

Central and Tacoma Co-ops Merge, Approve Hybrid Consumer/Worker Structure

BY DAN ARNETT AND JEFF BESSMER

Tacoma Food Co-op and Seattle's Central Co-op always had a positive neighborly relationship. They shared a vision for a stronger cooperative economy, ethical business growth, and a deep commitment to their communities. The board chairs and general managers kept in touch and had some sporadic interaction, like many neighboring co-ops. Most conversations concerned the state of the external environment, cooperative governance, and visions for the future.

At one such gathering, the topic arose of both co-ops' coming challenges. Tacoma Food Co-op was having struggles meeting member needs and achieving its vision due to scant resources, increasing competition, and poor terms with suppliers. Central Co-op was facing increasing competition, prohibitively expensive local expansion, and a saturated market.

In this context, the Central general manager (GM) floated abstract strategic options: one was partnering with another co-op to achieve better economies of scale and to gain access to superior resources. The Tacoma GM noted that cooperatives in Europe likely would almost instinctively join forces to compete in ever-tougher markets. The question was asked, "Would our co-ops be interested in exploring that sort of option?"

Merging co-ops was not a topic that was expected from the casual dinner meeting—but it made sense. The board chairs and GMs began to discuss it, and soon the full boards and top managers. Quickly, we found ourselves looking for member input, and the process began to take shape.

Merger process

Early on, it became apparent that the two cooperatives could gain much by joining forces, due to complementarity. Tacoma lacked strong financial resources and scale. It had a small leadership team whose members were forced to wear many hats in keeping the co-op's operation afloat. Central Co-op was facing increasing competitive pressure and had little room to grow conventionally, due to the heavy presence of other grocers citywide (including 10 PCC Natural Markets locations in the greater metropolitan area). Add to that an astronomical real estate market in Seattle, and growth options were even further limited. Central needed a broader base in order to best weather market volatility, and they knew it.

Each co-op had strong leadership. In fact, two of the handful of food co-op managers with a Master of Management: Cooperatives and Credit Unions degree were at the helm of these two co-ops. Both co-ops had excellent boards. One co-op had a healthy market, loyal member base, and talent waiting to be fully utilized, while the other co-op needed

administrative support, systems, and capital. They shared a vision for the region, with cooperatives asserting themselves in transformative ways in the Northwest.

It became apparent that there was strong alignment among the leaders of the two co-ops. It was also true that differences in governing documents, particularly with regard to preferred shares, as well as a common desire to have clean accounting if a merger were effected, favored undertaking the process soon. Of course, the process could only move forward in any manner if due diligence investigations supported a merger and if the members of each co-op were ultimately in favor. Some sense of member feelings was needed prior to the formation of any proposal.

Community conversations were held with members in each city. These were set up rapidly, taking a few weeks, not months, from conception to implementation. Nearly 80 members attended in Seattle and 40 in Tacoma. Members were introduced to the concept of a merger and the rationale for a potential merger between their co-ops. As expected, there were some concerns raised, and universal appeal was not evident. However, a very clear majority seemed excited and positive. Based upon the results, the two boards worked toward a merger agreement.

Tacoma had over 2,300 members and sales of \$1.65 million. Central Co-op had over 12,000 members and sales of over \$24 million. Any merger agreement would have to balance the needs of each

institution with a sense of proportionality. It was readily apparent that the longer history and deeper resource of Central Co-op had to be considered.

Further considerations arose when Central Co-op decided to use the special election needed to vote on a merger to put in motion its strategic direction of moving to a multiclass or solidarity cooperative. Originally this direction was to be explored later, but the cooperative seemed ready for the switch. Economizing the election process, as well as allowing for one big shift instead of two smaller ones made sense.

With this process in place, the merger could only take effect if new articles of incorporation and bylaws were adopted, along with gaining member approval of the articles of merger.

Merger issues

One of the potentially tricky issues when merging is how to build a post-merger identity. Whose name might we use, or do we develop a new brand, logo, and more? Cooperatives are built with lots of shared sweat equity, hopes, dreams, and decisions. Changing course can be emotional.

In our case, we considered the cost of changing and the appropriateness of each choice. Tacoma Food Co-op was a very site-specific name, and it



made little sense to utilize it across our system. A new name would require a great deal of financial resources to take on, and that money might be spent improving our stores instead. Central Co-op had brand equity, a versatile quality, and no deal-breaking baggage. We decided to use Central Co-op as the name of the merged entity should the members vote to merge.

Another issue is governance. Tacoma had seven board members while Central had nine. Continuity was important to the operations, and having yet another special election or an awkward board for a time seemed unattractive options. With pre-merger sales and membership being in the proportions that they were, and with a desire to shift the composition of the board if a solidarity model were approved, the leadership created a new type of trustee—the provisional trustee.

The solidarity structure was to keep the core board of nine members that Central Co-op had previously, but with more of those nine seats opening up for worker-members through regular election cycles. The bylaws were amended to allow for up to six provisional trustees to be appointed in the event of mergers or acquisitions. Only two could be voting positions, which was decided in order to preserve a voting majority of elected trustees. In the event that all measures passed, two trustees from the former Tacoma Food Co-op would be appointed for one-year terms to the existing Central Co-op board of trustees. Such power to appoint annually would expire in three years.

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It was expected that the elections would balance out representation over time. In the event that this might not occur, the Nominating Committee was provided guidance in the bylaws to ensure action that could remedy geographic imbalances. All of this was part of the articles of merger sent along with ballots for each member base.

Voters approve

Our cooperatives held elections lasting through Dec. 21. Throughout the process, staff—especially front end—and elected officials of the co-ops worked to engage members inside the stores. At Tacoma Food Co-op, the voting percentage was 96.8 percent on a total of 17.6 percent of active members voting, which was easily a record for any election at TFC. Central Co-op had 12.7 percent of active members cast votes, with over 93 percent voting in favor of the merger and nearly 90 percent voting in favor of the article and bylaw revisions.

As of the 28th of December, we became one as a merged co-op! We also filed the new articles on that date and officially became a worker- and consumer-owned cooperative! There was an incredibly positive and energetic atmosphere among members, staff, and our communities. Our newly merged cooperative had nearly 15,000 members, sales projected at over \$28 million for 2016, and a regional community to serve.

Our new board of trustees included the preexisting Central Co-op board and one appointed staff member and one appointed consumer member of the Tacoma Food Co-op board for a total of eleven trustees of the merged Central Co-op. In short order since then, the board has engaged in teaming functions with gusto and has achieved strong rapport and functionality. Our policy register has been updated to reflect our new structure and needs.

Our top leadership in operations also experienced a smooth transition. The former GM of TFC became the store manager of the 6th Avenue. unit



Co-op Consolidation: Three months from start to finish?

1. Be prepared. Prepare your board and staff to be open to new ideas and think forwardly.
2. Understand the process. Merger or acquisition? Will you need new articles and bylaws? What member and board votes do your bylaws and state law say are required?
3. Have good relationships with the experts. You'll need legal, accounting, co-op, and marketing experts throughout the process. Use the best available to get the best results.
4. Communicate clearly. Let everyone know the process, but don't share information you don't have. Be open and honest in your dialogue with stakeholders.
5. Create positive energy. This is an exciting project building the future of the movement. Say it!
6. Lead boldly. Have confidence in the idea, make sure each co-op assesses it rigorously, and be the visionary leader you are!

in Tacoma and has new wealth of support and resources available. The GM of Central became cooperator in chief of the organization and has an expanded team and broader strategic possibilities to consider. The new strategic leadership team, with staff from all three units (two stores and an admin complex), has bonded and is proving to be effective.

In short order, rates from major suppliers were greatly reduced for the 6th Avenue, Tacoma site. Pricing was centralized, leading to more efficient processes and an average of a 20 percent reduction in prices for customers at that store. Branding the organization and updating materials was expected to take around six months, although much of the work was completed within the first three months. Other significant benefits have come from membership in National Co+op Grocers, which had Central >



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Co-op as a member prior to the merger but not Tacoma Food Co-op.

One of the most significant impacts was on staff in Tacoma. Entry-level wages of \$10–\$12 per hour quickly became \$15–\$19 per hour. Staff who had never held work-related insurance became insured for the first time. The impact for staff in Tacoma was dramatic: members of our team were able to get out of poor housing situations, go to the doctor for the first time in years, and feel like they were working for a pioneering employer that truly values their hard work. It was an emotional, positive process. Tacoma-based staff also voted to unionize for the first time, making that store unit consistent with the Seattle site as a United Food & Commercial Workers (UFCW) shop. Morale throughout the organization has noticeably improved.

Implications

Competition is getting much stronger and more plentiful for natural food grocers. Cooperatives are anything but immune to this. While it is possible in the coming years that some large cooperatives may fail and some smaller co-ops may survive, on the whole cooperatives will be much more likely to remain going concerns if their bases are broader and their scale is larger.

Cooperatives must find ways to enhance efficiency and to aggregate capital. Further, we have an ethical imperative to create positive impact, even transformative impact in our communities. This is much more likely when a cooperative has the resources to make those impacts occur. Our National Co+op Grocer tagline is, “Stronger Together.” Perhaps it is time to fully embrace that idea and take the next logical step. Central Co-op is living proof that this can be done and done cooperatively. □

Developing General Management Talent



The General Manager Success (GMS) program provides ongoing support and coaching to help General Managers build knowledge, develop skills, and achieve competencies needed to successfully manage a cooperatively owned food store.

To find out more about CDS Consulting Co-op’s GMS program, contact Marilyn Scholl at 802-387-6013 or MarilynScholl@cdsconsulting.coop. Or go to:

cdsconsulting.coop/develop_your_talent/gm_success_coaching_program/

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