

# **Why did London fail?**

**by David Hutton**

The submission of this article was stimulated – provoked? – by Professor Tom Carbery's article in Number 55 and to the attention by Malcolm Hornsby in the same issue to the special needs of the London area. We need to learn effectively from failures as well as from successes. The failures pose questions about the social control of the economy, far beyond the retail Co-operative Movement.

This draft has benefited from the invaluable help of many fellow Co-operators, who would prefer to remain anonymous.

## **Retail Co-operation in the U.K.**

Early in the century, the Co-operatives had pioneered a managerial revolution of central control of a large number of branch outlets. In the 1940's it pioneered self-service trading to reduce labour costs. This lead was eroded by the large scale injection of capital and managerial expertise by the rival privately owned multiples. During the war the Co-ops had contracted out of a cartel with private dairies to rationalise door-step delivery of milk. This decision yielded short and medium term benefits but in the longer run it increased Co-operative costs because of the geographic spread of customers.

The Co-operatives did not accumulate sufficient reserves, partly because of the tax disincentives to retaining Co-operative profits introduced in the 1933 budget and also because high dividend payments became expected by the members and were seen as the best form of trade promotion. Management feared that a reduction of dividend might lead to a run on capital. It was not until 1968-1974 that major transfers were made by London Society from earnings to reserves – and this was the only period since the immediate post-war years that London Society made a significant increase in its market share of retail trade.

Outside London the turning point for the Co-operatives came in the 1960's with the removal of resale price maintenance by the Conservative government of the day (a removal supported by the Co-operative Movement in the interests of consumers). Although R.P.M. had prevented the payment of Co-operative dividends on some products and even the supply of a few commodities to Co-op shops, its most important influence was to cushion the high gross margins which enabled less efficient retailers – both Co-operative and independent – to survive.

In these difficult times there was discord between some retail societies and the CWS. The Wholesale Society regarded purchasing loyalty as the pre-requisite for the disclosure of wholesale buying terms, whereas the

retail societies regarded lower prices and disclosure of terms as the prerequisite for loyalty. This impasse was particularly relevant for the larger retail societies who regarded "invoicing through" (charging by CWS for a service when the goods were not physically handled by it but went direct from the private manufacturer to the retail shop or warehouse) as particularly objectionable: the larger societies were confident that they could buy cheaper direct from the manufacturer.

### **Metropolitan London Co-operatives**

The metropolitan London Co-operative societies – London, Royal Arsenal, South Suburban – did not remain immune to the national trends. It is worth noting that none of these three societies survives today as an independent Co-operative. Their plight was exacerbated by special problems of their own, of which the decline in purchasing power in Greater London was paramount. The volume of trade in all London shops is estimated by the Greater London Council to have dropped by 3.6 per cent between 1971 and 1980, and the impoverishment of the population in the inner cities has led to soaring commercial and local authority rates.

### **London Society History –**

The London Society was formed in the 1920's by the amalgamation of three large Co-operatives north of the Thames. In this Co-operative desert its expansion was meteoric – the number of staff employed increased seven fold and the real volume of trade (at constant prices) nine fold in the following 35 years. By the late 1950's a plateau had been reached and this momentum lost: in an area of more than 1,500 square miles and a population of more than six million people the Co-operative trade per head was by the late 1970's lower than for any other Co-operative society in the United Kingdom – with all the problems that such a thin spread of trade entails.

The management of the society found it difficult to deal with the vested interests of either of the two competing electoral organisations which controlled the lay board of directors at different times, nor were the entrenched working practices of a lethargic middle management helpful. Management had found success coming too easily in the later years of expansion and now established a self-protective network reinforced, it was generally believed, by freemasonry. Between 1966 and 1974 the society was transformed by the new broom of better management secured by a new board of directors, but it later became difficult to recruit top management to so vast an enterprise which already seemed to be stumbling into failure again, and which had a reputation (deserved or not) of lay interference.

### **Economic and Financial Difficulties**

The economic climate for the society was far from encouraging. The pro-

liberation of small shops bought after the war meant that managerial skills were overextended, nursing units made uneconomic by technical change. Essential new developments were held back by heavy interest costs as low interest members' capital had to be supplemented by more expensive loan capital. In 1979-80 the Co-operative Bank was charging 19 per cent p.a., albeit a rate less than the then current rate of inflation.

The board of directors' loyalty to its trade union constituents made it difficult to weed out costly productive units long after they should have been superseded by more cost-effective alternatives. This loyalty was never matched by the support of the general Trade Union and Labour movements. The seriousness of the situation was camouflaged by the high sales increases produced by the rampant inflation then prevailing (sometimes over 20 per cent a year). Neither the stocks sold nor the depreciation of shop fittings or vehicles, for instance, covered their replacement costs.

In the early 1960's there had been the adverse publicity attached to a scandal concerning the President, which inevitably distracted attention from the job in hand. It was followed in the 1970's by a major law suit about the staff pension fund. This pioneer scheme to provide pensions for ordinary staff had started in 1927 but now faced problems due to inflation and the policy of self-investment, and the good faith of the Trustees was exposed to attack.

### Options for the Eighties

The society ran into serious trading losses in the years following 1975, and the crux came in 1980 when the Co-operative Bank threatened to withdraw its overdraft facility. Although the society still had a substantial current cost reserve, this was subject to erosion from the ongoing trading losses.

Faced with what they regarded as a threat of enforced receivership, the board of London Society felt it had to choose one of three options. The first was to continue to trade as an independent society on a more modest scale, stripping itself of its farms, chemist shops, and a substantial number of uneconomic food and non-food stores. It would have had to continue the arrangement, began in May 1979 of sharing a chief officer with Greater Nottingham Society whose head office was situated some 120 miles away. The second alternative was to submit to the Bank's terms, tying purchases to the CWS Regional Distribution centre, paying commercial interest rates, restricting development, and using unproved retail expertise.

Thirdly the society might transfer its engagements to the Co-operative Retail Services, a service with a proven track record of success in turning round other Co-operative societies in difficulties — most recently in Liverpool and Birkenhead and Bristol — but still offering continued democratic involvement. This last option was chosen.

## **Experience in C.R.S.**

Transfer of engagements to the CRS came at an unfortunate time because CRS was beginning to face problems of its own, after a long run of success. Within 15 months of the transfer both the chief officer and his deputy had retired because of illness. The manager appointed to London together with his food trades officer had to be removed from their posts within two years of taking them up. Even the closure of 80 per cent of London's grocery shops left the remaining shops including seven with less than 1,000 sq. ft. selling space and the department as a whole still unprofitable. Attempts to launch superstores — a type of trading in which CRS had shown some expertise in less densely populated areas — were frustrated by the shortage of sites and the heavy cost of Co-operative capital compared with the capitalist approach of its rivals. The long term decline of the department stores was made more obvious by the lack of skill until recently shown by CRS management in this area, and the loss of store traffic with the decision to remove rather than improve food departments in the stores and the failure to develop an effective credit medium to replace the traditional personal approach of the “mutuality” collectors. At one time “Mutuality” trade accounted for one fifth of the department store and coal trade.

## **The Future**

A cloud still hangs over the long term future of door-to-door delivery of milk but even in this period of decline, this department is still the principal source of profit for the London Region of CRS. The funeral department is also a money-spinner, albeit on a smaller scale, but the high costs of funerals has attracted the attention of those who want to municipalise this service.

Basically the main problem facing the CRS in London is its ability to restore the morale of staff and customers after such a retreat: some of the new superstores may yield a phoenix from the ashes. The reduction of interest charges following the sale of property no longer needed for trade, and the concentration by management on bringing the larger food units into profit has brought the Region into sight of “breaking even”. Once confidence has been restored, the benefits to trade and to democratic participation should soon follow.

## **Note of the Author**

DAVID HUTTON is a professional statistician who was a director of London Society 1976-1980 and of CRS 1981-2.