

Type II Conversions

TYPE III CONVERSIONS

Type III conversions include businesses in which owners make the decision to convert to a worker cooperative independently of existing employees, and then bring in new people to become the coop's founding worker-owners. The cooperatives profiled in this section are Local Flavor Catering of the San Francisco Bay Area, California, and Simple Diaper and Linen of Holyoke, Massachusetts.

→ Local Flavor

Type III Conversion

LOCAL FLAVOR

Catering

San Francisco Bay Area, California

Date of conversion: January 2014

Number of workers at time of conversion: 3 founding worker-owners

Number of workers as of summer 2014: 4 worker-owners;

2-8 non-owner employees

Conversion Type: Type II & Type III

Based on Project Equity's interview and phone / email communication with founding worker-owners of Local Flavor. We interviewed Kate Sassoon in July 2014. In February 2014, we followed up by phone and email with Kate Sassoon and Marc Mascarenhas-Swan.

Background

Local Flavor Catering Cooperative is a San Francisco Bay Area-based company dedicated to delicious food, sustainable practices, community accountability, and the local food economy. Founded as a sole proprietorship in 2003 by Marc Mascarenhas-Swan, Local Flavor began its conversion to a worker-owned cooperative in 2013.

Why it became a coop

After 10 years as the sole owner of Local Flavor, Marc Mascarenhas-Swan began thinking about transitioning out of the catering world. But before leaving, he wanted to find a way to bring together his social justice views and his expertise in the food and catering world. Converting Local Flavor to a worker-owned cooperative—a “long-held dream” of Marc’s—provided a neat way to simultaneously solve both these challenges.⁷⁶ “It felt overwhelming as a working parent to grow a business,” says Marc. “Using the coop mechanism, I can avoid exploitation of other people’s labor. Where the fruits of labor are shared based on the amount of work you put in, I can rest easy with my own conscience.”⁷⁷

⁷⁶ “Chef Marc Swan,” Munchery.com. <https://www.munchery.com/chefs/marc-swan>

⁷⁷ As quoted in Rachel Trachten, “Local caterers take the boss out of the kitchen,” EdibleEastBay.com. May 16, 2014. <http://edibleeastbay.com/online-magazine/summer-2014/sharing-the-pie>

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In order to provide the new worker cooperative the greatest chance for success, Swan strategically sought out people with the right mix of skills and knowledge to form the core team of founding worker-owners. Ricardo Simon, co-founder of the Bay Area Community Exchange (BACE) timebank, and Kate Sassoon, self-described “member, worker, and participant in various democratically owned and run organizations for over 20 years,”⁷⁸ joined Marc Mascarenhas-Swan as the second and third founding members of the Local Flavor Catering Cooperative. As of January 3, 2014, the Local Flavor Catering Cooperative received its LLC filing status.

Conversion logistics

Local Flavor’s focus on bringing in new people to form the core team of founding worker-owners exemplifies a very different approach to converting to worker ownership than that used by other businesses profiled in this report, such as the Island Employee Cooperative. Whereas the businesses of the Island Employee Cooperative were purchased by their long-time employees, Local Flavor’s strategy brings in an experienced group of “coopreneurs” to guide the coop through its “juvenile stage.” Local Flavor worker-owner Kate Sassoon notes that this strategy is intended to circumvent the problem of over-burdening a team of new worker-owners with keeping up the intensive demands of running a kitchen while also learning to be worker-owners, hashing out the specifics of the new coop’s management and governance structures, and dealing with all the usual growing pains of a start-up business. Assembling a team of experienced “coopreneurs” is also meant to allow the coop enough “lead time” to develop effective worker ownership trainings for prospective worker-owners.

The transition to worker ownership has been funded by a \$10,000 capital investment loan from Local Flavor founder Marc Mascarenhas-Swan. Members are slowly paying Mascarenhas-Swan back as the business brings in profits. The coop may eventually take on external loans for expansion, but the start-up costs have been entirely self-financed through Mascarenhas-Swan’s internal loan.

Although Mascarenhas-Swan intends to slowly transition out of the business, he will remain on as a worker-owner throughout Local Flavor’s conversion process.

Coop logistics

As of July 2014, Local Flavor has three worker-owners, with a fourth employee on track to become a worker-owner, and two to eight non-owner employees (the number of employees fluctuates depending on the day and demand). The cooperative is in the process of developing its membership requirements and designing its management and governance structures, but has decided on a six-month probationary period and \$500 buy-in for new worker-owners. New worker-owners are permitted a one-year period to pay off the \$500 initial investment requirement through payroll deduction, and must undergo two evaluations during the six-month probationary period.

The cooperative has two tiers of membership: members / worker-owners, who share in profits, are required to attend meetings, etc.; and employees, who don’t share in profits, and who are hired according to the amount of demand. Because employees do not receive access to profits, the cooperative is discussing how to provide other benefits to employees—like offering extra hours or bonuses when demand and profits

⁷⁸ Website of Sassy Facilitation. <http://www.sassycooperates.org>

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are high. To ensure the longevity of the business, the cooperative intends to intentionally recruit prospective employees who are interested in worker ownership.

Local Flavor's founding worker-owners are interested in flattening the structure of the cooperative. To do this, the founders are re-thinking how to distribute duties across different job positions. One strategy they are implementing to do this is the creation of "coordinator" roles for each major job task in the business. By creating "coordinator" roles and assigning a set of tasks to each "coordinator" position, the new members of Local Flavor are attempting to design jobs that worker-owners can rotate through instead of isolating individuals within their skill sets. Additionally, the common title of "coordinator" minimizes hierarchy in the coop's organizational structure.

Challenges during conversion

Local Flavor is looking to successful existing food-related worker cooperatives (e.g. the Cheese Board and the Arizmendi Association of Cooperatives in the San Francisco Bay Area) for ideas and inspiration about how to structure its own operations, governance framework, and membership requirements. Still, Local Flavor is faced with the challenge of having few worker cooperative role models in the catering industry. Because of the lack of direct role models, notes Kate Sassoon, Local Flavor is encountering fairly high start-up costs in the transition to democratic governance. Although the members are drawing upon and synthesizing the innovations of a number of existing worker cooperatives, they are often finding it necessary to create unique solutions that address the particularities of the catering industry.

Key lessons / effective practices

Former sole proprietor Marc Mascarenhas-Swan's active role in guiding and financing the transition to worker ownership has been critical to Local Flavor's success thus far, says Kate Sassoon. But as important as Mascarenhas-Swan's leadership has been through the conversion, Sassoon notes that his intention to withdraw from his strong leadership role once the worker cooperative is stable is equally crucial. She notes that "a willing, aligned seller is key to a lot of conversions—a willing, aligned seller who stays involved *and* has an obsolescence plan for his / herself... [who] has a commitment to outgrow founder effect."

Mascarenhas-Swan's patience—meaning his willingness to allow sufficient time and space for the conversion to unfold—is proving to be invaluable in facilitating Local Flavor's transition to worker ownership, according to Sassoon. Though the ability to be creative and try out different approaches is a straightforward benefit of the unhurried timeline, Sassoon believes that it is also an important step in shifting the company's culture away from a conventional "command and control" structure. The members are dedicating special attention to building a cooperative culture. Much of this is realized through subtle shifts and re-trainings, like flattening organizational hierarchy by using the "coordinator" label for different jobs, and sharing meals at meetings. Eventually, Local Flavor's worker-owners plan for more formal trainings to help build and maintain a cooperative culture, but this early-stage recognition that culture is built "of the little things," as Sassoon described it, is already establishing an internal culture of participation and democracy.

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Mascarenhas-Swan's careful selection of founding worker-owners who can contribute complementary skills and knowledge to the new cooperative is also an essential element of Local Flavor's ongoing conversion. Kate Sassoon, for example, brings years of experience as a worker-owner, worker ownership consultant, facilitator, and democratic management educator to Local Flavor. The new cooperative is drawing upon its internal resources—the diverse strengths of its founding worker-owners—to create a sophisticated, intelligently structured business model.

Local Flavor is a mature business; it had existed as a successful company for ten years prior to becoming a worker cooperative. As a cooperative, Local Flavor retains the industry knowledge and clients that the company acquired during its decade as a conventionally structured business. In particular, Local Flavor's continued lunch catering service to organic produce distributor Veritable Vegetable—an “anchor client” of Local Flavor for nine years—has been integral to Local Flavor's survival in the volatile catering industry during its transition to worker ownership.

Update as of February 2015

In January 2015, Local Flavor decided to close their doors. Even though they were financially successful—they paid off their start-up costs, were able to award themselves a healthy patronage dividend, and made donations to several worker coop development organizations—, they found that being in a sector with highly variable staffing needs made it challenging to meet their dual social justice goals of serving their target client base and staying true to how they wanted to operate their coop. These reasons, combined with some health challenges within their team, led them to decide to “close the business while it was strong and help everybody move on from a place of strength.”⁷⁹

Marc Mascarenhas-Swan summarized some of the key challenges they faced:⁸⁰

- Their staff was located in the East Bay, while their principal clients and kitchen were located in San Francisco, adding a long commute and requiring an extended workday. It would have been challenging to relocate the kitchen and the client base given their small team.
- Staffing needs in catering businesses have a high degree of variability—often day-to-day variability—based on the needs of the customer, seasonal changes in produce, changing staff availability and needs and changing locations. A high performing catering operation is usually anchored by one to three seasoned professional/s who can think on their feet, and respond quickly to a constantly shifting environment.
- They needed worker-owners with the leadership skills necessary to take Local Flavor to the next stage, which they found hard to find (in part due to their dual-city identity, and in part due to a difficult job description). Specifically, according to Mascarenhas-Swan, they needed to bring on someone with “business drive, industry-specific skills, and a cooperative sensibility—quite a triple treat.”
- Their specific intention to create a workplace that was supportive of families by offering consistent hours and schedules was different than most catering companies, and required securing clients who wanted a regular lunch service. They were concerned about their ability to be able to establish a strong client base with this criterion.

⁷⁹ Phone conversation between Kate Sassoon and Project Equity on 2/19/15.

⁸⁰ Email communication between Project Equity and Marc Mascarenhas-Swan on 2/19/15

In a January, 2015 letter to their community,⁸¹ Local Flavor shared their decision to close down their business and reflected on their successes and learnings:

When Marc first decided to take his business, Local Flavor, and convert it into a worker co-op, it was because he felt inspired to join a community of enterprises which are doing such good work to transform our economy. Our vision of a social justice focused, living-wage, cooperatively owned catering business owes a lot to the values and practices of our community.

But even the best laid and best supported plans sometimes don't pan out. A combination of increasing health concerns, inability to find new members able to commit to the work necessary to sustainably grow the cooperative, and not finding the regular and profitable clients we projected we could find led us to decide to close our doors at a recent collective business meeting.

We have experienced many successes at Local Flavor. We self-financed all our start up costs, paid all our members a good wage for our sector, had a modest profit to distribute at the end of our year, learnt a huge amount about cooperatives, and enjoyed the camaraderie of working with each other.

Local Flavor developed many useful resources in the course of their development that as of this writing they have already shared with a number of food cooperatives.

→ Simple Diaper & Linen

Type III Conversion

SIMPLE DIAPER & LINEN

Diaper laundering and delivery service

Holyoke, Massachusetts

Date of conversion: 2011

Number of workers at time of conversion: 2

Number of workers as of March 2015: 4; 2 worker-owners

Conversion type: Type III

Based on Project Equity's interviews with Jessica Montagna, founding worker-owner of Simple Diaper in December 2014, and Adam Trott, Valley Alliance of Worker Cooperatives (of which Simple Diaper is a Member-Cooperative) in July 2014.

Background

Founded as a sole proprietorship named Mother Herb Diaper Service in 2009 by Angie Gregory, Simple Diaper & Linen is an eco-conscious diaper and commercial linen service company that serves Western Massachusetts and Northern Connecticut.

Why it became a coop

Angie Gregory founded Simple Diaper & Linen in her basement and was the company's sole owner and sole employee for several years. Soon after establishing the company, Gregory decided that she wanted to expand and turned to cooperative ownership as a way to grow the business, while maintaining her socially and environmentally responsible business model. According to Simple Diaper & Linen's website,

⁸¹ Shared by email with Project Equity by Kate Sassoon in February, 2015