SUCCESSION PLANNING STRATEGY GUIDE

Sell to an Industry Buyer

Texas Capital Bank
Private Wealth Advisors

If ever an owner thought about selling his or her business, they've likely thought about selling it to a competitor or business adjacent to the industry. After all, these are the companies that might gain a strategic advantage from acquiring the company, its facilities, employees and customers. The question is, how will the seller benefit — and what concessions will be made to protect the business and those that helped grow it?

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Is This Strategy Right for Your Business?

The first step to planning for any type of business exit strategy is to envision the future and all of the possible outcomes. Based on your own thoughtful evaluation, ask yourself how the many stakeholders inside and outside the business are likely to react before, during and after the transition. **Which strategy will best deliver your desired outcome?**

PRO Industry buyers should already know the ins and outs of the industry and have the infrastructure and management to absorb the business and keep it moving. Because of this, they typically can assume direct control immediately.

CON Rarely is ownership or even leadership asked to stay on for more than a short transition period when selling to a competitor. That means those stakeholders that may have helped shape the business into what it is will have no say in its future — nor take income from it.

ASK YOURSELF:
Will you be ready to walk away from the business immediately?

PRO Competitors may be willing to pay top dollar, whether they're trying to eliminate competition or grow market share. If so, that means leverage for the seller at the negotiating table, which could mean securing attractive terms outside of the final price.

CON Those within the same industry may use the premise of a purchase to learn more about the business. While not foolproof, a mutual agreement followed by an information exchange that requires buyers to share confidential information can help protect the business.

ASK YOURSELF:
Are you prepared to give competitors inside knowledge on your business, even if terms can't be reached?

Tips for This Strategy

Start Early.

Selling to an industry buyer is a delicate process, and certainly not an impulse buy. Most acquirers need time to plan out their resources — operationally and financially. While it can take roughly three to six months to close a sale, it's the years of work before the agreement that often determine the success of a business transition and the value it provides to those on the sell side. A potential sale can also be a great opportunity to maximize the benefits of estate planning — and a key factor in doing so is to begin far in advance. Once there is a letter of intent to sell a business, there are fewer estate planning options available because the owner's interest is greatly reduced.

Date Around.

Having leverage at the negotiation table allows sellers to gain maximum value for the business and walk away from any potential buyers that don't align with the culture or business goals. To have real leverage, sellers should engage multiple potential buyers. Identifying them is both an art and a science, and typically your business' current financial advisers can help to begin this process. However, acquisitions can also begin organically. Consider letting relevant businesses with which you already have a relationship know that selling might be a future option — you may be surprised how conversations evolve.

Mirror Competitors.

Those businesses looking to acquire another company will likely do so based on their own perceived weaknesses. Whatever that business lacks or does poorly may provide a framework for identifying potential acquisitions. Businesses hoping to sell to an industry buyer should take time to examine competitors' weaknesses and begin building a case for how their company is strong in those areas. While this can make the business attractive to competitors, it may also help differentiate it in the marketplace.

Always Be Prepared.

No business has suffered because the owners planned far in advance of a transition event — whether it be selling to a competitor, private equity, a family member or business partner. Conducting due diligence and identifying an ideal strategy to revisit every couple of years should prepare the business for a successful transition. Similarly, sellers should ensure their private estates are in order and prepared to handle the sales proceeds, its tax implications and the many effects the sale may have on their personal life.

Ready to Get Started?

Our succession planning experts are ready to help.
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