



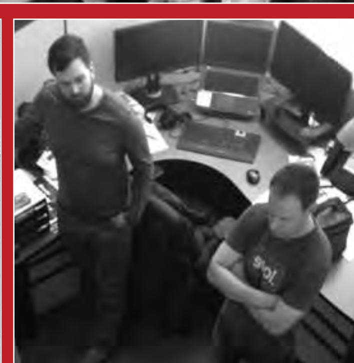

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CASE STUDIES

BUSINESS CONVERSIONS TO WORKER COOPERATIVES

Insights and Readiness Factors for Owners and Employees

project {EQUITY}

April 2015

Welcome

project
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ABOUT PROJECT EQUITY

Our mission is to foster economic resiliency in low-income communities by demonstrating and replicating strategies that increase worker ownership. We envision a future where communities (re)gain economic self determination and today's working poor have good jobs that keep them out of poverty and enhance their lives. We see cooperatives and employee ownership as key elements of this future. For more information please visit **www.project-equity.org**.

"We envision a future where communities (re)gain economic self-determination and today's working poor have good jobs that keep them out of poverty and enhance their lives." – Project Equity

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Executive Summary

"Worker-owned cooperatives are a powerful way for employees to gain a voice in their workplace...they become the primary beneficiaries."

Employee ownership is a powerful way for a business owner to engage and retain talented employees, generate community wealth, and increase a business' efficiency and financial performance. Worker-owned cooperatives in particular, are a powerful way for employees to gain a voice in their workplace and in key business decisions, and to increase financial assets as their ownership stake in the business increases.[1] Worker-owned cooperatives differ from other forms of business enterprise in that their members (the workers) are the ones who own the business, who control it, and who are its primary beneficiaries.[2]

Most people don't know how transitions to employee ownership work: that an owner can sell the business to the employees in order to retire or leave for other reasons, or that a business can transition to employee ownership without the owner leaving the company. With the growing number of retiring baby-boomer business owners, we have an opportunity to help those businesses—and their employees—harness the power of employee ownership.

So how does a business go about transitioning —"converting"— to a worker-owned cooperative? We set out to illustrate this by pulling together a set of case studies of businesses that have converted, then highlighting key lessons and effective practices from those companies' experiences.

Whether you are a business owner, an employee in a business that could be a candidate for worker ownership, or a practitioner who supports business conversions, we hope that this resource will deepen your understanding of the conversion process.

First, we wanted to understand what motivated business owners and employees to convert to a worker coop, and found that there are four core reasons:

1) As an **exit strategy** for the owner, whether leaving for retirement or other reasons

2) **As a component of the business' mission**, recognizing the employees as an important stakeholder group

3) To create **wealth-building opportunities for employees**, especially in low-wage sectors

4) Because **it's good business**: employee -owned businesses have demonstrated their ability to be more financially successful than their peers, and to weather economic storms more effectively

Second, we wanted to help businesses considering a transition figure out how ready they are, and how they can set themselves up for a smoother and more successful transition. So, we identified a set of 'Readiness Factors' that emerged from the case studies that we felt were important for interested businesses to consider. These factors include the prerequisites that the business is in solid financial health, and that the owner and the employees are committed to the transition. Then, along the way, the business needs to either solidify or transition to a culture of transparency and participation. The team that researches and guides the conversion should be made up of the owner and a group of employees, and should maintain open internal communication about the process along the way.

We also found that having external advisors who are employee ownership experts is really important, as is taking the time to ask questions and become educated about employee ownership early on and throughout the process. Repeatedly, we saw the benefit of hands on support for the employees and the owner in the nuts and bolts of setting up and running a worker-owned company.

Another key piece is ensuring that the financing strategy sets the new worker coop up for success – whether the sales transaction is loan, equity, or owner-financed, the terms and payback timeline need to provide the new owners (the employees) with enough time and financial buffer to ensure they can meet their financial commitments.

We noted that having the owner stay actively involved over the course of the transition is a helpful factor. It's not always

1 Hilary Abell, "Worker Cooperatives: Pathways to Scale." The Democracy Collaborative. June 2014. Available at http://www.project-equity.org/worker-cooperatives-pathways-to-scale/

2 http://www.uwcc.wisc.edu/pdf/multistakeholder%20coop%20manual.pdf: Solidarity as a Business Model: A Multi-Stakeholder Cooperative Manual by Margaret Lundt. Cooperative Development Center at Kent State University

Our Study Includes

- Motivations for Conversion
- Business Readiness Factors
- Conversion Types & Case Studies for Each
- Nuts & Bolts of a Dozen Business Conversions

possible, and is more important when the owner will be vacating a key leadership or operational role. Similarly, a phased financial buy-out can help the business meet key milestones before taking on additional financial commitments. This can also lower the cost of external capital. And finally, having a third party valuation of the business to set the sale price can protect all involved.

Third, we identified four different types of conversions based on the situation of the owners and its employees. We have organized the case studies into these four different types in an effort to make it easier to understand similarities and differences:

Type I: Owner sells to existing employees with the intention of remaining with the company

Type II: Owner sells to existing employees with the intention of leaving the company

Type III: Owner decides to convert to a coop, then brings in new people to be founding worker-owners

Type IV: Employees leave and start a coop together, or re-start a failed business as a worker cooperative

Finally, we present case studies of a dozen worker coops that were created by converting from a more traditional business structure. For each, we provide high-level background on the business and its situation. We talk about its motivations for becoming a worker cooperative, and the logistics of its conversion and of the coop itself. And we pull out the learnings by discussing the challenges the business faced during its conversion, the key lessons and effective practices.

These case studies provide specific details about the conversion process for a diverse set of businesses. They illustrates a range of approaches for handling the details of a business conversion, from the role of the owners and the employees, to financing options, to bylaw provisions that address specific needs and goals.

A Note From the Author

We hope that these case studies will serve both to de-mystify the process of converting a traditionally structured business into a worker-owned cooperative, and to deepen your understanding of how the process unfolds. We look forward to your thoughts and feedback as you review them!

Best regards,

Alison Lingane

Alison Lingane
Project Equity Co-founder

Introduction

Whether you are a business owner, an employee in a business that could be a good candidate for worker ownership, or a practitioner who supports business conversions, we hope that this resource will deepen your understanding of what it means for a business to convert to a worker-owned cooperative. In the text that follows, we use the term 'owner' as shorthand to refer to the owner or owners of an existing business.

{ A WORKER-OWNED COOPERATIVE IS A BUSINESS THAT IS OWNED AND RUN BY ITS WORKERS.

What is a worker cooperative?

A worker-owned cooperative is a business that is owned and run by and for its workers.[3] Worker cooperatives differ from other forms of business enterprise in that their members (the workers) are the ones who own it, who control it and who are its primary beneficiaries.[4]

What does it mean to convert a business to a worker-owned cooperative?

"Conversion" of a business to a worker-owned cooperative means selling the business to a newly formed worker cooperative. At a strategic level, employee ownership is a powerful way for a business owner to engage and retain talented employees, generate community wealth, and increase the business' efficiency and financial performance.[5] And, there can be tax advantages to the selling owner.[6]

At the tactical level, a "conversion" is in essence three things:

1) The creation of a new business entity that is a worker-owned cooperative;
2) A sales transaction executed between the current owner(s) and the new worker cooperative to sell the existing business to the worker coop, typically financed by a lender such as a bank, a Community Development Financial Institution (CDFI), or other, by selling non-voting equity shares, or by the selling owner; and
3) A transition of roles and culture among the new worker-owners to take on the ownership responsibility of the new entity and run it under some form of democratic governance.

As an owner, converting to a worker-owned cooperative does not mean you have to leave the business. Many owners choose to convert to a cooperative and stay on as a worker-owner.

3 See: http://ica.coop/en/what-co-operative. Accessed 1/26/15
4 http://www.uwcc.wisc.edu/pdf/multistakeholder%20coop%20manual.pdf: Solidarity as a Business Model: A Multi-Stakeholder Cooperative Manual by Margaret Lundt. Cooperative Development Center at Kent State University
5 http://dept.kent.edu/oeoc/publicationsresearch/Winter1997-8/WhenOwnershipWin1997-8.html
6 The 1042 Rollover can shelter capital gains from taxation. For more detail see http://dept.kent.edu/oeoc/OEOCLibrary/CoopAccount.htm and http://www.law.cornell.edu/uscode/text/26/1042.

But, if you are planning to retire or sell and leave your business for other reasons, it is a great way to know that you are leaving your company in experienced hands … the hands of your trusted employees.

Common reasons business owners decide to convert to a worker coop

There are four common motivations for businesses to transition to worker ownership:

1) As an **exit strategy for the owner**, whether leaving for retirement or other reasons
2) **As a component of the business' mission**, recognizing the employees as an important stakeholder group
3) To create **wealth-building opportunities for employees**, especially in low-wage sectors
4) Because **it's good business**: employee-owned businesses have demonstrated their ability to be more financially successful than their peers, and to weather economic storms more effectively

> THE GROWING WAVE OF AMERICAN BABY BOOMER BUSINESS OWNERS PREPARING TO RETIRE IS AN IMPORTANT REALITY THAT WILL GREATLY IMPACT TODAY'S BUSINESS LANDSCAPE.

First, businesses convert to worker ownership as an exit strategy for the owner, whether because s/he is retiring or wanting to leave the business for another reason. Surprisingly few current business owners in the United States have an ownership succession plan. "Fewer than half of those expecting to retire in five years and one-third of those expecting to retire in the next 10 years have actually named a successor." [7] When looking at family-owned businesses, it turns out that only 15% make it to the 2nd generation and only 5% to the 3rd generation.[8] If you are a business owner reading this, or if you are working with business owners who are nearing retirement, know that you are not alone! The growing wave of American baby-boomer business owners preparing to retire is an important reality that will greatly impact today's landscape of locally-owned businesses. With baby boomers currently owning an estimated two-thirds of all businesses with employees, there is a potentially huge impact of keeping those businesses anchored in our communities.[9] It is forecast that trillions of dollars of business value are going to change hands in the next 10 to 20 years. [10] The case studies of Island Employee Cooperative and Select Machine demonstrate this motivation for worker coop conversion.

Business owners who want to sell their businesses want a favorable financial transaction, and they typically also care about preserving the vision or mission of the business, taking care of valued customers and employees, and keeping the business alive and growing in the coming years. Often, owners also want to see their business stay in the community it has historically served, rather than move out of town or out of state. Selling to employees can accomplish all of these goals.[11]

Integrating employee ownership as a component of the business' mission is

7 Mark Kugar as quoted in A. McGrory-Dixon, "Small Business Owners Should Start Succession Planning Earlier," BenefitsPro, January 24, 2012.
8 http://www.oeockent.org/exit-planning/
9 Baby boomers own nearly 4 million businesses, and they own 66% of all businesses with employees . See http://www.axial.net/forum/baby-boomers-deal-flow/, accessed 2/17/15.
10 http://www.huffingtonpost.com/2013/05/20/baby-boomers-small-business-sales_n_3307156.html, accessed 2/17/15.
11 Note that the process of selling a business to employees can take a number of different forms. Some owners choose to sell their business to their employees and transition out of the company as quickly as possible, while others prefer to sell far in advance of their planned retirements and remain on with the business for years as worker-owners alongside their former employees.

the second most common reason for converting a business to a worker cooperative. Owners, in these cases, recognize the employees as important stakeholders. They understand that worker ownership helps the company make business decisions that are positive both for the bottom line and for the workers, gives workers a real say in their workplace, and benefits workers financially because they share in the profits. This motivator is present in all of the case studies.

A third common motivator for businesses to convert to worker ownership is rooted in worker ownership's capacity to create opportunities for employees to build long-term wealth. [12] In lower-paying industries, in particular, this can be a powerful incentive for employees to consider converting to worker ownership, and for local economic development agencies to support such efforts. The New Era Windows case studies demonstrates that worker-owners were motivated to convert not only to keep their jobs, but also to step into ownership roles, for the short-and long-term financial benefits as well as the decision-making benefits of ownership.

The fourth reason is typically a "bonus" on top of one of more of the other three (rather than a core motivator), which is that employee-owned businesses have demonstrated their ability to be more financially successful than their peers, and to weather economic storms more effectively.[13]

In many conversion cases, two or even all of the reasons described above may be motivators for owners and/or employees to make the decision to transition into worker ownership.

We have pulled together this series of case studies about businesses that have converted to worker cooperatives in the hopes that businesses that are considering or undertaking this transition can learn from their experiences: what worked, what the challenges were, and how they handled particular situations of importance to them. For each case study, we have pulled out their motivations for becoming a coop, the logistics of the conversion and of the coop itself, challenges, key lessons and effective practices. We created the case studies through a combination of interviews with current coop members, interviews with organizations that have supported businesses in their transition to worker coops, and from news stories and published articles.

12 Hilary Abell, "Worker Cooperatives: Pathways to Scale." The Democracy Collaborative. June 2014. Available at http://www.project-equity.org/worker-cooperatives-pathways-to-scale/
13 Ibid.

Typology of Conversions

Every cooperative conversion is necessarily shaped by the particularities of the business, and of the owner[14] and the workers. Since each follows a unique path, we found it helpful to group cooperative conversions into four types in order to highlight similarities and differences. The case studies that follow are organized according to this typology.

Type I

Owner sells to existing employees with the intention of remaining with the company

- Big Timberworks
- Namaste Solar
- Pattycake Bakery
- Real Pickles

Type II

Owner sells to existing employees with the intention of leaving the company

- Island Employee Cooperative
- Local Flavor (also Type III)
- Select Machine

Type III

Owner decides to convert to a coop, then brings in new people to be founding worker-owners

- Local Flavor (also Type II)
- Simple Diaper and Linen

Type IV

Employees leave and start a coop together, or re-start a failed business as a worker cooperative

- Center Point Counseling
- Collective Copies
- New Era Windows
- Taste of Denmark

14 Our use of the word 'owner' throughout is shorthand for one or more owners.

Conversion Types

→ **Type I**

Owner sells to existing employees with the intention of remaining with the company.

Type I

The first general type of conversion includes businesses in which the selling owner intends to remain on with the company as a worker-owner after selling to his or her existing employees. The case studies representing this type of conversion are Big Timberworks, Namaste Solar, Pattycake Bakery and Real Pickles. Business conversions in this category are frequently related to a mission-orientation of the business: owners often feel that sharing ownership with their employees ensures that the company serves all of its workers as well and as fairly as possible. Conversions in this category may also be motivated by a belief that sharing the responsibilities of ownership, governance, and often management will better serve the long-term interests of the company (see the Big Timberworks case study for an example).

This type of conversion requires the active involvement and commitment of the owner and of the existing employees who will become worker-owners. Because of this, careful preparation efforts are advisable before, during, and after the conversion to manage expectations, to create and clarify common understandings, and to allow for ongoing adaptation as the conversion progresses. Type I conversions benefit from the pre-existing industry knowledge and skills carried over by workers during their transition from employees to worker-owners. On the other hand, businesses undergoing this type of conversion may need to actively work to overcome the persistence of an employer-employee workplace dynamic and culture, despite the legal establishment of worker-ownership in a business' bylaws.

→ **Type II**

Owner sells to existing employees with the intention of leaving the company.

Type II

The second general type of conversion is distinct from the first in one critical way: owners sell the business to their existing employees with the intention of leaving the company, either for the purpose of retiring or for moving on to other endeavors. The case studies representing this type include Island Employee Cooperative, Local Flavor (also Type III) and Select Machine. The selling owner of businesses in this category of conversions use worker ownership as an alternative ownership succession strategy, choosing to pass the business along to employees instead of to external buyers or to a younger generation of the owner's family. This type of conversion is likely to become increasingly important as the baby boomer generation retires over the next decade and leaves many American businesses in need of new owners. Conversions of this type, like those of Type I, benefit from the carry-over of worker-owners' industry knowledge from traditional employment status into shared ownership.

It is important to ensure enough access to the existing owner over the right timeline to transition the owner's strategic leadership role, business management and operational knowledge, industry and customer relationships, and other roles the owner played or expertise the owner uniquely holds.

→ Type III

Owner decides to convert to a coop, then brings in new people to be founding worker-owners.

Type III

A third type of conversion includes businesses in which the owner makes the decision to convert to a worker cooperative independently of existing employees, and then brings in new people to become the coop's founding worker-owners. The case studies describing this conversion type are Local Flavor (also Type II) and Simple Diaper & Linen. This type of conversion may be an exit strategy for an owner who wishes to retire, or it may be a way to expand and/or ensure the longevity of a business. This approach enables the owner to be strategic in assembling or hand picking the founding worker-owners. The owner can curate the mix of skills, personalities, knowledge, and experience that will become the foundation of the new cooperative business, ensuring that the gaps left by the owner's departure are effectively filled. The challenge of this approach is the new team's lack of experience with the particular business and the need to build working relationships from the ground up. There can be a hybrid approach, in which some existing employees are invited to become worker-owners and new employees are brought in as worker-owner candidates. This hybrid approach can help ensure that there is a solid base of employees who want to become worker-owners.

→ Type IV

Employees leave and start a coop together, or re-start a failed business as a worker cooperative.

Type IV

A fourth general type of worker cooperative conversion is characterized by one of two events. A group of employees chooses to leave an existing traditionally-structured business en masse and start their own worker cooperative together. Or, former employees of a failed business launch a revised version of their previous company as a worker cooperative. In the first case, employees—who may be dissatisfied for any number of reasons—look to worker ownership as a better way to run the business (for an example, see the case study of Center Point Counseling). In the second case, employees are primarily motivated to re-start a failed business as a worker cooperative by a desire to save their jobs and to gain a greater say in what happens to the company —and to their jobs—in the future. Case studies of this type of conversion, which is a sort of hybridization of business conversion and start-up, include Center Point Counseling, Collective Copies, New Era Windows and Taste of Denmark. Although conversions of this type are fortunate in that the industry knowledge held by experienced employees carries over into the cooperative business, when individuals in management roles don't become a part of the new company, the lack of support from management can present an obstacle. Employees must bring on individuals with management skills or seek out external expert advisors capable of supporting them as they gain management skills to run the business successfully.

Readiness Factors

COOPERATIVE CONVERSION READINESS FACTORS

We wanted to understand how to assess whether a business is ready to transition to a worker cooperative. The good news is that, in general, factors that contribute to the good health of a business also help a company be successful in the transition to worker ownership. Although the context and conversion process are unique to each business, a handful of factors appear again and again in conversions of all four types outlined here.

Note that these Readiness Factors are most applicable to conversion Types I and II, since these are the situations in which there is strong continuity of the current business operations and the existing workers. In Type III conversions, there is a nearly 100% turnover of workers, and in Type IV, the business is essentially re-started (and so has the opportunity to do some re-invention and restructuring). For Types III and IV, these are factors that should be taken into account—anddesigned for—as the new coop is being set up.

Some of the Readiness Factors are prerequisites that should be in place before making a commitment to a worker coop conversion. Some are factors that businesses will want to ensure are developed as they prepare for a conversion. We also share some factors that we consider to be helpful but not essential in every case; we recommend businesses strongly consider putting these in place, within the constraints of the particular situation.

PREREQUISITES

Commitment to transition

→ Both the owner and employees are committed to converting to a worker cooperative.

Note: For Type III and IV conversions, when either the current owner or the employees drive a conversion independently, they need to commit to rebuilding a team by recruiting individuals with a commitment to employee ownership

Business is in strong financial health

→ Successful and stable business at time of conversion[15]
→ Positive future business financial forecast
→ Business financial planning scenarios ensure ability to cover cost of buy-out capital even in business cycle downturn

15 There have been some attempts to use employee ownership to rescue failing businesses, but this is not a good idea, unless the flaws from a business perspective are directly tied to weaknesses of a departing owner and can be easily remedied by new worker-owners. Employee-owned businesses and coops must succeed on business terms, just like any company, so a sound business model and a strong future market are essential.

FACTORS TO DEVELOP ALONG THE WAY

Participatory culture

- A culture of transparency and participation is key to the development of an effective, well-functioning cooperative. If this is not in place already, this cultural transition should be included in the transition roadmap.
- Employee and owner conversion team researches and guides the conversion
- Open internal communication about the conversion process

Advising, training and support for owners and employees

- Trainings—and ideally, hands-on support—for employees and owner in the nuts and bolts of running a worker-owned company
- External advising from employee ownership experts, including:
- Existing successful worker coops that can offer support, models and advice
- Organizational development consultants who can help guide processes and cultural shifts
- Lawyers, CPAs and finance experts who understand coops

Effective financing

- Financing strategy that raises the right amount of capital at terms the business can afford to pay. Sources could include:
- Internal financing (financial support from selling owner, company retained earnings or workers' share of profit over time, etc.)
- Bank or other loans
- Equity investment in the form of non-voting shares

OTHER HELPFUL FACTORS

Owner actively involved during transition

- Owner wiling and able to gradually—not suddenly—withdraw from business operations (unless staying on as a worker-owner), and stays actively and appropriately involved through transition to fully functioning worker ownership

Phased buy-out

- If the owner can afford it financially and is willing, a phased buyout that enables the financial transaction to take place in stages can lower risk and decrease the cost of external capital

Third party financial valuation

- Third-party financial valuation of existing business is completed before the buyer and seller agree on a price.

PREREQUISITES

The following are the factors we consider to be prerequisites for businesses considering a worker coop conversion.

Commitment to transition

First, the parties that will be a part of the newly formed worker coop—most typically including the current owner and at least a significant portion of the existing employees—need to be committed to the transition. Either the owner or a small group of employees can initiate the conversation about considering worker ownership, but ultimately both need to be on board for the conversion to move forward successfully.

Many would-be conversions fail because of a mismatch between the levels of employee and owner interest in worker ownership. According to Don Jamison of the Vermont Employee Ownership Center,[16] several potential conversions he has witnessed ultimately did not go through for this reason. Either owners were strongly in favor of selling to their employees while employees remained skeptical, or employees were interested in buying a company, but a retiring owner was not interested enough in worker ownership to allow the process of converting to worker ownership to unfold. Ensuring that both parties are knowledgeable about worker ownership and make an informed—and ideally joint—decision is an important early step.

Note that for Type III and IV conversions, when either the current owner or the employees drive a conversion independently, they need to commit to rebuilding a team by recruiting individuals with a commitment to employee ownership.

In Type III conversions, the owner makes the decision to convert to a worker cooperative independently of existing employees, and then brings in new people to become the coop's founding worker-owners. In Type IV conversions, employees band together to start a new business, or to re-start a business that has closed down.

Business in solid financial health

Second, the business should be in solid financial health: it should be a successful and stable business at the time of the conversion. Established businesses have built markets and credibility, which can help a transitioning business through the conversion process in several ways. Companies that have been able to build good relationships with suppliers, with clients, and with the community carry these important relationships with them through the transition into worker ownership. The case studies of Real Pickles and of Local Flavor illustrate some examples of this. For Real Pickles, the primary source of financing for the conversion came from local community members; the cooperative leveraged the strong ties it had built with the community over the course of twelve years by launching a highly successful direct public offering (DPO) campaign to fund the cooperative buy-out. In the case of Local Flavor, a San Francisco Bay Area-based catering company, an anchor client provided the new cooperative with core revenue both during and after the conversion process.[17]

The business must have a positive forecast for both revenue and profitability.

In most cases, the buy-out is financed in significant part from the future profit of the business, so the business financial forecasts need to have enough profit to cover the cost of the buy-out capital even in business cycle downturns.

Note that in the examples of conversions coming out of businesses that were closing, the reason for the closure was directly tied to weaknesses of a departing owner and could be remedied by new worker-owners. Employee-owned businesses and coops must succeed on business terms, just like any company, so a sound business model and a strong future market are essential. See the New Era Windows case study as one example.

Successful and stable businesses bring employees who are often better prepared for the responsibilities of worker ownership because they have already had the opportunity to observe how the company can be effectively managed. Employees who have been with the business for a significant amount of time have an accumulated knowledge of the company's internal operations and of the broader market, may have strong vendor and customer relationships, and will require less operations training during the transition period than would brand-new employees. Longer-term employees may also be better prepared for the cooperative aspects of worker ownership. Employees who have worked together for years often build a sense of community and trust, which provides a natural segue into the democratic decision-making processes at the heart of cooperative ownership. Longer-term employees tend to be invested in their company—professionally, socially, emotionally—given the amount of time they have dedicated to the company.

16 Phone conversion between Project Equity and Don Jamison of the Vermont Employee Ownership Center on 7/10/14.

17 Local Flavor's anchor client is Veritable Vegetable, a San Francisco-based organic produce distributor. For over 9 years (as of 2014), Local Flavor has catered lunch four times a week for Veritable Vegetable's staff of 50.

Sometimes longer-term employees already have equity investments, which is an added incentive to make sure the company succeeds. Examples from this report of employees tapping into their existing sense of community and cooperation to transition into worker ownership include the Island Employee Cooperative, Select Machine, New Era Windows and Center Point Counseling. In each of these cases, the industry and operations knowledge held by the employees also facilitated the conversion process by decreasing required investments in operations training.

FACTORS TO DEVELOP ALONG THE WAY

The following are factors that can be developed or strengthened as part of the conversion process, if they aren't already in place.

Participatory culture

Businesses planning to convert to worker ownership need—or need to develop—a culture of transparency and participation. Ideally this includes some elements of participatory management that provides employees with opportunities to think and act like an owner. A "command and control" management approach is not compatible with the development of an effective, well-functioning cooperative. Thus, if a participatory management culture is not in place already, this cultural transition needs to be included in the conversion process and timeline to provide the foundation upon which the governance and decision-making processes at the heart of worker ownership will be built.

For examples of specific strategies employed by businesses to build participatory cultures even before transitioning to worker ownership, please refer to this report's case studies of Pattycake Bakery and Namaste Solar. Additional resources about how to build a culture of participation include *Fundamentals of Ownership Culture: Practical Ideas for Creating a Great Employee Ownership Company*, a text by Corey Rosen and Loren Rogers of the National Center for Employee Ownership.[18]

Conversion team that includes owner and employees

We recommend that the business form a conversion team made up of both the owner and a small number off the employees to research and guide the conversion. Having employees leading in the design of the new cooperative business, and directly engaged in the decision-making processes around the cooperative conversion, is key to setting the new cooperative up for success.

Employees who participate in the conversion team represent the broader business workforce throughout the planning process. They can be responsible for tasks such as leading research efforts about worker ownership, and doing the "nuts and bolts" work of leading discussion and decision-making about governance and management structures, and other areas that define how the coop is set up and run, that then get translated into bylaws and coop operations. An owner that is transitioning out of the business needs to work alongside the employees to map out the transaction details and timeline; an owner who is staying needs to participate as a future worker-owner.

At Namaste Solar, for instance, those workers who introduced the idea of converting the business to a worker cooperative first formed a research committee that took the lead in exploring worker cooperative business models.

18 Corey Rosen and Loren Rogers. Fundamentals of Ownership Culture: Practical Ideas for Creating a Great Employee Ownership Company. Oakland, CA: National Center for Employee Ownership, 2011.

The research committee convened regular meetings with Namaste's employees to present their findings. These meetings were opportunities for all of Namaste's workers to discuss the ways in which the various aspects of the worker cooperative model might fit well—and also the ways in which they might not fit well—with the company. Namaste's research and discussion process carried over into the company's transition period and beyond. As a worker cooperative, Namaste's worker-owners have continued to tweak the governance model and organizational structure of the company to better fit the particularities of the business, its current worker-owners, and their vision for the company's future.

An important initial step in creating the conversion team is ensuring that it has the support of the workers in representing their interests and in guiding the transition. The Island Employee Cooperative's conversion story provides an example of a simple, effective way to gauge and record worker support of a conversion team. Before the Island Employee Cooperative's conversion began to take shape, one of the Island Employee Cooperative's advisors—Rob Brown of the Cooperative Development Institute—drew up a written commitment of interest that employees could choose to sign if they supported an exploration of how the businesses might be transitioned into worker ownership. The written commitment of interest authorized the formation of what they called an "employee steering committee" to lead the processes of developing an ownership structure, incorporating the cooperative corporation, drafting bylaws, and doing other initial nuts-and-bolts work of forming the worker cooperative. Signing the document was not binding, meaning signers were not yet agreeing to become worker owners, but it did provide the Island Employee Cooperative with the initial concrete affirmation it needed to launch the exploratory first stage of its conversion.

Open internal communication

Creating and maintaining channels for open, timely communication is important to facilitate the transition process. The "conversion team" should incorporate broad two-way employee communication into the definition of its role to enable it to effectively serve as representatives of the broader workforce.

Establishing clear, common understandings on the part of employees and the selling owner about what worker ownership entails is critical at every step of the conversion process. To determine whether employee ownership is a good fit, the employees and the selling owner need to understand the worker ownership business structure, what worker ownership means for individual workers and for the selling owner, and what options are available to address specific needs of the business and its workers. The teamshould articulate and document expectations and goals of the different parties, and regularly check in on how the planned conversion will meet those goals. And, there should be space for concerns and reservations to be voiced and addressed as they arise.

Advising, training and support for owners and employees

Trainings—and ideally, hands-on support—for employees and owner about setting up and running a worker-owned company are an important component of a successful transition. Expert-led trainings for the existing owner and for new worker-owners about the responsibilities and the technical aspects of worker ownership are almost universally cited by worker ownership experts and by individuals in the coops we studied as being an essential part of preparing for worker ownership. The case studies of New Era Windows and the Island Employee Cooperative provide accounts of how worker ownership trainings can be incorporated into the conversion process. In both cases, external expert advisors organized a series of classes, workshops and discussions about what worker ownership means for a business and for workers before the sale closed. In addition to equipping new worker owners with the technical skills they need to step into ownership roles, worker ownership training can also provide new worker-owners with concrete tools for building a participatory workplace culture. The selling owner can facilitate a worker ownership conversion by offering employees small amounts of paid time for education and training. Asking full-time employees to commit to unpaid meetings, workshops, and trainings outside of working hours can be a tough sell—but investing in adequately preparing workers for the responsibilities of worker ownership can be a hugely important factor in smoothing the transition into worker ownership.

Seeking expert advice and guidance throughout the conversion process enables a business to be discerning about the conversion strategies it chooses to employ, and better positions it for success as worker-owned company. For example, coop conversion experts can guide on how to select the most appropriate governance and management structures and how to prepare the owner and employees for worker ownership, lawyers can guide the selection of entity structure for the new coop, provide support in writing the bylaws and other legal documents, and a CPA can develop the financial valuation of the company to help determine sales price, and can also guide the new coop in structuring its new financial systems. We recommend tapping coop conversion experts, lawyers and CPAs.

If they exist in your area, local cooperatives can sometimes provide mentors for a converting business. Given that one of the International Cooperative Alliance's seven principles of cooperative ownership is "cooperation among cooperatives," the likelihood that existing coops will be willing to mentor or aid a new cooperative business through its conversion is quite high. For illustrative examples of how a local coop community can benefit a transitioning business, see this report's case studies on the Island Employee Cooperative and Local Flavor.

Effective financing

Getting the right financing in place is critical both to ensure that the buyers' and sellers' needs are met in the sales transaction, and that the newly formed cooperative business can continue to be financially successful. The financing strategy should raise the right amount of capital at terms the cooperative business—and its new worker-owners—can afford to pay.

Buy-out capital can come from a variety of sources. The owner may choose to finance the conversion. This is a good scenario when the owner doesn't need a "lump sum" payout all at once, but is open to being paid for the business over a number of years. Past conversions have been fully or partially financed by the selling owner through several means: the owner may make a loan to the business (e.g. Local Flavor); the owner may personally guarantee loans from external lenders (e.g. Select Machine); or the owner may choose to take a promissory note as compensation (e.g. Pattycake Bakery). Financial support from the selling owner can reduce or remove the need to find an external funder, which opens space for the business to focus more time and energy on the other aspects of the business conversion.

Loans are often the first consideration when thinking about external financing for converting businesses, though coops have been able to utilize different forms of investment capital to finance their

WE RECOMMEND TAPPING COOP CONVERSION EXPERTS, LAWYERS AND CPAS.

transactions. See the Namaste Solar case study for how they tapped equity investors by utilizing non-voting shares, and the Real Pickles case study for an example of a Direct Public Offering.

OTHER HELPFUL FACTORS

The following are other helpful factors to consider.

Owner actively involved during transition

It can be very helpful if the owner is willing and able to actively participate in the conversion process. The way this plays out depends on whether the owner is staying on as a worker-owner or transitioning out of the company.

In Type I conversions, a selling owner intends to stay on as a permanent worker-owner. His or her ownership and governance status changes to worker-owner, and there may also be some transitions in his or her day-to-day role. Both the explicit role changes and the implicit behavior changes need to be actively managed. It can be hard for a group of people to switch from turning to one individual for leadership and decision-making without both the former owner and the former employees mindfully reinforcing the change.

In Type II conversions, the owner looks to worker ownership as an exit strategy. It can be very helpful for the owner to stay with the company through its transition period to ensure that the owner's knowledge, skills, experience and role—leadership, management, sales, customer, operations or other—are successfully transferred to the new worker-owners. Owners in Type II conversions may choose to remain on through the company's conversion to facilitate the transition process, but generally only until the newly worker-owned business has reached a point of stability (see Select Machine case study). Some owners in Type II conversions choose to become temporary worker-owners (see the Local Flavor case study), while others move into an advisory role (see Island Employee Cooperative case study).

Phased buy-out

If the owner can afford to, and wants to, a phased buyout that enables the financial transaction to take place in stages can lower risk and the cost of external capital. In the case of Select Machine, the owners sold the company in phases. Initially, they sold 40% of their shares to their workers, financed by loans. Once those loans were re-paid, the owners planned to sell the remaining shares of the cooperative. In their case, the owners of Select Machine decided to stay on with the company over that time period and to retire after 100% of the company was sold.

Third party financial valuation

It can be helpful at the time of the business sale transaction to have an independent third-party financial valuation of the business. If a bank (or other institutional lender) is involved in financing the conversion, an external valuation will likely be required, especially if the business is sold for more than book value.[19] If the owner is financing the conversion, and at a later date wants to refinance that loan, the lender will often ask for documentation of the basis of the sale price.[20]

Perhaps more importantly, the employees who will become owners are agreeing to take on a significant financial commitment when buying the business, and in most cases will need to take money out of the business or borrow money elsewhere to pay the departing owner. Especially in situations where the workers do not have strong finance backgrounds (assumed to be most situations), an external valuation can protect their interests.

Unions and coop conversions

A union or other strong organizing body can provide an organizing forum for workers to take a leadership role in transitioning a company into worker ownership. For New Era Windows, the workers who guided the company into worker ownership were also members of a union, and drew upon the strength and organizing power of the union to move the conversion forward. After their former employer closed its doors without warning, the unionized factory workers who would found New Era launched a successful high-profile strike. Banding together in the strike laid the groundwork for the unionized workers to build their new worker cooperative up from the ashes of the shuttered factory. In the case of Collective Copies, as well, the worker cooperative grew out of a strike led by the unionized former employees of a copy shop that then closed.

19 Wikipedia defines book value as "the value of an asset according to its balance sheet account balance….[A] company's book value is its total assets minus intangible assets and liabilities." See: http://en.wikipedia.org/wiki/Book_value. In contrast, a financial valuation of the business for the purposes developing a sales price looks at the net present value of future cash flows.

20 Email conversation between Project Equity and David Hammer, Executive Director of the ICA Group: http://ica-group.org on 2/8/15.

Case Study Summary

WORKER COOPERATIVE CONVERSION CASE STUDIES

We have compiled the following case studies to share learnings about converting businesses to worker-owned cooperatives. As of August 2014, each of the companies profiled below had converted, or was currently in the process of converting, from a traditionally-owned business to a worker-owned cooperative. The following chart lists the businesses described in the case studies.

Name	Location	Year Converted	Number of Workers (As of August 2014)	Type of business
Type I				
Big Timberworks	Gallatin Gateway, MT	1999	11	Design / build construction
Namaste Solar	Boulder & Denver, CO	2011	90	Solar design and installation
Pattycake Bakery	Columbus, OH	2013	15	Bakery
Real Pickles	Greenfield, MA	2013	18	Food manufacturing
Type II				
Island Employee Cooperative	Stonington, ME	2014	60	Supermarket, pharmacy and variety store
Select Machine	Kent, OH	2006	10	Specialty parts manufacturing
Type III				
Local Flavor[21] (also Type II)	San Francisco Bay Area, CA	2014	6-12	Catering
Simple Diaper & Linen	Holyoke, MA	2011	3	Diaper cleaning and delivery
Type IV				
Center Point Counseling	Viroqua, WI	2011	12	Mental health care & counseling
Collective Copies	Amherst & Florence, MA	1983	12	Printing and copying
New Era Windows	Chicago, IL	2012	15	Window manufacturing
Taste of Denmark	Oakland, CA	2010	13	Bakery

21 Between August 2014 and the time of publication, Local Flavor made the decision to close down its business. See its case study for more detail.

Type I Conversions

TYPE I CONVERSIONS

Type I conversions are cases in which the selling owner intends to remain on with the company as a worker-owner after selling to his or her existing employees. The cooperatives profiled in this section are Big Timberworks of Gallatin Gateway, Montana; Namaste Solar of Boulder, Colorado; Pattycake Bakery of Columbus, Ohio; and Real Pickles of Greenfield, Massachusetts.

→ **Big Timberworks**
Type I Conversion

BIG TIMBERWORKS

Design / build construction
Gallatin Gateway, Montana

Date of conversion: 1999
Number of workers as of summer 2014: 11 worker-owners
Conversion Type: Type I

The information presented below was collected largely from a case study published by the Northcountry Cooperative Foundation Center in 2004.

Background

Founded as a sole proprietorship in 1983, Big Timberworks is a design / build construction firm based in Gallatin Gateway, Montana. Big Timberworks specializes in timber-frame construction, as well as in woodwork, metalwork, stonework, and concrete building. Big Timberworks converted to a worker-owned cooperative in 1999, and as of 2014, the coop had eleven[22] worker-owners.

Why it became a coop

The idea to transition Big Timberworks to a worker cooperative first emerged in the late 1990s, when Big Timberworks founder and owner Merle Adams began finding the rapid pace at which the company was growing to be unsustainable for one person to manage. He worried that if he decided to sell the company to an external buyer, he might put his employees' jobs at risk—and furthermore, he wasn't ready to leave the company.[23] Adams and his employees looked to worker ownership as a solution. By converting the sole proprietorship to a worker-owned cooperative, Adams could stay on as a worker-owner and share the responsibilities of managing the growing company—simultaneously relieving the unsustainable pressure he was experiencing

22 "Our Craftsmen," website of Big Timberworks. http://bigtimberworks.com/montana-crafted/our-craftsmen/
23 Kerstin Larson et al. "Using Worker-owned cooperatives to enhance the economic well-being of rural residents: a report for the United States Department of Agriculture." Northcountry Cooperative Foundation's Center for Cooperative Enterprise and Innovation: Minneapolis, 2004. p. 16. Available from: http://community-wealth.org/content/using-worker-owned-cooperatives-enhance-economic-well-being-rural-residents-report-united

as a sole proprietor and offering his highly skilled craftsman employees the opportunity to "be their own boss."

According to a case study of Big Timberworks' conversion to a worker cooperative published by the Northcountry Cooperative Foundation in 2004:

> The business of construction is one that usually spawns many small sole-proprietorships because once employees have mastered the craft many want to start their own businesses and "be their own boss." Big Timberworks specifically wanted to retain its crew of highly trained, specialized and talented craftspeople. Worker ownership allowed employees to have the benefits of ownership without leaving the business.[24]

According to Big Timberworks' website, worker ownership has benefitted the company by "giving each employee owner a vested interest in the quality of their products while ensuring that the spirit of creation lives on."[25]

Conversion logistics

Under the guidance of the ICA Group, and looking to South Mountain Company as a role model, Big Timberworks began its transition into worker ownership in 1999. The company hired an attorney and an accountant to help navigate the complexities of cooperative law and accounting. Additionally, Big Timberworks successfully lobbied to update Montana's 80-year-old cooperative statutes so that the company could become a "justifiable business" under the cooperative statue.[26] The primary motivation for Big Timberworks to seek this update in state law, according to the Minutes of the Montana Legislature, was to "feel more at ease" in approaching others to buy into the coop.[27]

To finance the buy-out, Big Timberworks and its advisors hammered out an eight-year buy-out plan. Former owner Merle Adams initially retained ownership of the land but sold the cooperative the buildings and equipment in order to make the transition to worker ownership financially feasible for Big Timberworks' employees.[28]

Coop logistics

The following excerpt is quoted from the 2004 Northcountry Cooperative Foundation's case study of Big Timberworks' conversion by Kerstin Larson et al., Using Worker-owned cooperatives to enhance the economic well-being of rural residents: a report for the United States Department of Agriculture.

The cooperative uses a fairly straightforward management structure. A General Manager and office manager oversee day-to-day operations, and four department supervisors monitor operations within each of the company's four divisions. Merle Adams serves as the CEO and is primarily an "idea guy" and resource for the Board of Directors. Though he is no longer sole proprietor, he continues to act as the face of the company.

The company recruits new members who express interest in employee ownership.

24 Larson, 16.
25 "Our Craftsmen," website of Big Timberworks. http://bigtimberworks.com/montana-crafted/our-craftsmen/
26 Minutes, January 14, 2000. Business, Labor, and Agriculture Interim Committee of the 56th Montana Legislature. http://leg.mt.gov/content/committees/interim/1999_2000/business/0032loxa.pdf
27 Larson, 7.
28 Ibid.

Though they hire primarily based on experience and qualifications, the company also wants to ensure that when employees become eligible for ownership, they want to become a part of the business. This ensures sustainability and long-term success. From the time an employee is hired, there's a two-year probationary period in which the membership evaluates the employee for qualification as an owner. There's little in the way of formal training to be a member of the co-op, but they encourage new hires to read *Built to Last: Successful Habits of Visionary Companies* by Jim Collins and Jerry Porras and a study of Mondragon co-ops entitled *We Build the Roads We Travel*. They're also encouraged to come to board meetings. Instead of institutionalized training, members try to create a culture of ownership by encouraging an atmosphere of mutual accountability and respect.

When an employee's probationary period ends, they apply for coop membership. The whole coop then votes a new member in or out. Once they've been voted in as a member, they're obligated to invest $10,000 worth of equity ("the price of a good used car"). This amount was carefully chosen following South Mountain Company's example: the amount represented a significant enough investment to require commitment from the new owner that they would stay at the company for while, but not so significant that it would prevent employees from becoming members.

This equity may be paid in cash. They can alternatively take out a three-year, no-interest loan from the coop, or they can use any year-end profits they would receive to pay off their equity share. They must pay off their equity share within three years. Merle commented that while paying your equity investment by using year-end profits was a popular method it also made the idea of membership less valuable to new worker-owners. They've had a few worker-owners who used this method and then quickly left the company, requiring the company to pay out equity quickly and with no small detriment to the business's finances. They've learned over the years that the most meaningful equity investment would come directly out of the worker-owner's pocket.

All eleven worker-owners sit on the Board of Directors, which is primarily a consensus driven body. The Board of Directors governs policy, and approves any significant purchase or expense (capital improvements, any new equipment purchases, etc.). The general manager does have the power to fire employees and is free to implement all policies that the board has voted on. Most Board decisions are not contentious, and it's rare that there is a major conflict among owners.

Challenges during conversion

The case study compiled by the Northcountry Cooperative Foundation notes that Big Timberworks chose to lobby for a change in state law in order to ensure that its transition into worker ownership was legally sound. Although lobbying for an update to Montana's cooperative statutes, which had not been updated since the 1920s, certainly introduced an additional challenge into Big Timberworks' conversion process, the cooperative transformed this potential barrier into an opportunity to ensure that Montana's cooperative statutes are applicable to and supportive of modern worker cooperatives. In doing so, Big Timberworks not only secured its own status as a cooperative, but also paved the way for the formation of future Montana worker cooperatives.

The Northcountry Cooperative Foundation's case study of Big Timberworks goes on to describe how

> [O]ne of the biggest challenges the coop has had to overcome is the lack of business experience on the Board of Directors. They've hosted trainings on such topics as how to read financial statements, and often Merle's advice is used to interpret subjective business data...As the board's skill-set becomes more developed, Merle's role is expected to diminish.[29]

Finding a balance point between the roles of the selling owner and the new worker-owners is an issue frequently faced by newly converted worker-owned businesses. Workers transitioning from purely employee roles into ownership often have never before had the need or the opportunity to learn the business management skills required of business owners. The selling owner can play a critical role in transferring ownership knowledge over to former employees, but he or she must simultaneously work toward relinquishing sole symbolic and emotional control over the company. Big Timberworks' conversion provides an example of how one company has successfully dealt with this challenge.

Key lessons / effective practices

Big Timberworks' transition to worker ownership demonstrates the extent to which the continuous presence and active guidance of a selling owner can ease the "growing pains" of a new cooperative business. Merle Adams' willingness to train his former employees in how to manage the business was likely a critical component of the continued success of Big Timberworks during and after the transition to worker ownership.

Big Timberworks' utilization of prior worker ownership conversions as models for its own transition should also be highlighted as an effective practice. To avoid wasting time and energy "reinventing the wheel" in designing its cooperative structure and membership requirements, Big Timberworks looked to another design / build worker cooperative for guidance. The example set by South Mountain Company, a design / build company that transitioned to worker ownership in 1987—more than a decade before Big Timberworks began its conversion—shaped how Big Timberworks formulated its own membership requirements. Following the South Mountain Company model, Big Timberworks set the equity investment it requires of new members relatively high ($10,000), and the probationary period relatively long (2 years), in order to require a significant up-front commitment from new worker owners. The commitment to long-term ownership is both monetary and symbolic, and may contribute to Big Timberworks' low turnover rate and overall long-term success.

29 Ibid, 16; 14.

NAMASTE SOLAR

Solar electric system design and installation
Boulder, CO

Date of conversion: January 1, 2011
Number of workers at time of conversion: 73; 49 worker-owners
Number of workers as of summer 2014: 90; 46 worker-owners
Conversion type: Type I

Based on Project Equity's interview with Blake Jones, Namaste Solar co-founder, current worker-owner, and President & CEO in May 2014.

Background

Namaste Solar, a Boulder, Colorado-based solar energy system design and installation company, was co-founded as an employee-owned business in 2005 by Blake Jones, Ray Tuomey and Wes Kennedy. In 2011, Namaste officially converted from its unique form of employee ownership to a worker-owned cooperative.

Why it became a coop

Namaste Solar has meticulously documented its experience transitioning to worker ownership. The "About Us" section of Namaste's website explains why the company decided to become a worker cooperative:

> We undertook the transition to this new capital structure for many reasons, mainly to better align our capital structure with our governance structure. Prior to the transition, our company operated on a one person, one vote basis for most operational decisions, but when it came to shareholder votes, we voted on a one share, one vote basis. The cooperative model more closely matches our democratic ideals and more equitably distributes the risk/reward equation of our employee-owners. In addition, this enables us to accept external investors without sacrificing internal control. [30]

Conversion logistics

Namaste's workers began discussing the possibility of transitioning the company from its unique form of employee ownership to a worker cooperative structure about a year before the conversion reached completion in January 2011. The idea received positive initial attention amongst Namaste's workers, but not all employees were immediately in favor of the conversion. According to co-founder and current worker-owner Blake Jones, many of Namaste's workers and shareholders expressed initial skepticism about the logistics of converting to a worker cooperative structure.

30 "Employee-Ownership Model – About Us." Website of Namaste Solar. http://www.namastesolar.com/about-us/employee-owned-cooperative. Accessed 2/10/15.

→ Namaste Solar

Type I Conversion

A group of workers formed a committee to research worker cooperatives and to explore what converting might mean for Namaste. The research committee organized meetings with Namaste's entire worker population to present their findings and to discuss the advantages and disadvantages of converting to a worker cooperative. The meetings functioned as an open forum for Namaste's workers to ask questions and express opinions about cooperative ownership; the purpose was not, Jones emphasized, to convince Namaste's workers to support the idea of converting the business into a worker cooperative. If it became evident that the worker cooperative model would not be a good fit for Namaste through the course of the meetings, the idea would no longer be pursued.

During the initial exploratory stage of Namaste's conversion, the research committee conducted a number of interviews with members of the worker cooperative community to learn about the logistics of becoming a worker cooperative. Additionally, the committee interviewed existing and potential investors to gather knowledge about how to structure the cooperative's capital structure, and to determine the exact investment (buy-out) figures. Jones notes that Namaste's interviews and interactions with Equal Exchange, a well-known worker cooperative in Massachusetts that is the oldest and largest Fair Trade coffee company in the United States, were particularly valuable during the research and discussion phase of Namaste's conversion. In addition to sharing advice, Equal Exchange invited Namaste to use its bylaws as a basis for Namaste to create its own. Jones also felt that the legal advice Namaste received from Linda Phillips, a Denver-based business law attorney with extensive experience in cooperative businesses was an invaluable aid to Namaste's conversion process.

In a presentation at a special "Conversions" session of the 2014 National Worker Cooperative Conference, hosted by the U.S. Federation of Worker Cooperatives, Blake Jones outlined the key stages of Namaste's conversion process (explained in greater detail in the "Coop logistics" section below):

Stage	Namaste's Approach
Determine timeline for conversion	1-year process; monthly meetings; two company retreats
Determine new coop capital structure	Class A (voting) common stock ($5,000 per share – 1,employee, 1 share, 1 vote) Class Z (non-voting) preferred stock ($1 per share)
Develop coop bylaws	Based largely on the bylaws of Equal Exchange
Determine criteria for passing vote to "sell to ourselves"	90% of stockholders must vote "yes" to "sell to ourselves"
Vote & ballot details	Option for each worker-owner: Convert 100% of currently-owned stock into new coop entity, or redeem 100% of stock
Determine coop value and new class A stock price	Class A stock price: $5,000 1 year candidacy period for prospective worker-owners 4-year loan available for the $5,000 stock price

From the first introduction of the idea to the official completion of the conversion, Namaste's transition into worker ownership took just over a year, with the following key milestones:

> ***November 6-8, 2009:*** First introduction of the idea to possible convert to a cooperative at a company retreat;
> ***May 14-16, 2010:*** Continued discussion at company retreat;
> ***November 4-6, 2010:*** Finalization of cooperative conversation terms and details at company retreat;
> ***December 1, 2010:*** Official stockholder vote took place regarding cooperative conversion;
> ***January 1, 2011:*** Cooperative conversion officially became effective.

Coop logistics

Namaste's membership requirements set a 12-month probationary period for each prospective worker-owner, after which he or she becomes eligible to purchase one share of voting common stock. During the year long "candidacy period," each prospective worker-owner has a "candidate curriculum" to follow. Blake Jones noted in a 2013 interview with the Democracy Collaborative that each prospective worker-owner is assigned a mentor who connects them to internal resources and makes sure to get their questions answered. And, each prospective worker-owner must complete a "curriculum check list" by attending orientations and learning about different areas of the company, including company background, financials, history, and "how we do things and why." [31]

At the end of this candidacy period, current worker-owners vote to approve the prospective worker-owner and enable him or her to buy a share of common stock. A single share of common stock–which every worker-owner must hold–may be purchased for $5,000. The $5,000 figure was chosen, according to Jones, because it represents a significant financial commitment by the worker to the cooperative but is still low enough to be affordable for all workers: "about the cost of a used car." Still, to reduce the financial burden on prospective worker-owners who "don't have access to capital," Namaste also offers four-year loans to finance the up-front purchase of a share of voting common stock.[32]

To ensure that the democratic nature of Namaste's organizational structure carries through its decision-making processes, all of Namaste's meetings and all of the company's books are "completely open," and the company "encourage(s) people to attend committee meetings, team meetings, and board meetings." Additionally, the company holds monthly "Big Picture Meetings," during which worker-owners "review our financial statements together, we review our performance against our goals, we have big picture discussions, and we make big picture decisions. That is a great way for people to learn about our culture and how we democratically engage in discussion and decisions." Also, the company shares literally all company information, including everyone's compensation levels, every detail of financial information, and all meeting minutes, but with the exception of legally protected personal information. To deepen the democratic culture of the company, Namaste also holds two retreats every year,

31 "C-W Interview: Blake Jones Co- Founder, President and CEO, Namasté Solar." The Democracy Collaborative. Feb. 13, 2013. http://www.namastesolar.com/news-awards/our-news/top-news-stories/2013/02/13/c-w-interview-blake-jones-co--founder-president-and-ceo-namast%C3%A9-solar
32 Ibid.

where worker-owners "go up in the mountains and talk about highest level, big picture strategy and decision-making." Together, says Jones, all of these forums "create opportunities for people to interact and engage in and foster a stronger democratic culture." [33]

Namaste's understanding of management reflects the democratic culture the company builds through the various forums described above. Namaste's worker-owners "don't call it management," Jones says:

> We talk a lot about the difference between leadership and management. It is more leadership than management. Most people in teams are self-managed, but we do need leadership. We call it a meritocracy whereby the people who have earned the trust and confidence of their coworkers tend to be democratically empowered with more responsibility. Leadership does not entail an entitlement to authority, but instead is democratically empowered. Teams have the largest voice in determining their team leaders.[34]

Challenges during conversion

The primary initial challenge to Namaste's conversion was the widespread skepticism about the logistical feasibility of converting to a worker cooperative, which Jones attributes to the scarcity of published information about worker cooperative conversions. Additionally, in his presentation at the 2014 Worker Cooperative Conference, Jones noted the difficulty encountered by Namaste in obtaining loans from traditional lenders for converting the business to a worker cooperative; this, too, stems from a general lack of familiarity with the model. This barrier is frequently echoed by the worker cooperative community. As Namaste experienced, because of the general unfamiliarity with and uncertainty about the worker cooperative model, lenders often require that loans taken out to transition a business to a worker cooperative structure be personally guaranteed.

Before the cooperative conversion, Jones notes that Namaste's stock prices had gone up as the value of the company increased, creating different financial benefits for worker-owners depending on when they joined the company. Because of the increasing stock prices, those who joined Namaste later got a lower financial benefit in the cooperative conversion than did those who joined earlier. Namaste wanted stock ownership to provide an income-generating benefit proportional to profit rather than a benefit based on capital gains using (what they felt were) imperfect valuation methodologies. Because of this, as part of the cooperative conversion, all of Namaste's stock was set to a fixed price.[35]

Key lessons / effective practices

Although Namaste Solar did not legally convert to a worker cooperative until 2011, it was founded in 2005 as an employee-owned company. In addition to being employee owned since its founding, Namaste was also always managed in a democratic manner. Because of this, a culture of cooperation and transparency was built into the company from the start. Additionally, the pre-conversion employee-ownership structure meant

33 Ibid.
34 Ibid.
35 Note that here are ways within the cooperative structure to incorporate a financial benefit to founders for taking on the initial risk in launching the cooperative. For example, see Project Equity's Case Study on New Era Windows.

that all employees already had "skin in the game," according to Jones. These two factors —an existing culture of cooperation and employees' feeling of ownership over the company—were key contributors to the success of Namaste Solar's conversion to a worker cooperative.

Namaste's democratic culture laid the groundwork for workers to take on strong leadership roles throughout the conversion planning process itself, and strong employee leadership has likely also played an integral role in Namaste's continued success through its transition to a worker cooperative. The deep, constant dialogue among workers about what becoming a worker cooperative would mean for Namaste allowed the company to develop a specific version of the worker cooperative model that worked for Namaste. Moreover, the emphasis on open communication solidified the democratic foundation of Namaste's current decision-making processes.

Blake Jones emphasized in an interview with Project Equity that another key lesson learned from Namaste's conversion stems from the company's struggle with the unequal financial benefits received by workers who joined the company at different times. Partially for this reason, Jones says he would not recommend starting a business as a worker cooperative, but would instead start the business with a five-year plan for converting to a worker cooperative. Doing this, Jones noted, would allow the business adequate time to prepare for and plan around this challenge.

One of the big learnings from Namaste was their need, as the company grew from three to 100 people, to make a series of changes across internal decision-making, compensation practices, and external directors and investors. The following pulls out some key takeaways about these changes from Blake Jones' interview [36] with the Democracy Collaborative in 2013.

Namaste started with consensus decision-making (everyone had to vote in agreement) and by they time they grew to 15-20 people, they changed to consent (requiring no thumbs down, but people could abstain). At this stage, they also created committees that enable a smaller group with the right expertise to analyze and deliberate issues, then bring recommendations to the larger group for voting. At 30-40 people they moved to democratic decision-making, requiring either a simple or super majority, depending on the issue. And finally they adopted "empowerment votes," by which a team, committee or individual is given decision-making power within certain guidelines or budget, then reports back to the group.

As Namaste grew, they also changed their compensation practices. Everyone started with equal pay, and over time they evolved to having a cap of a 2:1 ratio between the highest and lowest pay, then 3:1, then 4:1 (which is still significantly lower than industry norm).

With their growth, they also figured out how to leverage external expertise and investment without giving up governance or control. Namaste has brought on two external board seats in addition to the five co-owner directors, and has also brought on external investors by selling a class of non-voting preferred stock.

36 "C-W Interview: Blake Jones Co- Founder, President and CEO, Namasté Solar." The Democracy Collaborative. Feb. 13, 2013. http://www.namastesolar.com/news-awards/our-news/top-news-stories/2013/02/13/c-w-interview-blake-jones-co--founder-president-and-ceo-namast%C3%A9-solar

PATTYCAKE BAKERY

Vegan bakery
Columbus, OH

Date of conversion: May 1, 2013
Number of workers as of summer 2014: 15 total – 5 worker-owners; 10 non-owner employees
Conversion type: Type I

Based on Project Equity's interview with Jennie Scheinbach, founder and current worker-owner of Pattycake Bakery in July 2014.

Background

Pattycake Bakery is a vegan bakery based in Columbus, Ohio. In 2013, Pattycake converted from a sole proprietorship to a worker cooperative. Founder Jennie Scheinbach opened the business in her garage in 2003, and intended from the beginning to convert Pattycake to a worker cooperative once it grew big enough to be cooperatively run.

Why it become a coop

Although founder Jennie Scheinbach always dreamed of converting Pattycake to worker ownership, Pattycake operated for nine years as a sole proprietorship before the bakery's transition to a worker-owned cooperative became a reality. Scheinbach saw worker ownership as a way to run her business without "exploiting the labor" of her employees, and openly discussed her intention to convert Pattycake to a worker coop with her employees from the bakery's founding. When Pattycake finally reached a place where it could begin its transition to worker ownership, Scheinbach says that Pattycake employees "were already so invested in our mission and values, it seemed a natural extension for them to take part in real ownership."[37] As a sole proprietorship, Pattycake was "already behaving like a co-op" in many aspects, says Scheinbach; legalizing the cooperative structure merely "made things reflect reality," in terms of employees' existing investment in the business.

Conversion logistics

Pattycake reached out to the Ohio Employee Ownership Center (OEOC) for advice about how to move forward with the conversion to worker ownership. In addition to advising Pattycake about how it might re-structure as a cooperative, the OEOC connected the company with an attorney and an accountant to facilitate the logistics of the buy-out and conversion process. Additionally, Pattycake sought guidance from other cooperatives, and used the bylaws of several other worker cooperatives as models for its own. Scheinbach notes that, although the decision to hire external expert advisors

37 Scheinbach, Jennie. "Sharing ownership with the staff, Pattycake Bakery becomes worker owned." Table Talk, Central Ohio Restaurant Association. http://www.centralohiorestaurants.org/tt/CORA_June_TableTalk/index.html#/14/

was difficult for Pattycake, given that she and her former employees are very "do-it-yourself"-minded, it exponentially accelerated the conversion to worker ownership. What had been taking years to accomplish was quickly condensed into a 3-month conversion process with the guidance of local worker ownership experts.

Although all of Pattycake's employees were in favor of converting to cooperative ownership, not everyone wanted to become a full member of the cooperative. Some employees were interested in remaining on with Pattycake as non-owner employees, so the cooperative developed a two-tiered membership model: people can either join the cooperative as full members (as worker-owners) or work at Pattycake as non-ownership-track employees.

Pattycake was able to entirely self-finance its conversion to a worker cooperative for two reasons. First, the business was highly successful before its conversion; and second, Scheinbach had consciously saved up the revenues generated by Pattycake's thriving business over the years instead of taking the savings out as profits or re-investing them in the company. As a result of Scheinbach's foresight, at the time of the buy-out, the cooperative was able to pay her from Pattycake's internal funds. After commissioning a professional valuation of the business, the fledgling cooperative paid Scheinbach one-third the agreed-upon sale price at the time of the sale, and spread the payment of the other two-thirds over ten years in the form of a note.

Coop logistics

As of 2014, Pattycake has five worker-owners, including Jennie Scheinbach, and 10 non-owner employees. Pattycake's board is composed of its five worker-owners, which will remain the case until the bakery's membership grows to nine worker-owners. The cooperative operates entirely under consensus, and in addition to monthly board meetings, owners hold frequent small meetings and send out weekly communications to all employees—worker-owners and non-owner employees alike. These constant internal communication efforts are designed to allow the company's consensus-based decision-making model to remain efficient.

Pattycake's membership requirements mandate that prospective worker-owners must commit to a one-year probationary period, during which they are required to attend three board meetings and to read and agree to the cooperative's bylaws. Each new worker-owner must also invest $5,000 of equity in the cooperative, which he or she may pay off over a 5-year period. Although these membership requirements have served the cooperative well so far, Scheinbach says Pattycake "could and should do more" to further prepare people for ownership during the one-year probationary period for new members.

Pattycake operates under the umbrella organization of the P-Cake Allstars Cooperative. As of August 2014, the cooperative also had plans to open City Beet, a natural foods worker cooperative cafe, in the near future.

Challenges during conversion

Several factors slowed Pattycake's transition from sole proprietorship to worker-owned cooperative. According to Scheinbach, the lack of institutional support for and general understanding of coops in the United States proved to be one early barrier to the conversion. Because of this lack of support, she says, Pattycake's employees weren't immediately ready to make the commitment to become owners of a coop, and some were skeptical that worker ownership could be a successful business model. Over the years, gradual exposure to the concept of worker ownership helped Pattycake's employees to become more comfortable with the idea of cooperative ownership, until eventually all employees were in favor of becoming a worker cooperative.[38]

Additionally, Scheinbach described how a lack of trust among staff members was another obstacle that Pattycake had to overcome during its conversion to cooperative ownership. For a long time, Scheinbach said, Pattycake's staff seemed to have more trust in her–as the owner–than in each other. Learning to trust one another with the responsibilities of ownership proved to be one of the biggest challenges. Even today, notes Scheinbach, trust in each other among members isn't 100%, but they have learned that it doesn't need to be for the cooperative to function well. Each member trusts every other to care about Pattycake, and to want it to succeed. Personality conflicts do exist, as they do in any workplace, but shared ownership assures members that each individual has Pattycake's best interests at heart.

Key lessons / effective practices

A key part of why Pattycake has seen such success as a new worker-owned cooperative is because the business was already highly successful before becoming worker-owned, according to Scheinbach. Pattycake's conversion was not a strategy for turning around a failing business; and, because Pattycake was already doing well, says Scheinbach, and its staff knew how to run a successful business, it was relatively easy for them to make the transition to worker ownership.

Pattycake's attention to the importance of maintaining consistent communication among staff members—particularly between owners and employees—is another factor credited by Scheinbach as contributing to Pattycake's successful transition to employee ownership. Scheinbach notes that because the conversion was confusing at times for Pattycake's non-owner employees, given their lesser involvement in the nuts and bolts of the process, the board decided to begin sending weekly updates about issues in the business to all staff members, owners and non-owners alike. In keeping all workers well informed about the bakery's operations and direction, these weekly updates serve as a critical foundation for Pattycake's participatory culture.

Another example of how participation drives Pattycake's operations and characterizes the businesses' internal culture can be found in the bakery's transparent pay scale. The pay scale is voted on and visible to all members, which not only maintains Pattycake's participatory culture, but also works to reduce the income gap between owners and employees.

Pattycake's conversion story illustrates how worker ownership can be effectively integrated into a thriving business to enhance the impact the business has on its employees and its community.

38 Though not every employee was interested in becoming a worker-owner of the new cooperative, all were in favor of converting the business into a worker cooperative.

→ Real Pickles

Type I Conversion

REAL PICKLES

Food Manufacturing: locally-sourced vegetable pickling
Greenfield, Massachusetts

Date of conversion: May 9, 2013
Number of workers at time of conversion: 5 founding worker-owners
Number of workers as of summer 2014: 18-19 – 8 worker-owners as of 2014; 10-11 non-owner employees
Conversion Type: Type I

Based on Project Equity's interview with Dan Rosenberg, founder and current worker-owner of Real Pickles, in the summer of 2014. In addition to the information provided by Dan Rosenberg, the passages below draw from a detailed case study of the Real Pickles cooperative conversion compiled by Community Involved in Sustaining Agriculture (CISA) in 2013.

Background

Founded by Dan Rosenberg in 2001, Real Pickles is a Greenfield, Massachusetts-based company that makes naturally fermented and raw pickles from regionally grown vegetables. Addie Rose Holland joined Dan Rosenberg as co-owner in 2004, and in 2012, Holland, Rosenberg, and their employees made the decision to convert Real Pickles to a worker-owned cooperative.

Why it became a coop

Real Pickles has always been committed to building a sustainable, regional, organic food system by providing nourishing, organic food sourced from local/regional farms. According to Real Pickles' website, the business decided to transition to a worker-owned cooperative "in order to preserve our social mission for the long-term and to retain our excellent staff." [39]

A case study of Real Pickles' transition to worker ownership published by Community Involved in Sustaining Agriculture describes in detail the business' reasons for favoring the worker cooperative model.[40] Owners and staff of Real Pickles believed that:

> [P]rofit-sharing and a role in decision-making would give employees an incentive to stay on for the long term, building a staff of committed, knowledgeable worker-owners. Doing business as a worker-owned cooperative also would help to keep the company's strong social mission and community roots intact. In addition to sourcing regionally grown and organic ingredients, and limiting sales to the northeastern United States, Real Pickles' commitments extend to producing food with high integrity, remaining a small business, and providing

39 "Our Story," Website of Real Pickles. http://www.realpickles.com/about_story.html
40 Jonathan Ward, "Community Investment in the Local Food System – Real Pickles: Financing Case Study." Community Involved in Sustaining Agriculture. November 2013. http://www.buylocalfood.org/real-pickles-financing-case-study

> good jobs and opportunities for its employees. These principles would now be inscribed in the organization's bylaws and articles of organization, requiring a unanimous vote of the worker-owners to change. Further, the cooperative's owners would continue to be local residents involved in the company's day-to-day operations, making it highly unlikely that Real Pickles will ever relocate out of the community. [41]

Conversion logistics

Rosenberg and Holland had been discussing the feasibility of Real Pickles becoming a worker cooperative for several years before the company began its transition into worker ownership. In an interview with Project Equity, Rosenberg noted that given the nature of Real Pickles as a food manufacturing business, during the company's early days in particular, basic production line work in the kitchen comprised most of the daily tasks. The repetitive, physically demanding labor required in the kitchen meant that, although employees loved working at Real Pickles, the company experienced relatively high turnover. According to Rosenberg, it was only when the business reached a point where enough jobs had been created that went beyond basic production work—jobs that fall more into a "middle layer of management," and that incorporate more intellectually stimulating tasks—that Real Pickles could realistically consider transitioning to a coop.

Once Real Pickles had grown enough that a "critical mass" of jobs existed beyond the production line, Rosenberg and Holland brought the idea of converting to a worker cooperative to their staff. When they first introduced the idea, Rosenberg and Holland emphasized that, if employees were interested in helping to make the conversion a reality, it was critical that they commit to staying with the business for at least five years.

Real Pickles' employees welcomed the possibility to transition the business into worker ownership, and a six-month discussion and planning process began. The five workers who became Real Pickles' founding worker-owners met weekly after work hours, discussing vision, business values, and what the governance and management structures of the cooperative might look like. Rosenberg and Holland intentionally steered away from presenting a specific plan for how the Real Pickles cooperative would take shape; instead, the weekly meetings functioned as a forum for developing a collective vision. The worker-owners agreed that preserving certain aspects of Real Pickles—like the company's social mission, and keeping the business small—were critically important, and should be written into the company's foundational governance documents. The weekly meetings allowed the worker-owners to negotiate important components of the company—for example, what it actually meant for the company to remain "small" —and to discuss how these aspects might evolve over time.

Over the six-month preparation period, Rosenberg says that the founding worker-owners

> worked hard on a valuation (a purchase price) for the business; we developed and evaluated a five-year sales and marketing plan to determine whether the sales projections on which the valuation would be based were achievable; and we talked about our respective job roles—present and future—so that we could all feel good about making a commitment to stick around Real Pickles for a good while in order to make sure that the transition to coop was successful.[42]

41 Ibid.
42 Ibid.

The worker-owners determined the purchase price based on projections about the company's future earnings, which Rosenberg notes required a commitment to believing that the business could and would grow at the rate needed to pay off the proposed purchase price. Because Rosenberg had done much of Real Pickles' financial accounting work up until that point, the worker-owners leaned heavily on their CPA to help with this piece of the conversion preparation. Additionally, one of the company's long-time informal financial advisors gave finance tutorials to help all of Real Pickles' workers to better understand the financial aspects of the conversion.

In addition to creating a plan for transforming Real Pickles' business model, the founding worker-owners were faced with the daunting task of raising just over half a million dollars to purchase the company from Rosenberg and Holland and to provide the cooperative with initial operating capital. Though each of the five new worker-owners purchased a $6,000 membership share, they needed to find ways to raise the remaining funds needed to complete the buy-out. To raise this investment, the worker-owners

> drew from the experience that one of them had working with Equal Exchange, a successful cooperative with a long history of raising capital by selling non-voting preferred stock. Later, they sought the expertise of the PVGrows collaborative network in western Massachusetts. A financing expert in PVGrows also connected Real Pickles to Cutting Edge Capital, a pioneering consulting firm in the Bay Area that helped them navigate many legal hurdles.[43]

The Cooperative Fund of New England's Cooperative Capital Fund provided its largest unsecured long-term patient capital investment to Real Pickles to help fund the conversion, leveraging funds from other sources to make it work. [44]

The worker-owners decided that the best way to complement the investment from the Cooperative Fund of New England was to

> sell non-voting preferred stock through a *direct public offering*.[45] Real Pickles officially launched its own community investment campaign in March 2013. Astonishingly, in just two months, the campaign was over. Seventy-seven investors—a mix of individuals, customers and suppliers, even a number of other co-ops—together invested $500,000, which allowed Real Pickles to fully transition to worker ownership.[46]

After extensive discussions, Real Pickles decided to choose a direct public offering, or DPO, over other financing options, like taking out a loan from a traditional lender or relying on royalty financing, for several reasons. The worker-owners "wanted to be able to control growth carefully and deliberately going forward," so it was "important that the worker-owners be able to make decisions in line with the business's social mission, with no pressure from investors to expand just so that they could achieve their high return." Furthermore, a DPO

43 Ibid, 10.
44 Personal communication with Gloria LaBrecque, Northeast Loan and Outreach Officer, Cooperative Fund of New England.
45 Italics added by the author. According to Cutting Edge Capital, an organization that works to make capital accessible to the new economy, a direct public offering (DPO), also known as "investment crowdfunding," can be "any offer and sale of an investment opportunity to the public in which anyone (both wealthy and non-wealthy) can invest. Also, the entity raising the funds offers the investment directly, without a middleman like an investment bank." "What is a Direct Public Offering a.k.a. Investment Crowdfunding?" Cutting Edge Capital website: http://www.cuttingedgecapital.com/what-is-a-direct-public-offering. Accessed August 2014.
46 Ward,10.

would allow for smaller investments to be made by a wider range of community members. This option came with the freedom to advertise and take on an unlimited number of investors. Plus, it provided an excellent marketing opportunity for their business, and would enable Real Pickles to leverage all the community support that they had amassed over the years. [47]

Coop logistics

Since converting to a worker cooperative, Real Pickles has added three new worker-owners (for a total of 8 worker-owners as of January 2015) and has established membership requirements for future worker-owners. The price of one membership share is currently at $6,000, and prospective worker-owners must complete a one-year probationary period before becoming eligible for ownership.

After Real Pickles' first year as a worker cooperative (as of summer 2014), the company is thriving. According to the company's 2014 Annual Report, Real Pickles had a "strong first year as a cooperative," and saw an annual income increase of 18% over the previous year (before the company became a cooperative). The Annual Report describes Real Pickles' major activities and accomplishments of its first year in the following paragraphs:

> We've been busy this first year developing our Board of Directors, made up of Real Pickles' seven worker-owners. The Board has been laying the groundwork for operation as the governing body of a successful and growing enterprise, while maintaining our participatory management structure. We welcomed two new worker-owners and initiated a path to membership for future owners. Regular training and education classes have been established for all staff to develop new skills and understanding related to ownership. And we've discussed the opportunities and challenges surrounding ownership, and how we can maintain big-picture thinking while focused on our day-to-day activities (making pickles!).
>
> This first year has also seen development of our first Board of Advisors, a group that brings together expertise in cooperative development, natural foods whole-sale, food production, finance, food systems thinking, community business, and nutrition. We are grateful for their guidance![48]

Real Pickles' Board of Directors meets with the company's Board of Advisors twice annually to strategically plan for how to grow the business "in a way that is thoughtful and sustainable."[49] Rosenberg notes that the cooperative's Board of Advisors has played a critical role in building trust in Real Pickles' investors from the community that the cooperative could thrive in the long term. The diverse team of experts complements Rosenberg's and Holland's hands-on experience running a successful business; few of Real Pickles' other worker-owners had ownership experience prior to Real Pickles' conversion, and the Board of Advisors provides an important additional layer of support.

To ensure that all worker-owners are equipped to continue "practicing the art

47 Ward, 7.
48 "Annual Report: Fiscal Year 2014." Real Pickles, 2014. http://www.realpickles.com/reports/RP-AnnRpt-FY14-web.pdf
49 "Our first year as a co-op: Real Pickles shares lessons learned since converting to a co-op." Rural Cooperatives. USDA. 81.4 (2014): 30-32. http://www.rurdev.usda.gov/SupportDocuments/RD_RuralCoopMagJulyAugust14.pdf

of ownership," Real Pickles holds internal classes on five core topics: Social Mission, History of Real Pickles, the Cooperative Movement, Finances, and Governance.[50] All new worker-owners are required to complete the full set of classes before they may be considered for ownership.[51] Because these classes are taught at staff meetings, they are taken by all employees, not just by those workers on track to become worker-owners. According to Rosenberg, these classes are the primary formal tool used by Real Pickles to educate workers about worker ownership; the cooperative maintains a culture of participation and democracy largely through informal means. All employees are encouraged to attend and speak their thoughts at staff meetings, and Rosenberg says that he and Holland constantly encourage workers to think "big picture"—to think as owners. A chart entitled "5-Year Goals for Real Pickles" that hangs on the company's wall is another illustrative example of Real Pickles' informal style of maintaining a culture of ownership. Real Pickles' worker-owners created the chart together in 2014, and it hangs with a marker attached so that individuals may add new ideas as they think of them. Rosenberg notes that the worker-owners often informally discuss how to increase knowledge of and participation in worker ownership, and hope to soon put up additional educational charts about patronage accounts and other components of worker ownership.

Real Pickles reports that it has carefully crafted its bylaws so as to

> create clear distinctions between the responsibilities of the worker-owners, the board and staff…taking a cue from fellow worker coop (and fair trade pioneer) Equal Exchange, we later also created a governance matrix that both lays out responsibilities from our bylaws (such as only a consensus of all worker-owners can amend Real Pickles' mission). Our bylaws also clearly communicate what body is accountable for other areas of the business (for example, the general manager creates the annual budget to be ratified by the board of directors). This clarity of responsibilities has served us well so far; the delineation of authority and oversight has also helped us to work efficiently. [52]

Challenges during conversion

Understanding what options were available for funding the cooperative buy-out initially proved to be a challenge for the future worker-owners of Real Pickles. Although the worker-owners knew they were interested in exploring the idea of selling preferred shares to raise funds for the coop conversion after hearing about Equal Exchange's use of preferred shares, they had trouble finding a local attorney who could advise them on their legal options. Jeff Rosen of the Solidago Foundation, which funds work less likely to receive support from traditional funding sources, referred the worker-owners of Real Pickles to Cutting Edge Capital, an Oakland, CA-based consulting firm that works to make community investment accessible and affordable to small local businesses. Cutting Edge Capital's CEO, Jenny Kassan, introduced the worker-owners to the concept of a Direct Public Offering as a means for funding the buy-out (see "Conversion Logistics" section of this case study).

Real Pickles also reached out to the Finance Working Group of the Pioneer Valley Grows (PVGrows) network, which provides financing and technical assistance to area food businesses. PVGrows helped the company arrive at its decision to sell shares of

50 "One Year as a Co-op." Real Pickles, May 13, 2014. http://realpickles.blogspot.com
51 USDA, 30-32.
52 Ibid.

preferred, non-voting stock for $25 each, with a minimum purchase of 100 shares per investor. According to founder Dan Rosenberg, "Looking back, the $2,500 minimum investment was a key decision," says Rosenberg. "It was a figure low enough to allow for relatively broad participation, while high enough to keep our investment pool a manageable size."[53]

Now that Real Pickles has completed its first year as an official worker cooperative, Rosenberg says that maintaining diversity amongst the pool of worker-owners has also emerged as a challenge. The cooperative wants to bring as many staff as possible on board as full members (as worker-owners), but has discovered that some staff are hesitant about worker ownership. Managers are much more likely than non-managers to be interested in ownership; Rosenberg says that in large part, this is because it can be difficult to envision making a career of the physically demanding nature of the non-managerial production line positions at Real Pickles. Although all of the cooperative's five founding worker-owners were managers, Real Pickles has since successfully added three non-manager employees to its pool of worker-owners. Real Pickles hopes to continue increasing worker ownership through maintaining its culture of participation and through increasing efforts to educate staff about worker ownership.

Key lessons / effective practices

The Real Pickles conversion was made fiscally possible by the cooperative's use of the DPO, an innovative community-financing tool. According to Dan Rosenberg, Real Pickles' direct public offering was so successful because of its strong ties to the community: "Over the last twelve years in business, Real Pickles developed a strong community network, and the backing of this network was absolutely vital to our success." The case study of Real Pickles' conversion compiled by CISA continues on:

> At the time of the DPO, owners Holland and Rosenberg were already very well connected in their community, as one might expect from an established company that has been selling its products for over a decade, helping to educate folks about the wonders of lacto-fermented pickles. Because of the extensive marketing and personal connection required in a community investment campaign, the credibility and reputation of the business seeking capital are likely to be major determinants of a DPO's success or failure.

This last statement points to the important boost that business maturity and longer-term business success can bring to the cooperative conversion process. Conversions have a much higher chance of success if the business being converted is already successful and has built an established customer base at the time of conversion.

Another key lesson to be learned from Real Pickles' example is the importance of maintaining a strong network of external support throughout the conversion process. The diverse group of advisors assembled by Real Pickles to guide it through its transition provided invaluable financial advice, legal advice, and general cooperative mentorship to Real Pickles. In addition to the advisors mentioned by name above, Real Pickles benefitted from the guidance of a number of essential informal advisors, some of who now sit on the cooperative's Advisory Board. The strong support the business garnered in the surrounding community complemented the solid foundation

53 Ward, 8.

→ Real Pickles

Type 1 Conversion

of knowledge and guidance provided by Real Pickles' expert advisors, enabling the company to implement the conversion strategies it created by raising the capital necessary to complete the buy-out.

Real Pickles' tireless efforts to seek out and partner with a diverse group of advisors played a critical role in making the company's transition to worker ownership a reality, but also highlights how challenging it can be for a converting business to find expert advisors. The U.S. Federation of Worker Cooperatives provides an excellent resource on its website called the "Service Provider Directory"[54] that can help pair businesses interested in converting to worker ownership with advisor and partner organizations, and provides a solution to the barrier encountered by Real Pickles and by many other businesses interested in making the transition to a cooperative.

54 http://www.usworker.coop/service-provider-directory

Type II Conversions

TYPE II CONVERSIONS

Type II conversions are when the owner sells to existing employees with the intention of leaving the company, whether to retire or for other reasons. The cooperatives profiled in this section are the Island Employee Cooperative of Stonington, Maine and Select Machine of Kent, Ohio.

→ **Island Employee Cooperative**

Type II Conversion

ISLAND EMPLOYEE COOPERATIVE

Three retail stores providing groceries, hardware, prescription drugs, pharmacy items, craft supplies, gas and other goods and services: Burnt Cove Market, The Galley and V&S Variety and Pharmacy Stonington and Deer Isle, Maine (the only 2 communities on the island of Deer Isle)

Date of conversion: June 11, 2014
Number of workers at time of conversion: 60 total: 45 worker-owners; 15 non-owner employees
Number of workers as of summer 2014: 60 total: 45 worker-owners; 15 non-owner employees
Conversion type: Type II

Based on Project Equity's interview with Rob Brown of the Cooperative Development Institute (CDI) and Mark Sprackland of the Independent Retailers Shared Services Cooperative (IRSSC) in the summer of 2014. CDI and IRSSC were advisors to the Island Employee Cooperative throughout its transition to worker ownership and they continue to provide management and governance training.

CDI is the USDA-designated Northeast Center for Cooperative Business Development. Rob Brown is the director of their Business Ownership Solutions (BOS) program, a Maine-based program assisting retiring business owners and their employees to execute conversion to a worker coop as a succession option.

The mission of the IRSSC is to help independent retailers differentiate meaningfully from conventional supermarkets and gain access to the marketing resources, category management and supply chain expertise needed to succeed in today's highly competitive marketplace.

Background

The Island Employee Cooperative is an umbrella cooperative comprised of three businesses in Stonington and Deer Isle, Maine: Burnt Cove Market, The Galley, and V&S Variety and Pharmacy. It is the largest worker cooperative in Maine and the

Island Employee Cooperative

Type II Conversion

second largest in New England. Vern and Sandra Seile owned the stores for 43 years before selling to their employees in 2014.

Why it became a coop

Owners Vern and Sandra Seile wanted to sell their three businesses on the island of Deer Isle and retire, but they and their employees worried that an outside buyer would consolidate operations and cut jobs. Many of the 60 employees of the businesses had been working with the Seiles for several decades—one employee had even been with Burnt Cove Market since it opened in 1973—and the owners and employees had formed a close community. Other employment opportunities on the island are very limited, so if employees were to lose their jobs following the sale of the businesses, finding steady work elsewhere would likely prove very challenging.[55] Additionally, the island communities of Stonington and Deer Isle are dependent upon the businesses of the Island Employee Cooperative; if the businesses were to close, customers would be forced to travel at least 25 miles on backcountry roads to reach comparable stores.

The Seiles found a solution for their tri-fold problem in the worker cooperative model. According to Vern Seile, "We wanted to retire and wanted the stores to continue to serve the Island for many years to come," and selling to his employees would provide "a good incentive to work hard and to make the business more successful."[56] Rob Brown of the Cooperative Development Institute (CDI), which provided technical assistance to the Island Employee Cooperative throughout its transition, notes that selling the businesses to their employees provided the Seiles, the employees, and the community with a "win-win-win."[57] The Seiles gained a succession plan that would allow them to enjoy a comfortable retirement, employees would have the opportunity to build wealth through ownership, and ownership would stay local, keeping operations and profits on the island.

Conversion logistics

Vern and Sandra Seile and their three businesses were members of the Independent Retailers Shared Services Cooperative (IRSSC), a marketing cooperative in New England, when they began to consider selling the businesses and retiring. The IRSSC's Mark Sprackland encouraged them to consider selling the businesses to their employees and brought the Cooperative Development Institute (CDI) into the discussion with the Seiles; CDI's Business Ownership Solutions program specializes in cooperative conversions, and CDI had assisted the IRSSC during its own formation. Rob Brown, Director of CDI's Business Ownership Solutions program, helped the Seiles to better understand the worker cooperative business model, and began a conversation with them about how it might work for their businesses. The Seiles decided they wanted to pursue the option of selling their businesses to their employees as a worker cooperative, and Vern Seile took the idea to key staff at their three stores.

"Of course we jumped at the chance," said Deanna Oliver, long-time bookkeeper for Burnt Cove Market, V&S Variety and the Galley, in an interview with The Free Press

55 O'Brien, Andy. "The Worker Co-op Movement Expands into Maine." The Free Press. February 20, 2014. http://freepressonline.com/main.asp?SectionID=52&SubSectionID=78&ArticleID=30860

56 Brophy, Jessica. "Employees of Burnt Cove Market, V&S Variety and Pharmacy and The Galley form cooperative, plan to purchase businesses." Island Ad-Vantages. January 23, 2014. http://islandadvantages.com/news/2014/jan/23/employees-of-burnt-cove-market-vs-variety-and-phar/#.U6NyCo1dU_4

57 Ibid.

→ Island Employee Cooperative

Type II Conversion

of Maine in February 2014. "It's a huge opportunity because we would be guaranteed job security. We've pretty much helped him run the stores for many, many years, and we knew this way that it wouldn't be changed."[58]

With the interest of the owners and the employees piqued, the Island Employee Cooperative conversion began to take shape. CDI organized a meeting with all 60 of the employees and the Seiles, and gave a presentation about the basics of worker cooperatives, along with presentations on cooperative business planning by IRSSC and potential financing options by CEI (Coastal Enterprises, Inc.), an expert in rural business funding, development and financing. After learning about worker cooperatives and how they operate, 80% of the employees decided to sign a written Commitment of Interest document drawn up by Rob Brown of CDI. The Commitment of Interest did not represent a binding financial commitment of any kind, but was rather a written expression of employee support for an exploration of the idea of transitioning the businesses to worker ownership. Additionally, the document authorized the formation of a steering committee comprised of employees. The steering committee was charged with leading the processes of developing an ownership structure, incorporating the cooperative corporation, drafting bylaws, researching financing options, and doing other initial nuts-and-bolts work of forming the worker cooperative.

The Seiles recommended a dozen experienced employees as candidates for membership on the steering committee. Many of these recommended employees had some general idea of how a cooperative works, as the Stonington Lobster Coop (a producer cooperative) has been a mainstay of the local economy since 1948, and as the stores were members of Associated Grocers of New England (a grocery purchasing cooperative). Ten of these twelve employees then self selected into the committee, which the majority of the rest of the employees had previously agreed to support by signing the Commitment of Interest document. According to Brown, although the members of the steering committee had a better than average understanding of cooperatives at the beginning of the conversion, there was at that point little understanding of how a *worker* cooperative operates.

Over the course of the following three months, the steering committee met with Brown and Sprackland for 2-3 hour sessions most weeks to learn about worker-owned businesses, as well as the basics of finances, taxation, accounting, valuation and other issues important to the transaction. Together, the steering committee members and Brown read through the bylaws and articles of incorporation of half a dozen other worker cooperatives to better understand different options for structuring their own cooperative. CDI also connected the steering committee with members of other worker cooperatives, including Equal Exchange, to learn about varying experiences with worker ownership.

Working with the steering committee, Mark Sprackland of the IRSSC led development of a comprehensive business plan, negotiations with suppliers, due diligence on the operational evaluation, organizing documentation needed by lenders, and trainings for the employees in which they learned essential business skills like how to read financial statements. Although the education processes led by the IRSSC and CDI focused on the members of the steering committee, the steering committee and the advisors also held several all-employee meetings to check in about the conversion's progress and to keep the process transparent.

58 O'Brien, Andy. "The Worker Co-op Movement Expands into Maine."

At the same time the educational sessions for the steering committee were being held, the financing side of the conversion was moving forward as well. CDI, IRSSC and the employee steering committee negotiated with the selling owners about how much they would be willing to put into the transaction, and reached out to potential lenders. The Maine-based CEI and the Cooperative Fund of New England (CFNE), two New England area Community Development Financial Institutions (also known as CDFIs; financial institutions that provide technical and financial assistance to underserved areas), committed to organizing the financing for the conversion. Both of these lending institutions have significant experience in rural business development (CEI) and cooperative financing (CFNE), so linking these two lenders in the process made the most sense.

In an interview with Rob Brown, he noted that the Island Employee Cooperative was able to secure loans in large part because of CDI's and the IRSSC's close involvement in the conversion. CDI and the IRSSC both signed a contract with the new cooperative in which they pledged to provide assistance to the businesses for a minimum of five years, and negotiated with lenders on behalf of the cooperative. The CDFIs saw the contracts as a loan guarantee of sorts, shoring up the gaps in governance and financial management that the new worker-owners possessed. The contracts were required as loan covenants, and without this and the negotiation expertise of CDI and the IRSSC, the cooperative would have found it much more difficult to secure sufficient loans.

CDI, IRSSC, and the rest of the advisory group educated the selling owners and the Island Employee Cooperative about a taxation benefit known as the "1042 rollover," which allows owners who sell their business to an Employee Stock Ownership Plan (ESOP) or a worker cooperative to avoid a capital gains tax on the transaction. The added incentive of the 1042 rollover allowed the IRSSC, CDI, and the cooperative's steering committee to convince the selling owners to reduce the selling price by "a substantial amount," according to CDI and the IRSSC. In order to take advantage of the 1042 rollover, which requires that the sponsor company be a C Corporation, the Seiles transferred their two LLCs (V&S Variety & Pharmacy and Burnt Cove Market) into The Galley (a C Corporation) at the closing table.[59] At this point, 80% of the employees voted in favor of incorporating the Island Employee Cooperative under Maine's worker cooperative statute, pledged an initial investment to purchase shares in the coop, and, in January of 2014, the new worker-owners and the Seiles signed the Purchase & Sale agreement.

In June of 2014, the Seiles and the new cooperative closed the deal, transferring the C Corporation into a worker cooperative in a $5.6 million transaction. The entire transition process took a little over a year to complete from the origination of the idea to the formal closing of the deal. The Seiles agreed to stay on part-time for 1-2 years to help the cooperative through the transition period.

Coop logistics

CDI designed a share structure for the Island Employee Cooperative that rewarded the founding worker-owners for their initial risk in launching the cooperative. The cooperative has two different kinds of shares: Class A and Class B shares. Only worker-owners can own Class A shares, and each worker-owner can only own one. A Class A share entitles the member to a patronage dividend (a share of the profits

59 "The 1042 Rollover," Mercer Capital. http://mercercapital.com/article/the-1042-rollover

from the businesses), and gives members the rights and responsibilities detailed in the bylaws, including the right to vote on cooperative decisions and to elect members to the board of directors. Class B shares are non-voting equity shares and earn a set dividend.

For the founding worker-owners, Class A shares and Class B shares both cost $1,000 per share, and each founding worker-owner was required to purchase one Class A share and six Class B shares (a total initial investment of $7,000). After the completion of the conversion, the cost of one Class A voting share increased from $1,000 to $7,000, thereby incentivizing worker-owners to join as founding members rather than waiting to see if the cooperative was successful before committing to worker ownership.

Each worker-owner could pay their initial investment up front or over time through payroll deductions and with accumulated patronage dividends. The Island Employee Cooperative transitioned into cooperative ownership with 45 worker-owners, and with roughly 15 more non-owner employees. Eventually, the cooperative hopes for all employees to become worker-owners.

The Island Employee Cooperative's board of directors is elected from the worker population, and oversees operations for the businesses.[60] After the completion of the formal conversion process, the board of directors continued to meet with CDI and IRSSC on a near-weekly basis for training in effective worker ownership. Trainings, which covered the roles and responsibilities of a board of directors and how to read financial statements, also introduced board members to the Four Pillars of Cooperative Governance (teaming, accountable empowerment, strategic leadership, and democracy) and to the strategies used by other employee-owned businesses to build a culture supportive of shared ownership.[61] Small groups of non-board member employees have also been self-selecting into additional worker ownership training sessions held by the cooperative's advisors, and CDI and IRSSC will begin more formalized trainings for all Island Employee Cooperative workers in winter 2015. By securing a state workforce training grant, CDI has been able to work with instructors from Eastern Maine Community College to design a training curriculum for all cooperative members in the basics of high performance retail operations, business ownership, reading and understanding financials, and developing an ownership culture. Another more intensive financial and operational management training will be offered for managers.

Challenges during conversion

As Rob Brown noted in an interview with Project Equity, conversions to worker ownership never go "textbook-smoothly," and the Island Employee Cooperative had its fair share of challenges during its transition process. Closing the sale by the agreed-upon timeline was one of the primary difficulties encountered by the cooperative. While the Purchase & Sale agreement was signed in January 2014, the deal did not close until June 2014. Mark Sprackland points to underestimation of the amount of work required to secure financing and prepare for the transaction as the main reason for the delayed purchase. Fortunately, the selling owners were willing to allow extra time for the deal to close; this illustrates how advantageous an involved, patient selling

60 Brophy, "Employees of Burnt Cove Market."

61 "Four Pillars of Cooperative Governance." Website of the CDS Consulting Co-op. http://www.cdsconsulting.coop/cooperative_governance/4pcg

owner can be to a worker ownership conversion.

The fact that the businesses of the Island Employee Cooperative continued to conduct business as usual throughout the conversion process presented an additional hurdle for the worker-owners and their advisors to overcome. Gathering all employees for meetings and trainings proved nearly impossible, given that the full-time work schedule meant many employees could not meet until after 8:30 pm, when they were too tired for the meetings to be effective. CDI and IRSSC both expressed regret that they were unable to conduct more preparatory trainings for all the employees during the conversion process, but still can see no easy solution to the problem. Due to the highly seasonal nature of retail business on the coast of Maine, there will be time for more intensive training and engagement during winter 2015.

Key lessons / effective practices

The Island Employee Cooperative's exceptionally hands-on advisory committee, led by CDI and IRSSC, played an essential role in helping the cooperative successfully navigate the conversion process. In addition to securing financing for the buy-out, the cooperative's advisors mediated negotiations between the selling owners and the employees, guided the steering committee through the nuts-and-bolts work of forming a worker cooperative, connected the cooperative with existing worker cooperatives, and prepared employees to become worker-owners through educational sessions and trainings. The commitment that CDI and IRSSC have made to the Island Employee Cooperative to continue serving as their advisors for a minimum of five years after the businesses incorporated as a cooperative—a commitment required by the lenders as a binding loan covenant—means that this support will also help to carry the new cooperative through its early years.

Several other key factors facilitated the Island Employee Cooperative's transition into worker ownership. The island community of Stonington is close-knit in general, but the community of Island Employee Cooperative workers is especially so because many of the employees have been with the business for many years. Many of the workers already had a long history with the businesses by the time the Seiles introduced the idea of converting to a worker cooperative, priming them to transition smoothly into worker ownership.

Another factor that helped to ease the transition process somewhat was the presence of other cooperatives in the community. The unfamiliarity of most Americans with worker-owned business models often results in misperceptions and distrust of worker ownership. Although the employees of the Island Employee Cooperative were not familiar with worker cooperatives, familiarity with the Stonington Lobster Co-op, Associated Grocers of New England, and the IRSSC made them more comfortable with the concept of cooperatives in general and more understanding of the wide variety of cooperatives that exist.

In an interview with Project Equity, Rob Brown reflected that one of the most important lessons to be learned from the Island Employee Cooperative's transition story is the importance of managing shared expectations. Worker ownership conversions are never cut-and-dried processes; uneven progress and the appearance of unexpected obstacles are almost a guaranteed part of a cooperative conversion. For this reason, Brown advises that expectations about the speed and smoothness of the conversion process be consciously held in check. Willingness to adapt as unforeseen challenges arise is often a key component of a successful conversion. Mark Sprackland reflected that succession planning 3-5 years in advance can help build the equity needed for pre-development funding and the buyer's down payment. This can happen through employee contributions in advance of selling the business, which will also help to expedite and streamline the lending process. Additionally, if the seller has already engaged or intends to engage a commercial broker, the broker can play a productive role preparing the seller to transition the business and in ensuring a smooth transition.

→ **Select Machine**

Type II Conversion

SELECT MACHINE

Manufacturing of custom machine equipment
Kent, OH

Date of conversion: September 30, 2006
Number of workers at time of conversion: 13 total; 8 founding worker-owners
Number of workers as of summer 2014: 10
Conversion Type: Type II

Background

Founded in 1994 by Doug Beavers and Bill Sagaser, Select Machine is a Kent, Ohio-based company that manufactures, sells, and distributes machined products and equipment for installation on construction and demolition equipment.

Select Machine has been the focus of a number of case studies and news coverage, in part because of its potential use of the "1042 rollover,"[62] a tax incentive for converting to employee-ownership. Select Machine ultimately chose not to utilize the 1042 rollover, but we have included some background about it below.

Why it became a coop

When owners Doug Beavers and Bill Sagaser decided that the time had come to retire, they were confronted with a difficult choice. Their children weren't interested in taking over the company, and prospective buyers planned to dismantle the company and lay off its workers, preserving only the company's client list. "These are our guys, our family, and we wanted them to keep on working," Sagaser said of his former employees in a 2006 interview with Bloomberg BusinessWeek.[63]

Beavers and Sagaser began to consider employee ownership as an option for keeping their employees in their jobs, keeping their company healthy and profitable, and allowing them to retire with peace of mind. They decided to discuss worker ownership with their employees, who welcomed the idea enthusiastically. According to Beavers, "We wanted to do what was best for the employees of our company and for ourselves. We chose the employee-owned cooperative because it made sense."[64]

The company considered the Employee Stock Ownership Plan (ESOP) model as well as the worker cooperative model, but settled on transitioning to a worker cooperative

62 Information shared with Project Equity by Sushil Jacob of the East Bay Community Law Center from a phone conversation between Sushil Jacob and Todd Brewster from Select Machine in October, 2014.
63 Joan Raymond, "Unlikely Pioneers," Bloomberg BusinessWeek, March 19, 2006, http://www.businessweek.com/stories/2006-03-19/unlikely-pioneers.
64 Clem, Steve and Bill McIntyre. "Worker Cooperatives: A New Twist. First Use of Little Known Tax Incentive Helps Employees Buy Their Company." Ohio Employee Ownership Center. http://www2.kent.edu/CAS/oeoc/first1042.cfm

because of Select Machine's small size. Setting up a coop is generally much less expensive than establishing an ESOP, which made a worker cooperative a more feasible employee-ownership option for the small company.[65]

Conversion logistics

Select Machine's conversion to a worker cooperative began in 2005, when Beavers and Sagaser reached out to the Ohio Employee Ownership Center (OEOC) for guidance about how to sell their company to their employees. The OEOC held educational meetings with Select Machine's employees about worker cooperatives and how the model might be structured to work for Select Machine. After voting to further investigate worker ownership as a possible solution for Select Machine, the employees elected a "buy-out committee" to lead the investigation and to work with advisors.[66] In addition to the Ohio Employee Ownership Center, Select Machine worked with Shumaker, Loop and Kendrick, a Toledo, Ohio law firm, to put together a multi-stage plan for Select Machine's employees to purchase the company.

The conversion process took about six months from when Select Machine first talked with the OEOC. They were able to get a feasibility study and third party financial valuation funded by a state grant program (the Ohio Department of Job & Family Services' Prefeasibility Study Grant Program), which helped the owners and the employees make an informed decision about the value of the company and what level of debt payments the new worker coop could afford to take on.[67]

The two owners of Select Machine entered into a sales agreement with eight of their 13 employees that same year, and sold an initial 40% of their shares to their workers.[68] The coop board, comprised of the two selling owners and three new worker-owners, voted to accept the agreement.[69]

The initial sale was financed by loans from a local bank and a non-profit loan fund that focuses on employee ownership. Beavers and Sagaser personally guaranteed the $324,000 in loans that the coop took out to complete this first stage of the buy-out. It was decided that when the loans were re-paid, Beavers and Sagaser would sell the remaining shares to the cooperative and retire. Until the buy-out reached completion, Beavers and Sagaser would stay on with the company as worker-owners alongside their former employees.[70]

Coop logistics

According to a case study on coop-law.org,[71] the new worker-owners voted to set the member buy-in amount at $1,000. They also created a formula for allocating profits among worker-owners based on a combination of hours worked, pay level, and seniority, "The formula assigns 50% to W-2 earnings (rewarding current market

65 In her article entitled "Unlikely Pioneers," Joan Raymond paraphrases a description from John Logue about the cost difference between setting up and ESOP and a worker cooperative: "Most small businesses can get going for $10,000, and annual administrative costs are virtually nil, says John Logue, director of the Ohio Employee Ownership Center (OEOC) at Kent State University, the nonprofit that advised Select Machine. That compares to an ESOP's typical setup costs of $50,000, plus at least $10,000 to $15,000 in annual administrative costs."
66 "Converting a business to a cooperative," Co-opLaw.org. 2013. http://www.co-oplaw.org/conversion/#fnref-8602-6
67 Ibid.
68 Messing, Roy. "Transitioning a Private Business to a Worker Cooperative: A Viable Community Development Tool." Grassroots Economic Organizing (GEO) Newsletter, Volume 2, Issue 8. http://geo.co-op/node/637
69 "Converting a business to a cooperative," Co-opLaw.org. 2013. http://www.co-oplaw.org/conversion/#fnref-8602-6
70 Messing.
71 "Converting a business to a cooperative," Co-opLaw.org. 2013. http://www.co-oplaw.org/conversion/#fnref-8602-6

value of their skills), 25% to hours worked (rewarding diligence and equality), and 25% to seniority capped at 120 months (long-term contribution to the business)." Worker-owners' patronage allocations are earmarked to pay down the loan they took out to purchase the business.

Challenges during conversion

Their original plan to purchase the remaining 60% of the stock by 2010 hit a snag when economic downturn of the 'great recession' negatively impacted their finances. Select Machine went through a voluntary workforce reduction in 2009, and was able to grow their revenue back up to pre-recession levels by 2010. Since then have resumed the process to purchase the remaining stock.[72]

Key lessons / effective practices

The involvement of OEOC and attorney Mark Stewart's legal assistance during Select Machine's conversion points to the critical role that expert advisors so often play in helping worker ownership transitions reach completion.

This case study also demonstrates some of the flexibility that coops have in determining how patronage will be distributed. In Select Machine's case, they wanted to reward a combination of hours worked, current market value of worker's skills and seniority. They were able to create a formula for patronage that takes each of these into account.

Select Machine shows the value of completing a feasibility study and a third party financial valuation, and the potential for grant funding to pay for the work. Select Machine was able to tap a state grant program to fund this effort.

Finally, Select Machine highlights the important role that selling owners can play in creating a successful transition to employee ownership. In personally guaranteeing loans taken out by the cooperative, Beavers and Sasager provided invaluable financial support for the transition into worker ownership. With the economic downturn, this financial support proved critical. Perhaps even more importantly, their decision to remain on as worker-owners for the first years of the cooperative's existence enabled them to pass on to their employees the rich knowledge and expertise they had acquired through their years of ownership—and leadership—at Select Machine.

1042 Rollover

Select Machine's transition to a worker cooperative gained attention in part due to its potential use of the '1042 rollover,' a tax incentive for employee ownership.

The 1042 rollover, named for the section in which it appears in the IRS Code, allows a selling business owner to defer the tax on the capital gain of the sale when he / she sells at least 30 percent of the company to either an Employee Stock Ownership Plan (ESOP) or a worker cooperative. Although the tax incentive was always intended to be a tool for use by worker cooperatives as well as ESOPs, it hasn't been widely used by worker coops.[73] Thousands of ESOPs have made use of the 1042 rollover since it became available in 1984.

72 Messing.
73 Corey Rosen, who helped to draft the original legislation for the 1042 rollover, confirmed in an interview with Project Equity in the summer of 2014 that the 1042 rollover was always intended to be applied to both ESOPs and worker cooperatives.

→ Select Machine

Type II Conversion

The late Mark Stewart, a former coop attorney at Shumaker, Loop & Kendrick in Toledo who created the legal framework for Select Machine's conversion to a cooperative, was instrumental in not only navigating Ohio's legal code but getting some key changes made to the code that helped Select Machine implement their conversion.[74]

The 1042 rollover holds significant and largely untapped potential as a tool for facilitating the transition of businesses into worker cooperatives. It may be more appropriate for larger deals, as the strictures imposed by the rollover in exchange for sheltering the sale from capital gains taxes can be more cumbersome than they are worth for smaller deals.[75] The Island Employee Cooperative is an example of a coop conversion that has utilized the 1042 rollover.

74 Messing.
75 During an interview with Project Equity, Don Jamison of the Vermont Employee Ownership Center noted that while the 1042 rollover functions well for larger companies, it may be "too big an instrument" to use in smaller deals (anything around $1-2 million or less) given the strictures it imposes around property and accessing cash.

TYPE III CONVERSIONS

Type III conversions include businesses in which owners make the decision to convert to a worker cooperative independently of existing employees, and then bring in new people to become the coop's founding worker-owners. The cooperatives profiled in this section are Local Flavor Catering of the San Francisco Bay Area, California, and Simple Diaper and Linen of Holyoke, Massachusetts.

→ **Local Flavor**
Type III Conversion

LOCAL FLAVOR

Catering
San Francisco Bay Area, California

Date of conversion: January 2014
Number of workers at time of conversion: 3 founding worker-owners
Number of workers as of summer 2014: 4 worker-owners;
2-8 non-owner employees
Conversion Type: Type II & Type III

Based on Project Equity's interview and phone / email communication with founding worker-owners of Local Flavor. We interviewed Kate Sassoon in July 2014. In February 2014, we followed up by phone and email with Kate Sassoon and Marc Mascarenhas-Swan.

Background

Local Flavor Catering Cooperative is a San Francisco Bay Area-based company dedicated to delicious food, sustainable practices, community accountability, and the local food economy. Founded as a sole proprietorship in 2003 by Marc Mascarenhas-Swan, Local Flavor began its conversion to a worker-owned cooperative in 2013.

Why it became a coop

After 10 years as the sole owner of Local Flavor, Marc Mascarenhas-Swan began thinking about transitioning out of the catering world. But before leaving, he wanted to find a way to bring together his social justice views and his expertise in the food and catering world. Converting Local Flavor to a worker-owned cooperative—a "long-held dream" of Marc's—provided a neat way to simultaneously solve both these challenges.[76] "It felt overwhelming as a working parent to grow a business," says Marc. "Using the coop mechanism, I can avoid exploitation of other people's labor. Where the fruits of labor are shared based on the amount of work you put in, I can rest easy with my own conscience."[77]

76 "Chef Marc Swan," Munchery.com. https://www.munchery.com/chefs/marc-swan
77 As quoted in Rachel Trachten, "Local caterers take the boss out of the kitchen," EdibleEastBay.com. May 16, 2014. http://edibleeastbay.com/online-magazine/summer-2014/sharing-the-pie

In order to provide the new worker cooperative the greatest chance for success, Swan strategically sought out people with the right mix of skills and knowledge to form the core team of founding worker-owners. Ricardo Simon, co-founder of the Bay Area Community Exchange (BACE) timebank, and Kate Sassoon, self-described "member, worker, and participant in various democratically owned and run organizations for over 20 years,"[78] joined Marc Mascarenhas-Swan as the second and third founding members of the Local Flavor Catering Cooperative. As of January 3, 2014, the Local Flavor Catering Cooperative received its LLC filing status.

Conversion logistics

Local Flavor's focus on bringing in new people to form the core team of founding worker-owners exemplifies a very different approach to converting to worker ownership than that used by other businesses profiled in this report, such as the Island Employee Cooperative. Whereas the businesses of the Island Employee Cooperative were purchased by their long-time employees, Local Flavor's strategy brings in an experienced group of "coopreneurs" to guide the coop through its "juvenile stage." Local Flavor worker-owner Kate Sassoon notes that this strategy is intended to circumvent the problem of over-burdening a team of new worker-owners with keeping up the intensive demands of running a kitchen while also learning to be worker-owners, hashing out the specifics of the new coop's management and governance structures, and dealing with all the usual growing pains of a start-up business. Assembling a team of experienced "coopreneurs" is also meant to allow the coop enough "lead time" to develop effective worker ownership trainings for prospective worker-owners.

The transition to worker ownership has been funded by a $10,000 capital investment loan from Local Flavor founder Marc Mascarenhas-Swan. Members are slowly paying Mascarenhas-Swan back as the business brings in profits. The coop may eventually take on external loans for expansion, but the start-up costs have been entirely self-financed though Mascarenhas-Swan's internal loan.

Although Mascarenhas-Swan intends to slowly transition out of the business, he will remain on as a worker-owner throughout Local Flavor's conversion process.

Coop logistics

As of July 2014, Local Flavor has three worker-owners, with a fourth employee on track to become a worker-owner, and two to eight non-owner employees (the number of employees fluctuates depending on the day and demand). The cooperative is in the process of developing its membership requirements and designing its management and governance structures, but has decided on a six-month probationary period and $500 buy-in for new worker-owners. New worker-owners are permitted a one-year period to pay off the $500 initial investment requirement through payroll deduction, and must undergo two evaluations during the six-month probationary period.

The cooperative has two tiers of membership: members / worker-owners, who share in profits, are required to attend meetings, etc.; and employees, who don't share in profits, and who are hired according to the amount of demand. Because employees do not receive access to profits, the cooperative is discussing how to provide other benefits to employees—like offering extra hours or bonuses when demand and profits

78 Website of Sassy Facilitation. http://www.sassycooperates.org

are high. To ensure the longevity of the business, the cooperative intends to intentionally recruit prospective employees who are interested in worker ownership.

Local Flavor's founding worker-owners are interested in flattening the structure of the cooperative. To do this, the founders are re-thinking how to distribute duties across different job positions. One strategy they are implementing to do this is the creation of "coordinator" roles for each major job task in the business. By creating "coordinator" roles and assigning a set of tasks to each "coordinator" position, the new members of Local Flavor are attempting to design jobs that worker-owners can rotate through instead of isolating individuals within their skill sets. Additionally, the common title of "coordinator" minimizes hierarchy in the coop's organizational structure.

Challenges during conversion

Local Flavor is looking to successful existing food-related worker cooperatives (e.g. the Cheese Board and the Arizmendi Association of Cooperatives in the San Francisco Bay Area) for ideas and inspiration about how to structure its own operations, governance framework, and membership requirements. Still, Local Flavor is faced with the challenge of having few worker cooperative role models in the catering industry. Because of the lack of direct role models, notes Kate Sassoon, Local Flavor is encountering fairly high start-up costs in the transition to democratic governance. Although the members are drawing upon and synthesizing the innovations of a number of existing worker cooperatives, they are often finding it necessary to create unique solutions that address the particularities of the catering industry.

Key lessons / effective practices

Former sole proprietor Marc Mascarenhas-Swan's active role in guiding and financing the transition to worker ownership has been critical to Local Flavor's success thus far, says Kate Sassoon. But as important as Mascarenhas -Swan's leadership has been through the conversion, Sassoon notes that his intention to withdraw from his strong leadership role once the worker cooperative is stable is equally crucial. She notes that "a willing, aligned seller is key to a lot of conversions—a willing, aligned seller who stays involved *and* has an obsolescence plan for his / herself… [who] has a commitment to outgrow founder effect."

Mascarenhas-Swan's patience—meaning his willingness to allow sufficient time and space for the conversion to unfold—is proving to be invaluable in facilitating Local Flavor's transition to worker ownership, according to Sassoon. Though the ability to be creative and try out different approaches is a straightforward benefit of the unhurried timeline, Sassoon believes that it is also an important step in shifting the company's culture away from a conventional "command and control" structure. The members are dedicating special attention to building a cooperative culture. Much of this is realized through subtle shifts and re-trainings, like flattening organizational hierarchy by using the "coordinator" label for different jobs, and sharing meals at meetings. Eventually, Local Flavor's worker-owners plan for more formal trainings to help build and maintain a cooperative culture, but this early-stage recognition that culture is built "of the little things," as Sassoon described it, is already establishing an internal culture of participation and democracy.

Mascarenhas-Swan's careful selection of founding worker-owners who can contribute complementary skills and knowledge to the new cooperative is also an essential element of Local Flavor's ongoing conversion. Kate Sassoon, for example, brings years of experience as a worker-owner, worker ownership consultant, facilitator, and democratic management educator to Local Flavor. The new cooperative is drawing upon its internal resources—the diverse strengths of its founding worker-owners—to create a sophisticated, intelligently structured business model.

Local Flavor is a mature business; it had existed as a successful company for ten years prior to becoming a worker cooperative. As a cooperative, Local Flavor retains the industry knowledge and clients that the company acquired during its decade as a conventionally structured business. In particular, Local Flavor's continued lunch catering service to organic produce distributor Veritable Vegetable—an "anchor client" of Local Flavor for nine years—has been integral to Local Flavor's survival in the volatile catering industry during its transition to worker ownership.

Update as of February 2015

In January 2015, Local Flavor decided to close their doors. Even though they were financially successful—they paid off their start-up costs, were able to award themselves a healthy patronage dividend, and made donations to several worker coop development organizations—, they found that being in a sector with highly variable staffing needs made it challenging to meet their dual social justice goals of serving their target client base and staying true to how they wanted to operate their coop. These reasons, combined with some health challenges within their team, led them to decide to "close the business while it was strong and help everybody move on from a place of strength."[79]

Marc Mascarenhas-Swan summarized some of the key challenges they faced:[80]

- Their staff was located in the East Bay, while their principal clients and kitchen were located in San Francisco, adding a long commute and requiring and extended workday. It would have been challenging to relocate the kitchen and the client base given their small team.
- Staffing needs in catering businesses have a high degree of variability—often day-to-day variability—based on the needs of the customer, seasonal changes in produce, changing staff availability and needs and changing locations. A high performing catering operation is usually anchored by one to three seasoned professional/s who can think on their feet, and respond quickly to a constantly shifting environment.
- They needed worker-owners with the leadership skills necessary to take Local Flavor to the next stage, which they found hard to find (in part due to their dual-city identity, and in part due to a difficult job description). Specifically, according to Mascarenhas-Swan, they needed to bring on someone with "business drive, industry-specific skills, and a cooperative sensibility—quite a triple treat."
- Their specific intention to create a workplace that was supportive of families by offering consistent hours and schedules was different than most catering companies, and required securing clients who wanted a regular lunch service. They were concerned about their ability to be able to establish a strong client base with this criterion.

79 Phone conversation between Kate Sassoon and Project Equity on 2/19/15.
80 Email communication between Project Equity and Marc Mascarenhas-Swan on 2/19/15

In a January, 2015 letter to their community,[81] Local Flavor shared their decision to close down their business and reflected on their successes and learnings:

> When Marc first decided to take his business, Local Flavor, and convert it into a worker co-op, it was because he felt inspired to join a community of enterprises which are doing such good work to transform our economy. Our vision of a social justice focused, living-wage, cooperatively owned catering business owes a lot to the values and practices of our community.
>
> But even the best laid and best supported plans sometimes don't pan out. A combination of increasing health concerns, inability to find new members able to commit to the work necessary to sustainably grow the cooperative, and not finding the regular and profitable clients we projected we could find led us to decide to close our doors at a recent collective business meeting.
>
> We have experienced many successes at Local Flavor. We self-financed all our start up costs, paid all our members a good wage for our sector, had a modest profit to distribute at the end of our year, learnt a huge amount about cooperatives, and enjoyed the camaraderie of working with each other.

Local Flavor developed many useful resources in the course of their development that as of this writing they have already shared with a number of food cooperatives.

SIMPLE DIAPER & LINEN

Diaper laundering and delivery service
Holyoke, Massachusetts

Date of conversion: 2011
Number of workers at time of conversion: 2
Number of workers as of March 2015: 4; 2 worker-owners
Conversion type: Type III

Based on Project Equity's interviews with Jessica Montagna, founding worker-owner of Simple Diaper in December 2014, and Adam Trott, Valley Alliance of Worker Cooperatives (of which Simple Diaper is a Member-Cooperative) in July 2014.

Background

Founded as a sole proprietorship named Mother Herb Diaper Service in 2009 by Angie Gregory, Simple Diaper & Linen is an eco-conscious diaper and commercial linen service company that serves Western Massachusetts and Northern Connecticut.

Why it became a coop

Angie Gregory founded Simple Diaper & Linen in her basement and was the company's sole owner and sole employee for several years. Soon after establishing the company, Gregory decided that she wanted to expand and turned to cooperative ownership as a way to grow the business, while maintaining her socially and environmentally responsible business model. According to Simple Diaper & Linen's website,

81 Shared by email with Project Equity by Kate Sassoon in February, 2015

> The shift from sole-proprietorship into cooperative ownership added a lot to our already conscientious business model. We have shared responsibility and shared ownership as workers. Our business model is fair and democratic and we are proud to be a cooperative![82]

Conversion logistics

Adam Trott, a staff member of the Valley Alliance of Worker Co-operatives was actively involved in Simple Diaper & Linen's transition to worker ownership. Trott has organized the support of VAWC's coop conversions (a total of six conversions as of March 2015). In an interview with Project Equity, Trott described how Simple Diaper & Linen's process of conversion began. Trott recounted how Angie Gregory reached out to a representative of VAWC in 2009 to discuss the possibility of worker ownership for Simple Diaper & Linen. Trott, a worker-owner[83] at Collective Copies and Alex Jarrett, a worker-owner at Pedal People (another member of VAWC) met with Gregory and spoke with her about sharing ownership and about the principles of the International Cooperative Alliance.[84]

Over the next two years, Gregory continued to grow her business while looking for potential worker-owners to join her at Simple Diaper & Linen. In 2011, says Trott, Gregory again contacted VAWC to begin the process of converting the company into a cooperative; one of her clients, Jessica Montagna, wanted to join her as a worker-owner at Simple Diaper.

VAWC Member Co-op Representatives advised Gregory that the conversion process would likely take six to 12 months to reach completion, and began helping Gregory to think through how she might re-structure Simple Diaper as a worker cooperative. The first step Gregory and VAWC took to move the conversion forward was to write Simple Diaper's cooperative Articles of Incorporation. Writing the bylaws for the new cooperative came next. Creating the bylaws was a "pretty involved" process, Trott noted, and took 3-4 months to complete. Once these two essential pieces of the conversion process were finished, Simple Diaper & Linen was able to begin looking for a new location—Gregory's garage was no longer large enough for the growing business. Supported by VAWC, Simple Diaper conducted market research to identify holes in the market that the new cooperative might be able to fill, and VAWC advised the expanding company about how to most effectively weave cooperatives into its messaging and identity, and how to leverage Simple Diaper's new cooperative structure as a marketing tool. VAWC also encouraged Gregory and Montagna to reach out to the cooperative community and to their "friends and family" network for support.

In addition to VAWC's close guidance and mentorship, Simple Diaper & Linen received fiscal sponsorship from the Cooperative Fund of New England to support its transition into cooperative ownership.

Coop logistics

Since becoming a worker cooperative, Simple Diaper & Linen's two worker-owners

82 "About Us." Simple Diaper & Linen Website. http://simple.coop/about
83 Collective Copies uses the term "worker-member." We use "worker-owner" to align with terminology used throughout our case studies on worker cooperative conversions, to make it simpler for readers less familiar with different terms.
84 The ICA's seven cooperative principles are as follows: 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training and information; 6) cooperation among cooperatives; 7) concern for community. These principles are published on the ICA's website, http://ica.coop/en.

have been joined by a third team member, and the cooperative is planning to expand into a new city.

Simple Diaper & Linen is one of eight members of the Valley Alliance of Worker cooperatives. As Simple Diaper & Linen's VAWC profile illustrates, the company actively incorporates its cooperative structure into its larger messaging around environmental sustainability and social responsibility:

> Simple Diaper & Linen is a Northampton, MA based business driven by a passion for working with communities to benefit the environment, family health, and our economy. We are cooperatively-owned and mother-operated. We provide diapering alternatives that reduce waste and improve the comfort and health of your children. Our energy-efficient machines, chemical-free laundering, and local delivery by bicycle supports our mission of eco-sustainability.[85]

Challenges during conversion

Although Angie Gregory first approached VAWC in 2009 to discuss her interest in worker ownership, Simple Diaper's conversion did not begin until two years later. Adam Trott noted that this delay occurred because Gregory needed to find at least one more team member to join her in worker ownership. Finding the "right" person —someone who is a good fit for the company, who has the right mix of skills for the industry and for worker ownership, and who is interested in committing not just to employment, but also to ownership—can be challenging, as Simple Diaper & Linen found. Gregory's patience and care in building Simple Diaper's core cooperative team put the company in a good position during and after the conversion process; several years after its conversion, the cooperative is thriving.

Key lessons / effective practices

Simple Diaper & Linen worked closely with representatives of the Valley Alliance of Worker Cooperatives throughout its transition into worker ownership, and sought financial support from the Cooperative Fund of New England. The company's utilization of New England's strong cooperative network doubtless played an invaluable role in facilitating the conversion process. Having a coop led organization to explore the potential of conversion created a support system that offered both worker coop experience and a peer-to-peer network as Gregory entertained shifting her business to the coop model. By joining with other worker cooperatives, Simple Diaper and its members plugged into a network with a marketing campaign, a revolving loan fund, educational programming and development services directed and funded by cooperatives themselves. Simple Diaper has joined the cooperative community that supported it throughout its transition process and is as an active member of the Valley Alliance of Worker Cooperatives.

85 http://valleyworker.coop/members/simple-diaper-and-linen/, accessed February, 2015.

Type IV Conversions

TYPE IV CONVERSIONS

Type IV conversions are characterized by one of two events: A group of employees chooses to leave an existing traditionally-structured business en masse and start their own worker cooperative together, or former employees of a failed business launch a revised version of their former employer as a worker cooperative. The businesses profiled in this section are Center Point Counseling of Viroqua, Wisconsin; Collective Copies of Amherst, Massachusetts; New Era Windows of Chicago, Illinois; and Taste of Denmark of Oakland, California.

→ Center Point Counseling
Type IV Conversion

CENTER POINT COUNSELING

Mental health care & counseling
Viroqua, WI

Date of conversion: Opened as a cooperative on December 1, 2011
Number of workers at time of conversion: 12 founding worker-owners
Number of workers as of summer 2014: 14 worker-owners; 21 employees
Conversion Type: Type IV

Based on Project Equity's interview with Kevin Schmidt, founding worker-owner of Center Point Counseling in the summer of 2014.

Background

Center Point Counseling is a cooperative of mental health professionals in the small town of Viroqua, Wisconsin. Center Point was founded in 2011, after the cooperative's founding worker-owners decided to leave the struggling non-profit at which they had all previously been working and establish a mental health care cooperative.

Why it became a coop

The non-profit mental health center at which the twelve workers who would found Center Point were employed was heavily impacted by the recession. The organization decided to cut back in order to break even; clients were put on waiting lists, and therapists were laid off. Employees felt that the organization was no longer able to adequately meet the needs of clients or workers, so they began meeting after work to discuss possible solutions for the situation.

Many of the employees had been working together for 25 years, and had developed a strong culture of support and trust. As a result, the discussions revolved around what they could do together to secure their jobs and provide quality care to the community. The eight therapists, three administrative personnel, and one MD who became the founding worker-owners of Center Point decided to resign together and found a new mental health care center. They wanted to completely break away from the organizational and management structure of their former employer, and began to look for a business model that could better serve their needs and could help them provide health care to all of their clients, not only those who could pay. They turned to the worker cooperative model as a way to build their new health care center around these two priorities.

According to worker-owner Kevin Schmidt,[86] the county of Vernon, Wisconsin, in which Center Point is located, has the highest density of cooperative businesses of any county in the United States. Because of this, the founding worker-owners of Center Point were already familiar and comfortable with the concept of cooperative business, and decided to reach out to the U.S. Federation of Worker Cooperatives to learn more about the worker-owned cooperative model.

The twelve Center Point founders concluded that worker ownership would be an excellent fit for their new health care center for several reasons. First, worker ownership meant that management could be done by the worker-owners themselves, saving the cooperative the expensive management costs typical for organizations in the health care industry. Eliminating prohibitively expensive management costs offered the cooperative greater flexibility, enabling therapists to take on more uninsured and otherwise in-need clients—allowing them to prioritize providing care "based on need for care," as Schmidt phrased it.

Building a new mental health care center around the worker cooperative model also gave the therapists greater flexibility in the therapeutic methods they could employ. Cooperative ownership meant that the therapists would have ultimate control over the forms of treatment and care offered by the clinic, and could choose to pursue experimental or uncommon forms of therapy rarely allowed in hospitals and other healthcare facilities. One Center Point therapist, for example, has begun using equine therapy with her clients—a non-conventional form of care that Schmidt says would likely not have a place in most mental health centers.

Conversion logistics

After deciding that the worker cooperative model best fit their vision for their new health care clinic, the twelve founding worker-owners of Center Point resigned together and set about laying the groundwork for the cooperative. Informal committees were created to lead on specific aspects of the conversion. Because the worker-owners were starting Center Point as a new business, finding funding to purchase the business from a former owner was not necessary. Still, the members did need to raise funds for a new building to house the clinic. After finding a suitable space, one worker-owner agreed to put a down payment on the building, and the cooperative took out a loan from a county revolving loan fund for economic development to divide amongst the entire group the costs of repaying the loan. Each member then individually chipped in to furnish his or her own office.

Working together for 25 years before the transition began created a culture of trust and mutual support amongst the founding worker-owners of Center Point. Additionally, noted Kevin Schmidt, as mental health practitioners, Center Point's members study and teach their clients how to be effective individuals and group members, as well

86 Interview with Project Equity, summer 2014, in which Kevin talks about Center Point's origins.

as how to change entrenched systems. These two factors provided a pre-existing framework upon which a "cooperative" culture based on principles of participation and democracy was easily built. As a complement to and way to codify Center Point's natural cooperative culture, the worker-owners looked to the International Cooperative Alliance's seven cooperative principles.[87]

The Center Point Counseling Services Cooperative began operations on October 1, 2011, and opened for clients on December 1, 2011.

Coop logistics

Center Point's group of twelve founding worker-owners has expanded to 14 by summer 2014. The cooperative also employs a number of non-owner employees, including part-time doctors. Schmidt reports that, although all Center Point's employees are welcome to full worker-owner membership, not all want to become worker-owners. The cooperative is hoping to increase staff participation in ownership, but does not expect that all employees will become owners.

Prospective members are required to work three months full-time or six months part-time and to conduct interviews with current worker-owners before becoming eligible for full membership. The price of one share of common stock, which must be purchased in exchange for full membership, was originally set at $100. Though this share price was initially set intentionally low so as not to serve as a barrier to membership, the worker-owners became interested in increasing the price of common stock as the value of the company increased. Current membership stock costs $2,000, payable over the first five years of membership.

All of Center Point's worker-owners are also members of the cooperative's board, which is responsible for leading decision-making. The cooperative's decision-making process is anchored in weekly board meetings, where committees comprised of worker-owners put forth proposals to be decided upon by the entire board. Only full members (worker-owners, but not non-owner employees) may serve on committees. Individual committees are responsible for putting forth proposals about Center Point's facilities and policies, as well as for the three care areas: substance abuse, mental health, and emergency mental health.

In addition to their work as mental health care practitioners, Center Point's worker-owners frequently offer trainings and support to other worker cooperatives. Center Point's therapists emphasize teaching the "soft skills" of worker ownership, like how to build a cooperative culture based on participation and trust, as a complement to technical and financial trainings most frequently offered by coop developers.

Challenges during conversion

Center Point workers are employed in a range of occupations that earn varying incomes, which presents a challenge for universal worker ownership. Sharing worker ownership amongst employees with very different incomes and job roles has proven difficult to reconcile with democratic member control. Doctors, in particular, earn more than the cooperative's other employees, which has resulted in Center Point's doctors most

87 The ICA's seven cooperative principles are as follows: 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training and information; 6) cooperation among cooperatives; 7) concern for community. These principles are published on the ICA's website, http://ica.coop/en.

frequently working at the cooperative part-time, as non-owner employees. In the future, Schmidt says, the cooperative hopes to welcome more doctors as worker-owners, but the members have not yet found a strategy to mitigate the income inequality barrier.

The capital investment required to become a worker-owner is another challenging question for Center Point. Initially, the cost of each membership share was set intentionally low, at $100, to prevent the capital investment requirement from being prohibitive. When members became interested in increasing the price of common stock to better reflect the value of the cooperative, they needed to find a way to do this without being unfair to prospective worker-owners. To circumvent unwanted hierarchy cause by requiring new worker-owners to pay a higher capital investment than current worker-owners, the worker-owners decided to increase the price of common stock for new members to $2,000, but to also pay the new value themselves, alongside new members. Some other worker cooperatives, like Namaste Solar, report similar difficulties with maintaining fairness while increasing the capital investment required of members over time, and recommend thinking deeply about how membership share costs may change when initially writing the cooperative's bylaws and other foundational documents.

Key lessons / effective practices

Several aspects of Center Point's particular context helped the cooperative's new worker-owners transition smoothly into operations as a worker cooperative.

First, because many of the worker-owners had already been working together for years before deciding to leave their former organization and start Center Point together, the members had long track records of how to be supportive of one another. This history of collective support meant that the cooperative's decision-making processes were naturally participatory and intimate from the start. Creating a participatory democracy is a critical part of worker ownership, and Center Point's members had already been collaborating effectively for years. Although Center Point was fortunate to start out with a pre-existing cooperative culture, Schmidt notes that the coop's members are conscientious about maintaining and deepening Center Point's democratic culture in their everyday operations.

Second, according to Schmidt, Center Point's mission as a mental health care facility —to care for people—complements the principles of democracy and fairness that are foundational to worker cooperatives. Schmidt believes that this characteristic of the health care industry in general makes the worker cooperative model an excellent fit for health care organizations.

Third, the high density of cooperative businesses in the area meant that the cooperative model was already well known and accepted, which Schmidt says greatly facilitated the establishment of the Center Point cooperative. Worker cooperatives are little known in much of the United States, which can lead to difficulty securing financing and technical advising. Knowledgeable local advisors, willing lenders, and a base of community support are often essential ingredients of successful conversions. For these reasons, conversions like Center Point's that occur in areas where other cooperatives already exist may be more easily accomplished.

Another lesson to be learned from Center Point's experience stems from the cooperative's dedication to helping other cooperatives. Schmidt reports that Center Point is frequently contacted by individuals interested in starting their own worker cooperatives, or in converting an existing business into a worker cooperative. Some of these do successfully come to fruition with Center Point's help; those that do not most often fail, says Schmidt, because they lack feasible business models. Successful worker cooperatives, like any other business, must begin with a solid business model. As Schmidt noted, individuals are frequently enamored of the idea of a worker cooperative, but fail to think through the logistics and feasibility of the business itself. Center Point's experience with false-start conversions is a powerful reminder that worker ownership is not a "silver bullet" for business success, and that worker ownership conversions require significant business acumen, patience, and often a bit of creativity to come to successful fruition.

→ **Collective Copies**

Type IV Conversion

COLLECTIVE COPIES

Printing and copying

Amherst, Massachusetts

Date of conversion: 1983
Number of workers as of March 2015: 11
Conversion type: Type IV

Based on Project Equity's interviews in July 2014 and March 2015 with Adam Trott, who has been a worker/member at Collective Copies since 2004, and on two comprehensive case studies of Collective Copies. The first was published in 2004 by The Northcountry Cooperative Foundation's Center for Cooperative Enterprise and Innovation,[88] and the second was published in 2014 as part of Building Co-operative Power: Stories and Strategies from Worker Co-operatives in the Connecticut River Valley.[89]

Background

Collective Copies was founded in 1983 after an existing store of a copy shop chain —Gnomon Copies—was forced to close. Gnomon Copies' employees were unhappy with working and health conditions at the store, and when the owners were unresponsive to their needs, they sought out union support. They ended up finding alignment with the United Electrical Radio and Machine Workers of America. United Electrical Local 264 helped them through the strike and ultimately with the opening of the new store.[90] Collective Copies' locations in Amherst, MA (its original location) and Florence, MA enable it to serve the nearby college markets.

Why it became a coop

After unsuccessfully attempting to negotiate with the new owners, they decided to strike in September of 1982. Their strike lasted into spring, and ultimately they were able to come to an agreement or contract with Gnomon. However, shortly thereafter, the building owner evicted Gnomon copies, due to the disruption of the strike itself, leaving all of the employees without jobs.[91]

88 Kerstin Larson et al. "Using worker-owned cooperatives to enhance the economic well-being of rural residents: A Report for the United States Department of Agriculture." Northcountry Cooperative Foundation's Center for Cooperative Enterprise and Innovation: Minneapolis, 2004. http://community-wealth.org/content/using-worker-owned-cooperatives-enhance-economic-well-being-rural-residents-report-united
89 Cornwell.
90 Phone conversation between Adam Trott and Project Equity on 3/11/15
91 Email exchange between Adam Trott and Project Equity on 3/17/15

→ Collective Copies

Type IV Conversion

The strike was high profile within the community and a lot of people were sympathetic, including many of their customers.[92] Six workers decided to band together to form their own business, forming a collective they owned and ran themselves. They were already accustomed to running a copy shop together, they were friends and they trusted one-another.[93]

Conversion logistics

The group was able to raise enough money from community members and by selling pre-paid copy plans to their customers to buy equipment, rent space and pay wages.[94] According to Trott,[95] "The business plan was probably more informal than you'd ever want to see because it was basically, 'Will you keep buying copies from us if we started our own business?'" Enough customers said yes to give them the confidence to move forward.

The coop members designed the management and governance systems in their new collective without outside technical assistance,[96] but they were able to draw support from other collectives around at the time, including Common Wealth Printing and All Things Collective. One major ingredient of their success was their own commitment. It worked in large part because there was a group of committed individuals who really wanted to make it happen.[97]

Coop logistics

Collective Copies functions as a collective and doesn't have a hierarchy of supervision or tasks as in many print shops that rely on 'Key Operators' and design teams. Everyone is both a 'Printer' and a 'Member.' "As a Member, you own it, as a Printer, you're working at it," shared Adam Trott.[98] Day-to-day administrative activities are carried out by several committees. [99]

The cooperative's written bylaws and policies were developed—and are implemented —by the group. One of the founder worker-owners, Stephen Roy, commented in an interview with the Northcounty Cooperative Foundation,

> that the importance of implementing these policies consistently can not be overstated; co-operatives can avoid a great deal of conflict by creating an atmosphere where each member believes that the policies are fairly enforced. Workers tend to stay at the collective longer than is the industry standard. In addition, Collective Copies is able to attract experienced worker-owners who've worked in other copy shops in the area...Candidates with previous experience in printing or co-operatives are given preference, and the collective looks particularly favorably on self-directed candidates.[100]

92 Phone conversation between Adam Trott and Project Equity on 3/11/15.
93 Cornwell.
94 Ibid.
95 Ibid.
96 Larson
97 Phone conversation between Adam Trott and Project Equity on 3/11/15.
98 Ibid.
99 Larson.
100 Ibid.

New worker-owners start off in a six-month apprenticeship, which enables both sides to have a month-to-month trial.[101] During the apprenticeship, an employee may participate in profit sharing, but doesn't have voting rights.[102] Collective Copies hasn't needed to bring on a new worker-owner for more than ten years. All 11 of the worker-owners (as of March 2015) have been there from between ten to 30 years.

Member buy-in was set at $250, and was designed to be low enough to not serve as a barrier to membership, and is taken out of a member's paycheck five dollars at a time. When a member leaves, their investment is returned to them, but it does not accrue any interest.[103]

All of the worker/members are on the board, which, according to Trott,[104] is a strength that can also sometimes be a weakness, "because there isn't a board that takes care of issues separately from members." like financials, budgeting, etc. The collective/board meets twice quarterly. One of those meetings is on a Sunday— a planning meeting where larger or longer-term issues are addressed. They expect everyone to come having read up on any background information. For the second meeting, they close the shop a little early one evening to enable everyone to attend and they meet over dinner, continuing discussion and/or addressing smaller shop issues.

The coop donates 10% of its surplus throughout the local community and cooperative movement, and invests 15%-50% of surplus back into the business as retained earnings in a reserve account. The remaining profit is distributed as an annual dividend across the membership based on the total hours worked that year. The benefits package includes paid vacation, sick days, health and dental coverage and long and short-term disability.[105]

The copy shop is located in a prime market for its services, surrounded by five colleges, including the University of Massachusetts. Collective Copies "benefits from an annual business cycle that is virtually guaranteed. In addition, the community is a historically progressive area where residents have sought out worker ownership as a business model that they support."[106]

Challenges

In the decades since Collective Copies was founded in 1983, they have been able—collectively—to overcome some key challenges. One was finding the right space. They moved their Amherst store twice before settling at their current location across from the town common. They purchased their first building to become the permanent home for their second store in Florence.[107]

The coop has had to keep current in a very rapidly changing industry. When they first opened, it was way before desktop publishing radically changed the copy business. It was before the revolution of digital photos took place, and it was before the industry consolidated to have big national competitors like FedEx Kinko's and others. "Our structure has kept us going past other printers, who have gone out of business in our area," said Adam Trott,[108] when he talked about some of these major changes in the

101 Phone conversation between Adam Trott and Project Equity on 3/11/15.
102 Larson.
103 Ibid.
104 Phone conversation between Adam Trott and Project Equity on 3/11/15.
105 Larson.
106 Ibid.
107 Cornwell.
108 Phone conversation between Adam Trott and Project Equity on 3/11/15.

industry. It's been an industry with "rapid and expensive technological change," said Trott. Trott continues,

> My co-worker Steve Stimer is quick to point out that people talk about worker cooperatives and the collective process as being slow and unresponsive. It's a false notion that collectives can't respond quickly. We had to and survived, earning an increase in total revenue in the following year. If we hadn't been able to react, we would have just had to close our doors.

Key lessons / effective practices

In addition to providing a model of long-term success for collectively run worker cooperatives, Collective Copies is an early example of how the employees of a closing business can band together within a union context and re-launch a new version of the business under employee ownership. A recent example is New Era Windows, a windows manufacturing plant in Chicago, Illinois.

Collective Copies also illustrates what can be accomplished by a core group of committed individuals who are willing to stay dedicated to the success of their coop through thick and thin. They started the coop after having gone through a period of several months of reduced wages, then being faced with having no job at all. Their tenacity and commitment was a core ingredient of their success, both in starting Collective Copies, and in keeping it going through tremendous industry change in the period since 1983. The coop structure was likely a key reason for their ability—as a small copy shop in an industry that has heavily consolidated over the decades into a smaller number of big players—to continue to operate.

Furthermore, Collective Copies evidences the stability that a set of anchor clients can offer a business. As the Northcountry Cooperative Foundation report notes, Collective Copies' location in a college town virtually guarantees it a permanent client base. Other cooperatives, like the Evergreen Cooperatives in Cleveland, Ohio, have adopted similar strategies that focus on establishing "anchor" clients—institutions like universities and hospitals—as a means for securing access to long-term clients.

Due in large part to their model and their commitment to worker cooperation, Collective Copies has been a founding member cooperative of several organizations including the Eastern Conference for Workplace Democracy, the United States Federation of Worker Cooperatives and the Valley Alliance of Worker Co-operatives (VAWC).

Collective Copies was one of five founders of the Valley Alliance of Worker Coops as members wanted to realize more access and a higher profile of worker coops in their region.[109] *VAWC started in 2005 and was formalized in 2009 by incorporating as a coop and addressing issues larger than those that individual coops had time or resources to tackle. VAWC has raised the profile of the worker coop model it its region by running marketing programs, starting the VAWC Interco-operative Development Fund—a loan fund owned and controlled by members—, co-founding the Valley Co-operative Business Association (www.vcba.coop) with other coops, and being a part of starting courses and certificate programs about cooperatives at the University of Massachusetts through the Co-operative Enterprise Collaborative. And during that time they have supported six businesses in converting to become worker-owned cooperatives. Collective*

109 http://valleyworker.coop

Copies feels the model of coop-led development has been key to their region having twice the number of business conversions to cooperatives over a five year period as there had been in the previous 30 years.

→ **New Era Windows Cooperative**

Type IV Conversion

NEW ERA WINDOWS COOPERATIVE

Window manufacturer

Chicago, Illinois

Date of conversion: 2012
Number of workers at time of conversion: 17
Number of workers as of summer 2014: 15
Conversion Type: Type IV

Based on Project Equity's interview with Brendan Martin, Founder & Director of The Working World, and Steve Wong, Communications and Investment Agent at The Working World in August 2014. The Working World is a non-profit organization that provides investment capital and technical support for worker cooperatives, and is an advisor to New Era Windows.

Background

The New Era Windows Cooperative is a Chicago-based windows manufacturing company specializing in energy-efficient vinyl windows. Founded in 2012 by a group of former employees of the Republic Windows and Doors factory, which declared bankruptcy and laid off its entire factory workforce, the New Era Windows story is partially that of a business conversion to worker ownership, and partially that of a start-up cooperative business.

Why it became a coop

In 2008, after many decades of operation, Republic Windows and Doors abruptly shut its doors, laying off its entire workforce. Two hundred seventy-nine union members, as well as 21 managers, suddenly lost their jobs.[110] The workers decided to occupy the factory in protest, and staged a six-day sit-in that attracted tremendous support from the community. The protests were successful in winning the compensation owed to workers by Republic Windows and Doors, and shortly thereafter, a "green" construction company named Serious Energy took control of the factory and partially reopened it.

The re-opening didn't last; Serious Energy soon decided to close the factory once and for all. For the workers, this was the final straw – they decided to take control of the situation and re-employ themselves. According to a statement from the New Era Windows Cooperative, after losing their jobs again, "Everyone decided enough was enough. If we want to keep quality manufacturing jobs in our communities, perhaps we should put in charge those who have the most at stake in keeping those jobs — the workers. The plan to start a new worker-owned cooperative business began." [111]

110 Alejandra Cancino, "Former Republic Windows and Doors workers learn to be owners," Chicago Tribune. November 6, 2013.
111 "Our Story." Website of the New Era Windows Cooperative. http://www.newerawindows.com/about-us/our-story

New Era Windows Cooperative

Type IV Conversion

Conversion logistics

In an interview with Project Equity in August 2014, Brendan Martin and Steve Wong of The Working World—a non-profit organization that provides investment capital and technical support for worker cooperatives—described how three of the former factory workers reached out to The Working World to ask for guidance on how they might form a worker cooperative out of the ashes of the former Republic Windows and Doors factory. At the same time, the three former factory employees began drawing upon the organizing power of their union, the United Electrical Workers Union, and called in the help of the Center for Workplace Democracy, a Chicago-based organization dedicated to supporting workplace democracy and employee ownership, to move forward with their plan to start a new worker-owned cooperative business. After an initial consultation meeting with The Working World, the three union members decided to "green-light" the conversion, as Brendan Martin described it, and began recruiting other former Republic employees to join the new worker cooperative.

Martin notes that the leadership and dedication of these three union members was critical in the early stages of the New Era conversion. Their leadership enabled the former Republic employees to win the struggle to claim their right to a place at the negotiating table, and then to successfully purchase the factory and the necessary equipment to start the worker cooperative. The funding for the purchase of the factory and equipment came from a $665,000 investment raised by The Working World. [112]

To prepare the new worker-owners of the New Era Windows Cooperative for the responsibilities of worker ownership, The Working World and the Center for Workplace Democracy led weekly educational classes for the worker-owners during the lead-up to the purchase of the factory. The classes provided information and ideas about how New Era might choose to structure the cooperative (e.g. how to choose who would sit on the board). But because the conversion moved very quickly—the entire formal transaction happened within a month—there was limited time to prepare the worker-owners for cooperative ownership before full-time work began. This meant the educational approach was, in Brendan Martin's words, more "opportunist" than "theoretically perfect." The pressures of starting a new business put the educational classes on hold for several months after full-time work began, but The Working World and the Center for Workplace Democracy resumed trainings for worker-owners in the winter of 2013. Classes have since ended, though Martin notes that recently (as of summer 2014) there is talk of re-launching the training sessions.

Throughout New Era's ongoing conversion process, The Working World has remained very involved in the day-to-day operations of the cooperative; the organization is part investor, part advisor, and part incubator to New Era. Because the factory made the transition to cooperative ownership with factory floor workers but without management or office workers, staff members from The Working World have been physically in the factory most days since the new cooperative opened to help fill these roles.

As of 2014, the New Era conversion has been in progress for two years. The Working World expects that the conversion will need another three years to reach completion.

112 Ibid.

Coop logistics

The New Era Cooperative set a $1,000 equity investment requirement for the initial worker-owners, but plans to require a higher (though yet undetermined) investment from future worker-owners. The purpose of increasing the future buy-in requirement for new worker-owners is partially to provide "founders' compensation" to the original worker-owners who put in the sweat equity to carry the cooperative through the conversion process, and partially to reflect the increasing profitability of the company. In addition to the equity investment requirement, future prospective worker-owners will be required to observe a one-year probationary period before they are permitted to join the cooperative as full members.

As of August 2014, the management structure of the New Era Windows Cooperative is in a state of evolution. The first management structures put in place after work began were executive committees, and thus far, New Era has continued to operate under a participatory management structure. The still-small size of New Era's worker population—15 workers—allows for direct participatory management to function efficiently, according to Brendan Martin and Steve Wong of The Working World. As the company continues to grow, it may choose to implement more traditional management if the direct participatory structures become unwieldy. Though workers are open to the idea of bringing in outside management, Martin notes that a decision has not yet been made, nor is the company yet profitable enough to be able to bring in management if it so chooses. Either way, New Era intends to keep control of the company's direction in the hands of worker-owners.

Challenges during conversion

Martin and Wong report that the financial limitations have been the primary challenge throughout New Era's conversion. Though The Working World was able to raise $665,000 in investment for the purchase of the factory and initial start-up costs, this has proven to be a tight budget for the conversion. In part, the extremely short timeline of the conversion limited the amount of funding The Working World was able to secure for New Era, but the primary barrier to raising start-up funding for the New Era conversion was the lack of a financial "market," as Martin put it, for cooperative conversions and /or cooperative start-ups.

The short timeline for the New Era conversion also limited the degree to which The Working World and the Center for Workplace Democracy were able to prepare worker-owners for cooperative ownership, according to Martin and Wong. There is interest in resuming training sessions now that the initial start-up pressures have begun to lighten.

Management has proven to be another challenge for New Era thus far. Because the cooperative started up without experienced managers, staff from The Working World took the lead in "filling holes" and completing administrative tasks with which the factory floor workers were unfamiliar. Brendan Martin, for example, was voted in as factory floor manager, and is currently (as of summer 2014) acting in the role. The decision about whether or not to bring in outside management once New Era becomes profitable enough has become an internal debate for New Era and The Working World. On the one hand, New Era needs workers who can take on office management roles, which the current worker-owners are not equipped to do; but on the other hand, the strong sense of ownership felt by current worker-owners over the cooperative may be jeopardized by bringing in outside management if not carefully handled.

Key lessons / effective practices

The New Era Windows conversion has been widely heralded by the media as a success story of workers winning a battle against predatory management, and for good reason. Against tremendous odds, New Era has been able to transform a massive, unforeseen lay-off into an opportunity to build secure jobs and a company that is responsive first and foremost to its workers.

Several factors have been integral to New Era's continued success in converting to / starting up a worker cooperative. First, the importance of The Working World's support as investor, advisor, and incubator to New Era cannot be overstated. In addition to providing the initial investment necessary for New Era to purchase the former Republic factory, staff members from The Working World have literally been on the factory floor alongside New Era worker-owners nearly every day since the conversion began in 2012. The decision of the three union members who conceived of the cooperative idea to seek this kind of skilled outside help has proven invaluable in facilitating New Era's conversion process.

Equally important in ensuring New Era's success thus far has been the strong leadership exhibited by the three union members responsible for driving the conversion forward. In addition to launching the conversion process, the original three union members took charge of recruiting additional worker-owners. The fact that the founding New Era worker-owners were members of the United Electrical Workers Union doubtless paved the way for the conversion as well by providing a built-in sense of collective will and trust amongst the founders. Additionally, because the conversion rolled a group of unionized former Republic employees over into worker ownership at New Era, all of New Era's worker-owners had previous experience working in the window manufacturing industry; this minimized operations start-up costs and allowed the cooperative to focus on investing in cooperative ownership.

The strength of ownership that the New Era worker-owners feel over the company has also been identified by Brendan Martin and Steve Wong as a key contributor to the success of the cooperative's ongoing conversion. This has offset the company's early struggles with a lack of experienced management and with insufficient time for fundraising and for training.

TASTE OF DENMARK

Bakery

Oakland, CA

Date of conversion: August 8, 2010
Number of workers at time of conversion: 5
Number of workers as of summer 2014: 13
Conversion Type: Type IV

Based on review of news coverage surrounding the conversion, and limited conversations with Taste of Denmark staff at the bakery in the summer of 2014.

Background:

Taste of Denmark is a worker-owned bakery in Oakland, California. Taste of Denmark was co-founded in 2010 by the ex-employees of Neldam's Bakery, which closed suddenly in 2009, and the owners of the building in which Neldam's was located.

Why it became a coop

In July of 2009, 80-year old Neldam's Bakery unexpectedly and permanently shut its doors. Though Neldam's recession-related financial troubles had been well known for some time, few expected the closure of the bakery, which was widely considered an institution of the Oakland cultural landscape.[113] The bakery's employees, many of whom had worked together at the bakery for decades, were told about the closure just two days before Neldam's was shuttered.

Neldam's closure was a major blow not only to its long-term employees, but also to the owners of the building in which the bakery was located. The building owners, Sukhee and Kevin Yoo, did not want the space standing vacant, and decided to approach three former employees of Neldam's to ask if they would be interested in starting a worker cooperative bakery in Neldam's old space.

The worker cooperative model offered several advantages for re-starting the bakery. For the former employees, worker ownership provided a way to not only get back the jobs that they had held for decades, but also to ensure that their jobs would be secure, long-term investments, under no one's control but their own. For the Yoos, offering the former Neldam's employees an ownership stake was a greater incentive for them to come back and re-start the bakery, giving the start-up plan a greater chance of success. Additionally, the Yoos recognized that restructuring the bakery as a worker cooperative would also likely incentivize workers to "put more passion into the bakery" than they might as non-owners.[114] Furthermore, the cooperative model's emphasis on workplace democracy and investment in the community fit well with the Yoos' conscientious vision for the new company, which is now detailed in Taste of Denmark's mission statement.[115]

113 Lucchesi, Paolo. "Ex-employees to resurrect Neldam's Bakery under a new name, new ownership." Inside Scoop SF. August 5, 2010.
114 Fetini, Alyssa. "The Late Neldam's bakery is reborn, with workers in charge and treats as diverse as Telegraph Ave." Oakland North. September 11, 2010.
115 Workplace democracy and community investment are two of the ICA's cooperative principles, http://ica.coop/en/whats-co-op/co-operative-identity-values-principles. Taste of Denmark's mission statement is available on the company's blog, http://tastedenmark.wordpress.com/about/.

→ Taste of Denmark

Type IV Conversion

Conversion logistics

Sukhee and Kevin Yoo and three former employees of Neldam's began the process of re-launching the bakery as the cooperatively-owned Taste of Denmark several months after Neldam's closed in 2009. Taste of Denmark officially became a cooperative on August 8, 2010, and opened for business in September 2010. Thirteen of Neldam's former employees soon joined Sukhee and Kevin Yoo at the Taste of Denmark cooperative.[116]

The financing for Taste of Denmark's start-up came from equity investments from the new worker-owners, along with investments from several entrepreneurs from Oakland's Koreatown and from relatives of many of the worker-owners.[117]

Coop logistics

Taste of Denmark's staff is comprised of worker-owners and non-owner-track employees.

The cooperative's socially and environmentally conscientious business model is illustrated in its mission statement:

> Taste of Denmark is a worker-owned co-op serving the community. Our goals include, but are not limited to:
>
> - *Buying goods from local collectives and other local businesses whenever possible*
> - *Providing our customers with the best possible service*
> - *Providing Taste of Denmark's Cooperative's workers with a livable wage*
> - *Creating a nonhierarchical work space based upon respect, mutuality and cooperation*
> - *Supporting fair labor practices*
> - *Composting all in-store green wastes; recycling, reducing and reusing resources whenever possible*
> - *Creating a diverse, non-discriminatory multilingual environment*[118]

Key lessons / effective practices

Forming a cooperative from a partnership between veteran bakery employees and the owners of the building that housed the bakery proved to be a smart move for Taste of Denmark. Not only did the cooperative avoid the added task of finding a suitable ocation, but the veteran employees brought with them their decades of expert knowledge about how to run the bakery. Additionally, because Taste of Denmark was able to literally fill the hole that Neldam's closure had created, the new cooperative instantly gained the considerable client base that Neldam's had accumulated over the course of 80 years.

116 Fetini, "The Late Neldam's bakery is reborn, with workers in charge and treats as diverse as Telegraph Ave." https://oaklandnorth.net/2010/09/11/the-late-neldams-bakery-is-reborn/

117 ABC News. http://www.thenews.coop/32943/news/co-operatives/abc-news-profiles-cooperatively-owned-taste-denmark-bakery-oakland-ca/

118 Blog of Taste of Denmark. http://tastedenmark.wordpress.com/about/

Conclusion

CONCLUSION

These case studies demonstrate different motivations for, and different ways that businesses can transition to worker -owned cooperatives. They also demonstrate some of the different ways that groups of employees have shaped how their new worker coop is set up and operates. Our hope is that by organizing them into different Types and presenting the 'Readiness Factors' that we saw over and over again, that this set of case studies will serve more useful than any single case study could be on its own. We look forward to hearing your own stories about how you have put them to use, and what you found useful!

Appendices

→ **Appendix A**

APPENDIX A: RESEARCH APPROACH AND METHODS

We set out to understand what the success factors are for businesses that want to transition from private ownership to a worker-owned cooperative.

To do so, we interviewed individuals with significant experience in transitioning "conventionally-owned" businesses into employee-owned businesses, specifically worker-owned cooperatives. The first group we interviewed includes individuals who are current or former worker-owners in worker cooperatives to collect first-hand perspectives on what key factors contribute to a successful worker cooperative conversion, and to unpack the internal dynamics of past conversions. We also interviewed individuals who work in organizations that develop or act as advisors to employee-owned businesses because their experiences with multiple worker ownership conversions—including ones that considered or started down the path to conversion but didn't complete—allowed them to comment in general terms about elements of successful conversions.

We asked those we interviewed to recount the story of the employee-ownership conversion in which they had been involved. We encouraged them to emphasize whatever pieces of the conversion they found most important, and suggested that each interview loosely focus on how and why the decision was made to convert the business into an employee-owned structure; the most successful and least successful strategies used to realize the conversion; and the key lessons learned during the conversion process.

In addition to the case studies we compiled directly through interviews, we also present and analyze case studies compiled from secondary-source information including news articles, academic papers, and reports about businesses that have converted to worker ownership over the past several decades, in order to also draw out key learnings from the experiences of these businesses.

Interviews completed

Current or former worker-owners of worker cooperative businesses

- Jennie Scheinbach, founder and worker-owner of Pattycake Bakery in Columbus, OH
- Dan Rosenberg, founder and worker-owner of Real Pickles in Greenfield, MA
- Adam Trott, current worker-owner of Collective Copies in Amherst, MA
- Angie Gregory, founder and worker-owner of Simple Diaper & Linen in Holyoke, MA
- Kate Sassoon, co-founding worker-owner of Local Flavor Catering in the San Francisco Bay Area, CA
- Kevin Schmidt, co-founding worker-owner of Center Point Counseling in Viroqua, WI
- Joani Blank, founder and former worker-owner of Good Vibrations in the San Francisco Bay Area, CA
- Blake Jones, founder and worker-owner of Namaste Solar in Boulder, CO

Employee-owned business developers / advisors

- Corey Rosen, founder and Senior Staff Member of the National Center for Employee Ownership in Oakland, CA
- Don Jamison, co-founder and Executive Director of the Vermont Employee Ownership Center in Burlington, VT
- Adam Trott, Staff Developer at the Valley Alliance of Worker Co-operatives, Western Massachusetts and Southern Vermont
- Mark Spracklandd, Executive Director of Independent Retailers Shared Services Cooperative in Maine
- Rob Brown, Director of the Maine-based Business Ownership Solutions program at the Cooperative Development Institute. CDI operates throughout New England and New York as the USDA-designated Northeast Center for Cooperative Business Development.
- Brendan Martin, Founder and Director of The Working World in Chicago, IL
- Steve Wong, Communications and Investment Agent at The Working World in Chicago, IL

→ Appendix B

APPENDIX B: CASE STUDY BUSINESS INDUSTRIES, SIZE, LOCATION, AND CONVERSION DATES

Industry (by 2-digit NAICS code)

Construction (NAICS 23)

- Big Timberworks – *Design / build; timberframe construction*
- Namaste Solar – *Solar energy design & installation*

Accommodation and food services (NAICS 72)

- Pattycake Bakery – *Vegan bakery*
- Taste of Denmark – *Bakery*
- Local Flavor – *Catering*

Manufacturing (NAICS 31-33)

- Collective Copies – *Printing, photocopying and duplicating services*
- New Era Windows – *Window manufacturer*
- Real Pickles – *Fruit & vegetable canning / pickling*
- Select Machine – *Specialty parts manufacturer*

Retail Trade (NAICS 44-45)

- Simple Diaper & Linen – *Diaper & linen cleaning & delivery service*
- Island Employee Cooperative – *Supermarket, pharmacy, variety store*

Health Care and Social Assistance (NAICS 62)

- Center Point Counseling – *Mental health counseling*

Company Size (number of workers as of 2014)

1-9 workers

- Simple Diaper & Linen: 3 workers (2 worker-owners)
- Local Flavor: 4 worker-owners, 2-8 non-owner employees (depending on demand)

10-19 workers

- Select Machine: 10 workers
- Big Timberworks: 11 worker-owners
- Center Point Counseling: 12 worker-owners
- Collective Copies: 12 worker-owners
- Taste of Denmark: 13 workers
- Pattycake Bakery: 15 workers (5 worker-owners)
- Real Pickles: 18 workers (8 worker-owners)
- New Era Windows: 19 workers (15 worker-owners)

20-49 workers

- None

50+ workers

- Island Employee Cooperative: 60 workers (45 worker-owners)
- Namaste Solar: 90 workers (46 worker-owners)

Location

Northeast

- Collective Copies – Amherst & Florence, MA
- Island Employee Cooperative – Stonington, ME
- Real Pickles – Greenfield, MA
- Simple Diaper & Linen – Holyoke, MA

West

- Big Timberworks – *Gallatin Gateway, MT*
- Local Flavor – *San Francisco Bay Area, CA*
- Namaste Solar – *Boulder & Denver, CO*
- Taste of Denmark – *Oakland, CA*

Midwest

- Center Point Counseling – *Viroqua, WI*
- Pattycake Bakery – *Columbus, OH*
- New Era Windows – *Chicago, IL*
- Select Machine – *Kent, OH*

Conversion Date

1980s

- Collective Copies (1983)

1990s

- Big Timberworks (1999)

2000-2010

- Select Machine (September 2006)
- Taste of Denmark (August 2010)

2010-2014

- Namaste Solar (January 2011)
- Simple Diaper & Linen (2011)

→ Appendix B

- Center Point Counseling (December 2011)
- New Era Windows (2012)
- Pattycake Bakery (May 2013)
- Real Pickles (May 2013)
- Local Flavor (January 2014)
- Island Employee Cooperative (June 2014)

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