

Why Are the Fees to Sell a Business So High? It's a Matter of Expectations

October 17, 2024

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“How much will it cost to sell my business?”

It seems like a reasonable enough question—and a business owner is wise to plan ahead and think about the financial impact of merger, acquisition, or other business transactions early on. However, focusing on what you'll pay to sell a business is a classic example of “missing the forest for the trees.”

Or, to put it another way, missing the sale for the fees.

I get it. Legal costs are never pretty. Most business owners are fortunate enough to only pay attorney's fees periodically, on an as-needed basis, for relatively small projects. We're talking about document review, collections, intellectual property development, and so forth. If you're really unlucky, you may need to bring on a lawyer for litigation. The associated bills aren't pleasant, but they won't bankrupt you (and if they do, you hired the wrong attorney).

When you have the opportunity to consummate the sale of your company, on the other hand, you can expect to receive the largest legal bill of your lifetime. Depending on the size of the deal, your attorney may charge you upwards of six figures. In any other situation, the price would seem exorbitant—outrageously so.

But a business transaction isn't like other situations. It's an extraordinary event with exponentially higher stakes than an owner is used to. No business milestone compares.

Yes, you'll receive the largest legal bill of your lifetime—because you're earning the biggest payday of your lifetime. It's a matter of scale and complexity. You will not get a good second “bite of the apple.”

For sellers, some level of legal “sticker shock” is understandable. Few people on Earth can normalize earning several million dollars, or several hundred million, at once. The problem arises when a business owner handcuffs their advisors due to fee constraints. The handcuffs could have unintended implications for a seller.

I recently represented a client who had grown accustomed to relying on legal assistance from a family friend. He was used to essentially paying his lawyer a couple of bucks and a case of beer. When it came time to sell his business, the client realized he needed a different caliber of attorney—but failed to adjust his expectations accordingly. When he learned he owed approximately \$300,000 in legal fees, I watched the color drain from his face.

Keep in mind my client's business sold for \$75 million. Our fees amounted to less than 1% of the total sale price. That's in line with (admittedly loose) industry standards—if not below.

My client knew how many hours were invested in the matter—and he had the budget in mind before the deal commenced. He knew a substantial bill was coming. But it wasn't tangible for him until the end.

The moral of the story? Don't wait until after you've sold your business to think about the costs of selling your business. Develop a financial plan—and speak to your advisors to understand the moving parts and inputs to a transaction. Be prepared to spend substantial fees paying your attorney, investment banker, accountant, M&A advisor(s), and any other professionals involved in your team. After all, the sale of your business likely will be the largest financial transaction of your lifetime.

Then, move all that to the back of your mind and prepare yourself for the biggest question ahead: what you'll do with all that money after you close?