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Niche is king: Why boutique law firms are merger target number one

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

As I travel or Zoom across the UK, talking to law firm managing partners about their growth plans, top of their acquisition wish list are boutique law firms.

There is no definition of what constitutes a 'boutique' firm but generally they are small in scale, bring together talented lawyers practising in one or two niche areas, and have what I call founder passion. This entrepreneurialism and enthusiasm is often what separates them from full-service practices or 'Big Law'.

Ripping up the rule book

Set-up costs that in the past would be a real barrier to starting a new firm have reduced, with firms no longer needing a significant bricks and mortar presence, and IT expenditure becoming less prohibitive.

Agile, boutique firms are on the rise, able to offer clients a more personalised and focused service, away from potentially bureaucratic engagement with larger firms.

The vision founders of firms like this have is often very personal, borne out of the problems and frustrations they have experienced working in larger, more traditional practices. They have been driven to create an alternative working environment that they believe serves clients and lawyers better, unshackled by the past and built on a set of values that they cherish.

The mindset is one of rebellion. As Natasha Harrison, founder of *Pallas* (<https://www.legalfutures.co.uk/latest-news/litigation-funder-keen-on-taking-more-stakes-in-law-firms>),^[3], a boutique dispute resolution firm recently remarked: "The founding of Pallas represents an opportunity to 'rip up the rule book' and challenge the status quo of what a modern law firm should be.

"I can set the culture and values for the firm and look at ways we can improve the client experience, for instance creating optionality around how they want to be charged"

"Above all, we will see why teams of rebels beat teams of clones" – Matthew Syed, *Rebel Ideas: The Power of Diverse Thinking*

(<https://www.goodreads.com/work/quotes/72062587>),^[4]

A better life

Covid has helped accelerate the growth of niche firms, as employees demand more flexible ways of working and many lawyers re-evaluate what they want from their lives. Work is increasingly tailored to a lawyer's needs, not just those of clients, and work/life balance has become all important.

In the past, some clients saw lawyers as billing machines to be avoided. This is thankfully changing as firms become more approachable, accessible and trusted experts of choice.

In many ways, however, little has changed in the legal sector: people buy people and simply being a good lawyer, as we all know, does not mean by itself you retain clients.

Boutique firms know this and are thriving, from high-end commercial litigation firms to private client and family law specialists. They are building reputations for expertise, giving clients easy access to partner-level knowledge and attracting talented lawyers with an alternative to the big firms.

Buying what you don't have

So, what's driving so many larger firms to look at acquiring boutique firms?

For the most part, larger firms want to acquire or merge with boutiques to fill capability that they do not have and would struggle to build or replicate through recruitment and organic growth alone. Bringing in lateral hires capable of building a team from the ground up is a big ask and can take years rather than months.

Merging with a boutique makes perfect commercial sense: by merging small practices, firms can boost fee income and access larger financing pools for expansion, compete with other firms in niche practice areas and client sectors, whilst increasing the overall value of the business.

The dangers of a bolt-on

This approach is not always straightforward. The notion that you can simply bolt on a firm, particularly a boutique-type practice, raises a raft of different issues.

In my experience, the biggest problem when it comes to law firm mergers isn't negotiating a deal, it is blending cultures. As the great American business guru, Peter Drucker, famously said, "culture kills strategy for breakfast".



(<https://www.legalfutures.co.uk/wp-content/uploads/Jeff-Zindani.jpg>),^[2]

Zindani: Blending cultures is the big challenge

This is developed further by the insightful Professor Gelfand, in her book *Rule Makers, Rule Breakers: How Tight and Loose Cultures Wire Our World*.

Professor Gelfand has carried out extensive research on 6,000 significant mergers in more than 30 countries taking place between 1980 and 2013. What she demonstrates is that cultures can be tight and loose and simply merging two businesses or law firms can lead to serious failures if they are diametrically opposed.

From my experience, boutique firms fit the loose category. Often the very reason they are so successful is their culture and the attraction it holds for clients and fee-earners alike. Any merger needs to be at pains to preserve those elements if it is to be a success.

What's in it for niche firms?

The benefits for a full-service firm merging with a boutique firm might be obvious, but given the potential loss of identity and control, what's in it for them?

There is a limit to how far can you grow when you are niche. Founders will want to evaluate how large the potential pools of clients and potential employees are and consider what the future looks like.

Standing still is too often not an option. For many, a failure to grow will see a slow decline as the momentum experienced in the early days stalls. For some founders, the passion they felt at the outset fades as their firm grows and more time is consumed with management responsibilities.

A merger with a larger firm promises a ready stream of new clients, investment and economies of scale – more money to spend on IT systems and marketing, the ability to pay more competitive salaries, a succession plan and the possibility of exit for founding partners.

Ultimately a merger between a boutique firm and a larger, full-service firm can bring benefits to both. If significant work goes into ensuring a cultural fit, alongside financials and practice area synergies, then the boutique firm can preserve what made it successful and both merger partners will thrive.