Co-operative Trade 1995 - Reflections and Projections

Gary Davies

Market share and profitability are intertwined in business. The loss in share of food retailing by the Co-operative movement over the years has inevitably coincided with a loss of ability to pay dividend, to indulge in the promotional tactics of rivals and in an inability to re-invest in the business. 1995 saw something of a recovery in market share for Co-operatives. Like for like sales in food were flat but sales volume grew. Over the year Co-operatives held their own against the market, if still falling short of the achievements of the leading multiples. As with all statistics those from the Co-operative Union for 1995 merely whet the appetite for the next set of data to see whether such a result can be sustained or even improved upon. Without significant improvement the movement will not be able to match its rivals in their ability to create the retail environment demanded by today's shopper, let alone produce the surplus that members might wish to see.

Some Mixed Results in 1995

Top line statistics inevitably conceal a plethora of detail that can either please or provide cause for concern. Travel had a bad year in terms of surpluses. The market itself is buoyant enough but overcapacity and the need to offer substantial incentives amidst ever greater price sensitivity produced few opportunities for profit. The holiday business has lost its glamour for the customer. Holidays are purchased increasingly as commodities, two weeks here or two weeks there, operator this or operator that, travel agent one or travel agent two, makes little difference. In a less differentiated market, price is always more important.

Unfortunately the independent travel agent is caught in between a limited number of strong providers and a more confident purchaser.

More of a surprise were the often substantial falls in sales in non-food areas, reflecting a tight market generally but one where

Co-operatives underperformed the market by some seven or eight percentage points. Like for like sales were down 3.6 per cent on the year. December is traditionally a make or break month in retailing and the end of the best quarter of the year for sales. Like for like sales in this key month were particularly disappointing.

Motor Trades and Funerals

Better news came from the motor trade and from the funeral businesses. Nationally the Co-operatives are now a major player in car retailing. However, the outlook for car dealerships is somewhat mixed. Resale price maintenance is not a term used in car retailing but prices are controlled on new vehicles to a great extent. At the same time franchise agreements limit the ability of the dealer to offer the shopper a choice of similar models on the same site. Any comparison shopping involves an arduous trek around a number of separate businesses. The manufacturers' ability to control the market is inherent in the block exemption given to car franchise agreements under EC law. However, block exemption is unlikely to be renewed in the future, creating the potential for what could be a dramatic change in new car retailing leading to far fewer multi-franchise dealerships, each supporting a larger number of satellite service points needed to provide for local servicing. There are other possible models for car distribution, including direct selling by manufacturers, but the fundamental issue here is that any significant change in legislation is bound to create a change in the way cars are sold. Car distributorships are already a poor investment compared with most other retail sectors, but if the Co-operative owned dealership network can respond to the going of block exemption, there could be significant benefits to the first to establish a lower cost system of car retailing and one which is more customer orientated. Multi-franchised dealerships will need investment. Few existing sites are large enough to display a range of, say, family comports.

The funeral business showed growth in 1995. Gross margins fell slightly but income rose substantially. At first sight the funeral business looks vulnerable to aggressive action by competitors, whether it is the DIY offer from one French-owned company or the selling tactics of the Americans. That said, it is also a traditional business and one where the market position of the Co-operatives can be a real benefit in assuring the customer. As a nation we are willing to trust but only so far. That the Co-operatives are trusted for purchases such as holidays and burial services says much for the trust that the movement enjoys.

Election Boom

Having delved into the entrails of last year's figures, what are some of the current issues and trends that might shape the 1996 results? It will be obvious by now that there is an election due. (It is always possible that by the time this is read, some unforeseen circumstance will have already led John Major to go to the country.) There has been a consumer boom in the run up to a general election in the vast majority of instances since the war. The manipulation of the economy was at one time quite blatant, a cut in direct and indirect taxes. These days that is an all too obvious tactic and Conservative chancellors have presided over fortuitous cuts in interest rates some eighteen months before the polls. Interest rates have been too low to allow a substantial cut this time but the mysterious shortfall in government tax income discovered in April this year indicates that the budget adjustments could have had a greater impact on income than was expected at the time. the relevance to retailers is that a consumer-led boom is manifest in higher sales, people will spend their extra income in shops. All too often retailers and their suppliers appear to de-stock in the run-up to an election, influenced perhaps by the squeeze a government exerts prior to loosening the reins with a year or so before the electorate stand in judgement. 1996 promises to be a good year for the retail sector generally.

A Polarised Society

While the mythical average household may yet become infected with the illusive "feel good factor", not all in our society are likely to believe that they are sharing in the spoils of political ambition and economic recovery. Society has become polarised, not as in Victorian times into the haves and have nots, but into the haves and those who get by. At one end of the earnings spectrum are households with two incomes, at the other households with none. Such a polarisation is unlikely to disappear whatever the colour of the next government. Retailing is an integral part of society. Our shops reflect our needs and our aspirations. Retail managers interpret social as well as economic trends in their decision making. The issue I am leading to is that of discounting, particularly food discounting. The market growth of the so-called hard discounters has apparently been checked by the actions of established players. The superstores have introduced value lines matching the prices of the unbranded products on the shelves of Aldi, Netto and Lidl. Kwik Save has introduced an own-brand range with the same objective. The reality remains that such a response can only be tactical. High cost retailers cannot make profit on their value lines while hard discounters can offer similar products at lower than average prices and return a profit. The cost structures of discounter, superstore and convenience store are radically different, allowing the limited range retailer a significant competitive advantage on price. Co-operatives are particularly vulnerable to discount operations because their core customers are more likely to visit a discounter than, say, the Sainsbury shopper. In a recent survey 40 per cent of shoppers had yet to enter a hard discounter. Whether Co-op Societies should, or even could, introduce their own discounters has been a source of debate. A number of societies have tried various formats but few can claim success - that is in Britain. Elsewhere in Europe Co-operatives have learnt how to operate discount formats successfully. The debate should not be curtailed on the relevance of discounting to the British Co-op.

Customer Loyalty

The last trend that could have a significant impact on relative sales in 1996 is loyalty. Tesco's club card is credited for much of their recent gain in market share, apparently at the expense of Sainsbury. The shopper receives a one per cent discount and Tesco an extra one per cent market share. Not a bad trade off. Sainsbury's marketing team has been changed and their shareholders expect a response from the one-time market leader.

One cannot help but feel that Tesco, particularly by using the term Club Card (implying membership), have stolen some of the Co-op's clothes. Membership and reward for such in proportion to purchases is a recognisable Co-operative concept. Holding on to one's core customers is an idea all businesses must adopt. This year's results will reflect on the relative ability of each competitor to hold the loyalty of its customers.

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Noel Branton

The year 1995 saw a slow and somewhat hesitant economic recovery in the UK. Whilst unemployment continued to fall, businesses also went on reducing their labour force including that at management level. This was offset by new job creation though, as critics pointed out, the new jobs tended to be part-time rather than full-time and benefited women rather than men. The feeling of uncertainty which was engendered inhibited spending even by those who had the resources. The passage of time was reducing the "negative equity" among house owners but the number of house repossessions which had been falling started to rise again. It is sad to have to record that the most conspicuous successful activity appears to have been the national lottery.

There were three cuts in interest rates each limited to one half per cent made apparently at the instigation of the Chancellor with the doubtful consent of the Governor of the Bank of England. Industry claimed that these cuts were too small to achieve anything worthwhile but although this may be true they do not appear to have done any damage either. Business has continued to operate in the unusual condition of a relatively low level of inflation and a fairly stable level of prices. Low inflation also means that retailers no longer gain much from the lag between receiving payment from their customers and settling the accounts of their suppliers. Again it has made the man and woman in the street more conscious of the value of money - a trend which has outlasted business recession. Customers have started to second guess retailers, for example, by delaying purchases of Christmas presents thereby forcing weaker retailers into making early markdowns.

Co-operative experience in 1995

When the commentary on co-operative trade for 1994 was published, the final official statistics were not available though there was sufficient evidence to indicate that they would provide little cause for satisfaction. They recorded an increase in the value of national turnover of 4.6 per cent which was smaller than that of 1993 but because of falling inflation represented an increase in volume of 3.7 per cent. The growth of turnover had not faltered in 1994 but it was below what could have been expected in a recovery phase of the business cycle. In contrast the major multiple retailers achieved an aggregate value increase of 7 per cent during 1994.

The interpretation of the turnover statistics for 1995 is complicated because of the acquisition of a chain of food stores by CRS. There was an overall increase in the value of turnover by 5.8 per cent giving a volume increase of about 2 per cent but on a like-for-like basis it is 1.9 per cent. The benefit of the acquisition has now passed from the monthly statistics so that November shows a contraction of over 2 per cent. In the food section, after adjustment for the same reason, there is a slippage of between 2 and 3 per cent. The pressure on the traditional activities of the movement has increased the importance of Motors & Petrol and Travel. There was a cumulative increase in November of 17 per cent in value in Motors & Petrol and of 7.1 per cent in Travel. The results of the core activities once again give little cause for satisfaction.

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John Anderson

The year 1995 could mark a turning point for the Co-operative Retail Movement. Overall turnover increased in value by 5.1%, which is a volume increase of well over 1%. Modest compared to major retailers like Tesco and Sainsbury and when like with-like turnover is considered a value increase of 1.3% and volume decrease of 2% re-inforce our relatively poor turnover performance. However, for the first time in many years we have been on the acquisition trail with CRS's purchase of "Lo-Cost" Food shops, and significant purchases of other chains by Scotmid, Plymouth and other societies. CWS retail continue to advance forward profitably with new superstores and supermarkets while efficiently upgrading smaller units and disposing of units never likely to make a profitable contribution. Food turnover continues to dominate Co-operative retailing with 66% of total trade. However, as more and more societies continue to diversify into perhaps less competitive trading areas, funeral furnishing, motors and petrol, and travel, now form almost 20% of total Co-operative retail.

Trade	Share of Co-operative Trade	
	1989	1995
	%	%
Funeral Furnishing	2.0	2.5
Motors and Petrol	7.6	8.8
Travel	4.3	7.7

The Movement's involvement in the travel industry continues to grow, and even allowing for the great advance of Ilkeston Society's travel trade it can be readily seen that other societies also continue to successfully increase their travel trade. Non-food trade continues to decline sharply with non food share of total co-operative trade dropping from 13.6% in 1990 to 11.7% in 1995. Turnover then, despite the like for like volume decrease, shows at last signs of revival due mainly to recent acquisitions. The trend away from non food and food to travel especially continues. Although faring less well than Tesco, compared to our other rivals we performed moderately well, as the chart below of retailers turnover figures with later 1995 year ends shows.

Comparison with Other Major Retailers
1995

	Turnover Increase %	Operating Margins %
Tesco	25.6	5.3
Sainsbury	11.1	6.7
Argyle	0.9	6.9
Asda	14.5	4.6
Sommerfield	0.8	2.7
Kwik Save	4.2	3.1
M & S	5.7	11.2
Morrisons	16.0	5.0
J. Lewis	8.3	5.2
Iceland	5.2	5.5
U.K. Co-ops	5.1	2.5

Note - Turnover figures are latest half year results.

The Trading profit of UK Co-operatives continues to hover at around 2.5%, scarcely moving throughout the nineteen nineties. This, of course, is unsatisfactory if we are to make any significant move to increase our market share. Of our competitors, only Sommerfield and Kwik Save have similarly low operating margins. Underneath the overall Co-operative picture of relatively poor turnover figures and low but stable operating margins, some societies continue to show strong growth in both turnover and profitability. West Midland, Lincoln, Ilkeston, Portsea Island, Oxford, Ipswich and Scottish Midland all had significant turnover increases. Excellent operating margin increases were obtained by Lincoln, Scottish Midland and several other societies large and small. Once the giant Midlands merger has bedded down strong growth performances in both turnover and operating margins seem almost inevitable.

Turning to the Co-operative Union's issue No. 2 of Current Indicators, significant growth in gross margins has been achieved in the food and superstore divisions within societies. I suspect this is almost entirely due to the success of the two major buying groups C.R.T.G. and C.I.C. The formation of both groups has not only resulted in better buying prices but has instilled greater discipline on shelf layout than ever before. This is particularly true of C.R.T.G. societies which have now two to three years of such discipline behind them. In Scotland alone, spectacular increases in food gross margins have been achieved by both Lothian and Borders, and East Angus Societies. More and more societies have been tempted to apply for membership of one of the groups and hopefully eventually some smaller societies will be allowed to share in the benefits from membership.

It has been a difficult year for all retailers with no sign yet of the 'feel-good' factor returning. Tesco has proven to be by far the retailer of the year following its acquisition of William Low, successful launch of Club Card, strong advertising presence and refusal to be beaten on price, even selling tins of beans at four pence each. I personally cannot see any future for a return of dividend either through cash or vouchers for societies as very few could offer any meaningful dividend. I suspect the societies who have gone down this route, just like those who sought to emulate the foreign discounters, will soon realise costs far outweigh any benefits.

In retailing size and growth are key elements in success. This is what has allowed me in 1995, for the first time in many years, the first glimpse of a Co-operative revival. Some societies are realising that growth can be achieved more quickly and certainly more cheaply through acquisition. Acquisition of companies like 'Lo-Cost' and 'Semi-chem' increases buying power and lowers overheads, a sure recipe for increasing net margins. What can we expect in 1996? Tesco will have to come up with something new to keep its six million Club Card holders interest as reality sets in and card holders realise the reward for loyalty is low. I suspect they intend using the card as a rival to air miles, allowing holders to gain points when they fill up at petrol stations, eat out at MacDonalds or buy insurance. Sainsbury's, having dabbled in cards without success with a management restructure now in place and following a successful saver promotion will make 1995 seem merely a blip on their successful path to remain Britain's most efficient food retailer. Asda, having completed its three year renewal plan which saw improved productivity result in a sales surge without heavy capital expenditure, has plans to open six new stores in 1996. Argyle, flush with success with the

Safeway 2000 restructuring programme and 'Harry' marketing campaign, seems set for a good 1996. The launch of the A.B.C. Card and a successful trial run with self-scanning reinforces this prospect. Of the others, the recent price initiative by Kwik Save is sure to put even more pressure on its operating margins as it strives to keep at bay the much narrower-ranged foreign competitors. Somerfield is set for a stock exchange debut but continues to languish in the no man's land between the major players and hard discounters.

For the Co-operative Movement in the year 1996, I see signs that both turnover and operating margins can increase. Turnover increases again may well be value rather than volume with further acquisitions including the purchase of existing stores from competitors at knock down values, compared to new build. C.R.T.G. if anything will strengthen, and with it operating margins in food will start to rise. Smaller societies which so far have weathered the nineteen nineties reasonably well will start to falter in increasing numbers being unable to share in the rewards of the Movements' new buying groups and lacking capital to build units to compete even with convenience chains like 'Alldays'. Major initiatives have been announced in the last few weeks by two of our major societies which seems bound to increase turnover and profitability prospects for the rest of 1996 and beyond. Firstly, United Norwest is to invest around £30 million in its stores this year as part of the second phase of a three year plan to reposition the business. Around fifty shops have been earmarked for refits and the successful 'late Shop' chain is to be increased from one hundred and sixty units to over two hundred. Other United Norwest plans are to re-brand 'Shopping Giant' and open twelve Co-op Health Care pharmacies.

CRS has just announced a new promotion to run throughout 1996 called 'Low Price Zone'. Extensive use will be made of the national press and prices of at least 150 lines will be permanently reduced in its 'Leo's', 'Pioneer' and 'Lo-Cost' stores. Another CRS innovation is a new range of extra value own label products under the 'Lo-Cost' name. Another encouraging recent announcement is that discussions between CRS and CWS are taking place to combine non food retail activities. This may include other societies and if the discussions result in a stronger, more disciplined Co-operative non food approach then again we look forward to at least stemming our non food market share decline. To summarise, by the end of 1996, I expect another value increase and perhaps a small volume increase for UK Co-operative societies. I am certain both gross and net margins will increase and that we shall have in the next two years at least ten less societies as smaller societies seek refuge with larger neighbours.

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