



Topic: Deciding whether merger/acquisition is the right strategy

Taking part:

- o Sarah Farrand, Marketing Manager, **Rothera Dowson Solicitors**
- o Sarah King, Partner, **PJH Law solicitors**
- o Mark Slade, Managing Partner, **Fidler & Pepper solicitors**
- o Jo Sandall, Account Manager, **Prima PR**
- o Carl Weston, Head of Marketing, **Flint Bishop Solicitors**
- o John Mitchell, Managing Partner, **Sills & Betteridge**

Organisers:

- o Maggie Taylor, Principal, Prima PR & Marketing
- o Mandi Short, Partner, The Progressive Business Group

Apologies:

- o Claire Taylor, Marketing Manager, **Actons Solicitors**
- o Stephen Pearson, Partner, **Freeth Cartwright**
- o John Stobart, Partner, **Harvey Ingram**

Scene setting:

- We have an opportunity to develop the Oracle Forum into a network where we share best practice and knowledge – a chance to learn from one another to increase value for all.

Tim Hastings, Chief Executive, Nelsons – the law firm’s perspective:

- Drawing on his own experience of mergers and acquisitions, there are three key phases that must be addressed for success: strategic planning, cultural management and continuous assessment of how to take others with you (get total buy-in).
- The planning stage should include a long hard look at why M&A is the chosen strategy.
- The most successful M&As always begin with a clear strategy and excellent leadership; this is critical to long term success and takes time, but undertaken correctly should ensure that general buy-in is achieved. The actual chosen leader is quite often a sensitive issue internally and also takes time to make this often difficult decision.
- The management structure must be clearly defined so that people know their role in the process and communication is maintained. Also, the momentum of the business must be sustained as it is easy to lose focus during the M&A process.
- Complications arise with regard to cultural issues, as it seems that cultural issues can only be worked out over a period of time. It is the behaviour of the people that is most important.

- A gentle / soft touch is required to make sure that everyone is happy, but it is still necessary to have 'tough management' behind this.
- Getting buy-in is one of the most difficult aspects; giving up independence is a huge decision. Employees often value loyalty and history over profitability and sustainability. Market changes to some seem largely irrelevant.
- Beware, once a firm has the reputation of being on an 'acquisition trail', other (non-performing) firms often come out to request that they are 'bought-out'. This can cause issues if the response is negative. Nobody likes being turned down as not good enough. Maintaining the firm's 'market reputation' is also an important consideration.
- Successful mergers do not just happen overnight — they need to be supported by, as a minimum –
 - a good business case;
 - compatible 'cultures'; and
 - vision and leadership by those managing the merging firms.
- Above all, they have to be worked at, because implementation of the vision can often mean make or break for a merger.
- There were benefits all-round for Nelsons; the firm has become a strongly focussed commercial practice with a market leader reputation.

Simon Slater, Managing Director, First Counsel Consulting Limited – the consultant's perspective:

- The best people in the world seem to want to work for a company that is going somewhere. Simon predicts that a substantial amount of consolidation will take place in the next 3 years.
- From a consultant's perspective, there are 4 main processes to go through
 - 1) Why merge?
 - 2) Key drivers
 - 3) Why plan – if so how
 - 4) Benefits of planning
- Why merge? - to improve competitiveness, profitability, sustainability.
- To leave a legacy – building something that is in a better state than when you found it (for next generation).
- Only merge if you have a clear and positive strategy in mind – make sure that the whole practice recognises that the reason to merge is a good idea and it is with a good practice.
- Check the company out that you are merging with. Companies in the past have made the mistake of putting finances first!
- Simon suggests that the priorities when merging are: 1) culture 2) strategy 3) operational issues, and finally 4) finances.

- 70% of mergers generally fail to meet target due to poor planning. Simon suggested 4 phases to planning:

Phase 1:

- Pre merger plan – decision made that it is a good idea to merge.
- Months before merge – look at client issues, internal and external communication, how the service is affected.
- Look at basic issues that need to be resolved (signs, mail, etc).
- Decisions of rationalisation.

Phase 2:

- Day 1 to month 3 - (still short term)
- Accommodation, brand (name of firm, what it stands for, etc)
- Look at how to build client base, the service that is offered.
- Teams get to know one another.
- If cuts need to be made it is sometimes (not always) better to do it now rather than further down the line.

Phase 3:

- Within the 1st year
- What objectives do you want to achieve.
- Look at management processes, marketing plans, HR (training and development), etc. The quality of these is important in the 1st year.

Phase 4:

- Years 2 and 3+
- True financial integration.
- Look at profitability, management.

The plan:

- The plan must be coherent in order to increase people's confidence and gain their trust.
- There must be clarity of direction and good leadership in order to retain clients and also to stop your own people from leaving.
- Hopefully making a plan will also improve profitability sooner rather than later.
- Strong, clear, dynamic leadership is necessary!

Roundtable debate:

Discussion point 1: *Is merger/acquisition the right strategy?* - do professional firms have a clear vision, a strong strategy and is their culture right for a merger or acquisition? How do firms determine their fit with another and what is the attraction for each party, how important is this?

- A merger must be entered into for valid reasons. Valid reasons for embarking upon a merger will most probably involve strengthening the infrastructure of a firm through the addition of previously unavailable resources or capabilities.
- You can grow a firm by lateral hiring (but this is sometimes costly), organic growth (but this is not fast enough) or, alternatively, by mergers. If you have the funding you can do anything without the baggage!

- As an option, organic growth might be suitable; is the least culturally disruptive growth strategy, it:-
 - Relies on internal promotion of people in the firm
 - Favoured by those who wish to protect their culture, but can lead to ossification and resistance to change
 - Inadequate where a substantial increase in scale is required
 - Internal candidates for promotion might not match strategic needs
 - Carefully vetted lateral hires can supplement organic growth
 - But might challenge the culture and still not achieve required scale
 - Creates danger of individual practices within a firm
- How do you identify potential firms to merge with? The first thing to do is establish whether it is a merger or acquisition. Note a merger is not a strategy; it is the means to achieving the strategy.
- The growing law firm first needs to decide what it wants – either more of the same or something different – and then produce a target list of local practices which fit those criteria.
- Having identified a selection of firms, various questions will quickly flush out their suitability; will acquiring them bring something to your practice? Are they vulnerable in any way? Do they operate in your market? What is their reputation?
- Strategic thinking – some firms have merged just because they wanted to be bigger – is this the right reason?
- Why would you want to merge and how would it help? Is it not better to do it yourself organically if you have the potential?
- Why would smaller firms want to merge? If a firm's business model is being a small niche practice, a merger is likely to mean that they would have to move away from their business model. Also it is necessary to look at how much work it would take - niche firms tend to be small and the effort of undertaking the strategic research would have a huge effect on the 'productivity' of the business - would it be worth it in the end?
- There is no point in merging if you can get to where you want to be by not merging, but if merging is going to get you there quicker then it is a good idea.
- Examples of valid reasons for a merger strategy, therefore, might include: --
 - the acquisition of technical skills to supplement the existing range of products or services, or ease the penetration into logical new areas of expertise;
 - the broadening of the client base in a manner that will make greater use of already developed expertise; the broadening of the market sectors in which a firm is operating;
 - the extension of the client base in a geographic sense.
- Examples of reasons for merger whose validity should be treated with extreme caution might include:
 - 'we need to be larger';
 - 'we need to acquire John or Mary';
 - 'a merger will improve our profitability';
 - 'a merger will improve our management'.

Discussion point 2: Internal communications - how do you decide on the 'merged' name, logo & brand values, manage the politics and gain buy-in from employees, encouraging client sharing & cross selling?

- To successfully integrate two firms needs constant internal **communication**, particularly where the merged firm has offices geographically a distance apart. It may well be argued that effective use of IT combined with having good local management in place will be sufficient to handle this. Certainly these will be necessary, but their effect may only be limited.
- Law firms are 'people businesses' and many of the tasks involved in bedding down a merger require the hands-on, face-to-face approach by a firm's leadership. That is going to require the devotion of a great deal of time, effort and hard work by those leading and managing the business, to successfully deal with issues in what may for them be new and 'foreign' environments. The learning curve can just get steeper by the day.
- Important to get staff on board and deliver on promise. Firms should put together a professional plan to achieve this to address all areas of the brand – internally.
- A 'merged' brand should truly reflect and embody the culture of the firm.
- Challenges include the need to control the brand. There should be a person in the firm responsible for managing this, and if necessary in each office.
- Firms need to control the re-branding process so that they are able to deliver on that initial promise. There should be a standardised 'mantra'. Worth emailing out the key values and messages of the firm's brand to all staff so that all are clear.
- Training on the 'principles & practices' of merged firm is important. Getting it right internally is key. For some firms no compromise is made on training – all staff are trained on the firm's values and as a result the organisation is living their values.

Discussion point 3: External communications – how do you handle the effect on the merged client base, how will it be seen by other stakeholders, who controls the release of information, how do you keep the communications process tight and manage the message if the merger doesn't go ahead?

- Consistency is a key issue – some firms concerned that the key messages being given out are different from partner to partner so this needs to be addressed.
- It is always important to communicate, do not think that 'your clients are different' so you do not need to inform them of a merge / acquisition/ change of name. You cannot over-communicate!

- In a world where branding is all important, it is vital that the merged organisation is known in a way that makes sense to the clients, and to each of the joined firms.
- As important will be the question of how the parties to the merger build their brand values into the joined firm – branding comes from within – making sure that everyone is telling clients and external contacts the same message is a key challenge. This will depend on how much individuals have 'bought-in' to the merger strategy.
- The messages communicated to clients (current & dormant) are critical and should be continuous.
- The timetable for promoting the brand of the merged firm should be supported by a managed campaign on image and name awareness.

Summing up:

- From the acquired firm's perspective; a merger may be an option to be considered for those firms which are unable to go it alone (because they lack resources such as finance, people and access to markets) if it will enable them to achieve their strategic objectives.
 - To give a merger a chance of working, firms contemplating a merger should:
 - merge for the right reasons
 - work very hard at it; and
 - above all be clear as to their ultimate destination, because unless firms know where they are going, they will never get there!
 - Merger is not a strategy but a means to achieving a strategy
 - Must be based on a very strong strategic assessment:
 - Will the merger allow both firms to achieve their strategic objectives better than if they stayed independent (better being faster / cheaper / more effective)?
- or
- Will the merger allow the new firm to achieve a separate strategic positioning not available to either firm otherwise?
 - The downside to a merger can be:
 - Losing a slice of independence
 - A faster pace of working life i.e. everyone may have to 'run faster' to meet the requirements and expectations of an increased client base
 - "Cultural" conflict – office politics
 - Acquiring 'dead wood.'
 - Changes in market environments create the need for changes in firms
 - Not growing will preserve the internal structure but change market position - growing will change the internal structure but maintain the market position.
 - Whatever the choice, firms need to have the capability to manage the situation and not be driven by the market.