

## Outline of the Business Case for a Law Firm Merger

Each firm entering a joint venture, strategic alliance, or merger should consider the probable gains and losses it might experience. At the beginning of this analysis, one might have to be content to quantify gains and losses in very general terms, such as “marginal” or “substantial.”



As the evaluation continues, however, some of these elements will be reduced to financial projections.

This outline is a useful starting point for law firms that are considering a merger or other structured relationship with another firm. At the end of the analysis, however, gains should substantially outweigh losses; otherwise, the deal may be a long-term losing proposition for both firms. Even if the business case is positive, there may be subtle cultural issues that could make it almost impossible to realize the gains or could seriously magnify the losses. In fact, cultural incompatibilities are the leading reason why mergers often produce disappointing business results. The firms must therefore conduct cultural due diligence to identify and, if possible, manage these issues *before* going forward.

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Gains	Losses
Revenue from services that our firm can provide to existing clients of the other firm, but which the other firm cannot provide now	Lost revenue from legal and commercial conflicts
Revenue from services that the other firm can provide to our existing clients, but which we cannot provide now	
Revenue from new legal work that none of our firms could attract separately	Lost revenue from departing clients who do not want to be served by the new firm or venture
Improved competitive position in a larger geographic market	Competition from larger firms with greater marketing and business development resources
Ability to recruit or retain partners whom none of our firms could attract separately	Departure of partners who are not happy in the new firm or venture
Ability to recruit or retain associates whom none of our firms could attract separately	Departure of associates who are not happy in the new firm or venture
Ability to command higher fees	Weakened competitive position in price-sensitive practice areas and service lines
Improved profitability through economies of scale	Increased operating costs through duplication of facilities, equipment, and internal administrative processes
	Cost of partner time, effort, and attention in negotiating the merger or venture
	Integration costs
Positive gains in productivity and organizational effectiveness resulting from cultural compatibility	Negative impacts on productivity and organizational effectiveness resulting from cultural incompatibility

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