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Seven obstacles for selling a company to key employees

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If you are considering or in the process of transferring to key employees, we suggest that you pay particular attention to these seven obstacles that can derail this process.

1. **Owner's Intolerance for Risk.** Owners whose transfer goals include taking their "chips off the table" may choose to forego a sale to key employees if they are focused on reducing risk. Perhaps they lack the time necessary to make sure that this type of sale can generate the retirement funds that they want or need. More likely, they may be unaware that Exit Planning methodologies exist and that, with the help of experienced advisors, the risk of non-payment can often be less than in a third party sale. Advisors skilled in The Seven Step Exit Planning Process™ understand the methods of minimizing that risk but some owners remain unwilling (or unable) to endure a long term, unfunded buy out.
2. **Successor's Intolerance for Risk.** Despite an owner's best efforts to identify, to train, and to retain successor employees, some employees may prove unwilling to take on a significant level of entrepreneurial risk. This can take owners by complete surprise. In order to avoid this surprise, owners should discuss with their designated heirs apparent exactly what it means financially to become an owner. They should then allow the heir/employees adequate time to judge whether ownership is really what they want.
3. **Significant Growth.** The business has grown beyond the capabilities—financial, managerial or otherwise—of the existing management team. This is frequently the case in family-owned and smaller companies that have not had the resources to train existing employees or to attract highly-skilled and experienced talent.
4. **Owner's Financial Goals.** In some cases, owners determine that the after-tax cash flow of the business is insufficient to satisfy their financial goals. This can happen if the owner's financial demands increase significantly or if internal or external conditions that support cash flow deteriorate. Acquiring management will use this after-tax cash flow to buy, at least at the outset, the company from the owner. If the owner questions the KEG's ability to continue that cash flow (or the industry's cycle, the local market's continued well-being, or any other factors which might depress the ability of the business to maintain cash flow) the best alternative may be to sell to outsiders and "get the heck out of Dodge!"
5. **M&A Market Conditions.** Some owners on the road to a sale to key employees realize that they can reap more cash (and experience less risk) via a sale to a third party. This usually occurs when the

Merger & Acquisition market enters its boom phase (when valuation multiples increase and deal terms become more favorable to sellers).

6. **Third Party Benefits.** Other owners, also presumably on the road to a sale to key employees, realize that a sale to a third party will not only yield them more cash but will provide their employees with appropriate and significant benefit. New ownership may provide benefits that include: new incentives to management at a level that would be unavailable if the business had not been sold, "upward mobility" within the structure of a much larger organization, greater employee benefits (in general for all employees), greater opportunities for individual growth, and a more stable and better funded company.
7. **Owner's Priorities Change.** Finally, an owner's priorities may change thus leading to a change in desired successor. Whereas an owner may have initially desired to continue the company's culture, he or she may now prefer to take the company to the next level while simultaneously taking some chips off the table. Doing so requires an infusion of capital—just the opposite of the distribution of capital necessary in the sale to employees.

To sell to key employees or not to sell? That is truly the question. Look to skilled advisors who have been there to help you choose the most appropriate exit path.

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