

Rural Grocery Succession Planning



WORKER COOPERATIVES

Thursday, September 15, 2022

Featuring:

Melissa Hoover, Executive Director, Democracy at Work Institute

Rob Brown, Director of Business Ownership Solutions, Cooperative Development Institute

About this series

- Monthly webinars hosted throughout 2022
- Continuation of business transition work & *Keeping Groceries Alive*
- Goals
 - Highlight resource providers
 - Identify key succession planning considerations
 - Present options
 - Share examples of grocery ownership transitions
- Additional resources available at www.ruralgrocery.org.

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Housekeeping

- This session is being recorded.
- A recording of today's webinar will be available at www.ruralgrocery.org.
- We will leave time at the end of the webinar for Q&A.
- Please use the Q&A feature to post your questions to our presenters.

Rural Grocery Succession Planning



WORKER COOPERATIVES

Thursday, September 15, 2022 at 1:30 PM



Melissa Hoover
Executive Director
Democracy at Work Institute



Rob Brown
Director of Business Ownership Solutions
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What is a worker cooperative?

IT'S A BUSINESS...+

Operates in the market to make money

... and meet a community need

Values-driven

Has members who own it



MEMBERS?

Own it

Buy a share

Benefit from it

Profit sharing

Control it

Serve on the Board



Cooperative

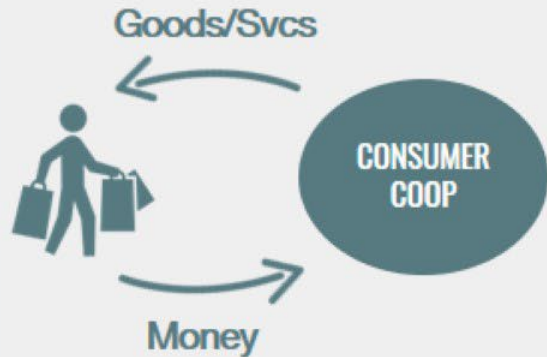
Provides goods or services to its members, which are individuals or businesses.

Worker Cooperative

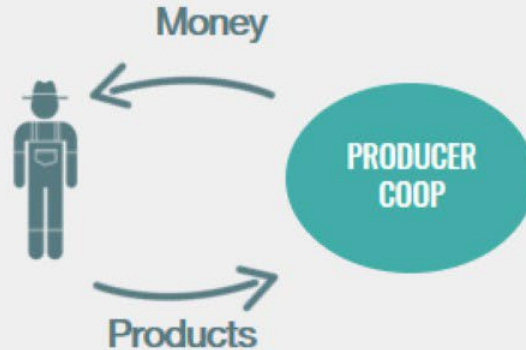
Employs (provides jobs to) its members, which are individuals, to sell goods or services to the public.

Membership: Different Types of Cooperatives

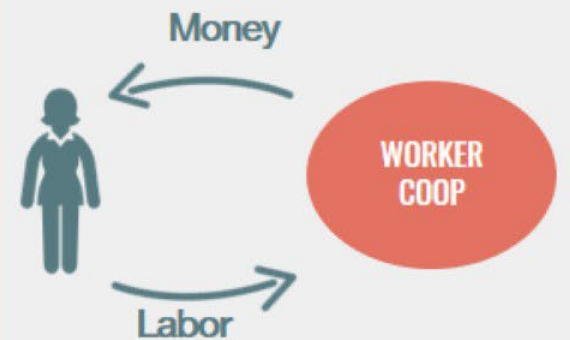
CONSUMER COOP



PRODUCER COOP



WORKER COOP



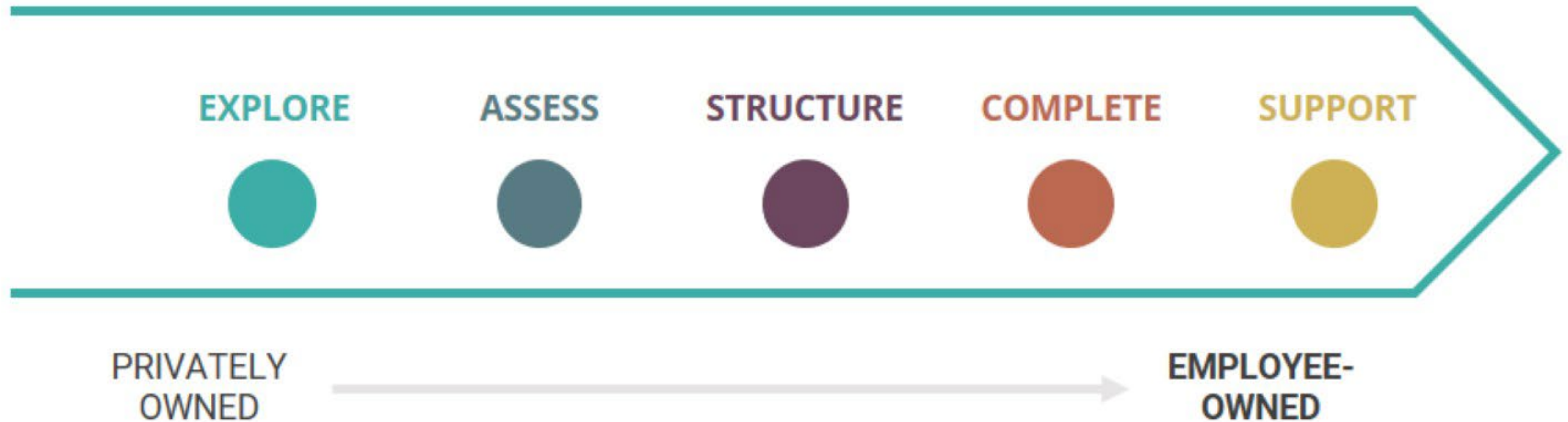
When members are workers...

Wages vs Profit-sharing

Management vs Governance



How does a transition to cooperative ownership happen?



TRANSITION OVERVIEW

Converting a business to employee ownership is a practical solution for ownership succession, job stabilization, and employee retention. The process takes an investment of resources and experienced professional assistance to ensure long-term benefits. The conversion process is unique for each business, but generally has five stages.

	Explore	Key stakeholders learn the conversion process	 	Varies	\$0
	Assess	Professionals assess financial and legal feasibility		3-6 months	\$5-10,000
	Structure	Seller structures the deal Buyers structure any changes		6-12 months	\$10-25,000
	Complete	The business legally changes hands and loans are drawn		3-6 months	\$10-25,000
	Support	Employees build ownership culture with outside support	 	Ongoing	\$25-50,000

Many steps in the process require specialized technical assistance. Local conversion guides should join the Workers to Owners collaborative to learn and partner with an experienced pool of professionals.



TRANSITION CHECKLIST (SHORT VERSION)

For a more complete checklist, visit our website or inquire to conversions@institute.coop



Explore

- Initial consultation with key stakeholders to understand their needs, vision, and realities
- Determine transaction type (asset or stock transfer) and any atypical needs
- Client does background reading and talks to other companies that converted
- Client makes decision on whether to invest resources in moving forward



Assess

- Sign phased technical assistance contract for current and milestone-dependent future work
- Business valuation and financial analysis
- Choice of legal entity and capital structure analysis
- Leadership and management succession plan analysis



Structure

- Work with finance institutions, other experts to obtain outside financing, if needed
- Work with lawyer to draft up documents for transaction
- Complete any pre-transaction elements of leadership succession plan.
- Facilitate a decision-making process around bylaws and governance structure



Complete

- Create timeline for closing the transaction
- Coordinate the process whereby the documents are signed, financing is executed, and ownership is transferred
- Execute any transaction-timed elements of leadership succession plan
- Work with local lawyer to enact new democratic bylaws



Support

- Create a long-term plan and budget for building and supporting an ownership culture
- Company follows plan to transition to new leadership and/or practices
- Implementation of policies and ongoing training
- Pathway for new employee-owner entrance and exit is clear as business grows

Is conversion to cooperative ownership the right fit?

- ▶ I want the positive impacts I've built into my business – good jobs, connection to our community, best practices in our sector – to last beyond my time as the owner.
- ▶ I believe the risks and rewards of ownership can reinforce a culture of high quality work and shared responsibility that improves productivity and the bottom line.
- ▶ I want to receive a fair value from the sale of the business I have built and feel the employees might value the company as much, or more, than an outside buyer.

What needs to be in place (ideally)?

- ▶ **Management continuity** – Current qualified manager or ability to recruit and train the manager
- ▶ **Worker interest** - Not everyone will jump in at first, but you will need a critical mass
- ▶ **Viable business** - Worker ownership is not a silver bullet for an unprofitable business*
- ▶ **Operational systems and documentation** - Functional documented systems and clean books (bookkeeping, operations, etc)
- ▶ **Financing** - The business needs to be loan-ready, and generally (but not always) the seller finances a portion

Common challenges

- ▶ Timeline
- ▶ Expense
- ▶ Financing
- ▶ Qualified technical assistance
- ▶ Employee hesitation/skepticism/capacity
- ▶ Owner assets

STORY:

Island Employee Cooperative



ISLAND EMPLOYEE COOPERATIVE



Stonington: the lobster capital of the world





OVERVIEW

Industry: Grocery/Retail Variety

Year converted: 2014

Total capital: \$5,600,000

Annual revenue at sale date: \$12 million

Worker-owner buy-in: \$7,000

Worker-owners: 45 (62 employees)

Primary financing source: 5.5%, 7-yr term, 1-yr interest only

Lenders: 5

Some starting understanding of co-ops and democratic governance:

Stonington Lobster Co-op

Associated Grocers of New England

Blue Hill Food Co-op

Independent Retailers Shared Services Cooperative

Local government

Some Innovations

Commitment to buy Class A and Class B shares over time considered as equity by lenders

Loan covenants requiring substantial TA contracts into the future as added “loan insurance”

IRS 1042 Rollover – benefit to seller

Training grants from Eastern Maine Community College

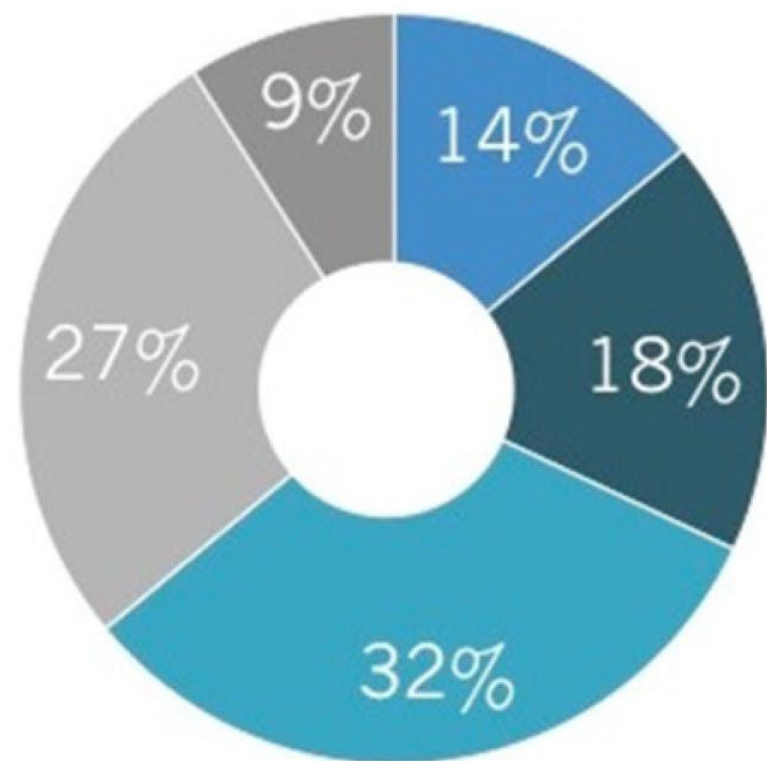
Some Challenges

- Limited/no entrepreneurial experience
- Existing “Boss Culture”
- Complexity and variety of businesses
- Immediate exit of owner on short timeline
- No up-front employee equity
- No models to look to
- Building the culture after the conversion
- Hours of operation

Partners for transition

- CDI
- Independent Retailers Shared Services Cooperative
- Specialized Accounting Services
- Coastal Enterprises Inc.
- Cooperative Fund of the northeast
- National Cooperative Bank
- Associated Grocers of New England
- Small business development center

Financing for transition



- Senior debt (CFNE)
- Senior debt (CEI)
- Senior debt (NBC)
- Subordinate debt (Seller)
- Vendor debt (First on inventory only)

Bad Deal Structure: the fallout





<https://www.wabi.tv/content/news/Worker-Owned-Business-Thriving-in-Stonington-487157531.html>



**CREATE GOOD JOBS.
BUILD WEALTH THROUGH OWNERSHIP.
SUPPORT THE COMMUNITY.**



Questions

Survey

*Please share your
feedback to help us improve
future webinars*

Rural Grocery Succession Planning



GROCERY-MUNICIPAL PARTNERSHIPS

Thursday, October 20, 2022