



SAINT PAUL, MN

SMALL BUSINESS CHALLENGES AND THE OPPORTUNITY OF EMPLOYEE OWNERSHIP



Pictured above clockwise: employee-owners of Happy Earth Cleaning, Melvin Carter, Mayor of Saint Paul, MN, Mike Elliott, former Mayor of Brooklyn Center, MN and employee-owners of Improve Group

As Saint Paul's economy rebuilds from the COVID-19 pandemic, employee ownership offers a powerful tool to create quality jobs, narrow the racial wealth gap and create a more resilient local economy. This report analyzes data on the small business retention risk and the current business landscape for employee ownership in Saint Paul.

Small businesses in Saint Paul face multiple challenges

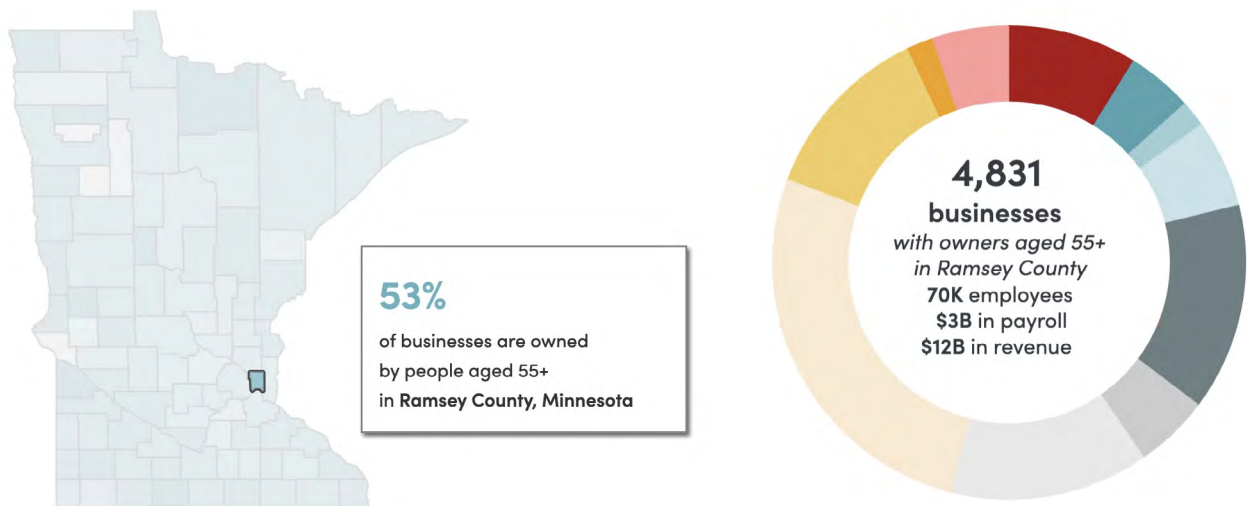
THE SILVER TSUNAMI OF RETIRING OWNERS

Businesses across the country are facing an unprecedented threat: **over half** of all privately held businesses have owners 55 or older. Project Equity has analyzed the potential impact of this Silver Tsunami on communities across Minnesota.

In Ramsey County, 53% of businesses are owned by individuals at or near retirement age, representing:



Baby boomers own half of the privately held businesses with employees in Minnesota

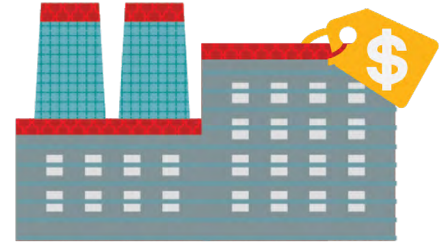


Industries			{ Project Equity }
<ul style="list-style-type: none"> ■ Accommodation & food services ■ Admin & waste management ■ Arts & entertainment ■ Construction 	<ul style="list-style-type: none"> ■ Health care & social assistance ■ Manufacturing ■ Other industries ■ Professional services 	<ul style="list-style-type: none"> ■ Retail trade ■ Transportation & warehousing ■ Wholesale trade 	

THE BUSINESS RETENTION RISK

Without a viable exit plan, these local businesses and jobs are at risk. According to an Exit Planning Institute [report](#), **almost all business owners surveyed in Minnesota (98%) said that having a transition strategy was important for them and their business.** Yet, the majority of owners struggle to find a buyer. According to [BizBuySell](#), **only about one in five businesses listed for sale actually sell.**

As owners retire, this business retention risk can become an opportunity to create a more resilient local economy and quality jobs through employee ownership. By selling these businesses to their workers, owners can preserve their legacy and receive a fair market price for their business, while keeping businesses rooted locally, creating quality jobs and building pathways to asset and wealth building for workers.



THE IMPACT OF THE COVID-19 PANDEMIC

Job losses associated with the COVID-19 pandemic were not evenly distributed across demographics. According to [data](#) from the Minnesota Department of Employment and Economic Development, at the start of the pandemic, the three sectors most affected by the pandemic were accommodation and food service, retail, and healthcare. Together these industries employ 40 percent of BIPOC workers in the Minneapolis - Saint Paul region. While many of these jobs have been regained, it is critical we build a blueprint to protect these jobs and businesses against future crises.

The Employee Ownership Foundation [found](#) that, **during the 2020 COVID-19 business shutdowns, employee-owned companies were less than half as likely to lay off workers and six times more likely to say they expected to make a full recovery.**

Supporting frontline workers of color to become employee-owners could offer pathways to greater financial stability, wealth building and resilience. The following section outlines some of the benefits of EO for workers, businesses and local economies. For workers in particular, a key benefit of employee ownership is asset building. All three types of broad-based employee ownership (worker coops, Employee Ownership Trusts and Employee Stock Ownership Plans) enable employee-owners to build assets.

Employee ownership can address challenges

while closing the racial wealth gap and rebuilding local economies

WHAT DOES BROAD-BASED EMPLOYEE OWNERSHIP (EO) LOOK LIKE?

Broad-based employee ownership gives *all* workers who meet basic criteria the opportunity to become employee-owners. The most common forms of broad-based employee ownership are:



Employee Stock Ownership Plans

ESOPs are retirement plans that own all or part of a company on behalf of its employees



Worker Cooperatives

Wholly owned by the employee-owners, who share in profits and elect/ serve on Board of Directors



Employee Ownership Trusts

EOTs are a more customizable form of EO that can be adapted to incorporate democratic principles and profit sharing

IDENTIFYING BUSINESSES RIPE FOR EMPLOYEE OWNERSHIP (EO)

Employee ownership works across industries. Transitioning an existing business to EO is typically most successful when it meets the following criteria:

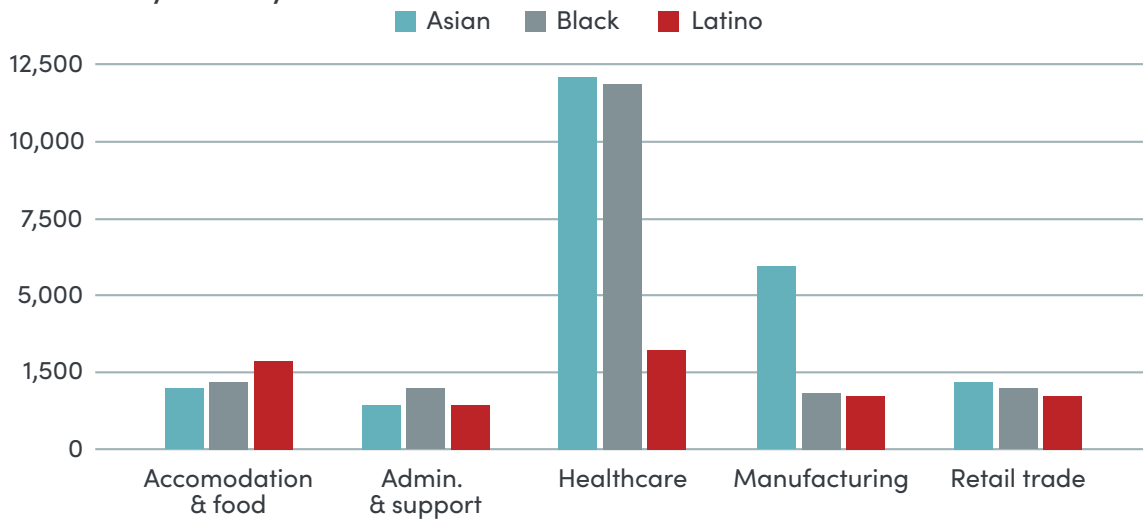
- ✓ **10 or more employees for worker cooperatives or EOTs**
40+ employees for Employee Stock Ownership Plan (ESOP) transitions
- ✓ **Profitable company**
In good financial health for the past 5 years
- ✓ **Proven track record**
Established business with 3 or more years of experience
- ✓ **Minimal debt**
To support the transaction

To assess which businesses in Saint Paul might be ready to explore employee ownership, Project Equity conducts research on legacy businesses. Using Dun and Bradstreet data, they look at the business's age, geography and industry. The resulting data shows that every neighborhood in the city has a number of legacy businesses that could be preserved through employee ownership. This illustrates opportunities for targeted outreach to industries and areas of the city with the greatest density of legacy businesses.

EO AS A STRATEGY TO CLOSE THE RACIAL WEALTH GAP

Employee ownership can provide pathways for asset and wealth building through business ownership for workers of color who may otherwise not be able to take on the risk or financial commitment of other forms of wealth building like home ownership or starting a business from scratch. Positively impacting workers of color through employee ownership requires a targeted strategy aimed at those businesses and industries that employ high concentrations of these workers and also meet the readiness factors for employee ownership.

Top 5 industries for Asian, Black and Latino workers in Ramsey County



Asian workers make up **40%** of the Healthcare and Manufacturing industries





Black workers make up **20%** of the Healthcare industry

Latino workers make up **14%** of the Accommodation and Food industry

THE BENEFITS OF EO

Transitioning legacy businesses to employee ownership can benefit many stakeholders in Saint Paul.

To begin with, **EO is good for business owners.** Transitioning to employee ownership gives selling owners greater influence on the timing and pacing of their exit and a strategy to preserve their legacy while receiving equity.

OPTIONS	 Preserve legacy	 Market value	 Tax benefits	 Retain employees
Sell to family members	✓	?	?	?
Acquisition	?	?	✗	?
Employee ownership	✓	✓	✓	✓
Close down operations	✗	✗	✗	✗

The true power of employee ownership to rebuild community wealth lies in its benefits to the **local economy, businesses and workers** after an owner exits.

EO is good for local economies

Preservation & creation of quality jobs

Employee-owned companies had **higher average employment growth** in the pre-recession period from 2006 to 2008 than the overall economy, as well as faster post-recession growth from 2009 to 2011 (Blasi, Kruse & Freeman 2017).



Local spending multiplier

Employee-owned companies are inherently locally owned and, as such, **circulate more money into the local economy**.

Increased civic engagement

Employee-owned companies are more civically engaged with **higher rates of volunteerism and higher voter turnout** (Blasi, Schlachter).

Reduced economic inequality

A 2019 study confirmed that people of color working in ESOPs have **substantially more wealth than their peers** nationwide (Boguslaw and Schur), indicating that employee ownership can help reduce the racial wealth gap.

EO is good for business

Lower turnover

Workers at employee-owned businesses have **46% longer job tenure** than their peers in firms that are not employee-owned (NCEO 2018).

Higher productivity

Employee-owned enterprises reported **productivity levels that were 9–19% higher** than levels in traditionally structured similar businesses (Lampel, Bhalla, Jha 2014).

Higher profits

Employee-owned firms have an **average profit margin almost 8.5% higher** than the average private firm (DAWI 2014).

Greater resilience

In 2020, during COVID business shutdowns, employee-owned companies were **less than half as likely** to lay off workers and **6 times more likely** to say they expected to make a full recovery (Employee Ownership Foundation/Rutgers study 2020).

EO is good for workers

Equal or better pay and benefits

Millennial workers at enterprises with ESOPs have **33% higher median wages** when compared to workers like them at similar companies with traditional ownership structures (NCEO 2017).

Enhanced job security and stability

During the Great Recession, worker-owners were **5 or more times less likely to be laid off** than workers who did not share in ownership (Rosen, Kurtulus & Kruse).

Increased assets and economic mobility

A recent survey of 8 successfully transitioned Project Equity worker cooperative clients showed a **20% increase in average wages**, with one business having shared **\$12,000–\$15,000 in profits** per worker in their first five years. Also, participants in a 2019 study reported median **retirement savings of \$215,000** in ESOP and 401(k) accounts, compared to **\$17,000** in median retirement savings for the average worker nationally. (Boguslaw & Schur 2019).



Employee-owners at Improve Group, a worker cooperative in Saint Paul, MN that transitioned in 2023 with help from Nexus Community Partners

EMPLOYEE OWNERSHIP IN ACTION: HAPPY EARTH CLEANING



Pictured from left to right: Jesse Dunbar and Marion Dunbar, former owners of Happy Earth, employee-owners: Zach Dennis, LA Luebbers, Tom Crouse, Jason Belden and Rachel Battles at Happy Earth.

After 20 years of being in management and customer service, Marion Dunbar was frustrated with the negative culture of the corporate world and needed something different. After listening to her concerns on one particular night in 2010, her husband Jesse decided to do something about it. He told her she should start her own cleaning company, and by morning he had bought the rights to Happy Earth Cleaning LLC. This decision led to a successful business with a mission of providing environmentally safe cleaning with a people-first culture.

In 2018, Marion and Jesse decided they wanted to move back to their hometown of Seattle, Washington. **They realized they would need to create a succession plan.**

Potential buyers were approaching them, but they had concerns about selling the business to an outside buyer. **Jesse and Marion valued their unique “people first” culture** that they had built in an industry that has been known to exploit their workers. They didn’t want the new owner to dismantle their culture.

Marion always envisioned turning the company over to her employees, and a worker-owned cooperative turned out to be the right vehicle in the end. **They transitioned to worker ownership in 2019 with support from Project Equity and Nexus Community Partners, and the City of Minneapolis Coop Technical Assistance Program (CTAP).**

The sale was financed locally through Shared Capital Cooperative, a national CDFI loan fund that provides financing to cooperative enterprises in collaboration with Project Equity through the *Accelerate Employee Ownership initiative*.

WHERE DO WE GO FROM HERE?

Using the data and stories in this report, leaders in Saint Paul can unlock the power of employee ownership to create a more resilient and equitable local economy. One of the greatest barriers to employee ownership at scale is awareness among business owners and business-serving organizations and advisors. **A variety of ecosystem players can contribute to advancing EO:**

Local government has the opportunity to support worker ownership in a variety of ways, summarized below. See the companion report, [*Municipal tools to support worker ownership in Saint Paul*](#), to learn more.

- Use local government's platform, programs, and policies to raise awareness and create enabling conditions for EO.
- Ensure access to affordable EO technical assistance.
- Ensure access to capital for EO transitions.
- Deepen internal capacity to advance EO.
- Create incentives for EO.



Evan Edwards, Chief Executive Officer, Project Equity and Melvin Carter, Mayor of Saint Paul, MN

Business advisors (including wealth planners, exit planners, financial advisors, CPAs, attorneys, brokers, and Small Business Development Center advisors) are also critical, and trusted by the local business community. They can advance EO by:

- Providing workshops on succession planning and employee ownership and advising clients on employee ownership as a viable exit strategy.
- Completing [*courses on employee ownership*](#), accredited by the Exit Planning Institute, Business Enterprise Institute (BEI) and Certified Financial Planner Board for continuing education.
- Referring clients to employee ownership experts to provide hands on support for their transition to employee ownership.

Lenders and community development financial institutions can support employee ownership by learning how best to finance employee ownership transitions and providing EO-friendly capital.

Philanthropy can support employee ownership by:

- Using its platform to challenge leaders to accelerate and remove barriers to EO through advocacy, op-eds, joint letters, and other calls to action.
- Educate staff, partners, board members, business and wealth advisors and grantees on EO.
- Through grantmaking, program-related investments, and mission-related investments, build or invest in EO businesses as well as organizations that will sustain a long-term vision for advancing EO and support ongoing EO education, outreach and technical assistance.
- Use the power of philanthropy to convene the ecosystem of partners and local leaders in the public and private sectors. By sharing experiences, they learn more about the risk and opportunity for EO as an economic resiliency and equity strategy in Saint Paul. Through collaboration, creative solutions that unlock the power of EO will emerge.

Other local partners like **existing EO businesses, advocacy organizations, nonprofits, coop developers, chambers and industry associations** can play a critical role in raising awareness of employee ownership from their platform by launching a coordinated communications campaign, storytelling, hosting or promoting EO events and convenings.



Benjamin Tsai, Director of the Shared Ownership Center, Nexus Community Partners



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