Hedley
CONSULTING

How to identify the ideal merger candidate that fits into your firm's strategic jigsaw

Published in Managing Partner magazine
(October 2012)

Absolute clarity is crucial at the outset of any search for a merger partner. Do you know what you are looking for? How you will know when you find it?

While the firm's overall strategy will have identified merger as the best means of achieving its vision, creating a clear picture of the sort of firm that will deliver these objectives requires more work and a detailed appreciation of the dynamics at play.

It is not enough to simply state that any merger must give the firm a presence in location X or strengthen practice area Y or open up further opportunities in sector Z. Any union will have multiple effects – both positive and negative – which need to be examined, their impact understood and a plan created to maximise opportunity and mitigate threats developed. It is by creating a rounded view of candidate firms that decisions can be made about which opportunities to pursue or which priorities to apply.

Building a weighted merger candidate scorecard can be a useful tool to guide this process. Initially it can help to clarify thinking; later it can provide a means by which candidate firms may be assessed on a like-for-like basis.

Creating a scorecard

The purpose of the scorecard is to build a picture of the characteristics of the ideal merger partner. There are three stages in creating such a tool:

1. defining the desired end-state;
2. conducting a gap analysis against the current business; and
3. defining the attributes of the 'perfect candidate' that would close the gaps.

Typically, the scorecard will be built by taking the firm's vision and disaggregating it into its base components. This provides a clear understanding of 'what good looks like' from macro issues down to granular detail.

Importantly, it should consider both hard and soft issues. What this means in practice is that (as well as detailing, for example, practice groups, offices, financials, infrastructure and markets) a firm should be clear on issues of culture, values and key attributes of the firm's brand and position in the marketplace.

Once completed, the next stage is to score the firm (in its current position) against the desired future end state and so arrive at a gap analysis. Finally, by abstracting the gaps identified, a scorecard can be created which profiles the ideal merger candidate, i.e., the shape of the missing piece in the firm's strategic jigsaw.

Weighting importance

This exercise should include an importance weighting to desired characteristics. So, to use an extreme example by way of illustration, one gap identified may be a need for additional strength in a particular practice area, while another could be a new office in a different city, in order to strengthen the firm's overall proposition to its target clients.

The first of these, while important, is of a different order of magnitude to the second. There are a number of incremental ways in which a practice area can be strengthened over time (merger being just one), while the options are far fewer when it comes to establishing new offices (i.e. launching a greenfield site, with all of the risks and timescales so associated, or merger). Any merger proposal is unlikely to stand or fall on not satisfying the first gap, but may well be contingent on realising the second.

At this stage, thought should therefore also be given to weighting the scorecard. Which are the areas of highest importance and which may be tradeable? Are the showstoppers clear?

How much 'fit' do you need as a minimum to make the deal workable? It should be understood that, once agreed, the implementation of a significant merger means that the firm will not be in the merger market again for some time.

What is the opportunity cost of pursing a suboptimal deal set against the incremental progress that it will deliver?

There will almost certainly be the need for compromise in assessing any candidate firm – such as areas of overlap or duplication, capabilities which will still be under strength, assets that will not yet be in place or client conflicts (real or commercial) which will need to be worked through.

However, a structured approach means that such trade-offs and their interrelationships can be understood fully, weighed up and their implications assessed.

Identifying the gaps that will still exist after any merger also informs wider investment decisions: which areas should be reinforced on an ad hoc basis, what further merger activity may be necessary, or which investments should be pursued immediately.

Clarity of purpose

Maintaining clarity of purpose is fundamental when pursing a merger. It is too easy to be sidetracked by the unexpected opportunity or persuaded that a business fit or cultural alignment is stronger than it really is.

In a fast-changing world, such clarity can be achieved through a structured and unremitting focus on the firm's vision, expressed through a merger candidate scorecard and applied objectively throughout the assessment and negotiation process.

Andrew Hedley
Hedley Consulting
andrew.hedley@hedleyconsulting.com
+44 (0) 870 4862115
Follow us on Twitter: @hedleyconsults

Hedley Consulting advises the leadership teams of professional service firms on business development and change strategies that deliver immediate and sustainable improvements in business performance.