

September 8, 2008

SELLING TO YOUR EMPLOYEES - USE CAUTION

Many small business owners will readily credit their employees for the company's overall success. You have a core management team- or just a few key individuals whose expertise and dedication you highly value. You may also rationalize that it is these loyal people to whom you'd like to sell your business to. Selling to employees works sometime and many times, for a host of reasons, it doesn't.

If you are leaning in this direction, proceed with caution.

Maintaining confidentiality is a cornerstone to a future transaction. Inadvertently leaking news that your business is for sale can cause problems with customers, vendors, and other employees. Enthusiastic, hard-working employees are most prone to spill the beans and once the pot is tipped...you know the consequences.

Money is a sensitive issue, too. You may get into negotiations and find your management team doesn't want to pay fair market value, expecting a discount because they feel they helped you build the company.

What employees, even the most loyal, rarely fully appreciate is what you personally have put into this enterprise and that the ultimate reward you owe to yourself is to attract the highest-paying bidder you can find. A seasoned transaction adviser understands that a premium price is achieved only when an auction environment is created for your business. Selling to employees often minimizes that opportunity.

While lenders tend to view acquisitions by employee or management groups more favorably than not, it is typical the exception rather than the rule that such groups or individual employees have the financial wherewithal to pay the price you deserve.

Yet, it's not just about the money; it's about all the things you sense ought to be a part of the legacy you leave behind. When you feel it is the right time to begin to structure your exit strategy, think of the experienced advisers at Chesnut & Cape.

Sincerely,
Chesnut & Cape Capital Partners, LLC
www.exitstrategically.com