



Employee Ownership: Preserving California's small businesses and saving jobs

Democracy at Work Institute
Zen Trenholm and Joe Marraffino

March 15th, 2018



INTRODUCTION

THE DEMOCRACY AT WORK INSTITUTE

The **Democracy at Work Institute** expands the promise of worker ownership to communities most affected by social and economic inequality, particularly low wage workers, immigrants, and communities of color.



1. A Small Business Succession and Closure Crisis
2. Employee Ownership as an Opportunity in Response
3. Panel Discussion
 - Tomas Duran (Concerned Capital)
 - Joe Marraffino (Democracy at Work Institute)
 - Kirk Vartan (A Slice of New York)
4. Questions



THE CRISIS THE VALUE OF SMALL BUSINESS

The **29 million** small businesses in America account for **54%** of all sales

Small businesses provide **48%** of all jobs

There are over **8 million** minority-owned firms- and growing

Small businesses are **valuable community assets** rooted through local ownership



Photos: Bed Stuy Fresh and Local, The Brooklyn Packers | Source: U.S. SBA Office of Advocacy, 2017



Growth within U.S. Firms 2012-2017

■ Minority ■ Non-Minority



“The success and failure of minority-owned businesses will increasingly drive the success or failure of the overall US economy.”

Bernard and Slaughter 2004

Source: Minority Business Development Agency, U.S. Department of Commerce

https://www.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/2012SBO_MBEFactSheet020216.pdf



THE CRISIS

LEGACY BUSINESSES FACE CLOSURE RISK

Legacy Businesses are:

- Longstanding businesses that are **valuable community assets**
- Proven, **viable businesses** that **generate sales and jobs** in the local economy
- Many owners are **at retirement age** and face the threat of closure



Photos: Ewing Controls, Rock City Roasters



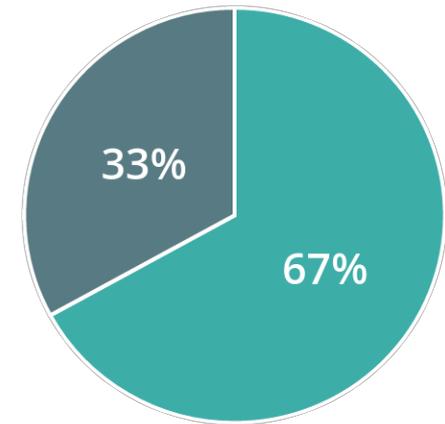
The **Silver Tsunami** is forecast to be one of the biggest changeovers of privately-held businesses in U.S. history

\$3.5 trillion in assets will be transferred in next 20 years

Helping owners **convert their business to employee ownership** can tap this opportunity for the good of employees and of local economies

Intend to Retire by 2023

■ Yes ■ No





THE OPPORTUNITY A SOLUTION ON THREE FRONTS

Employee Ownership can:

- Ensure retiring owners have a viable **succession plan**
- Open up new pathways for **entrepreneurship and wealth creation**
- Retain viable businesses and **anchor critical assets in the community**



Photos: A-1 Builders, A Yard and a Half Landscaping

Democracy at Work Institute | www.institute.coop | www.usworker.coop



THE OPPORTUNITY EMPLOYEE OWNERSHIP HAS A CORE DEFINITION

A business **owned** and **controlled** by the employees.

A business **owned** by its employees...

...and **controlled** by its employees.





GROWING INTEREST: CITIES

- Local Policy Support
- W20 Practitioner Present
- Ecosystem Developing
- Conversions Completed or in progress



A Slice of NY
California

SF BAY AREA

WISCONSIN

MINNEAPOLIS

COLORADO

CHICAGO

OHIO

PHILADELPHIA

NORTH CAROLINA



Electric Violin Shop
North Carolina

MIAMI

BOSTON

VERMONT

DETROIT

NEWARK

NEW YORK



A Child's Place
New York

MAINE



THE OPPORTUNITY CITY EFFORTS TO PRESERVE LEGACY BUSINESSES



Fremont, CA



New York City, NY

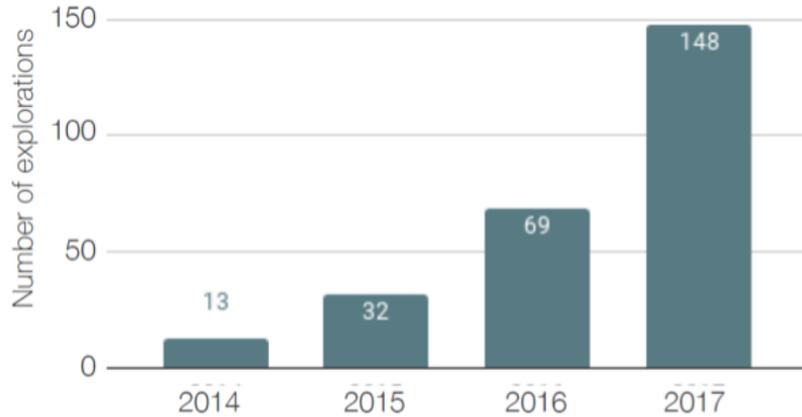


San Francisco, CA

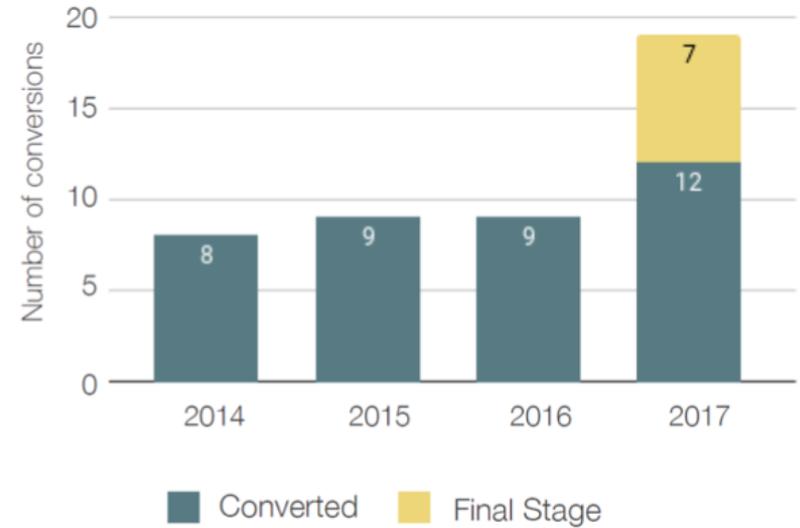


GROWING INTEREST: OWNERS

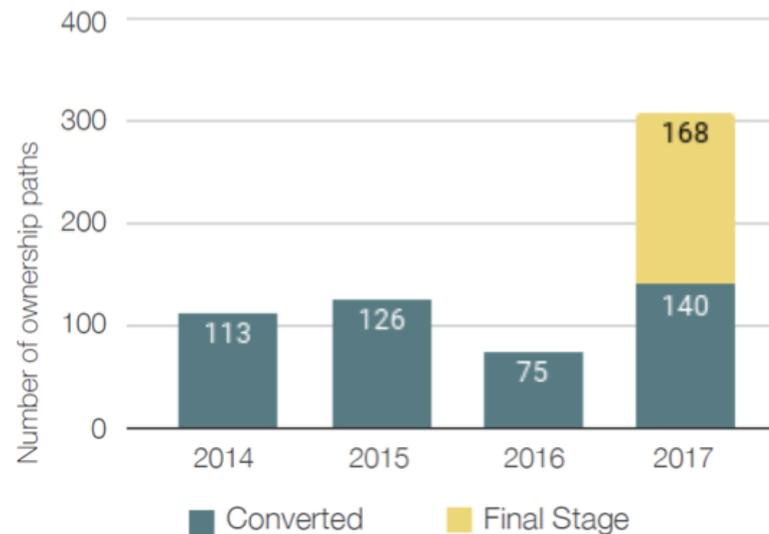
Interest in Conversions



Growth of Conversions



Ownership Paths Created





PERSPECTIVES

TOMÁS DURÁN, PRESIDENT OF CONCERNED CAPITAL



Tomás Durán has more than 15 years of economic development experience in low income communities of Southern California. He is President of Concerned Capital, a boutique investment firm in downtown Los Angeles that helps businesses find government incentives, transition to new ownership and keep their jobs local.

Transitioning Ownership to Employees: The Hidden Economic Development Tool

CALED Annual Training Conference

March 15, 2018

Presented by Concerned Capital, Inc.

Presentation Overview

- 1. Opportunity:** Save jobs, Diversify ownership & Address Income Inequality
- 1. Conversions:** Democratizing ownership of small businesses
- 1. Funding:** Economic Development Tools that fund this effort
- 1. Implementation:** Step-by-Step Process
- 1. Success Story:** Ariza Cheese, Co.

Critical Issue: Silver Tsunami



SME CHIEF WARNS OF 'SILVER TSUNAMI' FACING
MANUFACTURING

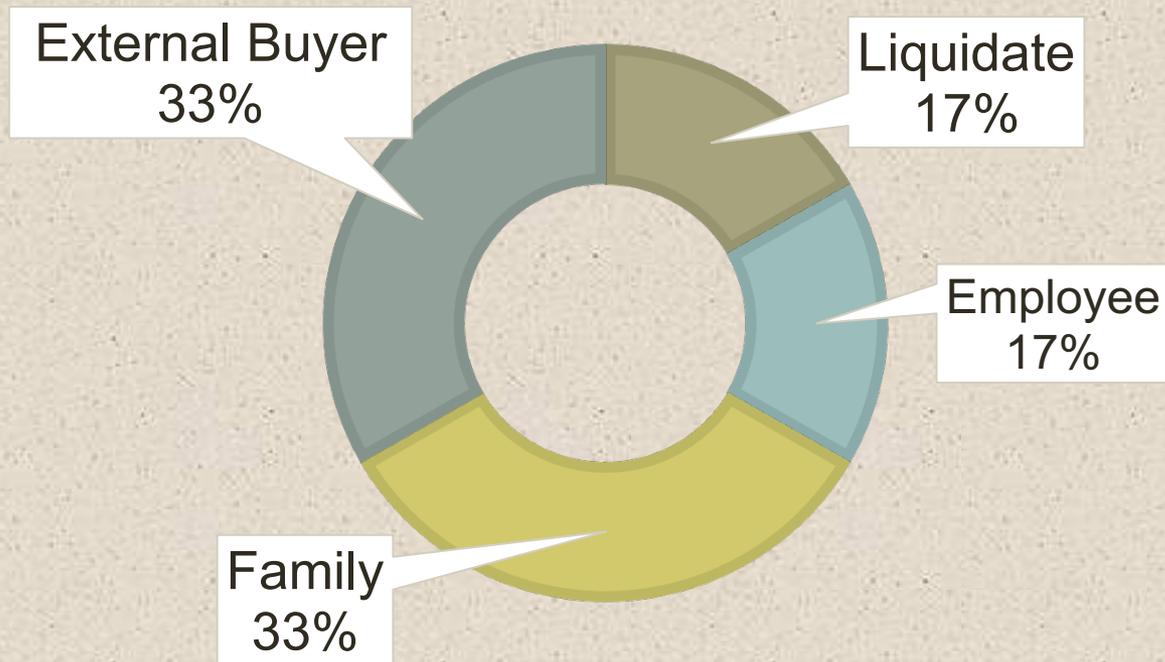


Every 8 seconds, another baby boomer turns 65.

Why Ownership as Economic Development?

- Baby Boomers own **2.34 million businesses** in the US
- They **employ 25 million workers** with combined sales of over \$ 5 trillion.
- In LA County, roughly **12,000 small businesses** with retiring age owner.
- Over **20,000 jobs** in LA County's Enterprise Zones are 'at risk'
- Only **30%** of businesses listed for sale each year will ever sell
- Economic development incentives that help start, foster and grow a company are defeated when predatory consolidation and/or liquidation of these smaller companies occurs.

Possible Transfer of Ownership Outcomes



Two most likely outcomes threaten jobs and/or relocation: Employee buyouts keep jobs local.

Owners & Buyers– 2 Perspectives

- **Business Owners is selling**– repeat customers, perceived brand recognition, talented workforce; a legacy of dependability and good service: INTANGIBLE GOODWILL
- **Third Party Buyer is Buying** - multiples of cash flow – whether multiple of gross sale or multiple of profit or multiple of pre-tax profit (EBITDA), or a multiple of free cash flow: PROFITS
- **Employee-Buyers** understand the value of GOODWILL.

Conversions as one successful outcome

Workers understand the company, know its history and are less concerned about unknown liabilities

Keep jobs local with quick, easy, transition smaller expense

Selling a corporation 'lock, stock and barrel' to employees dramatically lowers owner's tax liability

The owner generally is often willing to stay in the picture to help

Funding: DOL's Layoff Aversion Program

- **'Full employment' economy:** job loss is now more a function of demographics
- **Department of Labor** encourages the prevention of layoffs thru the Work Investment Opportunity Act (WIOA) 2014
- WIOA **recognized employee buyouts** as one strategy to prevent plant closings.
- **Rapid Response** funds can be used to examine the viability of firms-in-distress, and to determine the possibility of an employee or management buy-out.

Conversions as a Layoff Aversion Strategy

- **Kent State Ohio Employee Ownership Center** –Saving jobs by encouraging employee ownership
- **Steel Valley Authority** - Technical Assistance Services Available for Transition of Ownership
- **Kansas University School of Business** - Transition Services Designed to Retain Jobs
- **Illinois Governor's Task Force** recommends employee ownership as key to saving jobs –Governor's Task Force Report

Conversions Are Safer than Start-ups

- Build on something with a **track record**
- **Startups that have no demonstrated market** (not even a wait list of customers), no beta-tested product prototype and no proven management structure
- Existing companies do have risks, but they are **known risks** that can be mitigated with proper planning and anticipation
- Job impact is much **easier to measure** for an existing company ‘at risk for closure’ than for a start-up

Econ. Development Tools & Conversions

- **WIOA funding:** Layoff Aversion
- **SBA Loans:** finance 75% of all small business acquisitions
- **EDA RLFs:** provided jobs are NOT relocated
- **Hiring Tax Credits:** WOTC, CCTC
- **SBDC Counseling and Training:** needed for new owners
- **Assistance with plant relocation:** real estate drives many older company sales

Profile: Targeted Companies

Job Characteristics	Ownership Characteristics
20-75 jobs	Family owned with strong loyalty to staff
Family wage, primary jobs	Gross sales \$ 3 - \$ 10 million
Many long-term employees	In Industrial/Manufacturing areas
In Mature Industries	Requires new management
Potential to create new jobs	Strong goodwill and solid financial history

Implementation: Step by Step Guide

1. Identify company 'at risk' due to transition issue—age of owner, sale of company
2. Offer to assist with transition process
3. Identify reason(s) why company should stay local – job impact and tax revenue loss
4. Assist 'change agents' (brokers, lawyers, CPAs) with valuation study, consulting services and worker outreach

Implementation: Step by Step Guide

5. Identify resources needed: financing, research, permit issues and/or relocation issues
6. Help assemble team needed for transition – organize employees into ‘decision making’ body
7. Provide ‘Letter of Intent’ Assistance – starts the transition process with due diligence period – once buyer is agreed to
8. Help legal counsel for both sides close the transaction –financing, zoning, local incentives

Ariza Cheese Manufacturing Company

40 year old artisan cheese manufacturer in Paramount, CA

Owner died and company run by 2 daughters absentee for 4 years

Starved for investment – sale ignored for lack of milk purchase

Take-over Jan. 2015 – added 6 workers and increased sales 30%

Saved 24 jobs



Concerned Capital's Social Mission



We save jobs in older manufacturing /industrial areas by transitioning companies to new management

Concerned Capital saves jobs in working class communities.

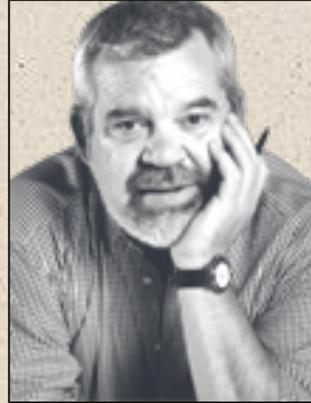
Management Team



Tomas Duran

President

- Experienced urban planner and financial manager – oversaw development of Genesis LA's mission based funds and managed programs for Whittier Redevelopment Authority



Bruce Dobb

CEO

- Chief Credit Officer for LA County's largest revolving loan fund and active lender in small business community

Concerned Capital Highlights

- Designed and implemented **largest regional micro-lending** program in LA
- Launched **American Apparel** hiring tax credit program documenting over \$ 4 million in State and Federal tax credits
- Assisted over **30 companies**, formulated expansion plans and secured debt
- Financial consultants to LA Mayor and former LA Community Development Agency and Fashion Biz Inc.

Questions?

Do you have
any questions
or comments?



Thank You!

www.ConcernedCapital.org

(213) 787-4532



@ConcernCapital

For more additional information about Concerned Capital and its programs contact
Nora Almaguer, General Manager, at (213) 787-4532 or via email at
nalmaguer@concernedcaptal.org



PERSPECTIVES

JOE MARRAFFINO, BUSINESS CONVERSION CO-DIRECTOR



Joe Marraffino is the Co-director of the Cooperative Conversions program at the Democracy at Work Institute. Previously he was a worker-owner of Arizmendi Bakery in San Francisco and worked as a business developer for the Arizmendi Association of Cooperatives to help launch two new worker-owned bakeries.



THE OPPORTUNITY

EMPLOYEE OWNERSHIP HAS A CORE DEFINITION

A business **owned** and **controlled** by the employees.

A business **owned** by its employees...

...and **controlled** by its employees.

**EQUITY
INVESTMENT**



**RISK AND
REWARD**



**EMPLOYEE
OWNERS**

**BOARD
GOVERNANCE**



**PARTICIPATORY
MANAGEMENT**





COMPANY STORIES

A YARD & A HALF LANDSCAPING



Landscaping
Waltham, Massachusetts
35 workers

- The owner wanted the culture of her award-winning workplace to extend past retirement.
- More than five years were spent preparing workers to take on management and leadership roles. Direct work on the transition took one year.
- Additional effort spent to find culturally appropriate resources for majority Spanish-speaking workforce.
- The legal form is a democratic LLC.



COMPANY STORIES

METIS CONSTRUCTION



Construction
Seattle, Washington
25 workers

- The young owner wanted to grow the company, and align ownership with its culture of pride and shared responsibility.
- Early guidance came from another construction company that had converted to a cooperative 20 years ago.
- Some challenges emerged in focusing on operations and organizational change at the same time.
- The legal form is an Employee Ownership Trust.



COMPANY STORIES

A CHILD'S PLACE



Childcare

Queens, New York

50 workers

- Owners want to ensure legacy of quality care, in their retirement after more than 30 years.
- They also see the sale to employees having a positive economic and skill-building impact on typically marginalized workers in their industry.
- The business owners also own the property, which they built 20 years ago, and which they will retain in the sale.
- The Legal form will be a Cooperative Corporation.



THE OPPORTUNITY A STANDARD CONVERSION MODEL





THE OPPORTUNITY

STEP 1: BUSINESS PLANNING & SUPPORT

Local government programs & tools

Include succession planning and employee ownership supports to businesses

Existing partnerships & coalitions

Business and industry associations, minority chambers of commerce, retiree advocates, local nonprofits and CDFIs could integrate employee ownership into small business retention & support

Small business development centers

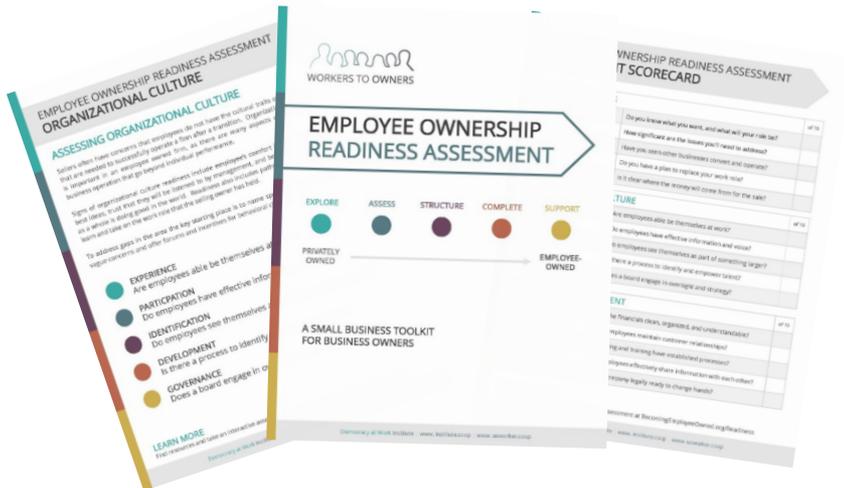
Can raise awareness and support and train staff to discuss succession planning options with businesses



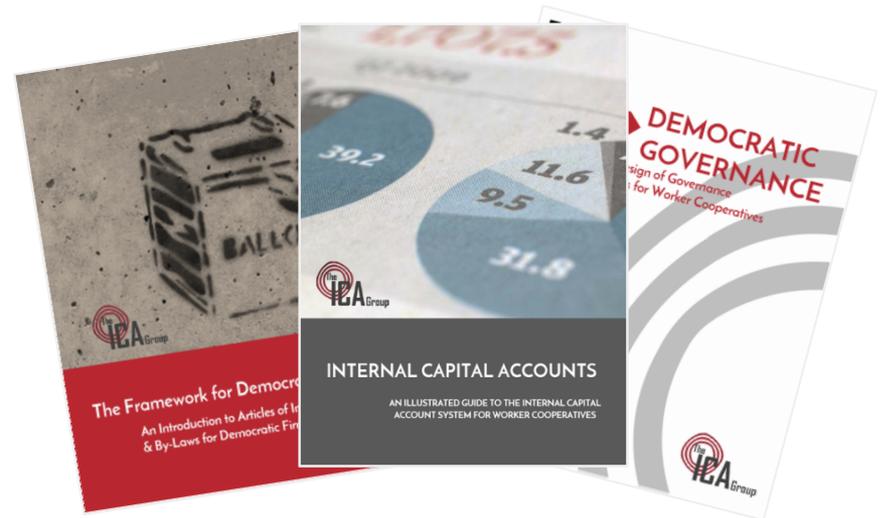


THE CONVERSIONS OPPORTUNITY

STEP 2: ACCESS TRAINING AND EDUCATION

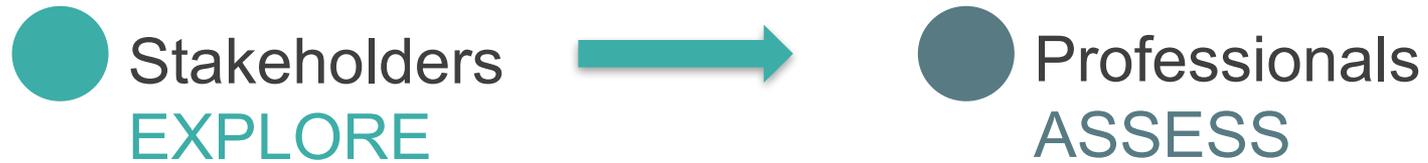


Readiness



Structure

<http://becomingemployeeowned.org>



Succession planning from **EXPLORE** to **ASSESS**

- Understand sellers desires and concerns
- Map the process in a simple way
- Know the specialists to refer businesses



THE CONVERSIONS OPPORTUNITY

STEP 4: PARTNER WITH MINORITY BUSINESS SUPPORT ORGS





PERSPECTIVES

KIRK VARTAN, CO-OWNER OF A SLICE OF NEW YORK



Kirk Vartan is a native New Yorker, NBC technologist, former hi-tech professional, community activist, and small business owner of two pizza shops in San Jose and Sunnyvale. On July 1, 2017, A Slice of New York became the first brick-and-mortar worker-owned cooperative in the South Bay.

A Slice of New York

The South Bay's First Worker-Cooperative (Brick-and-Mortar)

March 15, 2018

Kirk Vartan

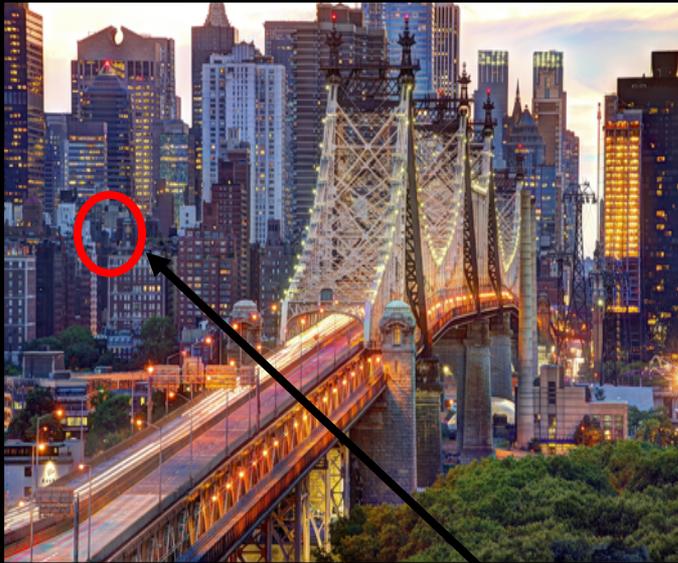
www.asony.com



Agenda

- **When and Why ASONY was born**
- **Why explore selling to employees?**
- **What was the process (good/bad)?**
- **How did you get support? Local funding?**
- **How are things now we are converted?**

- **BONUS: Current Regional Conditions**



Arrived in CA - 1998



ASONY SJ - 2006



ASONY SV - 2011



ASONY Co-Op - 2017



My home



Employee Ownership

- Product of GE/NBC and Cisco
- Stock options
- Empowerment
- Bonus structure
- Reward personal/company growth
- #1 or #2 in industry
- Culture – It's all about the people



Conversion Process

- **Partnered with Project Equity**
- Learned together
- **Included four employees in process**
- Took longer than expected (~1 year)
- Complicated/expensive (by choice)
- **Legal structure for growth and rewards**
- Complete transparency



Funding

What Happ

Here Is What We Are Planning



How Are We Doing?

- **Four member Board of Directors (1 Non-Member)**
- Treasurer (officer)
- Secretary (officer)
- **President/GM (officer)**
- **Board Meetings every six weeks**
- **Finance and Employee Benefits Committee**
- Everyone is invited to all meetings
- Members are seeing more detail
- Engaged, but free time dwindles (hard on team)

Mission

Create a New York experience in the Bay Area and be a model worker cooperative in our community.

Added 2016

Vision

Become the Bay Area's Standard for NY Pizza

Added 2014

Goal

Build an exceptional employee owned company

Team history

**STRAIGHT
OUTTA
A SLICE OF NY**





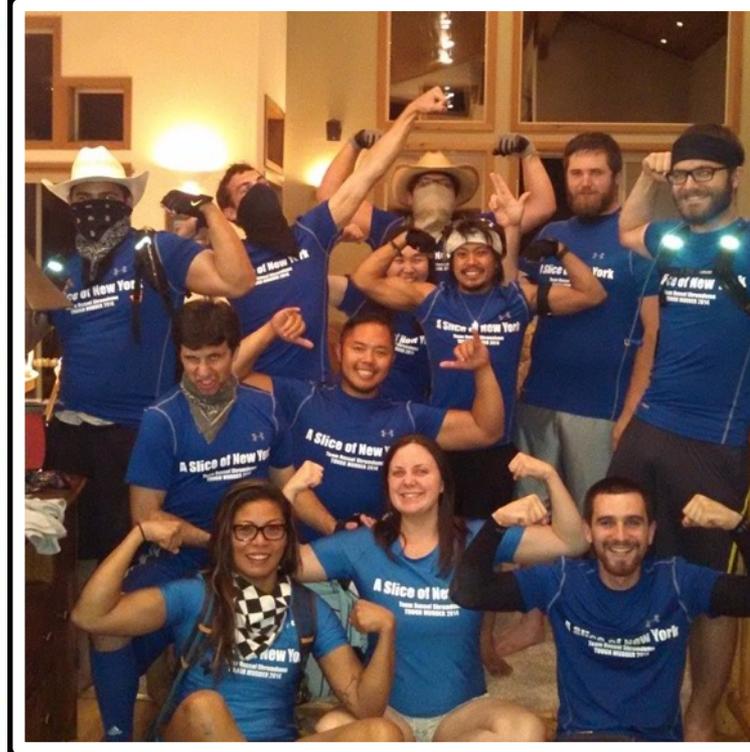


BROADWAY

Exit Broad St & Wall St



Tough Mudder



We are #asonyfam



#ASONYFAM



Regional Conditions

- Service industry is getting priced out
- Service workers are leaving
- No one can afford to live here
- Wealth disparity is growing
- Area is at risk of failing (small business)



intuit.



intel



NVIDIA



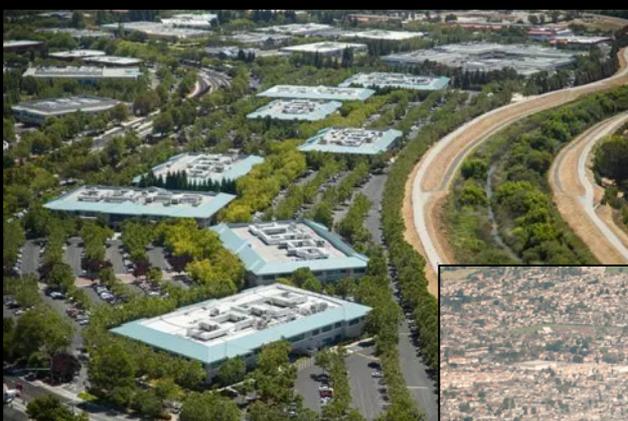
Google



ORACLE



NETFLIX



Corporate buses

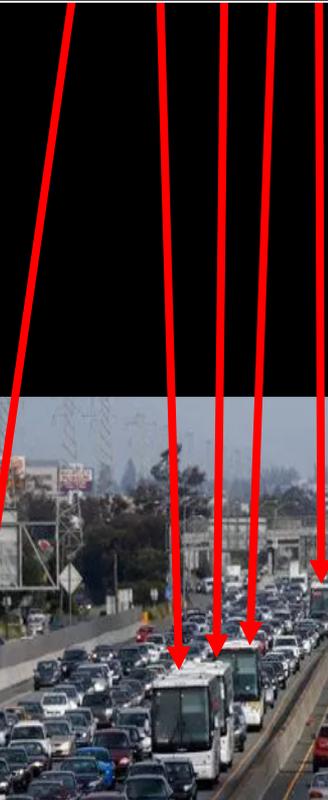


Photo: P.M. Lydon | sociocity

www.CatalyzeSV.org

Photo: Karl Mondon/Bay Area News Group





PANEL DISCUSSION

Questions?



IDEAS FOR INTEGRATING CONVERSIONS INTO YOUR PROGRAMS

1. Facilitate a succession planning conversation with your local small business owners, including the option of conversion.
2. Develop a referral relationship with your local merchant associations, chambers of commerce, etc.
3. Visit [BecomingEmployeeOwned.org](https://www.becomingemployeeowned.org) to access a national network of professional conversion technical assistance providers.
4. Connect with us to learn more about employee ownership and to access tools, trainings, and additional resources.

Democracy At Work Institute
www.institute.coop