

A Future for Consumer Co-operation
in Britain?

CO-OPERATIVE RETAILING - WHAT NEXT?

by

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In the light of the poor trading performance of the Co-operative movement over recent years and the gloomy forecasts that are made, it seems appropriate to ask 'How are retail societies to survive?'. This short paper makes a few points as a contribution to the 'critical analysis' of society performance.

1. Learning from the Movement's Successes

There is continual talk about the poor performance of the movement but a failure to acknowledge that there are societies which are performing effectively. Much more attention could be paid to the way in which they achieve their success and less given to the movement's competitors. Clearly there is much to be learned from the study of non-Co-operative operators but it has to be remembered that they are different in history, structure, outlet patterns, sales policy, product range and mix. There is, however, the need to learn how similar organisations perform; successful Co-operatives have many of the features of the unsuccessful but they have turned them to good account.

If the movement is to learn from its own successes it must not do so in parrot fashion but constructively. Too often unsuccessful societies seek to copy others without adequately

considering whether they have the managerial skills, the resources and outlets to perform in the same way. They do not recognise that what is successful in one society has often to be adapted, modified, indeed reshaped if it is to be effective elsewhere. Too often one comes across societies which are trying to ape M & S or Sainsbury's and the effect is deadening; it is immediately recognisable as a copy and a poor one at that - what it lacks is the spark of originality.

2(a) Learning from Competitors: Failure of Woolworth

In the light of the above it is worth examining the success and failure of the movement's competitors. Two examples will make the main points. The first is a story of failure and has all too many of the features of the unsuccessful Co-operative society: I refer to F.W. Woolworth.

Basically the problem of Woolworth was that it was tied to its own past and its efforts to break out were hindered by its own self-image. In this it reflects a view of the movement expressed in the following:

'The trouble with the co-operative movement is that it has depended too much and for too long on loyalty, at a time when the impact of wider education, greater social mobility, and the translation of retailing from being a community-based activity to a media-based activity have all encouraged customers to shop around..And shoppers' attitudes have grown out of line with Co-operatives.. customers are different people acting in a different kind of world from 20 or 30 years ago.'

Additionally, and like many Co-operatives, Woolworth attempted to be all things to all shoppers, especially those with limited incomes. In consequence there was nothing dramatically catching in its operations, it had no well-founded appeal, it presented a dull face.

It demonstrated another important lesson. Large-scale advertising cannot in the end overcome failure at the operational and marketing level in the shops. Basically it comes down to not advertising if you do not have the goods available, or if the presentation in the shops falls below the expectations aroused by the advertising - here indeed is something for the movement to ponder with its heavy expenditure on advertising.

Other points from the Woolworth story are worth noting. First, Woolworth's had many prime sites but did not know how to use them. They did worst in the busiest shopping centres where the return on capital employed was some 3%, while in the less busy sites they did a reasonable 10%. Its 1,000 shops varied widely in size and the mix of large and small stores did not readily fit together. It is also worth noting that its prime sites were not quite the property gold-mine that it thought they were; selling them proved difficult. Here is another warning for societies; too often they sit back, happy in the mistaken view that all will be well, 'we have plenty of good sites to fall back upon'. They do not recognise that there has to be an appropriate demand, at the right time, in the right place, in the right form and at the right price!

Size is Not Enough Second, Woolworth was a large retail operation, yet its size was ultimately no protection against social and market

forces. It may have taken longer to die than a smaller operation but in the end it went under. Size, as quite recent Co-operative statistics show, is not everything - it would be unwise to pin too much hope on twenty-five regional societies saving the movement as much else would need to be done, some of it unpleasant.

To sum up the Woolworth story, it is inescapable that its poor performance was substantially the result of inadequate management and of policies which effectively failed to recognise the emergence of a new market situation.

2(b) Learning from Competitors: Success of Sainsbury's

In contrast to Woolworth there is the development of Sainsbury's. Here is success. From 1973 to 1982, sales increased from £297 million to £1,950 million, each year showing an increase over the previous year of over 20%. Even in the difficult times of the last two years sales have increased by 29.6 and 22.7% respectively. Now sales themselves are not enough, the question is whether they are profitable and in the case of Sainsbury's the answer must be an emphatic 'Yes'; profits rose from £32.5 million in 1979 to £89.5 million in 1982.

This success has been generated through an increasing number of outlets: in 1973 there were 194, by 1982 the number was 253. The major shift has been to increase the number of supermarkets of over 4,000 sq.ft. to 218 from 138, while reducing other grocery outlets from 56 to 12. The important point is that while the average size of new supermarket openings by Sainsbury's has increased, it has not committed itself to a policy of very large stores and

superstores. The projected openings for 1982/3 average 19,600 sq.ft; occasionally there is an opening between 25,000 sq.ft. and 30,000 sq.ft. but the bulk are between 15,000 and 22,000 sq.ft.

At the same time Sainsbury's have increased productivity while increasing staff. The emphasis has been on improving efficiency with growth. This is in contrast to Co-operative performance where attempts to improve efficiency have been allied to staff cuts and little or no growth, a combination which does little for staff morale. Management prospects decline, management development becomes problematic and the key resource already in short supply becomes more scarce.

Joint Ventures: While the main thrust of Sainsbury's development has been through its supermarket operation it has not stood still in other areas. It has established Savacentre Ltd. which is a joint hypermarket venture with B.H.S.; Homebase Ltd. - a chain of home improvement and garden centres is another joint venture, this time with a Belgian retailer. The key factor here is that these are joint ventures with each partner contributing its strength and specialised knowledge. What is clear is that Sainsbury's have decided to develop a supermarket operation of high quality and to stick to what it knows it is good at; when it has wished to diversify it has wedded its own skill to that of others - it has recognised its limitations. In this it is similar to M & S which has steadfastly refused over the years to become embroiled in manufacturing; it has also stuck to its last, unlike the movement which has diversified without recognising its own limitations. Sainsbury's have aimed for a market niche with a particular product policy and has sought increased productivity with growth.

In the face of this advance, Co-operative critics of Sainsbury's and of M & S have claimed that their goods were expensive. Whether or not this is an accurate view, the fact remains that the customer goes to both of these retailers because they offer what the public wants.

Again I have often heard it said by co-operators that M & S are successful because they only provide for a limited range of size and shape, but the moral of this is that M & S, like Sainsbury's, have identified a market with a potentially high level of profitable sales. These Co-operative attitudes reflect a basic lack of market orientation, they represent a drift into utopianism.

2(c) Learning from Competitors: Other Ways to Success

In case it is thought that Sainsbury's policy of supermarket operation is the only way to be successful, there is Asda with its 82 outlets of which 64 are superstores and 18 supermarkets. With this number of outlets it has become the third largest multiple retailer in the country. There is also Tesco operating 544 stores in 1982 (772 stores in 1973) of which 158 are under 5,000 sq.ft., and 155 are between 5,000 and 10,000 sq.ft., another 156 are between 10,000 and 25,000 sq.ft. and 75 are over 25,000 sq.ft. Unlike Sainsbury's the pattern of recent and projected new openings is broad, ranging from 14,000 sq.ft. to 67,000 sq.ft. While less profitable than Sainsbury's, Tesco remains a massive competitor with a profitability that the movement would be pleased to achieve.

Just as there are widely different outlet patterns among successful retailers, there are also differences in trading policies. For

example, in the matter of own label, there are those such as M & S and Sainsbury's who stress own label, while others like Asda and Kwiksave lay the emphasis on branded products. Yet all have highly successful trading records.

It is also to be remembered when we are emphasising size as a way to success that these retailers began on a small scale, they were not big to start with. Success provided the means for growth. This is presently well illustrated by the emergence of Hillards which in 1973 had a group turnover of £12.6 million and in 1982 had achieved £183.7 million.

3. Co-operative Existence Not Inevitable

Deeply ingrained in the thinking of many societies are beliefs about the future and many current attempts to save societies are founded upon these beliefs, which entail a view of the inevitability of permanent Co-operative existence. Yet why should the movement believe that it is above the interplay of market forces, why should there be a belief that all Co-operative societies have a right to existence whether as independent societies or as integral parts of larger societies? The time has come to face the fact that some societies cannot continue to trade successfully and that restructuring, pumping in more funds, building closer links with the C.W.S. will not be sufficient to save them. The result of such well-meaning endeavour is a continual drain on the time, energy and limited resources of the movement, with the end result of even poorer performances for the movement as a whole. This will mean that societies are still more vulnerable. Mediocrity is not sufficient; excellence is the name of the game.

4. Conditions of Survival

From this short survey of the position it is clear that retail societies will only survive if they display the following:

- 4.1 A genuine identity of their own, not a pale reflection of other retailers. This will only come about if there is confidence based upon a realistic assessment of strengths and weaknesses.
- 4.2 The ability to identify a market niche in which, within their limits, they can operate. This means recognising the profound social changes of recent times and giving up the attempt to be all things to all shoppers.
- 4.3 An awareness that there is no one solution; society size, outlet size, trading policy contribute but the key ingredient of success in entrepreneurial management.
- 4.4 Increased awareness of the facts of life in the market. This means recognising that not every society can and should survive, that resources are scarce and must be directed to achieving excellence.
- 4.5 A readiness to take the initiative and not simply to respond to the market.
- 4.6 A willingness to learn from successful societies and then to adapt to what has been learned.
- 4.7 An appreciation of the fact that a society can be successful in developing its own immediate market, it does not have to turn its eyes to ever wider horizons.

Many issues, such as relations with the C.W.S., have not been mentioned, but much could be achieved if some of the above were fed into the critical analysis of society performance.

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