co+operative development scotland

Employee to Owner

Collaborating for growth: Employee Ownership

Fact:

£25 billion – the combined turnover of employee owned businesses in the UK

"I wanted to both share the success of the company more widely and to have a form of ownership where the long term growth continued because the new owners would understand the business intimately. Employee Ownership meets both these criteria."

Dick Philbrick, Clansman Dynamics

What is an employee owned business?

An employee owned business is one in which the employees, rather than external shareholders, hold the majority of the shares either directly or through an employee benefits trust which buys the business on their behalf.

Who should consider employee ownership?

+ Business owners who want to retire or sell the business for a fair price without jeopardising its future
+ Business owners who want to raise finance for the business tax-efficiently and motivate employees by transferring some ownership
+ Public agencies that want to mutualise services through employee ownership

What are the benefits?

+ Providing the owner with a legacy and fair price
+ Ownership can be transferred in stages, minimising disruption
+ Employees can acquire shares and control without personally paying for them
+ Helping to safeguard the future of the business and its employees
+ Increased productivity and innovation through employee involvement

How does the typical employee buyout (EBO) work?

Every EBO is customised to suit the needs of the vendor and the employees. Typically the company takes out a loan to pay the owner for their shares. The shares are then placed in trust for the benefit of employees and the company pays off the loan over a number of years – with employees benefiting from dividends and bonuses. When employees leave the company, their stake in the business is usually bought back by the trust.

How is an EBO funded?

Typical approaches include:

+ A trust, set up on behalf of the employees, secures commercial loans and specialist finance (usually combining debt and equity) to buy the business. This finance is then paid back over time from company profits
+ The vendor may help by accepting staged payments or providing a long-term loan
+ The employees can also put equity into the deal, although this tends to be a fraction of the full purchase price
+ Employees often finance the gradual acquisition of the business by taking shares or share options as part of their remuneration

CASE STUDY:
Clansman Dynamics

Robotic handling specialist Clansman Dynamics completed an employee buyout in 2009 after being inspired by a Co+operative Development Scotland (CDS) workshop. The company now expects to grow turnover by 30% over the next two years as it expands its range. Dick Philbrick, Clansman's founder, said: "The deal could not have been done without the inspiration and help of CDS, and the specialist advice from the Baxi Partnership."

CASE STUDY:
Stewartry Care

Stewartry Care is the largest employee owned company in the south of Scotland. In 2004, 97% of the employees voted for an employee buyout, which was supported by Baxi Partnership. Turnover increased by 16% in the first year and profitability by 39%. Louise Smith, MD of Stewartry Care said: "Employee ownership increases staff retention. My experience has been that staff enjoy working in a situation where they have real influence in their working environment and how their company develops."

Research:

Between 1992 and 2008, the Employee Ownership Index outperformed the FTSE All-Share by 200%

CASE STUDY:
Loch Fyne Oysters

Funding from Baxi Partnership, the employee buyout specialist, and Royal Bank of Scotland allowed Loch Fyne Oysters to keep its business and jobs in the local community. Since the deal, the internationally renowned business has almost tripled turnover and increased its headcount. "Employee Ownership does engender higher levels of engagement across the business," says Managing Director Bruce Davidson. This can manifest itself in ideas and suggestions, cost-saving measures, reduced absenteeism and higher retention rates. All enjoy dividends when the company performance warrants, and as colleagues retire and sell their shares, we see them depart with a well-earned cheque to enjoy in retirement."

Research:

EO businesses are typically 5% more productive and survive 20% longer than traditional business models

How can we help?

CDS's role is to provide specialist advice to new and growing co-operative and employee owned businesses to complement the mainstream support provided by Scottish Enterprise, Highlands & Islands Enterprise and the Business Gateway. CDS support includes:

+ Exploring the options
+ Structuring the company
+ Financing the business
+ Developing member participation

Co+operative Development Scotland operates across Scotland and is a subsidiary of Scottish Enterprise.

Contact us today on **0141 951 3055** or e-mail **info@cdscotland.co.uk**
You can also visit us online at **www.cdscotland.co.uk**

Co+operative Development Scotland, Spectrum House, 1a North Avenue, Clydebank Business Park, Glasgow G81 2DR.

Scottish Enterprise

HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

co+operative development scotland