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# Selling to a Competitor

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In contemplating selling your business to a competitor, you should realize there are three different kinds of competitors: a direct competitor; an indirect competitor; and a near competitor.

- The direct competitor is one who competes with you, nose to nose, on product, service and price.
- The indirect competitor will compete with you on some products or services. You don't often come across the indirect competitor competing with you on your full line of products and services.
- The near competitor is one who could be a direct competitor but in a different territory and seldom would you run across one another in a competitive environment

Competitors will buy a competing business for many reasons such as:

- To increase market share
- To gain access to more and/or better equipment
- For larger or more modern facilities
- To acquire better sources of supply
- Acquiring highly skilled and competent employees
- For a better return on investment (ROI)

Not all competitors are buyers. Many are simply looking for information. A competitor's interest in a business may be a sophisticated method to acquire a competitor's knowledge, thereby gaining a competitive advantage over the competitor who is thinking of selling his business.

It takes years of experience in the merger and acquisition field to negotiate with competitors and create a transaction that is fair and equitable to the seller.

If you are thinking of selling your business and are approached by a competitor claiming to be interested in buying your business, consider the following procedures:

- Say nothing until a comprehensive confidentiality agreement prepared by a competent intermediary or an experienced transaction lawyer, is executed by the inquirer containing non-interference provisions to protect your employees, customers, suppliers and proprietary processes and procedures;
- Do not provide customer lists, employee names, supplier lists, or detailed financial information until a purchase agreement is in place, and you are comfortable that the buyer is sincere in completing the transaction. Then, and only then, do you allow the buyer to initiate the due diligence process, which then needs to be kept on a short leash and under firm control.

Inquire as to why this competitor is interested in your business? What is their long-range business plan? How does your business fit into those plans? What about their management team? What financing do they have available? Will they provide you or your professional team an opportunity to confirm their financial capacity? Will they provide you with information about their business, including a tour?

Selling a business should be the highlight of your career and should be approached with the same diligence and care you would employ if you were looking to buy another business yourself. You need to have a strategic exit plan in place that is updated regularly. You should have a competent team of advisors in place that can provide you with legal, accounting, tax, negotiating, and valuation advice on demand. By taking the time in advance to have an up to date standby strategic exit plan in place, you will find there is less stress, less uncertainty, and less emotion to deal with. A properly planned exit strategy will result in the final transaction being the highlight of your entrepreneurial career.





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