Case Studies

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Worker Co-op Buy-out Guide

co-op ventures worker co-op

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Nanaimo Forest Products

Background

The Harmac mill is a three-line Northern Bleached Softwood Kraft (NBSK) pulp mill located on the east coast of Vancouver Island near Nanaimo, British Columbia. The mill is one of Canada's largest market pulp producers with a rated capacity of 400,000 annual metric tons.

The mill produces high quality kraft pulps made from custom blends of Douglas fir, western hemlock, balsam and western red cedar. The pulp is sold in Europe, North America, the Pacific Rim and Latin America. With its strategic location on a deep water port, the mill is well situated for cost effective export of pulp and receipt of wood fibre.

The mill had about 530 employees, most of whom are represented by the Communications, Energy and Paperworkers Union Local No. 8. Harmac enjoyed an excellent working relationship with the union, which was key in the days and months to come.

In May 2008, the former owner, Oregon-based Pope & Talbot, went bankrupt and closed its saw and pulp mills.

The Options

When a major unionized company slides into bankruptcy, union leaders often find their roles dramatically transformed: once-remote managers become allies; hard-won benefits turn into job-threatening costs; and grievance arbitration takes a back seat to the fight for survival.

Each of those challenges confronted the members of Nanaimo's Pulp, Paper and Woodworkers Union of Canada Local 8 in May, when U.S-based Pope & Talbot slid into receivership, and its Harmac pulp mill was put up for auction. Their experience indicates that unionization, far from hurting the mill's chances, was probably vital to its rebirth.

Initially, workers hoped the bankruptcy auction process would produce a buyer who would have the capital to restore the plant to its glory days. But after a tentative offer from Indonesian pulp giant APP was withdrawn, some of the workers started thinking outside the box.

The Process

During the next two months, the proud, independent and militant members of Local 8 had a crash course in management, capitalization and teamwork. In Nanaimo, business expertise came from local managers, and equity partners were found among firms interested in Harmac's assets. This technical advice is critical to determining the feasibility of the buy-out and business planning for the new ownership group.

Financing the Buy-out

In mid-July, B.C. Supreme Court Justice Donald Brenner approved a $13.2 million offer to buy Harmac put together by Nanaimo Forest Products (NFP), the firm created by employee representatives, local management and three equity partners.

A majority of the local's members each committed up to $25,000 in cash, ratified a new collective agreement with significant cost savings and created a partnership with the equity partners in NFP. Wages were not cut, although increases from previous pattern agreements were not applied. And workers and managers alike agreed to "zero-out" their seniority, saving money on benefits. Each of the 200 returning workers has invested $10,000 to date and will invest another $5,000 in each of the next three years.

After the Conversion

More than 200 workers returned to the mill September 2, 2008. The mill is now owned by Nanaimo Forest Products, a group of four organizations. The Harmac Employee Holding Group, formed by the mill's workers and managers, owns 25 per cent of Nanaimo Forest Products. The other groups also each own 25 per cent: Lake-based Pioneer Log Homes, the Vancouver-based Sampson Group and Fraser Valley Construction Company, and Totzauer Holdings. The venture capital investors complement the employee owners; they are all local companies that had built their businesses gradually through hard work and dedication.

Everyone involved agreed that the buy-out group did a good job. The group consisted of the management of the mill and the president, treasurer and 1st vice-president of Local 8. The union leaders did an excellent job of explaining the benefits of employee ownership to the members. They also worked hard to reorganize the staffing structure in a way that made sense for the now locally owned enterprise. The management team knew the business and developed a business plan that made sense and proved that the plant was viable. This step is key to a successful buy-out.

Of the 530 employees who used to work at the mill, 200 workers are back.

However, a planned addition of 300 employees for the second line has been pushed back until Fall 2009, due to the current economic situation. The demand for products needs to grow enough to warrant the increased staffing and the current cost of supply (fibre wood chips) is also affecting business growth. Under its new ownership model, Harmac has shaved more than $100 per tonne off production costs, keeping it viable during the severe economic downturn while many other mills have closed.

Adapted from Canwest News Service article, Published: October 03, 2008 and http://wikimapia.org/2217856/Harmac-Pacific-pulp-mill

Ambulance Sector in Quebec

Background

Co-operative development in the ambulance sector started with the unionization of ambulance workers in 1983-1984. Following this process, ambulance workers wanted to negotiate directly with the government, rather than with private companies that held the ambulance permits. At that time, there were also serious congestion problems in emergency wards. Ambulance workers played an important role in dealing with this problem because their activities generated as much as 80 per cent of emergency ward volume. There was a need for better dispatching of ambulance-borne patients to the various emergency wards.

This need for greater co-ordination had become problematic because there were 23 private ambulance companies across the province. Calls were not being managed efficiently. A re-organization of the industry was in the best interest of the government, so that the government could rely on a more efficient and effective ambulance structure. It was also in the best interest of ambulance workers who had low wages, no training and outdated equipment. The idea of uniting the ambulance network to increase efficiency became a very important issue.

The Options

From the perspective of private companies, a strong union voice that wanted to negotiate with the government would strip them of control of over 80% of their cost (labour). They stood to lose their profit margin, and quickly came to the conclusion that they would be better off selling out.

Apart from the government, the only interested buyers were the workers. The idea of creating a co-operative gradually took hold. At the time, ambulance workers earned $6.00 an hour and did not have the means to invest in the purchase of permits and equipment. Moreover, interest rates were fluctuating between 15 and 20 per cent. During the process of unionization, there were a few attempted buy-outs happening concurrently in various places in Quebec. In this situation, unionization and cooperation became the two complementary ingredients needed to implement a more efficiently organized ambulance service.

With the exception of major urban centres, the co-operative model was adopted. It turned out to be the most efficient model. At present, co-operative workers hold, on average, $50,000 in privileged shares in their co-operative. This capital has accumulated since the beginning of 1983. Ambulance workers now earn $22 per hour. As well, annual patronage dividends to members amount to approximately $8,000 per year.

Without the union's action, the ambulance co-operative sector would not exist. It could not take advantage of the economic intervention tools that had enabled the sector's reorganisation. The workers could not have taken advantage of the various agents specialized in co-operative development accompaniment. The success experienced in this sector is due to the network of agents within the umbrella of the union organization, the Confédération des syndicats nationaux (CSN).

Financing the Buy-out

This sector conversion took place in three phases:

1) The development of the co-operative

The technical expertise necessary for completing Phase One was made available by the CSN via MCE Conseils, a Quebec co-operative development advisory services firm, provided employee training. MCE Conseils also provided employee supervision in the training phase. Start-up financing was supplied by the CSN's solidarity financing network, in particular the Caisse d'economie solidaire (Solidarity Credit Union), which at the time was known as the Caisses d'économie des travailleuses et travailleurs du Québec, the Workers' Credit Union of Quebec.

Toget an ambulance co-operative underway in Quebec, unionized ambulance workers only have to give the mandate to their union, who will call upon MCE for technical, economic and co-operative expertise as well as the CSN's solidarity financing network (FondAction, Solidarity Credit Union, Filaction) for the required capital.

2) Day-to-day issues

It is important to find the right model to ensure a good balance among the stakeholders in an ambulance co-operative. Three key parties are involved: unionised workers, co-operative members, and the government. A fourth party, the financial partners (the CSN's network) is also involved. The government is also involved via professional practice standards. There can be difficulties when there is confusion between the union and the co-operative. The day-to-day management of these entities is rendered more complex in the case of the largest co-operatives, since many members are involved (200 and more). Although the co-operatives' revenues are guaranteed by the government, it is important to exercise good control of spending to ensure the co-operatives' long-term survival. Issues such as these point to the need for excellent governance and management practices, which can help to address them.

3) Expanding the model

Phase Three involves expanding the model. The tools that the CSN's network has established provide technical expertise and advice with the economic, co-operative and financing aspects of the project. It is therefore quite realistic to envision expansion. The co-operative formula is advantageous for the government and ambulance workers alike. The other actors in the health care system have changed their view of ambulance workers as well. As the efficiency of the services improve, they are increasingly viewed as partners in the health network.

There is still room for some consolidation involving private (family) companies. Opportunities also exist in related sectors, such as adapted transportation for handicapped people, which is inefficient because it is poorly organized. Its inefficiency also has repercussions for the ambulance sector. When an ambulance is called upon as a replacement, that transportation is more expensive.

After the Conversion

As of February 2007, there were eight ambulance co-operatives in Quebec. Among those, two have taken the form of worker-shareholder co-operatives. The remainder are worker co-operatives.

In total, there are about 1150 employees in these ambulance co-operatives. Excluding Montréal (which is served by Urgences-santé [public sector]), ambulance co-operatives handle around half the ambulance interventions in Québec.

As mentioned, hourly wages increased from $6 per hour to $22 per hour (not in constant dollars). Prior to the sector conversion, the industry was characterized by unsafe vehicles, inadequate equipment, and an almost complete absence of training. At present, vehicles meet national quality standards, equipment is adequate, and all ambulance workers must have college-level training.

Enormous progress has been made in ambulance services. As well, there is better coordination with physicians, who have gone so far as to create elaborate intervention protocols for ambulance workers. There has been an increase in professionalism in the entire ambulance worker field.

As of April 2009, the ambulance co-operatives are still enjoying great success. Response times and service levels continue to improve. The current challenge is a shortage of new paramedics to replace those who are retiring.

Reprinted with minor modificatons from Daniel Côté, Joy Emmanuel and Lyn Cayo (2007) Effective Practices in Starting Co-ops: The Voice of Canadian Co-op Developers, New Rochdale Press University of Victoria p. 111-113.

Maumee Authority Stamping

Background

The Ford Motor Company purchased the Maumee Stamping Plant from Midland Ross in 1974. Ford added approximately 400,000 square feet of manufacturing space and installed the latest stamping presses and controls. The plant produced exterior, interior, and underbody parts as well as metal and plastic stampings and assemblies for passenger car and light truck applications. There were four major business activities: metal stamping (7 major press lines, 5 minor press lines and three high tonnage blanking presses), hot plastic stamping (7 fully automated lines), metal and plastic assembly, and warehouse/storage.

In September 2006, Ford announced that the plant would be closed in September 2008. The consolidation of Ford's stamping operations was accelerated to September 2007 and the plant closed at that time.

The Options

As the closing was announced, the State of Ohio began negotiating with Ford to buy the plant and lease it back to Ford. However, Ford did not agree to the deal. One former employee read about this development and quickly determined that there was an opportunity to change the traditional manufacturing model by creating an employee-owned company. As a former engineer in the plant, he knew there was a better way to structure the operation. He began the task of creating a business case for a new company.

The community and local business people were very supportive of the effort to re-open the plant. Three information sessions were held and 500 people agreed to invest their money. This commitment solidified the buy-out plans and helped leverage the financing needed to complete the sale.

Maumee Authority Stamping, Inc. (MAS) was created and registered in the State of Ohio as a corporation whose charter was to purchase the assets of the Maumee Stamping Plant from the Ford Motor Company and operate it as a supplier of metal and plastic stampings and assemblies to both automotive and non-automotive markets. The 800,000 square foot plant is located on 70 acres in Maumee, Ohio, in the heart of the Midwest at the intersection of I-75 and I-80/90. This location places the plant within a 500 mile radius of 93 million people—almost 40 per cent of the population of the country.

The first step for the buy-out committee was to test the viability of the plant from the market perspective. Several sales executives, who knew the needs of the market and the capabilities of the plant, did the research. They learned that the market needed a supplier with the capabilities that MAS could offer.

The new company's niche was committed to high quality, low cost manufacturing with the ability to be efficient at differing production requirements — a specialty supplier.

Advisors from the Ohio Employee Ownership Center (OEOC) led MAS through an employee-ownership process. The initial design was to create a worker-owned company where rewards of ownership would be shared with all employees. The OEOC also funded a feasibility study to research the viability of the business model in the current economic environment.

The study included the following:

1. develop a market plan;
2. recruit a sales team;
3. document plant capabilities;
4. create a quoting function;
5. submit quotes to customers; and
6. solicit letters of intent and interest from potential customers.

In a short time, the study produced a list of 10 customers with a strong interest in purchasing products from MAS. The conclusion of the study was that a viable and profitable venture could be formed from acquiring the assets and operating as an employee-owned company.

Financing the Buy-out

Each employee agreed to invest a minimum of $16,000 and accumulate shares of the company. As of April 2009, 300 shares have been sold and the funds generated will be used as needed to bridge to other funding strategies.

To attract investors and customers, MAS employees' compensation would be less than what is traditional for both hourly and salary employees. Wages would be supplemented by profit-sharing programs. All financial models reflect that the company can break even at substantially less than 50 per cent capacity. Armed with this financial model, the committee set out to complete its acquisition of the land, building and equipment.

MAS contracted Edge Point Capital, a Cleveland, Ohio investment firm, to generate a candidate list of investors for the new company. State officials sweetened the deal by providing funds for job creation.

After the Conversion

The acquisition of the plant, property and equipment was completed on January 16, 2009. There are 50 employees working in the company soliciting orders and preparing the processing equipment for the re-start of parts manufacturing at the site. A United Auto Workers representative has a seat on the board of the new company and assists with equipment purchase and staffing decisions.

As of April 2009, sales contracts have been signed and the first 50 employees called back to work. For the other workers who invested, their money is being held in a retirement account until production levels warrant.

Reprinted with minor modifications from Ohio Employee Ownership Center`s Owners At Work - Winter 2008

Tower Colliery

Background

Tower Colliery, based in the South Wales Coal-field, was closed by the British Coal Board in 1994. It was then offered for sale as part of the then UK Government's policy to privatize the whole British coal industry.

The colliery had been in existence since the 19th century and was capable of producing 900,000 tons of coal a year. The coal is of a very high quality and has a ready market, both in the industrial and domestic sectors.

The local lodge of the National Union of Mineworkers had led a very public fight to prevent the mine closure. They felt the mine was economically sound and had good reserves for at least ten year's production. They also knew the managers wanted to buy the mine.

The Options

The miners approached the Wales Co-operative Development and Training Centre for help in preparing a bid. They approached the centre because of its strong trade union links. It is the only co-operative centre in the UK financed by the Trades Union Congress.

An early meeting was held with all the workers to explain the process involved in mounting a bid and to outline the legal and financial structure of a co-operative.

They were also asked to think seriously about investing their own money in the venture. The meeting was very enthusiastic and regular meetings with all the men were held throughout the process.

The Process

A steering committee of eight miners was elected to work with the centre to prepare a business plan. This was to include a mining plan, an independent survey and financial projections.

The steering committee worked with the centre for four months to prepare this plan. It was then decided to appoint Price Waterhouse as financial advisers. The bid would have to be made in open competition with large mining companies and specialist advice was needed on structuring the bid. They also helped to negotiate the financial details with Rothschilds, who were acting for the government on the sale of all the coal mines.

Financing the Buy-out

The finance was raised initially by the 250 miners each investing £8,000, which raised £2,000,000, and a loan of £1,000,000 from Barclays Bank. Most of the miners used their severance pay for this, though 60 of them took out personal loans to fund their investment. A royalty payment to the government for each ton of coal sold over the first five years was negotiated. In effect, the mine was purchased with an initial down payment of £2,000,000 followed by a system of deferred payments. There is also an Employee Benefit Trust to provide an internal market for shares (employees must sell their shares back to the company on leaving).

The planning started in April 1994, the government announced that the miners were the preferred bidders in October 1994, and the deal was completed in December 1994. The mine commenced working under new ownership in January 1995.

After the Conversion

The new company has been successfully trading since early 1995 and has recorded a profit every year. It employs over 300 people and has plans for expansion in to other mines. It has established a very popular visitors' centre and has close links with the local community.

In January 2008, the mine closed as the coal had run out. Miners at Wales' last deep mine have marked its closure with a celebratory march, similar to the parade staged when they bought the pit in 1994. Back then the Mining Authority said the mine only had enough coal to run for another 5 years, but the workers kept the mine up and running for 13 years.

Adapted from The Capital Ownership Group website. Title: Employee Ownership Options - Tower Colliery (http://cog.kent.edu/archives/orglabor/msg00016.html and http://news.bbc.co.uk/1/hi/wales/7200432.stm

Sharpsville Quality Products

Background

Since 1907, the Sharpsville ingot-mold foundry of Shenango Inc. had been a stable employer. It was a good place to work with good wages, good benefits and a close-knit workforce. A family feeling was fostered by the Synders, the local civic-minded owners. When William Synder II retired, the plant was purchased through part of Shenango Group, Inc., a Pittsburgh-based company specializing in coke ovens. Most of the 300 local employees were represented by the United Steel Workers of America (USW). The employees feared that new owners would scrap the plant for cash and leave the hard-hit community, taking the high-quality jobs with them. Employee participation, concessions, and the union's creative money-saving ideas were not enough: lacking cash for capital improvements, the Sharpsville plant closure seemed imminent.

The leadership of this union local sought alternatives to a shutdown. The Sharpsville workers were not surprised when Shenango Group filed for Chapter 11 bankruptcy protection on December 14, 1992. The announcement came on March 2, 1993: the Sharpsville plant would close in three days.

The Options

After reviewing the options available, the managers and workers decided to explore the possibility of taking over the plant. The move to a participatory workplace allowed the manager and employees to learn the business. The information they gathered would be crucial to their future buy-out effort.

They turned the shutdown into a new beginning. The steel workers union organised an employee buy-out. The local leadership understood that if the machinery was moved out, there would be nothing left to buy. Taking a page from American labour history, the local staged a sit-in and organized community rallies at the plant gates. The goal was to stop the removal of equipment and to force the Shenango group, its bank, its secured creditors, and the bankruptcy court to take the employee buy-out seriously. The sit-in became a focal point for the community, which had lost more than 10,000 industrial jobs in the previous decade.

Financing the Buy-out

Local church ministers and the plant manager (who was also the USW local president), set up a trust fund to help the buy-out effort. It was called the ANB, "A New Beginning". Within a few months, the community, local churches and the steel workers had pledged more than a quarter of a million dollars to the ANB trust. These funds would sustain the buy-out committee over the long haul to re-open the plant. The community support and the ANB trust were vital to the buy-out effort. But huge barriers remained. There was no willing seller, the market for ingot-mold was declining, and the new firm was an unlikely candidate for financing. Undaunted, the steel workers dove in, determined to do "whatever it takes" to make the buy-out happen.

Under the pressure of the sit-in, publicity, and an argument that their creditors were getting ripped off, the Shenango Group and Mellon bank agreed to meet with the buy-out committee. Negotiations followed. On April 15, 1993, a letter of intent was signed. Shenango agreed to sell to the employees, ending the sit-in.

Even with the ANB's $250,000 behind them, financing was still very questionable. Wide publicity attracted two important new allies for the buy-out group. The Steel Valley Authority (SVA), a Pittsburgh-area labour-community development agency, got involved with the buy-out effort and other technical advisors were drawn to the project.

The SVA staff helped the buy-out committee locate and make use of state programs and the steel workers' international union financed a feasibility study. The public sector came up with grants and loans enough to meet the purchase price of $1.28 million. Unfortunately, all of the loans were contingent on a solid business plan which called for a financing package of $5 million to $6 million. To address the shortfall, the buy-out committee sought three separate employee stock ownership plan loans, a line of credit, equity investments and bridge financing from an equity investor who was impressed by the community's and the employees' efforts. The final deal included financing from fourteen separate entities and the additional $6 million was secured.

After the Conversion

On November 11, 1993, the bankruptcy judge approved the sale of the Sharpsville Shenango plant to the new company, Sharpsville Quality Products. On Christmas Eve 1993, the deal was complete. The tenacity of the members, the union, the technical advisors and the community paid off.

Sharpsville Quality Products operated as an employee owned business for eight years. The company closed in late 2001, toward the end of the steel crisis.

Adapted from A Steelworker Solution by Stephen Clifford. Published in The Progressive, February 1995.