

# REDF

Investing in Employment and Hope

## Impact to Last:

Lessons from the Front Lines  
of Social Enterprise



## EVERGREEN COOPERATIVES

### KEY DATA

<b>YEAR FOUNDED:</b>	2009
<b>REVENUE:</b>	\$6.3 million
<b>NUMBER OF EMPLOYEES:</b>	110
<b>HEADQUARTERS:</b>	Cleveland, OH
<b>MISSION:</b>	Evergreen promotes, coordinates, and expands economic opportunity and wealth building through a network of green, community-based, worker-owned enterprises in historically disinvested neighborhoods of Cleveland.
<b>ENTERPRISE SERVICES:</b>	<div>Evergreen currently supports three worker-owned cooperatives:</div> <ul style="list-style-type: none"><li>• Evergreen Cooperative Laundry is a mid-sized commercial laundry serving primarily health-care institutions;</li><li>• Evergreen Energy Solutions installs solar panels and provides LED retrofitting and other construction services; and</li><li>• Green City Growers is a hydroponic greenhouse producing lettuce, herbs, and microgreens.</li></ul>

This is one of 10 social enterprise case studies in *Impact to Last: Lessons from the Front Lines of Social Enterprise*, a REDF case study initiative. By investigating and then sharing the experiences and practices of these innovative businesses, *Impact to Last* provides unique insights into the range of factors that have contributed to their success—both individually and collectively. *Impact to Last* supports the work of business leaders, public officials, and funders to more intentionally create the conditions for growth in social enterprise. To learn more about REDF's work, please visit [REDF.org](http://REDF.org).

**The lead author of  
this case study was  
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## IN BRIEF



**EVERGREEN COOPERATIVES** was established in 2009 as an incubator for worker-owned cooperatives in Cleveland, Ohio with support from the Cleveland Foundation, the City of Cleveland, and a group of local anchor institutions including the Cleveland Clinic, University Hospitals, and Case Western Reserve University. Additional assistance in designing the Evergreen model came from the Democracy Collaborative and the Ohio Employee Ownership Center. Evergreen is a key component of the Greater University Circle Initiative (GUCI), in which some of Cleveland's largest anchor institutions are attempting to create jobs and community wealth in some of the City's historically disinvested neighborhoods. Currently, Evergreen consists of three cooperative businesses—Evergreen Cooperative Laundry, Evergreen Energy Solutions, and Green City Growers—and around 110 employees. Despite early challenges, the organization has come a long way in moving the three businesses closer to financial self-sustainability. This success is due to a number of factors, including:



### ANCHORS

**Support of local anchor institutions from the outset.** As part of the GUCI, Evergreen Cooperatives was envisioned as a place-based strategy supported by local Anchor institutions including Case Western Reserve University, the Cleveland Clinic, and University Hospitals. These Anchor institutions have been important customers for the three businesses.



### GROWTH CAPITAL

**Access to unrestricted funding and low-interest loans.** The Cleveland Foundation and other local philanthropic organizations, along with area Anchor institutions, have provided considerable unrestricted funding to Evergreen Cooperatives, and each of the three businesses has access to very low-interest loans through the Evergreen Cooperative Development Fund (ECDF). These loans have been supplemented with other low-interest capital, such as government loans and tax credits.



### IDENTITY

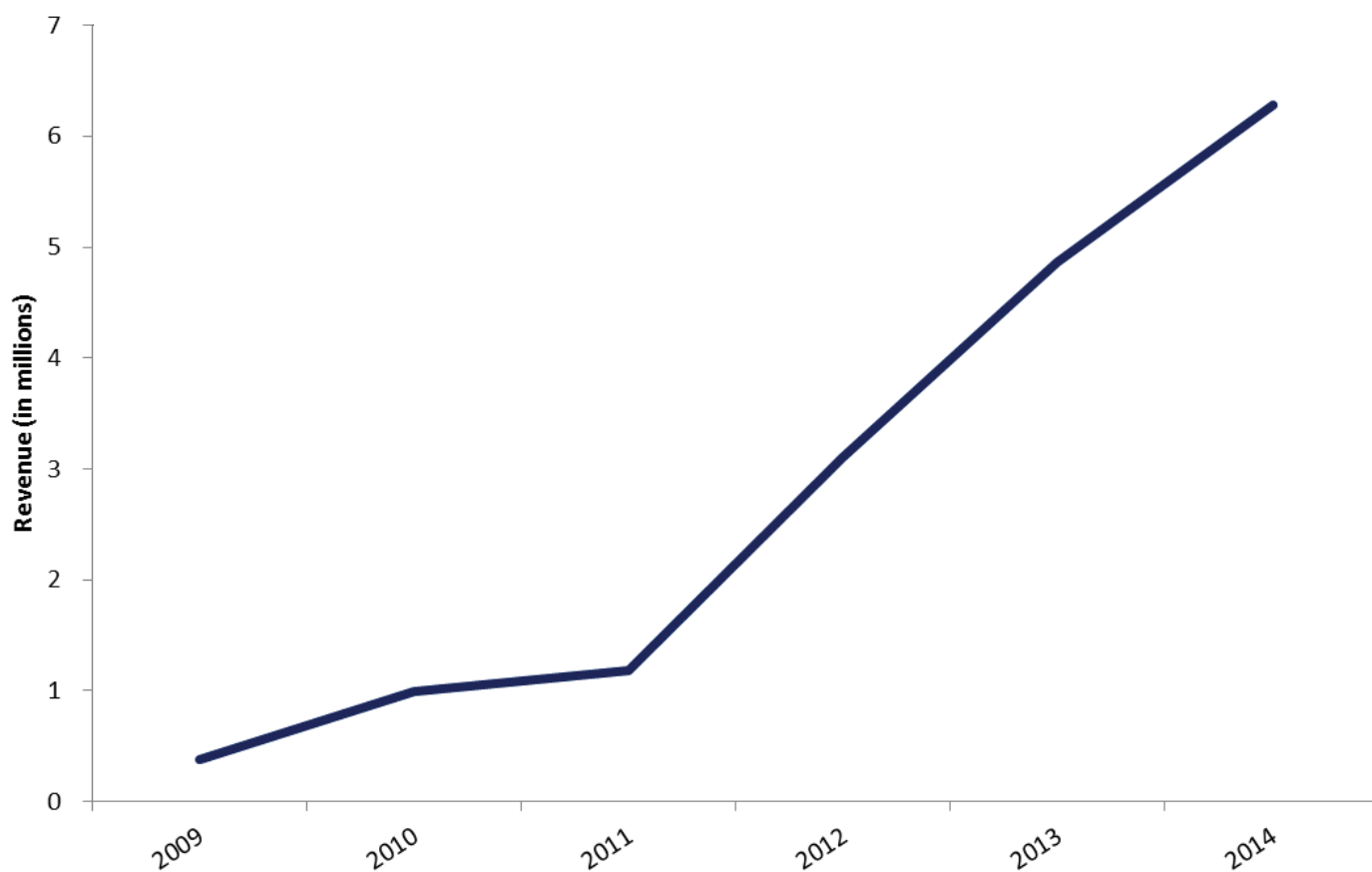
**Strong commitment to a worker-owned cooperative model.** Despite some early challenges, Evergreen executives and staff were able to identify and address these operational and management challenges to make the worker cooperative a viable model for long-term success.



### AUDACITY

**Explicit linkage of the cooperative businesses to a community transformation strategy/agenda.** Evergreen's companies reside within a broader strategy to reinvest in and rebuild Cleveland's low-income neighborhoods through the GUCI. While striving toward an ambitious goal to employ a total of 1,000 people, each company is designed to benefit its worker owners and contribute to a larger community-building agenda. This agenda is coordinated by the Evergreen Cooperative Corporation (ECC), which is the keeper of the mission of Evergreen.

## REVENUE AND KEY MILESTONES



Evergreen is established to incubate worker-owned cooperatives in Cleveland's Greater University Circle. Evergreen Laundry is launched.

Evergreen Energy Solutions is launched.

Business units begin to stabilize.

Evergreen Cooperative Corporation is launched as a 501c3.

Green City Growers is launched.

Evergreen Laundry and Evergreen Energy Solutions have first profit-sharing events with worker owners.

From the outset, these businesses were set up so that workers would own 80 percent of the business with the other 20 percent owned by a holding company



## APPROACH

### TARGET POPULATION

Evergreen Cooperatives provides jobs to low-income residents of seven historically disinvested neighborhoods surrounding Cleveland's University Circle district. While Greater University Circle is home to 17 of Cleveland's major institutions and over 60,000 jobs, the median income of these residential neighborhoods was \$18,500 in 2012, with unemployment at 24 percent.<sup>1</sup>

### BUSINESS MODEL

Evergreen currently supports three worker-owned cooperatives: (1) Evergreen Cooperative Laundry, providing laundry services primarily to health care facilities, retirement homes, and hotels; (2) Evergreen Energy Solutions, providing solar installation, LED retrofitting, and construction services; and (3) Green City Growers, a hydroponic greenhouse producing lettuce, herbs, and microgreens. Evergreen executives are also looking into the possibility of starting a bakery and creamery in a refurbished warehouse space in Greater University Circle that will house other farmers and food vendors.

The Evergreen strategy uses the supply chains and investments of local hospitals, universities, and other Anchors to create a somewhat sheltered market for the cooperatives. This helps provide long-term financial stability for the companies through multi-year contracts and other devices. An important innovation was the creation of the nonprofit Evergreen Cooperative Corporation, which works to continually harness the economic activity of large Anchors to encourage them to expand their institution's buy-local efforts in order to achieve a multiplier effect in the economy.

### PROGRAM MODEL

As worker-owned cooperatives, the three Evergreen businesses provide member benefits. Workers are eligible for membership in the cooperative after one year of employment and have to be voted in by the other members. Once they become members, workers receive a \$0.50/hour wage increase, an equity stake in the business, and a patronage account that is funded by business profits. Members are also eligible for a program that provides very low-interest auto loans, along with a home ownership program initially funded by the Cleveland Foundation that helps members purchase and rehabilitate homes in the target neighborhoods—not only building wealth for the members, but improving the neighborhood more broadly. Over 20 Evergreen members have taken advantage of this program and now own their own homes.

Unlike a traditional worker cooperative, the three Evergreen businesses have multiple stakeholders. From the outset, these businesses were set up so that workers would own 80 percent of the business with the other 20 percent owned by a holding company (Evergreen Cooperative Corporation), which represents the investors, Anchor institutions, and the city government. Workers own Class A shares and ECC owns Class C shares, which gives ECC less decision-making power but important authority over mission-critical decisions.

<sup>1</sup>The Cleveland Foundation. 2014. Cleveland's Greater University Circle Initiative: Building a 21st Century City through the Power of Anchor Institution Collaboration. Cleveland, OH: The Cleveland Foundation.



Evergreen also closely monitors the financial well-being of each business, as its ultimate goal is to create self-sustaining enterprises that operate independently from Evergreen.

## PERFORMANCE MEASUREMENT

From a mission perspective, Evergreen is focused primarily on the number of jobs it creates and the number of people who are employed in Evergreen businesses from the target neighborhoods. The vision is to create 10 businesses that employ 1,000 people in total. Evergreen also closely monitors the financial well-being of each business, as its ultimate goal is to create self-sustaining enterprises that operate independently from Evergreen.

## ACHIEVING SCALE

The Cleveland Foundation, in conjunction with some of Cleveland's largest Anchor institutions, launched the GUCI in 2005. Now in its tenth year, the initiative aims to revitalize, create jobs for, and build community wealth in some of the City's historically disinvested neighborhoods. The initiative includes four broad strategies:

- **Institutional Partnership.** Bringing public and private Anchor institutions together to work toward common solutions;
- **Physical Development.** Improving transportation infrastructure and housing stock/commercial real estate;
- **Economic Inclusion.** Promoting the purchasing of local goods and services and hiring residents of surrounding neighborhoods for open positions; and
- **Community Engagement.** Including residents in plans to improve their neighborhoods.

As part of its Economic Inclusion and Community Engagement strategies, GUCI is attempting to foster small businesses owned and operated by the residents of the target communities. To achieve this goal, Evergreen Cooperatives was established in 2009 as an incubator for worker-owned cooperatives. The plan was to have Anchor institutions be major customers, and the business opportunities that Evergreen pursued were based on products and services that the Anchor institutions purchased. Currently, Evergreen consists of three cooperative businesses:

- **Evergreen Cooperative Laundry.** The laundry started operations in 2009 and provides services to institutional customers including hospitals, nursing homes, retirement homes, and hotels. The business employs 45 people, 20 of whom are from the target neighborhoods, and 19 of whom have become members of the worker cooperative.
- **Evergreen Energy Solutions (E2S).** E2S started operations in 2011, providing solar panel installation, LED retrofitting, and general construction and maintenance services to a variety of customers including the Cleveland Clinic, University Hospitals, and the Cuyahoga County Housing Authority. The business employs 18 people, all of whom are from the target neighborhoods. Nine are members of the cooperative.
- **Green City Growers (GCG).** Green City Growers maintains a 3.25-acre hydroponic greenhouse producing lettuce, herbs, and microgreens for some of the Anchor institutions along with contract work for a few food brands, retail stores, and restaurants. The greenhouse currently employs 35 people, about half of whom are from the target neighborhoods. The business will have a total of 50 positions available once it is producing at capacity. Given how recently GCG opened for business, only a few of the employees have been working long enough to qualify for cooperative membership.



Evergreen staff and the marketing and sales teams at each of the businesses are taking a number of steps to increase the role of Anchor institutions as customers, including building relationships with people at all levels of the Anchor institutions.



While the three Evergreen businesses are moving rapidly toward financial sustainability, they have dealt with many challenges to get to where they are today. Evergreen executives, staff, and cooperative members have overcome these challenges, building a solid foundation from which to grow the existing businesses and incubate new businesses in the long run.

## BRINGING ON ANCHOR INSTITUTIONS AS CUSTOMERS

By design, the GUCI Anchor institutions have played an important role in buying products and services from the three Evergreen businesses, accounting for around 15 percent of their total revenue combined. Examples of these contracts include an LED retrofit project with E2S for two parking garages owned by the Cleveland Clinic, a \$1 million subcontract with Paris Linen to provide laundry services to University Hospitals, and subcontracts for lettuce with Sodexo (University Hospitals), Aramark (the Cleveland Clinic), and Bon Appetit (Case Western Reserve University).

Despite the important role Anchor institutions have played as major customers of the Evergreen businesses, sales have not been as significant as originally envisioned, for a variety of reasons:

- **Contracts with Long-Term Suppliers.** Many of the contracts for laundry services were long-term and not open to bid. Many of those that were available were too large for a mid-sized laundry plant to accommodate.
- **Union Competition.** Some of the Anchor institutions were dissuaded from working with E2S because of concerns that working with a non-union shop on a construction project might damage their relationship with local labor unions. As such, they have been more successful securing LED retrofitting work since it often falls under maintenance budgets.
- **Operational Capacity.** Many of the health care institutions and hospitals need lettuce that is already cut into pieces and processed in a way that the GCG facility is not prepared or equipped to do.
- **Lack of Deep Customer Relationships.** In general, the support that Evergreen received initially from high-level executives at these institutions did not always translate to the middle managers in charge of procurement, with competing pressures around cost and established relationships with other vendors.

In hindsight, Evergreen executives acknowledge that the businesses should have had contract agreements in hand before starting the businesses, and that the product and service needs of the Anchor institutions needed to be better understood. However, Evergreen staff and the marketing and sales teams at each of the businesses are taking a number of steps to increase the role of Anchor institutions as customers, including building relationships with people at all levels of the Anchor institutions. In general, diversifying and increasing the customer base for all the businesses has been a priority. Clearly this goal is critical to the mission of creating jobs—as Allen Grasa, President of Evergreen Laundry, said, “With a stable customer base comes stable employees.”



Another strategy that improved the efficiency of all the businesses was the creation of Evergreen Business Services (EBS). EBS, a separate LLC that operates under the umbrella of Evergreen Cooperatives, centralizes many roles related to the management and growth of the cooperatives, including in human resources, finance, marketing, and business development.

## REFINED MANAGEMENT STRATEGIES

Another early challenge was the lack of a management structure and approach appropriately calibrated to the relevant market sectors: laundry, construction, and food production. The businesses were chosen based on opportunities, the needs of the Anchor institutions, and the interests of funders, but without the industry expertise necessary to operate efficiently. Over time, each of the businesses was able to secure these experts and, as a result, is approaching profitability. For Evergreen Cooperative Laundry, the lack of industry expertise resulted in costs far above the industry standard. When Evergreen brought in a President and Line Supervisor with laundry expertise, they instituted processes, metrics, and cost-cutting measures for each area of the plant—from sorting to folding—that have made the business much more competitive on price. For GCG, an initial lack of industry expertise resulted in a facility that lacked some key functions, including proper ventilation and packaging setup. An added problem for E2S is that, unlike in a union shop where workers come up through the trades, its workers mostly lacked construction expertise, and a lot of on-the-job training was required to get them up to speed.

Another strategy that improved the efficiency of all the businesses was the creation of Evergreen Business Services (EBS). EBS, a separate LLC that operates under the umbrella of Evergreen Cooperatives, centralizes many roles related to the management and growth of the cooperatives, including in human resources, finance, marketing, and business development. This development helped streamline aspects of business management. For example, prior to the creation of EBS, each business was managing its own financials and there was no transparency or common approach. Now all three businesses are using the same financial software and metrics, making it easier for Evergreen executives to track the progress of each business. The businesses pay a fee to cover these services, but not as much as they would be spending to keep them in-house. Currently, the fee does not completely cover all the costs that EBS incurs to provide the services, although Evergreen hopes to achieve full coverage over time. And when the businesses have scaled up and become financially sustainable, it is assumed they will spin off from Evergreen and internalize these functions. Evergreen will then provide the same services to a pipeline of new businesses.

## ALIGNING THE WORKER COOPERATIVE MODEL WITH EFFICIENT BUSINESS OPERATIONS

Related to the challenges of managing business operations is the implementation of the worker-owned cooperative model. The model is one of the key innovations of the Evergreen approach and an important mechanism for not only increasing income, but also building wealth for residents of the target neighborhoods. However, the approach was difficult to operationalize within the context of a new business. As Evergreen CEO John McMicken said, “What we realized a couple years ago is that we need more structure and centralized oversight during the start-up and incubation period prior to being financially independent.”

Evergreen Cooperative Laundry faced the steepest learning curve since it was the first business venture. At first, the workers were involved in all aspects of decision-making, which was difficult since most of them did not have experience in the laundry business and lacked some basic skills of financial management, including reading a profit and loss statement. When the new manager stepped in to streamline operations from the top down, the dramatic culture shift made it difficult to win the support and trust of all workers. However, as Ted Howard of the Democracy Collaborative said, “If you don’t make a profit, the experiment goes away.” Ultimately, the workers were persuaded that making the

Much of the financing came from the Evergreen Cooperative Development Fund (ECDF), a loan fund with contributions from the Cleveland Foundation and other local philanthropy; Anchor institutions; and several local banks.



business profitable was in their interest as owners. Some of these challenges were exacerbated by a lack of understanding among many workers about the benefits of being a member. Some of the early training material provided profit-sharing examples that far exceeded what workers actually received, which led to a significant drop in morale. Evergreen is attempting to address these issues by providing better upfront training about the rights and responsibilities involved in being part of a worker-owned cooperative.

The cooperative ownership model also affected how the businesses were financed. In a normal cooperative, worker-owners generally bring some capital to the table. However, given the target population and the process by which workers come to Evergreen, raising that kind of capital was not possible. Instead, all three businesses were entirely debt financed. Much of the financing came from the Evergreen Cooperative Development Fund (ECDF), a loan fund with contributions from the Cleveland Foundation and another local philanthropy; Anchor institutions; and several local banks. All provided very low-interest startup capital for all three businesses. Other sources of funding included New Markets Tax Credits and HUD 108 loans. While the debt funding allowed workers to own their full share of the businesses, it also created a significant debt burden that made it very difficult for these businesses to be profitable. Recently, some of the debt for E2S and ECL was converted to equity, and ECDF now owns Class B shares in these businesses.

## PERFORMANCE AND IMPACTS

Evergreen Cooperatives' goal is to create 10 businesses that employ 1,000 people, primarily from the GUC target neighborhoods. So far, Evergreen:

- Has incubated three businesses with other businesses in the pipeline;
- Has created 110 jobs; and
- Currently employs 55 people from the target neighborhoods.

Evergreen also closely monitors the financial well-being of each business, as its ultimate goal is to create a self-sustaining business that can operate independently.

## FUTURE DIRECTIONS

In the last six years, Evergreen Cooperatives has taken an ambitious and idealistic vision and turned it into a viable strategy for local employment and community wealth creation. However, more business development and strategic planning need to be done before Evergreen can accomplish its longer-term goals. Evergreen is focused on a number of priorities in the next few years:

- **Assuring the financial sustainability of existing businesses.** The top priority for Evergreen is making the three existing businesses profitable. Both ECL and E2S had profit-sharing events in 2014, and E2S is close to achieving profitability. GCG has secured a number of larger contracts, but is still at 60 percent capacity. Evergreen is striving to secure more and larger customers for all the businesses in order to assure their long-term financial sustainability.
- **Incubating new businesses.** Evergreen is looking into new business opportunities, including a bakery and creamery. These businesses would operate in a refurbished warehouse with other produce and food vendors and sell to the general public, but would likely have contracts with the Anchor institutions. For example, it is discussing the possibility of baking rolls for patients at the local VA hospital.





- **Fundraising for new initiatives.** Evergreen is currently raising money to grow the Evergreen Cooperative Development Fund along with the new Green Energy Fund, a specialized fund for E2S that will incentivize LED retrofits for large companies. The fund will pay for the retrofit up front and the customer would repay the fund, with interest, through savings it generates on its electricity bill.
- **Providing consulting services to communities interested in adapting the Evergreen model.** Evergreen staff is already advising a number of cities on adapting the model to new communities. While Evergreen's model, along with the larger GUCI, is not directly replicable given the unique nature of Cleveland and its institutions, the lessons learned and basic principles of the model can be passed along and help expand Evergreen's impact. The model also provides a way for the organization to generate revenue.
- **Advocating for policy changes that would make it possible to designate Evergreen businesses as Minority-Owned Businesses.** Ohio regulations stipulate that a business with a cooperative ownership structure cannot be designated as a Minority Business Enterprise (MBE), even if the majority of the cooperative owners are people of color (which is true for each of the Evergreen businesses). Having MBE certification would give Evergreen preference in competing for certain contracts. Evergreen staff is working with state officials to change the criteria and allow worker cooperatives to be designated as MBEs.

Ultimately, the primary focus of all this work is to get Evergreen to a place where it is able to move new business from the planning and startup stages to standalone, worker-owned cooperatives that are run as democratically as possible while still maintaining profitability. This focus on making the businesses operate sustainably, as John McMicken said, "...is a hugely positive shift and one of the moves that helped turn this ship in the right direction."

"I never use an alarm clock to wake up in the morning because I love the job so much. I am glad someone saw me as worthy and gave me a chance I thought I would never have as an ex-felon."

Spike,  
Green City Growers

## EMPLOYEE SPOTLIGHT: SPIKE



Spike was born and raised in Chickasha, Oklahoma where she lived with her mother, brother, and two sisters. She moved to Ohio as an adult, and shortly afterward was incarcerated for an altercation with a friend that turned violent. While in prison, she received over 6,000 hours of machine maintenance training. Despite her skills, she was not able to get a job after her release due to her criminal record.

After a long, unsuccessful job search, Spike found out about Evergreen Energy Solutions through a local workforce service provider. She applied for a job with E2S, but was referred to Green City Growers because there were no positions immediately available at E2S. She was offered a full-time position after a short trial period at GCG. Within 11 months, she was promoted to shift supervisor and really enjoys her job growing lettuce. As she said, "I never use an alarm clock to wake up in the morning because I love the job so much. I am glad someone saw me as worthy and gave me a chance I thought I would never have as an ex-felon."

## ABOUT REDF

REDF creates jobs and employment opportunities for people facing the greatest barriers to work.

REDF invests capital and expertise to grow the impact of social enterprise—mission-driven businesses that hire and assist people who are willing and able to work, but have the hardest time getting a job. Since 1997, REDF has helped 60 social enterprises in California employ over 10,000 people and earn more than \$150 million in revenue, reducing the burden on government and philanthropy to pay for programs while improving lives and communities. And now REDF is expanding the impact of our work nationwide, helping prepare 50,000 men and women who would otherwise be excluded from the economy to work, retain jobs, and advance up the career ladder. This collection of case studies includes two enterprises that have been in REDF's grantee portfolio (Juma Ventures and the Center for Employment Opportunities), with eight introduced through REDF's outreach to its national learning community (SE4Jobs) and participation in the Social Enterprise Alliance (SEA).

To learn more about REDF's work, please visit [REDF.org](http://REDF.org) and [REDFworkshop.org](http://REDFworkshop.org), a unique website platform developed by REDF to empower the growth of social enterprise, build the field, and foster collaboration and learning.

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