Buyout Assistance

Key Questions to Ask Before Attempting a Buyout

Employee buyouts require a large amount of energy, time and money. Therefore, it is important to identify obvious issued which indicate that a successful buyout is unlikely. This can prevent an unwise investment of money, time and hope. It can also help identify, for the seller and the buyer in viable situations, the key issues on which they need to focus. The following list focuses on the key questions that need to be addressed in employee buyouts which involve substantial change of ownership.

1. **Is the current owner willing to sell to the employees?**
   Many sellers are initially unwilling to sell to their employees, but change their minds once they have received m ore information. If for any reason the owners does not want to sell to the employees, there is no easy way to force a sale. The only time an owner does not have complete control is in the case of bankruptcy or in the extremely rare case when an overarching community interest provides the use of eminent domain.

   Willing sellers:

    - Provide the buyout committee or its financial analyst with access to all of the necessary information and key management personnel.
    - Allow all employees (including those unprotected by a union contract) to express their active support for an employee buyout.
    - Do not insist on an inflated price.
    - Sometimes pay some of the buyout expenses and finance a part of the purchase price.

2. **Do the employees and their union want to buy?**
   Just like owners, employees and union representatives may not support a buyout until they have received more information. A couple of enthusiastic employees or local development people cannot make a buyout happen if they do not have the active support of a significant number of employees who would eventually be owners. If the lack of interest does not kill the buyout itself, it will likely shorten the life expectancy of the new employee-owned company.

Interested buyers:

- o Attend educational presentations and vote to support the exploration of a buyout attempt.
- o Contribute to a fund to pay for putting the buyout together.
- o Make economic sacrifices or direct investments when absolutely necessary. (Very committed employees)
- o Take a leadership role in organizing a buyout. (Supportive Unions)
- o Pick up some of the related expenses. (Very supportive Unions)

3. **Will the new employee-owned company have competent management?**
   Most businesses need an individual or a combination of individuals who can sell, direct production, and manage cash flow efficiently. In addition, it is helpful to have a manager who has run a stand-alone operation before. Lenders will not finance a buyout without knowing who will be doing these function.

   - o When judging the performance of current management, it is important to determine whether past errors are attribution to their own level of competence or rather to the possibility that their hands were tired by an owner or parent corporation with interests in conflict with those of the employees.
   - o Managers may find themselves in a difficult position during a buyout since they are employed by the seller. Nevertheless, when a manager takes an active role in driving a buyout, that is a good sign since managers should have a good sense of a company's potential.
   - o When current management is unwilling to join the buyout effort or is judged to be incompetent, the buyout committee should consider former managers, previous owners, and people who the union international might be able to identify.

4. **Is there enough time to complete a successful buyout?**
   Employee buyouts take a long time. It is unlikely that one can be concluded in less than 6 months and more likely that it will drag on for about a year or maybe more.

   - If a business is losing money, the current owners may be unwilling to keep it operating. They may decide that a quick sale or liquidation will make more economic sense.

   - If the current owners are not maintaining equipment, holding on to customers, and lining up future business, what looks like a viable business today may be greatly diminished by the time the employees complete their purchase. Financing the purchase of a business threatened by a shutdown frequently depends on the participation of a government loan program. The application and review process involved will usually add an extra two to four months to the effort.

   - While deadlines must be taken seriously, they are not written in stone. "Something should always be turned in on time but extensions to fill in more details are not uncommon. Sellers often want a bid before the buyout committee has had sufficient time to evaluate what they are buying; an attractive and timely bid can be made as long as disclaimers are thrown in.

5. **Is the plant competitive?**
   Especially when employees are buying a sub-component of a larger company, it is important to determine how the plant will do as an independent business. A key to answering this is asking why the facility is being closed or sold. The company will need all of the normal preconditions that any business needs for success.

   - Access to a sufficient supply of raw materials, at competitive prices, from suppliers willing to extend the normal credit terms for the industry.

   - A level of production, both quantity and quality, which is comparable to that of the competition.

   - A plant and equipment which is in good enough condition that maintenance and replacement costs will not drain the company's cash flow.

- An established market which will assure the new company a level of sales sufficient to cover costs, meet the debt service and give the company some breathing room.

- The new company will also need to take into account any hidden liabilities such as environmental issues, obligations to retired employees, and potential lawsuits.

6. **Will labor-management relations permit this company to succeed under employee ownership?**
   Employee ownership is not an overnight solution to a poor labor-management environment. If union representatives are unwilling to shift from problem identifiers to problem solvers, or management is unwilling to share the role of the problem solver, adversarial relations are likely to be exacerbated rather than helped by employee ownership. Community development professionals can help employees and the proposed management assess whether this will be a problem by paying attention to the following issues.

   - Past history as described by labor.

   - Past history as described by management.

   - Key issues in any recent strikes or contract negotiations.

   - The willingness of different parties to reassess their roles.