

# Challenge - and Opportunity

by Dr Leigh Sparks

Contributors to this annual publication are requested to prepare their commentaries under the general heading of 'reflections and projections'. Reflections are easier, being based on the data provided. Projections on the other hand are more tricky, as we are invited back and thus made only too aware of our projections from the previous year. My comments last year were summed up in the phrases:

'solid if unspectacular'

'the difficult trading environment of 1991 provides the perfect testing ground . . . for the Co-operative Movement'

So how did I do? The results for 1991 show:

- a slender increase in volume trade;
- maintenance of market share;
- trading surplus reduced but above base target;
- interest and rationalisation charges covered and retention rate almost maintained.

The projections have been broadly achieved. Before considering these achievements in more detail however it is worthwhile looking at the national picture.

## Retailing in 1991

Retailing in 1991 had a very bad year if you listen to the major retailers. The early employment losses at Marks and Spencer were followed by Gerald Ratner's fall from grace and the noises of a food price war in the autumn. Trade was depressed as consumer confidence was at a low ebb and retailers waited like so many for the election in the autumn (which never was). Doom and gloom swept the high streets and the shopping centres.

And yet, the recent results season shows some interesting side lights on the recession and 1991. J Sainsbury produced record returns to oust a good, but not quite good enough, Marks and Spencer from top multiple spot. Tesco and Safeway both recorded another good show and the signs of recovery from Next and Storehouse indicate promise for the future. Kingfisher goes marching on as do some specialists like The Body Shop. It's a funny ole game, retailing!

Away from the headlines, the retail sector has been grappling with a number

of big issues. Sunday trading and the flouting of the law by leading retailers seems to be here to stay (EC willing), but is it really worth it? The legislative burden on the food chain tightens with new hygiene and temperature regulations. Commentaries from the EC suggest that the environment is going to be a key issue in the 1990s and retailers are going to have to bear the burden of recycling and packaging, probably via legislation. In food retailing the fires of a price war are regularly stoked by *The Sunday Times*. And of course many retailers were worried in 1991 by the prospect of a Labour government and wrote to the newspapers to say so (well, the chairmen did!)

On the ground in the food sector, life is getting more complex. The long awaited polarisation of the market seems to be beginning. Sainsbury, Tesco and probably Safeway have a quality edge, although all are worried enough about pricing publicity and discounting to be watching prices and margins. At the discount end, Kwik Save suddenly has 'friends' with Aldi, Netto and Shoprite introducing their particular formats. Stuck in the middle are the drifting Gateway and Asda. Gateway currently show confusion(?) with Somerfield and Food Giant, whilst Asda show nothing - yet. Wm Morrison and Wm Low plough a regional beat whilst Waitrose dance to the different Partnership theme. Perhaps 1991 was the fulcrum year in food retailing?

### **The Co-operatives in 1991**

And where were the Co-operatives in all this? Well, the overall facts and statistics speak for themselves:

- turnover up by 6.6% to £7.3bn;
- decline in trading surplus to £173m (2.6%);
- membership broadly static at 8.1m;
- number of societies down to 69;
- market share held at 4.6%;
- outperformance of small retailers across the board but especially in food;
- underperformance of large retailers in food and household goods;
- overall matching of large retailers performance.

The performance can probably be reasonably described as 'solid if unspectacular' and there can be little doubt that it could have been far worse.

The make-up of sales in the Co-operatives is changing slowly, but mainly around the dominant force of food, which still accounts for 62% of the total sales. The change over the 1980s has been the switch from dairy and non-food into travel, funeral and the motor trades. Healthy increases in these sectors were recorded except for the motor trades, which as everyone is aware is

suffering very badly in the recession. Food remains the key sales generator and as the discussion earlier shows has attracted competitive interest.

### The Individual Societies

The analysis of individual societies again reveals a very patchy performance. One plus point is the reduction in the number of societies in the year and the news that more have amalgamated since the year end. Soon (but not soon enough), the top 50 or so societies, will encompass the entire Co-operative sector! Last year I indicated that the concentration ratios (as a percentage of total turnover) for the three largest societies (CR3) and for the ten largest (CR 10) had increased noticeably. The figures below demonstrate the continuing and accelerating nature of the process.

	1989	1990	1991
CR3	38%	42%	49%
CR10	64%	72%	69%

The CR3 change is dramatic and is partially accounted for by the amalgamation of the United and Norwest societies and the transfer of North Eastern to CWS. Despite these major changes in the top 10, the CR10 ratio fell back only slightly (and still above 1989). This illustrates the growing concentration of the leading societies and in particular the 16 societies with over £100m turnover.

Detailed comparisons across societies are difficult because of the different reporting practices etc, but some high and low lights can be pointed to. In the table below the figures before each society name reflect its ranking by turnover in the statistics.

<i>Biggest Turnover Growth (%)</i>		<i>Lowest Turnover Change (%)</i>	
14. Northern (Aberdeen)	36.9	20. Coventry & E Mercia	- 4.9
48. Allendale	27.4	32. N Tayside & Strathaven	- 0.3
28. Chelmsford	18.8	35. Musselburgh	- 0.1
1. CWS	13.7	11. Oxford & Swindon	+1.0
30. Tamworth	13.3		

<i>Best Trading Surplus (%)</i>		<i>Worst Trading Surplus (%)</i>	
30. Tamworth	6.2	48. Allendale	- 5.5
13. Lincoln	6.1	42. Prestonpans	- 5.3
24. Channel Islands	6.0	46. Kilwinning	- 3.4
23. Ilkeston	5.2	26. Norwich	- 2.7
38. Brixham	4.6	44. Desborough	- 2.1

<i>Best Net Surplus (%)</i>		<i>Worst Net Surplus (%)</i>	
30. Tamworth	8.1	48. Allendale	- 5.1
13. Lincoln	7.0	27. Norwich	- 2.3
21. Sheffield	6.9	14. Northern (Aberdeen)	- 2.1
41. Raunds	6.9	39. Kilsyth	- 1.1
38. Brixham	6.6	47. Prestonpans	- 2.9

*Note: Prestonpans figures refer to previous year.*

### **Particular Points from the Tables**

A number of points of interest can be gleaned from the tables and listings above:

- the top ten societies rarely appear as real 'star' or 'dog' performers;
- volatility amongst societies remains;
- the best trading performers have been producing at a high level for some time (see these commentaries for the last few years);
- the worst trading performers are drawn from the smaller societies;
- turnover growth is no guarantee of trading surplus.

The extension to these points is quite clear. There is a segmentation, at a very simple level, of Co-operatives. There are probably three categories:

- the big players in the top 15 or so with solid retail performance;
- the middle ranging players with good to very good retail performance;
- the small players with poor trading performance.

### **Trend to Two Categories of Society?**

There are no discrete boundaries to these categories, but it would seem that some jockeying for position is taking place with, in particular, movement from the final to the second category and vice versa. This simple categorisation probably forms the basis of the future shape of the Co-operatives. The situation is moving towards two categories of society:

- the mega-societies;
- the regional players.

The first of these would be bigger in size and scope than currently and would possibly have national emphasis. There would be less than 10 and perhaps no more than 5 of these. The trading performance in the short term would be satisfactory if not spectacular, as at present. The second category is based on those successful middle-ranking societies tailored to local/regional needs and able to turn in above average levels of performance. There could be twice as many of these as for the previous category. This overlay of two levels is clearly simplistic given the need to consider trading formats and the like, but does perhaps hold a key to the way forward. The danger is that the amalgamation of the weaker societies dilutes the management skills and reduces the retail performance of the 'gaining' societies. The secondary danger is the pace at which such movement is being conducted.

### **The Future**

Retailing is not getting any easier, despite the excellent results from some companies. The lack of consumer confidence in the early part of 1992 shows this clearly, although it is possible that the election result may finally produce the long-heralded recovery. It needs to be stressed however that by recovery is not meant a return to the heady expansionary days of the 1980s but rather movement to a more gradual pattern of retail growth. The clock is not going to be turned back fully.

The food trades have weathered the storm probably better than most, as consumers switch spending and as recession bites. This is well demonstrated by the competitive environment. The discussion above pointed to the emerging polarisation of food retailing. This is likely to progress in 1992, with in addition the shakeouts in Gateway and Asda finally producing their responses to the new situation. In addition, Safeway may finally begin to address the (potential) value of Lo-Cost. Life is going to be tough. So how will the Co-operatives respond? This will be the key question for the next few years. As the market changes, so there are opportunities not only to respond but to actively develop the market. A number of points may be made:

- the market segmentation won't disappear, so multi-formats will be needed;
- the discount offer so far has been on the local store level, not the superstore scale;
- Food Giant and Pioneer need refinement - it is not an easy concept;
- the value-driven retailers are getting interested in loyalty and membership schemes;

- everyone is awaiting Costco or membership wholesale clubs;
- community based enterprises are now in an interesting phase.

### **Challenge - and Opportunity**

Life in food retailing is going to be increasingly competitive. The commentary on the 1991 statistics by the Co-operative Information Services hints at a difficult trading year - and they may well be right. But there are opportunities. The irony of membership clubs and loyalty schemes shouldn't be lost on Co-operatives. The membership total of 8.1 million is a major resource, but how many are active and how many value their membership? What do they get in return? How could this market and loyalty be tapped and rewarded? The polarisation of the market allows experimentation and should reward initiative, if it is geared to what the customers want. The Co-operatives began by knowing their customers and their needs - how true is this today?

If there are seeds of interest in the approach above, then it is probable that they will flourish only in the right structure. The problems of the current structure are well known, but progress remains painfully slow. The situation needs resolving. Co-operatives, like other retailers, have no god-given right to exist - just look at Germany - but rather have to justify and earn that right from their customers. That doesn't mean that all have to be the same, but that all must be responsive and closer to the customer. In a few years time it will be too late.

### **Summary**

1991 was a solid year, with another encouraging performance. Congratulations. 1992 promises to be more fraught. The pressures may ease on the consumer side but will increase on the competitor side. The importance of the coming year(s) should not be underestimated. Change in food retailing will accelerate. Are Co-operatives going to be part of the solution or part of the problem?

### **The Author**

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