A new type of company in which shares are slowly and continuously redistributed to the customers

Mads J. Damgaard

January 18, 2023

Abstract

We introduce the concept of a new type of company where the shares are slowly and continuously redistributed to the customers. We argue that such companies will be able to reimburse the shareholders fairly for the shares that they part with in this redistribution process by raising the prices for their goods and services accordingly, meaning that the customers will thus essentially buy out the initial shareholders over time. The goal of this new type of company is to provide an alternative in between a regular company and a consumer cooperative, namely one that will turn into something similar to a consumer cooperative over time, but will nevertheless be as effective at attracting initial investments as a more conventional company such as a limited liability company.

1 Introduction

This paper introduces an idea for a new type of company in which the shares of the company are continuously redistributed to the customers with the aim that the customers will end up being the majority owners of the company after a time. A company of this kind is thus supposed to function much like a limited liability company (LLC) initially, but then slowly turn into something similar to a consumer cooperative over time as the ownership shifts hands. This is assuming that the customers of the company are private consumers rather than other companies. We will stick to this assumption in the following text and then get back to the question of how to define an SRC that has other companies as its customers in Section 7.

Part of the idea is that the amount of shares that each customer receives should be proportional to the money that they have spend on the company's goods and services. We will argue below that the company should then be able to raise its prices accordingly, such that the customers pay a fair price for the shares that they get along with each good and service. The company can then give this money to its shareholders as a dividend and hereby reimburse them fairly for the shares that they have parted with. Another way of describing the company is thus as one in which the costumers slowly buy out the initial shareholders over time.

For the remainder of this text, we will be referring to this new type of company as a 'share-redistributing company,' or an 'SRC' for brevity.

2 Motivation

In conventional companies, the set of owners is often much different from the set of consumers that buy the goods and services that the company helps produce, and the owners' stake in the company is often predominantly to make money. However, the stakeholders of a company are generally not just the owners. The workers and the consumers are also stakeholders as well in their own rights. In theory, one could claim that if a worker or a consumer is dissatisfied with a decision of the owners, they can simply move to another company instead, but in practice, this is rarely that easy. In reality, workers and consumers are often very much influenced by the decisions of the companies that they deal with.

It can thus happen that a company takes on a direction that is quite friendly towards the consumers and workers at an early stage, but later on starts to look for ways to exploit these in order to squeeze out more profits. Even in cases where the original owners do not intend for the company ever to become exploitative towards its customers and workers, other investors might still simply come in and buy up the company if they sense the opportunity that it can be milked for more profits than the current owners allow it to.

Worker cooperatives, consumer cooperatives, and multi-stakeholder cooperatives seek to change this dynamic by having respectively the workers, the consumers, and a mix of both being the owners of the companies. This means that the owners can no longer exploit the workers and/or the consumers since this would mean exploiting themselves as a group.

Having workers and/or consumers as the owners also generally means that the profits of the company go to a very broad class of people. Cooperatives are therefore also believed to lead to less wealth inequality in a society compared to more conventional companies (see e.g. Wright [1]).

As Lingane and McShiras [3] point out, however, cooperatives often have a hard time attracting investors, which is often quite crucial for companies, especially for start-ups. One of the big issues that they point to is simply the unfamiliarity of what investing in a cooperative entails. Investors thus do not know what to expect from such investments when they are mainly used to investing in more conventional companies such as LLCs.

This is why SRCs might provide a useful option in between a cooperative, specifically a consumer cooperative, and an LLC. We will thus argue below that being an investor in an SRC might turn out to be almost exactly like being an investor in an LLC in the initial phase of the company. But over time, the consumers will take over an increasing portion of the ownership, making the company function much like a consumer cooperative in the end.

3 A company that slowly and continuously redistributes ownership

The core concept of an SRC is a company where all shareholders are continuously required to give a tiny portion of their shares back to the company at frequent intervals, which is then itself required to distribute these shares out among all its recent customers. The amount of shares that a shareholder owes the company after each interval should be proportional to the amount of shares that they own, and the amount of shares that each customer receives should be proportional to the money that they have spent on the company's goods and services in that interval.

To give an example, suppose that an SRC has chosen an interval of a week between when each share redistribution occurs, and suppose that the amount of shares that each shareholders owes after each interval is chosen to be 0.1 % of the amount that they own. A shareholder who currently owns 1 million shares will then have to part with roughly 1 thousand shares each week, whereas another shareholder who owns 2 million shares will have to part with 2 thousand shares. And if for instance the combined sales in a given week totals 1 million dollars and one customer has bought goods and services for a sum of 100 dollars, that customer will then receive 0.01 % of all the shares that are redistributed at the end of that week. Suppose now that the total number of shares of the company is 1 trillion. That customer would then receive $10^{12} \times 0.1\,\% \times 0.01\,\% = 100.000$ shares along with the goods and services bought for 100 dollars.

This example assumes that the SRC redistributes all the shares received from the shareholders right away at the end of an interval. This would mean that the customers will not know the exact amount of shares that they get per dollar spent after each interval, as this amount would depend on the sales for that interval. But if the intervals are relatively short, the customers and the SRC would generally still be able to predict this amount with good precision, which should then allow them to agree on a fair price added to the goods and services due to the shares that come along with them.

Alternatively, the SRC can implement a system where it is allowed to keep a small buffer of shares that are waiting to be redistributed. The SRC then has to be obligated to continuously adjust the exact number of shares that all the customers get per dollar spent in order to keep the buffer approximately constant. If the sales then suddenly goes up unexpectedly, the buffer is then intended to give the company time to adjust the number of shares per price down such that the customers get fewer shares per dollar spent, which means that the buffer can grow back to its intended size. Note that such an adjustment still means that the customers will pay the same price for each share that they receive, but they will simply receive fewer shares per good or service that they buy. With this system, the customers will thus know the exact amount of shares that they get/buy along with each good and service, rather than simply knowing the approximate amount.

The rules of an SRC are permanent and thus continue to apply for all shareholders, including those who have obtained their shares via the redistribution process. In other words, when the customers receive shares in said process, this now makes them shareholders as well, meaning that they will also owe a small amount of these shares after each interval. Therefore, if the customer base of the company shifts significantly at some point, the new customer base will then simply become the new recipients of the redistributed shares. Any inactive customers will thus slowly have their shares redistributed to the active customers.

4 Ensuring that the customers hold on to the redistributed shares

Since the aim of an SRC is that customers should end up being the majority owners, it is natural to limit how the redistributed shares can be sold by the customer-shareholders. Otherwise any party of opportunists with enough money could come and buy up a majority of the shares, perhaps with the intent of changing the direction of the company to a more exploitative one. On the other hand, if the customer-shareholders are not allowed to trade the redistributed shares at all, the value of the shares might become less in the eyes of the consumers than what it would have been if the shares could be traded freely.

We will now look at a solution that seeks to prevent the takeover from an outside party while still giving some freedom for the customer-shareholders to trade their shares. Let us first of all divide the company shares up into at least two classes. Let us thus take the initial shares of the SRC to be the Class A shares of the company, and take the Class B shares to be the shares that have undergone the redistribution process, once or several times. This means that more and more Class A shares will be converted into Class B shares as time progresses. Both of these classes of shares should include voting rights, but the SRC can now put limits on how the Class B shares can be sold by the customer-shareholders.

There are different options when it comes to limiting the sales of the Class B shares, but the solution that we will propose in this paper is to rule that the Class B shares can only be sold to other customer-shareholders, and only as long as these shareholders do not obtain more Class B shares than a certain factor above what they would have had if they had never traded any Class B shares, meaning that they would have only received and parted with Class B shares through the redistribution process.

To put this in other words, let us think of the amount of Class B shares that each customer-shareholder owns as a curve. If the shareholders were not able to trade their Class B shares with others, this curve would have an underlying exponential decay due to the redistribution process, but would go up whenever the customer in question buys new goods and services from the SRC. If we then from there relax the sales restrictions on the Class B shares according to the previous paragraph, we can add another curve alongside the previous one to show the actual amount of Class B shares that the customer owns now that he/she is able to trade these as well. The latter curve will then also go up and down whenever the customer make such trades. But according to the restrictions of the last paragraph, the customer is then not able to buy Class B shares if it would mean that the latter curve would become higher than the mentioned factor times the height of the former curve.

This factor of how much the customer-shareholders are able to increase their stock of Class B shares can potentially be chosen as quite large without running the risk of allowing an opportunist party to come in and buy up a majority of the Class B shares. For in order to do so, that party would have to make up $51\,\%/x$ of the demand on the company's goods and services, where x is the factor in question. And given the assumption that the customers are private consumers, the company might very well expect that even their biggest customer will only ever make up a small part of their total demand.

With these restrictions on the Class B shares, the company is ensured to be increasingly owned by the customers, but it still allows the customer-shareholders to have an internal market for the Class B shares. This first of all means that any customer-shareholders in need of money will have the ability to sell their shares and probably get a fair price for them, just as if they were shareholders of an LLC instead. And perhaps more importantly, customer-shareholders at old ages who want to use their stock of Class B shares as part of their pension can do the same.[1]

However, in order to be absolutely sure that the customer-shareholders have the freedom to sell their Class B shares whenever they want and get a reasonable price for them, an SRC might also implement another class of shares, call them Class C shares, which are then similar to the Class A shares in that they can be traded freely, but which are non-voting shares. So if it for some reason happens that there will not be enough potential buyers of Class B shares at some point to give the sellers fair prices, the sellers can then convert their shares and try to sell them (freely) as Class C shares instead. Since many investors do not care much about the voting rights that follow with the shares that they buy, it is reasonable to expect that these Class C shares will sell for almost as much as what the Class B shares would normally sell for at the given time, i.e. when there are not a shortage of buyers.

5 Investing in SRCs compared to LLCs

If the system described in the previous section works to ensure that the customer-shareholders can always sell their shares and get a fair price, it should mean that the customers will also be willing to pay a fair price for the shares that they get along with the goods and services in the first place. For in that case, the customers

[1] Speaking of old age, it almost goes without saying that the shareholders of the various classes of shares should be free to hand these over as inheritance to their heirs at the end of life, in the same way as for conventional types of stock.

can simply treat the shares that they get/buy from the SRC in this process as part of their pension plan.

This thesis of course has to be tested empirically before we can claim it with any more certainty, but it is certainly not unreasonable to expect that it will hold true. And if it does hold true, it means that the initial shareholders can be fairly reimbursed for the shares that they part with in the redistribution process. It follows that the value of the shares of an SRC should be equal to what it would have been had the same company been an LLC instead, at least if we assume that the customer interest is the same either way. And if anything, the customer interest might actually increase if, say, an LLC converts to an SRC, namely due to the fact that a lot of people might feel positive towards a company that promises more consumer stock ownership in the future. It is therefore even possible that some LLCs will be able to increase the value of their shares by converting to SRCs.

And just like in an LLC, the Class A shares contain voting right and can be traded freely. The only difference between being a Class A shareholders in an SRC and a shareholder in an LLC should thus be that in the SRC, the company automatically buys a small portion of the any given shareholder's shares at frequent intervals, which should not be a problem for most investors. It is therefore reasonable to expect that investors familiar with investing in LLCs will also be interested in investing in SRCs.

6 The change of ownership over time

The time it will take for the customers to buy out the previous owners will depend on the portion of shares that the shareholders owe after each interval, which will again first of all depend on how much money the SRC generally wants its customers to pay for the attached shares compared to the actual price of the goods and services that they are buying. It will also depend on the price-to-sales ratio (P/S) of the company.

Suppose for instance that a certain SRC predicts that its customers would prefer to pay about a 10 % increased price for each good and service due to the attached shares. Suppose also that the price-to-sales ratio (P/S) is at 2, and that the interval before each redistribution is chosen to be half a month. The company then wants to redistribute shares to the customers at each interval worth about $10\,\%/2/24 \approx 0.2\,\%$ of the company's total price (P). Since

$$(1-0.002)^{24t} = \frac{1}{2} \;\Rightarrow\; \log 0.998 \times 24t = -\log 2 \;\Rightarrow\; t = \frac{-\log 2}{24 \log 0.998} \approx 14.4,$$

it would then in this case take roughly fifteen years for the customers to obtain half of the shares of the company. (And it would take them about thirty years to obtain three quarters of the shares, and so on.)

The fact that these numbers are not unrealistic is a big motivator for considering the prospects of SRCs when compared to consumer cooperatives, especially in industries with relatively small price-to-sales ratios. We have argued above that

SRCs might be better at attracting investments in their initial phase compared to consumer cooperatives. And given the fact that SRCs can potentially have quite short periods before the customers will have bought a majority of the shares in the company, it will potentially not take very long before an SRC can start to function much like a consumer cooperative.

For although an SRC does not turn exactly into a consumer cooperative over time, it does turn into something quite similar to that. Only, instead of following the principle of 'one member, one vote' (and one share) known from cooperatives, an SRC will tend towards a state where the consumers have voting power proportional to how much money they tend to spend on the company. Thus, in a hypothetical future where SRCs have become prevalent in all kinds of industries, the distribution of the power of each consumer will naturally depend on the distribution of their consumption, whereas it would simply depend on where they choose to apply for memberships if these companies were all consumer cooperatives instead.

7 When SRCs have other companies as their customers

The concept of an SRC does not have to be limited to companies that sell their goods and services directly to the consumers. When it comes to SRCs that have other companies as their customers, they have at least two options. First of all, they can follow exactly the same rules, meaning that their customer companies will slowly buy up and take over the ownership of these SRCs over time. But unless their customer companies are already owned by the consumers, or perhaps will be in the future if these companies are also SRCs, this option will not directly lead to more consumer stock ownership, as is otherwise the goal behind SRCs.

However, if an SRC has customer companies which are not SRCs themselves (and also not consumer cooperatives), the SRC can follow a second option when dealing with these, which is to require them to sign an agreement that they will distribute the shares that they receive from the SRC further out to their customers, such that the shares ultimately get distributed out to the consumers. Whether the shares should then be distributed in proportion to how much money the consumers spend on the customer companies, or if they should be distributed only to consumers who buy specific goods and services that the SRC has helped produce, that is then simply up to the SRC in question, as well as to what its customer companies will agree.

8 Comparing the idea of SRCs to the existing concept of consumer stock ownership plans

An existing idea that relates a lot to the idea of an SRC is that of consumer stock ownership plans (CSOPs). The concept behind a CSOP is that a company with a relatively constant and reliant customer base of consumers, e.g. a water or electricity supplier, can take on a loan on behalf of the consumers in order to finance a certain expansion. The consumers will then gradually pay back this loan as they pay for the company's goods and services, and in return, they will acquire shares in the company and thus become co-owners.

The difference between a CSOP and an SRC is thus that a CSOP covers financing for a specific expansion, and the plan will therefore end once the consumers have repaid the loan. This is opposed to the redistribution plan of an SRC, which is a perpetual plan, and where the recipients of the shares can change freely over time as the customer base changes. And in an SRC, the plan is always meant to involves all the shares of the company, meaning that the ownership will tend towards being 100 % on the hands of the consumers as time progresses.

9 Conclusion

We have introduced the concept of a 'share-redistributing company,' and argued why such companies might be as good at attracting investors as an LLC. We have thus argued that owning Class A shares of an SRC will be almost equivalent of owning shares of an LLC, except for the fact that the company will automatically buy back a small portion of these shares at frequent intervals in the former case. We have also argued that the value of the Class A (and Class B) shares of an SRC should not be different from what they would have been if the company had been an LLC instead. This is of course assuming that the customer interest is unaltered whether the company is an SRC or an LLC, although if anything, the SRCs might attract a greater customer interest due to the fact that a lot of consumers might feel positive towards companies that will lead to more consumer stock ownership in the near future.

References

[1] E. O. Wright, *How to Be an Anticapitalist in the Twenty-First Century* (Verso, La Vergne, 2019).

[2] A. Lingane and A. McShiras. (2017). The Original Community Investment: A Guide to Worker Coop Conversion Investments. Project Equity.
https://project-equity.org/wp-content/uploads/2017/04/The-Original-Community-Investment_

A-Guide-to-Worker-Coop-Conversion-Investments_Project-Equity.pdf

[3] A. Lingane and A. McShiras. (2017). Addressing the Risk Capital Gap for Worker Coop Conversions: Strategies for the Field to Increase Patient, Risk Capital. Project Equity.
https://project-equity.org/wp-content/uploads/2017/04/Addressing-the-Risk-Capital-Gap-for-Worker-Coop-Conversions_Strategies-for-the-Field_Project-Equity.pdf

[4] M. Lund. (April, 2013). Cooperative Equity and Ownership: An Introduction. UW Center for Cooperatives.
https://resources.uwcc.wisc.edu/Finance/Cooperative%20Equity%20and%20Ownership.pdf

[5] J. Lowitzsch, Consumer Stock Ownership Plans (CSOPs): The Prototype Business Model for Renewable Energy Communities, Energies **2020**, 13(1), 118; https://doi.org/10.3390/en13010118.

[6] P. Dragsted, *Nordisk Socialisme: På Vej mod en Demokratisk Økonomi* (Gyldendal, Copenhagen, 2021).