

# **Consumer Co-operatives and Retail Internationalisation: Problems and Prospects**

by

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## **Abstract**

**Purpose** – Explores the retail internationalisation activities of consumer co-operatives.

**Findings** – A survey of the available information on these internationalisation activities shows that they have been restricted to a relatively small number of co-operatives and that the ‘failure’ rate has been very high. Some suggestions are made as to why the co-operatives have been unable to convert their early-mover advantages into sustainable retail networks.

**Research limitations** – The restricted nature of the sample means that these exploratory findings are primarily descriptive. Further, in-depth work with a sample of these co-operatives would help us to better understand the reasons for the moves into and out of various international activities.

**Practical Implications** – Expands the literature on retail failure in general and also provides some more depth to the literature on the internationalisation of co-operatives.

**Originality/ Value** – Whilst there have been significant volumes of research into the internationalisation of investor-owned retailers and of producer co-operatives, particularly the ‘new generation’ co-operatives, there has been very little prior work undertaken in this area.

**Keywords:** Internationalisation, retail co-operatives, retail failure

**Paper Type:** Research Paper

## **Consumer Co-operatives and Retail Internationalisation: Problems and Prospects**

### **Introduction**

Almost inevitably, well-established retailers with a strong domestic retail offer and customer franchise will, at some point, seek store-based expansion outside their national borders. The assumption is generally made that what works at home can transfer, and will succeed, abroad but the international trials and tribulations of a number of leading retailers suggest that this is not always the case. Certain retailers may have become so embedded in their domestic context that they find it very difficult to transfer their operations to other markets. What works at home does not necessarily work in another market.

If this is a problem for investor-owned retailers, then it is even more difficult for the retail operations of consumer co-operatives. With their long trading histories and strong ethical stance, it might be assumed that consumer co-operatives would have no difficulty in undertaking retail internationalisation. Often they have assumed dominant positions in their domestic markets and their approach and philosophy towards trading provides a point of differentiation, a commonly perceived prerequisite for retail internationalisation. Yet, the reality is that their activities are constrained both by factors within each co-operative and also by the structure and ethos of the co-operative movement itself. This paper uses examples of retail internationalisation by consumer co-operatives to explore these issues.

### **Approaches to Internationalisation**

The increased visibility of retail internationalisation over the past three decades has stimulated a significant volume of academic research. A number of common themes have emerged, as authors have explored the volume and direction of investment (Hollander, 1970; Burt, 1991; Muniz-Martinez, 1998), the motivations for internationalisation (Alexander, 1990; Williams, 1991; Quinn, 1999), and the role and choice of market entry mechanisms (Doherty 2000, Gielens and Dekimpe 2001). Studies of specific retail sectors and geographically determined flows have been accompanied by case studies of “exemplars” of retail expansion (eg Wrigley 1997). Others have developed frameworks categorizing international retailers on the basis of behavioural criteria – most notably business culture and market responsiveness (Treadgold, 1990; Salmon

and Tordjman, 1989; Simpson and Thorpe, 1995; Helferich et al 1997; Alexander and Myers, 2000). In addition, there is a growing interest in failure and divestment as an intrinsic element in the retail internationalisation process (Alexander and Quinn, 2002; Burt et al, 2003; Jackson et al 2004).

This research confirms, to varying degrees, that the retail internationalisation process is complex. Simplistic frameworks assuming progression and evolution are inadequate for explaining a process commonly punctuated by readjustment and realignment to a wide range of external and internal interactions and pressures (Dawson 2003; Coe 2004; Wrigley et al, 2005). A clear understanding of what is the essence of the internationalised retail offer and the distinctive national and international management skills that the company possesses would seem to be essential. How these allow or constrain the internationalising retailer in the creation of a distinctive and superior operation to what already exists in the target marketplace remains an underlying pre-requisite for both operationalising and understanding successful retail internationalisation.

Although retail consumer co-operatives are included in the above studies (especially those investigating internationalisation at the macro level where trends are the focus of attention) the overwhelming focus of retail internationalisation research has been the investor-owned retailer or corporate chain. Despite attaining a position of strength in many markets, the “failure” of consumer co-operatives to exploit opportunities in the international marketplace contrasts with the experiences of their investor-owned contemporaries. Is this a function of timing or circumstances ? of inappropriate or mis-guided investments ? or is it an inherent feature of the philosophical approach underpinning retail consumer co-operatives ?

### **Co-operatives and international expansion**

First, we need to distinguish between two different forms of retail co-operative:

#### *Consumer Co-operatives*

The first form covers the retail activities set up by consumer co-operatives in which individual members usually have just one vote. They normally trace their principles and practices back to

the Rochdale Pioneers in the 1840s (Birchall, 1994). The current co-operative principles are set out in Table I but their application may vary by country. In Japan, for example, retail co-operatives are allowed by law to sell only to co-op members, whilst in the U.K. stores are open to all but benefits may accrue only to members.

[Take in Table I]

Mills (2002, 173) reiterates the International Co-operative Alliance (ICA) Statement of Co-operative Values that a co-operative is “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” So, the purpose of a co-operative is to serve the community in which it trades, and more particularly its members, by carrying out its chosen trade: encompassing user-ownership, user-benefit and user-control. By way of contrast, most corporate retail chains operate as investor-owned firms in which these three elements are kept separate. A critical difference therefore is that whilst investor-owned firms (normally) have the primary objective of maximising value at the firm level, co-operatives seek to maximise value at both the co-operative firm level and at the member level.

As we will see below, some of the principles such as “co-operation between co-operatives” have both acted as a 'pull' factor for internationalisation but could also be seen as creating barriers to internationalisation by a retail co-operative.

#### *Co-operative, or retailer-sponsored, chains*

These are co-operatives formed by retailers who set up their own wholesale supply facilities. In order to gain access to economies of scale, the retailer members agree to common fascias, store designs, buying arrangements and so on. According to Hollander (1970, p.58) co-operative and voluntary chains are quite different in concept, and to some extent in practice. In the voluntary chain the wholesaler is presumed to take the lead and to have the power; in the co-operative chain, the storekeepers should have the initiative. Voluntary chains began in U.S.A. and then spread to Europe via Holland. Retailer co-operative chains went in the opposite direction, taken across the Atlantic by German retailers who had participated in the setting up of the Edeka chain.

In terms of operation they are perhaps closer to the 'new generation' producer co-operatives in which capital is not treated as common property. Instead members hold a number of shares proportional to their delivery rights, which in turn operate as a two-way contract between the co-operative and the member for a certain amount of product; for example, when an agricultural processing co-operative agrees to purchase a particular tonnage of tomatoes from a member farmer (Donoso et al, 2004). There is co-operation between retailers within the larger organisation but the workers employed in an organisation may not have any stake in that organisation. As the different retailers may have different sizes or different numbers of stores, then there is not necessarily equal ownership/ participation in the co-operative. And the co-operative is more likely to be able to have access to outside equity for the development of the organization.

Hollander (1970, 59) argued that before 1970 the European retailers' co-operatives had not internationalised to the same extent as the voluntary organisations. For example, whilst Spar first crossed borders in the 1940s (and is now represented by over 15,000 stores in 34 countries), a number of buying pools and other multinational agreements had not led to common trademarks, store identification and other co-ordinating mechanisms. In recent years however this situation has changed and groups including Rewe and Edeka in grocery and Mr Bricolage (Portugal) in DIY have opened stores internationally. Others have established systems for the exchange of information and set up international procurement partnerships, such as the CBA network now active in several former Eastern European markets, or the more globally-oriented Carpet One (Clamp and Alhanis, 2005). It is not unusual for these networks to trade under common fascias and brands, such as Intersport, Sport 2000, Expert, and Euro-Meuble.

Although these are co-operative chains, as noted by Hollander they have many of the characteristics of voluntary (corporate) chains. As such, the issues surrounding them differ to a significant degree from the retail activities of the consumer co-operatives. They are outwith the scope of this particular study.

## **Consumer Co-operatives and Retail Internationalisation**

Several authors have highlighted the different forms that retail internationalisation might take, ranging from cross border movements of consumers, to the exchange of ideas and pooling of management functions (such as buying) to the establishment of retail outlets (Kacker, 1988; Dawson, 1994). A number of these options are evident in the internationalisation activities of the consumer co-operatives.

### *Co-operation between Co-operatives*

Table II shows some of the ways in which national consumer co-operatives have collaborated in order to strengthen the Co-operative Movement overall. Bodies such as the International Co-operative Alliance (ICA) and Eurocoop try to act as a single voice for the Movement and also provide means of exchanging information between member co-operatives. In the retail area, of course, there have also been a number of bodies established for the joint buying of goods, private label and so on in which mirror (or even predate) similar practices among corporate chains. These co-op bodies are, however, expected to retain their co-operative principles in their dealings with suppliers, hence Intergroup's social responsibility activities in South-East Asia and the speed with which co-operative buyers adopted Fair Trade principles and products.

[Take in Table II]

It seems to have been very unusual before the 1990s for consumer co-operatives to even consider setting up retail operations in other countries in order to meet the aspirations of local consumers for modern facilities run in a co-operative manner. This has had little to do with any form of 'home' resistance to the notion; after all many of those involved in the co-operative movement will have a proselytising approach to expansion. Instead, it will generally mean 'stepping on the toes' of existing national or regional co-operatives, which are assumed to have members in the host country already. If there are no co-operatives, then it is more normal for an existing co-operative from another country to provide assistance in terms of setting up a local co-operative and in terms of advice on what and how to trade.

The examples in Table III shows that many of the larger, more established consumer co-operatives (particularly those from the Nordic countries, the U.K. and Israel) have responded to

requests from societies in other parts of the world for aid in setting up or strengthening their own retail operations

[Take in Table III]

### *Retail Internationalisation by Consumer Co-operatives*

In addition to the initiatives involving the exchange of ideas and pooling of expertise, several examples exist of the internationalisation of retail operations by consumer co-operatives. It is clear from these experiences that these ventures have not always been successful. Some of the problems facing internationalising consumer co-operatives can best be seen if we draw on the literature on co-operation and (using their definitions) think of this non-domestic expansion in two separate ways, multinational or international.

#### i) Multinational Co-operatives

“Multinational co-operatives can be defined as combinations or federations of co-operatives (each initially established in one country and operating within that area) which have joined together to provide international goods and services.” (Craig, 1976, 2)

Both Hollander (1970) and Craig (1976) discuss a variety of examples of such multinational entities, often established by consumer co-operatives. They include the Nordisk Andelsforbund, founded in 1918 as a joint purchasing body by the Danish, Norwegian, and Swedish co-operative wholesalers, and, from the 1960s and 1970s, the Co-operative Wholesale Committee, Euro-Coop and Inter-Coop (see Table II). Whilst these examples relate primarily to back office and supply chain activities, Grosskopf (quoted in Egerstrom et al, 1996, p.130) suggests that a fully multinational co-operative (one that trades in different countries) could come about either from merging two or more co-operatives or from the creation of some form of holding company, with national or large regional co-operatives as members. The holding company would acquire the capital of the venture while the parts would remain co-operatives in their own right, with their own institutional and hierarchical structures.

### *Coop Norden*

Virtually the only example of such a multinational co-operative would seem to be Coop Norden. This was formed as a joint venture by three existing Scandinavian retail co-operatives: Kooperativet Föbundet (KF) of Sweden (42% stake); Faellesforeningen for Danmarks Brugsforeninger (FDB) of Denmark (38%); and Norway's Norges Kooperative Landsforening (NKL) (20%). In approving the venture in July 2001, the European Union decided that although Coop Norden was, in effect, acquiring the respective businesses, it did not raise any competition problems because the three organizations were active in different Member States (Commission of the European Communities, 2001).

Some previously international ventures operated by KF in Norway and Denmark were subsumed into this multinational co-operative and so are no longer treated as internationalisation. Also, a number of international operations were closed down in the run-up to the establishment of Coop Norden as a means of rationalising the new business.

Since 2002, a large number of measures have been implemented including: the co-ordination of logistics, increasing purchasing power in the Nordic region; the co-ordination of business development, IT and other business support operations; the development of joint brands, resulting in an expansion of the lines in the Coop master brand, and the introduction of the new X-tra low price brand; the development of new retail concepts, including the Coop Extra format and a new hypermarket concept; marketing work, including joint sales campaigns (Coop Norden press release).

Any benefits of the venture are supposed to be returned pro-rata to the members of the constituent co-operatives. An important point therefore is that any such multinational co-operative, as defined here, continues to serve its own members, either through a set of constituent co-operatives or through the creation of a new body to represent new members.

However, there are some critics who worry that the pursuit of market share or efficiency, risks changing the Nordic co-operatives into another type of organisation and losing the support of their original stakeholders:

“The wave of amalgamations [among the Swedish consumer co-ops] in the 1990s lost sight of traditional co-operative goals and values. Now there is a complicated conglomerate that owns the biggest local societies, and they in turn own the central organisation, KF. This conglomerate is run as a limited company or Aktiebolag, not as an economic association. The business side of the Swedish consumer co-ops has been separated from its member organisation, and members no longer have any influence, nor can they participate in the running of most of the local co-operative societies. Given these changes, it is natural to wonder what became of the Swedish consumer co-ops’ social goals and values.” (Pestoff, 1999, 210-211).

These concerns, although articulated in respect of the change within KF in Sweden, are applicable to the view taken of Coop Norden and reflect concerns that consumer co-operatives, especially when internationalising are organisationally moving away from true co-operative ideals: “It could be argued that KF and Konsum in Sweden comprise a unique co-operative form, a ‘manager-owned’ co-operative. Without the bothersome influence of either member/clients or the staff.” (op cit, 218)

It became clear in mid-2005 that there were still deep-seated divisions within Coop Norden. Whilst NKL was making significant profits, these were being matched by almost as large a loss in the Swedish network. Following the resignation of the Coop Norden CEO in April, it was initially reported that NKL was considering buying itself out of the venture. In June 2005 it was then reported that, rather than break up, co-operation would continue primarily on the purchasing side. The old management structure was revived, with country directors coming in for each of the constituent co-operatives, and the number of top managers was reduced. On the plus side, KF has been able to draw on management expertise from Norway and Denmark as it tries to reduce its debts and running costs, including the decision to arrange a sale and leaseback deal for all of its retail and warehouse properties.

## ii) International Co-operatives

An alternative model is the expansion of retail activities into a non-national market by a single consumer co-operative. Producer co-operatives, for example, have long embraced the notion of expansion into international markets. This is particularly true amongst the ‘New Generation Co-operatives,’ many of which have closed membership, and which seek to add value to their products through an offensive marketing strategy (Egerstrom – quoted in Egerstrom et al, 1996,

p.46). Their aim is to achieve the best price (generally from non-members) in order to return a greater surplus to their members and their local communities. This may mean selling on an international basis, but such co-operatives may also invest their capital internationally in order to strengthen their home production and marketing activities e.g. the Mondragón Cooperative Corporation (Errasti, 2003; Errasti et al, 2004).

There is therefore nothing to prevent a co-operative retailer from expanding overseas. For a co-operative sponsored retail chain there may be significant advantages and, as with producer co-operatives, entry into a new market can strengthen the co-operative and return significant benefits to the members. However, for a consumer co-operative, if international expansion is not matched by the expansion of membership to the market then this raises a variety of issues regarding what benefits (if any) the co-operative is bringing to the market. For example, in late 2004 Mr Chandra Das, Chairman of the Singaporean consumer co-operative NTUC FairPrice, made a rather surprising statement. Denying that overseas expansion might conflict with the retailer's mission, he argued that it was perfectly acceptable for the co-operative to operate commercially abroad. "My co-op requirements are only in Singapore. I operate as a business overseas" (quoted in Wee, 2004).

However, most of the retail internationalisation initiatives by consumer co-operatives have to be seen as failures. Table IV shows that over half of the activities identified had ceased by 2005, with the highest failure rate amongst joint ventures with corporate chains. However, the 40% 'success' rate hides the fact that those initiatives that remain are generally much smaller in scale than those that failed. The fortunes of the most prominent of these ventures are discussed below, looking first at store-based expansion and then at the smaller, often non-store-based schemes for internationalisation.

[Take in Table IV]

#### *KF (Sweden)*

KF's international activities spanned a range of entry mechanisms and are characterised by activities primarily in non-core business areas. The main focus of KF's international activities came from the 1990 acquisition of the Swedish Kapp Ahl clothing chain. This gave access to Switzerland (closed in 1991), Norway and Finland. In 1997 the McCoy clothing stores in

Denmark were acquired from FDB – these were however sold in 2002 – and in 1999 the Norwegian Adelston chain was purchased to increase the store network in Norway and Sweden. At the end of the decade Kapp Ahl ventured into Poland, and briefly the Czech Republic, before it was sold to investors in 2004. The second arm of KF's internationalisation activities arose from collaboration in the preamble to the formation of Coop Norden, for example in the late 1990s a joint venture was formed with the Norwegian co-operative to merge their furniture stores in Scandinavia. These activities have now been subsumed into Coop Norden.

#### *NTUC FairPrice (Singapore)*

NTUC FairPrice of Singapore has been one of the most prolific examples of an internationalising consumer co-operative. Alongside the proposed collaborations shown in Table III, NTUC FairPrice entered a number of Asean Markets, primarily through joint ventures in the early 1990s. None of these operations have, however, achieved any significant scale – Malaysia (7 stores) and Myanmar (1 store) were abandoned in 1997 and 1998, and whilst Indonesia remains active in 2005, only 6 stores are trading despite ten years of involvement. In 2003, a 27% stake was taken in a Cayman Islands joint venture, which by 2005 was operating 6 hypermarkets (trading as Nextmart) and running shopping centres (Nextmall) in China. This followed three previous attempts to set up stores in China during the 1990s. However, in November 2005 it was announced that Carrefour was to acquire three of the hypermarkets and Nextmart was seeking buyers for the other three, whilst retaining the shopping centres.

There has been recurrent press speculation that NTUC FairPrice will take its Cheers convenience store format into China and that an entry into Vietnam may occur in the near future. However, its history of international expansion and intense competition in its home market must make these moves unlikely. The limited progress may be due to the lack of management knowledge of other countries social and retail environments, the failure to establish a member base locally to provide a reason for shopping in their stores, the difficulties of raising equity capital as a co-operative, or the lack of a similar strong link to government organizations as NTUC FairPrice has in Singapore (Davies, 2005).

### *Migros Switzerland*

We include Migros, the Swiss co-operative, here despite its failure to be admitted to the ICA in the 1940s or Hollander's comments that the discussion over whether or not Migros is a co-operative has led to a "lengthy theological argument" (1970, p.77). Migros-Turk, a joint venture between Migros and the Istanbul government, was established in 1954, but it transformed itself into a separate corporate chain rather than into a co-operative as initially envisaged. Migros has also expanded into France, Germany and Austria but without any great success (Burt, 1994).

In February 1993 Migros entered into a joint venture/ merger with Konsum Austria. Konsum was the largest Austrian co-operative, formed in the late 1970s in order to overcome the fragmented nature of the local societies. But it never really restructured to meet the growing levels of competition, particularly from the discounters. Migros St Gallen took full control over the operations in western Austria, including Migros's own (newly acquired) Familia operations; elsewhere, there was a 50/ 50 joint venture for the hypermarket operations. The small shops were excluded from the deal.

Schediwy (1996) argued that this merger was doomed from the start. Konsum concealed the true extent of its financial problems, wanted access to Migros's skills in logistics and organization but was only willing to make minimum concessions. Migros, on the other hand, was looking to expand outside Switzerland but would not commit fully to the restructuring of Konsum. The stores were not remodelled or rebadged but prominence was given to the Migros own label over the Konsum products. This upset many of the existing shoppers and sales fell even further. When the banks began to pull the plug on the Konsum operation, further alienating suppliers, the decision to sell Konsum's assets became inevitable, but Migros made no efforts to take over the operation or to support Konsum further. The Familia chain returned to the control of Migros St Gallen, and was sold to Spar Austria in 1996.

A second acquisition with international consequences was that of the Swiss Globus group, which had 27% of its sales from outside Switzerland, in 1997. These activities comprised Interio furniture stores in Austria and Germany, the Globe department store in Mulhouse, France, and Office World with stores in France, Germany and the UK. During 2003 and 2004 Migros

divested itself of these non-Swiss outlets with the exception of the four Interior stores in Germany.

The only other surviving international activities of Migros are the handful of stores opened in the *broder* (border) regions of France (2 stores) and Germany (3 stores). The lead role in each of these countries has been taken by the nearest of the Migros family of co-operatives. It is very clear however that their primary aim is to capture Swiss shoppers who cross the border in search of cheaper products. One survey of the Thoiry store in eastern France found that over 70% of cars in the store's car park had Swiss number plates (*The European*, July 31, 1997, 26).

#### *Tradeka and SOK (Finland)*

The Finnish co-operatives, Tradeka and Sok, have pursued small scale internationalisation activities in the neighbouring Baltics and Russia. Tradeka opened two Renlund hardware stores in Estonia in 1992, but closed one and sold the other to a local operator in 1997. A similar Renlund venture in Russia also suffered the same fate, although Tradeka still operates 3 Siwa/Super Siwa supermarkets in St Petersburg. SOK entered Estonia in 1995, initially via a joint venture with Kaufhof of Germany. The German partner was bought out in 1999, but the single store was divested three years later, as resources were switched to the Prisma grocery chain, launched in 2000, which now trades from three hypermarkets

#### *Mondragón Cooperative Corporation (MCC)*

The spectacular growth of the Eroski supermarket chain to become the No. 2 food retailer in Spain came about because, over the past decade, Eroski has argued that the indigenous regional retailers needed to unite under one banner to protect themselves against European retailers entering Spain. This strategy was backed by capital from its parent, the Mondragón Co-op Corporation (Thompson, 2002). Eroski has active links with Co-op Italia for product purchasing and, in September 2002, it established a partnership with Intermarché, the French retail buying group, that gave it notional control over purchasing for a number of stores in southern France but it is not clear whether this has led it to open its own stores to date (*El Pais*, May 8 2005).

Ishizuka (2001) reports that there has been some criticism that Eroski is losing its sense of co-operative mission and that the expansion of MCC is causing a change to a quasi-multinational company, as well as concerns about an increase in part-time/ non-member workers within the new employment system. He argues that Eroski has three different layers with different organizational characteristics:

- a) 'Real Eroski' - the core group of Eroski hypermarkets, Maxi supermarkets and agricultural products co-operatives. This layer adopts co-operative principles naturally as part of the MCC Group.
- b) 'Eroski Group' – the entity which is often used for statistical purposes and which includes Consum and investment companies Cecosa and Erosmel. This layer adopts quasi-co-operative principles or social economic principles as a share company and is the entity often used for statistical purposes.
- c) Eroski – the group in its broadest sense, including other subsidiaries or co-partner supermarkets both in and outside Spain. This layer adopts social economic solidarity in broad services (including partnership) of a profit-seeking enterprise and an overseas enterprise.

“In conclusion, the Eroski group applies co-operative principles, non-profit association principles and social economic principles respectively in each aspect of the organisation.” (Ishizuka, 2001)

The international growth of the producer co-ops is coming not through international co-operation but through foreign direct investment that clearly diverges from the traditional co-operative approach. In response to economic, jurisdictional and cultural obstacles, Mondragón has used acquisition and the constitution of private capital to establish its international operations (Errasti, 2003, 2). Errasti also makes the point that whereas in the past most MCC workers have been members of the co-operative, this is relatively rare in their international operations.

### *Others*

Finally, the remaining ventures identified are based mainly around non-store retail operations. France's Groupe Camif, having made a brief foray into furniture retailing in Germany in the late

1990s, has concentrated on mail order sales in the Czech and Slovak Republics since 1994, recently taking their offer on-line. Camif also runs Score VPC, a mail order group specialising in school equipment and sporting goods for local communities, in several European countries. Recreational Equipment Inc (REI), the American co-operative which sells outdoor gear and clothing, opened a flagship store in Tokyo in 1999 but closed it in 2001. It continues to sell products online to both members and non-members, whereas the Mountain Equipment Co-operative of Canada also sells internationally by mail order and online but insists that purchasers become members of the co-operative before they can make a transaction. Finally, Coop Italia has opened a couple of stores in Croatia.

The experiences of these consumer co-operatives provide both parallels and distinct differences from the internationalisation of market-based corporate chains. Apart from the Migros venture into Turkey, the vast majority of store based internationalisation has occurred since 1990. The usual range of entry mechanisms are evident – organic growth, acquisition and joint venture, with both other co-operatives and corporate chains. Finally, in most cases moves have been into neighbouring markets with strong geographical and cultural ties.

As noted earlier, few of these ventures have proved to be overwhelming success stories. Most appear to be strategic appendages brought about by expediency rather than a core element of strategy and future growth. Some of the larger scale activities have arisen as a by-product of domestic acquisitions. In most cases, however, no real scale of operation has been achieved – operations remain small and peripheral activities both to the consumer co-operative concerned and in the destination markets. Finally, it is evident, particularly from the comment reported above in respect of Coop Norden and MMC, that when international activities seem to be moving towards centre stage questions are raised about the behaviour and organisation of these activities and their relevance to co-operative ideals

Given these sporadic, and often stalled attempts at retail internationalisation is there something inherent in the nature and behaviour of consumer co-operatives that mitigates against successful international operations ? Does the point of differentiation that arises from the organisational

principles of co-operatives become a point of distraction as far as internationalisation is concerned ?

### **5. The Co-operative Difference : A Barrier to Internationalisation?**

As noted earlier, the very nature of consumer co-operatives is believed to provide a point of distinction and differentiation from other market based organisational forms:

“..the social dimension of co-operatives helps to set them apart, to make them different from their competitors and to make them what they are today. The active promotion of social values provides co-operatives with a clear profile, helps to distinguish them from their competitors and gives them a competitive advantage. The absence of social values denies co-ops their natural profile, renders them similar to their competitors to the point of not being able to distinguish them, and denies them their natural competitive advantage.” (Pestoff, 1999, 208)

This is a common thread in the discussions that have taken place when commentators try to explain the failure of a co-operative; see, for example, Grott (1987), Rauber (1992), Normark (1996), Middleton (1998) and Kurimoto (1999). Talking of the ‘new wave’ co-operatives in the USA that began by selling natural foods, Grott (1987) commented that: “As social commitment declined, more and more patrons began reverting to the norm and relating to the co-op on primarily economic terms – the weakest of all competitive positions for the co-op.”

As co-operatives grow, they can find it more difficult to retain this special relationship with their members, so putting pressure on their democratic structures and even their cost structures. Yet, the size of many modern consumer co-operatives also has allowed them to be important leaders in terms of a range of actions such as product labelling, health education, fair trade and so on. Co-operative principles (as expressed in their attitudes and behaviour) also send out a number of clear signals. According to proponents, they can change the attitudes of local workers towards taking responsibility for their own welfare; can form the basis for channelling funds into the local economy and community; allow the distribution of any surplus widely, based on a member’s patronage of the co-operative; and often provide other benefits such as education and local public works.

So, why is it that consumer co-operatives have found it so difficult to get across their point of difference in new markets? Singerman (1987) argued that the problem for many co-operatives is less about forgetting social goals and more about the changing environmental circumstances. Whether or not co-operatives have a strong membership base, they can only grow when they have a good capital base, good internal structures with checks and balances on management activities, and an outwardly-focused market approach. Whilst many commentators suggest that co-operatives suffer from inadequate capital, Middleton (1998, 3) argues that this need not apply to large societies because they are just as able to borrow against their asset base and to draw on retained surpluses as any investor-owned chain. Much of the 'blame' therefore would seem to lie with choices made by directors and managers, firstly in terms of when and where to move internationally, and secondly, how committed they are to making those moves work and become self-sustaining.

This point can be seen in Van der Krogt's comparison of primary co-operatives and investor-owned firms in the dairy industry. He found that co-operatives preferred to engage in mergers, licensing and explorative collaborations, whereas the firms focused mainly on takeover strategies through acquisitions and strategic equity shareholdings. In his view, cooperatives' democratic decision-making based on members' current patronage results in cautious growth strategies; and, cooperatives' equity capital constraints lead to the preference of business expansion through consolidations and collaborations with low capital demands (Van der Krogt, 2002, 25-26). Unfortunately, it appears that in retailing, and particularly food retailing, a similarly cautious approach has prevented co-operatives from using their early mover advantage to build up a sufficiently large market presence. When other, more aggressive retailers have entered the market and begun to expand quickly, the co-operatives have found themselves with no other competitive advantage (no membership base) and they have faded away very quickly.

These issues take on further significance when we look at the barriers to international expansion by co-operatives. On the one hand, there are no real controls over co-operatives to prevent their expansion on an international or even global scale (Craig, 1976) but, on the other hand, adherence to the co-operative principles (and a consequent desire not to interfere with the activities of other co-operatives) does tend to act to constrain their activities outside their own

local area. Indeed, Bööck (1992) argues that a multinational co-operative organization can only come about as a result of the democratic agreement of all the co-operative organizations in the various countries involved.

These guiding principles and the underlying philosophical approach may, however, hinder the international spread of retail operations. A number of authors, grounded in co-operative ideals question whether international expansion is appropriate. Table V provides a summary of the contrasting characteristics of consumer co-operatives and market based corporate chains in terms of stakeholders, management approaches and supply chain organisation. In all three areas, the focus of investor-owned chains seems to be more aligned with the strategic focus, management control systems and operational flexibility believed to underpin a successful internationalisation strategy.

[Take in Table V]

The tension between market opportunities and the equity/community focus of co-operatives would seem to mitigate against internationalisation on any substantial scale. The know-how and technical transfer arrangements exemplified by Coop Norden may represent the 'limit' of the co-operatives international scope. A point recognised by Kurimoto (1999):

“Needless to say, co-operatives are rooted in the communities where they operate and can't move where opportunities exist. However, it is urgent for co-operatives to upgrade the regional and global collaboration in the fields of joint buying, technology transfer, exchange of know-how, joint ventures, etc. The multi-national co-operative can be conceived on the regional scale, provided they allow local representation.” (Kurimoto, 1999)

Finally, the recent paper by Wrigley et al (2005) has framed retail internationalisation within Hess's (2004) discussion of embeddedness. Hess distinguishes between three forms of embeddedness – societal (or the cultural, industrial and historical origin of the firm); network (the composition and structure of the network relationships within which the firm is engaged) and territorial (its relationships in 'place' with local firms, consumers and regulations). Wrigley et al (2005) emphasise the key importance of territorial embeddedness to explaining the retail transnational corporation.

The history of consumer co-operatives in expanding their retail operations outside their domestic networks suggests that the role of societal embeddedness is also an important consideration.

Hess's three forms of embeddedness are, in effect, external influences upon the firm. The experience of consumer co-operatives may suggest a fourth form, which is an internal construct, namely 'firm' or 'organisational' embeddedness. This would represent the vision, values and organisational behaviours of the firm that is a product of (and affects its ability to cope with) the other forms of societal, network and behavioural embeddedness. This is particularly visible and relevant with a co-operative because its boundaries are relatively 'porous;' that is, members have a role and influence that can go far beyond that of just a customer and yet are also usually more territorially concentrated than the shareholders in an investor-owned firm. In Hess's words, this becomes another element in the "processual character of embeddedness by focusing on the becoming rather than the being" (Hess, 2004, 182). It would appear to be much easier to become embedded in a new retail territory or new retail network where one is 'merely' modifying the relationship with a customer. The establishment of the concept of membership and a relationship with members appears to be far more difficult; yet the concept is so embedded in the organisation as to make it difficult to function as a co-operative without it.

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## **Table I: The Seven Co-operative Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

### *1st Principle: Voluntary and Open Membership*

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

### *2nd Principle: Democratic Member Control*

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

### *3rd Principle: Member Economic Participation*

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### *4th Principle: Autonomy and Independence*

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

### *5th Principle: Education, Training and Information*

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

### *6th Principle: Co-operation among Co-operatives*

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

*7th Principle: Concern for Community*

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Source : ICA News, No. 5/6, 1995.

**Table II: Collaboration between Consumer Co-operatives: Establishment of Other Bodies**

	<b>Project</b>
International Co-operative Alliance (ICA)	The ICA represents altogether over 750 million members in over 100 countries.
EUROCOOP	An amalgamation of European co-operative movements formed in 1957 that aims to promote the interests of European consumers and to safeguard the interests of the co-operative movements in relation to the European Union. It was established initially to allow the exchange of commercial information between consumer co-operatives in the European Common Market. It is now focused mainly on consumer issues in food policy, environment policy, sustainable consumption, consumer information and education.
Nordisk Andels Forbund (NAF) (Scandinavian Co-operative Wholesale Society)/ Coop Trading AS	Joint purchasing organisation for the retail societies in Denmark, Finland, Iceland, Norway and Sweden formed in 1918 and with branch buying offices in a variety of locations around the world. The Swiss and Scottish wholesale societies were affiliates for a while from 1962. NAF was renamed Coop Trading in 2003 and now undertakes joint buying for Coop Norden and SOK.
Co-operative Wholesale Committee	A body first composed of 14 European and one Israeli national society formed in 1964. CWC members used each other's food buying facilities and tried to standardise packages and joint trademarks. The roles played by the CWC have now been taken over by Coop Trading (previously NAF) and Intergroup.
Committee on Retail Distribution	An informational agency with a chequered history, revived in 1965 but now subsumed into other bodies.
NAF International A.m.b.a.	A European alliance of Consumer Co-operatives for the direct purchasing of food goods. Members include FDB, NKL, KF, Tradeka, Co-operative Union, Coop Italia and Grupo Eroski. It buys from 80 countries and, through its members, NAF International is said to offer access to over 100 million potential customers.
InterGroup A.m.b.a	A European alliance of Consumer Co-operatives for the direct purchasing of non-food goods, primarily from Asian markets. InterGroup is owned by Coop Norden and Coop Italia, partnered by Grupo Eroski, Tradeka and Coop Afeosz. InterGroup has its own Education and Social Welfare Trust Fund that finances social projects, particularly those combating child labour, in the countries from which it buys goods.
Inter-Coop	An association of 12 co-operative federal organisations from 11 East and West European countries formed in 1995. Its aim is to promote the exchange of know-how and information between member organisations, especially related to the retail trade. 1995 was its first year of operation as a body formally independent of NAF and InterGroup although the three groups still collaborate on issues.

Eurogroup International and Eurogroup SA	Initially established in the late 1960s to develop common private brand products for Rewe (Germany), UNA (France), Sperwer Verbond (Holland), ICA (Sweden), Trica (Denmark) and Londis (U.K.), it was wound up in the late 1980s and reconstituted as Eurogroup SA including only Rewe and Coop Schweiz.
Coop Italia and Grupo Eroski	An agreement between the two co-operatives to collaborate in buying, particularly in non-food, and to exchange information on private labels and category management.
Coop Electro AB	A joint venture established in 2000 between KF of Sweden and NKL of Norway to co-operate in electronics procurement. It has now been subsumed into the activities of Coop Norden.
Alidis/ Agenor	A joint purchasing company established in 2002 by Eroski, Intermarche (Mousquetaires) and Edeka for basic products and the sharing of expertise in own branding, ranges and management models. The company is based in Geneva, where Agenor, the European central purchasing agency for Intermarche was already operating.
Coopernic	A buying group established in Brussels in late 2005. This was established initially by Leclerc and Conad following their involvement in the joint venture company Conalec in Italy. It is likely that Rewe and Coop Schweiz will also join the alliance. All four retailers are co-operative in structure and hold a key market position in their domestic markets. Initially Coopernic will act as a mechanism for the wider dissemination of the bilateral agreements in place through Conalec and Eurogroup.

**Table III: Examples of Co-operation and Information Provision between Consumer Co-operatives**

	<b>Origin</b>	<b>Destination</b>	<b>Year</b>	<b>Activity</b>
	U.K.	Jamaica	1950s - 1960s	Provision of management manuals, training and controls to reduce shrinkage and improve stock management. It was not felt to have been a success as the local societies were unable to build on the activities.
Co-operative League of USA	U.S.A.	Laos	1950s – 1960s	An attempt to help set up consumer co-operatives in Laos that was frustrated by the country's civil war.
KF	Sweden	Greece	1960s	Support to the struggling Greek societies.
KF	Sweden	India	1960s	KF prepared plans for an Indian co-operative department store and worked with the Consumers Management Institute in Bombay.
KF	Sweden	Portugal	1960s	KF provided assistance to the Portuguese Co-operative Society, leading to the opening of their first department store.
Histadrut	Israel	Kenya	1960s	Histadrut undertook a major retail programme at the request of the Kenyan Federation of Labour. However, efforts were bogged down because of poor local personnel, weaknesses in the Labour Federation and competition from the state marketing system.
Histadrut, KF and 3 other Swedish societies	Israel/ Sweden	Tanzania	1960s	A major effort to develop retail co-operatives in Tanzania. Cosata, the Tanzanian co-operative, was nationalised in 1967 – and this was seen as a major failure of co-operation.
KF Project Center for Swedish Co-operative Center	Sweden	Singapore	1985 - 1986	KF undertook a strategic review of the operations of NTUC FairPrice.
NTUC FairPrice	Singapore	Maldives	1991- 1992	FairPrice provided consultancy advice to The Maldives State Trading Organisation (set up by the government and labour organisations). The activity was successfully completed in 1992 with the opening of the People's Choice Supermarket, the first supermarket in the Maldives.
NTUC FairPrice	Singapore	Pakistan	1991	FairPrice provided consultancy services to government and labour organisations, primarily through the Utility Stores Corporation - a public-sector co-operative - under a programme that involved the International Labour Organisation. In 1995 FairPrice was said to be in negotiations over a retail joint venture but nothing seems to have come of the matter.

NTUC FairPrice	Singapore	Indonesia	1992	A deal to provide consultancy services to Inkopkar (Indonesian Workers' Cooperative Alliance). It is believed that this was completed successfully.
NTUC FairPrice	Singapore	Cambodia, the Philippines, Russia, Sri Lanka and Vietnam	1993 - 1994	FairPrice was said to have received requests to provide know-how for the establishment of joint retail operations in each of these countries. There is no published evidence that any of these initiatives were taken beyond the initial contact stages.
KF Project Center for Swedish Co-operative Center	Sweden	Bulgaria	1995	KF undertook concept development for a supermarket chain in Bulgaria.
KF Project Center for Swedish Co-operative Center	Sweden	Vietnam	1996 - 2001	KF provided help and advice for the modernisation and expansion of the Saigon Union of Trading Co-operatives. KF helped in the transformation of Saigon Co-op into a modern supermarket format.
KF Project Center for Swedish Co-operative Center	Sweden	Poland	1997	KF helped to develop retail operations and management training for local consumer co-operatives in the Lublin region.
Japanese Consumer Co-operative Union	Japan	India	2005 -	The JCCU provided APNA Bazaar with training, visual merchandising skills and the helped in the setting up of a co-operative food brand.

Sources: Hollander (1970), KF website (<http://www.kfprojectcenter.se>) and press reports.

**Table IV: Summary of Internationalisation Activities by Consumer Co-operatives\***

	Origin	Number of activities	Wholly Owned New Venture	Joint ventures/ Mergers		Acquisition
				With cooperative chain	With corporate chain	
KF	<b>Sweden</b>	<b>7 (1)</b>	2 (0)	1 (1)		4 (0)
Migros	<b>Switzerland</b>	<b>7 (3)</b>	2 (2)	1 (0)	1 (0)	3 (1)
NTUC FairPrice	<b>Singapore</b>	<b>4 (2)</b>		2 (1)	2 (1)	
Tradeka	<b>Finland</b>	<b>3 (1)</b>	3 (1)			
SOK	<b>Finland</b>	<b>2 (1)</b>		1 (1)	1 (0)	
Eroski	<b>Spain</b>	<b>1 (1)</b>			1 (1)	
Coop Italia	<b>Italy</b>	<b>1 (1)</b>	1 (1)			
<b>TOTAL</b>		<b>25 (10)</b>	<b>8(4)</b>	<b>5 (3)</b>	<b>5 (2)</b>	<b>7 (1)</b>
Camif	<b>France</b>	<b>3 (2)</b>	1 (0)	1 (1)		1 (1)
Others		<b>3 (2)</b>	3 (2)			
<b>TOTAL (including Camif/ others)</b>		<b>31 (14)</b>	<b>12 (6)</b>	<b>6 (4)</b>	<b>5 (2)</b>	<b>8 (2)</b>

\* Figures in brackets show those activities still in operation in 2005

(Sources: Hollander (1970); Co-operative Annual Reports; press reports)

**Table V: Core Characteristics of Consumer Co-operatives and Market Based (Corporate) Chains**

Consumer Co-operatives	Market-Based (Corporate) Chains
<b>Stakeholders</b>	
<b>Consumers and Community</b> <ul style="list-style-type: none"> <li>- focus on equity</li> <li>- reinvest “surplus” into community</li> </ul>	<b>Shareholders</b> <ul style="list-style-type: none"> <li>- focus on efficiency and returns on investment</li> <li>- growth based strategies driven by ROCE and other financial indices</li> </ul>
<b>Management Approaches</b>	
<b>Democratic Management Style</b> <ul style="list-style-type: none"> <li>- fragmented decision making</li> <li>- “bottom up” determination</li> <li>- local market response</li> <li>- disjointed, inconsistent offer</li> </ul>	<b>Centralised Management Systems</b> <ul style="list-style-type: none"> <li>- centralised decision making</li> <li>- “top-down” hierarchy based leadership</li> <li>- consistency and replication of corporate offer</li> </ul>
<b>Supply Chain Organisation</b>	
<b>Vertical Integration</b> <ul style="list-style-type: none"> <li>- channel ownership</li> <li>- obligation to purchase</li> <li>- non-exploitative purchasing relationships e.g. fair trade</li> </ul>	<b>Vertical Marketing System</b> <ul style="list-style-type: none"> <li>- disaggregated channel, subcontracted functions and activities</li> <li>- channel leadership and management</li> <li>- flexibility and adaptability of supply</li> </ul>