

Co-operation in the 1980'sGUIDELINES FOR THE CONSUMER MOVEMENT

by

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It hardly seems the moment to express millennial ambitions for the Co-operative Movement. Indeed if one made straight line projections from the last twenty years' performance on to the year 2,000 it would only be a small and tattered remnant that would arrive. Twenty years ago the multiple sector of retailing was twice as large as the Co-operative. Today it is nearly seven times as large (over eight times if you measure by "gross margins", i.e. value added). In round terms the Co-op share of retailing has halved over the last twenty years (to less than 7% of turnover, less than 6% of retail "gross margins" - which is the more significant measure of retail activity).

But, say the perennially hopeful, in recent years the volume of Co-operative trade has been held. The shift to regionalism, the wider use of national buying power and more unified marketing built round the use of a single "Co-op" logo, these are helping to hold the line. Are they? The decisive feature of the last five years for which we have data (1973-78) is the sustained fall in "real" surplus (after some recovery in the early 1970s). Whether measured in "real" terms or as a proportion of turnover the net surplus of retail Co-operatives has halved in those last

five years.\* The base for any renewed advance is being eroded.

Besides, in an economy of growing unemployment, what employment prospects does the Movement hold out? In round terms the Movement has reduced employment by nearly 100,000 in the last decade. The retail societies shed nearly 75,000 "full time equivalents" in the ten years to 1978 (an employment decline of over 36%). Continue that process through the 80s and you would shed another 50,000 to bring employment (in full-time terms) down to only 80,000. Is that a basis on which to build an "industrial democracy" or to convince employees of the value of Co-operative organisation?

This commentary, therefore, is not an exercise in wish-fulfilment. It may perhaps be taken as little more than a footnote to a longer article offering a perspective for the 1970s (in the SCS Bulletin No. 16) nearly seven years ago. The analysis needed has not changed since then. The need for change is as acute. The directions in which change should go are still, for the writer, as set

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\* The cynical may argue that this partly connects with the disguise of surplus through increased provision for depreciation. True, depreciation has rightly been increased (though only broadly in line with inflation). But the warfare in retail food margins is real enough. Thus TESCO in the same five years achieved the enormous success of a 30% increase in real turnover; but its "real" profits fell by about a quarter.

out before. The prospects of an adequate response by the Movement are no better now than they seemed then. Now, as then, the Co-operatives are largely locked into zero growth staples, and more particularly food trades under intense competitive pressure from more efficient and more aggressively price-cutting multiples. Moreover, the 1970s - like the 1960s - were largely taken up with sterile and substantially misplaced debates on organisational matters, including those on "a single national federation", and on that frail and emasculated creature that emerged as the Co-operative Development Agency. Those debates have added little to our stock of wisdom on Co-operative organisation, nor have they identified the possible agencies of change. The argument of this piece, then, is still the argument advanced earlier:-

" . . . New . . . medium term objectives for the Co-operative Movement and . . . new means of attaining these objectives have to be put forward. This is not to abandon the goals of the C.W.S. Joint Re-organisation Committee Report of 1965 and the Regional Plan put forward by the Co-operative Union . . . These were necessary first steps; but they were not sufficient as a programme. It is now necessary to reach out well beyond these programmes, even while they have not yet been achieved (and partly because they have not yet been achieved)." (S.C.S. Bulletin No. 16, p.19).

### Structures

It must be taken as significant that mergers of retail societies have slowed down so much in the 1970s, after the many rescue operations and mergers from weakness in the 1960s. It would seem that whatever arguments there may be for a further major

upheaval (such as the Co-operative Union's attempt to turn the original "plan" for 50 regionals into one for half that number) the forces of inertia are greater. Presumably the managers and the committee members of most societies, most of the time, are satisfied with the scale and nature of recent trading, and have no very acute sense of crisis to urge them towards further change.

We need to ask sympathetically why this should be. (At least, the pejorative tone of Co-operative Union "plans", e.g. "parochial outlook" . . . "misplaced determination to continue as separate entities for as long as possible", hasn't delivered any new and powerful initiative.) First of all, the 1970s have already concentrated quite a high proportion of retail trading into relatively few units. CRS totals nearly 14% of total turnover, the next seven societies in size ranking a further 28%. Below them come around 30 societies with about a third of the total. Thus, three quarters of total turnover in less than forty units.

Secondly, in style and attitude (and leaving aside the successful but different character of CRS) the somewhat larger regional (one should really say sub-regional) society is comfortably like the old area society. It should be, it is founded on the old illusions and the traditional model of the all-providing autonomous local society. In so far as larger scale offers some "scale economies" (e.g. in management, in planning trading patterns within a more natural trading area, in buying), and rationalisation and re-organisation some relief from persistent lossmakers, the sense of commercial crisis is distanced. Complacency and reinforcement of a practical and practising "independence" go hand in hand.

Thirdly, it is far from clear that building "larger" regional societies yields marked efficiency gains. Indeed, one might expect managerial and other diseconomies in an enlarged but still would-be all providing and generalist retail society. The trickle of inadequate statistics produced by the Co-operative Union is far from sufficient for any judgement. But leaving aside the CRS once again the next seven societies in size ranking look distinctly unimpressive: four of them show less than average increase in turnover in the last two years for which there is data (1976-78), four of them have a lower stock turn than the average for co-op retailing, four of them have higher than average ratios of personnel expenses to sales, and six out of seven emerge with a lower than average net surplus in 1978.

By contrast, the CRS scores well on these counts (i.e. growth of turnover, high stockturn, low ratio of personnel expenses, and above average net surplus). So do quite a high proportion of the societies that in 1978 had annual turnover in the range from around £35 million to under £80 million\*. A large county town and a rural hinterland appears to be suitable for a number of moderately successful "sub-regional" societies.

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\* Half the societies in this turnover range showed a higher than average growth of turnover, a higher stockturn, and higher net surplus. Three, Leicestershire, North Midland, and Ipswich, also showed a lower than average ratio of personnel expenses.

In consequence there appears little prospect of current "reform" proposals leading to sweeping changes in the commercial practice and structural characteristics of this more stabilised and locally autonomous pattern. The largest societies, in the largest conurbations, present problems of performance (including high ratios of labour cost) which may force further structural changes. But these must hinge on new managerial systems that actually yield large scale economies, rather than diseconomies. The reformers who want to see more complete integration of wholesaling and other national marketing services with the retail function are also in difficulties. The pull of society autonomy, not least in buying, has been strengthened not weakened by the shift to regionalism. CWS turnover is growing more slowly than that of retail Co-operatives; its "own production" is even less an area of "real" growth. It looks as if development of integration has to be more piecemeal than the grand designs, and based on hard commercial realism rather than ideological commitment.

### Product Range

One thing that has not changed in the last decade has been the broad commodity composition of Co-operative trade. Retailing is still three-quarters food trades, and only one-quarter non-food. The only slight sign of movement has been in standardised electrical goods, where central buying economies have created some opportunities for building turnover (latterly in a period of unusual increase in real consumer spending power).

Of course, outside its food staples a system of regional societies with only limited unification

of trading functions on a Movement scale is hopelessly outclassed. The scale discrepancy is so vast - literally many hundred fold, if dominant multiples in particular commodity fields are compared with a "typical" regional society - that it is difficult to convey its significance. But for instance the retailing profits of Boots, and Sears, are each as large as the entire surplus of all retail Co-ops put together. The profits of GUS and Marks and Spencer are even larger still. It is (as indeed with food retailing) a matter of the cumulative market power generated by massive and expert buying power, complete national control over distribution channels, warehousing, stock range, standardised layouts, standardised "good will", efficient and carefully located superstores, and aggressive price and quality appeal. A mere shift in the size of a Co-operative retail society is no match for this.

#### The Alliance Principle -

In these conditions nobody would want to offer guidelines for the 1980s that simply left the organisational structure of the Co-ops where it is. But to offer yet another grand design may seem like a different kind of exercise in futility. What are the possible agencies of change?

One real problem is that coercive bidding for control over the heads of existing management is barely possible. There is real danger in consequence of an "undirected" managerialism; for there is no coercive pressure to improve on inadequate performance. Of course there is market competition, but that may simply lead to a retreat towards staple trading patterns with virtually zero return

on capital. In the private sector, the "take over" process limits the drift towards a negligible return on capital. Not in the Co-operative Movement - at least not from other Co-operatives (though "undirected" managerialism may cover its trading decline by asset sales, and sales of services, to private competitors).

If we lack coercive power to challenge "undirected" management, an alternative is to seek to attract through successful Co-operative initiatives. In other words major organisational and marketing initiatives should not wait for the conversion of the "undirected" laggards. We need the example of actual commitment of resources and skills by leading societies and the national agencies in establishing new Co-operative initiatives. Any such "alliances" will have to demonstrate their relevance in commercial returns and operational success not through generalised debate. As some point there may then be compelling force in comparisons, and a general requirement of the need for societies to accept independent efficiency audits might have some bite too.

The main organisations that can be expected to come together in "alliances" for specifically designed initiatives are some of the main regionals, the CRS, the Co-op Bank and Insurance Society, and the CWS. One early requirement is the joint support of a planning unit that can assist in strategic operational development. Another would be to reinforce this by selective secondment of management. A third the search both for the required capital resources and for development that would economise on capital needs and particularly that would redeploy existing assets more efficiently.

- And Some Examples for Action

It is necessary to offer some examples of the kinds of development that should be tested out. Of course any such suggestions will be criticised both on the grounds that they are impracticable and that they are already happening:-

- Particular outlets should be made available for re-organisation into multiples, especially where a number of contiguous regional societies can be brought to co-operate. The modest beginnings in e.g. Shoefayre offer experience in developing such organisation that should be built on rapidly.
- More efforts should be made to build on the potential of e.g. modern regional warehousing to bring together more of the needed links in fully efficient food retailing. This would mean turning more food outlets over to standardised layouts and product ranges, to create more integration from the deployment of massive buying power through to the planned price and product appeal in efficient superstores. (The "loss of autonomy" involved is something that can and should be negotiated within medium term and longer operational contracts.)
- More persistent effort should be made to develop, in "alliance", Co-operative branch banking and financial services. There is great potential here for relatively low cost development of personal banking and financial services with an appeal in terms of access, opening hours, that could

compete with the high cost and outmoded patterns of the main commercial banks. Properly handled and located this could assist total turnover, and reinforce the capital resources of the Movement. Note the clumsy way major multiples and department store chains are seeking to offer personal credit services. New technology enhances the potential of moving towards integration of retailing and financial services through a Co-operative "alliance".

- As effective management is a scarce resource, the "alliance" needs to pursue methods not only of management development, but also of simplification of systems and work loads, access to specialised services, and improved data processing. Here, too, new technology - particularly in video communication - should be actively explored to assist regional and national management. It might also transform the methods and opportunities of consumer democracy (removing or reducing constraints of remoteness or the sheer cost and time-consuming nature of regional and national committee and conference work).

- More of the total property assets ought to be brought into an actively managed "alliance" portfolio to enhance the scope for responsible property development, to release capital resources for other major development needs, to bring expert analysis to bear on future locational patterns. The Insurance Society has a strong grip on property matters, but the combination of skills and resources across the trading Movement has not yet been properly deployed.

- One reason the Co-operative Movement has lost the momentum of growth is that it has only to a very limited extent developed its service skills to meet the "leisure" interests of consumers. Other groups, particularly brewery conglomerates, hotel chains, gambling concerns, holiday enterprises, are moving actively - and often socially irresponsibly - into this "growth" area. The Movement already commands many resources that would lend themselves to planned development on an "alliance" basis (and perhaps in co-operation with the more progressive local authorities) of facilities to meet the leisure needs of ordinary people. One obvious point here is that the social and educational functions of the Movement have so often been seen as existing in a separate world to the dominant commercial interest in retailing. In the 1980s there is scope for new initiatives that would offer commercially viable use of Co-operative resources in the "leisure" field in ways that would strengthen the "social role" of Co-operation. Here, indeed, is an area of activity where commercial efficiency and consumer democracy might be brought together in a new style.

The traditional area society is heavily constrained if it emphasises its own separate functioning. Autonomy can be another name for lack and loss of resources, for unfreedom in practice. If the most powerful centres of Co-operative organisation could demonstrate in practice the greater freedom and opportunity arising from Co-operative "alliance", then the leading Co-operatives could hope to pull the laggards into a new sense of

Co-operative purpose. The resources the Movement can command are adequate to launch such a development. But to move in this direction in the 1980s it would have to believe in, and practice, its own philosophy.