Retooling for Employee Ownership
A Profile of a Few Cool Hardware Stores

by Yoorie Chang and Matt Helmer, October 2022

Over the last several decades, American workers have increasingly struggled to build wealth and achieve economic stability and mobility through work. The decline of unionization rates, the rise of shareholder capitalism, the disappearance of defined benefit pension plans, and the stagnation of real wages have contributed to a decline in workers’ capacity to build wealth. Occupational segregation as a result of longstanding racial and gender discrimination has exacerbated income and wealth inequalities for women and workers of color. Interest has been growing within the public and private sectors around opportunities to mitigate these economic divisions and put workers back on solid ground. Many see employee ownership as a promising strategy that can benefit business owners, employees, and communities as well as help address race and gender wealth gaps. As a generation of business owners gets ready to retire over the next several years, there may be a unique opportunity to expand employee ownership.

Employee ownership is generally defined as an arrangement in which employees own shares or stock of the company. Numerous forms of broad-based employee ownership exist, each with different participatory structures and benefits. Employee stock ownership plans, or ESOPs, are the most common form of broad-based employee share ownership in the United States. According to the National Center for Employee Ownership, as of 2022, there are roughly 6,500 employee stock ownership plans in the United States, covering 14 million employees. In addition to serving as a tax-
advantaged business transition strategy for privately held companies, ESOPs can provide an opportunity through which employees and their families can build wealth and achieve economic stability. At the same time, they can offer retiring business owners greater confidence that the business they worked so hard to build will survive compared to a sale to an investor, competitor, or other business buyer.

**A Few Cool Hardware Stores** (AFCHS), a chain of Ace Hardware locations in the Washington, D.C. and Baltimore metro areas, has recently undergone the transition to becoming an employee-owned business. We sat down with Gina Schaefer, CEO and cofounder of A Few Cool Hardware Stores to learn more about her philosophy on good business and good jobs, what motivated her to decide to convert her business to an employee stock ownership model, and challenges and lessons learned along the way.

Quotes have been lightly edited for clarity.

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### A Brief Overview of ESOPs

**What is an ESOP?**

An employee stock ownership plan (ESOP) is a type of qualified retirement plan that allows employees to have an ownership stake in all or part of the company where they are employed. ESOPs became a qualified retirement plan in 1974 with the passing of the Employee Retirement Income Security Act (ERISA) and is regulated under the Act today. ERISA stipulates that in an ESOP, companies include the majority of their employees in the plan, which is financed by the company.

**How does an ESOP work?**

To form an ESOP, a company will usually conduct a feasibility study first and then obtain funding for the employee purchase of the business, which is usually a loan. The company then sets up a trust to hold the shares of its stock and makes tax-deductible contributions of new or existing shares of its stock to the trust. To be eligible to become an ESOP, a company must be either a C corporation, an S corporation, or an LLC taxed as a C or S corporation.

Eligible employees are then allocated shares of the trust into their retirement accounts. Employees become vested over a three- to six-year period. When an employee leaves the company, they are eligible to cash out the vested portion of their plan.

*Source: National Center for Employee Ownership*
About Gina Schaefer and A Few Cool Hardware Stores

Ace Hardware is the largest retailer-owned hardware cooperative in the world, with over 5,000 locations globally. Although the cooperative provides certain support to its stores, including access to its wholesale distribution network, training materials, and an e-commerce platform, most Ace retail stores are independently owned and operated.

Gina Schaefer started her first Ace Hardware location in Logan Circle in 2003. Today, she and her husband Marc Friedman operate 12 stores employing roughly 260 employees across Washington, D.C.; Alexandria, Virginia; and Takoma Park, Silver Spring, and Baltimore, Maryland. Gina described the origins of A Few Cool Hardware Stores nearly 20 years ago: “I got laid off from my tech job. I came home one day and Marc asked me what I was going to do. I’m going to open up a hardware store,” I replied. I had worked in retail once, in college for a summer, and that was it. We opened in 2003. Then two years later we opened a second store. After that, it was off to the races,” Gina said.

Gina’s philosophy is, “spoil the customers, spoil the employees, sell great products.” Many years ago, an article about a hotel business expanding its operations in another country caught her eye. Gina explains the first thing this business did “was basically blow up the employee entrance and breakroom and renovate that portion of the business, because they wanted the employees to feel welcome and comfortable.” She recalled this making an impression on her, “because it should be common sense that if you take care of your team, they’ll take care of the customers.”

Gina takes pride in the approach she and her husband have taken in being an employer. “We have really tried to create a place where people can be promoted and grow, and if they’re not going to stay, learn something that they take to their next job,” she explained. Gina says A Few Cool Hardware Stores was an early mover around job quality in the local retail space, promoting higher wages and offering benefits such as health care and paid family leave. They strive to promote transparency around wages not only with employees internally, but among peer retailers as well. Wages for entry-level sales associate positions at the stores start within a pay band of $15.50 to $18 an hour. Gina’s Ace stores boast strong tenure rates among its employees, with median years of tenure at 3.3 years across all employees and 7.5 years across management staff.

The workforce is also diverse. More than 50% of employees identify as being persons of color, including 37% who identify as Black or African-American. A Few Cool Hardware Stores’ diversity is notable, considering recent data suggests that employee share ownership can play a role in addressing factors that contribute racial and gender wealth gaps in the United States. Research on the link between employee ownership and racial and gender equity has revealed that women employee owners report 17% higher wage income than their non-employee owner counterparts, and employee
owners of color have, on average, 30% higher wage income than their non-employee owners of color.

A Few Cool Hardware Stores has also earned a reputation as a “fair chance employer” for people exiting incarceration. After fortuitously hiring two phenomenal employees – one of whom happened to be a returning citizen, the other in an addiction recovery program – the company evolved a culture of deliberate hiring, training, and coaching these populations. “We continued to hire people with the philosophy of ‘not everyone had a first chance.’ How can we call it a second chance? One of my teammates who’s been here since the very beginning came to me and said, ‘You know, you’re known as Recovery Hardware in the community’ – which was a very powerful moment for me. I thought it was a beautiful nickname,” said Gina.

In 2021, Gina and Marc converted A Few Cool Hardware Stores to an ESOP. Their decision to do so is in line with their philosophy of “spoiling” their workers and playing a leadership role in the communities they serve. We had an opportunity to learn more about the process of discovering and implementing an ESOP at their company.

Q&A with Gina Schaefer on A Few Cool Hardware Stores’ Transition to an ESOP

What led to your decision to pursue an ESOP?

Marc and I don’t have any kids in the business, and we had built this culture where the thought of selling it to private equity made me physically ill. For years, we have been thinking about our exit strategy. Marc and I have seen countless examples of business ownership transition being really stressful. We have friends in multigenerational businesses who are transitioning into ownership from their parents, and we’ve watched all of their drama, struggle, and stresses. So, we wanted to make sure we had some ideas for exiting the business.

Then in the summer of 2018, we visited New Belgium Brewery in Fort Collins, CO. This young woman gave us a tour of the brewery and she was so excited to talk about the fact that it was employee-owned. Marc and I thought, "We need to delve into this." We had heard about the concept before, but we also thought that the employees had to buy into it with their own money. We didn't quite understand how it worked. So, at that point, we started doing more research.
Why Businesses Convert to ESOPs

Employee share ownership conversion offers a number of benefits to business owners thinking about the future of their company, their workers, and their communities. Certain ESOP tax incentives for business owners can, in some cases, make ESOP conversion a more remunerative transition strategy than selling the company to private equity. A growing body of research identifies links between employee ownership and business performance that support business owners’ decision to transition to an employee-owned enterprise:

- A recent analysis of existing research on the relationship between employee ownership and economic performance suggests that employee ownership is linked to higher productivity and motivation among employees, and therefore improved firm survival.

- A 2020 study by Rutgers University and SSRS found that employee-owned firms outperformed their non-employee-owned counterparts on worker retention, pay, and implementing workplace health and safety measures throughout the COVID-19 pandemic.

- A 2021 report by the National Center for Employee Ownership (NCEO) found that employee-owned companies provided stronger retirement security for their employees than did non-employee-owned companies during the pandemic.

Tell us about the process of transitioning your company to an ESOP.

By the end of 2019, we decided we were going to convert to an ESOP. We started to research and put together a team to help us form the ESOP. It was probably a six- or seven-month stewing process, and then nine months of planning with the team. We hired a financial consulting company that was trained in the formation of ESOPs. There’s a trustee that’s hired on behalf of the employees who ensures that everything happening is legitimately to the benefit of the employees. Everything goes through the IRS for approval to ensure the plan meets all the requirements to be deemed a “Qualified Retirement Plan.” The Department of Labor helps regulate ESOPs valuations as well – there’s all sorts of great checks and balances to make sure that we’re not just terrible business owners who are trying to take all of the money out of the business and leave the employees holding the bag.

So we decided to do this, the bank funded us, and we announced it to our team in August 2021. The day that we announced, about 160 of our employees became owners right away, and the rest of them phase in over time. I have a list of anniversary cards I’ll send out today, and several of them will be folks who have celebrated one year. Part of that message will be, “You’re an owner now, welcome.”
Structure of the ESOP at A Few Cool Hardware Stores

A Few Cool Hardware Stores’ ESOP conversion process took a team to initiate. After independent valuations of their company were completed and approved by the Department of Labor, National Cooperative Bank (NCB) – a cooperative bank that was congressionally chartered in 1978 specifically to provide financial products and services for cooperatives – provided the loan for the purchase of their ESOP.

Because a single loan payment could not have been large enough to cover the value of the company, Gina and Marc decided on a plan in which the total sum of the loan would be disbursed over time in three parts: an initial disbursement of 30%, followed by one amounting to 19%, and then the final 51%. NCB funded Gina and Marc’s sale of the first 30% of the business to the ESOP in August 2021. Over the next several years, A Few Cool Hardware Stores’ business profits will go toward paying down that loan, after which the next 19%, and subsequently the final 51% of the plan will be financed.

Non-seasonal employees over the age of 18 are eligible to become employee owners at A Few Cool Hardware Stores after either a year or 1,000 hours of service, whichever comes first. Roughly 160 employees immediately became owners on the first day the ESOP was announced in August 2021, with everyone else set to phase in over time. When an employee leaves the company, they must either be paid for their shares, or transfer their share into another qualified retirement plan. “You have 5 years to pay out when someone leaves, so they vest 20% a year after they’re vested, and then the company reserves the right to pay it out over 5 years.”

What were the tax implications?

There’s a couple of really good tax nuances. The business got the loan on behalf of the ESOP, which Marc and I had to guarantee, and then the business paid us for 30% of the value of the company. We were able to take that money and put it directly into the stock market, though we could have put it into a qualified exchange – called a 1042 – and not have to pay taxes on it. So that’s a wonderful benefit of forming an ESOP – that money’s not taxed until we access it, which could be years from now, during which it could hopefully earn interest and dividends.

One of the pushbacks we get from people is that we could have gotten more money if we had sold the business on the open market. With private equity companies, there’s always someone who’s willing to overpay. But we believe that because of the tax benefits that we had, we would have had to have gotten almost a 20% higher price for the business if we had sold to private equity. The company wouldn’t have had all of these benefits either. In that regard for us, an ESOP is a win-win for everybody.
What resources and networks were helpful as you went through the process of converting to an ESOP?

There’s a network called the Employee Ownership Expansion Network. I got in touch with Steven Storkin, the director of the nonprofit nationally. He explained to us right off the bat that it’s not the employees’ money that goes towards purchasing the business. It’s the banks’ money or the business’ money. We thought, “Well, that solves three-fourths of the challenge.”

Stewart Weis, an Ace Hardware store owner in Montana who also formed an ESOP, was my ESOP mentor. We spoke with Stew about how to get started and the team that he used. We started with his recommendation of Pace Financial, which introduced us to some of the other folks on our team.

What has been the reaction of your employees?

The initial reaction of our employees was all over the place. Some staff thought we were leaving the business immediately and others did not seem to understand or care. I just never really thought about people thinking of it negatively. I was really only thinking about projecting how wonderful this was for the employees and the communities that we are in. So our challenge since August 2021 has been figuring out how to speak to all of those different groups about what this transition means.

We took pies to all of the stores one day. It was our way of saying, “We’re giving you a piece of the pie.” We had a chance to meet so many of the teammates that day. Several of them had worked at ESOPs before, and that was really good because they were already starting to explain to the other associates what it means or doesn’t mean. We need to take more advantage of those skill sets that we already have.

Employee Voice

“When we first heard about the ESOP, I was confused, and the fear of the unknown doubled because this new benefit was counterbalanced with the announcement that this was part of an exit strategy for Gina and Marc, who verifiably have taken the company to where it is today. So, what’s an ESOP, and Gina and Marc are leaving? As time went on, and more and more information was presented, it became much clearer how the ESOP is an incredible benefit for the owners of A Few Cool Hardware Stores. To me, being an owner means making sure I’m doing everything I can do to keep us successful while creating work environments where everyone feels included and connected to our company goals.”

—Operations Manager, A Few Cool Hardware Stores
What are some of the challenges you’ve encountered along the way?

When you have a 401k, you can look every day and see what you’ve gained and lost, but the ESOP only gets valued once a year. It’s a little hard for employees to comprehend what the financial value to them is, because at least for our team, no one’s actually seen that value yet. We haven’t gotten a piece of paper that says, "This is what’s in your bank account."

This management versus ownership issue came up recently too. Once a quarter, the managers check in with their teammates. One of the managers asked via email, "Tell me something you did this quarter because you thought like an owner." A very astute employee responded, "I’m not an owner. I don’t make any decisions. This is just like putting my money in the stock market. Don’t placate me by asking me how I’m doing my job any differently."

I thought, "Wow, he’s really smart." We need to improve our messaging so employees understand they do make decisions every day based on actions that impact the bottom line, even if they’re not voting on something or involved in management decisions. Now we have to get to the heart of what they do every day. If they’re unhelpful to a customer, that hurts the bottom line. If they break a product, that affects the bottom line. That’s the kind of thing owners think about, but we’re not there yet.

What are your lessons learned? What would have been helpful to you as you converted to employee ownership?

A roadmap would have been helpful. I don’t think anyone handed me a document that gave me step-by-step guidelines to follow.

There are also two tracks to understanding the ESOP. There’s the technical track, and then the emotional track. I’ve been accused of leading through cheerocracy, and that didn’t necessarily serve us well with the ESOP. I discounted the stress it would cause people. It would have been good to know the kinds of things employees are going to ask about, the things that would create stress for them, and how we could have addressed those in advance of the rollout. We had FAQs, but I know now in hindsight that we didn’t do enough to plan for how employees would react.

The other thing that is shocking to people when they call us to have a consulting conversation is that it’s very expensive. It cost us about $40,000 to $50,000. Most people wouldn’t expect the cost, but you have to hire all of these attorneys and consultants. You have to have a certain financial stability as a company to be viable for an ESOP. So figuring that out first is key.

People don’t really understand the loan aspect of it either. My advice is just to ask a million questions. I’ve asked Marc, my husband, the tax questions a lot. I don’t think there are any dumb questions – it’s not super easy to comprehend, and people shouldn’t be afraid to do their research.
Employee Voice

“My commitment level to progress, growth, and this organization was never in question, but being an employee owner is many things. It's inspiring, motivating, terrifying, exciting, and scary, to name a few. Most of all, the transition to ESOP got me thinking about my future and the company’s future in a broader scope. To some degree, I feel more like a shareholder than an employee owner in my current role as manager of one of 12 stores within our organization. I am nervous but cautiously optimistic about what leadership will look like when the transition to ESOP is completed and employees own 100%. Who will be on our board? How much involvement will our former CEO and CFO have? What will stay the same and what will be different? Possibly most importantly, how much input will all employee owners have? I've wanted a lifelong career with this company for a long time. Right now, I have more questions than answers, but this is new to all of us and that's okay. I have the time, desire, and the energy to put in the work.

There is a wide array of thoughts and feelings from my team. Some can’t work 1,000 hours per year with us and it's hard for them to swallow not being part of the ESOP. Some find the term "employee ownership" to be condescending when while their voices are heard, they are not directly involved in any decision-making processes. I understand these juxtapositions and listen to, support, and encourage my team as best I can. As hopeful as it is for some of us, especially some of the young people who are just starting out in their careers, it’s disheartening for others for different reasons. There is a universal gratitude and respect from my team for our founders. They could have sold to another company outright, taken their money, and run. But they care about what they've built, and they care about us. So while I can’t and wouldn't dream of changing everyone’s minds about the ESOP and employee ownership situation, I am confident our futures are all brighter because of it if we’re willing to put our collective best foot forward. We will continue and expand upon the success we’ve already achieved, and employee ownership is a big part of that progress and success moving forward.”

—Store Manager, A Few Cool Hardware Stores

What do you hope will be some of the impacts of the transition to an ESOP?

We really wanted to help create some kind of a solution for the high inequality in the city. We wanted to figure out what little part we could play in helping with that challenge. So that's why we're really glad we formed an ESOP.

I'm a huge believer in this being an opportunity for employees to really have ownership and success. I think the challenge is because it's a long-term wealth builder, it doesn’t solve the problem of what someone in a starting wage job can do to make a comfortable living until they retire. It feeds their retirement bucket, but it doesn't change their day to day. If you're making $15 - $17, or even $25, an hour and living in a city, it's hard. ESOPs don't fix that problem, which I take to heart, but don't have an answer for.
What’s Next for A Few Cool Hardware Stores?

That email from an employee who didn’t feel like an owner really hit home. We’re going to continue to drill down on messaging and the educational aspect. We’ll have to form a board for the ESOP, which will be making actual leadership decisions eventually. We would like to grow, too.

The hardware industry and the independent hardware channels are very strong right now. We think the ESOP has the opportunity to grow and add more businesses. So if there are other owners that want to sell and think it’s a good idea for their company to join us as a member of the ESOP community, we hope that some of those business owners will find us. Finally, we hope for more store expansion opportunities over the next couple of years so the ESOP continues to get bigger, stronger, and more profitable for all of my co-owners who will have a stake in it going forward.

Employee Voice

“I felt excited for the first time in my life. I am a business owner. I never was one before. I feel nervous. My granddad was a successful businessman and built an empire while my daddy was an utter failure. I was having slight PTSD remembering my daddy’s failed ventures and how we all suffered because of it. I feel proud that my staff was so receptive [and] happy that customers always look surprised and pleased when I tell them, and I can see their resolve to support our local business more.”

—Store Manager, A Few Cool Hardware Stores

Conclusion

As Gina noted, employee ownership is not a silver bullet, but it can be an important part of the movement to build a more equitable future for workers and their families. A Few Cool Hardware Stores and owners Gina and Marc demonstrate that a philosophy of caring for workers can be a successful business strategy and that employee ownership can be an integral part of that philosophy and strategy. Their case also shows, however, that transitioning to employee ownership is a complex business process that requires attention and careful planning. There is room for the government and others to play a more supportive role in helping business owners and workers navigate the process. We look forward to following up with Gina and Marc in the years ahead as they and their workers continue on their journey.

Resources

Other business examples and resources on employee ownership in this series are found on our website. Practical tools for boosting job quality are also available from EOP’s Job Quality Center of Excellence and our Job Quality Tools Library.