Climb that Wall:
Law Firm Mergers are Changing the Way Our Industry Operates

At one point in its lifetime, every firm will hit the proverbial "wall." The wall is when the firm's growth stagnates and it must adapt to the current market to continue. Overcoming this barrier, or failing to, can make or break a firm.

Lay of the Land

Obvious to anyone paying the slightest attention, law firm mergers are rapidly changing the growth strategy of law firms. In an increasingly cutthroat environment, law firm mergers are how firms are climbing over the wall. As substantial organic growth becomes progressively challenging, firms are buying up other firms in a bid to get a larger piece of the market share pie. With 28 mergers in Q1 of 2017 alone (according to Altman Weil MergerLine), law firms and partners must accept this as the new growth strategy. They need to pay attention to the market and develop a law firm merger strategy that will lead their firm to success.

Why Law Firm Mergers?

Since the 2008 recession, clients have become selective about when they employ law firms. With so much of the smaller work being done in-house, companies usually only reach out to law firms if the case is too large or too specialized for their in-house counsel. When companies do decide to seek a law firm, they infrequently have a "go-to" law firm. More often, companies will conduct a sort of procession where law firms must prove to the company that they should be the one to handle the case.

Generalist firms' days are nearing an end. Firms that want to be all things to all people will give way to firms with specialization and niche practices, and automation. This has forced firms to acquire specialized practices to better cater to their clients' specific needs.

Who's Getting Bought Up?

Overwhelmingly, smaller and more regional firms are being absorbed by larger ones. There is a simple reason for this: The deals are faster and easier to pull off than the larger ones. Think about it this way, acquiring a smaller firm is like going in for outpatient surgery. It's quick, not as serious, and may or may not accomplish your goal. Acquiring a larger firm is like going in for a major surgery. It takes a lot of time, can be potentially dangerous, and you won't necessarily agree to it unless the odds of success are in your favor.

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Acquiring a smaller firm is a quick way to boost your clientele and grab a slice of the lucrative market share. Merging with a larger firm will give you a larger market share but it requires more time, energy, and must be approached holistically (human element, practice groups, financial structure) to ensure that the incoming firm will combine well with the established firm.

Climb that Wall

The first step in creating a successful law firm merger strategy is to identify whether your firm is an "Acquirer" (acquisitively-minded) or "To Be Acquired" (value-minded). The answer will depend on the end goal of your firm and that may not be apparent at first blush. Leaders must scrutinize their firms and determine what is in the best interest for the success of their partners, clients, and the firm as a whole. Growing organically is appealing, but a challenge to say the least in today's market. A better option for the firm is more likely to either acquire another firm or be acquired by a firm that will further its success. If you want to attract the best clients possible, be open-minded to the marketplace.

When is the best time to evaluate your firm's growth strategy? There are a number of signs that your firm has hit the wall:

☑ Flat to Declining Revenue

Stagnation in clients is a prime time to look at the market and consider if acquiring or being acquired is best for your firm. By bringing in a smaller firm or practice, or molding into a larger firm, you can easily grow your client base.

☑ Generational Change in Leadership

As leaders move on or retire, the firm needs next generation partners to move forward. If there are no such partners, it may be time to consider being acquired by a larger firm or acquiring a smaller one that can replace the missing partners.

☑ Suffering Key Departures

If rainmakers and key partners are beginning to leave your firm, act before the flood starts. Bringing in firms can help increase the number of rainmakers and clients to cover the losses. On the other side, joining a larger firm may broaden your client base and minimize the losses suffered by the departures.

☑ Expiration of Real Estate Lease

If your firm is at or near the end of a lease, especially if you are a smaller firm (~25 lawyers), now is an appropriate time to consider the future of the firm and how acquiring or merging figures into your strategy. Deliberate where your firm is headed and the best way to ensure that your firm will strive.

To Acquire or to be Acquired? That is the Question

Either way, you'll be involved in law firm mergers. It's also vital to remember that neither being an Acquirer nor To Be Acquired is better than the other. The growth strategy needs to be in alignment with the goals of the firm. The firm(s) you acquire or merge with must be complementary to this strategy. Be progressive and develop a robust law firm merger mindset; it is your firm's best chance for survival. ■

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