A Once in a Generation Opportunity

To build ownership, wealth, and local control
The Silver Tsunami

Over the next two decades, 70% of privately held businesses will change hands

– Retiring baby boomer business owners

– Will touch rural America first
What may happen to rural businesses?

• Used to pass company on to family members
  –Not happening!
• Now, attempt to sell to third party (competitor or private equity firm)
  • Take customer list
  • Remove equipment
  • Close business
Why not sell business to employees?

- **Employees**
  - Retain jobs
  - Active role in governance
  - Create long term wealth
    - In downturn can spread the hurt rather than layoffs (faster recovery!)

- **Community**
  - Local ownership; no outsourcing of jobs
  - Local decision making

- **Owner**
  - Equitable price
  - Legacy after lifetime of work

*Real Pickles Cooperative, Greenfield, MA*
Exit Strategy for Entrepreneurs

• Entrepreneur can build a business
  – Risk taking and sweat equity
  – All consuming for several years

• Once business is established…
  *maybe want a different life*

• Sell business to your employees
  – Be rewarded for risk and sweat equity
  – Options after sale
    • Exit and do something else
    • Stay on as a fellow member-owner

Namaste Solar Co-op, Boulder, CO
Home grown example… North Wind Renewable Energy

- Solar power system design and installation
- Transition to a worker cooperative
  - Gathered information and pondered
  - Worked with accountant for valuation
    - How should equity be distributed?
    - Owner financed – promissory notes
  - Governance, board training, financial literacy
  - Developed policies (employee manual, committees)
    - Employees eligible for ownership after 4 years
    - Currently 6 members, 4 more eligible in 2018

North Wind Renewable Energy, Stevens Point, WI
Founded in 2007 as an LLC; transitioned to a worker co-op in 2017
Two options for Employee Ownership

- **Worker Co-op**
  - Employees own company
    - Employee governance
    - Patronage refund – employee’s share of profits each year
  - True employee ownership
    - One member, one vote
  - Simple, flexible
    - For <50 employees

- **Employee Stock Option Plan (ESOP)**
  - Benefit plan held in a trust
    - Trustee administers plan on behalf of employees
    - Receive cash value upon leaving company
  - No direct ownership of company stock
    - Can structure ESOP for democratic control
  - Annual legal and accounting reporting
    - For 50+ employees
What is a Co-op?

A cooperative is a business owned and democratically controlled by the people who use its services

» Member - owner
» Member - control
» Member – benefits

(Patronage refunds in proportion to a member’s use of the co-op)
Various types of co-ops
Defined by who owns the business

Consumer Co-ops
Producer Co-ops
Shared Services Co-ops
Worker Co-ops
Multi-stakeholder Co-ops
Worker Co-ops in Wisconsin

Center Point Counseling Services Co-op, Viroqua

Cooperative Care, Wautoma

Isthmus Engineering Cooperative, Madison

Just Coffee Cooperative, Madison
Survival Rate of Co-ops in Quebec

Source: 2008 data from the Quebec Ministry of Economic Development, Innovation and Export; data tracked since 1990
Ideal Environment for Conversion

• Willing seller
  – Culture that encourages employees to “act like owners”
  – Concern about business legacy

• Willing buyers
  – Employees willing to stay for years
  – Millennials who desire ownership stake

• Viable business
  – Profitable business, limited debt
  – Industry has a future

Worzalla Publishing became a 100% ESOP in 1986
3 elected employees on 8 person board
## A STANDARD CONVERSIONS MODEL

### ESTIMATED TIMELINE

<table>
<thead>
<tr>
<th>Stage</th>
<th>Summary</th>
<th>Estimated time</th>
<th>Estimated cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explore</td>
<td>Key stakeholders learn the conversion process</td>
<td>Varies</td>
<td>$0</td>
</tr>
<tr>
<td>Assess</td>
<td>Professionals assess financial and legal feasibility</td>
<td>12 months</td>
<td>$5,000</td>
</tr>
<tr>
<td>Structure</td>
<td>Seller structures the deal Buyers structure any changes</td>
<td>6 months</td>
<td>$10,000</td>
</tr>
<tr>
<td>Complete</td>
<td>The business legally changes hands and loans are drawn</td>
<td>3 months</td>
<td>$10,000</td>
</tr>
<tr>
<td>Support</td>
<td>Employees build ownership culture with outside support</td>
<td>Ongoing</td>
<td>$25,000</td>
</tr>
</tbody>
</table>
Resources

• University of Wisconsin Center for Cooperatives
  – http://www.uwcc.wisc.edu/

• Workers to Owners – overview
  – http://becomingeo.org/

• The ICA Group  – good written resources
  – http://ica-group.org/shop/
For More Information

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