

# Wave of Retiring Owners Threatens Co-op Stability

By RICH MORRIS

**T**he number of independent business owners who will be retiring from a purchasing cooperative is not a new issue. However, retirements are growing at a rapid rate and impacting all co-ops with members who are independent business

owners. “We do work to find another suitable member in that specific market but this can be very challenging since the best alternative company might already belong to our co-op competitor and anyone else is either too small or does not fit our membership criteria,” she said.

retiring member’s business in the co-op. Some cooperatives are exploring ways to raise money from among their members, but other forms of funding are needed.

**Nurture the next generation.** Many cooperatives have next generation educational programs, networking clubs, and special activities to assist with the inevitable family business issues. Earl Ward, president and CEO of the roofing and siding cooperative Nemeon Inc. explains, “We started a ‘Next Generation’ group within our cooperative to better educate and prepare the leaders of tomorrow—reducing the ‘loss factor’ of our membership by engaging the future leaders much earlier in their careers.” Cooperatives often find their future board and committee member successors in these groups as well.

If a cooperative wants to find out how many of its members will be transitioning in the near future as well as the number that will likely be continuing as members of the cooperative, ROI Consulting is performing a free confidential transition survey of cooperative members during August 2011. Email [free.survey@richroi.com](mailto:free.survey@richroi.com) for information.

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BRUCE CAROZZI, SALES DIRECTOR  
TRUE VALUE COMPANY RETAIL OPERATIONS

owners, including farmers and franchisees.

This trend stems from a well-known demographic shift expected to last for nearly two decades: AARP reports that starting in 2011 more than 7,000 baby boomers a day will turn 65 years old in the United States. Consequently, nearly three-quarters of all small business owners—as many as 10 million—are expected to sell within the next decade.

Here are some additional critical issues to consider, which further complicate matters for co-ops whose members are small businesses owners:

- Entrepreneurs spend most of their time working their businesses; planning for retirement is like planning for death.
- Advisors may direct their clients to keep an impending sale confidential—otherwise employees, competitors, and vendors may impede business during the sale process.
- Co-ops facing a wave of member retirements may be unable to pay back equity investments. Members may then feel stuck because their membership vote represents their best hope of getting their equity returned.

## Who Will Replace Retiring Members?

Today’s young adults are not usually attracted to pursuing mom and dad’s business. Even when they are, the potential for success is not promising. According to the Family Business Institute, less than 30 percent of businesses will successfully transfer to the next generation, with only 12 percent making it to the third.

Industry changes also matter. The older an industry, the more difficult the task of finding new cooperative members.

Roger Neu, president of the Independent Welding Distributors Cooperative explained, “In 1980 there were 1,250 independent distributors in our industry,” he said. “Today there are only about 725. Finding replacement members for those we lose is becoming more difficult.”

Carol Shackelford, CEO of the tool and fastener cooperative Sphere 1, Inc. concurs.

## Best Practices and Solutions

Despite these difficulties, it’s a matter of pragmatism and principle: Co-ops must strategically plan for this generational shift. Here are some ideas:

**Provide information.** Offering education in the form of workshops, webinars, and articles in member publications keep transition issues in the forefront while identifying successful transition tools. Helping members sell or transition their business can be very healthy for a cooperative, but the process is long and complex. Education is essential.

**Find a specialist.** Often the advisors that members have previously used are not transition specialists; more likely they provide accounting and legal advice related to the ongoing business. One solution is hiring a transition expert who can offer a sophisticated array of options to businesses going through an exit or succession process. This can happen at cooperative meetings, by phone, or on a secure internet connection.

**Play matchmaker.** Encouraging other members to buy a retiring member’s business is good for the cooperative. Some cooperatives already offer these services, often using the co-op’s CEO as intermediary. However, when matching a member who wants to retire with a potential buyer, confidentiality is the key.

**Protect privacy.** Succession planning and selling the business are very private matters, and some think a cooperative should not get involved. Hiring an outside firm to play matchmaker is often a better option, as security and confidentiality are more easily maintained. Additionally, the hired firm does not become involved in the transaction, which avoids any conflict of interest.

**Look for internal buyers.** Employees of the business or other members of the co-op could purchase a retiring member’s business, but cash and loans are often unavailable. Without such capital, the cooperative loses potential buyers who could maintain the

## Pulling It All Together

An integrated approach is needed, and possibly the best advice comes from Bruce Carozzi, senior director of retail operations for the True Value Company. “A co-op needs to come alongside its members and partner with them as they start the process of succession planning,” he said. “The goal would be to allow an easy entry point into the process so it does not seem so intimidating to the member. Second, the co-op should support a program that allows for the members that have started this process already to be able to easily

get plugged in to the co-op’s process for additional support.”

Managing a wave of member retirements is a serious issue, but with advance planning and diligence, it can be handled in a way that strengthens your cooperative. Don’t wait until your hand is forced.

Richard Morris is principal of Evanston, Ill.-based Resource for Ownership Intelligence, which helps family owners expand and pass down their business to subsequent generations. He is also a consultant for the NCBA Purchasing Co-op Conference. For more information, please visit <http://richroi.com>.

The National Cooperative Business Association

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NCBA looks forward to continuing our work together on this important UN recognition of the value of cooperatives in the United States and the global economy.

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