

# **The Statistics in Context**

by T.E. Stephenson

As the swallows arrive in the spring, so comes the Co-operative Union's 'Review of Statistics 1991-1992'. As always the Review is important for what it says - and for what it does not say. As with any balance sheet, you have to read between the lines.

It is very necessary to put the 'Statistics' into the wider context of the retailing industry. This commentary seeks to do that and, at the same time, raise some questions about retail society development.

In 1991, the grocers' sub-sector (in essence the major grocers) of retailing was the least affected by the recession and turned in another strong performance. Continued sales buoyancy was accompanied by a heavy investment in new stores and technology. In any assessment of performance, the test is not the quantity of investment, but its profitability. The generation of sales, easily achieved, is of little value if they are not profitable. Regrettably, retail society investment in large stores has not always produced the required level of profitability, and in consequence those societies have become vulnerable. Of course some developments by the movement's competitors have not been successful, but generally they are much more able to stand a failure.

## **Discounting**

Discounting remained a dynamic factor in the grocery trade in 1991, following the establishment of Aldi and Netto. Several large groups have launched their own discount chains and a number of retail societies have become involved in this branch of retailing.

Kwik Save is a long running and by far the largest food discounter. It expanded substantially in 1991. In the 1991-92 year, Kwik Save operated 814 stores, an increase of 111 in the year. Of these, 65 were purchased in a package of acquisitions, and 46 through organic acquisition. Turnover and profit increased. Pre-tax profit reached £101.7 million.

All Kwik Save stores offer a minimum of around 1,500 lines, with 370 stores stocking the full Kwik Save range of around 2,500 lines. The company is seeking to improve its productivity, increasing annual sales per square foot from around £300 to more than £440, over the three years since the scanning and range expansion programme was started. The company now has 160 stores on full auto-replenishment for warehoused goods.

The average store size is now approximately 6,200 square feet and the target sales area for new stores is from 6,000 square feet to 10,000 square feet, depending on location.

### **Conditions for Success**

This thumb nail sketch directs attention to a home bred discounter, which has come up on the rails to become a significant player in food retailing. The nature of its operation points to some important considerations for any society operating discounting, whether on a significant scale or with a limited discounted range:

- has the society developed the appropriate back-up systems, distribution facilities and controls?
- has the society developed a product range and mix which will ensure profitable returns?
- has the society the right contacts with appropriate suppliers?
- has the society taken sufficient notice of the fact that the costs of a successful discount operation are significantly different from those of a normal food operation?
- is the society capable of running the discount operation alongside its normal food operation? Has it the right attitudes?
- is there any danger that the arrival of Aldi and Netto is distracting the society from its real strengths and leading it into a reactive, possibly panic, response to their arrival, forgetting that Kwik Save has been around a long time?

### **The Main Players in Food**

Another aspect of food retailing is the continued progress of the main players, such as Sainsbury, Tesco and Safeway. To concentrate on these three and forget operations like Wm Morrison is to miss out on the ability of a regionally based, but highly efficient food operator to survive and grow. The movement cannot afford to be obsessed by the giant national chains, otherwise it will be in the position of the rabbit hypnotised by the snake.

To be realistic, the Movement is unlikely to overtake Sainsbury, Tesco and even the Marks and Spencer food operation. Argyll has rationalised its store profile in recent years, increasing its Safeway outlets from 133 in 1987 to 310 in 1991, while reducing its Presto operation from 540 to 215 in the same period. This type of rationalisation echoes similar developments by Tesco in the early 1980s.

Even Argyll knows that it is unlikely to dislodge Sainsbury or Tesco from their leading market positions, but it can compete more effectively from its number

three position. To this end the group has not only identified and targeted customer segments in the home market, but within its overall strategy it has also recognised the emerging European product opportunities and threats.

#### *Key Questions for Co-operatives*

Add to the top three the success of M & S food operation, along with other players such as the weakened Asda, and it is clear that the top of the league table has a solid look about it. Given this situation, the key questions are:

- who are the competitors that should be the focus of Co-operative attack? An entirely defensive attitude can only build up a negative outlook based on survival at any cost.
- every organization needs to target a competitor and aim to beat it. Such a strategy provides a focus and concentrates the mind.
- has the society identified a target which is realistic, and deployed its resources for such a strategy? A shotgun approach, taking on all comers, disperses resources. A belief in taking on all competitors and aiming for every type of customer will cripple a society.
- has the society given thought to its store profile and based its long term development on the strengths of its successful stores?

The pursuit of the competitor's superstore development in many instances has been a weakening device. Costly in scarce resources and failing to produce the results that in any way match the competition, it distorts society performance. The reasons for relatively poor performance are numerous and include costly distribution systems, too much of the same product mix but more of it and the problems of management.

The difficulty is compounded by a shortage of resources. It is relatively easy to borrow finance, but the real problem is achieving a level of profitability that will cover the interest charges.

#### *Importance of Profitability*

This points to the crucial role of profitability in all commercial operations. Profitability has a threefold function:

1. It is a motivator.
2. It is a source of development. It can be the basis for self-development. It makes it easier to obtain external funds.
3. It provides funds for the shareholders and for community type activities.

This position is underlined on examination of the amount of retained profit (after payment of dividend) by such organizations as Sainsbury - £240 mn; Tesco - £250 mn; and M & S - £215 mn.

*Comparisons in Store Profiles: Openings -*

Given the problems associated with superstore and capital development, it is instructive to examine the store profile of the movement in relation to the multiples. First there are the store openings, 1990 (IGD sample).

	Multiples	Co-operatives
Less 2,000 sq ft.	14 (5)	1 (1)
2-3,999 sq ft.	4 (3)	1 (1)
4-9,999 sq ft.	24 (34)	2 (8)
10-14,999 sq ft.	16 (10)	1 (6)
15-19,999 sq ft.	12 (7)	4 (3)
20-24,999 sq ft.	8 (9)	0 (0)
+ 25,000 sq ft.	69 (74)	2 (6)
	147 (142)	11 (25)

( ) 1989 openings.

*- And Sizes*

Moving from this snapshot of openings, to the pattern of size profile 1980-1991 (IGD sample) we see the substantially different trends and overall picture.

	Multiples		Co-operatives	
	%		%	
	1980	1991	1980	1991
Less 2,000 sq ft.	30.4	8.2	62.9	44.9
2-3,999 sq ft.	24.4	18.2	23.9	27.3
4-9,999 sq ft.	26.5	24.3	10.4	18.6
10-14,999 sq ft.	8.4	12.4	1.3	3.1
15-19,999 sq ft.	4.3	0.1	0.4	2.2
20-24,999 sq ft.	1.6	6.9	0.1	1.2
+ 25,000 sq ft.	4.3	20.0	0.9	2.7

Average sales area sq ft. 12,922 (1990) 5,256 (1990)

These figures indicate the difficulty of directly competing with the largest multiples with their limited number of outlets, the vast majority of which are large supermarkets or superstores. The number of outlets of the majors is, Safeway 310, Sainsbury 299, Asda 204 and Tesco 384. On a different scale there is Wm Low with 65 stores and Wm Morrison with 49. These companies have a much greater opportunity to integrate their total operation, in a manner which would be very difficult, if not impossible, for the Co-operative movement to achieve, either in its present form or as a national society, *unless the store profile and much else was totally reshaped*. Even this would not guarantee success.

### **Exploiting the Co-operative Base**

This points to the need to build on and exploit the existing base. This can be approached through the following questions:

1. Are the results of retail society food trading as buoyant as those in the total food sector?
  - if the answer is no, then further questions are:
  - are there any areas of Co-operative food trade that are buoyant?
  - if they can be identified, how can they be exploited, given the constraints outlined above?
  - given the near impossibility of directly competing with the top multiples, are societies not getting the results against other competitors because of :
    - distribution costs,
    - other back-end costs,
    - inappropriate information technology,
    - lack of consistency in store discipline and attention to detail,
    - lack of appropriate management expertise,
    - lack of a consistent customer-oriented marketing stance?
2. Can societies afford convenience stores, small, medium and large supermarkets, superstores and other types of store differentiation?

- which are most profitable and can be made more so?
  - are we applying all costs and interest charges to the stores to find the true state of affairs?
  - are we prepared to get out of stores which are not profitable and unlikely to be in the future? Are we prepared to get out of unprofitable superstores and large supermarkets?
  - some of the problem areas mentioned above, under the preceding question, clearly relate to this second basic question.
3. How should societies react to the growing strength of the major competitors and the new discounters?
- a society cannot effectively fight across the whole competitive range, given the Co-operative infrastructure, the level of profitability and the limited capital base.
4. Which types of food outlets contribute significantly to a society's profits?
- do they receive the resources that will enable them to make a still more positive contribution?
  - are they starved of resources in relation to the more prestigious outlets, such as superstores?
  - if the profit makers are small stores, whether convenience, small or medium supermarkets, what is their distinctive competitive advantage and can it be developed further?
  - given the emergence of the discounters, how really significant is the threat they pose?

Here the need is to consider whether going into large scale discounting will be profitable, given the whole question of margins.

- if a society decides to enter the discounting field, what form of discounting should it undertake?
- has it the necessary back-ups and systems?

## **Interpreting Three Successes**

In considering the problems that face the movement's food operation it is worth remembering:

1. Kwik Save funded a strong store development with almost total absence of long term debt. They put their resources into what they were good at, which was not capital intensive.
2. Wm Morrison's relatively small trading base has not hindered its competitive advance. A strong regional base with a clear cut strategy has pointed the way.
3. Wm Low has suffered little disadvantage from its comparatively low profile.

As in so many successful retailing operations, it is the total operation that brings in the customer. Then and only then does the 'name' or the logo take over.

To date, these three organizations have developed a niche relatively cheaply and effectively, because they knew where they were going. They all seemed to be at a disadvantage against the majors, but their identity and style have been successful.

There is much to be learned from them, remembering that one operates in smallish outlets, the other two from largish outlets. The size is only one factor in their development, it has been their total approach to the market that has, to date, given them success.

The publication of the 'Review' is not just a time for looking to see how this or that society has performed. It provides the opportunity to take an overall view of the movement and consider where it is going and how it is going to get there. This is the real contribution of the 'Review' to the movement's thinking.

### **The Author**

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