

## Into the 1990s

Journal 68 inaugurated this feature, intended to present from time to time short reports from each Co-operative sector in the U.K. of issues and developments which should be of interest to the others. Here is the second set.

### **Agricultural Co-operatives**

by John Millns

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Here are some of the key issues now facing the 640 agricultural and horticultural Co-operatives in the U.K.

#### **Issues for the Marketing Co-operatives**

There are over 450 Co-operatives in the United Kingdom marketing a wide range of agricultural commodities.

In the U.K. food retailing is concentrated into the hands of a few, with over 60% passing through just five companies (Tesco, Sainsbury, ASDA, Gateway and Argyll), a degree of concentration that is not noticeable in any other European country.) In 1992 it may well become easier for European competitors to approach the few U.K. buyers, but perhaps more difficult for U.K. producers to locate and exploit major European market opportunities. Alternatively of course, greater liberalisation of European trade may result in new retailers, such as the German group Aldi, opening new outlets in the U.K.

The effects of changes in Eastern Europe are still difficult to assess. Exports are making some in-roads into traditional markets, such as wild venison, but overall it is unlikely that Eastern European marketing structures are as yet sufficiently advanced to provide the consistency of quality and supply necessary to satisfy western consumers. Surpluses of some products such as strawberries, however, could depress world prices, and in the longer-term there is potential for Eastern Europe producers to exploit market niches, such as organic production. 1992 and the changes in Eastern Europe will also provide new opportunities for flexible and forward-looking businesses to secure joint trading ventures with Co-operatives and non-Co-operatives alike.

#### *Milk Marketing*

Agricultural marketing in the U.K. is dominated by the five Milk Marketing

Boards, whose total sales are greater than those of all U.K. Co-operatives combined.

The European dairy industry is also dominated by producer-controlled organisations which are re-structuring, merging and simplifying their activities in response to fewer markets and fewer members. The demand for liquid milk is falling and, in response to these changes, the marketing boards are considering future business structures and strategies.

The simplest transition for the Boards would be to convert to farmer-owned Co-operatives allowing organisation of their own rules, agreements with members, producer processors, and retailers. These structures would receive popular support from producers but have been questioned by the Dairy Trades Federation which argues that in reality they would remain contrived monopolies. The Federation would like to see many more regional and local Co-operatives.

Others may question ownership of the Boards and would prefer a multi-stakeholder concept since assets have been built up without any direct financial contribution from producers. Selling the Boards to the highest bidder would raise extra cash but is unlikely to preserve ownership and control for producers, unless provision could be made to allocate to them more than 50% of shares (like schemes which already have precedence in the Irish Republic). Whatever the eventual structure for the Boards, the 1990s are likely to be a period of change and controversy for marketing milk and dairy products.

### **Issues for Supply Co-operatives**

There are over 100 Co-operatives in the United Kingdom supplying about 20% of all farmers' needs. Most sales are from ten large regional multipurpose societies originally formed in the early part of the 20th century.

At present, supply groups are faced with a great consolidation of competition. In 1985 there were 1,600 groups supplying farmers, today there are only 400. The number of farmers has also fallen by 100,000 in the last ten years, during which time real incomes from farming for most of the remainder have fallen by over 50%.

Faced with these pressures new mergers and initiatives are evident. Notable in recent years has been the merger between West of England and West Midland Farmers, and the development of Amalgamated Farmers which has brought together the resources of Farmore, Preston and Cumberland & Westmoreland Farmers. Few will be surprised at further mergers as supply

groups aim to maintain their position on behalf of farmers, and in order to compete against multinationals.

The amount of share and loan capital invested in supply Co-operatives has remained static in the last ten years. As a result many groups have looked for alternatives for raising capital from non-member trade. Retail shops have been particularly favoured but other activities may be expected in the future.

Many supply groups have been particularly helpful to smaller marketing Co-operatives providing management, marketing and advisory services. For many farmers a 10% increase in sales is much more profitable than a 10% reduction in costs. The 1990s might herald a much wider cross-fertilisation and exchange of ideas and resources to the benefit of all sizes of Co-operatives.

### **Issues for All Co-operatives**

Many farmers still remain unconvinced as to the benefits of Co-operation. The average farm in the U.K. is 65 hectares, approximately twice the size of those in France, 4 times the size of West German farms, and 9 times that of Italian farms. This may give many farmers a sense of independence but it is interesting to note that it is often the larger farmers who are the first to seek the financial rewards of Co-operation.

Longer term reductions in agricultural subsidies, and greater European market concentration and competition, provide Co-operatives with opportunities to explain to farmers the real threats to their own farm viability, and the commercial benefits of co-operation.

Equally, Co-operatives will need to operate commercially and professionally with clear long-term objectives based on market needs, not just on maintaining the status quo. Most Co-operatives already do this, but perhaps many are better at emphasising their own weaknesses rather than their own strengths.

Competition for board places will need to be encouraged. Director remuneration is likely to become more popular as will limits on length of service and director age. A real effort will need to be made to encourage younger farmers to participate, understand, and commit their time to their Co-operatives. Strong and commercial leadership will be key words in the 1990s. Decisions made in the boardroom of Co-operatives will have a real bearing on the rural economy.

# Consumer Co-operatives

by Iain Williamson

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With bears rampaging through the Stock Exchange and savaging many of the glamour names of the past decade; interest and inflation rate prospects looking decidedly glum after that brief moment of euphoria when Britain finally entered the ERM; and even the Government's staunchest allies admitting that a recession is with us - who would choose to be a shopkeeper at a time like this? Well, the Co-op for one, or rather for 4,671, which was the official tally of the Movement's retail outlets at the last count.

## Market Share Retained

A casual glance at the financial pages will confirm that for the British economy, if not the world's, gloom and doom are once more back in fashion. Yet, when the Co-operative Union's book of *Co-operative Statistics 1989/90* was published in October, it confirmed that, so far at least, the Co-op is doing rather nicely, thank you. Market share retained at 4.4 per cent - and on course for holding the same level throughout 1990; real growth in turnover of more than 2 per cent; increasing membership; and a healthy rise in trading profit. So can it be, as is sometimes suggested, that the Co-op performs at its best when the national economy is on the slide? It's an interesting point to argue, but we shall have to wait some time before being certain of the answer.

## CWS/CRS Relations

Meanwhile, what else is new? The cancellation (or at the very least long-term postponement) of the Co-op's wedding of the century for one thing. After such a protracted engagement, no one had ever imagined it would have led to a marriage bed of roses - the nuptials between CWS and CRS, that is. Yet the more optimistic within the Movement did feel that somehow, by bringing the two leading retailers together, the whole Co-operative family might have learned to live together in a more co-operative spirit.

Get on with it and be done with it, the President of the 1990 Congress, Bill Anderson, had sternly instructed the two sides during his inaugural address - a sentiment which won generous applause from his audience in Glasgow. "The present position is unsatisfactory and should not continue. It generates

uncertainty, suspicion and ill will, and gives comfort to no one except our competitors," he had added.

The answer for Bill Anderson and the rest of us came in a joint press announcement in August 1990. Who left whom standing at the altar and why are now questions of academic importance. What matters is that the two organisations can forget about the short-term questions of integration, which have consumed so much time over the past few years, and get down to the longer term questions of running businesses with "their separate but not contradictory agendas" (to steal a rather neat phrase from the platform of the CWS half-yearly meeting in October).

The dominance of CWS as well as CRS as the giants of Co-op retailing is spelled out clearly in the *Co-operative Statistics* booklet. At the end of 1989 CRS had 20 per cent of Co-op retail trade, to which has recently been added another percentage point with the transfer of the business of Cambridge Society. CWS meanwhile had 13 per cent at the end of 1989, to which has since been added a further 6 per cent following the transfer of North Eastern. So between them CRS and CWS now command 40 per cent of the Movement's total turnover, and there is little doubt that one or the other will pick up the trade from more societies as the effects of the recession, and especially the high costs of borrowed money, continue to erode profitability.

### **Competitors from across the Channel?**

Not that the economic situation is the only challenge to the Movement's ability to achieve a reasonably healthy surplus, of course. "Euro-discounters will hit Co-ops and independents" roared a recent headline in *The Grocer*, reminding us of the arrival on the scene of the German retailer Aldi. So far Aldi has opened about a dozen stores in the North of England and the Midlands, although it is ultimately thought to be targeting a 3-4 per cent market share through its limited range, low margin grocery outlets. That could take some time to achieve because of the difficulty in acquiring sites, but as Aldi is a privately owned operation it is in the happy position of being able to bide its time before sending any profits back home. The question the trade is now asking is how many more "Euro-discounters" may be tempted across the Channel. No one can answer that, but Aldi's progress will certainly be watched closely as the single market approaches.

Finally, and on a positive note, let me refer you to the most thoughtful view to have appeared recently of the consumer Movement's prospects. I refer to an article in *The Guardian* on August 20 1990 by Clive Woodcock (whom Will Watkins once described to me as the most informed Co-op watcher of them all). "In 16 years of covering the Co-op's roller-coaster ride," Woodcock

concluded his piece, "I have heard many predictions of its imminent demise in the face of competition. But I continue to predict that, when the Sainsburys and McLaurins are long forgotten, the Co-op will still be around, especially the funeral service." Now who would want to argue with that?

## **Credit Unions**

by **Peter Bussey**

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Credit unions succeed or die in response to their record of training. As volunteers run financial Co-operatives each management team is made up of people from a great range of backgrounds, and yet the operational standards required of an organisation entrusted with looking after other people's money must be high and consistent. To achieve this The Association of British Credit Unions Limited (ABCUL) has been running a national training programme for credit union officers and trainers which is now beginning to show results.

### **Trickle Down Training**

In 1988 50 people met for a weekend at the Co-operative College at Loughborough to assess the training needs of the movement. The key result of this was a series of training weekends in different areas with assistance from trainers from the Irish credit union movement. These weekends concentrated on the basic committee skills for directors, credit committees and supervisory committees, and on credit union bookkeeping.

As these got underway some significant developments began to take place. First, our dependence on the Irish trainers was reduced to the point when they were no longer needed. Second, trainers began emerging from our own movement – some able to take training sessions at these events, others able to provide in-house training to local credit unions. Third, the self-confidence of a large number of people has grown to the point where they are now actually organising their own local and regional training events – but all with a consistent approach based on training modules that have been or are being developed. Thus the whole programme is offering training to credit union officers and training for trainers.

Communications within the movement are also being improved by a complementary programme of Round Table meetings in each area where ABCUL directors and staff can be bombarded with questions, problems, and occasional compliments from that area's credit unions.

## **Growth**

As well as showing an improvement in the quality of credit union operations, these programmes are contributing towards the overall growth of the movement. In the 12 months ending September 1990 there were 45 new credit unions registered, 13 have been registered in October and November, taking the overall membership of ABCUL to 180 credit unions. The projection for 1991 is 50 new credit unions.

## **Lending Guidelines**

In my last report I said that the legal limits on members' shareholdings and unsecured loans had been raised to £5000 from 1st February 1990. In conjunction with this change the Chief Registrar asked ABCUL to prepare Lending Guidelines for credit unions to help them minimise risks when making larger loans. These Lending Guidelines have just been published and circulated to all credit unions.

The process of preparing these was very interesting in that it was probably the most collaborative exercise yet conducted between the movement and its regulators, the Registry of Friendly Societies. This too had beneficial spin-offs in that the dialogue generated a greater understanding of common goals and of the concerns and points of view of each side. Unlike some years ago, today you will frequently find ABCUL staff trying to explain and interpret the Registry's actions to member credit unions in the interests of greater understanding. We were also most encouraged by the fact that not only did the Registry ask for copies of the Lending Guidelines, but also H.M. Treasury are taking a positive interest.

## **Computerisation**

As in so many areas these days, but especially in business, computers are emerging as essential tools to save time and achieve greater accuracy in record-keeping. At present there are 3 principal systems available for us, all I am pleased to say growing out of the credit union movement itself. They are all good systems, one from Ireland, one from Scotland, and one from London, each with its own advantages and disadvantages compared with the others. However they do underline the need for ABCUL to take the lead in setting standards for computer operations for its member credit unions or there could be a very messy and costly future with many different systems offering different features.

To this end the ABCUL Board has agreed that a computer policy should be prepared which would lay out the standards required of any system used in a credit union, and, we hope, ensure compatibility between systems all using a common database. Preparing this will be a major undertaking making yet







