

MA

Routes to exit your business.

Key to choosing the right exit route is what you want from the sale. For many owner managers, the continued employment of the team who have helped grow the business and the continued success of the business carry a significant value.

These are broad categories and are by no means mutually exclusive.

One way of ensuring the future of the team – or at least giving them control of their destiny – is a **Management Buy-Out (MBO)**

MBO deals are often quicker than a sale to a third party as the buyers already know the business, but there are some disadvantages to consider:

- An MBO team is unlikely to be able to match the value offered by a trade buyer as they will not achieve any savings by combining businesses.
- The MBO will probably have to take on debt (or even equity) financing from a bank or other financial institution. This is a significant commitment for the management team and will almost certainly require that they put personal assets at risk.
- The vendor will have to accept payment over a longer period of time, so that it is not a clean break from the business which is now run by someone else – even though they are still using your money!
- Consider the fall-back position. How will the relationships between you (as the owner) and your management team (as prospective buyers) work if a mooted deal fails to materialise. Will the business be damaged by a management team with poor motivation?
- Is your management team up to the job? MBO deals have a very strong track record of success and are consequently relatively easy to finance, but often in the smaller business the vendor has been the entrepreneurial leader. That leadership is a vital part of the team which may not be a characteristic of the remaining members

Some of the problems inherent in an MBO deal can be reduced or even eliminated through a **Buy-In / Management Buy-Out (BIMBO)** type of deal.

In these deals the existing management team is joined by one or more external individuals. Typically, these are experienced senior managers who are seeking the leadership role that was not available to them in their previous employment.

These problems still remain:

- A BIMBO team is unlikely to be able to match the value offered by a trade buyer as they will not achieve any savings by combining businesses.

- The vendor will have to accept payment over a longer period of time, so that it is not a clean break from the business which is now run by someone else – even though they are still using your money!
- The buy-in members of the team are strangers – not only to you, the vendor, but also to the other members of the team. BIMBO deals have a good track record of success, but often members of the team fall by the wayside as the new leadership becomes established.
- BIMBO's are often backed by financial institutions (Venture Capital) who set demanding performance targets and are quick to act if these are not met.

One of the more obvious routes to exit is a **Trade Sale** which is a sale of your business to someone already operating in the same marketplace. This is often a competitor.

You will get full value for a sale to a competitor, but

- Your business, as you have created it, will be changed dramatically.
- The management team and staff may not have future employment.
- Approaching a competitor is a high risk strategy

Similar challenges apply to selling to a supplier, but there may also be issues with continuity of supply. If you sell to one of your suppliers, will they want or be able to buy from your other suppliers?

In the same way, selling to a customer has challenges – they may not be able or willing to sell to your other customers.

A sale to a **Diversifier** is a sale to another business not already operating in your marketplace. This can be advantageous but again, the diversifier may not be able to match the offer from a trade buyer as they may not achieve synergistic savings.

Finally, a sale to a **Financial Buyer** is a sale to a hands-off investor who does not wish to take any part in the day to day management of the business. This buyer may appoint their own business leader, or they might combine with the existing management team in an MBO.

In all cases, having an experienced well connected advisor working with you to achieve your goals will remove a lot of the FUD (fear, uncertainty and doubt) factors. Typically, you only sell your business once and it is important to get the best possible outcome.

For a free no obligation discussion please email info@managementadvice.co.uk or contact your local office see <http://www.managementadvice.co.uk/contact.html>