

## Three Options

The relation of the Co-operative Wholesale Society Ltd. and Co-operative Retail Services Ltd. has long been prominent on the agenda of the consumer Co-operative Movement - but the practical steps have been cautious and inconclusive. In 1982 there was a conference of retail societies and an agreement, in principle, on "restructuring" and the boards of the two organisations and the Tripartite Committee of the CWS, CRS and the Co-operative Union have examined the mechanics of turning the principle into practice. In Journals 50 (April 1984), 57 (April 1986) and 58 (December 1986) articles looked at various aspects of the problem.

Now "can these bones live?" On 25 October 1988 the Co-operative News reported that a special sub-committee of the CWS board had spent several months exploring the situation and that the board itself had reaffirmed its "broad support in principle" of a merger between the two societies. A board statement to the CWS half-yearly meeting in October said that the aim was to have "firm recommendations" for consideration early in the New Year.

In the light of that prospect we invited our three contributors to set out their views on the issues and the standards they would apply in judging any recommendations that might emerge.

### 1. Transfer CWS Retail Group to CRS by John Anderson

*John Anderson entered the Movement through the Co-operative College's scheme for the recruitment and training of graduates: he is now Chief Executive Officer of North Tayside Society and a member of the Central Executive of the Co-operative Union.*

The case for a merger between CRS and the CWS Retail Group is overwhelming. The fragmentation of the Co-operative Movement is the basic cause of our well documented failings as successful retailers, as confirmed yet again (at an unnecessary expense) in the recent "unpublished" Peat Marwick McLintock report on capital problems within the Movement. A merger of the two giants of Co-operative retailing would result in an organization with a retail turnover of close to £2 billion, almost 40% of the Movement's trade, and give it the buying clout to compete more successfully with the major multiples.

## **Merge CRS and the Retail Group**

Personalities aside, (and whether we like it or not, personalities nearly always form the greatest hurdle to overcome in mergers) there are a number of other obstacles to be cleared due to the complex structures and activities of both organizations.

I have deliberately steered away from calling for a CWS/CRS merger and rather am advocating the easier to achieve merger of CWS Retail Group with CRS. Officials and directors of the "independent" societies are loath to hand over the control and the rewards of the very much under-valued assets of the CWS and its offshoots to what they regard as failed directors of bankrupt societies, or even worse, left wing loonies, i.e. members of the National Federation of Progressive Co-operators.

I do not accept this argument as invariably it's been the managers who have sunk societies, not Boards, and if nothing else, the progressives have made the whole movement re-examine its *raison d'être*. However, I do accept I am in the minority and if progress is to be achieved, objections have to be overcome.

### **By Transfer of Retail Group Engagements?**

The simplest solution may seem to be a transfer of engagement of the CWS Retail Group to CRS or at least a transfer of Retail Group's net assets. CWS Retail Group's regional lay committees would also transfer to CRS and act along the lines of CRS Committees.

This of course would result in a complete re-think of the CWS buying role and distributions network and its vital link with societies. This may not be a bad thing as there is little doubt that with the emergence of large regional societies the needs of most societies are not always matched with what is available from the CWS

I realise there are many technical problems involved in such a merger but with willing partners, these should be solved.

### **Or by Transfer of CRS into CWS?**

Another alternative would be for CRS to transfer into CWS and become part of CWS Retail Group. This has the added bonus that it could improve the buying power of the CWS and the Movement as a whole.

Democratic control could still exist by allowing the CWS Retail Group's automatic share of seats on the CWS Board to climb to 40%, a figure to be reviewed with the growth of the group every 3 years.

Although I feel that a CRS transfer to CWS is the logical move to make, I fear it will delay the radical shake-up of the CWS which is unquestionably required.

### **Hope and Expectation**

I favour a transfer of the CWS Retail Group to CRS which will cause a fundamental re-think of the CWS structure and the Movement's structure.

Being a realist, some say a pessimist, I believe that at least in the next five years nothing will change and our market share will continue to shrink as the number one problem in all mergers in this case will prove insurmountable.

## **2. Merge CWS and CRS by P.J. Bushell**

*Peter Bushell also entered the Movement through the College's scheme for graduates. He is now Services and Development Controller of North Yorkshire Society and before that was Assistant Secretary of the Co-operative Union.*

The merging of CRS and CWS is a long time coming; and yet it is a development which is inevitable, relatively uncontroversial, and increasingly imperative. The commercial enterprise which we fondly call the Co-operative Movement, is organised on a chaotic and monumentally inefficient basis, and the continuing separate existence of CRS and CWS is one of the central pillars of this inefficiency.

Matters were not always so. In its commercial hey day - a period which I would loosely define as the first forty years of the present century - the Co-operative Movement in the UK prospered under arrangements which had been developed in the years of dramatic growth towards the end of the nineteenth century, arrangements which were well suited to the needs of a major retail enterprise at that time. These arrangements were enshrined in the very structure of the Movement, and remain so today, even though their appropriateness must have begun to look questionable by the beginning of the post war period, and their singular inappropriateness has been uncomfortably obvious for the past twenty five years.

### **A Pattern for the Past**

The pattern of the growth of consumer Co-operation through community based societies is well known. The establishment by these societies of federal organisations which could serve to bring the crucial wholesaling function

within the Co-operative family, and to extend this to embrace the manufacture of goods for sale, was an inspired development which enabled the multitude of predominantly small retail societies to enjoy economy of scale, and perhaps unconsciously, conform to disciplines, which must have clearly indicated the way ahead for some of the embryo multiple chains which were also making their presence felt in the early years of this century. The CWS, and indeed its northerly neighbour the SCWS clearly enabled consumer Co-operation to succeed commercially on a large scale and in the face of increasingly sophisticated and often hostile competition. Self evidently, without these two central trading federal societies there could have been no Co-operative Movement in this country.

Yesterday's formula for commercial supremacy can so easily become today's historical baggage. Community based Co-operative societies were fine when the effective radius of distribution to branches was governed by the maximum mileage which could be covered in the working day of a horse and cart. As communications and means of transport have developed, so retailing has come to be dominated by the national or regional companies, and so, belatedly, Co-operatives have gradually reorganised themselves into fewer, but larger, groupings.

### **Efforts to Adapt Co-operative Wholesaling**

As retail enterprises have grown, so the traditional wholesaler has gradually been squeezed out of the retail chain. By and large, major retailers deal directly with the manufacturers of the merchandise which they sell and this relationship has now developed to include the commissioning of an exclusive production of goods to a clear specification of quality and price - the growth of 'own brand' ranges continues inexorably. The role of the Co-operative trading federals (which by 1973 had come together in any case) naturally changed drastically as retail distribution in general, and the Co-operative movement in particular, experienced the post war retail revolution. Some of these changes enabled the CWS the better to serve its members, some had the appearance of exercises in self-preservation.

The physical wholesaling of goods from premises in major cities withered away, and was replaced by marketing schemes and invoicing through arrangements. Regional distribution centres were established to handle food branch deliveries for individual or groups of societies. Own brand, which from the late 1960's had been unified under the 'Co-op' label, was developed with tremendous energy and marketing flair, although the number of CWS factories has declined steadily as the external sourcing of own brand merchandise has progressed.

The CWS nevertheless remains, as has been the case throughout most of its life, significantly larger than any of its corporate members. Although its structure is impeccably democratic, the Society is, nevertheless, regularly subjected to the criticism that it is not readily responsive to its members' requirements.

### **Entry of SCWS into Retailing -**

For many years before merging with the CWS, the former SCWS had been directly involved in retailing. SCWS retail branches had been established mainly in the Highlands where communities were too small to sustain their own retail society. In later years, the SCWS had carried out the 'safety net' role performed south of the border by CRS, and had accepted transfers of engagements from ailing societies throughout Scotland. By the year of its demise SCWS, which had been renamed SCS to reflect its changed role, had absorbed each of the former independent societies in Glasgow and Dundee, together with others in south west and central Scotland, and was by far the largest Co-operative retailer in the country.

The merger of CWS and SCWS thus brought the CWS into retailing on a large scale for the first time. There had been earlier ventures, a number of societies had vested their management in CWS, theoretically on a temporary basis pending resuscitation, and CRS itself had, of course, begun life as the CWS Retail Society. In England and Wales, however, the arrangements were quite clear: the CWS carried out its traditional roles of procurement and manufacturing, together with the later additional functions of distribution, banking and other activities which fell under the broad heading of retail support and retail societies in difficulty transferred to other independent societies, or to CRS.

### **- And of the CWS**

The handing over of the former SCWS retail operation to CRS, in or shortly after 1973, would have been a logical extension of the arrangement operated elsewhere in the UK, and would have established CRS as the foundation for a truly national retail Co-operative society. Instead, the CWS retained its newly acquired retail wing, which grew quickly as further Scottish societies succumbed to commercial realities and relinquished their independence. The clear role of the CWS as the trading support of retail societies thus became considerably less clear after 1973.

In the early 1980's the CWS took control of the troubled Belfast Society, and shortly thereafter major retail acquisitions were made in England itself when

South Suburban and then Royal Arsenal Societies also elected to transfer engagements to the Wholesale Society. The reasons behind these developments were not entirely without logic, but on any objective assessment, they raised serious questions as to whether or not the Movement had any idea of how it was to progress, or even survive, in the hostile economic climate of the early 1980's.

### **A Lost Opportunity in the London Area**

At the time of the South Suburban/Royal Arsenal acquisition, CRS was still stretched to the limit of its resources absorbing and resuscitating the former London Society. Without a major injection of funds, CRS could not have withstood the financial strains which these two societies would have placed upon it and thus, it was argued, no alternative was available to the CWS merger.

This argument was superficially plausible, but surely not capable of withstanding serious scrutiny. The failure of any one of the three large London societies could have had unthinkable consequences for the whole Co-operative Movement, and the fact that this was avoided, and that each of these businesses was rescued with virtually no adverse publicity represented an achievement of the utmost importance for us all. What a tragedy it was that in engineering these rescues, the Movement failed to unify Co-operative retailing in the metropolitan area under the auspices of one single society.

All that would have been needed was for the CWS to furnish the necessary financial resources, and for CRS to have been the vehicle of rescue. This was, after all the *raison d'être* of CRS, and by 1980 the Society has proved beyond all doubt that it was well capable of carrying out the "safety net" role which the Movement had asked it to perform. Even the machinery for financial assistance to be passed from CWS to CRS existed - as it does today. CWS has a commitment to subscribe up to 50% of the share capital of CRS, which effectively obliges it to match pound for pound the share capital of any incoming society. This, of course, is the rationale for the direct appointment by CWS of 50% of the CRS Board. CWS has not in fact met this commitment since the mid 1960's, although it continues to be shown as a contingent liability in its published accounts.

### **Merge CWS and CRS Now**

Thus it comes about that by 1988 the two largest Co-operative retail operations in the UK are CRS and CWS. The development of its retail operations by CWS has the appearance of a deliberate attempt to carve out for itself a new role, as

compensation for the decline or disappearance of some of its more traditional functions. The merging of CRS and CWS is necessary, if only because it will unify one third of all Co-operative retail activity within a single truly national society, and at the same time bring to the metropolitan area a rational structure upon which future developments can be built.

There are no major obstacles to merging these two societies. In my experience, mergers only fail to happen when individuals with the power or influence to prevent them are not satisfied that the proposed terms meet their own personal aspirations - be they managerial or representational. If those involved wish to see the creation of this new society, then created it will be.

Obviously, some care will need to be taken in determining the composition of the Board of Directors, as representation will be drawn from both the corporate and individual members. I do not envy those charged with producing an acceptable constitution for the Society, although I would suggest that the danger of becoming 'bogged down' with this item must be avoided at all costs. The Society will be a trading entity, and should not be weighed down by committees and sub-committees. There should be one Board of Directors (as the law requires), and this must be considerably smaller than the present CWS Board. I would suggest that there should be no more than sixteen Directors, that these should be divided equally between individual members and representatives of corporate members, and that the Chairman - who will have a casting vote - will be drawn from amongst the representatives of the corporate members for the first five years after the merger.

### **A Basis for Success**

It has now become a cliché to say that the Society must be retail led, but of course it is a characteristic of clichés that they are, by and large, statements of truth, albeit obvious truth. The Society must be set up from the outset to be the retail anchor of the Movement, and the nucleus to which other independent societies will progressively transfer.

The ultimate success of the enterprise will be determined by the quality of its management, and the purpose of the society's constitution will be to provide a framework within which management can be held accountable, whilst having the freedom to act decisively and speedily. It is probable that many of the present functions of the CWS will decline in importance, or even disappear in the years following creation of the Society. These are not matters which should concern us at the moment, however, as they will fall within the province of the Board, the management, and ultimately the members of the Society. It is more important that CRS and CWS should merge than that a detailed blueprint for their future development be prepared at this stage.





