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co-operation
among
Co-operatives'**



Melmoth: new head at the CWS

Merger on the horizon?

What will Graham Melmoth's impact be as head of Europe's largest Co-op retailer, the Co-operative Wholesale Society, when he takes over from David Skinner later this year? Andrew Don uncovers some early clues.

It seems as if it were only yesterday that David Skinner was anointed as head of the Co-operative Wholesale Society (CWS). Now, four years later, a new man is preparing to step into his shoes. On the occasions I have met Graham Melmoth over the years at Co-op Congresses, the movement's annual parliament, I have found him to be charming, unassuming and comfortable to be with; a man who – much like the departing Skinner – is not seduced by the grandeur of office.

His intellect is renowned. Most who meet him use words such as "astute" and "sharp" to describe him. When you talk to him you can imagine a micro-computer in his brain performing all nature of calculations before he opens his mouth.

He describes himself as an internationalist

one, interviewed him 20 years ago for the job of secretary which he still holds today and says he is well suited to the top job.

Melmoth was probably chosen over rivals John Owen, retail controller, Bob Burlton, chief executive of the Oxford, Swindon & Gloucester and Terry Thomas, managing director of the Co-op Bank, because of his all-round capabilities from finance to retailing.

One source who watched the selection process closely said Melmoth was chosen because of his intellect and because he crossed the bridge between democratic principles and business sense. He is judged to be sympathetic to the rest of the movement and dedicated to the membership.

Melmoth will head the largest of 53 retail societies, a number that has decreased from

He is one of the few men who might be able to tell you the names of the founding Rochdale pioneers' mothers

80 since 1990 because of mergers. These have now slowed down and last year there was only one – Central Midlands and Leicester combined to form the £600m turnover Midlands Co-op.

The CWS operates nearly 800 shops as well as funeral services, travel agencies, optical practices, garages and milk rounds. Total annual sales from these businesses exceed £2bn and account for around 30% of Co-op retail trade. It also has substantial milk processing, property and farming interests, and owns all the ordinary shares in The Co-operative Bank and the Co-operative Insurance Society.

Total sales are more than £3.1bn, up from £2.6bn when Skinner took over. Trading profit has grown from £50.4m to £57.5m over the same period.

Collective UK Co-op profitability has held fairly constant at more than £160m over the last few years. Total food turnover for retail Co-ops is more than £5bn and total retail turnover is about £7.5bn.

Many are looking at Melmoth to unite a movement which, putting it kindly, does not co-operate as much as it could – not necessarily through one single society but by increasing regionalisation and encouraging the whole bundle to work closer together.

Last year's collapse of merger negotiations between the CWS and the second biggest retail Co-op, CRS, has left an air of mistrust between the two – certainly from the CWS's viewpoint. Melmoth worked closely with Skinner in these negotiations.

Both Melmoth and Skinner lay the blame for the failed negotiations at the door of CRS, but there is said to be no animosity between the personalities. "They talk and they are capable of having a drink together," one observer says. "But people are wary of believing what CRS says."

John Hewitt, CRS, deputy chief executive, played down any talk of a rift between the ►

Co-op fact file

Questions about the Co-op's ability to compete with multiple grocers have been underlined by the latest food trade statistics.

They show Co-op sales stuck at £3.2bn for the past two years, its market share down to 6%, a falling number of customers, and an average spend of only just over £8.

The Co-op's 2,300 stores range from hypermarkets to corner shops, and ownership is split between more than 40 separate societies.

It all adds up to a gloomy outlook, according to Verdict Research's Richard Perks.

"The Co-ops could be powerful players in the market, but they are not," Perks says.

He believes the shops' ranges lack depth, making them vulnerable to competitors. "Even the new stores are not strong enough," he said.

Co-ops market share

1989 – 7.7%
1990 – 7.6%
1991 – 7.5%
1992 – 7.0%
1993 – 6.4%
1994 – 6.2%
1995 – 6.0%

Source: Verdict Research

Market share (based on 179 key grocery markets)

1993 – 7.3%
1994 – 6.6%
1995 – 6.3%

Source: Taylor Nelson AGB Superpanel Retailer Share

and a convinced European. "I believe fervently in the principle of co-operation among Co-operatives," he says.

Melmoth wears numerous hats: trustee of the New Lanark Conservation Trust; director of The Co-operative Bank, Unity Trust Bank and Co-operative Press. He is also president of the International Co-operative Alliance, which promotes Co-op principles around the world.

He has a fascination for Co-op history and tradition and is one of the few men who might be able to tell you the names of the founding Rochdale Pioneers' mothers!

But those who know the 57-year-old well will tell you that if there is a romantic side to his character he is also hard-headed and has a tendency to be waspish with those who open their mouths before thinking.

Melmoth is said to combine realism with idealism and sees the CWS as a vehicle to helping the Co-op movement. He is more charismatic than Skinner and much more at home on television and with journalists. He has the potential to make the best front man that the CWS has had. Skinner was not the most media-friendly and his predecessor Sir Dennis Landau could be prickly on occasion.

"He [Melmoth] would go on breakfast TV if he could fit it into his schedule and talk about today's papers. He is a modern communicator," a colleague says.

Melmoth is a hard worker who always masters his brief. "Above all he is an original thinker who will go into the job with a clear set of objectives," one Co-op source says.

Landau, the last CWS chief executive but



two societies. "One hopes we will be able to work closely together... we look forward to the future," he says.

While Melmoth will not close his mind to a merger with CRS, he is initially more intent on forging closer links with other societies including CRS, continuing along the path set in train by the man who recruited him in 1976, after jobs with BOC, Fisons and Letraset.

That route is regionalisation with autonomy, something Landau began when North Eastern Co-op became an autonomous part of the CWS in 1990. This was the first time that two societies had merged from a position of strength. Skinner built on regionalisation and told *SuperMarketing* when he became chief executive in 1992 that he favoured big regional societies and medium-sized community societies within regions.

"Within that framework the CWS will itself have a number of regional societies working with neighbouring regional societies," he says.

Skinner will leave office credited with the success of the Co-operative Retail Trading Group (CRTG), a buying and marketing alliance launched in January 1993, and for making the CWS more focused on retailing.

He was disappointed the CWS/CRS merger did not come off but his attitude was always that if it did not come off it would not be the end of the world, and most certainly not the end of the Co-op.

The media and the City, which largely do not understand the Co-op, have foretold its demise time and time again. The cursed merger would be its saviour, analysts and industry researchers repeatedly remind us.

But they forget that the Co-op is not a Tesco or a Sainsbury's and comparing it with them is to do it a disservice. The major multiples are focused money-making machines. Co-ops and co-operating is an ethos, an ideology, and a way of life for some.

"We don't have to please the City," says one source. Analysts don't bother to understand the Co-op. We are not quoted on the stock exchange and never will be."

They will probably pay little heed then to Bill Currie, head of research, at Charterhouse Tilney, who says a merger between the CWS and CRS is crucial if they are to have a fighting chance against the majors. "Until that happens the Co-op is destined to struggle," he says.

But it was Landau who showed that wider Co-op principles could also be married with commercial success. Skinner continued that process, selling off manufacturing interests, cutting back on head office staff by about 1,000 people and focusing on retail to overtake CRS as the leading retail society and identifying agriculture as a key business.

Melmoth's priority will be to maintain the Co-op difference, but elevating commercial performance at the same time.

The diary of a non-event

The first merger attempt

April 1990 - Chief executive Sir Dennis Landau says that with his own retirement looming in two years' time, Harry Moore, CRS chief executive could control both societies in the event of a merger. "A merger will lead to greater co-ordination and co-operation between the two," says Landau.

May 1990 - A merger looks likely following Moore's comment at the Co-op Congress: "Most of the hurdles are out of the way. I think there has to be a resolution in the next few months."

The only obstacle left is how the board would be structured. Moore is tipped to head the merged Co-op but other contenders

include David Skinner, deputy chief executive, retail and services, and Graham Melmoth, both of the CWS. A new round of talks is expected to take place in the next month or so.

August 1990 - The merger is off due to failure to agree on a new board structure.

The interlude

January 1991 - CRS loosens ties with the CWS. The CWS is to have its voting rights at shareholders meetings curtailed from 50% to 10% and its board representation reduced from eight out of 16 to three out of a board of 15. Moore says the move would "psychologically give CRS management and staff a great boost to single-mindedly concentrate on developing our society". CRS retains its 30% share of CWS.

May 1992 - David Skinner, due to take over as the CWS chief executive next month, makes it known that he doesn't favour the creation of a single national retail Co-op, believing the way forward is closer ties between the CWS and other societies.

July 1993 - The CWS usurps CRS as primary retailer for independents seeking a merger with one of the two national organisations. The CWS has also overtaken CRS as the UK's largest Co-operative retailer: 1990/91 CRS commanded 21% of the movement's turnover, 1% ahead of the CWS. 1991/1992 CRS remains

at 21%, while the CWS now accounts for 27% of Co-op sales following several mergers.

March 1993 - Three independent regional Co-op retailers centralise their buying offices alongside the CWS's operation in Manchester to create the Co-operative Retail Trading Group. The CRTG will buy all brand and Co-op own-label for its members and will control turnover of £1.35bn.

November 1993 - In an interview with *SuperMarketing* David Skinner talks about strong working relationships with CRS and says initiatives can be developed without talking about mergers - "I would be surprised if there were a CWS/CRS merger in the next 12 months or two years".

The second merger attempt

May 1994 - CRS unveils a major proposal to merge with the CWS. The proposal points to the bleak future the whole Co-op sector would face should a merger not come to fruition soon.

May 1994 - David Skinner is tipped for the top slot of a merged society, and then, following his retirement, is expected to be succeeded by Harry Moore. Graham Melmoth is also a strong candidate.

The will for merger on both sides is said to be stronger than it's ever been.

February 1995 - blame for the delay in a merger is laid at CRS's door.

February 1995 - the CWS chairman Lennox Fyfe and Skinner write to all societies hinting that it would rather pull out of talks than spend more time on "fruitless discussions". Sticking points appear to be the same 1990's - size of the board, plus a new rule book and voting rights. But CRS remains confident all obstacles can be overcome.

February 1995 - the proposed merger teeters on a knife-edge because of what the CWS calls newly-introduced preconditions by CRS.

March 1995 - the CWS calls for CRS to back down on its new demands that there should be two groups of directors - one elected by individual members and the other voted for by corporate members.

May 1995 - CRS pulls out of merger negotiations just two days after the CWS AGM where there was a 97% vote in favour of the merger. The sticking point - board constitution and voting rights.

Super Marketing
Co-op merger is off

Kiss goodbye to a merger

Melmoth will continue to open stores of all sizes and further develop the Co-op brand. Like his predecessor he will want to maintain services "as far as possible" in the highlands and islands, many of which are subsidised. He will continue to back CRTG wholeheartedly.

Melmoth has a maximum of eight years - more than Skinner's relatively brief time at the

top - to stamp his mark on Co-operative retailing.

When people think of Skinner in years to come they will probably recall how yet again the two Co-ops failed to merge. But they will also remember him for creating CRTG, which has given the Co-op more muscle with suppliers. Melmoth will look to flex that muscle. ■