

## How do I finance my small business's transition to a Worker Co-op?

As the pandemic has forced many restaurants to reassess their business models, employees have reassessed their work conditions and expectations. Employees are interested in jobs that are more accommodating, fulfilling, and offer desirable benefits. Employee owned businesses (EOB) give employees ownership of voting shares and allow employees to manage the direction of the business. In an industry that is finding it difficult to retain workers, restaurants can appeal to employees by transitioning their business to worker corporations (co-op) with the right resources.



Step

1

## Is a Worker Co-Op Right for you?

Take the time to understand what it means to transition your business into a Worker Co-Op

+Impact Studio WIKIHOW

### Step 1: Is a Worker Co-Op Right for Your Business?

#### What is a Worker Co-op?

A Worker Co-op is not a fit-for-all business solution for all restaurants. In order to transition your business's current model, it's important to understand what a co-op business entails. A cooperative is a collectively owned enterprise that serves the interests of its members. Unlike a non-profit organization, co-ops are profit seeking businesses that act in the interest of all their stakeholders. This means a company is owned by its workers, customers, or both and its profits are distributed amongst them.

#### Assess if a Worker Co-op is a right fit for your business:

A Co-op would be a good fit for a business owner who:

- Believes in the greater good and wants to build a connection with the community and within their industry.
- Wants to establish positive business practices by creating a high quality culture and shared responsibility through providing employees with reliable jobs.

- Believes in the risks and rewards of creating an employee owned business that can help change and set a standard within an industry.
- Wants employees to share and receive a fair value from the business.



+is

Step

2

## Get A Business Valuation

Determine how much your business is worth before selling your business to your employees

+Impact Studio WIKIHOW

### Step 2: Get A Business Valuation

Before jumping into a new business model, it's crucial to understand where your business stands. Consider hiring a third party business to receive a thorough sales price and evaluation.

#### Types of Business Evaluations

- **Market Transaction Evaluation** - this type of evaluation uses multiple earnings or cash flow to access and value similar businesses to determine where your business stands in comparison.
- **Income Based Evaluation** - this evaluation is very popular among small businesses as it determines the business's value by accessing how much money it can produce in the future.
- **Asset Based Evaluation** - A co-op's investment within the business is calculated using equal to the business's net asset or book value.

## Valuation Process Checklist:

The following documentation are essential to properly valuing your company:

1. 3-5 years of financial statements and tax returns
2. Updated Business Plan
3. Business Operating Procedures
4. Legal Paperwork
5. A List of Key Managers and Staff



Step

3

## Select a Suitable Financing Option

Explore multiple ways to go about funding your Worker Co-Op.

+Impact Studio WIKIHOW

### Step 3: Select a Suitable Financial Option for Your Co-Op

#### Loan From Financial Institutions

The most common way to fund your Cooperative is getting loans from banks, specific lenders or government programs serving small businesses. Community Development Financial Institutions (CDFIs) can also be considered as they are specifically designed to serve small businesses and underinvested communities. Despite financing a large portion of your cooperative's capital, lenders do not have ownership rights.

#### Common Co-op Lenders

As EOB's become more popular, many institutional US-based investors are interested in funding such purposeful projects. It's important to research and read about the various organizations and institutions that are interested in offering financial support to help your business. Some [common US lenders](#) to consider for your business are:



Finance Institution	Service Area	Loan Amounts	Underwriting Policy
Cooperative Fund of New England	New England and Eastern Upstate NY	\$1,000 to \$1M	Generally collateral is required. Personal guarantees are not required but helpful in lieu of collateral.
Common Wealth Revolving Loan Fund	Ohio & surrounding states	Up to \$250,000	Generally collateral is required. Personal guarantees are not required but helpful in lieu of collateral.
Local Enterprise Assistance Fund	National	\$50,000 - \$400,000	Generally collateral is required. Personal guarantees are not required but helpful in lieu of collateral.
National Cooperative Bank	National	\$500,000 to \$12MM	Collateral is always required. Personal guarantees are not required.
Northern California Community Loan Fund	Northern California	\$50,000 to \$2MM	Collateral is always required. Personal guarantees are not required.
Northcountry Cooperative Development Fund	National	\$5,000 to \$500,000	Generally collateral is required. Personal guarantees are not required except that it may be necessary with start-ups.
The Working World	National	\$1,000 - \$1MM	No collateral or personal guarantee required. Lien on all significant assets purchased with the loan.

[Source](#)

## Equity Financing

Another option, though not as common, allows co-op members to invest personal resources to gain share in ownership, control, and any business profits or losses. This allows them to prioritize and facilitate operations that ultimately meet their needs and interests. Additionally, equity provides businesses with capital without interest expense or fixed payback obligations. Some equity options to look into are:

- Membership equity
- Retained Earnings
- Preferred Stock

## Seek Expert Advice

Changing your business to an employee owned co-op can be a complicated process. In order to ensure that you're following the right protocols and making the right decisions, hiring an experienced advisor can help guide you through your business's specifics.

## In Closing

There are plenty of advantages for restaurants to transition their small business to a worker co-op. By transforming to an employee owned working co-op, restaurant owners can build a strong work culture and relationship with their employees. Additionally, they can protect jobs and reward active employees who participate in the success of the company. By giving employees quality jobs, a voice, sense of ownership and value, worker co-ops have proven to attract talent and retain them; a desirable outcome many restaurants these days are looking for.

### Sources

- [Are Cooperatives Really So Difficult to Finance?](#)
- [Becoming Employee Owned](#)
- [Investing in Worker Ownership](#)
- [Project Equity](#)
- [Business Valuation: An Overview](#)

### About the Authors

#### **Jenan Makki, MSI Student at the University of Michigan**

[jymakki@umich.edu](mailto:jymakki@umich.edu)

Jenan Makki is a first year graduate student at the University of Michigan - School of Information, specializing in User Experience Research and Design. She holds a BBA in Digital Marketing and previously worked at Rocket Mortgage which has shaped her interest in understanding consumer behavior and designing to meet user needs. In her spare time she enjoys spending time with friends and family, traveling, listening to podcasts and a good meal.

#### **Terrence Liu, MSI Student at the University of Michigan**

[terrlu@umich.edu](mailto:terrlu@umich.edu)

Terrence is a MSI UX Research & Design student at the University of Michigan. Terrence has a breadth of knowledge in business strategy, UX & design thinking with a depth of technical skills.



**Cynthia Ding, MSI Student at the University of Michigan**

[dingcy@umich.edu](mailto:dingcy@umich.edu)

Cynthia is a graduate student at the University of Michigan's School of Information pursuing a Master of Science in Information specializing in UX Research and Design. She has a background in marketing and visual design. As a content designer, she is interested in exploring connections between cultures and designing messages that can effectively transcend words.

**Hayley Sakwa, MPP/MBA Student at the University of Michigan**

[hsakwa@umich.edu](mailto:hsakwa@umich.edu)

Hayley Sakwa is a first-year dual degree student in business administration and public policy. She is focused on financial inclusion, economic mobility, and sustainable development. Hayley grew up in Detroit, Michigan and attended University of Michigan as an undergraduate, studying Organizational Studies and Political Science. Prior to graduate school, she worked on building healthy, local food systems in Michigan at United Way for Southeastern Michigan and Cherry Capital Foods. She also spent a year doing community-based work exchanges in Argentina, Japan, and Israel/Palestine.