



**The Mercury Centre**

**SBDC Conference 2006**

**BECA Workshop**

**Business Succession and Buyout  
Solutions to Rejuvenate Communities**

# The Mercury Centre

- **Non profit cooperative research and development agency**
- **Coordinator, Employee and Community Buyouts Network**

# What are Buyouts?

- **Purchase of a business by existing stakeholders**
- **Forms are**
  - **Management**
  - **Employee**
  - **Community**
  - **Multi-stakeholder**

# Broad-based Buyouts

- **Community Buyouts**
  - Key community assets e.g. stores, pubs, service stations, picture theatres
- **Employee Buyouts**
  - Key employers e.g. workshops
  - Majority of employees involved
- **Multi-stakeholder Buyouts**
  - Range of stakeholders involved in the community investment

# The Current Environment

- **Increasing numbers of business owners are wanting to retire**
- **In regional areas, farming communities and jobs have declined**
- **Rural small businesses under pressure as residents shop in regional centres**
- **Business closures are hitting rural communities harder**

# Retiring SME Owners

- **Family businesses are 83% of all businesses**
- **Typical family business owner is 57**
- **40% plan to retire in the next 5 years**
- **66% will fund their retirement from the sale of the business**
- **Only 38% of SME owners have succession plans**

Source: CPA Australia

# Business Succession Scene

- **Majority of small business owners transferring ownership in the next decade - retirement the main reason**
- **Growing number of transfers taking place outside of the family**
- **One third of business owners believe they will have problems selling their business**
- **Problem of too many sellers and not enough buyers**

# The BEC Challenge (1...)

- **Increasing number of businesses vulnerable to transfer failure**
- **Bungled successions costing jobs and vital services**
- **Some small rural businesses not profitable enough to attract new investors**

# The BEC Challenge (...2)

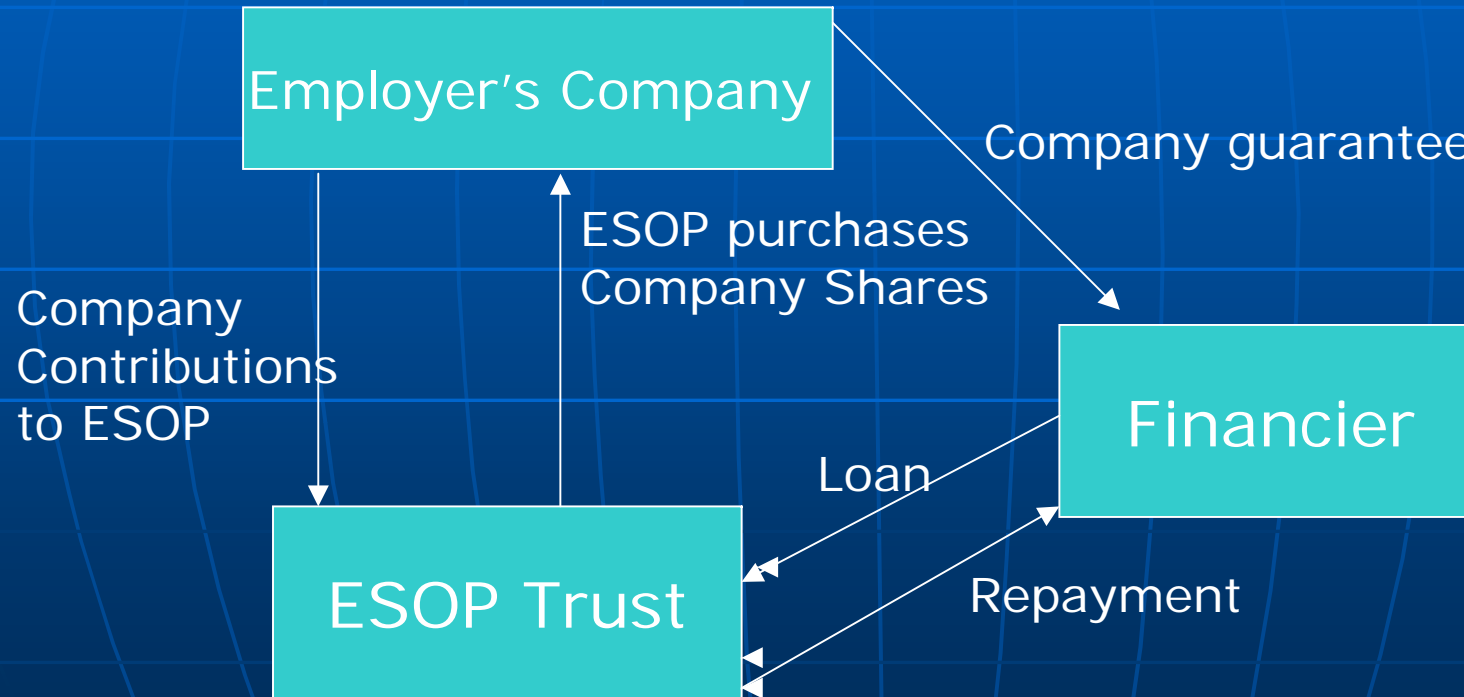
- Identification and development of succession opportunities
- Maximum extraction of value from businesses for retiring owners
- Transitioning businesses to new owners from retiring owners
- Provision of educated advice on the options

# Two Additional Options

- **Community or Employee Owned Co-operative**
  - Community/employee buyout through trade sale using the standard “Trading Co-operative” structure
- **Employee Share Ownership Plan (ESOP)**
  - Used to buy the owner’s share out over time.
  - Tax benefits potentially available
  - Ability to leverage finance

# The Leveraged ESOP

A leveraged ESOP looks like this



# Outcomes for BECs

- **Rescuing vital businesses from closure**
- **Community renewal through social and financial investments**
- **300 community and employee buyouts in past 5 years in UK**
- **30 examples in Australia**

# The Role of the BEC

- **Buyouts provide clear link to local economic development role**
- **Hands on venture catalyst - identify, advise on and mentor local buyouts**
- **Provide assistance to the buyout transaction and start-up of the business**

# The BEC as “Venture Catalyst”

- **Develop partnerships to identify projects**
- **Develop links to social entrepreneurs**
- **Rapid response – ability to bring together key people quickly**
- **Assist key players from concept to capitalisation**
- **Remain involved - post transaction support**

# BEC Action Strategies (1...)

- **Information gathering: knowing your business community - ageing owners, at risk businesses**
- **Education: providing succession planning seminars - targeted ownership transition planning**

# BEC Action Strategies (...2)

- **Awareness raising – business advisers are not aware of buyout options and have not developed services to cater for them**
- **Distributing information on buyout options – how such purchases can be structured, negotiated, financed and executed**
- **Generating referrals – willing sellers, distressed businesses, vital services etc**

# Assessing the Buyout (1....)

## The BEC as Adviser

- **Use standard business practices**
  - **assessing commercial viability**
  - **due diligence**
  - **business valuation**
  
- **Deciding whether to proceed**
  - **scale of community support**
  - **ownership planning tools - OPTical**
  - **better result for all than a trade sale?**

# Assessing the Buyout (...2)

## The BEC as Adviser

- **Need for professional advice**
  - **finding informed external advisers**
  - **raising finance – the business plan**
  - **legal and disclosure documentation**
  - **capital gains tax concessions**
  - **coops and employee share ownership plans**

# Important Ingredients

- **All parties need involvement in buyout proposal – membership planning and selecting core buyout group**
- **Financial contributions/commitments**
- **Support for employees/citizens in their new role as owners – governance systems and management/financial training**
- **Business development post transaction**

# Policy Considerations (1..)

- **Protect community from impacts of business transfer failures:**
  - **loss of vital services**
  - **loss of retirement “nest eggs”**
  - **loss of jobs**
  - **falling asset values/declining wealth**

# Policy Considerations (..2)

- **Imbalance in business assistance:**
  - **resources targeted at start ups and early growth rather than business continuity/succession**
- **Service provider awareness and attitudes**

# Contact

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