



*Rodney North has been a worker-owner of Equal Exchange for over a dozen years, where he serves as “the Answer Man,” responsible for public relations. North is the fourth most senior worker at Equal Exchange, a Massachusetts-based worker cooperative with 80 worker-owners, a total of 105 employees, and \$34 million in annual sales. North is also one of the six worker-owners to serve on the Board of Equal Exchange, where he serves as Vice Chair.*

### **What were the origins of Equal Exchange?**

The three founders – Rink, Jonathan, and Michael – met while working for Northeast, a food distributor co-op. They valued the co-op model—Northeast was owned by its customers, which were food co-op retailers, independent grocers and buying clubs—but in their work they also realized that as they sought to get better prices for their co-op members, that put downward pressures on farmers. Northeast had already started to think about how to balance the co-op members’ needs and the farmers’ needs, but they didn’t have a way to do this for international products, like coffee or cocoa. Also, the model didn’t explicitly address the needs of the workers. So they wanted to create their own business, with a new model, built on cooperative economics that addressed everybody’s needs—The farmers, the workers, and the end purchasers—and which applied ecological principles and cooperative economics as the capital model. At best, the project, which coupled a private business model with a nonprofit mission, was viewed as utopian. At worst, it was regarded as foolish. But it worked and here we are 22 years later. To meet the needs of the farmers, they adopted Fair Trade practices. To protect the workers, they adopted a worker cooperative model. The mission is entrusted to the worker-owners. From the beginning they were interested in sourcing or providing organic foods or at least sustainable foods. In the mid-1980s, there was not a lot of organic tea or coffee to be had, but as soon it became available (around 1990), it became a focus for Equal Exchange. And now over 95% of our product line, from coffee to almonds, is certified organic. A lot of the most innovative work at Equal Exchange lies in the structure of the worker cooperative and the way we capitalize the company.

**In the lead-up to the creation of Equal Exchange, the co-founders considered structuring Equal Exchange as a non-profit social enterprise, but ultimately chose to be a for-profit worker cooperative. What were seen as the pros and cons of each model and why was the decision made to become a for-profit worker cooperative?**

Had the founders adopted a non-profit model they knew they could probably still benefit farmers, have a decent workplace, etc. but there would be little innovation in creating one more well-meaning non-profit. But if you could do this as a business, *that* might shake things up. So one goal was to show the viability of this new kind of for-profit model, to show that you could run a for-profit business on other terms. With the typical for-profit/non-profit split, there is deep

down the perception that you're either in it for yourself or for somebody else. By creating a for-profit social enterprise, you throw out those assumptions and are compelled to *internalize* a lot of the trade-offs that are normally externalized in the for-profit economy. By choosing a for-profit social enterprise model, we have to explicitly balance the interests of farmers, workers, investors, customers, and the environment. In short, we have internalized what in the for-profit world is usually externalized and pushed out of the picture. We definitely want to set an example for the for-profit world, and we are. For example, we're regularly asked to speak at business schools and business conferences, and we recently won the Social Capitalist Award from *Fast Company* magazine.

**Could you explain the advantages employee ownership poses for business development?**

Our example isn't just one of worker ownership but of *democratic* worker ownership, which is much more rare. The first benefit of democratic worker ownership is it is an end unto itself. It is a good thing. But it also delivers business benefits, including more informed, engaged employees – employees who are not only financially invested, but also emotionally invested in the success of the company. It is also a powerful recruiting and retention tool. It minimizes turnover. There are also investors and customers who are more enthusiastic about us because we're employee owned. Some of our nonprofit partners, such as in the faith-based community, are more comfortable aligning with us because of our democratic and egalitarian worker ownership, so it's a boost for alliances. Also, as a cooperative, it fosters much stronger ties with our farmer co-op suppliers and consumer co-op customers. It definitely strengthens the Equal Exchange story that we share with the public and media. It's another reason we won the Social Capitalist award.

**One of your challenges has been securing financing on terms that were compatible with both your Fair Trade mission and worker-co-op model, especially regarding outside equity. Could you describe Equal Exchange's equity model and how it differs from a conventional worker cooperative?**

Frankly, most worker cooperatives have very little capital. They tend to be much smaller in size or they have very little need of capital. For instance, Cooperative Health Care Associates, which is based in the Bronx, although large in terms of its employee-owner base, has a limited need for equity capital. I can think of only two U.S. worker cooperatives on our scale that have big capital needs – Rainbow Grocery in San Francisco and Union Cab in Madison.

One key to our financing has been the sale of non-voting Class B shares. They have a targeted return of five percent. In some years— like last year, when things are going really well, we'll pay more – we paid six percent last year. The share has a fixed price. It is sold through private placement, so it can be bought only from Equal Exchange and only sold back to Equal Exchange. Because of U.S. Security & Exchange Commission regulations, we cannot have more than 500 investors. Currently, the minimum investment is \$5,000. But of course we are trying to maximize the investment for each of those 500 slots. One way we do that is to attract larger investments from socially responsible investors. Trillium Asset Management helps us with that. Currently, we have raised about \$5 million that way over the 22 years.

There are three other ways we raise equity. The next most important would be through retained earnings, which now are about \$2 million. Until last year, the worker owners would reinvest 80 percent of profits back into the co-op. In co-ops, this is also called the collective account, but it functions the same as retained earnings. Now the model is to reinvest 60 percent of net profits

Of the remainder—whether it was 20 percent or now 40 percent—that goes to the worker-owners, half of that stream also gets reinvested into internal capital accounts. For example I have an internal capital account myself, into which goes half of my share of each year's profits and it stays on the company books and is available as capital the company can tap. If you add them together we now have four hundred thousand dollars in the internal capital accounts of our 80-plus worker-owners.

The fourth and least significant would be the Class A shares that are bought by worker owners when they join the co-op. Each worker owner buys one share that now costs \$3,100, but which is adjusted each year for inflation. So the two big streams are the class B shares and the retained earnings.

Right now, we have a capital working group, which is investigating options to raise more capital, because we are going to hit that Securities & Exchange Commission limit of 500 investors.

### **Do you claim your capital account when you leave the company?**

Yes, aside from borrowing from the account for special circumstances like an illness or buying a house, that is the only way you access the funds. Those accounts do not accumulate interest, but at some point the worker-owners could decide to change that.

### **Equal Exchange is participating in an effort by the National Cooperative Business Association, the leading national co-op trade association, to create a new model for raising equity for cooperatives. Could you explain what this new model might look at and how it might work?**

Raising capital is a considerable obstacle for many kinds of co-ops, including worker, food, housing, and purchasing co-ops, and the dearth of it keeps this portion of our economy unnecessarily underdeveloped. So we're re working with others like the Co-op Fund of New England as part of the NCBA's Capital Task Force. The Task Force studied all the ways, old and new, that co-ops around the world raise capital. In the end the Task Force recommended the creation of a national fund, like a mutual fund, that both private individuals and co-op institutions could invest in, but which would only be used to fund the creation or expansion of cooperatives. This might resemble similar funds used by and for co-ops in the Basque region of Spain or in Northern Italy that handle billions of dollars. The fund (or funds) might also offer investment options with higher or lower risk and returns.

Currently NCBA is studying the feasibility of such a fund. However, in the meantime more modest efforts, like the Co-operative Capital Fund (<http://www.coopcapital.coop>) are already underway, and will soon be provided friendly equity financing for co-ops here in New England.

Besides simply pooling and distributing money a tool like this could make it much easier to acquaint the larger public with the idea of investing in co-ops, just as they're already comfortable with stocks, bonds, mutual funds and CDs. In turn that could dramatically increase the pool of capital available to co-ops, and could be an exciting example for others interested in building community wealth.

### **Are there any particular disadvantages of employee ownership?**

Arguably it takes longer to make decisions, but a caveat is that it is likely we make better decisions because of the transparency and participatory nature of our decision-making. Because of our worker ownership, we have to be more creative and arguably work harder to raise capital, but once we've done that we enjoy many benefits from our capital model, most of all maintaining our independence.

### **Equal Exchange is known both for its Fair Trade practices with small-scale farmers around the world and for its worker cooperative structure for its own operations in the United States. What do you see as the linkage between these two practices?**

The link is that fairness and economic democracy are always good things no matter where it is happening along the supply chain. For us, Fair Trade is really built upon farmer cooperatives. For the same reasons farmer cooperatives are good and desirable, so are worker cooperatives. To have the cooperatives run for and by farmers introduces economic and often political democracy in these regions. The American workplace itself is more often structured as a feudal system and it, too, sorely needs greater fairness and transparency for the people doing the work everyday. There is no shortage of horror stories of life in the American workplace and worker ownership goes a long way to addressing those problems.

### **Since its inception in 1986 Equal Exchange has helped pioneer Fair Trade food and beverages in the United States. What contributions do you see your Fair Trade business making to build community wealth?**

Through everyday mundane practices and purchases, it makes people think about their economic connections to people around the world. It has made them ask, "Could this purchase make the world a better and fairer place?" So maybe the greatest contribution Fair Trade makes to community wealth is to educate and motivate citizens to think more about their economic relationships with everybody around them and to realize that new relationships are very possible.

**Equal Exchange exists at the intersection of a number of different co-op models that don't always "play well together." For instance, Equal Exchange is a worker co-op that primarily buys its products from farmer co-ops abroad and markets much of this production through consumer food co-ops...**

Yes, we also get some financing from the National Cooperative Bank and laterally we have business ties to other worker cooperatives; for instance, we collaborate with La Siembra in Ontario for our chocolate and cocoa products, and are co-investors with Equal Exchange (an independent co-op in Scotland with the same name) in a new Fair Trade nut enterprise. We also have worker cooperatives as some of our vendors, for example for our printing (Red Sun). We also were recipients from, and now are an investor in, the Co-op Fund of New England, and their new Cooperative Capital Fund.

**What do you see as the relationship between worker and consumer cooperatives? Are there different circumstances when you think it makes more sense to choose one capital model or the other?**

In terms of the relationship, we have had very healthy relationships with consumer co-ops. Probably a big part of that success is how compatible our work is with theirs. We do something they can't do and vice versa: we provide the coffee and they provide the retail storefront.

When to use one model or the other? Some like Weaver Street in Carrboro, North Carolina, for instance, do both and have a hybrid consumer-worker model. But I suppose one key factor in deciding on your model is determining who has the greatest vested interest in the success of the enterprise – the workers or the consumers of the product or service that is produced? Coffee drinkers probably are not going to want to buy shares of their coffee company, but employees of a coffee company are. Sometimes access to capital is a big issue. In our case, the worker co-op model works for us, because we have access to other forms of capital on acceptable terms. You do have some other consumer co-ops like REI where there is a looser connection between consumer and the store than you do with food co-ops. Did they choose the best model? I don't feel qualified to answer, although obviously it's working, even though their members don't walk in twice a week like food co-op customers do. Trying to determine which model makes most sense, it is probably a combination of who has the strongest interest and what kind of capital is available. I know that for a lot of consumer co-ops all the capital is raised from the members, which is not the case at all for our worker co-op.

One other thought: When trying to ask which co-op model to pick, ask yourself which co-op model would best protect the integrity of the enterprise. For something like a business providing affordable home heating fuel, a consumer model might make a lot of sense. It is such a big economic purchase that members may be willing to make a long-term investment and get involved. There is a big difference between buying your oil or electricity versus buying coffee.

**Equal Exchange has created an educational curriculum for grade school students about cooperative economics. Could you talk about what information Equal Exchange is trying to convey and how widespread its distribution has been?**

We realize for all of us who work here at Equal Exchange, that we pretty much were not exposed to any of this when we were young. In other parts of the world they are better at teaching kids about cooperative economics, so that they always know there is another way of organizing business. And that choice is not just either government or private business. For example, in Quebec, it is just presumed that a new café or campus store is probably going to be run as a student co-op business. That is clearly not the presumption in the United States.

Our work in schools started in a fairly obvious way, by offering a fundraising program, where a school can buy wholesale from Equal Exchange, sell the products at retail, and keep the difference. In concept, it is the same as when the students sell a magazine subscription to raise money, but when you sell a Fair Trade product, you don't just raise money for your group, you also learn about where your food comes from, the farmers who grew it, trade and social justice. At first the education component was entirely informal. But quickly there were requests for more formal instruction about Fair Trade and the co-op model, so we created this 16-unit curriculum. Schools can use either a single unit or all 16. If used in conjunction with the fundraiser, this will really get students' attention, because they're buying and selling the products, probably eating them too, and talking about them. And from then on, kids will know, and as adults they'll know, that there are options. And there are choices we make that can promote these alternatives. We sometimes talk about Fair Trade as a "gateway" product – first, you buy fair trade coffee, then its fair trade tea and fair trade certificates of deposit and there is no going back.

**How large is the program?**

We just launched this effort a short while ago, but it is growing, and already 59 schools have ordered the curriculum. We are also working with the New York State teachers' union to promote the fundraiser, which indirectly will expose thousands of teachers and administrators across New York to the curriculum.

**There are now thousands of ESOPs in the United States with an estimated \$928 billion in assets, while there are only a few-hundred worker co-ops, with combined assets of well under \$1 billion. In fact Equal Exchange is one of only a small number of U.S. worker co-ops to have more than 100 employees or surpass \$30 million in annual revenue. What are the obstacles that hinder the formation of worker co-ops in the United States and that keep most of them quite small?**

A big one is the lack of familiarity to the idea of a worker cooperative. You're not going to set one up if you've never heard of it. Almost no one has heard of the model. Of the people who have heard about it, hardly anyone has been exposed to *how* you do it. If you want to start a franchise, there is lot of information on how to become a franchise owner, but you don't have that kind of information for starting a worker co-op.

We were very lucky that Equal Exchange's founders had the ICA Group here in Boston to assist us in the start-up phase. Plus, it is definitely hard to raise capital. The founders had to do a lot of original thinking. If you're going to start a private business, magazines such as *Inc.* and *Entrepreneur* and college business classes will tell you about the capital infrastructure and how to access it. You don't have that capital or educational infrastructure for aspiring worker cooperative entrepreneurs. Also, most of the capital out there is chasing the greatest return and you're not going to get that at a worker cooperative. To redirect capital to building community wealth, people need to think differently about what they get for their investments. In other words: Do they get stable communities? Do they get social justice? Do they get a higher standard of living across the board? Or do they just get the maximum return for this quarter?

One thing we're doing to address this problem: We've always redistributed ten percent of our profits to other organizations. Before this year, we gave that money away to nonprofits working in Fair Trade. But this year the Board created a new policy. There are hundreds of billions of dollars already flowing through the nonprofit sector and there is almost no money available for future Equal Exchanges. So we are now going to invest three percent of our profits in other enterprises like Equal Exchange—other start-ups (7% will still go to non-profits). This is similar to models used in Europe, such as in Northern Italy. We are very much hoping that other co-ops will adopt this three percent model, to create a bigger pool of equity for co-op start-ups.

**What do you see as the relationship between ESOPs and worker cooperatives? Both involve employee ownership, but they differ significantly in their governance structure. Are there different circumstances when you think it makes more sense to choose one model or the other?**

At a Vermont Employee Ownership conference I attended recently, they wanted to put Equal Exchange out there as a model of *democratic* employee ownership. I think we (worker co-ops) have some lessons to share. Worker co-ops can encourage ESOPs to take those steps toward greater employee participation and governance. I think we can make it less scary to put an employee representative on the board, to actually pass through voting power to employees. Regarding when to do which (go co-op or ESOP), to my knowledge worker co-ops have a much better chance of success if the business is founded as a worker co-op. You are simply going to hire differently as you're hiring future owners. For all of those existing businesses, an ESOP makes a lot of sense, at least as a first step. There is a lot of work to be done to go from conventional ownership to an ESOP and there are a lot of steps you can take to make the ESOP more participatory and democratic. On some occasions, if the stars align, a business might be able to convert to a worker co-op and there are some examples. For example, I was on a panel with an entrepreneur who converted his conventional construction business (Red House Building, Inc. of Burlington, Vermont) into a worker co-op.

**In 2006 the worker-owners of Equal Exchange approved an ambitious 20-year vision to create "A vibrant mutually cooperative community of two million committed participants, trading fairly one billion dollars a year in a way that transforms the world." In that vision**

**what is the potential role for other community development practitioners such as CDFI's, and publicly or community-owned institutions?**

Where they might be buying standard certificates of deposit, they could invest in Equal Exchange CDs. A community-owned retail development could invite consumers to create a consumer co-op as the anchor grocery store. For that, they could link up with NCB's Co-op 500 Fund. There are also all kinds of conventional activities – school fundraisers, grocery shopping, bank deposits – where communities without spending any extra money can make a co-op choice, instead of a conventional choice. For example, move some of your investment portfolio to the new Cooperative Capital Fund or adopt the 3-percent model that Equal Exchange is starting. Through a lot of these everyday choices, you can look for Fair Trade and co-op options. It could be the coffee you serve in the office or place of worship, but it could also be bringing in or supporting a co-op retailer. Could your affordable housing be affordable *co-op* housing? You can also look to co-op vendors – such as builders, printers, and caterers—for your everyday needs.

**How does Equal Exchange feel about scale? On the one hand when Equal Exchange grows it can benefit more farmers & add more worker-owners, but are there any disadvantages you have encountered with growth?**

The one clear challenge posed by growth is maintaining the human ties that make our worker co-op work. At 100-plus people spread over three time zones, you just can't know the people the way you did when it was 30 people in one building. The human ties are essential for the trust that is necessary for the democracy.

**How do you mitigate this problem?**

We have video conferencing to link the Oregon and Minnesota offices to Massachusetts. We have staff meetings every two weeks. Those are imperfect as the people outside of Massachusetts don't participate, but they do see the minutes of those meetings. We fly people back and forth from the various offices a lot. And the whole company is connected through a private intranet in which we invest a lot. We have a 2-day annual retreat that all staff attends. And we have big phone bills.

**In 2004, the United States Federation of Worker Cooperatives was formed. What role has Equal Exchange played in that group? What challenges and opportunities do you see that this nascent national trade association can play?**

We are one of the founding members and we currently have an employee, Aaron Dawson, on the Federation board. We have presented at every conference. An obvious potential is the sharing of best practices – for worker co-ops, there is such a dearth of information available, so we need to learn from each other and the Federation facilitates that. For instance, it has collected bylaws of many cooperatives and put them on line, so we can at least compare that. And the Federation is

working to do some fairly obvious things like group purchasing for health insurance, which is really hard for these small businesses. The Federation is also looking at possible joint promotion of the worker co-op model. It's the kind of thing that 100 worker co-ops together might be able to do, but none of them individually can do. Some kinds of marketing do require scale, so this one area where we can take advantage of the strength of numbers.

**What do you see as the most important challenges or opportunities facing worker co-ops today? Where should the worker cooperative movement be focusing its energies over the next 10-20 years?**

One key area is to focus on the continued viability of existing co-ops, because many of them are struggling. If these co-ops don't make it, everything else the worker co-op movement might want to do will be harder – joint promotion, etc. The biggest challenges will be finding suitable capital, professionalization, and promoting the worker co-op example. And the biggest opportunity would be the public's incredibly profound dissatisfaction with the typical workplace and the typical business structure.

**October is Co-op Month. Is there anything Equal Exchange is doing to celebrate this?**

Within the food co-op community we're running ads in the various co-op newsletters, and distributing articles we've written. And we talk about it in our own newsletters. October is also Fair Trade month. For it what we are doing is a *Reverse-Trick-or-Treat* campaign. Working with other organizations and volunteer families, and their kids, we are going to help distribute 200,000 *Reverse-Trick-or-Treat* cards with a piece of our Fair Trade chocolate. So when children go door-to-door they can hand out one of these to inform folks of the issue of forced child labor in the cocoa industry and promote the Fair Trade alternative. It was so successful last year that we have bumped up the program fivefold for this year.

**Anything else you would like to add?**

We should at least mention the role of the faith-based groups. They now represent 30 percent of our business – that's \$10 million in Fair Trade goods that they are buying and selling and using. These partnerships with groups like Catholic Relief Services, and Lutheran World Relief, potentially represent over 100 million Americans. They are doing incredible work to promote the Fair Trade idea. Fair trade is so compatible with the ethos of building community wealth that we shouldn't fail to mention this activity and draw some hope from it.

*For more information, please see Equal Exchange's website ([www.equalexchange.coop](http://www.equalexchange.coop)) or contact: Rodney North, The Answer Man at Equal Exchange via e-mail at: [rodney@equalexchange.coop](mailto:rodney@equalexchange.coop).*