Co-operative Independent Commission - Revisited

THE IMPACT ON THE MOVEMENT

by

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One of the most difficult tasks in assessing the impact on the Movement of the Independent Commission Report is to recall precisely the climate 25 years ago when the report was published. The statistics over the period are well documented and speak for themselves but for the trading conditions and the competitive challenges of the day one has to resort largely to memory and this is always fallible. Certainly total trading surplus was already showing signs of decline, a trend which has continued unabated since then, but in 1958 average dividend paid was still 1/0¼d in the pound. The drift downwards in profitability since the Report has been continuous but only in the last three years has it been dramatic.

On Dividend and Prices

In retrospect the section of the Report on dividend and prices and the recommendations arising therefrom seem too bland. The Report suggested the adoption of market prices, these being "the prices of the most successful multiples in each line and area". One could not quarrel with this objective and in the main retail societies continue to attempt to achieve this target.

But in relation to dividend the policy set out in the Report was perhaps less perceptive. The Report stated: "societies should seek to stabilise dividend at a level (if necessary below the present level) which local history and conditions show to be high enough to act as an effective inducement; but not so high that it cannot be maintained for a period of years ahead. The remaining surplus, and any increase in surplus should go to reserves. Not even this level should be treated as sacrosanct if it conflicts with prudent reserve policy".

In retrospect this was not positive enough for in the following years when profitability continued to drift down societies continued to keep dividend levels up and the "prudent reserve policy" suffered. What is now evident is that the Movement could not afford to pay out significant dividends in 1958 and the reserves of the Movement were not built up in those years of comparative plenty. By contrast the multiple competition in the past three decades has built up reserves which place them in a position of immense advantage providing as they do the ability to provide interest free capital.

On Shop Structure

As one would expect, in view of the retailing revolution which was to come the section of the Report dealing with shop structure is now very dated. The dramatic move in food into large, mainly edge-of-town stores and the decline of non-food departmental stores was not foreseen in the 1950's. The Commission did make some telling observations on shop siting and the apparent over supply of food shops in some parts of the country but the size of store and the economies of scale were not perceived.

Nor indeed was the impact of the car on shopping habits seen as a problem in 1958 when of course the availability of the car and the advent of late night shopping for food in bulk was still to come. As commented earlier it is difficult to remember how different life was then!

On the Number of Societies

If the Commission were not bold enough in relation to shop structure then the same can be said of their views on the number of retail societies where a reduction to 250 from the then 900 plus was proposed. Having said this however, this section on the size and number of societies certainly has an up to date ring about it with many of the problems arising from mergers and amalgamations certainly correctly foreseen. The role which would face CRS was correctly foreseen and makes interesting reading 25 years later when discussions for merging CRS and CWS are ongoing.

On Capital Structure

The Commission rightly saw the capital structure of the Movement as one of the major problem areas. The lack of capital for expansion was underlined as was the correlation between capital expenditure and proportion of Co-operative retail trade. It is an interesting side comment to note that the in-terms of "market share" and "cash flow" seemed unknown in the easier days of the 50's.

The basis of the problem was correctly diagnosed and in the ensuing ten years retail societies did not anywhere near approach the target of capital spending set out in Appendix 1 of the Report. Since that time the position has been further compounded by the very heavy capital cost incurred in establishing super-stores, a type of trade unknown in 1958. The sad fact is that the high levels of inflation and the penal interest rates of recent years have hit the Movement very hard. The Movement's lack of equity capital and the necessity to borrow short term at market rates for long term development is the major reason for the recent downturn in profitability and makes even more difficult the ability to finance new developments.

These changes in the economy could not, of course, have been foreseen in 1958 and even if they had, history tells us that the Movement would have been unlikely to have altered course sufficiently to cope with the financial crisis when it came.

Scope for Professional Management

The one section of the recommendations which did in the main lead to action by retail societies was that which propounded the move from management by committees to professional management. Most "committees of management" were re-named "Boards of Directors" and in most cases the change was not merely cosmetic, but there was throughout the Movement a positive change to boards concentrating solely on policy matters. The cynic might say that the results since then have not vindicated this change but there is no doubt that the most successful societies are those where this change was most fully acted upon. Equally one can point to some classic cases of failure where this change was not acted upon.

Still the Difficulty of National Corporate Action

To conclude therefore, looking back to 1958 how did the Movement respond to the Commission's Report which still now is compelling reading? Fairly obviously the response was in those areas within the control of individual societies. It was relatively simple to change the emphasis in local society board rooms from day to day management to leaving management to officials. It was also straight forward to overhaul management structures, job specifications, accountability and the like. What was of course more difficult - and still is today - was for the Movement, because of its fragmentation, to take meaningful corporate action at a national level with all societies giving complete commitment to the action taken. Thus the sections of the Commission's Report on common marketing and pricing policies for all societies are little nearer to being solved than they were 25 years ago.

Perhaps however, the fundamental problems of capital resources and their employment have been exacerbated by the national economic problems in ways which could not have been foreseen 25 years ago. It is this factor above all others which has led to the sharp down turn in the fortunes of many retail societies and for this we can hardly blame the Commission who in the main drew many correct conclusions.

Note of the Author

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