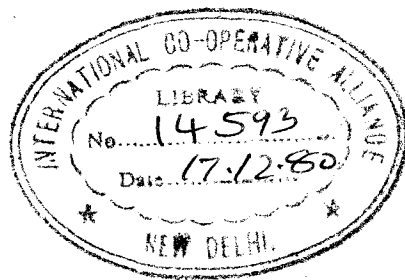


# PRODUCTIVITY IN RETAILING

A Summary of the papers and discussions at the  
ICA Research Officers' Group Meeting  
hosted by Konsum Österreich and held in Vienna (Austria)  
between:

25th-29th SEPTEMBER 1978



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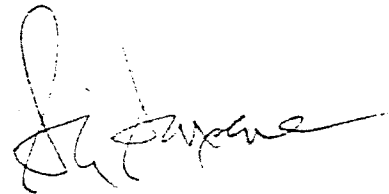
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## FOREWORD

The Research Officers' Group, a specialised body of the International Cooperative Alliance, has been in existence since 1959. It meets once a year to discuss problems of interest, especially to the consumer cooperative movement. At its last meeting in Vienna in September 1978, it examined the subject "Productivity in Retailing", a topic of great interest to that sector of the movement involved in the retail trade. In view of its wider relevance, the summaries of papers presented and the ensuing discussions at the Vienna meeting are made available for a more general distribution. I hope this booklet will generate interest and discussion and will be of some help to those concerned with decision making in consumer cooperative societies.

The publication also offers scope for being used in cooperative educational institutions as an aid for imparting instruction to students specialising in the consumer business.

Konsum Österreich hosted this meeting of the Group and the International Cooperative Alliance wishes to recognise the support of Dr. A. Rauter and Mr. K.P. Kornholz of that organisation. The Joint Chief of our Information, Research and Public Relations Department, Dr. S. Dandapani, who acts as the Secretary of the Group and who edited the volume, deserves our appreciation.



London, 11th September 1979

S.K. SAXENA  
Director  
International Cooperative Alliance

P R E F A C E

The Planning Committee of the ICA's Research Officers' Group (ROG) met at the ICA Office in London on 27th January 1978 and, after taking into consideration the suggestions from its members, decided that the subject for discussion at the 20th Meeting of the ROG should be "Productivity in Retailing". World trends in trade recession, mounting inflation, changing consumption patterns, high degree of competition in the retail trade, instability of different currencies, energy crises, creeping protectionism and Government controls and a score of other factors contributed to the urgency and importance of the subject "Productivity in Retailing".

The Planning Committee realised the vastness of the subject on the one hand, and the limitations imposed by time and other factors on the other. The Committee limited the discussion to a few important aspects of productivity in retailing. Details of the papers and speeches presented at the Meeting are:

- (a) Amalgamation, its Objectives and Productivity, by Dr. A. Rauter, Konsum Österreich;
- (b) Productivity in the Cooperative Retail Trade, by Dr. Hans Perdich, Konsumverband, Austria;
- (c) Background Notes on Investment Decisions in Retailing in Denmark, by Mr. Kurt Hendriks, FDB, Denmark;
- (d) Strategic Planning and Objectives in the Swiss Cooperative Group, by Dr. P. Meyer, Head of Planning, Coop Schweiz;
- (e) The Development of Labour Productivity in the Finnish Retail Trade, by Mr. Erkki Salonen, Economic Research Institute of the Labour Movement;
- (f) Effectiveness in Cooperative Retail Trade in the German Democratic Republic, by Dr. L. Schmidt, VdK der DDR;

(g) Problems of Productivity in Cooperation, especially in Cooperative Retail Trade, by Prof. Vesa Laakkonen, Department of Cooperative Research, University of Helsinki, Finland;

(h) Reports on the 6th World Conference of Retailers, by Dr. S. Dandapani, ICA Joint Chief - Research and Secretary of the ROG:

- (i) World Retailers Meet in London (Introduction);
- (ii) 6th World Conference of Retailers (Summary);
- (iii) A Day with Marks and Spencers;
- (iv) The Shape of Things to Come - The Year 2001.

In addition, the documentation for the Meeting included the following:

- (a) Research Officers' Group 1959-1978 (Summary of past meetings and discussions);
- (b) Reports on Research Activity in 1977 from Certain Member Organisations Affiliated to the ICA Research Officers' Group;
- (c) Statistical Data of a Few Consumer Cooperative Movements (1972-1977);

After the Meeting, a document incorporating copious Minutes covering discussions and decisions was issued to all participants.

This is a modest attempt to summarise the papers and the discussions to the extent they are directly relevant to the subject of "Productivity in Retailing". The authors are aware of the severe limitations of this pamphlet both in content and form, but if this can stimulate consumer cooperative managements all over the world towards greater productivity, the effort put in has achieved its aim.

S. Dandapani

K. P. Kornholz

## I. INTRODUCTION

Production is different from productivity. An increase in production by the application of increased input may not necessarily be the result of higher productivity. Maximising the use of the available resources may fall under the term "productivity". Productivity is an economic concept denoting the relationships between the amount of input and the output needed for its realisation. Higher productivity may lead to higher profitability and increase the competitive strength of the organisation.

An international dictionary of management may give the meaning of the word "productivity" as "Relationships between the input and output of an industrial unit etc." - input being measured in men, machinery, material and money and output in products and/or services. Reliable methods of productivity measurement are elusive but various ad hoc yardsticks have been produced. In several countries input/output tables applicable to different productive operations have already been evolved and are in use.

Productivity is increased by various factors such as professional skill, incentive for work, well-practised industrial/human relations, etc. Productivity also depends upon the level of technological ability to cut down waste, maximise production with minimum inputs, and so on. All kinds of idleness of men, machine, material, money, etc. will retard productivity leading to diminished profitability.

Retail trade is subject to severe market competition. The one with the higher competitive strength, based upon an increased productivity, is able to survive. The weak lags behind for a time, often left far behind only to wind up finally. When there is a boom, the weak unit may drag on for a time, but during periods of recession, the weak organisations are the first victims.

Consumer Cooperatives with their cherished objectives of voluntariness and autonomism have the obligation to serve their members. The pre-requisites of productivity may come in direct conflict with the socio-political character of a consumer cooperative. For example, the closing of a small shop, being an uneconomic unit, may appear a clear business requirement; whereas, from the point of view of service to members, its retention may be a compelling need! Similarly, 20% of the goods may bring in 80% of the sales, but to eliminate the 80% of the goods that occupy large storage and shelf space and large capital, but only bring in 20% of the sales may come in the way of member-customers' desire for a wide choice.

Any attempt to increase the productivity in retailing in a consumer cooperative with a view to maintaining its competitive character in the market may call for steps in several directions. Chiefly these are:

PRODUCTIVITY OF:      MONEY  
                                 MATERIAL  
                                 SPACE (Selling and Storage)  
                                 MACHINERY (And Plants)  
                                 MANPOWER, etc.

Each one of the above has its own sub-divisions and areas of specialisation. A few of the important aspects covered in the Vienna Meeting are summarised in the pages that follow.

2. CONSUMPTION AND PRODUCTIVITY

Consumption patterns are determined by family budget surveys and published periodically by Governments in most countries. They indicate changes from time to time and illustrative examples are given below:

DISTRIBUTION OF HOUSEHOLD EXPENDITURE (%)

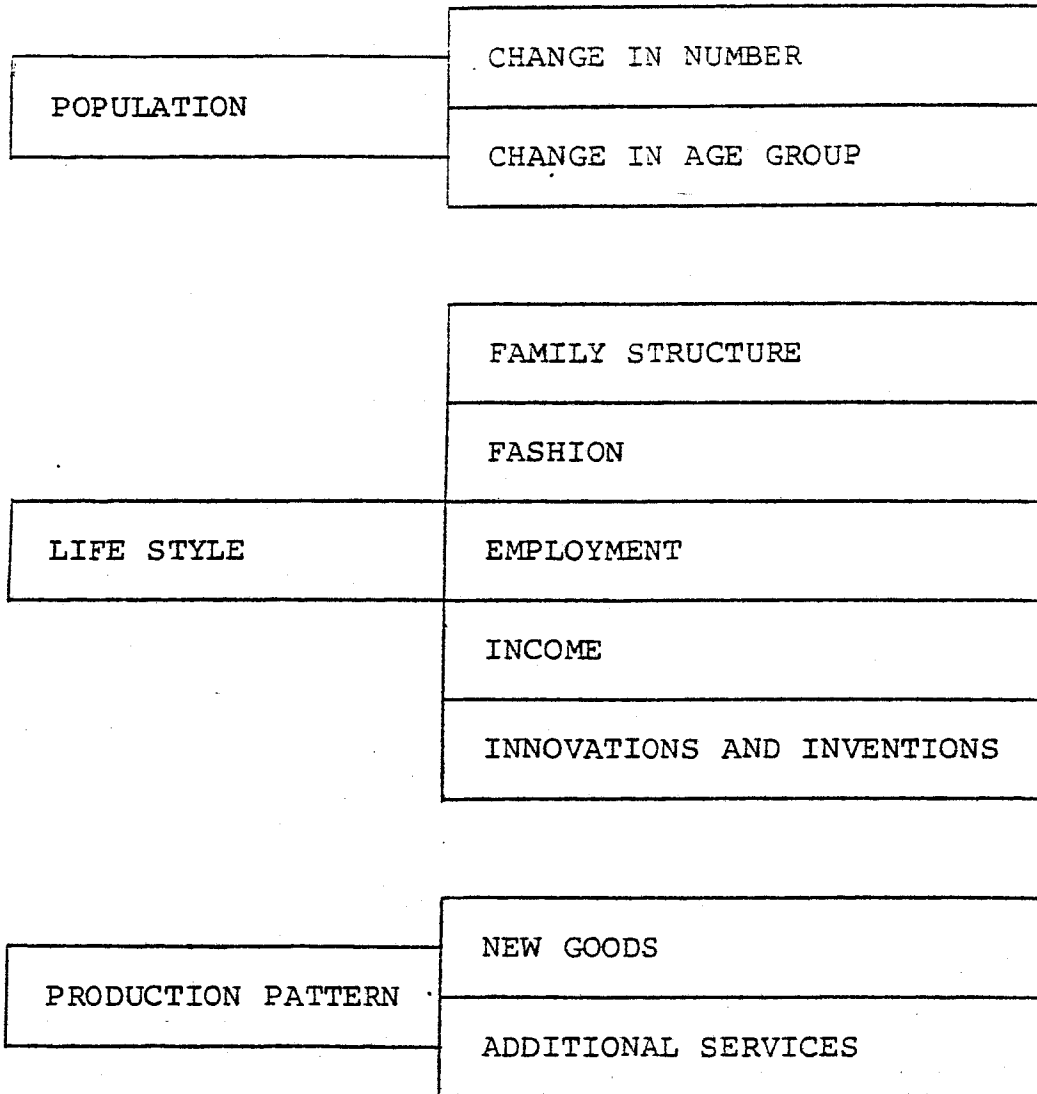
	AUSTRIA (1974)	FRANCE (1971-72)	ITALY (1976)	HUNGARY (1975)	UK (1975)
1 Food and Drink	24.4	35.3	37.8	37.5	28.2
2 Clothing and Footwear	11.6	10.0	10.4	15.2	9.3
3 Housing					
Rent	2.7	5.7	9.2	2.5	13.1
Fuel and Power	4.6	4.2	3.2	4.7	4.4
Other Housing Expenditure	3.9	-	2.0	1.9	2.1
4 Household Equipment					
Furnishings	14.6	8.3	9.2	10.8	7.0
Domestic Services	0.2	0.4	0.2	-	0.4
5 Medical and Health	2.5	5.5	3.7	1.9	0.8
6 Transport	15.8	13.5	12.8	12.6	14.6
7 Recreation	11.5	5.3	6.9	7.2	9.8
8 Education	1.0	0.6	0.3	0.9	0.7
9 Others					
Personal Care	3.8	2.8	-	2.2	3.3
Tobacco	1.4	1.2	2.1	1.8	3.1
Other Goods and Services	2.0	7.2	2.2	0.8	3.2
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(SOURCE - ILO)

The above percentages are for salaried workers. In many countries, these percentages are also published for different categories of people divided into urban, rural, etc. Further breakdown figures within these sub-divisions are also available in some cases. For individual commodities, however, consumption change is determined by the collection of data from different sources, such as production/manufacture, imports/exports, market share, etc.



Changes in consumption affect productivity in retailing. Changes in consumption take place all the time. There are several factors that contribute to these changes. Some of them are:



Population, life style, production trends, etc. have close relation to the consumption, each contributing to the growth of the other. They have an impact on the distributive trades, affecting productivity in retailing directly and often quickly.

Population changes occur in number and age group. Changes in number are often the result of growth as well as internal and external migration. Change in age group is dependent upon the number of births each year, which is greatly influenced by changing social values, use of contraceptives, etc.

Details in respect of Austria are as under:

POPULATION: TREND AND STRUCTURE 1934-2001 (FIGURES IN 000) <sup>(1)</sup>

Age	1934	%	1961	%	1971	%	1981	%	2001	%
0-14	1,599	23.7	1,584	22.4	1,825	24.5	1,558	20.9	1,478	19.8
60+	839	12.4	1,301	18.4	1,506	20.3	1,398	18.8	1,373	18.5
Unemployed	2,438	36.1	2,885	40.8	3,331	44.8	2,956	39.7	2,851	38.3
Index	100.0		118.3		136.6		121.2		116.9	
15-29	1,576	23.3	1,443	20.4	1,528	20.5	1,716	23.1	1,445	19.4
30-44	1,550	22.9	1,300	18.4	1,359	18.2	1,485	20.0	1,760	23.6
45-59	1,196	17.7	1,446	20.4	1,235	16.5	1,282	17.2	1,395	18.7
Employed	4,322	63.9	4,189	59.2	4,122	55.2	4,483	60.3	4,600	61.7
Index	100.0		96.9		95.4		103.7		106.4	
TOTAL	6,760	100.0	7,074	100.0	7,453	100.0	7,439	100.0	7,451	100.0
Index	100.0		104.6		110.3		110.0		110.2	

From the above it will be seen that:

- the population is increasing but slowly over a period of time;
- dependent population increases steeply between 1961-1971 and then tapers off again;
- the number of people over 60 years will come down by about 10% in the year 2001;
- people in gainful employment falls during the period 1961-1971 but rises slowly during 1981-2001.

(1) Extracted from a paper by Dr. Hans Perdich of Konsumverband, Austria, which was presented to the Research Officers' Group Meeting in Vienna from 25th to 29th September 1978

The movement of purchasing power and in whose hands it rests in any particular period is seen as closely as possible from the above forecast.

The increase in the number of self-service shops is an indication of the shortage of labour and consequent increases in its cost - reflected in the cost reduction efforts from the following:

NUMBER OF SELF-SERVICE FOOD STORES FROM 1.1.1960 TO 1.1.1976

Country	1.1.1960	1.1.1971	1.1.1976
Austria	448	6,924	8,339
Denmark		804	1,054
Finland	244	3,047	4,311
France	1,663	21,727	25,243
Federal Republic of Germany	17,132	86,398	72,987
Great Britain	6,350	28,000	26,114
Italy	250	1,490	19,825
Netherlands	1,785	8,672	8,390
Norway	1,470	3,820	5,923
Sweden	4,754	8,542	7,851
Switzerland	1,465	5,419	5,601

Furthermore, the forecast for households with two or more persons is expected to increase by 14% which, in turn, will result in new housing colonies calling for new locations for the shops. The family size, in keeping with the trend in population, is also expected to change from the present 3.1 to 2.6. With the change in family structure, employment and income pattern, lifestyles change, bringing considerable changes in the pattern of living. Innovations and inventions change the level of technology, the application of which causes a chain of changes, many of which are difficult to predict. To keep pace with this technology, the production pattern then undergoes a change. Manufacturers trying to maximise profit often undertake advertising designed for "demand creation".

The behaviour of market forces, their impact on consumption, in turn affecting the productivity of retailing, is a highly complex matter. This has to be studied continuously by the planning and research departments of the consumer cooperative movements, so as to survive in the market for the sole purpose of serving the member - customers, as close to their expectations as possible.

### 3. PLANNING AND PRODUCTIVITY

Planning<sup>(1)</sup> is necessary in any walk of life, and especially so in the case of the fast-moving distributive trade. To translate a cooperative's basic objective of service to members, the philosophy of corporate planning should place its faith in "growth". A zero growth is a clear sign of a slow decline and an open invitation for quick closure. The extent of market share a cooperative should aim for should be the level at which it can exert a substantial influence on the market in which it trades. This is not an expansionist approach, but a means to justify the end (to achieve the basic objective of serving the members).

Planning is an exercise to direct action towards a pre-determined end. Results achieved serve as feed-back to modify the plan, as well as the planning technique, until such time as it is possible to bring the plan and the achievement close to each other. Consecutive planning, involving short-term (1 to 2 years), medium-term (5 years) and long-term (10 years), is undertaken by Coop Schweiz. The Planning Team is headed by the Planning Manager and includes the heads of the departments of Public Relations, Central Finance and Accounts, Sales Planning, Goods Distribution, Marketing and Purchasing.

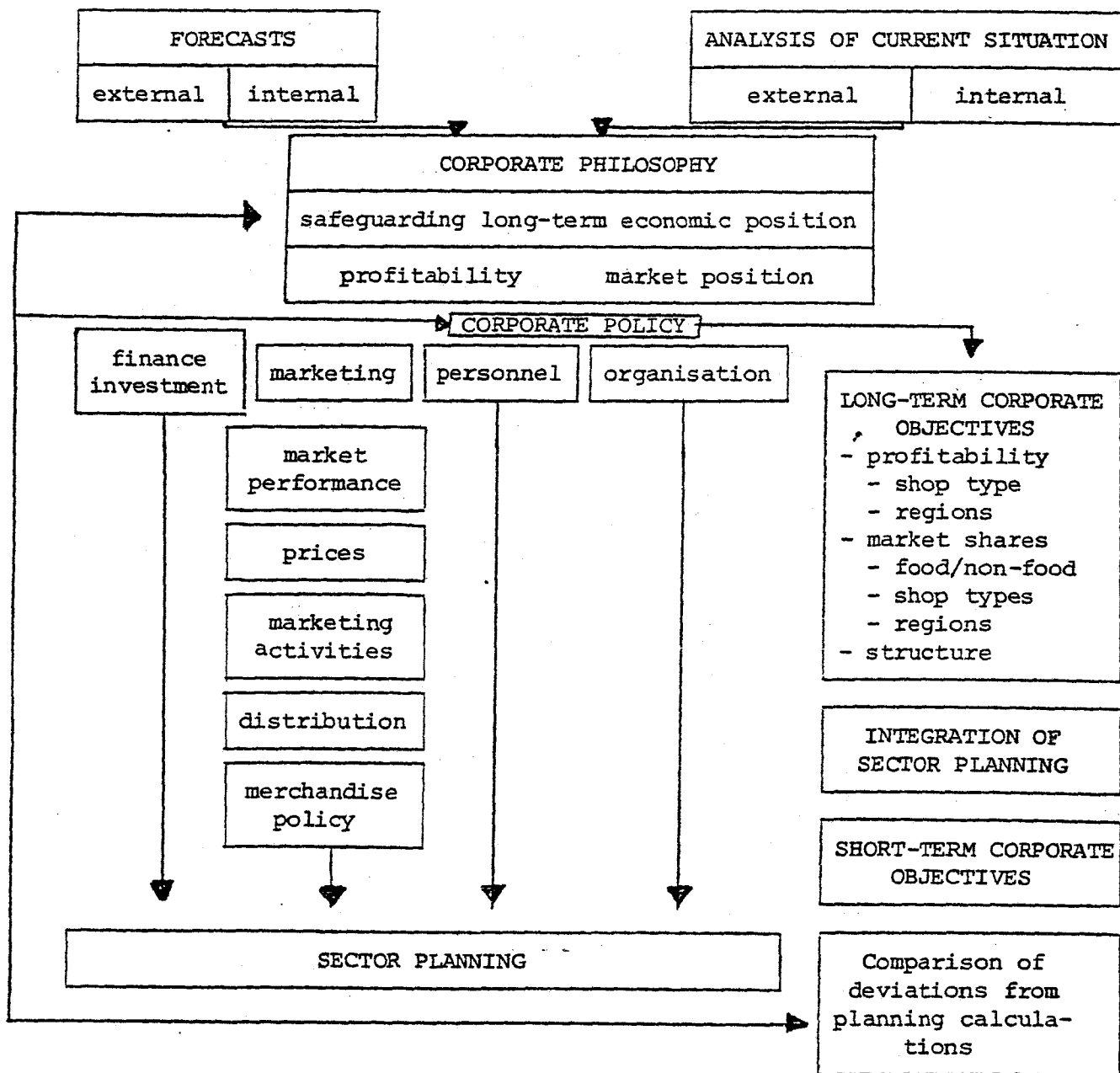
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(1) The description of "planning" in this chapter is based on the experience of Coop Schweiz (which is the eighth largest enterprise in Switzerland) by Dr. P. Meyer.

Coop Schweiz has a membership of 997,000 (Households), has an annual turnover of 5.1 Billion Swiss Francs, a retail market share of 10.5%, 1495 retail outlets, with an aggregate sale area of 479,000 sq.m. (including 15 department stores, 1 hypermarket, 16 cooperative supercentres - 1,500 sq.m. each - 239 cooperative centres, 948 self-service stores, 169 service stores, and 107 specialist stores). There are 95 cooperative societies, 11 regional warehouses, 45 productive and service enterprises and 28,200 employees. (1977)

Growth-oriented corporate planning attempts to increase progressively the market share. While doing so, the movement gains considerable competitive influence in the market, keeps pace, to a certain extent, with its competitors in trying to achieve its basic objectives. In the process, a higher productivity is attempted at every level and when achieved, there is a strong interdependence between planning and productivity in retailing.

A diagram that illustrates the planning model of Coop Schweiz is reproduced below:



#### 4. SITING POLICY<sup>(1)</sup> AND PRODUCTIVITY

The siting of a shop calls for careful study, keeping in mind the service to members and return on capital. Siting policy involves important decisions in respect of large investments. Apart from investments having to fulfill the basic principles of cooperatives, including the principle of self-help, it must be capable of bringing enough return to generate further investments for similar or related purposes.

Denmark has been divided into 8 regions, each forming a separate market entity. The map on the opposite page indicates the location of FDB's own warehouses and regional organisation.

Basic information such as income, consumption, production, market share and related changes on a period-to-period basis is collected separately for each region and for the nation as a whole by FDB.

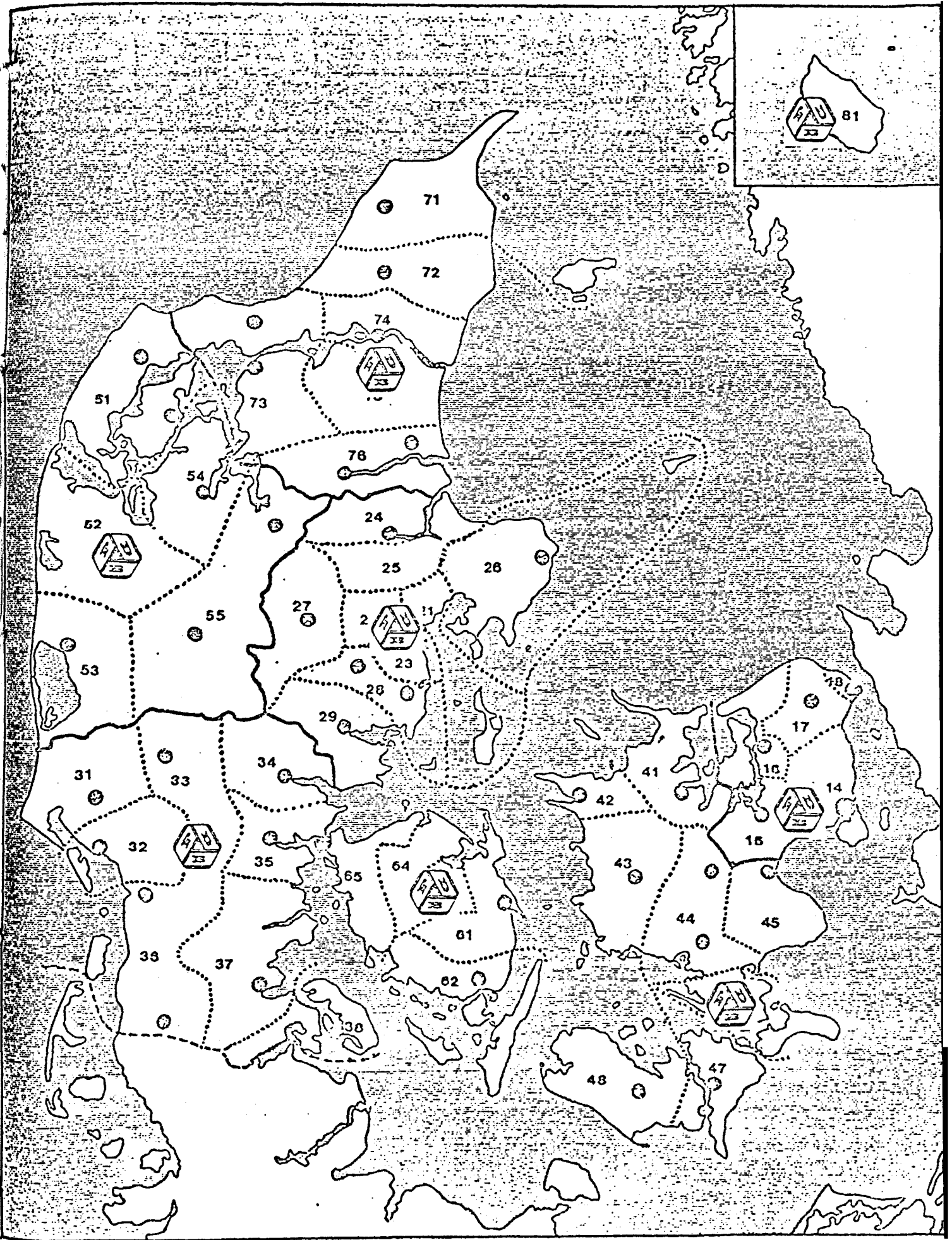
In Denmark the 8 regions are further divided into centres, each centre having a different type of shop - based on local needs:

Local centres	119
Medium centres	59
Sub-centres	36
<hr/>	
Total (number of towns)	211
<hr/>	

An indication of a local centre - and its structure - is shown on the maps on the next pages.

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(1) Denmark has 1415 consumer cooperative societies with 1800 retail outlets and a total membership of 914,015 in 1977. A large number of the societies are one-shop societies. The annual turnover was 10,102 million Danish Krone. FDB (Faellesforeningen for Danmarks Brugsforeninger) has 300 outlets. In addition, supplies to 1400 shops are made by FDB. FDB also does the bookkeeping of 95% of the cooperative shops involving 99.5% of the turnover.



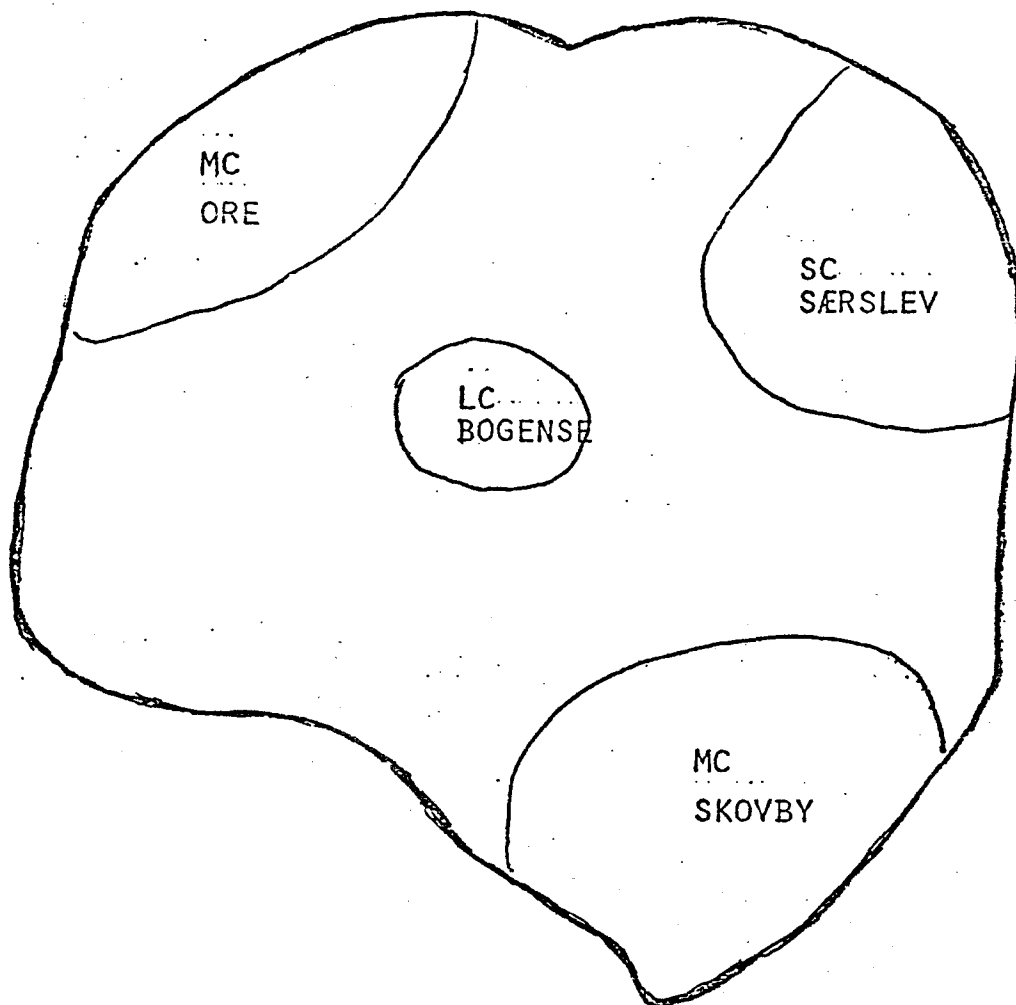




- 1 Uggerslev
- 2 Sandhøls Lyndeise

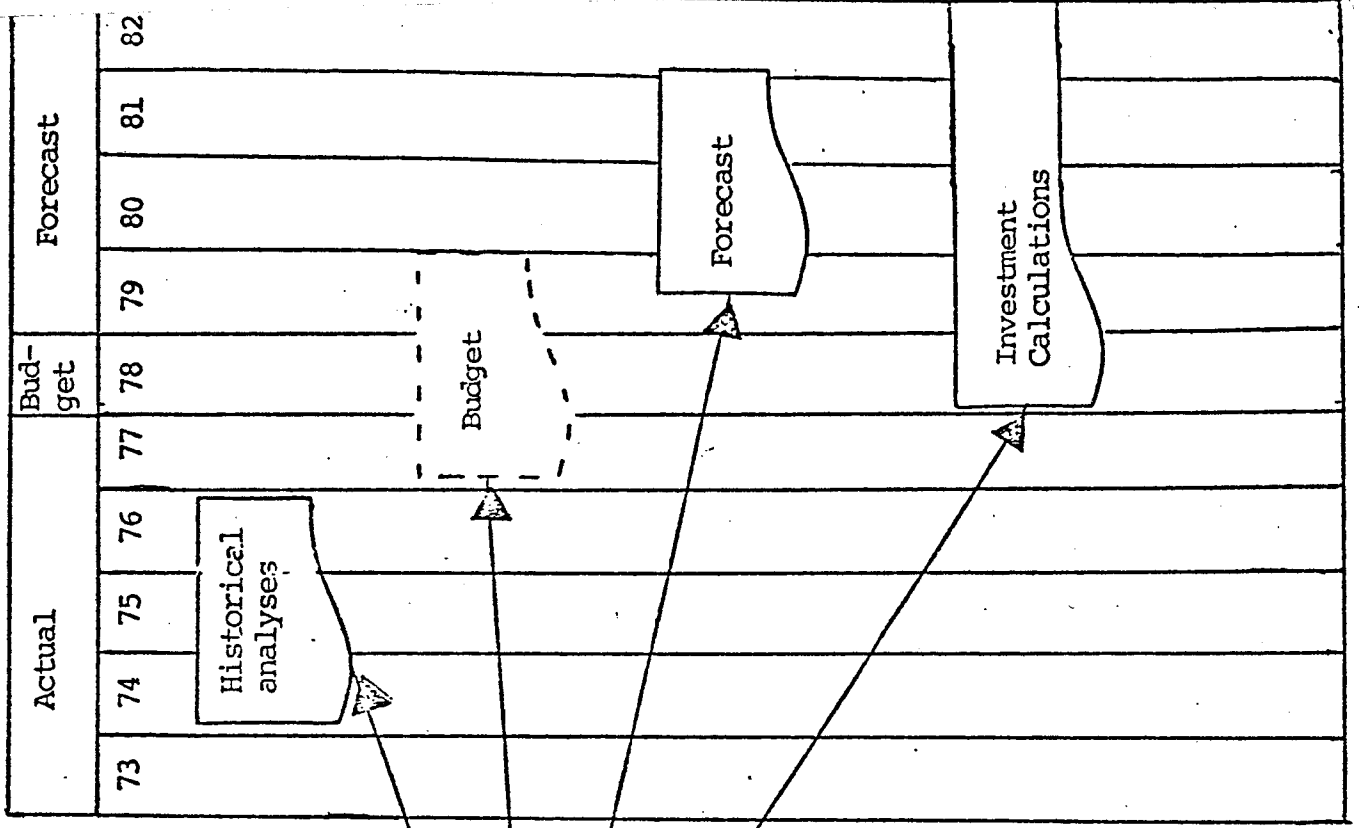
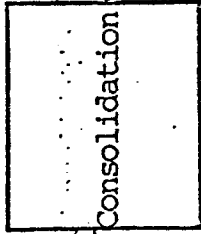
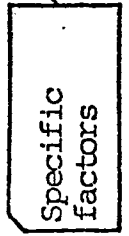
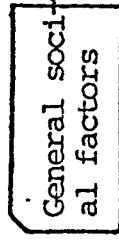
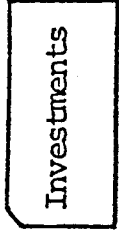
LOCAL CENTRES

STRUCTURE OF A LOCAL CENTER



119	LOCAL CENTERS
56	MEDIUM CENTERS
<u>36</u>	SUB-CENTERS
211	TOWNS

INPUT



FDB collects all relevant information from various sources. Roughly, it goes back to a period of five years (a history) and projects for 5 years (a forecast) in juxtaposition as per the sketch shown on the opposite page.

Since FDB does the bookkeeping of 95% of the shops, involving 99.5% of the turnover, it has already most of the necessary statistical information and trends pertaining to the study.

FDB has the added advantage of the accumulated knowledge and experience of projecting for several shop siting decisions. Each time, it forecasts and tests its results, it is able to refine its methodological tools in its own laboratory. Hence, it is able to project the past into the future in a forecast which has reasonable chances of success.

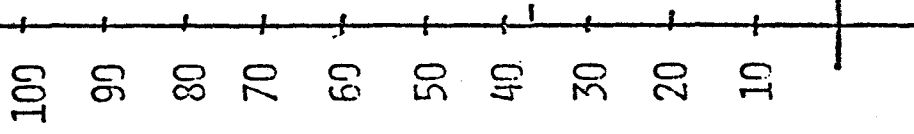
While doing so, FDB undertakes many exercises, one of which is as follows:

	<u>1977</u>	<u>Budget</u> <u>1978</u>	<u>Minimum</u> <u>Target</u> <u>1981</u>	<u>Market</u> <u>1981 in</u> <u>Mill.Kr.</u> <u>in 1977</u> <u>Prices</u>	<u>Required</u> <u>Annual</u> <u>Sales</u> <u>Growth</u>	<u>Annual</u> <u>Shop</u> <u>Expansion</u> <u>(M<sup>2</sup>)</u>
Albertslund	15 %	16 %	21 %	17,800	+ 19 %	8,400
Viby	25 %	26 %	28 %	6,100	+ 15 %	2,000
Vejen	27 %	28 %	28 %	6,200	+ 12 %	0
Vordingborg	27 %	27 %	29 %	6,100	+ 10 %	900
Holstebo	23 %	26 %	28 %	4,200	+ 12 %	1,300
Odense	30 %	31 %	32 %	4,200	+ 10 %	0
Skalborg	23 %	24 %	28 %	4,700	+ 13 %	1,200
<b>TOTAL</b>	<b>22 %</b>	<b>23 %</b>	<b>25 %</b>	<b>50,100</b>	<b>+ 14 %</b>	<b>13,800</b>

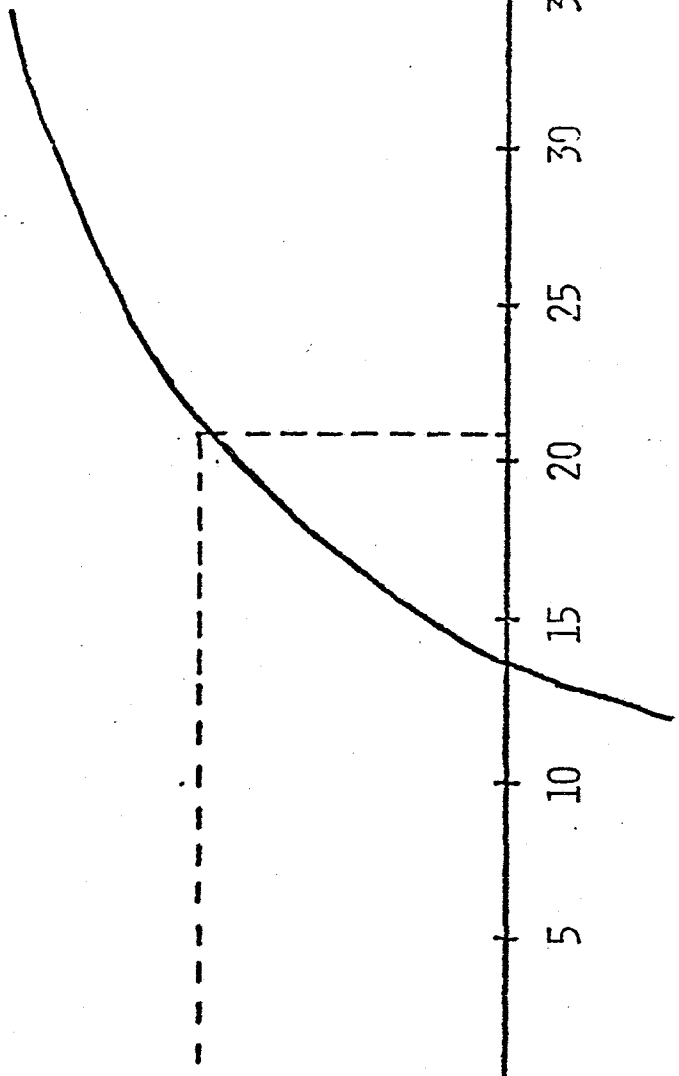
Over a period, FDB has been able to evolve a certain relationship between the internal rate of return and the shops' ability to mop up surplus for further investments. The guidelines so developed, relevant to the Danish situa-

DEGREE OF  
SELFFINANCING  
(%)

A



6TH YEAR OF OPERATION



INTERNAL  
RATE OF RETURN  
(%)

tion, are reproduced below:

CONNECTION BETWEEN INTERNAL RATE OF RETURN  
AND  
CASH AVAILABLE

<u>INTERNAL RATE OF RETURN</u>	<u>CASH AVAILABLE IS OBTAINED IN THE</u>
12%	10TH YEAR OF OPERATION
13%	10TH YEAR OF OPERATION
15%	10TH YEAR OF OPERATION
17%	9TH YEAR OF OPERATION
<hr/>	
21%	7TH YEAR OF OPERATION
<hr/>	
27%	6TH YEAR OF OPERATION
34%	4½TH YEAR OF OPERATION

The graph on the opposite page makes the position clear. An internal rate of return of 20% carries the necessary capacity to undertake self-financing to the extent of 40% (from its own reserves), a situation that satisfies the cooperative principles of self-help on one hand and the commercial approach of self-generating the growth on the other.

A worksheet based on a 21% rate of return and the degree of self-financing from the first year to the tenth year of operation, based on Danish experience, is shown on the opposite page. (2)

From this brief analysis, it is clear that siting decisions involving investment are extremely important. While they should satisfy the members' needs, the other cooperative principle of "self-help" could only be achieved if the investment brings back a return sufficient for further investment within a short period. Unless higher productivity is planned and ensured, it will not be possible to achieve the objectives of siting decisions.

---

(2) Worksheets covering profit/loss forecast, cash flow forecast and balance forecast, which formed an integral part of Mr. Kurt Hendriks' paper are included in this pamphlet as appendices 1 and 2.

## 5. COMPUTERISATION AND PRODUCTIVITY<sup>(1)</sup>

Retail management is complex. It is fast moving, labour intensive, and handled by a large number of people (20,000 employees in the Austrian consumer cooperative movement) in several hundreds of different locations. Investment is high and competition is keen; costs are daily increasing, margins are under strain. Some of the factors contributing to the present situation are:

- inflation;
- increasing labour costs;
- mounting costs of construction of new shops, warehouses, etc. and plant, machinery and facilities;
- increasing Government regulations on retail trade;
- increasing competition and new innovations and their impact on retailing;
- consumers are becoming more choosy;
- cost of capital is increasing, credit is becoming scarce.

Unless the productivity and profitability are increased, it will not be possible for the consumer cooperative to survive.

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(1) A large part of this chapter is drawn from the paper presented by Mr. J. Wiedey, Computer Manager, Konsum Österreich.

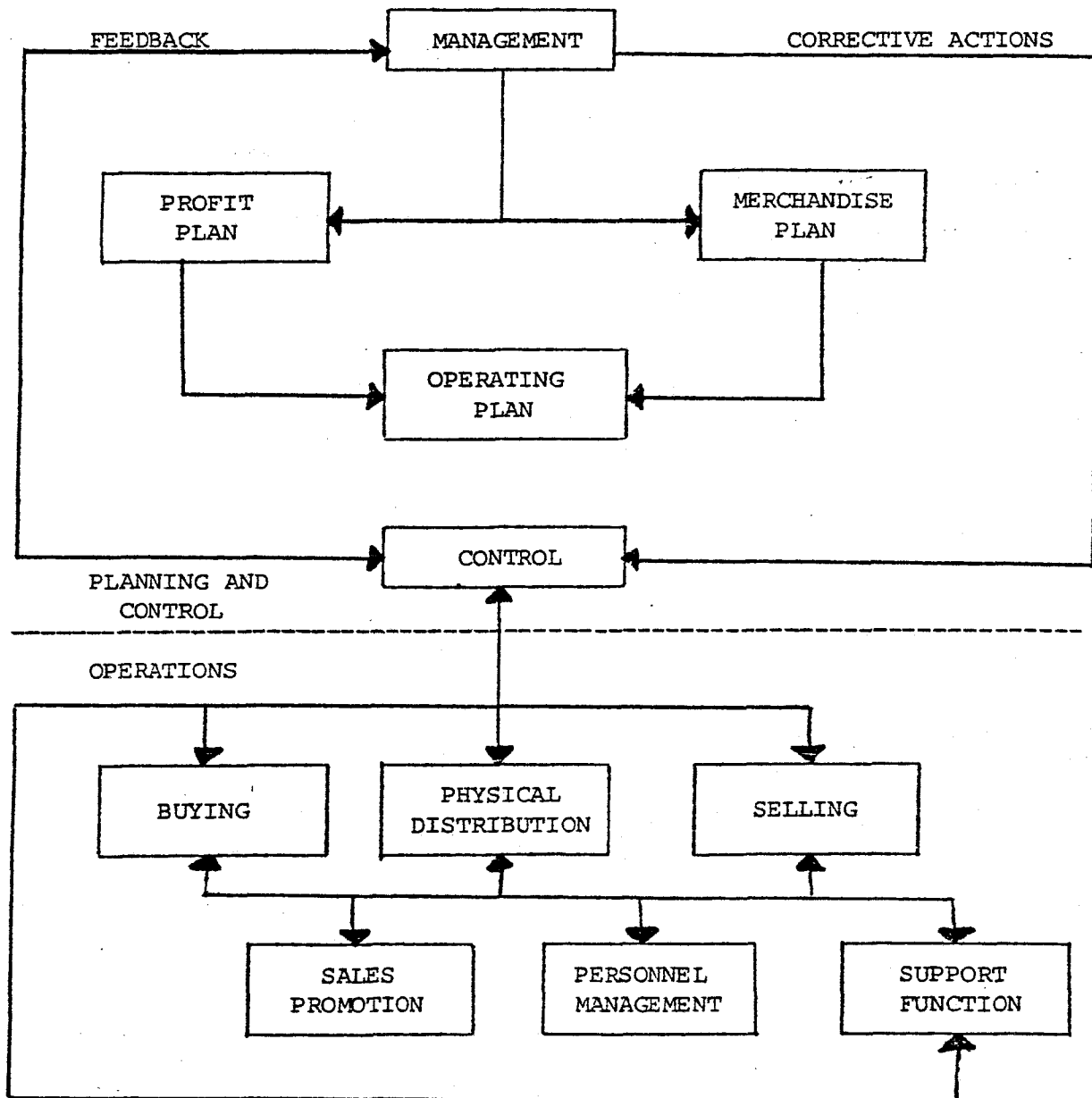
Dr. A. Rauter mentioned that 16 regional consumer cooperatives (with 39 cooperatives) have merged to form one consumer cooperative (Konsum Österreich) in Austria with over 730,000 members, 1,076 retail outlets, 38 departmental stores and an annual turnover of a little over 16,909 million Austrian Schillings (or about 1,108 million US \$). He said that cooperatives have a market share of 12% in total retailing, 20% in food. Konsum's main objectives are:

- (a) to improve competition by central purchasing;
- (b) to organise central sales promotion schemes;
- (c) to create a marketing department;
- (d) to strengthen own production with new lines and rationalise facilities;
- (e) to streamline administration and develop financing facilities;
- (f) to organise central advertising;
- (g) to rationalise inventory control/transport systems and
- (h) to make more use of EDP.

In short, the amalgamation is meant to optimise the use of the resources, to increase the productivity and profitability of the consumer cooperative movement in Austria.

Management requires facts; they must be up-to-date, presented in a useful form as and when needed so that the facts can play their own role in the decision-making process. Gone are the days when people could work on hunches and guesswork. They may turn out to be costly ventures - costlier than one can imagine.

A control chart, as visualised by the Computer Manager at Konsum Österreich, is as follows:



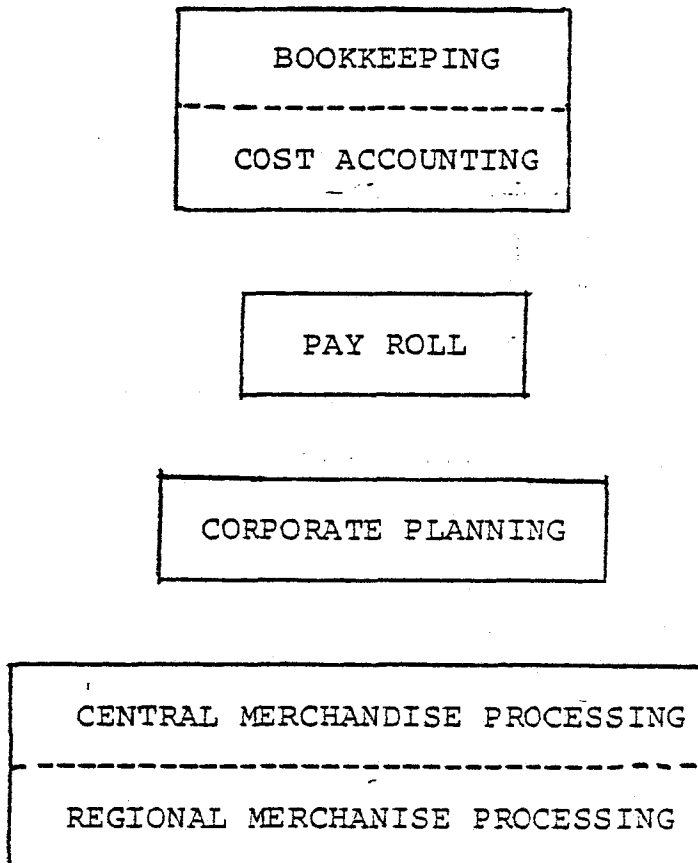


The introduction of a computer, to furnish the management with the necessary information, has to provide all the data pertaining to the past for the planning department. An integrated planning department has a number of sub-systems such as:

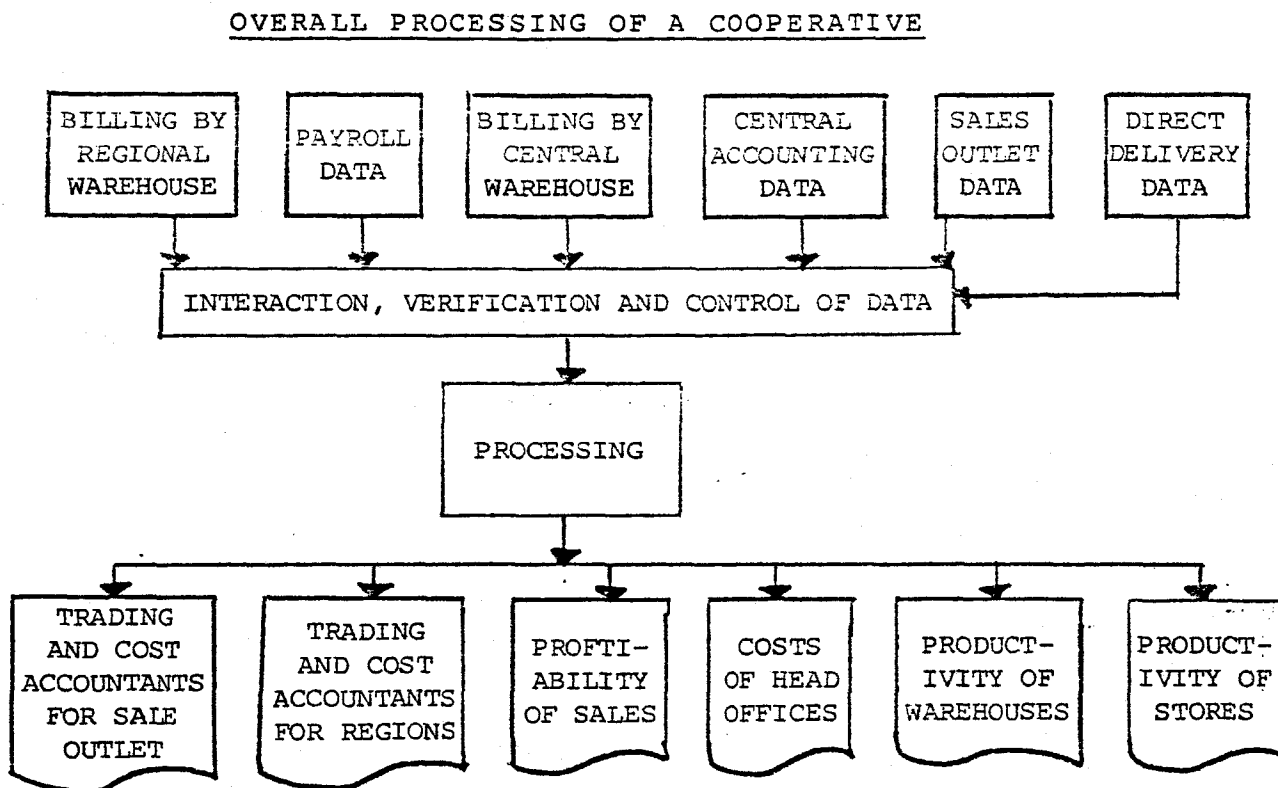
- corporate planning;
- merchandise planning and control;
- personnel planning and control;
- finance planning and control;
- merchandise processing.

Securing an overall view may not be difficult, but details of productivity and profitability, which are important both for planning and management are not always easily available.

Data processing sub-systems are as follows (January 1979):



The diverse activities and the problems of processing data in a consumer cooperative may be seen in the chart below:



For the purpose of computer analysis, sales outlets are grouped in:

- about 1,000 up to 1,000 sq.m. (Konsum);
- 45 supermarkets and hypermarkets (Coop and KGM);
- 45 department stores (FORUM).

The head offices and regional offices are divided into departments and sections on a cost centre basis. Sales outlets are on a profit centre (or cost carrier) basis without allocating overheads from transport or warehouses.

The merchandise processing sub-system provides the following functions and is the basis of the Retail Information System:

- Purchase Order Management;
- Receiving and Checking;

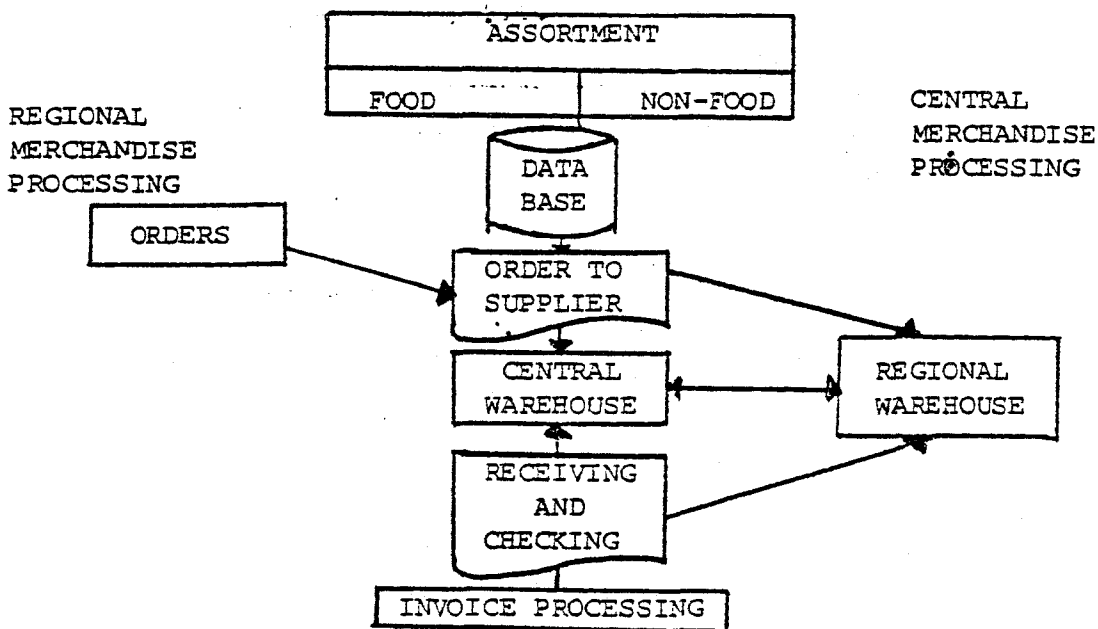
- Direct Delivery;
- Warehouse Distribution
- Invoice Processing.

On a daily, weekly, monthly and seasonal basis the system provides report preparation and historical information to the user (management at different levels).

The merchandise information sub-system is used to control and monitor the inventory investment within a multi-store cooperative retail environment. The merchandise information sub-system consists of the following sections:

- Purchase Department;
- Sale Reports;
- Assortment Analysis.

The manner in which the Purchase Order Management is handled by the Computer Department may be seen from the following chart:



Estimating the productivity of the POM (Purchase Order Management) is done as will be seen on the following page:

ESTIMATING THE PRODUCTIVITY OF POM

PURCHASE DATA

per PURCHASE DEPARTMENT and SECTION  
per SUPPLIER and PRODUCTS

REPORT (INFORMATION) - MONTHLY

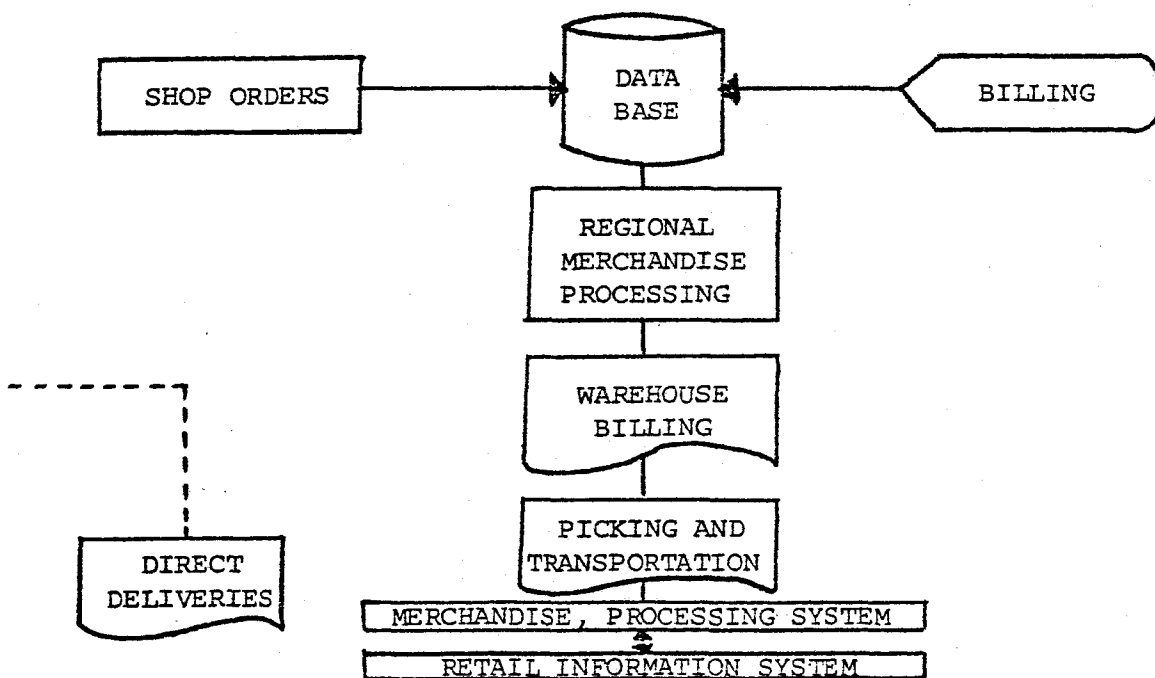
SUPPLIER  
PRODUCT: PURCHASE PRICE  
REBATES  
SELLING PRICE (highest)  
GROSS PROFIT

REPORT (estimating productivity)

SUPPLIER  
PRODUCT: Quantity on entering sales OUTLET  
PURCHASE PRICES  
REBATES  
SELLING PRICES (actual)  
NET PROFIT (before sales OUTLET cost)  
ACTUAL  
NET PROFIT (before sales OUTLET cost)  
PLANNED

The Warehousing Distribution Processing is undertaken to provide information on merchandise as follows:

WAREHOUSE DISTRIBUTION PROCESSING



A sales report (on entering sales outlet basis) is processed for management at different levels as follows:

SALES REPORT ON ENTERING SALES OUTLET BASIS

Per merchandise group/individual sales outlet

actual selling price of products

actual purchase price of products

actual rebates

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\* = gross profit of products 2

- direct costs of sales outlet

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\* = net profit of sales outlet

\*. planning data of gross profit of products

planning data of sales of products

\* planning data of net profit sales outlet

From the brief analysis above, it will be seen that computers help to provide information to management as and when required in a useful form. This enables management not only to monitor the performance on a day-to-day basis, but also to check its own decisions and their effects before it becomes too late. This quick feed-back saves losses running into millions.

The total cost of the introduction of a modern computer is about 0.5% of the sale turnover (Austrian estimate). The productivity achieved as a result of computers outweighs the cost or the efforts put in.

6. MANAGEMENT OBJECTIVES  
AND PRODUCTIVITY

The setting up of objectives is the primary function of management. While doing so, the management has to take into consideration its ability to achieve them within a foreseeable period.

There are different kinds of management:

- management by crisis;
- management by exception;
- management by objectives (MBO).

An MBO Programme is not merely the setting of objectives. It is both a policy and a programme - a strategy for an organisational change. It promotes a participatory style of management. Before setting the objectives, the participation of all those working in the organisation has to be ensured, in an extensive manner, in the formulation of the objectives.<sup>(1)</sup>

The concept of Coop Schweiz's management by objectives is modelled on the McGregor system. Individual objectives are derived from the objectives for either the whole enterprise or a large part of it. The discussions of objectives are at the heart of the objective-setting process. Ideas of objectives emanating from the staff at different levels are then coordinated. This is an essential part of the MBO Programme. A modern concept of management demands that each employee feels largely responsible for checking his own results, and management by objectives is an ideal way of achieving this.

The concept of management by objectives is linked with extensive management training - combining discussion of the theoretical basis of the concept with practical exercises.

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(1) "An MBO Programme is not a personnel programme super-imposed on an existing managing system. It is in itself a style of management" - David E. Babcock, 6th World Conference of Retailers, London, 12th April 1978.

From the brief discussion above, it may be seen that in the process of setting objectives, a higher productivity has already been built in. By practising the participatory style of management, the objectives set - both quantitative and qualitative - tend to get achieved, if not fully, at least for a large part within the time limit set for the purpose.

The objective-setting process operates at two levels in Coop Schweiz:

- at Group level;
- within Coop Schweiz, the central organisation of the Coop Group.

#### Coop Group

At the beginning of each year the Department of Corporate Planning sets qualitative and quantitative objectives for the coming business year.

The quantitative objectives are agreed upon with the Central Finance and Accounts Department and checked as to their feasibility.

In February/March they are discussed by the Planning Team.

The directors of the regional societies and the top management of Coop Schweiz are then asked for their comments and opinions.

At a meeting of the Board of Management and the managers of the regional societies in April/May, the amended overall objectives are discussed.

The further amended draft then goes to the Cooperative societies at the end of May to be approved and put into effect.

On the basis of these overall objectives, the cooperative societies then prepare their individual objectives for the coming year. At the same time, the members of the Board of Management of Coop Schweiz give their ideas of objectives to their staff.

### Coop Schweiz

On the basis of the overall objectives approved by the Board of Directors, the heads of divisions formulate objectives for their divisions and give them to the department managers for their comments.

On the basis of these objectives, the department managers prepare concrete objectives for the individual departments of Coop Schweiz for the coming year, in collaboration with the section managers. In the larger departments, this process is extended to lower levels of management.

An essential part of the process of objective-setting at Coop Schweiz is the discussion of objectives between the division heads and the department managers, who are usually accompanied by their staffs. These meetings are a central element of management by objectives; it is here that performance targets are negotiated. This often entails a great deal of hard discussion but it ensures that both sides are clear about what is to be achieved during a given period before the commencement of that period.

Objectives are usually checked every four months; in some cases every month, particularly in the trading sector, where a check is made every month with the aid of the budget to see whether targets have been reached.

### Results

Coop Schweiz has been working with the concept of management by objectives in its present form for about eight years.

Its experience is:

- the concept requires a period of introduction during which time a great deal of work and time must be put in. It is essential that the method be introduced to those concerned by means of training courses and that they be given practice in applying it.



- the management of the enterprise must be prepared to use a participatory style of management. Managers who are not prepared to work on the principle of delegation will experience difficulty in making a success of management by objectives.

- objectives must be set by top management before this method can be applied.

- managers at all levels must realise that the essence of management by objectives is not the technical but the management side. The most important elements are the inclusion of their staff at the discussion stage, consideration of their staff as equal partners during the discussion of objectives and a check by each member of staff on the achievement of his or her own objectives.

- it is not the system which is decisive, but the determination of all managers to apply the concept of management by objective is important. As always, personal example is the determining factor.

Any deviation between the objectives set and results achieved will help in the refining of methods until such time as they are brought close to each other. Failure to achieve the objectives can be located within a short period and remedial action can be taken. In the process, there will be plenty of opportunity to stimulate, on a voluntary basis, self-imposed efforts for a better performance. Incidentally, any incompetence will come to the surface for a summary treatment.

Management objectives and productivity have close relationship and they go together.

## 7. LABOUR AND PRODUCTIVITY

Retailing is labour intensive and operates on a relatively low capital-employee ratio. A sizeable percentage of the active workforce finds its way into retailing. Similarly, retailing absorbs a considerable proportion of the female labour force.<sup>(1)</sup> The share of the whole-sale and retail trade, restaurants and motels, etc. of the economically active population is 20.2% (USA); 14.8% (UK); 15.2% (Federal Republic of Germany); 4.9% (India); 7.7% (Sri Lanka); 10.9% (The Philippines).<sup>(2)</sup>

Generally, labour costs constitute about two-thirds of the total cost of distribution. The demand for higher wages is often influenced by several extraneous factors, such as inflation. Government regulations; pressure from trade unions and other organisations result in the increased provision of fringe benefits including social and welfare services, all of which add to the sum total of personnel costs.

Any increase in the cost has necessarily to be met from the revenue as a result of an increase in sales. The consumer cooperatives always look for new fields both to extend its service to members and to increase the sale volume with a view to meeting the ever-increasing costs of operation. The efforts in this direction set their own limitations. Often, the increase in costs takes place suddenly and quickly due to factors outside the control of the management. Its efforts to increase the sale volume is a painstakingly long and planned process involving heavy investments. In such circumstances, often labour becomes the first target. A general trend towards the increase in the cost of labour followed by a reduction in the number of staff and an increase in the sale per employee

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(1) "Most consumer cooperative movements use more than 50% of female labour as their employees" - The Situation and Role of Women in the Cooperative Movement, ICA, 1971.

(2) S. Dandapani - The Role of Industrial Cooperatives in Economic and Social Development: The Problems in the Developing Countries, a paper presented at the 1st Open World Conference on Industrial Cooperatives, Rome, 26th October 1978.

(productivity) can be traced in a number of organisations. An illustrative example of this is as follows:

DATA PERTAINING TO A COOPERATIVE MOVEMENT IN EUROPE

Year	Staff Employed	Index	Cost of Staff in Millions	Index	Sale Volume in Millions	Index	Sale per Employee	Index
1972	157,692	100	188.6	100	1,276.7	100	8,096	100
1973	154,258	98	207.6	110	1,430.8	112	9,000	111
1974	150,332	95	252.3	134	1,667.3	131	10,700	132
1975	141,146	90	318.8	169	2,044.7	160	13,900	172
1976	134,784	85	349.7	185	2,379.6	186	17,200	212
1977	130,789	83	376.5	200	2,673.2	209	19,750	244

An increase in the cost of operation combined with changes in consumption force the retailers to restructure the retail trade. In the Finnish context, the position is as follows:

NUMBER OF RETAIL ESTABLISHMENTS AND THE SHARE OF DIFFERENT BRANCHES IN SALES IN FINLAND, 1964 and 1974

	1964			1974		
	Number of Establishments	% of Total	% of Sales	Number of Establishments	% of Total	% of Sales
Department Stores	166	0.4	6.9	317	0.9	12.2
Food and General Stores	22,566	56.0	46.5	16,857	43.7	34.4
Textiles, Clothing and Footwear Stores	6,080	15.1	8.9	5,181	14.0	6.8
Hardware, Electrical, Agricultural and Sport Stores	2,082	5.2	6.8	2,533	6.9	8.9
Furniture and Home Furnishings Stores	848	2.1	1.6	968	2.6	2.3
Car Dealers and Service Stations	1,888	4.7	15.7	3,444	9.3	21.5
Other Branches	6,685	16.6	13.6	7,590	20.6	14.0
<b>TOTAL</b>	<b>40,315</b>	<b>100.0</b>	<b>100.0</b>	<b>36,890</b>	<b>100.0</b>	<b>100.0</b>

Reduction in the number of food and clothing shops and an increase in other branches such as consumer durables, etc. also indicates a change in the income pattern. The share of shops belonging to four nationwide chains selling everyday goods

reached as much as 85% (1976). These developments force retailers to look at the number and the cost of staff more critically than ever.<sup>(3)</sup>

Sale per employee in the Finnish retail trade in 1974 compared with 1970 is as follows:

	1970	1974	% Increase
Department Stores	111	122	9.8
Food and General Stores	106	137	28.9
Textiles, etc.	67	85	27.5
Hardware, etc.	112	143	27.3
Furniture, Furnishings	99	142	43.5
Car/Auto	156	198	27.2
Other Branches	57	76	32.8
All Branches	108	138	28.3
Cooperatives	126	144	14.0

Indices for the growth of sales and number of employees in the E-Cooperative Movement for the years 1970 to 1977 is as follows:

Year	<u>SALES VOLUME</u>		<u>EMPLOYEES</u>			
	Index	Change %	Shop Employees	Change %	Shop, Office and Warehouse Employees	Change %
1970	100		100		100	
1971	101	1.0	96	- 4.0	96	- 4.0
1972	104	3.0	92	- 4.2	93	- 3.1
1973	110	5.8	90	- 2.2	92	- 1.1
1974	117	6.4	89	- 1.1	90	- 2.2
1975	114	- 2.4	85	- 4.5	87	- 3.3
1976	111	- 3.1	81	- 4.7	84	- 3.5
1977	105	- 5.1	75	- 7.4	77	- 8.3

(3) These details are extracted from the paper presented by Mr. Erkki Salonen. Both the E-Cooperative Movement and SOK, two cooperative organisations in Finland, play an effective role in the stabilisation of prices in the retail trade in Finland.

A slow increase in the volume and a slight decrease in the staff is the consequence of high cost of operation.

Measuring the cost of operation, especially the cost of personnel, with particular reference to volume on a period-to-period basis, helps to locate the fall in productivity and profitability. Before the position gets out of control, it becomes necessary to take remedial action.

A higher degree is achieved by several steps, including big incentive schemes, time and motion studies and the introduction of progressive technology.

8. STATISTICS AND PRODUCTIVITY

Productivity in a fast-moving organisation cannot be studied unless there is adequate documentation at all levels. Arrangements should exist for the collection and compilation of figures in a certain order so that they can appear monthly for management use in the decision making.

Illustrative examples used in the case of a single consumer cooperative in the UK is attached to this pamphlet as Appendix 3. The compilation of such indices monthly, quarterly, half-yearly or yearly will be useful for the management to arrive at decisions or alter decisions already made with a view to achieving the set objectives.

Statistics maintained in the proper way will serve as an excellent tool to measure productivity and enable management to initiate timely action.



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Profit and loss forecast on:

	<u>1978</u>	<u>1979</u>
Sales	22.500	26.730
Sales index	100	119
Invoiced gross profit	4.432	5.266
Actual gross profit	4.207	4.999
Wages and soc. contr.	<u>2.070</u>	<u>2.432</u>
Marginal profit	2.137	2.567
Sales expenses		
Rent		
Heating and lighting		
Misc. costs	<u>523</u>	<u>575</u>
Total costs	523	575
Operating profit	1.614	1.991
Depreciation	1.050	735
Calc. interest, curr. assets	552	418
Calc. interest, fixed assets	1.120	960
Calc. interest	1.672	1.378
Primary profit	<u>÷ 1.107</u>	<u>÷ 122</u>
Less calc. interest	1.672	1.378
Actual interest	<u>÷ 72</u>	<u>÷ 1.121</u>
Wholesale dividend		
Secondary costs		
Net profit	<u>492</u>	<u>136</u>
Retail dividend		
Taxes		
Consolidation	<u>, 492</u> <u>=====</u>	<u>136</u> <u>=====</u>
Sales per square meter	15,00	16,50
Volume index	1,00	1,10
Price index	1,00	1,03
Wages index	1,00	1,10
Efficiency index	1,00	1,03
Percent on sales		
Invoiced gross profit	19,70	19,70
Actual gross profit	18,70	18,70
Wages and soc. contr.	9,20	9,10
Marginal profit	9,50	9,60
Operating profit	<u>÷ 4,92</u>	<u>÷ 0,46</u>

Cash-flow forecast on:

	<u>1978</u>	<u>1979</u>
Operating profit	1.614	1.991
Change in debtors	÷ 147	÷ 46
Change in stock	÷ 1.044	÷ 234
Change in creditors	<u>1.033</u>	<u>232</u>
Cash-flow from trading	1.457 =====	1.943 =====
Investments	÷ 10.000	
Taxes payed		
Dividend payed		
Secondary costs	_____	_____
Operating cash-flow	÷ 8.543 =====	1.943 =====
Change in long-term borrowing	÷ 300	÷ 300
Actual interest	<u>÷ 72</u>	<u>÷ 1.121</u>
Net cash-flow	÷ 8.915 =====	522 =====
Internal rate of return	18,05	
Investment	1.800	
Number of years	10	
Days in stock	30	
Days of debt	4	
Days of credit	20	



APPENDIX 2

Balance forecast on:

	<u>1977</u>	<u>1978</u>
Cash available	_____	_____
Current assets	300	1.614
Fixed assets	<u>1.500</u>	<u>10.450</u>
Total	<u>1.800</u> =====	<u>12.064</u> =====
Current liabilities	200	1.233
Long-term liabilities	600	300
Bank debts		9.038
Net capital	<u>1.000</u>	<u>1.492</u>
Total	<u>1.800</u> =====	<u>12.064</u> =====
Percent on total		
Cash available		
Current assets	17	13
Fixed assets	<u>83</u>	<u>87</u>
Total	<u>100</u> =====	<u>100</u> =====
Current liabilities	11	10
Long-term liabilities	33	2
Bank debts		75
Net capital	<u>56</u>	<u>12</u>
Total	<u>100</u> =====	<u>100</u> =====

PARTICULARS		1972	1973	1974	1975	1976	1977
18 Percentage of Fixed Assets to Working Capital	%	47.8	43.9	44.9	49.8	52.4	61.2
(Fixed Assets x 100) (Working Capital )							
19 Percentage of Current Assets to Working Capital	%	52.2	56.1	55.1	50.2	47.6	38.8
(Current Assets x 100) (Working Capital )							
20 Percentage of Current Assets to Current Liabilities	%	144.0	137.0	139.0	143.0	164.0	160.0
(Current Assets x 100) (Current Liabilities)							
21 Return on Working Capital	%	44.0	52.7	53.0	46.6	37.8	31.0
(Profit x 100 ) (Working Capital)							
22 Sales to Working Capital	%	5.7	6.4	6.4	6.1	5.7	5.4
(Sales x 100 ) (Working Capital)							
23 Percentage of Fixed Overheads to Sales	%	2.4	2.5	2.9	3.3	3.2	3.1
(Fixed Overheads x 100) (Sales )							
24 Cash Bank Deposits (End Year Balance)	OOO's	285	170	256	424	501	474
	Index	100	57	90	149	176	166
25 Percentage to Cash Available to Pay Debts	%	26.6	16.2	24.2	35.2	36.2	29.0
(Cash/Bank Deposits x 100) (Short-term Debts )							
26 Percentage of Cash/ Bank Deposits to Current Assets	%	12.8	6.4	9.1	14.8	16.1	16.1
(Cash/Bank Deposits x 100) (Current Assets )							

STATISTICS AND PRODUCTIVITY MEASUREMENT  
OF A COOPERATIVE IN UK

I MEMBERSHIP

PARTICULARS		1972	1973	1974	1975	1976	1977
1 Membership	000's	96.2	100.0	103.4	108.3	112.0	115.9
	Index	100	104	107	113	116	120
2 Population	000's	280.0	285.0	294.0	299.0	297.0	300.0
	Index	100	102	105	107	106	107
3 Membership as a percentage of Population	%	34	35	35	36	38	39
$\frac{\text{Membership} \times 100}{\text{Population}}$							
4 Average Share Capital per member							
$\frac{\text{Members' Capital} \times 100}{\text{Membership}}$	%	17.4	17.3	17.0	16.9	17.5	17.9
(See item 6 for Share Capital)							
5 Average Sales per Member	£000's	159	172	186	216	256	304
$\frac{\text{Sales}}{\text{Membership}}$							
(See item 29 for Sales figures)	Index	100	108	117	136	161	191

(NOTE: MEMBER HOUSEHOLD TO TOTAL HOUSEHOLD AND ACTUAL MEMBERSHIP TO POTENTIAL MEMBERSHIP FIGURES COULD ALSO BE CALCULATED IN THE SAME MANNER AND COMPARED YEAR TO YEAR)

II FINANCING

6 Share Capital	£000's	1,681	1,732	1,759	1,839	1,959	2,057
	Index	100	103	105	109	117	122
7 Reserves	£000's	1,531	1,926	2,286	2,664	3,190	3,881
	Index	100	126	149	174	208	253
8 Own Capital	£000's	3,212	3,658	4,045	4,503	5,149	5,938
(Share Capital + Reserves)	Index	100	114	126	140	160	185

PARTICULARS		1972	1973	1974	1975	1976	1977
9 Borrowed Capital	£000's	1,071	1,047	1,057	1,205	1,385	1,633
	Index	100	97	99	113	129	152
10 Working Capital (Current Assets +Fixed Assets -Current Liabilities) (See items 14,15,16)	£000's	4,283	4,705	5,052	5,708	6,536	7,572
	Index	100	110	118	133	153	177
11 Percentage of Own Capital to Work- ing Capital  (Own Capital x 100) (Working Capital )	%	75	78	80	79	79	78
12 Percentage of Borrowed Capital to Working Capital  (Borrowed Capital x 100) (Working Capital )	%	25	22	20	21	21	22
13 Percentage of Own Capital to Borrow- ed Capital  (Own Capital x 100) (Borrowed Capital )  (Indicative of the degree of self- sufficiency)	%	300	349	383	374	371	364
<u>III ASSETS</u>							
14 Current Assets	£000's	2,234	2,639	2,784	2,867	3,113	2,936
	Index	100	118	125	128	139	131
15 Fixed Assets	£000's	2,048	2,066	2,268	2,841	3,423	4,636
	Index	100	101	111	139	167	226
16 Current Liabilities	£000's	1,408	1,665	1,894	2,395	2,478	3,075
	Index	100	118	135	170	176	218
17 Percentage of Current Assets to Fixed Assets  (Current Assets x 100) (Fixed Assets )	%	109.0	128.0	123.0	101.0	91.0	63.0

IV INCOME AND EXPENDITURE

- 40 -

PARTICULARS		1972	1973	1974	1975	1976	1977
27 Total Income <sup>(1)</sup>	£000's	4,027	4,669	5,331	6,730	7,759	8,761
	Index	100	116	132	167	192	218
28 Total Expenditure <sup>(2)</sup>	£000's	3,040	3,518	4,192	5,306	6,171	7,088
	Index	100	116	138	175	203	233
29 Total Sales	£000's	15,307	17,203	19,397	23,429	28,704	35,220
	Index	100	112	127	153	188	230
30 Net Profit	£000's	1,174	1,418	1,599	1,799	1,891	2,014
	Index	100	120	136	153	161	172
31 Sales per Employee (Sales (Number of Employees))	£000's	11.3	12.1	14.0	17.0	20.5	22.5
	Index	100	107	124	150	181	199
32 Total Income to Sales (Total Income x 100) (Sales )	%	26.3	27.1	27.5	28.7	27.0	24.9
33 Net Profit to Sales (Net Profit x 100) (Sales )	%	6.5	7.0	6.5	5.9	5.2	5.9
34 Expenditure to Sales (Total Expenditure x 100) (Sales )	%	19.9	20.4	21.6	22.6	21.5	20.1
35 Personnel Expenses to Total Expenditure (Personnel Expenditure x 100) (Total Expenditure )	%	54.1	53.1	53.1	55.0	55.2	53.3
36 Sales Net (Total Sales - Cost of Sales)	£000's	3,780	4,355	5,123	6,457	7,754	7,730
	Index	100	115	136	171	205	204
Total Gross Margin							

(1) IN THE CASE OF SALES, THE COST OF GOODS IS EXCLUDED; INCOME INCLUDES THE DIFFERENCE BETWEEN THE SELLING AND BUYING PRICE AND ALL OTHER INCOMES

(2) DOES NOT INCLUDE COST OF GOODS

PARTICULARS		1972	1973	1974	1975	1976	1977
37 Percentage of Income Derived From Total Income							
(Sales Net x 100) (Total Income )	%	93.9	93.3	96.1	95.9	96.6	96.7
(Excludes other income)							
38 Stock Turnover Ratio							
(Total Sales End Month/Year Stocks)	Ratio	12.8	11.5	11.0	9.6	9.8	9.8
39 Number of Days' Sales held in Stock	No.	28.5	31.7	33.2	38.0	37.0	37.0
(365 Stock Turnover Ratio)	Index	100	111	116	133	130	130
40 40 Labour Costs	OOO's	2,779	3,151	3,893	4,939	5,907	6,721
	Index	100	113	140	178	213	242
41 Value Added	No.	3,953	4,569	5,492	6,738	7,798	8,735
(Labour Costs + Net Profit )	Index	100	116	139	170	197	221
42 Cost of Sale	No.	11,354	12,634	13,905	16,691	20,906	26,485
(Total Sales - Value Added)	Index	100	111	122	147	184	233
<u>V PRICING</u>							
43 Gross Margin Per- centage							
(Value Added x 100) (Sales )	%	25.8	26.6	28.3	28.8	27.2	24.8
44 Percentage Mark-up							
(Value Added x 100) (Cost of Goods )	%	34.8	36.2	39.5	40.3	37.3	33.0
<u>VI GOODS AND SERVICES</u>							
45 Sale Mix							
(Sales x 100) (Total Sales)							
Foods	%	36.4	36.1	39.0	42.4	42.1	41.3
Grocery	%	7.4	8.5	9.4	9.4	11.0	9.4
Meat	%	2.0	1.7	1.5	1.4	1.1	0.9
Fruit and Veg.	%	0.2	0.1	0.1	0.1	0.1	0.1
Restaurant	%	11.9	11.3	11.3	8.9	10.9	12.7
Dairy	%	57.0	57.7	61.2	61.8	65.2	64.4
SUP TOTAL	%						



PARTICULARS	1972	1973	1974	1975	1976	1977
<b>47 Net Profit Mix</b>						
<b>(Net Profit x 100)</b>						
<b>(Total Net Profit)</b>						
<u>Foods</u>						
Grocery	% 28.40	23.90	34.30	36.10	37.50	37.50
Meat	% 6.90	8.00	6.60	4.60	5.30	10.80
Fruit and Veg.	% 3.30	2.90	3.20	3.00	2.30	1.90
Restaurant	% 0.05	0.70	0.20	0.20	0.20	0.40
Dairy	% 12.70	16.20	16.20	21.00	24.90	20.20
SUB-TOTAL	% <u>51.40</u>	<u>51.00</u>	<u>58.00</u>	<u>62.70</u>	<u>69.00</u>	<u>70.30</u>
<u>Non-Foods</u>						
Drapery	% 1.50	2.70	3.00	1.70	0.90	0.90
Menswear	% 3.00	2.70	2.60	2.00	0.30	0.50
Footwear	% 0.01	0.20	0.40	0.40	0.30	0.01
Furnishings	% 7.20	7.50	6.60	6.10	3.50	3.40
Jewellery	% 0.20	0.30	4.60	0.40	0.20	0.50
Hardware	% 4.10	3.00	3.40	0.90	1.50	0.10
Pharmacy	% 3.00	2.20	1.40	1.60	2.30	2.20
Stationary	% 0.80	0.60	0.20	0.07	0.40	-
Optical	% 0.50	0.90	1.00	1.30	0.80	1.00
SUB-TOTAL	% <u>20.30</u>	<u>20.10</u>	<u>18.90</u>	<u>14.40</u>	<u>10.20</u>	<u>8.40</u>
<u>Services</u>						
Hairdressing	% 0.30	0.08	0.20	0.10	0.20	0.10
Motor.	% 12.20	12.80	8.50	10.60	8.00	10.10
Fuel	% 6.60	6.10	5.90	4.30	4.60	3.50
Funeral	% 9.20	9.00	8.30	8.10	8.10	6.70
Works	% 0.07	0.90	0.30	0.30	0.07	0.20
Miscellaneous	% -	-	-	-	-	0.60
SUB-TOTAL	% <u>28.40</u>	<u>28.90</u>	<u>23.10</u>	<u>23.00</u>	<u>20.90</u>	<u>21.30</u>
TOTAL	% <u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>