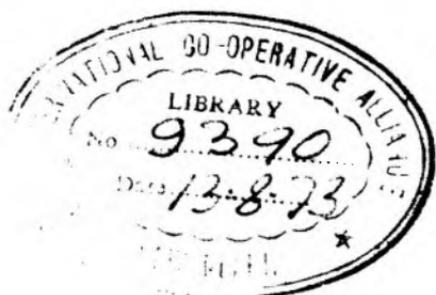


Readings in
Consumer Cooperation

INTERNATIONAL COOPERATIVE ALLIANCE

Readings in Consumer Cooperation



ASIA PUBLISHING HOUSE
BOMBAY CALCUTTA NEW DELHI MADRAS
LUCKNOW BANGALORE LONDON NEW YORK

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ISBN 0.210. 22348,0

PRINTED IN INDIA

AT THE CAXTON PRESS PRIVATE LIMITED, RANI BHANSI ROAD, NEW DELHI 55
AND PUBLISHED BY P. S. JAYASINGHE, ASIA PUBLISHING HOUSE, BOMBAY

Foreword

IN SOUTH-EAST ASIA, urbanisation is taking place at a rapid rate owing to a variety of factors such as migration of people from rural to urban areas, growth of industrialisation and a high rate of population increase. Rapid urbanisation brings in its wake several problems for industrial workers and other fixed-income earning people, working in commercial establishments and government offices, who are dependent on the mechanism of trade for obtaining consumer requirements. A problem of considerable proportions is the adulteration of many commodities, especially foodstuffs. Another problem faced by the town-dweller is that of high prices. Legislation may be one of the ways of protecting the consumer. However, such legislation should be supported by the collective strength of the people themselves. In this context, consumers' cooperatives have a great role to play in consumer protection by ensuring for the consumers a steady supply of commodities of proper qualities and at fair prices.

Consumer cooperatives have played an important role in the economies of several countries in the Region during the Second World War and when there was an acute scarcity of goods. During this period the private trade indulged in hoarding of scarce goods and even in blackmarketing. Consumers' cooperatives which were the people's own organisations were then relied upon by governments as channels for equitable distribution of essential commodities which were in short supply and they were given the monopoly or preferential rights of distribution. However, with the return of normal times and easing of the supply position, consumers' cooperatives suffered a set-back in almost all the countries of the Region, since consumers stopped patronising them. The majority of consumers do not realise that organisations which served them well in emergencies can also render them valuable services in normal times, and act as an effective check on the exploitation by the private trade. Consumers' cooperatives which were often the only distributing agency or which were given State protection in the interest of the community during emergency periods have to compete with private traders during normal times. It is then no longer a question of equitable distribution of commodities supplied by the government or government agencies at fixed margins

in protected markets. Consumers' cooperatives now have to anticipate members' demand, buy the commodities in required quantities, ensure that the choice of qualities of the commodities to be purchased is in accordance with consumer taste, and to operate in an efficient manner at the prevalent margins. At the same time, they have to build up enough capital for future development. These tasks call for a high degree of management skills and the development of proper organisational structures and systems that would ensure efficient operation. Through sound methods of management, some consumer cooperatives in different countries have carved out a place for themselves in the system of distribution. However, these successful ventures require to be multiplied and a consumer cooperative set-up needs to be created for fostering and supporting consumer cooperatives. The aim for the future is not to be content with a few successful examples but to build a powerful and a dynamic consumer cooperative movement.

The ICA Regional Office and Education Centre has given attention to the promotion of consumer cooperation in the Region with the above objectives in view. It has organised so far four Regional Seminars on the subject. The first seminar was held in Bangkok, Thailand, in June 1963, on the subject of "Organisation and Financing of Consumer Cooperatives." The second Regional Seminar was held in Nuwara Eliya, Ceylon, in July 1966, on the subject of "Consumer Cooperation in Competitive Setting." The next one was on the subject of "Retail Management in Consumer Cooperatives" which was held in Lahore, Pakistan, in December, 1967. The last seminar was held in Tokyo, Japan in May 1971 on the subject of "Shop Planning and Management with emphasis on Cooperative Supermarkets." In all these seminars, besides discussing the situation of consumer cooperatives in the Region, attention was directed to questions concerning organisational structure and management of consumers' cooperatives in the context of the present day competitive set-up. The Regional Office has also assisted the cooperative movements in India, Iran and Malaysia in organising national seminars on the subject. Also, national seminars will be organised in collaboration with the Swedish Cooperatives Centre, in the early part of 1972, in Thailand, Malaysia, Singapore, Indonesia and the Philippines on the subject of consumer cooperation with emphasis on the establishment of cooperative supermarkets/department stores.

Studies of the consumer cooperative movements of some countries of the Region have also been carried out by our Specialist in Consumer Cooperation and reports of these studies issued.

As a part of the above approach, a publication on the subject of consumer cooperation was planned by us some time back and various persons, having specialisation in the subject both from western countries as well as from the Region, were invited to contribute papers on topics of vital importance to consumer cooperative movement in South-East Asia. This publication is being issued with the hope that it will stimulate discussions on the possibility of future consumer cooperative development, in the context of past performance and on important business questions, such as planning and management of cooperative shops, sales promotion and its management, capital formation, structure of the consumer cooperative movement and integration of various functions, such as distribution, warehousing and production.

I would like to express our sincere thanks to the various authors who have contributed to this volume. Thanks are also due to Mr. Lionel Gunawardana, Deputy Director, Publications, who planned the publication, edited various papers and saw to it that the publication was brought out as quickly as possible.

New Delhi
26 October, 1971

J.M. RANA
DIRECTOR (EDUCATION)

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Recent Trends in the Consumer Cooperative Movement in India

EARLY YEARS OF THE CONSUMER COOPERATIVE MOVEMENT

THE CONSUMER cooperative movement is, by and large, a product of the altered socio-economic conditions brought about by industrialization and a better farming economy in many of the advanced countries. In India, the cooperative movement started in the beginning of this century in the form of agricultural cooperatives—as the country had a predominantly rural economy where conditions were precarious in agricultural occupations. In the earlier years of the cooperative movement, there was not, therefore, much need felt for consumer cooperatives.

The first Cooperative Societies Act introduced in 1904 did not recognise consumer cooperatives. Nevertheless, the inspiring example of the Rochdale pioneers, which gave a fillip to the consumer cooperative movement in continental countries, did not miss the attention of the imaginative and ardent cooperators in this country. The Triplicane Urban Cooperative Society in the city of Madras is regarded as the first consumer cooperative of the country. The Coimbatore Cooperative Store, the Bangalore Cooperative Store and a few others are the contemporary ones. The Cooperative Act of 1912 gave a legal status to the consumer cooperatives.

The First World War (1914-18) broke out with consequent scarcity of consumer goods and high prices. About 100 consumer cooperatives were organised during the war and immediate post-war years in some of the cities and industrial establishments. The number of primary consumer cooperatives rose to 323 in the year 1927-28. These consumer cooperatives again received a set-back during the economic depression of the thirties and, although the new consumer cooperatives organised here and there offset the dwindling number of the existing societies, they did not result in any significant increase in their total numerical strength and over-all business turnover up to the beginning of the Second World War. In the year 1938-39,

immediately before the war, there were only 396 consumer cooperatives as against 323 in 1927-28. The position, however, changed considerably during the Second World War. With the shortage of consumer goods, and the resultant control on distribution and prices of essential commodities, and introduction of rationing of foodgrains by the Government, the consumer cooperative movement gained momentum.

Consumer cooperative stores were used largely as agencies for the distribution of various controlled goods to avoid black-marketing and ensure equitable distribution. Under Government patronage and in the absence of keen competition in the market, there was a spectacular increase in the number and volume of business of the consumer cooperatives during the decade following the outbreak of the Second World War. In the year 1951-52, the peak year of progress, there were 9,700 primary consumer cooperatives with membership of 18.47 lakhs and business turnover of Rs. 8,215.50 lakhs. The largest number of these consumer cooperatives were organised among the general public, with predominantly low-income groups, and workers and employees of industrial and commercial undertakings. A small number of consumer cooperatives were also organised in the rural areas of some states such as Madras (Tamil Nadu) and Kerala, and in a few schools and colleges. The growth of consumer cooperatives was, however, erratic. The retail societies were very small in size. There was hardly any pure type of wholesale society organised to give support to the retail societies. In a few states, some of the agricultural marketing federations at the district or state level undertook wholesale business mainly in controlled and scarce commodities for supply to the retail consumer cooperatives, along with their normal function of marketing of agricultural produce. From the year 1952-53 onwards, following de-control of a number of commodities, the prices of essential commodities began to register a downward trend. This gave a serious blow to the financial position of many of the consumer cooperatives, which had to liquidate at lower prices, stocks of goods received at higher prices under control orders. Accumulated surpluses earned during the war years were wiped out, and current business began to decline. Many cooperatives closed down, while the rest continued their operation in the face of unequal competition from private trade. The following table indicates the trend of growth and decline of retail/primary consumer cooperatives in the country from 1938-39 to

1960-61:

RETAIL/PRIMARY CONSUMER COOPERATIVES, 1938-39 TO 1960-61

<i>Year</i>	<i>No. of stores</i>	<i>Membership (lakhs)</i>	<i>Owned funds (Rs. lakhs)</i>	<i>Business turnover (Rs. lakhs)</i>
1938-39	396	0.43	2.47	57.15
1945-46	4446	9.13	159.28	2,674.39
1947-48	5740	11.25	313.53	4,057.18
1951-52	9757	18.46	552.70	8,215.69
1955-56	7359	14.14	490.00	4,448.18
1960-61	7058	13.41	587.90	4,423.00

Beginning of planned development in consumer cooperatives

An era of planned development began in India with the introduction of the First Five-Year Plan in 1951-52. Cooperation was recognised as an indispensable instrument of planned economic action in a democracy to avoid excessive centralization and bureaucratic control, and at the same time work as a countervailing force against the self-centred acquisitive instincts which dominate the private sector of production and trading undertakings. If development of the cooperatives, including consumer cooperatives, is left entirely to the initiative and voluntary efforts of the people concerned who have hardly any resources or wherewithal of their own in an undeveloped country, it would take a very long time to build up a strong cooperative sector for achieving the desired objective.

By this time, the private sector would be deeply entrenched in the field, taking advantage of the facilities available under a planned economy. It becomes necessary for government to evolve development programmes, provide financial assistance and take suitable measures to encourage and stimulate voluntary action. Prof. Paul Lambert very rightly observed, "if we now consider under-developed countries it is remarkable that most intelligent governments in this field, which is the most important in the world, grant systematic assistance to the new-born cooperative movement, precisely because these governments understand that cooperation is the way to develop poor countries" (*Studies in Social Philosophy of Cooperation*).

The First Five-Year Plan document pointed out, "in urban areas special importance must be attached to consumer cooperatives. It

would in our opinion be in the interest of the planned development for distributive trade, that an attempt be made to build consumer cooperatives over as wide a field of distribution as possible." The Second Five-Year Plan introduced in 1956-57 also reiterated the scope of development of consumer cooperatives in urban areas. However, no precise programme with targets of development and financial outlay could be taken up before the end of the Second Five-Year Plan (1960-61). With the progress of economic and industrial development under the Five-Year Plans, the rise of industrial and urban population and the increasing demand for consumer goods led to the emergence of consumer problems such as soaring prices and an increase of adulterated, shoddy or fraudulently-marked goods in the market. There was increasing awareness of the economic benefits which consumer cooperatives could confer on consumers, particularly the low-income group.

The Third Five-Year Plan document observed that "conditions for the development of consumer cooperatives are generally favourable: if special efforts are made, rapid progress can be achieved. This will be of the greatest help not only in the stabilization of retail prices but also in preventing the evil of adulteration in foodstuffs." It was, therefore, felt necessary to rehabilitate the languishing consumer cooperatives and set up new ones. On the recommendation of a Committee appointed (by the National Cooperative Development Corporation) to study the position of the existing consumer cooperatives, and suggest measures for their development on sound lines, the Government of India introduced a scheme for the development of consumer cooperatives after the beginning of the Third Five-Year Plan. This scheme could not receive full attention due to the competing claims of other cooperative development schemes which were introduced earlier. Progress was slow.

During the national emergency following the Chinese aggression in October 1962, it was felt necessary to build up a large network of consumer cooperatives in the urban areas as one of the ways of facilitating equitable distribution of essential commodities at fair prices among the consuming public. Accordingly, the Government of India sponsored a number of schemes, viz. (i) a centrally-sponsored scheme for consumer cooperatives among the general public in urban areas, (ii) a scheme for the organisation of consumer cooperatives among industrial workers, and (iii) a centrally-sponsored scheme for the supply of essential commodities to the rural population through

primary cooperative marketing and village service cooperatives. In addition, consumer cooperatives among the central government employees in Delhi, and State Government employees in a few states, were also taken up on an experimental basis. The centrally-sponsored scheme for urban consumer cooperatives envisaged the organisation of a network of wholesale/central cooperative stores with affiliated retail/primary consumer cooperatives amongst the general public in cities and towns, having a population exceeding 50,000, as the bulk of the urban population resides in such cities and towns. It was contemplated that a wholesale/central cooperative store should have about 20-member primary consumer cooperatives or retail branches, and a primary retail store should have at least 500 members within the course of a year for their operation as economically viable units.

The Government of India agreed to bear the entire expenditure for rendering financial assistance to the consumer cooperatives amongst the general public, according to an approved pattern, through the State Governments for the purpose. The scheme, envisaged financial assistance to wholesale/central stores in the form of share capital, "clean" credit and loans and grants for the construction of godowns and purchase of vehicles, and a token subsidy on a tapering scale in the initial stages. The primary consumer cooperatives were eligible for assistance in the form of share capital and a small managerial subsidy. The consumer federations which came up later were also provided financial assistance on an approved scale.

The scheme for consumer cooperatives amongst industrial workers envisaged organisation of primary consumer cooperatives in industrial and mining establishments having not less than 300 workers, with financial assistance to be provided to the employees. The workers having provident fund facilities were permitted to withdraw as a non-refundable advance up to Rs. 30 from their provident fund to contribute to the share capital of their societies.

As organisation of separate consumer cooperatives in rural areas was not warranted by the existing economic situation, the scheme for supply of consumer goods in the rural areas contemplated that the primary marketing cooperatives and village service cooperatives could take up the distribution of essential commodities on a selective basis. The primary marketing cooperatives should open retail shops at their headquarters, and also procure and supply consumer goods

to the village service cooperatives for retail distribution. Only the primary marketing cooperatives were eligible for small amounts of financial assistance towards their cost of additional staff for consumer activities in the initial stage under this scheme. In order to have effective coordination in the operation of these schemes for the integrated growth and development of the consumer cooperatives as a whole, it was contemplated that the primary consumer cooperatives among industrial workers and government employees should ordinarily draw their supplies from the nearest wholesale/central store and be affiliated to it. Where a sizable number of consumer cooperatives among industrial and mining workers in a compact area existed, they could form a wholesale/central store of their own if circumstances so warranted. The wholesale/central stores under the urban scheme were also expected to supply consumer goods to the primary marketing societies undertaking distribution of consumer goods in the rural areas under the rural scheme. Facilities were provided by the Government for the training of managerial and field staff, and the supply of controlled and rationed goods, to enable the consumer cooperatives to start with.

*Progress achieved under schemes introduced
for planned development of consumer cooperatives*

The magnitude of the task at the field level was enormous, keeping in view the time factor and other limitations. Nevertheless, the cooperative leaders took upon themselves a challenging task of building up a consumer cooperative movement speedily on a planned basis, with support and assistance available from Central and State Governments. Gigantic efforts had to be made to organise the consumer cooperatives. Accommodation had to be secured for housing offices and shops in urban areas saddled with acute accommodation problems. The private-sector industries, generally reluctant to disturb their established trade channels, had to be persuaded to make supplies available to consumer cooperatives. Difficulties of storage, accommodation, transport vehicles, railway movement of goods, and telephone connections had to be overcome. A corps of suitable business executives had to be recruited and arrangements for their training had to be made. A separate Institute of Business Management for consumer cooperatives was set up speedily.

The Regional Office and Education Centre of the ICA extended valuable cooperation in securing the services of foreign experts and in other ways. Expert trainers were deputed by the K.F. of Sweden through their government. The Cooperative League of the USA deputed an expert for a short while to study the working of the consumer cooperatives and give advice.

By the end of the Third Five-Year Plan (March 1966), within a period of 3 years after the introduction of the urban consumer cooperative scheme in the latter part of 1962-63, almost all the cities and towns with populations exceeding 50,000, and about half of the industrial establishments having more than 300 workers, were covered by a network of consumer cooperatives. Most of these consumer cooperatives were new organisations, while some of the existing ones were reorganised and brought under the purview of the schemes.

There were about 13,000 primary consumer cooperatives/retail branches, and 272 wholesale/central stores at the end of the cooperative year 1965-66 (June 1966). Out of these primary consumer cooperatives, about 6,400 were affiliated to the wholesale/central stores, which had also opened about 2,000 retail branches. In addition, State Consumer Federations with wholesale/central stores as members were organised in 12 states. These federations formed a National Consumer Federation at the apex level, thus completing the pyramidal structure of consumer cooperatives in the country. The wholesale stores and the primary consumer cooperatives recorded a sales turnover of about Rs. 159 crores and Rs. 163 crores respectively during the cooperative year 1965-66. An evaluation of the working of consumer cooperatives conducted by the Planning Commission in 1964, while pointing out the weakness and teething troubles of the newly set-up consumer cooperatives, *inter alia*, revealed that as regards quality, price and availability of some foodstuffs, these were reported to be pure and of better quality than available in the open market, and prices were also lower than in the market.

Under the scheme for the supply of essential commodities in rural areas through marketing and village service cooperatives, introduced simultaneously with the schemes for urban consumer cooperatives in the latter part of 1962-63, 1,200 primary marketing cooperatives and 40,000 village service cooperatives had taken up distribution—mainly of essential and controlled commodities—up to the end of 1965-66. The value of consumer goods distributed by them during the year 1965-66 was estimated to be about Rs. 198.0 crores.

Steps were taken to link up the primary marketing cooperatives with the wholesale/central stores under the urban schemes for obtaining supplies.

In the light of experience gained in the working of urban consumer cooperatives during the Third Five-Year Plan, thought was given to the line of action required for strengthening and consolidating the consumer cooperative structure, and the scope for extending their activities to smaller towns. It was felt that to achieve the desired objective consumer cooperatives would have to enter the field in a big way, and, for that purpose, it would be necessary to adopt a mass-distribution system on the lines of the department stores, with a wide range and assortment of consumer goods under one roof, particularly in cities and towns having sizable urban population. The absence of department stores to any significant extent in the country was considered to be another advantage in this regard. After devaluation of the rupee in 1966, an accelerated programme for the development of consumer cooperatives was taken up among other governmental measures introduced to regulate distribution and check the rising trend of prices. The programme envisaged the organisation of consumer cooperatives in towns with a population exceeding 10,000, setting up of department stores in cities and towns with a population exceeding 2 lakhs, and consumer cooperatives in universities and colleges.

The Government of India provided financial assistance according to an approved pattern through the State Governments to consumer cooperatives at various levels including department stores. In addition, financial assistance was provided by employers, and from the Mining Labour Welfare Fund, to concerned consumer cooperatives under the scheme for consumer cooperatives amongst the industrial workers. To enable the consumer cooperatives, wholesale central stores, department stores and federations to have adequate supplies, assistance was given by the Government to secure essential, scarce and other consumer goods directly from manufacturers. Since undertaking of business in a big way would require substantial working capital, the Government of India undertook to stand guarantor to the financing agencies to the extent of 25 per cent of all loans and advances made by them to the consumer cooperative wholesale/central stores and their federations against hypothecation or pledge of goods. Coordination with agricultural marketing and processing cooperatives for securing supplies of agricultural commo-

dities was emphasized. The training programme of business executives of wholesale stores and federations received special attention.

During the interregnum from the end of the Third Five-Year Plan (1965-66) up to the end of the cooperative year 1967-68 (June 1968), there were about 370 consumer cooperative wholesale/central stores and more than 14,000 primary societies/retail branches in all cities and towns with a population exceeding 50,000, and all districts having an urban population above 50,000. Thirty big consumer cooperatives were set up in universities and colleges. The biggest achievement has been the speedy organisation of cooperative department stores/super bazars. Sixty department stores/super bazars started functioning at the end of the year 1967-68 in cities and towns with a population above 2 lakhs, and their number has gone up to 80 recently. There were 14 States Consumer Federations at the end of 1967-68. At the top, the National Consumer Federation organised by the end of the Third Five-Year Plan continued to make further progress.

The cooperative department stores which are generally run by the wholesale/central stores have added a new dimension to the consumer cooperative movement. Most of these department stores occupy selling floor space ranging from 5,000 sq. ft. to 15,000 sq. ft., while some of them occupy selling space between 15,000 and 40,000 sq. ft., and the biggest of them has 90,000 sq. ft. of sales area. The department stores are housed mostly in rented buildings, while a few of them are accommodated in temporary constructions of their own. They deal in a wide range of consumer articles including basic necessities such as groceries, cosmetics, toiletries, household goods, textiles, ready-made garments, and drugs and medicines. Some of them have also undertaken the sale of leather goods, domestic electric appliances, toys, books and paper stationery, fruits, vegetables, eggs, fish and meat, etc. Cafeterias/restaurants are also being run by some of them. A few of the big department stores run a grocery section on a self-service basis with pre-packed goods.

The total sales turnover of these department stores/super bazars amounted to about Rs. 22 crores during the year 1967-68. Apart from the services rendered for the consumers in the supply of their requirements at a fair price, they are trying to create a healthy impact on the distributive trade in their areas of operation. The retailers in the areas of operation of the department stores often announce that things are available in their shops at super bazar prices. Indeed, the

department stores/super bazars are tending to play the role of price-setters and pace-setters in the retail trade.

While the majority of the total number of about 14,000 primary consumer cooperatives organised under different schemes in the urban areas are amongst the general public, there are also about 4,000 primary consumer cooperatives functioning amongst industrial and mining workers, railway employees, big commercial establishments, public-sector undertakings, government employees and schools, colleges and other academic institutions. The total membership of all primary consumer cooperatives was about 34.0 lakhs and their owned funds (share capital and reserve funds) amounted to about Rs. 13.0 crores by the end of the cooperative year (1967-68).

The sales turnover recorded by these retail societies was estimated at about Rs. 200 crores during this year. About 8,500 of these primary consumer cooperatives are affiliated to 370 wholesale/central stores which have also about 2,600 retail branches. The owned funds and sales turnover of these wholesale/central stores in operation during that year was estimated to be about Rs. 12.0 crores and about Rs. 175.0 crores respectively. As the state consumer federations are the latest links in the consumer cooperative structure, many of them could not take up, to any significant extent, their normal functions of procurement and supply of consumer goods to their constituent wholesale/central stores during 1967-68.

The National Consumer Federation, comprising the State Consumer Federations as members, confined its commercial activities to supplying mainly textiles, imported goods, and grocery items to a limited extent. In addition, it had also conducted promotional activities as the national organisation of the consumer cooperative movement, and had made a beginning in consultancy services, in management accounting and inventory control, with the collaboration of experts offered by the I.L.O. and the Government of Denmark for some time. It had also taken up other promotional activities such as distributing (catering) market intelligence to the consumer cooperatives through its bulletins and monthly journal.

To strengthen the economic viability of consumer cooperatives, a programme was introduced for setting up small consumer industries such as spices powdering, pulses processing, oil milling, bakery, coffee grinding, manufacture of paper stationery, etc. by well-established wholesale stores and state federations on a selective basis. The

Government of India provided financial assistance primarily towards block capital of such industrial units. A bird's-eye view of the progress achieved since the introduction of the various schemes for the development of consumer cooperatives, from the beginning of the Third Five-Year Plan up to the end of the cooperative year 1967-68 (June 1968), may be had from the following data:

(a) PRIMARY CONSUMER COOPERATIVES

<i>Year</i>	<i>No. of Stores</i>	<i>Membership</i> (lakhs)	<i>Owned funds</i> (Rs. lakhs)	<i>Sales turnover</i> (Rs. lakhs)
1961-62	7,200	13.95	538.0	3,540.0
1965-66	13,000	29.00	1,075.0	16,300.0
1967-68	14,000	34.00	1,300.0	18,600.0

(b) WHOLESALE/CENTRAL STORES

<i>Year</i>	<i>No. of Stores</i>	<i>Membership</i>		<i>Owned funds</i> (Rs. lakhs)	<i>Sales turnover</i> (Rs. lakhs)
		<i>Primary consumer coops.</i>	<i>Individuals</i> (lakhs)		
1961-62	—	—	—	—	—
1965-66	272	6,400	4.50	687.0	15,900.0
1967-68	370	8,500	8.50	1,200.0	17,400.0

(c) COOPERATIVE DEPARTMENT STORES

<i>Year</i>	<i>Number of Stores</i>	<i>Sales turnover</i> (Rs. lakhs)
1965-66	—	—
1966-67	38	1,172.0
1967-68	60	2,177.0

(d) STATE AND NATIONAL FEDERATIONS

	<i>No. of Federations</i>		<i>Member societies</i>		<i>Sales turnover</i> (Rs. lakhs)	
	1966-67	1967-68	1966-67	1967-68	1966-67	1967-68
1. State Consumer Federations	14	14	263	335	612.0	883.0
2. National Federation	1	1	14	14	100.0	250.0

A brief analysis of the progress

The Government has rendered a large measure of financial assistance and support in various ways to these democratic institutions, which manage their affairs according to their own constitutions and rules. The cooperators have undertaken heavy responsibilities. As a result, a framework of urban consumer cooperatives has been built up with amazing speed. The fact, however, remains that these consumer cooperatives are infant institutions, and have yet to reach the desired stage of development. In a number of these organisations, various deficiencies and shortcomings have cropped up in the process of their speedy development.

It is estimated that about 1,000 out of 14,000 primary stores have memberships varying from 400 to over 1,000, and sales turnovers of about Rs. 5.0 lakhs to over Rs. 10.0 lakhs, although some of them have sales turnovers exceeding Rs. 50.0 lakhs a year. About 3,000 primary stores, mostly a legacy of the past, are dormant. The remaining stores are functioning with an average membership of about 250, and sales turnovers from Rs. 75,000 to about Rs. 3.0 lakhs. About 7,000 of them are running at a profit. However, the consumer cooperatives are, by and large, tiny single-shop stores dealing largely in rationed and controlled commodities.

The department stores, which have made a significant impact on the retail trade in their areas of operation, are yet to go a long way to stabilize their position. Some of them have been running at a loss due to heavy initial expenditure and operational deficiencies. Measures have, however, been introduced to improve their operational efficiency.

Of the existing 370 wholesale/central stores, most were organised in the beginning as a federal type of society with primary/retail societies as members, and only a few of them were set up purely on a unitary pattern with retail branches. Some of the federal type of wholesale/central societies gradually opened retail branches, as it was felt in the light of experience gained that the unitary pattern was conducive to better operation and control. But a large number of them are still working as federal societies. While some of these wholesale/central stores had paid-up share capital ranging from about Rs. 5.0 lakhs to over Rs. 10.0 lakhs, their average paid-up share capital worked out at about Rs. 2.8 lakhs during 1967-68.

The average sales turnover during 1967-68 of these wholesale stores worked out at about Rs. 50.0 lakhs, although a few of them had a much larger turnover. A number of them have been running at a loss. They are yet to diversify to the desired extent the items of consumer goods handled. The affiliated primary societies having, generally, small business turnovers, their pooled indents for supplies placed with the wholesale/central stores in many cases are not large enough to qualify for supplies on advantageous rates and favourable terms from the manufacturers/suppliers. The newly set up State Consumer Federations which are to make bulk procurement on behalf of their constituents are yet to make a significant impact in the field.

One of the urgent tasks before the consumer cooperative movement is rationalization of their structure to derive the economies of scale and consolidate their position. Above everything, there is the need for intensifying measures to improve their managerial and operational efficiency.

The programme for consolidation and strengthening of the consumer cooperative movement

The draft fourth Five-Year Plan document, which lays stress on consolidation and strengthening of the consumer cooperative movement, *inter alia*, points out

on the institutional side, the weakest link in the consumer cooperative movement lies at the level of the primary cooperatives...one of the major tasks hereafter to be undertaken is a survey of the existing primary consumer cooperatives, with a view to identifying those institutions that are viable or potentially viable so that on a selective basis such primary consumer cooperatives could be further strengthened and developed. Attention will also have to be paid to reorganisation and strengthening of central wholesale consumer cooperatives, with a view to building them up as large-size multi-unit cooperative societies. The superstructure of the consumer cooperative movement, comprising the State Consumer Federations and the National Federation, will have to be further strengthened with a view to enabling these institutions to play an effective role in procurement of supplies, besides promotional and

service functions.... In rural areas, retailing of consumer articles is conceived essentially as the responsibility of primary agricultural credit societies supported by marketing cooperatives.... Efforts will have to be made to spread and diversify this activity with a view to enlarging the number of village and marketing cooperatives involved in it.... With expansion and greater diversity of operation of consumer cooperatives and marketing cooperatives, there is a need for evolving an appropriate working relationship between them.

Very recently conferences at various levels have taken place, and an action programme has been recommended to achieve the above objectives as outlined in the draft Fourth Five-Year Plan document. Some of the important features of the programme are briefly indicated as follows:

(i) In order to rationalise the structure at the primary level of consumer cooperatives, a quick survey should be undertaken to identify the viable and potentially viable ones according to the criteria recommended for the purpose. Such stores should be given the necessary encouragement for further development. The dormant primary cooperatives may be weeded out. Selection may be made from viable and potentially viable primaries for amalgamation or merger with their wholesale/central stores, preferably on an agreed basis, so that these wholesale/central stores may function as multi-unit retail stores or unitary-pattern central stores. New primary stores should not be organised except in special circumstances.

(ii) The retail shops should have a proper location, with 400 to 500 sq. ft. of selling space at the minimum, and the large-size retail shops should have selling space of about 1000 sq. ft., dealing in diverse items of consumer goods according to local needs.

(iii) The programme for setting up cooperative department stores may be continued to cover new areas according to needs, apart from consolidating and strengthening of the existing ones. The operational problems of the department stores shall have to be tackled comprehensively by introducing suitable systems of inventory management, sales promotion, management accounting, etc. and better shop layout and display, etc. to improve their operational efficiency.

(iv) The existing wholesale/central stores will be strengthened organisationally and financially, and the range of their business will

have to be diversified. The State Consumer Federations will also be strengthened to enable them to take up wholesale business functions on a large scale on behalf of their constituents, and take up management of sick constituents and intensify promotional activities. The National Federation, apart from expansion of its main function of coordinating the business activities of its constituents, will have to undertake promotional activities including consultancy services on an increasing scale. The federations will create inventory-losses funds to cover risks in respect of buffer stocks of agricultural commodities which are subject to price fluctuations.

(v) In addition to introduction of modern techniques of business management, the relationship between the executives and the Boards of Directors will have to be spelt out, particularly in the case of consumer cooperatives at higher levels, for improvement of their operational and managerial efficiency.

(vi) The programme for organisation of consumer industries by consumer cooperatives at their higher echelons on a selective basis after proper feasibility studies will continue for strengthening their economic viability.

(vii) Stress will be laid on the training of business executives and other personnel of consumer cooperatives, and on member-education.

(viii) Managerial cadres will have to be set up by State Consumer Federations for the benefit of the constituents.

(ix) Conscious efforts will have to be made to develop a sound business relationship between the consumer cooperative structure and the marketing cooperative structure for their mutual benefit.

(x) The supply arrangements will have to be strengthened.

T. D. L. Peiris

Consumer Cooperation in Ceylon

THE ORGANISATION of 4,000 Cooperative Societies within a period of two-and-a-half years, involving a new membership of over a million, and the distribution of war-time rations and other essential consumer goods to more than half the population of a country, are remarkable achievements in the cooperative history of any country. This is precisely what took place in Ceylon between 1942 and 1945 under conditions of scarcity of consumer goods, rising prices and black-marketing consequent on severe restriction of supplies from abroad. In his Administrative Report for the period 1942-1945, the Registrar of Cooperative Societies refers to this development as "epoch-making" and as a "feat of organisation probably without parallel in public endeavour in Ceylon." What is attempted in this article is a bird's-eye survey of the manner and circumstances in which this development took place, the vicissitudes of consumer cooperation in the post-war years, the present features and problems of the Consumer Movement and the possible approaches to future development.

Phenomenal Expansion

From its inception in 1912 up to 1942, the Cooperative Movement in Ceylon progressed slowly as a movement of credit societies particularly in the rural areas providing small loans to farmers. Some attempts were made in the pre-war years to organise consumer societies, but they had all ended in failure, except in the tea estates where certain special conditions favourable to the growth of consumer societies were present, such as the interest taken by the estate superintendents and the higher staff in the management of the societies, and the ability to sell goods on credit guaranteed by the employer. In 1942, there were 52 Estate Store Societies, as they were called, with a membership of 17,500. By April 1945, the number of consumer societies, known as Cooperative Store Societies had shot up to 4,004, with a membership of 10,10,500. This phenomenal expansion was the result of sheer need under the stress of

war-time conditions. It is sometimes mistakenly suggested that these societies were forced on the people. The truth, however, is that these societies came into existence in response to popular demand. Before the war-time consumer societies were organised, the Government had already introduced a system of rationing rice and flour through a network of private authorized distributors, both wholesale and retail, appointed by the Government.

The people had the option of keeping their ration books with the private traders or transferring them to cooperative societies. More than half the population opted to have their books attached to the newly formed cooperative societies. There was no compulsory attachment of ration books to cooperatives except in the city of Colombo. Here, after the first air raid in April 1942, the private traders evacuated from the city, and the Government introduced a special scheme of ration distribution through People's Depots, organised and managed by the Municipality. This scheme was not working satisfactorily, and so, after about a year, the Government decided to attach all ration books in the city to one or other of the 105 cooperative societies formed for the 105 zones into which the city was mapped out.

Self-help

The Government on its side undertook a publicity campaign to popularise the new system, and provided encouragement, advice and assistance for organisation, supervision, auditing and the procurement of supplies through the Department of the Registrar of Cooperative Societies. Public-spirited persons from various walks of life, most of them held in high esteem in their respective communities, came forward to function as honorary office-bearers and committee members. All the capital required was contributed by the members in the form of shares, loans and deposits. At the time, the Cooperative Banks were already in existence, with resources sufficient to meet the needs of the credit societies. The new consumer societies banked with them, but the Cooperative Department did not favour the grant of loans to the new consumer societies, thereby compelling them to collect their own capital.

Wholesale Supplies

At the commencement, the Store Societies were faced with the

problem of procuring supplies other than the rationed commodities, the distribution of which was a monopoly of the national government. To assist the societies which were not yet in a position to organise their own wholesale units, the Government organised the Cooperative Wholesale Establishment (CWE) as a sub-department of the Department of the Registrar of Cooperative Societies. The Civil Defence Commissioner requisitioned all supplies of essential commodities in short supply, and channelled the cooperative share of them through the CWE to the cooperatives, which distributed them to their members on an equitable basis—mainly on the basis of ration books. It was the Government's intention to build up the CWE as the apex organisation of consumer cooperatives, and hand it over to them in due course when the time was ripe for the formation of a federation of consumer cooperatives. In the meantime, the primary consumer societies organised themselves into regional wholesale unions which became the wholesale suppliers to cooperatives in their respective areas, as intermediaries between the CWE and the Food Commissioner on the one hand and the retail cooperatives on the other. By 1945, there were already 75 such regional wholesale unions formed by the affiliation of primary consumer societies.

Post-war Decline

It was inevitable that some of the hurriedly formed societies should collapse when conditions began to return to normal. Wherever it was found that a society could no longer carry on its business, whether due to lack of viability or mismanagement, the Cooperative Department prevailed upon the wholesale union of the area to take over its management. Thus, arose the phenomenon of wholesale unions running a number of retail points within their respective areas of operation. This was a device to keep ration books within the movement and to ensure equitable distribution even when retail societies collapsed. By 1957, the number of consumer societies had declined to 2,500 and there were 800 retail points run by unions. The membership had declined to about 690,000, but the number of ration books had not declined. The Government's policy was to keep ration books within the movement as far as possible. They were only transferred from cooperatives to private traders in exceptional circumstances.

The Cooperative Wholesale Establishment

In the years that followed the conclusion of the war, the Cooperative Wholesale Unions gathered strength. They gradually took over the wholesale distribution of rice, flour and sugar to cooperatives, and in 1958, the Government made them the sole wholesale distributors of these three commodities in their respective areas to both cooperatives and authorized private retailers. They also took over the branches of the CWE in their respective areas, and became wholesalers to the cooperative societies in respect of commodities imported or otherwise procured by the CWE at the national level.

The CWE continued to be a government department until 1949, when it was incorporated as a State Corporation with a Board of Directors nominated by the Government. Apparently, the Government did not consider the consumer movement strong enough to take over the CWE. Apart from periodical expression of their desire to own and operate the CWE as their apex organisation, the consumer cooperatives made no significant effort to prevail upon the Government to transfer the CWE to them. Their feeble attempts were easily brushed aside by the Government. The cooperators were apparently content to let the Government manage it for them while they continued to criticise its management from time to time. The failure to state their claim at the right time and in the right manner was a reflection of the weakness of the leadership and their lack of vision. Subsequent developments showed that the longer the Government remained in control of the CWE, the more it deviated from its original objectives, and the more difficult it became for the movement to hold the Government to its original intention.

Multipurpose Societies

Beginning in 1957, a major structural change took place in the Cooperative Movement in Ceylon when, following a Government directive, a large number of Multipurpose Cooperative Societies (MPCS) were formed, and the existing consumer societies and agricultural production and marketing societies were 'converted' into multipurpose societies. Consumer service is only one of several activities of a multipurpose society. Thus, for the purpose of the present article, the multipurpose societies engaged in consumer

activities are also treated as consumer societies. Some consumer societies merely changed their names to multipurpose societies but carried on only consumer business. The wholesale unions which were known as "Cooperative Store Societies' Unions" also changed their names to "Multipurpose Cooperative Societies' Unions," but, with a few exceptions, they continued in the business of wholesale supply of consumer goods to cooperative societies.

The organisation of multipurpose societies increased the number of cooperative retail outlets, and it brought about an increase in the number of members as well as ration books attached to the movement. By 1968, the number of Cooperative Store Societies declined to 568, but there were 3,943 Multipurpose Societies, many of which are the successors to the former Store Societies. The following tables illustrate the changes over 5-year periods, and the position as of 1968:

COOPERATIVE CONSUMER RETAIL OUTLETS

Year	Number Operated by			Total
	Store Societies	M.P.C. Societies	M.P.C.S. Unions	
1957	2,824	nil	827	3,651
1962	819	3,490	730	5,039
1967	582	4,212	1,204	5,998
1968	568	3,943	1,293	5,804

MEMBERSHIP AND RATION BOOKS

Year	(millions)	(millions)	Ration Books as a % of Population
	Membership* in Stores and M.P.C. Societies	No. of Ration Books	
1957	0.695	5.2	57.8
1962	1.050	6.5	66.3
1967	1.139	8.5	73.8
1968	1.271	8.2	68.3

*This number includes all the members of M.P.C. Societies, although a few of them are not engaged in consumer work. In 1968, only 502 M.P.C. Societies with a membership of 75,000 were not engaged in consumer work,

Monopolies

Since 1958, the cooperative multipurpose unions have enjoyed a monopoly in the distribution of rice, flour and sugar. Since 1967, they have also been the sole distributors of five other essential commodities which are distributed on the basis of ration books—chillies, coriander, cummin seed, dal and Maldivian fish. Recently, when the National Milk Board became the sole importer of the Island's requirements of full-cream milk powder, the multipurpose unions were appointed sole distributors of this commodity in their respective areas. The multipurpose unions are, therefore, the sole distributors of nine essential commodities to cooperative retail societies as well as to authorized private retailers who have ration books attached to them.

The Government has found by experience that, despite the shortcomings in some societies, the cooperative movement is still the best agency for ensuring equitable distribution and for checking profiteering in goods which are in short supply. Cooperative societies today hold 8.22 million ration books, which represent 68.3 per cent of the entire population. At the retail level, they *do not* enjoy a monopoly, but are in a position to be an effective check on prices. Malpractices occurring in a few societies, and widely publicised in the Press, go to smear the public image of the movement. Not many people realise the significant part played by the Cooperative Movement in the maintenance of equitable distribution and fair prices of essential commodities under a system of import restriction designed to conserve foreign exchange for development. A survey made by the Royal Commission on the Cooperative Movement in Ceylon (1969) reveals that 10 per cent of the societies engaged in consumer distribution are classified as very good and 47 per cent as good, while the remaining 43 per cent are in poor condition, some of them on the verge of collapse. But, as an instrument of discharging the Government's responsibility for the equitable distribution of essential goods in short supply, there is no possible alternative arrangement which can ensure the same result at such little cost to the Government. This is all the more reason why reorganisation schemes should receive Government support. The appointment of the Royal Commission, to inquire into the present condition of the Cooperative Movement and make recommendations for improving

and strengthening it, is a first step towards this end.

Fundamental Defects

While the importance of the Cooperative Movements in the national economy is beyond doubt, the Royal Commission points out two defects of a fundamental nature which have contributed to the collapse of a large number of societies, and which, unless remedial measures are taken in due time, will contribute to the collapse of others and stand in the way of greater progress by those which are today classified as good. These are: (a) the lack of attention to viability in the formation of societies and the planning of their activities, and (b) the adherence to a system of management whereby managerial responsibility is entrusted to elected honorary committees of laymen. Both these defects seem to have resulted from the influence of the pre-war credit societies on the cooperative leaders, both Government officials and non-officials, who were accustomed to think in terms of small areas—to ensure mutual knowledge and direct management by elected committees—as a necessary concomitant of democratic control.

Effect on Employees

The combined effect of these two defects at the commencement of the Consumer Movement was the appointment of low-paid, unqualified and unskilled managers. On the one side, the small scale of operations did not permit high salaries; and on the other, the committees did not attach due importance to the need for skilled managers who could be hired only on competitive salaries. The assumption of managerial functions by committees tended to thwart the initiative and sense of responsibility of the managers.

Rectification

The desirable practice of committees laying down policies and supervising their execution by managers who can take responsibility for managerial functions is yet to be recognised and adopted by cooperative committees and those responsible for guiding their activities. Both committees and managers have to be oriented to a proper

understanding of their respective functions. A massive and well-planned education programme is indicated. This has to be accompanied by the adoption within the Cooperative Movement of wise policies relating to recruitment, salary scales, conditions of service and training of employees. Small units will have to be amalgamated to enable them to pay better salaries to the employees. Better attention to planning and management should bring about an expansion of business and extension of the range of services provided by the societies. While stressing the need for amalgamation into larger units, the Royal Commission has indicated a control structure* for large societies, with a system of local committees and local meetings of members, so as to preserve the democratic nature of cooperative organisations.

The defects mentioned above are of a congenital nature and have become so deeply entrenched in the system since the inception of the consumer movement that their rectification will present particularly difficult problems. Opposition is to be expected from the leaders of the Movement, the majority of whom may genuinely feel that there is nothing wrong with the present system. In some societies, opposition may spring from committee members who would be reluctant to lose their positions of authority, by merging into larger units or by "surrendering" to a manager the functions which they have been accustomed to perform.

Margins

There are other defects which have to be recognised and remedied. Many of the items of food and clothing are subject to price control. Maximum wholesale and retail prices are fixed by the Government. A study made by the Cooperative Federation of Ceylon has revealed that the margins allowed to retail societies are grossly inadequate, and in some items do not even cover the bare costs of handling. Here is a situation where, apparently, the Cooperative Movement is subsidising the Government in the distribution of commodities in the public interest. In 1968, some 48 per cent of the societies engaged solely in consumer activities worked at a loss. The question of margins, taken together with that of adequate salaries for employees, is one that needs close study and adjustment.

*Vide Annexé to Chapter XI of the Commission's Report.

Limited Business

Another defect which touches the interests of the members, and has definite repercussions on viability, is that many societies confine their business to a limited number of consumer commodities. This is invariably the result of lack of enterprise on the part of the managing committees. If societies are organised on a viable basis and show a good record of management, they have no difficulty in borrowing the capital they require where their own resources are insufficient.

Regional Wholesale Unions

There are 124 MPCs unions organised on a regional basis. Some of these have a membership as small as ten societies, but a union of average size would have about 50 societies as members. Several of the unions find the monopoly distribution of flour and sugar their principal source of income. In 1968, some 33 of them worked at a loss. Of these, 27 are managed by Boards of Management appointed by the Commissioner of Cooperative Development, consequent on mismanagement by elected committees. Their main source of supply is the CWE. In 1968, nearly 60 per cent of their supplies came from the CWE, 28 per cent from the Food Commissioner and the remaining 12 per cent from other sources. As the CWE is not a cooperative organisation, these regional unions serve the purpose of associations at the secondary level, and enable primary societies to discuss their consumer problems and take them up where necessary with the CWE and the Government. The absence of a cooperative consumer apex is the justification for the existence of such a large number of regional wholesale unions. Persons accustomed to large-scale organisations may well visualise these unions as large primary societies of which the existing primary societies operate as branches. The Royal Commission on the Cooperative Movement has recommended a two-tier organisation in which the existing regional unions are branches of an all-island consumer federation, which should take over from the CWE the import and wholesale distribution of essential commodities in so far as the cooperative societies are concerned.

The Commission has, however, recognised the need for the

existence of the regional unions as a buffer between the primary societies and the CWE to preserve the cooperative character of the consumer movement, as long as the CWE continues to be what it is. Whether the regional unions continue to exist as independent units or ultimately end up as branches of a cooperative apex organisation. There should be much closer liaison between them and the primary societies than it exists today. The regional unions should take greater responsibility for the well-being of the primaries by ensuring that the latter are kept supplied with all the lines of goods required by cooperatives through maintaining delivery services, extending credit, and exercising supervision over their business operations.

The conversion of the CWE into a cooperative apex with the MPC's Unions as its branches should provide a more rational approach to the problems of operating margins at the retail level. The CWE, which does 75 per cent of its business with the Cooperative Movement, made a net profit of Rs. 39.5 million in 1968, while all the primary stores and multipurpose societies made a profit of only Rs. 4.4 million and the regional unions made a profit of Rs. 4.2 million in the same year.

An Anomalous Situation

The CWE is today in a very anomalous position. Originally, it was incorporated as the apex-level supplier to the Cooperative Movement. The CWE Act was, however, amended from time to time to enable the government to use it for other purposes. Today, the CWE is the sole importer of a number of items which it distributes to private trade as well as to the cooperatives. It may undertake wholesale or retail distribution of any description and, in fact, today it operates a chain of over a hundred retail shops. It is being accused by the cooperative movement of giving favoured treatment to its own retails in the supply of scarce commodities, and of offering unfair competition to cooperative societies.

The CWE is now empowered to acquire a controlling interest in any public company, and to carry on any type of business: recently it has invested funds in hotels. The CWE has strayed far from its original purposes, and is today a State-trading corporation in addition to being the apex supplier to the Cooperative Movement. The Royal Commission has recommended that the CWE be split up into two organisations—a Ceylon Consumer Cooperative Federation

and a State Import Corporation, the former to procure, manufacture and distribute goods to the cooperative societies, and the latter to import goods on a monopoly basis in the national interest and to make available their respective shares to the cooperatives and to private trade. If this recommendation is implemented, it would be logical for the regional unions to function as branches of the Ceylon Consumer Cooperative Federation. As in the case of small units at the primary level, there is likely to be a determined stand against such a change by the regional unions. One should expect that such a merger would be a longer-drawn-out process preceded by a programme of discussion and education. In the case of unions which are operating at a loss or are being mismanaged, the process of merger can be accelerated by appropriate action on the part of the Commissioner of Cooperative Development.

Ceylon Consumer Cooperative Union

The Cooperative Federation of Ceylon, the national organisation of the Cooperative Movement in Ceylon, has been agitating for many years for the transfer of the CWE to a federation of consumer cooperatives. This was the original intention of the government when the CWE was first set up as a government department in 1943, and was registered in 1949 when the CWE was incorporated as a State corporation. However, the government has consistently postponed a decision to bring about such a change. The transformation that the CWE itself has undergone since its inception has made it all the more difficult for the government to readily agree to a situation whereby the Cooperative Movement would be given a monopoly to import and distribute several essential goods.

In 1966, the 124 MPCs Unions formed an apex union known as the Ceylon Consumer Cooperative Union Ltd. (CCCU), with the object of establishing a consumer organisation at the national level. In a situation where many consumer goods are imported and where import allocations are controlled by the government as part of an exchange control system, it is not possible for the new organisation to enter the import business without the blessings of the government. This new venture is, therefore, tied up with the old question of transferring the CWE'S business to a Cooperative Federation. The activities of the Ceylon Consumers'

Cooperative Union have so far been marginal. Little has been attempted beyond the import of *beedi* wrappers and irrigation pumps, neither of which is a consumer requirement, and the distribution of full-cream milk powder as the agent of the National Milk Board. Apparently, the Government is prepared to entrust minor responsibilities to this Union, but the major issue is still in the balance. There appear to be possibilities of this Union organising the purchase and distribution of locally manufactured goods, and of effecting various improvements in purchasing and distribution at the national level on behalf of its constituent unions. Wise leadership, planning and management at the CCCU level should go a long way to remove the Government's objections if any, to the implementation of the recommendations of the Royal Commission.

The Task Ahead

It is clear that the next few years will be crucial for the Consumer Movement, as they will be for the entire Cooperative Movement in Ceylon. The Government as well as the Cooperative Movement in Ceylon placed great hopes in the Royal Commission to provide guidelines for future development. The Commission's report was released in September 1969. The path indicated is clear. At the primary level, small units have to be amalgamated to enable them to provide all the services required by members. Management has to be overhauled, particularly, in respect of the distribution of functions between managers and committees. Wise policies have to be adopted with regard to recruitment, salaries, conditions of service, training and functions of employees. The MPCs Unions, or whatever organisation succeeds them, will have to work closely with the primary units, adjusting operating margins, ensuring supplies, and providing credit, supervision, and advisory and educational services. A part of the CWE should be transferred to the CCCF, which should, in addition to ensuring supplies at the apex level, participate in providing the educational and advisory services required at the primary level. The appointment of the Royal Commission and the release of its report is only a starting point. In the sphere of consumer cooperation, as in other aspects of cooperative development in Ceylon, the question that looms large on the horizon is whether the non-official leaders and the

Government will rise to the occasion and tackle the problems ahead with the required breadth of vision, and pursue the desired goals with the enlightenment, courage and persistence necessary to bring about the changes indicated in the Commission's report. The tasks ahead are a challenge to both, the official and non-official leadership of the Cooperative Movement in Ceylon.

Consumer Cooperatives in South-East Asia¹

INTRODUCTION

IN THIS paper, an attempt will be made, firstly, to present a case for consumer protection in the context of certain features of the distributive trade in India, which are harmful to the interests of the consumers. Secondly, the historical background of the consumer cooperative movements in selected countries of Asia will be presented, and attention will be drawn to recent developments. Finally, in the last part, the major problems faced by the consumer cooperative movements in Asia will be discussed. The realisation in actual practice of the great potential of consumer cooperatives will depend upon how effectively these problems are tackled. In the course of this discussion, some personal observations and suggestions will be made.

Two important reservations may be made to the discussions which follow.

The subject to be dealt with in this paper is very wide and hence the treatment is somewhat general and broad; secondly, the countries in Asia present a great deal of diversity in social and economic conditions as well as in situations with respect to consumer cooperatives. Hence there may be valid exceptions to the general remarks in the paper.

II

CASE FOR CONSUMER PROTECTION²

A phenomenon relevant to our discussion is the very rapid rate

¹This paper is based on a talk given at the Inter-Regional Seminar on Co-operative Distribution of Consumer Goods, organised by the ILO/FAO and the Danish Government, and held at Holte, Denmark, in August-September 1968.

²The author is indebted to Dr. S. K. Saxena, Director, ICA, London, for allowing him the use of some material in this section, both published and unpublished, written by Dr. Saxena.

at which urbanisation is taking place in the developing countries of Asia. The growth of towns and cities is responsible for the emergence of fixed income earning groups who have increasingly similar economic interests. These groups could be broadly categorised as industrial workers and the middle class. These people are exposed to a new set of problems in their capacity as consumers vis-a-vis their rural counterparts. Although the situation is undergoing rapid change, broadly speaking, in rural areas, the farm families usually produce most of the goods required by them and they buy only a few consumers' articles. Also, there is a face to face contact between the consumer and the artisan who produces goods for sale in his, or a nearby, village.

Further, the producer has to take account of the rigid social code prevailing in an environment dominated by custom. Punishment is swift and effective to those who may infringe the code. As against this, there is greater division of labour and specialisation in urban areas, and hence, the consumers are dependent on the trader for the procurement of most of the goods and services required by them. This new situation exposes the consumers to a number of risks, which may be classified under four headings:

- (i) adulterated goods
- (ii) high prices
- (iii) competitive advertising
- (iv) credit buying and other aspects connected with supply.

Case situations of the problems which consumers in India have to face are presented below.

Product Adulteration

A high degree of adulteration is practised by private trade at several points right from the producer up to the retailer. Prof. Kulkarni, while dealing with agricultural marketing, writes that "the proportion of barley in wheat progressively increased on its journey from the threshing floor to the market in Amritsar and the surrounding districts."¹ Another author states that the percentage of foreign

¹Kulkarni, *Agricultural Marketing in India*, Cooperators' Book Depot, 1958, Vol. II, pp. 315.

matter in wheat ranges from 3.9 in Bombay to 14.11 in Hyderabad.¹ Considerable adulteration takes place at the producers' level because of high tolerance limits and fixed violation charges. There are not very strict checks at other points also, including the retail level, in spite of the existence of food adulteration laws in most States in India, either due to inadequacy of legislation or laxity in enforcement.

Unfortunately, carefully conceived statistics are not available with regard to the extent of adulteration. Two enquiries were undertaken concerning adulteration of foodstuffs in 1937 and 1940 at the instance of the Central Advisory Board of Health. The Committee which made the first enquiry concerning two commodities, viz. milk and milk products, and edible oils, came to the conclusion that "Not only is adulteration widespread throughout the country, but the degree to which it is practised is extremely high." These findings were found to be substantially correct with regard to other foodstuffs, too, by the second inquiry in 1940.

Coming nearer to present times, we find a newspaper report of 1960 which says that "In Delhi, spices are liberally mixed with a large content of brown powder, yellow mud, sand, jute fibre and saw dust. According to one sample, analysis of adulterated foodstuffs, a certain type of grass is cut into fine pieces, dried and mixed with caraway seeds. Out of every two samples of milk taken in surprise raids, one was found adulterated to the extent of 49 per cent. This is also true of milk products. In many cases, ice-cream has been adulterated to the extent of 31 per cent. Nor is tea spared; leaves and bark of some trees are sold out as tea leaves. More saffron is sold in Delhi than is produced in Kashmir, the only supplier. A factory manufacturing spurious saffron from jute fibre and coloured flour was unearthed in Delhi. According to an analysis report, honey is 48 per cent mixed with *jaggery*, *gur* syrup and other sugars. Butter is mixed to the tune of 45 per cent with coloured *vanaspati*. Chilli powder contains 37 per cent dust."

It was mentioned at the seminar of the Consumers' Association in India held in 1961, that colouring of turmeric with lead chromate is widely practised in the Calcutta market, since the housewife there prefers bright yellow turmeric. Lead chromate, however, is poisonous and harmful to health. Another telling

¹A. I. Qureishi, *The Future of the Cooperative Movement*, Oxford University Press, Madras, p. 81.

instance mentioned at the Seminar was the absorption of old bottles by the market at high prices, which were used for selling spurious goods. The commodities which thus finally reach the consumer are highly adulterated, with the result that the consumer is paying much more than what he gets in return, and the quality of the stuff that he gets is poor and often injurious to health.

Rise in Prices

Another hardship of the consumers is the rising level of prices. The middle classes and the industrial workers have suffered considerably on account of the rise in prices ever since the Second World War. In a survey carried out in Bombay regarding the economic conditions of middle class families, it was found that nearly 68 per cent of the people interviewed were of the view that food prices were going up. More than three-fourths of the people said the same thing about manufactured goods.¹ In this connection, a rise in the prices of consumer goods which took place in Delhi some time back will show the helpless situation of the town-dwellers. The Government of India decided on July 25, 1961, to upgrade Delhi to an 'A' Class city, and this meant some increase in compensatory allowances of government servants. But within a fortnight, states a newspaper report, the government employees have started realising that the upgrading of the city has come as a mixed blessing. They feel that as their compensatory allowances have gone up, so have the prices of goods of daily use. . . . In the past fortnight, the prices of most of the pulses have gone up by Rs. 5 per maund, of toilet soaps by 2 np per cake, of mustard oil and *til* oil by Rs. 3 a quintal, and of wheat by Re. 1 to Rs. 1.50 per maund."

The level of prices is determined by a number of factors affecting the supply and demand of commodities. However, it is a generally accepted fact that the number of intermediaries in the trade of agricultural commodities is too large, which accounts for the considerable price-spread existing between the price received by the producer and the price paid by the consumer. In many cases, the price paid by the consumer does not bear any reasonable relationship to the cost of production.

¹Indian Statistical Institute, *Report on the Survey into the Economic Conditions of Middle Class Families in Bombay city*, p. 28.

A second relevant factor is the existence of a sellers' market due to periodic or long-term scarcity of many commodities. This leads to hoarding and cornering of goods by traders in anticipation of price rises. Thus, artificial scarcities are often created, resulting in spiralling prices.

Thirdly, monopolistic conditions enable a few leading producers to exploit the consumer. The findings of the Monopolies Commission appointed by the Government of India to study the concentration of economic power in the country (1965) are revealing in this regard.

The Commission defines the degree of concentration as follows, on the basis of the share of three top producers in the total production of a commodity:

The results by various types of commodities are summarised below:

High	75 % or more
Medium	More than 60% — less than 75%
Low	More than 50% — less than 60%
Nil	Less than 50%

In the *clothing section*, low concentration exists in two out of nine items, viz. woollen wearable fabrics and worsted knitting yarn. High concentration exists in no item.

In the *fuel section*, out of three items studied, concentration is high in two.

Out of the 22 items in the *household goods (dry goods) section*, high concentration exists in 12 items.

In the *conventional necessities section*, such as matches, cigarettes, etc. high concentration exists in all the nine items. However, the situation is redeemed because artisans and small producers produce items like soap and leather footwear.

In the *medicines section*, high concentration exists in 18 out of 19 items—100 per cent in 18 and 74 per cent in one. Elsewhere it is mentioned in the report that out of 97 medicinal products, there was only one producer for as many as 49 items.

In the *transport goods section*, out of 23 items, high concentration exists in 19 items, medium in three and low in one.

In the *building material section*, out of six items, high concentration exists in two items and medium in one.

In the *miscellaneous section*, out of nine items, high concentration exists in three and medium in one.

Thus, a study of 100 items of interest to the ordinary consumer reveals that, in 67 items, there is a high concentration of economic power.

With regard to consumer products, not included in the above group, the Commission's Report also reveals a high degree of concentration of economic power. These commodities include automobiles and their ancillaries, dry batteries, domestic refrigerators, electric lamps, instruments connected with medical science, sewing machines, calculating machines, safety razors, pressure cookers, timepieces, and duplicating stencils. High concentration is also to be found in several production materials, such as nitrogenous fertilizers, raw materials for art silk factories, products of several metallurgical, mineral and light mechanical engineering industries, and industrial machines and tools. The monopoly elements in these industries substantially contribute to raising the price of consumer goods in the manufacture of which production materials put out by these industries are used.

An important consequence for the consumer, of such high concentration of economic power, is the high prices charged by the industries having monopoly power. In this connection, the Monopolies Commission has the following to say: "We did, however, compare the cost of production, as supplied by some industrialists, with the profits made. On such comparisons, we are convinced that in certain goods of common use, including certain drugs, exorbitant prices were actually charged by the producers who are either the sole producers of the goods or who accounted for such a large share of the production that there was no substantial competition and they acted as price leaders."

Advertising

As a technique of disseminating information, advertising undoubtedly has an important contribution to make when a consumer is faced with a plethora of goods and he has to make a choice between alternative commodities. Advertising is also an important tool in an economy based on free enterprise, where the contact between the producers and the consumers is no longer direct and personal as in the past. Thus, when we discuss below some undesirable features of advertising from the point of view of the consumer, it is not implied that advertising is unnecessary or totally undesirable.

Advertising adds to selling costs and thus, raises the ultimate price paid by the consumer. To the extent that advertising helps the consumer in making his purchases, this cost is worth while. However, advertising is undertaken by the producers for enhancing the sales of commodities produced by them with a view to maximising their profits, and the idea of serving the consumer is often a subsidiary one. The producers undertake advertising comparable to their rivals; in order to retain themselves in the market. Thus, much competitive advertising cancels itself out. One economist has pointed out in this connection: "Advertising has the effect of channelling resources into its own perpetuation, effects which are not entirely dissimilar from those of competitive armaments of governments."

The system of patents, trade marks and copyrights, sustained by powerful advertising, has led to extensive brand differentiation. Advertising expenditures as cost items are often exempt from taxation, and this has further accelerated the drive towards product differentiation through branding of articles. Having created a brand, the firm carries on widespread and intensive advertising to spread its message with relentless vigour and skilful techniques, until the consumer is so bemused, that he buys on an instinctive reaction to the brand. Furthermore, brand differentiation coupled with the discount system and differing weights of containers, sometimes in fractions, has rendered rational price comparisons almost impossible.

Producers know all too well that there are considerable profits to be reaped through monopolistic competition, i.e. creating an oasis of a market for themselves where entry by others is made difficult. It does not matter to the producer whether such product differentiation is real or imaginary as long as the consumer thinks it is real. The function of a good deal of advertising effort is well described in a recent book, "*Madison Avenue, USA*", by an advertising agency executive in the following words: "Our problem is: a client comes into my office and throws two newly minted half-dollars onto my desk, and says 'mine is the one on the left, you prove it's better.' "

The main problems in this field may be summarised as follows:

- (i) Advertising is highly competitive and wasteful. It increases cost for the consumers to a level much higher than that justified by its informative value.

- (ii) Brand differentiation calls for extensive advertising outlays. This drive for product differentiation—often imaginary—coupled with other sales promotion methods, e.g. discounts and gift coupons, leaves the consumer bewildered with regard to price comparisons.
- (iii) When advertising claims exaggerated virtues, and is misleading or positively harmful by playing upon the fear motive, it does great harm to the consumer.

Credit Buying and Other Aspects

An important factor which enables the private retailers to acquire and maintain their hold on consumers is allowing them credit on their purchases. Credit-buying appears to have become a deep-seated habit of people, irrespective of their incomes, particularly, of the industrial labourers. Also, people think that the credit they are given is an index of their social prestige. The habit of credit-buying inevitably leads people into expenditure beyond their means, and this leads them into debts which they find very difficult to clear off. This places them in the grip of private traders who can, therefore, take liberties with quality, prices, etc. with impunity.

Other aspects of private supply, injurious to consumers, are short weights, unhygienic storage and display of goods by the retailers and "take it or leave it" type of service.

Summing up

These then are the main areas in which consumer cooperatives can make a useful contribution to the welfare of newly emerging groups in the towns and cities. It is, of course, obvious that consumer cooperatives alone cannot solve the problems described. The attack on these problems will have to be many-sided, through protective legislation, and its proper enforcement, the development of strong consumers' bodies as watch-dogs of consumers' interests, and the development of a code of competitive ethics amongst businessmen. The importance of consumer cooperatives lies: (i) in the alternative that they provide to consumers in developing their own supply agencies, (ii) in strengthening legislative and other measures, and (iii) in exercising, in general, a healthy effect over the operations and practices of private merchants.

III

HISTORICAL BACKGROUND AND RECENT TRENDS¹

CEYLON

From 1912 to 1939, small stores were organised for supplying simple household necessities. In 1939-40, there were only 26 stores with a membership of about 12,500. The majority of the stores were organised on the plantations where they were necessary due to the distance from the towns. The plantation owners also encouraged their formation by providing facilities, such as shop accommodation. Historically, the year 1941 marks the great divide in the progress of the consumer cooperative movement in Ceylon. From 1941 until the end of the Second World War, a large number of consumer stores were organised as a consequence of scarcities of consumer articles. Central purchasing agencies in the shape of wholesale stores unions were created, and efforts were made to expand the range of goods supplied. At the apex level, the Co-operative Wholesale Establishment (CWE) was organised with the intention of converting it into a cooperative organisation, but it has remained a government corporation. During the post-war period, the consumer movement suffered a gradual decline due to several factors, viz. the removal of distribution controls, the emergence of competition from the private trade, and finally, the lack of an extensive member education programme.

In 1956, the Government adopted a policy of forming multi-purpose societies all over the country. These societies and unions are engaged in a variety of tasks, such as the sale of consumer goods, marketing services, contract work and paddy milling. A significant portion of their activities, however, continues to be concentrated on the supply of consumer goods.

The table on Page 38 gives the statistical position of consumer cooperative activity in Ceylon.

An important feature of the consumer cooperative work in Ceylon is the great reliance placed by the cooperatives on the distribution of rationed commodities, especially rice, and of other commodities, channelled by the Co-operative Wholesale Establishment which

¹The factual material presented in this section is based on the background papers presented at the Regional Seminars on Consumer Cooperation organised by the ICA Regional Office and Education Centre for South-East Asia.

RETAIL CONSUMER COOPERATIVES : (1965-66)

<i>Type of Society</i>	<i>No.</i>	<i>Membership</i>	<i>Sales (Rs. millions)</i>
Stores Societies	715	218,095	75.5
M.P.C.S.	4,017	194,334	352.0
Retail Depots of Unions	404	600,633	143.0
Total	5,136	1,013,062	570.5

- Note:* — 1. No of consumers attached to the retail points was 7.75 million, i.e. 68.4 per cent of the entire population.
2. Total number of retail selling points was 5,109.

is the sole importing agency in Ceylon. Recently, the Ceylon Consumers' Cooperative Union has been established in order to provide support to the consumer activities of the multi-purpose societies and stores societies. However, in the context of the sole importing rights enjoyed by the CWE and the relatively small volume of domestic production of consumer articles in the country, the contribution which this Union could make to the consumer cooperative movement is yet to be chalked out in practical terms.

INDIA

The course of consumer cooperative movement in India may be divided, broadly, into the following three periods:

- (i) 1912 to 1938,
- (ii) 1939 to 1961, and
- (iii) 1961 to date (current phase).

Period from 1912 to 1938

The First World War (1914-18) gave an impetus to the organisation of consumer cooperatives on account of the shortage of consumer goods and the consequent rise in the prices of commodities. Since 1920, with the formation of the Indian National Trade Union Congress (INTUC), the labour unions have insisted upon the

establishment of cooperative stores and canteens in industrial enterprises as part of the labour welfare schemes. However, during this period, the number of consumer stores organised was rather small.

Period from 1939 to 1961

As in Ceylon, the consumer cooperative movement received a great fillip during the Second World War, which brought in its train scarcities of essential commodities and problems of their distribution. In order to combat the profiteering of the private traders and to protect the consumers against spiralling prices, the government introduced food rationing and price controls on essential commodities, and utilised the cooperative agency for ensuring fair distribution. As part of the policy of controls, in some provinces (states) cooperative societies were given monopoly of distributing controlled commodities, while in others, they were given preferential treatment over private traders. Also, industrial firms, the railways and other government establishments encouraged the formation of cooperative stores by giving them rent-free accommodation and other facilities. These conditions were abnormally favourable and the number of consumer stores and their turnover showed a phenomenal increase. The same trend continued in the post-war period up to 1951-52. The number of stores increased from 396 in 1938-39 to 9,757 in 1951-52, while their membership increased from 43,000 to 1.8 million during the same period. The sales turnover showed an unprecedented growth from Rs. 5.7 million to Rs. 820 million during this period.

It may, however, be noted that this growth of the consumer movement was not uniformly spread over all the states. Also, the progress made by the wholesale stores was slower, and proper relationship between them and the primary stores, except in Madras to some extent, still remained to be developed. During this period, little or no attention was given to the kind of problems that might arise with the return to normal times. Thus, when controls on foodgrains and other essential commodities were gradually removed from 1951-52 onwards, consumer cooperatives received a serious setback.

The Current Phase from 1962 Onwards

The Chinese invasion and the devaluation of the Indian rupee

exerted strong upward pressures on prices. The Government of India drew up the following schemes to check the rising prices.

In November 1962, the Ministry of Food, Agriculture, Community Development and Cooperation, formulated a *Centrally Sponsored Scheme* to organise a network of stores in all important cities having a population of 50,000 and above. Two hundred wholesale stores and 5,000 primaries or branches were to be organised. Each wholesale store would, on an average, serve 20 primaries/branches. The organisational pattern envisaged was flexible, and the wholesale stores would either operate through primary affiliates or else open their own branches. Where the former pattern was to be operated, there was provision for the wholesale stores to serve the existing primary stores as well, in order to bring them within the purview of the present scheme. The financial assistance given to the wholesale stores was to be in terms of contributions to share-capital, provision of accommodation, subsidies towards managerial expenses, clean credit facilities, and assistance for the construction of warehouses and purchase of trucks. (Similarly the primaries would be assisted to the extent of Rs. 4,500). A senior officer of the State Cooperative Department along with supporting staff would assist wholesale stores. The relevant government departments would help them to ensure speedy supplies of consumer goods. Facilities for the education of members and training would be provided. A consumer management institute was set up in the country to give the managers of wholesale stores training in management techniques.¹

A second scheme, formulated by the Ministry of Labour of the Government of India, relates to the provision of cooperative stores for industrial workers. All public and private sector industrial undertakings employing more than 250 workers will have a store. The employers will provide assistance towards share-capital, managerial expenses and accommodation costs. If several worker stores need a wholesale store of their own, they can create one or else they can draw upon the services of an existing wholesale store.

Under the centrally sponsored wholesale scheme, at the end of 1966-67, there were more than 13,000 primary consumer stores, and 345 wholesale stores (Under the Labour Ministry's scheme, 2,200

¹This Institute has since been merged with the Vaikunth Mehta National Institute of Cooperative Management, recently set up to provide management training to personnel of the cooperative movement in the country.

primary stores have been organised in industrial undertakings employing at least 300 workers. As many as 360 consumer stores have been organised for the railway employees alone). Practically, all the towns with a population of 50,000 or more have now been covered by the wholesale stores. The membership, sales, share-capital, and the turnover of these stores have been steadily going up. At the end of June 1967, the figures were as follows:

Membership	670,000
Share capital	Rs.72 million
Goods	Rs. 1,740 million

A third scheme relates to the organisation of department stores in towns having a population of 200,000 or more. With few exceptions, these stores have a floor area of more than 10,000 sq. ft. and have separate departments for food, groceries, toilet articles, textiles, ready-made garments, electrical appliances, medicines, etc. The number of such department stores in the country as on 30th June 1968 was 56, and their sales were to the tune of Rs. 110 million.

In order to support this network of consumers' cooperative societies, State Cooperative Consumers' Federations have been organised in 14 States, which in turn have set up a National Consumers' Cooperative Federation. The State Federations have taken up, among other things, procurements and distribution of farm products, like pulses and spices, and of scarce items such as tyres, baby food, etc. The National Federation purchases textiles from textile mills within the country, and imports consumer articles such as dry fruits, books and rubber contraceptives. A significant feature of the work of the consumer federations is the direct purchasing arrangements they have worked out with the manufacturers. These arrangements relate to edible oils, baby foods, cycle tyres and tubes, electric bulbs, hurricane lanterns, soaps and matches, kerosene oil, drugs and medicines, and several other commodities. The manufacturers supply the commodities to the cooperative on a priority basis. These supplies are sent to the stores directly, and at prices as charged at the first point of distribution. For scarce commodities like tyres and tubes, the industries have earmarked 10 per cent of the replacement sales for supply to cooperatives, and in some cases, this percentage is being doubled. It has been possible to work out some of these arrangements with the manufacturers due to the active assistance provided by the government. The Central

Government has also a scheme of guaranteeing loans provided by banks to wholesale consumer cooperatives for recurring expenses. The guarantee will be limited to 25 per cent of the amount of all secured loans and advances made by banks to consumer cooperatives. Seventy-seven societies have obtained such loans amounting to Rs. 110 million.

THAILAND

The emergence of consumer cooperatives, in the remaining three countries to be dealt with in this paper, viz. Thailand, Malaysia and Pakistan, was also on account of the scarcity condition and the need to ensure equitable distribution of consumer requirements during the Second World War and the post-war periods. In Thailand, the government sponsored both institutional and open consumer cooperative societies. A cooperative promotion fund was created by the government for the purpose of giving a low-interest loan at 2 per cent per annum, the repay period being between 3 to 5 years.

Preferential treatment was given to cooperatives for the distribution of certain goods, such as tobacco, local whisky and sugar. In 1965, the position of the consumer cooperatives was as follows:

No. of consumer cooperatives	109
Membership	92,600
Sales	160 million Bahts

In 1940, the Cooperative Wholesale Society of Thailand was established. It has now a membership of 86 consumer cooperatives and a share-capital of 156,000 bahts.¹ The society was given a loan by the government of about 5 million bahts at the start of its operations.

MALAYSIA

In Malaysia there are four types of cooperative stores:

- (i) Stores in urban areas.
- (ii) Shops in *kampongs* or rural areas: the emphasis in these shops is on commodities required by the people living in the rural areas.
- (iii) Shops in new villages: these were primarily started during the emergency, as a result of regrouping families living

¹20 Bahts—1 US Dollar.

around the fringes of jungles to remove them from the influence of rebellious Communists.

- (iv) Institutional Stores: these were established for the convenience of workers on plantations and mines. In general, these stores worked well, on account of the support given by the employers in terms of providing managerial and financial assistance, and adjusting the dues of the members from their salaries for credit sales.

To check the rising cost of living during 1946-50, the Government decided to give greater support to the consumer movement in the form of assistance for buildings, management personnel and other advantages. Hence, in this period, a total of about 250 retail societies were registered. In 1949, the Malaysian Cooperative Wholesale Society (MCWS) was established with an initial capital of M\$ 5,500. The Government also guaranteed overdraft facilities given by a local bank to the MCWS. The overdraft varied from M\$ 35,000 to M\$ 1 million. Also, the salaries of the General Manager and the Assistant General Manager were paid out of the government fund. In 1952, the government gave the MCWS a loan of M\$ 1.7 million at the low rate of interest of 3 per cent per annum. With this new fund, the activities of the MCWS were further extended and goods were supplied to all retail societies on credit. During the period of scarcity, the business of the MCWS, as also of the retail societies, flourished. However, as in other countries, when the supply position of consumer goods improved, the societies ran into difficulties. As the members shifted their patronage to private traders, the retail societies were unable to recover their dues on account of credit sales. This, in turn, adversely affected the MCWS which found it difficult to recover the credits granted to the primary societies. In 1954 alone, at least M\$ 200,000 was written off as bad debts. Also, several societies had to be liquidated.

It, therefore, became necessary to reorganise the activities of the MCWS. After independence, the Malaysian Government had started opening up vast strips of virgin land for planting rubber and oil-palm trees, under the direction of the Federation Land Development Authority (FLDA). The MCWS was asked to operate retail shops on new estates to supply the requirements of settlers. The experiment of running three such retail shops was successful, and as a result, the scheme was expanded. By 1963, the Wholesale Society

had opened 45 such retail shops. On account of a further loan of M\$ 500,000 at 4½ per cent per annum, and the direct management of the shops by the MCWS, the position of the MCWS improved considerably. The scheme, however, envisages that the retail shops will be ultimately converted into individual cooperatives run by the members themselves. Looking at previous experience, it is doubtful if such a step would be sound.

PAKISTAN

In Pakistan, the consumer cooperatives were started the after country achieved independence, to fill the vacuum created by the migration of most of the traders to India. During 1965-66, the statistical position of consumer societies in West Pakistan was as follows:

Number of consumer societies	527
Membership	65,000
Working capital	Rs. 6.8 million
Sales	Rs. 10.6 million

Recently, a committee was set up to study the situation of consumer cooperatives and to examine the setting up of a provincial consumer cooperative organisation. As a result of the report of this committee, the West Pakistan Consumers' Cooperative Society has been organised with the assistance of the Cooperative Institute of Management. The purpose of this project is to create an apex organisation to act as a wholesaler for the retail societies. It will also coordinate the activities of the existing societies in respect of procurement, assortment of stocks, pricing policy, sales promotion, accountancy and staff training. In addition, it will run its own retail shops so as to be an operative factor in stabilising prices and improving qualities.

This society will operate as a combined wholesale-cum-retail society to which some cooperative processing and manufacturing units will also be affiliated. For the time being, the society will operate six retail outlets in Lahore. It is also expected that the existing cooperative retail societies within a radius of 100 miles of Lahore will be affiliated to this project. The project is assisted by an adviser made available by the Royal Danish Government, and it is expected that two more experts will be made available for arranging the technical training of staff.

Summing Up

To sum up, firstly, it may be stated that the consumer cooperative movements in the countries reviewed above were initiated to counteract the problems created by scarcity conditions, such as hoarding and cornering of stocks, rising prices, and deterioration in the quality of goods supplied by the private trader. Secondly, governments had taken an active part in sponsoring consumer cooperatives, and providing various types of assistance to them, as part of the policy to mitigate the hardships for those sections of the population whose incomes were limited. The contributions, made by the cooperatives during scarcity periods in arranging equitable distribution of scarce commodities and in preventing very severe price increases, have been significant. Thirdly, in almost all the countries of the region, a large number of stores suffered losses and many had to be wound up, with the improvement in the supply position and the emergence of competition from private traders. Fourthly, a few experiments with establishing large-scale cooperatives have been initiated in several countries, viz. Ceylon, India, Pakistan and Malaysia. Finally, it may be stated that the consumer cooperatives in the region are not yet a dynamic force, but they are rather a scattered group of societies which have loosely joined together into an apex cooperative organisation. A great number of problems will have to be tackled so that the consumer cooperative movements can establish themselves as organisations capable of managing their own affairs, under normal times and without a great deal of government support.

PROBLEMS

The problems of the consumer cooperative movements in the region could be broadly categorised under the following heads:

- (i) Member apathy and lack of leadership development
- (ii) Organisation
- (iii) Operation
- (iv) Lack of adequate capital

Member Apathy and Lack of Leadership Development

In almost all the countries of the region, consumer organisations

have to contend with a membership which is apathetic and does not provide the needed support in terms of purchases and contributions to the capital. On account of the active involvement of governments, in sponsoring and even running cooperative organisations, members tend to believe that the cooperative organisation is a government outfit and that they have no substantial stake in it. Large-scale failures of the consumer cooperatives with an improvement in the supply situation could be attributed to the fact that a large majority of members transferred their purchasing from the cooperatives to private traders. It is also evident that a great majority of societies functioned as mere distribution depots for controlled commodities made available by the government. The societies lacked leadership which could have consolidated the financial position of the societies and built up member loyalty during such abnormally favourable conditions. Any private trader with some common sense does this as an insurance against possible difficult times in future. Furthermore, for want of competent leadership, by and large, no attempts were made to adopt new policies and business tactics to meet the challenge of open competition.

The reason for continued large-scale member apathy and lack of sufficient leadership development could be attributed to the relative neglect of education for members and board members. Generally, the societies were organised by the government in a great hurry without adequate preparations by way of cooperative education for members. This has been the repeated experience even within the same country. For example, in India, consumer cooperative organisations were registered in large numbers during the Second World War. Again, to prevent price rises in the wake of the Chinese aggression and the devaluation of the Indian rupee, the establishment of wholesale stores in almost all the towns and cities in India having over 50,000 population, was rushed through in a period of five years. Big department stores have also been set up and put into operation, sometimes within a period of a couple of months or even less. This deficiency in member education is seldom made good even at later stages. In view of these experiences, it cannot be too strongly emphasized that adequate provision of member education should be made an integral part of any scheme of cooperative development.

Some arrangements for member education do exist in several countries of the region. There are cooperative unions or federations

carrying on cooperative publicity and education work. However, their connections with the business federations are rather thin, and hence the member education work carried out by them barely goes beyond disseminating knowledge about cooperative principles, cooperative legislation and cooperative bye-laws. Business questions troubling the members often remain unanswered. Also, the education work is not geared to stimulate the business of the societies or to build up capital for business expansion. Another weakness is the near-total lack of interest in member education work on the part of the primary societies. The local societies, and sometimes, even the business federations, regard member education as the exclusive responsibility of the unions. Thirdly, member education work is carried out sometimes, through the organisation of short duration courses or camps, or the exhibition of cooperative films, off and on. It is not conceived as a continuous process, and adequate efforts are not made to find out new and more effective methods of member education.

Organisational Problems

I. THE SMALL SIZE OF THE SOCIETIES AND SHOPS. Barring some exceptions, the size of the consumer cooperative societies in most countries of the region is rather small. It is assumed as an ideological premise that a greater degree of member loyalty will be ensured in small societies on account of mutual acquaintance among members and greater share for them in management. This belief, however, has not been substantiated by actual results as was evidenced by the debacle of the consumer cooperatives, once the period of scarcity was over and preferential treatment was withdrawn by the government. On the other hand, small economic societies suffer from a number of problems, such as small finances, inability to employ competent staff, and lack of economic power to counteract the malpractices of the private trader. The private retailers with whom the stores compete are also small outfits. However, the private trader has low overheads, as he usually manages the shop with family labour, and maintains only rudimentary accounts. The retailer can also indulge in adulteration, can avoid payment of sales tax, keep his shop open beyond the hours prescribed by the Shops and Establishments Act and make good his small mark-ups through these and other ways.

It is, therefore, essential for a cooperative society that the overhead costs be spread over a large turnover so as to achieve a smaller proportion of overhead costs per unit of sale. A large society with several shops (of economic size) would have the following economic advantages.

(i) Reduction in purchase prices due to large-scale purchases, reduced costs of transport, and lower storing and handling charges. A central warehouse in charge of pre-packing of goods will ensure better packing and uniform quality of goods for all shops.

(ii) A society with several shops can offer better service to its customers, with well-developed layouts, proper fixtures and a smooth working organisation in the shops. All these can be centrally planned and supervised.

(iii) A system of centralised accounts and office work will ensure accurate and up-to-date figures for the management, besides reducing the costs of book-keeping, control, and other administrative duties.

(iv) A large business will give quicker rotation of the recurring capital, thus reducing interest charges.

(v) Finally, large societies can afford to have highly skilled and specialised officers on their staff. Wider opportunities for promotion of staff will naturally attract better staff even in lower grades. The society will also be able to give sufficient staff training.

However, for proper working of a large society, the following pre-conditions must be fulfilled:

- (a) A proper parliamentary framework with representative democracy;
- (b) proper planning with regard to various economic matters, such as finding proper shop locations, arranging efficient purchasing, storage and transport, and proper budgeting;
- (c) finding skilled and specialised staff competent enough to manage large-scale operations; and
- (d) finding adequate capital either through initial government support, support of trade unions or from the members themselves.

Although it is too early to draw any firm conclusions, recent experiments of large-scale operations in India have so far had some encouraging results to offer. The department stores in India have followed an active price policy, and it is felt that the prices charged by these stores are at least 3 to 5 per cent lower than the market prices.

Although, the department stores at present are responsible for only a small portion of the retail trade in the cities where they operate, they have made their effect felt on the price level of retail goods. Secondly, the layout of goods in the department stores and in wholesale stores with branches is attractive. They have introduced cleaning of pulses and spices, etc. and pre-packing of these goods which has resulted in saving purchasing-time for the consumer and in giving him better quality and correct weights. The marking of prices on these pre-packed goods makes it possible for the customer to compare various qualities without spending too much time. Thus, these new large-size department stores have set a new trend in retailing, which even private trade is trying to emulate.

II. LOOSE RELATIONSHIP BETWEEN THE PRIMARIES AND THE APEX ORGANISATIONS. It was mentioned earlier that in several countries national cooperative wholesale organisations have been set up. However, these organisations have not yet become powerful leaders which could weld the various affiliated societies into an integrated movement. The relationship has been rather loose, and there are complaints from the primaries that the services provided by the wholesale stores have not been adequate or efficient. On the other hand, the wholesale stores complain of lack of loyalty and support on the part of the primaries, both in terms of purchases as well as their contributions to the capital.

The reasons for this loose relationship may be listed as follows:

1. Sentiments of attachment of local people to their primary societies may be an impediment to centralisation of certain functions in the interest of business efficiency. Also, persons holding responsible positions in local organisations may find their social status diminished as a result of horizontal or vertical integration.
2. Present leaders and members do not fully appreciate the advantages of *integration*, and may, therefore, not give the needed support to federal bodies.
3. Lack of adequate capital may prevent effective integration between the federal body and its constituent units.
4. On account of lack of planning, the federal bodies may not be able to find out significant areas of activity which they could develop on a centralised basis and thus

provide more effective service.

5. Lack of skilled managerial and other personnel may impair the efficiency of federal organisations where the complexity of business is much greater.

A solution of the above intricate problems requires concerted effort on the part of both the primaries and the wholesale stores. A plan of collaboration between these institutions can only be developed through frequent discussions and adjustments of views in the light of changing conditions. Furthermore, the plan of collaborative effort should not be uniform and rigid, but should also take into account requirements of societies with differing sizes, membership demands, etc. Through mutual agreement, the primaries and the wholesale stores should work out their reciprocal obligations which should be faithfully carried out. It is also of utmost importance that the central organisations have staff of a calibre which can carry out the various tasks of the central organisation effectively and to the satisfaction of the primaries. The services which the central wholesale store could render would include centralised purchasing, establishment of regional warehouses, providing consultancy services to the affiliates with regard to shop location, shop layouts, assortment of goods, pricing policies, stock control and leakages, etc.; developing centralised accounting; providing training arrangements and undertaking processing and production.

III. LACK OF PROPER DELEGATION OF POWER. There does not exist a proper demarcation of responsibilities between the board of directors and the manager. This problem has many serious consequences with regard to the efficient running of the consumer societies.

IV. OPERATIONAL PROBLEMS. The various problems mentioned earlier have their consequence in the operations of consumer societies. A brief description of these problems is given in the following pages.

(a) *Lack of Planning.* There is a general lack of planning, both short-term and long-term, in most of the consumer cooperative societies, as evidenced by the lack of detailed budgets with regard to purchases, sales, personnel and capital. In the absence of such forecasts, the "control" function cannot be adequately performed by the board of directors, since they have no criteria against which

the results could be judged.

(b) *Accounting System.* The accounting system does not provide the management with the type of statistics and information which could enable it to exercise proper control. The accounting system needs to be improved so as to enable the board to perform this function and assist it in carrying out dynamic management. Also substantial expenditure is made on the maintenance of accounts. There are possibilities of cutting down these costs.

(c) *Retailing Practices.* The small consumer societies, which predominate in the region, function very much like the private sector. In many of these societies, the layout and display of goods, the conception of service to the customer and other retailing techniques are of a traditional nature. The kind of attractive shops with a great deal of attention to customer's convenience and comfort, which one finds in advanced countries, is, generally unknown in most of the developing countries. It is only recently that an attempt has been made to introduce modern retailing techniques in bigger consumer societies. Reference has already been made to the developments initiated by the department stores in India; also similar experiences in bigger societies are available in Ceylon, Pakistan and Thailand. The new retailing techniques to be introduced may include providing adequate floor area in the shops for proper layout of goods, facilitating easy movement of customers, obtaining the right type of fixtures and shopping equipment, the attractive display of goods, pre-packing price-marking of goods and providing consumer information. Even self-service could be introduced on an experimental basis.

(d) *Stock Control System.* The stock control system needs to be improved so as to keep the value of stock-in-trade within economic limits. Usually, a very high percentage of leakages is prevalent in the stores.

(e) *Clearance of Old Goods and Slow-moving Articles.* Stocking of old goods and slow-moving articles for long periods is found in many societies. The clearance of old stocks and slow-moving articles is rather reluctantly done and also done too late.

(f) *Credit Trading.* In almost all countries in the region, consumer stores, generally, sell goods to their members on credit. The practice

of credit-trading works satisfactorily in institutional stores where the employers agree to deduct the dues of the societies from the pay sheets of the employees. However, in open stores, the practice of credit-trading leads to disastrous consequences. First of all, some members may feel that the society is not treating all members equally, since the credit limit allowed to members will vary according to their economic status. Secondly, book-keeping becomes complicated and the operational costs of the society go up. Thirdly, the already scarce capital of the society gets locked up in advancing credit to members and cannot be utilised for the development of business. Finally, the recovery of dues is not always regular and leads to overdues and bad debts. This failure in recoveries has quite often led many stores into suspension of their activities or into liquidation. This phenomenon was most strikingly demonstrated in Malaysia where the entire business, as reported earlier, was built up on the basis of credit from the wholesale organisation to the primaries and from the primaries to the members, and it was sustained by a government guarantee for overdraft and a low-interest government loan. It is reported that in 1954, about MS200,000 had to be written off as bad debts and about eight societies went into liquidation.

V. LACK OF ADEQUATE CAPITAL. The lack of adequate capital has been a serious handicap in the development of consumer cooperatives. There are several reasons for the inadequate capital position of the consumer societies. These are listed as follows:

(i) Small size of the membership.

(ii) Small size of the turnover and surplus, which in turn does not make it possible to plough back substantial amounts of money into reserve fund.

(iii) Other techniques of raising capital (from members) used in the advanced countries have not been exploited. In this regard, the retention of a part of the patronage dividend, either in the form of long-term fixed deposits of members or for building up a revolving fund, may be mentioned. Also, the societies have followed a rather passive policy with regard to the expansion of membership. There is a general belief that it is ideologically wrong for the consumer cooperative movement to trade with non-members. While, theoretically, it is true that the cooperatives do not want to make gains by

trading with non-members, the consumer cooperative should follow a dynamic membership policy. Non-members could be allowed to shop at the cooperatives and they may be given the same patronage dividend as members. The patronage dividend in the case of non-members should, however, be made non-withdrawable, and should be accumulated for the purpose of giving shares to non-members and enrolling them as members.

(iv) The external sources of finance in the case of consumer stores have comprised government assistance and loans from banking institutions. While government assistance in the form of share-capital and low-interest loans could be useful in enabling the societies to start their business, there should be definite plans for the societies to build up their own funds so as to develop greater self-reliance and independence of action. It is also possible that changes in political parties holding power, and consequent shifts in government policies, may leave the societies, sometimes, in very difficult situations.

Regarding loans from banks, the experience in India has been that the cooperative banks are reluctant to advance loans to consumer societies since they do not have enough confidence in the management. In a few states where loans are granted, cooperative banks give clean cash credit loans not exceeding the value of stock-in-trade of the society, and they maintain strict watch on the stock position. In view of this, it has become necessary for the government to give guarantees to the banking institutions, to enable cooperatives to obtain loans for recurring capital requirements. The example of Malaysia and Thailand were already mentioned earlier.

Conclusion

To sum up, the main directions in which the consumer cooperatives should develop, would appear to be: the development of large-size societies with several shops, the establishment of shops of economic size, the development of modern retailing techniques, the development of proper planning, the improvement of budgeting and control measures, the strengthening of the organisational setup by developing reciprocal relations of a sustained nature between the central organisations on the one hand and the primaries on the other, the development of proper financial policies so as to build up adequate capital, and finally, the development of systematic and sustained education and training programmes for members and employees.

Planning a Primary Consumer Cooperative

INTRODUCTION

IN THE developing countries of South-East Asia, where the economic level of the bulk of the population is relatively low and where consumer needs really form an integral part of the production needs, consumer cooperation tends to assume an even more important role than it does in the more developed countries.

The situation in these developing countries becomes more complex because of the relative scarcity of consumer goods resulting from, among other things, foreign exchange difficulties and the need for utilisation of available foreign exchange resources for national development. This fact gives added importance to consumer cooperation because properly organised consumer cooperative societies will help appreciably in making distribution more efficient.

It is inevitable, therefore, that movements in this part of the world should pay increasing attention to consumer cooperation, and that the governments in this region should actively foster the growth of this sector of the cooperative movement in their respective countries. In most countries of this region, the governments have, as a means of fostering consumer cooperation, granted various advantages to their respective movements, such as low rates of interest for the capital requirements of such cooperatives, privileges in the distribution of monopoly imports, management subsidies, exemption from different forms of taxation, State assistance in auditing, etc.

The need for consumer cooperation in countries of this region may arise for various reasons. Some of the more obvious situations are:

- (a) Urban population groups specially in the low-income levels.
- (b) New housing settlements in areas where there has been little or no organised retail consumer trade.

- (c) Groups of workers in factories and similar work-places.
- (d) Village groups of mainly agricultural population who would organise consumer activity, either in special consumer societies, or as a section of their multipurpose cooperative societies.

Even though the conditions obtaining in these situations may differ, there is hardly any variation in the basic approach to the problem of planning a primary consumer cooperative. The assessment of the need for the formation of a consumer cooperative society, the preliminary steps that have to be taken towards it, the need for adequate capital formation, and the need for education of the membership, are all constant factors, whatever the area in which such a society is organised. An examination of each of these aspects is, therefore, necessary in planning a primary consumer cooperative society.

The Need for a Consumer Cooperative Society

Let us first assess the need for the formation of a consumer society in a given area. The first basic factor to be considered in such an assessment is the presence of what might be termed "general consumer awareness." Are the consumers in a given area aware of the need to derive maximum benefit from their expenditure on consumer needs, or are they satisfied with accepting the existing situation? Unless this type of awareness exists, the basic conditions for the organisation of a consumer cooperative society will be lacking. Often, consumers tend to accept existing situations as a result of lack of knowledge of what a proper consumer service should be. It is, therefore, the responsibility of the national organisations of the cooperative movements to create this "awareness" by disseminating knowledge designed to make the consumer appreciate the advantages of a properly organised consumer service.

It is, for example, the responsibility of a cooperative movement to ensure quality consumer goods to its members. In developing countries, particularly, the average consumer is not in a position to determine the quality standards of consumer articles, and sometimes, he is still less able to insist on any quality standards being observed in such articles which he purchases. The tendency to adulterate

consumer goods, both at retail points and at the point of production, is one that the consumer would not be able to fight effectively unless he organises himself. Where consumers have not adequately organised themselves, the enforcement of regulations pertaining to quality standards tends to be weak, and, in such a situation, consumer cooperation assumes even greater importance. The development of consumer resistance, both to high prices and to goods of poor quality, is possible only with the growth of consumer awareness. The importance of consumers organising their own laboratories and other testing facilities for quality control is not realised adequately in the developing countries. This is possible only with the organisation of an adequate network of primary cooperative societies which link themselves together for such purposes.

Let us look at another aspect of the problem. How efficient are the existing consumer distribution systems in a given area? Is there a sufficient availability of retail selling points to serve the needs of the people of the area? Where such competition is limited, private trade channels would not concern themselves with the convenience of the consumer as much as they would with the economies resulting from having fewer retail selling points. This would be another factor which would generate a need for a properly organised consumer cooperative society in a given area.

Yet another factor which would create a need for the organisation of consumers in a cooperative is the question of the pricing policy adopted by the private retailers in an area. Are the margins kept by them fair and reasonable? Are the wholesalers, from whom they purchase their goods, the cheapest source, considering the quality of the goods? The relationship between quality and price is as important as the price itself because this is the aspect in which consumers generally suffer most.

These are some of the questions that will have to be examined in assessing the need for the formation of a consumer cooperative society. It is clear that there are certain "felt needs" in a given community which would create a climate for the organisation of a consumer cooperative society. To recount briefly, they are:

- (a) The need for a properly organised distribution system to serve the interests of the consumer.
- (b) The need for fair-pricing of consumer goods in relation to the costs of production.

- (c) The need to ensure that consumer goods are not adulterated.
- (d) The need to obtain the best quality of consumer goods in relation to the prices paid.

Given these "felt needs," the final assessment of the need for the formation of a consumer cooperative society would depend on the availability of a sufficient number of interested persons. Unless there is such a group, it would not yield an adequate turnover for the society, once it is organised, and this would result in a society which is not economically viable.

What an adequate turnover is, would, naturally depend on the anticipated overheads. What can be considered a reasonable group of persons to yield a turnover is, of course, a variable factor which would depend mainly on the purchasing power of the prospective members. Where, for example, there is a group of persons with regular salaries and wages which would result in steady purchasing, the number of persons required would be smaller than where the purchasing is going to be intermittent or seasonal, as would be the case with an agricultural population. The working expenses and capital investment which would govern the required turnover would also vary from area to area. It is, therefore, not possible to be dogmatic about the turnover.

Preliminary Planning

Having assessed the need for the formation of a consumer cooperative society, and having accepted the fact that such a society would serve a "felt need" in a given community, it is necessary for us to proceed to study certain factors which would have a bearing on the organisation of such a society.

The first of these is the system of retail distribution in the area of the proposed society. However rudimentary such a system may be, a definite system of retail distribution would exist in an area. A very careful study of the existing system is a prerequisite for the organisation of the consumer society. In this context, the answers to a few questions would be useful:

- (a) How many private retail-selling points exist in the proposed area of operation of the society?

- (b) What is the volume of business of each of these selling points?

The answers to these questions will give us an idea of the potential volume of business that could be anticipated by the proposed society. For this purpose we will have to take into account the total volume of business that is carried on presently by the private traders, the total population of the area as well as the number of people who would join the proposed society, and the purchasing power of this latter group compared with the purchasing power of the total population. Unless these basic data are studied, it is not possible to determine either the viability of the proposed society or its capital structure.

Having studied this, we should proceed to seek answers to certain other questions:

- (i) What are the wholesale sources from which the present retailers obtain their consumer goods?
- (ii) What is the distance to the main wholesaling centre which serves the area?
- (iii) What is the system of wholesale distribution? Is it one where the wholesalers deliver goods to the retailers or one where the retailers have to go to the wholesalers for their goods?
- (iv) Is credit available at present from the wholesalers and distributors to the retailer?

Answers to these questions would be useful in assessing the working capital and the staff that will be required by the proposed society.

In addition to these aspects, there are a few others which would be important from the point of view of planning the type of consumer service that the proposed society would have to undertake. Some of these are:

- (a) Are the existing retail shops self-serving? If so, continuance of the existing system would be helpful in reducing stalling costs. If not, the advantage of self-service would be one of the points of education in the initial stages of the formation and functioning of the society.

- (b) Are the retailers in the habit of delivering goods to customers? If such a system prevails, this again becomes a point of education to explain the advantages of reduced costs in purchasing personally, because it might not be advantageous for a consumer cooperative society to undertake such practices.
- (c) A study of the range of goods in the existing retail stores would help in planning the buying for the retail shops that would be established. In the absence of such data, haphazard buying with consequent losses would affect the stability of the new society.

Having studied the system of retail distribution from all these aspects, it is necessary to become familiar with the prevailing consumer price structures and current trends in the area. It must not be forgotten that one is entering a competitive field when a consumer cooperative society is organised, so that the study of price structures and indications of price trends are invaluable in order to survive in such a field.

The study of price structures should be not only factual but also analytical to determine their reasonableness, taking into account the distances from importing and manufacturing centres. We must also not forget factors such as the current import policies of the Government and the stage of industrial growth in the country, which have a marked influence on price trends.

The demand pattern in the proposed consumer cooperative society will depend, to a very large extent, on the price trends, and unless these trends are carefully assessed at this planning stage, it would not be possible to have a clear idea of the size and volume of business of the proposed society as well as its requirements of the capital and the staff.

Publicity and Education

One of the first things that the organisers of the society would have to do would be to give adequate publicity to the proposed venture. Like all new ideas, it is essential to "sell" the idea of organising a consumer cooperative society to the general public of the area in which it is proposed to be set up. In giving publicity to the proposed

venture, it is necessary to give all relevant facts which will enable a correct picture of the project to be drawn. Facts, such as the "needs" which prompted the organising of the consumer cooperative society in the particular area, the proposed capital structure, the area of operation of the society, the size of membership that is envisaged, and the anticipated benefits from such an organisation, are all important factors to which due publicity should be given. Unless such publicity is given, it would not be possible to gain support from the people in the area of the proposed venture.

It has to be accepted that without such support, a venture of this nature cannot succeed. If, for example, the proposed society is to serve workers of a particular establishment, the support of their trade unions would be invaluable. Similarly, the support of local community organisations, such as community centres and rural development societies, would be of importance where such societies are organised in rural or urban communities. Enlisting the support of women's organisations would go a long way to strengthen a venture of this nature, while backing from local government institutions of the area concerned would be useful at every stage of the project. Enlisting of support of this nature entails a properly directed publicity campaign. Such a campaign will take the form of informal discussions, public meetings, publicity in the local press, leaflet campaign, etc. It might be said that such publicity campaigns are an essential prerequisite for a venture of this nature because they create the necessary background and environment.

Once the background has been created and sufficient interest and enthusiasm generated in a given area or work-place, it is necessary to take in hand the more serious business of educating the prospective members. Unfortunately, specially in developing countries where problems of satisfying consumer needs tend to assume a certain degree of urgency, the importance of educating prospective members is likely to be forgotten. An analysis of the failures of certain consumer cooperative organisations in such countries would show clearly that the main cause for failure was the absence of membership education, both before the formation of the society as well as during the period of the society's activities.

The publicity campaigns preceding this stage should have created the necessary awareness on the part of the prospective members of the need for organising the consumer cooperative society. From this point onwards, it is necessary to give a very clear picture, to the

prospective members, of the positive advantages that would flow from the proposed society. It is only a correct appreciation of such advantages which could build up the necessary loyalty on the part of the members towards the society. It is to be anticipated that in the initial stages of the proposed society, operational difficulties would be encountered, which would sometimes be irksome to consumers. Similarly, at the same stage, there would be inducement campaigns conducted by competitors in the same field with a view to disrupting the loyalty of the members towards the society. Therefore, to ensure loyalty, and the patronage which would flow from such loyalty, the prospective members have to be correctly educated.

Education should be designed not only to ensure loyalty, but also to give the prospective members an idea of the management of the society. Unless as large a sector as possible of the members of a society have a correct appreciation of the functions of management, it would not be possible to have their active participation in the affairs of the society. It is important that the members be properly equipped to maintain what might be termed "constructive watchfulness" over the affairs of the society, and for this purpose, education in management is all-important. It is a common feature, however, specially in developing countries, that the intervention of the general membership in the affairs of their societies does not reflect an understanding of the problems of management of such societies, with the result that such interventions, instead of being constructive and useful, tend very often to be disruptive.

Specially in the early stages of development of the society, it would be necessary to introduce various organisational changes from time to time, as a result of experiences gained through the actual working of the society. It should be possible for the general membership to understand and appreciate the need for such changes, and to cooperate when they are introduced. This is another essential ingredient of the membership education.

The education programme for prospective members should also train them in budgeting consumer expenditure. This is important not only from the point of view of the members themselves, but also from that of management, as it will help in planning purchases and in gaining economies through bulk-buying. The introduction of well-planned patterns of consumer expenditure would be of immense help, specially in the early stages of a consumer cooperative society.

Points To Be Checked

Before proceeding to register this society, it is necessary that the organisers should check whether certain conditions have been fulfilled. Some of them are:

- (a) Whether the group of members that have come together has a clear understanding of the objectives of the society and the capital required by the society, and have amongst them a sufficiently capable group which could provide the necessary leadership.
- (b) That a place has been found for conducting the business of the society, which is satisfactory from the point of view of the general membership, and which would ensure a large turnover of business.
- (c) That all laws and regulations concerning the setting up of such a business, including rules governing public sanitation, have been complied with.
- (d) That adequate staff of suitable calibre, who have been properly trained, have been selected for work in the society.
- (e) That adequate arrangements have been made for obtaining, from manufacturers and wholesalers, the full range of consumer articles required by the membership.
- (f) That all necessary equipment for the proper conduct of the business is available.

Capital Formation

Let us examine the problem of capital formation in the proposed society. In developing countries, specially because of the considerable support that is often given by the State to the organisation of consumer cooperatives, the importance of capital requirements appears to be lost sight of. Not only must there be sufficient capital resources at the initial stages of the society, but it is also necessary that capital input keeps pace with the business expansion of the society. In the earlier part of the paper, we have dealt with some of the more obvious factors which would govern capital requirements. It would help us to recapitulate some of these here. The more important ones are:

- (a) The size of membership of the proposed society.
- (b) The anticipated turnover of the society, taking into account the purchasing power of the members, periodicity of demand, etc.
- (c) The available terms of credit for purchase of supplies.
- (d) The overhead and operational costs entailed in running the business.
- (e) Indications of possible expansion of business over a given time.
- (f) The capital cost of equipment and installations required for the commencement of business.
- (g) The terms on which external finance is available from institutions such as banks.

All these factors govern the capital requirements of the society. How is the society to find this capital? Obviously, the capital should come from the members. The problem that might arise is the fact that the prospective members would not be in a position to subscribe large amounts of capital at the commencement itself. Two alternatives are possible. The first is to fix the value of a share at a medium figure and get the members to purchase a number of shares over a given period. The second alternative is to fix the value of a share at a relatively high figure and get the membership to pay up the value of a share in instalments. Evidently, the two alternatives show that the first alternative is preferable for a consumer society. It could be agreed, either by a resolution of the general membership, or by provisions in the bye-laws, that a member should buy a given number of shares over a stated period, and further, that this would be a priority claim on the patronage dividend of the individual member.

The society has a tendency to retain the net surplus and to keep in reserves other specified funds as a means of capital accumulation. Even though such a procedure leads to increased capital availability, it does not increase the capital participation of individual members in the society. It is preferable, therefore, to distribute the surplus as much as possible in the form of a patronage dividend, and ensure its re-investment in the society in the form of share capital, rather than credit such surpluses to reserves with the intention of obtaining capital. The most appropriate method by which the problem of capital accumulation could be

solved is, perhaps, the judicious utilisation of this concept of a patronage dividend.

Advantages of Cash Trading

In the beginning of this paper when we discussed the study of existing systems of retail distribution, the problem of availability of credit facilities to consumers was posed. Credit facilities which bind consumers to certain traders are extensively found in this part of the world. Normally, such credit is accompanied by high prices. In view of the fact that most of the population live on marginal incomes, credit becomes an all-important factor in consumer trading and a very strong weapon in competition for the consumer trade.

Even though one would accept cash trade as the basis for the functioning of the consumer store, it becomes necessary to take the above factors into account in deciding whether credit trade should be indulged in or not. It is clear that specially at the initial stages when the capital available to the society is small, credit trading is not possible. Cash trading would, therefore, be preferable, especially in the initial stages. Even in subsequent stages, it is desirable that the basis of trading continue to be cash. However, those who receive wages on a monthly basis may require certain facilities whereby they may make payments once a month for the goods bought by them. It will be obvious that such a group cannot be large and that such persons would have to be very carefully selected. It is better, however, to think in terms of introducing to the members the practice of trade deposits, and provide facilities whereby, over a period of time, they are able to build up a deposit with the society for a sum of money approximately equivalent to the monthly purchases from the society.

It must be stressed that, specially in countries such as ours, it would not be easy to fight against the practice of credit trade. A well-planned programme of education to convince the members of the advantages of cash trading or trading against deposits, (together with practical advice on consumer budgeting which would help them to do so), is, therefore, important, specially at the initial stages of the cooperative society. It must be made quite clear in this programme of education that indulging in credit trading will deplete the capital resources of the infant society, and ultimately may lead to

bankruptcy. Depletion of capital will also mean seeking credit sources for the society itself in its purchasing, which will not lead to buying from the most advantageous sources. A very important part of this education programme will have to be done in liaison with the women's organisations in the community.

Pricing Policy

Specially at the initial stages of the society, observance of proper pricing policies is important. It must be mentioned at the outset that there are no rigid rules which could govern pricing policy. It would, indeed, be dangerous to base pricing policy either on cost only or purely on prevailing market prices. Several variable factors should govern the pricing policy to be adopted by a consumer co-operative society.

The first of these is the cost of the commodity concerned. The current cost of the article to the society must be taken into account. Any possible reductions in cost due to increased purchases, resulting from increased turnover caused by price-cuts, should also be taken into consideration.

The next factor to be considered is the amount of general operational costs. Items, such as rent, salaries, depreciation, etc. would fall into this category. These costs have to be taken into account in fixing the sale price.

In addition, special operational costs for the particular commodity should be taken into account. This includes not only current handling costs on the current volume of the commodity, but also increased handling costs as a result of any increased turnover due to price-cuts.

Another important consideration is the turnover of the particular commodity. Possible variations in turnover as a result of variations in price should be taken into account in determining the price from time to time.

The prevailing market price for the particular commodity in the area is a vital factor. The acquisition of market knowledge is very important in the operation of an active price policy. The possible attraction of new clientele as a result of fixing prices below the current market price should also be taken into account.

Another factor that should go into the determination of pricing

policy is the surplus that the society desires to have at the end of the year's business. This is governed by such factors as the capital required for expansion as well as the increased working capital that would be required with the growth of business.

The conclusion we could come to, in this regard, is that the pricing policy of a consumer cooperative society should neither passively follow the prevalent market price nor be merely based on the cost price, but that the society should aim at an "active price policy" which will take all the variable factors into consideration and which should have as its ultimate objective the obtaining of the most profitable results for its members, whilst, at the same time, ensuring the growth of the turnover as well as the growth of the capital resources required for the expansion of activities.

Continuous Membership Education

We have now considered most of the aspects that should be taken into account in the planning of a consumer cooperative society, and others which would be important at the initial stages of the society. It must, however, be stressed that if the society is to grow in strength, the most important ingredient is to ensure the continuing loyalty of members to the society. This is a factor which we tend to forget. To achieve this end, the most vital need is to undertake the education of its members as a continuous activity. At the same time, a realistic price policy, together with better service to the members, would strengthen their loyalty. In the absence of such measures, it would not be possible for the members of the society to have a sense of active participation. Keeping members informed is very important if they are to understand properly the affairs of their society and the reasons for certain actions on the part of the managing committee. Investigation of suggestions put forward by the membership is equally important. It is, therefore, necessary that the committee of the society should devote a considerable amount of its time and energy to the members' education, and that, for this purpose, it should have links with other cooperative organisations at different levels.

The accepted media of the study circle, the discussion group, the general meeting and the regular information bulletin are all invaluable as instruments of the membership education programme. Their uses and relative importance comprise a subject which is too wide to be

dealt with here. What is necessary, is to stress the vital importance of educating the members.

In view of the importance attached to membership education, it is desirable to provide for the expenditure necessary for such a programme from the funds of the society itself. Sometimes, this is done as a charge on the surplus of the society for the year. It is, however, worth while to consider whether it would not be more desirable to provide for this expenditure on the basis of the turnover, and whether it should not be made an ingredient in cost and price accounting itself. This would be an indication of the priority that has to be given to this activity, and also take it out of the field of competitive claims on the distribution of surpluses.

In contemporary cooperative movements, it is difficult to conceive of member education as an activity that could be carried out individually by a particular society. Such a course may not only be expensive, but may also yield poor results. It is, therefore, important that such programmes be undertaken in consultation with other bodies such as National Educational Unions.

What is necessary to reiterate is that membership education programmes should be continuous, well-planned and efficiently carried out if they are to be useful, and that such programmes are at least as vital as pricing policies, adequate stocking, proper management, etc. for the continued growth of the society.

Conclusion

The above are some of the main factors to be considered in planning and organising primary consumer cooperative societies. As stated at the commencement of this paper, consumer cooperation is assuming increasing importance in the countries of this region. This, sometimes, results in unplanned organisation of consumer societies many of which have very short lives.

The purpose of this paper is to stress the importance of adequate planning prior to the organisation of primary consumer cooperative societies. Even though the enthusiasts may be impatient with what might be considered delays as a result of this planning, it is better to spend a little time in planning a primary consumer cooperative society on a sound basis, so that it will continue to grow, rather than be hasty in organising such societies without a proper examination, **which will only lead to disaster in the end.**

Herman Lamm

Structure of Primary Consumers' Cooperatives

INTRODUCTION

MOST BUSINESS units start with a small beginning, but with efficient management they may gradually start growing. The human tendency is always to try to increase one's business, as there are certain better economic results and great savings which every large-scale business yields. In this paper, I have drawn from my personal experience as an officer in the Consumers' Cooperatives of Sweden, and from my experience as a lecturer and Chief Adviser to the Consumers' Cooperatives in India, and also from my studies of the movements in other countries, mostly in Europe.

The Grocery Shop

In retail trade, as in any other business, a large-scale economy gives scope for better results; but retail trade suffers from a natural limitation of growth, in that the distance which its customers are prepared to travel to reach their shop decides its size to an extent. As grocery is practically a daily trade, distance plays an important role in the consumers' selection of a shop. Normally, in a residential area, it may be possible for a shop to serve 25 to 50 per cent of the customers living less than 500 metres from the shop and a smaller proportion of the customers living, say, about 500 to 1000 metres from the shop.

At the same time, we have to ensure that the turnover of the shop will be sufficient to keep it going. The general experience in India indicates that a shop should have a monthly turnover of, at least, £1,000 to £1,500 in order to be an economically viable unit. Even with a low retail margin, minimum costs of staff, management personnel, accommodation and miscellaneous expenditure, shops with a lesser turnover than this will not be economical.

It is, therefore, a matter of necessity for cooperatives to have shops with a large turnover. Fair prices, correct measures and weights, and good unadulterated articles are the cooperatives' armoury against the private trader. Cooperatives should prevent any unnecessary rise in prices due to local scarcity. At the same time, they should aim at a profit that provides sufficient cover for reserves, investments and future development, besides allowing a small purchase dividend—the only real incentive for membership. And they have, in contrast to their competitors in private trade, to bear the extra costs of democratic management, efficient accounts, government taxes and, last but not the least, the cost of member education. To be able to stand competition under these conditions, there is only one way open for the consumers' cooperatives, whether they be in Asia or Europe—that of running bigger shops with smaller percentage costs than the private traders. One finds that in all countries where there are efficiently run consumer cooperatives, these cooperatives enjoy a higher average turnover than the private trader. And there is a marked trend to have bigger shops with a larger turnover per shop.

If today, in India, a shop with, at least, 400-member households and a turnover of £1,000 a month is the minimum, in Sweden, with easier transport and communication facilities, the minimum may be 1,000 members and a monthly turnover of £14,000 for a full-fledged food hall. And the tendency in Europe is to increase the average shop size rapidly, both in membership and turnover.

Advantages and Disadvantages of the Branch Pattern

The benefits which a consumer cooperative derives by adopting the branch pattern are very similar to those that flow from every large-scale business—better economic results for the society and resultant benefits to its members. These advantages are mainly due to:

1. Large-scale purchases and the consequent reduction in purchase prices, and reduced unit costs of transport, storing and handling charges. A central godown responsible for the pre-packing of goods ensures better packing and uniformity for all branches.
2. A society with several branches can offer better service

- to its customers, with well-developed layouts and fixtures, and a smooth work organisation in the shops which is centrally planned and supervised.
3. A system of centralised accounts and office work ensures accurate and up-to-date figures for the management, besides reducing the unit costs of book-keeping, control and other administrative duties.
 4. The larger the business, the more are the opportunities for quick rotation of the working capital within a certain period, which means lower capital expenses.
 5. And last but not the least, branch societies can afford to have on their staff highly-skilled and specialised officers. Wider opportunities exist for promotion of the staff, which will naturally attract better staff even in lower grades. The society is also able to give sufficient staff training, etc.

These are the broad principles accepted, both in theory and practice, by consumers' cooperatives. The monetary benefits that accrue from some of the principles are easily gauged, but not so those of others. However, the results are obvious.

The disadvantages of the branch patterns are mostly the difficulties which beset the organisation and management of any growing business. In a larger society, it is essential to have skilled officers — as mentioned above. A larger organisation demands better supervision at every point, with more and more power being delegated from the Board to the General Manager and, in turn, from him to his departmental officers.

A large branch society requires separate local branch meetings for the members and the election of local branch advisory committees. The general meeting for the whole society must be a representative body, elected by the members in the local branch meetings. This representative general meeting should in its turn elect the directors to the Board of Management. One important argument against the branch pattern is that it does not give an opportunity of direct participation to its members as the small independent primaries provide. The members of the Branch Advisory Committees may feel themselves less powerful, compared to their counterparts on the Boards of primaries. But a branch-pattern society, with a limited number of branches and a constitution of the type mentioned above, will, by its sheer better

economic results, provide better scope for member education than the small uneconomic primaries, thereby giving the individual members a better understanding of the conduct of business, and a closer feeling of membership.

Number of Shops

Experience shows that a primary society, beginning with one shop, may open branches, but, very seldom, more than six. The same thing applies to private firms also. The reasons for this limitation are obvious. Running a business of four to six branches may be feasible in a one-man management system, whether the man be a private trader or the manager of a cooperative society. It is obviously at this stage that the need to change the pattern of management arises. If there are more branches, there will have to be a special officer to inspect and supervise them, another to manage the purchasing, transport and storage of goods; a third, to run the office and control the accounts; and very often, a fourth, to look after personnel management and the staff training, member education, publicity and other public relations aspects. It is here that a one-man management faces a limitation, and has to change over to a management of four to five officers, including the General Manager. When the society has reached this stage, it may as well develop into a full-fledged branch society, with specialised officers.

But that is not the only problem. A full-fledged branch society, with eight to ten shops and with dividend management, is often found to be too small to afford this developed management. Ten years ago, when the structure of British cooperative societies was being investigated, it was argued that no society, if it is to be efficient and economically sound, should have less than 15 grocery branches to be a fully viable unit. Similar conclusions have been arrived at in other European countries too. Some Asian countries also have the experience that a branch society with less than 15 branches is unable, to utilise to the maximum, the advantages of the branch pattern.

A society with 15 branches may still be weak when it comes to the question of making purchases—its bargaining power will be small if it stands alone. Therefore, all over Europe, the bulk of

cooperative purchases are made through the National Wholesales, one in each country. In India also, the tendency among the growing cooperatives has been to have federations at the state level and one over-all national federation for centralised purchases and co-operative production.

Implementation of the Branch Pattern

In Europe, the branch pattern was introduced step by step with the normal growth of certain primaries; but later on, observing the advantages of the branch pattern, the small societies voluntarily amalgamated into large branch societies. The national cooperative organisations found it necessary to divide the whole country into regions, each region being viable for one branch society.

They also took up the task of educating and persuading the small societies to amalgamate further. The policy in several European countries has been to provide one society each in the bigger towns, by amalgamating the primaries. While this development took quite some years, the National Wholesales, in the meantime, took the decision not to recognise any new primaries as members in these towns.

In some countries in Asia, the consumer societies function on a federal pattern. In these cases, easy amalgamations may sometimes be possible. But it is essential that the Federal Wholesales, by intensifying their services to the primaries, must offer them solid grounds and practical arguments for these amalgamations. Even in a federal pattern, steps may be taken to centralise all purchases through the wholesales to pool the financial resources of the primaries with the wholesales on a day-to-day basis, and to allow the latter to organise sales campaigns on behalf of the primaries through central advertising and centrally printed posters, etc. Even staff training and member education should be left to the central wholesales. Thus, the wholesales should so serve the primaries as to convince their members that there is real ground for amalgamation and converting the primaries into branches.

Integration

Integration—horizontal, as well as vertical—is often strongly advocated in business. The grocery branches discussed above are typical

examples of horizontal integration and its necessity.

Another way of effecting horizontal integration is to take up other types of retail shops in the same area, but here, the utmost care has to be exercised and integration has to be effected within certain restrictions. It has been the experience of consumer co-operatives in many countries, that they were successful so long as they traded in essential goods, and catered to the daily necessities of their customers but had to run into grief when they started trading in other consumer goods without detailed planning. Groceries, dry foods and toilet articles have been the fundamental commodities of consumer co-operatives. Other daily food articles like dairy products, bread, vegetables, fruit, meat and fish have been complementary articles, sold in the beginning in separate shops and later on, combined in big food halls.

But trading in articles like cloth, foot-wear, drugs, crockery and furniture have often become economically dangerous to the cooperative societies which introduced it. It may look natural and even justifiable, from the members' standpoint, to afford them facilities to buy all their requirements of consumer goods from their own cooperative shop but sound business has to be built on cold facts. Just as the cooperatives have shown their ability to serve their members by selling cheap if the societies have large grocery shops, numbering 15 or more, so similar rules will have to be applied while supplying the members' demand for other consumer goods. It is, generally, not advisable to introduce these other articles in the grocery stores or the food shops.

Besides, for a society with, say, 15 or more grocery shops, there may be business for only one or at the most two shops in foot-wear, drugs, crockery or furniture, or a combination of them. Therefore, in many European countries, the tendency is to centralise these trades for the entire country—even retailing—in special combines led by the National Consumer Wholesales.

In India, the experience so far has been that grocery shops and cloth shops, with a restricted assortment of articles and quick rotation, have been successful. Only institutional societies, attached to big factories or government offices and with a membership running to several thousands, have been successful in handling trade in other goods.

Vertical integration is also important in business. This can be effected by the branch society, not only by taking up central pur-

chases from the original sources of supply, but also by setting up small processing units such as mills, bakeries and dairies as well as its own departments for grading, cleaning and pre-packing of foods. National wholesales should carry out bulk purchases and large-scale production. Some of the processing activities may also be centralised to secure efficiency and economy.

It is, sometimes, argued that, in the cooperative pattern, production and processing of agricultural articles should be mainly undertaken by agricultural cooperatives. But it is wrong to create such an ideological barrier. Production and processing should be undertaken by the one which does it most economically. Just two examples: those of sugar factories being mostly built in the supplying areas and run by agricultural cooperatives; and bakeries mostly situated in consumer areas and run by consumer cooperatives. In most of these processing trades, the pattern varies from area to area, and from country to country. Consumer cooperatives and farmers' cooperatives have, no doubt, common goals, in that they both aim at stabilising the market and eliminating the middlemen, but so far as processing activities are concerned, they compete with each other, as both realise the benefits of vertical integration and want to reap its fruits.

Horizontal integration through the branch pattern, and vertical integration through bulk purchases and production, are essential for cooperatives, to secure efficiency in business and thereby serve their members in the best possible manner.

Ideology of Cooperative Capital Formation*

AMONG THE Rochdale Cooperative Principles, those which in different ways have to do with the question of capital and finance—namely, the one about interest on capital and the one on the disposal of savings—occupy an important place. In dealing with the ideology of cooperative capital formation, the implications and importance of the concepts of “owned capital” and “limited interest on capital” should be fully understood. The principle of “patronage refund,” in direct relation to the members’ utilization of the services of the cooperative societies, however, is also of great importance.

These principles might seem simple and very clear. However, as soon as one tries to tackle the main practical problems connected with the formation of capital, one will find that differences of opinion arise, not only as to how the principles should be interpreted, but also as to how, from time to time, they have been interpreted in different cooperative movements. From this point of view, it appears worth while to try to define the basic reasons and motivations underlying the special methods of capital formation utilized by the cooperative movement.

Owned Capital

The principle of “owned capital” is motivated by the necessity to ensure freedom of action for the cooperative movement. It is when the movement is independent of outside credit-giving institutions that it can most effectively protect the interests of its members.

To be independent of the outside creditors, does not, of course, mean that the movement should be excluded from borrowing money. The borrowing of money involves no threat to in-

*With particular reference to the consumer cooperative movement

dependence if loans are practically always available and can be re-paid if the need arises. From this point of view, the following interpretation of the central contents of the "owned capital" principle seems reasonable:

Cooperative activity should be financed by capital raised by the members. If needed, borrowing may be allowed in the form of mortgages of real estate (as a general rule, such mortgages should not exceed two-thirds of the taxation value of the mortgaged real estate).

The formation of capital through the efforts on the part of the members themselves can, broadly speaking, be achieved in the form of: (i) funds or collectively owned capital; (ii) shares; and (iii) loans. For a long time, emphasis was placed on those types of capital formation which constitute "owned capital," namely, shares and funds. Loan deposits from members have, generally speaking, been relatively unimportant in the economy of cooperative societies, and although looked upon with favour, in most cases, they have not been considered as essential a method of capital formation as shares and funds.

In this connection, the Swedish Cooperative Movement offers an interesting example. In 1953, this movement introduced what has been called "family savings." These savings are achieved by placing a part of the members' patronage refund in a special account.¹ The money naturally, with accumulated interest—is made available to the member only when he reaches the age of 60. The Board of the society may, however, allow a member to withdraw his money from the family savings account, if he needs it for reasons specified in the rules adopted for the family savings system. The general opinion in the Swedish Movement is that the family savings system in effect means that deposits from members have been put on a par with shares and funds.

The members can raise the necessary capital in several different ways. First comes the formation of collectively owned capital, which includes depreciation, reserve funds or other funds which can be used only according to specified rules. Next in order come

¹The rule has hitherto been "a sum corresponding to 1% of the members' purchases in the year, if the dividend is higher than 2%," but a new rule is proposed, saying, "all of the dividend above 3%."

shares, and then financial deposits of various kinds, such as savings banks, member deposit accounts, five-year loans and other long-term loans from members.

This variety of possibilities obviously enables the cooperative movement to create, in every given situation, its "owned capital" in the most advantageous manner. The problem is to decide which method is the most advantageous one. This can be determined only by referring back to the objectives of the cooperative society. In a Consumer Cooperative Movement, the main task is to promote the household economy of the members by procuring goods and making them available to members. It is a matter of organising the procurement and distribution of goods at the lowest possible costs to the members.

The different methods of capital formation must, therefore, be compared from the point of view of their effectiveness in promoting the members' household economy. One main consideration is, of course, that the methods of capital formation should not be too costly to apply. Secondly, the interest to be paid, taxes, if any, and costs of administration must also be taken into account.

However, it is not at all certain that the "cheapest capital" is always of the most useful kind. One must also consider the special need for which the capital is to be raised. It might happen that it would be more advantageous to pay somewhat more for the money if this means that one can acquire more quickly a particular kind of equipment which will increase the Movement's capacity to perform efficiently. One must also reckon with the speed with which capital may be formed. This, of course, varies between different methods of capital formation. Some will "collect" capital more quickly than others. If loans are to be floated, it is necessary also to consider the terms of repayment, and the strain of liquidity which repayment will place on the movement. Finally, capital formation should always be viewed with a high regard for the members' interest in having the capital collected by methods which are advantageous to them as private persons. From this point of view, different forms of loan from members offer great advantages. The members will place money at the disposal of the cooperative movement, but, at the same time, they must be able to count on having the use of this money, if and when the need arises.

To sum up, capital formation should be made in such a manner

that the costs of providing the services for which a cooperative society has been established can be made as low as possible. Furthermore, the methods of capital formation should be as advantageous as possible to the members in their capacity as financiers.

Rate of Interest

In the cooperative movements, by and large, the interest paid on the capital raised by the members has corresponded to the market rate of interest. The interest paid on loans from members has, broadly speaking, been equal to the rate paid on similar loans in the common capital market.

Interest on shares is a special case. After all, shares are not a loan from the members to the society, but money which makes the members part-owners of the society. In other words, the interest paid on this capital is, in principle, to be regarded as a share of the profits. Since a basic principle of cooperative activity is not to create interest on capital, the two principles regarding distribution of the surplus are: maximized interest on capital, and patronage refund in relation to the members' utilization of the services offered.

Price Policy and Patronage Refund (Dividend)

The relationship between capital formation in the cooperative movement, and the price policy and patronage refund of the movement is a subject of special importance.

The objective of "promoting the members' household economy" does not give a specific lead to the price policy of a cooperative movement. Two extreme interpretations might be mentioned to illustrate this. The first extreme is to adopt a price policy by which the prices charged barely cover the costs. In cooperative history, advocates of this line have been many. After all, such a price policy will serve the interests of the members' household economy, and it will immediately make available to them the benefits which the cooperative activity can create. On the other hand, there will be no surplus. All experience has shown that the great disadvantage of the "selling-at-cost policy" is that capital formation is neglected. A cooperative organisation following such a price policy will remain weak and will not be able to make any real contribution

towards raising the standard of living of its members.

The other extreme has better "standing" and has even become a principle adopted by many cooperative movements. It is the policy of selling goods at market prices. This policy means, by and large, that the price policy of the cooperative movement is passive. The cooperative movement accepts whatever prices are current in the market. Obviously, the patronage refund becomes very important in the movements adopting this policy. The prices offered by the movement are of no special advantage to the members. Whatever the movement can achieve in terms of savings will go back to the members in the form of the patronage refund. The member gets back what he has been overcharged. A high rate of patronage refund is a sign of success, and the patronage refund itself becomes an important argument by which the movement seeks to increase its membership. The market price policy, thus, provides the members with a simple measure of the usefulness of their society.

However, this extreme price-policy tool has considerable disadvantages. It serves to maintain a high price-level, and there is no incentive to force down costs as in the case of an active price competition. This is the reason for a third line: an active price policy. This has become the favoured one, for instance, in the Swedish Consumer Cooperative Movement. By introducing rational methods of production and distribution, the cooperative movement attempts to bring down costs. Prices charged by cooperative enterprises will fluctuate according to the variations in costs. A certain portion of the surplus can be used for depreciation and for setting aside funds. Both are, of course, to be utilized for the development of the cooperative movement. Whatever is left will be returned to the members in relation to their utilization of the services.

In fact, the question as to how large a surplus a cooperative society should aim at can be answered only if one is clear about the purpose of the surplus. In the case of an active price policy, one cannot make out a case for "paying back that amount which the member has been overcharged"—the prices charged should be so calculated that the member has not been overcharged. Nevertheless, one must take into account some margin of risk which has to be included in the surplus. A more important purpose of the surplus is, however, the need for capital formation. In the Swedish

Movement, the formation of "member-owned capital" has so far been achieved largely by utilizing the surplus. In other words, the size of the surplus is made dependent upon the need for capital.

What then will be the function of the patronage refund? The difference between the patronage refund and other forms of surplus distribution is that the refund transfers a portion of the surplus into money privately owned by the members. Still, the intention is that this money, too, should contribute to the capital formation of the cooperative movement, i. e. the patronage refund is one way of transferring a part of the working capital to the individual members.

As we have already stated, it is desirable that this transfer of capital be done in such forms as will be advantageous to the individual member. It is necessary to enable him to use his own money freely, as and when he needs it. It is, therefore, essential to weigh against one another the need of the cooperative society for long-term and stable capital, and the members' interest in having the right to use their contributions towards the capital. This is the basis of the Swedish method of transferring half of the patronage refund to the member's share account until he has paid his share in full. The other half is transferred to the member account. Money deposited in the member account is immediately available. After a member has paid his full share, any patronage refund exceeding 3 per cent of the member's purchases during the year is transferred to the family savings account, from which money can be paid out according to the rules mentioned above. The remainder is deposited in the member's account.

In the case of sales from one cooperative society to another, the same basic view of the patronage refund must be maintained. If a product passes through several cooperative enterprises, and is priced so that a considerable patronage refund becomes possible at each level, the result can easily be a high purchase price at the final stage, that is, at the distributing cooperative society. The cooperative movement will then either be placed in an awkward position as far as its ability to compete is concerned, or it must reckon with the patronage refund as a possibility for giving rebates. This is not a rational approach. The different levels must be in a position to count the given price as the net purchase price. Naturally, the surplus which is needed to ensure capital formation, must be included in this price.

In summary, this interpretation of the Cooperative Principles makes an active price policy and an active co-ownership of capital—the two central aspects of cooperative capital formation.

John Lundberg

Capital Accumulation in the Consumers' Cooperative Movement

IN ACCORDANCE with the Rochdale Principles, cooperative activity should be financed from capital contributed by the members themselves. Here, the idea is that, if it is to serve the interests of its members, a cooperative enterprise must be independent of the need for credit from suppliers and of loans from bankers and other non-cooperative sources. Dependence on help from non-cooperative sources means that those providing such assistance will, in one way or another, and to a greater or lesser degree, be able to influence cooperative activity.

FINANCING THE CONSUMERS' COOPERATIVE MOVEMENT

In the autumn of 1960, the Board of Directors of the Swedish Cooperative Union and Wholesale Society (KF) set up an internal committee, the Capital Inquiry Committee, which was asked to investigate the financing problems of the cooperative movement. In March 1961, the committee presented a special report, suggesting certain changes both in the statutes of KF and in the model rules for affiliated cooperative societies, and also certain measures, aiming at encouraging saving among the members, in order to put further means at the disposal of the societies.

The suggestions of the committee were submitted to the Administrative Council and Board of Directors of KF, which approved them and decided in their turn to submit them to the District Congresses and the National Congress of 1961.

The suggestions were based on the same principles as have hitherto been guiding the financial policy of consumers' cooperation, that is, the idea that consumers' cooperative activities should, in order to preserve the independence of the movement and develop its economic power of action, be financed by capital contributed by its members.

The contribution of capital by the members can be made in

three different forms: shares, collective savings, and loans. This applies both to KF and its affiliated societies.

THE RETAIL SOCIETIES

Members' Share in Retail Societies. According to the new Model Rules (types Hf and H), suggested by the committee and approved by the National Congress of 1961, each member shall hold 20 shares, valued at 10 Sw. kr.* each. This amount can be paid either in cash or by transferring the surplus due to the member (dividend on purchases and interest on share capital) to the share account. On admission to the society, the member shall, however, pay 10 Sw. kr. in cash. Later, out of the surplus due to him, half the sum shall be credited to his share account and the other half to his surplus savings account until the share amount prescribed (i.e. 200 Sw. kr.) has been fully paid. Once this amount is fully paid from the whole dividend on purchases due to the member, up to 3 per cent which is called free dividend, together with the interest on the share capital, it is credited to the member's surplus savings account. The portion of the dividend over and above 3 per cent, according to Model Rule (type Hf), is blocked and transferred to a special blocked account—the so-called family savings account of the member (particulars concerning the family savings account are given later in this article). According to the Model Rules (type H), the whole dividend, after the prescribed share amount of 200 Sw. kr. has been fully subscribed, is credited to the member's surplus savings account.

The previous Model Rules prescribed a minimum share capital of 150 Sw. kr., but societies representing more than 57 per cent of the total membership had adopted rules prescribing 200 Sw. kr. or still higher amounts as minimum share capital. According to the Model Rules previous to Hf and H, the member was obliged to transfer to his share account the whole dividend on purchases, until an amount of 50 Sw. kr. had been paid up.

The Member's Surplus Savings Account. As regards money credited to the member's surplus savings account, the following stipulations should further be mentioned. A term of notice of 15 days for any withdrawal from the account by the member is to be given.

*Sw. kr. 5.15=US \$ 1.00

The Board of Directors of the society shall, however, be entitled to pay out the money on request, if this can be done without any disadvantage. For money deposited to the member's surplus savings account, an interest rate of at least 0.25 per cent higher than that of the savings bank of Kf shall be applied. The most important thing in the new rules, as far as the member's surplus savings account is concerned, is that when 1,000 Sw. kr. on this account are due to the member, he will receive a savings bonus of 100 Sw. kr. The same savings bonus is credited to his account when the balance in his favour reaches 2,000 and 3,000 Sw. kr., etc. (It is, however, to be noted that this savings bonus shall be credited only the *first* time the balance reaches each full thousand of Sw. kr.).

Cash deposits to the member's surplus savings account are not allowed.

Interest on Shares. Originally, the interest paid on share capital in societies was usually 5 per cent. When the bank rate in Sweden was reduced, the difference between the rate of the societies and the bank rate was so considerable that members tended to place large sums with their societies in order to get the benefit of the higher interest rate. To bring about a closer relation between the rate of interest paid by the societies and the bank rate, the Model Rules were amended during the 1930's, so that the rule on share capital included the following passage: "Interest on share capital shall be paid but limited to a maximum of 5 per cent." The same rule is prescribed in the law.

Why are Dividends Not Paid out in Cash? The reason why that part of the member's dividend, which is not paid into his share account, is credited to his surplus savings account is that such a procedure is of value, both to the society and the member. To a large degree, members allow their dividend to remain in the member's surplus savings account, which means that the members to a large extent save all or a part of their dividend, whereas if this had been paid out in cash, it would, no doubt, in most cases have been used immediately. From the point of view of the societies, the relative stability of the member's surplus savings account permits them to use the resources of these accounts to finance their everyday activities.

No Cash Payment Necessary to Secure Membership. In fact,

however, membership of a retail cooperative society can be secured without making a cash payment. Instead of paying the above mentioned preliminary payment of 10 Sw. kr. in cash, a person seeking membership can save his dividend cheques until he has collected enough to correspond to a dividend of 10 Sw. kr. and then, he can surrender these as his preliminary payment. Thus, if a non-member during a financial year makes purchases from a society to the value of, say, 500 kronor, and the society pays a dividend of 3 per cent, it would be sufficient, if along with his application for membership, he included the dividend cheques he received when making his purchases. If the dividend cheques in question were enough to pay a dividend amounting to more than the minimum mentioned above, then, the balance would also be credited to the new member's share capital. Thereafter, the procedure adopted would be the same as described earlier.

The facility given to the members to make their share contribution by permitting their dividend to accumulate is of great importance for the acquisition of capital in the consumers' cooperative movement. Despite the fixing of relatively high minimum share holdings, it is not so difficult for members to make their full share contribution. In practice, probably, the largest part of the annual increase in the movement's share capital comes from the transfer of members' dividend to their share accounts.

The Withdrawal of Capital. The law prescribes that a certain time must elapse before members of the societies can withdraw their share capital, thus, making it possible for societies to invest this share capital in the fixed assets. In order to withdraw their share capital, members must resign and proceed according to the following stipulations:

The note of resignation of membership shall reach the Management Committee not less than a month before the date on which the member desires the resignation to come into effect (withdrawal of membership can, according to the law, take place only at the annual closing of accounts). The withdrawing member or his legal representative, in accordance with No. 16 of the Economic Societies Law, can withdraw his share capital six months after the withdrawal of his membership, to the degree that this is possible without preventing the other members from exercising a similar right, and without making withdrawals from the society's reserve funds.

Unless there exist special circumstances, a Management Committee may not permit more than 5 per cent of a society's share capital to be withdrawn during any financial year.

FUNDS

The building up of funds by the consumers' movement has been intensive. At the end of 1964, the consumers' cooperative societies had at their disposal funds amounting to 98 per cent more than the total share capital, i.e. to 403 million kronor.

As regards the allocation of funds, the Model Rules adopted by the Congress in 1961 prescribe that, at least, 5 per cent of the surplus shall be allocated to the reserve fund, according to the regulations of the law concerning minimum allocation. Furthermore, an amount corresponding to the increase of the society's share holdings in KF shall be transferred to the reserve fund or "emergency fund" (as a rule, an amount out of the surplus, due to the society, corresponding to one per cent of the purchases of the society from KF during each year, shall be transferred to the society's share account in KF).

These stipulations have, however, in certain cases, resulted in a much larger allocation of funds than was foreseen. This is, partly due to the fact that societies have turned over much of their production of bread and processed meat to KF, and, partly due to the greatly increased department store activity. At the same time, societies, as a result of the amendments to KF's rules by the 1961 National Congress, were liable to pay into their share account with KF, (out of the sum which they receive from the surplus of KF), an amount corresponding to one per cent of their own purchases from KF during the previous year. In order to make the stipulations, covering allocations to funds, more in agreement with the aim they are intended to fulfil, the 1964 National Congress decided that, after allocating the minimum amount of 5 per cent as prescribed by law, there shall be allocated to the reserve fund or contingency fund a sum large enough to make the *total* allocation of funds equal to, at least, the increase of the society's share capital in KF.

AUTOMATIC GROWTH OF SOCIETIES' CAPITAL

The above stipulations, regarding the transfer of dividends to mem-

bers' share accounts and allocations to the reserve fund, make the capital of the societies grow automatically year by year. The increase for 1964 amounted to 4.4 per cent. During recent years, however, the trade of the societies has tended to grow rapidly, bringing with it increasing investments in stocks and buildings, etc. while the value of money has declined. The result has been that the percentage proportion of shares and reserves to the whole working capital, that is, the total assets, has dropped from 56.4 per cent in 1938 to 54 per cent in 1945, to 49.9 per cent in 1949 and to 32.6 per cent in 1964—the surplus not included.

At the end of 1964, share capital amounted to 10.9 per cent of the total assets of all the local retail societies, while at the same time, funds accounted for 21.7 per cent and the surplus for 8.6 per cent. Shares, funds and surplus together made up 41.2 per cent of the total assets.

Share capital calculated as the average per member amounted to 157 kronor.

Savings Banks. A supplement to the share capital of the societies also comes from the savings banks which are to be found in a number of societies. At the end of 1964, deposits in these savings banks amounted to 66 million kronor (the savings banks of the societies should not be confused with the branches of KF's Savings Department which are to be found in a number of societies). In this connection, it ought to be mentioned that the law prevents cooperative societies from taking deposits from any one, other than their members and their children, while the central cooperative organisation, for example, KF, may accept deposits from its member organisations and from their members. (KF's Savings Department can, therefore, accept deposits from retail societies and their members, and also from the insurance societies, FOLKSAM and their policy holders, which are also affiliated to KF.)

Mortgages. The real estate of societies is mortgaged to the tune of 46 per cent on the average. This is placed with KF, the cooperative insurance and pension societies, and with local savings institutions. During recent years, another type of loan has become important locally. This takes the form of mortgage bonds, that is, bonds with a mortgage on the society's real estate as security. Mortgage bonds are circulated among the members who by taking up one or more of the bonds can, to the limit of their ability and with complete security to

their savings, provide their society with the capital it needs, in order to conduct its activities. The mortgage, that is the security for the bond issue, is held by KF until the bonds have all been repaid. At the end of 1964, mortgage bonds to the value of 8.2 million kronor had been issued by the societies.

Solvency. The standard of liquidation of societies at the end of 1964, was, on the average, 25.6 days, that is, it required 25.6 days of trading in order that societies should have enough cash to pay all their outstanding debts.

Family Savings Account. The family savings system was introduced into the Model Rules (Gf) approved by the National Congress of 1953. According to the Model Rules (Gf), one per cent of the value of purchases is to be transferred from the dividend on purchases to the family savings account, when the dividend amounts to at least three per cent. Some societies have, however, modified the rules in such a way that the compulsory transfer of money to the family savings account takes place only when the dividend on purchases exceeds 3 per cent. As mentioned above, the limit for compulsory allocation stipulated in the Model Rules has been raised. The new rules also contain the modification that not one per cent of purchases, but the whole part of the dividend exceeding 3 per cent—it might be a fraction of one per cent, two per cent, or more—shall be transferred to the family savings account. The money deposited in the family savings account yields interest at a rate one per cent higher than that of the KF savings bank. The interest credited each year is paid out in cash to the member, if he gives notice within 15 days after receipt of the statement of account. If notice is not given, the interest is capitalized.

From a cooperative point of view, the family savings account system means that every generation will in turn automatically take over the responsibility of providing long-term capital for the societies, and see to it that such capital will be placed at the disposal of the movement in adequate quantities. Family savings should be regarded as an expression of the solidarity between the members and their societies on the one hand, and of the solidarity between the generations on the other.

The money deposited in the family savings account is paid out:

- (a) When the member, having reached the age of 60, makes a request for the same;

- (b) at the time of a member's or his wife's (her husband's) death;
- (c) when a member or a member's wife (husband) is incapacitated, and, in accordance with the law, he or she is entitled to a State pension. The sum standing in the family savings account may also be paid out when the management committee of the society otherwise finds that adequate reason for such payment exists, and when such payment does not conflict with the aim of family savings.

When a member, on the ground of his moving away from the working area of the society, resigns from the society, the sum standing to his credit in his family savings account will be paid out at the same time, as his share capital is repaid. When, for any other reason, resignation from the society takes place, payment shall be made in accordance with points 1 to 3 above.

Even though the Rules have been accepted by the National Congress, this does not, however, mean that all or even the majority of the affiliated societies have changed over to the new model rules adopted by the National Congress, nor is it compulsory for them to do so (such a compulsion is hardly possible, and in a movement of such a character as consumers' cooperation not even desirable. Societies to be admitted are, however, obliged to adopt statutes which in the main coincide with the Model Rules). With the passage of time, the societies are finding that the new rules proposed are to their advantage from the point of view of financing their business, and an increasing number of societies are adopting them. With this change-over, the surplus, due to the members, will, to an increasing extent, remain within the societies, either in the form of share capital, or in the form of credit balance, in the member's surplus savings account or in the family savings account.

THE COOPERATIVE UNION AND C.W.S. (KF)

Share Capital of KF. The basic capital needs of the Union are supplied by its members through their share contributions. According to the new rules of KF, every organisation affiliated to the central organisation contributes to its share capital, at least, one share of 10,000 Sw. kr., and this has to be paid in cash. The previous rules prescribed a minimum share of only 150 Sw. kr. In the majority of cases, the increase stipulated in the

new rules means nothing in practice, as the societies affiliated to KF, generally have a share capital in KF exceeding 10,000 Sw. kr.

In addition to the share amount paid in cash by the affiliated society when admitted into KF, the society was, according to the previous rules, obliged to transfer to its share account the dividend on its purchases from KF, which is, generally one per cent of the value of the purchases. The interest on the society's shares in KF was, however, paid out in cash. A change in this regulation has been made so that out of the part of the surplus due to the affiliated society, whether as dividend on purchases or as interest on its shares in KF, an amount corresponding to one per cent of the purchases of the affiliated society is to be transferred to its share account.

The change may seem insignificant. But, should the wholesale decline, the societies' share in KF's surplus will be disposed of in a different way. Compared with the previous dispositions, the new rules mean that if the Congress decides on a dividend, from KF to the affiliated societies, lower than one per cent, the interest due to each society on its share capital in KF shall be made use of to such an extent, even totally, that an amount corresponding to one per cent of its purchases from KF shall be credited to its share account in KF. It should, however, be added that if the sum of the dividend on purchase and the interest on shares due to a member society should be less than one per cent of its purchases from KF, there is no obligation for the member society to make up the difference between this sum and the amount corresponding to one per cent of the member society's purchases from KF, should there be no dividend on the purchases from KF. This means that the total interest due to each society—but nothing more—will be allocated to the society's share account in KF. The part of the surplus—dividend on purchases and interest on share capital—which is not transferred to the share capital shall be at the disposal of the societies.

The new rules aim at the same time at securing the continuous accumulation of capital within KF, and at liberating the pricing from the desire, more or less interpreted as an exigence, that the price should allow a dividend on purchases of at least one per cent.

It may be pointed out that the dividend on purchases credited to the affiliated societies is taxed with the societies

regardless of whether they can dispose of the dividend freely or if it is transferred to their share account in KF. The interest on the shares of the societies in KF is, however, taxed with KF. At the end of 1964, the share capital of KF amounted to 245 million Sw. kr. Interest on members' shares is, as stated above, limited by law to a maximum of 5 per cent. Interest on the societies' share capital amounted to 12.2 million Sw. kr. in 1964.

Reserve Fund of KF. Out of the surplus of the business activities of KF, at least, 5 per cent shall, as stipulated by Swedish legislation, be transferred to the reserve fund of KF.

Special Funds. Above this, an amount of, at least, 10 per cent of the surplus shall be transferred to the reserve fund or to a fund which can be more freely disposed of. The previous rules were more complicated, but, in practice, it is supposed that the accumulation of funds will be pretty much the same in future as hitherto.

Bonds of KF. On several previous occasions, KF has issued bonds and will, probably, in the future also be able to issue such loan bonds in case of need. To these, mainly, the associated societies and their members, and organisations, closely related to the cooperative movement, have subscribed.

A new form of more long-term loan capital has, however, been introduced under the name of the five-year loan of KF. This loan has the following characteristics:

1. Each bond is issued to organisations affiliated to KF or to individual members of such cooperative societies, and the (admission) number of the member shall be indicated on the IOU.

2. Each bond is for, at least, 500 Sw. kronor, or higher amounts in full hundreds of Sw. kronor, and has a duration of five years.

3. The loan earns an interest of 1.25 per cent more than the KF savings bank interest.

4. The bond-holder receives the yearly account and interest statements.

5. If notice is not given within 15 days after the receipt of the account and interest statement, the interest is added to the capital.

6. The Board of Directors of KF can permit refunding of the loan before the end of the five-year-period as an exception. In such

a case, an amount shall be paid corresponding to the original amount of the loan plus the interest accumulated (calculated according to the savings bank interest in force during the period, less interest paid out before the refunding of the loan).

7. If the bond-holder does not claim his loan within a month after the expiry of the five-year period, it shall be renewed automatically for another five-year period.

Besides these rules, it should be mentioned that the loan shall be available at any time, and that the five-year period is to be calculated from the date of issue of each bond.

Subsidiary Enterprises. It should be mentioned that the shares of the subsidiary enterprises of KF have carried no interest, while the surplus which has arisen in the case of industrial undertakings has remained with these enterprises. This capital has been used to consolidate and extend the respective enterprises, and further to acquire shares in new enterprises, thus playing its part in the continued expansion of the movement's activity.

Continuous industrial expansion of KF causes heavy demands on its capital resources. In order that the Union can undertake new activities without running the risk of preventing the further development of existing activities, KF has made several issues of the so-called Industrial Bonds which have been placed partly with local societies and partly with members of local societies. The repayment of these bonds takes place after the new activity, which they were issued to finance, has been consolidated. In 1952, a debenture loan was issued with the special aim of meeting the movement's increased need for capital, which arose as a result of increasing prices, and to provide the means for carrying out the movement's new rationalisation and building programme. Invitations to subscribe to this loan were made by KF during the autumn of 1951. The loan, the size of which was fixed at a minimum of 40 million kronor and at a maximum of 100 million kronor, is unique in that KF, in the event of a decline in the value of Swedish currency taking place during the period of the loan, i.e. from 1952 to 1972, has bound itself to pay compensation to the holders of the loan up to a maximum of 50 per cent of the nominal value. The holders of KF's earlier debenture loans were invited to make a conversion to the new loan.

Investment Funds. The 1964 balance-sheet of KF and its subsidiary enterprises show that the reserve for investment in new buildings and fixtures amounted to 1.6 million kronor. This sum, in accordance with special State regulations which have been drawn up in an attempt to limit the effect of trade cycles, is regarded as a tax-free surplus which KF—like its competitors—sets aside for future investment in buildings and machines. The fund in question may be used, at the discretion of the Government, to write off the value of new buildings, or newly acquired machinery and fixtures. However, if the stipulations of the Government are not followed, then the resources of the fund will be taxed in the ordinary way.

Hidden Reserves. Important hidden reserves are held by KF and its subsidiary enterprises. At the end of 1964, the book value of real estate was 619.7 million kronor, and its fire insurance value 1,056.5 million kronor.

At the same time, machines and fixtures had a net value of 175.0 million kronor and a fire insurance value of not less than 981.1 million kronor.

Stocks of goods held by KF and its subsidiary enterprises at the end of 1964 were valued at 248.9 million kronor. The wholesale purchase value was about 472.8 million kronor.

Savings Department. A substantial amount of capital is made available to KF through its Savings Department. The total deposits in this department at the end of 1964 amounted to 358 million kronor, and was divided among 154,553 depositors. The department had 1,076 branches.

Cash Held in Common. For more than 40 years, the local societies and KF have to a certain degree held their cash in common. The societies deposit their surplus cash in KF's Post Office Money Order Service Account or in KF's account with the bank and in return have the right to issue cheques on these accounts to any of their creditors. By this system, the amount of ready cash held through the movement is considerably less than otherwise would have been the case.

Budget Estimates. It is wise for the individual and economic business enterprises to plan their economics on short-term and long-term basis. This is the case in the Swedish Consumer Co-

operative Movement as well. Thus, KF's departments and industrial enterprises make up annual budget estimates covering income and expenditure, and the financial needs arising from these, for the coming year. For the long-term evaluation of the movement's capital requirements, KF's Board of Directors, annually, requests all the departments, and industrial subsidiaries to submit a fairly detailed appraisal of the income and expenditure of each department and each industrial subsidiary. The reason for this is that investment demands, imposed by production and distribution activities are of such an order that they require central appraisal and planning.

The budget estimates which the retail societies make up for themselves—for obvious reasons, it is not necessary to go into the great importance of budget estimates of the individual societies—are essential in this connection, and are, therefore, supplied to KF. The estimates reveal the demands which the societies feel they will need to make on KF's resources. As mentioned above, to some extent KF serves as a bank for the entire movement.

The budget estimates are periodicized, i.e. they embrace not only annual figures but monthly and quarterly ones as well.

It may be pointed out that when such large sums are involved, as is the case here, even relatively small percentile deviations make large differences in the total figures.

Conclusion

The movement has always tried to keep in mind, however, that it is not enough merely to have capital: the capital available must be used in the most effective way, while every attempt must be made to maintain cooperative activity at the utmost point of rationalisation and efficiency.

Statistics in this article have been up-dated by Mr. Ragnar Arvidsson, Joint Director, Administration and Finance, ICA Regional Office and Education Centre for South-East Asia, New Delhi.

Problems of Personnel Management in Consumer Cooperative Societies

INTRODUCTION

AT THE outset I would like to make the following qualifications:

1. The subject of personnel management in cooperatives in South-East Asia has not been studied in sufficient detail, hence sufficient precise information and data are not available regarding the various aspects of personnel management. In view of this, my remarks on the subject are likely to be impressionistic.

2. Although there are enough similarities in the personnel management practices to warrant certain general remarks, the region of South and South-East Asia with which I am dealing is vast, and there may be situations deviating from these general remarks.

Scope of the Subject

I will deal with the following aspects in my paper:

- (i) Relationship between the General Manager and the Board of Directors.
- (ii) Recruitment of personnel, their emoluments, working conditions and career prospects.
- (iii) Present training arrangements, training needs, and future programmes.

RELATIONSHIP BETWEEN THE GENERAL MANAGER AND THE BOARD OF DIRECTORS

In the region, societies may be classified in three categories on the basis of their size:

- (a) Small societies;
- (b) societies of intermediate size; and
- (c) large-size societies and secondary organisations.

This classification has been made for the sake of convenience to analyse the relationship between the Board and the manager. Information regarding the proportion of societies under different categories is not readily available; societies under the first category would be the largest in number.

The small societies usually employ a manager, one or two salesmen and one cashier. Generally, these societies have just one shop and the range of goods in such societies is limited. In such societies, the manager functions as an accountant, a senior salesman and a supervisor of the staff in the shop. Only a few of what are generally understood as management functions are performed by him. The Board of Directors combines in itself the role of both policy-making as well as actual management, involving purchases, fixing prices, and controlling stocks. There is no clear understanding about the tasks of the manager and his relationship vis-a-vis the Board as a whole, or individual Board members. (While there may be no friction between the Manager and the Board in such societies, the general picture would be one of apathy, inertia and subservience on the part of the manager. This situation should be changed if the society is to pulsate with new life and dynamism). So long as the society remains small and the Board of Management takes an active part in day-to-day management, the society would function reasonably well. There would, of course, be delays in ordering goods, in adjusting prices to market conditions, and in exercising proper stock control, except in a very few well-managed societies. Here the problem is one of educating Board members in their proper tasks, defining the tasks of the manager, giving him sufficient responsibility and authority, and developing in both, the Board as well as the manager, concepts of proper management techniques with some understanding of the long-term development of the society.

Some instances existed in a few countries of the region where, under schemes of rationing, primary societies were managed by a private trader on payment of a monthly commission to the society. Their number would now be rather small. Here the manager supplies the capital and runs the business by employing his own staff. All the accounting is done in such a way that there are neither profits nor losses. The Committee exercises no supervision or control on the manager under this system. This is actually a private trader operating in the garb of a cooperative.

Although a discussion of management of this type is not strictly relevant under the topic of problems of personnel management, it is worth while to point out that this is hardly cooperative management at all.

In societies of the intermediate type, and in the larger and secondary societies, except in a few cases, the problems of the relationship between the manager and the Board are rather complex, and have not been satisfactorily solved so as to lead to efficient management. In the intermediate societies, which may have grown out of small societies over a period of time, the Board continues to function as a managing committee, and usually, the management is done by appointing various subcommittees for purchasing, pricing, stock control, etc. All the appointments are done by the Board itself, with the manager, usually, not having much say. Of necessity, some measure of responsibility has to be handed over to the manager, but interference by the Boards on ad hoc individual questions is frequent and hence very irksome to the manager who often feels frustrated in his job. There is no clear-cut division of responsibility between the Board and the manager. Hence, the manager may not feel competent to take initiatives and decisions, and takes the safer course of consulting the Board on all matters.

In larger societies and secondary organisations, the situation may be somewhat different, because the volume of business is so great and complex that the Board will have neither the time nor the ability to attempt active management, and the manager has greater authority and responsibility. However, in the majority of societies, there still exists a tendency for the Board of Directors to practise frequent interference in day-to-day management. The Swedish experts who worked with the Central Institute of Management for Consumers' Business in India, found that, even in the department stores, the Board handled purchasing, pricing and staffing problems. In a few societies, where the managers are confident and go-ahead persons, they usually set the practice whereby active management is performed by them. However, even here the able managers do have fears of explosive situations developing if there is a complete change-over of the Board.

On the other hand, there are situations wherein the manager dominates the Board of Directors. He may provide the Board only with cursory information and may not circulate the statements in sufficient time so as to allow proper study by the Board. The

manager may regard the committee members as ignorant laymen whose presence needs to be tolerated on account of the democratic nature of cooperative organisations, probably, a necessary evil in his opinion. The practice of a manager manipulating elections in the General Assembly is met with quite frequently in cooperative societies.

Both the above relationships between the Board and the manager are defective from the point of view of efficient management. It is essential that there be a proper understanding between the Board and the manager about their respective tasks, and that there be rapport between the two.

Reasons for Present State of Relationship

The reasons for this phenomenon may be several:

- (i) The literal interpretation of their responsibilities by the Board, as indicated, in the bye-laws;
- (ii) lack of confidence in the manager;
- (iii) the feeling of power which the Board members get by taking decisions, especially with regard to employing new people, fixing salaries, etc. The disinclination to share power with the manager may be due to the desire to be re-elected to the Board itself, or to other civic bodies which can be attained by wielding power and obliging key individuals in the local areas.

Consequences

Thus, a general conclusion may be drawn that in consumer societies, irrespective of their size, the Boards try to manage the business of the societies through subcommittees and frequently interfere in the working of the societies. The consequences of this practice in terms of efficient management, to say the least, are disastrous. First and foremost, it weakens the responsibility and authority of the manager vis-a-vis the other personnel in the society as well as in terms of managing the business. Secondly, a committee which indulges itself in active management will not have time to concentrate on essential policy and planning matters such as defining objectives and goals to be achieved, raising capital, examining budgets,

deciding on investments, etc. Thirdly, management decisions have invariably to await the meetings of the committees and sub-committees. The resulting delays lead to inefficient operations which in turn would affect the financial results. Fourthly, the practice of active management by the Board may keep away able, public-spirited persons from the Boards themselves as well as efficient personnel from the positions of managers in cooperative societies.

Suggestions Regarding the Relationship

Long-term education directed at changing the attitudes of the Boards would be needed to remedy the above state of affairs. A memorandum defining the respective functions of the Board and the manager should be developed by the Government departments of cooperation and the central cooperative organisations, and an educational campaign should be undertaken by them to introduce in the cooperative societies the new scheme of a proper relationship.

The functions of the Board have been very ably defined by the Cooperative Independent Commission's Report, and with some modifications, they may be restated as follows:

The Board should:

- (a) lay down policies on various matters, such as, purchases, setting prices, fixing salary scales for employees, deciding of important financial questions, etc.
- (b) appoint (and dismiss) the General Manager, and fill top positions in the society on the recommendations of the General Manager;
- (c) exercise the control function by reviewing and analysing the financial and other statements presented by the General Manager; and
- (d) decide on questions concerning membership and membership education.

It is essential that the Board should not decide on individual and ad hoc cases but determine whether a policy decision which would govern such cases in future could be taken, provided the recurrence of such cases is likely to be frequent. It is also essential that individual Board members do not try to influence the manager in any business operations. Finally, the Board should not take decisions with-

out hearing the opinion of the General Manager on any question referred to it by him.

RECRUITMENT AND COMPENSATION PRACTICES

Recruitment of Managers

With regard to the recruitment of managers, three systems may be listed.

(i) There is today a widespread practice to draw managers of consumers' cooperatives from the Government departments of co-operation on deputation. The Government Cooperative Departments provide the only and the best possible source for recruiting managers, especially when a large number of societies have to be organised quickly to meet emergency situations, such as distribution of rationed and controlled articles. Usually, these managers are paid, as an incentive, a certain proportion over and above their basic salaries. In India and Ceylon, these proportions are 20 and 30 per cent respectively. These departmental persons usually have some academic education, have undergone cooperative training, and have a fund of knowledge of the operational problems of cooperative societies, and good experience in accounting and auditing work. Although management of consumers' cooperatives is a specialised function, the long training which the departmental personnel have undergone with regard to cooperative law, accounting and financial analysis, stands them in good stead in their positions as managers of consumers' cooperatives. Even in the rather large department stores started in India, by and large, the personnel selected have been drawn from the Government departments, sometimes from the Indian Administrative Service. The experience available so far indicates that, in the majority of cases, they have done rather well.

While the practice of appointing Government personnel as managers has several advantages from the short-term point of view, it also has a number of disadvantages. First, the background and training of people working in Government departments discipline them into being cautious and conservative people. It does not foster attitudes and qualities favourable for enterprise and risk-taking. Secondly, in many cases, the Government officers who are attracted to cooperatives by the slight increase in emoluments regard their

positions as temporary and transitional. Instances are not lacking where ambitious Government officers use these positions as temporary asylums until they are upgraded into higher positions. The Government itself, depending upon the exigencies of the situation, withdraws its personnel when it considers fit without adequate regard for the interests of cooperative organisations. Whatever may be the reason, the net effect is a frequent turnover of managers which is hardly conducive to the growth of cooperative organisations.

Thirdly, the emoluments which are offered to the managers when drawn from the Government service are not comparable to what such managers would receive in private enterprise. Their emoluments, also being fixed, bear no relationship with the increase in business and membership that they may be able to generate. Finally, the society makes a considerable investment in the training which the managers acquire through the actual process of managing. During the early period of adjustment and learning, costly mistakes may have been made. With the frequent change-over of managers, the society has to make all these investments more often.

(ii) In some societies, the managers have been recruited from the private enterprise. These persons usually have the experience of work as salesmen or salesmen-cum-accountants in private shops. Sometimes, they may even have been proprietors of private shops which have come to grief. While there may have been some honest and successful managers drawn from these sources, often the experience has not been happy.

First, these managers have no conception of the ethics of the cooperative movement, and the social and economic ideals which condition it. Thus, it is very difficult for them to comprehend the philosophy of the cooperative movement and to adjust to the new environment.

Secondly, their own attitudes are conditioned by the goal of profits for the investors of capital, and often their own ambition is to set up their own shops. On account of these attitudes coupled with the lack of on-the-spot supervision, which would be exercised by the proprietor in a private shop, these managers may find it difficult to resist the temptation to indulge in dishonest practices.

Thirdly, such managers also carry on their own business on the side, which may be identical with that of the society.

(iii) Some societies, usually small ones, recruit managers who are fresh persons without any business experience. Such fresh persons

are appointed on the basis of the personal knowledge of the President or some influential Board members. In their case, the questions of induction, training and promotion possibilities are exceedingly important.

Recruitment of Other Personnel

Other personnel are, usually appointed from local sources on the basis of the personal knowledge and contacts of the Board members or the General Manager.

Salaries and Working Conditions

The salaries of managers, paid secretaries and salesmen in cooperative societies in Ceylon are given in the following table:

SALARIES IN COOP. RATIVE SOCIETIES IN CEYLON

<i>Type</i>	<i>No. of Employees according to Salary Group</i>				<i>Total No. of Employees</i>
	<i>Below Rs. 50</i>	<i>Rs. 51 to Rs. 100</i>	<i>Rs. 101 to Rs. 200</i>	<i>Rs. 200 and above</i>	
1. Managers	252	2,297	3,562	551	6,662
2. Paid Secretaries	66	190	176	107	539
3. Salesmen	855	3,595	803	8	5,261

(Report on the Ceylon Co-operative Movement for 1965-66, pp. 32-33).

The scales of pay obtaining in primary consumer cooperatives in Mysore State, India, in 1962-63, are given below:

SCALES OF PAY IN PRIMARY CONSUMER COOPERATIVES IN MYSORE, INDIA

	Rs.
Secretary/Manager	250-440
	175-10-275-12½-325
	180-10-250
	150-10-250
	90-3-105-4-145-200
	90-

Accountant/Assistant	.. 150-7-225-10-265
Secretary/Asst. Manager	.. 130-10-220
First Division Clerks	.. 150-10-320
Stenographer/Head Cashier	.. 125-7½ 200
Sales Representatives	.. 80-6-110-113-8-150
Cashier	.. 60-4-100-5-125
Second Division Clerks	.. 80-3-110-4-150-5-150
Salesmen/Typists/Accounts Clerks	.. 60-4-100-5-125 100-5-150 80-3-110-4-150-5-150 90-5-110-8-150
Third Division Clerks	.. 42-3-60
Drivers/Record Keepers	.. 70-4-80-2-100
Attendants/Peons/Sales Assistants	.. 50-1-60 35-1-40-1, 2-60 40-1-50-2-70-3-85 40, -

As may be seen from the above tables, the salaries and working conditions offered are rather poor and not conducive to attracting and retaining competent people. Also, the promotion possibilities available to the employees are exceedingly limited. It is, usually a case of "once a salesman, always a salesman." The Report of the Ad Hoc Committee for Cooperative Employees (Mysore State) 1965 has to say the following in this connection:

If we are to attract well-educated and able persons to serve in cooperative institutions and to retain them, promotional opportunities within the system must be provided. These are non-existent at present, with the result that really capable men are always on the look-out for better-paid posts outside the movement, and there is a continuous flight of such personnel from the cooperatives. This has to be prevented in the interests of the movement itself.

It was reported at the National Seminar on Cooperative Management held in Ceylon in 1967, that due to low salaries and limited promotion possibilities, 50 per cent of the employees trained at the School of Cooperation had moved over to private enterprise. This high turnover represents a loss to the movement of experienced personnel, and also a wastage of expenditure on training -an expenditure which as it were, is made for the benefit of private enterprise.

Some Suggestions on Personnel Policy

The above review would show that the consumers' movement should adopt a personnel policy whereby it is able to secure the services of competent managers and other employees for sufficiently long periods for them to leave an impact on the consumer cooperatives. The question of personnel development programmes is vitally related to this problem; and hence, proper plans for recruitment, induction, training and management development should be worked out so that the movement is able to find, over a period of time, competent managers from its own personnel resources.

If the consumer cooperatives are to develop a systematic personnel policy, they should undertake joint action in collaboration with their central organisation. The areas in which this joint action could be undertaken would include assistance to societies in establishing recruitment procedures, in developing national registers of employed personnel in the managerial and other cadres, in giving guidance with regard to employee rating and promotion policies, and in arranging on-the-job training as well as training in cooperative schools and colleges.

In order to systematise recruitment of personnel, it is essential that job descriptions be worked out for an employee who is to be recruited, and in this context it will be necessary to spell out the academic and professional qualifications as well as the experience and personal characteristics which the candidate should possess for appointment to the job.

Furthermore, recruiting the best available talent within the emoluments, which the societies are able to offer, is extremely important. Subsequent training could become productive only if the candidates have the potential abilities, otherwise expenditure on training may be highly wasteful. In this connection, it is pointed out that because the cooperatives cannot offer adequate emoluments, they cannot attract competent people; on the other hand, because of lack of competent people, the cooperatives cannot develop their business to the point where they can afford to employ competent people. To some extent, this dilemma does exist. However, in this connection, it may be stated that some of the consumer movements in western countries made a virtue of this necessity. They employed persons whom they could get at lower salaries. But their recruitment, training and promotion policies were such as to allow

persons who had the potential to undergo training, and, in the course of years, to rise to higher positions. For example, a handbook given to the young employees of a London Cooperative Society has this to say:

If you have the desire and the will to improve your position there is scarcely any limit to the opportunities ahead of you. It is the policy of the Committee of Management, as far as possible, to fill the higher posts—from the ranks of our own staff. The present general manager started with the society as a boy; the present secretary started as an office junior and most of the other leading positions in the society are filled by men with a similar background who have qualified by hard work and loyal service for the positions they now occupy.

Such a policy has the following important results:

- (i) The loyalty of employees to the cooperative movement will be greater;
- (ii) the movement will recruit its personnel at advantageous costs from a pool of people who, for one reason or another, did not have an opportunity to receive higher education;
- (iii) however, several of the employees of cooperatives so recruited had abilities as has been borne out by experience. Given proper opportunities of training, they filled important managerial positions and rendered efficient service. The training programmes of the movements were so constructed as to allow these employees to make good the deficiencies of their education in their early years.

After recruitment, there should be an induction plan in order to instruct the new recruit about the movement, the organisation and the tasks he will have to perform. This induction process should be well planned, and should be carried out under the guidance of a senior employee in the same field of specialisation.

The cooperative society should then work out a plan to anticipate the training requirements of its personnel. It should spot out persons who are the future managerial staff, and analyse what gaps in knowledge and experience these persons have. Such a categorisation of employees and their training needs would enable the society to find proper training facilities for their employees. The central organisations and their cooperative colleges could collect informa-

tion on training requirements from member societies, and if necessary, develop special courses.

TRAINING

In almost all countries of the region, training schools and/or colleges have been established to train personnel from cooperative movements and departments. However, a few years ago, the training courses at these colleges were of an all-inclusive type wherein the main emphasis was placed on the agricultural cooperative movement and only some general knowledge about the consumer movement was given to the trainees. Secondly, a large proportion of the trainees were Government employees, and not employees from cooperative organisations. The latter were mostly unable to take advantage of these training facilities, since the courses offered were of a rather long duration for which they were unable to sponsor candidates due to their inability to employ substitute personnel. Again, the training was weighted in favour of Cooperative law, accounting, inspection of societies, etc. Cooperative management and the imparting of skills for the performance of specific tasks had only a limited place in the curricula. During recent years, however, there have been some developments whereby specialised courses of shorter duration are being organised. The curricula are also designed to meet the requirements of specific groups of employees from consumer cooperatives.

In the *Philippines*, the Agricultural Credit and Cooperatives Institute (ACCI) arranges special courses for managers of consumers' cooperatives. Normally, two such courses, lasting ten days each are organised each year. One is a Basic Training Course and the other is an Advanced Training Course. At least, one year must pass, before the manager, who has attended the basic training course, becomes eligible for the advanced course.

In *Ceylon*, for employees of multipurpose societies, there are three Certificate courses at the junior level, the ordinary level and the higher level. In each of these courses, Salesmanship and Business Management form a part of the syllabus. The junior course is of two and a half months' duration, the secondary or ordinary course is of four months' duration, and the higher or advanced

course is of nine months' duration. The junior course is intended for employees of cooperative societies who are above the level of bill clerks or sales assistants. The ordinary-level course is intended to suit persons holding positions of managers or book-keepers (accountants) in the cooperative societies. The higher course is intended to qualify employees in cooperative societies for promotion to executive posts in secondary organisations.

In *India*, the Committee for Cooperative Training had organised a few specialised courses for employees of consumer cooperatives, after the centrally sponsored scheme was introduced. Subsequently in 1964, a special institute to train senior personnel of wholesale stores, department stores and secondary organisations was established. The institute has now been merged with the National Training and Research Centre for Cooperative Management. Under the auspices of this Institute, several courses have been organised for personnel of consumer cooperatives.

In *Malaysia*, courses of two months' duration have been organised for employees of consumer societies. Salesmanship, window display and arrangement, and accounting are taught at these courses.

The training programmes for the employees of consumer societies should have the following objectives in view:

(i) The training should be directed at various categories of personnel which should include the managerial staff; intermediate supervisory personnel, such as purchase officers, shop managers, accountants, stores officers, etc.; and junior employees, the bulk of whom would be salesmen and store-keepers.

(ii) The objectives of such training should be to impart knowledge to the employees about the consumer cooperative movement, to develop the skills they need to handle their specific tasks, and finally to develop leadership qualities.

In arranging training for the above personnel, the General Manager should emphasise and encourage self-training among employees at all levels. Secondly, on-the-job training should be given considerable attention by the Departmental Managers so that the employees can improve their performance in the process of doing their jobs. The induction method would be an important part of on-the-

job training. For the key personnel, a weekly staff conference could be made an important tool of continuous education. These meetings could be used for mutual information about the current activities of the various departments, and for discussion of the problems which the department heads will bring up at the meetings. Such staff meetings, if they are well prepared and well conducted, can become important media for the development of team spirit and staff morale. Finally, the above training arrangements may need to be supplemented by external training, whether arranged locally or at cooperative colleges. A few remarks about training programmes at cooperative colleges may be offered. It would be essential that these external training programmes be of short-term duration so as not to require the employee to be away from his job for a long period.

- (i) The course programmes should include training in current developments, especially the problems and techniques of solving them. (For problems, see Section IV of my paper on Problems of Consumer Cooperatives in Developing Countries).
- (ii) The course programmes should be designed to keep in view the requirements of the trainees.
- (iii) The programmes of external training should be arranged in a ladder pattern, so that an employee having the necessary potential can go through the various courses successively over a period of time, even though he may have lower academic qualifications to begin with.
- (iv) The cooperative colleges should establish close consultation with the business federations, in planning and conducting their course programmes. The standing faculty of the college may be supplemented by inviting managers of consumers' organisations so as to bring field experience within the school.
- (v) The schools should not only attempt to provide the trainees with the tools for doing their jobs and develop skills in them for the purpose, but should also try to develop their faculties of thinking and analysis.

INTERNATIONAL TRAINING

Finally, a few words about the training facilities available in advanced consumer movements for the training of personnel from

consumer movements in developing countries. Although the following list is not comprehensive, some of the training centres which participated in the ICA conferences on cooperative education are listed below:

- | | |
|-------------------------------------|---|
| CANADA | 1. Coady International Institute, St. Francis Xavier University, Antigonish, Nova Scotia. |
| | 2. Western Cooperative College, 141-105th Street, Saskatoon, Saskatchewan. |
| CZECHOSLOVAKIA | 3. Central Cooperative College of the Central Cooperative Council, Prague-10. |
| DENMARK | 4. Secretariat for Technical Cooperation with Developing Countries, Copenhagen. |
| ISRAEL | 5. Afro-Asian Institute for Labour Studies, Tel-Aviv. |
| SWEDEN | 6. Cooperative Training Centre. |
| UNITED KINGDOM | 7. Cooperative College, Loughborough. |
| UNITED STATES OF AMERICA | 8. International Cooperative Training Centre, Wisconsin. |
| UNION OF SOVIET SOCIALIST REPUBLICS | 9. Seminars organised by the CENTROSOYUS, Moscow. |

In addition, international organisations, such as the ILO and ICA have organised seminars for developing countries. In 1960, the ICA established the Regional Office and Education Centre for South-East Asia. The Education Centre has so far organised three seminars on Consumer Cooperation, and one national seminar on the subject in Ceylon. Several regional and national seminars have also been organised on Cooperative Education, with a view to assisting the educational and training work being done within the national cooperative movements in the region.

In order to make the best possible use of these facilities, selection of suitable candidates is vital. In most cases, the invitations are sent on a government-to-government basis. It is essential that the movement in each country be associated with the government in selecting candidates for foreign training.

Also, the movements should develop registers of the training needs of their personnel on the basis of the cooperative development programmes, so that when offers for training are received, suitable candidates could be nominated.

Shop Planning

IN A consumer cooperative society, the management has the responsibility for the society's entire business, and has, therefore, to take various decisions which should be in line with its objectives, policies and targets. The objective behind each decision is that it should be the correct one, which means that all available resources of the society are utilized in the best possible way (personnel, finance, etc.). This way of utilizing the society's resources, through creating satisfied and loyal members/customers, will lead to a good development of the society's economic and financial structure, enabling it to create its own funds and extend its activities on a long-term basis, and at the same time, to build a vigorous and independent consumer cooperative society.

A decision means a choice between various alternatives. It is, therefore, of utmost importance that as much information as possible be collected concerning each alternative, so that a sound decision can be taken in a systematic way. Before a decision is taken, all the possible alternatives must be analysed and the various consequences of each estimated for purposes of comparison. This also means that the management must know which of the consequences are desirable. The determination of the society's goals is of great importance so that the management can choose the most suitable course of action in line with the goals set by the society.

When the management takes a decision to establish a new shop, super market, department store or any other similar activity, it is taking a decision which will affect the society's business for a long span of time, probably 15 to 20 years or more. It is, therefore, of immense importance that such a decision be taken with the utmost care, and that all possible alternatives be discussed and analysed with a view to improving and increasing the society's business and the services to the customers' members.

Often retail outlets have been planned and established without undertaking the necessary studies, resulting in heavy losses to the societies and their members. Quite often, one can find retail outlets

which after two or three years of operations have lost a considerable amount of their sales: this could be attributed to the loss of confidence on the part of the members in the society.

Feasibility Study

Preparation of a feasibility study is an essential preliminary before opening a new shop, super market or any other retail outlet. As mentioned before, this is an extremely important task for the management, as the new retail outlet will, to a very great extent, affect the future of the society's performance and the services it can offer to its members. Opening a branch without a proper feasibility study should be treated as a very serious lapse on the part of the management. Of course, a feasibility study cannot be conducted by a single primary society, as it requires a lot of expertise and basic research, but should be undertaken in collaboration with the National Consumer Federation. To promote the sound development of the consumer cooperatives in each country, it is of the utmost importance that the national federation realise the significance of feasibility studies and equip itself for undertaking them.

A feasibility study should be based on:

- (a) the previous experiences,
- (b) the present statistical data, and environmental factors which currently affect the business, and
- (c) the future planning (and proposed development) within the area of operation.

The following information must be obtained in detail for a feasibility study.

Number of Inhabitants

As the human beings are the most important factor in a consumer society, one has to study the population pattern within the area concerned. The inhabitants have to be grouped in various geographical areas in which they are living—for example, the central area and the surroundings, the latter to be split up into various sub-areas. It is of extreme importance, depending on what kind of outlet one is going to establish, that geographical areas be as small as

possible which will facilitate collection of detailed information. However, it is necessary not only to know the present number of inhabitants within an area, but also to look back, at least, five to ten years to get an idea of the increase in population. It is also necessary to see what might be the future trend in this respect. The question one has to ask is whether the increase in the number of people will be maintained at the last year's level or will be affected by some other outside factors. Perhaps, a new factory or a university will be started within the area. All these factors have to be taken into consideration, and approximate timings for each factor have to be estimated.

Number of Members

The present membership in the area in which the shop is planned can be expected to a very great extent to make their purchases from the new shop. It is, therefore, of immense importance to group them in the same way as the total population has been grouped. This will enable the management to know where these members are living within the area and what is the average size of their families. This will also show the number of inhabitants who are already connected with the consumer cooperatives. It is then possible to compare this number of people (members *and* their families) with the total number of members within the area areas. This will result in a very interesting and useful information.

Let us assume that there are 1,000 members in a society, each member representing a family of five: this means that 5,000 people are connected with the consumer cooperative movement. If there are 20,000 inhabitants within the area concerned, and 5,000 of the inhabitants are already in some way or the other connected with the consumer cooperative movement, then, there is a fixed target group, amounting to 25 per cent of the total number of inhabitants, whose requirements have to be met.

Purchasing Power

When the number of people is known, the next step would be to find out, not only their total purchasing power but also their purchasing power within specific lines of merchandise. This kind of statistics

is extremely difficult to find, but it is of the utmost importance to have some idea about the consumption pattern. In this respect, an interview with the Board of Directors, representing a cross-section of the membership, would yield information about the expenditure of their families on various types of goods during one year. This basic information could then be converted into norms/standards, which, of course, would have to be tested and developed further. One can also interview a cross-section of the members in the society and try to find out how they are spending their money. Some university or governmental institutions might also have undertaken some research on the consumption pattern in the country, which could give useful information on the subject.

INCREASE IN CONSUMPTION: In areas where the service-class lives, the salary earners are supposed to get increments resulting in some increase in the total net income. A major portion of this yearly increase usually goes to consumption. But it is very difficult to forecast as to how this increase will change the consumption pattern. So far as the increase in consumption is concerned, one has to observe the previous trend and analyse the outside factors which can affect and change that trend. On the basis of information, thus arrived at, an attempt should be made to foresee the consumers' demand in the area.

CHANGE IN MONEY VALUE: Another important factor which affects the retail trade is the exchange value of currency which is subject to fluctuations every year. If it is assumed that the money value decreases by 2 per cent each year, one must keep in mind that the total sales have to increase by merely 2 per cent to achieve the same real volume of business as in the previous year.

The previous and present consumption per inhabitant, together with the increased consumption, change in money value, etc. should be converted into standards, e. g. consumption of food per inhabitant and consumption of non-food items per inhabitant. If one has further detailed information, then one can, of course, split up the food and non-food categories into different sub-groups.

When the above basic information has been collected, the feasibility of starting a new shop can be ascertained. We know the rate of population growth; we have an idea of the consumption per inhabitant; we also know the number of members and other people who are

already connected with the consumer cooperatives, and the assumed rate of membership increase. If the number of inhabitants is multiplied by the amount of consumption per inhabitant, the total consumption potential within the area concerned can be ascertained. After grouping this information into sub-areas, further detailed information becomes available. The total consumption of the members and their families can be calculated in relation to the total consumption potential within the area and sub-areas.

Sometimes it may be necessary to check the consumption pattern in such a way as to know where the customers are going to make their purchases, as it is possible that the customers may not make all their purchases in the various lines of commodities from the areas in which they are living. The consumption potential tells us only that they are going to consume a given quantity of goods within the area in which they are living, but not where they are going to purchase them. But if the data, concerning the total sales of each shop within the various areas, split up into food and non-food articles, can be collected, it is possible to compare this with the consumption potential. For example, the following type of information can be obtained:

- (i) The customers purchase eighty to ninety per cent of their food requirements from the area in which they live.
- (ii) The retail trade of non-food articles within all areas except the central area will amount to approximately 25 to 50 per cent of the consumption potential, while the non-food sales within the central area will range from 100 to 200 per cent or even to 300 per cent of the total resident consumption potential.

This information indicates that the consumers prefer to make their purchases of food in the area where they are staying or, at places, close to their residences. But as far as non-food items are concerned, they prefer to go to the main bazar which can offer them a wider choice. These standards differ from country to country, but if it is possible to compare the actual retail trade with the resident consumption, area by area, then the cleavage between retail trade and the consumption potential can be ascertained.

There is one good possibility of getting the above information. In almost all countries, the shopkeepers have to pay sales-tax. They have also to give information to the tax authorities concerning their sales turnover during the year. If these figures of sales

turnover are made official, then it is possible to collect them for the different areas concerned, add them up and compare the total with the consumption. However, one must in this case keep in mind that the private shopkeepers hardly give correct figures of their sales turnover to the tax authorities. They will usually submit returns covering only 70 to 90 per cent of their real sales turnover. While making comparison, this should be kept in mind.

Transport and Communications

It has already been mentioned that one should know where the people are living within the area and where the future development is going to take place, so far as colonies and industrial estates are concerned. One must also collect information about the present transport and communication pattern within the area. Will something happen in the area which will change the present pattern? Will the number of cars increase? Will there be any possibility of opening new bus-stands for the public? If so, where will the future bus-stands and terminals be located? Will there be any new trunk routes or other routes which will change the present flow of traffic within the area concerned? These are a few questions that need to be looked into.

The figures in the feasibility study should be supported by a map for the various areas, indicating the places where the present and future inhabitants and society members are going to stay. The map should also indicate the present transport and communication pattern, and the roads within the area concerned. The present and future cooperative shops should also be indicated in the same map.

With this information in hand, the management of a society will have a better basis for taking decisions concerning the establishing of a new retail outlet. They should also take into consideration the various outside factors which can, in future, affect the business of the society's outlet, such as new shopping centres in neighbouring areas, etc.

In the exercise given at the end of this article, I have tried to work out a feasibility study for one area, and this contains:

- (i) population trends,
- (ii) number of members and their families,
- (iii) their consumption of food and non-food items,
- (iv) total consumption potential within the area concerned, and
- (v) members' consumption potential compared with the total consumption potential within the area.

I have also tried to estimate the present retail business within the area concerned, and to compare it with the consumption pattern, and this has resulted in very interesting information. This feasibility study is also supported by a map, showing the various sub-areas and the main transport and communication patterns. As can be seen from the map, there is a railway line and a traffic route crossing the area, and this, undoubtedly, has to influence any decision regarding the location of a new retail outlet.

Shop Location

The normal tendency of the customers is to make their purchases of non-food items, to a very great extent, from the main bazar, and their purchases of food and other daily needs from shops close to their residences. In establishing a shop, these factors must be taken into consideration. In addition to the above, the following factors also should be taken into consideration:

1. How will the new retail outlet fit into the total network of cooperative shops within the area?
2. Is this retail outlet going to be the main Super Market in the area, dealing in a large variety of food and non-food items?
3. Is it going to be the main Super Market in one of the larger colonies?
4. Is it going to be a food shop, dealing mainly with daily items, located in a smaller colony?
5. What type of customers members are living within the area where the shop is going to be located?
6. What kind of assortment do they expect?
7. Do the customers belong to the high, middle or lower-income groups?
8. Are the people in the locality used to making their purchases from a self-service shop?
9. How many members are living within the area? What is the total consumption potential of the members?
10. What have been the total purchases of these members in other cooperative stores of the society?
11. What about the competition within the area? Which are the strongest competitors? What are they dealing in?

- What are their sales policies? What is the size of the strongest competitor's shop?
12. What is the transport and communication system within the areas?
 13. What will happen to the neighbouring areas in the future?
 14. Will the area where the shop is going to be established be able to attract customers from outside these areas?
 15. What is the present volume of retail sales within the area concerned?
 16. Which are the main bus-stands in the area? Where are they located now and where will they be located in the future?
 17. Which are the present and future parking places?
 18. Is there any possibility of changing the bazar to some other area in the future?
 19. What will be the sales of this particular shop which we are going to establish?
 20. What kind of commodities will this shop deal in?
 21. What will be the various services the customers would expect from the shop?
 22. Is the shop going to adopt the self-service system or not?

While taking all these factors into consideration, one must also keep in mind the necessity of leaving some room for flexibility in the decisions, so that adjustment can be made in the shop's business and internal environment according to changing circumstances in the future. One cannot, of course, get ready-made answers to all these questions. But with careful planning and analysis of the feasibility study and the map indicating the communication patterns, one can come to sound conclusions. It is very important to attract potential customers through members and their families, which will result in increased sales for the shop. Another thing that must be kept in mind is not to plan a shop which is smaller, and cannot offer better services than its competitors.

In the exercise and map given at the end of the article, after the management has analysed the figures in the feasibility study, the approach for establishing the shop that should be adopted by the management is the following:

The society should establish a shop which will meet the requirements of the members as indicated in the feasibility study plus an additional 25 per cent increase expected in total sales of food,

amounting to 9 million in 1970, 12.5 million in 1973 and 17 million in 1975. The sales targets should correspond to approximately 18 per cent of the total consumption of food and approximately 20 per cent of the retail trade in food within the area.

As far as non-food items are concerned, the approach should be to plan a shop which can meet 50 per cent of the members' total requirements, and the sales targets for the shop should be 6.5 million in 1970, 10 million in 1973 and 13 million in 1975. The share of the total consumption should be approximately 18 per cent, and in the retail trade the share should be 15 to 20 per cent. In addition to the above, a canteen should be opened with a selling capacity of 1 million in 1970 to 1973, and 1.5 million in 1975.

In order to manage the future expansion, the shop should be planned according to the requirements of the year 1973, selecting a building which later on can accommodate a 30 per cent expansion of the selling area. A self-service shop should be established for food and non-food items, dealing with the following lines of merchandise in addition to food:

- ready-made garments.
- cloth.
- household goods.
- shoes.
- medicines.
- furniture.

The non-food items should be, as much as possible, displayed on a self-selection basis.

This shop should be the society's main establishment and later on, it should be supported by small shops in the various localities. The shop should be of a Super Market type and be located in the main market close to the present shopping centre, bus terminals, parking places, etc.

Space Requirements

The next step in the approach to the problem of establishing a new shop is to analyse the future requirements of space for running the Super Market as per the targets fixed by the management. This is an extremely difficult task, and the only way to solve it is through analysis and research based on other cooperative Super Markets so

as to find out various norms and standards. One can, for example, find out the norms concerning sales per square metre area of groceries, fruit, meat, shoes, cloth, etc. One can also find out norms concerning relationships between various lines of merchandise. For example, the sales of the canteen will probably be in relation to the sales of food and non-food items. One could also find out what will be the demand for store room and other facilities from various food and non-food departments according to their sales turnover.

In the exercise under the heading, "Space Requirement Programme," the sales of food and non-food items in various departments have been split up, and the requirements of sales areas as well as of store-room space have been worked out by using norms. As indicated earlier, the space requirement is based on 1973 sales estimates so as to be flexible enough to meet the future expansion and requirements up to 1980 or so. As will be seen under the same heading, the total sales area needed will be 2,000 square metres, and for other purposes, such as store-room, office, staff-room, staff canteen, etc. the total area needed will be 1,000 square metres. In this way, the total area required will be 3,000 square metres. The average sales for the selling area will be 11,800 per square metre, for the year 1973. If the future sales per square metre for the selling area and for the total area are calculated, an idea can be formed as to how long this Super Market can continue without any expansion of the existing area.

As indicated earlier, in addition to the planned area of 3,000 square metres, the building should be constructed in such a way that the area can be expanded by another 1,000 square metres, either through the addition of one or two floors or by adding the area at the ground level.

Investment Budget

After getting an idea of the area needed and where to locate the shop, the financial implications involved in setting up a Super Market have to be examined. The basic questions that will have to be considered are as follows:

Should the society construct its own building or shall it obtain one on rent? What will be the net investment in building furniture and fixtures, and stock?

The following are some of the questions that have to be considered in preparing an investment budget:

- (i) What will be the construction costs per square metre, and how long will the construction take?
- (ii) What will be the site cost per square metre?
- (iii) What will be the investment requirements of furniture and fixtures per square metre for the total area for food and non-food items, and the canteen?
- (iv) What will be the stock turnover (retail price) for food and non-food items?

When answers to these questions are worked out, the construction cost per square metre can be calculated and the investment budget can be prepared. It will amount to 1,000 per square metre, and the total construction of the building will cost 3 million. If the area of the site is 6,000 square metres (which can accommodate the future expansion and also space for parking, etc.), and the cost of land is 100 per square metre, the site cost will amount to 6,00,000. When the interest on the above capital during the construction of the building is taken into account, the total construction and site costs will reach approximately 3.7 million. It is also assumed that the building will be in operation for 25 years, which means that yearly depreciation and interest (annuity) together will amount to, approximately, 10 per cent. In addition, there is the maintenance cost of the building, which has been calculated at the rate of 1 per cent of the construction costs. The interest on the site investment will be 5 per cent.

The total annual yield (rent) which the management has to pay for such a site, including the building, will amount to 3,70,000, i. e. 1.6 per cent of the sales estimated for 1973.

With this figure in mind, the management has two alternatives. One is to find an existing building in a suitable location which shall have an area of 3,000 square metres, with the possibility to expand after 10 years into additional space of about 1,000 square metres.

The second alternative is to try to find a site in a suitable location on which the management can construct a building, as per the total requirement and within the investment budget.

The management has to analyse the advantages and disadvantages of these alternatives and take a decision. In addition to the above, the society has to invest in furniture, fittings and stock, and this investment will be the same in both the cases.

Working Budget (Operational Budget)

The working budget is an estimate in which the economic implications of a project have been taken into consideration, and such a working budget should not only cover the first year but also some years in the future. The budget will be based on the figures of sales targets fixed by the management, and also on the accepted standards so far as gross surplus, salaries, rent, depreciation of furniture and fixtures, interest on stock, and other running expenses are concerned. This working budget will give to the management an idea of the economic implications of implementing the project.

As is seen in the exercise under the heading "Working Budget," the economic implementation of the said project is rather favourable. The working budget results in contributions towards the overhead of 2.2 per cent in 1970, 2.3 per cent in 1973 and 3.7 per cent in 1975.

The figures in the exercise are rather high and, perhaps, unrealistic, as it happens very often that the economic implications of establishing a new shop will be, that, during the first one or two years, the shop will find it difficult to contribute towards the overhead expenses. However, it should be a target for each new project that, at least, after two or a maximum of three years of operation, it should be able to contribute to the *overhead* and create a net surplus.

If such a detailed study is undertaken as is presented in this paper, before the management takes a decision concerning the establishment of a new shop, there will be greater possibilities of overcoming the problems and of establishing a shop which will meet the customers' demands in the foreseeable future.

With these figures in mind, one has the necessary information for establishing a shop, and one can easily go to an architect, saying: "I want you to plan a building on this very site, and it should be a one-storey or two-storey building. There should be 2,000 square metres of selling area, and another 1,000 square metres for storing, etc. as per the details in the budget "Area Requirements." The building should be designed for later expansion of up to 30 per cent of the total area, in other words, approximately 1,000 square metres, either by adding one or two additional floors or by enlarging the ground level. The maximum money we are allowed to spend on this building is as indicated in the Investment Budget." This kind of information helps the architect to construct a building which suits the requirements of the shop. The management can also feel

sure that, when the building work is completed, they will not be surprised with high construction costs.

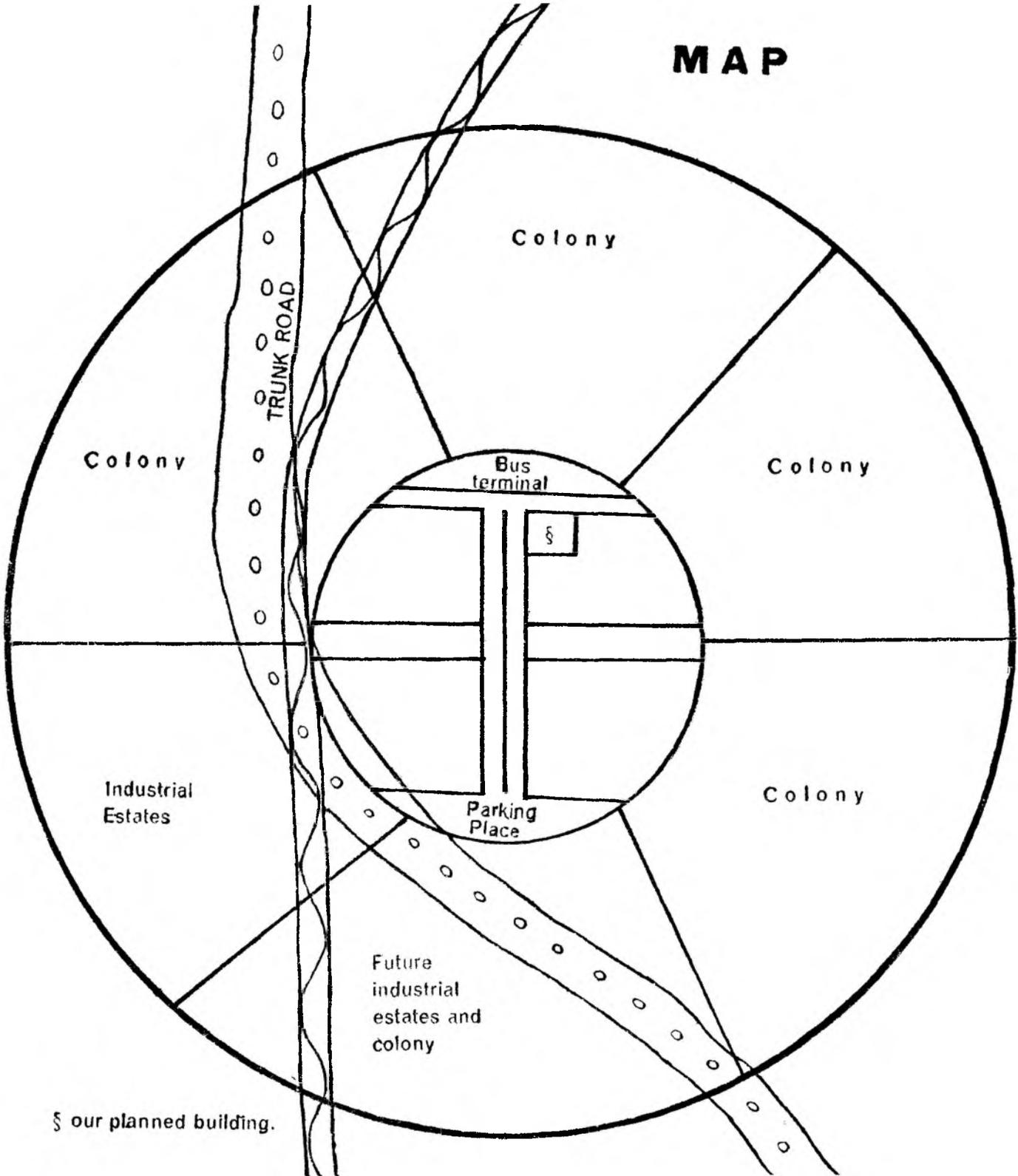
The society also knows how much money they will need to invest in the building, and for furniture, fixtures and stocks, and they can at an early stage make the necessary preparations for having this money ready for investment (obtain loans, attract more members, etc.).

Another very important part of the planning of a shop is, of course, the planning of the staff requirements, the layout and the assortment of the shop, etc.

As can be seen from the above details, a study of the feasibility, the location, the area requirements, the investment needed and the working budget of a new retail outlet is of the utmost importance to be able to take a sound decision, and the shop, planned in such a way, will probably offer the right type of services to the customers. This will result in a good development of the individual society as well as of the whole consumer cooperative movement. However, such a study and calculation of the various norms and standards cannot be done by each society alone. This is a task meant for the national consumer federation, and, therefore, it is of extreme importance that the national consumer federation create a department for consultancy services, which can render assistance to the member societies in planning new retail outlets, etc.

In countries where the national federation has realised the importance of consultancy to the member societies, the whole consumer cooperative movement has been extremely successful, and, therefore, it can be suggested that the establishment of a new retail outlet should be supported by studies, as mentioned earlier, and that the national consumer federation should start consultancy services with attached research departments for the member societies, which will contribute to the success of the whole cooperative movement in each country.

MAP



§ our planned building.

Herman Lamm

Salesmanship and Sales Campaigns

Should We Try To Sell More?

A PRIVATE shopkeeper is generally adept at salesmanship; he usually invites you to buy his goods and, when you have bought some, he is quick to suggest something else for your choice. This is quite natural, because, the more he sells, the more will be his profits. Are the cooperative shops justified in trying to sell more, by adopting the same methods as the private trader does?

In so far as the cooperative shops sell mostly to their owner-members and seldom to others, it may sound paradoxical for cooperatives to try to sell them more, because the primary aim of cooperatives is to encourage thrift and economy among their members. At the same time, it is necessary that cooperative shops should be run on sound business lines. The greater the business of a cooperative shop, the larger will be its profits, but in this case, extra profits are passed on to the customers in the form of lower prices or more dividends to the members. Therefore, even in a cooperative shop, it is good for the member to be told of the other goods that are for sale, about the new arrivals, some special qualities of the articles that are for sale and the low prices at which they are sold. But the salesman should sell with responsibility and be sincere and honest in their information and never try to dump goods on the customer. The customer in a cooperative shop should never regret his purchases; the salesman is there only to suggest, leaving the final decision to the buyer.

Are We Able To Sell More?

There are many people who believe that in a grocery shop in Asia, where the assortment of goods is limited, there is hardly any scope for salesmanship—the customer comes to buy only a few essential commodities and nothing else. This, no doubt, is a wrong notion, for even the poorest customer might have forgotten something, like soap, matches, etc. and would be only too glad to have the salesman

remind him about it. This way, sales can be increased without making the customer buy anything which he never intended to purchase, and customers can thus be weaned from the private trader. It is one way of bringing those customers who are not in the habit of buying all their essentials from their cooperatives, to do so. Long queues formed to buy quotas of rationed articles or scarce commodities come in the way of increased sales. Such unwieldy queues must be done away with, if we are to serve our customers better and improve our business. This may not always be entirely possible, but the problem can be remedied to an extent by changing the shop layouts, opening separate entrances and getting more employees to work part-time during peak hours, so that the rush is cleared without resorting to queues.

In certain South-East Asian countries, a peculiar payment system prevails in the cooperative grocery shops, where the customers go to the cashier first, order their goods, get a cash memo and pay, and only then meet the salesman or the weighman at the counter. In such a system, neither the cashier nor the weighman will feel inclined to offer more goods. This system may have had its roots in the employment of illiterate salesmen or in the rationing of food grains, but it is not a good practice, and the sooner it disappears, the better.

Even when we remove queues and bad payment systems, and give incentives to shop managers and salesmen for increased sales, salesmanship in cooperative shops all over the world is still comparatively less than that in private shops; therefore, it is essential that we should have centrally organised sales campaigns.

How To Sell More?

It is natural for every salesman to offer to a customer, who has come to buy something which the shop does not have, some alternative article instead.

Good salesmanship also requires that a salesman suggest to the customer to buy complementary articles, e.g. biscuits to a customer who comes to buy a tea packet, or a tin of jam to the customer who has bought a loaf of bread, and spices to the one who has bought rice or *dal*. We should also invite our customers to have a look at our new arrivals and try to sell them goods which have been reduced in prices. We should also try to sell more when we

have some better quality goods to offer or when we have received stocks of some seasonal commodities. A good salesman may prove his worth by trying to sell more on any of these lines. And they have to find out the most attractive suggestion for the day or the week. While it is the job of the salesman on the spot to increase sales of complementary articles and alternative goods, it should be the store-keeper's task to evaluate market trends and to plan a centralised sales boost. Therefore, the wholesale societies must organise sales campaigns well in advance.

Planning Sales Campaigns

The first rule that must be observed in this connection is that every sales campaign should be backed by adequate stocks to cope with the increased demand. We cannot sell articles that are out of stock in the shop. It may sound a little odd, but nonetheless true, that many a sales campaign has failed because the shop just did not have enough stocks to meet the increase in demand. When we plan a sales campaign of a particular article, by resorting to window display and posters and face-to-face salesmanship, it is well to expect an increase in the sales of that particular article, during that week, by 25 per cent, 50 per cent, 100 per cent, or even 200 per cent. And many times, the shops underestimate the increase in sales and are unprepared for it. Therefore, after every such campaign, the results (the response from customers) must be evaluated, and the experience so gained must be used for future guidance.

The second important rule is to concentrate on one or at the most two articles, while organising sales campaigns. We often find shops advertising on the black-board some ten new arrivals, but with very little result. More than one or two articles should not be advertised at a time: a display of too many articles in the window, and specially on the counter, is not a very pleasant sight. So it is better to concentrate all efforts on any one article.

The third rule is to associate the staff and Board members of the primaries with every sales campaign. As persons who are directly connected with sales, they must be given information beforehand: this gives them a feeling of responsibility, and they rightly feel that it is their sales campaign specially organised to boost sales in their shops. They must get all

the necessary information about the goods, well in advance of the campaign, and be asked to pass on this information to all the staff who are called upon to do the sales. If the sales are planned on a monthly basis, the representatives should be invited to attend the monthly meetings in which past performances, ways to profit by past experience and also future plans are discussed. It is important to run campaigns for only short periods of a week, a fortnight or, at the most, three weeks, but not more. Here, as well as when it comes to the selection of articles for campaigns, we have to study customers' reactions. For instance, most customers visit our grocery shops two or three times a week. While selecting goods for campaigns, we must always keep in mind the customer's point of view. The period of the campaign should be limited. It never pays to tell a customer, week after week, about the same goods. This way, we may very well run the risk of irritating him. So, each article should be promoted and advertised only for a week, sometimes slightly more.

Display Materials for Sales Campaigns

When we speak of 'Consumers' Cooperative Publicity', the display materials used for the sales campaigns are the most important part of it. Either small price labels of 3" x 4", or bigger cartons of 8½" x 11½", or posters in different bigger sizes should be made. It is necessary that the consumers should be given the facts about the articles: the name of the commodity, the quality of the goods (which is important for the purpose of evaluation), where necessary, the source also, and finally, the price per piece, or whatever is the measure. The name and price of the commodity need to be emphasized and this can be done by using block letters.

Display materials can be made by the shop assistants, as it works out cheaper for small quantities; but when a campaign is organised in some ten to twenty shops (it is better to get the display materials printed), to ensure correct information and also to make the shops realise the importance of the campaign.

Many shops are prone to forget to remove old display material, which is bad. This can be avoided, if display materials, are kept in certain places in the window, on the counter, hanging from the ceiling, or fitted in special mounts or stands. When we organise continuous campaigns, the fresh and latest display materials must quickly replace the previous ones. The side of display materials may

vary from country to country. Frames are always cheaper if they are produced for the entire country, and the prints can then be done in the same size.

The display articles may, sometimes, require special printed leaflets, with detailed instructions to the customers regarding storing and cooking of the articles that are for sale. In case of articles that are wrapped, it is well to keep open a loose packet of a new article and let the customers taste it, of course, in small bits.

Outside Publicity

Any publicity done outside the shops will be in the form of either leaflets distributed to every house in the vicinity, posters on the walls, or advertisements in the dailies. For a local shop, the first two are, no doubt, the cheapest. But, if they are done for all the cooperative shops in a town or a district, even advertisement can be used without incurring heavy expenditure. It is advisable to give information about only one article when we are advertising through posters and newspaper insertions. We should take care to state only facts, and be brief and to the point. The best consumer advertisements are the brief and frequently-appearing one-column advertisements emphasized by the cooperatives where only one product is advertised with its quality and the price at which it is sold. Leaflets meant for house-to-house distribution may contain information about four or five articles, but not more if we can help it. Cyclostyled leaflets are preferable if they are meant for only one shop, but if they are to be used by several shops, it is better to get them printed, furnishing the address of the local shop at the bottom.

General Publicity

When cooperatives plan on big publicity, it is very common for the cooperators to feel that the stress should be on cooperative principles and cooperation in general. Therefore, when they advertise through dailies, journals or through slides in local cinema houses, they think something should be said about these principles, for which the cooperative stands. This is, to some extent, not advisable. We must remember that customers and members come to us, as a rule, not because of cooperative principles but for good services and unadul-

adulterated commodities at low prices. Therefore, our sales campaigns should aim at the twin purposes of increasing the number of new members, and also persuading the old members to buy more of their requirements from cooperative shops. It is also essential that the publicity and sales be well synchronised—the customers who have read the leaflets and have seen the posters at the entrances and counters, on a particular day, must be offered the advertised goods by the salesmen at the counters, on the same day.

When we say that the emphasis in our sales campaigns should be more on good services and low prices, it does not mean that information about the cooperative principles should not be given. While it is necessary to be practical and direct with the customers in the sales campaigns, the principles can be taught to them by organising member-education programmes and member meetings.

Our Signum

There is one side in cooperative publicity which is sometimes forgotten—the sign-boards on the shops. It may be rightly claimed that most people in the area know where the cooperative shop is. But there are always the new comers, people living a little farther off and also the temporary visitors to the town. The sign-boards should show them the way to the cooperatives. It is also good to remember the number of non-cooperators who pass the shops and tell them of the consumer cooperatives.

Therefore, it is essential that the sign-boards of the shops be made in big, bold letters, visible from long distances and easily readable—at least, the headname “COOP” or any other name. It is better if they are the same all over a town, if possible the entire country. This can be done by using the same colours for them, a common head-name in big letters, and a common symbol. The local board members may prefer to have local names, but the new customers may not feel that way. They may call their cooperative store, just ‘coop’ or any other small word—a catchy name, easy to pronounce and to remember. It is important that such a word be chosen and that word is boldly emphasised on the sign-boards.

Techniques of Effective Salesmanship

RETAILING, TODAY, is a very difficult and challenging task due to the new techniques, stiffer competition and the increased purchasing power of the consumers. It is, therefore, important to know more and more about the human beings who are our customers and potential customers; and as we are entirely dependent upon them, we have to learn their demands, their behaviour, their impulses and their impressions through observing and listening to them.

Customers and potential customers of today are better informed, and they understand better the various information presented to them through different media of communication concerning quality, price, assortment, etc. Customers are also becoming more and more conscious of their importance to the retailers, and also of their rights as consumers. This has probably changed the market position from a sellers' market to a buyers' market.

What is happening today is that customers are becoming aware of the trend towards a buyers' market. They are also forming more or less permanent impressions of certain shops. Out of these impressions, shops are rightly or wrongly compared with each other, and ultimately, it is these impressions which determine the potential customers' choice of a shop for patronage.

The basic considerations for such impressions of shops are the following:

- (a) Assortment, price, and quality of goods in the shop.
- (b) Location of the shop.
- (c) Advertising and public relations activity of the shop.
- (d) External appearance and size of the building in which the shop is located. (It is always the shop front which attracts people's attention).
- (e) The internal arrangements in the shop.

(f) The salesmen and their behaviour towards customers.

People require all sorts of articles of varying quality but when customers go to buy a particular article, they often like to select and in the process, surely, visit several shops before they make a purchase. The final choice of the shop, where they will make their purchase, will depend upon the quality and price of the article and the time at their disposal. This will present two alternatives to the prospective customer:

- (a) if the customer is in a hurry, and is not particular about the price and quality of the goods he wants to buy, he will select a shop which is known to offer goods at a low or, at least, reasonable prices for articles he is normally familiar with, or
- (b) if the customer is particular about the quality of the article, then, the shop selected to make this purchase will be one giving an impression of exclusiveness, special service, class, comprehensive assortment, etc.

The result is that if customers form good impressions of a shop, they will probably make more purchases from that shop. A cooperative shop must, therefore, show its distinctive characteristics. It is important to convince the customers that cooperatives are not only *different* from their competitors, but are also *better*.

Those who are running the business of the society may not have the same opinion of the society's characteristics as the customers may have. For example, those who are responsible for the management may, perhaps, consider that the dividend is the most distinctive characteristic of any society, but to many customers, what is more important, is not the dividend but the assortment of goods, the prices and the salesmanship of the society. The public is really more interested in what the store has to offer in goods and services than in the aims and objectives of the society, and how the management is striving to achieve these objectives.

It will not help the society if the name "cooperative" is exclusively associated with concepts like "dividend," "struggle," "Rochdale," "cooperation" or "membership," since these terms only indicate the objectives, the means and the history of the cooperative movement, and nothing about what the customers are likely to find in the society.

Customers do not come to the shop driven by a desire to try out a

different economic system, but, rather they come looking for goods of good quality at reasonable prices in the right environment. They are not very much interested in "membership," but they are certainly interested in the "advantages that go with membership." If the society can give "proper consumer information" and "consumer protection," the customers will certainly patronize the society for their supplies.

One may wonder naturally why it is necessary to mention all these things about customers' impressions of and expectations from, a cooperative. As the title of this paper—Techniques of Effective Salesmanship—suggests, the purpose of touching upon the above concepts is to drive home the fact that the consumer cooperatives should treat themselves as a Consumer Business Movement, and realise that they have to compete with other businesses in the field on more or less equal terms, i.e. with modern management tools and modern techniques of effective salesmanship, and that the customers will inevitably judge their performance according to norms which the management of cooperatives is sometimes not aware of.

Techniques of effective salesmanship are some of the tools with which to improve our image in the eyes of our customers. This article will confine itself to advertising and public relations activities, shop environment, and the behaviour of the sales staff.

Shop Front

As indicated above, the way in which the shop front presents itself to the outside world, and the manner in which it claims the attention of the people around it, are of extreme importance to the society, for it is the shop front which, to a very great extent, projects the image and the name of the society to the customers.

The compound, the parking place, and the cycle stand in front of the shop should be kept clean and in good order, and no empty boxes should ever be stored there.

It should be easy for the customers to enter the shop. The facade of the building should be nicely painted and a sign-board of suitable size (if possible, with lights) should be put up in front of the shop indicating its name, with a symbol signifying that a *cooperative* shop is located there. The compound and the facade should be illuminated to attract people.

Display windows and show windows should be adequately illuminated and decorated during evening hours, and frequent changes should be made in the display windows.

The glasses of the show windows and entrance doors should be clean.

If the society has a watchman standing at the entrance outside, he should be nicely dressed in uniform, and properly trained to attend to customers in a polite manner and give them correct information concerning the store in courteous language.

The shop front should clearly indicate that a cooperative shop is located there, and if possible, a uniform system of sign-boards, symbols, colours and facades should be used by all the cooperative shops in the country, so as to attract customers to visit the shops. Thus, when customers hear and see the word "cooperative," they should always associate it with a nice and functional shop having a good assortment and quality goods.

Layout and Location of Goods

LAYOUT. Customers must be able to find their way in the store as quickly as possible and locate the goods they want to buy. On the other hand, it is also important to make the customers go round the entire shop and see the whole assortment. The customers can be induced to do this by creating the right kind of atmosphere through proper layout of departments/sections and the goods.

In a Super Market, the food department is as a rule the most highly frequented department. It is the magnet of the Super Market, and, therefore, it is important that this department be placed in such a way that the customers have to pass through the whole Super Market before reaching this department/section. However, it should be noted that the profit margin in the food department is very low, and therefore, this department must not be given the best location. In a Super Market, housed in a single-storey building, the food department should be properly located in the rear so that the customers are forced to pass through other departments/sections on their way to this department. If there are two or three storeys in the building, the food department should not be located on the ground floor, as the ground floor, from the selling point of

view, is the best. Instead, it should be located either in the basement, if there is one, or on the first or second floor. But in this case, the internal communication system and transport facilities must be taken into consideration to avoid bottlenecks.

To stress the importance of the location of departments, the example of a Super Market in India can be mentioned. It is housed in a five-storey building with the food section located on the ground floor. In a study conducted in this store on the customers' behaviour, it was found that approximately 18,000 persons visited this store each day. As the food section is located in the best selling area on the ground floor, out of these 18,000 persons, 90 per cent visited the food section, 50 per cent paid a visit to the first floor, and approximately 35 per cent visited the second and third floors. Only 20 per cent went up to the fourth floor. By moving the food section from the ground floor to some other floor in the building—the food section giving an extremely low margin and, more or less, running at a loss although it has an extremely good location—this section *could* be used as a sort of magnet to draw customers to less frequented floors and departments/sections over the entire selling area.

LOCATION OF GOODS. The customers tend to buy goods which are related to each other, not in regard to their price, the brand or the trade mark but in respect of their utility. It is necessary, therefore, to try to present *goods in groups according to their utility*, as it is a logical division for consumers and it also makes it possible to present the goods in a much richer and varied way. Keeping this in mind, it is necessary to study the frequency with which the average customer buys articles from a particular group. Stocking goods of low frequency should be avoided. However, there are certain goods of low frequency which should be made available and these may be stocked in small quantities.

- (a) In some of the groups, for example, in the staple commodities, the frequency is high in most articles, and here attention must be paid to the concentration of best selling articles within the group when selecting the assortment and making merchandise displays.
- (b) Some groups are of lesser frequency and therefore, attention must be paid to stimulate the interests of the customers

to buy from that group. In this respect, the less frequented groups are in an unfavourable position, as they probably have some difficulty in meeting the costs involved in stimulating their sales. For these groups, the whole assortment must be used as a magnet, and a good buying atmosphere must be provided.

Even within each department, groups of commodities and/or high-frequency articles can be used as a tool in distributing the customers over the entire selling area.

In a self-service shop department, this way of utilising "magnet" is of the utmost importance, for, in this way, the customers come in contact with the entire assortment. So far as the self-service shops/departments are concerned, one should take care to see that goods of an "impulse buying" nature are placed at the end of the customers' shopping tour. For, as a rule, people finish buying essential goods, first, according to their purchase lists, then, relax and become interested in goods of an "impulse buying" nature.

Other factors which should be taken into consideration in locating department/sections and commodity groups are, of course, internal transport arrangements, storage facilities and the possibility of exercising visual control of goods so as to prevent shop-lifting and pilfering.

Display

When displaying goods on shelves, the goods must be placed vertically so as to give, as many articles as possible, an equal chance of being sold. The best selling level in a shelf is the "easy-to-see" and "easy-to-reach" level, which is 4 to 6 feet from the ground. Heavy articles within the group should be placed nearest to the floor, in order to facilitate ease of movement and to give a proper balance to the display. It is also important to provide, if possible, enough space for each article to be able to fill up the shelves with a whole bulk package at a time.

Colours also play an important role in display. Goods which are in coloured packages are naturally good sellers, and the goods in coloured packages should be placed in such a way that the different colours of different packages contrast with each other to give an attractive visual effect.

Price-Marking

Many societies do not seem to realise the utmost importance of price-marking. The very reputation of the society, sometimes, hinges on the price-marking on goods in the shop. Customers may view goods without price tags with suspicion. When a customer sees a display of goods without price tags, he may feel that something is wrong, and the questions he puts to the salesman are: "What is the price of this article?" and "Why are the prices of the articles not displayed?" This also results in a waste of time.

Layout and Location of Goods

The productivity of the assortment is decided by a number of measures at the top of which we have shop layout and location of goods. Of course, the choice of fixtures is also very important.

Mistakes in planning in this field can for many years produce an unfavourable effect on the business: for example, errors in estimating the space required by a commodity group may result in mixing up the group and spoiling the whole concept of the assortment.

Attention should also be paid to the right location of departments/sections and commodity groups in relation to each other, as the customers probably have their own opinion about what they want to buy from the various departments.

The entrance to the shop, the centre of the shop, and the departments/sections farthest at the back of the shop should be designed with the greatest care in order to get customer flow in a sales-promotional way.

Furniture and Fixtures

When commodity groups and articles have to be displayed in an attractive manner, it is important to utilize the right type of furniture and fixtures of suitable matching colours and designs. Even, sometimes, contrasting colours should be selected. However, one should remember that it is the article itself with its packing and colour which is going to attract the customer to the department, rather

than the furniture or fixtures in that department. The furniture and fixtures should be of flexible and uniform types, as the layout and utilization of furniture and fixtures in a given department/section have to be frequently changed in view of the changing fashions and habits of the customers. It is desirable, therefore, to have detachable elements of furniture.

Before furniture and fixtures are bought and placed in their positions, the manager or the Board of Directors should bring themselves up to date, by studying and observing shops which have successfully used new sales techniques in the designing of furniture and fixtures.

The provision of the right amount of furniture and equipment is an important phase in planning, and should be given due attention.

Lighting

One should create an atmosphere around various departments, commodity groups and articles in the shop, and lighting is by far the best medium for creating an atmosphere which helps in stimulating the buying impulse. In fact, one can say that proper lighting is one of the best salesmen in a shop. If possible, one should have, in addition to the normal standard illumination, connections for spotlights on various places in the departments/sections so as to make possible spotlighting of particular commodity groups or displays during different seasons.

Salesmanship

Attracting customers to the shop is, to a great extent, a question of establishing relationship between the sales staff and the customers. If the manager or a salesman happens to offend a customer in some way, he can in a few moments destroy the goodwill and good relationship which the shop staff has built up with that customer for years. It is important, therefore, to remember that cooperative shops are looked upon by customers as belonging to one group and all much alike, and that, therefore, when a customer develops a dislike for one cooperative shop and talks about it to other people, this will harm the reputation of every cooperative shop.

There are many factors which decide the success of a society/ shop. But the most important one is the staff—their behaviour, knowledge and the salesmanship.

Salesmen's behaviour towards the customers, the way they attend to the customers, the way they talk to the customers, their knowledge of the goods they are selling, and good and hygienic habits among them are of great importance. Therefore, it is essential that employees be properly selected, inducted and trained, and when they show good performance, they must be given incentives and rewards. If it is not possible to get the right type of employees in cooperatives, the future prospects of the societies are rather bleak, as all retail trade is dependent on the human element to a very great extent.

Sales Promotion Activities

In a retail outlet, probably, 80 per cent of the optimum sales depend on the location, assortment-price-quality, size and layout of the shop, and the salesman's behaviour. By giving proper attention to these factors, the cooperatives can build up their image and sales ability which determine the number of regular customers and the shop's basic sales turnover.

To be able to achieve the other 20 per cent of the optimum sales, it is necessary to start sales campaigns, advertising and other public relations activities. The reasons for the necessity of these activities are:

- (a) There is one group of customers who, owing to lack of adherence to any particular shop, can easily be won over or lost.
- (b) Regular customers of a shop, generally do their purchases only partly in that shop. This may be due to lack of time or insufficient supply of goods in that shop.

As it is of great importance for a cooperative shop to achieve optimum sales and market share, one must, first, pay attention to the characteristics of basic sales conditions, and then through public relations and sales-promotion activities reach optimum sales, as this will result in a higher utilization of the shop/society's total

resources, resulting in turn in better service to its customers and members.

Public relations and sales-promotion activities are meant to establish communication with the customers and potential customers. In other words, public relations and sales-promotion activities carry a message from the sender (the shop) to the receiver (the customer), and in order to be able to communicate this message between the sender and the receiver and be understood, one must, of course, speak, more or less, the same "language." The receiver (the customer) is very often only listening to the message he or she wants to hear, and reacts in different ways to different messages. The customers of today are becoming more and more informed about the various tricks used by the sender, and are, therefore, in a position to resist the appeal made in these messages (in advertisements etc).

The sender of these messages (the retailer) has also come to know of the receiver's (the customer's) changed receptiveness to his messages, and is now trying to alter his strategy towards "*Consumer Information*," as he is also aware of the very big possibilities of selling goods through proper information to the customers concerning the goods.

For a consumer cooperative society, it should, of course, be clear that it should reach optimum sales and use the shop/society's resources in the best possible way, so as to increase sales of goods to customers and potential customers. The cooperative societies/shops should use sales-promotion activities and public relations activities, and give correct information about goods to the customers. They should also protect the customers from false and unfair advertisements, and from adulterated and spurious goods, guiding them by means of proper information by way of advertisements. They should never stoop to cheap tricks, slogans and subjective messages, playing on the weaknesses and feelings of the customers.

Before advertising, one has to ask oneself the following questions:

- (a) What are the sales targets that should be reached?
- (b) What particular category or categories of customers should be the target of the advertisements?
- (c) What should be the message?
- (d) How much money should be spent on the advertisements?

The above questions indicate that planning has to be carefully done, as various ways and means of advertising are integrated with one another, and every single step taken must fit into a long-term plan and desired image of the shop/society.

The creative contribution of advertising consists in finding out which decisions, measures and advantages will have the best effect when presented to the public, so as to achieve maximum goodwill, readiness to buy and actual buying on the part of the customers and potential customers. The advertisement should act as an engineer in a theatre throwing a spotlight on the essential things at the right moment. Advertising is always aimed at optimising sales, and increasing the number of customers and their average purchases.

The amount of money required for advertising is, to a large extent, determined by the competitive situation in the market. In less developed business areas, a rather small amount will be involved in advertising, whereas in areas with free competition and a distinct trend towards large societies and enterprises, the cost of advertising would be higher. It is a well-known fact that articles which are consumed regularly, such as essential articles and daily necessities, need little or no advertisement to boost their sales, and articles which are not consumed frequently—luxury articles like motor cars or jewellery—often need extensive advertising to boost their sales.

It is extremely difficult to assess or evaluate the contribution made by advertisements towards sales. Nevertheless, the trend is towards increased expenditure on advertising, and the signs are that this trend will probably continue. There is a saying among managers that “Half the money spent on advertising is a waste, but we don’t know which half.”

In a consumer cooperative society/shop, one should have:

- (a) external advertising to induce customers to come into the shop, such as newspaper advertisements, leaflets, attractive shop facade, show windows, etc.
- (b) internal advertising which is intended to attract customers already inside the shop and make them buy. This sort of advertising has a more immediate effect on sales and its efficiency and usefulness are easy to check. Media for internal advertising are posters, streamers, price placards,

demonstrations, consumer information pamphlets, internal radio communication, window-dressing, and attractive displays to create the right atmosphere for buying.

While sales campaigns are on, the external as well as internal advertising must be coordinated and integrated so as to achieve maximum results. Such sales campaigns should also be coordinated with other cooperative shops, societies at the local, regional and if possible, national levels, and the planning and production of advertisement material and the launching of sales campaigns should be timed so as to achieve maximum effect for the entire consumer cooperative movement, thus, reducing the cost involved and at the same time, ensuring the desired impact. In fact, this work could partly be taken over by the National Consumer Cooperative Federation, as it is of importance to optimise sales within the whole consumer cooperative movement.

The advertisement material, so prepared, must be used in suitable combinations for different advertising occasions. The various advertising occasions should be decided and laid down in the society shop's total yearly sales programme. Many such occasions present themselves automatically by looking at the calendar, such as various religious and national festivals. Some other advertising campaigns can be connected with seasonal sales of certain articles, such as woollens in winter, which repeat every year with very little variation. Between these clearly fixed advertising occasions, there are slack business periods which must be made to yield some buying activity by introducing new ideas. Arranging fashion shows and competitions, and awarding prizes to customers are some of the ideas that can be tried during the slack or dull periods.

The following are some guidelines for planning and implementing a sales programme in a cooperative shop, and for using the various advertising materials:

1. A Yearly Sales Plan should be drawn up which should indicate what sales are connected with seasons and what sales are fitted into vacant or slack periods. There is no dearth of ideas which can be converted into sales promotion schemes for slack or dull periods. The sales plan should be supported by lists of typical articles which are normally

demand and sold during the various seasonal occasions as indicated before. Such sales plans should, of course, be coordinated with the buying plans of the society, as, otherwise, goods which are in great demand during the various occasions may not be available in the shop.

2. From this yearly sales plan, the shop society should work out more detailed tentative monthly sales plans (charts), and if possible, break them up into weekly plans clearly indicating: (a) what are the seasonal articles; (b) what articles are to be newly introduced to the customers; (c) what articles are going to be offered for reduction sales; and (d) what sort of advertising—external and internal—should be used in supporting the sales during the said period.

The guides for planning such a detailed sales programme should be the previous years' record of sales—of achievements and failures. For example, in the previous year, suppose, some seasonal articles were bought, and while some were very much demanded, others became slow moving and their prices had to be reduced. Precautions should be taken against such situations by analysing the reasons for bad sales and keeping the information for future guidance.

The purposes of the sales plan are:

- (a) to set sales targets which will stimulate the manager and the sales staff to do their best to reach the targets;
- (b) to avoid mistakes in buying and selling, and to assess in advance what types and quantities of goods could be sold during a particular period;
- (c) to assess where, in the shop, these goods should be placed to yield a high turnover;
- (d) to analyse what kind of sales-promotion activities are needed to sell these goods and reach the estimated turnover;
- (e) to assess the requirement of personnel to handle the work involved in meeting the increased sales as per the sales plan;
- (f) to estimate the advertisement cost involved; and
- (g) to introduce new articles in a systematic way.

Such a sales plan must be realistic and based on known facts. The plan should be based on past experience of sales, seasons, public holidays, potential sales and consumption patterns within the business area, availability of goods which, particularly, attract customers to the shop, customers' pay days, competitors' sales policies, and efforts which may attract customers from outside the business area.

As the staff, and, particularly the sales staff in a shop have a lot of ideas about how to improve and push up sales, the management should invite these employees to give their ideas and comments on the tentative sales plan. After these comments and ideas have been collected from the staff, the shop manager should work out a final and detailed plan incorporating all the ideas and suggestions. Thereafter, the management has to:

- (a) decide what articles are finally going to be sold during the period, purchase these, and get them delivered in time and in the right quantity.
- (b) select and produce necessary posters, streamers, price placards and other advertising material to be used as per the sales plan during the period, and also decide where, in the shop, these sales promotion aids should be displayed, whether at the entrance, in windows, or on ceilings or walls.
- (c) decide and prepare for demonstration areas, window displays and other places in the shop where the goods included in the sales plan can be displayed. These articles should be placed in the most frequented section of the shop in order to optimise sales.
- (d) prepare sales arguments, test the salesmen's knowledge of new and additional articles to be sold during the said period, and discuss with the salesmen the various qualities and uses of the goods to be sold during the period.

It is important that the salesmen in the shop behave properly and patiently, listen to the customers, observe what they are interested in and find out their needs. The salesmen should question the customers in an intelligent, tactful and polite way, by no means should force the customers to buy, and also must give true and full information on the articles shown to the customers.

Once a week, the manager should summon the personnel to a short sales meeting. In the meeting, the manager and the employees should discuss:

- the sales plan of the preceding week and the actual results.
- the sales plan for the coming week.
- samples of new articles and/or campaign articles.
- sales arguments and information for these articles.
- current matters concerning the shop/society, relating to personnel, economy, estimated turnover, work-organisation, etc.

At the sales meeting, both the manager and the staff should elicit and give information.

Approximately, 3 days before the sales period starts, the shop must be dressed and prepared as per the sales plan, and the salesmen must be prepared to meet the customers' demands so as to optimise the sales.

Customers' Complaints

Retail traders are generally hesitant to entertain customers' complaints once the goods are purchased, received and paid for by the customers. But it is of extreme importance to listen to the customers' complaints and redress their grievances. One has to take all possible steps to avoid situations which give room for complaints from the customers. The chief causes of complaints are, among others:

- delivery of wrong goods.
- shortages in goods delivered, or excesses.
- deficiencies in quality.
- overcharges in totalling the sales.
- wrong change given.
- claims that goods can be bought cheaper elsewhere.
- service complaints.

In the cooperative society, the shop manager should himself deal with matters relating to customers' complaints, and it would be a good policy if he approaches any difficulty with a desire to adjust it in the customer's favour, except in such cases where it is absolutely evident that the customer is in the wrong.

Evaluation of Sales Performance

The technique of evaluating sales performance is the same as is used for most other phases of business management. The actual result is compared with previous achievements, with the goals set for the period under review, and with accepted standards.

The evaluation of sales performance is an important aspect of sales management. It must be undertaken *continuously* by the manager and *periodically* by the Board.

The two main questions which the Board should ask when it evaluates sales performance are:

1. Have the manager and the staff done their best to reach sales results which are reasonably high in proportion to a fairly assessed potential volume?
2. Has the actual sales volume been handled with a satisfactory degree of economy?

If the techniques of effective salesmanship which are dealt with in this paper are properly implemented in the society, the management as well as the members will probably feel satisfied with the society's performance, and the society will be successful as it is always trying to optimise its sales and render services to its members.

Consumer Interest in Cooperative Production

AT THE commencement of the consumer cooperative movement in any country, the first societies to be formed must necessarily depend for their supplies on the same sources as the private retailer. But very soon, the cooperatives begin to expand vertically towards sources of supply. The retail cooperatives usually federate at the regional or national level to gain control over wholesale supplies. With a view to securing economies of price and quality, they may also undertake production either by themselves or in association with other societies.

From primary production up to the final stage of packaging, canning or bottling, various productive processes are involved. At each stage there is the possibility of adding to a middleman's profit which will finally contribute to an increase in the retail price. At some stages of the productive process, there is also the possibility of adulteration, to the detriment of the consumer and to the financial benefit of the entrepreneur. In the final stage of packing there may be some element of cleverly concealed deception in respect of weights and measures.

It is not merely to reduce the cost and increase the distributable surplus that the consumer cooperatives are interested in productive activities, but also more particularly to protect the consumer in respect of quality, weight and measure, and to ensure that he is not pressurised to buy adulterated or unreliable goods.

We may examine in some detail the several reasons why the consumer cooperatives are interested in production:

(a) The consumer is interested in getting value for his money. In the less-developed communities, adulteration and short weights and measures may be practised in overt and direct forms, such as the addition of sand, husk and other foreign matter to commodities like cereals, or in the use of inferior flour for the baking of bread, the use of unlicensed weights and measures, and a host of

other such malpractices which are all too well known to the customer. Unhygienic packaging may be done openly in the absence of any organised objection on the part of the consumer. Although a customer is probably aware of these malpractices, left to himself he is quite helpless to take any remedial measures.

In the more civilized communities, adulteration and short weights and measures may take subtle forms which are not obvious to the consumer. There are innumerable brands under which different manufacturers put their products in the market. For instance, there may be not less than a hundred different brands of breakfast foods available in the European and American markets. Misleading nutritional claims may be made in advertising through the cinema, television, radio, newspapers, etc. to pressurise the consumer to buy a particular brand. Some manufacturers use attractive wrappings, bottles and tins to pack articles which are of much lower quality than competing products which are wrapped less attractively and priced lower. Various selling gimmicks are used, such as gift schemes to attract adults as well as children, and induce them to buy certain products in preference to others which may in fact be of better quality and perhaps available, at more reasonable prices.

There is a wide variety of brands of the same commodity packed and presented for sale by different manufacturers and distributors in cartons, boxes, tins, bottles, etc. of odd shapes, sizes and weights. Some bottles are made to give the appearance of containing more than they actually do contain. Packages and tins contain odd weights, such as 6 oz or 14 oz when the standard is 8 oz or 16 oz, and the prices are so fixed that the consumer may superficially think that he is paying less per pound, when actually he is paying more than if he bought another brand which is honestly packed. Labels may not carry an honest description of the contents and may be quite misleading.

Some unscrupulous manufacturers and distributors make deceptive claims with regard to the nutritional value or other qualities of their products, and the consumer is induced by advertisements to buy particular brands which may not give the best value for his money. Therefore, it is by undertaking some of the productive activities that the consumer movement will be in a position to safeguard the consumer from all forms of adulteration

and short weights and measures.

If the consumer cooperatives are able to control production, and more particularly the final stages of production, such as blending, grinding and packaging, it becomes possible for the cooperative movement to adopt a system of honest labelling and honest advertising of products so that the consumer will know exactly what he is paying for. It is only under some system of cooperative production that the cooperative movement will be able to practise effectively the Rochdale principles of "selling the purest provisions procurable," and of "giving full weight and measure."

(b) Some consumer movements follow the Rochdale practice of selling at market prices, coupled with the dividend on patronage. Others follow the Swedish practice of "Active Prices," whereby the consumer gets the financial benefit of low prices immediately at the time of making a purchase. When production is done under cooperative control, assuming that the productive units are at least at the same level of economic and technical efficiency as those of the private sector, there will be a greater surplus for distribution as the dividend on patronage when cooperative products are sold at market prices. In England, for instance, the retail societies which buy from the Cooperative Wholesale Society (cws) get a patronage dividend on all wholesale purchases and an additional dividend on the purchase of products manufactured by the cws. These dividends go to increase the surplus at the retail society level, and, therefore, enable the cooperative consumer to get a bigger dividend on patronage. Where the "Active Price" policy is followed, the consumers get an immediate benefit in the form of low prices on products manufactured by the consumer cooperative organisations, in addition to whatever patronage dividends they may get later on at the end of the year.

(c) Cartels, or agreements among manufacturers to maintain high levels of profits for themselves, are a common feature of modern production and distribution. Some manufacturers and sole distributors also insist that the retailers who sell their products should do so at prices not less than those fixed by them. Where such arrangements exist, the cooperatives are debarred from cutting their own margin of profits in order to sell at low prices. One of the most effective means of safeguarding the consumer from the adverse effects of cartels and monopolies is the organisation of

production by the cooperative movement.

In 1964, the cooperative movement in Sweden had manufactured about one-third of the total value of the commodities retailed through its consumer cooperatives. By manufacturing some of these products, the Swedish consumer movement has been able not only to supply the requirements of the cooperative consumers but also to bring down the prices of certain commodities which were subject to monopoly pricing. Thus, cooperative production has been of benefit not only to the cooperative consumer but to all consumers.

An inquiry conducted by the Swedish Government just before the outbreak of the Second World War revealed the fact that no less than 70 per cent of the total trade in manufactured goods in Sweden was subject to some degree of monopolistic price-fixing. Since 1938, the consumer cooperative movement in Sweden has been engaged in production and has gradually extended its productive activities. The Swedish cooperative movement has gained such a reputation for combating monopolies that the mere existence of the cooperative movement in Sweden acts as a check on monopolists, and restrains them from attempting monopolistic price abuses.

In 1948, the Kooperativa Förbundet (KF) bought up the former German-owned Henkel works situated at Midsommarkansen in Stockholm. Henkel's most important product was the washing detergent powder 'Persil.' When this factory first went into production under the control of the KF, the private manufacturers organised a boycott against the cooperative product, and there was a considerable decline in the sale of Henkel products to private distributors. A reorganisation of the factory made it possible to reduce the price of 'Persil' by 17 ore per packet, that is, by approximately 12 per cent of its price. This reduction in price was followed by a marked increase in the sale of Henkel products to private distributors. In taking over the Henkel works, the cooperative movement entered into competition with the world-wide Unilever combine, with its control over some 800 enterprises distributed throughout many countries, and represented in Sweden by the Sunlight organisation. The successful production and marketing of 'Persil' at considerably lower prices than the monopolistic prices of private manufacturers, is one of several such achievements of the Swedish cooperative movement.

(d) Cooperative production provides an opportunity for the investment of surplus capital and the savings of individual cooperative members channelled through cooperative organisations. Thus, cooperative production provides a link between cooperative members' savings and the protection of their interests as consumers. The benefits of such investment are reaped by the cooperators in the form of increased dividends where the market-price policy is followed, or in the form of low prices for consumer goods where the "Active Price" policy is followed.

(e) Providing employment to members of cooperative societies was one of the ideals cherished by the pioneers of the cooperative movement in Great Britain. Cooperative production facilitates the pursuit of this ideal.

In countries where the cooperatives are multipurpose in character, production is undertaken not only in the interests of the consumer but also in the interests of the primary producer, whose produce requires processing and grading in order to enable him to get a reasonable price, and in the interests of the worker whose energy and skill are utilized in the manufacturing process.

Scope of Production

Production covers a wide field of activities, from primary production to final packaging, before the ultimate sale to the consumer. In order to gain an effective degree of control over quality, and some measure of control over price, it is not necessary for the consumer cooperatives to handle a product all along the line from the stage of primary production. The consumer cooperatives may enter production at any stage. The stage at which the cooperative organisation enters production will be determined by a number of factors including, for instance, the capital available, the volume of sales possible through cooperative channels, the managerial experience, and other technical and economic considerations. A newly developing cooperative movement will, no doubt, undertake simple productive activities to begin with, and will gradually expand into more complicated ones requiring large-scale investment, sophisticated technical know-how and large-scale operations. Large primaries or a group of primaries may then undertake the simpler types of production not requiring extensive operations, or those

where the productive activity is such that it involves considerations of a personal nature, such as dress-making or shoe-repairing, or those where, due to the perishable nature of the product (for example, bread, fish, meat and milk), it is desirable to operate on a small scale and make deliveries within a limited area. Some of the productive activities which may be undertaken by primary societies, groups of primary societies, or local federations of primary societies, are:

bread and other bakery products; sterilization and bottling of milk; the roasting, grinding and packaging of coffee and spices; blending and packing of tea; milling of rice; the freezing and packaging of fish, meat and vegetables; dress-making; the repairing of foot-wear, household electrical appliances and so on.

Where large-scale operations are necessary for economic and technical reasons, and also where a large amount of capital is required, production should be organised at the national level. In Sweden, several subsidiary organisations under the control of the KF have been set up to undertake production in specialized fields. In England the cws controls a large number of productive undertakings. The English and Scottish cws establishments, through their subsidiary, the English and Scottish Joint cws Ltd., own tea estates in Ceylon, India and Tanzania in order to supply tea to the cooperative consumer in the United Kingdom. This is an example of a consumer organisation undertaking all the stages of production, from the primary planting and the picking of the green tea leaf to manufacturing, shipping, blending and finally packaging the tea, before it goes through the retail cooperatives to the consumer.

Another interesting example of vertical expansion on an ambitious scale is provided by the International Cooperative Petroleum Association. Many farmers in the United States of America purchase their petroleum through cooperative retail organisations. Finding that big profits were being made by their suppliers, the retail organisations decided to establish a refinery of their own and formed the Petroleum Consumers' Cooperative Association in 1939. They soon found themselves in difficulties as the oil companies were interfering with their supplies of crude oil. This

prompted them to undertake the drilling of wells for themselves. By 1946 they owned 430 wells supplying 30 per cent of the crude oil requirements of their refineries. They also established a lubricating oil refinery. Soon their production was in excess of the requirements of their members in the USA, and the surplus was sold to cooperative organisations in Sweden, South Africa, Australia and Egypt.

These developments suggested to the cooperators in the USA an ambitious plan for an international cooperative society. At the ICA Conference at Zurich in 1946, they succeeded in establishing the *International Cooperative Petroleum Association* which now has members in a number of countries.

Problems of Vertical Expansion

While vertical expansion into productive activities may appear an attractive proposition to consumer organisations, one should not underestimate the problems of such expansion. This involves entry into a new sphere, with new technical and business problems. The committees and managerial staff of consumer organisations may be quite new to the problems of such new undertakings. Even in the private sector, vertical expansion is not undertaken unless there are very cogent reasons, such as threats to supplies or monopolistic price-fixing by manufacturers. Vertical expansion requires additional capital, premises, plant and machinery. The technicalities of production and the economics of the new undertaking have to be studied. It is, of course, possible to engage technically qualified staff, but first studies have to be made with regard to the economic feasibility of the project. Furthermore, even if a consumer organisation is prepared to engage competent staff, far in advance of actual production, the committees of consumer organisations may not have the necessary background knowledge and know-how to decide upon the type of staff required, their qualifications, and how they should set about the task of making the selections.

The correct type of machinery has to be chosen, and the site has to conform to technical requirements, such as the availability of power and water and access to raw materials and markets. It is necessary that the final product should in no way be inferior to the products of competitors from the private sector, and the entire

organisation must work with the efficiency that is necessary to bring out a quality product at the lowest possible price. One must remember that the cooperative consumer is not prepared to buy an article merely because it is a cooperative product. He is concerned with its quality and price. It is, therefore, necessary that consumer organisations contemplating production be quite conscious of the dangers and pitfalls to be avoided in entering a field to which they are not accustomed. The problems of vertical expansion should not be treated lightly because any mistake is likely to be a costly one. Consumer organisations should, therefore, be cautioned to be conscious of their limitations. Before launching any new undertaking, they should examine it from all angles. It is best that reputed technical consultants be engaged to make a comprehensive project survey and (feasibility study), even if this means considerable expense and delay.

In view of the large-scale investment required for some manufacturing units, it is well worth while in the long run for consumer organisations to spend considerable sums on proper preliminary investigations, even if such investigations finally lead to abandoning the project for economic or other reasons. It is dangerous to depend merely on the casual or superficial knowledge of enthusiastic committee members or managerial personnel, whose experience is generally limited to retailing and wholesaling.

Production Policy of Consumers' Cooperatives

One of the advantages that a well-organised consumer cooperative movement has over private manufacturers is an assured market for certain commodities. In addition, a cooperative wholesale establishment has, as a result of its close association with the retail societies, a knowledge of designs, qualities, quantities and prices likely to be demanded. An assured market and the market knowledge, are definitely useful assets. The safest and best starting-point for cooperative movements which are young and financially weak is to produce only those commodities or daily necessities which are required in large quantities and which will have a swift turnover through cooperative outlets. But beyond this stage, the pursuance of this production policy may not give the consumer the same advantages as would be available to him, had the movement's capital

and energies been directed to the production of commodities which are subject to monopolies, or in respect of which unconscionable profits are being made by private manufacturers. As it is not practical for the consumer movement to manufacture every commodity required by consumers, the items for production must be selected in the best interests of the consumer. It may happen that in a particular commodity, where the cooperative movement has a large turnover of products manufactured by private entrepreneurs, there may be sufficient competition already among the existing manufacturers, with the result that bulk purchases by the cooperative movement might, alone be sufficient to safeguard the consumer and it may not be of much further advantage to use the cooperative capital and resources available to produce that particular commodity. On the other hand, in another commodity where the cooperative sales are not so high, there may be monopolistic price fixation, and it may be in the interests of the cooperative consumer as well as of the general consumer to enter into production of that commodity with a view to bringing down its price.

The Independent Commission appointed by the Cooperative Congress of Great Britain to report on various aspects of the cooperative movement in England, including production by the wholesale societies, recommended in 1958 that the British Wholesale Cooperative Societies "should, as opportunity offers, narrow the range of output and the number of separate lines which they produce, and use the available resources primarily for improving the efficiency and expanding the output of the remaining lines." This recommendation was based on the view that the movement could make better use of its limited resources elsewhere than in dry goods.* Dry goods such as "textiles" are required in such a variety of patterns and designs that the cooperative movement might find it difficult to cater to the multifarious needs and tastes of the consumer.

In the newly developing countries, where there is restriction of imports and inducements are offered to encourage the manufacture of substitutes for imports, or where a system of licensing industries exists, with a view to economising on foreign exchange, conditions

* The term "dry goods" is used in the British Consumers' Movement to denote such goods as drapery, mercery, men's ware, furnishing, foot wear, and haberdashery.

may be favourable for the cooperative movement to undertake certain lines of industrial production, provided proper precautions are taken to guard against the usual pitfalls of vertical expansion. In these situations, conditions favourable for industrial production have been created artificially, and unless the cooperative movements of such countries take advantage of such conditions at the appropriate time, they might find it too late to organise such activities, once the private sector has entrenched itself. The system of restricting and licensing industrial production can easily lead to monopolistic price-fixing, unless the State also steps in to control the prices of industrial products.

But if such undertakings are established by the cooperative sector, which has a vested interest in consumer protection, such State intervention in price-fixing and enforcement may be unnecessary. Therefore, when artificial conditions favourable for the growth of industries are created, the Consumer Cooperative Movements of the countries concerned should be alert to take advantage of such opportunities at the appropriate time.

Producer Organisations

Producers fall into two categories, namely:

1. primary producers, such as agriculturists, fishermen and miners, and
2. other producers (skilled or unskilled) who by their labour and skill increase the utility of primary goods.

Cooperative societies with these two categories as members may also organise productive activities. Having formed a society to finance primary production and market the produce of its members, a primary producers' cooperative society may expand vertically into various forms of processing of the primary produce. Similarly, other workers (for example, shoe-makers or carpenters) may organise themselves into cooperative societies to eliminate the entrepreneur and become their own employers. By organising themselves, the primary producers and other workers become eligible to share in the surplus created as a result of eliminating middlemen. Just as the consumer receives a dividend on purchases, the primary

producer would receive dividend on the basis of primary produce supplied for processing and sale through the cooperative organisation, and the worker would receive a similar dividend on the basis of wages earned—the wages being treated as proportional to his labour.

Producer-Consumer Collaboration

In Britain the idea of cooperative production was associated with self-governing workshops or workers' cooperatives. The taking over in 1873, of the Crumpsall Biscuit Factory and the Leicester Boot & Shoe Works by the Cooperative Wholesale Society was the beginning of a controversy in Britain as to whether production should be controlled by producer cooperatives or consumer cooperatives. Both points of view had their advocates and the arguments for and against production by consumers' cooperatives were continued for nearly half a century. It is not intended here to go into the details of this controversy.

Today, the Cooperative Movement accepts the position that consumers, primary producers and workers can all, from their respective points of view, organise production and distribute among themselves the surpluses that accrue as a result of eliminating the private entrepreneurs. Although, in some quarters, the ultimate possibility of producer cooperatives being able to fix monopoly prices and of consumers being able to exploit the labour of the workers are still being argued out on a theoretical plane, there is now much evidence available to indicate that it is desirable and practicable to reconcile consumer and producer interests by coordinating cooperative production activities.

In some countries, there are multipurpose cooperative societies where the same organisation caters to consumers' as well as to producers' interests, providing both with the necessary services. Although the term "multipurpose" has gained currency, the word "multi-service" probably describes this type of society more aptly. A multipurpose cooperative society which, for instance, finances paddy cultivators and takes over their paddy crop for sale, may expand vertically to mill the paddy. In this activity, the society acts not only in the interests of the producers but also in those of the ultimate consumers. The multipurpose societies, with their

secondaries and national organisations, provide a framework for reconciling producers' and consumers' interests and for holding the scales evenly between them. It stands to reason that the elimination of the middlemen should benefit both the producer and the consumer. Even where the consumers and producers are not in the same organisation, there is ample proof of the possibilities of collaboration between the consumer and producer cooperatives.

In Britain the workers in various trades have established co-operative copartnership societies, where the workers have the right to hold shares, elect directors of their own and share a part of the profits in proportion to their wages, and where the consumer cooperatives which also invest in shares of the same organisation participate likewise in the management and receive a part of the surplus in proportion to their purchases of products of the joint enterprise. The activities of the copartnership societies are controlled by the Board of Directors on which the workers and the consumers are both represented.

In Ceylon, Tea Smallholders' Cooperative Society, which has established its own factory to manufacture tea, attempts to effect sales through the consumer shops of multipurpose cooperatives. A Coconut Producers' Society which extracts coconut oil effects sales exclusively through the consumer shops of multipurpose cooperatives. The multipurpose cooperative societies have also formed a national organisation for marketing vegetables. This organisation either puts producer cooperatives in direct touch with consumer organisations, or markets the vegetables through consumer organisations for the benefit of both the producer and the consumer. These examples illustrate how the producers and consumers can share the benefits of eliminating middlemen.

Another Coconut Producers' Cooperative Society, which at one time employed a number of workers as wage-earners, has assisted the same workers to organise themselves into a cooperative labour society which now undertakes the productive processes on the basis of a labour contract. These workers are, therefore, no longer employees of the producers' society but have become their own employers, and are entitled through their elected committee to bargain with the producers' society, allocate work among themselves, fix their own rates of pay and distribute among themselves the surplus from the labour contract in proportion to the work

done. Such treatment of workers is equitable and conducive to harmony between the producer and consumer interests, provided some system of profit-sharing is evolved by the consumer-controlled industrial undertakings, even if the workers' interests are not to be given a position in the directorate.

The above examples from the cooperative movement in Ceylon are quoted because the writer is most familiar with the inter-cooperative relationships in the cooperative movement in Ceylon. It is not claimed, however, that these practices are widely prevalent in Ceylon, or that these efforts have been an unqualified success. But what *is* claimed is that they are indicative of the possibilities of collaboration between consumer and producer organisations and between consumers and producers in the same organisation. Similar developments are probably taking place in the cooperative movements of other countries as well.

Paul Derrick

Cooperative Integration in Europe*

AT THE beginning of this century there were some 1,400 retail consumers' cooperative societies in Britain with an average membership of about 1,250. In most cases they operated on a larger scale than other retailers and had little difficulty in competing with small shopkeepers. During the last seventy years, however, many small shopkeepers have closed down, and department stores, chain stores and more recently Super Markets and "voluntary groups" have grown rapidly. In 1968, the Cooperative Union published a plan advising retail cooperative societies in Britain to amalgamate with each other so as to form fifty large regional societies with an average membership of about 250,000. It is considered that consumers' cooperative societies in Britain now need to be about two hundred times as large as they were seventy years ago in order to compete effectively with private traders.

The private chains are able to buy on a huge scale and to sell a large volume of goods at very competitive prices; and retail cooperative societies are urged not only to amalgamate into large regional societies but also to buy a large proportion of their requirements through the Cooperative Wholesale Society so as to take full advantage of the economies of scale. In Britain as in other countries, the consumers' cooperative movement is a federation of retail societies associated in a union and also in a wholesale society in order to buy supplies on better terms; but to compete effectively, it is becoming more and more necessary for the movement to act as a single organisation. The cooperative share of the market has been declining during the last ten years or so, and cooperators recognise that, in order to maintain that share and compete effectively, integration is essential.

What has been happening in Britain has also been happening in other European countries. There has been an amalgamation of

* The trend towards centralisation in consumers' cooperatives in Western Europe.

retail societies into larger regional societies, a closing of small shops a conversion of others to self-service, and the building of Super Markets. Likewise there has been a centralisation of purchasing through the wholesale society and also a centralisation of assortment policy, warehousing and finance; and, at the same time, structural changes have put greater power into the hands of full time professional managers, both at wholesale and at retail levels. It may be useful to look briefly at these changes in European co-operatives which have helped them to compete more effectively with private traders.

Amalgamation

The progress of amalgamations between retail cooperative societies can best be illustrated by the fall in the number of societies between 1956 and 1966, the latest years for which statistics are available. Membership figures are also given; and it will be seen that in most European countries, there has been a significant fall in the number of retail societies in spite of an increase in the total number of members.

RETAIL CONSUMER SOCIETIES IN EUROPE, 1956-1966

	<i>Societies</i>		<i>Memberships (thousands)</i>	
	1956	1966	1956	1966
Austria	86	59	366,947	467,830
Belgium	38	49	567,592	681,138
Denmark	1,968	1,834	478,000	1,183,000
Finland	490	411	1,036,230	1,095,165
France	670	428	2,931,883	3,552,468
Germany (Fed. Rep)	310	192	2,320,254	2,423,299
Great Britain	927	657	12,070,633	13,065,402
Italy	5,255	5,433	2,055,535	1,805,955
Netherlands	267	37	361,920	423,337
Norway	1,120	837	300,812	358,740
Sweden	716	297	1,103,038	1,355,531
Switzerland	930	462	684,157	843,900

The ICA statistics actually show an increase in the number of societies in Belgium and Italy, but this is partly because previously existing cooperative organisations have affiliated to the ICA. It will also be noticed that the fall in the number of societies has been much more rapid in some West European countries than in others, but these figures do not tell the whole story. In France, for example, there have been forty large regional societies since the 1920s and they have 90 per cent of the members and do 90 per cent of the trade, while the biggest 20 societies do over three quarters of the trade.

In Austria there have been 25 large regional societies since the end of the Second World War, and they do over 95 per cent of the trade. In the Netherlands, 95 per cent of the retail cooperative trade is done by 18 large regional societies, and the leaders of the Cooperative Movement proposed in 1969 that a single national retail society should be formed. This proposal was not accepted by the Movement at its 1969 Congress, but the number of retail societies may well be further reduced.

In Denmark, there were still, at the end of 1967, some 1,814 retail societies, many of them small village societies with only one shop, but these small societies work more and more closely with the Wholesale Society (FDB) and it is the declared policy of the Movement that they should one day unite to form a single national retail society. The big Copenhagen Retail Society (HB), which has branches in other towns would also join the single national society. In Sweden, there were 252 retail societies at the end of 1968, and the objective of the movement is to amalgamate them into 15 to 25 large regional societies by the mid-1970s. In Britain, the objective was to have 200 to 300 large regional societies when the Independent Commission reported in 1958, but by 1968, the target had become 50 large regional societies. In Switzerland, the objective is to have 35 to 40 large regional societies by the mid-1970s. The formation of a single national retail society is the aim in Denmark, and the desirability of having a single national society has been discussed in Britain, Holland and Sweden; but though this aim has yet to be achieved, it is clear that European cooperators consider it essential for cooperatives to be large in order to compete effectively.

Cooperative Shops

While cooperative societies in Europe grow larger through

amalgamations, they are also closing down small shops, building new Super Markets in the urban areas where people do most of their shopping, and converting the existing shops to self-service. Co-operators in Europe have been pioneers in self-service but have not been able to extend self-service as rapidly as some private traders. The following table shows how self-service has increased in some European countries.

SELF-SERVICE COOPERATIVES, 1956-65

	<i>1956 Coop. self-service</i>	<i>1956 Total self-ser.</i>	<i>1966 Coop. self-ser.</i>	<i>1966 Total self-ser.</i>	<i>1965 Self-service as a percent- age all Coop shops</i>
Sweden	1,785	3,005	2,722	8,359	70.14
Germany	163	1,379	5,035	72,241	62.93
Norway	290	1,104	1,103	3,300	55.11
Denmark	165	426	4,373	4,328	48.62
Switzerland	267	900	1,177	4,294	37.21
Netherlands	15	464	335	6,719	31.73
Finland	40	57	654	2,179	23.74 (OTK) 3.87 (SOK)
Great Britain	1,800	3,000	5,375	20,500	18.83
Italy	--	2	452	1,739	9.84
France	5	603	1,017	12,593	8.75

In Sweden, the number of cooperative shops has been reduced from 7,633 in 1956 to 3,450 in 1966, but some 140 "Domus" Department Stores have been built between 1956 and 1969, and a further 60 are to be built by 1975. In Germany, the number of cooperative shops has been reduced from 8,918 in 1956 to 7,130 in 1966; in Switzerland from 3,222 in 1956 to 2,960 in 1966; and in the Netherlands from 1,216 in 1956 to 887 in 1966. It is not easy to produce comparative figures about Super Markets, as they are defined in different ways in different countries; but there is no doubt that they do achieve important economies in European conditions and that cooperative societies will continue to replace small shops with self-service shops and Super Markets, as quickly as they are able to do so. Old counter desk shops, usually three together, have now formed one unit within that the real number of outlets have not been reduced to the extent indicated here.

Some European cooperative societies have been able to reduce their prices by building large "Discount Houses" outside big towns,

with plenty of parking space for cars. These Discount Houses are able to sell food and non-food items at even lower margins than Super Markets and Department Stores are able to attain. The Swiss are building 14 food Discount Stores and 145 Super Markets. The Swedish consumers' cooperative movement has built two large Discount Houses north and south of Stockholm.

Assortment, Purchasing and Warehousing

The trend towards centralised purchasing has been evident in all West European countries and is important in enabling cooperatives to get the best possible terms from manufacturers. The following table shows the proportion of total supplies that retail cooperative societies in certain European countries obtained from their wholesale societies in 1965.

PROPORTION OF TOTAL SUPPLIES OBTAINED BY RETAIL COOPERATIVES FROM THEIR WHOLESALE SOCIETIES, 1965

Finland (sok)	...	90.5 per cent
Finland (ork)	...	83.7 " "
Switzerland	...	90.0 " "
Sweden	...	80.0 " "
Denmark	...	67.0 " "
France	...	67.0 " "
Great Britain	...	60.0 " "
Germany	...	56.6 " "
Austria	...	48.9 " "
Norway	...	37.7 " "
Italy (vncc)	...	26.0 " "

In Switzerland there is a strict contractual relationship between the retail societies and the wholesale ones. The former are bound to buy from the wholesale, as a condition of membership, anything the latter can supply at a competitive price.

In Sweden, virtually, all supplies in both the "Domus" Department Stores and other shops are bought through KE. In the sok societies in Finland, about 90 per cent of supplies are bought through the wholesale, though there is no contractual obligation. In Britain, efforts are being made to increase the proportion bought through the wholesale so that the movement can place really large orders with

manufacturers. In Germany, on the other hand, buying is still the responsibility of retail societies. However, at the Inter Co-op. Conference in Stockholm in May 1969, the advantages of centralised buying were generally recognised.

In Sweden a national assortment was introduced in 1963, reducing the range of products from 5,900 to 2,400. Efforts are also being made to restrict the range of products carried by cooperative societies in many other countries, as in Norway, Finland, Denmark, Germany, Austria and Switzerland. In Sweden the wholesale and retail societies have formed joint assortment councils to determine the requirements of each local society and there are similar joint assortment committees in Germany and elsewhere. A limited range of products is important if distribution costs are to be kept to a minimum.

In Sweden there were 29 regional warehouses at the end of 1964. These have been reduced to six central and 17 regional warehouses, and it is hoped that they would be reduced to 15 regional warehouses by the early seventies. In Denmark, fifteen regional warehouses have been reduced to seven, and the use of computers, standard pallets on wheels and night delivery has done much to reduce distribution costs. In Germany, 110 warehouses have been reduced to 29. In Switzerland, 23 of the 24 planned regional warehouses had been built by 1967. In Britain a large regional warehouse is being built in the Newcastle area and there are plans for about ten more; while 250 grocery warehouses are to be replaced by a chain of about 30 food warehouses. In Italy, CO-OP ITALIA, the most important consumers' wholesale society, plans to replace 22 provincial warehouses with 11 regional warehouses.

Production and Advertising

Some West European movements are reducing the range of their production in order to be able to produce a more limited range of goods on a larger scale and take full advantage of the economies of scale. This may, as in Sweden, involve producing for the open market as well as for retail societies. At the same time wholesale societies have to choose between investing their limited resources in productive enterprises or in more efficient distribution, as by building Super Markets or Department Stores. In some cases, it is more

economic to get private manufacturers to produce goods under the Co-op. label than for cooperatives to produce them themselves, and "own brand" goods can usually be sold at a lower price than the nationally advertised brands. Wholesale consumers' societies in the Common Market have formed Euro-Co-op. to produce for retail societies in all Common Market countries. A Euro-Co-op. biscuit factory operates in Holland and it is to be followed by a chocolate factory.

In most West European countries, consumers' cooperative societies have adopted a cooperative symbol for use in marketing their products and in publicity. In Britain, France, Germany and Belgium, the same "Co-op." symbol is used, and in Switzerland and Holland, the same word in a slightly different form. In Sweden, the infinity sign (∞) is used as a symbol of cooperative quality and in Norway, the letter "S." In many West European countries, national cooperative brands and uniform shop fronts are being developed to support cooperative advertising and improve the cooperative image, but in Britain the slogan: "It's all at the Co-op now," emphasises that nationally known private brands as well as cooperative brands can be bought at the Co-op. In many West European countries, such as Sweden, Britain, Switzerland and France, the testing of cooperative and other products is becoming increasingly important as a means of improving the cooperative image and giving the movement a reputation for quality.

Finance

There is the same trend towards centralization in other aspects of cooperative development, such as finance. Even when retail societies are financially strong, as in Sweden, the integration of the movement helps to raise capital both from members and from outside. In some movements, as in France, the retention of surpluses is important. In Sweden there are special family saving accounts. In Finland, France and Switzerland, cooperative insurance societies are important, as a source of finance, and, in most West European countries, cooperative banks are also important. In Switzerland, the Cooperative Union and Wholesale Society (vsk) raised 25 million Swiss Francs in 1964, and again in 1966, by the issue of bonds.

There is increasingly close collaboration between retail and

wholesale societies in investment too. The building of new Super Markets, for example, often needs financial support from central organisations. In Austria and Switzerland, all major investment has to be centrally approved, while in France and the Netherlands, there are special bodies to coordinate investment policies. In Denmark, as in other countries, there is similar close collaboration in investment.

There is also increased centralisation of accounting through the use of computers, as in Britain, Denmark, Norway and Switzerland.

Organisation and Management

Most of the consumers' cooperative societies of Western Europe are associated in non-trading cooperative unions, and have also joined together to form wholesale societies in order to be able to buy supplies on a larger scale. In some countries, as in Norway, Sweden, Switzerland and the Netherlands, the functions of a cooperative union and a wholesale society are performed by a single organisation, and it is thought that some important economies can be achieved by this.

In Germany the Cooperative Wholesale Society, the (GEG) and the Cooperative Union, the ZDK, were united in 1968 by the formation of the Bund Deutscher Konsumgenossenschaften, the German Federation of Consumers' Cooperative Societies. The Bund is owned jointly by the wholesale society, the retail societies and the union, and has taken over many of the functions of the union which is now primarily concerned with auditing. In Britain there have been discussions about a merger between the Cooperative Union, the Cooperative Wholesale Society and the Scottish Cooperative Wholesale Society; but the Scottish organisation has so far been unwilling to agree to such a merger. Moves towards greater integration have also been made in other European countries.

In most West European countries, there have been changes in the structure of both wholesale and retail consumers' cooperative societies, which have been designed to draw a clearer distinction between the responsibility of elected Boards of Directors for policy-making and the responsibility of full-time professional executives for day-to-day management. In Germany, the Netherlands, Norway, Sweden and Finland, members of cooperative societies elect a Supervisory

Council which appoints the Board of Management or Vorstand; and in other countries, too, cooperatives are tending to draw a sharper distinction between policy-making and management. In Austria and in some Swedish societies, there are some full-time as well as part-time members on the Supervisory Council.

In Britain, the 28 full-time members of the Board of Directors of the Co-operative Wholesale Society have been replaced by a Board of 28 part-time Directors, which is responsible only for policy-making, the budget of the society and the appointment of senior executives. The day-to-day management of the Society is now the responsibility of a Chief Executive, three deputies and 11 divisional executives. Similarly, in the Scottish Co-operative Wholesale Society, a full-time Board of 12 has been succeeded by a part-time Board of nine, and the management is the responsibility of a Chief Executive and five Divisional Managers.

In Sweden, the 30-member Administrative Council of Kooperativa Förbundet, the wholesale society, is being merged with the seven-member Board of Directors; and the management is being entrusted to a full-time Board of Management. The Administrative Councils of retail societies are to be merged with the Board of Directors in a similar way, and a full-time Board of Management is to be appointed. The retail societies associated in eleven regions are to elect a National Assembly of 200 members which will replace the Annual Congress; and there is also to be a National Council representing the managements of retail societies, and a Consumers' Conference at intervals of not more than four years.

In Germany, the Bund (BDK) came into existence at the beginning of 1968, with an Executive of nine members, of which, at least, five are full-time and responsible for day-to-day management. There is also an Advisory Council of 19 members, which works through a series of committees on which the Bund Executive, the Advisory Council, the GEG and the independent experts are represented. Two years earlier, the management structure of the wholesale society had been reorganised. The GEG had been managed by a Board of eight, with each of its six members other than the President and Financial Director, being responsible for several concerns among the 33 manufacturing plants, 14 commercial departments, a chain of furniture stores and a mail order business. Under the new system, all manufacturing and commercial operations

are arranged in 13 product groups, and the managers of these are responsible to the Board as a whole. The Board of six is functionally divided.

In France, the National Federation of Consumer Cooperatives, the (FNCC), used to be governed by a Board of 18 elected by its Annual Congress. Under the new arrangement, the National Congress is convened every two years and it elects a Central Council of 18 to 30 members—one-third of these being elected for a six-year term at each Congress. The Wholesale Society, (SGCC), is represented on the Central Council, as are the Central Cooperative Bank and the National Insurance Organisation.

The Central Council meets monthly, and day-to-day management is in the hands of an Executive Committee comprising the President, Vice-President and Secretary General of the FNCC, the President and Vice-President of the Wholesale Society, the President of the bank, and the President of the Insurance Society. The Executive Committee meets fortnightly or more frequently, and there is also a National Committee of 100 which meets twice in the years in which the Congress is convened, and three times in other years. Like the structural changes in Germany, the reorganisation in France is designed to unify the movement and put greater power into the hands of the full-time professional management.

In Italy, consumers' societies affiliated to the Lega and to the Associazione Nazionale delle Cooperative di Consumo account for about three-quarters of the sales of all consumers' cooperatives. They have recently formed a national wholesale society, CO-OP. ITALIA, which will act as the economic department of the ANCC and whose President and Vice-President will be members of the ANCC Executive Committee. Similar changes have been taking place in other European countries too.

Cooperative Democracy

The process of centralisation in European consumers' cooperative societies has proved essential in enabling them to compete more effectively with private traders; but it has made it more difficult for members to participate effectively in the control of their societies. The whole problem of combining efficiency with democracy was discussed very thoroughly at the 24th ICA Congress at Hamburg in

September 1969, and the various ways of making members' participation in policy-making more effective were explored. It was nevertheless recognised that the structural changes, that have been made, were essential, given the trading conditions in Europe in the sixties, that they have helped to increase the competitive efficiency of consumers' cooperatives and to sell things to their members at a lower price, and that they do serve the best interests of members.

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