

Strategy and Deal Making: Understanding the Nuances of the Buy Side Approach

September 10, 2025
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When it comes to today's deal market, no two buyers approach acquisitions in the same way. For companies exploring a sale, or for boards weighing offers, understanding the distinct perspectives and motivations of private equity (PE) firms vs. strategic buyers is a key component in the decision-making process. Most data shows that strategic buyers are involved in a larger percentage of acquisitions in the U.S. than PE firms, with some estimating they make up about 70% of transactions. While both categories of buyers are interested in achieving growth and value creation, their objectives, timelines, and deal-making strategies differ in ways that can shape everything from valuation to the post-closing integration process.

What Drives Different Types of Buyers

At the heart of every acquisition lies one simple question: What is driving the buyer? Understanding the why is essential as it determines factors such as how the deal will be structured, how risks will be allocated, and what life will look like post-closing.

For most M&A transactions, buyers generally fall into three categories:

- **Private Equity (Financial Sponsors)** – These investment firms are highly focused on financial returns, have shorter investment horizons, and a defined exit strategy. They are looking to acquire a company with a goal to exit for a profit.
- **Strategic Buyers (Operating Companies)** – This category is made up of public companies, large private corporations, or industry leaders who concentrate more on finding synergies, long-term competitive positioning, and importantly, the integration of the target into their existing organization.
- **Hybrid and Alternative Buyers** – This group may include family offices, sovereign wealth funds, and consortiums, which may offer a blend of financial discipline and strategic motivations.

Private Equity's Playbook

Private equity buyers typically operate within defined fund cycles, translating into a clear investment horizon, which is often five to seven years. Their acquisition strategy centers on unlocking value, whether that is through operational improvements, growth initiatives, or bolt-on acquisitions.

There are several key hallmarks of the private equity approach, including discipline surrounding valuation. PE firms are very focused on returns, which can make them much more price sensitive than other buyers. They also utilize leveraged financing as a core component of their capital structure. This can magnify returns, but it also includes an additional risk factor. PE buyers also enter the transaction with the end in mind. They are concentrated on the exit event, whether that is a sale down the road, IPO, or recapitalization.

For sellers, partnering with private equity can mean access to growth capital and operational expertise that can be invaluable, but it likely will not provide the kind of long-term “home” that a strategic acquirer would. The PE buyer is looking to exit as soon as the time is right.

The Strategic Buyer’s Perspective

As opposed to their PE counterparts, strategic buyers, pursue acquisitions to achieve synergies and create competitive advantages. They are motivated by expanding their market share, entering new regions, or acquiring complementary technologies.

Strategic buyers often have longer investment horizons and could be willing to invest more heavily on the front end, knowing that they are looking to achieve returns over a longer time frame. This means that they might pay more of a premium when they can justify it through cost savings, revenue growth, or vertical integration over time.

These buyers are going to be looking to integrate the target into their existing operations, which can impact culture, systems, as well as management continuity. Sellers may see strategic buyers as a more stable option as they are “in it for the long run.”

The Rise of Hybrid Buyers

There is an increasingly important category for sellers to consider, and that is the hybrid buyer. This category can include family offices, sovereign wealth funds, or corporate-backed investment arms which blend the return-driven discipline of a PE buyer with the more patient objectives of a strategic buyer. For certain sellers, for example founder-owned businesses, this option can be an attractive middle ground that presents a “best of both worlds” scenario.

On the sell side, understanding the nuances of the buy side is essential to making the right decision. The “best” buyer isn’t always the one that comes in with the highest offer, and it is important to consider things such as long-term vision, cultural alignment, deal certainty, and growth support as well. There are some distinct differences between buyers, and to best negotiate terms and maximize value and long-term success, sellers must appreciate these differences and prepare accordingly.