It’s time to compromise on merger candidates: start looking for a doable deal

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Over the past four years, the ‘perfect storm’ of deregulation and economic downturn has crystallised issues for managing partners. Having drawn comfort from the belief that they had a strong and profitable business, albeit protected by regulatory barriers and driven by an exceptional period of bull market activity, firms have come back down to earth with a deafening thud.

There is now an emerging and stark realisation that current trading conditions are, at best, the new normal. Worse still, it is not inconceivable that, even in the short term, competitive pressures will intensify, making the current climate appear relatively benign.

We are witnessing, in real time, the end of law as a cottage industry and the industrialisation of the legal sector. It is inevitable that significant consolidation will occur in all segments of the market.

How, then, should law firm leaders be thinking about the future positioning of their practices? It is somewhat simplistic to say that the only strategic options open to firms are to get big or get niche. Just how big is big or how niche is niche?

A firm can be competitive by being big in a small well-defined market sector (with high entry barriers of expertise or reputation). Conversely, some of the world’s largest capital markets firms have such strongly-focused propositions that they may be viewed as huge niche operators.

Clarity of focus is critical, since it is this that will drive structure, size and capabilities. For example, the global firms are not successful because they are global. Indeed, the reverse is true: they have a global footprint because this is what is required to successfully deliver on their focused strategies. Scale is a by-product of the strategy, not the strategy itself.

What is clear, however, is that staying small, generalist and undifferentiated isn’t an option. And yet that is precisely where the vast majority of firms find themselves. For these organisations, a strategy based on focus and growth will be needed if they are to survive and prosper in the longer term. Growth is most likely to be achieved through merger in the prevailing business climate.

It is the responsibility of the firm's leadership team to recognise and assess these forces driving consolidation. Through an objective analysis, as part of a wider strategy review process, the appropriateness of pursuing merger as a means of achieving a strategic objective will become clear.

This will not be the chosen option for all firms, but it seems certain that it will be a route that an increasing number will choose to follow. For some, this will be a defensive play, while for others, it will be a mechanism by which opportunities are grasped.

Aside from the intellectual and cultural issues at play for those contemplating merger, a further, purely practical but nonetheless critical consideration is that the pool of potential merger partners is diminishing on an almost daily basis.

Put simply, the market is not replete with attractive candidate firms; the art of unearthing the doable deal is the main game in town. In such consolidating markets, those firms that are clear in their purpose, decisive and quick to act are most likely to succeed. Of course, the success of the fleet-of-foot diminishes the pool of candidate firms even further.

In the current climate, it is much better for firms to act on a merger fit that is 90 per cent right and then manage the risks than to seek the perfect partner while attractive opportunities are consummated elsewhere.