

COOPERATIVES & BUSINESS SUCCESSION STRATEGIES

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The 2018 webinar series **Cooperative Solutions for Community Needs** is brought to you by the University of Wisconsin Center for Cooperatives



Center for Cooperatives

UNIVERSITY OF WISCONSIN-MADISON

WHAT IS A COOPERATIVE?

A cooperative is a business that is owned and democratically controlled by the people or entities that use its services.

- Member owned
- Member controlled
- Members benefit

BUSINESS SUCCESSION ON THE HORIZON



More businesses were founded by those born from 1946-1964 than any other generation. *(Generational Equity)*



Nearly 4 million, or 66%, of companies with employees are owned by baby boomers. *(Axial Networks)*



The oldest baby boomers turn 71 this year.



It's estimated that 85% of business owners have no exit strategy. *(MFRTech)*

WHY EMPLOYEE OWNERSHIP?

- ✓ Selling owners can realize a higher gain.
- ✓ The sale can happen gradually, at a pace that the owner controls.
- ✓ Employee owned firms perform better than traditional firms.
- ✓ Employee ownership rewards employees and retains businesses in the community.
- ✓ It's an opportunity for selling owners to leave a legacy.

TYPES OF EMPLOYEE OWNERSHIP

- **Employee Stock Ownership Plans (ESOPs)**



- **Employee Ownership Trusts**



- **Worker Cooperatives**



WHAT DO YOU NEED?

- **Willing buyer:** Committed, engaged group of people willing to explore issues, stay in the room, take responsibility
- **Willing seller:** Patient owner willing to transfer key relationships, help others to lead, possibly finance portion of transaction
- **Feasible deal:** Business does not have to be high wage, but it does need to be reliably profitable, stable
- **Technical support:** Advisors who understand employee ownership, conversion process, and how to structure deal

— ROB BROWN

Director
Business Ownership Solutions
Cooperative Development Institute



COOPERATIVE DEVELOPMENT INSTITUTE

501c3 Non-Profit Organization founded in 1994.

USDA-designated Northeast Center for Cooperative Business Development.

Working across all sectors and industries in New England and New York.

Technical assistance, training & education, movement building, policy & advocacy.

Business Ownership Solutions

Services we provide and coordinate:

- Cooperative design
- Financial analysis
- Business planning
- Transaction structure and financing
- Worker-owner education needed to execute a successful conversion to an employee-owned company



COOPERATIVE
DEVELOPMENT
INSTITUTE

**CLOSING DOWN SALE
EVERYTHING MUST GO**

CLOSING DOWN SALE
SALE
up to 70%
OFF

**CLOSING
DOWN**



Nationally...

- Over half of business closings are due to owner retirement, resulting in the largest single source of avoidable job loss in the US.
- Only 20% of business listings ever sell, and only 15% of intergenerational business transfers succeed.
- The annual rate of retirement for the next 20 years is projected to double compared to the previous 20 years.



Silver Tsunami in Maine...

- 32,265 small businesses with employees
- Half of Maine employment
- 91% < 20 employees
- 80% of Maine business owners want to retire within a decade
- < 20% have documented succession plans

Basic conversion process: A practical framework

1. **Explore:** Business owner decides to move forward after basic inquiry, financial analysis and valuation
2. **Assess:** Initial employee education, Commitment of Interest, organize Steering Committee, due diligence and feasibility
3. **Structure:** Business and financial planning, co-op education and development, incorporation, negotiate terms
4. **Complete:** Finalize P&S, secure additional needed financing, close transaction
5. **Support:** Follow through & monitoring post-conversion

Basic conversion process: A conceptual framework

3 distinct transitions:

1. Ownership transition
2. Governance transition
3. Management transition

Methodically segmenting and sequencing each transition makes success much more likely!

How is Conversion used in Business Planning?

- **Immediate exit**
- **Phased exit**
- **Restructuring for Growth**



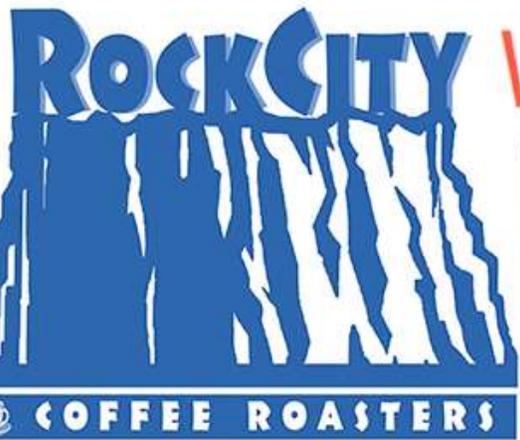
Phased Exit: Rock City Roasters & Rock City Café





Innovations

- Member investment prior to conversion
- Individual member loans from 3rd Party lender leveraged as equity
- SBA financed business and entrepreneurship education
- Peer-to-peer cooperative management training group
- Member control of some operations, investments prior to conversion
- Loan covenants used to maintain control and oversight well into the future



WE NEED YOUR HELP!
TO FUND A NEW GREEN
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LET'S KEEP THE ROAST BOAT AFLOAT!

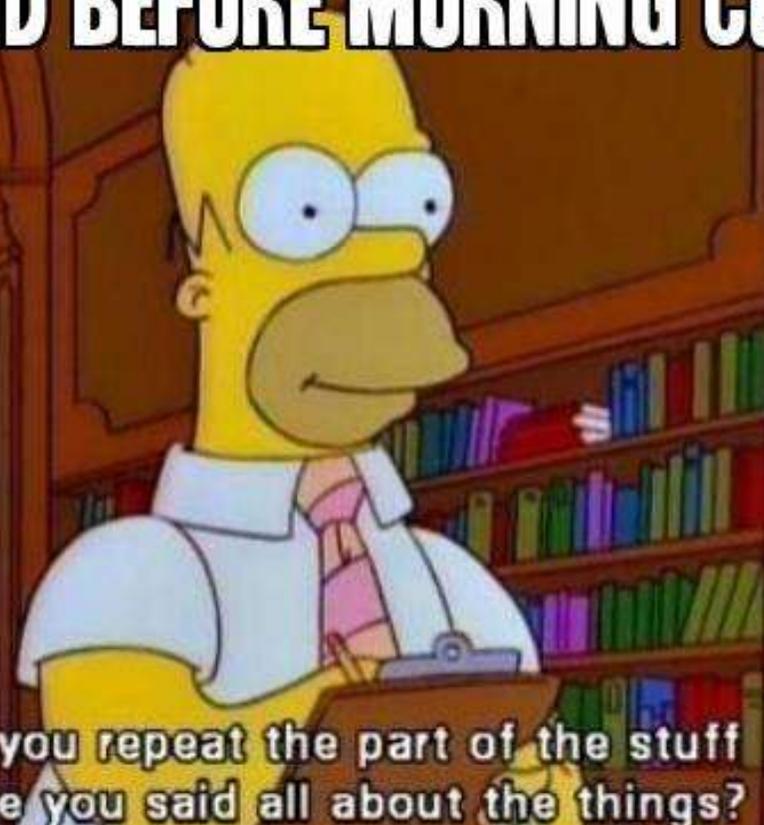
COFFEE ROASTERS

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YOUR MIND BEFORE MORNING COFFEE



Can you repeat the part of the stuff where you said all about the things?

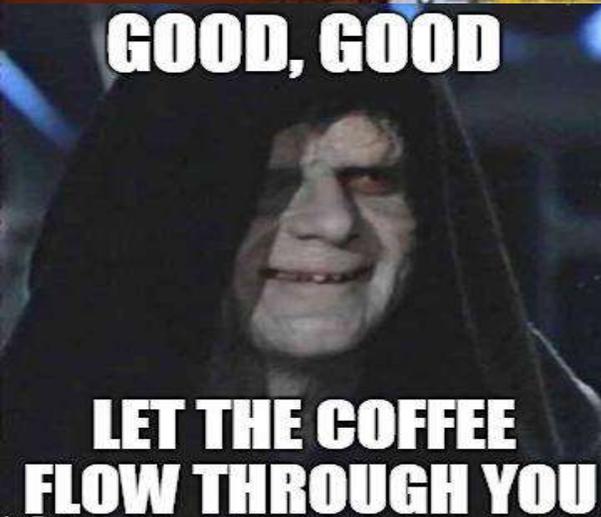
Sometimes I write "drink coffee" on my to-do list, just so I feel like I accomplished something in a day.



someecards
user card

User Uploaded to FUNNYGASM.COM

GOOD, GOOD



LET THE COFFEE FLOW THROUGH YOU



MANY BOTHANS DIED TO BRING US THIS INFORMATION.



THAT'S THE LAST TIME I SEND BOTHANS TO DO ANYTHING.



I SENT BOTHANS TO GET ME A COFFEE.



ALL DEAD.

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A Once in a Generation Opportunity!



MAINE POLICY REVIEW



Margaret Chase Smith Policy Center

Volume 26, Issue 1

LD 1338:

Creating an Ownership Economy in Maine

- Preserve and grow jobs, businesses, farms and affordable housing.
- Strengthen local ownership and control.
- Promote economic and community development.

LD 1338 would incentivize the conversion of business assets to cooperative or employee ownership, and reduce the cost of financing the sale.

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COOPERATIVE
DEVELOPMENT
INSTITUTE

JOSH STOLZENBURG

President & CEO
North Wind Renewable Energy
Cooperative



NORTH WIND
renewable energy



Our Mission

Our mission is to encourage the adoption of renewable energy as an integral part of any long-term solution to the global energy crisis.

We will accomplish this mission by:

1. Providing effective, sensible renewable energy solutions to our clients.
2. Helping individuals and businesses understand the benefits of renewable energy through education, community outreach and philanthropy.
3. Dedicating ourselves personally and professionally to supporting sustainable local economies and communities.



Company overview and history

Design and installation of solar electric, solar + storage and electric vehicle charging systems for homes, businesses and tax exempt entities in WI.

- Founded in 2007
- 2008 – 4 employees came on board. By 2009, 3 + Founder were members of the LLC.
- We've worked in solar electric, wind electric, solar heating, wood heating and home performance.
- 2016-17 – Streamlined the business to work exclusively with solar electric, adding battery storage and EV charging as specific value added products
- 2017 - Transitioned to a Co-op with 6 initial members
- 2018 – 10 members, 14.5 FTE employees



Initial reasons and
consideration for transition

The Solar Coaster

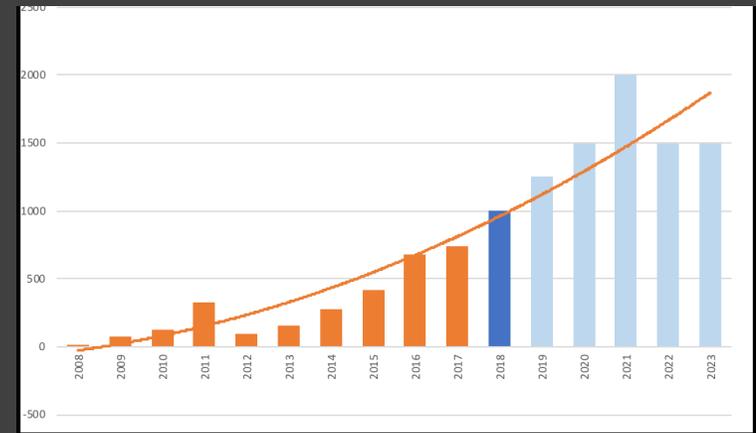
- Tax incentives
- State incentive programs
- Federal grant programs
- Tariffs
- Product price fluctuations – China's national policies
- Utility and regulatory policy

Interruptions in availability and changes in levels significantly impact sales cycles



- We have the same issues as any small business with attracting and retaining skilled people that can help mitigate some of these challenges

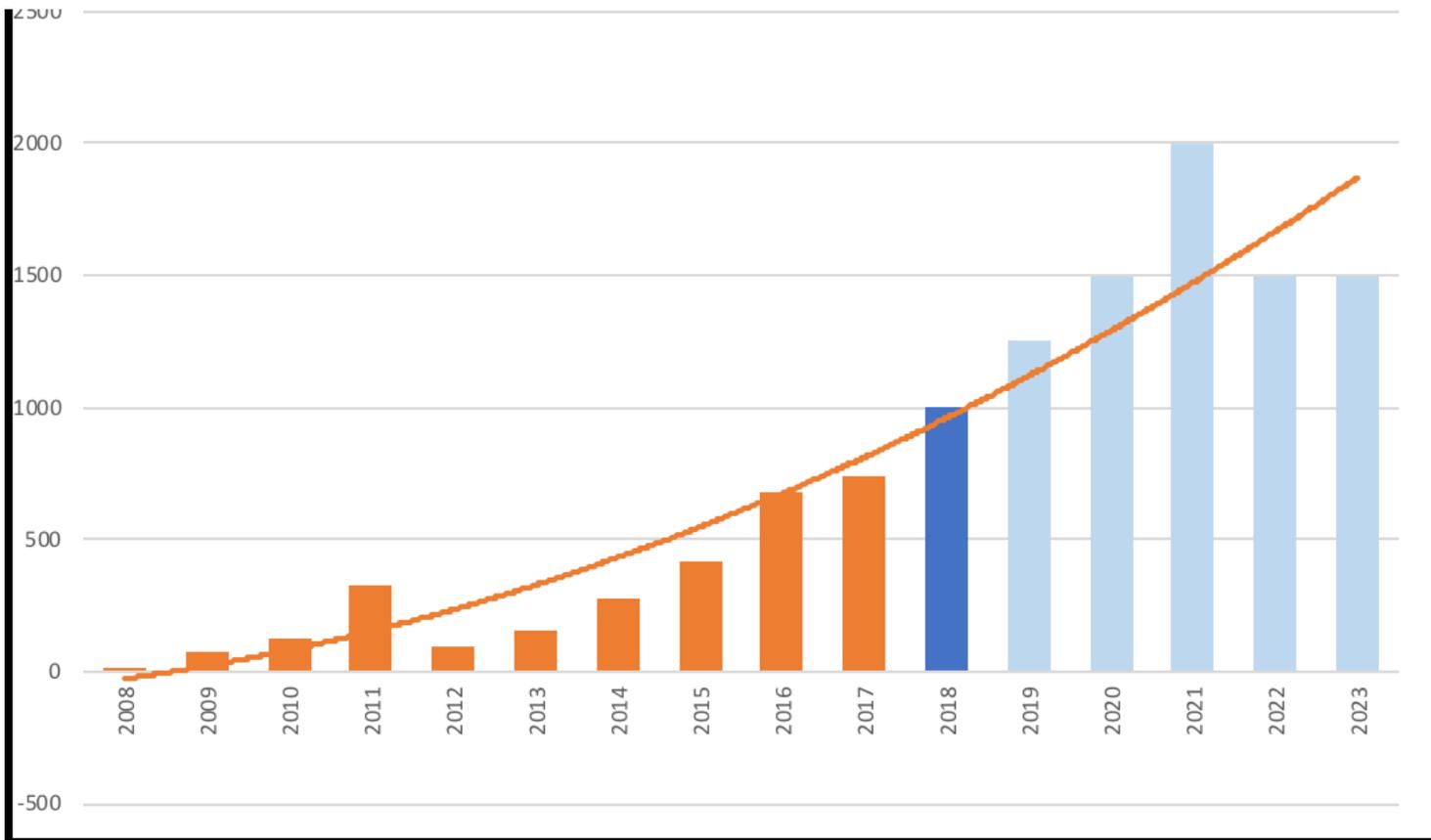
Volatility in the market translates into turmoil internally





Initial reasons and consideration for transition

- Long term commitment of employees
- Increase the potential of the business / mitigate impact of downturns
- Decrease risk of bad blood between owners and employees
- Cultivate a culture of vested interest – risk/ reward – people feel responsible for their own success and success of business. Take care of the business and it will take care of you.
- In some ways the solar industry is conducive to this sort of thinking.
 - At least in our market segment - we sell distributed energy resources that, by their nature, spread economic benefits widely.
 - The notion of economic democracy might be a little natural for that reason



Other considerations that arose over 2015-16

Timing became critical

We were becoming reliably profitable year over year and growing.

- 2012 and 2013 were pretty rough years
- 2014 transition year
- 2015-16 consistent growth established
- Generated enough value in company to make original owners whole for the risk, blood sweat and tears of past, while keeping the debt burden manageable for the new entity. If we had waited another year the value of the company would have close to tripled.
- Owner financing is from 'friendly' capital source. Current members in Co-op



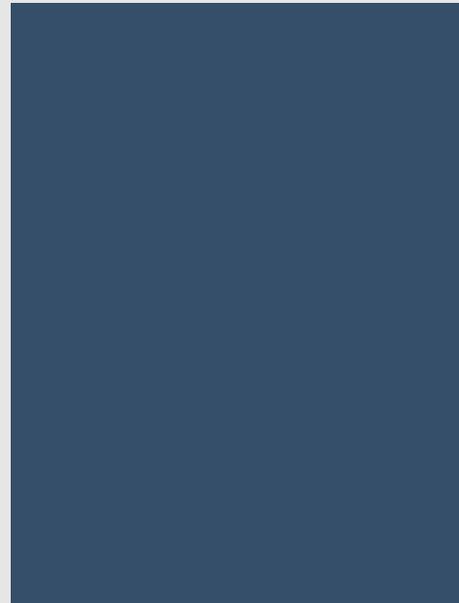
Other considerations that arose over 2015-16

Timing became critical

- Underlying tensions between existing owners were becoming an issue.
- We needed formal institutional structure for resolving disputes, allowing owners to have a formal entry and exit process and to focus our business' strategy.
- Owners' were open to the idea of a worker owned cooperative as a solution to this, though not explicitly discussed.

Other considerations that arose over 2015-16

- We had 2 long term employees that were really solid and wanted to lock them in for the long term. They were interested in joining membership. Along with the 4 LLC members, they constituted the willing buyer side that Courtney mentioned.
- We were also proud of North Wind's work and wanted to see it live and succeed after we were gone.





Resources and team

- UWCC – Courtney Berner
- USDA – Margaret Bau
- Herrick Law – Madison, WI
- Klismith Accounting – Plover, WI

Other inspiration and reference resources

- The ICA Group– Industrial Cooperative Association
- Democracy at Work
- South Mountain Company
- Namaste Solar



Names Behind the Numbers: Wisconsin

Names of Workers in Wisconsin's Clean Energy Economy

Formal transition process with 6 original members
July 2016 – March 2017

- Consistent meeting discipline
 - Courtney Berner came up and introduced the group to the benefits of worked owned cooperatives
 - Worked through company valuation and agreed on sale price first
 - Did basic financial literacy training with accountant and all originating members
 - Worked through equity allocation formulas next
 - Important to get the economic interests set and agreed upon early in process
 - Bylaws and organizational resolution development with lawyer

Incorporated on April Fool's Day 2017

Pillars of Co-Ownership

- Cooperative Ownership: We each own an equal voting share of our company
- Democratic Decision-Making: We participate in decision-making on a one-person, one-vote basis.
- Extreme Transparency: We practice open book management and hold open meetings.



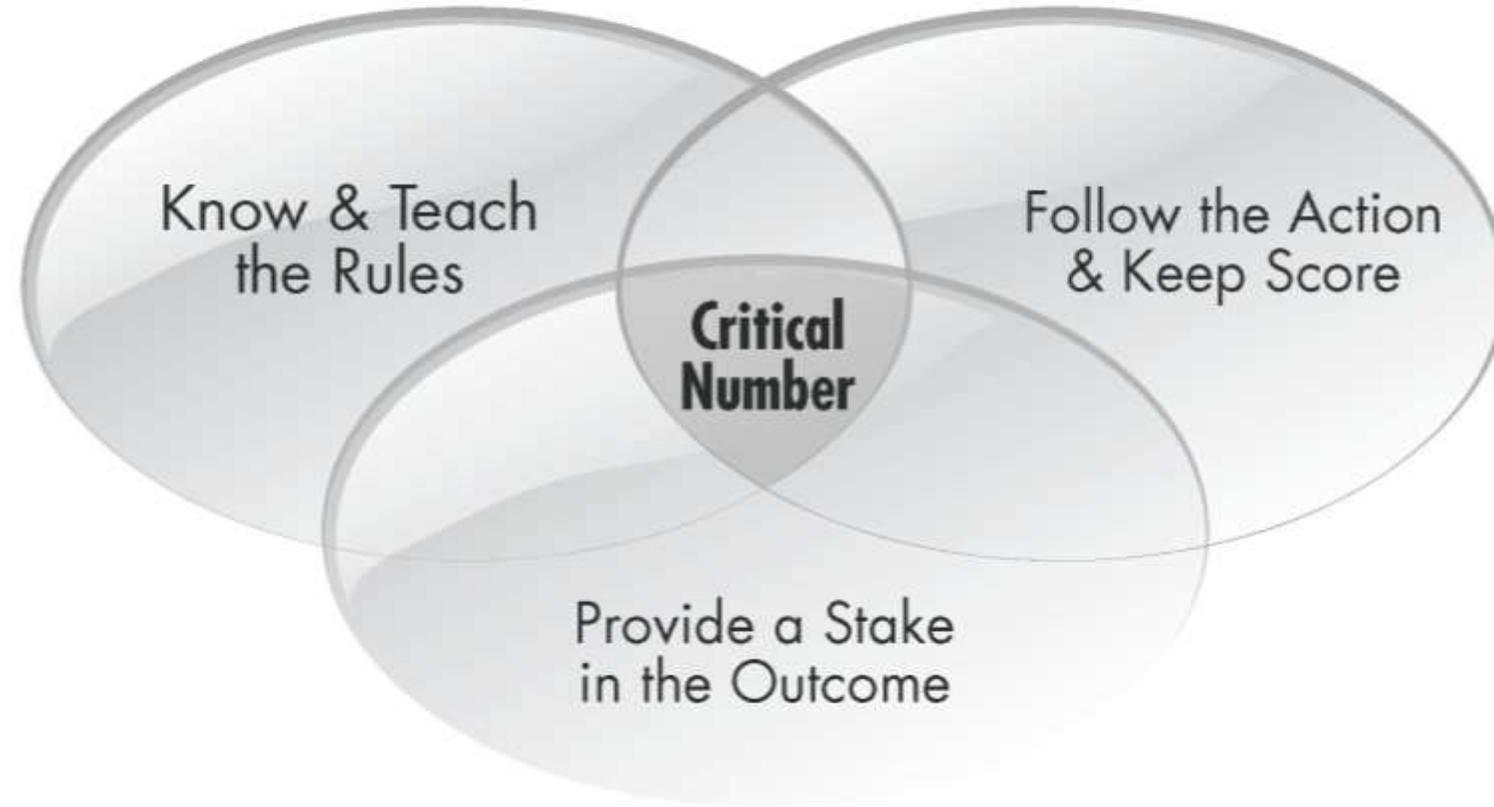


Post Transition Work

- Joined Amicus Solar Cooperative – Purchasing and shared service cooperative
- Partnered with Legacy Solar Cooperative, WFU Marketing and Financing
- Strategic Planning and OBM – 3rd party facilitated – 8 months
- Improve our internal processes
 - Set goals and engage membership in achieving them
 - Disciplined about scheduling development meetings
- Getting to know each other better!
- New hires are excited to work for our company and look forward to membership
- Sales and Marketing tool - Clients feel reassured when they're dealing with member owners on both the sales side and the installation side

Strategic Planning and Open Books Management training – 3rd party facilitated

- Further establish a participatory governance process, where all members understand business dynamics.
- Explore how North Wind can best balance member, company, and community needs in determining how to use its profits, while remaining committed to democratic governance.
- Set goals for measuring impact.
- Determine the process for reviewing and adjusting priorities and goals as needed.
- Explore Open Book Management and assess its fit.





The benefits to us

- Continuity in business operations through changes in employee owners
- Stability through growth and contraction
- Rooted in community
- Long term wealth building

Now, we're apparently available for things like this



Questions?

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