

# Frequently Asked Worker-Owned Cooperative Questions



---

# Frequently Asked Worker-Owned Cooperative Questions

---

## 1 WHAT TYPE OF BUSINESS CAN TRANSITION INTO AN EMPLOYEE-OWNED COOPERATIVE?

Any business with 3 or more employees can become a worker co-op.

## 2 HOW DO I TRANSITION MY BUSINESS INTO A COOPERATIVE?

We recommend working with a professional co-op consultant like Project Equity and Nexus Community Partners. A good co-op consultant can help you decide which cooperative structure is the right for your business, and guide you through the steps of establishing it. They will help you find local resources to complete your transition, and provide training for everyone who will play a role in the transition and the new co-op. A general overview of transitioning your business into a cooperative looks like this:

1. Perform a feasibility study and obtain a business valuation
2. Test for employee interest in taking on ownership of the business
3. Provide cooperative and business training for steering committee members
4. Structure the sale with a CPA and lawyer
5. Secure a loan to cover the buy-out and structure seller financing (generally required by most lenders)
6. Complete the sale
7. Post transition support can include the owner continuing to consult for the new co-op

---

# Frequently Asked Worker-Owned Cooperative Questions

---

## **3 IS THERE A TAX ADVANTAGE TO CONVERTING MY COMPANY INTO A COOPERATIVE?**

Yes, The Mainstreet Employee Ownership Act allows for deferred capital gains, for qualified investments, when over 30% of a business is sold to its' employees.

## **4 HOW DOES THE VALUE I CAN RECEIVE WHEN CONVERTING INTO A CO-OP COMPARE TO WHAT I CAN RECEIVE THROUGH A TRADITIONAL SALE PROCESS?**

You can expect to receive the fair market value of your business as you convert it into a cooperative. You'll need a deep financial assessment as a part of your transition, and the result should dictate sale price. The new cooperative can take out a loan to finance an asset purchase, or you can set up a financing plan for the new cooperative to pay you out over set terms and conditions, or some combination of the two. There is flexibility for you to establish how much ownership you retain, how much you're paid out, and over what length of time a full co-op transition occurs.

## **5 DO EMPLOYEE-OWNERS OF A COOPERATIVE EXERCISE VOTING RIGHTS WITH THEIR MEMBERSHIP SHARES?**

Yes. Employee-owners of the cooperative meet and typically elect board members and vote on important cooperative issues as defined by the bylaws (for example ratifying compensation policies and annual budgets).

---

# Frequently Asked Worker-Owned Cooperative Questions

---

## **6 IF I CONVERT INTO A COOPERATIVE DO EMPLOYEES TAKE CONTROL OF THE OPERATION OF THE BUSINESS?**

Employee members of the new cooperative will take on voting privileges and other top-level operational decisions of the business. Members elect a Board of Directors to oversee strategy, budgeting, policy, and management. Some owner-sellers choose to stay at the cooperative as one of the employee-owners. Others completely sell the business to the cooperative. The co-op transition process is flexible in terms of timeline and conditions. The transition can happen quickly, especially with professional help and a motivated employee/consumer group. Or it can happen gradually (months or years) as you establish the cooperative properly before stepping back.

## **7 DO I HAVE TO ESTABLISH A BOARD OF DIRECTORS IF I TRANSITION INTO A COOPERATIVE?**

Yes. The board of directors should be made up of employee-owners who are voted onto the board for set terms. Your cooperative might also write its bylaws to allow outside experts to serve on the board.

## **8 WILL I BE REQUIRED TO SELF-FINANCE ANY PART OF THE SALE OF MY BUSINESS TO A CO-OP?**

This will depend on the lender, but generally 30-40% of the sale price will need to be self-financed. This can take the form of seller notes, earn-outs, or preferred equity.

---

# Frequently Asked Worker-Owned Cooperative Questions

---

## 9 HOW ARE PROFITS FROM THE COOPERATIVE SHARED WITH MEMBER-OWNERS?

Member-owners of cooperatives share the profits of the co-op through patronage dividends. Often paid on an annual basis (flexible), patronage is generally based on hours worked by each member, but can be any equitable formula that calculates a member's contribution to the co-op as outlined in the co-op's bylaws.

## 10 HOW DO MEMBERS SELL THEIR SHARES OF THE CO-OP?

Member-owners of the co-op are free to leave at any time, according to International Cooperative Principle #1 "Open and Voluntary Membership." Upon departure, the member-owner's share(s) are sold back to the cooperative, and their retained earnings are paid out by the cooperative under terms outlined in the bylaws.

## 11 MY COMPANY IS EXTREMELY COMPETITIVE IN OUR MARKETPLACE, IS THIS STILL POSSIBLE AS A CO-OP?

Yes. In most cases, cooperatives have extra benefits that actually increase its competitiveness:

- Profit sharing and ownership increase employee engagement
- Adaptability from more input at the ownership level
- More operational business knowledge across the entire staff
- Both consumers and employees are attracted to cooperative business models

---

# Frequently Asked Worker-Owned Cooperative Questions

---

## **12 I'VE BEEN TOLD COOPERATIVES ARE TOO EXPENSIVE TO CONSIDER AS AN OPTION FOR SELLING MY BUSINESS, IS THIS TRUE?**

No matter what type of sale is occurring, selling a business generally incurs legal and tax costs. When compared to typical broker commissions and costs of other types of sale, selling to a cooperative is not necessarily more or less expensive than any other option.

## **13 I'VE BEEN TOLD COOPERATIVES ARE TOO COMPLICATED TO CONSIDER AS AN OPTION FOR SELLING MY BUSINESS, IS THIS TRUE?**

Selling to an employee-owned cooperative can require extra communication and training of employees leading up to the sale. However, the fundamental elements of the sale (legal and tax preparations) are similar to selling to any other entity. With a variety of finance options available, you can structure your business transition (sale) into a co-op however it works best for all parties involved.

## **14 MY EMPLOYEES DO NOT HAVE THE SAME EXPERIENCE AS I DO IN RUNNING OUR BUSINESS, HOW WILL A CO-OP SUCCEED IF I'M NOT THERE TO RUN IT?**

This is why employee-owner training is crucial to your co-op transition, and why it's a good idea to work with a professional cooperative consultant who can provide said training. Business responsibilities you're handing over to new member-owners should be clearly outlined, and delegated with as much advance notice as possible. This allows the new member-owners to work on their new responsibilities while you're still around helping with the transition, so they're ready when you do depart. For the duration of the seller notes or earn-outs, it can also be a good idea to serve on the initial Board of Directors for the new co-op.

---

## Contact Us:

---



MNCEO.org



@MinnesotaCEO



@minnesotaceo



@Minnesota Center For  
Employee Ownership



Sue Crockett  
Executive Director of MNCEO  
scrockett@mnceo.org  
612-590-1191

In Partnership with Employee Ownership Expansion Network:



Steve Storkan  
Executive Director of EOX  
sstorkan@eoxnetwork.org  
651-319-1874