A Future for Consumer Co-operation in Britain?

DEVELOPMENTS AND TRENDS

by

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All is not well with the UK Consumer Co-operative Movement these days. It is hard to see much reality to the theory that it is financed and controlled by its consumer members. Nor has it become a workers' Co-operative movement with responsibility for survival or success, however measured, firmly shouldered by Co-op. employee members. Nor is it clear that the best efforts of its various management teams, who nowadays have to accept that responsibility which used to reside finally with their boards of directors or committees of management, will suffice to guarantee the survival of their business enterprises into the 1990s. Nor is it self-evident that after its recent bout of indigestion, the CRS will be able to continue its rescue work with those retail societies which are about to fall by the wayside in a period of economic recession and ever-tighter competition.

I Optimism at the End of its Tether

If one wants to find good reasons for the failure to achieve satisfactory trading and financial results in recent years, one does not have far to look. Such factors as plant closures resulting in chronic structural unemployment in areas where the Co-op. has been traditionally strong, or massive urban redevelopments which have made nonsense of Co-op. shop location, or the social-political difficulty of rationalising shops and declaring staff redundant, or the planning problems and financial obstacles and risks of strategies similar to those pursued as normal practice by major competitors in locating and building modern shops for mobile consumers, have sapped Co-op. loyalties and managerial confidence and dynamism.

If one seeks reassurance that the worst will not happen in our time, then one can think back with regrets to the shrill warnings which have been constantly voiced by the Cassandras of the movement ever since the Gaitskell Commission, and which have chronically destabilised its retailing and wholesaling operations. Were all these warnings really necessary? Have all the amalgamation surveys, mergers, reorganisations and corner shop closures left us with more efficient operations than would otherwise have been likely? Have not these obsessions with greater structural unification distracted directors and managers from their more local and immediate responsibilities, and prevented some useful firefighting and rearguard actions from taking place. Small may not always be beautiful, but for Co-ops. it may be safer, whilst big has not yet proved better but merely, on occasion, disastrous.

Yet - the Recent Achievements

More justifiably, can one not look back and notice some major achievements in the past 10-15 years? Is it mere complacency to find satisfaction in the growth of the CRS, in the more rational structure of our major societies and their closer partnership with the CWS, in the merging of the CWS and SCWS after so many years of procrastination, or in the enthusiasm with which several societies have entered the superstore age? Surely one is entitled to some satisfaction in the closure of so many drab and dingy stores and in the renovation and upgrading of those remaining, with a dramatic improvement in the public image of the caring, sharing movement which provides modern shops for more discriminating customers in place of dilapidated boxes of shoddiness and downright misery.

One is tempted to answer 'yes' to all these questions, and yet still have a sinking feeling about the future of the retail movement, especially if one looks closely at the trends shown even by readily available statistics.

II Some Recent Developments

1 Twenty years ago the Co-op. sector of retailing was half the size of the multiple sector. Today it is one-eighth if measured by value added (or gross margins), or one-seventh if measured on turnover. In 1951 the Co-op. share of retailing was more than 12½% of total retail trade. Now it is half of that. In the last decade, the movement has reduced employment by nearly 100,000, with 75% of that in retailing. The number of shops in 1961 was over 28,000. Twenty years later the figure has been reduced to 9,000, of which 256 are Department Stores, 43 are Superstores and 1,760 are supermarkets. More than 60% of Co-op. grocery turnover, still came from relatively small stores (under 4,000 sq.ft.).

2 During that period there have been many changes of structure and marketing practice. There has been a dramatic shift to regional societies, a wider use of national buying power, the introduction of CWS regional warehouses and more unified marketing built round the use of a single 'Co-op' logo.

3 After the many rescue operations and mergers from weakness in the 1960s and early 1970s

the merger process has slowed down. The 14 largest organisations achieve 50% of total Co-op. turnover, and 75% of total trade is handled by less than 40 societies. Despite considerable growth amongst the 50 largest societies, most of them are still comfortably like the old area societies on which they were based, and are founded on the traditional model of the all-providing autonomous democratic local society, complete with most of the old illusions.

4 The Co-ops. have found themselves largely locked into zero growth product areas, with 75% of total turnover in food trades which are under intense competition from apparently better managed, more efficient and more aggressively price-cutting multiples. While the Co-ops. purchase the bulk of their supplies almost as well as their major competitors, their prices are eventually substantially higher. Outside the food trades, even regionally organised Co-ops. function on a scale on which the movement is hopelessly outclassed. Only in standardised electrical goods has there been some improvement during a period of unprecedented increase in real consumer spending power.

If typical regional societies are compared with the dominant multiples in each particular commodity field, the scale discrepancy is vast, as is the profit performance. The retailing profits of Boots are as large as the entire surplus earned by all retail Co-ops. put together. The profits of Marks and Spencer or GUS are even larger still. It is a matter of the cumulative market power generated by massive and expert buying power, backed up by complete national control over distribution channels, efficiently and carefully located superstores, stock ranges, standardised layouts, efficient warehousing, plus aggressive price and quality appeal. A mere shift in size for each Co-op. retail society has been no way to match all this. Only the CRS has any hope of long-term significance in such highly competitive distribution, and it has been burdened with a makeshift patchwork organisation pieced together from some 160 mainly bankrupt societies.

III Variations in Management Performance

While it might be misleading to read too much into any set of statistics produced for a single year, even by such a reliable source as the Co-op. Union, the tables of ratios which can be derived from 'Co-operative Statistics' over a period of years indicate all too clearly that many societies have been limping badly, when compared with other Co-ops. on similarly based statistics. Here are some examples which all self-respecting directors and senior managers must have worked out for themselves year after year.

1. Trading Surplus 1980 (as % of Sales)

High		Negligible	Losses	
Channel I.	10.3%	Gr. Lancastria	Hull & E. Riding	-2.2%
Ipswich	8.5%	Pioneers	South Suburban	-1.8%
Lincoln	7.2%	Sheffield & E.	Blackburn	-1.8%
Gr. Peterborough	5.7%	CWS Retail Scotland	Royal Arsenal	-1.2%
Norwich	5.0%		Belfast	-1.0%
North Midland	5.0%			
Gr. Nottingham	4.8%			
Plymouth & S.D.	4.8%			

High (cont.)

Brightside & C.	4.8%
Colchester & EE.	4.6%
CRS	4.3%

2. Dividend Distributed 1980 (compared with Net Surplus)

Low			Divi. greater than Surplus
Blackburn	0.9%	(-3.7%)	North Eastern
Hull	0.8%	(-3.6%)	Norwest
Belfast	0.7%	(-3.6%)	West Midlands
Royal Arsenal	0.7%	(-3.2%)	Invicta
Sth. Suburban	0.7%	(-1.2%)	Northern (Aberdeen)
Gr. Midlands	0.6%	(-1.2%)	Mansfield & Worksop
Gr. Lancastria	0.5%	(-1.0%)	Leeds Enfield Highway
Pioneers	0.3%	(-1.1%)	Coventry
Portsea Island	1.5%	(-0.8%)	Clydebank N E Midlands
Cambridge	0.8%	(-0.6%)	Sheffield & Eccleshall
St Helens	0.6%	(-0.7%0	Fife

High but Earned

Ipswich	3.1%	(+7%)
Norwich	2.0%	(+4.6%)

3. Sales per Employee 1980 (£,000s)

High		Low	
Channel Islands	51.05	Clydebank	21.35
CWS Retail Scotland	48.05	Fife	22.54
Harrogate	43.80	Portsea Island	24.00
West Yorkshire	42.80	East Mercia	24.50
North Midland	40.85	Forth Valley	24.76
Ipswich	39.50	Plymouth & S.D.	24.80
CRS	38.55	South Midlands	24.65

4. Retentions 1980 (as % of Sales)

High		Nil	Low
Lincoln	5.5%	Royal Arsenal	Belfast
Gr. Peterborough	4.2%	Gr. Midlands	Pioneers
Brightside & Carbrook	4.0%	Portsea Island	Cumbrian
Ipswich	3.9%	Gr. Lancastria	Fife
St Cuthbert's	3.0%	South Suburban	Hull & E. Riding
North Midland	2.6%	Cambridge	Blackburn

5. Net Surplus (as % of Sales)

	1972	1974	1976	1977	1978	1979	1980
Belfast	8.1	8.6	-1.8	-0.9	-1.4	-1.2	-3.6
Birmingham (Gr.Mid)	3.5	2.9	1.6	1.5	1.6	0.1	-1.3
Blackburn	3.5	4.0	3.3	0.7	0.5	-1.3	-3.7
Cambridge	3.2	2.9	2.8	2.2	1.6	1.2	-0.6
Cumbrian			5.1	4.8	3.2	2.0	-0.3
Hull & E. Riding	2.8	3.9	0.4	0.3	0.5	0.2	-3.6
London	3.3	3.2	0.9	0.4	-0.2	-0.9	-??
Royal Arsenal	4.7	4.8	2.1	0.9	-0.5	-1.1	-3.2
South Suburban	2.9	4.8	3.4	1.4	0.5	0.2	-1.2
Gr Lancastria	4.0	3.3	1.7	1.6	1.0	0.6	-1.0
St Helens	2.4	2.1	1.5	1.5	1.4	0.4	-0.7
Pioneers	(4.6)	(4.7)	2.4	-0.2	-1.8	-0.5	-1.1
Portsea Island	6.7	5.2	3.1	4.5	3.4	3.1	-0.8
Sheffield & Ecc	3.6	3.1	2.1	2.7	2.1	1.3	-0.1

6. Financial results of major societies 1970-80

It has been encouraging to see the healthy growth of reserves from £60m in 1970 to £295m in 1980. Also to note that fixed assets and net current assets have been almost keeping pace with inflation. But these have been more than counter-balanced by the following discouraging features:

a) Trading surplus has fallen steadily from 5.5% of sales in 1974 to 2.6% in 1980.
b) Net surplus has fallen dramatically from 4.1% of sales in 1973 to 0.7% in 1980.
c) Dividend (as % of turnover) has dropped from 1.9% in 1974 to 0.8% in 1980.
d) Retentions (as % of sales) have dropped disastrously from 1.1% in 1973 to -0.6% in 1980.
e) Members' share capital has remained stationary but loan capital has risen from £138m in 1974 to £265m in 1980, and investments have declined in real value substantially.

7. General features

a) Growing inability of retail societies to finance new investment.
b) Growing readiness to pay out more in dividend than the net surplus earned.
c) Unwillingness of failing societies to resort to drastic remedies until capital resources and goodwill have been drained away.
d) Growing difficulty for strong societies to remain strong after amalgamations with failing neighbours.
e) Growing danger for the CRS to try to rescue major societies in distress.
f) Co-ordinated national action still resorted to only in stark emergencies.
g) No clear objectives set by members for managers in most societies.
h) Continuing mutual suspicions between large retail societies and the CWS.

IV Conclusions

1 Retail development in the past 20 years has been dominated by economies of scale. Self-service made the organisation of the super-market and hypermarket possible, and motor

transport gave them the market. The multiples have taken full advantage of this. Meanwhile Co-operatives have been inhibited by their commitment to give a service to local communities. Their members wanted to retain the smaller shops, but were unwilling to accept the higher prices required to cover the higher costs.

2. The Co-ops. are still basically in the small store business, operating shops which are on average one third the size of the multiples. Both groups are closing stores below 4,000 sq.ft. in size, but the Co-ops. are opening new atores of around 10,000 sq.ft. while the multiples open stores twice as large. The average sized Co-op. store is only 2,700 sq.ft., and 33% of new Co-op. stores have no car parking.

3. Most societies are determined to keep as much as possible of their independence, even at the risk of draining down their reserves, working capital and fixed assets, and despite the warnings of the Co-op. Union and the CWS.

4. In the present economic climate the CRS cannot be expected to carry the whole costs of rescue operations. It has to depend increasingly on help from the CWS, and amalgamation of the CWS and CRS looks inevitable.

Note of the Author: Dr. A. WILSON was until recently Deputy Director of Extra-Mural Studies at the University of Manchester, with a particular concern for Industrial studies; long interested in Co-operation - in pioneering courses for Co-operative management, in Co-operative research, and as a main

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