

News

When Workers Become Owners

Real Pickles charts an unconventional course

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Sarah Adams photo

A couple of years ago, Dan Rosenberg and his wife, Addie Rose Holland, began to think about the future they envisioned for their Greenfield-based company, Real Pickles, which makes pickled organic vegetables, using regionally grown produce and a traditional fermentation process.

As with any new, small business, the early days were challenging. “For a lot of years, I would say it felt incredibly slow, the progress,” said Rosenberg, who founded the company in 2001 and was joined a couple of years later by Holland. The pair built up Real Pickles on a shoestring budget and without a lot of previous business experience, and they relied heavily on loans to buy large amounts of fresh, local produce during the limited growing season, he said. “It took a decade before it reached the point where it felt like a business that could produce an income.”

Today, the company’s products can be found in stores in nine states across the Northeast, from natural food co-ops to Whole Foods. Reaching that level of success prompted Rosenberg and Holland to begin thinking about the direction they wanted to see the company go. While the couple has no plans to leave Real Pickles in the immediate future, Rosenberg said, “we wanted to think long term,” with an eye to maintaining the social mission that drives the business. That mission includes sustainable practices, from the solar panels that power Real Pickles’ plant to a commitment to both sourcing its produce and selling its products regionally.

In particular, they wanted to steer clear of the path so many small natural food companies take once they become successful: selling out to a large corporation. While such a move can help a company continue to grow, too often it does so at the expense of the principles that were behind its founding, Rosenberg said.

“We wanted to make sure the business went in a different direction. ... We’re trying to build a business that’s unconventional.”

Ultimately, he and Holland decided on a business model that, while unconventional, is increasingly popular: turning Real Pickles into a worker-owned co-operative. The idea was appealing, Rosenberg explained, because it was an “opportunity to inscribe the social mission and guiding principles in the governing documents of the co-op and make them hard to change.” It also offered other benefits—“having a more democratic workplace; incentivizing our staff to stick around”—that appealed to him and Holland.

But first, the new owners—a group that included Rosenberg, Holland and three veteran Real Pickles employees—faced a daunting task: raising \$500,000 to buy the company from the couple, compensating them for the value they’d built in the business over the years, and to provide necessary operating capital.

Raising that money was a long and tricky process. But its eventual success serves as a model of a creative way for small companies to raise money directly from local investors—an approach that not only helped the company but met a growing demand by individuals interested in investing in local enterprises.

“There are definitely a lot of people in the Valley talking about taking that next step from ‘buy local’ to ‘invest local,’ but there haven’t been a lot of opportunities to do that,” Rosenberg said. “To my mind, this was a very interesting test of whether people were prepared to step up and make local investments. And they were.”

The story of how Real Pickles financed its transition to a worker co-op is told in a case study released recently by Community Involved in Sustaining Agriculture, or CISA, the South Deerfield non-profit that supports farms and sustainable food production in the Valley. The report, “Community Investment in the Local Food System,” was written by Jonathan Ward, a CISA intern and student at UMass Amherst’s Isenberg School of Management.

According to Margaret Christie, CISA’s special projects director, who contributed to the case study, the organization’s goal was to make the report accessible to a layman reader while also detailed enough to provide other business owners interested in finding local investors with information and ideas that could be applied to their own situations. While each individual company’s needs and goals are unique, the case study, Christie said, can be a useful jumping-off point for business owners.

Real Pickles began raising the money it needed with its five original worker-owners (two more have since joined the group) investing \$6,000 apiece—a figure the group determined would make investment accessible, Rosenberg said. Next, the group spent months mulling over potential strategies for raising the rest of the money, considering the benefits and drawbacks of each.

The CISA study outlines the various options the group considered, starting with taking out a loan. But that route presented a potential problem for Real Pickles: while borrowers typically put up physical assets such as real estate or equipment as collateral against a loan, in this case, “much of the company’s value was intangible in the form of ‘goodwill,’ or the worth of the business’s reputation,” Ward, the study’s

author, wrote. The company's tangible assets, meanwhile, had already been used as collateral against a line of credit it had obtained.

"The company's new worker-owners could be asked to cover a loan with their personal resources—assuming that their resources would be sufficient—but this would create challenging questions around fairness, risk, and the basic characteristics of worker-owned cooperatives in general," Ward wrote. The new owners had other concerns about borrowing as well, wanting to avoid putting the company in deep debt or taking on high interest rates.

The group also considered royalty financing, in which investors would be paid back with a share of the company's monthly sales. While the flexibility of that model had its appeal, in the end, the worker-owners decided that the kind of quick expansion that would be needed to sustain it was not in keeping with their goal of steady, considered growth. "A lot of these forms of financing would have been very expensive, and so they would have pushed the company to grow a lot," Rosenberg told the *Advocate*. "We needed some financing option that would allow us to stay small."

Ultimately, the worker-owners decided to raise money by selling non-voting preferred shares to investors, who would earn annual dividends of four or five percent (much less than the interest on a loan, which could range from eight to 15 percent, depending on its structure). Still, it was not an easy undertaking, due in part to decades-old federal securities laws that make it easier for "accredited investors"—those with annual incomes of \$200,000 and personal assets, excluding their homes, of \$1 million—to pursue more investment options than the vast majority of Americans, who don't meet those thresholds.

While these laws were designed to protect small investors from fraud, they've had the (presumably unintended) consequence of limiting the ability of people with average income and assets to invest directly in small companies like Real Pickles. But because Real Pickles was looking to raise a relatively small amount of money, the company qualified for an exemption that allowed it to raise money directly from investors, as long as it followed certain regulations. For guidance on the complex process, the worker-owners turned to Northampton's Solidago Foundation, which funds organizations focused on social-justice work, and Cutting Edge Capital, an Oakland-based firm. They also worked with Pioneer Valley Grows, a collaboration of groups, including CISA, that support a local food system. (PV Grows' Finance Working Group focuses on helping local farmers and other food producers find financing, including via a loan fund, while its Slow Money Chapter connects local investors with farmers and food companies in the region.)

The Real Pickles owners decided to sell non-voting shares through a direct public offering, which allowed them to market directly to potential investors and, the CISA study noted, "leverage all the community support that they had amassed over the years." The shares, they decided, would cost \$25 each, and investors would need to buy at least 100 shares—a threshold, the owners figured, that would make investment accessible to people of average incomes while still keeping the number of individual investors to a manageable size. Investors would receive an annual dividend of four percent, a figure the group felt was both a good return and achievable for the company.

The new owners prepared a prospectus, registered with the necessary state agencies in Massachusetts and Vermont (the two states where they would sell shares), and then awaited the necessary government approvals. Once those were secured, they began marketing to potential investors in the spring of 2013.

Real Pickles' worker-owners set a timeline of six months to raise the \$500,000 they needed. They hit their goal in two months, "which was as fast as we dared imagine it would happen—or faster," Rosenberg told the *Advocate*. In fact, he said, the co-op had to turn away potential investors once it had reached its goal.

The investors included individuals and businesses, including five other co-ops in the region and one of the farms that supplies Real Pickles' produce. The bulk of the money—75 percent—came from the Pioneer Valley, which Rosenberg attributes, in part, to the strong awareness and support of local agriculture in the region, seen through efforts like CISA's "Local Hero" campaign.

The high level of interest also indicates a pent-up and unmet demand for opportunities to invest directly in small, local businesses that are sustainable and committed to the region, he said. "We were asking our community to help share in the risk of making this transition, on the premise that we were creating social value by converting the business to a co-op, and to help keep the social mission intact in the business, help the business thrive, keep it in the community."

CISA's Christie said that Real Pickles' success story lends itself well to her organization's mission of developing a sustainable local food system. For the business, transitioning to a worker-owned co-op allowed it to protect its social mission, ensuring that a company that prioritizes growing and selling its product locally remains locally owned. And for its investors, it was a chance to signal their support of a local food system with their pocketbooks.

"Many of us of more ordinary means do have some savings," such as retirement nest eggs, Christie noted. But often, that money is invested in mutual funds with portfolios that span the country and even the globe. An effort like Real Pickles' allows smaller investors to support directly an enterprise in their own backyard.

One important reason for Real Pickles' success, Christie said, was the significant amount of goodwill it already had in the Valley. "People feel very excited about having this product here and about their social mission," she said. "I think any business that was considering this kind of campaign needs to think about their community, and how do they reach out to that community."

Real Pickles, Rosenberg said, "is a business that is hopefully putting out good food and doing good things on its own. ... But it also is helping to develop models for how the food system can change." •