale in small shops, the death of the Co-op mobile shop and rise of independent substitutes were cited as causes of decline. CRS in particular was overburdened with management problems, unable to get good small shop managers and losing vastly by keeping 250 small shops open.

Finally, someone ended on an optimistic note, reminding us of Galliagh, a highly successful new Co-operative society set up in Northern Ireland, which operates both a supermarket and a 'corner' shop from the same premises.

R. Johnston Birchall: A Summary

Finally, Johnston Birchall summed up by asking one key question which was implied in each speaker's talk.

1. From Steve Worthington - Can C stores cater for local needs and tastes, or must one consequence of centralised management be a bland uniformity?

2. From Malcolm Earnshaw - Now that franchising has become so prevalent, not only in the Co-op C store but in opticals, funerals, cigarettes, in-store fashions, milk and so on, is it not time for a working party to look into the issue both from the business point of view and that of Co-operative principle?

3. From Gordon Walker - Since the Norwest approach to the C store contrasts with that of other societies in the care with which they select stores, and the size of their investment, should not other societies take care not to dilute the concept, thus eventually perhaps bringing it into disrepute?

4. From Tony McKendry and Joan Richards - How can rescue-type Co-ops avoid falling into the trap of reproducing all the faults and limitations of the old Co-op, limiting themselves to subsistence grocery where the returns are lowest and the competition greatest?

5. And finally, looking into the future from John White - Should the Society for Co-operative Studies now concentrate on the problem of the very small store (which will never be profitable and yet which provides a social service), and attempt through an action-research project to build in social, information, library and computer-shopping services in order to secure the shop's future as a centre of its community? This would take the research we have already done one stage further into the most intractable problem - how to save the very small shop.

Note of the Author

Dr. R. Johnston Birchall graduated at Oxford and returned to academic study for an M.A. at York and, more recently, with a doctoral study of housing Co-operatives. He has served on York Co-operative Society Education Committee and has been Vice-chair of the Society for Co-operative Studies

and is now its Secretary. After working for the Institute of Community Studies, he has recently joined the Faculty of the Built Environment of the South Bank Polytechnic. His recent books are *Save our Shop* (see above);*What Makes People Co-operate?* about member participation in housing Co-operatives and *Building Communities: the Co-operative Way*, a history of housing Co-operatives during the twentieth century.