

Timbuk2: Investor Exit Proceeds Shared Broadly

Pacific Community Ventures, LLC (PCV) is a venture and private equity investment firm focused on investing in small, high growth California businesses that bring economic benefits to low to moderate income employees and communities.

As part of its 2000 investment in high-end urban and outdoor business and travel gear company Timbuk2, the fund negotiated a wealth-sharing mechanism that would ensure all employees benefited from the eventual sale of the company alongside management and investors.



Five years later, Timbuk2 sold to private equity investors. One million dollars of the sale was divided, as a one-time bonus, among 40 non-management employees who were part of the company's Employee Wealth Sharing Program. The option plan was structured as phantom stock, which does not gain value over time, but maintains a fixed percentage that grows as the absolute dollar value of the company grows.

Payouts ranged from \$5,000 to twice the workers' annual salary and were divided according to tenure, performance and other factors. To help employees manage their new windfall, PCV brought in volunteer banking advisors who spoke English and the native Cantonese of some of the workforce. The advisors recommended workers place 20% of their earnings into retirement accounts. PCV later learned anecdotally that some employees used their equity earnings to pay for their children's higher education.

Equity sharing was not the only engagement strategy the bag maker employed. In 2007, Timbuk2 brought in students from Stanford Business School as part of its focus on building a stronger company culture. The students proposed a shake-up of the top-down format of company meetings

and recommended turning more control over to employees. A change of time, room location, and a contest to win a custom bag with a design based on the winning employee's hobby were added to the regular routine. Employees also added their own blog. The new strategies were rooted in some practical advance: a management expert told the company's incoming CEO at the time that, "if you destroy the culture, you destroy the company."

KEY TAKEAWAYS:

Employee engagement strategies can provide a key competitive advantage for older businesses facing pressure to manufacture overseas.
