

## **Management Buy Outs – Good or Bad?!**

### **Management Buy-Outs (MBOs)**

Traditionally, less than one in five business owners would consider selling their businesses to their management team and usually for good reasons – Management Buy Outs (MBO's) needs careful thought and planning. However, things are changing as since 2008, MBO's have become more popular with a number of key advantages, which must be weighed up against the potential pitfalls.

### **Advantages of an MBO**

So what are the advantages of an MBO? Rather than have to go to the market place, the buyer has instantly been found and confidentiality can easily be contained in-house, which is a great starting point. The balance of power can be transferred steadily and the business can continue with minimum disruption with people who are more likely to care about the history and who can be trusted in maintaining the legacy of the current and previous owners. The risk involved in a relationship change can therefore be minimised.

### **Disadvantages of an MBO**

As with most things, there is a potential down-side, starting off with a market of one! A trade sale could have half a dozen potential purchasers, where an offer price could be double that of others for strategic reasons. Funding may be an issue with MBO's, whereas trade buyers would need proof of funding, normally before negotiations even get started. Should discussions get underway for an MBO then there could be the risk of the management team not keeping their eye on the ball or just as bad, a demotivated management team, should the deal fall through.

### **The Key to Success**

The starting point is a clear understanding as to whether or not the management team will have the appetite, ambition and leadership capability to grow the business, followed by access to finance as otherwise it's no deal! Specialist help and advice should be sought to ensure that a succession plan is carefully implemented so that a flexible, staged exit can be managed, ensuring that sensitive issues and individual aspirations can be dealt with. A succession plan will also ensure that the business is made as attractive as possible in order to achieve the necessary finance and of course, the owner's asking price!

\*\*\*\*\*

Stirling Business Solutions Ltd can provide further information, help and advice on selling a business. Contact details are:-

Stirling, Business Transfer Specialists  
One Victoria Square  
Birmingham  
B1 1BD

Tel: 0121-314 5575  
Web: [www.stirling-uk.com](http://www.stirling-uk.com)  
Email: [info@stirling-uk.com](mailto:info@stirling-uk.com)