INDUSTRY CONCERNS SHOULD TRUMP ASSOCIATION CONCERNS IN MERGER TALK

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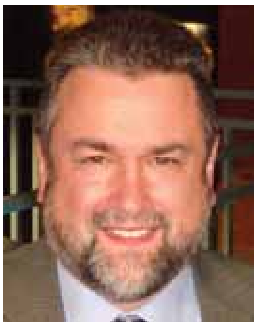

The question of whether the Produce Marketing Association and the United Fresh Produce Association ought to merge has vexed the industry for decades. This year, the industry is confronting this decision once again, behind closed doors.

It is not an obvious or easy decision. The gist of the problem is that PMA has come to own the largest trade show in the industry. It is an exceedingly successful and profitable business and throws off virtually all of the trade's communal free cash flow. Yet, United, as the trade's primary representative in the halls of Congress, has the bulk of responsibility for priority industry expenditures.

If we study the matter and ask what functions the trade most needs from its associations, we consistently get two answers: The trade needs representation before the government and other influencers in society, and the trade needs promotional assistance with consumers at large.

When he was Chairman of PMA, Bruce Peterson — who now serves on the Board of United — often would pose this challenge to all industry associations: "If this association didn't exist, would we invent it today?"

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Though it is often alleged that merger has been blocked by the egos of various executives, and one can never entirely dismiss these concerns, it is also true that this influence can never be definitive in the face of a resolute board of directors. The truth is that there are substantive difficulties to merger that have never quite been satisfied. Most notably, the question of the scope of the industry has been unclear.

Both United and PMA have traditionally had a vertical membership including retailers, foodservice operators, wholesalers, distributors, processors, shipper, growers and others. This is terrific for discussions on things such as PLU standardization or traceability, but those types of discussions, though perhaps enriched by relationships built in association work, can often be done through ad hoc committees.

When it comes to representation, the vertical association model has challenges. Most recently, on the Food Safety Bill, it is notable that both PMA and United, in the end, opposed the bill with its exemption for small growers. Yet both FMI — representing supermarkets — and NRA — representing restaurants — endorsed the bill.

The matter was decided hastily during the Lame Duck session, and there weren't any opportunities for our trade associations to testify before Congress during this time. But Reggie Griffin, vice president of produce and floral procurement and merchandising at The Kroger Co., is in line to become Chairman of United at its convention this May. It is unlikely that if such an issue were to arise during his term at the helm of United it would make sense to have him testifying before Congress strongly opposing such a bill, only to have his testimony followed by, say, Kroger chairman and CEO Dave Dillon, speaking on behalf of FMI, strongly supporting the legislation.

At the same time, the desire for merger makes a lot of sense. On government relations, there is the sense that multiple voices weaken the trade's influence in D.C. On hopes for consumer outreach, a unified approach is more likely to be a success. There also is a sense that there is a great deal of efficiency that could be gained by merger. Some of this is through the elimination of duplicative overhead — we don't need two association CEOs, etc.— and some is from the notion that both associations vie to remain relevant, and so, inevitably, duplicate one another. Also in the background of all this is that we have many local and regional associations, some with a great deal of heft.

Our experience has been that most members of the boards of directors of national associations take their responsibilities seriously. But elections to these boards are not contested, and so the members "represent" the trade in only the most random way. There are also countless members of the trade who may not have the time or interest to give sustained involvement by serving on a board, but who have much insight to share on crucial issues such as industry governance. In addition, many ex-members of boards, who served their time and are not currently active on boards, have much insight to share.

The worst possible thing is to one day have a press conference to announce a merger, or that merger talks have collapsed, without giving the trade an opportunity to review the relevant facts and suggest appropriate structures. It is a recipe for discord down the road and the splintering of any newly merged associations. It is better if everyone who cares to do so gets to review the data and speak up before decisions are announced. The Internet and social media make this easy to do, and for the associations looking to maximize the value for the industry, transparency should be foremost in their operations.

The key is for association board members to see their roles in a specific way. Most industry members really care about the industry, not the association. Put another way, they support the association because they think it will make for a better industry, not because they care about the association itself. If one focuses on the industry, one will be thinking about how decisions impact the future profitability of the trade.

In the end, the discussion needs to go past each association's proprietary concerns and come back to Peterson's question: "If this association didn't exist, would we invent it today?" By opening and bending the process, we will focus more on the best interests of the trade at large. That is really our goal, and that is really what most industry executives care about. There is no reason to run a closed 20th century process to achieve 21st century goals. **pb**