
Letters to the Editor

Co-operative Trade: Journal 63

From George McMillan,
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The three articles referring to the Co-operative Trade Provisional Figures 1987 provide a great deal of food for thought for Co-operative societies' management. Each author, in his own way, highlights the various underlying problems and weaknesses in the Movement's current trading performance which the figures reveal and attempts to give some indication of the course to be followed if future results are to be improved.

In the past it was widely accepted that if the number of societies was reduced to 25 this would solve many of our problems. Although there are still 91 Societies, the 1987 figures show that 25 of these now account for 88% of the Movement's turnover, so in reality we are not at all far from achieving that goal and yet the trading surplus, after depreciation, of these 25 Societies is a mere 2.0% of sales. Clearly then the 25 Societies theory alone is not the much coveted panacea.

In my opinion, the most significant facts which emerge from these articles are:-

1. the Movement's rate of net surplus is well below that of our competitors;
2. the Movement's new store development lags well behind that of our competitors;
3. our competitors' developments are funded largely from retained earnings.

The Dilemma - and its Resolution

These three elements form the core of the dilemma in which we find ourselves. We are losing market share because our new developments are not keeping pace with the competition - our new developments are not keeping pace with the competition because our retained earnings are insufficient - our retained earnings are insufficient because our net surplus is only 1/3rd that of our competitors. The only way in which that dilemma can be resolved is by finding a solution to the last of these factors, whereby the entire process will begin to move in reverse. Ergo - our retained earnings are sufficient because our net surplus is equal to that of our competitors - our new developments are keeping

pace with the competition because our retained earnings are sufficient - we are maintaining (or increasing!) market share because our new developments are keeping pace with the competition.

That, I agree, is the resolution of our problem in the most simplistic terms and I do not pretend to know all the answers to the question of how we can raise our net surplus to the required level, nor do I underestimate the difficulties involved. I am however convinced that this is the question which must be urgently addressed by the Movement's management if we are to remain a significant force in retailing by the end of the next decade. Some Societies, not necessarily the largest, are already earning the required level of profitability and it should be the aim of every one of us to reach a similar level of achievement. The future of the Movement rests on the extent of our success in taking whatever action may be necessary to attain that objective.

17th November 1988

George McMillan

From George Donkin,
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The 1987 Co-operative Statistics are a valuable aid to assessing Society performance. Societies are now so diverse that individual comparisons without detailed knowledge of the Societies involved are fraught with danger.

In Society A 30% of turnover may come from the Dairy Department whilst in B over one third of turnover comes from the motor trade. Society C meanwhile has a very large part of its turnover in travel whilst Society D has none of these departments. Some Societies belong to the RDC network, reducing stockholding and trade credit whilst those who run their own warehouses have higher personnel costs and larger trade credit.

Inter-Society comparison would be made more meaningful if rate of return on capital employed could be introduced as an additional measure of efficiency. Moreover Societies would need to revalue their assets. This would have the additional benefits of showing the real strength of Co-operative Societies to the outside world and would prevent straight forward property sale surpluses covering trading losses. Members on seeing very low rates of return might be tempted to ask Boards and managements why they were so inefficient compared to their multiple competitors. In many Societies, including my own at present, comparisons with the rate of return achieved in a building society account would be unfavourable.

Now perhaps there's a spur to get us all started on proper corporate planning!

30th November 1988

George Donkin

Membership and Marketing: Journal 63

From W. Brown,
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Journal 63 touched upon a topical note as the following statements from the front page of the Co-operative News, issue 22nd November, 1988, clearly demonstrate.

“Popular Co-op ‘Divi’ schemes . . . are increasingly finding favour again as a marketing ploy . . . Ipswich are the leaders of the traditionalists”.

Coming back into fashion brings mixed feelings; even a number of multiples are now considering discount schemes - not dividend schemes I hasten to add. Unfortunately, the fashion followers may not all be kindred spirits: indeed, when fashion moves on once again they will have to face the problem of going out of fashion, so much more bitter than simply being unfashionable.

Of course, at Ipswich we are used to being regarded as unfashionable, and thankfully so, ever since an eminent predecessor of mine, T.R. Edmondson, and the Board of directors decided that they did not wish to jump on the dividend stamp bandwagon.

At Ipswich, Co-operative members receive a cash dividend on their purchases. Each April and October the members' meeting approves the rate; the next day a queue of members forms right round our town centre store to collect their pass-books and draw their dividend. In a fortnight £650,000 is paid out to 27,000 individuals, out of the £1.5 million half yearly dividend. Every day the Society staff ask thousands of customers for their individual share number and 99% turn out to be members who quote their share number from memory. In a community of under 400,000 heads, there are 120,000 active share accounts being used every week as members have their purchases recorded.

Rituals of Dividend - and Rewards

In Ipswich people are Co-op members in the same way as they used to be “C. of E.”, “in the Union”, or Labour voters, as a matter of unconsidered, unquestioned habit maybe, but by no means unconscious. They do know that they are members of the Co-op and by and large they have some notion of what membership does for them. Naturally, the majority no more think of themselves as Co-operators than they might think of themselves as Anglicans or socialists. Ipswich Society's membership has continued to grow during a period spanning the present generation when we have seen many of the great

institutions formed on the base of mass voluntary membership to be in decline, e.g. churches, friendly societies, trade unions, political parties and many Co-operative societies. Why should these great institutions formed out of the best Victorian values find themselves in this position?

Perhaps part of the answer is that for this kind of unsophisticated membership to survive it must be continually exercised, involved and motivated. No bad thing, then, to oblige members to memorise and repeat their share number or to attend at the office to draw their dividend. If the acts peculiar to membership are automated out of existence, the awareness of membership ceases. The exercise of membership must also bring a tangible reward, a sum of money in dividend that is worth collecting and which represents a real saving against market prices. This is our inheritance at Ipswich. It may appear to be very old fashioned and costly to operate but it does continue to flourish and we are loath to prune this member benefit too hastily.

The old well established Co-operative management principles still give sound guidance on our management practice. We attempt to keep pricing, ranges and store standards competitive and up-to-date. We retain sufficient profits within the Society to ensure that maintaining those standards can be financed and never allow the dividend to become a substitute for uncompetitive prices or low standards.

30th November 1988

W. Brown

From S.T.Hicks,
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The thought-provoking article on Membership and Marketing unfortunately refers to Societies 'resorting' to paying dividends in the traditional way. In the case of United, I would like to point out that management has always believed in the principle of paying dividends and we were delighted when a combination of events enabled us to re-introduce a scheme on an experimental basis.

First, no Society can pay dividends if it is not earning profits and in 1983 the successful North Midland Society inherited a series of loss making Societies. It has taken several years for the new Society, United Co-operatives, to develop a sufficiently strong financial base for a return to dividend to be considered.

Secondly, new technology has not only cut the costs of administering

dividends but is starting to provide a vast amount of market research information about the shopping profile of our Golden Dividend Scheme members. The till receipts show the amount of dividend earned on that visit, plus an accumulated total from previous visits.

The scheme launched on an experimental basis at our new Bolton and Wigan superstores and our well established hypermarket at Talke, tells us how often people shop, where they live, which days of the week they shop and how much they spend. If for any reason we lose customers, that information is also available and, as your article pointed out, we have an up-to-date mailing list, enabling us, if we wish, to contact them and discover why we have lost their custom.

The first payment in the form of shopping vouchers has just taken place at Bolton where the scheme has been operating for several months. Dividends of less than £3 have been retained until December 1989, but payouts to the rest have averaged £10 and one big spending shareholder earned £156 by making maximum use of quadruple dividend days. The minimum dividend is one per cent.

At Bolton the dividend scheme may have been a decisive factor in enabling us to retain our level of trading despite the opening of a new Morrison superstore only a mile or so away.

During 1989 we shall be carefully evaluating the three experimental schemes. We shall also continue with our Golden Share Scheme which provides members throughout the Society's trading area with up to 32 exclusive offers during a six month period. These range from a 10% discount on wedding cars to big savings on some of the fresh food and grocery lines.

1st December 1988

S.T. Hicks

From Gilbert Highet,
Chief Executive,
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I read with interest the article on Membership and Marketing by Nimal Wijayaratna which reviewed the history of Co-op dividend and looked, in particular, at Membership Benefit Schemes. Whilst commenting on some of

the advantages of such Schemes, Mr. Wijyaratna offers no conclusions to the key questions, namely, are such schemes successful and by what yardsticks are they successful?

Brief reference was made to independent Societies re-introducing cash dividend using modern electronic technology. I believe my Society, Central Midlands, can claim to be the first in the U.K. to experiment in this direction with our "Cashbourne" Scheme introduced in August 1987, to coincide with the opening of a new Pricefighter Store in the Derbyshire town of Ashbourne. In March of this year we extended our Trial Shareholder Dividend Scheme to four Pricefighter units in Birmingham to test the Scheme in a different location and in stores which have a long established trading history facing different levels of competition. Our experiment is fully up and running and in 1989 will be carefully assessed by the Board and management. Also, we will be watching with great interest the progress by the other Societies which have recently introduced similar Schemes in selected Stores. It should be noted that whilst we have used Pricefighter Stores, United Society have targeted their Superstores and CRS have chosen to concentrate initially on Non-Food but with the additional innovation of combining the dividend card with the VISA facility.

Assessing the Schemes?

It is very early days yet to start drawing any conclusions. Yes the technology is available to make these Schemes practical from an operational point of view although the equipment and software at present are expensive. Hopefully this will become much more cost effective as the Schemes expand. In Central Midlands the Scheme has certainly been successful in attracting new members. We have some 20,000 dividend cards in use at the five Stores, of which 85% belong to customers not previously members. The Scheme is generating significant additional business at store level but the acid test remains whether these Schemes will succeed in generating sufficient extra profit to meet the costs of operation and dividend. We know from the history of our Movement that an effective assessment of this criterion is critical.

The present experiments by Retail Societies in various types of new Member Dividend Schemes are to be commended and I sincerely hope that, in due course, Societies will feel able to compare the results of their endeavours. As a Movement we have much to gain from an exchange of such information.

1st December 1988

Gilbert Highet