

## LAW FIRM MERGERS

### THE CHANGING CLIMATE

The traditional partnership vehicle for running a law practice may face a challenging time in both the run up to the implementation of the Clementi proposals and in the post implementation period. Some solicitors will undoubtedly look to other legal structures that are more beneficial in terms of raising and unlocking finance and addressing succession issues. Some partnerships may also see merger as the route to consolidating their position in the market place.

### IS MERGER THE RIGHT ANSWER?

The crucial underlying factor in any merger is that it needs to be for the right reasons. The only valid argument for merger is to improve competitiveness by servicing clients better and by winning new clients that neither firm could attract independently. There may also be other considerations such as retiring partners or an ageing partner profile, but these should not detract from the overall goal. Merger should not be considered purely as a means to growth or cost savings. The result can often be a *larger*, but not necessarily *better* firm.

### FIVE STEPS TO A SUCCESSFUL MERGER

1. Establish strategic goals;
2. Ascertain a profile for a merger candidate;
3. Carry out an initial assessment of potential candidates and draw up a shortlist;
4. Evaluate the preferred candidate in detail;
5. Complete merger negotiations and plan the launch of the merged firm.

### Establishing strategic goals

The first step always has to be to examine the rationale for merger and ensure that it is the best way to fulfil the firm's long term goals. Points to consider include fulfilling client needs that cannot currently be met; being able to compete more effectively for new business; identifying a changing business arena (e.g. the emergence of new competitors or the merger of an existing competitor) and anticipated changes in client's needs.

### Creating a candidate profile

The preferred candidate must satisfy a number of "best fit" criteria in order to be the most suitable merger partner. A profile should be established to include factors such as size, location, client base and areas of expertise, reputation and current market position, management style and structure and profitability.

### Drawing up a shortlist

A shortlist of potential partners needs to identify those that satisfy the firm's established strategic objectives. This assessment needs to home in on the similarities and dissimilarities between the two firms in terms of both culture and business methods. Integration needs to be achievable in a relatively short period of time and the proposed merger needs to make sense economically and provide the

resources to achieve defined competitive advantages.

### **Evaluation of preferred candidates**

A more detailed evaluation should focus on the business case for the proposed merger. Any areas that are complimentary or overlap should be identified, as should any issues that might prevent the merger. The combined firm should be outlined in terms of position, economics and client base. Once the preferred candidate is identified, the initial approach should be made either directly or through a third party. The first meeting will be critical and it is crucial to be well prepared. Discussions should demonstrate that the partners are prepared to be flexible but the overriding factor should be the business case.

### **Merger negotiations**

Negotiations should only be carried out with one firm. It is important that all of the partners are kept aware of the progress at all times. Presenting a *faite accompli* will not motivate for the longer term. The management structure and roles should be clarified at an early stage in the process. The two firms should exchange information regarding clients, including any potential conflicts, capital structure, reward structure, partner roles and promotion criteria and the structure and capabilities of support departments. It is important to allocate a project manager in each firm who is able to co-ordinate the process. Good communication is vital. This applies both to staff and clients. A unified marketing and human resource should be drawn up.

The integration of departments should be carefully managed. It is important to be clear about roles, reporting lines, responsibilities and performance

expectations from the outset. The physical location of the merged firm needs to be considered and there may be surplus property to dispose of or leasing arrangements to terminate.

The tax consequences of the merger will also require addressing at an early stage to ensure that any personal liabilities are minimised.

Finally it is important to monitor the costs of the merger and to ensure that current business performance does not suffer whilst time is taken up during the negotiations.

### **Conclusion**

You should never lose sight of the fact that merger is not always the *only* route to expansion. Organic growth is slower and often more expensive, but it may be surer. Merger should only be contemplated in the context of achieving specific strategic aims, and then only if it is manifestly the best way to achieve such aims. Merger in itself creates little more than a larger firm, possibly better resourced. Sound mergers create new opportunities, not instant wins.

### **Contact Details**

**Brian Carruthers**  
**Managing Partner**  
**Thomas May & Co**  
**Allen House**  
**Newarke Street**  
**Leicester**  
**LE1 5SG**

**Tel: 0116 233 5959**

**Email:**  
**briancarruthers@thomasmay.co.uk**

Disclaimer – for information of users

This bulletin is produced for information only and no action should be taken without seeking the appropriate advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this bulletin can be accepted by the authors or the firm.

July 2006