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The employee ownership solution to the "silver tsunami"

By **Melissa Hoover** | [LinkedIn](#)

Melissa Hoover is the Founding Executive Director of the Democracy at Work Institute.

Linda and Gregory Coles founded their preschool, [A Child's Place](#), in their Queens, NY basement in 1983. Over the years it grew steadily and developed a deeply loyal community. Now they own a large building, employ more than 50 people and serve hundreds of families. Former students bring their own kids to A Child's Place. The Coles have a similar generational commitment: their children now manage the school. As they looked to retire, they couldn't imagine selling the business to an outside buyer who would change it or, more likely, tear it down to build condos in a hot housing market. So they asked an unusual question: could they sell the business they had built to the employees who had built it with them?

With support from [The Working World](#), a technical assistance provider and lender in New York City, this is exactly what the Coles are doing. They are preserving community access to affordable and high-quality preschool in a city where preschool, especially for low-income families, is at crisis-level scarcity. They are also creating a new generation of local small business owners: their employees.

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Employees at Arizmendi Bakery, a worker-owned cooperative in the Bay Area (Photo by Arizmendi Bakery)

re small business owners will begin asking: How can I preserve the legacy that I have built? Almost half of all business owners are now 55 years of age or older and every day 10,000 baby boomers retire in the U.S. **More than 85% of all business owners** do not have a succession plan in place and only 15% of businesses are passed along to children. Baby boomer retirements will cause more than **\$10 trillion in business assets** to change hands over the next 5-20 years. As a result of those retiring without exit plans, in what is often called the "silver tsunami", an estimated 70% of privately held businesses will be sold or closed. Additionally, **Democracy at Work Institute's research with the National Urban League** shows that an estimated 284,000 business owners of color are nearing retirement nationally, including 40,000 African American business owners.

An oversupply of boomer business owners looking for a buyer could create a large-scale small business closure crisis. In regions that are undercapitalized, rural or experiencing rapid neighborhood-level change, owners looking to sell will be hard-pressed to find a suitable buyer. Even in thriving areas, there will be a flood of businesses on the market.

When these hardware stores, nursing homes, small food manufacturers, and other local businesses close, they will be gone forever. Losing them means losing community wealth anchors and local jobs, which could accelerate

As consumers, we lose a critical, locally-owned piece of vibrant commercial corridors, unlikely to be replaced by a similar local business.

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displacement in fast-changing urban neighborhoods and shrink rural small towns. As consumers, we lose a critical, locally-owned piece of vibrant commercial corridors, unlikely to be replaced by a similar local business. With manufacturing, we lose productive capacity and the higher paying jobs that manufacturing often creates. Retiring owners lose too: without a buyer they are unlikely to be compensated for the value of their business. All these effects are amplified in low and moderate income communities and communities of color, where systemic disinvestment means very low rates of asset ownership and wealth. (FIELD at the Aspen Institute names [business asset ownership as the second most important asset class](#) after homeownership for building wealth in communities of color.)

The loss of local businesses is not inevitable. More than 7,000 employee-owned companies and worker cooperatives in the U.S. already demonstrate the power of employee ownership to create companies people love — highly productive companies that create and retain good jobs and contribute to inclusive economic growth, while giving back to their communities. Transferring business assets to employees isn't just a succession strategy of last resort; it also proves to be good for business. [Studies](#) show that employee ownership improves companies' competitiveness through outcomes like increased loyalty and a boost in employee productivity by up to 4.5%.

The loss of local businesses is not inevitable.

At the Democracy at Work Institute, we see employee ownership as an important piece of a long-term strategy to retain vital businesses, save jobs, build community wealth and expand entrepreneurship. Our [Workers to Owners collaborative](#), a national initiative of field-leading organizations, works with

business owners, technical assistance providers, and economic developers to ensure that business owners know all their options and that employees are presented with the opportunity, training and capital necessary to become owners of their economic future. In the past two years, the collaborative has helped hundreds of businesses explore conversion to employee ownership, completing more than 20 business transitions that transferred \$8.3 million in assets to more than 200 employees on worker-owner pathways.

Impact Spotlight **Patty Pan Cooperative**

Sustainable Sustenance | Seattle, WA | Est. 1997



Patty Pan is a worker-owned co-op that runs a fresh and affordable farmer's market stall and catering service. Through collective ownership, Patty Pan seeks to increase wealth for historically underserved populations like women, formerly incarcerated persons and people from low-income backgrounds. Co-ops often face barriers to capital access, but Patty Pan was able to secure a Beneficial State Bank loan which helped strengthen its operations.



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Cooperatives often face barriers to capital access, but Patty Pan secured a Beneficial State Bank loan to help strengthen its operations.

To effectively capitalize on this opportunity, we need a strategic partnered approach among business support organizations, economic development agencies, investment capital and technical assistance providers. We train lenders and business advisors to become “Conversion Guides” who can explain the employee ownership options to small business owners. We partner with city and state agencies, like San Francisco’s Legacy Business Program, to provide tools for retiring business owners who plan to sell to their employees. Impact-driven banks like **Beneficial State Bank**, which has a track record of lending to worker cooperatives such as **Arizmendi** and **Patty Pan Cooperative**, can play a crucial role in reaching their small business clients with information, as well as providing the capital needed to finance the sale of a business to its employees over time. Together we can develop a robust ecosystem of support, expand ownership opportunities, reduce small business closure, and shrink the wealth gap.

We can’t afford to lose any part of our economy that broadens asset ownership. Income inequality — and more importantly, wealth inequality — is growing, amplified along lines of race, gender and geography. The largest generational wealth transfer in U.S. history is an immediate opportunity to build thriving local economies and keep small businesses open by addressing inequality at its root: ownership of business assets. Employee ownership also offers a critical long-term tool for economic developers to build and retain community wealth.

Examples of business conversions in California

- **The Cheese Board Collective**, a cheese shop and bakery in Berkeley, CA was sold by a

husband and wife owners to employees in 1971. The owners stayed on as members of the new cooperative. By 2010 the store had tripled its retail square footage and spun off 5 sister locations, with over 150 employee-owners.

- **Restif Cleaning Cooperative** in Arcata, CA was founded in 1983 and sold to its workers as a cooperative in 1990. The business serves homeowners, commercial, industrial, and retail businesses, governments, and schools. The cooperative has over 30 employee-owners.
- Employees at the **Vermont-Gage Car Wash** in South Los Angeles, CA formed a cooperative after the owner unexpectedly disappeared without paying rent or wages in 2012. With the support of a local union, the 16 employees now own the business together.
- **California Solar Electric** is a photovoltaic installer in Grass Valley, CA founded in 2007. By 2015 it was going through high growth in work and staffing, and the owner offered the cooperative ownership option to his employees in order to more equitably distribute rewards and incentivize longevity. The 24 employees have voted to pursue it and the transaction is the process of being structured.



*Pizza from The Cheese Board Collective
(Photo by Maritessa Bravo Ares)*

Why convert a business to employee-owned?

- Keeps jobs, assets and business ownership local
- Preserves the delivery of critical goods and services (in particular across non-exportable industries)
- Strengthens neighborhoods and anchor future development
- Stabilizes small business corridors through investing in a neighborhood’s key small businesses, which often sustain an area’s distinctiveness and character and hire locally
- Catalyzes infrastructure of supports by ensuring that Business Owners have access to succession planning services and personal long-term financial planning tools

Additional tools and training resources

- **For Economic Developers:** To discuss available conversions-related supports email us at conversions@institute.coop
- **For Business Owners:** Direct owners looking into succession and exit planning can visit becomingeo.org, which includes information on business conversions, a service provider directory, and a sign up for consultation.

*Authored by Melissa Hoover. The Democracy at Work institute expands the promise of worker ownership to new communities of worker-owners, ensuring that this growth is adequately supported, effective, and strategically directed. The Institute brings both a bird's-eye view of the national stage and an experiential on-the-ground understanding of cooperative business. **DEMOCRACY AT WORK INSTITUTE** at the US Federation of Worker Cooperatives 1904 Franklin Street, Suite 400 Oakland, California, 94612 +1. (415) 379-9201 www.institute.coop*

This blog post reflects the author's personal views and opinions, and does not represent the views and opinions of Beneficial State Bank and/or Beneficial State Foundation.

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In communities across the country, more and more [#smallbusiness](#) owners will begin asking: How can I preserve the legacy that I have built?

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