

# U.K. Cooperatives on the Move

## Mergers, marketing and membership

BY DAVID THOMPSON



PHOTOGRAPH BY GAIL GRAHAM

**T**he face of Britain's consumer cooperatives has changed dramatically over the past decade. A once shrinking sector is on the move. A generation of co-op leaders born around World War II (1939–45) turned over stewardship of a neglected movement to a generation that would live in a new century. Co-ops had to deliver or die. Some died—the rest are delivering. At the core of the massive change among the deliverers were mergers, marketing, and membership.

### Mergers: 3,300 stores

The British retail market is a functioning oligopoly, and cooperative mergers have occurred not a moment too soon. The top four British food retailers operate mainly hypermarkets and supermarkets with 75.2 percent of the total market share in their 3,326 food stores. The cooperatives have 3,301 neighborhood food stores but also 1,236 other retail stores (pharmacies, car dealerships, news agents, and funeral parlors). Although smaller in volume and market share there are still more co-op stores in more communities than any other retailer in Britain.

In 2002 the CWS (Co-operative Wholesale

---

In explaining what a cooperative “was” and “is,” the British co-op movement finally found its voice in its values: democracy, giving back to community, and business ethics.

---

Society) finally merged with the CRS (Co-operative Retail Services). This merger had been discussed for decades, but talk was cheap. The two organizations at one point had in fact become bitter competitors. I have two cousins who live in Rochdale about a mile apart. One cousin shopped at her neighborhood co-op owned by the CWS and one shopped at her neighborhood co-op owned by the CRS. However, they sold differently labeled co-op products, had different co-op logos, charged different prices, and required a different membership. My cousins always wanted to know why the two shops were different co-ops.

The CWS and CRS should have merged while they were both strong, but, as we all know, boards will be boards. Thankfully, with CRS on its deathbed, its board chose to merge into CWS. Two large retail systems were combined, excess store capacity reduced, and staffing realigned. The combined volume and reduction of costs and duplicate retail locations was the smartest cooperative move in half a century. After the merger, the CWS changed its name to the Co-operative Group to reflect its becoming Britain's largest national consumer cooperative.

Following the merger, the Co-operative Group pursued its strategy of being a major player in what is called in Britain the “topping up” market. As the hypermarket segment put supermarkets out of business, neighborhood stores were needed to fill the retail vacuum in many communities. In 2002 the Co-operative Group purchased the Alldays Chain of 600 stores and in 2003 added 76 Balfour stores. In a sign of cooperation among cooperatives, the Co-operative Group then sold 75 of the Alldays stores that were not in its trading area to a number of the regional cooperative societies.

In 2002 another merger occurred between



## Community – Shouting about it!



two large northern co-ops. United Co-operatives, now based in Rochdale, Lancashire, merged with the Yorkshire Co-operative Society. United Co-operatives is now the second largest British retail cooperative. (As this story goes to press United's CEO Mr. Marks shared with me that the Sheffield Co-operative Society has proposed to merge with United Co-operatives. The merger, if approved, will bring United Co-operatives to over \$3.8 billion in turnover.)

The next merger, in September 2005, created Midcounties Co-operative Society, with about \$1.07 billion in turnover. The merger of the Oxford, Swindon & Gloucester Co-operative Society (OS&G) and the West Midlands Co-operative Society (WMCS) created the fourth-largest cooperative society.

Another merger, in October 2005, created the East of England Co-operative Society, with a turnover of \$760 million. The fifth largest co-operative society was created by the merger of

the Ipswich and Norwich with Colchester and East Essex societies.

In November 2006 the Midlands Co-operative Society and the Ilkeston Co-operative Society will merge. The merger will create the third largest consumer co-operative in the U.K., with a turnover of \$1.9 billion.

### Marketing: reclaiming values

In post-war Britain almost a third of the families had a co-op number which we gave when we shopped at the co-op. In early December when the "divi" (dividend) was paid, families excitedly stood in long lines to collect the cash. Every year our family's Christmas started at the Co-op.

However, a war-tired Britain was ready to spend. People could buy everything on credit; there was a housing boom, foreign holidays, and TV. Retail patterns shifted overnight. The new flashy national supermarket chains were in

the suburbs while the stodgy local co-op shops were on the dilapidated High Street. So many co-ops were going out of business that the word "co-op" became synonymous with failure. Even the fabled Rochdale Co-op took down the "Co-op" sign and renamed its food stores "KRAZYKUTS."

However, belief in cooperatives did not die. By the 1990s cooperatives began to show signs of life. So how could they thrive? Part of the effort had to be creating a sense that cooperatives had a future; part dispelling the myth that cooperatives were a thing of the past; and part marketing cooperatives to a new generation for whom "community" was no longer a place but a feeling.

The impetus was for change. Here are a sample of innovations which brought UK co-operatives back to life.

As CEO of the Co-operative Bank, Terry Thomas, should possibly be credited with jumpstarting a return to cooperative values. The Co-operative Bank could not compete with the big banks in advertising dollars. However, it could compete on ethical lending and who it would not lend to and why. The feisty principles and the free publicity made the Co-operative Bank the UK leader in social investing. Terry Thomas gave the cooperatives a winning playbook on how to sell co-op values to consumers.

A corporate stripper unintentionally did British co-ops a great favor. Andrew Regan gave two senior staff of CWS large bribes to get him the entire CWS membership list. Regan's intent was to offer the CWS members \$2.28 billion to buy all their one-pound shares and take over the CWS. Then he would asset strip the CWS to realize a likely value of over \$10 billion. In fighting off Regan and his money backers the CWS was fortunate to have Graham Melmoth as CEO. Melmoth became an articulate and resolute defender of the ■>

◀ ■ CWS and cooperative values.

The fight to beat back the takeover was front page news for months. Suddenly, the entire co-op movement had to answer, "Why should people not sell their one-pound shares and make a handsome return, why shouldn't the co-op be sold off?" In explaining what a cooperative "was" and "is," the British co-op movement finally found its voice in its values. It was democracy, giving back to community, and business ethics. The CWS was a permanent resource not to be dismantled for the "make it quick" city sharks. Cooperators were given the opportunity to explain themselves and they did it superbly. One greedy financier had finally put fire back into the co-op's torch.

Twenty-nine co-ops joined together in the Co-operative Retail Trading Group (CRTG). The first year in which all the British food co-ops bought together (2002) was 158 years after opening Toad Lane. Today, CRTG has a turnover of \$10.07 billion. As Chairman of CRTG in 2005, Mr. Marks, CEO of United Co-operatives, said, "CRTG was possibly the best example of the sixth ICA principle, that of cooperation among cooperatives."

The principles of Fair Trade appealed immediately to British cooperatives, and they quickly became the market leader in sales and product development. Peter Couchman, Group General Manager, Membership and Corporate Marketing of Midcounties Co-operative, comments, "Fair trade is one of the great success stories in recent years. The Co-op achieved a dominant position in this, although this is now being challenged. The public perceives the Co-op as leading on the issue. It has had a significant impact on attracting active members."

The next stage is the national branding program. The Co-operative Group intends to spend \$190 million on revamping the brand to become "the co-operative" across its entire system of 3,000 locations. The Co-operative Group is asking all the co-ops to share in using the same brand and fascia. Peter Couchman agrees, "The national brand project has created a path for future co-operation."

*(For how a recent U.S. co-op ambassador saw Midcounties Co-operative Society at work, see Doug Walter's observations on page 30.)*

### Membership: community dividends

In 2005 there were nearly ten million members of consumer co-operatives in Britain. Membership is only one pound (\$1.90). Members can invest more than a pound and receive a generous interest rate on their share capital. Unlike U.S. food co-operatives, U.K. co-ops have not focused on building member equity although they should.

Traditionally, UK co-ops membership was one pound so that anyone could join and receive the "divi." A good member was one who boasted about how much "divi" they

Because of their values,  
cooperatives are the leaders in Fair  
Trade, organics, buying locally, and  
giving back to their communities.

received. Our co-op milkman came daily to the front door, our co-op coalman weekly to the back door. We went to the co-op shops (the grocer, butcher, greengrocer) every day and frequently to the co-op department store. Co-op families like ours who re-invested their "divi" to gain interest gave the co-ops a substantial equity boost. When my mother died in 1982 she had \$418 in her Blackpool Co-operative Society share account.

Today the focus is back on the meaning of membership. In September this year the Co-operative Group sent information to a million British households. Their call center received up to 3,000 calls a day. What excited the public was that every financial transaction with every part of the Co-operative Group meant an annual share of the profits. With its new program the Co-operative Group has a goal of growing from 600,000 members to four million new members by 2010.

The Oxford, Swindon and Gloucester Co-operative Society (OS&G), now merged into the Midcounties Co-operative Society, created a new method for rewarding membership. They established a "superdividend" card which rewarded member interaction with the co-op. (See photo.) Points are given for purchases, frequency, purchase of co-op brands and Ethical/Fair Trade items, training, voting, returning surveys, and attending the annual meeting. The Co-op wanted to reward every interaction they wished to encourage. Whether you buy meat or go to a meeting, buy vitamins or vote, you show your card and you get your points.

In 1997 I gave a plenary address to the Cooperative Congress in Cardiff. I spoke about the value of creating cooperative community funds to link to membership and investing those funds in the development of cooperatives. I subsequently gave talks on the same subject to the Cooperative Group leadership and at the invitation of Peter Couchman to the OS&G leadership. Many of the British co-ops have now implemented programs of giving back to the community.

United Co-operatives is emulating this approach. In 2002 they set up their Co-operative Foundation with contributions of \$13.3 million from their own funds. They have since made donations from the earnings to over 300

groups ranging from \$950 up to \$57,000. Peter Marks told me, "United presents itself to the public as 'Your Community Retailer,' and the Co-operative Foundation is a key part of that position."

Midcounties Cooperative Society operates a patronage refund system and encourages its members to donate their patronage to its Community Dividend program (similar to how Hanover Food Co-op funds its Co-op Community Foundation). Nonprofit groups then apply for funding from the co-op. Midcounties places great emphasis on directing some of those funds into development of local cooperatives.

I asked Peter Couchman, "In what way does your community dividend further Midcounties' objectives?" He answered, "Of all the brand messages, community is the one that the customer both understands more and values more. Community dividend is designed to show the Co-op meeting local needs, listening to local concerns, and returning our profits to the communities we serve. I have been known to describe it as the jewel in the crown of our brand marketing."

Because of their values, cooperatives are the leaders in Fair Trade, organics, buying locally, and giving back to their communities. Because of their vision and values, they have tremendous impact on the remainder of the market. While the giant chains suck retail activity dry for miles and take away the profits, the cooperatives are the only retail group which is 100-percent British-owned and which measurably gives back to the community.

Business in the Community, a national organization, encourages companies to give back 1 percent of pre-tax net profits to the community. These companies need profits to pay back their multinational shareholders and to fund worldwide growth. The top 100 companies on the London stock exchange gave 0.97 percent of their pre-tax profits to charities and community projects.

On the other hand, British cooperatives need to please the nine million British people who shop at the co-op because the cooperatives care about their communities. As cooperators you will be proud to know that Oxford, Swindon & Gloucester Co-operative gave back 12.43 percent to their communities, United Co-operatives 5.74 percent, and the Co-operative Group 3.22 percent.

Cooperatives that make membership meaningful are delivering cooperative value and making a difference. The featured British cooperatives give us good reason to remember to market our cooperative advantage! ■