

NOVEMBER 2023

Generation EO: The Great Employee Ownership Succession Opportunity

Ownership at Work

In partnership with:



Introduction:



In recent years, economists, professional advisors and business trade bodies amongst others have speculated on a potential 'large wave' of Baby Boomer business owners exiting their companies. However, there has been a lack of robust evidence to support understanding of how this scenario might unfold and in whose hands that shareholding is likely to end up.

The Generation EO research project set out to quantify the scale and impact of retirement age business owners selling their stakes and establish whether that change represents a risk or an opportunity to the UK economy.

Led by Ownership at Work (OAW) in partnership with DJS Research, and supported by the Federation of Small Businesses (FSB), the project comprised two elements.

Part 1 aimed to work out the scale of ownership change facing the UK. The project focused on the area of the economy where the greatest number of

owner exits affecting the largest number of employees is likely to take place over the next decade: owners aged 43 and older of 'small and medium-sized enterprises. It sought to better understand how many owners are likely to sell, on what timeline, levels of preparedness and the potential consequences for their businesses and employees.

In line with Ownership at Work's mission, the project sought to understand whether the option of a sale to employees was well understood (alongside more typical owner exit routes) and how far this approach aligns with the stated priorities of selling owners.

Part 2 acknowledged that there is also a gap in published data that offers business owners insights into the actual experience of selling to employees. To start to address this, researchers conducted nine in-depth qualitative interviews with business owners who have chosen employee ownership (EO) as their preferred solution. The interviews capture the personal experiences of selling to employees across businesses of different sizes, sectors and regions.

The conclusion of the project is that the UK has a generational opportunity to bring about a game-changing shift in the fundamental ownership mix that underpins our economic success. Seizing that opportunity could drive up national productivity, protect jobs, boost local economies and communities and help address levels of inequality across the country.

The risk of not acting on this opportunity is thousands of viable small and medium-sized businesses closing their doors over the next five to 10 years, jobs lost, wealth lost and disenfranchised workers struggling to deliver a more productive national economy.



Contents:

- 2. **Introduction**
- 5. **Forewords**
- 7. **Executive summary**
- 13. **Conclusions and recommendations**
- 16. **Part 1 – Understanding ownership succession**
- 38. **Part 2 – Understanding the experience of selling to employees**
- 61. **Appendices**

Research carried out by:

**Ownership
at Work**

**djs
research**

Ownership at Work:

Ownership at Work's mission is to generate new thinking and ideas on employee ownership's contribution to the UK economy. An independent think tank, Ownership at Work publishes policy papers, guidance and research on the fastest growing business model in the UK economy. Ownership at Work is politically impartial and holds charitable status.

DJS Research:

DJS is a market research agency that carries out qualitative and quantitative research in consumer and business-to-business markets.



Research supported by:

The Federation of Small Businesses (FSB)

FSB is a non-profit making, grassroots and non-party political business organisation that represents the UK's 5.5 million small businesses, micro businesses and the self-employed in every community across the UK.

"The Generation EO report presents a compelling case to policymakers for supporting EOBs and to those business owners considering a sale to an Employee Ownership Trust as a possible exit option. There are a number of financially and emotionally rewarding considerations for SME business owners selling to an Employee Ownership Trust including tax benefits, a sense of legacy retained within the business, protection of local employment and the potential employee ownership can unlock. Employee well-being benefits are worth noting, along with EOBs' increased productivity and greater likelihood to engage in environmentally sustainable practices. EOBs clearly have a positive influence on economic sustainability and resilience, innovation, and societal wellbeing."

*Tina McKenzie
Policy and Advocacy Chair, FSB*

fsb⁰⁸

Forewords:



EOA

The Growth of UK employee ownership has been activated by policy - the employee ownership trust model (EOT) introduced in the Finance Act 2014 - and significantly accelerated through awareness raising in the past 5 years. This small section of the UK economy is punching above its weight across multiple dimensions of impact on individuals, businesses, communities and the wider economy. Now this research shows us the scale of the opportunity to grow EO by understanding how many businesses need a succession plan in the next 5-10. There is a compelling case for policy makers to ensure these businesses are supported to better plan for succession, including to explore employee ownership as part of the process.



RVE

The Ownership at Work survey provides a valuable insight into the views of the owners of SME businesses (10-249 employees) in the UK, as they consider their ownership succession options. It is clear that business owners are increasingly aware of employee ownership as a succession option, compared to the situation five years ago, but there is still much work to be done to improve awareness. A sale by a business owner to an Employee Ownership Trust, for example, can not only offer business owners a fair value for their shareholdings but also provides a stable long-term structure that secures the independence and culture of the business and rewards the employees who have helped create or grow the business.

Gerry Young
Founder Director, RVE Corporate Finance



ThinCats

In our mission to help mid-sized businesses thrive, ThinCats provides funding for multiple purposes including changes in business ownership. Although we are seeing increasing interest from business owners and their advisers about funding EOT transactions, this report puts some real numbers behind the size of the opportunity and the potential challenges, including relatively low levels of awareness and understanding. This is where the EOA's role in providing education and practical advice to stakeholders is crucial and is why we are delighted to support initiatives such as this research. We expect its findings to become a powerful catalyst in widening understanding of the social and economic benefits of employee ownership across business owners, employees, business advisers and policymakers alike.

Amany Attia
CEO, ThinCats



J Gadd Associates

JGA committed to the undertaking of this report, seeking to provide clear data on the scale of the succession challenge facing UK businesses over the next decade. The number of employee owned businesses has grown over recent years, and some advisors show confidence the pace will continue, however we appreciate many are unaware of all employee owned options. We've long recognised the opportunities in employee owned models, increasing employee retention and engagement, supporting business continuity, enabling sustainable growth, all are identified here. The impact and importance of businesses being a force for good continues to grow, with younger generations forcing the pace. This report identifies how vital increasing awareness and understanding of employee owned will provide robust alternative options, worth serious consideration.

Jeremy Gadd
Managing Director, J Gadd Associates

LOADHOG

RETURNABLE PACKAGING

Loadhog

Loadhog is a 100% employee owned company specialising in the design, manufacture, sale and pooling of returnable packaging solutions. Ownership at Work is grateful to Loadhog for their sponsorship of this report.



“This research shows us the scale of the opportunity to grow EO by understanding how many businesses need a succession plan in the next 5-10 years”

Executive Summary:

The primary ambition of the Generation EO research project is to better understand the scale and potential impact on the UK economy of thousands of older business owners selling their shareholdings over the upcoming decade. Find below a summary of approach and findings:

Establishing credible numbers

The Part 1 starting point was to establish a credible number of likely business ownership transition points in the next five to 10 years.

To achieve that within the scope of the project, researchers targeted the area of the economy where the highest number of impactful ownership transition points are likely to occur: in privately-owned small and medium-sized businesses (10-249 employees¹) where the owners are approaching or at retirement age (43 and older²).

Based on government statistics³, roughly 67% of all UK business owners are aged 43 or over and there are roughly 260,000 SMEs in the UK with 10-249 employees. On that basis, the project set out to better understand the intentions of owners at roughly 174,000 SME businesses employing over 7.9million people (that is approximately 12% of all UK firms with employees and 34% of all UK employees).

To achieve this, we surveyed 500 individuals who were aged 43 or older and held a higher than 10% stake in privately-owned SMEs (10-249 employees) that were broadly representative of the whole cohort by size of business, sector and geography. (From this point, 'owners' refers to individuals with these characteristics.) We then extrapolated our survey findings to drive out estimates based on actual government-reported business numbers.

1. See the Methodology section for a fuller explanation of why we exclude micro businesses (1-9 employees) from this exercise.
2. We used this cut off to reflect commonly accepted generational boundaries (for instance as cited by [Pew Research](#))
3. Based on UK government published [SME statistics](#) for 2023 and Companies House data.

31% (54,000)
SME businesses

of owners are likely to sell part or all of their shareholding in the next 5 years

A significant change in UK business ownership is coming

When asking owners about their intention to sell, the research found that:

- In the next five years, just under one third (31%) of owners are likely to sell part or all of their shareholding – with that number rising to half (50%) over 10 years.
- This indicates that roughly 54,000 SME businesses (10-249 employees) will likely face one or more owners selling their shareholding over the next five years – rising to a cumulative total of 87,000 over the next 10 years.

The survey also asked about whether owners had already identified non-sale options to divest themselves of their stakes (e.g. passing to a family member or liquidating the business) as each of these also represents an ownership transition point:

- When these results were combined with the answers on intention to sell, it was identified that over two thirds (69%) of owners are likely to sell or divest within the next 10 years.
- This indicates roughly 120,000 SME businesses (10-249 employees) are likely to experience ownership transition points in the next decade.
- Of that group, in at least 43% of cases owners were clear the outcome of that transition is likely to be the sale or closure of the business – indicating at least 51,600 businesses could see ownership entirely change hands or end up shutting their doors.

Researchers conclude at least 8% of all businesses with employees are likely to face to some kind of ownership succession point by 2033. ⁴

The research confirms on that basis that a significant change in UK business ownership will occur over the next 10 years and that change is likely to unfold at a fairly consistent pace across the decade.

4. *Researchers believe these figures are highly likely to underplay the full scale of total ownership transition points: they do not include any estimate for ownership change amongst micro (1-9 employees) businesses or privately-owned large firms (250+ employees); nor do they include any estimate for owners younger than 43 in privately-owned SMEs (10-249 employees) who may choose to sell or divest in that time.*



That ownership change brings a sizeable economic risk

Researchers were keen to understand as far as possible the potential consequences of ownership change on this scale.

They concluded that (potentially unsurprisingly) whilst many owners are considering multiple options around the best way to release ownership in their business, fear of closure looms large over these transition points. Of owners who declared an intention to sell or divest in the next 10 years:

- Over nine out of 10 cited avoiding business closure as a critical factor in their choice of how best to pass on their shareholding.
- (as cited above) In at least two out five cases (43%), if their preferred choices don't come off the business will likely need to close down.

Going further, 17% of all owners surveyed said they believed that liquidation was the likely outcome of the upcoming ownership transition. If we extrapolate that into real world consequences, we see that:

- Owners in roughly 30,000 SMEs (10-249 employees) are already predicting their businesses will cease to exist during the next 10 years
- Upto 910,000 employees could see their jobs disappear on that basis .

Most owners want to pass on viable businesses and protect their legacy

The project sought to understand what is driving this ownership change. Possibly surprisingly given the challenges businesses have faced in the last 3-4 years, the vast majority of owners did not report that the pandemic, rising costs or difficulty doing business were particular drivers behind their intention to sell.

Of the owners who had confirmed their intention to sell or divest in the next 10 years, the most cited reason (69%) was age and the wish to retire.

Only 6% suggested COVID was a factor and just 8% suggested poor trading conditions or financial performance was a driver.

This last point is particularly interesting as it suggests that exiting owners are not running away from businesses they believe are likely to fail. Sensible heads would hope that owners are not holding out for a sale if their business is on the rocks, but nonetheless it seems a fair conclusion that most owners intending to sell or divest are looking to pass on financially viable businesses to a new generation of owners.

This is reinforced by over 90% of the same group of owners also citing that protecting the jobs of existing employees (particularly from the local community), business continuity and protection of core company values are critical factors in how they choose to pass on their ownership.

This further underlines the risk highlighted in the section above: that good businesses risk being shuttered if a suitable new owner cannot be found.



Nearly **one in five** of all owners surveyed flagged that liquidation was a *likely* outcome of the upcoming ownership transition point



Most owners are not well prepared nor have relevant experience

Where owners are clear on their intention to sell or divest, the research explored how prepared those individuals believe they and their businesses are for any future ownership transition. This was questioned in terms of levels of planning, funding, knowledge and relevant experience.

As you might expect, businesses looking at an ownership transition in the next few years are typically more likely to have plans and full funding in place.

However, there are signs some critical gaps in preparation remain:

- Over half of owners intending to sell or divest in the next 1-3 years say they are only 'quite prepared'
- Over one third of owners intending to sell in the next 12 months (36%), and two fifths hoping to sell in the next 2-3 years (40%), only have part of the necessary funding in place
- Of owners intending to sell or divest in the next 10 years, over a third (37%) admit to having no plans in place at all.

Further reinforcing this, approaching half (44%) of owners intending to sell or divest in the next 10 years have no relevant prior experience of ownership transition. 9 out of 10 of those owners have sought external advice and information, most commonly from professional advisors (including lawyers, accountants and financial advisors), although almost 1 in 4 has searched online to inform their decision-making.

This puts a critical emphasis on that specialist knowledge – passed on by professionals or found online – being comprehensive and explained in a balanced and accurate way.

OVER 1/3 Over 1/3 of owners intending to sell or divest in the next 10 years have no plans in place at all.

Knowledge of ownership options has an employee ownership blind spot

Finally, the research sought to explore how well owners understand all of the ownership transition options open to them, with a particular focus on options around selling to employees.

When testing knowledge and awareness, the survey defined employee ownership (EO) as over 25% of a business's shareholding held by or on behalf of all or most employees; and offered two specific ownership transition options – an employee buy out where employees hold shares directly, and trust-based ownership where shareholding is held by a trust on behalf of some or all employees (commonly known as the 'John Lewis' model).

Survey responses seem to suggest the following pattern:

- A majority of all owners (82%) had previously heard of EO before receiving the survey but this awareness seems to be superficial
- When tested on knowledge of specific EO options, owners revealed a critical gap: only 61% had knowledge of employee buy outs and 53% of trust-based models - this is markedly less than more popular ownership transition routes, including family succession (85%), trade sales (74%), management buy-outs (72%) and private equity sales (70%)
- When asked whether owners had gone further and actually considered specific EO options as part of ownership succession planning, numbers fall even more dramatically with just 26% suggesting they'd considered one or both of the options.



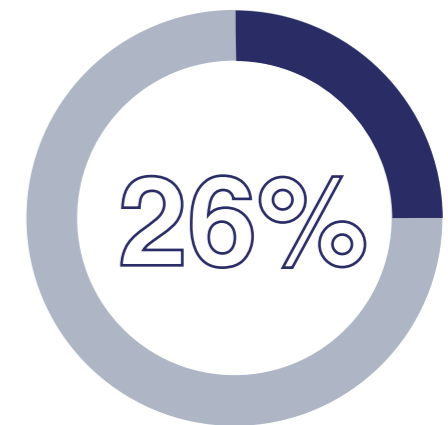
The conclusion is that a critical knowledge blind spot exists amongst owners regarding EO sale options which would need to be addressed in order to propel a greater number from awareness to knowledge to active consideration.

A handful of characteristics seem to be driving some businesses to go further to proactively consider EO as an ownership transition option, including:

- The closer an owner is to their preferred date for sale or divestment, the more knowledgeable about EO they are and the more likely the business is to have considered an EO sale of some kind (upto 62% of those likely to sell within 12 months)
- The larger a business is by annual turnover and the more owners the business has, the more likely it is to be aware of EO and to have considered an EO sale option
- Professional services firms have significantly higher levels of knowledge of EO than any other sectors
- The younger an owner is the more likely they are to have prior awareness of EO: 84% of Generation X owners (aged 43-58) compared to 73% of Baby Boomers (aged 59-77).

The survey identify a strong appetite amongst all owners (58%) wanting to learn more about EO. Again, that appetite is greater in larger firms with higher annual turnover (70% at turnover of £5m+) and the closer they are to an ownership transition point (83% amongst owners likely to sell within 12 months).

Specific comments contributed by survey respondents regarding EO confirmed the appetite to learn more and simultaneously illustrated a lack of detailed knowledge and some of the concerns, myths and misperceptions that exist currently around the EO model.



Just 26% of owners have given detailed consideration to an EO sale.

Selling to employees seems to offer an extremely positive owner experience

Part 2 of the project aims to help address that knowledge gap for owners around what the experience of selling a business to its employees is like for the selling owner.

Researchers provided a snapshot study through nine semi-structured interviews with vendors who've sold their businesses to their employees. Even within such a small sample, the interviews cover a range of vendor ages, business sectors, sizes, geographies and ownership models.

All the vendors volunteered that the overall experience was positive and they would recommend it to other business owners. A number observed that this was in stark contrast to previous experience of third party trade sales, a point which is supported by wider literature on trade sales.

Important contrasts include the greater control over timing and predictability of the EO sale process (and consequent reduction in stress), the greater ability to manage funding requirements over time and the ability often for selling owners to ensure a well-managed handover to new owners and often new business leaders. Most vendors had to reach for specialist EO advisors to get the right knowledge and experience.

It is also worth highlighting the remarkable alignment between the reasons given by vendors for selecting an EO sale route and the stated priorities of owners from any ownership sale option in the Part 1 survey, including:

- **Protecting jobs in their team**
- **Ensuring business continuity**
- **Wanting to stay local**
- **Guarding the core values of the business**
- **Retaining independence.**



Conclusion: Seizing the great employee ownership succession opportunity

Upcoming ownership change brings avoidable risks

A big change is coming over the next 10 years in the ownership make up of the UK economy. Roughly 120,000 small and medium-sized businesses – close to 1 in 10 of all companies with employees – will face owners looking to sell or divest their stakes.

A change on this scale brings significant risk. Each ownership transition point is important not just for the selling owners, but potentially for their employees, the communities in which they are based and the wider economy.

Selling owners have much greater say over precisely when and how they step back from the business and an EO sale process often allows more time to ensure new leaders are supported to step up.

Extrapolations based on our findings suggest that at a minimum this could see approximately 30,000 SMEs (10-249 employees) closing their doors causing upto 910,000 employees to lose their livelihoods.

The critical point is that these business closures are largely avoidable. These are highly likely to be viable businesses dropping out of the economy for lack of an ownership solution (not business failure based on poor financial performance).

30,000

30,000 financially viable SMEs are likely to close in the **next 10 years.**

Why we must address the knowledge gap around EO

Employee ownership (EO) sale options offer a vital way to help address this risk, preventing good businesses from disappearing and bringing a much-needed additional boost to the economy at the same time.

EO sales don't require an external third-party buyer and so offer a much greater degree of control over the timings of any transaction. The EO option seems to powerfully align with the stated priorities for owners when selling their shareholdings, including protecting jobs, safeguarding business culture and keeping the business alive.

The selling owner typically helps to shape the ownership transition process and is often better placed to ensure business continuity through a controlled handover of ownership and leadership.

Not only do selling owners tell us that the experience of selling to employees is typically a remarkably positive one (in contrast to other types of business sale), but recent evidence tells us that transition into an EO model typically delivers excellent outcomes for the business and its employees, including:

- 8-12% greater productivity per employee
- Increased motivation and job satisfaction
- Twice as much profit shared with all employees
- Creating more jobs and generating more profit than non-EO businesses

Addressing the blind spot around knowledge of EO sale options could not only save thousands of viable businesses from closing but also offer them the benefits this research reveals. In addition to not being well prepared, most owners lack relevant experience on transitioning ownership to employees and are therefore reliant on the knowledge of professional advisors (lawyers, accountants, financial advisors who may be less familiar with EO or less incentivised to recommend it) or what they find on the internet.

Though a lot of work has gone into supporting professionals to become better versed in EO sale options, and improving online materials, the drop-off in knowledge and active consideration of EO in ownership succession planning suggests there is still some way to go to ensure EO is consistently raised and well explained to owners looking to sell or divest.



37% increase in the number of new EO businesses in 2022-23.

Seizing the great employee ownership succession opportunity

The upcoming departure of so many owners offers a critical juncture for the direction of the UK economy.

The EO option is already becoming increasingly popular as an ownership transition choice. The number of owners selling to employees and establishing new EO businesses grew at 37% in 2023, having increased at an average rate of 16% per annum between 2011 and 2022.

Latest research⁵ tells us there are only about 1,650 employee and worker owned businesses in the UK. The predicted wave of 120,000 SME ownership transition points coming in the next decade, as older business owners retire and sell up, represents a huge opportunity to fundamentally change the ownership foundations that drive UK productivity and prosperity.

Driving up the numbers of sales to employees would not only help stem the likely loss of jobs and viable businesses but offers a huge potential upside to the wider UK economy.

Though still only a tiny portion of the economy (0.1% of all businesses), that same research tells us currently EO companies make a disproportionate contribution delivering 0.8% of direct Gross Value Added (GVA) and an overall productivity impact of £32-41 billion each year (based on direct, indirect and induced GVA), equating to 2.1% of the overall economy.

5. From the *EO Knowledge Programme: People Powered Growth report, 2023.*

EO businesses were 40% less likely to have seen profits fall in the last five years and five times less likely to make employees redundant in the last three years than equivalent non-EO companies.

If we can close the EO knowledge gap for business owners and sustain the growth rate in new EO businesses seen in 2022-23 (37%), after 10 years we would see:

- The sector growing to over 33,000 EO businesses
- At least 1 in 3 owners selling their stake to their employees
- Annual overall economic contribution of £352bn to the UK from EO businesses.

This represents a generational opportunity to help thousands of SME businesses to stay alive, remain rooted in their local communities and continue to recycle wealth into their local economies; protecting jobs and improving the lives and livelihoods of hundreds of thousands of employees.

How to make this happen

The imperative is to effectively address the knowledge gap around EO sales options for business owners, including ensuring the best quality advice and where required affordable capital is readily available.

We recommend the following:

- Business owners intending to sell or divest in the next 10 years are better supported to find out more about the suitability of EO and actively consider EO sales options in their ownership transition planning
- Professional advisors (lawyers, accountants and financial advisors) can ensure they are fully versed in the detail of EO sales options to support their business owner clients

- Trade and industry bodies and private and public sector providers of online advice and/or learning support to business owners can ensure their insights and materials comprehensively cover EO sale options
- Mainstream and specialist capital providers to businesses can ensure they are fully aware of the typical characteristics of companies in employee ownership (including enhanced productivity, resilience and profitability) when pricing capital to support ownership transitions and growth funding
- Policymakers can continue to support the growth of EO businesses by setting national, regional and local targets; assigning Ministerial responsibility for EO growth; promoting targeted local business support; and preserving and potentially expanding existing tax reliefs that help attract owners, ensure advisors raise EO when considering sale and secure ongoing benefits for employee owners
- Academics, think tanks and public sector data providers can continue to gather relevant data (government currently has no standardised national approach to identifying numbers of EO businesses), generate and publish new research and promote greater understanding of good practice and the impacts of sharing ownership with employees.



Potential annual overall economic contribution of £352bn by EO businesses by 2033.

Part 1 - The ownership succession opportunity



1.1 Scope and ambition

The research project set out to establish a credible number of likely business ownership transition points in the next five to 10 years.

(As set out in the Executive Summary) to achieve that within the scope of the project, researchers targeted the area of the economy where the highest number of impactful ownership transition points are likely to occur: in privately-owned small and medium-sized enterprises (SMEs)⁶ where the owners are approaching or at retirement age (43 and older)⁷.

Consequently, Ownership at Work partnered with DJS Research to survey 500 individuals who were aged 43 or older and held a higher than 10% stake in privately-owned SMEs (10-249 employees) that were broadly representative of the wider SME population by size of business, sector and geography.

1.2 Methodology

The quantitative survey was conducted online by DJS Research during August 2023. All 500 SME owners surveyed are from across the UK and their businesses have between 10-249 employees. The sample is broadly representative of UK SMEs of this size by the number of people employed, sector and region/nation and on that basis we have used it to draw conclusions based on the wider SME economy.

All owners in the survey are aged 43+ and therefore of 'Generation X' (43-58 years), 'Baby Boomers' (59-77 years) or the 'Silent Generation' (78 years+)⁸. The survey was therefore focused on owners who may have at least started to consider their retirement options. A summary of the sample profile can be found in the Appendix.

All respondents were screened to ensure they are owners of a privately-owned business and have a financial stake of at least 10%.

'SME owners' refers to individuals with these characteristics in the remainder of the report. The choice to focus on small (10-49 employee) and medium-sized (50-249 employee) businesses (and exclude micro firms at 1-9 employees) was driven by several factors:

- To focus on where the highest number of impactful ownership transition points are likely to occur. Whilst the number of individual ownership transition points might be higher in micro firms given their greater number, they were judged to be likely to be less impactful overall based on numbers of employees and size of revenues; and whilst employees and revenues would be higher in large firms, there would be far less ownership transition points based on the much smaller number of these in the economy (roughly 7,960).
- Following the existing UK government definitions for micro, small and medium-sized businesses makes it significantly easier to use accurate whole business population statistics to get a clear picture of scale.
- To explore the realistic scale of the opportunity for more SME owners to consider selling to their employees. Currently, the significant majority of sales to employees involve the introduction of an Employee Ownership Trust (EOT). Regulatory requirements around set up mean it is not typically possible for companies of less than 7-8 employees to sell to an EOT and currently relatively rarer for a firm of less than 10 employees to do this.

Having established a credible target cohort of SME business owners, we then extrapolated our survey findings to drive out estimates based on actual business numbers. To do that, we took the following approach: based on government statistics⁹ there are roughly 260,000 SMEs in the UK with 10-249 employees and roughly 67% of UK business owners are aged 43 or over. On that basis, our representative survey cohort reflects the view of owners across 174,000 SME businesses employing over 7.9 million people (that is approximately 12% of all UK firms with employees and 34% of all UK employees).

Throughout the report, we have outlined some areas where responses differed depending on, for example, business size or sector. We have done this on a by exception basis highlighting particularly large (statistically significant) differences. Due to the volume of data collected, it is not possible to include every differential in this report.

6. See the Methodology section for a fuller explanation of why we exclude micro businesses (1-9 employees) from this exercise.
7. We used this cut off to reflect commonly accepted generational boundaries (for instance as cited by [Pew Research](#))
8. We used this cut off to reflect commonly accepted generational boundaries (for instance as cited by [Pew Research](#))
9. Based on UK government published [SME statistics for 2023 and Companies House data](#)

1. Main findings

1.1. Owners Intentions

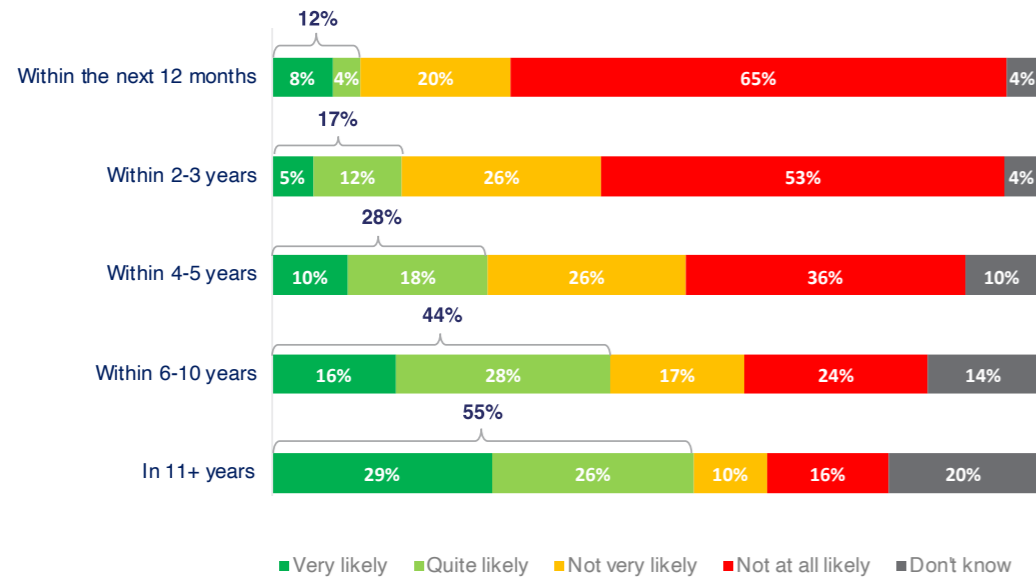
1.1.1. Numbers of owners intending to sell

All owners in the survey were asked how likely they are to sell all or part of their ownership stake within each of the timeframes shown in Figure 1. Unsurprisingly, owners told us their intentions to sell increase the further into the future we look.

However, when we add these answers up ensuring each respondent is only counted once, we see evidence that half of SME business owners intend to sell up within the next 10 years, with nearly a third of the total selling in the next five years. This represents a significant change in ownership coming for the UK's SME economy. Overall, 31% of owners express some likelihood (very or quite likely) to sell their ownership stake within five years, and 50% are likely to within 10 years.

The 31% looking to sell within five years equates to owners at 53,940 SME businesses¹⁰. The 50% looking to sell within 10 years equates to owners at roughly 87,000 SME businesses.

Figure 1: Likelihood of owners selling all or part of their ownership stake, within each timeframe.



Base: All respondents (500). How likely are you to sell part/all of your ownership stake within following time periods?

In more than half of cases (59%) SME owners from the survey who are likely to sell (rather than divest) their ownership stake within 10 years say this would involve them selling all of their ownership stake. The likelihood of this increases with age, from 54% among Generation X (43-58 years) up to 73% among Baby Boomers (59-77 years).

¹⁰. See Methodology to understand how we arrived at these numbers.

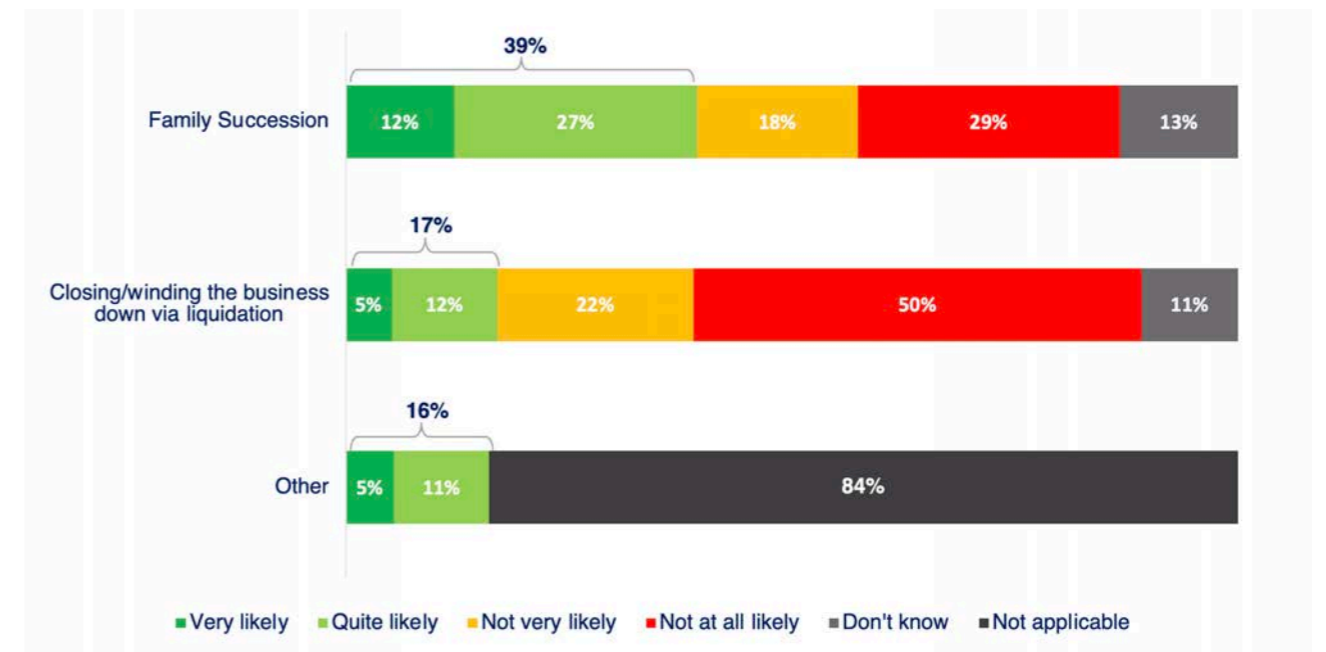
1.1.2. Numbers of owners considering non-sale scenarios including closure

As well as being asked about plans to sell, all owners were also asked about their likelihood of divesting their ownership stake via family succession, liquidation/closure or another method within the next 10 years (respondents were told that to divest meant dispose of their stake by a method other than selling it).

Just shy of two fifths (39%) indicate that a family succession might be on the cards. Detailed analysis of survey data shows that of the businesses that are already family-owned, only 44% state they are likely to divest to family members.

Further, 17% of owners acknowledge the likelihood of closure/liquidation and a similar proportion (16%) cite other potential outcomes (which included references to bankruptcy and giving the business to charity).

Figure 2: Likelihood of owners divesting their ownership within the next 10 years



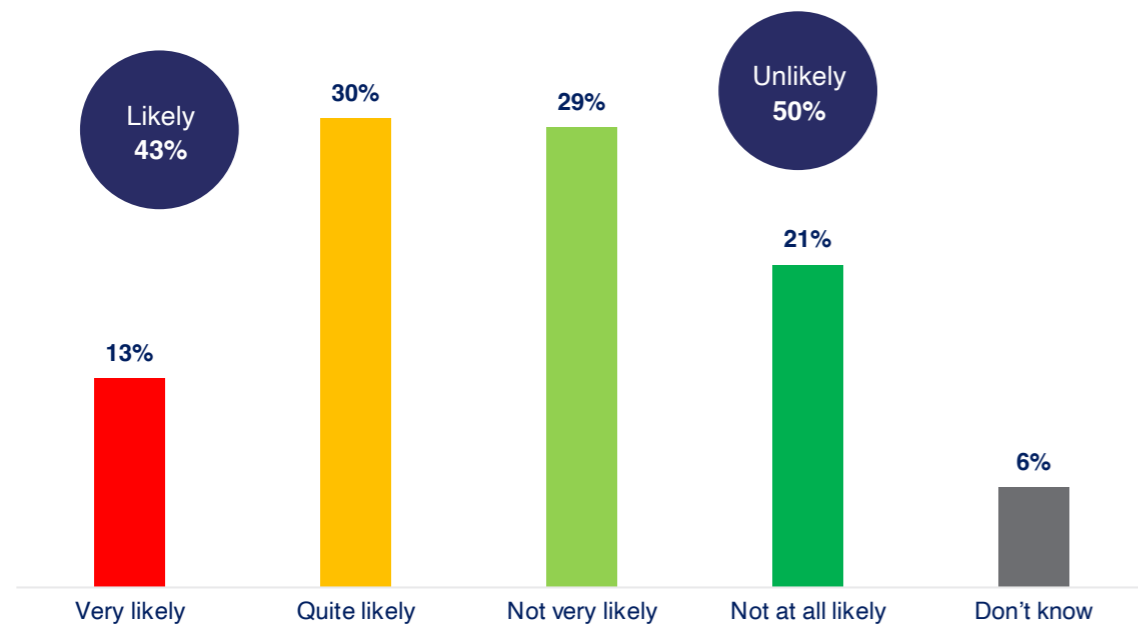
Base: All respondents (500). Q08. How likely are you to divest your ownership stake via any of the following methods within the next 10 years? Those who answered 'other' included references to bankruptcy and giving the business to charity.

In correlating answers on likely to sell and likely to divest, researchers' conclusions are that many owners are considering multiple options to support them to release their ownership in the business; and importantly, that there is a clear concern that if the sale option doesn't work, closure and managed wind down of the business is the probable end result.

This is supported by:

- Of the owners who are likely to sell or divest in the next 10 years, 43% are explicit that their intentions could lead to the sale or closure of the business – indicating potentially up to 51,600 businesses might need to close their doors
- The closer businesses are to a planned sale date, the more likely the closure option becomes: among owners likely to sell within five years, 34% are considering business closure, and this almost doubles to 67% among owners likely to sell within 12 months.

Figure 3: Likelihood of owners selling or divesting their ownership stake may lead to the sale or closure of the whole business



Base: Where respondents are likely to sell or divest in the next 10 years (343). Q13a. Overall, how likely is it that your decision to sell/divest could lead to the sale or closure of the whole business?

Findings for businesses based in London stand out; 60% of owners with businesses based in London who are likely to sell or divest within ten years indicate that this decision is likely to lead to the sale or closure of the whole business. The proportion is also higher than average among Limited Liability Partnerships (64% of those likely to sell or divest within ten years) and where businesses are not family-owned (53% cf. 31% among family-owned businesses).

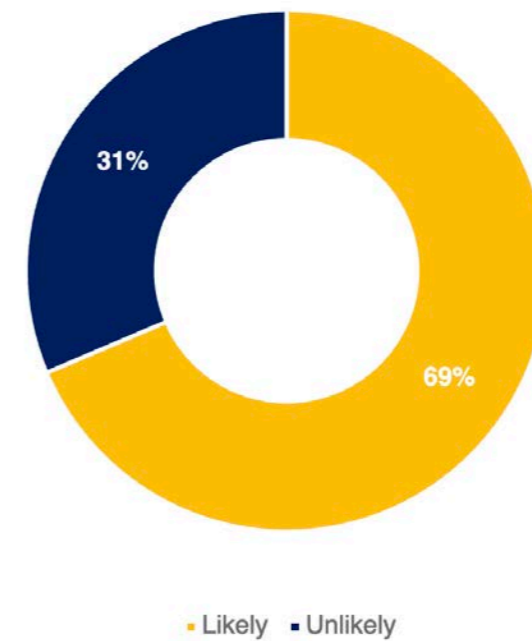
In trying to understand the national scale of this impact, even if we just take the 17% of all SME owners who have explicitly stated they consider liquidation likely, that indicates approximately 30,000 SME (10-249 employee) businesses where owners are predicting the firm will cease to exist during the next 10 years.

If we apply that figure to UK government SME employment numbers (i.e. using an average employee number per firm, recognising we do not have detailed data on the spread of firm size, so this can be no more than an rough indicator), we find that these closures would put up to 918,000 jobs at risk over that period.

1.1.3. Summary and profile of owners intending to sell or divest within the next 10 years

Overall, the survey indicates that within the next 10 years more than two-thirds (69%) of SME owners are likely to sell or divest all or part of their ownership stake. This is calculated by combining the proportion of owners likely to sell their business within 10 years with the proportion likely to divest within 10 years (and only counting each business once where they indicated both might be a possible option). Based on the same government statistics referenced earlier this is equivalent to owners at approximately 120,060 SME businesses.

Figure 4: Overall proportion of business owners likely to sell or divest their ownership stake within the next 10 years



By age of owner the likelihood of selling or divesting within 10 years increases from two-thirds among owners in Generation X (66% among those aged 43-58 years) up to four-fifths of Baby Boomers (81% among owners aged 59-77 years).

The proportion likely to sell or divest within 10 years is also significantly higher among businesses that are Limited Liability Partnerships (84%) and among those that own a lower proportion of the business (78% where owners have a 10-49% stake cf. 64% for 50-99% and 66% for 100%).

1.2. Motivation to sell or divest

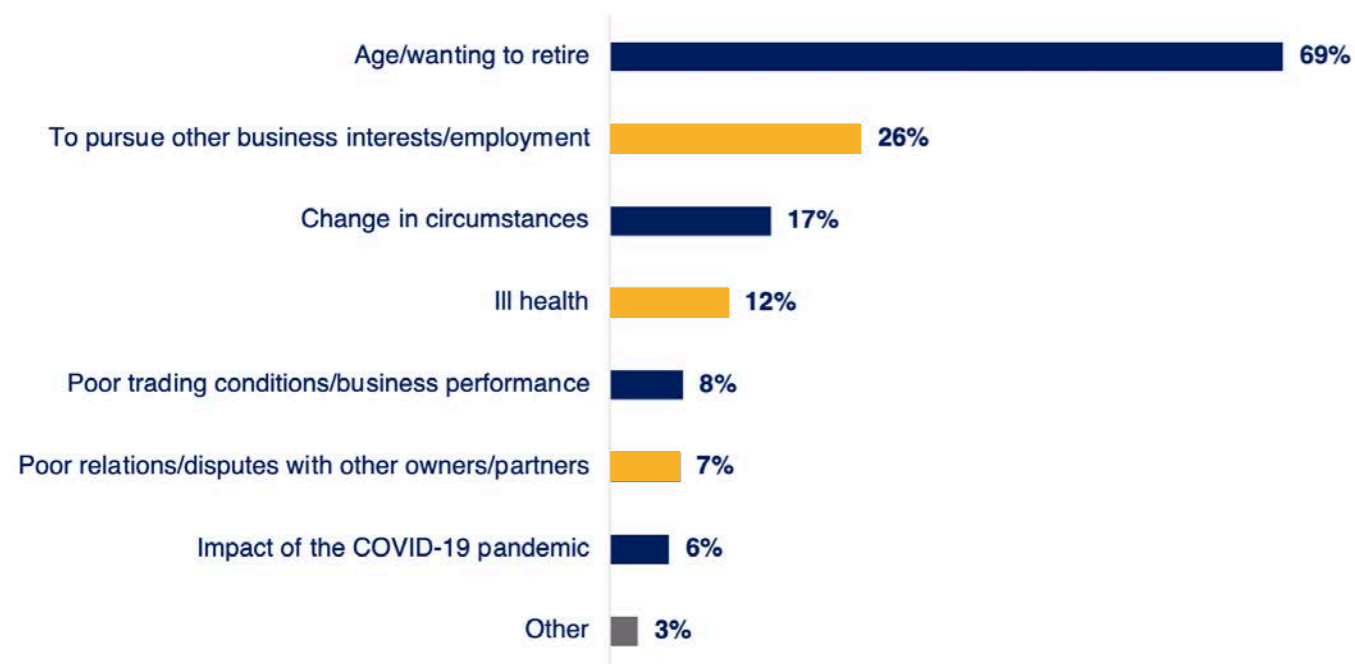
Among all those likely to sell or divest at least part of their financial stake in the business within 10 years, the biggest motivation for exit is age/wanting to retire early (69%). The proportion citing this as a reason is higher still among older owners (84% among Baby Boomers aged 59-77 years cf. 65% among Generation X aged 43-58 years).

The second most common reason for SME owners wanting to sell or divest within 10 years is to pursue other business interests or employment, cited by 1 in 4 (26%) owners. This proportion is higher among younger owners (31% among Generation X, aged 43-58 years cf. 8% among Baby Boomers aged 59-77 years). Poor trading conditions are cited as a reason for selling or divesting by around 1 in 13 (8%) business owners.

A further minority (6%) state that it is due to the impact of the COVID-19 pandemic. This suggests that the vast majority of owners are not planning on exiting their business due to any financial concerns or worries of business failure. Therefore most of the businesses that face potential closure unless new ownership models can be found, would otherwise be good, viable businesses.

Overall, 7% of SME owners cite poor relations/disputes with other owners as a reason for being likely to sell or divest at least some of their stake; among businesses based in London this proportion is significantly higher (22%).

Figure 5: Motivations for wanting to sell or divest all or part of their ownership stake within the next 10 years

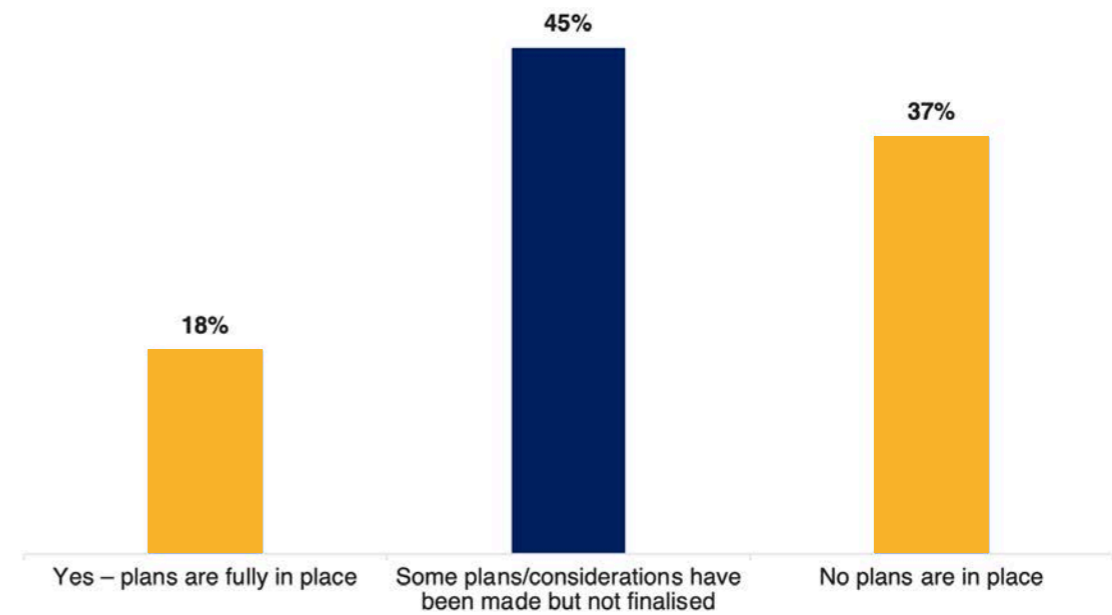


Base: Where respondents are likely to sell or divest in the next 10 years (343). Q10. What is the main reason you are planning to sell or divest part/all of your ownership stake?

1.3. Owner and business readiness

Amongst the SME owners who indicate they are likely to sell or divest their ownership stake within 10 years, fewer than a fifth (18%) have fully established plans to enable this to happen. The highest proportion (45%) have some plans but have not finalised them, and close to two-fifths (37%) have no plans in place at all.

Figure 6: Whether owners have plans in place to enable them to sell or divest their ownership stake



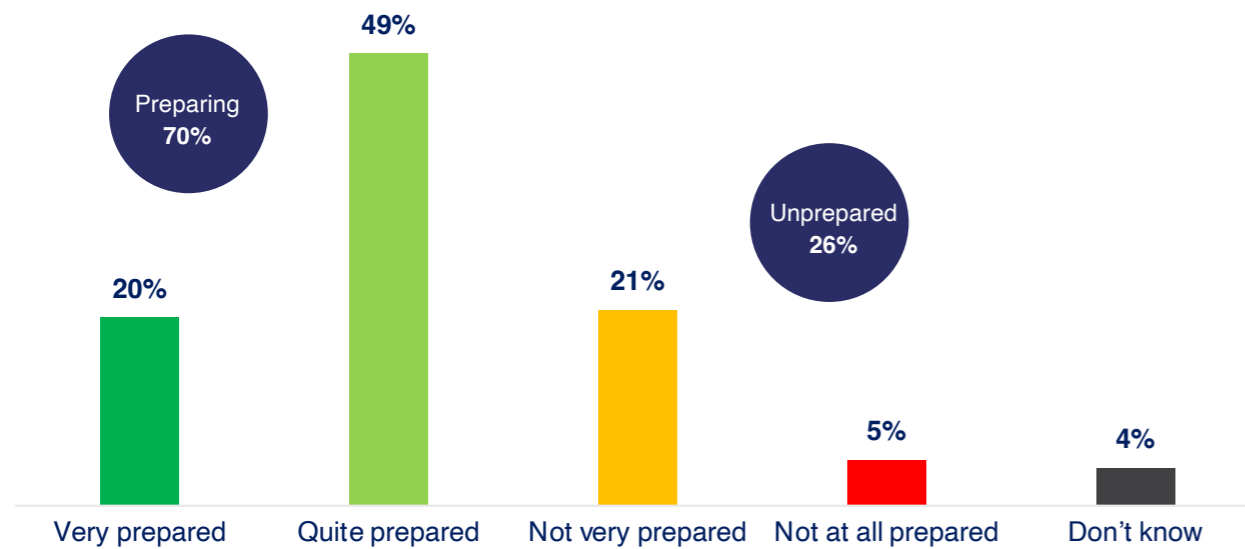
Base: Where respondents are likely to sell or divest in the next 10 years (343). Q11. Do you have a plan in place to enable you to sell or divest part/all of your stake?

Looking at variations between different characteristics of business owners shows that females are more likely than males to have plans fully in place for them to sell or divest within the next ten years (25% cf. 15% of males). Owners with businesses based in London (34%) and with fewer employees (21% with 10-49 employees cf. 10% with 50-249) also appear more prepared.

When asked more broadly about how prepared the organisation is for when they sell or divest their ownership stake, the majority of owners likely to sell or divest within ten years say they are prepared (70%). However, just a fifth (20%) say their organisation is 'very prepared' and a quarter (26%) of owners likely to sell or divest say their organisation is not prepared for this.



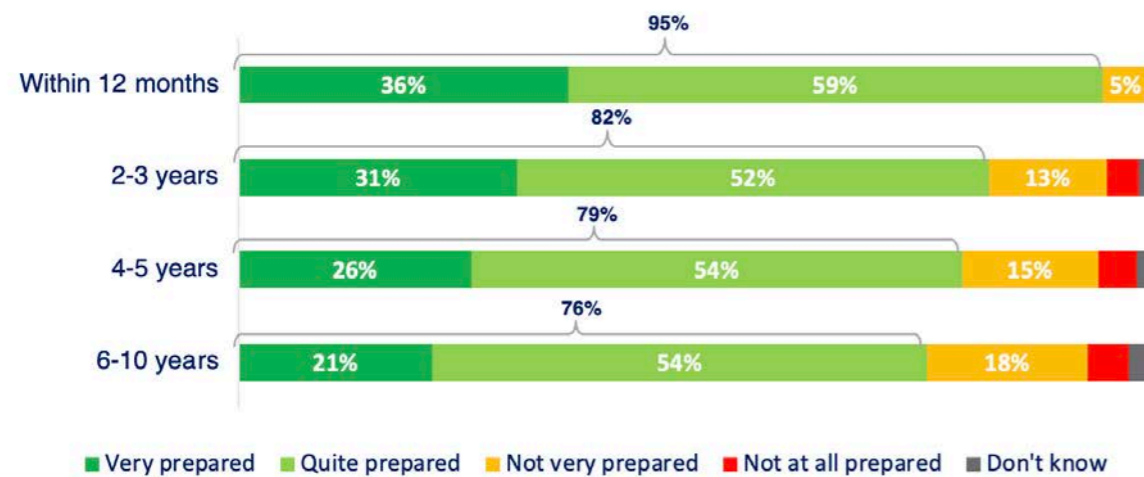
Figure 7: How prepared their organisation is for when they sell or divest their ownership stake



Base: Where respondents are likely to sell or divest in the next 10 years (343). Q13b. Overall how prepared is the organisation for when you sell/divest your ownership?

As one would hope, owners likely to sell within a shorter timeframe are more likely to say their organisation is prepared for this (95% where owners are likely to sell within the next 12 months). However, among those likely to sell within 2-3 years there is still a significant minority (16%) that say their organisation is not prepared. Furthermore, where owners are likely to sell within 12 months or 2-3 years they are still more likely to say their organisation is 'quite prepared' than 'very prepared.'

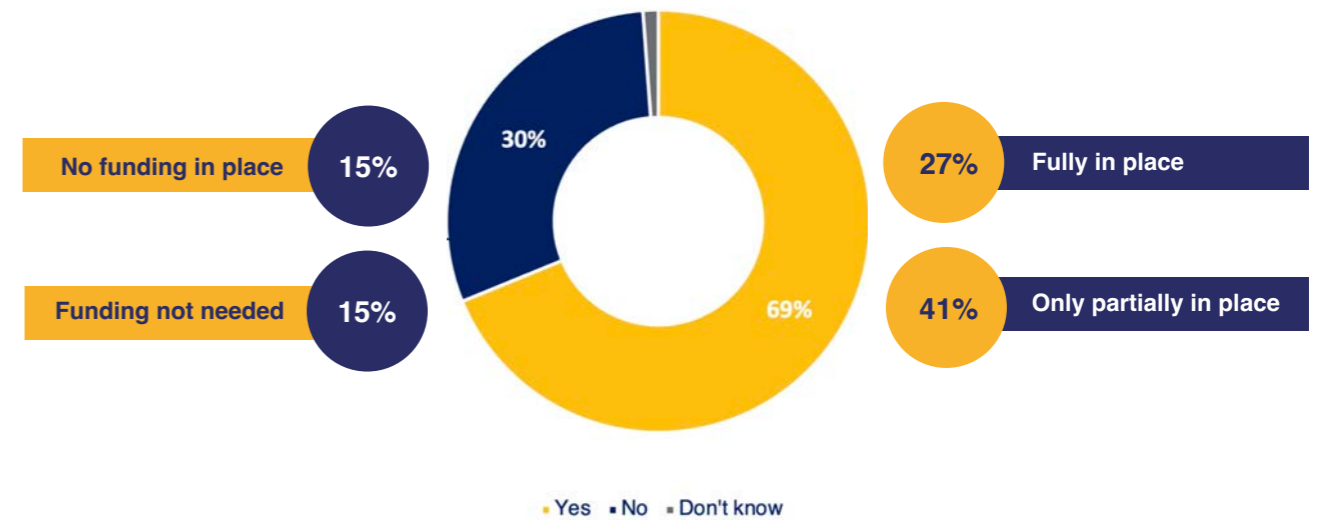
Figure 8: How prepared their organisation is for when they sell or divest their ownership stake, by timeframe for selling



Base: Where respondents are likely to sell or divest in the next 10 years (343). Q13b. Overall how prepared is the organisation for when you sell/divest your ownership?

With regards to funding, just over two thirds (69%) of owners likely to sell or divest within 10 years state that they have funding in place for the processes that need to happen; however, owners are more likely to state that this is only partially in place (41%) than fully (27%).

Figure 9: Whether funding is in place for the processes that need to happen when owners sell or divest their ownership stake



Base: Where respondents are likely to sell or divest in the next 10 years (343). Q14. Is there funding in place to address whatever process needs to happen when you sell/divest your ownership?

As with plans generally, funding is more likely to be fully in place where owners are likely to sell within the next 12 months (55%) although in just over a third of these cases (36%) the funding is only partially in place. For those likely to sell within 2-3 years two-fifths say the funding is fully in place (42%) and almost the same proportion say it is only partially in place (40%).

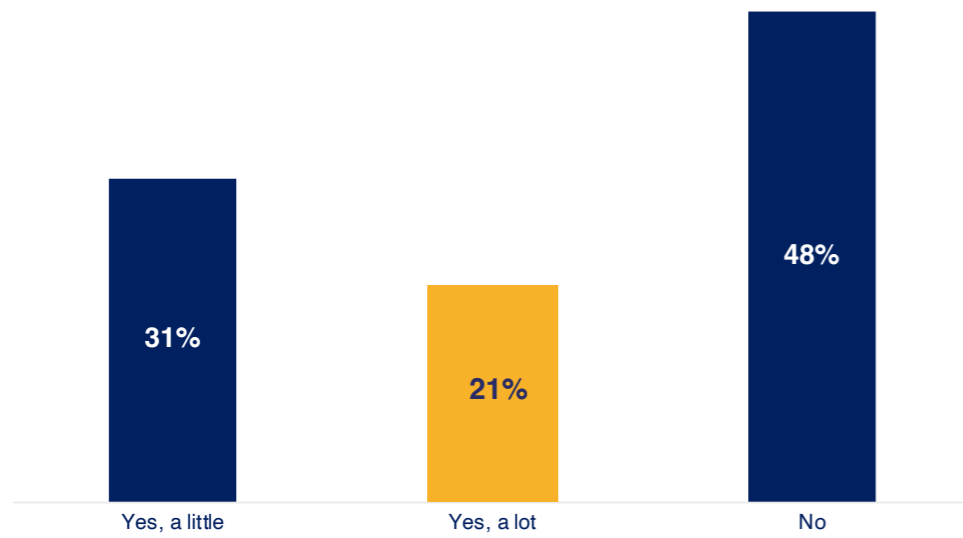
1.4. Access to relevant knowledge

1.4.1. Previous experience with ownership succession

Based on all SME owners from the survey, almost half (48%) say they have no prior experience of selling or divesting an ownership stake. Just over half (52%) have at least a little experience of this. Among those likely to sell or divest within the next 10 years, the proportion with any prior experience is only marginally higher (56%). As such, there may be a lack of knowledge and understanding of the options available. This again presents a great opportunity for educating business owners of some options to consider.

Previous experience of owners selling or divesting their ownership stake is more likely in businesses with higher turnovers (73% where businesses have a turnover of £5 million+), and with more owners (81% where there are 5+ owners) and more employees (62% where 50-249 are employed cf. 49% where 10-49 are employed). The proportion with at least a little experience is also higher than average in businesses that are Limited Liability Partnerships (70%) and in the Business Services sector (69%).

Figure 10: Whether owners have any previous experience of being involved in a business owner selling or divesting their ownership stake



Base: All respondents (500). Q17. Do you have any previous experience of being involved in a business owner selling/divesting their stake i.e. managing the process of what happens when an owner, partner or major shareholders sells their stake in a business?



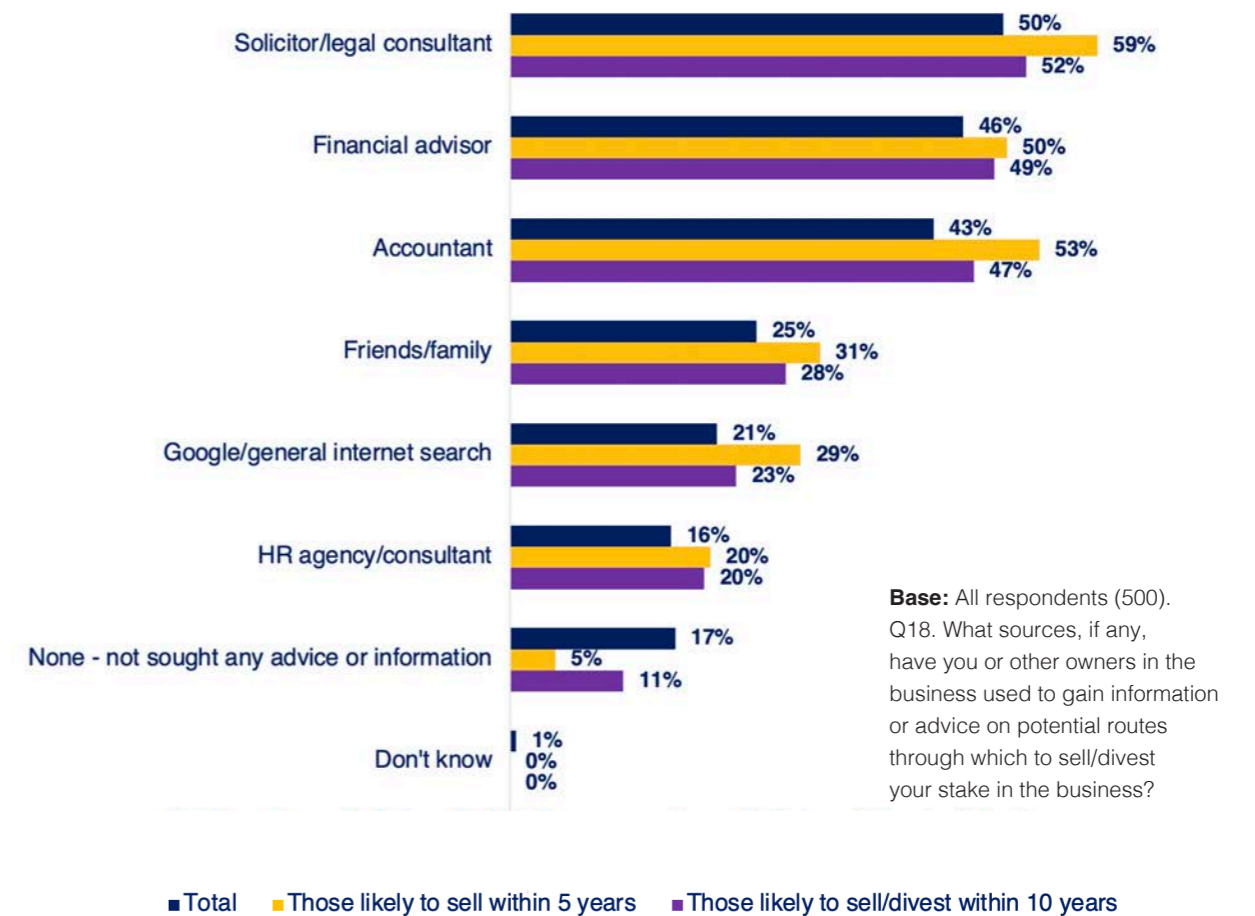
1.4.2. Sources of information and advice

When asked about sources of information or advice on potential routes through which to sell or divest their ownership stake, the majority (82%) of all business owners (including those not likely to sell or divest in the next 10 years) say they have used at least one source.

Among those likely to sell within the next five years almost all (95%) have sought advice or information, as have 9 in 10 (89%) owners likely to sell or divest within 10 years.

Overall, the most utilised sources of information on business succession are solicitors/legal consultants (50%), financial advisors (46%), and accountants (43%). Subsequently, it is vital that knowledge of EO, its benefits and its implementation process is high amongst these groups. Increased education of those working within these professions may be necessary so that they are confident in advising owners about EO.

Figure 11: Sources of information or advice used by owners on potential routes to sell or divest their ownership stake



Additionally, a fifth (21%) of business owners state they have done a general internet search to gain advice and information about routes of sale/divestment. Consequently, it would be beneficial to attain high SEO ranking, and make sure that high quality, informative materials about EO are available to view online.

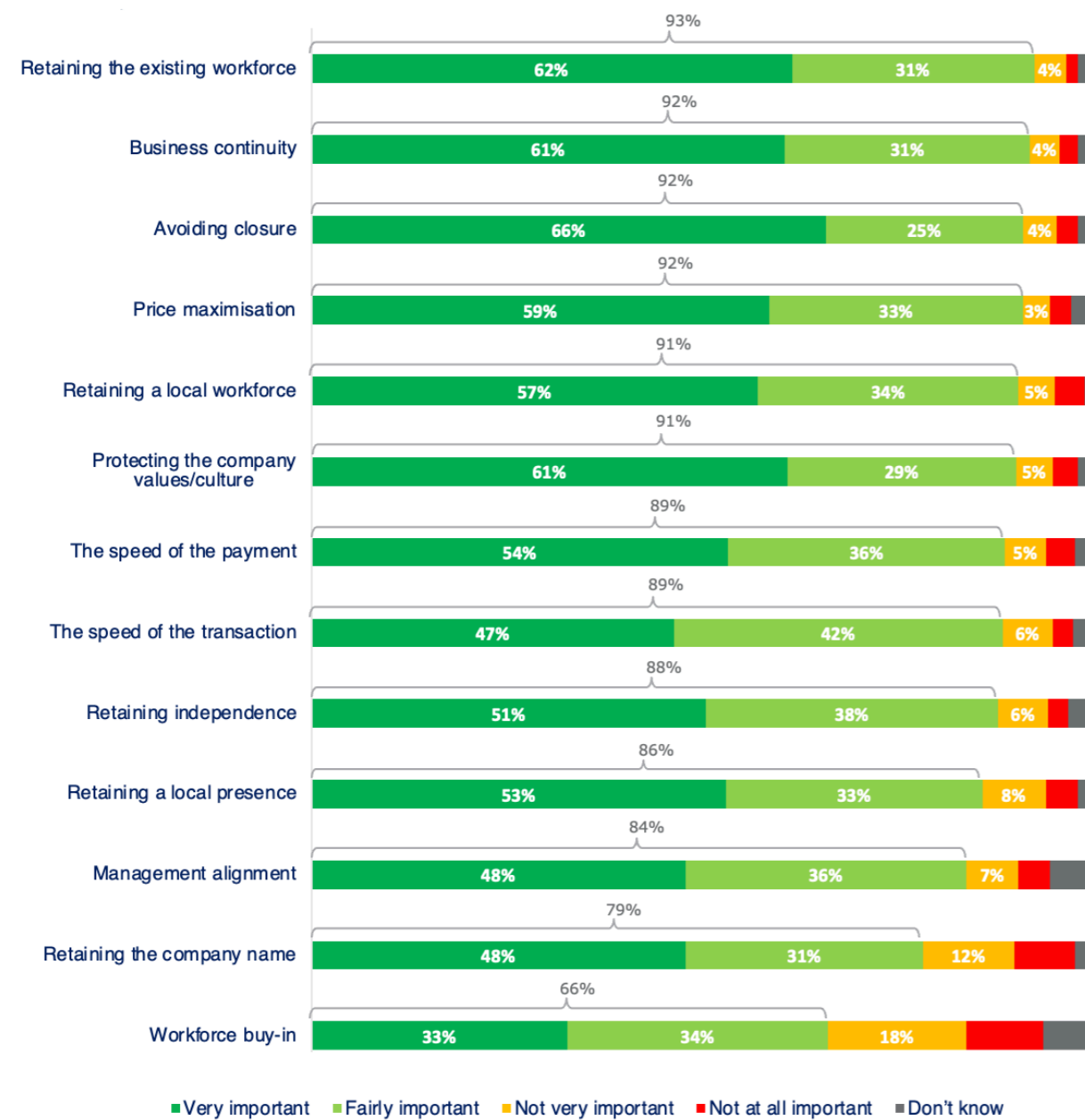
1.5. Consideration of ownership transition options

1.5.1. Owner ambitions

Owners likely to sell or divest within 10 years were asked how relevant and important various factors are when considering ownership succession options. With the exception of workforce buy-in which ranks bottom, most other factors are considered important by at least 9 in 10 business owners likely to sell or divest.

It is encouraging to note that EO aligns well with many of these priorities.

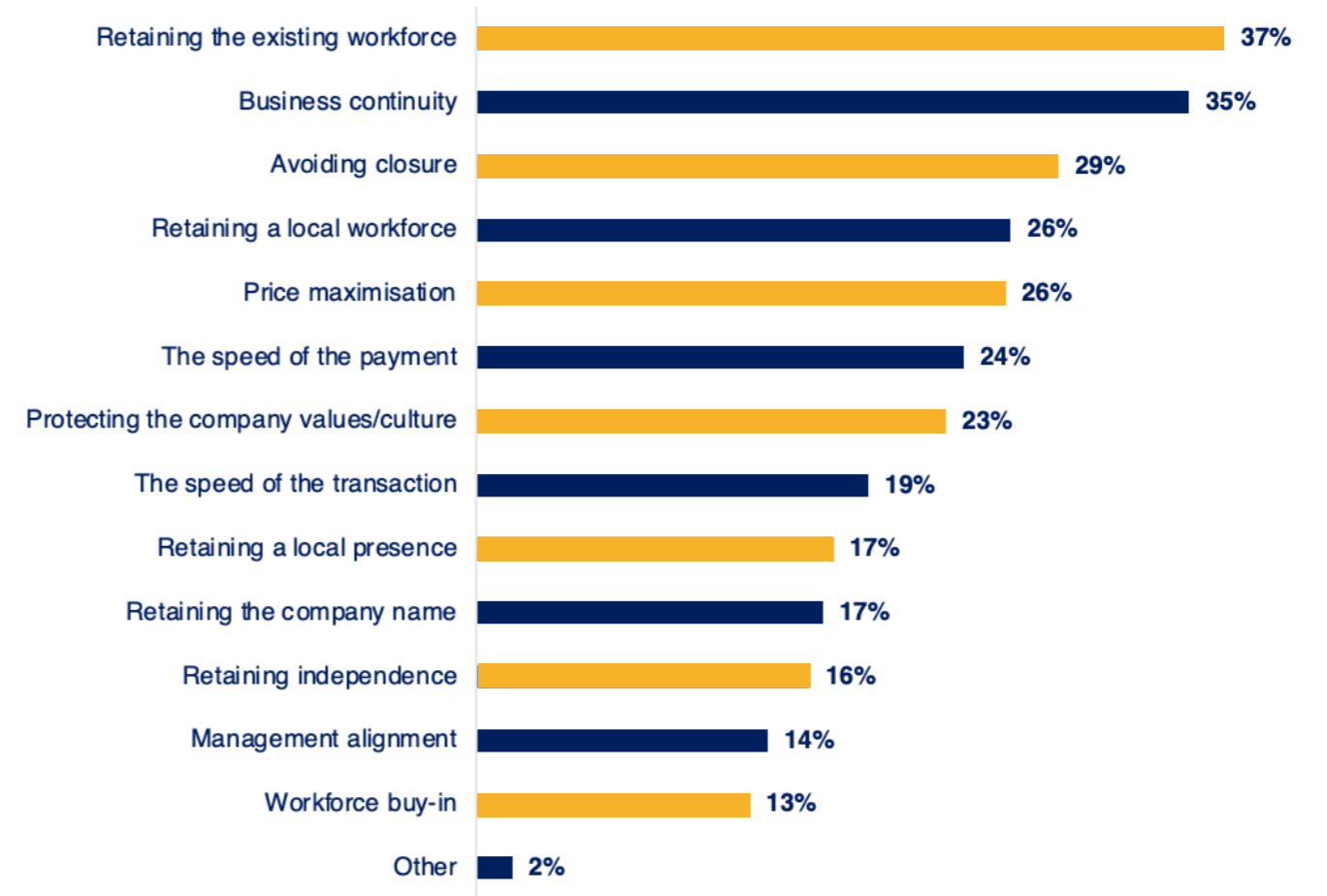
Figure 12: How relevant and important each factor is when owners are considering how they will sell or divest their ownership stake



Base: Where respondents are likely to sell or divest in the next 10 years (343). Q15. When considering how you will sell/divest your stake in the business, how relevant and important are each of the following considerations?

When asked to choose the top three factors considered most important for ownership succession planning in their business/organisation, retaining the existing workforce (37%) and business continuity (35%) are considered the greatest priorities. These are followed by avoiding closure (29%), retaining a local workforce (26%) and price maximisation (26%).

Figure 13: Factors considered most important for ownership succession planning in their business/organisation - % including each factor in their top 3



Base: Where respondents are likely to sell or divest in the next 10 years (343). Q15/16. When considering how you will sell/divest your stake in the business, how relevant and important are each of the following considerations? - Top 3 factors considered important - % including each factor within their top 3

1.5.2. Knowledge of specific ownership options

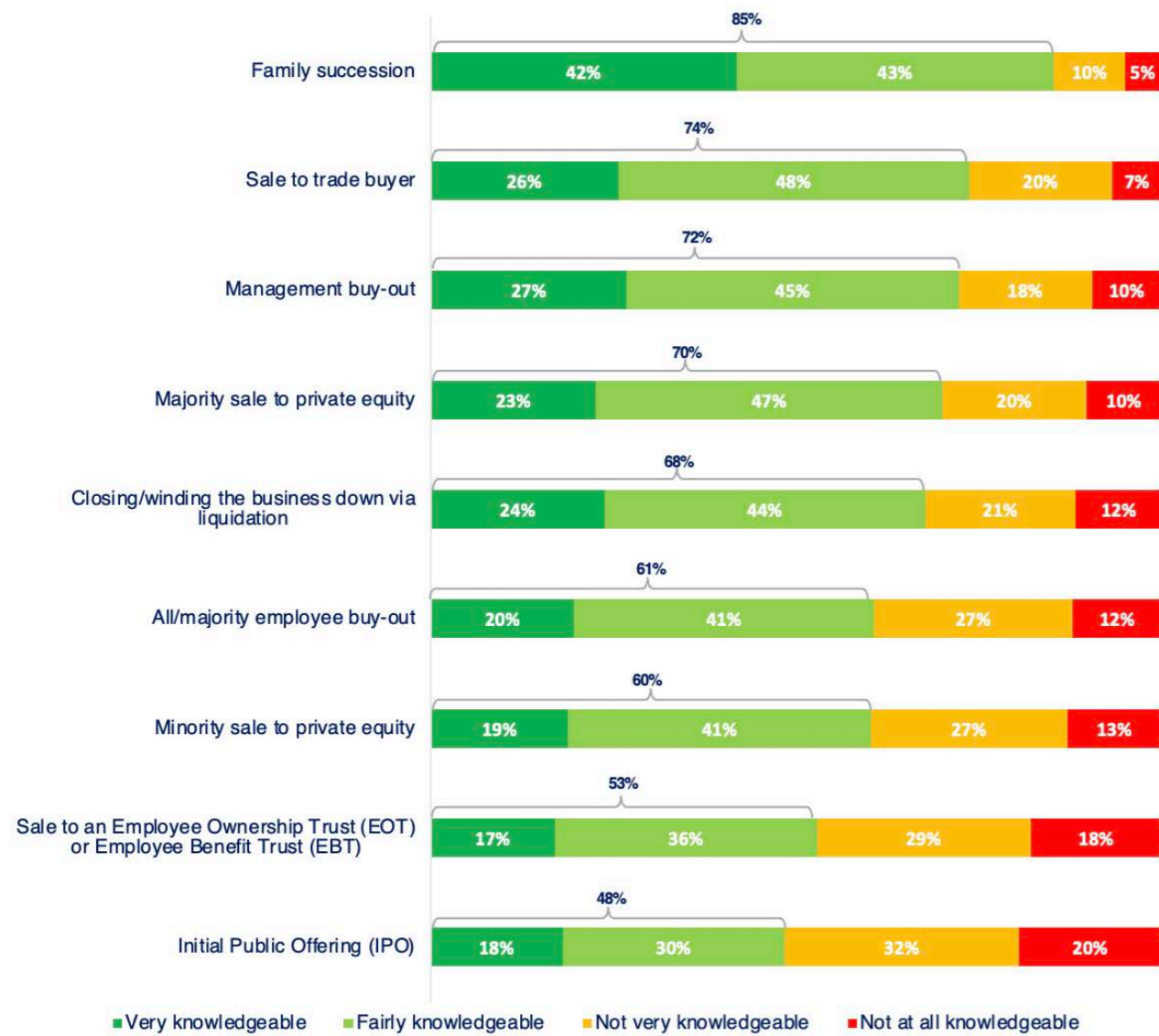
All business owners from the survey were asked about their level of knowledge of various options that may be available to them when they sell or divest their ownership stake. The findings show that knowledge of EO is generally low when compared to other options.

Around three-fifths (61%) of all SME owners surveyed are very or fairly knowledgeable about an all/majority employee buy-out. This was defined in the survey as an 'all/majority employee buy-out i.e. individual employees end up holding a total of 25%+ direct shareholdings in the business'. Knowledge decreases to half (53%) for a

sale to an Employee Ownership Trust (EOT) or Employee Benefit Trust (EBT) which included for this exercise the specific requirement that employees as a group have a 25%+ shareholding held on their behalf by the Trust.

In comparison, business owners are most knowledgeable about family succession as an option (85%), while around three-quarters say they are at least fairly knowledgeable about a sale to a trade buyer (74%) or a management buy-out (72%).

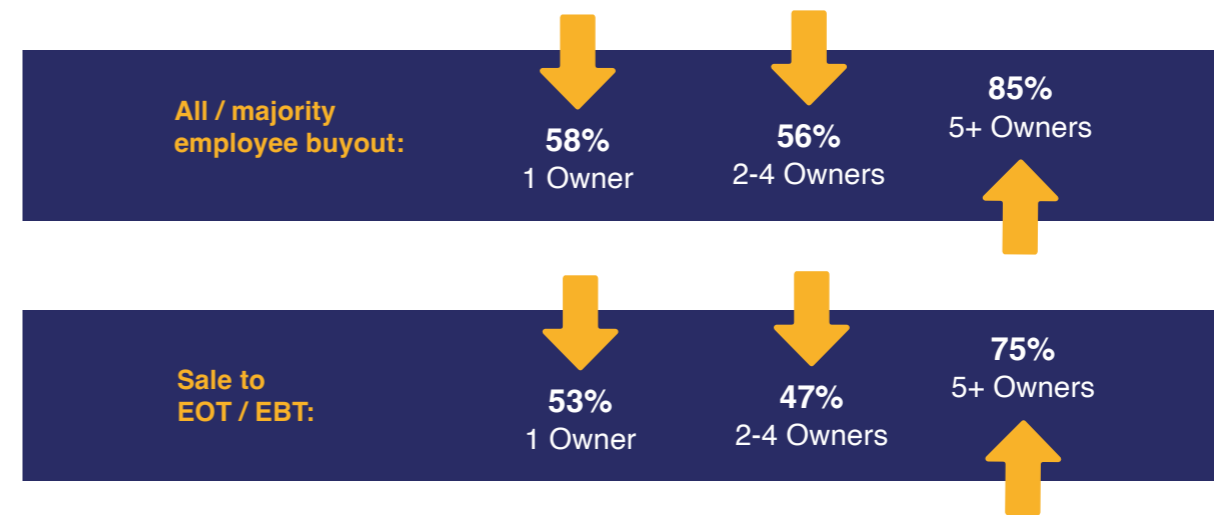
Figure 14: Owners level of knowledge of each option for when they sell or divest their stake in the business



Base: All respondents (500). Q12b. How would you rate your level of knowledge of each of the following options for when owners sell or divest their stake in a business?

Businesses with more owners are more likely to have at least some knowledge of EO; nearly 9 in 10 (85%) owners in businesses with 10+ owners are knowledgeable of an all/majority employee buyout and three-quarters (75%) are knowledgeable of a sale to an EOT or EBT.

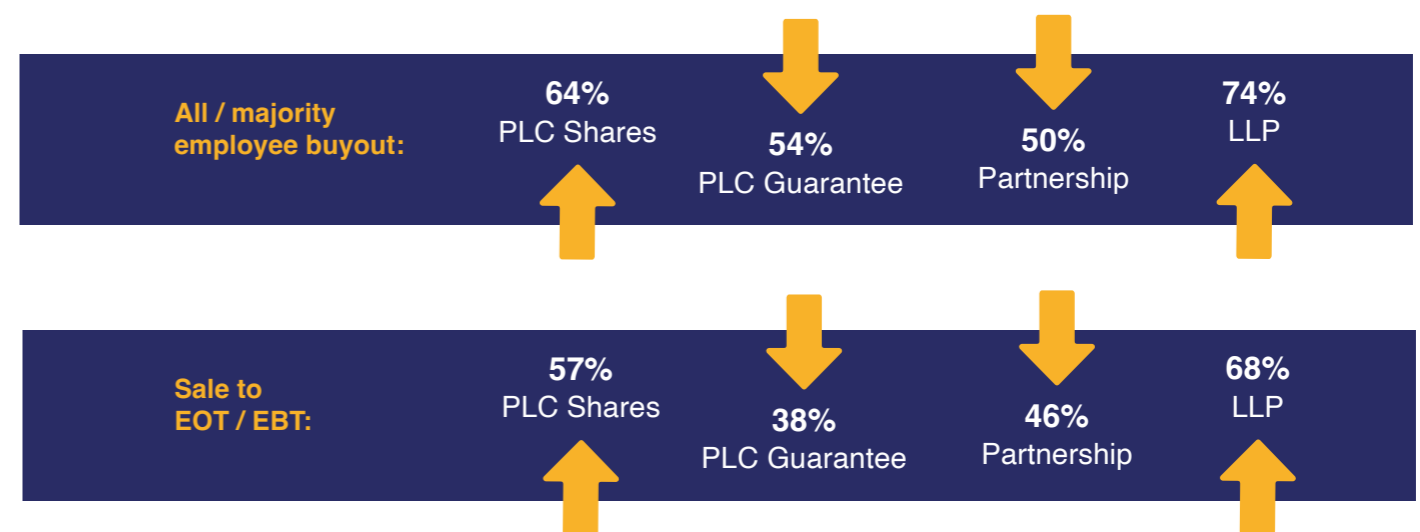
Figure 15: Proportion of owners that say they are at least fairly knowledgeable of each option, by number of owners in the business



Similarly, knowledge of each EO option increases among businesses with a higher turnover. Just over a third (37%) of owners in businesses with a turnover of up to £499,999 have knowledge of an all/majority employee buy-out. This increases to four-fifths (81%) among owners in businesses with a turnover of £5million or more. Knowledge of sale to an EOT/EBT increases from a third (32%) among businesses with the lowest turnover, to more than three-quarters (77%) among those with a turnover of £5 million or more.

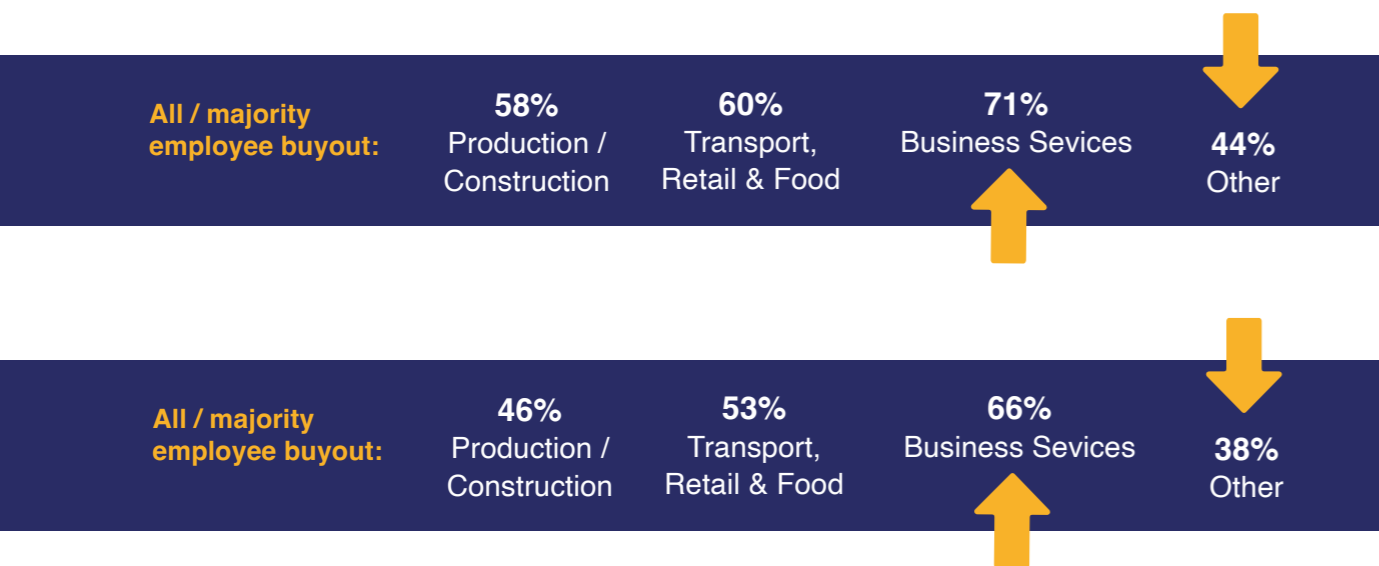
By company type, owners in Limited Liability Partnerships show the highest levels of knowledge of EO, followed by PLCs limited by shares.

Figure 16: Proportion of owners that say they are at least fairly knowledgeable of each option, by company type



By sector, owners of businesses operating in the Business Services (Professional Services) sector show the highest levels of knowledge. This level of understanding (71% for employee buy-out and 66% for sale to EOT/EBT) is significantly higher than any other sector. Conversely, among those classified as Other Services (e.g. private education or health services, personal services such as beauty or hair, membership organisations or repair services) knowledge is significantly lower, with only 44% and 38% of business owners respectively stating that they are knowledgeable.

Figure 17: Proportion of owners that say they are at least fairly knowledgeable of each option, by sector



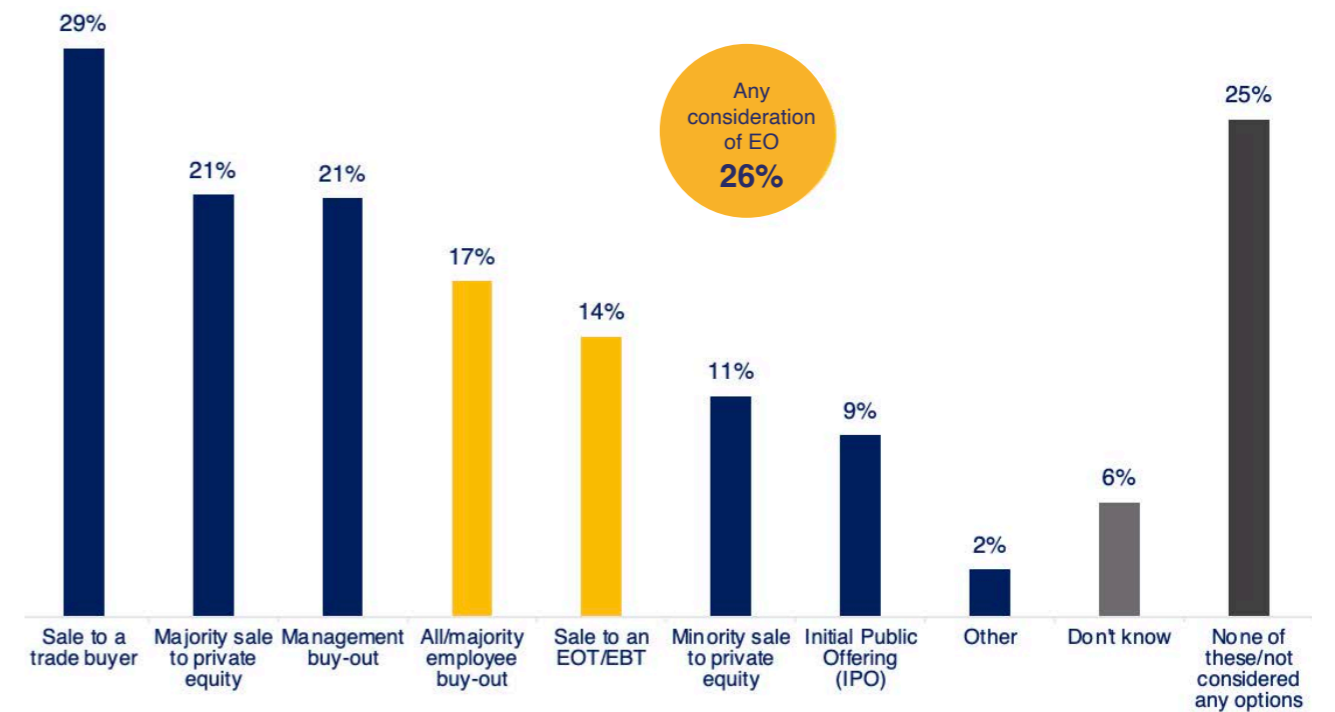
1.5.3. Options considered

When all business owners were asked about options they may have considered as part of any planning for when owners choose to sell or divest their stake in the business, a quarter (26%) state they have considered either type of EO (or both). This is only marginally lower than the option considered by the highest proportion of owners (i.e. the 29% that have considered a sale to a trade buyer shown in Figure 19).

Individually, consideration of an all/majority employee buy-out (17%) is only marginally higher than the proportion that have considered a sale to an EOT or EBT (14%).

A quarter of all business owners have not considered any of the stated options when planning for succession. Whilst, again, this may be concerning to some degree, that significant proportions of businesses are not thinking ahead to what might happen to the business when owners exit, it also suggests an opportunity to increase awareness of the options available and potentially sway them to consider EO.

Figure 18: Options considered as part of planning for when any owners choose to sell or divest their stake



Base: All respondents (500). Q12a. Which if any of the following are options that you/your business has considered as part of planning for when any owners choose to sell or divest their stake?

When breaking this down further, we see that businesses with a higher annual turnover are significantly more likely to have considered EO as a means of selling/divesting (45% of those with an annual turnover of £5million or more, cf. 15% <£500k). This difference is particularly evident amongst those who had considered Sale to an EOT/EBT. Of those owners with an annual turnover of £5m or more, 29% had considered this route as opposed to just 6% of owners in businesses with the lowest turnover (<£500k).

Likewise, businesses with larger numbers of owners are more likely to have considered EO (41% of businesses with 5+ employees, rising to 60% with 10+ employees).

Compared with the average of 26% that have considered any type of EO, among the owners likely to sell or divest within the next ten years the proportion increases only marginally (to 30%). However, this is significantly higher than among the owners with no plans to sell or divest (17%).

Consideration of EO as an option increases significantly among businesses with plans to sell within the shortest timeframes; three-fifths (62%) of those likely to sell within 12 months have considered EO, as have half (52%) of owners likely to sell within 2-3 years. However, while this is positive to some degree, it does mean significant proportions of business owners likely to sell their ownership stake within the next couple of years have not yet considered the potential benefits EO might bring to their business.

1.6. Awareness and interest in Employee Ownership

1.6.1. Pre-survey awareness of EO

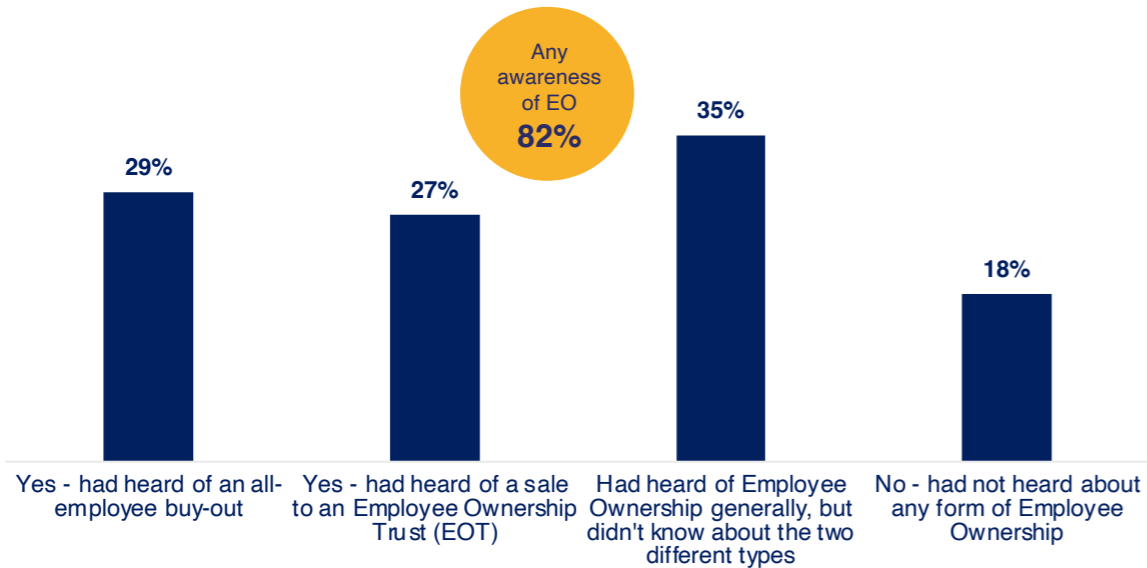
To assess existing levels of awareness of EO all owners were asked whether they were aware of EO as a form of business ownership before the survey. They were provided with a definition that ‘Employee Ownership is where the employees own more than 25% of the business and have both a financial stake (e.g. by owning shares) and a say in how it’s run’. Owners were then asked whether they have specifically heard of an all-employee buy-out i.e. Direct Employee Ownership or a sale to an Employee Ownership Trust (EOT) i.e. Indirect Employee Ownership.

Based on this question awareness of EO pre-survey was quite high overall. Just over four-fifths (82%) of owners had some awareness of either option or said they had heard of EO but did not know about the two different types.

However, in terms of awareness of each specific type of EO, just over a quarter of owners said they had heard of an all-employee buyout (i.e. direct EO) (29%) or a sale to an EOT (indirect EO) (27%). Just 10% of owners were aware of both types of EO.

Increasing awareness of the specific types of EO and the benefits each may bring is therefore paramount for uptake to increase significantly.

Figure 19: Whether owners had heard of Employee Ownership as a form of business ownership before the survey



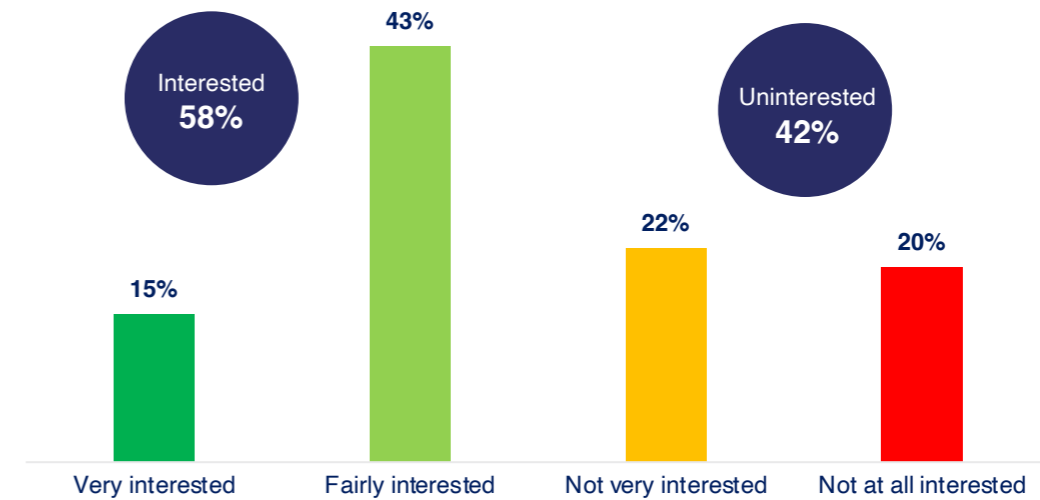
Base: All respondents (500). Q19. Had you heard of Employee Ownership as a form of business ownership before this survey? (Multi-response)

Prior awareness of any EO is lower among older business owners aged 59-77 i.e. Baby Boomers (73%) than compared with Generation X aged 43-58 years (84%). Awareness is also lower than average among owners from businesses with the lowest turnover (71% in businesses with a turnover under £500k),. Whilst awareness increases among businesses with the highest turnover (92% with a turnover of £5million or more) and in businesses with more owners (93% where businesses have 5+ owners).

1.6.2 Interest in learning more about EO

Positively there appears to be a great appetite among business owners to learn more about EO; over half (58%) show an interest in learning more. Therefore although levels of knowledge are generally low, this desire for education suggests a propensity to transition more businesses, provided awareness and understanding are improved.

Figure 20: Level of interest in learning more about Employee Ownership



Base: All respondents (500). Q20. How interested, if at all, are you in learning more about Employee Ownership?

Interest in learning more about EO is higher than average in London (67%), Scotland (73%) and Wales (77%). By sector, interest is highest in Business Services (67%) and increases in line with turnover (from 53% among businesses with a turnover of less than £500K, to 70% among businesses with a turnover of £5 million or more) and increases with the number of owners (85% are interested in businesses with 5 or more owners).

Encouragingly interest in learning more about EO is also higher among owners with intentions to sell all or part of their ownership stake within the next five years (83% of owners likely to sell within 12 months are interested in learning more about EO, as are 72% of owners likely to sell within 2-5 years).

2.6.3 Further thoughts relating to EO

Comments made by respondents in an open-ended question asking for any further thoughts or queries relating to EO confirm a certain degree of interest in the concept.

Several owners understand and relay some of the key benefits this option offers, making specific reference to improvements in morale, productivity and profitability.

A significant proportion think they need more information, and there are also some perceived concerns. Around 1 in 6 (16%) business owners mention they are not fond of the concept of EO which may need further investigation as to the cause of these negative perceptions and how they might be overcome. A smaller minority

mention the complexity of set-up and whether their employees would cope well with the difference in management style.

This again demonstrates that more education is needed, as these perceptions are contrary to the benefits reported by EO businesses. Further research among EO businesses¹¹ has shown for example that 83% report increased employee engagement and motivation since adopting an EO Model; and 73% report increased job satisfaction.

Figure 21: Further comments or queries regarding Employee Ownership as an option

16% Not fond of the concept/idea	14% Like the concept/idea	14% Need to seek out more information	12% It can improve employee morale/productivity
4% It can help profits/reduce losses	3% May be interested in the future but not right now	3% Unsure if employees could manage it (cost, enthusiasm, skillset etc.)	2% Concerned over how complicated it could be
	2% Need more information about the set-up process	1% Want to know how to support/protect employees during process	

Base: All respondents (484*). Q21. Please provide any further thoughts or queries you have regarding Employee Ownership as an option for your business/organisation. *Question skipped by 16 respondents



Some examples of the verbatim comments provided by business owners include:

"I would want to know how lengthy the process would be and how to protect and support my employees."
(Education sector, 1 owner, 3-5 years in operation)

"It's an option that might be worth exploring at the time of sale."
(Professional/ Scientific sector, 1 owner, 11-20 years in operation)

"I question whether the existing staff has the expertise to run the business."
(Financial Sector, 1 owner, more than 20 years in operation)

"It might be good for some businesses but not ours. We are surviving this current crisis and will flourish again soon."
(Retail sector, 2 owners, 11-20 years in operation)

"I like the concept. I would need to learn a great deal more about how that would work and what the consequences would be."
(Arts sector, 1 owner, 6-10 years in operation)

"Is employee ownership beneficial to the long-term development of the enterprise? Can this organizational structure remain competitive in a highly competitive market environment? Does employee ownership motivate employees to work better for the organization and increase productivity? Are there studies or cases to support this? How is the employee's role in ownership decisions defined? Are they involved in the company's decision-making process? Do employees have voting rights and profit sharing opportunities? Does employee ownership help reduce employee turnover and hiring costs? Is there any research showing that employee ownership can improve employee job satisfaction and employee loyalty?"
(Information sector (IT), 10 owners, 3-5 years in operation)

"Not possible as they are not all qualified to provide the consulting."
(Professional/Scientific sector, 1 owner, 3-5 years in operation)

"This would be the perfect solution for the continuity of the business. But where and how would the funding be provided and if a bank loan was used to partly fund this, how would all employees be sure that the people in charge of the finances are providing the information?"
(Manufacturing sector, 1 owner, 3-5 years in operation)

Part 2 - Selling to your employees: The vendor's experience

Introduction

In the first half of this research project, we identified how many owners of small and medium-sized businesses are likely to sell or divest their shareholdings over the next five to 10 years and how well prepared those individuals and their businesses are for the change to come. In that, we were able to see that whilst there are high levels of awareness of the option to sell the business to employees, a more complete understanding of employee ownership and its benefits was relatively low.

Currently the vast majority of the thousands of owner exit points that will take place over upcoming years are likely to prompt trade sales in which the current owners sell their company to another business, often a competitor. The volume of this kind of deal means the experience of completing this type of trade sale is well documented.

What is hugely less well understood is the experience of owners who sell their business to their employees. The second half of this project set out to address that gap.

Methodology

Our project is short and limited in scope and largely qualitative in its findings. We set out to conduct semi-structured interviews with nine vendors who had sold their businesses to their employees. We identified companies from our sector dataset who between them offered a broad variety of characteristics, with the hope that any business owners reading this might find something of themselves and their own businesses in these case studies.

Through this approach, we have managed to bring together nine businesses that include:

- Small, medium and large-sized companies
- A range of sectors and geographies across the UK
- A range of employee ownership models (including direct share ownership, ownership entirely via a Trust and 'hybrid' models that mix direct and trust-based ownership)
- A variety of selling circumstances and funding requirements
- Owners whose ages match our range in the survey in Part 1 – i.e. 43 and older

Our selection process was objective as far as was possible within such a small project. The experiences represented here are strongly reflective anecdotally of the typical or common experience of vendors selling to their employees reported in the sector as reported by the sector's trade body the Employee Ownership Association.



Summary of findings

Positive vendor experience

The most striking observation is that all the vendors we spoke to volunteered that the overall experience was positive and they would recommend it to other business owners.

The case studies below draw out where individuals had mild caveats to that, such as the importance of ensuring the model works for your business and your sector first; but given the reported negative vendor experience of trade sale process within this cohort alone (which is reflected in the wider literature on trade sales), it is powerful to see and understand the degree of contrast to the seemingly happy experience of selling to employees.

To understand that contrast better, it is worth pulling together the range of reasons given by interviewees for why they rejected other sale routes, including trade sale, sale to investors or Management Buy Outs (MBOs):

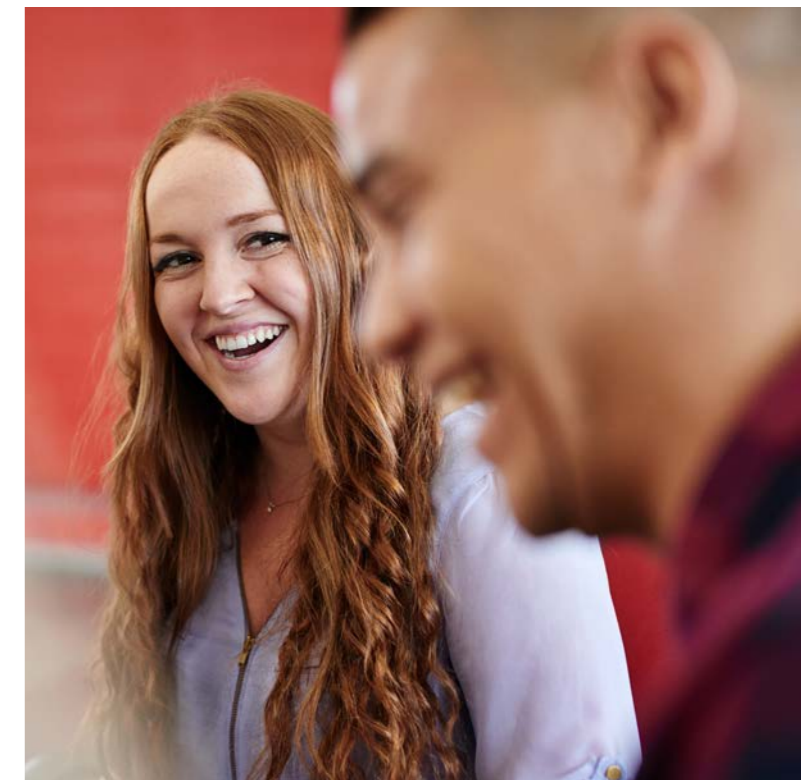
- **Want to protect jobs in their team (not see colleagues 'sold down the river')**
- **Want to reward and give back to staff**
- **Want to protect independence of the business (not lose control)**
- **Want to protect the continuity of the business**
- **Want to stay local**
- **Want to protect the identity and/or 'soul' of the business (not see it 'get lost inside a larger firm')**

There is significant overlap between these reasons and the considerations cited by owners likely to sell or divest within the next 10 years as most important for succession planning in the first part of this research. Retaining the existing workforce (37%), business continuity (35%) and retaining a local

workforce (26%) were among the highest rated 'most important considerations', and the fact that these are listed as reasons to choose EO by interview subjects suggests more awareness of the EO model and its benefits is needed within the wider business community.

For each reason cited by interviewees, typically a counterpoint was offered which individuals had seen happen in other trade or investor sale scenarios. Often this group had had poor previous experience with alternative sales routes. A number noted they welcomed this route as one that allowed them to avoid the stress and unpredictability of the trade sale experience.

Almost all the interviewees who had put in place an EOT actively welcomed the opportunity that model offers to fund the transaction at least in part out of future profits/cashflow, which helped to overcome viability barriers found when exploring trade sales or MBOs.





Common learnings from pre-transaction experience

Interviews showed that business owners had little or no awareness of employee ownership when initially confronting a succession challenge. All had to go through some form of search and familiarisation process before confirming EO was a realistic succession option.

In every case, the move to employee ownership was directly prompted by succession pressure; in other words no interviewees simply decided EO was a superior business model to their current one and transferred ownership for that reason. In nearly all cases succession pressure was the result of age and/or health issues.

There were a handful of common learnings from the experience of these vendors that it is worth highlighting:

- **Access to information is critical:** Most needed to do their own research and found support from trade bodies in England, Scotland and Wales extremely helpful. A number also initially learned of EO from professional advisors who they already knew or were running learning events. The Employee Ownership Association, the representative body for the EO sector, was frequently cited as a valuable source of expertise and information.
- **Speaking to other EO businesses can make all the difference:** At least two vendors reported that these conversations were the factor that cemented the decision to go down this route. Contact with other businesses in this way tended to happen either via specialist events owners happened to attend, or via visits to or online talks with EO companies they or their advisers had identified.
- **Communication is key:** The majority of vendors flagged that getting the communications challenge

right was worth spending time on. Most typically only involved shareholders and directors at the start, but all took the chance to explain and communicate with all employees ahead of any transaction. For some, the earlier the better as securing buy in was felt to be essential to see post-transaction changes in behaviours. Several interviewees stressed the importance of ensuring managers understood the EO proposition, bought into it and were capable of reinforcing it with colleagues.

- **Take time to find the right advisors:** Every vendor was clear that they couldn't have done this without the dedicated support of specialists who understand the model, even where their own accountants and lawyers might have still played a supporting role. Some acknowledged that this comes with a price, but all felt it was worth every penny. Several owners made the point that their 'own' advisers – typically accountant or lawyer – were not familiar with employee ownership or its viability as a succession option.
- **Give yourself time to get the model right:** A number of vendors acknowledged that even with good advisors in place, there are quite a lot of decisions to make that should be well thought through. A part of this is allowing time to ensure all shareholders are content that the business will be sold at fair value and recognising that not everyone will understand the logic for an employee sale straight away. It took our interview companies an average of about seven months between taking the decision to go for an EO succession to completing the process. In only one company did the process take more than a year.
- **Get your funding approach right:** Only two vendors ended up reaching for external finance to support the transaction though neither by a mainstream bank (and several commented that their banks were not familiar with this kind of sale). That only two of these transactions needed external finance may be a reflection of the fact

that most firms that put an EOT in place had sufficient cash in the business to make a Day 1 payment, and then sufficiently reliable cashflow to commit to making future payments from forecast profits. Our survey findings seem to support this, suggesting that roughly two-thirds of owners have begun to put funds to one side in anticipation of a sale event and a quarter have all those funds in place (though unsurprisingly that is heavily skewed towards those who are within a year of an anticipated sale). Nonetheless given the cost pressures experienced by many businesses over the last 3-4 years, it may be the case that many more firms in the wider economy don't have those comfortable cash reserves in place and so worth noting that there are specialist providers of finance who understand the model and can provide the capital required.

Common observations on the impact of the transition to employee ownership

Whilst the focus of this exercise has been on better understanding the experience of the vendor going through a sale to employees, nonetheless it would be wrong not to acknowledge that for many their retrospective reflections on whether this was the right choice for them and their business may have been affected by the apparent impact on business and employee performance:

- **Consistent positive impact on performance:** Eight of the vendors report an uplift in performance, three of them a significant uplift, which they attribute at least in part to sharing ownership with all employees. One of the vendors noted that they transitioned less than a year ago and had therefore not yet seen the impact in the numbers
- **Unanimously positive impact on colleagues:** Every vendor reported that the change has had been well received by employees. Several

noted important behaviour changes amongst senior managers and wider teams, particularly people putting more energy and commitment into their roles and taking greater responsibility for the success of the business. Additional positives included breaking down any ‘them and us’ divide, the opportunity to reward colleagues for their loyalty and helping people feel empowered.

- **More varied impact on customers:** Most of these firms have included that they are now employee owned in their marketing and communications to customers. The majority report that this has gone down well and some suggest it has been a significant part of them receiving wider recognition in their sectors.
- **Impact on the vendor:** Founders and owners tended to feel they’d achieved their personal succession goals. One or two admitted to finding letting go hard, but that would likely

apply in other forms of succession. A fairly typical response was “achieved what I want in personal terms and avoided the stress and frustration of selling to a third party.”

- **Upsides outweigh downsides:** Interviewees pointed to few negatives. The time and input the process requires was often mentioned, but usually with the caveat that it was worth it.

Taking the interview and survey findings together – the importance of increasing understanding of the EO model is clear, with every interviewee citing how crucial having expert advice was in their decision making process, and with the survey highlighting knowledge gaps regarding how EO can meet the priorities of vendors. With roughly 120,000 SMEs likely to experience an ownership transition point in the next decade, anchoring better awareness of EO in business support systems, services and institutions is therefore crucial to make the most of ‘the great employee ownership succession opportunity



David Sproxton

Aardman Animations

Company name:	Aardman Animations Ltd.
Sector:	Animated film production, marketing and distribution
Size - by employees:	351 (full-time / permanent staff circa 150)
Size - by rev turnover:	£24.9m
Location:	Bristol, South West England
Vendor name:	David Sproxton
Vendor role pre-sale:	Co-Founder owner, joint MD
Vendor role post-sale:	Trustee on Aardman EOT
Interviewee age at time of transfer:	64 years
Length of sale process (preparation to transaction):	12 months (with several years research before this)
Ownership type:	Hybrid: 75% EOT, 25% original founders
Advisors used:	Law firm with EO experience, specialist EOT advisors
External finance provider:	None needed
Year of transaction / years in EO:	2018 / 5 years



Headline reflections by vendor/selling owner:

“It was about how we wanted to leave this company – and it wasn’t via selling up and calling it a day, closing it, or a prohibitively expensive MBO or a trade sale.”

“The longevity and continuity of the company are more likely with EO; with a trade sale that wouldn’t have been the case.”

“It protects our independence as a company; our ability to work in a wide market and not be restricted by an ‘owner’.”

“There’s a stronger spirit in the company, more understanding that everyone has a responsibility for the future of the business.”

“We had seen other companies being bought, mostly by foreign media conglomerates, and it often didn’t end well.”

Pre-transaction

Why Selling:

Firm’s accountants began to raise the question of the age of the founder-owners and the need to think about succession.

Finding EO:

Had seen a lot of production companies (particularly ad agencies) get bought then sold and disappear. The value of the people was not recognised and those firms ‘lost their soul’ in the trade sale process. The founders were very clear their people were the real value of this business.

First came across EO in 2011 at launch of a book about the topic by David Erdal. Attended seminar by specialist EO advisors. Discussed with trade body the EOA and attended their regional seminars and annual conferences. Rejected the trade sale option and chose EO.

Finding advisors:

Talked to our local law firm who happened to have experience of EO transactions. Main accountants and bank had no previous experience. Identified additional specialist EO advisors.

Picking an EO type:

Selected the 'classic John Lewis model': an EOT. Reflected that colleagues holding direct shares was too complicated, and the Trust model allows them to involve the many freelancers the company relies on.

Funding the transaction:

Got the FD involved early on who oversaw the valuation process and started putting funds aside. This would mean we wouldn't need external finance and avoided burdening the company with debt. Chose not to burden the business to too much debt.

Securing buy-in:

Attended two EOA annual conferences, the latter with senior management. Planted the seed with all colleagues at away day events. EO specialist advisors supported with engaging employees. Company already had an employee council which had input into the process.

Post-transaction**Performance:**

The finances have benefited from the move to EO and that the additional drive from EO helped the company address the challenges of pandemic.

Internal Reaction:

Knowing the business won't be taken over has made people feel more secure. EO has helped with retention and helped to break down any sense of 'them and us'. Managers now do a lot more to explain decisions and quarterly town hall meetings have been a huge help.

Market Reaction:

The business has been praised by clients around the world for the choice to sell to employees.

Any challenges / downsides:

- The model requires more communications and explaining, particularly for new roles like Employee Reps.
- It can be challenging to work out a price that is affordable and reasonable for the business.
- Switching on an owner mindset for employees can be tricky when they have no actual shares. It takes a while for them to understand their responsibilities as "owners" of the company.

Tips to selling owners:

- Give yourself the time, don't rush it.
- Take advice, there are a lot of good advisors and experience out there.
- Plan it well.
- Don't be too greedy.



Andy MacInnes

B-Loony

Company name:	B-Loony
Sector:	Manufacturing
Size - by employees:	37
Size - by rev turnover:	£6m
Location:	Buckinghamshire, South East England
Vendor name:	Andy MacInnes
Vendor role pre-sale:	Managing Director
Vendor role post-sale:	Managing Director
Interviewee age at time of transfer:	62 years
Length of sale process (preparation to transaction):	5 months
Ownership type:	100% EOT
Advisors used:	EOT and corporate finance specialists
External finance provider:	Not needed
Year of transaction / years in EO:	2017 / 6 years

“ Headline reflections by vendor/selling owner:

“Very much achieved what I wanted to. I've seen other execs who've done trade sales being made redundant. I've led two MBOs and this has been a much better experience. Ordinarily you are working against the buyers to get their deferred considerations. In an EOT we are all working together.”

“It was really good fun getting staff involved and being able to say it's your company now. It was a lovely feeling of handing the firm on to staff, many of whom have been here for years.”

Pre-transaction**Why selling:**

Spent 5-10 years looking at range of selling options due to retirement and succession considerations.

Finding EO:

Important that the business stayed local and wanted to protect the employees. Explored a trade sale initially but business is very niche and explorations with potential buyers proved unworkable. Strong senior management team but an MBO wouldn't have been suitable. Was aware of the 'John Lewis model'. Attended online seminars run by EO corporate finance specialists and local Chamber of Commerce. Did research on other EO firms.

Finding advisors:

Secured support of EOT specialists (who had run one of the online seminars). Company also had a Non-Executive Director with relevant financial experience who supported it.

Choosing EO:

EO specialists made introductions to two other companies who'd gone down the EOT route and spoke to both at length. On the back of this, the vendor took a proposal to the Board, involving all Directors and shareholders in the decision.

Picking an EO type:

The EOT was the best fit to spread the benefit equally across the business's loyal and diverse employees. The EOT sale route was also attractive because the exiting owners and the business share the same motivation: to generate the profits to pay for the sale (in contrast to the "antagonism" of a trade sale).

Funding the transaction:

Identified a price everyone was happy with and agreed a repayment schedule of two payments a year for seven years.

Securing buy in:

Only shared our approach just ahead of the transaction itself. Took steps to reassure colleagues it would not mean a huge change.

Post-transaction**Performance:**

Still very early on post-introduction of EO so too soon to say. However it's been a very positive start with staff at all levels beginning to engage with the new structure.

Internal reaction:

There's been a big change in senior management who have come together as a team and stepped up to take

more authority and decisions. EO has been broadly welcomed by employees and is supporting a positive feeling.

Market reaction:

Biggest client is a major global brand who have been incredibly positive about the move to EO, particularly the additional impact for employees and wider society.

Any challenges / downsides:

- Getting the 'democracy' in the business right is tricky – ensuring financial information is understandable, ensuring employee reps can be effective.
- There is a lot of communication to do, with employees and clients.
- Need to set the right expectations on the level of change for colleagues.
- Putting cash towards the deferred consideration might slow down investment in other areas.

Tips to selling owners:

- Pick good advisors.
- Don't assume you'll walk out of the door straight-away.
- Get the balance right between 'all change' and 'no change'.



Christian Wilkins

Beacon Education

Company name:	Beacon Education Ltd
Sector:	Health and social care training
Size - by employees:	13
Size - by rev turnover:	£1.4m
Location:	London, South East England
Vendor name:	Christian Wilkins
Vendor role pre-sale:	Director
Vendor role post-sale:	Director
Interviewee age at time of transfer:	50 years
Length of sale process (preparation to transaction):	9 months
Ownership type:	100% EOT
Advisors used:	EO corporate finance specialists, existing accountants and lawyers
External finance provider:	Not needed
Year of transaction / years in EO:	2022 / Under 1 year

“ Headline reflections by vendor/selling owner:

“This route allowed us to do what was morally right – for our staff who became owners and are able to help drive the company in the direction they want and to continue in a sector we're passionate about.”

“It would not have been an ethical decision to go with a trade sale and allow loss of the staff who'd built the business with us.”

Pre-transaction**Why Selling:**

Owners wanted to exit the business based on age and health.

Finding EO:

Identified three companies able to buy and had narrowed down to one. However, became apparent

buyer was only interested in taking over the firm's contracted income streams and was likely to let most of the team go. Owners felt it wasn't ethical to let this happen when that team had helped build the business. Business broker had previously worked with specialist EO advisors and suggested EO as an alternative. EOA website offered excellent materials to support the case for EOTs.

Finding advisors:

Business broker made the introduction to specialist EO advisors. Drew on existing lawyer and accountant for informal support. The accountants needed to do a lot of research as they were totally new to EO.

Choosing EO:

Specialist EO advisors made an introduction to another EO business in their sector. This helped finalise the decision for Directors.

Picking an EO type:

Selling 100% to an EOT fit with the age and health of the selling owners.

Funding the transaction:

Supported by strong cash flow, predictable incomes and no debt, the vendors were confident to take a small up-front payment with the remaining paid out over seven years (though business performance means it will probably be settled sooner).

Securing buy in:

Rationale for EO over other scenarios was explained to employees as soon as the decision was made. Employees took comfort that the founders were not planning to exit immediately and chose EO.

Post-transaction**Performance:**

Not been in EO for a full year yet so too soon to draw firm conclusions.

Internal reaction:

Already had an open culture with effective employee voice, but employees have been really interested by

EO from the start. They have welcomed the choice as a sign of how valued they are and it's had a positive effect.

Market reaction:

Clients in this market don't pay much attention to ownership models.

Any challenges / downsides:

- Directors recognise it can take longer to make some decisions where Trustee approval is needed.

Tips to selling owners:

- Do your research to ensure the model fits your business.
- Ensure you are confident in the ability of your team to take the business forward.
- Make sure your advisors really understand EO.
- If you want a quick financial exit, the EOT model probably isn't for you.

Peter Rochford

Clean Tec Services

Company name:	Clean Tec Services
Sector:	Commercial cleaning services
Size - by employees:	1,537
Size - by rev turnover:	£20m
Location:	Midlands and South East England
Vendor name:	Peter Rochford
Vendor role pre-sale:	Managing Director
Vendor role post-sale:	Managing Director
Interviewee age at time of transfer:	51 years
Length of sale process (preparation to transaction):	5-6 months
Ownership type:	Hybrid: 60% EOT; 12% EBT; 28% original founders
Advisors used:	Specialist EO advisors, existing lawyers and accountants
External finance provider:	Not needed
Year of transaction / years in EO:	2021/ 2 years

“ Headline reflections by vendor/selling owner:

“I'm very happy with the outcome. I achieved what I wanted to and I'm proud to have done this.”

“I'm still part of the business and intrinsic to it but have now got a clear succession plan and I'll be confident in my successor.”

Pre-transaction**Why selling:**

The age and health of founding directors necessitated a succession decision.

Finding EO:

Two founder members had previously worked in a plc which had been heavily focused on growth through acquisition, frequently absorbing new people and companies. They knew from that a trade sale was

the wrong model as selling to a competitor risks your business getting lost inside another. Didn't feel could just wave goodbye to the staff who'd been part of building the business for 20 years. They'd never heard of EO until their accountants raised it as an option. Founders did their own research into the model, supported by the Employee Ownership Association, and saw the opportunities.

Finding advisors:

Their accountant introduced them to specialist EO advisors who helped make EO more relevant to their business. Used a combination of existing lawyers and accountants. Sought informal input from firm's former bank manager, now retired, since appointed as Chair of Trustees.

Choosing EO:

The two founders consulted the other two main shareholders early on and then secured the support of the senior management team.





Picking an EO type:

Put 60% into an EOT for all colleagues; 12% into an EBT to retain key individuals and 28% remains with the original founders.

Funding the transaction:

Paid for out of reserves and future profits. Deferred consideration arrangement. Firm's bank welcomed employees having skin in the game.

Securing buy in:

Brought managers together for a day to explain the plan and cascade to wider group of colleagues. Created dedicated email 'question box' and consulted on setting up an employee council. Updated clients and suppliers on intentions to offer reassurance on continuity and quality.

Post-transaction

Performance:

Growing commitment from colleagues is driving gradual progress and client praising the difference they're seeing, though Covid made it harder to measure the effect.

Internal reaction:

Seeing lot more commitment from team members who've really bought into it. Colleagues see

themselves as part of something bigger. Spent a lot of time supporting managers to understand the model and targeted some with share options which is seeing them step up to take on greater responsibility as business leaders. Getting more ideas coming through from all colleagues.

Market reaction:

More recognition for the business now in its sector and clients welcoming the change.

Any challenges:

- There are a lot of decisions to make and it's important to be aware you will need to protect time to do this.
- Getting the message across to employees.

Tips to selling owners:

- Advisors bring a cost but there is simply too much to do to run the business and execute the change without them – so make sure you have good lawyers, accountants and specialists.
- Speak to the EOA who have invaluable information.
- Ensure you have a strong management team and a solid funding model.
- Educate employees about the model as you go through the process.

Ken Naismith Cas Ltd

Company name:	Computer Application Services Ltd (CAS)
Sector:	Software development and support
Size - by employees:	32
Size - by rev turnover:	£2.5m
Location:	Edinburgh, Scotland
Interviewee name:	Ken Naismith (not the original vendor, but introduced the idea of transitioning to employee ownership)
Interviewee role pre-sale:	Did not work at CAS pre-sale
Interviewee role post-sale:	CEO
Interviewee age at time of transfer:	55 years
Length of sale process (preparation to transaction):	5 months
Ownership type:	Hybrid: Originally 59% EBT, 26% CEO and 15% Chairman. Now (2023) 49% by external investors and 51% by employees and directors.
Advisors used:	Existing lawyers, specialist finance advisors
External finance provider:	Specialist EO investment company (C4C)
Year of transaction / years in EO:	2014 / 9 years

“ Headline reflections by vendor/selling owner:

“EO is an asset and the business is stronger: it's made our customer base more 'sticky' and we have more buy-in across the business.”

“One person described it as the difference between renting a property and owning it: when you rent, someone else sorts problems; when you own, you sort it. More people are solving things now.”

Pre-transaction

Why Selling:

Previous key owner-managers wanted to retire. No other employees or shareholders had an appetite or plan for succession other than to conclude a trade sale.

Finding EO:

Previous owners had tried and failed to sell to an AIM-listed potential buyer. Once external consultants advised the company would not find a trade buyer given trading challenges at the time, owners were forced to realise they were over-estimating the value of the business. The incoming CEO (who at the time was not an owner) had explored EO in a previous role and introduced it as an option that could also support a turnaround in performance.

Finding advisors:

Following early support via CDS, the then-MD in conjunction with the incoming CEO used existing contacts to bring in accountants/business advisors. Also used existing solicitors.

Choosing EO:

Some shareholders were initially resistant. Cooperative Development Scotland (CDS),

part of Scottish Enterprise, funded an initial feasibility study which helped to make up the minds of Directors and shareholders.

Picking an EO type:

Followed lawyers advice to put in place an Employee Benefit Trust holding 59%, with the incoming CEO buying 26% and the chairman retaining 15%.

Funding the transaction:

Wanted to buy out previous shareholders from day one. Initially this was funded by available resources but in the knowledge that the business would later need funding to evolve the business model. Tough negotiation to pin down sale process. Initial discussions to secure external finance with Scottish Investment Bank were unhelpful. CDS made the introduction to a specialist capital provider to EO businesses who came in and proved to be an excellent partner.

Securing buy in:

Moved quickly to put 'command and control' culture behind them quickly. Transparent about the trading challenges the business faced, but guaranteed jobs and salary for first 6 months. Put in place a share option scheme that proved popular and motivating. As a small business, was able to sustain rolling consultation and dialogue.

Post-transaction

Performance:

Significant improvement has now been seen. Growth at 20% per annum over last three to four years. Not exclusively put down to EO, but model has driven a lot of change in ways of working and secured commitment from colleagues.

Internal reaction:

'Old school' management style gone. Promoting more from within. Some individuals previously

'stuck' now come out of their shells and stepped up. Seeing people go the extra mile, owning problems and getting things done.

Market reaction:

Most clients seem to like that the business is EO; particularly any that work with community-focused businesses. Competitors pay us more attention now EO has driven such noticeable growth.

Any challenges / downsides:

- Previous ownership situation created considerable time pressure to complete quickly but would have preferred more time to prepare people in advance.
- Direct ownership model means need to ensure motivation of new starters potentially with increased available shareholding.

Tips to selling owners:

- Ensure it fits your particular circumstances and get people bought in early.
- Think about if and what size of stake you might need to retain senior people.
- Can raise external finance provided you are a good business.



Simon Chaplin GreenStones

Company name:	GreenStones
Sector:	Accountancy
Size - by employees:	18
Size - by rev turnover:	£1.3m
Location:	Peterborough, East England
Vendor name:	Simon Chaplin
Vendor role pre-sale:	Director
Vendor role post-sale:	Director
Interviewee age at time of transfer:	42 years
Length of sale process (preparation to transaction):	3 months
Ownership type:	Hybrid: 40% Growth shares and 10% ownership in a subsidiary – planning full EOT this year
Advisors used:	Specialist EO lawyers and advisors
External finance provider:	Not needed
Year of transaction / years in EO:	2016 / 7 years

“ Headline reflections by vendor/selling owner:

“We’re more commercial.”

“We’ve empowered the team by passing the baton and not selling it.”

“It’s a more grown-up way to run a business - it feels like a circle instead of a hierarchy.”

Pre-transaction

Why selling:

Learning about EO inspired the founders to sell to their employees.

Finding EO:

A fantastic conversation with the head of the EOA in 2016 convinced the founders to transition to EO.

Rejected a trade sale because wanted to give back to the team and believed a stereotypical buyer would kill the culture they’d built.

Finding advisors:

Learned more going to EOA regional meetings and being introduced to an EOA member in the same sector. EOA helped support founder to find EO specialists to support the transaction.

Choosing EO:

Consulted the Directors initially and soon shared with the whole team at an awayday.

Picking an EO type:

Selected growth shares as it enables everyone to be a beneficiary and to contribute and benefit from the growth in the practice. We are working towards a full EOT when conditions allow.

Funding the transaction:

Value will be paid out of company profits over seven years with tapering annual payments.

Securing buy in:

Brought whole team on board early and generated a lot of positivity, then continued to consult widely.

Post-transaction**Performance:**

EO is definitely having a positive effect.

Internal reaction:

Employees taking more ownership of solving problems. The senior management particularly are becoming more entrepreneurial.

Market reaction:

Clients have been largely indifferent. Some absolutely love it!

Any challenges:

- Legal costs, though would pay these with a trade sale also
- Challenge with securing acceptance of new arrangements by accountancy sector trade body
- Felt the process was too slow
- Feel need to stay involved to ensure business will generate sufficient profit to make repayments
- Colleagues worried if they were good enough to pick up running the business
- Selling your business will feel like a kind of grief, letting go of a part of you

Tips to selling owners:

- Start by ensuring the numbers work for you as an individual.
- Ensure you get your team on board.

Anonymised Transportation Firm

Company name:	Anonymised at request of interviewee
Sector:	Transportation
Size - by employees:	39
Size - by rev turnover:	£10.5m
Location:	London, South East England
Vendor name:	Anonymised at request of interviewee
Vendor role pre-sale:	Director
Vendor role post-sale:	Director
Interviewee age at time of transfer:	63 years
Length of sale process (preparation to transaction):	9 months
Ownership type:	100% EOT
Advisors used:	Specialist EO lawyers
External finance provider:	Not needed
Year of transaction / years in EO:	2020/ 3 years

“ Headline reflections by vendor/selling owner:

“I achieved what I want in personal terms and avoided the stress, uncertainty and implications (possible job losses, warranties etc) on the business of selling to a third party.”

“People are more focused, they welcome opportunities to increase reward and seem to be working harder.”

“I’m now comfortable stepping back because of confidence in the team.”

Pre-transaction**Why Selling:**

The ages of the five primary owner directors were the trigger for thinking about succession.

Finding EO:

The owners wanted continuity of the business, fair return for a sale and to ensure their colleagues weren't out of a job. They decided a trade sale meant too much hassle, negotiations and then handing over control of the business and risk to jobs. They had first come across EO at a seminar in 2012 when going through an MBO process and returned to the idea as an alternative sale route.

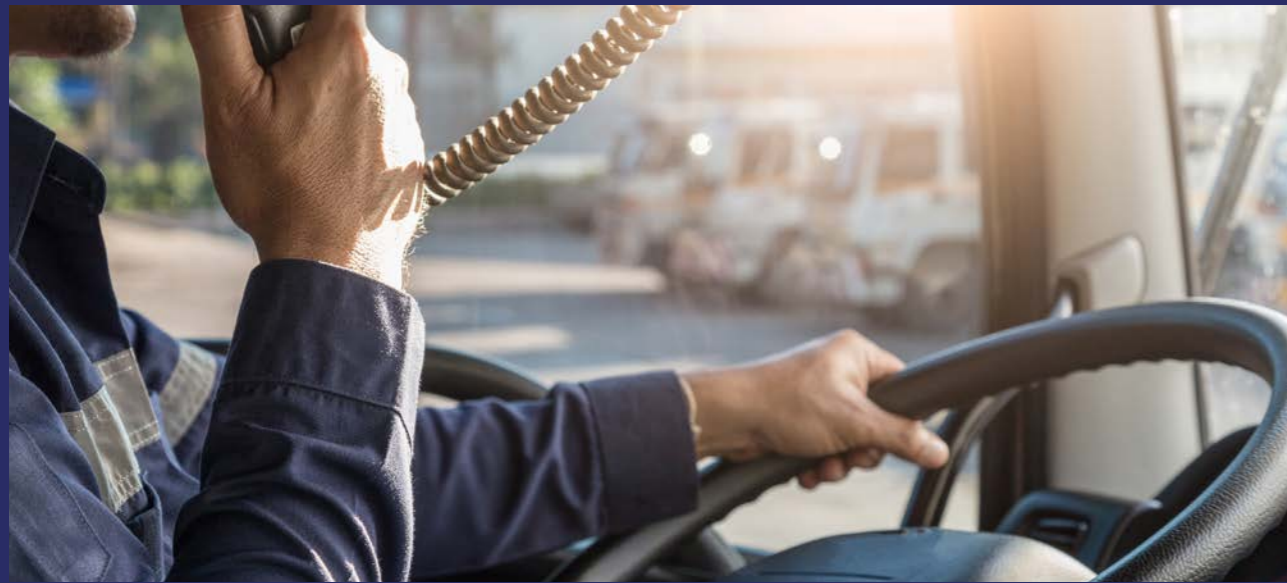
Finding advisors:

The two directors spoke to the Employee Ownership Association and looked at a few comparable EO businesses. Their own accountants had no EO experience, so the directors identified specialist EO lawyers and advisors who provided legal and implementation advice.

Choosing EO:

The Chairman, MD and FD took the proposition to the wider group of five MBO shareholders and then to four





other shareholders. The response was positive with people liking the certainty of the outcome.

Picking an EO type:

They chose to transfer 100% of ownership to an EOT because they wanted a 'once and for all' arrangement.

Funding the transaction:

Transaction was funded out of a mixture of reserves and future profits, with payments deferred over a five year period.

Securing buy in:

The transaction was fully explained to all employees and was well received.

Post-transaction

Performance:

There seems to have been a very positive effect though Directors struggle to pin it to one specific aspect of EO. They report the ownership model is encouraging people to take more responsibility and work harder.

Internal reaction:

The business had a strong and focused culture already but the EO structure has given people more input. EO has meant membership of the Board has

widened and the creation of a Trust Board including employee representation. Through this, employees are able to give their opinions and the quality and relevance of their inputs has improved.

Market reaction:

The business makes a point of promoting its EO model to clients and potential employees who seem to like it.

Any challenges / downsides:

- Challenge in explaining the deferred repayment approach to the team
- Quite tricky to balance the interests of vendors and the EOT when agreeing the valuation price
- Their company structure limited their ability to put their first choice LTIP reward mechanism in place. This is an area where improvement is needed in tax legislation to ensure that in addition to the annual £3.6k tax free payment the business is able to use tax effective EMI type schemes, which for small EOT wholly owned business's creating a market and share valuation is difficult.

Tips to selling owners:

- Be very clear about what you want to achieve.
- Get a good lawyer.
- Be up front about risks – it's not a sure thing.

Ceri Murphy Itec Skills

Company name:	Itec Skills
Sector:	Training and skills
Size - by employees:	200
Size - by rev turnover:	£14.5m
Location:	Cardiff, South Wales
Vendor name:	Ceri Murphy
Vendor role pre-sale:	Managing Director
Vendor role post-sale:	Managing Director
Interviewee age at time of transfer:	47 years
Length of sale process (preparation to transaction):	18 months
Ownership type:	100% EOT
Advisors used:	EO specialist advisors
External finance provider:	Not needed
Year of transaction / years in EO:	2018-19 / 4.5 years

“ Headline reflections by vendor/selling owner:

“Been a really positive experience. I'm well on the way to achieving what I want – it'll be complete when I exit entirely.”

“Our people are amazed at what we've done. A trade sale often means letting people go and we didn't want to sell them down the river.”

Pre-transaction

Why selling:

The age of one of the two owners.

Finding EO:

Owners considered a trade sale or selling to venture capital but weren't comfortable with idea of putting jobs at risk when particularly the senior team has

helped build the business over years. Whilst looking at alternative options, a legal firm raised the option of an EOT. Helped by materials on the Employee Ownership Association's site and Welsh Government's active promotion of the model.

Finding advisors

Sought out a specialist EO advisor to support the process.

Choosing EO:

Initially involved just the two shareholders but once they'd tested their worries they involved the senior management team.

Picking an EO type:

Chose a 100% EOT-owned model because it was 'cleaner' and more straightforward and sellers believed it would help build on and enhance workplace culture. The EOT not only offers tax efficiency for vendors,

it also avoids the complexity of a direct share ownership model.

Funding the transaction:

Felt the valuation price was fair. Avoided going to banks or investors so as not to load up the firm with debt. Took 30% of sale value at point of transaction and the remaining amount paid out of profits over six years.

Securing buy in:

Following due diligence, brought in full senior management team and invited their input, and the previously existing employee forum.

Post-transaction

Performance:

The business says it is stronger because of EO and through addressing the risk posed around unplanned exit of shareholders.

Internal reaction:

Everyone in the business is now more focused on caring about the customer. Previously had flat

structure with informal employee feedback channels, but now more structured about how that happens and have seen greater focus on more significant topics.

Market reaction:

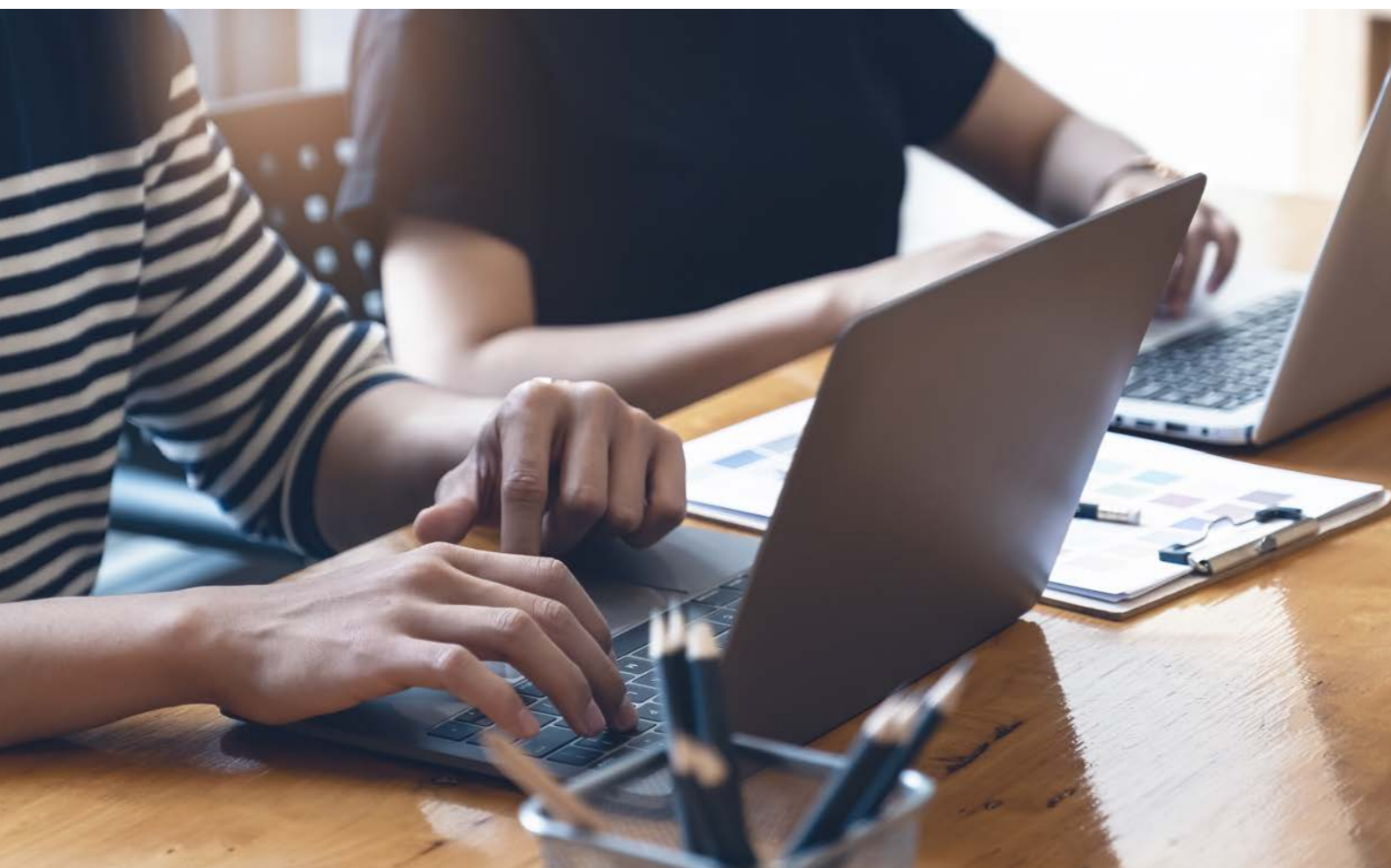
Being seen as a responsible employer is increasingly sought after by our buyers (public sector commissioners). Model is becoming more common in our sector.

Any challenges / downsides:

- No real negatives. It is an enabler.
- The legal process is complicated and can be expensive but is worth it.
- Process took longer than expected but impeded by pandemic.

Tips to selling owners:

- Transferring ownership requires a shift in mindset for a founder.
- At the very least you should transfer a majority stake to employees.



Nickie Brown

PCE Ltd

Company name:	PCE Ltd
Sector:	Construction
Size - by employees:	140
Size - by rev turnover:	£65m
Location:	Staffordshire, West Midlands
Vendor name:	Nickie Brown
Vendor role pre-sale:	Managing Director
Vendor role post-sale:	Managing Director
Interviewee age at time of transfer:	45 years
Length of sale process (preparation to transaction):	7 months
Ownership type:	100% EOT
Advisors used:	EO specialist advisors and lawyers
External finance provider:	Not needed
Year of transaction / years in EO:	2020 / 3 years

“ Headline reflections by vendor/selling owner:

“It’s amazing how EO works: It drives growth and enables everyone to be on the same page and the same direction.”

“Been an amazing experience: we’re three years into an eight to 10 year plan, the model is established and our structure attracts world class leaders.”

Pre-transaction

Why Selling:

The original owner had given Directors some shares and put in place a Share Incentive Plan (SIP) for all employees. By 2018, the SIP didn’t have sufficient shares for all new employees and a change was needed. This prompted a discussion about a change of ownership.

Finding EO:

Directors considered a trade sale but rejected it because it put at risk the DNA, people and identity of the business. An MBO was too difficult to finance. They wanted a model that would give fair reward and opportunity to everyone and protect the company’s name and longevity.

Finding advisors:

The SIP advisor were EO specialists who supported a visit to an EO business and the Directors attended an Employee Ownership Association conference. The business drew on another EO specialist and appointed an HR consultant already supporting the business to a non-executive director role to oversee the whole process.

Choosing EO:

Initially brought together all the current owners – the direct shareholders and SIP shareholders. Both groups

bought into the model. Then formally consulted the whole business and reaction was positive.

Picking an EO type:

Selected a 100% EOT model based on positive experience of others at the EOA's annual conference. Attracted by model enabling equal reward, offering tax efficiency and bringing an opportunity to get colleagues and customers excited.

Funding the transaction:

Agreed a valuation that was fair to all shareholders and affordable to the company. Put in place a deferred consideration payment plan drawn from profits over 4-5 years.

Securing buy in:

Put in place a new structure which supported consultation: replaced management board with a Strategy Board, an operationally-focused senior leadership team board, an employee council steering group and a trustee board.

Post-transaction

Performance:

EO has also driven improved sales and profits with forecast revenues this year tripled since 2019.

Internal reaction:

The culture and behaviours have changed. Ok previously but taken it far beyond what had imagined and have just been placed on Sunday Times Best Places to Work list. Leadership team is stronger, listening more to people who are more motivated, supported by better communication and transparency.

Market reaction:

Not promoted the EO model strongly but it helps with winning new work.

Any challenges / downsides:

- Need to be more thoughtful about how you reward leaders well enough.
- Thought we would see the kind of results we've got sooner.
- Switch to owner mindset across workforce is a journey not an overnight thing.

Tips to selling owners:

- Be clear what want to achieve and why.
- Ensure you have critical challenge.
- Do your research.
- Don't assume immediate results.



Part 3 - Appendices

3.1 Sample profile

3.1.1 Business Size, Sector and Region

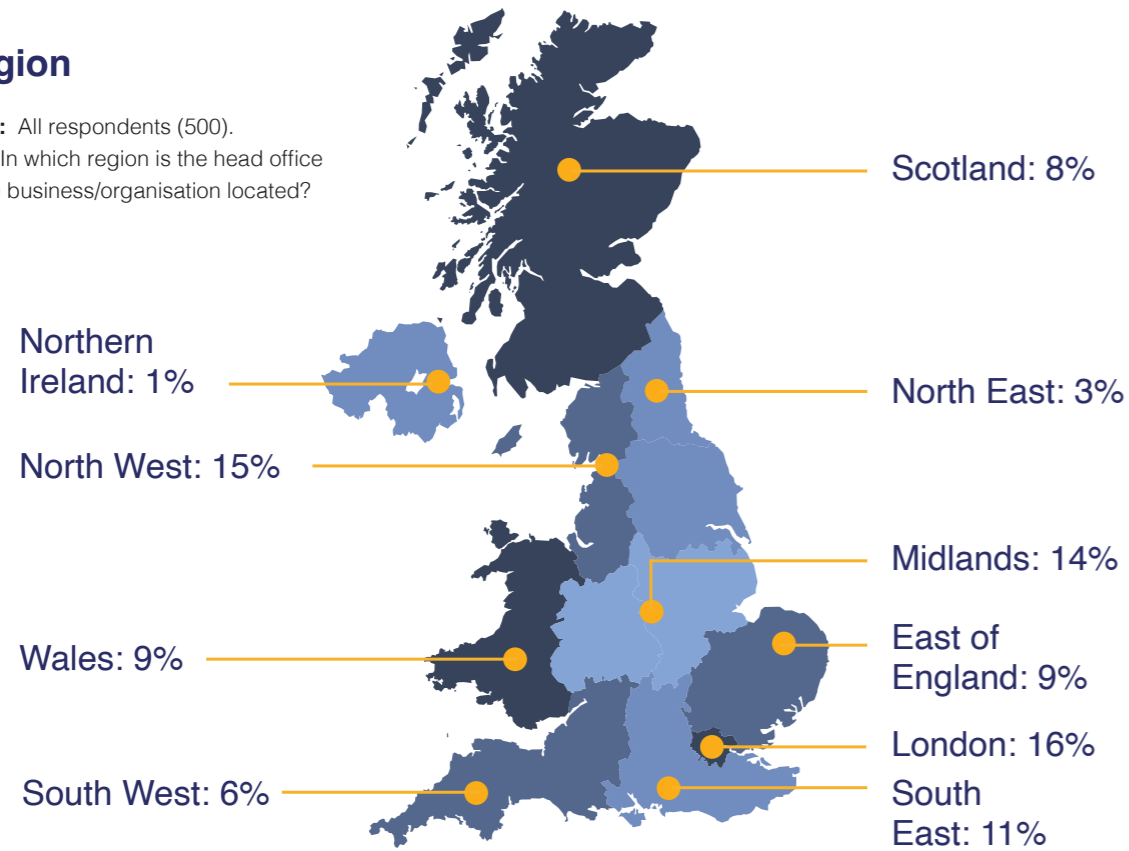
Business size:	Percentage of total sample:	Number of respondents:
10-49 employees	75%	375
50-99 employees	12%	61
100-249 employees	13%	64
Business sector:	Percentage of total sample:	Number of respondents:
Production & Construction	27%	134
Transport, Retail & Food	28%	142
Business/Professional Services	30%	152
Other Services	14%	72
NET: Non-Professional Services	70%	348

Base: All respondents (500). S03. Approximately how many employees (full or part time) does the business or organisation have? Q02A. Which of the following best describes the main activity or sector that your business/organisation operates in?

Business sector definitions:	
Primary (e.g. agriculture, fishing, energy, water or waste services)	ABCDEF - Production & construction
Manufacturing	
Construction (e.g. joinery, plumbing, demolition, roofing, or plastering)	
Wholesale/ Retail/Motor repair	GHI - Transport, retail and food service/ accommodation
Transport/ Storage (e.g. distribution, passenger transport, courier services or warehousing)	
Accommodation/ Food (e.g. pub, hotel, restaurant)	
Information/ Communication (e.g. IT, publishing, media, telecoms)	JKLMN - Business services
Financial/ Real Estate (e.g. insurance, pensions, property management)	
Professional/ Scientific (e.g. legal or accountancy services, architectural or engineering activities, management consultants, marketing, photography or veterinary activities)	
Administrative/ Support (e.g. security, cleaning, leasing, recruitment or travel agency, call centre activities)	
Education (e.g. driving tuition, sports coaching or educational support services)	PQRS - Other services
Health/ Social Work (e.g. medical or dental services, residential care/nursing home, children's nursery)	
Arts/ Entertainment (e.g. visitor attractions, sports facilities, recreational activities, gambling)	
Other services (e.g. personal services, hair, beauty, membership organisations, funeral services, trade unions or repair services)	

Region

Base: All respondents (500).
Q01. In which region is the head office of the business/organisation located?



3.1.2 Owner Age, Gender and Ethnicity

Owner Age	Percentage of total sample:	Number of respondents:
43-49	35%	175
50-69	63%	315
70+	2%	10
Owner Gender	Percentage of total sample:	Number of respondents:
Male	66%	331
Female	33%	166
Transgender	0%	2
Prefer not to say	0%	1
Owner Ethnicity	Percentage of total sample:	Number of respondents:
White	92%	459
Asian or Asian British	4%	22
Black/African/Caribbean/Black British	3%	14
Mixed ethnicity	1%	5
Other	0%	0
NET: MEG	8%	41

Base: All respondents (500). S07a. What is your date of birth? Q22. With which gender do you identify?
Q23. What is your ethnic group?

3.2 Business Ownership and Profile

3.2.1 Business Type

Business Type:	Percentage of total sample:	Number of respondents:
Private limited company, limited by shares (LTD)	56%	282
Private company limited by guarantee	17%	84
Partnership	16%	80
Limited liability partnership	10%	50

Base: All respondents (500). S06. Which of the following best describes the legal status of the business/organisation?

3.2.2 Business Age

Business Age:	Percentage of total sample:	Number of respondents:
Less than a year	1%	5
1-2 years	5%	27
3-5 years	19%	94
6-10 years	34%	169
11-20 years	25%	126
20+ years	16%	79

Base: All respondents (500). Q03. Approximately how long has the business/organisation been trading or operating?

3.2.3 Annual Turnover

Approximate Annual Turnover:	Percentage of total sample:	Number of respondents:
Less than £85,000	3%	16
£85,000 - £249,999	10%	49
£250,000 - £499,999	12%	62
£500,000 - £999,999	20%	98
£1m - £4.99m	24%	122
£5m - £9.99m	11%	54
£10m - £24.99m	10%	50
£25m or more	6%	30
Don't know	0%	1
Prefer not to say	4%	18

Base: All respondents (500). Q24. What is the approximate annual turnover of the business/organisation?

3.2.4 Annual Profit

Approximate Annual Profit:	Percentage of total sample:	Number of respondents:
Less than £50,000	11%	54
£50,000 - £99,999	9%	44
£100,000 - £249,999	12%	61
£250,000 - £499,999	11%	55
£500,000 - £999,999	7%	33
£1m - £9.99m	13%	67
£10m or more	8%	41
Prefer not to say	29%	145

Base: All respondents (500). Q25. What was the approximate annual profit of the business/organisation in the last financial year?

3.2.5 Number of owners within the business

Approximate Annual Profit:	Percentage of total sample:	Number of respondents:
1	46%	230
2-4	42%	211
5-9	6%	29
10-25	4%	21
25-49	0%	2
50+	1%	7

Base: All respondents (500). Q04. In total how many owners or partners does the business/organisation have?

3.2.6 Other owner's ages

Proportion owned by respondent:	Percentage of total sample:	Number of respondents owning this proportion of the business:
16-29	1%	2
30-39	9%	26
40-49	55%	160
50-69	62%	178
70+	2%	5

Base: All respondents that do not own 100% of the business (289). Q06. In which age band(s) are the other owner(s) or partners?

3.2.7 Proportion of business owned by respondent

Proportion owned by respondent:	Percentage of total sample:	Number of respondents owning this proportion of the business:
10-49%	28%	138
50-74%	22%	108
75-99%	9%	43
100%	42%	211

Base: All respondents (500). S02b. What proportion, if any, of the business/organisation do you personally own?

3.2.8 Whether family owned

Proportion owned by respondent:	Percentage of total sample:	Number of respondents owning this proportion of the business:
Yes	45%	121
No	55%	149

Base: Where more than one owner/partner (270). Q05. Is the business/organisation a family-owned business, that is one which is majority owned by members of the same family?



Ownership at Work



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