EMPLOYEE OWNERSHIP FOR MANUFACTURERS:
A tool to create resilient supply chains and quality jobs

{ Project Equity }

A note from the authors

This paper grows out of our understanding that employee ownership is an underutilized strategy to address several of the biggest challenges facing American manufacturing today. As the entire sector faces an increasingly fragile supply chain, a growing workforce shortage, and a wave of retiring owners, we see an opportunity to reinvest in the small manufacturers that have created quality jobs and driven our economy for so long. We see a chance to sustainably preserve these businesses, create better and more attractive jobs, and secure the supply chain. As our work with small businesses across the country has shown us time and again, giving employees the opportunity to share in ownership and decision making is good for those workers, good for those businesses, and good for the economy as a whole.

While the challenges facing manufacturers today are very well documented, we do not know of any existing work that presents employee ownership as a strategy to address the sector's supply chain, workforce and succession planning challenges. Our hope is that by connecting this pressing challenge with this powerful solution, and by highlighting the growing number of cases in which employee ownership has been successfully used to strengthen small- and medium-sized American manufacturers, key stakeholders will take steps to incorporate employee ownership into their toolkits to support small- and medium-sized manufacturers across the country.

Emily Bergstrom and Max Chaoulideer

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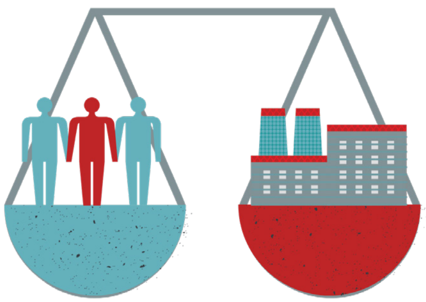
Introduction

Ben Moe, employee-owner at Hummingbird Wholesale. Charlie Tilt sold part of his company Hummingbird Wholesale to his employees with the help of Project Equity and OMEP in 2023.

After spending much of his career building his food manufacturing company into a thriving 50-employee business, Charlie Tilt was nearing retirement age and considering his options. He cared deeply about the culture and legacy of Hummingbird Wholesale, the company that he had spent much of his career building. At the same time, he needed to diversify assets that were tied up in the business and wanted to begin transitioning to retirement. Charlie had a few initial conversations with traditional M&A practitioners, but he wasn't excited about the options available for his business. He was not interested in selling to a competitor or a private equity firm, who he feared would undermine what he valued most about the company: the culture and the people who helped him grow it. Even after making it through the Great Recession and the COVID-19 pandemic, this lack of a succession plan threatened the legacy of his business, the customers he served, and the quality jobs his workers relied on.

Charlie's experience is far from unique: in the US today, **60% of manufacturing businesses have owners 55 or older**, most of whom do not have a succession plan. Project Equity estimates that **nearly 150,000 small- and medium-sized manufacturing businesses** in the U.S. are owned by retirement age individuals, threatening nearly **3 million jobs**.

If unaddressed, this "Silver Tsunami" of retiring business owners will worsen the two greatest challenges facing American manufacturers today: supply chain fragility and widespread labor shortages. In the National Association of Manufacturers' (NAM) Outlook Survey, more than 75% of manufacturers cited attracting and retaining talent as their primary business challenge and 65% named supply chain disruptions as their next greatest concern. Labor shortages have long plagued the industry with some estimates showing that, in the past 10 years, 2.4 million unfilled manufacturing jobs have cost our country over $2 trillion dollars. We believe that this "Silver Tsunami" of owner retirement risk adds another under-measured layer of supply chain and workforce instabilitiy to an already fragile system.



Employee ownership offers a succession planning strategy that can both strengthen our domestic supply chains and address the manufacturing workforce recruitment and retention challenges by creating more resilient businesses and higher quality jobs.

Employee ownership structures are versatile

Employee ownership is increasingly becoming the best succession plan for companies wanting to sustain their legacy and receive a fair price for the business they worked hard to build. There are several paths that lead to employee ownership, and choosing the best one depends on company size and business goals. Employee Stock Ownership Plans (ESOPs) and worker cooperatives have been around for decades. Employee Ownership Trusts are a newer structure in the U.S. Each model of employee ownership has some key characteristics that serve different companies' needs. ***See page 4*** for more details and read about the ***three flavors of employee ownership***, to learn more.

Charlie had engaged the Oregon Manufacturing Extension Partnership (OMEP) on a project and discussed his retirement goals with his consultant. She directed him to Project Equity, a nonprofit leader in the employee ownership field. After a few free consultations, Oregon MEP hired Project Equity as a subcontractor to guide Charlie through his exploration of an employee ownership transition, ultimately resulting in a business sale in early 2023. **With the support of OMEP and Project Equity, Hummingbird was able to use employee ownership to meet Charlie's retirement goals and preserve the legacy of his life's work, build lasting quality jobs for all the employees and ensure the continued supply of their quality products to all their customers.**

Hummingbird is one of an increasing number of manufacturers that are using employee ownership to address retirement, workforce and supply chain challenges all at once. There are over 6,500 employee-owned firms in the U.S., many of which are in the manufacturing industry. Manufacturing already represents 1 in 5 Employee Stock Ownership Plans (ESOPs), the most common form of employee ownership in the U.S.

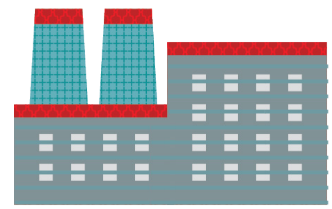
A 2022 McKinsey report on creating high-quality jobs cited employee ownership as a key tool for increasing recruiting and retention in the industry. And the Commerce Department, a key support for U.S. manufacturing, just launched its first Job Quality Toolkit in 2022, which incorporates employee ownership as one of its strategies. Because of this, stories of employee ownership bolstering key manufacturers are becoming increasingly more common (to name a few: S&C Electric, Optimax, Folience, Adams and Chittenden).

Charlie Tilt sold part of his company Hummingbird Wholesale to his employees with the help of Project Equity and OMEP in 2023.

Beyond the importance of addressing these challenges to American manufacturing itself, it is critical for the future of our economy as a whole: manufacturing is key to building good jobs and a resilient American economy. The sector generates 12% of U.S. GDP (nearly one-quarter when including purchasing value added), and employs nearly 1 in 10 American workers (over 14 million). Beyond its scale, manufacturing also plays a vital role in public health and national security, as the COVID-19 pandemic and recent geopolitical crises have made abundantly clear. In addition to producing key goods, manufacturing has also been a source of quality jobs that bolster a skilled and upwardly mobile workforce: workers in the sector earn nearly 9% more than the average U.S. wage and the industry has long been acknowledged as the backbone of the American middle class.

As the Silver Tsunami threatens to widen the workforce shortage and further destabilize supply chains, it is critical that every manufacturer has the knowledge and tools to access the power of employee ownership.

Employee ownership structures are versatile

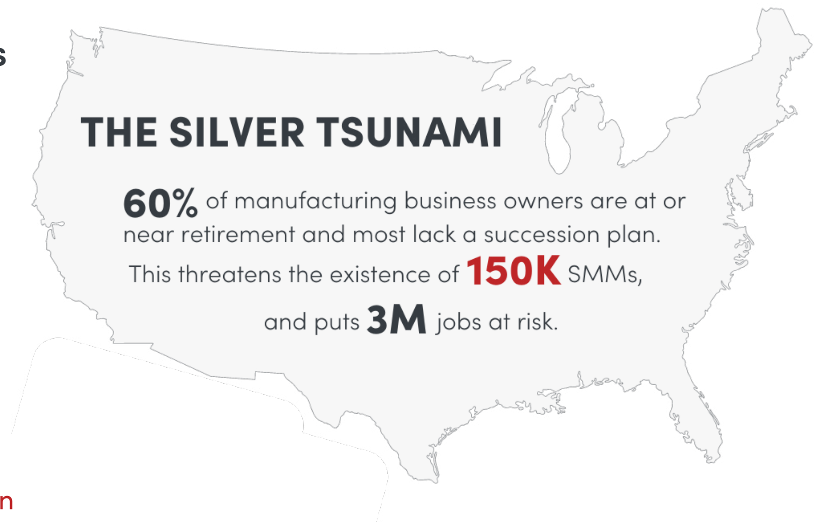
	Worker Coops	EOTs	ESOPs
Structure	Worker cooperatives are 100% employee-owned and are governed by the people who work there.	Employee Ownership Trusts (EOTs) preserve the business over the long term for the benefit of employees.	Employee Ownership Stock Option Plans (ESOPs) are qualified retirement plans used to transfer all or part of the company's shares.
Size	Ideal for profitable businesses with 10+ employees. 	Flexible model adaptable to businesses of any size with 10+ employees. 	Best for businesses with 40-50+ employees and $2M in EBITDA. 
Benefits	Employee-owners earn profit sharing via patronage, based on hours worked. They pay a nominal buy-in. Lower set-up and administration costs.	Employees receive a share of annual profits. Employees don't pay for their ownership benefits. Lower set up and administration costs.	Employees earn their shares as a retirement benefit. More expensive to design and administer, but significant tax benefits.
Examples	**Adams and Chittenden** (scientific glass) **Opportunity Threads** (textiles) **Heartwood Cooperative** (sawmill, woodworking, and paper machinery) **Isthmus Engineering & Manufacturing** (contract manufacturing)	**Hummingbird Wholesale** (packaged foods) **Optimax** (magnetic & optical media)	**W.L. Gore & Associates** (GoreTex fabrics) **Amsted Industries** (industrial components) **Holden Industries** (packaging and safety) **MEC** (contract manufacturing)

Employee ownership is an important tool to mitigate supply chain vulnerabilities and address the workforce shortage

Employee ownership offers a strategy for the manufacturing sector to anticipate the threat of the "Silver Tsunami" while addressing the sector's workforce shortage and creating a more resilient supply chain. Employee ownership does this by increasing business resilience, offering a succession plan that benefits all stakeholders, improving worker retention, investing in worker training and improving job quality.

Challenge: Shoring up supply chain vulnerabilities

When most Americans think about manufacturing, they picture a large plant with hundreds of workers. This is not, however, what most U.S. manufacturing actually looks like. As industry insiders know, the vast majority of manufacturing firms are small – in fact, very small. According to the Bureau of Labor Statistics, nearly 75% of American manufacturing firms have fewer than 20 employees.



The prototypical American manufacturing firm is more like a 15-employee machine shop than a 500-employee automotive plant. This has important repercussions for the complexity and vulnerability of supply chains: large consumer-facing manufacturers rely on hundreds, often thousands, of small- and medium-sized suppliers. The average American automotive plant, for example, relies on over 18,000 total suppliers, over 98% of which are small or medium sized.

Our manufacturing sector rests on a delicate supply chain whose stability depends on the continued success of thousands of very small companies. Because of this, the threat of widespread manufacturing owner retirement is a threat to nearly every link in our supply chains.

Solution: Employee ownership increases business resilience

A consistently documented benefit of employee ownership is improved company longevity. A study comparing ESOPs to comparable non-employee owned companies over a 10 year period found that the ESOPs were twice as likely to avoid bankruptcy and more than 1.5 times as likely to avoid closure for any reason. A report analyzing firms during the COVID-19 pandemic found that employee-owned companies were between 3 and 4 times more likely to retain employees during the pandemic. An earlier study showed that companies with only 5% employee ownership rates or higher saw a 24% drop in their rate of closure over a 13 year period. Unsurprisingly, these patterns led to improved resiliency during the pandemic: the Democracy at Work Institute's 2021 report on worker cooperatives nationwide found that 80% of worker coops remained open for the majority of the pandemic thanks to adaptable business models and strong community support.

Tom Adams and George Chittenden sold their company Adams & Chittendam Scientific Glass to their employees with the help of Project Equity in 2019.

Adams and Chittenden Scientific Glass, a custom scientific and industrial glass manufacturer based in Berkeley, CA, has been providing specialized equipment for 30 years to clients across the globe. Despite their success and importance to this market, founders Tom Adams and George Chittenden didn't see a path forward for their business after their retirement. As Tom put it, "**When it came time for us to think about succession, the thought of finding someone to buy us out seemed highly improbable. We have a very distinct niche in the manufacturing world, and there wasn't any obvious path forward.**" After discovering Project Equity, they were able to sell their business to their employees in 2019 by ***forming a worker cooperative***. Thanks to this new sustainable ownership structure, Adams and Chittenden has managed to continue operations through the pandemic.

Even as George and Tom plan for their retirement, the new employee-owners plan to continue the business's legacy of making high quality glass products far into the future.

Not only are the majority of manufacturing companies small with retirement-age owners, but many of these owners do not have a plan for exiting their business. The Exit Planning Institute's State of Owner Readiness Report found that **49% of owners surveyed did not have a succession plan or exit plan at all, and that 34% had a plan in mind but it is not documented or shared with anyone else.** More recent state-based research has shown the same trends across each state studied. Making the situation even more fragile is that these small manufacturing businesses are especially difficult to sell. Small manufacturers often have key employee risk, customer concentration, high working capital needs, low to middling margins, a narrow competitive advantage and significant cyclicality. For manufacturers who tend to have a lot of capital tied up in machinery and materials, selling the building, material inventory and machinery can often be a more lucrative prospect than selling the business as a going concern.

While this decision to liquidate may be economically efficient for an owner without other options, it presents significant losses to all stakeholders: the owner loses their legacy, a link in one or more supply chains is broken, employees lose their jobs, and local governments lose their tax base.

The allure of liquidation for small manufacturers

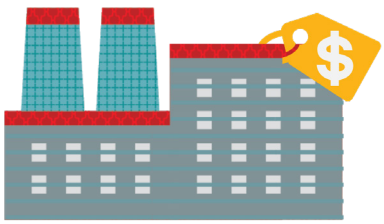
For many small manufacturers, unlike in other industries, it's often easier and just as profitable to close and sell their equipment and building as it is to find a buyer and sell the business as a going concern.

Gregg Dight of Equipment Appraisal Services sees this story play out every week. He has been valuing manufacturing businesses and equipment for over 25 years, traveling across the country to help owners who are considering buying or selling a business, applying for financing or working on other capital projects to understand the value of their firm's machinery. While every small manufacturing firm is different, Gregg explains that it's common to see a manufacturer with 10-20 employees and a few dozen pieces of equipment in their shop, and typically worth somewhere between several hundred thousand to $1 million.

There is a robust secondary market for used manufacturing equipment and few buyers with access to capital interested in the businesses as going concerns, so small manufacturers are even more likely than other businesses to liquidate and close than sell and continue under new ownership.

Solution: Employee ownership offers a succession plan that benefits all stakeholders

When employees become the buyers, the situation is quite different. Because of their understanding of the business, their commitment to its continued success and their relationship with customers and other supply chain players, prospective employee-owners usually understand the full value of maintaining the company better than any other buyer. Because of this, employee ownership transitions offer a market sale price on par with a sale to an independent buyer with numerous added benefits: a known and usually trusted buyer, a more flexible transaction, much more control over the timeline, the option of preserving partial ownership, and preserving the legacy of the business. **By offering an exit strategy for owners that avoids all of the losses associated with business closure, employee ownership acts as a critical tool to ensure a more resilient business, and therefore a more resilient supply chain.**



Sam Merkel, employee-owner at Adams & Chittendam Scientific Glass. Tom Adams and George Chittenden sold their company to their employees with the help of Project Equity in 2019.

How employee ownership transitions work

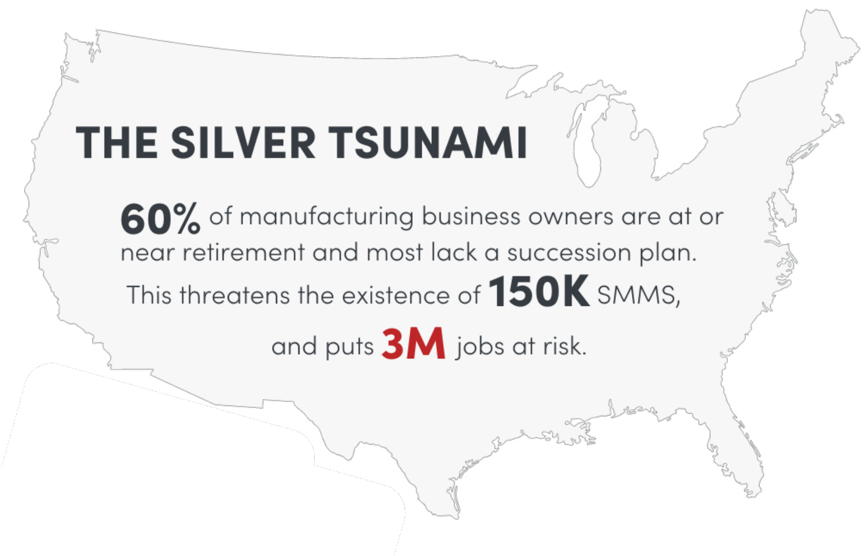
Employee buyouts do not depend on financing from the employees. Instead, the company takes out a loan based on the projected future cash flows of the business. Employee ownership sales are market rate, meaning they are typically equivalent to selling to an individual using a bank loan. Unlike traditional sales, employee ownership conversions can often provide more flexibility for owners on deal structure and exit timeline.

Once a business owner decides that gaining partial or full liquidity through employee ownership is a good fit for both their personal goals and the goals of their company, Project Equity's professional consultants help guide the employee ownership buyout every step of the way — from establishing a price and terms to arranging financing for the transaction and supporting employees after the transition. We work closely with owners to make the process feel similar to a traditional business sale, while leaving room to be as involved in the details of the future employee ownership structure as desired.

Challenge: Addressing the workforce shortage

Manufacturing has long been sounding the alarm that there are many more jobs available than there are skilled workers willing to fill them. This shortage has made it increasingly difficult for manufacturers to recruit and retain workers, further increasing business instability.

The Manufacturing Institute, in partnership with Deloitte, has been studying this workforce shortage and skills gap for over 20 years. The pandemic has only widened the gap between workforce need and availability, with new data predicting that over half of the 4 million manufacturing jobs to open between 2020 and 2030 will go unfilled due to a lack of qualified skills.



By putting almost 150,000 small- and medium-sized manufacturers at risk of closing, the Silver Tsunami threatens to compound this workforce challenge by jeopardizing 3 million manufacturing jobs.

Dave Tenny co-founded Firstar Precision Corp in Brunswick, OH, a manufacturer of precision machined components. In 2021, he sold his company to ***Empowered Ventures***, an employee-owned holding company.

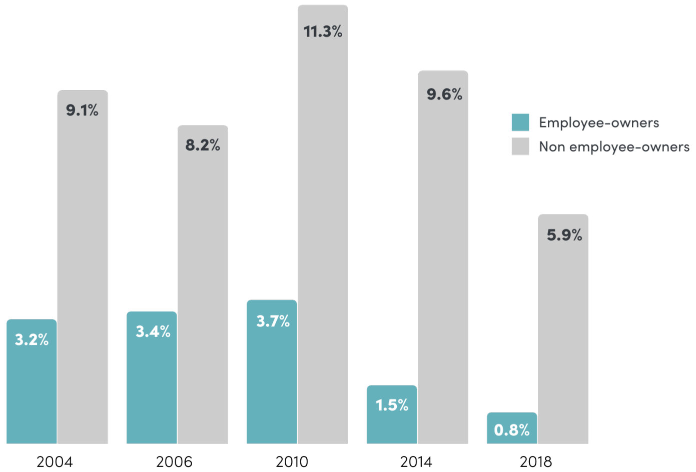
He shared how becoming employee-owned has helped with recruiting:

"In 2021 when things couldn't get much worse, we were able to add 10 people. That's going from 25 to 35 employees, so that's a significant bump. Being able to share that [employee ownership] story, what this means beyond the other compensation, the job – no question, it really sold a lot of the people that we were aggressively pursuing."

Solution: Employee ownership improves worker retention

Employee ownership stabilizes jobs as much as it does businesses. Employee-owners consistently show longer job tenures than employees at comparable traditionally-owned businesses. This is particularly true among young workers: a longitudinal study of early career workers conducted by the National Center for Employee Ownership in 2018 found that the median job tenure for employee-owners was 5.1 years, compared to the 3.5 year average for employees at non-employee-owned businesses. Employee ownership also improves job security by significantly reducing layoffs. This is most evident during sudden economic downtowns: during both the 2001-02 and 2007-09 recessions, employee-owned businesses preserved jobs at much higher rates (see chart; see our report for more detail). Recent data suggest similar trends during the COVID-19 pandemic: a recent study found that majority ESOP businesses were four times more likely than other businesses to preserve jobs during the height of the pandemic. Another study found that between 2019 and 2020, ESOPs retained or hired an average of six more employees than comparable non-employee-owned companies.

Layoffs and employee ownership



Source: "Does employee ownership improve performance?", Douglas Kruse (2018)

EMPLOYEE-OWNED COMPANIES RETAINED MORE EMPLOYEES DURING THE PANDEMIC

JAN TO AUG 2020

*Source: **Employee-Owned Firms in the COVID-19 Pandemic**, Employee Ownership Foundation and Rutgers University*

Solution: Employee ownership translates to investments in worker training and job quality improvements

Because employee ownership places key decisions in the hands of those who are most invested in and familiar with the day-to-day workings of the business, workers at these businesses consistently report noticeable increases in job quality and training. A recent study found that 69% of employee-owners had received formal training in their workplace in the past year (compared with just 42% for non-owners), with another report on worker cooperatives linking worker ownership closely with improved skill and leadership building. It is well documented that workers at employee-owned businesses see job quality improvement in a variety of other ways, including higher wages and greater retirement savings. Furthermore, it reduces income and wealth inequality, especially across race and gender, in workplaces.

S&C Electric is an employee-owned company that makes fuses, switches and other key components used in the electrical grid. According to their CEO, Anders Sjoelin, being an employee-owned firm helps engage and retain employees.

As Anders is quoted in the ***Chicago Sun Times***, "I see a deeper commitment to the company. I see people are more invested in S&C. They care and understand that its success is their success."

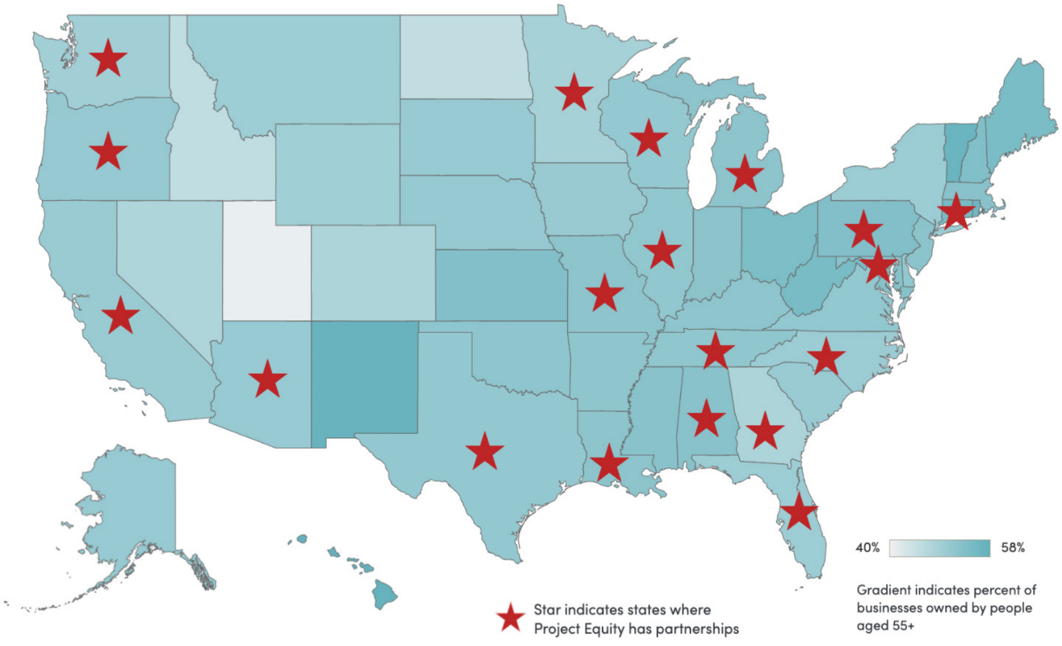
Ali Kamburov, employee-owner at Adams & Chittendam Scientific Glass. Tom Adams and George Chittenden sold their company to their employees with the help of Project Equity in 2019.

How Project Equity partners to support manufacturers

Project Equity is a national leader in the movement to harness employee ownership to maintain thriving local business communities, honor selling owners' legacies, and address income and wealth inequality. Project Equity works with partners around the country to raise awareness about employee ownership as an exit strategy for business owners, and as an important approach for increasing employee engagement and wellbeing. We also provide hands-on consulting, support and financing to companies that want to transition to employee ownership, as well as to the new employee-owners to ensure that they, and their businesses, thrive after the transition.

Collaboration is part of Project Equity's DNA. We partner with MEP Centers, closely held business advisors, local and state governments, Workforce Development Boards, and many other public and private sector partners. Working with organizations that owners trust is a key component of our business engagement strategy.

Project Equity has partnerships across the country



Spotlight

Project Equity partners with OMEP to preserve jobs and build business resilience with employee ownership

The Oregon Manufacturing Extension Partnership (OMEP) is a federally funded business support center serving small- and medium-sized manufacturers across the state. OMEP is part of the **MEP National Network** of Centers, located in each of the 50 states as well as Puerto Rico, which provide manufacturers with specialized services and resources to create and retain quality jobs and remain competitive in a rapidly changing sector.

By partnering with Project Equity, OMEP has taken an innovative approach by developing their employee ownership capacity to offer succession planning services. By expanding the range of tools they can offer their clients, OMEP has already preserved 50 manufacturing jobs in their community and has been better able to meet their goals of "creating and implementing business strategies, increasing operational efficiency, and solving workforce challenges" for their clients.

One of OMEP's longtime clients, founder and former owner of Hummingbird Wholesale Charlie Tilt, reflected on the value this partnership:

"Like many business owners, I was struggling to come up with an exit strategy that respected the effort I had put into the business over the years. [...] Through participation in Project Equity's feasibility study, I was able to define my objectives and choose a form of employee ownership that I am excited about and think will be a great fit. The partnership between Oregon MEP and Project Equity has provided the support and confidence I needed to make difficult transition decisions."

What partnering with Project Equity looks like

Our process is customized to the needs of each organization, but typically follows these steps:

Step 1: Project Equity educates staff

- We deliver a training session for staff to explain how employee ownership works and describe potential clients who might be a good fit for a referral. This could be an all-staff webinar, a lunch and learn, or an on-site training.
- We also guide a similar training session for consultants or other ecosystem partners like bankers, accountants and financial advisors who work with the organization.

Step 2: Project Equity educates partner's clients

- We provide marketing materials and content for a webinar hosted by the partner organization. Project Equity can run the setup and behind the scenes of the webinar or the partner can host on their own platform.
- We provide free consultations for all clients. They can be referred by the partner or contact us directly on our website.
- We work with partners to determine the optimal structure for client relationships based on their needs, funding sources and longer term objectives.

Step 3: Project Equity develops staff expertise

- We train the partner organization staff/consultants to provide an employee ownership feasibility study.
- We create an employee ownership continuing education or training program for staff and technical assistance providers in your network, for example accountants, attorneys, lenders, brokers and exit planners.

Acknowledgements

Thank you to everyone whose insight and support made this paper possible. In particular, we owe so much to the amazing team at the Oregon Manufacturing Extension Partnership; their willingness to innovate and to share their industry expertise planted many of the seeds for this project. One of those seeds came in the form of Charlie Tilt and his food manufacturing business, Hummingbird Wholesale. We are so grateful to have had the opportunity to work with Charlie and the entire team at Hummingbird throughout their transition to an Employee Ownership Trust, an exciting and innovative employee ownership model. The success of their transition has been a key inspiration for us throughout the development of this paper. Last but certainly not least, we owe so much to Mike Vanier (VP of Client Engagement at OMEP), Michelle Fusak (VP of Finance and Operations at OMEP) and Matthew Fieldman (Executive Director, America Works at MAGNET) for their willingness to share their wisdom and to provide feedback on drafts of this paper and to Chad Moutray (Chief Economist, National Association of Manufacturers, and Director, Center for Manufacturing Research, The Manufacturing Institute).

Courtney Kemp, Project Equity's Senior Manager of Client Services, collaborates with Charlie Tilt and Stacy Kraker of Hummingbird Wholesale during their transition.

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