Why law firm merger discussions fail

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Paul Bennett

Howard Hackney

Mark Briegal

A collaboration

Background information

	WS & Co Ltd	PK &Co LLP
Management	Howard Hackney	Mark Briegal
Job Titles	CEO	Senior Partner
Founded	1990	1865
Fee income	£7m	£7m
Partners	5	10
PEP	£250k	£125k
Staff & partners	50	70
Capital per partner	£350k	£150k
Contingent WIP in A/cs	Yes	No
Bank borrowing	£1m	Nil

The firms are totally fictitious - although based on our experiences - and any similarities to real firms is entirely coincidental

How did discussions start

- Mark & I were having lunch together at our club
- We were at school together and have been friends for years. He was always brighter than I was but I had the entrepreneurial streak and was a year ahead of him.
- Everyone in the profession is discussing mergers and we thought we were like minded firms which would make a good fit
- There would be cost savings, cross selling opportunities and we were stronger in some areas that they we weak in such as company commercial while they were stronger in areas such as family where we are weak – profits would increase almost immediately as a result
- Then there was an extension of our geographic reach from Liverpool to their offices in Manchester and Cheshire

- Howard & I were having lunch together at our club
- We were at school together and have been friends for years. I am the brighter one but I admire his entrepreneurial streak and I always looked up to him as he is a year older than me and he was a prefect.
- Everyone in the profession is discussing mergers and we thought it might be a good idea.
- We complimented one another's skills and geographic reach and saw synergies.
- Of course we recognised the differences between our two firms but recognised that our attention to detail and intellectual rigour in our attitude to practicing law would significantly benefit their firm – admittedly at a short term small hit to profits.

Tell us about your respective practices?

- We have one office in the centre of Liverpool which services the North West of England with some clients in London
- We operate as a Ltd Co as we see ourselves as running a business
- We are a specialist niche firm focussing on:
  - Company commercial
  - Banking
  - IP
  - Wills trusts and probate with a small family offering to service those clients
- Fundamentally we are deal doers
- Founded in Liverpool
- I am based in Liverpool

- We have three offices – Manchester, Liverpool & Chester
- We operate as an LLP which we believe creates a collegiate culture
- Full service offering including
  - Company commercial
  - Wills trust & probate
  - Conveyancing – residential & commercial
  - Family
  - Crime
  - PI
- We try to make every client think that they are our only client
- Founded in Manchester at the height of the cotton boom
- I am based in Manchester

Tell us a little about how you share profits?

- We are an avowed meritocracy with annual appraisals against SMART objectives
- We have a lowish base fixed share taking up 40% of our profits determined by market rate
- 40% is based on appraisal
- Remaining 20% is a dividend
- I am responsible for the appraisals and profit allocation but have a senior partner as a sounding board
- Monthly drawings are based on fixed share less tax
- We have fixed share partners in addition to the 5 equity for the tax benefits

- We are a collegiate practice recognising that each partner has strengths and weaknesses
- We have a high fixed share taking c. 70% of the profits – the fixed shares are all equal
- An elected remuneration committee (on which I sit but do not have a vote) can allocate 10% of the profits. This has however never in my memory been used
- We find profit allocation via appraisal very divisive
- Remaining 20% is a dividend
- Monthly drawings are based on fixed share less tax
- We have fixed share partners in addition to the 10 equity for the tax benefits

What about cars?

- Partners can have whatever they want as they fund them out of their profit share
- We religiously complete weekly expense claims and claim 45p a business mile
- Partners all have a dedicated parking space in the courtyard
- I am something of a car nut and enjoy my Bentley

- We place all cars through the practice
- Partners can have whatever they want upto a maximum lease cost of £300 per month.
- We claim 80% as business expenditure and are sure we could produce records to justify this should we be asked by HMRC who did agree this % 20 years ago
- We are not good at keeping mileage records
- I am not interested in cars and my 10 year old Land Rover is as good as the day I bought it. I might upgrade to an electric BMW i3 net year- although I am a bit worried that it might not go down well with my farming clients

Tell us about your finances?

- We believe in using the bank's money and borrow from them what we can – although this is increasingly difficult
- We need to borrow at the time of our annual draw just after the year end and to meet tax and have gearing of approx. 1:1 by the time we take partner borrowing for capital into account
- We do not recognise goodwill – partners come in and go out "naked" and we include WIP in our accounts
- We rent our buildings on a 10 year lease with a 5 year break as we are lawyers not property investors

- As a practice we do not borrow and we do not like being reliant on a bank as they "blow with the wind".
- Partners do however borrow to provide their capital but this is proving more and more difficult as we need to finance goodwill which is really latent WIP.
- We do recognise goodwill between partners and some of my older partners expect the younger partners to pay them what they purchased it for initially. This is causing friction as it is difficult for the new partners to fund.
- We own our properties through a series of 7 SIPPs and this has been one of our best investments as they are all in prime spots in the City Centres
- We only draw what we can afford and we need to bring this discipline to the merged firm.

Tell us about your staff and how you motivate them?

- We aim to employ the best but they must be self starters
- We provide clear billing and chargeable hours targets and pay bonuses based on meeting those targets
- We appraise regularly and “counsel out” the poor performers
- Bonuses can be as much as 40% of salary but are always self financing as a result of meeting stretched targets
- KPI’s are issued to all staff monthly
- We like to feel we have a strong collegiate, friendly & supportive structure. After all our staff are our biggest asset AND our future
- We pay perhaps 10% above the market rate to get “the best” with a generous pension, sick pay and paternity policy
- Bonuses are entirely subjective and are usually paid at Xmas equivalent to perhaps two weeks salary
- We have light touch targets which encourages team performance
- KPI’s are only circulated to Heads of department & partners
- We are bidding to be included in the Sunday Times Top 100 employers

How do you market your existing practices

- We are very focussed with a marketing funnel and targeted clients
- Our professional marketing director has added real value
- We have a state of the art CRM system
- Use PR consultants who we have to change every 2 years and who have a target to get a mention in the Echo or MEN every two days and at least weekly in Business Insider and the Business Desk focussed on the deals we have done
- Partners have clear targets built into their appraisal & profit sharing.
- We focus on profitable growing clients who we can charge at least £100k p.a. before they outgrow us & move to a national firm.
- We have a plaque for being 150 years old and clients have come to us for generations with repeat work.
- We have a large will bank
- We flirt with PR on an ad hoc basis when we have something to shout about – such as recruiting new trainees
- We have good long term clients who will bill £50k p.a.
- Social media and Pay per click is a mystery to us.
- We do recognise that we need to up our game to compete with the likes of Howard's firm & this is a benefit of the merger.

Tell us about your existing management structures

- We have a three man (and I mean man!) management committee. I am elected every 5 years and I appoint two professionals (fixed share partners) to assist me
  - A Chartered Accountant
  - A Chartered Marketeer
- There is an elected Senior Partner who acts as a Non Exec Chairman and sounding board

- I am the Senior Partner elected every 5 years.
- I work within a strategic framework and an annual business plan agreed by 75% of the points in issue.
- Within that framework I manage via monthly meetings with the 5 HoD's, 3 sector Heads and 3 office leaders and the FD and Head of HR (who are fixed share partners).
- Some of these roles overlap so that the monthly management meeting can have upto 9 people

But how do you actually manage the practice?

- What do you mean? I just get on with it and tell them what to do!
- I jest - of course I cannot ride roughshod over the partners so we have a formal partners meeting every six months followed by dinner at a Michelin starred restaurant – all tax allowable as a business meeting!!!

Paul to interject – no I mean by dept or sector?

- Oh I see what you mean. HoD’s meet with me monthly on a one to one to assess how they are performing against budget
- We work on a matrix basis between, HoD’s, sector disciplines, office Leaders and functional disciplines (finance & HR)
- I meet with them monthly to address issues and they just get on with it within the business plan and strategic framework.
- The equity partners meet monthly for a sandwich lunch.

What is the strategic reason for the merger?

- We need “bench strength” to get economies of scale
- We wish to increase our PEP and to have a sustainable practice in a highly competitive market and merger is the way to do this
- We see significant synergies to drive profitability

- We have an aging partner profile with senior partners wishing the retire.
- We have struggled to find new partners to take on the responsibilities of partnership and in particular to pay outgoing partners for their goodwill.
- We will improve their culture and management and hence PEP
- We will provide long term stability and history to H’s firm.

Is this a true merger?

- We say that it is but in reality we are the stronger party and we are acquiring them as they are somewhat sleepy and have not capitalised on their strong client base

- We say that it is but in reality we are the stronger party and we are acquiring them as they need our culture and our long term history to make them “respectable”

Looking to the future what will the name of the firm be?

- That’s easy – we have agreed not to fall out about this – WSPK & Co Ltd

- That’s easy – we have agreed not to fall out about this – WSPK & Co LLP

How do you plan to manage in future?

- We recognise that this is a difficult area but we have agreed that I will be Managing Director and Mark will be Executive Senior Partner responsible for strategy
- After that it get a tad difficult – I would plan to have two of his "young guns" on a management committee (which I will find difficult) plus Mark's FD and my Marketeer. I don't think we need the expense of an HR director

- We recognise that this is a difficult area but we have agreed that I will be Senior Partner responsible for strategy and Mark will be Managing Partner and we will split duties equally according to our skills – effectively Joint MP's
- Our culture is "spot on" so I would not like to disturb things too much. We do however have to cut down the size of the management committee but I would want my HR director and by way of compromise I would let my FD go but would expect not to need their somewhat direct Marketing director.
- I think there should also be at least three elected partners on the committee.

Do you expect to have to make any redundancies?

- You cannot make an omelette without breaking eggs so regrettably yes and would want to cut deeply and quickly – to avoid multiple rounds of redundancies
- If you look at their chargeable hours there is clearly some fat to cut and assets to sweat
- It will probably be 10% across the board – perhaps 12 people but with a focus on the "back office"

- Other than our FD and their marketing director and perhaps two in Accounts I would expect not.
- The culture of the firm is very dear to us and the growth that should come from the merger should take up any limited slack there may be.
- We have some very longstanding loyal staff who we owe a duty to.

What would you do – show of hands?

- If you were advising would you recommend the continuation of talks?

- Putting aside the geography and technical disciplines - which firm would you wish to join as a partner?

Concluding remarks by Paul?

- No rights & wrongs – two effective practices each with their own challenges
- We have only marginally overstated some of the issues to make the point but they are not at all far from realism

A collaboration

howard hackney LLP

Aaron & Partners Solicitors

WILKINSON READ & PARTNERS

Haddon Consult