Succession Planning – Selling Your Store to Your Employees

Daniel Wallace
Coastal Enterprises, Inc.

Mark Sprackland
Independent Retailers Shared Services Cooperative

Vern Seile
Former Owner of the Two Grocery Stores

Rob Brown
Cooperative Development Institute

See next page for additional authors

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Presenter Information
Daniel Wallace, Mark Sprackland, Vern Seile, and Rob Brown
Succession Planning

SELLING YOUR STORE TO YOUR EMPLOYEES

DANIEL WALLACE
RURAL GROCERY SUMMIT
JUNE 2014

CEI
Capital for Opportunity and Change
Platform for Sustainable Lending & Investing
2013 - 2017

- $128MM platform
- Market: rural communities – Maine & U.S.
- Financing, business development and policy
- Alignment of capital with social justice
• CEI’s Agriculture & Food Systems Program supports farms, food businesses, and healthy food access for all.

• Since 2010, over $5MM invested in farmers and the value-chain, creating 360+ jobs and maintaining 4,000+ acres of farmland.
Store details

- The Galley: 8,000 sq ft
- BCM: 13,000 sq ft
- Nearest “big” city
  - Bangor, 58 miles, 90 min drive, pop 32,817
- Primary competitors
  - Tradewinds, Blue Hill, 23 miles, 44 mins
  - Walmart, Ellsworth, 37 miles, 60 mins
Demographics

- **Stonington**
  - Pop 1043, declining
  - MHI: $36,772 (Maine is $46,033)
  - Ave age: 50.1
  - Unemployment: 10.3%, seasonal

- **Deer Isle**
  - Pop 1975, rising
  - MHI: $41,776
  - Ave age: 51.6
  - Unemployment: 9.6%, seasonal

- The population of both towns DOUBLES in the summer.
- Local economy: Lobster fishing, arts, and tourism
BCM built in 1960, purchased by current owners in 1971
- Galley built in 1972
- (Variety, pharmacy, gas added in 1995)
- 43 year history!
- Many of the employees have worked there for decades
Project timeline

- May 2013 – TA providers approach owner
  - Coop conversion model
- June 2013 – First meeting with key employees
- August 2013 – Employee commitments
- December 2013 – Incorporate
- January 2014 – Sign purchase & sale agreement
- February 2014 – Complete application for finance
  - Business plan!
- June 11, 2014 – Close deal
Key elements

- Support of retiring store owner
- Technical assistance providers
- Time, patience, and drive
Technical Assistance Providers

- Cooperative Development
- Industry
- Accounting
- Legal
Cooperative Development

- Choosing a type: worker cooperative
  - Worker conversions
  - Consumer, producer, resident-owned
- Organize and get buy-in from employees
- Create governance documents
- Develop management structure
- LEARN how to democratically operate a business
Finance Structure

- CEI’s role: organizing a financing consortium
- Seller financing - equity
- Inventory financing
- Plus three lenders
Finance Details

- Class A (voting) and Class B shares
- Employee owner contribution
- Real estate valuation and business valuation
- 5 year TA contracts
- Going concern made it hard to find conventional lenders
Benefit to store owner

- Purchase price
- Community legacy
- 1042 rollover
- Reward employees
Benefit to employees

- Wealth creation event
- Job protection
- Select management, participate in running the business
- Equitable share in company proceeds
What’s next?

- Closing is Wednesday!
- 42 employee-owners
- Motivation to improve stores
  - Category management
  - Leakage: surveys and strategies
  - Deferred maintenance
  - Update marketing
- Maine farm and value-add products
Contact Info:
Daniel Wallace  
Program Developer  
Sustainable Agriculture & Food Systems Program  
CEI  
36 Water Street  
P.O. Box 268  
Wiscasset, ME 04578

Email: dwallace@ceimaine.org

CEI
- www.ceimaine.org
- Twitter: @ceimaine
- Facebook: Coastal Enterprises Inc.