

FINANCIAL POST

FP ENTREPRENEUR

‘Um, I’m selling the business,’
isn’t the easiest conversation
to have with your team

[Brad Cherniak](#) | December 8, 2014 9:00 AM ET



Fotolia *Telling your employees that you are selling the company is never an easy conversation to have.*

One of the more awkward things a business owner looking to sell must do is tell his or her team. But how you do this is critical and can make or break the deal — and the company.

When and how do you inform your senior management team, and the rest of the employees? Does everyone get the same message? Or are there inner circles that hear more, sooner?

The first important distinction is whether you are selling as part of your estate planning — the normal process of aging and retiring — or whether you are selling your business for financial gain. In the first scenario, the sale is less of a shock. Most likely there has already been formal or informal discussions or speculation among the team about what the owner's personal next steps are. But with the latter case, it can be a shock, and potentially a major upset for your team. They can feel betrayed or cut off at the knees; or it can be a great thing, and a very lucrative one for everyone involved.

For simplicity, this column will assume no one on the team is a voting shareholder. If that were the case that team member would have to be brought into the loop as specified in the shareholder agreement.

If you mismanage the sale process, you could cause key employees to leave right at the time you need them most, lowering the value of your company, as well as the chances of a deal. The momentum of a sale of a small to mid-sized business can be arrested by having to replace a key employee at any point in its life cycle.

And once it is out that a key employee has bolted, the rumour mill (often run by your competitors) will hit full stride. Be assured they will be calling your customers and coveted employees to give them the apocalyptic news, and encouraging them to come aboard their company to save themselves a lot of risk.

This can create a vicious circle of employees jumping ship, lost customers and impaired financial performance of the company, all impacting its value and saleability.

So, attention to detail is critical:

Step 1 Understand there is no scientifically optimal answer as to how to inform your team, you are taking a risk no matter how you proceed. All you can do is manage your risk given the unique facts of your situation. Getting good, experience-based advisory assistance at this juncture is critical.

Step 2 Don't change your ways. You likely have established certain norms of discussion and sharing with your employees, at various levels of seniority. You may have a reputation as a sharer and collaborator, an open book, or you may have separated corporate matters from operational ones, and never the twain shall meet. Either way, all things being equal, there is an element of fairness if you maintain your current practice and personality moving into a sale process.

Step 3 Get the must-knows in the know quickly. The first cadre of employees that will need to be informed are those that any prospective buyer will likely need to speak with before any purchase can take place. Those can include key sales personnel, the plant manager, the CFO, and the head of research and development or product development.

Check with your advisor as to what is reasonable to make available to the prospective buyer, and when, in terms of allowing them access to your key employees to do proper due diligence.

You will also need to figure out what your key employees' economic and personal incentives are. Don't just rely on people being honorable and rational, help them through the process proactively, and consider structuring the sale transaction accordingly.

For example, a senior employee who only recently became a shareholder may have added incentive to become a part of the buyer's company to maximize his or her investment. You might want to bring that employee closer into the discussions with the buyer to help make that happen, and in so doing increase the value of your company.

The next group of people to bring into the loop are those who will need to react to the rumour mill, such as customer service or public relations. They need to have a good script to avoid exacerbating any problems in the marketplace. This must be done with sensitivity to saying too much too early.

Step 4 Recognize the reality of the sale process. Bottom line, a sale can often get drawn out and become a poorly kept secret. You may need to change tack quickly, no matter how well-laid out your plan is.

Brad Cherniak has spent more than 20 years as a principal, advisor to and investor in private companies. He is co-founder and partner at Sapiant Capital Partners, a Toronto-based advisory firm to companies from early stage to \$50-million in revenues. His column appears monthly in the Financial Post. He can be reached at brad@sapientcap.com and you can follow him on Twitter as @SapientCapital.