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Powering growth: a strategic approach to making acquisitions

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

Zindani: Bolt-ons are popular

After a slowdown at the end of last year, 2023 continues to see a considerable appetite for M&A amongst law firms, not least magic circle firm Allen & Overy which has just announced a merger (https://www.legalfutures.co.uk/latest-news/ao-makes-big-us-push-with-shearman-sterling-merger) [3] with Shearman & Sterling in one of the biggest transatlantic legal deals ever seen.

It's not just the global players – leaders in law firms of all sizes are recognising the benefits a merger can bring when it comes to competing in their chosen markets, achieving sustainable growth, momentum and the ability to attract and retain talent.

Even in difficult market conditions, there will always be opportunities for growth, and for firms looking to remain agile and gain an advantage over their competitors, a merger or acquisition may well be the best option for expansion.

For many of the larger firms we speak to, the merger opportunity proving most attractive is the possibility of smaller bolt-on acquisitions, with boutique firms the top of the list.

Buying what you don't have and cannot build

Larger firms see the acquisition of niche firms as an opportunity to fill capability that they don't 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, not months.

This is a strategy that makes sense for a larger practice, particularly given the small scale of these deals makes them lower risk for the acquirer. Even in the unfortunate event that the acquisition fails, it will not seriously impact the firm in the same way a failed merger of equals might.

This 'big fish acquiring small fish' game has a predictable playbook and we are seeing highly profitable and niche practices become sought-after acquisition targets, leading to demand outstripping supply and high premiums being paid by successful buyers.

But it isn't always plain sailing. Given the high price tag, considerable work and careful planning is needed to make sure acquisitions like these deliver for the long term.

It's not what you gain but what you give that matters

Often the success of a boutique firm is driven by the founder's passion and a culture and purpose that attracts clients and fee-earners alike. One clear danger is that the acquiring firm ends up destroying the very value that attracted them to make the acquisition in the first place.

A brilliant report from McKinsey & Company – *Driving Growth in Consumer Goods through Programmatic M&A (https://www.mckinsey.com/industries/retail/our-insights/driving-growth-in-consumer-goods-through-programmatic-m-and-a)* [4] – explains that there has to be a shift from focusing on what you can gain from an acquisition to what you can give.

"Executives should recognise that a deal is about not just what a target can do for them but also what they can do for the target," it says. "M&A strategy grounded in an acquirer's contribution to a target is critical."

This can also be applied to the legal sector. The savvy law firm should not talk in abstract terms about 'synergies' but instead work on concrete opportunities that have the potential to improve both firms.

We recently saw first-hand lawyers in a much larger firm being outclassed in pre-merger talks by those in their smaller counterpart. Post-merger, however, both firms benefitted – the larger firm from having new top guns on board and the smaller from being part of a far larger department that had real strength in depth.

Getting the integration model right

In my experience, very few law firms have a clearly defined model for post-merger integration.

There are a number of options available from the most common, full integration model favoured by firms like Knights, to the partial integration we have seen with Shakespeare Martineau, part of Ampa – which is the holding LLP with its 'house of brands'.

There is also a standalone model – something that is much rarer in the legal sector.

When developing an integration model and deciding on the best approach for your business and its acquisition target, fundamental questions need to be asked about how the smaller firm's brand or culture could be adversely affected by full or even partial integration. Is there a possibility the best talent from the junior partner and associate level will leave?

All too often have I heard partners from acquirer firms talk of full integration in terms of when, not if it will happen. Unfortunately, very little analysis takes place into the pros and cons of different models. This is intelligently explored by the McKinsey report and can equally be applied in a law firm merger scenario.

It involves considering the control, oversight, operational support and efficiency savings that come with full integration, whilst balancing the need to retain talent, maintain culture and foster innovation – something that can more often be more easily achieved with more hands-off approach to integration.

The report explains that "partial integration can provide the right level of collaboration and coordination while enabling the small brand to safeguard its 'secret sauce'"—the elements of the target that make it unique – and highlights the importance of "intangible elements such as culture, mindset, and employee affiliation to a brand or vision".

Too often we see lawyers focus almost entirely on profitability, with far more time and effort given over to financial due diligence when compared to assessing the talent within the organisation and the nature of its culture.

Building an M&A engine

For firms that take a considered and strategically planned approach to M&A, the potential rewards are great. Growth powered through acquisition is far quicker than relying on individual lateral hires, marketing and internal promotions – the traditional levers of growth generally favoured by law firms.

Smaller, bolt-on acquisitions offer the opportunity to scale up, bring in new service offerings and boost your firm's expertise in profitable sectors, with relatively low risk to your existing business.

These benefits will only be realised, however, if you approach M&A looking at what your firm has to offer any acquisition, how you can best retain what has made them a success and how you can achieve a model that works for both parties.