Co-op Atlantic: End of the Saga?

BY TOM WEBB

In the winter of 2008 after years of organizational and market struggles, the Consumers Community Co-operative (CCC) merged with Co-op Atlantic (CA). The 17 former CCC stores are now each co-operative members of CA, and each store's members are also indivdiual members of the organization.

While future changes in the structure of the Co-op Atlantic Group of co-operatives may unfold over time, this was a significant turning point. The saga began when 28 financially troubled independent co-ops merged into one, under strong pressure from financial institutions concerned that CA had become their de facto banker through escalating accounts receivable. In many respects it was a merger from hell, with high levels of member anger and stores hundreds of miles apart. Their common links were that they were in deep financial trouble and their members and boards preferred this distasteful merger to closing the stores.

The new merged co-op, the CCC, began its life as a group of discount food stores in a marketplace that had gone from higher to lower than average Canadian food prices. CCC's major, and larger, competitors were going head to head in the region, over-building stores and giving Atlantic Canadians some of the cheapest groceries in the country, in spite of the distance from suppliers and low regional economies of scale.

In this competitive climate, core co-operative business concerns, such as member relations, communications and food policies, played a distant second fiddle to the overriding drive to achieve prices below the already low prices in the overall Atlantic market. CCC stores did, however, benefit from considerable economies of scale that initially helped to improve financial performance.

Nevertheless, large losses continued. Co-op Atlantic continued to amass growing accounts receivable in spite of significant "competitive allowances" to stores in markets experiencing extreme price competition. One of the impacts, felt keenly by the CCC Board, was the sapping of the strength not only of CA but of its member co-ops as well. As CA's financial strength weakened, the value of member co-op investments in CA declined. In two waves, the CCC board decided to close more than ten stores it felt it could not turn around. Still, CCC losses became CA receivables and CA was, in effect, the merged co-op's "bank" from its inception.

In the last two years of its life (2005–2007), the CCC board drove a bold and risky change – a move from being a discounter to being competitive with higher margins and a renewed focus on the co-operative business difference. The shift entailed a quick rise in prices to market levels, combined with a rebuilding of member relations, communications and benefits, a strong emphasis on local food (Atlantic, Provincial and immediately local), healthy food, fair trade and "right sized" stores (in a market increasingly dominated by 100,000-square-foot superstores).

PHOTO COURTESY OF CO-OP ATLANTIC

Local food and healthy food trends fit the cooperative outlook.

The transition was not easy. CCC's prior focus on discounting had left CA less capable of understanding and delivering on the co-operative difference. Under CA CEO John Harvie, enormous efforts were made to shift, in the face of very limited marketing funds and transformation capital. Store signs couldn't even be changed from the discount Co-op Basics to the new Co-op Food Markets. The CCC was faced with having members understand yet another profound shift with few communication dollars. Having taken the plunge, the board held its breath. Would "discount members" desert in droves? Could the changes be communicated with minimal resources? Would sales collapse?

The results were promising. Some stores did better than others, but overall, sales dropped only a few percent. Margins improved and losses, overtime, declined significantly. Local member councils began to rebuild and attendance at member meetings increased greatly—often tenfold. Pride in seeing stores deepen their co-operative difference sprouted. The books of a number of stores returned to black ink. With a significantly reduced "competitive allowance" the CCC had a small surplus. There was a growing determination on the CCC board to continue the drive to build a co-operative difference in how members' needs were met.

But the seeds of another major change were growing. The CCC had kept, for the most part, a low profile at CA annual general meetings, in recognition of the potential of its poor performance to damage the entire co-operative system. There was little information available or discussion of the profound problems the discount operations were posing to other member co-ops. Recognition of the depth of the problem by many of the co-ops was slow, but began to heat up as CA and the CCC were required by new accounting rules to issue consolidated statements.

Other member co-ops were also facing pressure from their auditors to write down the value of their CA investments. Where, they wanted to know, was the light at the end of the tunnel? As the CCC board was pushing to quickly enlarge CA's capacity to deepen the co-operative difference, fellow co-ops were asking why they should listen to a co-op that was costing them so dearly. There was growing pressure on CA management, and, especially on its board, to do something. Would a merger of the CCC and CA serve to calm to the growing unrest?

There were additional savings to be realized if the CCC and CA merged. One board could govern the new entity. Additionally, while CCC losses over the years were high, the CCC clearly could not, in the 2006–2012 period, generate significant surpluses to achieve the tax savings

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these losses offered. The potential saving were in the millions, and with a limit on the time after which a loss could be written off against surpluses, the clock was ticking. The CA and CCC boards met and the logic of the merger was accepted by both.

Questions remain. Will the vision that turned the CCC financial performance around—the Co-operative Food Market format with its emphasis on local, healthy food, fair trade, member relations and right-sized stores—continue in the new "corporate" stores? A tremendous amount has been accomplished. For example, the Braemore Co-operative Market in Antigonish (16,000 square feet) had no fair trade product in 2004. Today it has more variety and shelf space than its two much larger (80–100,000 square feet) competitors in the same marketplace. It has continually pushed regional and local food, including closing the store for an evening and inviting local farmers, the local farmers market, local food organizations, members and the media in to celebrate regional/local food. So far the vision of the co-op difference has survived and grown.

Local food, healthy food and fair trade are fast growing food trends that fit with co-operative values and principles. These directions—and challenges such as the shift to a post-oil economy, a looming food crisis and growing global economic instability—will call for ■>

further bold, new directions to be taken by businesses focused on human and community need. Co-operatives can address these new directions and challenges better than the competition because they do so from conviction rather than simply to increase shareholder returns. It remains to be seen if support for these initiatives, the core of the CCC vision, will decline, hold steady or grow quickly to meet people's need for a safer, fairer, and saner food system.

A second question. There is already discussion of returning the most successful of the former CCC stores to local member ownership. Faced with competition from large diversified and well financed corporations, the Weston Group and Sobey's, Atlantic Canada's more than 100 co-operatives desperately need to achieve economies of scale. The demise of the CCC and the myriad problems associated with its merger has deepened merger interest. In the effort to feel good about the CCC merger after it was forced on the system, an understanding of the huge problems it had to overcome in member anger, the discount strategy and geography was seldom achieved. If one wanted to design a merger likely to fail, this was a great design. What amazes is how well it succeeded. Unfortunately for the health of the CA group, in the ashes of the CCC demise there is very little discussion of how mergers can be accomplished and how the former CCC stores might play a role in a merger strategy. Little attention is being paid to innovations such as Van City Credit Union's innovative new approach to mergers.

A final question. Co-op Atlantic governance has been sorely tested by the losses, merger, continued losses and another merger. Now CA is faced with a radically new test—running a wholesale co-operative made up of agricultural and consumer co-operative members and thousands of individual members. Will some future CEO decide to take on poor performing stores (or even solid performers) by opening stores or creating pressure to convert to corporate stores, such as the situation in the UK as it moves toward the "one big co-op"? Will member co-ops begin to fear the pressure "their" wholesaler might put on them even if no pressure exists? The governance structure and process at Co-op Atlantic has not significantly changed for 50 years, other than a few cuts to reduce the size and save money. How will governance change as the system rebuilds, and how will it meet the new dual membership challenge? ■