RECOGNIZE AND REWARD

ESOPs for Exit: King Arthur Flour

There are a lot of options for business owners thinking of leaving the business. They may choose to sell to individual employees, family, strategic buyers, or investors. But if they want to preserve their legacy and have the business continue operating with the same mission and values, another option is to create an Employee Stock Ownership Plan (ESOP). An ESOP is an employee benefit plan (regulated by ERISA) which can set aside or borrow funds to buy the departing owner’s shares of company stock.

These shares are put in a trust and allocated to individual employee accounts that vest over time and are eventually cashed in when employees retire or leave the company. ESOPs provide a tax-preferential market for the departing owner’s shares and also create a mechanism for greater employee engagement, ownership, and voice.

To learn more about ESOPs for exit we spoke with Steve Voigt, former CEO of King Arthur Flour, a company based in Norwich, VT that offers flours, baking mixes, cooking tools and baked goods to bakers everywhere.

King Arthur Flour was founded in 1790 and is the oldest flour company in the United States. The company was owned for five generations by the Sands family; most recently Frank and Brinna Sands, who began thinking of retiring in the mid-1990s. The next generation of the family was not engaged in running the company, and we already practiced open-book management, so an ESOP fit well with our culture. The ESOP was implemented in stages, starting with 30% of the company’s stock in 1996 which kept Frank as the controlling shareholder. Then 40% more in 1999 that signified the transfer of shareholder control. The final 30% happened in 2004 which made us 100% ESOP. We already had a culture of ownership and wanted to build on that. These are some key lessons we learned in the process:

1. **Begin with the right management systems**
   It’s important to have the right management systems in place to maximize an ESOP. An organization needs clear communications, financial transparency, and the opportunity for all employees to participate in decisions and share their ideas for innovation and improvement. Because of our open book management system, we already had many of these in place. The results have been excellent – in 1992 we had 20 employees and $8 million in sales. Today we have 320 employees and $120 million in sales. King Arthur Flour is now a leading brand, and we have been named one of the Wall Street Journal’s Top Small Workplaces. Much of this success is due to a combination of good management practices and the ESOP. Furthermore, research by Douglas Kruse and Joseph Blasi of Rutgers University found that ESOPs increase sales, employment, and sales per employee by close to 3 percent annually over competitors without ESOPs.

2. **Connect employees to the brand**
   Frank, like many business owners, was deeply committed to the brand, the company, and the employees. King Arthur Flour is a founding B Corporation and a company that values its people. It was critically important to Frank that the mission of the business be transferred along with ownership, so this was a major incentive in selling to the ESOP rather than to an outside buyer. We spent a lot of time getting all the employees as connected to the brand as Frank and Brinna were. We share success stories broadly – they are a great way for both employees and the community to connect with the brand. Our open-book management process, which we started in the early
1990s, already trained employees to think like owners; the ESOP made them actual owners.

3. **Engage the right advisors**  
A business owner looking to retire will consult a variety of experts, including lawyers, accountants, and retirement planners. Some may not understand ESOPs, which are complicated, or they may be opposed to exiting via an ESOP because a strategic buyer might pay more for the business. Others may advocate a particular form of exit because it will enable them to collect a fee. Frank chose advisors to help him work through and understand the issues – not to push him in a particular direction. At that time I was the vice president of finance, and I was part of the team that spent a lot of time evaluating the options. We had to demonstrate, from both a company and employee perspective, how the ESOP exit would work. Selling to an ESOP, the competition, or the 6th generation of the Sands family all had their pros and cons. Our biggest goal was to avoid seller’s remorse – and we achieved that.

4. **Build employee trust**  
After we evaluated the options and decided to go with an ESOP, we spent a lot of time planning the implementation. We formed the ESOP in 1996 and spent three years building both management and employee trust in the process before turning over control to the ESOP in 1999. We also did a lot of education before the transaction, so the transition was pretty seamless. We already had strong communication channels with our employees through our open-book management process, so this was an advantage as we worked to build trust and educate people about the ESOP.

A great thing about ESOPs is that employees are not asked to put up any money. It becomes real to them as they see shares vesting and people getting paid out. They realize that if they stay for five years or more, their stock grows and they will get cash. Now employees are completely bought in to the ESOP, and it has increased their engagement. They realize that every hour has the potential for more revenue, more profit, and more customers. They see that building a successful business benefits everyone. The ESOP has been instrumental in helping several employees achieve their retirement dreams – one bought a home in Arizona and another, a NASCAR fan, was able to move to North Carolina. Neither of these would have been possible without the ESOP.

**FINAL WORDS OF WISDOM**  
King Arthur Flour is a bigger, stronger, more solidly built company than it was in the 1970s and 1980s before the ESOP, and Frank and Brinna Sands are satisfied that their legacy will continue.

**HOW DO WE LEARN MORE?**

- Harvard Business Review: King Arthur Flour
- National Center for Employee Ownership (NCEO): How an Employee Stock Ownership Plan (ESOP) Works
- NCEO: Using an Employee Stock Ownership Plan (ESOP) for Business Continuity in a Closely Held Company
- Forbes: The Better Exit Strategy: ESOPs Satisfy Business Owners and Preserve Their Legacy
- Journal of Accountancy: The ESOP Exit Strategy

Other companies that have implemented ESOPs for exit include Springfield Remanufacturing Corporation, New Belgium Brewing, and Dansko.

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