Top tips to consider when merging

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Practice Management analysis: Law firm mergers have become increasingly common in recent years. Peter Scott, principal of Peter Scott Consulting and former manager partner of Eversheds' London and European offices, discusses the most important things to consider before a merger.

How widespread are mergers between firms now and what would you advise firms wanting to merge?

We have seen quite a lot of merger activity in recent years and especially since the global financial crises although the number of mergers has been falling of late. According to data recently compiled by the finance provider LDF, there were 174 mergers between law firms in 2014, down from 247 in 2011 although Solicitors Regulation Authority (SRA) figures show that the number of regulated firms has remained fairly constant. However, while many firms are now focusing on profitability, a poll by the Law Consultancy Network showed that 60% of respondent firms still had amalgamation on their agenda. Regional firms appear to remain interested in mergers and there have been some high profile mergers in the last year including those between Wragge & Co and Lawrence Graham and Speechly Bircham and Charles Russell.

My key piece of advice to firms is only merge for the right reasons (as discussed below).

What are the key issues in considering a merger and what are the issues that prompt firms to want to merge?

There are several things to consider here:

- a merger is not a strategy but merely a means to an end--to gain a competitive edge
- a merger should also not be regarded as a panacea for solving a firm's problems but it can provide two firms coming together with a better platform for focused competitive growth which neither on their own could achieve
- if a firm realises that it cannot achieve its ambitions on its own because it lacks the resources to do so, then merger in some form is likely to be required
- a merger can also:
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    - help to better provide clients with what they want, by developing specialisms and by filling gaps in a service offering
    - retain, increase and improve a client base
    - create meaningful points of differentiation from competitors
    - improve profitability by economies of scale, more efficient use of people and more premium income from higher value work
    - improve the quality of management and infrastructure, recruitment and retention potential, the management of risks and access to more capital for investment
    - be a catalyst for making necessary changes happen more quickly--because in a merger situation people expect change to happen

What are the most important considerations in approaching a merger--both in terms of identifying possible partners and then assessing their suitability?

Whether a firm is approaching another firm or is approached, it is essential to establish criteria by which to assess the suitability of the other firm.

If approached

What criteria and processes can be used to decide whether or not an approach should be pursued?

Initially an approach makes you feel 'wanted' but also can make you suspicious, particularly of their motives, for example:

- Why have they approached us?
- What are their motives?
- What do they want?
- What could they bring to us that we could not provide ourselves?
- What problems do they have which they want us to sort out?
- Is there a 'culture fit'--what kind of people are they?
- Is there a business and financial case?
- Do they have a vision? What could we do together?
- Do they substantially meet our own criteria for merger targets?
- Will this divert us from our basic strategy and mean we go off at a tangent? (There is a need to balance out strategy v opportunity--the perfect firm is unlikely to exist and there will always be some compromises, which as long as they do not take away the basic reasons for and validity of a merger, can often be satisfactorily managed.)

If making approaches, selecting merger targets

Be clear as to your criteria. Ideally do not merge for marginal benefits--look to make a quantum leap.

Develop your own 'vision' of the kind of firm you want to create and this will point to some clear criteria for the type of firm you should seek as a merger partner, eg:

- size/relative sizes and strengths
- people/reputation
- business fit
- financial case--relative profitability/debt and balance sheets

Will a merger with a particular firm give you a competitive edge, put you in a better position to take advantage of opportunities or create better opportunities in the market place of the future so as to give you an edge over your rivals? For example:

- Will it improve your client service in terms of depth in specialisms and by filling gaps? Will your clients recognise that it will be good for them?
- Will it help you to stand out from the crowd by creating meaningful points of differentiation from your competitors?
- Will it help you to retain, increase and improve your client base?
- Will it help to improve your quality and substance in relation to management and infrastructure, access to more capital for investment and improving recruitment and retention potential?
- Will it improve profitability in the medium to longer term by economies of scale, more efficient use of people, better leverage and/or rates and more premium fee income from better quality work?

What are the things to consider in identifying targets and making approaches?

Good research is all-important. Do your own homework with the help of professional advisors with a view to knowing as much as possible about the target firm and the personalities in the firm. In particular do not believe:

- your own 'market knowledge' or perceptions of another firm
- what other firms say about themselves--many have good PR machines and the public information available is not always that accurate

Based on your research rehearse answers to questions you think they may throw at you at a first meeting, for example:

- Why have you approached us?

- o We can see what we could do for you but what could you possibly do for us?
- o Why should we consider merging with you?
- o We don't need to merge but there is no harm in hearing what you have to say.

What are common pitfalls in mergers and how can they be avoided?

There are various pitfalls to bear in mind:

- o do not lose momentum, otherwise the process can come to a grinding halt
- o sort out 'deal breakers' at an early stage
- o always take the best possible professional advice
- o do not avoid taking necessary tough decisions before completing the merger--afterwards it may be too late
- o avoid taking your eye off running your existing business
- o do not focus on the differences between the two firms but instead focus on their compatibilities
- o do not fail to communicate--particularly internally, and once the merger is in the public domain, with clients and the market place
- o ensure that you understand that completion of the merger is the beginning not the end
- o failure to integrate the two firms and their people and to manage performance will most likely mean that the merger will not achieve its objectives

Interviewed by Diana Bentley.

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