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Small Business: Selling out to your employees
Letting the workers take over can be a good way for founders to make their exit,
writes Dominic Prince

ON September 14, 2003, Will Nicoll sat down in his Gloucestershire home to read The Sunday Times. At 47, he was a successful businessman with two factories in Gloucester making double-glazed windows, doors and roofing units for conservatories.

The business, Windowmaker, was turning over £8m a year, making a profit of £1m, and had 90 employees. Nicoll and his partner, Brian Wronski, had a helicopter each and very pleasant lives. By most standards, they would be described as rich.

The pair were looking for an exit from the business, but selling an outfit the size of Windowmaker is not easy.

Wronski had sold it once before, to the Midlands mini-conglomerate Hampson Industries. The marriage was not made in heaven, though, and Wronski and Nicoll bought back the company in 1996. Selling it a second time they were more circumspect — they wanted to get it absolutely right.

When Nicoll happened on a piece I wrote in The Sunday Times about employee buyouts, and specifically the Loch Fyne oyster business in Scotland that was bought by its employees, it was a “eureka moment”.

He said: “I read that piece about employee buyouts and the Baxi Partnership and I just knew that it was the way I wanted to go.”

Wronski was more sceptical, thinking the idea of an employee buyout was a little too much like a co-operative for him. It didn't sound quite commercial enough, not as cut and thrust as a straightforward sale.

Nevertheless, the following Monday morning Nicoll contacted David Erdal at the Baxi Partnership, which has a pool of £20m to invest solely in employee buyouts.

Few concrete figures have been produced on employee-owned companies, but that is starting to change as they grow in popularity.

Patrick Burns, who runs Job Ownership, is compiling a database of such firms and said there are between 100 and 200 in Britain and the number is growing fast.

“There are signs that more company owners are realising that employee buyouts are a

good option,” he said. “If they have a succession problem and want to sell up, employee ownership looks an increasingly attractive option.”

Burns said employee-owned businesses form a sector with sales of £13 billion.

Baxi’s Erdal is a patrician type of man who a century or so ago would not have been out of place setting up one of the great Quaker industrial dynasties.

Nicoll is very different. A Glaswegian by birth, he originally sold show-jumpers and then cars before getting into manufacturing. But he does share Erdal’s social conscience.

He said: “We had been thinking of selling for some time. I wanted to be financially secure for the rest of my life, but at the same time I wanted to be able to look all my employees in the eye and know that I hadn’t sold them down the river.

“It’s very difficult when the workers see the two owners receiving a large amount of money. I thought if we sold in the conventional way it would affect staff motivation. I wanted to find a way of involving everyone.”

So after the initial contact, Nicoll sent Erdal the figures for the company and two weeks later the men from Baxi went to Gloucester to take a closer look at Windowmaker’s books. Three days after the visit, Erdal rang Nicoll with an offer of funding for the employee-backed buyout and Baxi began the due diligence.

Completion of the £5m deal took less than 10 weeks. Wronski sold out and quit the business almost immediately. Nicoll sold his entire 40% stake but stayed on as the firm’s managing director.

Every employee who had been at the firm for more than three months was given shares worth £1,000 free and those with longer service were given up to the Inland Revenue agreed maximum of £3,000. They could then buy another £3,000 worth. The rest of the £5m purchase price was financed by bank debt.

As well as becoming shareholders, two of the employees became directors — they were Mark Baldwin, a saw operator at the factory, and Clive Williams, a designer of conservatory specifications. Another employee, Maureen Cornish, is chairman of the employee trust.

The deal was completed last December and, said Nicoll, “time has convinced me that I was right. So far, nothing negative has happened. Nobody is worse off, everyone is better off. We didn’t have a bad business in the beginning, productivity was already high, but now that everyone is involved in the process, we are all pulling together.”

The company has assumed a hefty debt, but that is due to be paid back within the next seven years. And once that happens, the payback for the employees really begins.

“The average wage on the shop floor is about £250 a week,” said Nicoll, “but once we are debt-free I expect that the shareholder employees will in effect double their income through the dividends they will get, and that is something worth working towards for everyone.”

Baxi has now backed six employee buyouts across a broad spectrum of industry, with a seventh to be concluded at the end of the month.

The buyout deals include a computer-training consultancy, a care-homes operation and a Lancashire firm that makes industrial tanks, as well as the Loch Fyne oyster business.

But Erdal is keen for more. “After the last piece in The Sunday Times, we had about 15 inquiries. Some were not appropriate. The Windowmaker deal worked very well, but we went right to the wire with another deal that didn’t come off.

“It was very disappointing. The fellow just got cold feet and in the end he made a trade sale for exactly the amount we had agreed for a sale to the employees.

“There was no logic to his decision,” said Erdal.

Except, perhaps, being wary of the unknown.

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