

Chapter 3 - Exploring internal buyers

Speakers

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Transcript

Andra:

In chapter three we look at internal buyers - from management buyouts, to Employee Ownership Trusts and selling to family members. Let's start with management buyouts, also referred to as MBOs. How does this type of sale compare to others?

Susie:

A management buyout really is most suitable for a business with a really strong management team, who are really desperate to take the business forward and have got the skill and ability to do that. The key difference for me, for a management buyout, often, is that the consideration will be partly funded by the exiting seller. So they will be waiting, sometimes for a long period of time to get all that consideration.

Russell:

A sale to your management team might appeal positively to those looking for peace of mind when it comes to exiting your business. But as Susie says, you have to remember that in such a sale process, your management team are now on the other side of the table. Let's move on to another type of internal sale, to an Employee Ownership Trust or EOT.

Susie:

The purpose is to sell a business to a trust that's for the benefit of all employees. So not a small management team who will exit in three to five years, but the employee base. So for me, it's a question of culture. Do you have a business that is about the continued benefit of all of the employees on a long term basis?

Peter:

Selling to an Employee Ownership Trust is very different, and there are special tax advantages in doing so. They also know what they're doing in the sense that they are selling to people they've normally hired themselves, employees in the business, and they're looking after those employees and giving back.

Russell:

So an Employee Ownership Trust could be an alternative way to sell your business. Where your employees could be rewarded for their hard work and loyalty.

Andra:

Let's move on to the final type of internal buyer - selling to family, which brings its own set of challenges by adding an emotional layer to the transaction.

Mike:

Selling to your family is very much an internal transaction. Maybe with an older generation taking some value off the table.

Peter:

Selling to your family is different and that's mainly because of the emotion involved. The fact that family members will want to buy a business off of each other doesn't remove the fact that going forwards, they normally have a relationship together, and the emotion, therefore, gets involved in trying to achieve the best terms, negotiating the types of contracts and the warranties which are required on doing a sale.

Russell:

Selling your business to an internal buyer can appear to be very rewarding with the business moving forward and the leaders you've helped develop. It may work well if price isn't the defining factor. However, like any sale, there are challenges. Disagreements over price or other sale terms are still likely to arise, and this may become very heated between the parties. As this is between internal parties or even family, it can come as a surprise and be quite a burden. So make sure you do your preparation and research, understand all of your options, and consult with legal and financial experts before making an informed decision.

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