

4 CWS and the Co-operative movement

Introduction

4.1. Our survey of the market for the supply of funeral undertaking services in Scotland in Chapter 2 noted that there were five Co-operative suppliers of funeral services: CWS and four local Co-operative retail societies. In analysing the conditions of competition expected to exist following the merger, we considered it important to understand the nature and extent of competition between these five suppliers.

History of the Co-operative movement

4.2. The Co-operative movement as it is known today can trace its origins back to 1844, when a group of working men formed the Rochdale Equitable Pioneers Society and set up a retail store in Rochdale. This initiative was followed throughout the country and by 1904 there were 1,454 Co-operative retail societies. A continuing process of rationalisation through mergers has reduced the present number of retail societies to about 100.

4.3. Retail societies vary considerably in size and the services they provide. All societies run the familiar Co-op stores and shops selling groceries and household goods; in addition the larger societies provide a varying range of other goods and services, including pharmaceuticals, milk deliveries, fuel (coal deliveries), travel and funerals.

4.4. All Co-operative retail societies are corporate bodies registered under the Industrial and Provident Societies Acts. Ownership is in the hands of members of the general public and the membership of each society elect a board of directors or committee of management. Day-to-day management is normally the responsibility of a Chief Executive Officer or General Manager. Each retail society is an autonomous entity, responsible for determining its own policy.

4.5. Each retail society therefore was formed by local people to serve the interests of their locality and consequently each of them was rooted in and traded in the community from which it originally sprang. Until 1960 boundary agreements existed between individual retail societies which, in effect, restricted them to trading within their particular recognised trading areas. The Co-operative Union, formed in 1869 to establish and organise Co-operative societies, acted as an 'arbiter', according to its rules, in 'boundary' disputes between societies.

4.6. The Restrictive Trade Practices Act 1956 was aimed at preventing traders from entering into anti-competitive arrangements against the public interest. Following the passage of the Act, some 200 such 'boundary' agreements between Co-operative societies were registered under the Act. In 1960 the Restrictive Practices Court adjudicated on a boundary agreement between the adjacent Doncaster and Retford Co-operative Societies and declared that the agreement had not overcome the burden of demonstrating that it was in the public interest and that the relevant restrictions on trading outside their respective areas were void. Societies were subsequently advised by the Co-operative Union to terminate any boundary agreements to which they were parties. Thus, the Co-operative Union told us, boundary agreements between societies no longer exist although Co-operative societies generally continue to trade in the areas with which they (or any society with which they have subsequently merged) have historically been associated.

4.7. CWS was formed in 1863 by a group of retail societies, essentially as a supply base; goods and services were to be manufactured or purchased by CWS and distributed to the retail societies. A parallel development occurred in Scotland when in 1868 the Scottish Co-operative Wholesale Society Ltd (SCWS) was formed; this merged with CWS in 1973.

4.8. CWS continues today in its role as the principal supplier to the retail societies. In Scotland, Northern Ireland and South-East England it is also a major retailer in its own right. In Scotland a number of areas were without good shops and it was felt that the local community could not set up their own retail society. It thus became the role of SCWS to set up Co-operative shops in these areas; retail operations in Scotland have also grown as a result of retail societies merging with SCWS and later CWS. In England, in the 1930s, a number of small retail societies were experiencing financial difficulties and CWS Retail Society (now Co-operative Retail Services Limited) was set up to take over their management, and to establish outlets in areas otherwise lacking a Co-operative presence.

4.9. CWS has also diversified into other activities, including banking, insurance, travel, optical services and funerals. In 1986 it had 23,000 employees and a turnover of £2.4 billion.

4.10. CWS is also registered under the Industrial and Provident Societies Acts. Ownership of CWS is primarily by the retail societies which subscribe to shares in CWS in proportion to the size of their individual membership. The directors of CWS are retail society officials (normally Chief Executive Officers or General Managers) and retail society directors who are elected to the CWS board by the members (ie principally the retail societies). The CWS board appoints a Chief Executive to head the management team. In September 1986 a new management structure was introduced by CWS, dividing its trading operations into two major divisions, Retail and Services and Production and Property, each headed by a Deputy Chief Executive. The Chief Executive, the two Deputy Chief Executives, the Finance Controller, the Secretary and the General Manager (Employment and Corporate Affairs) comprise the Executive Committee. Corporate matters and support for CWS trading activities are the responsibility of the Secretariat, the Finance Division and the Employment and Corporate Affairs. The CWS management team is shown at Appendix 4.1. The next level of the management structure comprises the Group, each headed by a General Manager; the Funeral Services Group is discussed in detail in Chapter 5.

Views of the Co-operative retail societies

4.11. The General Manager of the Clydebank Co-operative Society Ltd (Clydebank) told us that there was no competition in funeral services between Clydebank and CWS in Glasgow. Each society had its own trading area; Clydebank did not, therefore, compete for the provision of funeral services with the nearest CWS branch office at Whiteinch. Clydebank, moreover, did not advertise its services in Glasgow newspapers and CWS did not advertise in local newspapers in the Clydebank area. When CWS made an offer for the funeral service business of Walter Johnston & Sons, Renfrew, it was recognised that Clydebank had to be consulted because the Johnston business was in Clydebank's trading area.

4.12. The Chief Executive Officer and Secretary of the Scottish Midland Co-operative Society Ltd (Scotmid) told us that prior to the acquisition of the HoF funerals business by CWS, the provision of Co-operative funeral services in Edinburgh was divided into two mutually exclusive recognised trading areas: one where Scotmid provided funeral services and a second where the Musselburgh & Fisherrow Society provided such services. Scotmid said it had no trading establishments at all in Musselburgh's area. CWS did not consult Scotmid about its intention to purchase the HoF businesses operating in Scotmid's recognised trading area and had not made clear its intentions with respect to providing funerals in that area except that the HoF businesses would carry on trading under their existing names. Scotmid also told us that depending on how CWS eventually decided to operate its funerals business in Edinburgh, Scotmid might have to

reconsider its present policy of not providing funeral services from its trading establishments in the recognised trading areas of CWS in Motherwell, Wishaw and West Lothian.

4.13. Both Clydebank and Scotmid told us that should a customer living in another Co-operative society's trading area ask for a funeral to be conducted by Clydebank or Scotmid, then they would take on that business and the converse would apply (ie CWS would conduct a funeral if asked by someone living in Clydebank's trading area).

Views of CWS

4.14. CWS told us that the retail societies' funerals businesses operated independently of CWS and of each other without there being consultation between them on price or on any other trading terms or policies. Further, in its view, there were no exclusive trading areas nor any restraints on competition between CWS and retail societies; CWS was an independent commercial enterprise concerned to promote the success of its business operations.

4.15. CWS said that the market for funeral services was essentially a local one but it was not possible to define precisely the extent of a particular locality. For example, a family associated with a particular area who had moved to a neighbouring district might still choose an undertaker from the area where they originally lived.

4.16. CWS told us that it competed for the funerals business of those who lived and worked in the area in which Clydebank conducted its trade. CWS said it had a branch at Whiteinch, only three miles to the east of Clydebank's central funeral premises. CWS estimated the number of funerals conducted in the Clydebank area by Whiteinch and other CWS branches at about 800 in a full year. CWS advertises in newspapers local to Clydebank (eg the Glasgow Guardian and Milngavie and Bearsden Herald). CWS also told us that a 'combined advert' under which Clydebank was listed as a 'branch' of CWS was placed by CWS, without reference to senior management, in the Glasgow Yellow Pages as a favour to Clydebank, as that Society could not afford to advertise separately.

4.17. CWS said there was nothing mandatory about advising a local retail society about an intention to purchase a business in an area where a society customarily carried on trade. This would be done as a courtesy. Since Scotmid had become aware of the intended purchase of the HoF businesses in Edinburgh due to the publicity surrounding the purchase, CWS had not felt it necessary to extend this courtesy to Scotmid. CWS was free to take necessary decisions in its own commercial interests.

4.18. CWS said that it did not know of a Scotmid policy of respecting 'recognised' trading areas in Motherwell, Wishaw and West Lothian. Retail societies based in these areas had previously arranged for a funeral service for their members to be carried out by CWS. When these societies merged with Scotmid these arrangements were terminated. Subsequently Scotmid may not have actively carried out funerals in these areas since they were located at some distance from the Scotmid area of operation.

Further evidence from the Co-operative Union

4.19. In a letter of 11 September the Co-operative Union Ltd informed the Commission that:

- (a) '... so far as the Co-operative Union is aware, no Co-operative Society in membership of the Co-operative Union has or claims... a "recognised trading area" and that it is quite wrong and totally misleading to use that expression in relation to the trading activities of any of our member societies';
- (b) '... so far as we know, no society will accept, acknowledge, or even "understand" that any other society has a "recognised trading area" and you will appreciate that since the introduction of the Restrictive Trade Practices Legislation over 30 years ago now and its subsequent development

through the proceedings of the Restrictive Practices Court, the so-called "Boundary Agreements", of earlier years, have long since been terminated';

- (c) 'So far as we are aware, CWS does not recognise that Clydebank (which is not a member of the Co-operative Union) has a trading area in which CWS will not compete for funeral business';
- (d) 'So far as we are aware, Clydebank does not recognise that CWS has a trading area in which Clydebank will not compete for funeral business';
- (e) 'So far as we are aware, it is not correct to say that there are "recognised trading areas" in Edinburgh in respect of funeral services provided by the two Co-operative societies' (both members of the Co-operative Union);
- (f) 'So far as we are aware, neither CWS nor Clydebank would claim for itself, or acknowledge of the other of them, the existence of any "recognised trading area"'; and
- (g) 'Co-operative Union does not recognise the existence of any boundaries between societies, and consequently, does not accept that any society has a "recognised trading area"'.