



Institute for
Family Business
with UCG

Family Business Challenges

Selling the Family Business



The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

The publisher

About the IFB Research Foundation with UCG

The IFB Research Foundation with UCG is a charity (no. 1134086) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.

- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities, including the IFB Research Foundation Annual Lecture.

About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family business sector. The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk

Selling the Family Business

1 Defining the challenge

Family management succession or ownership continuity may not be realistic.

In these circumstances, or if the family has no desire to carry on, selling the business may be the right decision.

Selling is likely to be a painful wrench.

Building a family business involves investing money, time and energy, but for most owners there's also a big emotional investment, the true extent of which may only become apparent when considering a sale (see Exhibit 1).

Exhibit 1: "Seller's remorse"

"Many times sellers regret having made the sale and feel guilty about separating the family from the business. This is particularly true if the business has been handed down from generation to generation. The key to avoiding 'seller's remorse' is a proper understanding of the motivations that justify the sale of the business ... as well as advance planning and careful and candid discussion with family members."

Source: Frederick D. Lipman (2010) *The Family Business Guide: Everything You Need to Know to Manage Your Business from Legal Planning to Business Strategies*, published by Palgrave Macmillan, p.121.

Reasons for selling. If a sale is on the agenda, understanding motivation is crucial. Motives may centre on the need to raise capital to finance retirement or a desire to crystallise the family's wealth, but often there's a combination of complex internal and external factors (see Exhibit 2).

Exhibit 2: Why sell a family business?

Reasons to sell

- "We can't afford to go on"**
Sometimes there are insufficient profits to finance growth and future capital needs.
- No capable successor**
A retirement or succession issue may be looming and no family candidates are available.
- No family enthusiasm**
Family members' commitment to the business can wane as it passes down the generations.
- State of the economy**
The economic cycle and the strength of the market for corporate ownership may support a sale.
- A good offer**
An approach has been received from a credible buyer.
- Family friction**
Disagreements about, for instance, the future direction of the business or the level of dividend payments.
- Shareholder liquidity**
A sale can sometimes be the best way for shareholders to raise cash (often to fund retirement).
- State of our industry**
A consolidating or shrinking industry does not bode well for the company's long-term prospects.

The value of contingency planning. The desire or need to sell can arise unexpectedly, and it's good to have thought about the issue in advance. It takes time to prepare the business and the family for a sale, and for life afterwards. Aim to sell at a time when it's not essential, because buyers will sense a forced sale.

The main options. Broadly there are five ways in which wealth tied up in the business can be realised:

- voluntary liquidation of the company
- a trade sale
- sale to an institution (like a venture capital firm)

- an initial public offering
- a management, or employee, buyout.

All these exit options have pros and cons, and high-level professional advice *must* be sought before contemplating any of them.

Always employ professionals to negotiate and structure the sale. Selling a family business is a complex exercise, usually taking at least six months, and often longer. Highly technical stages include preparing the company for a sale, tax planning, valuing and marketing the business, negotiating price and other terms (like vendor warranties and indemnities), performing due diligence and closing the transaction.

Consider a sale in stages. Some owners, worried about the impact of an outright disposal (and the vacuum left behind), prefer a sale to be arranged step-by-step. You can sell a minority interest first, with the expectation of selling the rest a few years later. You can also smooth the transition by negotiating understandings about employee security, the employment of family members and about the future direction of the business.

Staying on? While some owners and family managers are happy to become employees of the acquiring company, most find the new business culture and the loss of control unacceptable.

2 Actions to consider

- Does the possibility of selling feature in our contingency planning?
- Does the family have a united view about the importance of the business?
- Do family members feel they hold their shares for the purpose of passing them on to the next generation?
- What is the extent of “emotional ownership” – the identification and connection that family members feel for the business?
- Do family members have independent financial security beyond their ownership of shares in our business?

Case study: **Dreams**

Husband-and-wife team, Mike and Carol Clare founded bed retailer Dreams in 1986, and they sold the business in 2008 for more than £200 million. The Clares built the group into a 180-strong chain making annual profits of more than £15 million.



Mike Clare – a serial entrepreneur

Mike and Carol's children were too young for family succession to be viable, and Mike admits the main reason for selling was

a feeling that it was time for a new personal challenge. "I felt I'd proved myself – my aim had been to build a successful enterprise and I'd definitely done that, but at the back of my mind I felt there was more to come. With the business growing and running smoothly, it seemed the right time to sell."

"Entrepreneur fatigue" also played a part. After 21 years of working at 100 miles an hour, Mike felt like it was time for a rest: "If I could have sold it for a year or two and then

got it back again, I might have been really tempted by that!"

As it was, after the sale of Dreams to Exponent Private Equity, Mike stepped down as Chairman/CEO, but retained both a small shareholder stake and a non-executive role as President.

Most entrepreneurs walk away after a sale, but keeping the stake was Mike's choice. "I believe in the business, I still love it, and I enjoy being involved in a small, advisory way. It was my whole life for 21 years, I've got a lot of friends there, and I still think it's a good investment. Selling was an emotional experience, but staying connected has helped."

Mike's key piece of advice on the sale process is to try and build in preparation time – both at an emotional and a practical level:

"Entrepreneurs are negotiating and making deals all the time, but selling the family business will almost certainly be the biggest deal of your life."



3 Resources

Articles and reports

Selling the Family Business

Peter Gray, Part VI of *Business Families and Family Businesses: The STEP Handbook for Advisers*, edited by Ian Macdonald and Jonathan Sutton, published in 2009 by Globe Law and Business.

The author discusses the combination of reasons (internal and external) that might lead business-owning families to consider selling, before reviewing a wide range of financial, legal and marketing issues. The article also provides interesting, practical ideas on timetabling and negotiating the sale.

IFB Blog: Selling the Firm – Questions Every Family Should Ask

Grant Gordon, Director of the IFB Research Foundation, 15 February 2012.

Why a sale of the business may prove to be the hardest decision any family will ever face, but how asking the question can help challenge the status quo.

Succession Planning and Business Transfer

On the UK government's Business Wales website (available at: <http://business.wales.gov.uk>).

This article discusses preparing your business for sale and the main exit options. It also provides links to an interactive guide introducing the tax and legal issues that need to be investigated when selling all or part of your business.

Books

Selling a Family Owned Business

Chapter 10 in *The Family Business Guide: Everything You Need to Know to Manage Your Business from Legal Planning to Business Strategies*, by Frederick D. Lipman, published by Palgrave Macmillan (2010).

The chapter is written from a US legal perspective, but the author provides some shrewd advice on the main issues surrounding a potential sale, explaining various sale structures designed to achieve different objectives.

Family Businesses: The Essentials

Peter Leach, published by Profile Books (2011). Chapter 9 on “Building Financial Security and Relinquishing Control”, and in particular pages 178–182.

The section discusses the pros and cons of various exit options and the main stages in a sale process.

Navigating a Successful Sale

Chapter 9 in *Sustaining the Family Business: An Insider's Guide to Managing Across Generations*, by Marshall B. Paisner, published by Basic Books (1999).

Topics covered include preparing conservative financial statements, determining the right amount of disclosure and how to create a market for your business.

Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:
Owners and the Board

Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers

Family business succession

- Engaging the Next Generation
- Planning Succession

Family business wealth

- Selling the Family Business

Growing successful enterprises
for generations to come

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