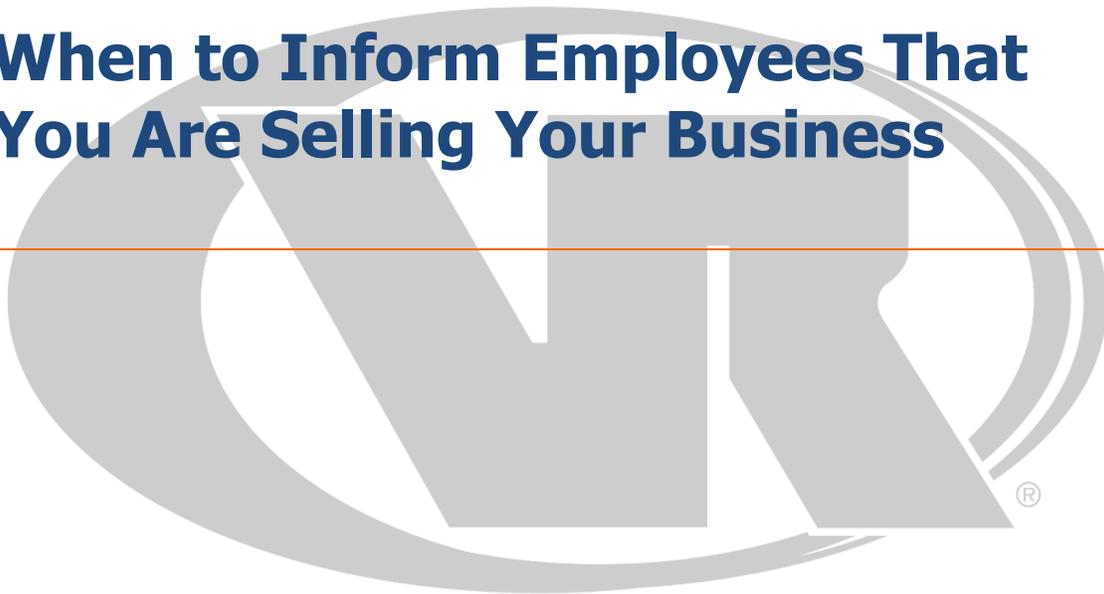




SINCE 1979®

When to Inform Employees That You Are Selling Your Business



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Selling Your Business - When to Inform Employees

When is the best time to inform employees that you are selling your business? Business brokers and merger and acquisition professionals are asked this question all the time. The short answer is, "Wait until the transaction is completed," and with good reason.

Most owners understand that much of the value of their business is embodied in their employees. Employees make the company possible, and many owners develop a close relationship with some of their employees. Those relationships sometimes lead business owners to want to disclose the potential sale of their business to one or more of their employees. "They deserve to know" is a common refrain.

There is an enormous risk in sharing this 'inside information' with employees. Confidentiality needs to be maintained. Once it is common knowledge that your company is for sale (and it will become common knowledge once employees know), it loses value: vendors are less likely to sell to you or increase credit limits; customers are less likely to buy for fear of a lack of continuity of the relationship; and employees are less likely to stay. Once the cat is out of the bag, if you are able to get it back in at all, the damage is already done, and it can take years to redevelop those relationships that made your company valuable in the first place.

While change is scary to some people, nothing is scarier than the unknown. For example, with one or more employees knowing what is 'in process' or being considered, at a minimum the information will be shared with a spouse or close friends. Invariably, their reactions are to share stories of mass layoffs, companies being relocated, wage and bonus reductions, etc. It is human nature to fear the unknown and to expect (and perhaps plan) for the worst. Planning for the worst often involves looking for alternative employment, sharing the news with other employees and, perhaps, outright resignations. Also understand that when a concerned employee interviews within your industry, the first question they are asked is, "Why are you planning on leaving your current employer?" The answer will put an afterburner on the wildfire of rumors within your industry. Remember, most buyers expect to have key employees on board when they acquire a business: If one or more of them have departed or indicated that they intent to depart, the value and marketability of your business has clearly been damaged.

Therefore, the best time to make announcements concerning the sale is on the afternoon of the day on which the transaction closes, after the closing is complete. An employee meeting should be pre-planned to ensure 100% employees attendance. Once everyone is gathered, you explain your reasons for considering a 'transition of ownership' (don't use the word 'sale' or 'sold'), and that, after a diligent search, you have found the perfect new owner(s). You can also talk about how there will be a transition period where you will be involved in the operation of the business working with the new owners. The new owners should then be introduced to discuss their backgrounds, share their reasons for wanting to own the company and demonstrate their enthusiasm to do whatever is necessary to grow the business and create more opportunities for everyone. Last but not least, the new owners should honestly indicate that they plan no dramatic changes, that they value the current workforce, and that they want to meet individually with each employee (unless the number is just too large) to get their ideas and suggestions on the best way to grow the business.

In general, anyone who buys your company will want to keep your employees since they represent a significant portion of the value (and continuity) of your business. Massive job losses only occur in extremely rare cases where a new owner relocates the company a great distance, and then usually only after a period of transition. Experience has taught that when the transition is handled well, virtually all employees perform better under the new management, for the simple

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reason they want to impress and be on good terms with the new owner. New owners typically arrive with additional capital, new ideas, perhaps a synergy with an existing business and, almost invariably, a desire to grow the business. Growth spells new opportunities for employees who want to develop their careers and, in almost all cases, they look forward to working with a new owner.

By keeping the sale of the business totally confidential until the transaction is closed, you are able to both preserve the value of your business and greatly reduce the fear of the unknown from your employees, thus making the transition of ownership a more seamless operation.

If you found this information useful and you'd like to find out more about how we can help you sell your business for maximum value, please call us on 1-780-469-4769. You can also email us at info@vralta.com or visit our website at www.vralta.com.

About Us

VR Business Sales has attained the position as Alberta's market leader in the sale of privately owned companies. Our clients choose us because, through our proprietary marketing process, we are able to sell small and mid size businesses for its maximum value than are typically achieved. Since 1979, VR has built up a reputation based on trust, integrity and mutual respect.



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