LETTERS TO THE EDITOR

"Rescue for Small Co-op Shops": Bulletin 50

1. From F.E. Creed, Chief Executive Officer and Secretary,
Brighton Co-operative Society

[redacted]
Brighto[redacted]

The proposition to convert small Co-op shops, which might otherwise close, to worker Co-operatives is certainly worthy of consideration but, regretfully, I feel it is fraught with difficulties.

It would perhaps be appropriate to re-state that the prime objective of the Co-operative Movement must be to pursue a Store Development Strategy which arrests the decline in Co-operative market share and thus provides for consumers the service that they require (and demand) in the latter half of the twentieth century. Retail Co-operatives are consumer owned and consumer oriented and a number of Societies (e.g. Greater Nottingham, Leicestershire, Ipswich, etc.) have demonstrated that an efficient, effective and profitable basis can be achieved in serving the best interests of consumers. A consumer Co-operative Society can maintain a network of neighbourhood shops providing that the Society develops larger stores to achieve volume and the economies of scale.

I am doubtful about the worker Co-operative proposition, human nature being what it is. A worker Co-operative can hardly be a consumer Co-operative unless membership of outsiders, either individually, or collectively through the local Retail Society, is permitted. Such a structure would be sensible but might not be acceptable to the owner/workers involved. The conversion to a worker Co-operative of a small shop which could no longer be sustained by the local consumer Society would have to be based on a Franchise Agreement, the terms of which would need to be carefully drawn to cover a number of important matters including title, operational standards, procurement, etc. The maintenance of employment could be an attraction to the staff concerned but if the shop, under the direction of the local Society, had failed because of inability to meet local competition, it follows that far greater commitment would be required of the staff in terms of flexibility of hours than existed hitherto. In addition to the on-going commitment to run the shop efficiently (and all that is implied in meeting legal requirements) there would be the out-of-shop hours work on a range of duties formerly undertaken by the administrative staff of the Society. These duties include payment of workers, maintenance of tax and national insurance records, VAT returns, checking and recording of suppliers invoices for goods and expenses, payment of accounts, and so on.

Undoubtedly, a financial package could be provided through the Bank and a lease of the premises may be offered by the local Society but it is difficult to see why the parties should willingly accept stringent conditions in a Franchise Agreement when the alternative might be to acquire the premises and operate with freedom and independence.

The establishment of worker Co-operatives might be most successful in isolated communities where the withdrawal of the local Society service would create real hardship. In such circumstances where consumers might lose the only shop which exists in a village, the support of the Retail Society would be a practical way of demonstrating concern for the community. The successful and profitable operation of such a small shop would depend upon the level of competence and commitment of the people involved. The acceptance by the workers of conditions of employment inferior to the Trade Union conditions under which they had previously worked might only be acceptable if there was no other alternative.

I would subscribe to the establishment of a worker Co-operative to maintain a service to consumers which would continue to provide an outlet for Co-operative merchandise. I have strong reservation, however, as to whether it could be as effective as a true consumer Co-operative.

In the Brighton Society we are very much concerned to promote the interests of consumers and we are acutely conscious of the needs of the elderly, infirm and immobile members of the community of all ages. With this in mind our objective is to create and maintain a network of shops – large, medium and small – which collectively provide a true consumer Co-operative service on a basis which is economically viable.

F.E. Creed

2. From J.H. Currie, Chief Executive Officer,
Scottish Midland Co-operative Society

[redacted]
Edinburgh [redacted]

Mr. R. Johnston Birchall's article in the "Society for Co-operative Studies" April 1984 Bulletin, arrived with your letter of 21st April, at a very significant time as you will see from the enclosed press release *(reporting Scotmid's decision to concentrate on 69 strategically-placed larger stores, closing the other smaller outlets).*

Experience in Scotland. and elsewhere, has indicated quite clearly that the change in shopping patterns has been brought about by a social revolution. This is the factor that has dictated the small shop closures. There have been four major reasons:—

(a) The working wife adding to the family income and purchasing power, and with increased expectations in the acquisition of material possessions in the home.

(b) Car ownership on a wide scale and across all income levels.

(c) The refrigerator as a standard fixture in the home, now followed by the deep freeze cabinet.

(d) Rapid growth of convenience foods, easily prepared and ideal for T.V. viewing families, no longer gathered round the table for the traditional meal.

In fact, domestic life has become totally transformed in the past twenty-five years.

Sensitive to this radical change and able to start from a fresh base, the private national and internationally based superstore giants have developed in strength, to meet the demands of this new market. They have been able to concentrate their activities on the "warehouse" type of shopping, specifically designed to cater for car owning families with youngsters. Price and convenience have become the deciding factors, not service. Loyalty is an outdated word.

The small shop was often the hub of community life, and a social highlight in the daily round. Now families stock up on a weekly or monthly food buying expedition as a chore to be accomplished in minimum time at heavily discounted prices. The former St. Cuthbert's Co-operative Association opened the first supermarket in Scotland, here in Edinburgh in 1959, and SCOTMID now operates six superstores in the face of the tough competition from Asda, Safeway, Fine Fare, Tesco, Presto and Lows. This Society still maintains a total of 69 stores, including a number of small shops, which still remain viable. The opportunity has been given to local Community Associations to take on the running of small shops, which we had to close. An example may be quoted from the West Lothian area. An initial meeting was attended by approximately 100 people, all very enthusiastic, and promises, etc. At the second meeting, to get down to basics, e.g. some would have to work at the scheme, 8 or 9 attended, and therefore, the scheme collapsed. Not one has got off the ground.

To convert a small shop into a worker Co-operative is possible, but it is necessary to come back to the question, "Who needs rescue?". The likelihood of a worker Co-operative running a financially sound food operation on traditional lines is remote, for the reasons already detailed. The introduction of whole-foods, delicatessen and cooked meats/dairy products to attract new custom may bring limited success in central urban locations, but these sites are not the problem. The truth of the matter is that many of the small Co-op shops are now stranded away from the new shopping centres developed in many towns and cities. The passing trade is minimal, and only heavy investment in promotional activity can hope to create interest. Price again is an important factor, with the Superstores and Boots entering into these specialised markets.

Books, bicycles, arts and crafts outlets may offer more opportunity for the worker Co-operative, but the necessary expertise would require to be brought in, and new skills acquired. The likely local demand from within a community for such a service would also need to be carefully researched, if further disappointment was not to be encountered. At the end of the day, only members or customers can rescue the small Co-op shops in whatever guise they continue to trade.

J.H. Currie

3. From Professor John A. Dawson, Fraser of Allander Professor of Distributive Studies, University of Stirling

Department of Business Studies,
University of Stirling,
Stirling FK9 4LA
Scotland

I agree with much of the paper, and I think my only divergence would be in the need to stress the importance of putting together a business plan in schemes which get off the ground. The business plan should be an important document which is developed in association with accountants and business planners, perhaps drawn from the CWS or CRS. The business plan would need to explain the proposed project and its feasibility, including a market assessment. If such a scheme really got off the ground, it would probably be worthwhile producing some guidelines or a model plan which would contain headings and typical analyses required in the preparation of a useful and acceptable business plan. If the overall plan is to succeed, then the new stores must have a reasonable chance of success, and it is only fair to state that in some locations and some markets it is difficult to see how a store would succeed whatever its management structure. It would be wrong to encourage the creation of a new style Co-operative which simply resulted in the transfer of redundancy payments from members' bank accounts to the corporate account of large banks and loan agencies. With this note of caution, I agree with much of what is said.

The idea of a worker Co-operative taking out a franchise with the CWS as a franchisor is interesting. The detailed legal arrangements for franchising are complex and would need to be explored. Usually franchisees are very independent business people, but in theory there is no reason why a participatory Co-operative group could not become a franchisee.

In respect of whole question of new style participatory Co-ops, I have been wondering whether this idea would help in inner cities. Within many inner cities there are severe problems of retail provision and I have suggested elsewhere that one possibility to ease these difficulties might be the creation, or in some ways re-creation, of Co-operative stores. To make them successful, however, would require an agency, simply providing help and encouragement. There would also be a need for a few committed people to, in effect, set up the Co-operative.

John A. Dawson

Workers Co-operatives — Some Prospects: Bulletin 50

From Tony Marris, Development Officer,
Co-operative Development Agency

[redacted]
Poynton,
[redacted]
Cheshir[redacted]

Bulletin No. 50 contained some interesting contributions regarding the need for new structures for worker Co-operatives. John Berry pointed out the need for a way in which sympathetic local authorities or Co-op financial institutions could finance larger worker Co-operatives using a share company with shares held jointly by the institution and the Co-op.

Members may be interested in the idea of the "Equity Participation Co-operative" (EPC) which we are developing at the CDA.

The EPC is a corporate body, with a Co-operative constitution. Its purpose is the acquisition and management of shares and representation of its members' interests in a conventional share company, some or all of whose employees are members of the EPC. The EPC structure enables a Co-operative to raise risk capital in the form of equity yet preserves Co-operative credentials within a separate shareholding Co-operative.

We have identified four main circumstances in which an EPC could be used:—

(a) In setting up a new venture where it is necessary to attract non-member risk capital in the form of equity in order to fund the venture.

(b) In buying out a business from existing shareholders. The buyout may be a complete purchase using non-member equity finance to fund the acquisition or a protracted buyout in which some existing shareholders remain to be bought out at a later date.

(c) In the conversion of a company to a Co-operative where the majority of existing shareholders are actively promoting the conversion.

(d) As an alternative to an employee share scheme enabling company shares to be held collectively by an EPC rather than being held by individual employees.

Many of the detailed arrangements concerning funding and the eventual acquisition of non-member shares in the company have been researched, with taxation problems being discussed with a national firm of Chartered Accountants.

A recent setback however, has been the rejection of draft EPC model rules by the Registrar of Friendly Societies on the basis that the EPC itself is not trading. We are now considering therefore, the alternative of the EPC being registered as a company limited by guarantee.

We hope to be able to issue, in the not too distant future, a detailed guide to the formation and operation of an EPC structure, including model memorandum and articles of association for the EPC itself.

Tony Marris