

THE FOUR STAGES OF A SUCCESSFUL LAW FIRM MERGER

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This monograph presents Smock Law Firm Consultants' suggested law firm merger process – **the four stages of a successful law firm merger**. It includes a brief introduction, the process itself, and our recommendations for implementing this process.

INTRODUCTION

We find that there are two overriding obstacles hindering the ability of law firms to successfully complete mergers.

- First, merger negotiations take an inordinately long time to complete. What takes just a few weeks or, at the most, a few months in industry takes much more time in law firms. It is not uncommon for one firm to talk to another firm for well over a year and then decide to not go further. Each step is dependent on successfully completing the one before it and there is usually no allowance for contingencies or adherence to a reasonable timetable.
- Secondly, most merger discussions never get around to discussing what the overall strategic direction or vision of the new firm should or will be. So, most merger discussions are focused on what the firms presently do, not what they can do.

We believe there is a simple and straightforward answer to these two (and other) hurdles to success – a structured process for considering and carrying out a merger.

OUR SUGGESTED PROCESS – THE FOUR STAGES OF A SUCCESSFUL LAW FIRM MERGER

Our suggested process divides merger activity into four distinct stages. We have analogized these four stages to perhaps the most important and complex human relationship – **marriage divided into dating, courtship, the wedding, and the marriage**. Within each of those stages are a series of tasks that can be defined, scheduled, and managed.

THE PROCESS ITSELF – THE FOUR STAGES

Stage I – Identification and Preliminary Discussions (Dating)

The first stage requires that the firm have a well thought out firm direction, vision, and strategic plan – so that it can agree – critically – on merger partner criteria, set a process for merger consideration (and publicize it within the partnership), identify targets, develop a short list, and contact targeted merger candidates.

Stage II – Detailed Discussions and New Firm Concept Development (Courtship)

The second stage, we believe, is the most critical and the one that has been historically the most difficult for firms to get beyond. Beginning with a stated mutual interest, it requires that a process and schedule be established in agreement with the other firm or firms, that the firms identify (and manage) those tough issues or obstacles that may be deal breakers and, very importantly, that synergies are identified and quantified. These activities are documented in a prospectus and initial financial projections. The final step of the second stage is to take the prospectus and projections to the firms' partners to gain their "conditional" approval.

Stage III – Detailed Due Diligence and Final Approval/Closing – The Wedding

The presumption – in our process – is that by the time a merger gets to Stage III, there are very few reasons to derail it. However, it is important (and prudent) that detailed due diligence be accomplished (both financial and strategic) and that a detailed integration plan be developed prior to formal approval.

Stage IV – Integration (Marriage)

This final stage is where many mergers get tripped up and become labeled as “failures.” Very importantly, integration has to be well planned and that plan must be carried out with religious fervor (no excuses or exceptions) to achieve full integration.

Timing

Our suggested merger process envisions an elapsed time of five months – from the time there is contact with the merger target until a formal approval and close. Unfortunately, very seldom is that suggested timetable achieved – but it should be.

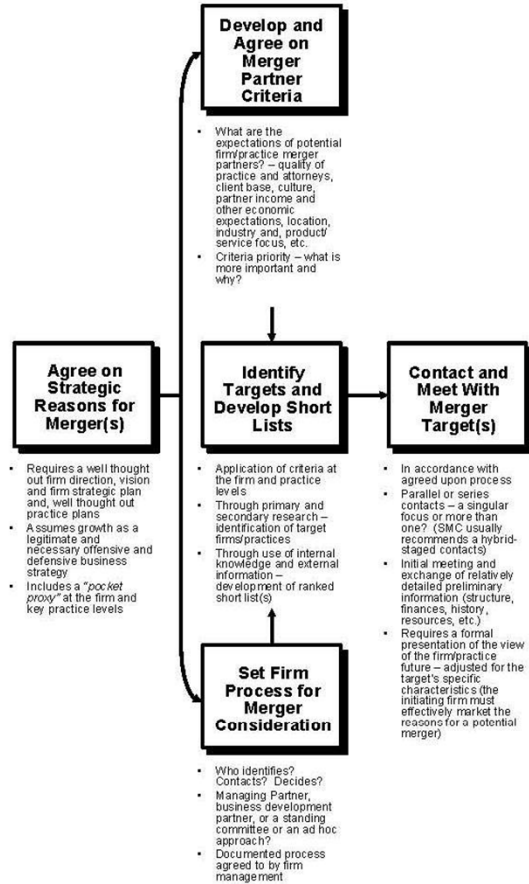
SMOCK LAW FIRM CONSULTANTS’ RECOMMENDATIONS

There are a number of common recommendations that we would make in concert with our suggested process.

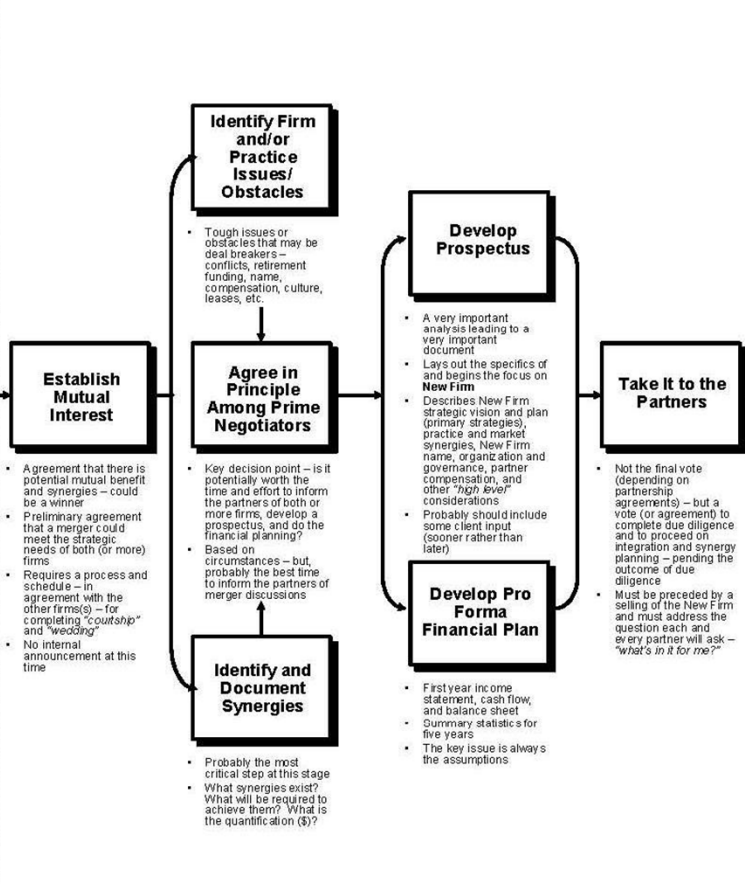
- **Establish and agree to a firmwide strategic direction that serves as a filter for fielding merger inquiries and for developing an active merger strategy.** It is virtually impossible to decide whether or not a specific merger is right for a firm, unless a strategic direction has been set and agreed to.
- **Be an active participant in the merger process.** Most firms have a desire to be in control of their own situation, but are very passive in merger discussions (i.e. – they wait for others to call them). We suggest that you actively consider targets and when appropriate, you contact them.
- **Talk to everyone who calls.** Our advice to our clients has always been to take all reasonable calls (whether you are interested in merging or not), as you will learn more from any conversation than you give out and solid, real time market intelligence is a rare commodity in a law firm.
- **Tailor this four stage process to the needs of the firm.** By definition, it is more generic than specific. Some aspects of the process may not fit a firm’s culture or management style or the specifics of a given merger opportunity.
- **Limit initial merger discussions to a small ad hoc group, but manage it at the firm level.** These things take considerable time and effort. The “filtering” process needs to be done by a smaller group than is usually the case.
- **After you establish mutual interest (at the beginning of Stage II – courtship), get on with it.** Establish a schedule, name responsible partners, and monitor the process. Slippage is remarkably easy and detrimental to the interest of all potential merger partners.

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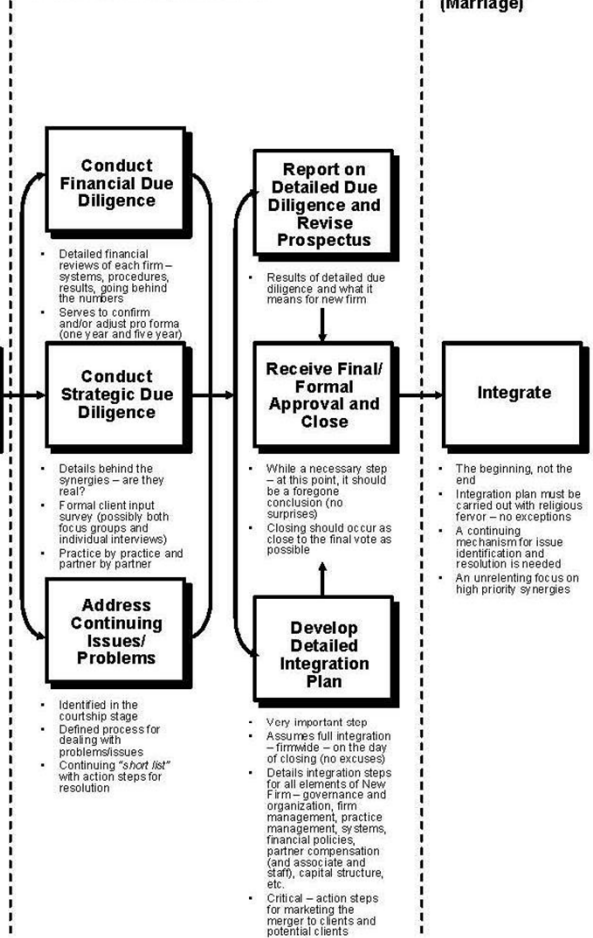
Stage I – Identification and Preliminary Discussions (Dating)



Stage II – Detailed Discussions and New Firm Concept Development (Courtship)



Stage III – Detailed Due Diligence and Final Approval/Closing (Wedding)



Stage IV – Integration (Marriage)

