



**Law Firms mergers- joining apples and apples, oranges and oranges plus avoiding a damaging mis-match**

**COVID-19 and Law firms: should you be looking at merger opportunities for 2021?**

**November 2020**

We are currently advising a number of firms as they negotiate with potential merger partners. It is a tough- and often lonely- time for the managing partner and his or her leadership team. This is one of the biggest decisions that an equity partner and the firm's leadership will ever make and in the aftermath of the COVID-19 impact on law firms, their clients, and the general economy, is an opportunity which should now be on many firms' agendas. If negotiated and implemented well, with the right partner, it can build a foundation for growth, better client service, more cost-effective operations and solve succession challenges. If done badly, or with the wrong firm, it can involve years of sorting out problems and become a major management distraction.

We are beginning to see in Autumn 2020 the beginning of an acceleration of the trend to consolidation in the legal market especially with mid-sized and smaller firms. In the last nine years in the Lawyer 100 listing alone, 18 firms on average a year have merged or acquired - often with firms outside the Lawyer 100. Many other equally good yet smaller firms have also merged or acquired. To date in 2020, there have already been at least three sizeable mergers-

Knights/ Shulmans; Knights/ ASB; and Moore Blatch/ Barlow Robbins and many involving smaller firms.

Firms have different reasons for wanting or needing to merge. Some will decide to do so because key partners want to retire or step down from management; some because of business damage such as cyber-fraud; or simply a realisation that the current size of the firm leads to a risk/ reward ratio for equity partners that is no longer attractive or sustainable. We are also seeing increased pressure on cash flow with higher PII costs, deferred tax and VAT payments looming, [the tapering off of COVID19 government support], slower paying clients and cautious banks.

Good leaders want to protect their colleagues and may come to the conclusion that finding a compatible merger partner is the best course of action. For them personally, stepping down from management is often combined with a reenergised professional practice as well as helping manage the post-merger integration as either an equity partner or a consultant.

To quote one managing partner ***“we came to the realisation that we simply could not successfully lead a law firm of our size in the current climate”***. That, post-COVID-19 with a slowing economy, is a conclusion many managing partners will reach.

Other leaders will decide to look for merger opportunities to build profitability or scale (and the two are not necessarily linked) ; to enter new geographies or gain new practices; to gain a larger share of a region or a sector; to reduce overhead costs per fee earner; or to acquire talent.

These growth strategies often aim to acquire good clients, people and expertise to fill ‘the gaps’ from other firms who may be looking to link up. A good place to start is to identify firms which have succession issues. Firms will have their existing professional networks (for example consultants like ourselves) and these can be enlisted to help search for appropriate opportunities.

At the outset, an acquisitive firm seeking opportunities should be clear as to its future business focus and so identify firms it is prepared to look at with a view to filling gaps or building new areas of work to strengthen that business focus.

A number of targets may need to be looked at and external help may be enlisted. These may often reveal opportunities not previously considered. A tested business case as to whether acquisition of identified targets will help deliver the resource needed to build a stronger platform for growth should be developed as an important challenge- in our experience, saying no to the wrong opportunity can add save significant time and money, as well as preventing a potentially disastrous merger.

**Consolidation based on a strong business case, if well implemented, can help to build long-term sustainable competitiveness and profitability.** It is however a truism to say that a merger is not a strategy; the strategy needs to drive merger. It is also vital to have a clear objective for the merger to build a post-merger integration plan.

The questionnaire below may help you to clarify your thinking regarding some of your firm’s strategic options in 2021 and beyond and in particular, whether you should consider **consolidation** as a means to helping you to achieve your goals?

CONSIDER YOUR NEED TO CONSOLIDATE	YES	NO
<b>To future proof your firm</b>		
Are your existing strategic plans realistic and achievable within given timescales?		
Alternatively have you concluded that your firm will not be able to achieve its realistic strategic goals <b>on its own</b> ?		
Are there potentially any profitable markets, areas of work or sectors which you have concluded your firm will not be able to access <b>on its own</b> ?		
Is your firm currently <b>in the right place</b> in relation to its strategic aims?		
Can you ensure your firm <b>will be in the right place</b> in 5 / 10 years’ time?		
Do you currently have <b>the right people in the right places</b> ?		
Has your firm clearly identified <b>the risks to its future</b> ? Can it mitigate them successfully?		
Does your firm need to <b>diversify</b> the services it offers?		
Does your firm have clients who individually each represents more than 5% of turnover?		

Is your firm on a client's panel which is regularly reviewed and where that client represents more than 5% of your turnover?		
Do you know how you are perceived in your market place compared with your competitors?		
Has your firm been unable to retain or to recruit people you really wanted?		
Is your firm finding it difficult to 'stand out from the crowd' and create meaningful differentiation from its competitors?		
Have you lost valued clients and good people to firms which are larger and more developed than your firm?		
Have clients or referrers told your firm that there are gaps in its service offering?		
If so, is a lack of resource preventing your firm from filling those gaps?		
Has a client ever used a competitor firm in preference to your firm because your firm was not considered by the client to have the necessary expertise or resource base?		
Has your firm failed to win work from clients which work was instead won by firms which are larger and more developed than your firm?		
Does your firm have a clear, achievable and fully resourced plan to plug any gaps in your ability to provide clients with what they will require from you in the future?		
Will your firm be able to afford to fully resource its future management and infrastructure needs, including <ul style="list-style-type: none"> <li>- Leadership?</li> <li>- Finance?</li> <li>- Business development?</li> <li>- Risk and compliance?</li> <li>- HR?</li> <li>- Technology?</li> <li>- Knowledge?</li> </ul>		
Will your firm be unable to improve profitability because it lacks economies of scale and efficient use of people or other resources?		
Are there any <b>changes necessary</b> in your firm which currently cannot be implemented?		
<b>To deal with succession issues</b>		
Have you recently reviewed the age profile of the partners in your firm?		
Is succession an issue for you now, or will it be an issue for your firm in the next 5 years?		
If so, do you have a plan?		

Have you identified younger partners who will be capable of or willing to take forward the firm in the future?		
If not, do you have a contingency plan in place?		
Have any of your partners said when they wish to retire or wind down?		
Do you have a compulsory retirement age for partners?		
As partners, do you think you have something to sell?		
If you consider there is 'value' in your firm, do you have a plan to extract that 'value'?		
If you are a sole practitioner, is buying run-off cover and closing down your firm a practical and affordable proposition?		

We would welcome a discussion to help you implement your strategy to build your competitive advantage, make you even more successful and help you identify opportunities for growth.

**We wish you well in your deliberations on this important decision for firm's future. It is a complex decision- and we stand ready to help you. Initial consultations are, of course, free.**

**As a result of advice, you may decide that growth via team hires or lateral partner recruitment is preferable to merging with another firm. Or you may find sources of value which will lead to a sustainable, profitable route to maintaining independence.**

**Whatever your plans, we look forward to talking to you.**

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