

How State Workforce Systems Have Helped Business Owners Sell to Employees

With jobs scarce and an increasing number of companies closing, workforce boards are concerned about keeping profitable businesses in local communities. The workforce systems in Massachusetts and Ohio have found an interesting approach—assisting companies with succession planning through employee ownership. Here are stories of how these states have helped support employee ownership programs that allow companies to use employee stock ownership programs (ESOPs) as an ownership transition vehicle.

Massachusetts

In Massachusetts, the Commonwealth Corporation – the agency that ran the Workforce Investment Act and other workforce programs funded by the US Department of Labor– received state funding starting in 1989 to increase and support employee ownership. The resulting Massachusetts Office of Employee Involvement and Ownership (MASSEIO) has helped business owners across the state sell their companies to their employees through an ESOP. Three examples include:

Blitz Media, a 26-year-old company based in Needham, MA, provides comprehensive media planning, strategy, and purchasing services. The co-owners of the company were looking to exit the business but found the prospect of selling to a competitor unappealing. They did not want to see the company they had worked so hard to build simply absorbed by another industry player. Equally important, they were concerned about their 60 employees who they recognized as key elements of their success. Once the owners determined that they wanted to sell the company to their employees, MASSEIO provided assistance with communicating the ESOP to the workforce and developing an ESOP committee. MASSEIO also provided funding to support the conversion to employee ownership, helped coordinate a media event and press coverage for the firm, and provided ongoing communication assistance to the workforce regarding the ESOP. The ESOP was introduced in December 2007. The company is now 100% owned by its employees.

Rex-Cut Products is a leading provider of specialty, high performance abrasive products for grinding, deburring, and finishing. Based in Fall River, MA, Rex-Cut serves domestic and international markets. MASSEIO helped Rex-Cut assess whether an ESOP would enable the company's ownership group to achieve their personal goals while preserving the company's competitive position in the marketplace. MASSEIO provided a technical assistance grant to Rex-Cut to defray part of the cost of a preliminary ESOP feasibility assessment. MASSEIO helped Rex-Cut identify appropriate advisors to conduct the ESOP feasibility assessment and assisted Rex Cut management with reviewing the analysis. Based on the analysis, Rex-Cut decided to proceed with the ESOP. The ESOP took effect January 1, 2008 and the company is now 100% employee owned through an S Corporation ESOP.

Litecontrol, founded in 1936, has facilities in Hanson and in Plympton, Massachusetts with a workforce of 200 employees. Litecontrol is a \$45 million company specializing in architectural lighting fixtures for commercial and institutional markets. When the owner decided to retire in the late 1990's, he could have easily sold the profitable business to one or more large, international conglomerates. But he ultimately decided that a sale to a large outside group "would not be fair" to the employees who helped him build a successful business. Beginning in 1999 he worked with MASSEIO to explore ways to sell the company to his employees. After an initial 30% sale of stock, the owner completed a 100% S Corporation ESOP sale to Litecontrol employees in 2007.

Ohio

The Ohio Employee Ownership Center, a non-profit outreach center based at Kent State University, was established in 1987 to provide outreach, information and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. OEOC operates a "Succession Planning Program" designed to provide business owners with the information they need to get started with their business transition. The Center has received support for the Succession Planning Program from state's Workforce Investment Act (WIA) funding. Examples of business owners selling to ESOPs include:

Steel and aluminum fabricator, 80 employees – The owner attended a succession planning program offered by the Ohio Employee Ownership Center in 2002. At that time he explored employee ownership as a succession strategy but had not made any formal steps in transferring the business. In 2008, the owner became terminally ill and passed away after a short illness. The widow teamed up with top management and the OEOC to structure an immediate sale to all employees via an ESOP. The sale was accomplished within 3 months and the company remains in business.

Chemical distributor, 40 employees – The owner had purchased the company from his father and two other owners. After ten years of running the business, the owner attended a Succession Planning Program sponsored by the OEOC. He wanted to sell a portion of the company to the employees via an ESOP to incentivize employees, finance growth, and extract some equity to diversify personal assets. He sold a minority portion to the employees through an ESOP in 2005-06, and is currently in the process of selling the remainder.

Manufacturer, 100 employees – The majority owner received a flyer for an OEOC succession planning program but was unable to attend due to a previous commitment. He contacted the OEOC to explore selling business to the employees via an ESOP. The OEOC provided technical assistance on a one on one basis that included referrals to outside service providers. The company transitioned to a majority ESOP (solely from majority owners shares) in 2010.

Vegetation management company, 400+ employees – The owner attended one of the first OEOC programs on ESOPs and succession planning in the late 1980s. In 2002-03, the owner sold 100% of the company to the employees via an ESOP. The owner explained that the delay in triggering the deal was a desire to grow the company prior to sale. The company currently has operations in 10 states.