PETER SCOTT CONSULTING

Briefing Note February 2016

Test your need to grow and merge

The momentum for the growth of law firms across the spectrum of the profession is **client driven** – and it is becoming less and less relevant how lawyers see themselves.

Clients of law firms perceive that many are lacking sufficient resources to compete with their larger and more developed competitors. Moreover, feedback from clients in response to surveys often reveals there to be a clear distinction between the kinds of work they would give to a law firm, and what would go elsewhere. Reasons for using another firm often include the following:

- *specialist expertise or knowledge not available at the firm;*
- *larger deals go elsewhere where greater resources are available than are perceived to be available at the firm;*
- *The 'IBM' factor, particularly where outside stakeholders are involved and the reputation of a 'bigger' name is needed for reassurance*

Feedback such as this highlights the ability of larger firms to develop **greater resource** and to win work and, as a result gain a competitive advantage over firms with less resource. However, even some of the very largest law firms recognise their need to develop greater resources if they are to remain competitive in their markets and this is driving merger activity both in the UK and internationally between some of the largest players.

The issue of resource is a particular problem for firms in what might be called the 'middle market' which are often too large to be niche and too small to be full service (*can any law firm be truly full service?).* Such firms cannot be all things to all men. Being focused on a limited number of areas of work or sectors at which they are good and for which they are known, is likely to be a more sensible and successful way forward in the longer term.

However, in today's competitive legal markets, having sufficient breadth and in particular sufficient depth of quality expertise, requires building teams in focused areas. To provide that focussed resource of expertise (i.e. people) requires strong **financial resource** and that financial resource needs to be invested in those areas where it can be most successfully and profitably utilised.

Law firms also now require a minimum level of support infrastructure to be able to operate efficiently, profitably and compliantly. Too many firms are still unable (or unwilling) to spend what is required to meet this minimum level of infrastructure in areas such as finance, business development, knowledge management, HR, technology, risk and compliance and efficient premises of a required standard in strategic locations.

As a result of such resourcing needs, it is becoming increasingly common for a law firm, having been through a strategic planning process from which it has developed a realistic plan, to then conclude that it cannot achieve such a plan on its own.

The investment required to take a firm to the levels of competitiveness required are likely to be beyond the financial resources to which many partners are willing to commit. Organic growth, while an attractive option for some, can devour large amounts of cash and depress the profits of a firm for a long period of time before the 'investments' begin to provide pay-back, which can never guaranteed. There needs to be a balance between 'jam tomorrow' and sustainable profits going forward at a level which ensures a firm is competitive, particularly in the recruitment market. This balance is difficult to achieve when there is a heavy investment programme in new people and where the financial resources of a firm are small and are being stretched.

Organic growth, on its own, is therefore unlikely to be an answer to many firms' needs.

How can consolidation (merger) help to provide the growth needed by law firms?

Merger is not a strategy – it is a means to an end, which is to become more competitive and in the process, more profitable on a sustainable basis. Most often a merger will aim to provide a more viable platform for future growth to enable a firm to achieve its strategic goals. Merger is also NOT about size for the sake of size – although it is about what size can bring – the resource needed to help a firm become more competitive.

And there is another problem, which cannot be ignored by small and mid – sized firms – **succession**. When faced with impending retirements, too many law firms put their heads in the sand and do not make plans for the future well – being of everyone in their firms. Ill thought through or forced mergers on unattractive terms are often the result. Providing for succession is about planning and well planned mergers can provide a solution to many succession problems.

Set out below are some questions which may help you to better understand whether you have a need to grow your firm and if so to decide whether some form of merger may be an approach your firm should be considering.

If you answer 'Yes' to any of the questions, you may need to consider plans for growing your firm and how such growth can be achieved, whether it be by merger or by other means.

NEED TO GROW / MERGE?	YES	NO
Have you lost valued clients and good people to firms which are larger and more developed than your firm?		
Have clients or referrers told you that there are gaps in your service offering?		
If so, is a lack of financial or people resource preventing you from filling those gaps in your service offering?		
Has a client ever used a competitor firm in preference to you because you were not considered by the client to have the necessary knowledge or expertise?		
Have you failed to win work from clients which work was instead won by firms which are larger and more developed than your firm?		
Do you have a clear, achievable and fully resourced plan to plug any gaps in your ability to provide clients with what they want from you, to ensure continuing client satisfaction and loyalty?		
Are there potentially any profitable markets, areas of work or sectors which you have concluded you will not be able to access on your own because of lack of resource?		
Do you have clients who individually each represents more than 5% of your turnover?		
Are you on a client's panel of law firms which is regularly reviewed and where that client represents more than 5% of your turnover?		
Are you finding it difficult to 'stand out from the crowd' and create meaningful differentiation from your competitors?		
Have you concluded that you will not be able to achieve your realistic strategic goals on your own?		
Are you unable to improve profitability because your firm lacks economies of scale and efficient use of people or other resources?		
Have you been unable to retain or to recruit people you really wanted?		
Is succession an issue for you now, or will it be an issue for your firm in the next 5 years?		
Are you able to afford to fully resource your support infrastructure needs, including - Finance - Business development - Risk and compliance - HR - Technology		

- Knowledge management - Locations - Management		
If you currently do not have one, would it be desirable to have a full time managing partner or CEO able to successfully lead your firm and build its competitiveness and financial success?		
Are there any changes necessary in your firm which currently cannot be implemented because of your inability to have access to sufficient resources or for any other reasons?		