

**INTERNATIONAL COOPERATIVE ALLIANCE**



Report of the Regional Seminar on

**CONSUMER  
COOPERATION IN A  
COMPETITIVE  
SETTING**

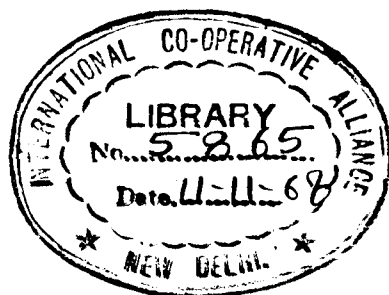
**INTERNATIONAL COOPERATIVE ALLIANCE**  
Regional Office & Education Centre for South-East Asia  
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REPORT OF THE  
REGIONAL SEMINAR ON CONSUMER COOPERATION IN A COMPETITIVE SETTING.

Prepared  
by  
J. M. Rana

A Regional Seminar on "Consumer Cooperation on a Competitive Setting" was organised jointly by the ICA Regional Office and Education Centre for South-East Asia and the Cooperative Federation of Ceylon, from the 4th to 15th July 1966 at Nuwara Eliya, Ceylon. The Seminar was inaugurated by Hon`ble Mr. M.D. Banda, Minister for Food and Agriculture, Government of Ceylon. Twenty eight participants and observers from Ceylon, India, Japan, Republic of Korea, Malaysia, Pakistan, Philippines, Singapore and Thailand, and the ILO attended the seminar. Faculty members for the Seminar were drawn from the movements in the Region, Cooperative Institute of Management, Pakistan, ILO Asian office, the Central Institute for Management of Consumer Business, India, the ICA Education Centre, Indian Institute of Management, Calcutta and a couple of private companies from Ceylon and India.

2. Private Distributive Trade

Distribution is the task of moving products from where they are produced to where they are required by the consumers. The importance and complexity of distribution increases with the growth of urbanisation and the development of market economy based on mass production, a trend which is emerging in several countries of the Region.

2.1 Distributive Trade Structure: Two Models

Two models of the structure of distributive trade in India and

the Philippines were presented. The market in India may be divided into two parts: (i) the rural market and (ii) the urban market, comprising the metropolitan cities and smaller towns. In the rural areas although the purchasing power of an individual family is small, the total purchasing power is quite large as nearly two thirds of the population live in villages. One to three kirana merchants (wholesalers) dominate the main village-where they are located and the satellite villages. The Kirana Merchant is the king pin the distributive system in the rural areas. He finances the farmer, purchases his produce and in turn supplies the farmer with consumer requirements. The consumers in the rural areas are thus in a 'captive position' and they do not have much choice with regard to the sources of supplies. The penetration by organised commercial houses and manufacturing concerns for distribution purposes is relatively small. With regard to the urban areas it may be mentioned that industries are found to congregate in metropolitan cities. As the concentration of population is to be found in these cities, distributive trade and the supporting facilities such as banking, insurance, etc. are also concentrated in the metro cities and the urban areas. In urban areas the range of goods required is larger and the demand of the people more sophisticated.

On account of restrictions on import of consumer goods in the context of economic development programmes of the country, the Indian market has been insulated from foreign supplies. In respect of many commodities the manufacturers and the trades are in a seller's market.

A number of commodities are in scarce supply. With regard to these commodities, the producers are not interested in developing the market or the distribution system and are content to use the existing agencies. Further, on account of the scarcities, the distribution of essential commodities, such as foodgrains, kerosene, sugar is controlled by the government through price fixation coupled with rationing in respect of some goods.

With regard to manufactured articles whose distribution is not controlled by the government, the usual distribution system comprises a manufacturer selling his products to stockists who in turn sell to the wholesalers. The retailer is the final link in the chain. There are a large number of retailers in urban areas among whom competition is keen and who operate on rather low margins. Not much specialisation is developed in handling goods and the retailers usually sell both grocery and tinned and other packed articles. The number of agencies involved in the distribution chain and the methods of marketing would vary depending upon the types of commodities, and other factors such as need for after-sales service, shopping habits of the people etc. Some examples of such variations are given below.

Bata Shoes and some textile manufacturing companies have set up standardised retail shops in urban areas while selling side by side through the normal trade channels in view of the enormous costs involved in retailing. The company shops serve as model shops and help in sales

promotion. In the sale of another commodity, viz. Brooke Bond Tea, the link is right from the producers to the retailer. The company has a sales force of 2,000 people to service half a million retail outlets. Such a system has inherent disadvantages of larger expenses, and the problem of industrial relations vis-a-vis the large sales force.

The general experience of manufacturing concerns wishing to extend themselves in the retail trade is that traditional channels are difficult to change.

Philippines comprises over 7,000 islands and has a variety of climates that divide the country into different climatic regions which affect the flow of commerce. During the harvest season there is over-production of certain crops in some regions. These goods have to be transported from the production areas to the urban centres of consumption which makes for one-way transportation. Although the infra-structure facilities such as roads, railways, ports etc. are being developed they still remain inadequate.

The distributive trade in the Philippines, both wholesale and retail is in the control of foreigners. The retail distributors operate on small margins which still permit reasonable profits due to low overheads, as well as low cost of family labour. In view of the overwhelming control of foreigners over the distributive system, the government has taken steps to break their dominance.

A law was enacted ten years ago to enable the Philippine to gradually take over the retail trade after a period of ten years after which foreigners would not be allowed to operate. The wholesale and retail distribution of rice, corn and their by-products is now nativised. The Rice and Corn Administration has established which buys and stores the products and sells them through Philippine traders.

Because of the ever growing complexity of problems of marketing, the manufacturers prefer to sell their products through the marketing corporations that contract for the sale of all the finished products and farm them out through various dealers in the country. These marketing corporations, few in number, sell their products to the wholesalers, and through them to the retailers. A large number of retailers operate at the final point of the distribution channel, with intense competition among themselves.

The two important problems which increase the distribution costs in the Philippines are transportation and warehousing, especially with regard to supplies in rural areas. Attempts have been made to save on transportation costs through bulk handling.

On account of the liberalisation of the import of consumer goods and the preference of the people for reputed brands, some of the production enterprises, such as textiles mills, operate



below capacity.

## 2.2 System in the Region

The distribution structure varies from one country to another on account of several factors such as the stage of transportation development, import restrictions, availability of warehousing and other infra-structure facilities. However, it could be stated as a broad generalisation that in the rural areas inspite of the induction of a large number of cooperatives, the village trade continues to have a dominant position. In urban areas competition is quite severe at the retail level and the retailers operate on low margins and in small units. The wholesalers and the stockists of manufactured commodities are usually allowed certain fixed margins by the manufacturers. Usually the stockists are not allowed to stock goods of other competing manufacturing concerns, while the wholesalers are free to do so. In respect of most commodities, the usual system of promoting sales by the manufacturing concerns is by stimulating consumer demand through advertising and thus creating a necessity for the wholesaler to stock their goods.

## 3 Malpractices and Inefficiencies of the Private Trade:

### 3.1 Product Adulteration and Lack of Standard Quality Goods.

In several countries of the Region, the problem of the quality of goods became particularly acute during the last world

war and the shortages of commodities presented an unique opportunity to the traders to sell adulterated goods. Food articles such as sugar, wheat flour, and many other essential goods were sold only after they had been openly adulterated. The same situation repeats itself in a serious form whenever shortages arise.

However, in respect of processed and manufactured articles, adulteration may not be easy to detect with the naked eye. Testing of consumer products alone can reveal lack of standards in such commodities.

### 3.2 Hoarding, Black Marketing and Profiteering:

The practice of hoarding by traders and selling these goods at abnormally high prices whenever any scarcity is present or expected, has been experienced by the consumers in several countries of the region during the second world war and the period immediately following it. In respect of essential commodities, whose demand is inelastic such as foodgrains, sugar, kerosene and cloth, artificial scarcities have been created by the traders. In such cases, the government imposes price-control and even ration the supplies of commodities. Many examples were cited at the Seminar to illustrate that, even with government regulations, traders are in a position to sell these commodities at high rates in what is called the "black market".

### 3.3 Monopolistic Situation

The control of the market by a few production enterprises gives them monopolistic control over the market. Such monopolistic controls may be achieved by the producers through agreements amongst themselves even when the number of producers is large. The growth of monopolistic power of the production enterprises in respect of consumer articles in India and Japan was noted by the Seminar. Such monopolistic situations may also obtain with regard to imported articles when these commodities are supplied by international cartels such as big petroleum companies. Aside from the prevalence of monopolistic situations, the production enterprises may adopt certain restrictive practices which tend to limit competition at the wholesale and even at the retail level. Such practice include tie-up sales, exclusive dealings arrangements and full-line forcing.

The effect of the monopolistic dominance of a market is the high level of prices charged by the monopolists, such prices having no relation to the cost of production. If the monopoly power of any production enterprise is considerable, the commodities supplied by them are also likely to be deficient in terms of quality. Further, the growth of monopolies in the developing countries poses a grave danger to political democracy. Finally, by keeping the small producers out, such

monopolies prevent the formation of skills and development of entrepreneurial and managerial talent in a country.

### 3.4 Advertising

The need for advertising in an economy based on mass production is evident. Advertising has an important role to play in disseminating information about consumer goods. On the other hand, advertising could be used to create artificial product differentiation through the use of trade marks and brands. The advertising strength of big business has a deterrent effect on new entrants and those enterprises which have already grown financially strong could effectively protect their brand names. Thus advertising has an effect in the modern economy of creating monopolistic advantages for the already established and financially powerful concerns. Secondly, much of the advertising that is carried on is competitive and cancels each other out. Such competitive advertising is a social waste in as much as it adds to the selling costs and thus to the ultimate price to be paid by the consumer. Finally, deceptive advertising and advertising which plays on the emotions of the people, especially the fear motive, are harmful from the point of view of the consumers.

### 4. Remedial Action:

A variety of measures are called for in order to counteract the malpractices and inefficiencies of the private trade and to protect and further consumer interests. Firstly, in many cases

legal enactments would be necessary such as anti-monopoly legislation, laws to prevent adulteration of commodities, laws with regard to standardising weights and measures. It was noted that even when legislation exists, as in the case of laws to prevent adulteration of commodities in some countries, their enforcement, for a variety of reasons, is not effective. Secondly, the development of necessary standards in both agricultural and manufactured commodities is necessary. Grading of agricultural commodities and standardisation of the manufactured goods and other consumer products is essential. Thirdly, voluntary organisations of consumers, such as consumers associations, are necessary in order to disseminate reliable consumer information among the members, to take legal action against fraudulent practices of the traders, and to represent consumer interests. Fourthly, agreements on voluntary codes by the manufacturers and the trading community may lay down certain standards for the conduct of business. Established production and trading enterprises are interested in preserving the reputation of the goods in which they are dealing and the associations of such enterprises could take effective action against fraudulent practices indulged in by unscrupulous traders. Finally, it is necessary for the consumers themselves to develop alternative channels of supply in order to restore competition in the

distribution trade, including production activities. The emergence of such powerful consumer cooperative movements in the developed countries have played an important role in supplying consumer goods at reasonable prices and have acted as effective checks on the private traders exploiting the consumers.

The Seminar noted that not enough information is available on the malpractices and inefficiencies of the private distributive system, the measures taken to protect the consumers and the effectiveness of such measures. In view of this the seminar recommended that the International Cooperative Alliance should undertake in collaboration with the UN ECAFE and/or other UN Specialised Agencies a study on consumer protection in the Region.

5. Consumer Cooperatives in South-East Asia.

It is only possible to make broad generalisations about the situation of consumer cooperatives in the Region on account of considerable diversities. The consumer cooperative societies in most countries of the region originated on account of the scarcities of essential commodities and the need for distributing them equitably during the second world war period and/or the period immediately following it. Further, planning undertaken in some countries for achieving economic development has speeded up the process of urbanisation and as a result the problems of distribution have become

more complex and more acute. Hence the need for consumer protection and the development of a strong consumer movement becomes urgent in view of the scarcities of commodities, lack of uniform standards of many commodities and rising prices.

Multipurpose societies perform the function of supplying consumer goods in the rural areas in several countries. On the other hand in the urban areas consumer cooperative societies performing only consumer functions exist. In several countries the urban consumer societies may be broadly categorised into two forms: 1. institutional societies and (2) societies having open membership. While consumer societies in some notable instances have achieved a measure of success, by and large the consumer cooperatives have not grown into a powerful competitive force vis-a-vis the private trade. With the exception of Japan, the size of the society is usually small with one society-one shop as the general pattern. From 1962 onwards, a country-wide programme for the development of consumer cooperatives has been sponsored by the Government in India to stem the tide of rising prices. Various forms of assistance, such as contribution to share capital of cooperatives and of help in procurement of supplies, is given for the purpose. The number of wholesale and primary stores organised by the end of 1966 were about 325 and 8,400 respectively. About 25 large consumer cooperatives (Deptt Stores)

were also set up during this period.

The national consumers cooperative wholesale societies exist only in a few countries, and where they exist they have not been able to achieve the necessary integration with the primaries and provide the much-needed support to the latter.

The problems of the consumers cooperatives may be briefly categorised as follows :-

1. small size of the societies,
  2. lack of member loyalty,
  3. lack of effective secondary organisations, especially at the national level,
  4. fierce competition from the private retailers on account of low margins on which they operate,
  5. operation of societies on traditional methods not entirely dissimilar from the private retailers,
  6. lack of member education, and
  7. lack of training arrangements, especially in distribution business.
6. Structure and Management of Primary Societies.
- 6:1 Structure:

The private retailer has low overhead costs as he usually manages with family labour and maintains rudimentary accounts. But a cooperative society has to maintain accounts not only to satisfy the cooperative department but also the members, and has to employ some salaried staff. These overheads make it



difficult for the small co-operative society to operate in competition with the private trader who operate on small margins for the reasons mentioned above. The retailer can also indulge in adulteration, evade payment of sales - tax, keep his shop open beyond hours fixed under the Shops and Establishments Acts and make good his small mark-ups through these and other ways. It is therefore essential for a cooperative society that the overheads are spread over a larger turnover in order to achieve a smaller proportion of overhead costs per unit of sale. The general experience in India is that a shop should at least have 400 member households with a monthly turnover of ₹.1,500 in order to be an economically viable unit. In Ceylon, the turnover available from about 500 member households is considered adequate for a viable economic unit. However, in order that the societies are able to achieve economies of scale they should run several shops with larger turnovers than the minimum mentioned above. With regard to grocery shops- groceries being the most common consumer articles handled by cooperatives distance and availability of transport may act as a limitation on the expansion of the shop beyond a certain level.

The following economic advantages would be available to the consumer cooperatives adopting a branch pattern.

- i. Large-scale purchases and the consequent reduction in purchase prices, reduced costs of transport, storing and handling charges. A central godown to be in charge of prepacking of goods will ensure better packing and uniform standard quality goods for all branches.
- ii. A society with several branches can offer better service to its customers, by well-developed layouts and fixtures and a smooth work organisation in the shops, which would be centrally planned and supervised.
- iii. A system of centralised accounts and office work ensures accurate and up-to-date figures for the management, besides reducing costs of book-keeping, control and other administrative duties.
- iv. A larger business gives quicker rotation of the working capital, within a certain period, which means lower capital expenses.
- v. Finally, branch societies can afford to have on their staff, highly skilled and specialised officers. Wider opportunities for promotion of staff will naturally attract better staff even in lower grades. The society is also able to give sufficient staff training.

The Indian experience revealed that a primary society with about 4 to 6 branches would be able to operate with a single manager.

The need for changing the pattern of management arises when the number of shops increases further, because such a society is likely to run into difficulties and possibly losses on account of the inability of a single manager. In such societies it would be necessary to have specialised officers, for example, one to manage the purchase, transport and storage of goods, another to supervise the working of the branches, the third to manage and control the accounts and the fourth, in course of time, to look after personnel management, staff training, member education and publicity. The work of these specialised officers will have to be coordinated by a general manager. It is estimated that a branch society would not be able to exploit maximum advantages of the skilled personnel employed with less than 15 branches.

In addition to the horizontal integration mentioned above, vertical integration is also important in business. Such vertical integration implies centralisation of purchases, wholesaling, establishment of processing units and the setting up of departments for grading, cleaning and prepacking of goods. While a society with a branch pattern may be able to effect certain economies in these fields, in order to exploit the economies to the fullest possible extent, these activities will have to be undertaken at secondary levels, preferably at the level of national wholesales.

## 6.2 Democratic Control.

In a large society with several branches the parliamentary

structure will have to be different from that of one shop society. Direct democracy in the sense of all the members participating in a general body meeting becomes impossible in a larger society. It is, therefore, necessary to adopt representative democracy in large societies. The pattern may be as follows: The member meetings may take place in separate groups, one for each shop. These meetings would then elect their representatives to the general body meeting which would elect the board of directors, approve the statement of accounts, auditors reports, etc. The member meetings may also elect advisory committees to communicate their criticisms and requirements to the manager of the shop within their locality. In Japan, neighbourhood member meetings are organised for this purpose.

In the bigger societies the work of day-to-day management by honorary board members becomes difficult. In such societies the board members should confine themselves to formulation of policy approving the budget and approving the appointments of managers and departmental heads. Delegation of executive responsibilities within the policy formulated by the board is extremely important in order to match the quick decision-taking by private retailers. In the seminar discussions, several examples were mentioned where detailed matters were referred to the board of directors thus causing considerable delay and possibly loss of business.

The seminar emphasised that in order to manage bigger shops and bigger societies, skilled managers and other personnel are necessary, without which the society will break down. In the rural areas the achieving of the branch pattern becomes difficult on account of the prevalence of multi-purpose societies in several countries. There are two ways in which advantages of large-scale economies in retailing in rural areas may be achieved. One method is to break away from the multi-purpose approach, as in Denmark, and to have specialised societies not only in the field of consumer business but also for credit and marketing. In Ceylon it is planned that a multi-purpose union will take over, on a contractual basis, the management of the consumer sections of the primary societies affiliated to it. Another method is to amalgamate several multi-purpose societies into a single bigger multi-purpose society as in Japan. This multi-purpose society would then be running several shops under one manager. However, in this case also the multi-purpose societies receive technical guidance from the central consumers cooperative union in respect of consumer business.

In urban areas, the branch pattern may be achieved through amalgamation over a period of time. Also the existing societies may open new shops in areas not served by any society. An approach of this nature is being tried out in India.

### 7. Centralisation of Some Activities (An Integrated Approach)

Besides the purchasing of goods, there are a number of other functions that could be undertaken at the central level within the consumer cooperative structure in order to achieve better management and economies of scale. The experiences from Sweden presented at the seminar were found of great interest. Some examples of such centralised functions are the consultative services to members on legal and financial matters, such as land procurement, financial planning, and taxation; advisory services to member societies on price trends, technical and architectural advice with regard to shop planning, shop lay-out, standard equipments, and building construction; collective advertising and publicity and production of display materials; and centralised accounting and auditing.

In order to render these services to the primary societies efficiently it may be necessary to establish separate agencies for these specialised functions. For example, the Swedish Consumer Movement has a number of specialised agencies such as the departmental stores association (Domus), and the Swedish Auxiliary Organisation (SHF) to take over management of weak societies for limited periods, in order to put them on their feet, and the Architectural and Engineering Company (KFAI).

The ability of a consumer cooperative movement to operate smoothly

and with efficiency, to quickly adjust itself to economic and structural changes, and to successfully meet its competitors, depends to a great extent upon proper planning for the future and sound-decision making by the management. The existence of the advisory services in various spheres, and the degree of centralisation, play an important role in facilitating higher technical efficiency and quicker and better-planned actions.

#### 7.2 Centralised purchasing.

The following conditions are essential in order to undertake successful purchasing and wholesaling at the central level.

- a. Efficient management
- b. Sufficient capital.
- c. careful pre-planning.
- d. Well organised supply, and
- e. Cooperation among retail societies.

The Central Organisation should pool the orders of the various member societies. However to arrive at this figure, the member societies should assess their requirements of goods on the basis of carefully planned surveys of customer demand. The following information will be needed by a society to assess the demand within its area of operations.

- a. The total number of families living in the area served by the society.

- b. The number of families classified according to their earnings.
- c. The total spending power in the area.
- d. Selected number of families within different income groups should be requested to keep a record of their spending during a period of two to three months.
- e. Demand of the commodities within the area may be arrived at by evaluating the statistics concerning the composition of population, distances from the shop, number of private shops in the area, buying habits of the people, etc.
- f. After the total demand figure has been worked out calculations should be made with regard to stock investment on the basis of the stock-turn estimates.

The objectives of the central organisation should be to secure sufficient supplies of the right qualities, at the right prices and at the right times. A great deal of success in centralised purchasing and wholesaling would depend upon the person in charge of the central organisation i.e. the manager. He should possess a wide experience of the wholesale and retail trade and be familiar with the factors affecting prices. He should be given the necessary authority within the general policy laid down by the board to negotiate with the suppliers and take quick decisions, which are very essential for success in centralised purchasing. The manager should be in continuous contact with the whole-sale trade and the retail societies so that he is at all times well informed about the supplies, prices and customer's demands.



The central purchasing organisation should purchase commodities directly from the manufacturers, and from the agricultural producers or their cooperatives. The possibility of securing steady supplies, lower prices and uniform qualities, should be explored by entering into special agreements with the manufacturers. If such agreements with the manufacturers cannot be reached by the cooperatives, they should investigate the possibility of establishing their own manufacturing or processing units.

The need for purchasing either directly from the wholesalers or from the producers is indicated by the results of ~~some~~ case studies undertaken in Pakistan in 1964. The price-spread between the producers and the consumers was 56.4% in respect of paddy and rice while the retail margin was 9.3%. Another case study with regard to wheat reveals that the price-spread, between the grower and the consumer, for wheat atta was 43.6% the retail margin in this case being 4.5%. Paddy had been processed and wheat had been converted into wheat flour during the movement of these commodities from the producer to the consumer.

### 7.3 Centralised Warehousing.

Considerable economies could be effected by having centralised warehousing. These economies would include economies in cost of land, cost of construction, having the right volume of stock in the central warehouses thus avoiding either overstocking or understocking in the

warehouses of the primary societies, and transportation costs. Pre-packaging in an uniform way could also be undertaken. The central organisation would save considerable costs on land by locating its warehouses out of the city areas where land is very difficult to obtain and where land prices are very high.

It may sometimes be cheaper to use private wholesalers' warehouses or bonded warehouses, provided it is a question of more stocking of goods. However, the warehousing functions performed by the secondary cooperative organisations are much wider than mere stocking of goods and include pre-packing, centralised accounting and setting up of a proper ordering system. The centralised warehouses of the cooperative movement could then be properly described as 'distribution centres' rather than warehouses.

In order to perform efficient warehousing functions, proper purchasing of goods is most essential.

## 8. Operational Aspects.

### 8.1. Financial Requirements.

Financial requirements of a consumers' cooperative society should be assessed in terms of two objectives: (i) operational efficiency, and (ii) achieving long-term growth. Capital will be required for fixed and variable costs. Fixed costs include costs on construction of a building or hiring of the shop premises, fixtures, etc., while variable costs are expenses on

recurring items such as payment of salaries, purchase of stocks etc. In consumer co-operatives the ratio of variable to fixed costs is relatively greater as compared to that in manufacturing enterprises. The estimate of financial requirements should be done through careful budgeting, which will be discussed later.

The actual amount of capital required for a consumer cooperative society would depend upon several management decisions, such as the size of operations, the type of building and equipment desired whether the building would be purchased or rented and whether there would be refrigeration facilities - the type of goods to be handled such as perishables etc., whether the shop would be a self-service shop or a traditional retailing unit, and whether the cooperative would sell on cash or on credit.

The seminar agreed that the resources raised from the members in the form of share capital, fixed deposits or retained patronage refunds in the shape of member savings, were less expensive than borrowings from outside sources. A variety of ways were suggested how the share capital could be increased in a consumer cooperative society. These included campaigns to increase membership, provident fund withdrawals for subscription to share capital and collection of share capital in instalments. The general body of the society could also decide upon the

minimum number of shares a member should hold, and credit the patronage dividend accruing to him towards the purchase of additional shares until the prescribed minimum is reached. As in Japan, issue of bonds to members for specific investment projects would be another form of raising internal resources.

The question of what price policy a society should follow was closely connected with the policy of building up internal resources. A price policy which allows sufficient surplus out of which patronage dividend could be paid, as well as the building up of reserves, may be followed if the society wants to achieve growth. Either part of, or the full patronage dividend could be utilised to build up capital through a revolving fund on the lines adopted in Denmark, U.S.A., and some Latin-American countries.

The question of cash versus credit trading was discussed. The seminar listed the following advantages and disadvantages of credit sales.

#### Advantages of Credit Sales.

- i. Members who are used to credit buying and who do not patronise the cooperative, will be attracted to the society.
- ii. Lower income group members would be in a position to purchase certain articles which would otherwise be beyond their reach.
- iii. It will help to meet the competition from the private trader who is giving credit.
- iv. Hire purchase credit would help to expand the sales of durable goods.

- v. It will enable members having seasonal earnings, such as farmers, to purchase their requirements throughout the year.

Disadvantages.

- i. Thrift will be discouraged among members.
- ii. Accounting work will increase. Bad debts may arise. These two factors may result in increase in prices even for members who do not borrow or have paid their debts in time.
- iii. Will increase the requirements for capital.
- iv. Since the societies are undercapitalised, and capital is difficult to obtain, credit trade may affect the financial stability of the society.

On consideration of the advantages and disadvantages the seminar felt that in principle credit trading was not desirable. If possible, the practice of trade deposits may be introduced rather than selling on credit. Where credit sales are undertaken the societies should be very cautious. Credit may be given to regular wage earners against arrangements with the employers who would deduct the amounts due from their salaries and pay to the societies. As in Palugama area in Ceylon,, credit may be given to farmers through a link-up arrangement among credit marketing and consumer societies. Further, sales of durable goods (such as Radios, Refrigerators etc.) on a hire-purchase system were regarded in the seminar as a sound method of expanding sales of these goods.

## 8.2 Budgeting and Follow-up.

Budgeting is an important means of developing not only efficiency in management from month to month and from year to year, but it is also an aid to the education of the management committee engendering sound ideas of what is good and what is bad in the performance and position of the enterprise. It helps in expanding and improving cooperative services, because the important precondition of such progress is efficiency in management and, the support which well-informed committee members can give to the paid manager.

The budget is an estimate or a forecast of performance and needs of the business during one year. The techniques of budgeting are used in order to implement the policies and goals set by the general body meeting and the managing committee.

The formulation of the budget involves estimating the following business data during the budget year.

- i. The volume of business expected to be handled.
- ii. Estimates of the gross income on the basis of own or other's experience.
- iii. Fixed and variable costs such as salaries for personnel, fixed equipment and machinery, inventories etc.
- iv. Total financial requirements and the sources from, and costs at which, they could be obtained.
- v. The budget must be built up into an estimate of total costs and total income. It will indicate whether the business volume forecast is likely to break even, and whether sufficient profit could be made over and

above the break-even point to build up capital for consolidation and expansion, as well as to pay the patronage dividend.

The budget should be prepared well in advance, at least two or three months before the commencement of the budgetary period. When the budget is prepared, necessary control forms should be used to assess whether the business is going on as planned in the budget. These forms should show the actual results alongside the budget estimates, so that deviations could be clearly seen and necessary action taken.

In a large number of societies in South-East Asia, proper budgets are not prepared. Further, in societies where budgets are prepared, necessary follow-up controls are not usually instituted. It is only among the most successful consumer cooperative enterprises, especially in Japan, that budgets and budgetary controls are properly utilised as aids to efficient management.

### 8.3 Stock Control.

Stock control is an important part of the discipline of Inventory management. In a co-operative merchandising unit inventory management is art of handling the commodities during their flow into to, and out of the premises of the society in such a manner that maximum sales and services are released with a minimum of investment, efforts, costs and shortages.

It is important to exercise systematic control on all forms of stocks, such as stock-in-trade, dead stock and rolling stock, but the discussion was limited to stock-in-trade for want of time. The attitudes and skills of personnel engaged in stock and sales operations were of great importance; stock control systems can be fully effective only if they are buttressed by employees' basic honesty and their sense of responsibility and pride in good performance.

Control must be informative and protective. The systems practised must be devised to inform in time about replenishment so that the sales unit would be able, at all times, to deliver the goods.

In the shop the goods must be arranged so that it is easily seen at a glance when replenishment is needed. In the godown or back-room, where the buffer stock is kept and where replenishment orders are written, the visual control should for most goods be supplemented by a records control on cards for each article (using what is sometimes called the 'spike filing system', meaning that each card hangs on a nail of its own'.)

In the working of a visual control system it is important to observe the FIFO rule - first in, first out - to guard against obsolescence. The importance of marking on goods, their prices, and the use of a code system giving information about the date of entry into stock, supplier, unit cost price and sales price for slow-



moving articles, was stressed. For this purpose several kinds of codes were available and they should be used except for the unit sales price. §§

A distinction was made between ordinary legitimate trade waste and stock discrepancies due to mistakes, neglect and misconduct. The discrepancies in the first category are due to such factors as evaporation, shrinkage, and inaccuracies arising out of weighing out bulk goods in small quantities. In the second category, a distinction should be made between discrepancies due to poor organisation, equipment, and inefficiencies in procedures, and shortages which are due to neglect, carelessness or wilful misconduct viz. pilferage, theft and manipulation of sales memos, etc. Protective measures are chiefly aimed at the causes in the categories of neglect and crime. The main general safeguards are a good accounting system, good vouchering system, proper effective office organisation and staff training, and, among other things, frequent and careful supervision by the manager and other responsible employees. Specific protective measures include instructions to customers preventing the use of their own shopping bags, brief cases etc.

§§ For details please see:

- (i) CRD-Document No.15: "How to Reduce Leakage" issued by the ICA Auxilliary, committee for Retail Distribution, Stockholm.
- (ii) Paper on "Stock Control" by Robert Staermose

Two systems of stock control accounting were discussed viz. (a) unit control system, and (b) retail inventory system. The seminar agreed that the retail inventory system should be adopted by consumer societies.

In connection with physical inventories - occasional or periodical, complete or sectional - it was stressed that such inventories ought to be taken much more often than is the practice at the present time in the consumer enterprises in South-East Asia. Mechanical aids as adding-listing-cum-multiplication machines and tape-recorders are available and should be acquired by large branch units. A programme containing the following points was discussed: (a) advance preparation, (b) inventory counting and listing, (c) control on return of inventory sheets, (d) consolidation of inventory and handling of markdowns for defective goods found during inventory (e) documentation for the inventory through a certificate of stock-in-trade showing the retail values, the average mark up for the year for each category of goods, the rates of write-offs to arrive at asset values and the total asset value of the stock.

The Seminar discussed the feasibility of introducing standard rates of leakages for which the store manager or storekeeper would be given an allowance and if the leakages are higher than the standard rate allowed, he would be held financially liable for stock shortages.

In this connection the Seminar suggested that research should be organised for determining standard rates of leakages which could be allowed to a manager. The leakage allowance and liability system was regarded as useful for adoption in the Region but it was felt that it cannot be introduced until the general standards of leakages were established for the principal categories of goods handled by the societies.

It was stressed that a rational organisation of the enterprise and efficient procedures in all departments of business, clerical, supervisory stock, accounting, selling etc. were preconditions for effective functioning of control. Warnings against rigidity in controls were given; the top management would be wise in being helpful, human and fair in cases where a relatively inexperienced shop manager was faced with leakages higher than the management found normal.

#### 8.4 Shop Maintenance

Some of the factors hindering the increase of sales in consumer cooperatives are outmoded shop lay-outs and inefficient cash collection system, which require the customer to spend considerable time in shopping. In most consumer cooperative societies the lay-out of commodities is no different from that of the private trader. If the cooperatives are to increase their sales it is essential that, among other things, they look to customer convenience by reducing time involved in shopping,

by allowing the consumer freedom to look around the shop, and by arranging commodities in proper grouping.

In discussing shop maintenance a distinction may be made between the cooperative shops in rural areas and urban areas. Greater scope for improving shop lay-out would be available in urban areas rather than in rural areas.

In order to achieve better shop maintenance, pre-packing is essential. Pre-packing involves a good knowledge of the buying habits of consumers so that packings can be done in the most popular sizes. Secondly, qualities in the packages should be standard; otherwise, the consumer will lose faith in packaged articles. If necessary, there could be several grades of commodities available in different kinds of packages. An excessive concern over the price image by the cooperative would conflict with long-term development, and it may spoil the image of cooperative in regard to service and quality of goods. It is, therefore, essential for the cooperative to build up its image in other aspects as well.

In shop lay-out, there should be logical grouping of commodities. For example, commodities which are complementary to each other may be stocked together in one group. The arrangement of the commodities may also be such that the consumer is exposed to many commodities. Customers often buy some commodities on impulse and the margins available on such commodities are quite high. If the

consumer is free to move around the shop, such impulse-buying may increase the sales in the cooperative. Also the consumer society may keep low mark-up on essential commodities, and they may make up by high mark-ups on impulse-buying commodities. Further, the available space within the shop should be utilised to the fullest extent.

The self-service shops fulfil many of the requirements mentioned above. Self-service shops make for maximum utilisation of space, enable the society to have attractive display of goods, expose the consumer to a wide range of commodities and allow him freedom to look around the store and find the articles he wants. Saving in time is also effected.

It was felt that pre-packaging of commodities is essential in order to reduce costs for the society and increase consumer convenience. Such pre-packaging will help in better lay-outs even though self-service cannot be introduced in the near future. With regard to packaging, it was indicated that the habit of buying pre-packed goods is spreading. Even in rural areas there are certain commodities that are sold by the manufacturers in packaged form.

With the exception of Japan, few cooperative self-service shops existed in the Region. In view of this the seminar suggested that experiments in self-service shops should be carried out by the Movements in the Region with a view to test their economic advantages and possibilities of their introduction. An example was mentioned of a private self-service shop in Delhi,

the first of its kind there, which sold goods substantially cheaper than a traditional private retail shop in a nearby locality.

#### 8.5. Pricing Policy

In order to fix the prices properly, it is necessary for a co-operative society to know the trends in supply and demand, its share in the market, trade practices, and its own cost structure.

Since co-operative societies in the Regional have only a small share of the retail trade and are undercapitalised, they should not invite competition, but should sell at market price. Cooperative Societies should collect necessary information about the prices prevailing in the areas in which they are operating, so that they can fix prices at levels comparable with private traders. The cooperatives should also work out their cost structure and estimate the per unit cost of the different commodities sold by them. The gross margin available to the co-operatives should be sufficient to cover not only the operational costs but also to enable them to build up capital as discussed earlier. In the context of the gross margins aimed at, the societies should carefully plan their turnover and fix their mark-ups on different commodities.

It was felt that in several countries of the Region, consumer cooperative societies operate under special circumstances. In some countries there are price controls and even rationing in respect of essential commodities. Co-operatives have been utilised

by governments as an agency for distributing essential articles, on an equitable basis. In this connection, examples were cited to show that the prices fixed by the Government were so low that the margins available from trading in these commodities were not sufficient to cover the costs. In such cases the Seminar felt that the co-operative movement should negotiate the terms and conditions, including the prices, with regard to distribution work entrusted by the government.

On account of the scarcities and the uncertainty in the flow of supplies, there was a premium in holding inventories. The private traders hoarded commodities with a view to sell them at very high costs later on when they would be in short supply. In the case of many scarce commodities, the mark-ups by the private retailers were excessively high. A question arose as to whether co-operative societies should sell at normal 15 to 20% mark ups on such commodities, or at market price. Firstly, in respect of scarce commodities where government price controls operate, the Seminar suggested that co-operatives should, under no circumstances, sell at prices higher than those fixed by the government. However, with regard to the scarce commodities for which no price controls existed, it was felt that the co-operatives should not raise the prices to the full market levels in order to gain excessive profits, as such a price policy would create the image of a co-operative as an

opportunist and exploitative agency. On the other hand, it was pointed out that if the cooperative sold at prices which were too low in comparison with the market prices, the private traders may buy up the supplies available with the cooperatives and sell them at exorbitant prices. Some of the members were also likely to indulge in such a practice.

Further, if co-operatives sold much below the market price by charging normal mark-ups, it would be worse off in competitive strength vis-a-vis the private retailer. The private retailers will be reaping a very high level of profits on scarce commodities and with the advantages so gained, they would be able to lower prices of other commodities in relation to the prices charged by the co-operative society and thus throw the co-operative out of business. In view of these considerations, two courses were open to the co-operative society. One was to ration out scarce goods among the members and thus maintain a steady supply. The second course was that the societies may not raise the prices to the full market level but may increase them enough to enable them to accumulate sufficient resources in order to meet the strategy of the private trader described above. Such profits may be used in building price stabilisation funds.

Quite often price fluctuations are considerable from day to day. The private retailer is able to adjust his prices quickly.



The co-operative, on the other hand, often does so after a lapse of two or three days, since it has to get approval of the price sub-committee or the Board of Directors. This was a serious handicap for the cooperative, and it was felt that the cooperative should maintain the same degree of flexibility as the private retailers, and for this purpose should authorise its manager to take on-the-spot decisions within the general policy laid down by the Board.

#### 8.6 Salesmanship and Sales Campaigns

To many co-operators it appears paradoxical that a co-operative should advertise and publicise its wares, since the Society is selling mostly to the members. They assume that members who own the Society should buy only at the Society's shop. However, lack of loyalty is a serious problem encountered by most societies. Further, well-designed and attractive advertising and publicity campaigns by the private retailers and especially the higher echelons in the private trade viz. the stockists and manufacturers wean away the members of the co-operatives. It is therefore, necessary that the co-operatives should also bring their goods to the notice of members through a variety of attractive publicity media. Provision of accurate information about the goods, their prices and qualities is essential, since that service must be rendered by Consumer Societies.

Poor shop management coupled with lack of active sales drive are, among others, important factors responsible for the low turn-over of co-operatives.

The following methods could be adopted in order to boost the sales of co-operatives :-

I. Salesmen should be trained in the techniques of selling and in being courteous and helpful to the customers. The shop assistants should be taught as to how and when they could suggest complementary articles to the customers, about the arrival of new commodities in the shops, about the availability of articles at reduced prices, alternative articles when the commodity requested is not available, and about the availability of seasonal commodities.

II. Attractive shop lay-outs and display of articles.

III. Sales Campaigns. Sales campaigns are more effective and less expensive if they are handled by the secondary organisation. These campaigns should be planned on a yearly basis and shop managers and shop assistants should be informed well in advance about the existing plans. To get effective results, each campaign should concentrate on one or two commodities only, and should be conducted for a certain period. Sales campaigns media may include publicity and advertising through the movement's own periodicals as well as private newspapers, distribution of leaflets, display of posters, organisation of competitions, etc.

IV. The shop should make effective use of display materials such as blackboards, printed posters, sign boards etc., A common principle for the use of the publicity media is that they should be in a concise form and should give factual information in an attractive form about the commodities for sale.

V. Finally, co-operatives are member-owned bodies aiming to serve members through lowest possible prices, standard quality commodities and accurate consumer information. This built-in advantage of the co-operatives should be exploited to the full through proper publicity and advertisement drives.

CONCLUSION:

In addition to the discussions on the subjects mentioned above, group discussions took place on two case studies (i) "The strategy of the private trader in meeting competition" and (ii) "Stock Control." Group discussions were also held on the subject of "Financial Requirements for a Consumer Cooperative Movement" and on "The desirability of a policy of credit trade by the consumer movement."

The Seminar had the opportunity of visiting Societies in the Pallugama area which is well-known for its link-up scheme.

REGIONAL SEMINAR ON CONSUMER COOPERATIVES IN A COMPETITIVE SETTING,

NUWARA ELIYA. CEYLON

July 4 to 15, 1966  
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P R O G R A M M E

Session No.

July 4 (Monday)

1000 a.m.

- 1 Inauguration
- 2 Introduction to ICA  
Working Methods of the Seminar

Section I

1400 - 1530

- 3 Presentation of Background Papers

1600 - 1700

Discussion

July 5 (Tuesday)

0900 - 1030

- 4 Structure of Distributive Trade in India  
Introduced by : Mr S.K. Khanna  
Sales Manager, Wazir Sultan  
Tobacco Co., Hyderabad.

Structure of Distributive Trade in the  
Philippines

Introduced by : Mr Monico G Yadao  
Chairman, Philippines  
Federation of Consumers  
Coops, Manila.

1100 - 1230

Discussion

1430 - 1530

- 5 Factors Responsible for Competitive  
Strength of Private Trader

Introduced by : Mr S.K. Khanna

1600 - 1700

Discussion

July 6 (Wednesday)

- 0900 - 1030                    6    Malpractices and Inefficiencies in the  
Private Trade
- Introduced by : Mr J.M. Rana  
Co-Director, ICA Education  
Centre, New Delhi.
- 1100 - 1130                    Discussion
- 1130 - 1230                    7    The Private Trader : His Strategy in Meeting  
Competition - Case Study
1. Presentation of the Case by :
- Mr Hans Dahlberg  
Deputy Director, ICA Education  
Centre, New Delhi.
- 1430 - 1630                    2. Group Work
- 1630 - 1700                    3. Presentation of Results of Case Work

July 7. (Thursday)

- 0900 - 1000                    8    How Can Cooperatives Improve the Distributive  
Trade: (Western Experiences)
1. Stages of Development
- Introduced by : Mr Gunnar Bols Bundgaard  
Adviser on Consumer Cooperation  
Cooperative Institute of  
Management, Lahore.
- 1000 - 1030                    Discussion
2. Management -- Importance of Management in  
Building up Integrated Consumer  
Cooperative System :
- 1100 - 1200                    A. Central Administration in Integrated Approach
- Introduced by : Mr Hans Dahlberg
- 1400 - 1500                    B. Management of the Primary Society and Shops
- Introduced by : Mr D.P. Gunawardana  
Asstt. Commissioner for  
Cooperative Development,  
Colombo.1
- 1530 - 1700                    Discussion

8th July (Friday)

0900 - 1230 9 Group Discussions on Sessions 3 - 8  
 Afternoon Study Visits

9th July (Saturday)

0900 - 1030 10 Plenary Session on Section I

Section - II

1100 - 1200 11 Structure of Primary Consumers Cooperatives in the Region  
 Introduced by : Mr Herman Lamm  
 Chief Adviser  
 Central Institute of  
 Management for consumer  
 Business, Poona. India

1200 - 1300 Discussion

12 Operational Aspects of Consumer Cooperatives:

1430 - 1530 1. Purchasing and Wholesaling in  
 Integrated Approach.

Introduced by : Mr Gunnar Bols Bundgaard

1600 - 1700 Discussion

10th July (Sunday) Free

11th July (Monday)

0900 - 1000 2. Organisation of Centralised Warehousing

Introduced by : Mr Kinichi Katsube  
 Standing Director  
 Japanese Consumers  
 Cooperative Union, Tokyo.

1000 - 1030 Discussion

1100 - 1200 3. Stock Control

Introduced by : Mr Rober Staermose  
 ILO Adviser on Cooperative  
 Management, Bangkok.

1200 - 1230 Discussion

1430 - 1700 Group Work on Case Studies for  
 subjects discussed in Session 12.

12th July (Tuesday)

- 0900 - 1000                    13            Pricing Policy in a Competitive Setting  
 Introduced by : Mr Grogery Kurukulasooriya  
 Colombo.
- 1000 - 1030                    Discussion
- 14            Contacts with Consumers:
- 1100 - 1200                    1. Shop Maintenance  
 Introduced by : Dr T.N. Krishnan  
 Indian Institute of  
 Management  
 Calcutta
- 1200 - 1230                    Discussion
- 1430 - 1530                    2. Salesmanship and Sales Campaigns  
 Introduced by : Mr Herman Lamm
- 1600 - 1700                    Discussion

13th July (Wednesday)

- 0900 - 1030                    15            Budgeting and Follow-up  
 Introduced by : Mr Robert Staermose
- 1100 - 1230                    Discussion
- 1430 - 1530                    16            Financial Requirements in Setting up a  
 Cooperative Society  
 Introduced by : Dr T.N. Krishnan
- 1600 - 1630                    Discussion

14th July (Thursday)

- 0900 - 1200                    17            Plenary on Section II
- 1400 - 1700                    18            Case Study on Financial Aspects

15th July (Friday)

- 0900 - 1200                    19            Reading of the Draft Report  
 Final Plenary on Report  
 Evaluation and Concluding Session.

Regional Seminar on Consumer Cooperatives in a  
Competitive Setting, Nuwara Eliya

4th to 15th July 1966

List of Participants and Observers

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1. Mr D.E. Hettiarachchi  
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