

A Future for Consumer Co-operation
in Britain? The Debate Continues

CONDITIONS OF SURVIVAL

by

ALAN SINCLAIR

How does the Co-operative Retail Movement face the future? The answer is, that if the Movement faces in any direction it is backwards and that the most likely course for the future is attrition. While its major multiple competitors size up the market, plan ahead and allocate their resources nationally, the Retail Movement is locked into a structure, policy and social vision of two to three generations ago.

The aim of this article is to present a succinct account of the symptoms of the Retail Movement's business performance; an analysis of the principle causes of the commercial malaise. And importantly, to recommend a way of synthesising the commercial and social sides of the Movement in a new strategic objective. A reworked strategic objective would clearly differentiate the Movement in the High Street and provide reason and direction in implementing fundamental administrative changes.

The Symptoms

How bad is the Movement's trading performance? The answer, "Very bad" with emphasis added by a screwed up face, does not help to nail the problem. The Co-operative Union's annual Co-operative Statistics, illustrate well

the variation between societies of trading performance. If however the Movement is to consider itself as a national force and to pitch in on the High Street battle, then the best yardstick for its performance, are the results of its major competitors.

Performance of the Co-operative Retail Movement
compared with two retail competitors in 1980

	<u>TESCO</u>	<u>MARKS & SPENCER</u>	<u>AGGREGATE FOR CO-OP</u>
Sales £M	1,530	1,667	3,593
Net Trading Surplus £M	36.5	94.4	50.3
Gross Profit %	n/a	n/a	24.2%
Net Trading Profit (NS%)	2.4%	5.7%	0.9%
Current Ratio	0.72	0.81	1.3
Sales to Capital Employed	3.5	2.1	6.3
Return on Capital	7.1%	11.9%	6.0%
Sales Per Employee	£38,000	£37,000	£31,000

Source: Tesco Holding Company Annual Report 1980
Marks & Spencer, Annual Report 1980
Co-operative Statistics, 1980

The key indicator to look at in gauging performance is trading surplus as a percentage of sales (N/S%). What it shows is that for every pound spent in their shops Tesco's makes over two and a half times and Marks and Spencer's makes more than six times more than the Co-operative. The Movement's return on capital figures although poor most probably flatter the Movement as its asset base is undervalued. The Co-operative figures for surplus, N/S% and return on capital employed are bad enough, their comparison with other retailers shows the Movement's failure for what it is, shows what is possible and gives the Movement commercial targets at which to aim.

Food, woolly jumpers and washing machines have not gone out of fashion. The truth is that the once automatic Co-op. customer has found better places to shop.

The Causes

The Movement has critical operating difficulties. Some societies return good figures but for the Movement as a whole it is the assets built up over 130 years of trading activity that cushion it from accelerated collapse.

A critical rule of organisational change is that an administrative or business structure should only take on targets that are compatible with its capabilities. If the Movement is to find a solution to its problems, then the solution will come from solving the evaluative and analytic problem of reworking a new strategic direction for the Movement and solving the following fundamental administrative problems; structure, planning, management,

shops and finance and investment. As the Co-operatives' malaise is not caused by any one particular problem but comes as a result of a number of factors misfiring, an upturn in performance will only be possible if improvement occurs simultaneously on a number of fronts.

Structure

If a Movement is about different parts moving together in pursuit of a common end - then the Co-operative only bears a distant family resemblance to a Movement. The 187 independent societies that existed at the end of 1981 do not engage in any form of corporate planning to meet members' needs or the multiples' competitive threat. Instead the fragmented structure leads to economies of scale being lost as buying is more expensive than it need be; capital and management are deployed by historical accident rather than in response to logical trade and investment information; and finally, the provision of a range of specialised central functions from market research to management services is thwarted.

The proposal for a twenty five society Movement at the 1982 Congress is good in intent but short in essential detail. A structure geared to market opportunities, with each society maintaining autonomy as an independent profit centre but linked through a nationally constructed corporate plan, is very encouraging in broad outline. It does leave questions begging as to how the corporate planning would be conducted, and how societies would merge: through voluntary means or herding? It might be worth giving the Co-operative Union the power of sanction through refusal of affiliation

to societies that remain intransigent in not following Conference decisions.

Planning and the External Environment

Throughout this century the whole basis of retailing has changed and continues to change. The family grocer has been replaced by the multiple. Goods have changed from being plain old commodities and turned with the help of national advertising into heavily differentiated products. The consumer has undergone his and her own revolution of income, taste, sophistication and mobility.

To meet the market in the way that the multiples have, the Movement must engage in corporate planning. The East Angles or Blackburn Co-operative Society against Asda or Sainsbury's is an unfair battle. Co-operatives and corporate planning are not an anathema to one another. In Sweden, Switzerland and Finland consumer Co-operatives have through balancing acts between centralisation and decentralisation introduced corporate planning. The International Co-operative Alliance stated its position clearly in a 1981 publication:

"Changes in environment, demand patterns, market structure and competitor moves, call for changes in enterprise. This can only be achieved through continuous research and planning."

Small is often beautiful; in the Co-operative's case it often means being decrepit. In retailing and business in general, big is where it is at.

Management

Three types of management problems are discernible. The first concerns those societies where the Board of Directors do not let the managers get on with managing. Some Boards see themselves as member's vigilance committees, while others get embroiled in day to day management matters. There is an important role for Boards to play in making policy; sanctioning major capital expenditure; reviewing forward planning; scrutinising trading information and appointing their chief officials.

Secondly, there are societies with consistently unsatisfactory performances where the board and management conspire in avoiding the truth. The conspiracy takes cover under various guises like, "It will see my time out", "The time is not yet right", "It is better to be controlled by ourselves than by them". Together small horizons, self-interest and clichés conspire in making societies head for bankruptcy the way that moths make for light bulbs.

Thirdly, management competence is lacking. The deepening trawl of higher education throughout this century has left the Movement bereft of much of the working class managerial talent that would have previously come its way. In consequence, the long standing tradition of recruiting school leavers and promoting internally has given the Movement a managerial stream weaker than it deserves.

In 1958 the Independent Commission reported:

"We are firmly of the view that the quality

of ... management in the future will largely determine whether the Movement expands or stagnates."

As the Movement has not expanded or stagnated, but actually contracted in terms of market share since the Commission reported, one can conclude that managerial changes have been grossly inadequate.

Shops

The service provided in the Movement's shops varies from the clean and efficient to the shabby or disorganised. Many shops, possibly the majority, face serious problems in store design and layout, the price of goods and the stock range and mix. While the Co-op. shops provide fuel for anecdotes it is the multiples that have capitalised in the creation of a "satisfying shopping experience".

The Movement has a chronic over-dependence on the small shop, and at that on small shops on the periphery of the main trading sites. Despite appearances neither small shops or poor sites are immutable. In 1972, Tesco's had 66% of its stores in units below 5,000 square feet, by 1980 only 34% of its units were below 5,000 square feet, and its average store size was in excess of 10,000 square feet. In contrast the majority of the Co-operatives' shops in 1980 were below 2,000 square feet. The size and location of shops are a legacy of retail societies' local origins and subsequent ossification.

Finance and Investment

Three peculiarities and one myth concerning the Movement's finance and investment should be recognised. First, shareholdings by members represent 23% of the Movement's total funds. In recent times with high market interest rates, Co-operative shareholders have been receiving about 10% less for their capital than they otherwise would have received on the open market. The shareholder is receiving a poor service and as a result of this subsidy the trading performance is all the worse.

Secondly, the Movement is often referred to as a consumer's retail Movement controlled by members. However, when one looks at the Movement's source of funds one finds the following: reserves represent 41% of total funds; loans 36% of funds; and shares 23% of funds. At one time the Movement ran on the money put in by local shareholders: that is not the case any longer with previous business and loans providing three-quarters of the funds.

Thirdly, by looking once more at the table above, one sees that the Movement has a current ratio of 1.3, a liquidity ratio approximately 50% higher than its competitors. This suggests that funds are kept too liquid. This mal-use of funds could be stopped and the present liquidity used for supporting an investment programme.

Finally, the myth - the Movement cannot invest. When the Movement is confronted by the need to move into premises and locations geared to today's shopping habits, it responds

in a rather half-hearted fashion. Supermarkets and hypermarkets are expensive, the initial outlay is high and stock is forced to lie idle while capital is directed to investment. The Movement may be short on purpose but what it does have are assets. In choosing to use yesterday's outlets, it is misusing its assets: selling and reinvesting is a clear option.

A Reworked Strategic Direction

It is easy to lose direction, companies can do it without even trying. At one time the Movement's aim was to emancipate the working class by building Co-operative communities, from there it passed to providing services and unadulterated goods to the working class. From the 1880's to the 1960's the prime strategic goal was to provide a dividend to members. The importance of the "divi" in the business psyche of the Movement must not be underestimated. Managers marshalled their resources to pay a high divi, they competed with neighbouring societies to see who could pay the most - they even neglected reinvesting in their own business for the sake of paying a handsome divi. to members. Managers had a goal, members had an income saving service, and the Movement as a whole had a differentiating and competitive advantage over other retailers.

The death of the "divi" in the 1960's came as a result of the ending of Resale Price Maintenance, poor margins as a result of poor trading performance and a policy decision to channel more funds to reinvestment. With the "divi." gone, the Movement was left with aspirations but no clear idea of what it was

trying to do. A clear idea has still to be established.

In private enterprise the primary goal of the business is to maximise returns over a specified period of time. This type of goal hierarchy does not make sense for the Movement. For the Co-operative to exist it must be commercially viable. At the same time there would be no point in the Co-operative Movement existing unless it fulfilled a social purpose. As a business the Co-operative must explicitly pursue both viability and social purpose at the same time. In planning its moves it must grapple with a commercial and social dialectic.

A reworked strategic goal for the Movement would only be of value if the Movement tackled its administrative problems of structure, planning, management, shops and investment. There is also little direction and motivation for attacking administrative problems unless a reworked strategic goal exists. The reworked strategic concept has to make sense to the manager, member and consumer and provide them all with a tangible benefit.

The Basics of a Reworked Strategy

Within the context of moving to a twenty five society national structure, new opportunities present themselves. National collective buying and greater promotion of the Co-op's own label could provide the Movement with a price edge. Value for money is critical for the growing market of the unemployed who have no choice but to spend a large percentage of their disposable income on basics. That market in combination with the ever present careful shoppers and a society with a more

aged profile, presents an opportunity that fits in well to the Co-operative culture.

If each society or hypermarket directed a proportion of its surplus, however small, to a social "divi" in favour of organisations working with O.A.P.'s, battered women and unemployed youth, the Movement would be demonstrating its caring and sharing and doing itself a commercial favour at the same time. A social "divi" is good in itself. It provides staff and members with a sense of purpose and it makes a favourable impression on the consumer.

Throughout this century one of the most significant market trends has been the move towards oligopoly control. For most goods consumed from canned soup to gin, 80% of the market is controlled by the big two or three. The example of the British soap powder market acts as a good example of this phenomenon and provides a paradigm which the Co-op. could use in other market segments.

Two companies, Unilever and Procter and Gamble, control between them, 90% of the market. A study conducted at Queen Margaret College showed that liquid detergents in cold water could work as well as powder in hot water. Because of the "value added" in producing powder, and the controlling market share built up by the two companies, neither has moved to producing less expensive cold water detergent. In consequence the consumer loses out on two counts; first in buying a higher priced product than is needed for the job at hand and secondly in higher fuel bills that are met in heating the water.

Although it can take time to break market habits (which shops like the Co-op. help to create) a very good commercial and social opportunity exists for the Movement. If the Movement had as part of its strategic concept, the provision of basic goods which oligopolists have distorted, then in time it could build up a significant role for itself. As it is a small Newcastle firm has set about trying to penetrate the market with this previously hidden product. Today's adulterated goods come in a new form.

By pursuing a strategic goal that tangibly demonstrates to the Movements members and staff and the buying public that the Co-op. is on their side, the necessary administrative changes become worth pursuing more resolutely.

Note of the Author ALAN SINCLAIR is the founder member and now an employee of Scottish Education and Action for Development (SEAD), which specialises in issues of economic development as they affect the Third World and Scotland. He has an MA in economics and a Master of Business Administration degree. The latter degree included a dissertation on "How the Co-operative Retail Movement Faces the Future".