St. Cloud Times: Eich Motor Co. looks to future, adopts worker stock ownership (Bremer Bank is a Key Partner)

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In a small building set back from Division Street just west of Cooper Avenue stands a testament to how Eich Motor Co. has withstood the test of time.

There, under a tarp and surrounded by its more modern descendants, is a Studebaker wagon – the kind horses once pulled. Emblazoned with an Eich nameplate, it's perhaps the oldest remaining example of the forms of transportation sold more than 115 years ago in St. Cloud.

Since it opened in 1897, four generations of the Eich family have led the operation. Through the years, buggies gave way to the "horseless carriage," and eventually to the shiny Volkswagens andMazdas that color the lots today.

While all good things (and a lot of businesses) eventually come to an end, current President Linda Eich DesJardins said she hopes she's made a decision that will allow the ninth-oldest auto dealership in the United States to go on indefinitely. Late last year, she chose to sell her interest to the people who work for her. On Dec. 31, the final approvals fell into place for Eich Motors to evolve into an employee stock ownership plan, becoming the first Volkswagen and Mazda dealership in America to do so. The company also joins a burgeoning list of ESOPs in Central Minnesota, following the lead of companies such as Coborn's, DCI, Marco and others smaller in size such as St. Cloud Industrial Products and Leighton Enterprises.

"It was always on my radar screen as an option," said Eich DesJardins, 55, who took over for her father, Dan, in 1992 and bought out her two sisters. "The odds are against a family business succeeding this long. I was probably nuts to think I could keep it going in the fourth generation. As the sole owner, and with no fifth generation waiting to take over, I started to wonder how long I wanted to keep going before I want to step away. The ESOP seemed like the best way forward."

It also could be the trend of the future as more companies give employees an ownership stake as an alternative to traditional retirement programs.

"Our fathers had pensions," said Eich DesJardins, who with her husband, Joe DesJardins, has two sons who are pursuing other careers. "We've got 401(k)s. For the next generation, this might be the future."

That's because no one knows better than Eich's 75 employees that if an oil change is botched or a customer isn't treated with respect the company stands to lose sales. Those lost profits will affect the workers now because they could reduce contributions to their ESOP and their stock value could decrease.

"There's a sense of empowerment and assurance now," said Carl Fasen, who started working in the detail shop in 1975 and has been here ever since — becoming general manager in 1998. "As a long-term employee, I'm excited. We're proud of the 115-year history ... this is a huge opportunity. Where would you rather do business? An employee- and family-owned dealership or a corporate conglomerate?"

How it works
Business owners like the flexibility of selling to an ESOP because they can retain a majority interest — as Eich DesJardins has, at least temporarily – and stay involved with the company. Initially, she has sold 49 percent of the dealership but intends to graduate that to 100 percent. That's fairly common. After five or 10 years, many owners sell the rest of their holdings as they move toward retirement.

Another benefit of selling to an ESOP is it's more likely employees will stay with the business and the company will continue along the path the original owners intended.

Erik Boelz, who started detailing cars at Eich while he was in college in 1992, has risen to general sales manager. He said Eich DesJardins had opportunities to sell to outside interests. If she had, the dealership's current names, faces and way of doing business might have changed.

"You just don't know — there would've been a lot of uncertainty with someone new coming in," Boelz said. "But she chose to pass on that in the interest of keeping the name out front and I think it was a wise decision for her and the employees. We have a seasoned, long-term sales staff. That's one of the reasons we're successful and there's a lot of growth potential. I think this is going to have a very positive impact on my retirement, and I've got a ways to go yet. ESOPs tend to be successful because everyone cares. You become more focused because you're working for yourself."

While they assume ownership, employees don't have direct control over who manages the company. But the trustee of the plan is subject to federal pension laws and must act in the best interest of the participants. Employees do have voting rights on big events involving the company, including whether to merge with another interest or sell off major assets.

Because ESOPs benefit from tax deductible dollars, contributions often are larger than traditional pension or profit-sharing plans. The plans are regulated by the Department of Labor and the IRS, according to guidelines of the Employee Retirement Income Security Act. The federal government encourages ESOPs because they promote harmony between labor and management and broaden ownership of America's capital.

When an employee leaves the company, rules require their stock be converted to cash by the ESOP or the company. Since there's a vesting schedule over as many as six years, the plans reward long-term employment.

Bremer Bank steps in
The National Center for Employee Ownership estimates more than 10 million people participate in ESOPs.

There were fewer than 300 ESOP companies 40 years ago. According to the ESOP Association, as of 2009 there were more than 11,500 in the U.S. with a total value approaching $1 trillion.

Kevin Weise, an executive vice president with Bremer Bank, another ESOP, helped structure the financing for Eich Motors' change in ownership. He said Minnesota has become a hotbed for ESOP activity. There are more than 350 ESOP companies in the state, which ranks among the top three in the nation.

“When we were explaining it to the employees there, one of the mechanics came up to me and said, ‘So you’re telling me now I have to be more careful with the tools I use because they’re my tools?’ ” Weise said. “I said ‘Yeah, that’s basically it.’ The day-to-day efforts of the people who work there can help the company grow. And that translates into an increased share price.”

Weise, who is based in St. Paul but works closely with the Bremer office in St. Cloud, said ESOPs have become more popular in the past 10 years, although they have been possible since the late 1970s. He said there are four critical components to an ESOP such as the one at Eich Motors:

• An attorney familiar with the ERISA and ESOP legislation — in this case, Gray Plant Mooty;

• A quality independent financial adviser must serve as an evaluator;

• An independent trustee, like Bremer, must be willing to assume an interest.

• A solid accounting and audit firm must monitor the financial picture — in this case, CliftonLarsonAllen.

The largest ESOP in Minnesota that is at least 50 percent employee-owned is Eden Prairie-based Lifetouch, a collection of photography businesses with 26,000 employees. Scheels All Sports, which is based in Fargo, N.D., but has a cornerstone store at Crossroads Center, also is an ESOP with 5,000 employees. Some large corporations also feature some level of employee ownership. Southwest Airlines, for example, is about 13 percent employee-owned.

Risk and reward

Not just any company is attractive for an ESOP. The ones that are generally show strong cash flow and the capacity to borrow money if needed. The ones already on firm footing often improve because ESOPs generally result in a cultural shift among the workers, who now share in rewards as well as responsibilities.

According to a study from Rutgers University, ESOPs increase sales, employment and sales per employee by about 2.3 percent compared with what would have been expected absent an ESOP. Remember Southwest Airlines? It has posted profits for 39 consecutive years while some competitors have filed for bankruptcy, merged or gone out of business.

ESOPs aren’t perfect, however. One at Creative Memories haunted some employees after the company filed for bankruptcy.

“They’re not bulletproof,” Weise said. “ESOPs can make good companies great but they can’t make a bad company good. You can’t have poor management or advisers, and there has to be a commitment to create an employee-ownership culture.”

While ESOPs can be more expensive to ownership than offering a 401(k), Weise said Bremer participated in eight ESOP transactions similar in size to Eich’s during the last quarter of 2012. Owners like Eich DesJardins were able to take advantage of 2012 capital gains rates. But Weise said he’s involved with four more ESOP deals right now and the activity has remained strong into 2013.

“Businesses have increased in value since the recession three or four years ago,” he said.

Eich DesJardins previously worked in commercial lending at Mellon Bank in Philadelphia. That background also expedited the process. Still, it wasn't easy for a car dealership to go into employee ownership.

"Automakers are very careful about who represents their product," Eich DesJardins said. "Owners have to put their name on guarantees, so it's hard for them to envision employee owners. It may take a while, but I believe we'll make (Volkswagen and Mazda) comfortable with how it works. If we work hard and keep growing, every year the company will be more valued,

and those shares will keep getting more valuable. And that's where the magic happens. All of a sudden, no matter what your role, the success of the company is something you can control. You take part in it compared to putting your money in the stock market and hoping those companies do well.

"Maybe we've got blinders on, but we do business the way we want — and that's to treat people like they want to be treated," she added. "Few of our employees have worked at other dealerships. There's no revolving door. We don't pay our salespeople on the grosses of cars they sell. Retention is a strength. We didn't have any layoffs during the recession."

That's not to say Eich DesJardins didn't feel pressure during the tough times. But another by-product of the ESOP, she says, is she doesn't feel solely responsible for the company anymore. When she walked out the door for the first time after the ESOP was announced, she said she felt a weight lifted off her shoulders.

At some point, she'll step away from the day-to-day business. The board of directors will evolve. And who knows what cars will look like in another 100 years? But the ESOP she started now might keep the management local and the Eich name on the marquee for a century to come.

What is an ESOP?

There are two kinds of employee stock ownership plans — leveraged and non-leveraged.

With a leveraged ESOP, a bank lends money to create a trust that purchases stock from the company. The company makes annual tax-deductible contributions to the trust, which repays the bank. Up to 25 percent of the payroll of participants in the plan can be tax deductible. Employees then share in the trust and collect on their holdings when they retire or leave the company.

With a non-leveraged ESOP, the relationship is solely between the company, a trust and the employees. A lender is not involved.

In either case, employees directly participate in the ownership of the company and share in its risks, responsibilities, losses and profits. Companies that aren't publicly traded are appraised annual by an independent evaluator.

Benefits to the employee include a share in the company's capital growth and deferral and reduction of taxes. They receive stock proportional to their share of the company payroll. Once they reach age 55, employees can begin to diversify 25-50 percent of their account balance.

Benefits to the company or an owner or stockholder include a ready market for shares, a solution for business succession, increased cash flow and working capital.

For more, visit http://www.esop.org/ or http://www.esopassociation.org/.

1853
Joseph Eich immigrates to the U.S. and becomes one of the first settlers in what would become St. Cloud. One of his 12 children was Alois A. Eich.

1897
Alois A. Eich and Michael Bisenius form a partnership to sell farm implements, including Studebaker wagons and buggies.

1910
After buying out his partner, Eich begins stocking a gasoline engine vehicle. He sells nine “horseless carriages” that year.

1921
Milton Eich graduates from
St. John’s University and joins his father’s firm.

1923
Eich and Son sells 77 cars.

1942
Having survived the Great Depression and bankruptcy by Studebaker, the Eichs face shortages of vehicles, gas and labor during World War II.

1957
The company moves from downtown St. Cloud to its current location at 1931 Division St., is renamed Eich Motor Co., and begins selling Mercedes.

1960
After joining the firm as a third-generation descendant, Daniel Eich sells the first Volkswagen Beetle in St. Cloud.

1975
Daniel Eich associates with Mazda.

2009
Car and Driver magazine recognizes Eich Motors as the ninth-oldest continuously operating dealership in the country.

2013
Eich Motors becomes the first employee-owned Volkswagen and Mazda dealership in America.