Renewing the Membership Basis for Raising Investment and Patronage in Consumer Co-operatives

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Introduction

These decades we have witnessed the repeated failures of the outstanding consumer co-ops which had been seen as the viable models in North America, Europe and Japan. The Consumers' Co-op of Berkeley had been renowned as the most innovative and the largest co-op in the United States, but degraded in the 1980s and finally collapsed in 1988. Coop Dortmund resisted the move towards transformation to a joint stock company and maintained a co-operative status, but could not sustain itself in the intensified competition accelerated by a depressed economy. Co-op Sapporo, the second largest co-op in Japan, which had weathered the crisis of 1970, is facing financial difficulty again.

This paper considers various reasons for these failures. The board and the management are responsible for its decision-making and execution. It argues that business expansion, without a consolidated members' base, is one of the most important reasons. Members are perceived to be the principal stakeholders of the co-operative and hold the functions of investors, users and administrators (the principle of identity). Members' participation in the administration through voting and representative bodies has been the central issue in democratic control, however more attention should be given to their roles as the capital provider and the main user. Members' potential in these fields should be thoroughly explored. Finally this paper describes some attempts to renew the members' base; re-registering and communicating with members; recruiting and educating young members; listening to members and involving them in business planning and operations. We should identify good practices, analyse and disseminate them.

From glory to disaster

These failures of outstanding consumer co-ops are a series

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setback. They had been not only the leading co-ops in terms of membership and turnover but also were playing the major roles in advancing the co-op movement in each country. Although it looked like they suddenly fell from glory to disaster, there existed a series of factors leading to the failures.

The Consumers' Co-operative of Berkeley was set up by church and university people and the Finnish community in 1937-38 to improve their living conditions under the Depression. It had started to grow in the 1950s and became the largest co-op in the United States with more than 100,000 members, US$ 84 million sales and 12 supermarkets and a hardware/variety store in 1980. The Berkeley Co-op has been serving as a hub of multifaceted co-operative endeavours including an arts and crafts co-op, a co-op bookstore, a co-op burial society, a student housing co-op, a credit union etc. The Co-op had taken a progressive stance in its business operations and initiated a variety of innovations such as natural foods, nutritional labelling and environmental care. It pioneered numerous consumer reforms in the state government legislation, and offered home economists stationing at stores, monthly newspaper, consumer advocacy, legal services and 'kiddies corrals' etc. So it had been renowned as the most innovative retailer and consumer organisation, and attracted thousands of visitors from the US and all over the world. But it started degrading in the 1980s, losing members and sales, accumulating losses, creating conflicts with its co-op wholesale supplier and finally petitioning for bankruptcy, closing the three remaining stores in 1988.

The Coop Dortmund-Kassel Konsumgenossenschaft eG was born in 1902 and reconstructed after the 2nd World War. During the period of reorganisation of German consumer co-ops taking place in the 1970s, Coop Dortmund resisted the move towards transformation to a joint stock company and integration into coop AG, but maintained a co-operative status. By 1988 it had grown to the largest co-op in West Germany with nearly half a million members and 14.2 per cent of the retail market in its area. Coop Dortmund was the only consumer co-op which could pay dividends to members (1.5 per cent for 1988) and promoted contacts between members by offering services and information which meet family needs through a co-operative secretariat manned by full-time staff. Thanks to such advantages, it could increase membership, attracting new members up until 1995. Therefore, this co-op has been often cited as the most successful consumer co-op in Europe, combining a long-term development strategy and a members' loyalty programme. However it had to fight with increasing financial difficulties; the turnover dropped from DM 3.5 billion in 1993 to DM 2 billion in 1997 because of closure and sales of stores, considerable losses were accumulated and bank debts increased. The situation became even worse, with stagnating consumer demand and intensified competition in the retail trade. Since 1994, a substantial number of members have left the co-op and withdrawn their shares. It has sold most of the remaining stores and will wind up its business operation by the end of this year. It will be dissolved in the coming two to three years.

Co-op Sapporo was created by the initiative of Hokkaido University Co-op in 1965. It took an aggressive store development strategy, following the chain store theory imported from the United States. By 1970 it had opened 33 supermarkets, when it was ranked number two among Japanese co-ops and the largest retailer in Hokkaido. However, the Co-op faced a serious shortage of operating capital and stood on the brink of bankruptcy. It was criticised for taking 'a parachuting strategy' which deployed multiple stores in commercially attractive locations while paying little attention to the membership basis. Based on the reflection of such events, the Congress of the Japanese Consumers' Co-op Union (JCCU) held in Fukushima in 1970 adopted a special resolution urging co-ops to adhere to the membership. Thanks to financial and managerial assistance and advice on member activities from JCCU and other co-ops, Co-op Sapporo weathered the financial crisis. Thereafter, it made steady progress and grew to become the second largest co-op in Japan. By 1996 it had 816,000 members and 166 billion sales. However, the long-standing top management was suddenly sacked by rebelling managers and the co-op's financial difficulty was revealed again. This was coincident with the financial crises of the other two co-ops in Hokkaido. Recognising an urgent need to support Co-op Sapporo's rehabilitation in order to save the whole co-op movement in the island, in March of 1998 the JCCU board decided to launch a rescue operation by giving credit and sending in top management.

Why they failed: expansion without membership basis

These failures could be attributable to various reasons. The board and the management are responsible for its decision-making and execution. In the case of the Berkeley Co-op the board had been split into two factions (reflecting Berkeley city politics) which had never compromised for the common good; the 'moderates' had wished to establish a sound business policy whereas the 'progressives' had sought to implement their own political agenda. The political strife at the board level had kept management in turmoil; with an unending flow of general managers since 1971. Each was recruited at great expense but a year or two later resigned freely or by request. In the final stage, the co-op board and management engaged in open warfare with its wholesale co-op (Associated Co-operatives, Inc) and switched to another supplier, dropping the well-accepted CO-OP label products. The members had been alienated by political infighting at the board, frequent boycotting of products on political grounds and sudden withdrawal of CO-OP labels.

The board and management of Coop Dortmund could not reverse the downward tendency nor control large deficits in the inventory. Finally they decided to enter a strategic alliance with Allkauf chain by creating four joint ventures for store operations, purchasing and logistics based on the recommendations given by a consultation firm and banks. But this collaboration did not work to generate synergy as intended, and soon broke down in mutual reproach.

In the case of Co-op Sapporo, the President/CEO had been dominating the board; he had never been contested by other executives and lay board members in the decision-making and execution for 21 years. He had made the most important decision on investments and the board could do nothing but approve. Recently, he had instructed the manipulation of accounts to hide the accumulated losses, but such practices had never been checked by the board nor the public accountants.

Another important reason for failure, it could be argued, is business expansion without building a consolidated members' base. The board of the Berkeley Co-op decided in secret to purchase five stores from the failing Sid's chain in Berkeley and the surrounding area in 1962. The co-op made a rapid expansion but member participation steadily decreased. Only one of the stores turned out to be a moneymaker; another four stores were drags on the co-op and eventually discarded after years of losses. In 1974 the co-op repeated the mistake with the purchase of another three stores from the Mayfair chain in Oakland which had no existing base of members. As the co-op expanded outside Berkeley, member patronage continued to decline as a percentage of total sales, which meant it was increasingly dependent on shoppers who were less loyal, less educated and did not buy shares. The more the co-op moved beyond its original purpose of serving members, the more it depended on non-members, the more it resembled its competitors, the less incentive there was to become a member. The final disastrous decision came in 1984, when the board voted to invest in an upgraded new store in Marin County. The elegant store named 'Savories' never acknowledged the fact that it was a co-operative. There was no significant member participation in the planning and decision and it was beyond the level of appeal for the members in that area. This venture turned out to generate enormous losses from the start and gave the fatal blow to the co-op, pushing the three remaining stores in Berkeley out of the market.

Coop Dortmund had expanded its operation in the beginning of the 1990s in new areas. The Coop had taken over stores in Hamburg (belonging to the former PRO co-operative) from the bankrupted coop AG at the end of 1990, together with Schleswig-Holstein Coop in Kiel. But this venture was not successful in terms of profit; at no time were figures in the black. It had also invested in East Germany since 1990; it worked closely with the local consumer co-ops of Zwickau, Leipzig, North Saxony and Gera in extensive store development, and established joint logistics operations with them. However, their supermarkets were invariably in the red and the logistic costs proved to be too expensive. Owing to considerable involvement in these new areas, the modernisation of the original store network was neglected, which caused a fall in profitability as well as market share. After all, the Co-op could not build a solid membership basis outside its home ground.

In the case of Co-op Sapporo there existed members, since that is required by the Consumer Co-operative Law which outlaws non-member transactions. However, in the earlier crisis it had been pointed out members' activities had been neglected. In the current crisis it was observed that the co-op could not attract the young generation who had often seen it as an old fashioned business and drifted to the fashionable modern outlets of competitors. The co-op had also invested in the larger stores but largely neglected to renew the existing ones. In both cases it did not listen to the members' voice. Although there was a core of very loyal members as lay board members, delegates and committee members, they were generally ageing and could not reflect effectively consumers' changing demands to the management. The members' capital was unequally held; the co-op had been dependent on a small number of large investors and had to pay dividends in spite of the deficit. This was why the management manipulated the co-op accounts and did not disclose the real financial situation to the members. In a sense, membership basis was eroding with a smaller input of new energy.

Members as investors and users in co-ops

Thus far I have used the term 'membership basis' without definition. It means the co-op has, both quantitatively and qualitatively, a most reliable resource - its members. The co-op should have a certain number of members to sustain its business. The increased dependence on non-members may weaken the co-operative identity but also the advantage with which it will be able to compete in the market. The co-op will succeed if it can mobilise members' financial and economic contribution that is their capital and patronage. Theoretically, co-op members are perceived to be the principal stakeholders of the co-operative and hold three dimensions as investors, users and administrators (the principle of identity). Members' participation in the administration through voting and representative bodies has been the central issue in democratic control, however more attention should be given to their roles as the capital provider and the main user. Members' potential in these fields should be thoroughly explored.

Members' role as the capital provider is rightly placed as the Economic Participation Principle in the ICA Statement on the Co-operative Identity adopted in its Centennial Congress in

1995. This inclusion was of great importance in the history of the international co-operative movement. Prof MacPherson has described its implication and the ways this principle can be applied and has recommended special appeals to members for further investment, but the practice seems to be very limited. In Europe, many consumer co-ops have given up raising members' share capital on the ground that members have shown little interest in the investment and there exist substantial reserves and/or own financial sources such as co-operative banks and insurance societies. The Japanese co-ops have made steady efforts to raise members' capital for decades, partly because they are not allowed to do banking business. Members have to pay circa US$ 40 to enter the co-ops and continue to invest in shares by monthly instalments or regular contribution of a portion of dividends. As a result the average member's investment amounts to nearly US$ 200 and the aggregate equity capital constitutes circa 40 per cent of the total assets. Out of this, 28 per cent comes from members' shares while 12 per cent comes from reserves.

Members are users who patronise their co-operative, constructively suggest how it might be improved, and appreciate the benefits that patronage brings. But this dimension has been paid even lower attention in the consumer co-ops in comparison with the producer co-ops in which it is easier to recognise the linkage between members' patronage and the benefits they can enjoy. The larger co-ops have grown, the more decisions have been made by the professionals and the less members' voices as users have been heard. Since the traditional dividend has been dropped, there hardly exists the difference giving tangible rewards to members' patronage. Today many companies seek to organise users, aiming at adding a competitive edge and incorporating loyal customers by giving some rewards through frequent flyers programmes or loyalty card schemes. It is ironical the CWS started a nationwide dividend card scheme from this year after looking at the enormous success of Tesco's Club Card. But co-ops could do more by combining the investor and user dimensions of membership.

Attempts to renew the membership basis

Recent years have witnessed some attempts to renew the membership basis. For example, the CWS has run a campaign for registering members since the existing members' register was completely out of date. It registered nearly 30,000 members in 1994 to whom the CWS distributed monthly magazines and a calendar with discount coupons. Interviews with some of these improved communication with members. Swedish and Norwegian consumer co-ops have succeeded in recruiting young members by issuing members' cards and magazines targeted to them. The Italian consumer co-ops have placed special emphasis on involving and educating young consumers as future members. We should identify the good practices, analyse and disseminate them. At this point I would like to introduce the efforts being made in Japan; listening to members and involving them in business planning and operations.

Under the lingering recession accelerated by the austere economic policy of these last few years shrinking consumer expenditure has resulted in lowering sales and margins of retailers. The total turnover of consumer co-ops has also stagnated in spite of increasing membership and selling space; therefore sales per member have been declining since 1991. It is now a shared view among co-op leaders that co-ops could not effectively match the members' changing lifestyle and needs. It is assumed members move to 'exit' since their 'voice' is not heard. So, a number of co-ops have undertaken activities for listening to members' voices aiming at better responding to them. Miyazaki Co-op in Kyushu pioneered the change of organisational culture from top down to bottom up since the 1980s. It meant a shift of emphasis in member relations from giving information and instruction to listening to members. The members were encouraged to submit opinion cards once a month when they received delivery at Han groups. They could evaluate, complain and make requests about the products and operations. The co-op collected 3,380 cards in 1992, and 4,780 cards in 1993 which were sent to branches and head office departments. The responses to these cards were returned to Han members within two weeks, taking the reverse route. This practice necessitated special efforts in the co-op but brought an invaluable source of information to improve products and operations. It also facilitated live two-way communication between the co-op and members, and raised morale among employees. The co-op also used other channels of communication; Han meeting reports and district committee reports were collected and answered, members questionnaires and sampling of products and so on. These efforts resulted in the development of the best selling CO-OP products and increasing per capita sales in the early 1990s, in contrast with the declining national average. Following these experiences, Chiba Co-op (located next to Tokyo) has made similar organisational reforms. In 1993 it also collected members voice to formulate its mission statement. More than 8,800 members expressed their concerns and expectations, which were translated into the co-op's mission 'to create living together'. In 1994 circa 20,000 suggestion cards were received and answered within 3 weeks. The co-op has also listened to a randomly selected 400 members' opinions every week. Such efforts have resulted in better performance in spite of the adverse economic climate.

The natural next step from listening to members' voices is to involve them in business planning and operations. In the Japanese movement, member participation in the product development process has been sought since the 1970s, but in many cases it became the routine of the selected monitors and had reduced relevance in reflecting real and varying needs. Co-op Kobe has renewed this process systematically as a part of its Creative Reconstruction policy from the earthquake disaster in 1995. It invited members to form teams for product development. 62 teams were formed to make proposals for developing new products or improving the existing ones. 4,200 members took part, discussing among themselves and with co-op buyers, testing samples and so on. During two years, 112 items of the CO-OP products were developed or improved, mainly in the food and delicatessen sector but including some textiles, shoes and so on. These products stand for 5 per cent of the sales of the whole CO-OP brand in the first half of 1997, which means they are well accepted. For the members, it gave an opportunity to learn about the product itself and how products were developed, but also to enhance self-fulfilment. For the co-op, it brought the invaluable input of users' points of view which was made effective use of for product development. The employees as buyers also learned the importance of responsiveness to the members' voice. At the same time, there are some problems; longer lead time for development, bias in product categories, insufficient information given to, and low recognition among, other members and so on. The co-op intends to solve these problems and enlarge members' involvement.

Conclusion

We have witnessed the repeated failures of co-operatives which have eroded their membership basis. We have to draw lessons from them and identify the good practices undertaken in many parts of the world. Under the current socio-economic environment, the pace of change is so fast that co-ops should watch carefully the changing lifestyle and needs of members, otherwise they will be swallowed by the tide of change.

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