

Why sell your business to employees?

Selling your business to your partners, management team or employees can be an attractive option to consider. Current employees know the business and have an interest in seeing it prosper. As well, customers, suppliers and investors may be reassured by the stability this option offers. You might also like the idea of trusting your business legacy to people you know well.

When employees buy Canadian businesses



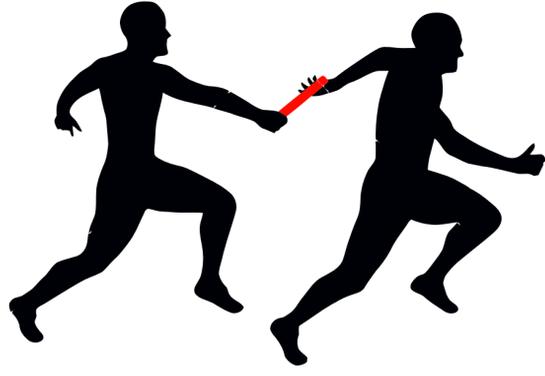
Passing the torch:



Selling your business to employees

Before the relay race

- 1 Buyer and seller agree on a sale price.
- 2 A valuation of the business confirms the agreed price.
- 3 Employees decide how many shares they can purchase immediately.
- 4 Draft the shareholder agreement to transfer ownership.
- 5 Financial institutions are approached for funding.
- 6 Seller may agree to finance part of the sale.



During the relay

- 1 A transition plan is developed.
- 2 Employees buy out your interest using bank financing (seller financing may also be required).
- 3 Decision-making and ownership powers are transferred to employees (can be done in months or years).



Finishing the relay

- 1 Employees pay back the bank over time.
- 2 If you financed part of the sale, collect your money over time.
- 3 Complete any transition responsibilities, like training new managers.

Under an Employee Share Ownership Plan (ESOP) your employees own stock in the company as part of an employee benefit plan – it's a method for small business owners who wish to retire and sell their businesses.

Get Fair Market Value (FMV) from a Chartered Business Valuator

Obstacles on the relay course

Be prepared to jump over these hurdles when selling to employees



Discount hurdle Employees may feel entitled to a price discount because they work there – and an outside buyer may pay more. Set a fair price.	Confidence hurdle If you finance part of the deal, do you feel confident your employees can run the business well enough to pay the rest of your money? Stay involved in the business post sale.	Hurt feelings hurdle Other employees may quit if they feel the buying opportunity wasn't presented to them. Be prepared for losses.
Secrets hurdle Customers and suppliers may learn about the sale through employee gossip. Muzzle the buyers.	Money hurdle Employees are less likely to have the capital to buy your business outright. Seek bank financing.	Skills hurdle Employees may not have the range of management skills you do – the business may struggle as a result. Plan to stick around during transition.

Take extra caution when passing your business torch

- 1 Secure personal guarantees from employees based on their collateral.
- 2 Keep your controlling interest in the business until paid in full.
- 3 Stay involved with the business through transition.
- 4 Obtain partial outside financing.
- 5 Sell part of the business to a third party.



Get ready for your relay race

- 1 Learn more about [Employee Share Ownership Plans \(ESOP\)](#).
- 2 Meet with your accountant and lawyer to create an ownership transition strategy.
- 3 Talk with a [Scotiabank Small Business Advisor](#) about available financing to support your plans.

