FIRST CONFERENCE PAPER

Co-operative Capital Problems: Their Magnitude and some New Approaches

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The shortage, both current and prospective, of capital for co-operative trade development by investment in fixed assets, mainly shops, is justifiably viewed as a major problem. The co-operative movement, despite the closing of many unsuitable, mainly small, shops in recent years still operates about 13,000 shops. number of large (some very large) modern stores, almost all selling both food and non-food in varying proportions according to type, size and location.

The questions: (a) What capital shall we have available for the next 5 years? (b) What are our needs? and (c) What policies do we need to close the gap?—are very pertinent. Obviously the movement must try and recruit more members capital and current proposals from the national co-operative bodies are devised to this end. Allowing for some success from these efforts there is no doubt they will be insufficient to provide all that we shall require. Especially so if we are to contemplate on current values—say—an increase in our present annual shops trade of just under £900M to around £1200M by 1975 thereby achieving a modest increase in our share of retail trade from the present approximate 8% to just over 11% in the next 5 years.

Co-operative Shopping Capacity

Tables of statistics and estimates (and it is hoped some intelligent guesses!) will be presented to the conference which will suggest that to do this we shall need annually to close an average of 750,000 gross square feet of redundant shop space (mainly small poorly sited shops) and establish new co-operative shopping capacity of about 1·6M gross square feet each year. Allowing for a substantial element for provision of car parking this sort of programme will at present day costs require the movement to invest in new shops, both by self and external financing, to the capital equivalent of over £21M a year.

The examination of our likely capital resources over the next 5 years has had to include some basic assumptions regarding, among other considerations, the future levels of members' capital. These suggest, with the help of new investment attractions added to share deposit redemptions of dividend stamp books, that the present rate of annual outgoing of over £20M will ease somewhat, despite the much higher figure experienced for 1970.

An estimate of the likely incoming and outgoing liquid capital shows that even on fairly optimistic estimates at least £13M out of the £21M needed for new shops will have to be externally financed from lease/renting, sale and lease back of the new developments or on equivalent capital value of existing assets, or borrowing.

External Financing

External financing in whatever form means most careful planning, meticulous sales and profit budgeting and a high standard of operational performance when the project gets going. These requirements are the normal challenge anyway to successful shopkeeping and when it is realised that about two thirds of all new shops are not financed wholly by the occupier/user then external financing is clearly a major and manageable factor in modern retailing. At the present time it appears that above a quarter (approximately £4M) of what the movement is investing in new shops (approximately £14M) is externally financed, the difference (£10M) being found from our own liquid resources. If, as the preceding paragraph suggests, we need to invest £21M a year in new shopping capacity and externally finance about £13M of it, then our present performance means increasing capital trade investment in new shops by about £7M but external financing by lease/renting, sale and lease back or borrowing, by at least £9M.

There is no virtue of course in external financing to those few societies which have ample capital resources although the degree to which new shopping developments (whether "High St.", town peripheral or out-of-town) are only available on lease/rent often means there is little option in these instances other than to provide capital for main finishes (including lighting, heating, escalators, etc.) or often just for shop fixtures and fittings.

New Opportunities

Despite a large number of such shopping developments there are many opportunities for societies, who have not the capital resources, to initiate or participate in schemes where the provision of the shop, often including the buying of the land, is in their hands. In such cases a sale and lease back of the development itself or equivalent capital raising from existing assets can have tangible advantages. These compare favourably, for example, with borrowing by mortgage. In the latter case advances with very high "inflation hedging" interest rates and only up to two thirds of land and finished buildings value are likely conditions even if available at all. Whereas a sale and lease back brings benefits in comparative revenue costs including a relatively low interest content (currently about 6½%) which can compound in accumulative cash flow benefits to more than offset the increase in the usual 7-year rent revisions. Put in perhaps over simple terms—if a project promises a continuing return of 15% or more on the estimated capital value of the whole development then a sale and lease back method of financing is viable both in the short and long term.

Employees' Pension Funds

Consideration of selling and leasing back existing assets brings into focus the question of employees' pension funds and the desirability increasingly to establish specific and sufficient collateral. It has been assessed based on some sample surveys that the real value of the movement's retail assets is about two and a half times the balance sheet written down value of land and buildings giving an estimated total today's market value of £350M. Although much of this would not be at present suitable for selling and leasing back the fact that our aggregate pension funds are just over £100M does make it appear as though we have a useful margin available on current property values. Pension fund balances invested and secured through a central pool, possibly in a co-operative pension fund property unit trust, might be a beneficial way to both employer and employee of making some of these funds available for co-operative shop development.

Much of the foregoing and indeed the paper to be presented to the conference is an exercise in conjecture, forecasting and to some extent recommendation. It tries to project a future situation in global terms which could not easily include reflections for example on food and non-food proportions, a traditional division which is getting increasingly blurred by large basically non-food stores which sell foods and vice versa. Nor do the considerations include any forecast of the tremendous improvements in more profitable use of current assets in increased sales especially of non-foods that must be possible. To the extent that they are achievable makes the task that has been outlined in the provision of more capital for trade investment that much easier.

The present policy of the Co-operative Union Central Executive in proposing on the basis of large regional surveys very much fewer societies does, where capital for development is involved, underline the need for our co-operative inter-dependence to be recognised in as much assessment, monitoring and planning that we can devise and apply in practical terms. This need is even more critical to our future now that the pragmatic decision has been made by the Central Executive that for practical and psychological reasons a national society cannot be created now nor the movement reconstructed into one corporate whole in the foreseeable future.

A Corporate Planning Unit

An acceptance of this however does lend weight to those who advocate the setting up of a co-operative corporate planning unit. Such a unit would probably have to be established by the C.W.S. in a working arrangement with the S.C.W.S. and provide service to the Co-operative Union Central Executive on trends, forecasts and targets on all aspects of the future environment of the distributive trades. It would have to carry out research on future shopping capacity, shop siting, population trends, consumer's changing habits and the whole host of important influences on the future of retailing. The research and conclusion would be related in definition to the movement's needs and would provide workable and acceptable plans for future expansion including that important aspect of financing trade development with which this contribution has tried to look at in a constructive way.

The Challenge Ahead

We have no solution on capital problems or any other aspect of the movement's lack of success in recent years unless co-operative management can meet the challenging but exciting task of our recovery especially in view of the dynamic changes that are going to happen in retailing during the next decade.

It is however an oversimplification to say we have an organisational, planning and management problem to which a successful solution will remove our capital difficulties although there is more than a grain of truth in such an assertion!

Both this precis and the conference paper on the "Co-operative Capital Problems" do unashamedly beg the conclusion that although our capital difficulties need most careful handling they provide no insurmountable impediment to a steadily expanding co-operative share of retail trade in the immediate years ahead.