

RETAIL CO-OP

Maine Islanders Band Together to Preserve a Way of Life

Gloria J. LaBrecque

COOPERATIVE FUND OF NEW ENGLAND

A cove near Stonington, on Deer Isle, Maine.

As owners of a valued island business began to think about retiring, the idea of helping their loyal workers form a co-op had real appeal.

On the website of the Deer Isle Chamber of Commerce in Maine, a sign reads, “Welcome to Deer Isle, the Way Life Used to Be.”

Deer Isle is a quintessential New England island, comprising 2,400 residents, beloved businesses (for example, the Stonington Lobster Co-op, Forget-Me-Not Shop, Stonington Farmers’ Market, and Burnt Cove Market), and cultural attractions (a historic farmstead, an opera house, art galleries). From its internationally recognized Haystack Mountain School of Crafts to its lobster and fishing boats in the harbor, the 123-square-mile island has long been a destination for adventurers, seekers of peace and quiet, entrepreneurs, and retirees.

In 2013, however, Deer Isle’s way of life was threatened when the owners of a cornerstone business prepared to retire.

Three Valued Stores

In 1971, Vern and Sandra Seile bought Burnt Cove Market, a small general store with basic groceries, a gas pump, and some furniture in the back. They updated and added on repeatedly over four decades, turning the store into a 10,000-square-foot, full-service supermarket. In 1972, they added the Galley and, in 1995, V&S Variety, featuring items islanders always need—greeting cards, fabric, yard goods, housewares, small appliances, clothes, hardware, and a pharmacy.

But when the Seiles decided to retire, those conveniences—and 60 employees—faced uncertain futures. Anxiety about job loss was magnified by there being limited work alternatives on the island. And if off-islanders bought the stores, then what?

“An outside buyer would likely have consolidated some operations, cut back on offerings, and cut jobs,” says employee Deanna Oliver. “The profits of these businesses would have left the island.”

As members of the Independent Retailers Shared Services Cooperative (IRSSC), a retail marketing cooperative, Vern and

photo cfwphotography / Getty Images



Photos: Mark Sprackland/Independent Retailers Shared Services Co-operative

Sandra knew executive director Mark Sprackland and turned to him with their concern for their employees and customers. Bringing the Cooperative Development Institute (CDI) into the conversation, Mark encouraged the couple to consider selling to their employees.

Rob Brown, director of CDI's Business Ownership Solutions program, explained how the worker-employer business model could work for the Seiles' businesses and employees. After deciding to pursue a cooperative, Vern spoke to key staff members at the three stores, making presentations about cooperative business planning, financing options, and other basics of worker cooperatives. Although employees would not have to take pay cuts, it was important for them to understand the co-op ethic: Cooperatives are not about what's best for an individual, but for the group.¹



Owners should not underestimate the emotional component of the bonds they have forged.

Eighty percent of the staff expressed support for exploring the idea. A dozen experienced employees formed a steering committee and met over three months to learn more about finances for worker-owned businesses, taxation, accounting, valuation, and other critical issues. Sprackland helped them develop a comprehensive business plan, negotiated with suppliers, conducted due diligence, organized documents required by lenders, and trained employees in essential business skills.²

The process of securing financing took place in conjunction with steering committee meetings. The committee negotiated with

the transaction, to secure financing, and to gather all employees for regular meetings during the busy retail season of early summer in Maine.³ Converting the three privately owned local businesses took a year, but as of 2014, there are 45 worker-owners running the Island Employee Cooperative (IEC), the largest worker cooperative in Maine.⁴

"This is a once-in-a-lifetime opportunity," says Alan White, IEC's board president. "Many of us have worked in these stores for decades and never imagined this possibility. We know we have a lot to learn and a lot of work to do to be successful, but success means we will really achieve the American dream: economic security and building wealth through ownership, both for our families and our community."

Establishing a Co-op

Many business owners invest years in creating successful organizations that help define and sustain their communities, providing jobs, anchor capital, and civic philanthropy to rural and urban areas. When faced with decisions of retirement or succession planning, owners should not underestimate the emotional component of the bonds they have forged.⁵

Worker cooperatives by definition are business entities that are owned and controlled by their members, the people who work in them. The central characteristics are: (1) worker-owners who invest in and own the business together, with any surplus distributed equitably, and (2) decision making that is democratic, adhering to the principle of one member, one vote. When owners do not want their business sold off or moved outside of communities they love, when they want to transfer ownership to employees, they should consider converting the business to a cooperative.

the sellers to ascertain how much they themselves would put into the transaction and then reached out to two New England-area community development financial institutions: Maine-based Coastal Enterprises Inc. (CEI), who are recognized experts in rural business development, and the Cooperative Fund of New England (CFNE), experienced in cooperative financing.

"We work with cooperatives of all sizes and in all stages of growth, from start-ups to mature cooperatives."

Since 1975, the Cooperative Fund of New England has been providing financial and technical assistance to cooperatives and nonprofits that share its mission of equality, justice, and social responsibility. In its 40 years, it has disbursed more than \$33 million in 700-plus loans to co-ops and community organizations—without losing any investor funds.

CFNE was the first lender to commit to the start-up financing for the Island Employee Cooperative and helped facilitate the loan process with the other lenders, CEI and Associated Grocers of New England. The process involved careful review of the business plan, the independent business valuation, the financial history, and the revenue projections. The lenders also joined CDI and the IRSSC in assessing the cooperative's structure and its technical assistance contracts. No lender took an ownership stake.⁶

Says CFNE Executive Director Rebecca Dunn, "We work with cooperatives of all sizes and in all stages of growth, from start-ups to mature cooperatives. ... CFNE works to demystify the borrowing and finance process and gets the job done in a transparent, borrower-friendly manner."

The summer of 2014 passed successfully for the cooperative's new worker-owners.⁷ They have begun learning what they need to know about pricing, marketing, merchandising, and supply-chain analysis in order to improve retail margins. As of this writing, they are embarking on 100 hours of specialized training in customer service, retail performance, business-ownership culture, and financial and business management from Eastern Maine Community College, funded by a grant through Maine Quality Centers.

When owners do not want their business sold off and moved outside of communities they love, they should consider converting the business to a cooperative.

The way that so many organizations have collaborated to ensure the success of this cooperative speaks to the common values and strengths of the movement. Concern for community, autonomy, and independence, along with democratic control are hallmarks of cooperative businesses. The Island Employee Cooperative and its partners are living out those qualities in a very real, everyday way.



The Island Employee Cooperative's Halloween display.

Gloria J. LaBrecque is the Northeast loan and outreach officer of the Cooperative Fund of New England. She is based in Portland, Maine. Contact her at Gloria@coopfund.coop.

Endnotes

- ¹ The success of a worker co-op is often measured by the retention of good jobs and the creation of new ones so that the members of the community have employment and income adequate to meet their needs. The co-op needs to stay profitable, but profit maximization is not the goal.
- ² Co-ops face challenges similar to other businesses and need to learn the ropes. Poor management decisions, lack of understanding of the democratic process, or inability to delegate authority can contribute to a co-op's demise. Undercapitalization can hamper the ability of the business to weather market fluctuations and maintain cash flow in lean spells.
- ³ The time of transition often depends on the number of worker-owners involved and the time it takes to secure financing.
- ⁴ The largest in the nation is Cooperative Home Care Associates in the Bronx, with 2,300 worker-owners. Fifteen of the original 60 Burnt Cove employees chose to remain employees rather than become worker-owners.
- ⁵ Martin Staubus, a Rady School of Management, University of California, San Diego, consultant estimates that every year 150,000 to 300,000 businesses, owned at least in part by baby boomers, become candidates for employee takeovers as owners hit retirement age.
- ⁶ The businesses and real estate were valued by an independent appraisal company. A lack of collateral required the sellers to put in some money as a loan, but they took last position as lien holders. Since then, National Cooperative Bank has stepped in, and the Seiles have been paid back on their original first-position loan. They still have second position on a note with the cooperative.
- ⁷ An advisory council composed of the sellers and representatives from each lender is led by members of the IRSSC and the CDI, which provided critical technical assistance in the conversion to a coop structure.

This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at www.bostonfed.org/commdev/c&b.