

WHY LARGE LAW FIRMS STRUGGLE TO COMPLETE SMALL DEALS

By Vaughn Buffalo

Have you ever thought why is it that large firms—firms with over 100 attorneys—cannot effectively service smaller businesses and smaller deals?

It's obvious that larger firms are very expensive. But it can't just be about the fact that these firms are priced for deals with nine digits instead of deals with seven. If it was just about dollars, larger firms would hire contract or temporary attorneys, reduce their prices for the smaller deals, make sure they attain a good level of volume, and then make some money.

You would also think with large firm institutional knowledge and experience, small deals would be simple and easy matters for them. They have forms upon forms from which to draw and an eager pool of associates all chomping at the bit to prove themselves. It also would be very good for their associates to practice on these smaller deals, hone their skills and then apply their experience to larger deals.

There are more, but I see four major hurdles for larger firms to do smaller deals.

- 1. Smaller deals are more complicated than larger ones.**
- 2. Smaller deal experience does not easily translate to larger deals.**
- 3. Larger firm culture does not value smaller deals.**
- 4. Partner politics is unsympathetic to smaller deals.**

Smaller deals are harder than larger ones. Often lawyers are wrestling with family dynamics when a smaller family-owned business is being bought or sold. Fear of change and the unknown, emotional attachment and inertia, all human forces designed to overcome logic and rationality act as a drag on deal closure. Family dynamics may cause certain persons not to be forthcoming with information or may cause your client to say one thing and do another. Emotional dynamics in a smaller deal make them infinitely more complicated than larger ones, with smaller upside and billings.

Because smaller deals have more of an emotional component to them than larger ones, the experience you gain does not necessarily translate. Lawyers on small deals often need explain the terms of a contract and its ramifications in plain language. Numerous examples are needed to understand complicated concepts. Many of these skills are not transferable. A lawyer's ability to speak with the wife of a small business owner to assuage her concerns over a particular risk is not needed when speaking with a private equity firm wanting to unload a business to partially recoup its expenses on a bad investment.

While working at some of the largest New York firms in the world, I never was congratulated for completing a smaller deal. An associate has 3 deals on her desk: a \$1 billion deal, a \$500 million deal and \$10 million deal. Because of the culture of the larger firm, the priority is precisely in that order. It may not be said, but it is clearly conveyed.

Partners want other partners to bill fully and freely. While a partner on a particular transaction may see the value of cultivating a client by giving them a break on the current deal in order to gain the larger deal in the future, other partners don't have that relationship or incentive. True story—a client of a larger firm had a flat fee arrangement for deals under \$X. A new deal came 10% over \$X, and the firm charged normal prices, the client was angry and no one was happy. The partner did not have flexibility to modify the billing because hey "a deal is a deal".

Vaughn Buffalo is a partner at his firm, Buffalo & Associates in New York City. His firm specializes in Mergers & Acquisitions.