

Foreword

In Journals 63 and 66 of August 1988 and September 1989 we published our first two sets of “reflections - and projections” on the Co-operative Union’s Review of Statistics for the previous year. Here now are the responses to the Review of 1989.

We are indebted to David Wadsworth, Manager – Statistics, Information Services Department, at the Union for the following note on the Review – as well as for much else in the preparation of this feature in the Journal.

“The Review of Statistics is compiled from the Annual Returns and Financial Statement submitted by societies to the Co-operative Union. The prime aim of the document is to give to Congress delegates (and other interested parties) an appreciation of the Movement’s performance during the last financial period. In view of the short time available to build up these aggregate figures the document should be regarded as a provisional statement and is refined in the more comprehensive analysis *Co-operative Statistics* produced later in the year.

In addition to the overall indicators for the British retail Movement (turnover, profitability, market share and finances) the statement also contains similar information for each of the largest fifty societies. These are listed according to turnover size and in addition to absolute amounts various ratios are given in order to facilitate comparison between societies.

Additional copies of the Review are available from the Statistical Section of Information Services of the Co-operative Union at a nominal price to cover printing and postage.”

A copy of the Review was submitted to each contributor, for his “reflections - and projections”.

The Report on Capital Structure referred to from time to time in the articles was commissioned in March 1988 by the Central Executive from Peat Marwick McLintock. Its main recommendations were summarised in a Special Gazette issued by the Union.

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Some Reflections - and Projections

1. Professor Noel Branton

The economic climate in the UK in 1989 provided a difficult setting for the retail trade. High and rising interest rates imposed by the Chancellor in an attempt to curb consumer spending and to reduce inflation made trading conditions difficult for many businesses. The position was, however, not one of uniform depression. Some months registered a standstill or even a downturn in retail sales volume whereupon the authorities claimed that the credit squeeze was beginning to work. This optimism was speedily dashed when a subsequent rise was registered. Although the general trend over the year was downwards, the rise of inflation was not checked.

Trading Results

In view of the erratic performance of retailing as a whole the Co-operative movement can draw considerable satisfaction from its performance during the year. It registered the highest increase in turnover of any retail group whilst its market share, for so long in apparently irreversible decline, stabilised. Perhaps 1989 could mark the long awaited turning point in the fortunes of Co-operative retailing but the going will be hard. As Iain Williamson commented in his recent article (Journal No. 69), the movement has entered the 1990s in a far fitter state than when it entered the 1980s but the future holds no easy options.

During the year the number of societies continued to fall. There are now 80 whereas three years ago there were 100. The concentration of the retail movement into a small number of large societies which was the subject of so much discussion a few years ago moves only slowly. The number of members, although not changing significantly from year to year, showed a small increase in 1989.

Food - and Non-Food Sectors

The impact of the slowdown in retail business was greatest in the non-food sector and, in particular, that concerned with household durables. Spending on furniture, DIY goods and electrical appliances was very sluggish. The bulk of the expenditure in this sector is discretionary and can be postponed or even abandoned when times become difficult. On the other hand people have to continue to eat though the distribution of their expenditure may change. Since 61.7% of Co-operative turnover in 1989 was contributed by food, the movement was less exposed to the adverse trends than were its large specialised rivals. Indeed, many retailing superstars of earlier years went into permanent eclipse.

Trading Surpluses

The trading surplus for the movement as a whole rose from £110m in 1988 to £129m in 1989. It rose to 2.2% of sales but still remains below the short term target of 2.5% recommended by the Capital Structure Report. In common with all businesses the high level of interest rates imposed a heavy burden on the societies. Interest charges more than doubled rising from £14m to £29m. In the light of the position at the time of writing it would be unwise to look for any significant relief in 1990.

The Review comments that leading food retailers are said to have become accustomed to comfortable trading margins during the 1980s and that societies should be prepared to meet a possible intensification of competition. The warning may well be justified in the light of a report from Verdict Research, a retail consulting firm. This argues that the food market is not expanding fast enough to meet the aspirations of the market leaders though a price war on the lines of that in the 1970s is unlikely. Competition, it is thought, may well centre on quality rather than price.

Size - and Success

The detail of the Review is limited to the results of the 50 largest societies. If the figures for the CRS and the CWS are excluded, the turnover of the societies ranged from £356m to £3.7m. The best results as measured by the net surplus as a percentage of sales turnover were to be found with the smaller societies whilst the worst results were recorded by some of the larger societies. This gives point to the view often expressed by contributors to this symposium that size provides no automatic guarantee of success.

So far as can be judged from the information available the quest for turnover may have led to cuts in the gross margin of surplus on sales - a policy which has to be used with great caution. This may well have occurred in the non-food side of the business to meet competition. This is where the major disasters have occurred in the private sector. The Statistical Review makes the point that non-food profitability may have declined.

In the Private Sector?

During the 1980s retail sales in the UK climbed 41% and retailers in the private sector apparently could do no wrong. The Co-operative movement was the odd man out with dismal prospects, if any, for the future. Now it has become painfully obvious that others can also make mistakes. The shops which made headlines in the business pages of the press such as Storehouse, Next, Dixons, Lowndes Queensway and Laura Ashley are now in deep trouble. Although the difficulties of the private sector are usually blamed on reduced consumer spending and high interest rates, many problems have been

created by the retailers themselves. Over-rapid expansion and too much borrowing, sometimes through leveraged buy-outs, have blighted the prospects of many businesses.

The Root of the Matter

At the root of the matter, of course, are mistakes of management. An example to illustrate this point occurred at the time of writing. In the same week as M & S reported profits up by 14%, BHS, a subsidiary of Storehouse, announced plans to lay off 900 management staff. In the 1970s BHS (then British Home Stores), enjoyed a market which offered a cheaper but reliable alternative to M & S. Management decided to move up market, to diversify and to aim for the business of younger customers. All they succeeded in doing was to alienate their traditional customers and fail to capture the new market. The position has not been helped by a series of management changes.

Impact of the Common Market

Dr Schöne in the January issue of the Journal (No. 67) makes the point that the approach of 1993 is producing rapid changes in the structure of the food industry. Competition is increasing and profit margins are being reduced. Since profit margins in food retailing in the UK are the highest in the Community, the impact could be considerable. It is true that in the past two years some 400 mergers have occurred in the Western European food and drinks industry, many of them cross-border. Yet 80% of the EC's food is still processed in the country in which it is consumed. The barriers created by differences in national tastes will persist long after trade barriers have come down.

Nonetheless there is no room for complacency. A study by Ernst & Young, the international accountants, states that a pan-European market will exist for high value added premium quality convenience foods. Moreover, mutual recognition of national standards will rapidly erode current regulatory barriers. The Channel Tunnel will affect transport costs and widen the possible market even though the slow development of road and rail transport links in the UK will create an obstacle.

Purchasing at National Level?

One suggestion made by Dr Schöne is that purchasing, particularly of imports, should be organised at a national level. The UK supermarket chain, Safeway, is a member of a buying group with supermarket chains from eight other European countries. The aim of the organisation, Associated Marketing Services, is to pool buying power to increase efficiency and reduce costs. It aims to act as a counterbalance to the increasing concentration in the food

