

Responding to Change?

by Professor Noel Branton

The year 1991 may well pass into history as the "year of Unfulfilled Expectations". Our political masters assured us, almost at weekly intervals, that only if we had faith and looked hard enough, we could see for ourselves that the depression was lifting. Unhappily, at the end of the year we were still looking. The British consumer, castigated in 1990 for his irresponsible use of credit, mended his ways, began to pay off debts, and refused to finance a consumer-led revival.

The year opened badly for the retail trade. Expectations of a pre-Christmas sales spurt had been largely disappointed and a CBI/FT survey found that retailer confidence was at the lowest level for eight years. The imminence of the Gulf War did nothing to relieve the gloom. Its speedy end eased the position to some extent. In March there was a spending spree, particularly in clothing and consumer durables, to beat the Budget increases in VAT, only to be followed by a record decline in April. The picture for the remainder of the year was one of gloom relieved at intervals by commentators seeing signs that might signal the start of an improvement. Unhappily all these proved to be mirages. The year ended in deep gloom. In spite of heavy price discounting Christmas sales were much lower than had been expected.

Co-operative Experience

As in previous years the major impact of the recession on retailing, generally, was in the non-food sector, the severity being increased by the slump in the housing market. The food sector while by no means immune, escaped more lightly. Since roughly 70 per cent of Co-operative trade is in food (including dairy) the societies suffered less. The Review of Statistics shows that Co-operative turnover in food in real terms in 1991 was to all intents and purposes unaltered from 1990 whilst that in non-food advanced by 2.3 per cent. In the private sector, Tesco, Sainsbury, and Argyll all reported negative to minimum volume sales growth in food.

The trading profits of the societies expressed as a percentage of turnover were 2.6 per cent as compared with 2.7 per cent in 1990. Of the 47 member societies displayed (excluding the CWS), 27 failed to reach the target of 2.5 per cent regarded as the desirable minimum. Of these 8 incurred losses which were most heavily concentrated on the smaller societies. These figures were worse than in 1990.

The concentration of the societies continued during the year and there were 69 societies at the year's end compared with 77 a year earlier. A further two have gone in 1992. At the end of 1991 no less than 56 per cent of the trade was in the hands of the three largest societies whilst, at the other end of the scale, 49 societies between them contributed no more than 12 per cent to the total. The Review utters a grim warning that there are still many "marginal" societies achieving results which offer little promise of a viable future. Sir Dennis Landau, the retiring chief executive of the CWS, in presenting the annual results in April, advanced the opinion that although personally he did not favour the creation of a single Co-operative society, he would not be surprised if one emerged by the end of the decade.

This is the fifth of the Journal's surveys of Co-operative trade. If a general view of progress over the period is taken, one is left with the impression that during the 1980s the movement revived its fortunes and improved its competitive position. Now, however, improvements have become no more than marginal. It is of course true that the retail movement has held its position in the face of severe and protracted recession but if progress is to be resumed in the future a new initiative will be required. It may be, as the official Review suggests, that the achievement of faster structural change will meet this requirement but the writer feels that this alone will not be sufficient in the light of threats facing the societies.

Intensified Competition

At the time of writing there would appear to be signs that the depression is lifting. It is nonetheless certain that the pace of recovery will be slow and that trading will continue to be difficult throughout 1992. Membership of the Exchange Rate Mechanism of the European Monetary System has imposed a new discipline on government economic management. Sales driven by inflation and over-generous consumer credit are no longer possible. During the 1980s retail sales in the UK rose by some 20 per cent but it has been computed that in the period 1990-95 the rate of growth will be about 8 per cent.

Further Building by the Big Three

In 1991 the big three food retailing companies, Tesco, Sainsbury and Argyll, which between them have 40 per cent of the grocery market, raised £1.1bn in rights issues. This was to finance a building programme which would increase their joint capacity by 10 per cent in each of the next three years. This scale of investment raised fears of market saturation causing the rating of their shares to stand at a discount in the market despite growth in earnings.

One factor which their managements may have had in mind is that Asda and Gateway, controlling a further 20 per cent of the market, may be too burdened

with debt to stay in the business. Gateway, for example, is short of cash and is struggling with 682 small stores which have been starved of investment and the trading position of which has been undermined by the superstores operated by competitors. Even if these businesses are absorbed, there will still remain a problem which will be aggravated by a long drawn out recovery from recession.

Competition in Prices

In the course of the year there was a discussion on the level of supermarket food prices. In May a report produced by KPMG Management Consultants showed that a basket of supermarket groceries was priced at 12 per cent more before tax in the UK than in Germany. Even when tax was added to the German basket it was still cheaper than that of the UK basket before tax. It was pointed out in reply that when the multiples completed their expansion programmes competition in the UK market will increase. Growth will be possible only by capturing market share from other groups. It was also pointed out that Germany has a thriving discount sector which puts pressure on the multiples.

Verdict Research, the retail consultants, also found that 57 per cent of shoppers thought that most products were expensive in supermarkets. Partly, as a reaction to these findings, Sainsbury, Tesco and Asda all launched price cutting campaigns. There has also been an increase in the number of discount stores. Gateway has launched a chain of fifteen Food Giant superstores selling 10,000 items including many fresh products and is reported to have plans to open further stores by 1994. The onset of a foreign invasion of cut price outlets was noted in a previous report. Aldi from Germany has opened 35 stores and Netto from Denmark has fifteen. They were attracted by the high profit margins of British supermarket chains. It is reported that this competition is producing an effect. Most supermarket chains are now operating different pricing scales in different regions and prices are being cut by anything up to 15 per cent where discounters have entered the market. As yet, however, discounters have only about eight per cent of food sales.

Prospect of Warehouse Clubs?

A more serious threat may arise if the "warehouse clubs" developed in the US decide to enter Europe. These sell a high volume of a narrow range of goods at deeply discounted prices with a typical sales mix of 40 per cent food and 60 per cent non-food. Customers pay an annual membership fee of about 25 dollars. About two-thirds of the members are business customers such as small retailers and caterers, the balance being ordinary shoppers attracted by the low prices. One of the leading warehouse clubs, Coster, which is 20 per cent owned by Carrefour, the French retailer, seems likely to open two stores

in the UK next year. However, there are possible obstacles to such a venture such as planning restrictions, the availability of sites of a suitable size and the high cost of any UK site compared with a similar US outlet.

Management Reactions?

Trading conditions in the next few years are therefore going to be difficult and highly competitive. It must be appreciated that competition is a continuing process where success depends on anticipation of market trends and speedy response to consumer needs. This throws a heavy responsibility on management to develop organisational capabilities that distinguish a business from its competitors in the eyes of customers. This raises the old question - the availability of good management both now and in the future.

Because of demographic trends the supply of good managers will be difficult to maintain in the next few years. Unfortunately, the business world is failing to take advantage of one-half of the potential supply by neglecting to make sufficient use in management of qualified women.

More Women in Senior Management?

The Co-operative movement in its retailing operations employs large numbers of women but these are concentrated at the lower levels with inadequate representation in the management structure. This point was given publicity by the Co-operative Congress in 1991 when it drew attention to the serious lack of women in the movement, especially at top levels. Last October private enterprise also launched the Opportunity 2000 campaign to increase the employment and promotion of women at all levels in the management hierarchy.

This is not the place to discuss possible explanations for this situation and Congress advised the societies to consult the Equal Opportunities Commission for suggestions of means of improvement. One indication has, however, come from research on the question. Managers, usually men in existing conditions, are more accustomed to dealing with men than with women when assessing ratings for promotion. When dealing with women they tend to give ratings towards the middle of the scale whereas with men their comments span a wider range. This obviously imposes a handicap on women for promotion. This is not conscious discrimination against women - it is more a lack of confidence in making a judgment. It calls for retraining in making assessments, at least until such time as more women are available to assist in the process.

Role of Directors

In the latest issue of the Journal (No. 74) Dr. John Butler raises a neglected aspect of Co-operative society performance - the contribution of the board of

directors. Capitalist enterprise both here and in the US is also concerned with the problem. As the concentration of the retail movement has proceeded, the growth of very large societies has increased the importance and the responsibilities of the board, the members of which are elected by and are responsible to the members of the society. The operational problems of a retail Co-operative society have become much the same as those of its competitors of a comparable size in the private sector.

The function of the board is not to manage the society but to plan strategy, to set policies which guide and restrain management action, and to monitor progress. To do this they require at least a working knowledge of certain control techniques which many of them do not possess. Obviously the movement has developed many very able directors but it would seem that their emergence is still too often a matter of chance. Dr. Butler suggests that the authority of the board would be increased by greater attention to training of board members together with the co-option of independent outsiders with experience. These would not come in as "trouble shooters" but as people with experience of business at a high level willing to listen to and discuss problems facing the board. Unfortunately such people are in short supply. Incidentally, the "non-executive" director in the private sector has not been an unqualified success though possibly for reasons which, hopefully, would not apply in a Co-operative society.

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