ZacharyScott | Insight

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3 Ways Sellers Sabotage M&A Deals Without Realizing It

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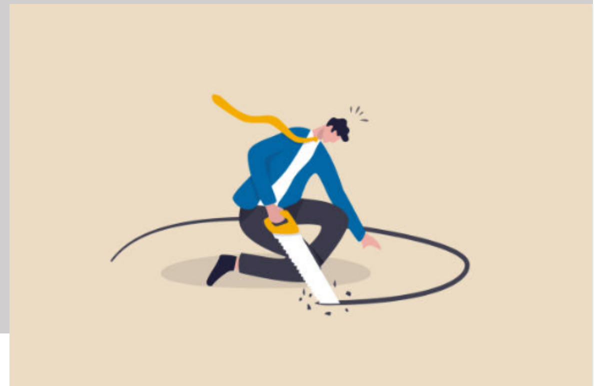
Avoid these pitfalls, and your next deal—whenever it happens—will be smoother, more efficient, and (hopefully) more lucrative.



For many business owners, selling their company is a monumental, often once-in-a-lifetime event. Adding to this emotional complexity, the dynamics of a sale naturally lend themselves to an uneven playing field: imagine a first-time seller—someone who has spent years building their cherished business—sitting across the table from an experienced buyer, like a private equity firm or a large corporation that churns through acquisitions like clockwork.

This will come as no surprise to any of our long-time readers, but the common theme is that knowledge is power, and having a game plan isn't just helpful—it's crucial.

Even in the best of times, the deal process can be complex and nerve-racking, so it's no wonder potential transactions can fail.

Luckily, there are a few common missteps that, if avoided, can put a seller on a much more solid pathway to success. This will come as no surprise to any of our long-time readers, but the common theme is that knowledge is power, and having a game plan isn't just helpful—it's crucial.

Below are three especially common mistakes that trip up sellers. Of course, this isn't the entire universe of potential pitfalls—just a highlight reel of easily avoidable ways a seller can sink their own deal.

Focusing Solely on One Buyer

A surprising number of sellers think they've already found "the one," sparked by a single inquiry or a preliminary offer. It's a bit like deciding you'll marry the first person who glances your way at a party. Sure, it's easier in the short run—no small talk with other prospects—but in a transaction without multiple suitors, the best terms never see the light of day.

Entertaining more than one buyer creates a competitive environment, and competition maximizes optionality for the seller. Plus, if one deal collapses, you want Plan B (or Plan C) at the ready.

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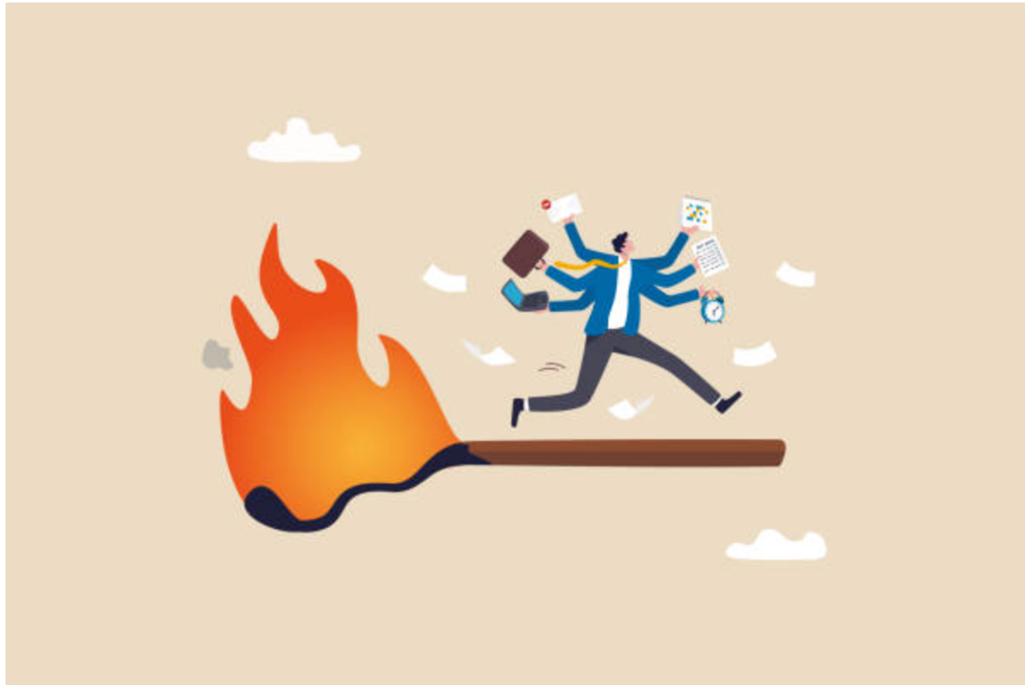
Deeper Dive

Looking for a more nuanced look at the risks of narrowing your buyer pool? These articles have you covered:

Setting Clear Guidelines for the Sale of a Business (September 2024) – Provides strategies on clarifying (and sticking to) your objectives so you don't "move the goalposts" mid-deal.

The Disadvantage of Constraining the Universe of Buyers in a Sale Process (January 2022) – Explores how narrowing the buyer pool too quickly can limit your negotiating power to the detriment of the overall outcome.

The Easy Way Out – The Unsolicited Offer? (May 2017) – Discusses why an unsolicited offer often benefits the buyer more than the seller, and why it might not be the "easy" path it seems.



Being Unprepared for the Due Diligence Phase

Ah, due diligence—that stage where buyers dissect every corner of the business, looking for hidden weaknesses or undisclosed secrets. After you sign a letter of intent, the buyer combs through everything: financial statements, customer contracts, employee agreements, regulatory compliance checklists, you name it. It can be a lot.

Without a doubt, it is better for a seller to set accurate expectations up front and for due diligence to go smoothly, rather than for the buyer's image of the company to decay from first glance.

Surprises in due diligence are rarely good. If you don't want to experience the awkward moment of having a buyer discover something you didn't know yourself, start preparing well in advance. Gather documents, pinpoint potential problems, and disclose issues early. Transparency might feel risky, but buyers really don't like surprises—at least, not the negative kind. Without a doubt, it is better for a seller to set accurate expectations up front and for due diligence to go smoothly, rather than for the buyer's image of the company to decay from first glance.

Deeper Dive

If you want the unabridged version of everything that can go sideways in due diligence and how to handle it, check out:

Due Diligence – Not What it Used to Be (November 2024) – Examines how and why diligence is more thorough than ever, the factors driving increased scrutiny, and practical steps for staying ahead of buyer requests.

Due Diligence: Investigate What Matters (Summer 2018) – Breaks down which inquiries truly matter (rather than turning over every rock) to give buyers and sellers clearer insight into real deal-breakers – and deal-makers.

If you can't articulate the industry's ins and outs—plus how your business slots in—then the business is inherently riskier to any acquirer, a factor that will show up across offers in valuation and terms.

Failing to Provide a Strong Industry Overview

Buyers like to know the world they're buying into. That means they want your take on the competitive landscape, market trends, and regulatory factors swirling around your sector. If you can't articulate the industry's ins and outs—plus how your business slots in—then the business is

inherently more risky to any acquirer, a factor that will show up across offers in valuation and terms.

So, be honest: *Why do you win in your market?* Why should investors care about your company's story?

If you can't answer these questions convincingly, do some homework:

- Run surveys to confirm your customers actually love you (or at least need you)
- Benchmark against competitors and analyze market trends
- Identify strengths and weaknesses before someone else points them out for you

Deeper Dive

For a deeper exploration on highlighting your unique value proposition, see:

Preparing a Business for Sale – Part I: Data Matters (April 2015) – Showcases how robust data and thorough pre-sale groundwork can position your business for stronger offers.

Preparing for a Successful Transaction—Beyond the Diligence Checklist (January 2013) – Explains how to show that yes, indeed, you do win in your market, and will continue to do so.

Conclusion

Selling a business is not for the faint of heart. It requires strategy, dedication, and a willingness to handle surprises. But if you avoid these three common mistakes—focusing on multiple buyers, preparing for due diligence, and strengthening your industry overview—you'll position yourself for a smoother closing.

Of course, these aren't the only ways to derail a deal. We have discussed additional pitfalls in previous articles. And with market conditions in flux, expect even more complications over the next 24 months. In other words, if you want to exit cleanly and profitably, get help from experienced advisors. They'll guide you to stronger terms, faster closings, and fewer unwanted surprises.

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Zachary Scott has published this newsletter since 1997 to bring you a thoughtful analysis of issues affecting middle-market businesses.