# Strategic Alliances and Consolidations:

## *Exploring cooperation among cooperatives*

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New competition. Shrinking margins. Tighter supply. Rising labor costs. Saturated advertising. Poaching of great employees. Competing in the natural- foods market place is just plain hard.

As the market's "new normal" intensifies with the rush of conventional retail players and new competition into our traditional space, there has been increasing interest in exploring the strategy of Principle Six: cooperation among cooperatives.

However, these strategies are not new to the U.S. food co-op world. A well-known strategic alliance is National Co+op Grocers, a joint venture owned by 150 independent food co-ops operating over 200 stores in 38 states. Originating as collaboration among six regional co-op associations in 1999, then consolidating and becoming a cooperative in 2004, this second-tier co-op serves to improve both the purchasing power and operating performance of its owners.

Other recent examples include the consolidation of People's Food Co-op in Lacrosse, Wis., and Rochester, Minn. as well as Central and Tacoma co-ops in Washington.[1] And recently, the boards of three Minnesota food co-ops—Eastside, Linden Hills, and Wedge—announced their proposed consolidation in the Minneapolis metro area.[2]

Why is this happening? Because these types of strategic alliances and consolidations offer the potential for co-ops becoming stronger together. Yet, they are not without challenges and risks, and this is critical to realize. These are strategies that can be appropriate or completely inappropriate. The key is to ensure that you do the hard work of determining the right strategic thinking, planning, and implementation.

As a researching professor, I've spent the last 20 years studying cooperative strategies, and as a CDS Consulting Co-op member-owner I have spoken to many co-ops about potential strategies. In neither role am I an advocate for these strategies—rather, my colleagues and I urge our co-op leaders to fully think through all the options and implications, drawing in trusted advisors where needed. In this article, I will define some terms, address why co-ops might be considering these strategies, illustrate the range of options, explore the risks, and provide thoughts on variables important to success.

### Terms of engagement

Let's get some definitions out of the way before we move on.[4]

*Strategic alliances* are "formal or informal relationships between two or more parties to pursue a set of agreed-upon goals or to meet critical business needs while remaining independent."[3]

Defining consolidation, on the other hand, is a little trickier since it varies according to state statutes—it is important to look at the specific state-level language. Here, I use definitions that are fairly common among those who regularly study and work with these strategies.

*Consolidation* is when two entities merge to form a new entity (common definition of merger) or when one of the existing entities is integrated into another organization often involving purchase with capital (common definition of acquisition). In a merger, both original entities legally dissolve to form a new one, while in an acquisition the acquired entity dissolves and the acquiring firm survives.

*Cooperation among cooperatives*, as shown below, can be put on a continuum of less integrated to more integrated, using what is known as the 5C model.[5] A key point is that there are many more options than just consolidating!

On the left and least-integrated side, cooperation among co-ops starts with: Communicate, where different organizations begin to meet with one another, share information, and exchange ideas: Collaborate, where they might start to mutually support efforts; Coordinate takes an additional step and starts to actually officially do things together, from shared events to timing promotions together to mutually supporting a cause; Cooperate, where we find strategic alliances; and Consolidate speaks for itself, covering mergers and acquisitions. These latter options, cooperation and collaboration, will be the focus of the rest of this article.

### Why pursue a strategic alliance or consolidation?

In the area of strategic alliances, there are many innovative approaches. Common ones include: licensing, joint research and development, start-up assistance, joint production, joint marketing, joint support activities (human resources, accounting, legal, etc.), enhanced supplier relationships, distribution agreements, franchising, industry-standard groups, outsourcing, and joint ventures. Once again, a key lesson here is that there are many options.

What are the reasons co-ops might engage in these strategies? Most of the reasons are about improving the co-op business and its ability to better serve customers/owners and to successfully compete. Earlier this year, I conducted a workshop with a variety of food co-op leaders, and here is what they said in response to the question, "Why would you consider either a strategic alliance or consolidation?":

- competition (mainstream, new players, and inter-co-op)
- need for differentiation
- need to pay competitive salary/living wages
- Principle Six is a value
- gaining consistency in branding
- taking the message back from the green-washing competition
- reaching a larger market
- greater coordination
- greater access to capital
- learning, tapping into expertise
- greater career opportunities for employees
- local economic impact improves
- survival
- increased sales
- sharing/driving out costs
- access to resources
- increased local purchasing
- increased innovation


If you take these responses and combine them with what we know from research, we get some common themes driving the interest in strategic alliances and consolidation:

- *increased market power*—through things such as shared promotions, consistent and high-impact branding, and a larger base for word-of-mouth advertising;
- *increased purchasing power*—through things such as larger volume discounts for product and equipment, lease negotiations, and financing;
- *improved efficiency*—through things such as shared overhead, including board and management costs, administrative services, and office locations;
- *improved effectiveness*—through things such as attracting better talent, shared learning and best practices, increased career opportunities/benefits/pay, shared staff development, and building better systems from back end to customer service;
- *increased impact*—through overall improved ability to deliver on overlapping mission/vision of the organizations.

## But there are risks

While the above benefits sound impressive, strategic alliances and consolidations are not without their risks—and these can be significant. Below, I review these risks in five foundational areas: vision/purpose, culture, talent, systems, and capital. I urge co-ops to consider these five fundamentals areas, no matter their strategy; doing so provides a framework for risk assessment.

*Co-op vision/purpose risk:* There is potential for a strategy to diverge from currently held vision and purpose. Strategic alliances may involve compromises that don't sit well with one or another set of stakeholders. Consolidations inevitably lead to different governing and management structures, potentially leading to significantly different places than what preconsolidation leaders expected before they gave up their independent decision making. Finally, there is the risk that the overall consolidation will fail, ultimately closing down the operation, which in reality takes out two co-ops from pursuing the ends for which they were originally organized.

*Cultural risk:* Clash of cultures has been one of the dominant sources of tension and occasional breakdown of these strategies. Food co-ops tend to have strong local cultures in the first place, and if there is a wide gap between partnering organizations and limited attention is paid to culture clash, this can tank a deal that looks perfect on paper. For strategic alliances, cultures may clash on how to implement projects, how to distribute work, and how to divvy up the rewards. You may hear, "That is just not how we do things around here!"

In a consolidation, expect the question, "Whose name is going to be kept as the co-op's name?" and the deeper issues such questions bring up. People put their heart and souls into building cooperative ventures, and the reality of having it turn into a different organization can cause significant problems in membership, staff, and the overall community. Fear of the unknown and assumptions about loss of intimacy or control will arise. Problems could range from disillusionment and lost loyalty to outright proactive work against the consolidation, potentially leading to personal attacks and bad blood.

*Talent risk:* Talent risk ranges from losing good people who are "redundant" to poaching of key employees, stealing of organizational know-how, and stressing out employees who now have become part of the more-efficient system through eliminating like positions while expecting individuals to cover larger organizations. In a strategic alliance, expect that folks may find opportunity elsewhere as they get to know new partners. In consolidations, expect the question, "How am I going to do my job for this larger organization, when I was already slammed with just ours?"

*Systems risk:* Any time you add additional variables to a system, you add stress to it. Strategic alliances require aligning different and independent systems, which may lead to square pegs meeting round holes. When trying to align or consolidate systems, from point-of-sale to human resources to board policies, you face the risk that the systems will not handle it well and begin to crack. Expect the question, "How come we have to learn this new system, when ours was just fine?"

*Financial risk:* Consolidation takes investment of money, and it is possible in a strategic alliance that your partners may not deliver on their promises. In a consolidation, not hitting the pro-forma projections can lead to significant loss of wealth or loss of the business itself. Working with humans is expensive and hard to predict accurately in its hidden costs—not to mention all the extra time it takes to manage the deal versus doing the day-to-day. Expect folks working on the design to ask, "How are we supposed to accurately project the costs of this thing?" And, if things go awry, "Why didn't you know this in the first place?"

Overall, there is the risk of "deal heat." This is when the momentum of the idea becomes so strong that we feel compelled to make the deal happen—rather than take all the appropriate steps we need to truly act with due diligence and to prepare for a potentially very different strategic situation and organization.

These factors in combination can create a very difficult situation that co-ops ultimately need to escape—risks potentially so damaging as to threaten the survival of the businesses themselves.

Sound scary? I would rather you take the above as areas of concern to which you should pay attention in order to minimize the risk of the proposed deal. Risk is part of business, and consolidation strategies are no different. Once we have chosen to pursue a strategy, it is our job to understand the risks and minimize them to the best of our ability. It is also our responsibility NOT to pursue the strategy if the risks are judged to be too high—even if the pressure is on to do the deal.>

### Best practices and pitfalls

There are many potential best practices and pitfalls, and I want to specifically highlight three.

*Trust, character, and competence:* Trust is essentially the willingness to make oneself vulnerable to another. Strategic alliances and consolidation have vulnerability written all over them. In order to help people accept this, it is critical that both the character and competence of all involved are demonstrated. Character here involves demonstrating positive intent—helping people see why you are doing what you are doing and that you are the kind of people and organization that will not stab others in the back. Competence is about demonstrating you have the knowledge and abilities as individuals and as an organization to hold up your end of the bargain. Trust in not assumed—it is built consciously with communication, data, and attention to process.

*Alignment:* This is not "buy-in," which is making the decision and then trying to convince everyone you are right. Rather, alignment is about building the conversations with stakeholders early, building shared understanding of the organizational purpose, its vision for the future and the means by which it will move in those directions. Building alignment starts internally with board and management and grows over time to include owners, staff, and overall community. This is part of the larger strategic work and is not associated with just one of these strategies. Co-ops that have been doing this alignment work for years will fare much better than those that start only when trying to implement one of the strategies—in the latter case, you may be forced into the buy-in corner.

Driving the interest in strategic alliance and consolidation: increased market power, increased purchasing power, improved efficiency, improved effectiveness, and increased impact.

*Due diligence:* This is essential. While due diligence is important when proposing a strategic alliance, it is particularly critical when considering consolidation. Some or all of the following organizational information may be important: history, reputation, products, research and development, strategic relationships, marketing/sales/distribution, operating systems, customers, competitors, management and staff, ownership structures, and financials. Due diligence particular to legal consolidation includes: organizational records, stock records/documents, financial/financing records, material contracts and policies, personnel matters, intellectual property matters, real estate, insurance, legal matters, compliance with laws, and environmental and general business information.[6]

### The cooperative strategic toolbox

Our mission is stronger co-ops making a difference in their communities. There are many ways to make that happen, and we believe a co-op's leaders and decision makers should be open to considering a range of options to address the "new normal" marketplace competition. Alliances and consolidation are worthy of consideration in our cooperative strategic toolbox. As long as we understand that they sit next to other tools we should also consider diligently, they can become a useful part of our overall competitive and cooperative success. ☐



[1] http://www.grocer.coop/articles/merger-two-co-ops; http://www.grocer.coop/articles/central-and-tacoma-co-ops-merge

[2] http://www.startribune.com/wedge-eastside-and-linden-hills-co-ops-exploring-merger/383709651/

[3] Nevin, Mike. *The Strategic Alliance Handbook: A Practitioners Guide to Business-to-Business Collaborations.* Gower: Burlington, VT USA, 2014.

[4] Adapted from my own research and Faulkner, David; Teerikangas, Satu; and Richard, J. Joseph. The Handbook of Mergers and Acquisitions. Oxford University Press: Oxford UK, 2014.

[5] Thank you, Marilyn Scholl!

[6] Adapted from Miller, Edwin L. *Mergers and Acquisitions: A Step-By-Step Legal and Practical Guide.* John Wiley & Sons, Inc: Hoboken, NJ USA, 2008.