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## Law firm consolidation: Do or die?

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(<https://www.acquiraps.co.uk/>)<sup>[1]</sup>

Evidence shows that the majority of law firms got through the pandemic relatively unscathed, with many thriving during Covid.

But looking ahead, storm clouds are gathering. The Bank of England is predicting the UK will go into recession this year and, whilst there will be firms that are well equipped to handle a downturn, some are far less optimistic.

Where growth has stalled, rising costs – from salaries to indemnity insurance – mean that some are in danger of imploding if they fail to act decisively.

Some are laser-focused on the need to scale up. Indeed, [our research published earlier this year](https://www.acquiraps.co.uk/News-Insights) (<https://www.acquiraps.co.uk/News-Insights>)<sup>[2]</sup> suggested nearly half of managing partners were actively considering M&A in order to grow.

Others, however, remain in denial, hoping that by continuing to do what they have always done – relying on organic growth and putting a bit extra into marketing spend – they will survive.

Perhaps for some, by luck or by having a particularly resilient niche in the market, this approach may work without the need for change. For others, sticking with the old ways will not be enough and the clock is ticking.

### Right people, right time

One key driver of growth is securing the right people for your firm, in a timely fashion.

Almost daily we see firms announcing eyebrow-raising, sky high pay rises for newly qualified lawyers. Away from the eye-watering figures like £165,000 being touted by the big US law firms in London, Pinsent Masons recently upped pay for newly qualified lawyers in the capital to £92,000, a 23% rise. In the regions, the rise was even sharper – up 36% to £61,000.

Escalating salaries and a lack of supply makes it harder for mid-tier and smaller firms to compete. Add to that a firm that lacks forward momentum and talented junior lawyers will go elsewhere, attracted by higher pay, a more vibrant corporate vision and the promise of progression.

The need to attract and retain lawyers, via attractive rewards and lively culture, is just one consideration. Others include the need for IT investment.

Technology is an essential asset to a progressive law firm and many struggle to keep up. Well-oiled, effective systems can provide huge operational benefits in underpinning the processing of caseloads. Rather than simply going it alone, perhaps it is time to look elsewhere? Quill pens and abacus not included.

There is also the ability to gain access to corporate legal panels, the increased resources needed to cover risk and compliance requirements, and the cost of professional indemnity insurance.

Smaller firms are seeing hikes as high as 45% over three to four years, whilst larger firms have more bargaining power and better compliance processes, and so are able to negotiate better terms rather than taking a further hit to profitability.

As one partner from a top 100 law firm recently observed, it's not just professional indemnity insurance that is causing concern but the growing and worrying cost of cyber insurance.

Inevitably these pressures will accelerate market consolidation; 63% of managing partners we spoke to for our survey expected consolidation to continue throughout 2022 and we have already seen significant merger activity this year, with the mergers between BLM and Clyde & Co, and Weightmans and RadcliffesLeBrasseur, to name but two.

Of those we surveyed who were considering M&A, nearly a quarter were already in talks about a possible deal, while a further 57% were “actively” seeking it. The remaining 20% were at the early stages of the strategy and had not acted yet.

This sets the scene for a continuing surge in M&A, particularly amongst independent firms for whom the need to scale up is most urgent.

Successful firms will look upon the configuration of current pressures as an opportunity and be open to the possibilities of merging with like-minded firms. To navigate the market, they will also turn to ‘a safe pair of hands’ in the form of expert advisers who have such experience, to assist them through the process.

### Regional clusters

There are regions of the country with clusters of firms that all advise on roughly the same practice areas. For many of these firms, growth has stalled. It is here that we will see much of this consolidation, with clustered firms merging in places like Leeds and Manchester, the South-East of England, Glasgow and Edinburgh.



Zindani: Continuing surge in M&A

This is already happening – look at Yorkshire-based Switalskis. The firm acquired two firms in recent times, [Pryers in York](https://www.legalfutures.co.uk/latest-news/leading-injury-firm-sold-on-five-years-after-last-acquisition) (<https://www.legalfutures.co.uk/latest-news/leading-injury-firm-sold-on-five-years-after-last-acquisition>)<sup>[3]</sup> and Atherton Godfrey in Doncaster, and now has 12 offices across the county.

Other firms will be actively seeking to be acquired – perhaps due to personal injury reforms making the work less profitable unless it can be undertaken at scale, or for succession reasons as increasing numbers of partners near retirement age.

There will also be firms looking to merge in order to expand geographically, diversify into new practice areas, operate in non-legal sector services or due to pressure or requests from clients to provide other services.

### **March of the consolidators**

We are seeing a growing number of consolidators with deep pockets, looking to acquire smaller firms and benefit from economies of scale. There are currently around a dozen in the legal market, including the likes of listed law firm Knights and consolidation vehicle Metamorph Law.

Firms that were bought out last year by private equity firms with the intention of making acquisitions, are beginning to make their moves. Fisher Jones Greenwood, an Essex law firm, was bought by private equity firm Blixt Group in August 2021 with a view to building a £100m practice in the next five years. It [recently acquired](https://www.legalfutures.co.uk/latest-news/go-big-or-go-home-pe-backed-consolidator-makes-first-acquisition) (<https://www.legalfutures.co.uk/latest-news/go-big-or-go-home-pe-backed-consolidator-makes-first-acquisition>)<sup>[4]</sup> Steed & Steed, which has offices in both Essex and Suffolk.

Serious injury firm Fletchers was acquired last October by private equity firm Sun European Partners and has just announced the [acquisition of Cycle SOS](https://www.legalfutures.co.uk/latest-news/pe-backed-pi-firm-eyes-stream-of-acquisitions-after-first-deal) (<https://www.legalfutures.co.uk/latest-news/pe-backed-pi-firm-eyes-stream-of-acquisitions-after-first-deal>)<sup>[5]</sup>. The combination of firms under pressure to scale up and larger firms looking for acquisition targets, means consolidation is set to continue.

Our experience, speaking to firms across the country, is that this is unlikely to change any time soon. There is a considerable appetite to do deals out there and we are going to see a lot more activity over the course of 2022. We are on hand to assist any firms looking to explore their options.