

Survey Indicates 34% increase in merger activity

Overview

A survey of firms has indicated a 34% increase in merger activity in the first half of this year compared to the second half of 2009. Most firms have considered the possibility of merger in recent months however relatively few believe one will happen in 2010.

The survey indicated however a very different view depending on size of firm. Of the firms with more than 10 partners 40% considered there was either a good chance of a merger or that was almost definite. By contrast just 11% of the firms with under 10 partners rated the possibility of a merger that high.

The survey, undertaken by Andrew Otterburn on behalf of the Law Consultancy Network, and in association with the Law Society Gazette was based on questionnaires from 60 firms. The median firm size was 11 partners/members and most were based outside London.

Commenting on the results, Andrew Otterburn said “the possibility of a merger or acquiring individuals from another firm is high on the agenda of many firms however most are approaching the issue with a degree of caution. There are some real opportunities but also some real risks. It will be interesting to see if the pace of activity increases in 2011 as LSA implementation approaches.”

Fellow Law Consultancy Network member Simon Young added, “I would be surprised if any sensible firm was not at least considering merger. Whether they are actively pursuing it is another matter, and should be part of their determined strategy. If they wish to, there is a lot of publicly available information they can now use to construct profiles of potential merger partners. It needs to be a more scientific process than just a chat between senior partners over a good bottle of something.”

Detailed findings

75% of respondents indicated that the possibility of a merger was something their firm had considered in recent months:

		Number	%
Is the possibility of a merger, takeover or amalgamation something your firm has considered in recent months?	Yes	45	75
	No	15	25
		60	100

They indicated a 34% increase in the number of approaches made by them or to them in

		Number
Has your firm been approached by, or has it approached another firm with regard to a possible merger over the last six months?	January - June 2010	59
	July - December 2009	44
Could you indicate how many approaches you have made/received:	% change	34

Despite this apparent increase in activity nearly half thought there was little likelihood of a merger actually taking place in 2010:

		Number	%
Do you anticipate your firm might merge or take over another firm during 2010? How likely is this?	Little likelihood	28	47
	Possible	16	27
	Good chance	11	18
	Almost definitely	5	8
		60	100

40% of firms with 10 or more partners/members considered there was a good or almost definite chance of a merger, compared to just 11% of those with under 10 partners.

The main reason form merger was cited as improved size or structure and being better prepared for the Legal Services Act:

		Number	%
What are the main reasons why you might merge or acquire another firm?	Improved size or structure	41	47
	Better opportunities post LSA	34	39
	Helps solve succession issues	12	14
		87	100

Relatively few firms had actually completed a merger in the previous year:

		Number	%
Has your firm already undertaken a merger or acquisition in the last 12 months?	Yes	8	13
	No	52	87
		60	100

More firms with over 10 partners/members had completed a merger although once again it was a low figure – just 21%.

Most firms regarded themselves as “general practices”:

		Number
How would you describe your firm?	Commercial	15
	General Practice	38
	Legal Aid	9
	Private Client	10
	Litigation (niche)	8
	Commoditised	3

Some interesting comments were made on the current position regarding mergers:

The firm has been through two mergers in the last ten years. Both mergers were, on balance, successful, but issues did arise and there is a clear lesson that there has to be the right fit of firms, the merger has to be for the right reasons and great thought and care has to go into the implementation. This has coloured the view about future mergers which, while they have been considered in principle, have not been taken further than this. Expert view is that bigger is best. While not necessarily accepting this, the future is likely to see more mergers. These have the potential to create more problems than they solve for firms unless done properly. Other alternatives, however, such as loose alliances of firms under a common marketing banner are unlikely, long term, to be the solution either.

“It remains a surprise to us that more have not taken place. That said finding a cultural fit can as we have discovered prove problematic and thwart prospective mergers.”

“It appears that many mergers are happening for defensive reasons rather than proactive ones. Many firms have reacted to the challenges caused by the recession either by cutting equity partner numbers or by getting into bed with the competition. Whilst there is some sense in the former, the danger with the latter is that there is a risk, in the absence of any other stimulus, that this will merely have the affect of “putting off the evil day” when tough decisions will have to be taken and those decisions are likely to be harder to take and implement in a larger organisation which could already well be struggling to cope with the consequences of merger.”

“In one sense nothing has changed since the start of the recession – a merger has to be about enhancing competitive advantage, and isn’t an end in itself. There appear to be a number of ‘defensive’ deals being done, or 2+2=3.5 mergers, which don’t actually result in a better, more competitive firm emerging. We don’t now see many attractive merger candidates (ie that would help us achieve strategic goals), and as a result we are instead targeting lateral hires – which allows us to be highly selective and focused.”

“There appears to be many small firms looking for the umbrella of a larger firm, to deal with succession issues which should have been addressed years ago and to fund run off insurance. Strong rooms no longer seem to have a value and client good will is not what it used to be. As a consequence these small firms have little to offer when set against the costs to the bigger firm.”

Note for editors

The Law Consultancy Network comprises six of the leading UK law firm consultants – Vicky Ling, Andrew Otterburn, Margaret Peasegood, Heather Stewart, Fiona Westwood and Simon Young.

www.lawconsultancynetwork.co.uk

www.otterburn.co.uk

