

Retail Marriage Ends At The Altar

National Retail Federation and Retail Industry Leaders Association unexpectedly cancel merger.

by *Bara Vaida*

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In April, many executives from the nation's retail sector were excited by the news that a longtime dream was about to come true. The boards of the industry's two largest trade and lobbying groups -- the National Retail Federation and the Retail Industry Leaders Association, both based in Washington -- had agreed to merge.

"With the changes in the political environment in Washington, the value of a unified voice goes up, and we thought we'd give [the merger] a try," said Philip Francis, executive chairman of PetSmart, whose company is a member of both the NRF and RILA. Francis is also vice chairman of the retail federation's board.

The timing was good, because long-serving federation President and CEO Tracy Mullin had announced she was retiring at the end of 2009. Mergers between big trade groups are often spurred by the departure of a chief executive. But two months after both organizations conducted due diligence, RILA's board voted against the merger. The NRF's vote, which had been scheduled for July, never occurred because the two groups announced on June 24 that they had abandoned their marriage plans.

Six weeks later, Mullin still isn't sure what went wrong. "I don't think we know exactly what happened," she said in an interview. "It was fairly unusual. I don't know specifically what prompted the collapse, but it's done."

RILA President Sandy Kennedy said: "Both organizations are bound by a nondisclosure agreement and can't talk about the specifics of the merger. But I can say that we led a deliberative process, and based on the facts [from] the due diligence, we voted not to go forward."

It is rare for organizations' boards to agree to pursue a merger and then abandon the effort so far along in the process, said *CEO Update* Managing Director Mark Graham, whose publication covers the trade association industry. "Many association mergers do fail," he said, "just not this late in the game, because it's bad press and it leaves unanswered questions."

Indeed, the reasons for the collapse of the marriage between the NRF, which represents 2,500 retailers and vendors, and RILA, which represents 200, have caused plenty of buzz and puzzlement on K Street.

Some sources speculated that RILA wasn't happy with what it learned about the NRF's finances during the due-diligence process. Kennedy wouldn't comment on that point. She did say that the inquiry involved looking at the federation's membership governance, bylaws, and the entire organization's structure.

"It goes both ways, by the way; they looked at ours as well," she said.

RILA's 2008 revenue totaled \$12.1 million, based on its May 2009 audit report. The NRF reported revenue of \$31.4 million for 2007, according to its Form 990 filed with the Internal Revenue Service.

"I do know that there was a vote [by RILA] against moving forward after some due diligence," said Nate Garvis, vice president of government affairs and senior public affairs officer at Target, which is a member of RILA but not the NRF. The board must "have run into something that didn't look pretty, right?" he said, stressing, however, that he had not seen the due-diligence report.

Over the past 15 years, the retail sector has experienced tremendous economic upheaval and consolidation, leading to a decline in the number of large department stores and retailers in the U.S. One of the NRF's big members, Home Depot, recently dropped out but kept its membership with RILA. Target left the federation about four years ago, Garvis said.

Mullin and PetSmart's Francis vehemently dismissed talk of possible financial problems at the federation. Francis said that the NRF added 200 members this year and that in most years the federation posts an operating profit of about \$1 million. Mullin said that her group has "\$20 million in cash and assets." Member dues account for 19 percent of the trade group's total revenue, so losing Home Depot was a small "blip," she said. (Home Depot's dues were about \$100,000 annually, according to a source.)

When asked if the NRF was facing financial difficulties, Francis told *National Journal*: "There are quite a few folks on the [NRF] board who read P&L [profit and loss] sheets, and I can't even think of any scenario where that is true."

Another theory is that the cultures of the two organizations were too different to meld. The NRF (originally called the National Retail Dry Goods Association) was launched in New York City in 1911 by department store executives. (It is now based in downtown Washington.) Macy's and Sears were among its founding members. Today it represents a mix of retailers from department stores to catalogue companies to e-commerce firms.

In the late 1960s, Sam Walton, Wal-Mart's founder, tried to join the NRF but was rebuffed because "the department store owners didn't want to mix with a discounter," one retail source said. So in 1969, Wal-Mart and 20 other companies co-founded the Mass Retailing Institute, which later became RILA. The group, based in Arlington, Va., represents some of the country's largest retailers, among them Wal-Mart, Safeway, and Lowe's. Wal-Mart never did become an NRF member.

RILA, with a staff of 33, devotes about a third of its budget to public policy issues and the rest to conferences and other programs to support retail businesses. In 2008, annual membership dues, education programs, and a special dues assessment each accounted for one-third of RILA's revenue.

Both groups spend about the same on lobbying. In the first half of 2009, RILA doled out \$910,000 on lobbying, while the federation ponied up \$940,000, according to lobbying disclosure forms.

The NRF, which employs 99 people, plays aggressively in the public policy arena, but its annual convention in New York City is its biggest cash cow. It also has several divisions: the Association for Retail Technology Standards; the National Council of Chain Restaurants; the Retail Advertising & Marketing Association; and *Shop.org*. It has a research group and a foundation.

"We are very different from RILA," Mullin said. "We have very different cultures." She said that her group's members "started raising questions about all the services that NRF offers" and expressed concerns that those services might be lost.

Wal-Mart's public policy approaches may have played a role in the failed marriage by underscoring the irreconcilable differences between the groups. On June 30, just a few days after the merger talks collapsed, Wal-Mart stunned the business community by joining with the powerful Service Employees International Union and the left-leaning Center for American Progress to endorse a mandate requiring employers to provide health care coverage to their workers.

Mullin publicly condemned Wal-Mart's decision. In a July 13 open letter to the NRF's members, she called the company's move "troubling" and urged her members to fight the employer mandate. RILA did not join with the NRF in condemning Wal-Mart.

"We'd rather take a more balanced approach," said Kennedy, who denied that Wal-Mart had blocked RILA from publicly opposing the company's employer-mandate position. "When the [congressional] proposals come out, we will react appropriately. We'd prefer to take a more measured approach so we can participate in shaping the policy."

Kennedy also disputes the notion that public policy differences between the two groups killed the merger, insisting that the topic "wasn't even discussed" by her board when it was deciding to vote. She also emphasized that Wal-Mart's dues are no greater than any other members' and that the company doesn't "dominate" the organization. She said she "didn't believe" that there had been any plans to reduce the number of services that NRF members receive had the merger gone through.

"The thing that made this [merger] such an interesting proposition is that we had little overlap, and we saw this as an opportunity to build on the strength of both organizations," Kennedy said.

Whatever happens between the two groups in the future will not take place on Mullin's watch, even though she has postponed her departure from the NRF until June 2010. In the next several weeks, she said, her group will hire a search firm to find a new leader, and she'll be engaged in the process.

"At the 60,000-foot level, I think the two [groups] being together makes sense today. But at the detail level, it became much harder," PetSmart's Francis said. "I think [talks about a merger] will sit dormant for a while."