

Succession Planning

A Management Buy-in or Buy-out could be the answer

by Matthew Oliver, a director of M3 Corporate Finance in Bristol

Business owners will undoubtedly will be aware of the need to plan early for their retirement and think about what will happen to their business when they step down. But how many have considered a management buy-out or management buy-in as a solution to their succession planning headaches?



Matthew Oliver

Too many smaller business owners put in years of hard work only to throw away the fruits of their labour when they retire.

More than half (56 per cent) of entrepreneurs in the UK have no succession plans in place for their business, according to research by Bibby Financial Services.

They often complain that they are too busy with day-to-day operations to plan their exit from the business, or can't bring themselves to relinquish control. But a well thought-out exit strategy is crucial to ensuring the long-term survival of a business and maximising its value. Business owners who fail to plan for retirement could be jeopardising the future of their company and their employees' livelihoods – not to mention a comfortable pension in their retirement. Family owned businesses are particularly bad when it comes to succession planning. Only 24 per cent of family firms survive through to the second generation and just 14 per cent make it beyond the third.

A management buy-out (MBO) or

management buy-in (MBI) can be particularly effective solutions for family firms with succession issues. An MBO is the acquisition of a business by its existing management. Normally a new holding company is formed to raise the necessary finance to buy the company and the management team runs the business in which they were previously employed.

This is a good way of ensuring the future of a business, with a highly motivated workforce. At the same time, it can also be an effective way of realising a good price for the value of the business.

An MBO offers business owners and shareholders a number of other benefits:

- Speed. The handover of the business is usually completed much more quickly than a sale because the management team will already have an intimate working knowledge of the business.
- Confidentiality. Business owners don't have to disclose confidential information about the company to potential buyers and competitors, as would be the case with a sale.
- Limited disruption. There is limited disruption to the day-to-day operation of the business unlike in a sale situation where new people and processes are introduced.
- Comfortable retirement. Many business owners show great loyalty to their managers and are more likely to be creative with the deal structure. They are more likely to accept an element of deferred consideration and with a little

planning this strategy can be structured to provide the seller with a regular income in their retirement.

- Peace of mind. Owners can feel confident that they are handing over their business to a trusted team with a proven track record.

Another option is a management buy-in (MBI); this is where a manager or management team from outside the company buys the business. However, the outside management team will not have such an intimate knowledge of the business which is why MBIs are considered to be riskier.

An increasingly common third option is a BIMBO which, as the name suggests, is a combination of the two in which an external manager, or managers, are brought into an MBO to strengthen the existing team.

This can be a particularly effective solution if the departure of the owner is likely to leave a skills gap in the management team, or if a manager is promoted to the position of MD and his or her post needs to be filled.

Owner-managers should begin planning an exit several years before they plan to sell the business to increase their chances of a smooth succession. Staging a successful buyout of a company can breathe new life into a business and allows managers to take control of their destiny. For more information about management buy-outs and management buy-ins, buying or selling a business, raising acquisition or growth finance call M3 on 0845 2700345, email info@m3cf.co.uk or visit www.m3cf.co.uk

