

SUCCESSION PLANNING

Selling the business – options

Family Matters Section 5 Topic 12

The RETAILER programme aims to provide practical resources for independent retailers in the Eastern region, backed by the support of intermediate mentors and the RETAILER website www.independent-retailer.com

The RETAILER programme is supported financially by the European Social fund (ESF). Elements of the RETAILER programme build upon the APU SESAME programme. If you are interested in joining the RETAILER programme, please complete and return the form at the back of this document.

This RETAILER topic is based on Topic 12, *Selling the business – options*, from Section 5, *Exit*, of the SESAME Family Matters materials.

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Topic 12 Selling the business – options

Aside from a full or partial liquidation (discussed briefly in Topic 1), there are several options that the owner of a family business can weigh up when deciding to sell:

- a trade sale
- management buy-out
- family management buy-out
- stock market flotation
- employee share ownership plans (ESOPs).

Each of these has advantages and disadvantages – not least in taxation implications. This topic looks in particular at the first three. Going public, through a stock market flotation, is an option that only the largest family businesses can contemplate, while ESOPs are complex and specialised affairs – both of these require expert business and legal advice, and are beyond the scope of this book.

Trade sale

This means selling the company, lock, stock and barrel, to a buyer already operating in the same general business sector. This appeals to many family business owners, as they have a certain reassurance that the business is going into experienced hands – although there may be questions of rivalry and pride to consider.

There are some tax advantages to selling the business as a going concern:

- gains on the disposal, normally subject to capital gains tax, can be deferred if the sale is to a company in exchange for shares, rather than tax
- VAT is not payable, subject to certain conditions
- unused trading losses can be preserved
- taper relief for business assets is available (this replaces retirement relief, phased out in April 2003)
- reinvestment relief is also available.

Management buy-out

If the family business has reached the stage where non-family managers provide much of the management expertise, then selling the business to them may be a logical step forward. This has obvious advantages to all sides.

- It preserves the business more or less intact and in the hands of skilled and experienced managers who understand it.
- It gives added incentive to managers.
- It minimises disruption in the handover.
- The personal relationship that exists between family and non-family managers can be maintained, if necessary.
- Conversely, it might also resolve any conflicts that had arisen between them.

Table 1 opposite shows the results of Burns and Whitehouse's research into why family owners in the UK would prefer to sell to existing management.

The most obvious hurdle with management buy-outs is whether the management team can raise the capital needed to buy the business. Indeed, this is one of the main reasons for owners not wanting to sell to an existing management team (see Table 2). Other reasons expressed by owners are lack of skills and experience, and the obvious attractions of a higher offer.

Another drawback with management buy-outs is that the quest for capital to buy the company may prove a big distraction from the day-to-day concerns of running the business. As they are busy drawing up plans, meeting with possible investors, etc., the business and its value may suffer.

Table 1: Reasons for wanting to sell to existing management (UK figures)

Reason	%*
Best for continuity and independence of company	50
Have most appropriate skills and experience	42
Personal relationships with management require it	17
Unable to pass on in family	13
Realise capital gain/best offer for the company	8

Table 2: Reasons for not wanting to sell to existing management (UK figures)

Reason	%*
Do not have access to enough finance	51
Likelihood of higher price from external buyer	50
Do not have appropriate skills or experience	43
Personal reasons	2

*Respondents ticked more than one box and therefore columns sum to over 100%.

Source: Burns and Whitehouse (1996)

Family management buy-out

It may be that the current owner-manager wants to maximise personal wealth (for retirement), while other family members (e.g. next generation) still want to be involved. One possible solution is for the family members to combine with non-family members in a family management buy-out.

This has the advantage of releasing money to the retiring owner, who can also make the most of reliefs against capital gains tax which would not be available if the owner simply passed the business on to the family. At the same, the family ethos of the company can continue in the presence of family members in the management team. Having a balance between family and non-family management can prove a powerful asset.

Check Point

Consider the following questions.

- If selling the family business is one possible option available to you, which of the routes discussed in this topic would be appropriate?
- What would be the reasons for and against each possibility in your particular case?

	Reasons for	Reasons against
• a trade sale		
• management buy-out		
• family management buy-out		
• stock market flotation		
• employee share ownership plans (ESOPs).		

Now that you've seen some of the RETAILER materials, would you like to benefit from the RETAILER programme?

Through the RETAILER programme, Anglia Polytechnic University offers Till Side Training for independent retailers in Cambridgeshire, Suffolk, Norfolk and Essex employing less than 250 people.

The training is backed by practical materials, relevant resources, the support of experienced mentors and the RETAILER website.

Retailing is a 'people' business. Supermarkets, department stores and chains spend a significant amount of time and resources training their staff. Product knowledge, customer service, merchandising and selling are prerequisites for working in these companies, but training also:

- demonstrates commitment to their employees and their professional development (for many employees, the offer of training is the reason for deciding which company to work for)
- forms the principal rationale that supports all quality initiatives from simple Quality Control right up to Total Quality Management.

The RETAILER programme is supported financially by the European Social Fund, and is free to beneficiaries. The RETAILER programme is intended to train you, train your employees, and help you train future employees.

To find out more about the RETAILER programme please fill in your details below and send a copy of this page to:

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