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# THE CHALLENGE OF BUSINESS SUCCESSION IN MANUFACTURING AND THE OPPORTUNITIES FOR DIVERSIFYING OWNERSHIP

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# INTRODUCTION

America is facing a generational opportunity to strengthen and diversify the nation's manufacturing business ownership. Baby Boomers that currently own their own businesses but are seeking to retire will need to find new owners, creating the conditions for a so-called silver tsunami of ownership transition. But without intentional efforts and deliberate policy choices by states and the federal government, diversification in business ownership is unlikely to occur and this vital economic sector could be weaker.

With this perspective in mind, The Century Foundation (TCF) and Urban Manufacturing Alliance (UMA) are analyzing opportunities in this silver tsunami to facilitate diversification. The Urban Manufacturing Alliance already works with Community Development Financial Institutions and other mission-based lenders to spark diverse entrepreneurship in manufacturing. Much of this work, however, only supports innovators who have already started their own new firms and are seeking new forms of capital to grow them. **This new initiative will focus on the purchase of existing businesses as another pathway into entrepreneurship.** This joint report by TCF and UMA investigates the significance of transition of ownership as a driver of diversification, and effective capital and entrepreneurial policy strategies and responses to facilitate such transitions.

The research and recommendations contained in this report are being released at the start of a new multi-city initiative—called Tools for Equitable Acquisitions in Manufacturing (TEAM)—by the Urban Manufacturing Alliance, Concerned Capital, and Common Future, supported by JP Morgan Chase Foundation, to leverage this economic change in manufacturing into a new generation of more diverse owners. **Facilitating this change requires deploying new forms of patient capital, identifying transition-ready firms, and supporting prospective entrepreneurs and employee owners.** The availability of equity capital (about \$100,000 to \$400,000 of equity is needed to buy a company worth \$1 million to \$4 million) will make the difference to the smooth transition of these companies to new owners, including those who may have never had the chance for manufacturing ownership in years past. TEAM will convene a cohort of community lenders to help them build their capacity to support business transitions (via lending tools and technical assistance specific to the valuation and sale of a company). The goal of this multi-year project is to build a curriculum to be delivered to the larger community-lending network and to facilitate the transition of dozens of manufacturing businesses to new private ownership. The recommendations in this report include policy ideas from Concerned Capital and the other on-the-ground partners in this project.



# THE CURRENT OWNERSHIP LANDSCAPE AND TRANSITION CHALLENGES

Small manufacturers make up the lifeblood of U.S. supply chains, as 87 percent of all manufacturing establishments have fewer than fifty employees.<sup>1</sup> The ownership of these manufacturing firms varies, but a large share of them are privately held and family-owned. Estimates from Project Equity indicate that 125,000 manufacturing firms are owned by baby boomers, employing 2.6 million workers.<sup>2</sup> This ownership transition demand will be reaching its peak over the next several years, as the number of owners over the age of 55 will crest with the aging of a generation that now owns half of all privately held companies in the economy. Most of these owners are looking to sell within the next ten years.<sup>3</sup> The Small Business Administration estimates that over the next ten to fifteen years, 70 percent of privately owned businesses—with an estimated worth of \$10 billion—will be sold to new owners.<sup>4</sup>

There are significant risks and opportunities entailed with this coming transition. Only 30 percent of all family-owned businesses are passed along to the next generation.<sup>5</sup> Family-owned manufacturing firms are at a particular risk of poor succession planning, as the children of the current generation of manufacturing owners came of age during some of the worst periods of U.S. manufacturing economic decline and thus many have chosen other walks of life.

Without a family successor, many of these firms don't have a plan for the future of the company when its owner retires. For example, a study of family-owned manufacturers in the Chicago area found that 61 percent of firms were at immediate risk due to lacking a defined ownership plan and having not chosen an appropriate successor.<sup>6</sup> A national survey found that 40 percent of manufacturers have no formal succession plan in place

and another 20 percent are concerned about the lack of management talent behind the CEO.<sup>7</sup> Even the big changes that took place in the manufacturing sector during the pandemic have not encouraged a new focus on planning for the future of these businesses, with 70 percent of manufacturers saying their succession plans are unchanged because of the pandemic.<sup>8</sup>

The almost certain outcome of the current situation is that the face of small and medium manufacturing will change over the next ten years. The process has already begun, as merger and acquisition activity in manufacturing reached record levels in 2021.<sup>9</sup> In many ways, this is part of the life cycle of these companies, many of which have been run through several generations in one family but are now moving away from family ownership. Many such manufacturing companies never leveraged their positive profit cash flows, or their real estate value, into new equity or debt investments. For sure, this makes the companies attractive to equity investors seeking to leverage this untapped value. **From a public perspective, leaving these manufacturing companies to be acquired in this way represents a missed opportunity for the wealth-producing potential of manufacturing to flow to the communities that have built the success of these companies for years or even decades.** And, for companies that remain in business after being sold, poor transition planning could mean that a business that has been successful for years under family ownership might lose its place in the supply chain, which would not only risk its future existence but also contribute negatively to revitalization of manufacturing generally.

The window of opportunity for public intervention in this transition is narrow, and during this window there are significant risks for the manufacturing sector, but also opportunities:

- Ownership transitions put well-paid jobs at risk, especially in rural areas where few comparable jobs exist.
- Ownership transitions threaten the availability of industrial land and local manufacturing ecosystems when space is converted to other uses.
- Ownership transitions present an opportunity to diversify ownership of manufacturing companies, encouraging additional ownership of manufacturing companies by women, employees, and people of color.
- Ownership transitions present an opportunity to promote employee ownership of manufacturing companies, encouraging individual or group employee ownership, which would in turn help diversify ownership of manufacturing companies.

To understand these risks and opportunities, The Century Foundation and the Urban Manufacturing Alliance interviewed leaders working directly with small businesses and entrepreneurs.<sup>10</sup> They detailed the risks and opportunities described throughout this report. Given the significant number of family-owned small manufacturers facing an uncertain future, communities, states, and the federal government should mobilize a new set of responses that can be deployed quickly in the next several years. Critical actions that will be needed include strengthening the infrastructure for early warning and layoff aversion services in the states and supporting intermediary organizations that can work with transitioning owners. **With this infrastructure in place, there would be a clear path not only to preserve jobs but also to pave real avenues for diversifying the ownership of the manufacturing sector. The best outcomes are only possible, however, if states and the federal government can invest in new sources of equity capital for owners who may not have the personal wealth needed for collateral or acquisition, and if debt financing can be better structured and leveraged, in partnership with federal small business administration lending programs.**



## WHAT IS AT RISK:

# LOSS OF MANUFACTURING JOBS

The confluence of numerous aging owners and the lack of succession planning puts manufacturing jobs at risk. Scholarly research<sup>11</sup> indicates that new owners of firms have a statistically significant likelihood of closing factories. A significant subset of family-owned manufacturers are wittingly or unwittingly running down their operations, maintaining an order book of business but not investing in smart manufacturing technologies to maintain a competitive edge. Without a succession plan in place, these companies are at special risk of closure once the owner finally retires. Indeed, many potential buyers of manufacturing companies are looking at the underlying value of patents, acquiring customers, or buying out a competitor. In some cases, this could lead to the consolidation of operations and more economically competitive production. However, such consolidations can be acutely felt in communities.

This is especially true in rural areas, where a small or mid-size manufacturer may have an outsized economic impact when production is moved elsewhere. If a small rural manufacturer is consolidated by a competitor, the jobs could be out of reach for former employees, many of whom will have few comparable jobs in the local labor market. Similar impacts can occur in urban areas, even though they generally have a greater diversity of jobs to weather any change in production by one firm. In other cases the closure of a family-owned company might lead to shortages of American-made goods and negatively impact supply chains. For example, the defense supply chain depends on small businesses for specialty and legacy components, and closures of family-owned businesses could lead to dependence on strategic competitors.

# CONVERSION OF MANUFACTURING LAND TO OTHER NON-PRODUCTION USES

Especially when succession planning is not in place, family-owned manufacturers increasingly are finding attractive offers from buyers primarily interested in the real estate of the factory. This is especially true in or near urban areas, where the demand for e-commerce warehouse and distribution space has created an increased demand for large industrial spaces. In gentrifying areas, small plants can be targeted for conversion into residential or other high-rent-generating uses. In either case, failed manufacturing successions can have an impact on land use planning and the economic diversity of geographies. In too many areas, the ownership transition rush could be a tipping point away from sustainable regional manufacturing ecosystems.

## THE OPPORTUNITY:

# INCREASED DIVERSITY OF OWNERSHIP

The aging of business ownership, and the needed transition of that ownership, among family-owned businesses provide an opportunity to diversify ownership in manufacturing. Only 12.8 percent of all manufacturing businesses<sup>12</sup> are owned by people of color. The gaps are particularly large for Black Americans; when publicly held companies are taken into account, only 2 percent of manufacturing firms are Black-owned. Minority-owned manufacturers are also typically smaller than non-manufacturing firms, with 84 percent having fewer than twenty employees.<sup>13</sup> The coming wave of ownership transition provides an opportunity to change the face of ownership in manufacturing, and wealth-building opportunities for diverse communities through the purchase of established businesses.

The problem, however, is that women and people of color struggle to access the capital needed to buy an existing manufacturing business. A small legacy firm with a value of \$1 million to \$4 million would require a buyer to have equity of \$100,000 to \$400,000.<sup>14</sup> Buyers of color are less likely to have access to inherited or family

wealth that can meet equity requirements of available private and Small Business Association (SBA) loans. Yet, some women and people of color entrepreneurs have overcome these obstacles and successfully bought companies and turned them into thriving businesses. The experiences of leading women and people of color entrepreneurs in manufacturing points to the potential for transitions of manufacturers to people of color ownership.

A landlord agreed not to evict lawyer April Richardson's client,<sup>15</sup> a small bakery, on one condition—that April would buy and run the bakery. She converted the mom-and-pop retail bakery into Sweet Potato Cake, a wholesale bakery able to achieve larger scale revenues than retail did. “We [women of color] have been the ones historically that have been thrown into the kitchen, but most of the food companies that are the largest in the world are not women-owned. So understanding this history is what continues to be the driver, that keeps me on the manufacturing side.”

# INDIVIDUAL OR COLLECTIVE EMPLOYEE OWNERSHIP

Advocates for manufacturing retention have long looked at employee ownership as a way to capitalize on the skills and commitment of factory workers in ways that retain jobs and build the wealth of workers as owners or co-owners of businesses. Employee ownership possesses an intrinsic appeal to owners who are seeking to transition and yet remain deeply committed to their workers, and want to continue the legacy of their business in providing those jobs. When it comes to the transition of family businesses, firms can be purchased by individual employees or transitioned into shared ownership by a group of employees. Take the case of

individual employees getting into position to buy a firm. They have manufacturing experience, and their interest in buying the company comes from their commitment to the business and its employees—not a desire to speculate and sell. These “insiders<sup>16</sup>” have relationships with coworkers, customers, and suppliers that strengthen a company through a transitional period.

Moreover, managers at manufacturing businesses are more likely to be women and people of color than their owners. New owners, if they qualify, could take advantage of becoming a registered minority/women-

owned business enterprise (MWBE) supplier and thus gain a foothold at large public employers such as hospitals, universities, and infrastructure projects that have MWBE supplier initiatives and requirements when purchasing manufactured supplies. Despite these possible advantages, there are few investors geared to supporting these types of entrepreneurs, especially if firms are too small to attract traditional private equity investors.

Carolyn Hardy was a plant manager at a brewery facility in Memphis, Tennessee that was set for closure by Molson-Coors. In a bid to prevent the loss of more than 200 jobs, Hardy decided to buy the firm, but was turned away from conventional lenders and investors, an experience she attributes to bias among creditors against the idea that a woman of color could operate a brewery successfully. After identifying high-interest, hard-money lenders, Hardy bought the company and refashioned it into the successful Blues City Brewing facility.<sup>17</sup>

Transitioning to group employee ownership is another strategy that can provide stability and increase diversity of ownership. Currently, 21 percent of the 6,500 firms owned through Employee Stock Ownership Plans<sup>18</sup> are manufacturing firms, and a smaller number are worker cooperatives. For example, the Ohio Employee Ownership Center (OEOC) at Kent State University combatted waves of deindustrialization in the 1980s by training and assisting employees to buy the companies where they worked. So far, OEOC has created 15,000 employee-owners at ninety-two companies. Now, champions of employee ownership are eyeing the baby boom exit from family-owned manufacturing as a chance to convert additional companies into employee ownership. Employee ownership has a chance to turn workers into stockholders, and play a part in narrowing the extreme wealth gaps in our country.

But conversions from individual to group ownership are not easy to undertake. Whether through an employee stock ownership plan or a worker cooperative, employee ownership conversions require specialized legal and accounting expertise. Sellers can provide some of the equity in an employee ownership conversion (in

this case, employee owners will buy back the seller's equity over time). That does not eliminate barriers to the equity and debt needed to complete an employee ownership transition. Middle-market equity investors are more familiar with traditional transactions from an individual owner or a corporate buyer, creating a need for specialty investors in employee ownership. Despite these obstacles these transitions are possible.

Adams and Chittenden is a Berkeley, California glass manufacturer that specializes in custom-made equipment for the scientific industry. Its owners, Tom Adams and George Chittenden,<sup>19</sup> are approaching retirement age and feared no buyers would continue their niche supply chain business and their employees would lose their jobs. Through a nineteen-month partnership with Project Equity, and an investment from the community development financial institution Shared Capital, Adams and Chittenden converted to a worker cooperative structure that will continue on.

# PUBLIC POLICY RECOMMENDATIONS

The transition of ownership among small manufacturers is a serious challenge facing U.S. manufacturing, and its role as a provider of stable jobs for communities across the country. There are several key strategies and related public policy levers that need to be used to

mitigate the downside of a large number of ownership transitions coming in the sector, and create a new upside of inclusive ownership.

## STRENGTHENING EARLY WARNING SYSTEMS

## IMPROVING THE EQUITY EQUATION IN OWNERSHIP TRANSITIONS

## BOLSTERING THE ROLE OF INTERMEDIARIES IN OWNERSHIP TRANSITIONS





# STRENGTHENING EARLY WARNING SYSTEMS

The opportunities and challenges presented by manufacturing transitions are a problem hidden in plain sight. Many family-owned manufacturers keep their business transition plans close to the chest. Business owners can view announcing a possible sale as a sign of weaknesses that could lead to the loss of employees or customers. This makes it more difficult to identify those businesses that may need help through a transition, and to ensure that businesses are being sold to owners that can maintain operations and thus preserve jobs. Improving government-supported programs that surveil small businesses at risk and offer them assistance could go a long way to smoothing any ownership transitions.

Congress has recognized this problem before. Federal policies such as the WARN Act, Trade Adjustment Assistance, and the Workforce Innovation and Opportunity Act (WIOA) deliver services to workers and firms once a layoff is announced. One program, the Steel Valley Authority's (SVA) Strategic Early Warning Network, followed this imperative one step earlier in the process—identifying companies at risk of closure, and seeking to prevent layoffs by providing consulting assistance to that business. After other states imitated SVA's effort, **Congress required all states**<sup>20</sup> to use some of their rapid response allocation from the Workforce Innovation and Opportunity Act to perform layoff aversion services.

Early warning approaches can positively impact ownership transitions on multiple axes. A key hurdle for an owner thinking about the future of their business is to have a good sense of the value of the business as a going concern, and the possibility of selling it to a new owner or its employees to keep it operating. One example of a useful program

is in Massachusetts, which used federal rapid response dollars to provide free feasibility studies for manufacturers considering a transition to employee ownership. Of course, not all businesses identified to be at risk of closure can be sold as a going concern to employees or any owner who would keep it going. Still, early warning systems can help provide impartial guidance to those firms at risk. In 2016, the City of Los Angeles awarded a contract to Concerned Capital for a pilot program using layoff aversion dollars to help employees purchase small companies from retiring owners and successfully convert three companies—a bakery, a print shop, and a shipping company—and **saved twenty-three jobs**.<sup>21</sup> In these cases, Concerned Capital was able to utilize its expertise in business transitions and transactions to support successful deals to keep businesses running in new hands as owners were retiring.

Early warning systems will be most effective when they have a “warm touch” with the owner, using a trusted contact that can discuss succession issues and connect owners with advisers that can help with a successful transition. That's why effective early programs are in continued contact with business and community leaders to build relationships that identify companies who need help, but may be too proud to ask or not know where to go. Churches, mosques, and temples are great examples of community organization where such family-owned business issues are discussed and should be a part of early warning efforts. Labor unions play a similar critical role of providing community knowledge of the health of companies and have often led early warning and rapid response programs in the states.

The challenge is that rapid response funding flows through state labor departments and local workforce agencies, and these are agencies that are more familiar with the needs of workers than of business ownership. So, despite the requirement in the Workforce Innovation and Opportunity Act, most jurisdictions have not developed proactive approaches that utilize rapid response's surveillance capacity and enlist partners with business preservation tools. Many states have

limited their activities to retraining existing workers rather than ownership-facing services.

#### RECOMMENDATIONS FOR ACTION:

The U.S. Department of Labor can and should issue stronger guidance to states to include layoff aversion services in their state WIOA plans. In addition, they should actively promote model actions by states to improve their data and regular connections with employers to identify firms at risk and provide turnaround services.

The limited implementation of WIOA's layoff aversion proposal points to the need for new investment in early warning systems, and scaling of models that can be later institutionalized. For example, Representative Adam Smith's (D-WA) Emergency Economic and Workforce System Resiliency Act<sup>22</sup> proposes planning grants (\$175,000 to \$350,000) and implementation grants for new layoff aversion or job creation strategies (\$5 million to \$20 million). Layoff aversion efforts would also be more effective with better leadership and support at the U.S. Department of Labor. One idea would be to have an office of economic adjustment in charge of distributing this type of grant money and overseeing a variety of programs related to economic transitions, including energy transitions and trade adjustment.

# IMPROVING THE EQUITY EQUATION IN OWNERSHIP TRANSITIONS

As described above, diversifying ownership in manufacturing often means transitioning to owners who have less personal wealth to invest in deals. The debt financing can be supported by the **Small Business Administration's 7(a) loan program**<sup>23</sup>, which can lend up to \$5 million for the purchase of an existing business. SBA 7(a) loans are widely available through partnering banks and lending institutions. In fiscal year 2020 **42,000 loans (with a value of \$22.55 billion)**<sup>24</sup> were made with 7(a) backing, and 27 percent were counted by SBA as made to “minority business owners.” While SBA 7(a) loans are a powerful tool, they typically require at least **a 10 percent equity investment**<sup>25</sup> from the purchaser to satisfy the program’s requirements. Seller financing is typical in the sale to an employee or group of employees. While the seller is allowed to lend this capital to the new buyer, it has to be standby debt, meaning that repayment to the seller cannot begin until **after the ten years of the SBA loan**.<sup>26</sup> Not surprisingly, a survey of small business transitions by the **University of Minnesota**<sup>27</sup> found that obtaining financing was the top concern of buyers, with 33 percent finding it very or moderately difficult to obtain.

The equity portion of such deals is the most important financing challenge to solve with policy responses. As described in **an earlier report in this series from UMA and TCF**, the State Small Business Credit Initiative through the American Rescue Plan provides states with a number of models to make investments in diversifying ownership of manufacturing companies.<sup>28</sup> One policy angle to explore is the Small Business Investment Company (SBIC) program, whose purpose is to stimulate equity investment into small businesses. The program delivers investment through a set of licensed SBICs, **who invest using private capital and borrowed funds guaranteed by the SBA (known as a debenture)**.<sup>29</sup> The SBA guarantee for SBIC operates at the fund level, enabling it to invest in a variety of companies and be insulated from some of the risk in making equity investments in small business companies. These are not paid back as loans by owners, but rather only through equity sales. While SBICs have been authorized for decades, they have been a focus of increased attention, with Congress increasing the funding for the program several times in the 2010s and have attracted bipartisan attention as a way to increase investment in manufacturing.

## RECOMMENDATIONS FOR ACTION:

**The proposed AIM Act**,<sup>30</sup> sponsored by Representative Claudia Tenney (R-NY) in the House and Senator Marco Rubio (R-FL) in the Senate, would support a new long-term facility within SBIC focused on patient capital investment. Fifty percent of these investments (which would have a fifteen-year term) would be required to be in manufacturing. The goals of the funds, including several newly licensed SBICs, would be to preserve jobs and facilitate supply chain resilience. Unlike **Early Stage SBICs championed in the Obama administration**<sup>31</sup> that focused on startups, these new facilities would be well positioned to be equity investors in ownership transitions.

SBICs are not precluded from investing in employee ownership deals. But given the specialized nature of these transitions, only one licensed SBIC—**Mosaic Capital Partners**<sup>32</sup>—has successfully made such investments. **Ownership America**,<sup>33</sup> an advocacy group, has proposed an Employee Equity Investment Act that would authorize a \$10 billion debenture for new or existing SBICs to invest in employee ownership conversions in businesses that are up to 300 percent of the typical SBA size limit. Unlike typical private equity investors looking for a sales event to cash in their equity, these SBICs would accept stock warrants in these ESOP conversions.

States don't have to wait for Congress to act. Concerned Capital has proposed that states use SSBCI funds to establish a **Down Payment Investment Fund**.<sup>34</sup> SSBCI funds would be used as an equity investment that would be repaid at company sale, refinancing or through profit distributions. This is a promising idea, as an appropriate intermediary would be well positioned to leverage such an investment with private debt capital that would be able to meet SSBCI's desired ten-to-one leverage ratio.

# BOLSTERING THE ROLE OF INTERMEDIARIES IN OWNERSHIP TRANSITIONS

The sale of many aging firms to owners committed to retaining jobs can be supported, especially if these companies are identified early enough and new capital sources are developed. Success requires identifying the companies when they are still healthy, working with the owner and their family, working with the employees, and working through the details of the transaction. Private equity firms and the business brokers, CPAs, and attorneys associated with private equity are typically active in acquiring larger and growing manufacturing firms (companies valued at \$10 million or more), which leaves many smaller manufacturing firms with a lack of resources to support a business sale. There is a gap in the business support market regarding smaller businesses seeking a buyer and buyers interested in purchasing smaller companies. This gap can be filled by intermediaries such as community development financial institutions (CDFIs) that serve manufacturing businesses in their lending or technical assistance programs. Early warning and layoff aversion service is one strategy to identify these firms, but there are a broader set of intermediaries that can be invoked regarding ownership transitions. These include industry partnerships and economic and workforce development organizations.

The U.S. Department of Commerce's **Manufacturing Extension Partnership (MEP)** engages in a wide range of consulting with small and medium manufacturers, including a historic focus on productivity enhancing practices and technology. Because of the relationships between MEP-funded centers and smaller manufacturers, MEP centers can play an important role in providing transition

planning support and referrals to key services like getting a valuation for the firm. Because the main part of their business model is not capital assistance, MEP centers may not be in a position to arrange and support ownership transition deals, but their approach to ownership transition is critical. MEP centers can serve as a point of contact for small manufacturers and refer them to intermediaries specializing in transition services.

Additional intermediary organizations and approaches are needed to connect diverse new ownership candidates with purchase opportunities. One of the central challenges is that entrepreneurs of color currently do not have enough access to ownership opportunities in manufacturing. Simply put, people of color aren't at the tables and in the close circles of private contacts of family owners where these opportunities are discretely discussed. Intermediaries that can fill this gap include private advisory firms that specialize in ownership transitions (such as **Concerned Capital** in Los Angeles). Community development financial institutions, such as those affiliated with the well known forty-year old **Local Initiatives Support Corporation (LISC)** network, are playing an increasing role in manufacturing economic development and are well positioned to lead projects around ownership transition as a source for diverse entrepreneurial development. More broadly, there are regional efforts to enhance the manufacturing ecosystem including those being funded by the Department of Commerce's Economic Development Administration and the Department of Defense's Office of Local Defense Community Cooperation. Nonprofit

efforts such as **Chicago Manufacturing Renaissance Council**, which has been working with the City of Chicago to identify firms at risk of closure and then arrange for high-road buyers (either employees or minority owners), also can serve as part of an effective ecosystem for ownership transitions.

Projects with a stated goal of pursuing ownership among entrepreneurs of color

should be led by economic development organizations or partner with organizations with credibility and experience in communities of color. The same is true for financial institutions such as CDFIs and lenders with strong histories in communities, **Minority Business Development Agency centers**, Black and Hispanic chambers of commerce, and entrepreneurship centers at Historically Black Colleges and Universities.

## RECOMMENDATIONS FOR ACTION:

The Commerce Department should work with the MEP programs to take a more proactive approach toward succession planning. Commerce can consider issuing challenge grants for the MEP network to develop new programs that assist transitioning manufacturers and connect them to diverse owners. In addition, Commerce should survey MEP centers to understand their practices related to succession, including their practices for referring succession issues to specialized providers, and provide follow-up training to the centers. Throughout this work, Commerce should reinforce MEP's mission of preserving manufacturing employment and discourage MEP centers from providing federally subsidized business assistance to those small manufacturers seeking to sell their companies for non-manufacturing uses.

With time short to impact these transitions, the federal government should focus on moving resources into communities that are showing interest in proactively engaging in ownership succession activities. The Department of Commerce should explore additional opportunities to support intermediaries engaged in ownership transition. Good sources of funding for pilot initiatives would include the Economic Development Administration's Economic Adjustment Assistance program and the Minority Business Development Administration, which is set to receive an infusion of technical assistance dollars from the State Small Business Credit Initiative. Finally, the Department of Treasury has **issued guidance** to support a new tranche of funding through the SSBCI programs for business technical assistance to states that could be partially put to use for this purpose.<sup>35</sup> Representative Sheri Bustos's Small Business Succession Planning Act would direct the Small Business Administration to establish its own business succession planning program and give businesses a \$250 tax credit for completing a plan.<sup>36</sup>

Congress should also put ownership transition as a recommended use for small business support programs into several of the new manufacturing ecosystem support proposals moving through Congress. **HR 5124**,<sup>37</sup> the Manufacturing Reinvestment Corporation Act, goes the furthest of these proposals and would deliver a specific new source of funding for the types of early warning systems that could be the centerpiece of these projects. The Regional Technology Hub Program proposed as part of the Bipartisan Innovation Act<sup>38</sup> would authorize the type of small business support authority that could be deployed in this way, and also set up a series of Manufacturing Investment Companies aimed at delivering equity to small businesses that should be given leeway to work on successions and purchase interests in employee ownership conversions.

# TIME IS RUNNING OUT

Succession is a critical issue for the future of American manufacturing. By shifting attention and funding to existing manufacturing companies (as opposed to start-ups) and supporting these companies' transition to new ownership, we achieve entrepreneurship by acquisition, create diversity in ownership, and preserve jobs. Importantly, the time is ticking on family-owned small businesses with aging owners, and communities and the

federal government should mobilize quickly to address the challenge.

The time is now for states and the federal government to make intentional policy choices to support just transitions of manufacturing business ownership, in order to build more equity in this vital economic sector.

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## About UMA

The Urban Manufacturing Alliance is a national nonprofit organization that advances place-based strategies that create more equitable communities by building community wealth through employment, ownership, and entrepreneurship in manufacturing. We connect and convene partners across more than 250 cities, helping them learn from one another, and act as a collaborative ecosystem builder that builds up local manufacturing communities and a national movement. Learn more at [www.urbanmfg.org](http://www.urbanmfg.org).

## About The Century Foundation

The Century Foundation is a progressive, independent think tank that conducts research, develops solutions, and drives policy change to make people's lives better. We pursue economic, racial, and gender equity in education, health care, and work, and promote U.S. foreign policy that fosters international cooperation, peace, and security.

[www.tcf.org](http://www.tcf.org)



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