

IMPACT BRIEF 2019

# THE CHANGING FACE OF BUSINESS

WORKER  
OWNERSHIP &  
COMMUNITY  
WEALTH  
BUILDING  
IN ST. PAUL

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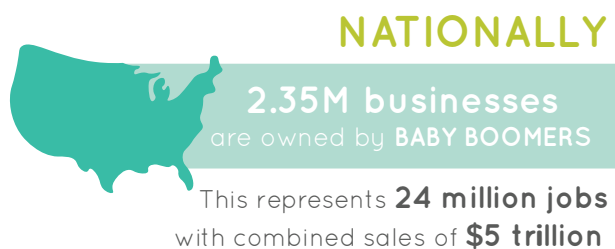


# The Landscape

Across the country, an unprecedented number of business owners are on the road to retirement, with most not knowing which direction to turn. Should I pass it down to my children? Sell to private equity? List it with a broker?

Nationally, 2.35 million owners are asking themselves these questions. The decisions will impact 24 million jobs and potentially reduce the municipal tax revenue that is generated through their \$5 trillion in combined sales.<sup>1</sup>

The reality is that 80% of owners have no succession plan, and only 1/3 of listed businesses actually sell.<sup>2</sup> As a result, businesses across the nation are closing their doors, often selling their assets to private equity.



**80% of owners in the US have NO succession plan**

Looking at the numbers on the local level, the economic implications are significant. In St. Paul, 2,137<sup>+</sup> of the 12,570 privately-owned businesses are at-risk. For the 94,330<sup>3</sup> workers who earn a paycheck each week, the future of work, and their livelihoods, are uncertain. In a city where employment and economic disparities are already staggering, a shrinking job market and economic base could leave countless families even further behind.

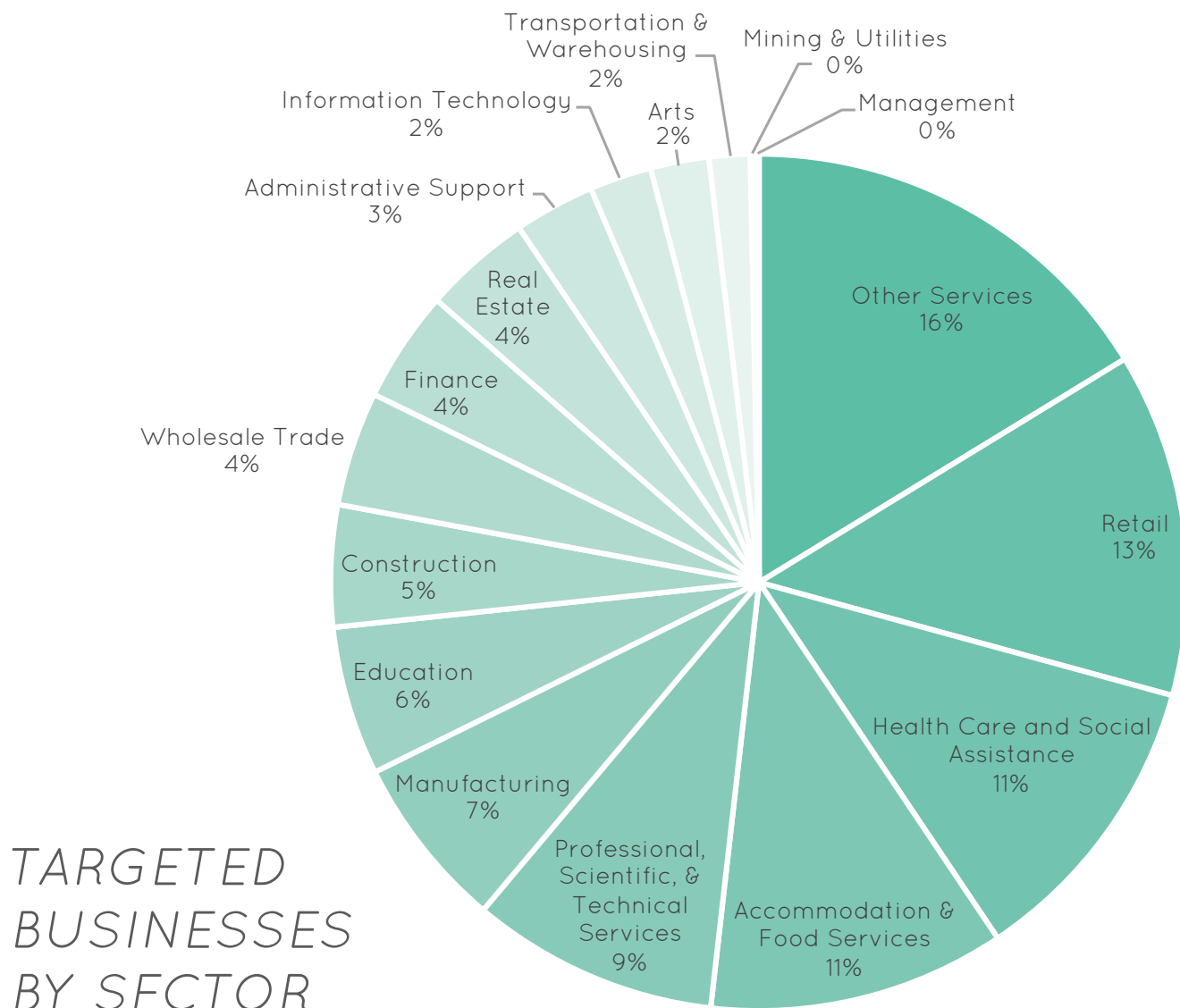
There is, however, a way forward. While it is a road less traveled, business conversions to worker ownership—where existing employees purchase the business and form a new worker-owned company—are building momentum as a strategy that is good for business, good for workers and good for communities. Ultimately, the model is a powerful tool for building community wealth.

<sup>+</sup> Companies or firms who have held a business license for 15 or more years with 5 or more employees.

# The Opportunity

The changing face of business ownership and the resulting transfer of wealth presents a unique opportunity for St. Paul. The approach provides tools for the public sector to retain jobs and its tax base, as well as new options for addressing racial disparities. It offers owners a profitable exit strategy and gives new worker-owners the chance to own the wealth that their labor has helped to create.

Opportunities for business conversions in St. Paul can be realized across industry sectors and impact every corner of the city, from downtown and along University Avenue, to the East and West Sides.



# The Reasoning

Worker ownership models, including Worker Cooperatives, Employee Stock Option Plans (ESOPs) and other customized worker-owned firms, have long been used to anchor business, grow jobs and build individual and community wealth. Currently, there are 6,717 ESOPs with roughly 14 million participants in the US.<sup>4</sup> Worker Cooperatives are a small, but growing approach to worker ownership, with roughly 500 companies and \$467 million in gross sales. Nationally, 63% of worker cooperative owners are Black, Indigenous and People of Color (BIPOC).<sup>5</sup>

According to the Democracy at Work Institute, worker cooperatives are businesses with a variety of management structures and a number of key features; workers participate in the financial success based on their labor contribution, workers are represented on a board of directors, and the business follows a one worker-owner, one vote principal.<sup>6</sup>

What worker-owned business models have in common is that the worker-owners have a voice in the direction of the business, with shared risks and shared rewards.

## BENEFITS OF WORKER OWNERSHIP



During a time when public, community and business leaders are searching for solutions to address growing disparities in St. Paul, worker ownership holds great promise. The model also makes sense for the city, as St. Paul has a long history of cooperative ownership. In 1927, a group of young African Americans formed the Credjafawn Social Club in the Rondo neighborhood. Their efforts resulted in the formation of a Black-led cooperative food store and a Credit Union that provided home and educational loans to its members. Drawing on this history, we can revive the culture of cooperation in our communities.

# The Mechanism

There are typically 5 stages of the conversion process, with each stage supported by a team of business experts.<sup>7</sup> It can take between 12-24 months from the time the owner begins to explore the fit, through the final stage when new owners receive on-training and support. The level of on-going technical assistance needed to build strong governance and a democratic culture within the new business varies, but this stage is key to its future success.

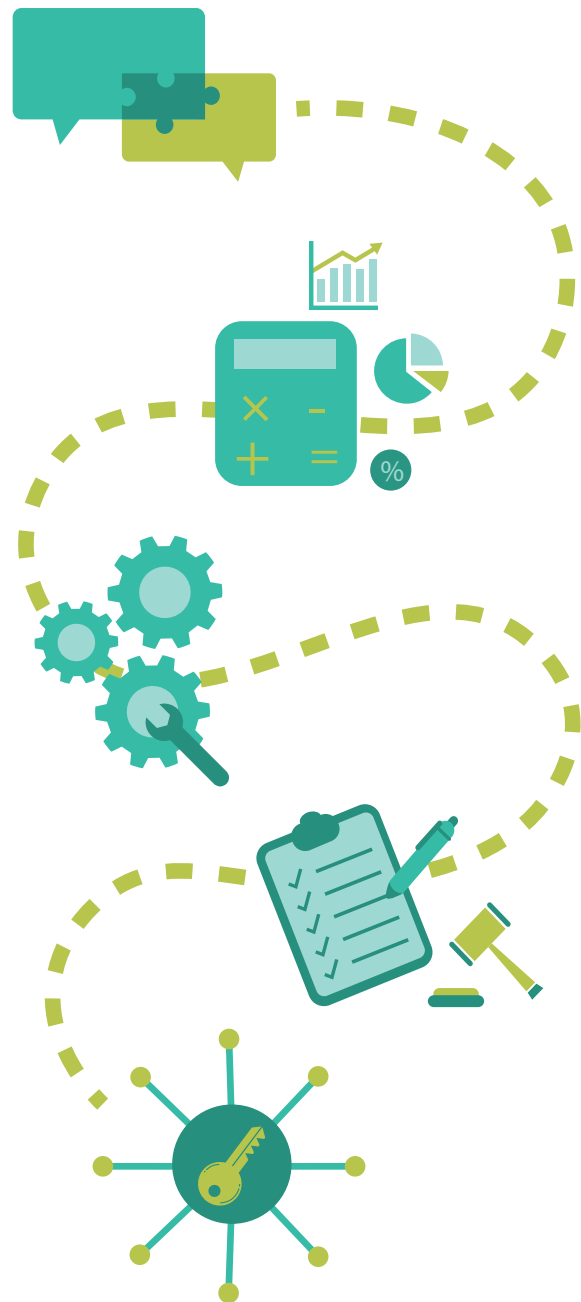
**01.** **Explore** worker ownership options

**02.** **Assess** the feasibility

**03.** **Structure** the deal and new organization/leadership

**04.** **Complete** the sale and transition to new business entity

**05.** **Support** the new worker-owners and leadership through on-going trainings





## *Financing the purchase*

A common myth that often prevents businesses from becoming worker-owned is that the employees can't afford the purchase. In reality, since the businesses are profitable at the time of sale, the new worker-owners can take on debt against future profits. Worker buy-in for a cooperative model is typically only 1-10% of the total purchase price. The following is a simplified financing scenario, assuming a \$1,000,000 sale price with 40 workers.

**\$1M**

BUSINESS  
SALE PRICE

**\$650,000**  
CDFI LOAN

**\$250,000**  
OWNER LOAN

**\$100,000**  
WORKER BUY-IN

**\$100,000**  
WORKER BUY-IN

÷ 40  
WORKERS

**\$2,500**  
PER WORKER

# The Way Forward

Now is the time to take advantage of this once in a lifetime opportunity to change the face of ownership and build community wealth. In St. Paul and around the region, the landscape holds all of the resources necessary to bring worker ownership to scale. Securing commitments and action from people across our communities can move us in the right direction:



**Public sector** leaders in St. Paul and Ramsey County can adopt policies, shift practices and target resources to support conversions to worker ownership.



**Private sector** leaders, chambers of commerce and other affinity groups can connect owners to business conversion services.



**Community leaders**, organizers and labor unions can develop engagement tools that elevate worker ownership as a means to build workplace democracy.



**Community Development Financial Institutions** (CDFI's), credit unions and other investors can develop lending products and capitalize loan funds.



**Workforce Investment Boards**, including Ramsey County, workforce collaborations like the East Side Employment xChange, and entities like the Saint Paul Port Authority can embed worker ownership in employment, training and job creation efforts.



**Academic institutions** like the University of Minnesota, Metropolitan State University and St. Paul College can help build the field of worker ownership by contributing data and evaluation tools, creating specialized job training programs and developing curriculum on worker ownership models.



**Media outlets** can highlight local and national trends, and shine a spotlight on the impact conversions to worker ownership has on businesses, workers and communities.



## *Closing Thoughts*

Worker ownership can transform communities. Beyond strengthening local and regional economies, conversions to worker ownership re-distributes resources. It honors the labor and contributions of those who have helped build this country. It creates the conditions for people to practice stewardship and reciprocity. Ultimately, worker ownership is a powerful tool for building community wealth.

## *Acknowledgements*

Special thanks to Jeff Matson and the folks at the University of Minnesota's Center for Urban and Regional Affairs (CURA) for the data analysis, partnership and commitment to BIPOC communities.



# Appendix

In late 2018, Nexus and the Center for Urban and Regional Affairs (CURA) at the University of Minnesota conducted an analysis of the landscape of small business ownership in St. Paul, MN. We sought to answer the following questions:

What portion of privately-held businesses are owned by people nearing retirement age?

Can we differentiate them by geography and sector?

What are the implications for business and job loss? Reductions in sales tax revenue?

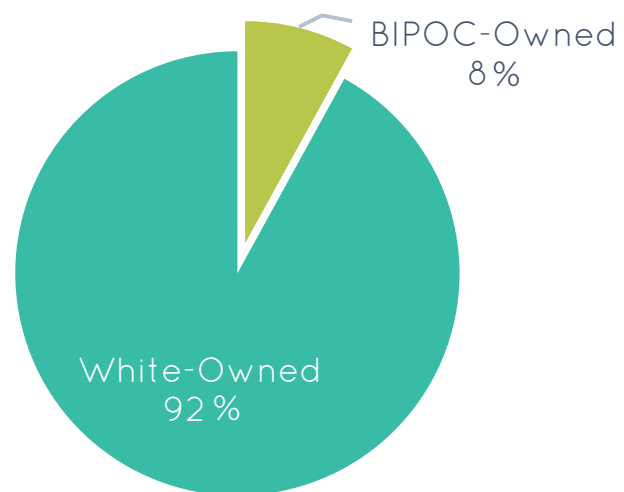
How can we use worker ownership to address employment disparities in BIPOC communities?

The results of the analysis, shown below, were used to develop components of the Nexus Worker Ownership Initiative, which is a bold effort to change the face of business by promoting worker ownership. The Initiative builds community wealth, grows the region's economy and encourages workplace democracy. It advances worker ownership by seizing opportunities presented by the wave of retiring business owners in the Twin Cities.

## Methodology

To determine the number of businesses most likely owned by people nearing retirement (and prime for conversions), business licensing data was used. Since owner's age is not easily accessible, the study used a screen of businesses with licenses 15+ years or older. The data was further refined to those businesses with an employee base large enough to support worker-ownership (5+ employees). Of the 12,570 privately-owned businesses in St. Paul, 2,137 met the criteria.

*BUSINESS OWNERSHIP BY RACE*



## Sector Analysis

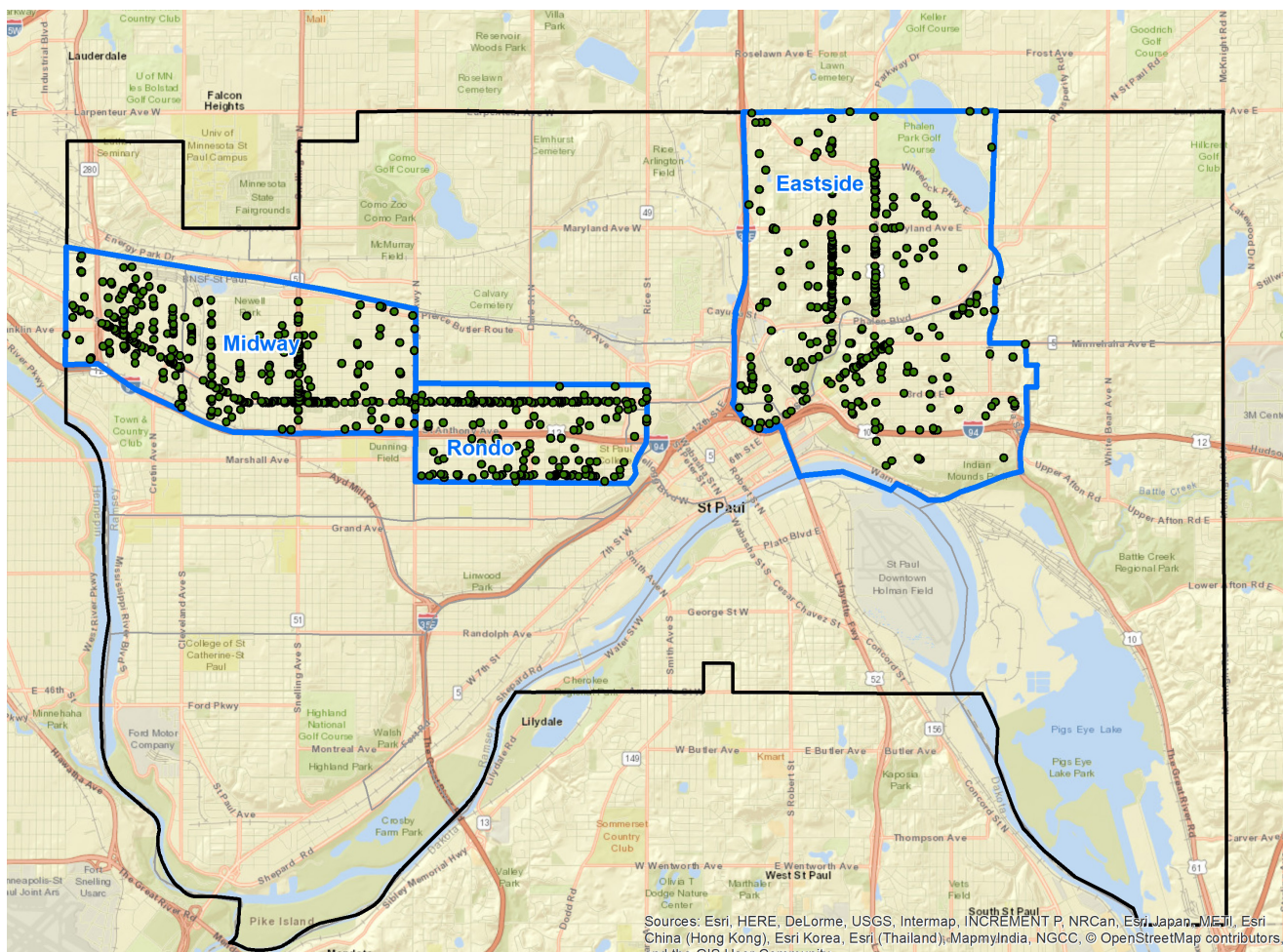
To understand what types of businesses made the cut, the data was sorted into sectors. A number of sectors being targeted by workforce development advisory groups (retail, healthcare and social assistance, manufacturing, construction, finance and information technology) are highlighted and include 897 businesses with 53,581 employees and combined sales of \$6.8 Billion. Of those targeted sectors, all but retail have average hourly wages above \$20.00 per hour.

Beyond the sectors mentioned above, potential conversion opportunities exist across all sectors. Those with the largest number of employees include healthcare/ social assistance (16,111), education (11,413) and finance (10,656). Sectors with the highest gross sales include manufacturing (\$2,188,564,000), retail (\$1,580,135,000) and wholesale trade (\$1,196,674).

Sector	# of Businesses <sup>8</sup>	# of employees <sup>8</sup>	Average Wage/Hr <sup>9</sup>	Gross Sales <sup>8</sup>
Retail	277	7,702	\$14	\$1,580,135,000
Health Care & Social Assistance	242	16,111	\$26	\$941,892,000
Manufacturing	140	9,318	\$34	\$2,188,564,000
Construction	98	5,263	\$37	\$704,638,000
Finance	90	10,656	\$46	\$437,181,000
Information Technology	50	4,531	\$38	\$933,508,000
Accommodation & Food Services	239	7,419	\$10	\$933,508,000
Professional, Scientific, & Technical Services	199	6,435	\$42	\$638,874,000
Education	120	11,413	\$25	\$1,846,000
Wholesale Trade	92	2,525	\$32	\$1,196,674,000
Real Estate	87	1,225	\$23	\$270,980,000
Administrative Support	65	1,692	\$14	\$150,207,000
Arts	47	1,738	\$22	\$69,721,000
Transportation & Warehousing	33	1,394	\$27	\$307,606,000
Mining & Utilities	4	196	\$49	\$90,662,000
Management	3	108	\$58	\$11,602,000
Other Services	347	6,613	N/A	\$143,127,000
Total Focus Sectors (top 6 rows)	897	53,581		\$6.8B
All Other Sectors in St. Paul	1,240	40,749		\$3.8B
All Businesses in St. Paul	2,137	94,330		\$10.6B

## Geography

To better understand how the wave of baby boomer-owned businesses will impact neighborhoods and BIPOC communities, we mapped their location. The analysis revealed that businesses meeting our criteria were scattered throughout the city, with concentrations in downtown, along University Avenue and areas with industrial parcels. The map below highlights just a few areas of St. Paul that could see significant shifts in the landscape.

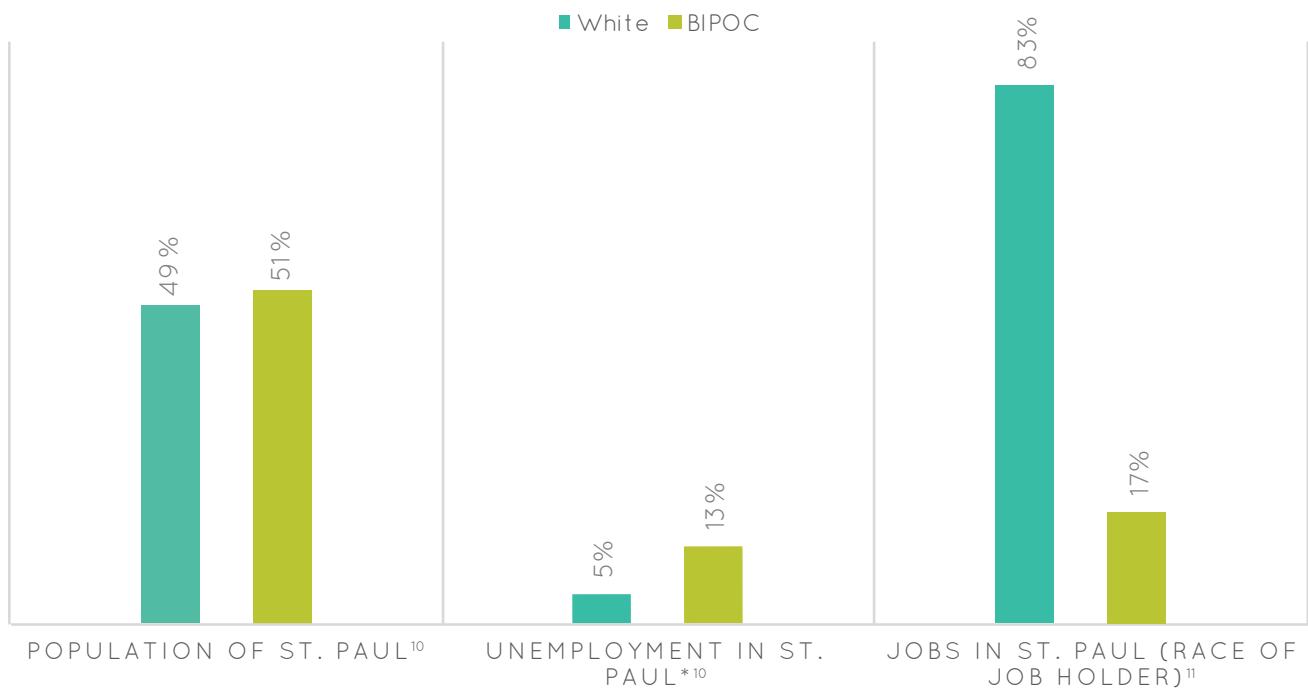


### Labor Force

Using the racial composition of the population as a reference point, we looked at who works in St. Paul (race of job holder). We found that although 51% of residents are from BIPOC communities, 83% of job holders are white. We then looked at unemployment by race/ethnicity for St. Paul residents age 16 or older in the labor force. Not surprisingly, unemployment in BIPOC communities is 2-3 times higher than in the white community.

While worker ownership will not solve for all of the complexities this data represents, when combined with targeted workforce development strategies, it provides one pathway to change.

### EMPLOYMENT BY RACE



Labor Force cont.

	White (non-Hispanic or Latino)		Black		Asian	
	Total	Percent	Total	Percent	Total	Percent
Population of St. Paul <sup>10</sup>	152,558	49%	51,737	17%	61,082	20%
Unemployment in St. Paul <sup>*10</sup>	5,574	5%	3,555	16%	2,159	10%
Jobs in St. Paul (race of job holder) <sup>11</sup>	145,861	83%	14,158	8%	12,707	7%

	Native American		Two or More Races		Latino	
	Total	Percent	Total	Percent	Total	Percent
Population of St. Paul <sup>10</sup>	1,918	1%	9,302	3%	30,007	10%
Unemployment in St. Paul <sup>*10</sup>	135	14%	1,287	16%		12%
Jobs in St. Paul (race of job holder) <sup>11</sup>	132	0%	2,713	2%	7,398	4%

# References

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