

Four Reasons Sellers Have a Natural Disadvantage in M&A Transactions

August 15, 2024

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“The roulette table pays nobody except him that keeps it. Nevertheless, a passion for gaming is common, though a passion for keeping roulette tables is unknown.”

So wrote George Bernard Shaw, the Irish playwright and London School of Economics co-founder, over a century ago. Were Shaw alive today, he would make a shrewd mergers and acquisitions (M&A) advisor.

In an M&A transaction, the keeper of the roulette table is the buyer: the organization, group, or individual interested in purchasing a company. Sellers are at an inherent disadvantage because they’re engaging on the other party’s terms. They’re sitting across from someone who sets the rules, who holds the chips, who has bet—and won—numerous times before.

To attempt to outsmart or overpower the buyer is to play against the house: you’re almost certain to lose—and wind up in a worse position than where you started.

If this sounds dramatic, that’s because it is. While no deal is a pure gamble, there’s always some level of risk and uncertainty involved. And if a seller doesn’t adequately prepare and check their expectations, they could be putting millions of dollars and countless hours on the line. Consider some of the basic advantages buyers have over sellers during an M&A transaction:

1. The Buyer Tends to Have More Resources

A business owner may have a hot commodity on the market, but a buyer has money. Guess who has better leverage? Moreover, capital is just one of the acquiring party’s many resources. Buyers tend to work with specialized teams of investors, bankers, accountants, and valuation professionals. Sellers may lack the means or knowledge to access outside expertise and build equally formidable rosters.

2. The Buyer Brings More Knowledge and Experience

Most business owners will only sell a company once, if ever, over the course of their lifetimes. Many buyers, by contrast, make deals for a living. There’s a good chance your prospective buyer has negotiated dozens of transactions before. They probably understand M&A activity in your industry better than you do. They may have grounds to challenge your assumptions about your company’s value and can back up their assertions with detailed data.

3. The Buyer Has More Time and Energy to Spend

Sellers have a fundamental limitation in terms of capacity—they need to balance the pressures and demands of deal-making with ongoing business operations. Again, for buyers, the transaction *is* the job. If the transaction is already underway, they can

dedicate their full time and attention to it. As a result, they're less likely than sellers to experience burnout and better equipped to vigorously defend their position as negotiations drag on.

4. The Buyer Is More Prepared to Walk Away

Business owners are deeply attached to the companies they've built. When a deal starts to materialize, it represents the culmination of years of hard work and usually follows a series of serious, passionate conversations and tough decisions. But while a seller's emotional investment in the company—and the transaction—is only natural, the buyer is wise to keep some distance. Think about the different meanings a closed deal has for either party: for the seller, it's the next stage of life; for the buyer, it's another opportunity that may or may not work out.

Originally posted 9/12/2019, no content changes.