

Resurgent giant



ONCE THE SLEEPING GIANT OF THE HIGH STREET, THE CO-OPERATIVE IS NOW A DYNAMIC AND COMMERCIAL SUCCESSFUL ORGANISATION, AS **GRAHAM BUCK** FOUND OUT WHEN HE SPOKE TO TREASURER, ROGER MORGAN.

PHOTOGRAPHER: ROGER HARRIS

The Co-operative Group has come a long way in the seven years since its treasurer, Roger Morgan, joined the organisation. "Back then it was sometimes referred to as the sleeping giant of the high street," Morgan explains. "Today, it is commercially focused and successful, and its co-operative ownership and the ethical principles that underpin its business activities are the driving force behind the renaissance of one of the UK's best-loved brands.

"Our chief executive Peter Marks has gone on record as saying that in terms of the society's values, its ethics, its commercial drivers and its branding, our time is now. We are a family of businesses that resonates with the consumer, and our members certainly value the services and products that we offer. It's time we started to punch our weight."

As Marks himself observed, in late September 2008, when unveiling the group's record first-half profits: "We have had nothing in the news recently but greedy bankers and corporate greed. But we can provide something different."

The group's flagship business, Co-operative Food, has beefed up its operations in the past 18 months. Last year's merger between United Co-operatives of Rochdale and the Co-operative Group of Manchester created the world's largest consumer co-operative, which now represents 84% of the co-operative movement in the UK.

The Co-op followed that one up in July this year with the £1.6bn acquisition of rival Somerfield. The deal nearly doubled its market share from 4.2% to nearly 8% and established it as the UK's fifth biggest supermarket business.

Although it will have to dispose of 126 outlets to satisfy the Office of Fair Trading's competition concerns, the deal pushes the total number of Co-op stores close to 3,000.

A FAIR PRICE Morgan won't comment on the price paid beyond saying it was "a fair price for the assets acquired" and that business analysts regard it as good value; indeed, reports suggested that Somerfield had originally hoped for £2bn-£2.5bn.

He also confirms that the Co-op is financing the acquisition

Unity is strength

The Co-operative Group dates back to 1844 and is Britain's fifth-largest supermarket chain. Its merger with United Co-operatives in July 2007 and its £1.57bn acquisition of Somerfield this summer means it now has more than 4,300 retail outlets and 85,000 employees.

The Co-op has more than three million members. A minimum investment of £1 buys membership; the maximum shareholding is £20,000. Share values remain at par.

The Co-op's latest results, covering a 28-week period to late July, show trading group sales up by a third year on year, at just over £4bn and operating profits £50m higher at £191m. Dividend payments to members more than doubled to £94.7m.

The group aims to double profits over the next three years and will spend £1.5bn on revamping its stores.

entirely by raising of debt, with total facilities of £2.6bn available to the group.

"The strength of our banking relationships has made this possible, despite the very challenging economic environment," he adds.

Morgan's career before joining the Co-op began with a three-year stint as a trainee accountant with Arthur Andersen, after graduating from the University of Liverpool in 1983 with a degree in economics.

"I did what most graduates seemed to be doing at the time when they were uncertain of their immediate career path and joined one of the big accounting firms," he admits. This was followed by a move into industry finance as a commercial accountant with industrial machinery manufacturer MF Industrial.

His four years there coincided with "pretty lean times", he says, and gave

him his first taste of treasury-related activities. Although the work was very much "hand-to-mouth financing" and factoring payments, he found that being at the forefront of cash management was both exciting and dynamic.

He moved into treasury full time in 1990, joining the UK-listed engineering firm Renold as assistant group treasurer and qualifying with the ACT six years later.

While the exams were tough, "I'm really pleased that I did them. And I did it the long way, not just a couple of papers. I went through them all. I think I became a better, more rounded professional as a result. In fact I even made a start on the MCT course and worked through all the manuals."

After seven years at Renold, Morgan moved to Nalco, a US-owned specialty water treatment chemical company, in 1997, where he worked as European treasurer. After he had been there for four years, he was offered the position of treasurer at the Co-op.

WHAT'S THE MAIN ATTRACTION OF HIS CURRENT ROLE? "The key factor is that it's very unusual in this day and age to still be able to work for a conglomerate," he says.

This work entails providing treasury services for a trading division



that encompasses food retail (over 2,200 outlets and 52,000 staff), pharmacy (700 outlets and 5,000 staff), travel (450 branches with 3,000 staff) and more than 600 funeral homes.

The trading division is also Britain's biggest farmer and has recently added a legal services business to its portfolio. Other, possibly less well-known ventures include motor trade business Sunwin (which has 22 dealerships in Yorkshire, Lancashire and the East Midlands generating an annual turnover of £250m) and a corporate clothing unit that designs, manufactures and distributes items ranging from chefs' jackets to businesswear.

Separate from the trading division's activities is the group's financial services division (CFS), which includes the Co-operative Bank and CFS Insurance.

This range of different businesses means the treasury role requires involvement in a number of different activities and demands a broad spectrum of treasury policies. The department must, for example, take account of commodity risk management in the farming operations for wheat sales, while risk management for the funeral business includes managing the investment of cash received for prepaid funerals so that it provides the most favourable return.

Morgan describes his role within the group as predominantly to support the trading group's business with the appropriate treasury-related products and services.

His team manages the division's day-to-day cash requirements and produces key senior management reports, such as consolidated cash forecasts. It is also responsible for arranging facilities and providing interest rate and foreign exchange (FX) risk management solutions.

However, as might be expected, much of his personal time this year was taken up with arranging the finance for the Somerfield acquisition, during which time he worked closely with Martyn Wates, the group's chief financial officer.

One unique aspect about the Co-op is its status as an industrial and provident society, as opposed to a plc. From a treasury management perspective, this means no fluctuating share price and therefore no access to the equity markets.

"The only form of finance available to the group is debt," Morgan explains. "This means that extremely strong banking and investor relationships, together with tight control of liquidity and facilities planning, are paramount."

TOUGH CLIMATE Like any other retailer, the Co-op is facing the toughest economic environment for many years, but Morgan thinks that the sectors in which it operates are more stable than most.

"Take food retailing: we're still enjoying a very good period of

trading, having just completed 11 consecutive quarters of like-for-like growth," he reports. "I think that as people rethink their shopping habits, the local convenience store has come back in vogue. You can walk to your corner shop instead of having to fill up with fuel and drive your car to do the big weekly shop at the supermarket.

"Pharmacy is also doing well, as people are more ready to spend on pills and potions to keep themselves fit and healthy. So in terms of resistance to a downturn, we're situated in some pretty good places."

The virtues of the Co-op's ownership structure – one steeped in history that may at times have appeared outdated – are once again looking highly relevant. Morgan says the Co-op has around three million members and is run on the democratic principle of one member, one vote.

A regional board structure allows lay members to become part of the group and, if they wish, stand for election and ultimately sit on the main board.

"It's a great commercial model that drives the business in what is essentially a virtuous circle," says Morgan. "It produces profits that we plough back into the business, both in the form of a 'dividend' to our members and a return to the wider community we serve. Hence the circle continues."

SOCIAL POLICY SUCCESS The group has taken other steps in recent years to enhance its already strong social policy credentials. Since 1992 it has been the UK's biggest supermarket supporter of the Fairtrade scheme, which protects overseas growers against exploitation by providing a guaranteed price for their product. Has this come at a cost? "On the contrary, it's one of the key drivers of our success," says Morgan.

This policy has most recently seen the Co-op become the first UK retailer to convert its entire own-brand hot beverage range, worth more than £16m annually, to Fairtrade, and extend its ethical food initiatives to other areas. All eggs sold by its stores are now either free range or organic; it has cut down on the glass used in many of its wines and spirits to save 450 tonnes annually; and the list of pesticides on its prohibited list has tripled from 32 to 98 different chemicals.

Seven years with the Co-op has been more than enough to dispel any stories of the Co-op being a sleeping giant. "It's a dynamic organisation and it's been a really rewarding career move, but most importantly, the future for the Co-operative Group looks to be a very bright one."

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