



IFB Research
Foundation

FAMILY BUSINESS CHALLENGES

No. 18

SELLING THE FAMILY BUSINESS

Practical guidance for family business owners and managers

SECOND EDITION

Family Business Challenges

No.18 Selling the Family Business

Section 1. INTRODUCTION

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 may also be appropriate because of external pressures – for example, structural changes in the firm’s market, or receiving a very high-value offer.

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 attachment, the true extent of which may only become apparent when considering a sale, or after the disposal. Families often experience “seller’s remorse” (see Exhibit 1). Nevertheless, family leaders who hold on to ownership for emotional rather than commercial reasons risk running into trouble.

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*, Palgrave Macmillan, p.121.

Reasons for selling. Before putting the sale of the family business on the agenda, understanding motivation is crucial. Motives can be wide ranging, from needing to raise capital to

finance retirement, to a lack of successors, but often there’s a combination of complex factors, both internal and external (see Exhibit 2).

Exhibit 2: Why sell a family business?

Reasons to sell	
<input type="checkbox"/>	“We can’t afford to go on” Sometimes there are insufficient profits to finance growth and future capital needs.
<input type="checkbox"/>	No capable successor A retirement or succession issue may be looming and no family candidates are available.
<input type="checkbox"/>	No family enthusiasm Family members’ commitment to the business can wane as it passes down the generations.
<input checked="" type="checkbox"/>	State of the economy The economic cycle and the strength of the market for corporate ownership may support a sale.
<input type="checkbox"/>	A good offer An approach has been received from a credible buyer.
<input type="checkbox"/>	Family friction Disagreements about, for instance, the future direction of the business or the level of dividend payments.
<input type="checkbox"/>	Shareholder liquidity A sale can sometimes be the best way for shareholders to raise cash (often to fund retirement).
<input type="checkbox"/>	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 helpful to have thought about the issue in advance. It takes time to prepare the business for a sale, and to build acceptance among the family to relinquish ownership. Aim to sell at a time when it’s not essential, because buyers will sense a forced sale.

Deliberations and preparations for selling.

Prior to a sale, the family should engage in comprehensive conversations about the business and family implications of selling. Discussions on the future possibilities and vision for the business will usually be led by the board (with input from family shareholders), focusing on whether the business should be sold and valuation. Family deliberations will seek to build a consensus of the family's vision for the future, and how the vision could be achieved in the absence of the legacy business.

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

- Trade sale to another business
- Sale to an institutional or a financial investor (e.g. a private equity firm)
- Initial public offering involving a stock market listing
- Management, or employee, buyout
- Voluntary liquidation of the company.

These options have pros and cons, and professional advice should be sought before contemplating any of them.

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 disposing of the business (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.

Considering outside investment in the business. Even if an outright sale of the business is not on the agenda, it may be desirable to seek non-family investors to invest in the family firm's share capital. Selling a minority stake may serve a number of useful purposes, including:

- bringing in capital and expertise to enable the business to undertake a growth strategy
- mitigating overall investment risk
- diversifying the family's assets
- creating a wider range of options when managing generational succession
- funding the acquisition of shares from family members seeking liquidity and wishing to end their ownership.

For larger family firms, a partial sale by listing the company on a stock exchange is an option but involves cultural upheaval for the family business when adapting to being listed. For the majority of UK family firms, the preference is to retain full control and 100% private ownership.

Working in the business after an outright disposal. While some family owner-managers are happy to become employees of the acquiring company, others find the new business culture and loss of control difficult to accept, persuading them to resign to pursue other opportunities.

Looking beyond the watershed transaction. The sale of a family firm is not just a business decision, it is a life-changing and emotional event affecting the destiny of the whole family. Successful families tend to view the sale in a unified and proactive way, treating it as an opportunity to redefine and reorganise themselves (see Exhibit 3).

Exhibit 3: Selling creates a new reality for the family

"The sale of the family business is not the end of the family as an economic or shared enterprise unit. Rather, a sale is a moment of rethinking and balancing of the past with the future. The family has a legacy of capital, skills and relationships that offers it advantages if it acquires or moves into a new business area. The relationships and capital of the family can be leveraged in new ways. At the time, with a liquidity event, the

the family has an option of allowing 'free choice' of family members, so that members of the next generation do not have to be captive partners. Some can go their own way, while others can take what they have inherited from the family and together build for the future."

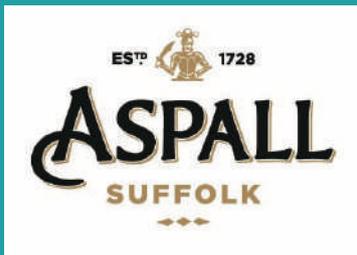
Source: Dennis T. Jaffe (2010) *Stewardship in Your Family Enterprise: Developing Responsible Family Leadership Across Generations*, Pioneer Imprints, p.157.

Section 2. ACTIONS TO CONSIDER

- Does the possibility of selling the business feature in our contingency planning?
- Does our 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?
- Would it be better to sell the business than adopt a succession strategy?
- What is the extent of "emotional ownership" – the identification and connection that family members feel for our business?
- Do family members have independent financial security beyond their ownership of shares in our business?
- If we sell, what are the implications around how the proceeds of sale would be distributed and managed?

Add Your Questions

CASE STUDY: Aspoll



Part two of the strategy was to develop the cider business. The brothers built a reputation based on quality cider and the brand's provenance and heritage. Aspoll became Britain's best-known artisanal cider, with its contribution to company turnover climbing from negligible in 1993 to 70% in 2018.

By 2016–17, however, with a slowdown in the UK cider market, the brothers knew they needed to raise money in order to grow the business further. Initially they looked for partners as minority investors in Aspoll, but it became clear that an outright sale to a large, successful company was the best option for ensuring long-term security of the business. Corporate finance and legal advisers were appointed, and discussions began with a range of possible buyers.

Molson Coors emerged as the favoured candidate, holding views about the Aspoll brand – its heritage and values – that aligned with those of the family. When formal talks began in April 2017, the US group explained they would plan to model the future development of Aspoll on that of Cornish craft brewer Sharp's, which they had acquired in 2011. An important clinching moment for the deal was when the brothers visited Sharp's in Cornwall. Molson Coors UK and Ireland MD Phil Whitehead invited them to look around the site with some of the pre-2011 personnel, while he and his team stayed behind: "Ask them anything," said Phil as they were setting off for the tour, "we've nothing to hide." Negotiations accelerated after this visit.

Barry sums up the decision to sell and the negotiations: "During our long discussions with Molson Coors we found that they shared our ideas on heritage, passion for making quality cider, and vision for the future development of Aspoll and its people

We in turn were amazed by their distribution capacity, their range of products and contacts, their sheer leverage, and we realised what they could accomplish for the Aspoll business – opportunities that we, as a single-product company, could not realistically contemplate."

"After so many years of family ownership, selling was a difficult decision, and one we did not take lightly," says Barry. "My brother and I talked over the company's future options at great length, and also involved other members of the family. But looking at things as a whole, it was the right step. Viewed from the perspective of our employees, the irresponsible option would have been to try to carry on alone."

The Chevallier Guilds also view the sale as a positive, redefining moment for their family. As Barry explains, "The scale of the investment needed meant that, prior to the sale, almost all our resources went into the business, but now we can take a much more balanced approach. It's a relief that all our eggs are no longer in the same basket!"

Barry and Henry will continue to be involved in the business. They have agreed to act as consultants, carrying out a brand ambassador role, providing input on strategy and acting as the "conscience of the business" as regards the brand's direction. "We're looking forward to staying connected," says Barry, "helping promote Aspoll's development and growth – in effect, doing what we've always done, but without the stress!"

Barry's has three main pieces of advice for owners contemplating or negotiating the sale of their family business. "Be crystal clear about your motivation and the reasoning behind the sale decision," he says, "and communicate these to stakeholders." On preparations, "take special care choosing your professional advisers, and make sure they're capable of providing realistic and knowledgeable input on your prospects and business valuation." And, thirdly, during the sale negotiations, "be prepared for the unexpected and have large reserves of patience!"

Section 3. RESOURCES

Articles and reports

Guide to Help you Prepare for Selling your Family Business

Ken McCracken (2017), published by KPMG (available at: <https://home.kpmg.com/xx/en/home/insights/2017/01/selling-your-family-business.html>).

Guidelines when considering whether or not to sell, and practical advice on establishing a process to help ensure owners make the right decision. The author divides the article into four main sections – timing; ownership dimensions; risk and pensions; and where to start the sale process – including an agenda for a meeting of owners considering a sale.

Owners' Discussion on Selling the Business

Jennifer M. Pendergast (2016), published by Family Business Consulting Group (available at: www.thefbcg.com/owners-discussion-on-selling-the-business).

Selling the family business is potentially contentious and emotional, and this article emphasises the importance of establishing a structured dialogue on the sale option among the ownership group, helping owners make the appropriate decision and execute it successfully. The author identifies a range of topics, based around building an understanding of what the future of the business might look like, and of what the future might look like without the business.

“Stepping into the Buyers' Shoes”: Looking at the Value of Family Firms Through the Eyes of Private Equity Investors

Oliver Ahlers, Andreas Hack and Franz W. Kellermanns (2014), *Journal of Family Business Strategy*, Vol.5(4), December, pp.384–396.

An academic discussion of family business valuation issues. A key question is what the family firm is worth without the family as part of the business, and the authors put forward a buyer's perspective on valuation. While the buyer gains options for value creation as a result of the family's exit, the family's departure also usually means a reduction in value for the new owner. These two opposing effects need to be considered when accounting for the central role of the family, and whether these effects result

result in an increased or decreased valuation of family firms.

Life After an Exit: How Entrepreneurs Transition to the Next Stage

Eugene Lang Entrepreneurship Center at Columbia Business School (2013), Credit Suisse Entrepreneurs White Paper, No. 3 (available at: tiger21.com/sites/default/files/Entrepreneurs_White_Paper.pdf).

This report, based on case studies, discusses two kinds of post-sale challenge – those that entrepreneurs and their families face as they move on to the next phase of their lives, and those they will face as they learn to manage their new wealth. The authors stress the importance of analysing the importance of the company in supplying identity to oneself and one's family before the sale, and they recommend broadening one's circle of friends and community interests, and adding civic and philanthropic activities before the sale in order to mitigate the feelings of loss many entrepreneurs experience afterwards.

Books

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 by Globe Law and Business (2009).

A discussion of the reasons (internal and external) that might lead business-owning families to consider selling, followed by a review of financial, legal and marketing issues. Practical sections provide guidelines on preparing the business for sale, valuation methodologies, identifying potential purchasers, structuring and timetabling the sale, conducting negotiations and the purchaser's due diligence process.

Stewardship in Your Family Enterprise: Developing Responsible Family Leadership Across Generations Dennis T. Jaffe, published by Pioneer Imprints (2010).

The author devotes two sections of this book to selling the business. “There comes a time in every enterprising family's life cycle,” he argues, “when a

sale will have to be seriously considered. Not taking this up endangers the enterprise the family has spent years growing and nurturing." The section on "Should I Sell the Family Business" (p.155) sets out a review of pros and cons, while that on "Surviving the Sale of the Family Business" (p.163) suggests actions to consider both before and after the sale in order to successfully manage its business and family dimensions.

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 general advice on the main issues surrounding a potential sale, explaining various sale structures designed to achieve different objectives. He emphasises advance planning in order to preserve and maximise the value of the family business, and of understanding the motivation for sale, including holding discussions with family members involved in the business well before the target date for the sale.

Family Businesses: The Essentials

Peter Leach, published by Profile Books (2015).

Chapter 9 on "Building Financial Security and Relinquishing Control" (and in particular at pp.181–186) discusses the pros and cons of various exit options and the main stages in a sale process.

Strategies for Longevity in Family Firms

Guido Corbetta and Carlo Salvato, published by Palgrave Macmillan (2012).

Chapter 7 on "Financial Strategies" discusses outside investment in family businesses, including selling a minority stake to a private equity partner or by seeking a stock exchange listing. The authors examine the reasons for family firm reluctance to sell shares, including cultural resistance, difficulties in valuing some private family businesses, fears about modifying the business model, and wanting to maintain freedom in managing relationships between the business and the owning family.

Family Business Challenges

The Family Business Challenges second edition series includes 18 guides covering three areas:

Family business dynamics

- No.1 Understanding Family Business
- No.2 Maintaining Family Values
- No.3 Developing Stewardship
- No.4 Engaging the Next Generation
- No.5 Planning Succession

Family business governance

- No.6 Building Family Governance
- No.7 Managing Differences
- No.8 Fostering Responsible Ownership
- No.9 Strengthening Family Communication
- No.10 Professionalising the Board
- No.11 Enhancing Communication with the Board
- No.12 Employing Advisers

Family business management

- No.13 Fostering Entrepreneurship
- No.14 Embedding Long-term Orientation
- No.15 Promoting Sustainability
- No.16 Maximising People Capital
- No.17 Branding the Family Business
- No.18 Selling the Family Business

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Simon Perry, Author. Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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FAMILY BUSINESS CHALLENGES

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