

Consumer Co-operatives — Towards Success

NORTH TAYSIDE SOCIETY

by

JOHN ANDERSON

North Tayside Society was formed on 3rd March 1984 when Blairgowrie Society transferred engagements to North Angus Society which changed its name to one more descriptive of the area it now covers.

The Area and the Competition

In that area, our main trading town is Montrose, oil rich, with a thriving Glaxo Drug Company as its backbone. Montrose is without question Tayside's success story of the seventies and eighties. Unemployment is virtually nil and with a population of 11,000 it comfortably supports a Fine Fare superstore, a large William Low's supermarket, Woolworth's, a Boots departmental store etc.

Seven miles away lies the City of Brechin, population 6,500, unemployment 20 per cent plus. The population of Brechin has declined over the last twenty five years and it is unlikely that any significant new industry will be attracted there in the foreseeable future. Our main competitors in Brechin are Fine Fare and Woolworth's.

Blairgowrie in the heart of raspberry country has a population of 5,500 and an unemployment rate of 20 per cent plus. It is largely an agricultural town and with the mini-boom in the tourist trade boasts a large number of hotels. The main competitors in Blairgowrie are Woolworth's and William Low's supermarket.

We also trade in the villages and small towns of Newtyle, Alyth, Coupar Angus, Inverbervie and Laurencekirk, all very successfully.

The Survival Profile

Full figures are given for the Society in 1983-4 and 1984-5. Here let me note that in January 1983 the general reserve of the North Angus Society was eleven times greater than the share capital level and in January 1985 the ratio for North Tayside will still be seven times, even with the effect of the much poorer Blairgowrie Society ratio. The assets of the two constituent Societies have not been re-valued since 1969 and so by Co-operative standards North Tayside looks pretty successful with a high survival profile. "Survival profile" for those not aware of the latest Co-operative Union jargon is a society's rating on a scale of one to ten on its likelihood of surviving the next five years.

First of Two Keys – Liquidity

But is North Tayside successful and does it have a good survival chance? Perhaps not, as the old measures of Co-operative success, those ratios we were taught at dear old Stanford Hall, have little or no relevance to-day. Survival is the main aim and that for a Co-operative society depends on:—

1. Liquidity.
2. Diversification.

Liquidity is the key to survival if you are to stay one step ahead of the banks.

Once your society is in the hands of the banks or other creditors, however laudable the intentions in borrowing the money, the scope for manoeuvre is strictly limited.

I do not intend to go into detail on sensible investment policies to achieve greater liquidity as I would hope all Societies are quite capable of planning those but the soundest way to achieve liquidity is to spend less than you earn. You do not issue dividend or dividend stamps unless you earn them. Unbelievable though it may seem in 1984 that a statement like that has to be made, you have only to look at "Co-operative Statistics" 1983 edition to see examples of societies failing to follow it.

If shops are losing money or not making a contribution and you are certain you cannot bring them back into profitability, close them. Societies are still keeping open shops as a service to members knowing they can never make a profit. They will inevitably be taken over by larger societies or (I shudder to suggest it) be allowed to go into liquidation.

Importance of Personnel Costs

Personnel costs at low levels allow you to cut expenses and increase liquidity. Service certainly counts, but unless realistic personnel cost ratios can be achieved then, rather than achieving acceptable service levels at unacceptable personnel cost levels, close the units. Do not try to offer unacceptable service levels at acceptable personnel cost levels either, as eventually your turnover will fall and personnel costs rise again.

As far as North Tayside is concerned acceptable personnel cost levels in food vary from 4.5 per cent to 7 per cent per £1 of sales depending on size and location of shop.

The Second Key: Diversification

Diversification is the other key factor in success i.e. survival. I am afraid though an economist by training, division of labour is not for me, at least as the chief executive of a Co-operative Society. The Societies who chose or accidentally landed with the bulk of their trade in one or two specialist areas are those most vulnerable. You cannot allow your society to concentrate all its efforts and capital into one specific area as inevitably there

will be someone who can do it **better** – “better” in the sense they are not concerned with the “caring” and “sharing” aspects of Co-operation. They do not pay trade union rates, **they** do not encourage social activities and community activities. They have **no** hesitation in closing profitable concerns if they can make even **more** profit by so doing, no matter the effect on the local community. At North Tayside we are involved in supermarkets, departmental stores, bakery, **garage**, coal, specialist shops, television and video rental and perhaps above **all** property rental.

Property Rental

For our size we have far and **away** the biggest property income of any society in Britain. This income **is** used continually to update and extend our shops and services and **act** as a buffer when threatened with major developments as when a superstore opened in our main trading town of Montrose eighteen months ago.

Our property interests include **a** public house, discotheque, bookmaker, chemist, frozen food centre, **job** centre, etc. as well as a large number of furnished flats at market rents.

In food our policy is to have town centre pricefighters and in smaller towns and villages to have 2,000 to 3,500 square ft. supermarkets preferably with a car park.

Town and Village Shops

Our biggest pricefighter is in Montrose and is part of a ten year old 35,000 square foot departmental store with car parking for over 150 cars. However, we feel this store is already outdated and have plans to develop this store and other ground we have acquired into a shopping centre which would include our first superstore.

One success which has given me satisfaction has been with our village shops. These supermarkets all **now** modernised contain a large element of electrical goods and not only **achieve** personnel costs in 4.5 per cent to 6 per cent range, but return **significant** profits. There is no doubt that village supermarkets with car **parks** still have a future in the Co-operative Movement.

Television and video rental have **been** very successful for this society. One out of every two sets rented in the North Angus area comes from us despite the presence of nearly all the **national** multiples.

Developing Television and Video Rental

In Blairgowrie Society there were **less** than a dozen sets on rental in March and these were nearly **all** rented to staff. The market in the area seemed virtually tied up – but **we** still wished to break into it. A small counter service grocery shop which survived only because of the sub-post

office income was chosen as the vehicle rather than the departmental store, as we decided that our only hope was to go for the lower end of the market and that was not the market we wished to be associated with our departmental store.

We already had volume through the shop as it was a post office but to increase this we decided to push out grocery which was losing money and put in a heavily discounted range of wines, spirits and cigarettes. To this we added surplus video tapes from our dive outlets, all to be rented at 50 pence a night, and re-issue televisions and videos at very low rental terms.

This appears to be working and we are now building up a significant television and video business in Blairgowrie and very soon we hope to have a full time television repair man instead of the present servicing from our television workshop in Brechin. Our next step would then be to push up market with better quality sets rented from our departmental store.

Action in Blairgowrie – and Results

In the six months since Blairgowrie Society transferred engagements we have:—

1. Closed four retail units.
2. Closed a milk delivery department.
3. Closed two mobile shops.
4. Modernised and extended three village supermarkets.
5. Opened a pricefighter supermarket with car park.
6. Opened a Homemaker furniture centre.
7. Let four shops and a van shed at a combined annual rental of £15,500.00.
8. Modernised and furnished two flats.
9. Submitted plans for converting offices and board room into four flats.
10. Provided for three voluntary redundancies.
11. Reduces staff by early retiral and natural wastage by a further 23 persons.

Our interim accounts in July showed our best trading results for many years and Blairgowrie food shops or at least some of them, are beginning to show a profit.

— Risks in Future Borrowing

We are still not convinced we can survive as although we have over £1¼ million in investments with no bank or superannuation loans, the need continually to plough back profits is ever present. Our investment cushion will probably all go if we proceed with our shopping centre/superstore development in Montrose and that would push us, albeit temporarily into the hands of the banks or other money lenders.

This society is not alone in Scotland in its fear of borrowing. In 1974 when we were only a very small society with under £2 million annual turnover we embarked on a £1 million development and did not have the same fears. Not because the development in 1974 looked more promising than the proposed 1984 development, but the situation has changed. As mentioned earlier, banks are not prepared to allow societies to stray off budgets and are only too ready to use their muscle to force transfers of engagements.

Fiercer Competition

Competition is much fiercer in Scotland to-day. By contrast with England there was, until quite recently, very little competition in food although to be fair what little there was did fare considerably better than the Co-operatives. This has changed and superstore chains know that by running their shops at a loss they can eventually close any unit run by an independent Co-operative who can only run at a loss for a very short period before the banks are getting worried.

Distribution Costs

Perhaps the most important change since 1974 lies in the loss of the food subsidy previously secured in warehousing. The arrival of Regional Distribution Centres in Scotland has ended this. R.D.C. charges at best will be 5.5 per cent and at worst 7 per cent, meaning an additional 2 per cent to other expenses for all grocery units.

This I stress is no fault of the CWS but merely a reflection of the outdated shop structure of retail Societies in Scotland which even to-day is largely made up of 1,000 square foot grocery units usually about six or seven for every town with a population of 8,000. This means distribution costs are enormous compared with the multiples and unfortunately "good" Societies suffer with the "bad" as there is a uniform charge for all.

In planning a superstore in Scotland to-day you may have the best staff and the brightest and most attractive shops but unless you have the right prices you have little chance of success i.e. survival.

Things are changing, societies are disappearing quickly and we shall be left with the more efficient ones and then warehouse charges will come down but it will take at least five years.

Surviving the Eighties

As usual I have been quite open and frank about our approach to Co-operative retailing in 1984 and although the appendix shows how relatively strong North Tayside appears to be, I am convinced we are walking a tight-rope and only by closely watching liquidity and by diversifying are we going to survive the eighties.

Bibliography

Marshall R.L.: *Lippen on Angus. A Celebration of North Angus Co-operative Society*; 1983; £1.90 from North Tayside Society, 49 High Street, Brechin, DD9 6EZ.

Note of the Author

JOHN ANDERSON, an honours graduate in Economics of Edinburgh University was one of the early students on the Co-operative College Management Development Scheme. He worked in the Invicta and Royal Arsenal Societies, and in the SCWS Retail Group before becoming Managing Secretary of North Angus and now of North Tayside. His other Co-operative service includes membership of the Central Executive of the Co-operative Union.

North Tayside Society: Appendix
THE VITAL STATISTICS

The following are the figures for North Angus Society in 1983-4 and the budget figures for North Tayside in 1984-5:—

TABLE 1

Year	MEMBERSHIP		TURNOVER (NET OF V.A.T.)				OUTLETS				PERSONNEL			
	Total Pop.	% for Mvt.	Food	Non-Food	Total	% of Trade in Area	% for Mvt.	No. of Shops	Selling Space sq. ft.	Vans	No.	Expenses	% of Sales	% for Mvt.
83-84	12723	N.A.	2704121	1569802	4273923	16.8	N.A.	8	62100	Nil	129	586690	13.73	13.6
84-85	18900	N.A.	4920148	2369700	7289848	17.0	N.A.	18	101500	2	212	978100	13.42	N.A.

TABLE 2

Year	DEPRECIATION		STAMPS		Investment Income	NET TRADING SURPLUS			CAPITAL	
	Amount	Rate to Sales	Red. Value	% £1		Amount	% Sales	% for Mvt.	Share	Loan
83-84	123953	2.90	49703	1.17	81444	230479	5.4	0	114111	1649
84-85	180004	2.47	45000	0.63	10500	290000	4.0	N.A.	201100	811

TABLE 3

Year	GENERAL RESERVES	CAPITAL EXPEND. IN YEAR	GROSS PROP. INCOME	FIXED ASSETS	INVESTMENTS	TOTAL LOANS
83-84	1256905	178324	55369	423139	862159	32706
84-85	1800000	212000	71000	450000	1200000	88000