



ESOPs in the Grocery Industry



OEOC

Ohio Employee Ownership Center
at Kent State University

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ESOPs in the Grocery Industry: Why Grocers Are Pursuing an ESOP as an Exit Opportunity

By Christopher Silvetti

When faced with the prospect of ownership transition, grocery store owners have a number of different options to weigh. Some may sell to a larger competitor or chain, while others will consider a purchase offer from a private equity firm. Meanwhile, a few may simply close up shop. However, none of these options preserves the store's legacy and importance within the community or continues the store's culture and emphasis on employee well-being. An Employee Stock Ownership Plan ("ESOP") is a viable alternative option for grocers who wish to retain a community focus that may be lost when selling to an outside entity.

The Grocery Industry in 2023

The past several years have been action-packed for the grocery industry. The COVID-19 pandemic and resulting lockdowns caused people to stay home and avoid public spaces, including restaurants and other public food venues. As a result, grocery stores—which were considered essential businesses and were therefore allowed to remain open even throughout lockdown periods—saw a massive spike in sales in 2020. Since then, as vaccines became widely available and social distancing guidelines relaxed, many people returned to more normal grocery shopping habits and spending patterns.

Even with a return to normal spending, however, the grocery industry has continued to contend with supply

chain issues that resulted from the economic fallout surrounding the COVID-19 pandemic. In addition, grocers have had to adapt to consumers' interest in moving toward online grocery shopping and curbside pickup. Moreover, in 2022, high inflation began to affect consumers' shopping patterns as food prices skyrocketed across numerous categories. While some consumers are shopping at grocery stores instead of dining out in order to avoid high prices at restaurants, they are often focused on deals and are also patronizing discount grocers more frequently. Meanwhile, increasing consolidation in the grocery industry has challenged independent grocers who often struggle to compete with larger chains.

Consolidation in the Grocery Industry

A large number of companies in the grocery industry are considered independent and operate a single location or small chain of stores within a specific region. However, over the past several years, market concentration in the grocery industry has increased due to large companies—such as Kroger and Albertsons—acquiring a number of smaller companies through mergers and acquisitions ("M&A").

Additionally, in October 2022, Kroger announced plans to purchase Albertsons for \$24.6 billion, with the anticipation that the deal would close by early 2024. If the merger proceeds, the resulting company would control 15.6% of the U.S. grocery market, second in scale only to Walmart

(21.0% market share). However, elected officials, independent grocers, union groups, food producers and the National Grocers Association (“NGA”) have all expressed concerns about the transaction moving forward. Greg Ferrara, president and CEO of the NGA, succinctly stated the overall argument against the deal by saying, “A merger would not only put smaller competitors at an unfair disadvantage, but also increase anticompetitive buyer power over grocery suppliers, which ultimately would harm consumers.”

In early December 2022, the Federal Trade Commission requested more details about the proposed merger from both Kroger and Albertsons, which *Grocery Dive* says is “an indication that the agency is taking a closer look at how the deal would impact competition.” Overall, antitrust attorneys expect the deal to face a lengthy regulatory review.

Regardless of the fate of the Kroger-Albertsons merger, industry experts anticipate that M&A activity will continue in the grocery industry in the near term. Experts note that independent grocers often do not have the scale to compete with large grocery chains, especially with regard to e-commerce, which is becoming increasingly important to the industry. As a result, independent grocers may choose to sell to these larger firms.

However, selling to a larger company is not the only option. Selling to an ESOP is a great way to maintain a grocery store owner’s legacy within the community and retain the culture they and their employees have worked so hard to establish. It is also a way to stand out in comparison to large chains when trying to attract both customers and employees.

What Is an ESOP?

An ESOP is an employee benefit plan that governs a trust, which is established to own some or all of the stock of a corporation for the benefit of the sponsor company’s employees. To be eligible for participation in a company’s ESOP, workers must meet certain requirements, such as being over 18 years old and working over 1,000 hours per year. ESOP participants receive an allocation of stock—at no cost to them—which accumulates in their accounts over time. As the company’s stock value grows and additional stock is allocated, ESOP participants accrue more wealth until the vested account value is paid to them upon retirement or departure from the company. For more information on ESOPs, watch Prairie’s video [“What Is an ESOP?”](#)

ESOPs are found throughout the U.S. in a wide variety of industries. The [National Center for Employee Ownership](#) (“NCEO”), a nonprofit organization that supports the employee ownership community, reports that there are approximately 6,500 ESOPs in the U.S. with nearly 14.0 million participants and total plan assets of over \$1.6 trillion. Each year, about 250 new ESOPs are created.

ESOPs and the Grocery Industry

According to statistics provided by [Certified EO](#), an organization that is building a network to bring national recognition to employee ownership through the use of a marketing and certification program for employee-owned companies, 71 companies in the grocery industry have ESOPs.

Further, the NCEO reports that 12 of the top 100 largest majority employee-owned companies in the U.S. are in the grocery industry. Publix is the largest majority employee-owned firm in the U.S., with 230,000 employees. Other large majority employee-owned companies are also grocers—WinCo Foods has about 21,000 employees, while Houchens employs approximately 18,000.

While these grocers’ ESOPs may have started over 35 years ago, there are new grocers joining the ranks each year. For instance, in 2020, PAQ Inc., an independent franchisee of Food 4 Less, chose the ESOP route for its 20 stores in California. Then, in 2021, both C&K Market (Oregon and California) and Hi Nabor Supermarket (Louisiana) became 100% ESOP-owned. In 2022, JND Holdings—which operates supermarkets, liquor stores and convenience stores/gas stations across Minnesota, North Dakota and Wisconsin—implemented an ESOP. Most recently, in December 2022, Neighborhood Fresh—a grocery store with four locations based in Northeastern Indiana—[sold to an ESOP](#).

So, why are ESOPs so popular in the grocery industry? Of course, there are a number of reasons, but some of the top cited by grocers include company culture and employee well-being. John Alston, president and CEO of 100% employee-owned Brookshire Brothers in Lufkin, TX, says, “When the Brookshire family started making plans to retire and exit the business, several alternatives were considered. After careful consideration, the decision was made to create an ESOP so that, ultimately, the employees of the company would stand to benefit.” Indeed, employees at companies with an ESOP usually see their wealth grow over the time they remain with the company. Wealth creation is especially important in the current environment where income inequality is a prevalent trend. While numerous research studies have found that a large number of U.S. adults are living paycheck to paycheck and/or have no retirement savings, according to the employee ownership advocacy group [Employee-Owned S Corporations of America](#), the average ESOP participant in employee-owned S Corporations has more than double the amount in his or her retirement account than the average American employee.

Alston continues, “Looking back over the now twenty-plus years that we’ve operated as an ESOP, it’s clear that our employee-owned culture has continued to strengthen over time and is now deeply embedded throughout our organization. This culture is expressed by our team daily in their commitment to one another and the common goal of

making Brookshire Brothers a great place to work and shop.” ESOPs are one way to enable the continuation of a company’s culture as well as the owner’s legacy. If a business is sold to a third party, the likelihood of preserving both culture and legacy fades. However, putting an ESOP in place means that the company will remain in the hands of the workers that helped to build it. Therefore, the culture of the company will likely remain consistent, and the values of the original owner or owners will be carried out over the long term. The company will also remain independent and retain the brand appeal that the original owner worked so hard to build. As a result, the positive impact that the grocery store has had in its community will continue.

In addition to maintaining company culture and providing for employees, the company itself can benefit when selling to an ESOP. According to Corey Rosen, founder of the NCEO, companies tend to perform better after implementing an ESOP, which means that the surrounding communities benefit as a result.

Further, ESOP-owned firms tend to have a highly-engaged and loyal workforce, which strengthens the company further. According to representatives from Kirby Foods, a 100% employee-owned independent grocer headquartered in Champaign, IL, “We believe that the ESOP has had a positive effect on the retention of long-term employees as the value of the ESOP has grown over time.” The NCEO reports that workers at a company with an ESOP have a median job tenure of 5.1 years, which is 46.0% higher than the median job tenure for workers at companies without an ESOP. Notably, when studying the broader food industry—which includes not only grocers but also food producers and distributors—the NCEO found that food companies with ESOPs had a 14.0% lower median quit rate than food companies without ESOPs. The NCEO notes that, while ESOP companies are not immune to challenges and disruptions, having an ESOP helped both businesses and their workers to “thrive even under extraordinary economic circumstances.”

Finally, there are a variety of financial benefits for those that choose an ESOP as part of their ownership transition strategy. If a loan is used to finance an ESOP transaction, the contributions that are used to repay the loan are tax-deductible, so the company can repay the loan with pre-tax dollars. Additionally, for S corporations, the ESOP’s share of recognized earnings is not subject to income tax at the federal level and, oftentimes, the state level. At the same time, owners of C corporations who sell their stock to an ESOP can defer capital gains on the sale under IRC §1042. Employees also receive a tax benefit in light of the fact that an ESOP retirement account is non-contributory and tax deferred.

Moreover, an ESOP can be structured to meet a variety of liquidity events. Depending on the owner’s goals and timeline, it may not be practical or desirable to sell 100% of the company’s stock to an ESOP. Regardless, an ESOP can be structured to provide partial liquidity to one or more shareholders. In fact, an ESOP is an excellent solution for a situation with multiple shareholders where one may be seeking liquidity and others wish to retain control. Notably, an ESOP can be structured to give the plan a minority share in the business at first, providing some liquidity. The remainder of the company’s stock can be sold to the ESOP or a strategic buyer at a later date. In general, an ESOP provides grocers with a variety of options for transitioning their shares.

Overall, grocers who sell to an ESOP have found that this type of ownership transition benefits not only the seller but also the company’s employees and the local community at large. If an owner sells to a large corporation or private equity, decisions will likely be left in the hands of someone outside of the community. However, by selling to an ESOP, a company can remain locally controlled, which helps the community retain its unique qualities and the local economy to remain vibrant.



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ESOPs in the Grocery Industry: An Ohio Perspective

By Mike Palmieri

The Grocery Industry in Ohio

Today, grocery and convenience retailers in Ohio employ roughly 90 thousand workers and generate an estimated \$29 billion in revenue. Trends like market concentration that are being observed at the national level are also occurring at the state level. In NE Ohio large chains like Giant Eagle, Walmart, and Kroger capture a combined 47% of market share in the Akron, Canton, Cleveland, Mansfield, and Youngstown metropolitan areas. In the central and western part of the state a similar pattern exists with Kroger and Meijer capturing 62% of the market share in Cincinnati, Columbus, Dayton, Springfield, and Toledo. Still, while their number has decreased in the last decade or so, hundreds of independent grocers continue to operate within Ohio. Their continued operation is essential; research shows that independent grocers improve food access, provide job opportunities, and generate local tax revenues, especially in rural and low-income areas that otherwise do not attract larger chains.

Preserving Legacy and Community Focus

It is not uncommon for smaller grocery stores and chains to have a community focus, with business owners viewing both employees and patrons as part of a larger family. For stores facing increased competition within the market, planning for the current owner's exit from the business – and the question

of how to ensure the continued operation of a given store – can be a difficult one to answer. However, employee ownership can provide existing owners of grocery stores with a viable succession plan that allows them to be paid a fair market price for the business they helped build while ensuring their legacy and community orientation remains in place. Moreover, adoption of employee ownership can provide a competitive advantage – research shows that employee-owned companies outperform nonemployee owned companies in several areas including productivity, sales, and employment growth. In a traditionally low-margin industry, these competitive advantages can be significant for continued operations and growth.

Employee Ownership in Ohio

With over 320 employee-owned businesses employing an estimated 100,000 workers, Ohio is a national leader in employee ownership. In the grocery and retail food industry, there are 6 employee-owned companies operating in Ohio, many with names you most likely recognize: Walt Churchill Markets, The Sanson Company, Riesbeck's, Gem City Markets, Buehler's Fresh Foods, and Bassett's Market. The diversity of both size and location is a testament to how employee ownership can be used in companies of various sizes and within different geographic reach. Some companies are smaller, with 2-3 locations employing around 100 workers

SPOTLIGHTS

Every company has its own unique story of how and why it became employee owned, there are common reasons why each of these companies saw a sale to employees as the right choice for them. Below are spotlights of grocery stores in Ohio that transitioned to employee ownership.



BUEHLER'S FRESH FOODS

while others are larger employing over 2,000. Likewise, they are located across the state including the Toledo area (Walt Churchill Markets), the Cleveland area (The Sanson Company), the southeast region (Riesbeck's), the northeast (Buehler's Fresh Foods) the Sandusky area (Bassett's), and Dayton (Gem Street Market).

Buehler's Fresh Foods

Founded in 1929 by Ed Buehler and his wife Helen, Buehler's fresh foods has been in operation for nearly a century. After opening their first store in New Philadelphia the Buehler family moved the business to Wooster in 1932 where it established a reputation for customer service, fresh produce, and a friendly atmosphere. Over the following decades, and four generations of Buehler family leadership, Buehler's grew to 13 stores serving the northeast Ohio market.

In the 2010's the company began to feel competitive pressures from larger grocery chains. At the same time, the question of succession planning was a high priority as Buehler family members were reaching retirement age. The company could have sold to a competitor but doing so would most likely lead to store closings and layoffs at the company, which could in turn have impacts on their suppliers with whom they have close relationships. It was in these moments that discussions about using employee ownership as a transition strategy began.

In 2017, the 13 stores that bore the Buehler's name were sold to their employees through an Employee Stock Ownership Plan (ESOP). All 2,100 employees were retained

during the transition and the company was able to maintain the culture it had built over the years. Commenting on the sale to employees, Dan Buehler, who serves as the president and chief operating officer of the parent company that owned Buehler's said, "We want these supermarkets to be here serving the customers and providing good jobs well into the future. There is no one better qualified than our own employees to carry out that mission. We believe that the transition to an ESOP is a winning solution for the Buehler family, our employees, and communities we serve."

Three years after the transition the company faced a new challenge - the COVID-19 pandemic and the great resignation that followed. Like many employee-owned grocery stores throughout the nation

Buehler's quickly responded. According to current CEO and President Mike Davidson, the company established a committee that included worker representation, to implement safety measures (including providing plexiglass barriers and PPE) and instituting across the board pay raises. Davidson also noted that while the company saw employees leave during 2020-21, those who stayed helped achieve sales growth despite the challenges. The experience has helped build a culture of ownership. Reflecting on how employee ownership has helped solidify the culture at the company, Davidson put it this way "the relationship between management and workers is different now, we communicate differently. Workers now think like owners, and we treat them as such."

SPOTLIGHTS

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Walt Churchill's Market

WALT CHURCHILL'S MARKET

Walt Churchill's Market

Walt Churchill's Market is another multi-generational family business that became employee owned. Its century long history began in 1917 when brothers Jim and Joe Churchill opened up the first store. Jim left the company but his daughter married the butcher, Les Barshal. About the same time Joe's son Walter was returning from the U.S. Marine Corps. Joe and Walter opened for business as "J.W. Churchill and Son" and Jim's family continued as "Barshal's".

In 1937 Joe retired and his son Walter operated as "Churchill's" until WWII began. They closed during the war while Walter (Sr.) returned to serve with the Marine Corps. In 1947 Walter Sr. reopened the business as a new store: first as a frozen food locker and then expanded as a "Super Market". At one time there were 6 stores with Walter Sr. as Chairman and his son Walter Jr. as President.

Churchill's had a Board of Directors and while Walter Sr. was alive and in charge it functioned well, but at Walter Sr.'s death the Board of Directors had new leadership. After a period of time Walt Jr. served as Owner and President of a 2-store company operating as Walt Churchill's Market. For nearly 20 years those two stores maintained the Churchill reputation of having a wide variety of foods sourced from local producers as well as a made-from-scratch deli and fresh baked goods.

For many years, Walt Jr. had been interested in becoming an ESOP company to meet the challenges of succession. While there were opportunities to sell to outside buyers, Walt Jr. was primarily interested in an exit from the business that ensured the legacy of the company. In 2020, they became 100%

employee owned through an ESOP and are now developing the culture to make their new company successful and thrive in the years ahead.

Like many companies working in front line industries, Walt Churchill's Market experienced higher turnover during the pandemic. But, according to Walt, being employee owned has helped with recruitment and retention, overall, with some employees who left returning. "People came back not just for higher pay and wealth building but because we have a company culture where everyone is treated with respect – it's a family way of doing things".

Today, the company continues to build that culture by providing employees with training and education about what it means to be employee owned and how it can benefit both themselves and the company. "When you become an ESOP, you've got this shift in culture, where every employee is an owner, and people start to realize that cutting waste and being efficient doesn't just benefit the company, but benefits everyone who works for it".





Ohio Employee Ownership Center at Kent State University

The Ohio Employee Ownership Center (OEOC) is an outreach center based at the main campus of Kent State University established in 1987. We provide support and assistance for business owners interested in selling their business to their employees; technical support for entrepreneurs interested in creating a start-up employee-owned business; training and education programs for existing employee-owned companies through Ohio's Employee-owned Network; and perform research and outreach regarding employee-ownership and its impact on local communities.

For more information, visit www.oeoekent.org.



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Prairie Capital Advisors, an employee-owned company, is a leading financial advisory firm specializing in creating and executing ownership transition strategies of middle-market companies. For over 25 years, we have helped hundreds of companies structure, value and sustain their ESOP. We take pride in our well-earned reputation of providing independent guidance, industry expertise and outstanding results to our clients nationwide. As a leading ESOP advisor, we provide ESOP valuation updates to more than 300 ESOP companies each year. Prairie helps ESOP companies think forward.

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