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What's An ESOP And Why Did A Big Travel Management Company Adopt One?

By Jay Campbell • January 4, 2018

One of the world's largest corporate travel agencies, Pennsylvania's World Travel Inc., before the new year [announced](#) it established an employee stock ownership plan. The company issued new shares in December as it became 100 percent employee-owned.

While many ESOP companies go this way to give the owners an out, World Travel chairman Jim Wells said that wasn't his rationale. Sure, he's been in the business for more than three decades and his family co-owners are aging. More importantly, though, they wanted to set up a firm that could resist the temptation to sell to a financial investor or bigger travel company. And they wanted to attract and retain [talent](#).

Clients including KLX Aerospace Solutions and Pegasystems Inc. welcomed the news. KLX indirect procurement manager Carlos

Garcia said the ESOP "speaks volumes to the level of commitment and faith" that World Travel's leadership had in its staff.

Speaking under the condition of anonymity, a travel buyer whose company uses a different TMC said it would be "fantastic" if employee ownership leads to greater retention. "Consultants will service us for a year then leave," he said. "Understanding our program, policies and nuances — that's all really important. When people leave, it causes pain for us."

According to Wells, "Nothing disturbs a client more than when they love their account manager or their agents, and then find that person is no longer there."

World Travel's leadership and board of directors did not change. Wells said a senior leadership succession plan he put in place several years ago also was intact.

"This is not an exit strategy," said Wells during a Thursday phone interview. "The only thing that becomes a concern [is that] my father, my uncle and me are three owners and the years keep ticking. They're in their 80s. We hope they'll live another 20 years but we have to be realistic. They're still on the board. I'm not going anywhere, but we want to make sure that in the future our folks have more motivation than ever to get us to the next level."



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***World Travel Inc.
chairman Jim Wells***

World Travel Inc. executive vice president of business development Kevin Martin pointed out that many companies turning to ESOPs for an exit plan are in industries with few buyers. That's far from true in travel management these days.

"We have many companies who want to purchase us," said Martin. "Jim knew that if he sold to someone else, all of us may not have jobs going forward."

"Companies that might acquire us are megas or venture capitalists," said Wells.

"They're just going to flip it and then what happens to the employees? They built this company. Three of our agents have been with me since we started in 1983."

What's An ESOP?

Employee stock ownership plans are "by far the most common form of employee ownership in the U.S.," according to the National Center for Employee Ownership.

The group estimated that there were about 7,000 plans in 2017, covering about 14 million employees.

"In an ESOP, a company sets up a trust fund, into which it contributes new shares of its own stock or cash to buy existing shares," according to NCEO. "Private companies

must repurchase shares of departing employees, and this can become a major expense."

There are various tax benefits to the contributions and distributions, but also complicated rules under which ESOPs operate related to vesting and timing. While ESOPs can provide benefits for retirement, many participating companies also offer other benefits. World Travel Inc., for example, provides a 401(k) retirement savings program with company matches. Travel and Transport,

another big TMC that has an ESOP, does the same.

Companies interested in ESOPs do not have to share 100 percent of stock with employees. Travel and Transport started with a partial ESOP in 1991 but moved to 100 percent in 2002.

Wells said that to show faith in the team, he did not consider anything less than a full ESOP for World Travel Inc.

Employee ownership is believed to help workers focus on the shared mission, efficiency and good customer service — leading to better performance. Increased transparency into financial results helps.

Travel and Transport's stock has averaged a 12 percent return from the ESOP's inception to 2015, according to a blog post. "This has outperformed the S&P by almost three times, equating to a tremendous return for the employee-owners," the company wrote. "And at 12 percent annual growth, Travel and Transport's stock price has doubled about every six years."

Travel and Transport has more than 1,400 employees; World Travel Inc. has 535.

Larger [ESOP companies](#) include Publix Super Markets, with more than 180,000 employees, staffing firm Penmac (24,000) and industrial components company Amsted Industries (18,000).