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Effective Third Party Vendor Management & Back Office Integration Can Help Ensure Synergies of Law Firm Mergers Are Realized

When law firms merge, everything typically looks good on paper. From the alignment of practice groups to the geographical footprint, the new partnership is poised to expand its ability to service and grow its client base as well as increase its overall profits per partner. However, realizing that potential is not a guarantee.

The senior partners and executives who negotiate mergers naturally place their primary focus on "top line" benefits – delivering for clients, integrating attorneys and practice groups, and ensuring financial, timekeeping and billing systems do not skip a beat. Analyzing and effectively integrating other aspects of the business such as third party vendors and back office support functions are often put on the backburner - that is where the challenges can start.

Effectively evaluating and integrating the firms' key third party vendors and back office operations is essential to optimizing performance and achieving the anticipated benefits. Operating expenses can account from 30%+ of gross revenue immediately following a merger. For a firm operating at a 33% net profit margin, saving $1 in operating expenses has the same benefit to the bottom-line as generating $3 of net new revenue. Firms that do not plan and execute integration effectively can bleed resources and cash for months or years. This can increase frustration and diminish the anticipated advantages of the merger.

Typically law firm mergers fall into one of three categories:

1. **Domestic mergers focused on expanding geographical footprint or adding practice groups;**
2. **International mergers focused on market expansion and**
3. **Global integration of firms with similar practice groups and offices.**

Although mergers in other industries are driven by cost efficiencies or economies of scale, law firm mergers of any type are typically focused on the potential value of client-related matters. Up until the actual signing of the deal the majority of focus, energy and effort is on the potential to leverage clients and the overall quality of the attorney population, branding, and market position. As a result, full disclosure of third party vendor or support function operating costs can be a secondary concern until after the deal closes; the clock starts ticking the moment the merger is inked.

Firms need to hit the ground running and identify its risks including: opportunistic vendors, internal turf battles, technical setbacks, poor visibility into relevant data, service level impacts, back office redundancy, etc. The list of operational and third party integration concerns can be daunting — from integrating technology platforms, outsourced services and support functions, medical benefit providers, down to rebranding of stationery & business cards. Firms frequently underestimate the complexity and nuances of many issues, including:

Realizing Cost Savings

Many firms do not realize that non-salaried operating expenditures — from on-line legal research to office related products — can be reduced by 30% or more. The impact can be hundreds of thousands if not millions of dollars in potential annual bottom line impact. However, realizing cost reductions is not a simple process.

The vendor base and its sales teams are ready to take advantage of the opportunities mergers present. They often view them as catalysts to extract more revenue and margin from accounts. The decentralized nature of many firms' operations, coupled with vendors positioning greater use requiring upward price movement, can often times lead to cost increases following a merger. Vendors have large and sophisticated sales teams and pricing groups experienced in capitalizing on the distraction of firm leadership in a post-merger environment to up-sell services, recommend product switches or leverage legacy contractual terms to maximize their revenue or profit margin. Firms typically lack the resources to dedicate the time necessary to counter these tactics and miss a golden opportunity.

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The available resources are generally functional heads - directors and managers - who get bogged down in mission-critical merger-related and operational activities (e.g. office moves, relocating staff, right sizing equipment, integrating systems & technology, administrative contract updates & notifications, rebranding, etc.), which leave little time to focus on strategic issues. An experienced third party can help allow internal resources to focus on the day-to-day operational items while assessing the "new" current state, providing perspective on what is going on in the market and developing thoughtful approaches for areas such as outsourced services, on-line legal research, equipment and technology standardization, software license needs assessment, etc.

Strategy Development

With proper planning and guidance, firms can turn the tables to significantly drive down costs and streamline operational efficiencies. If agreements are not renegotiated or processes reevaluated soon enough after the merger, they often times will not be and costs or inefficiencies can continue to increase overtime. For example, systems are sometimes integrated or left alone to be free standing and contracts are ineffectively consolidated without examining how they can be best utilized in the new operating environment. Firms should leverage the fact that vendors will be anxious about potentially losing the account altogether in order to negotiate lower costs, more favorable service levels and overall enhanced contract terms and conditions.

Mergers present a perfect opportunity for the firm to establish a sense of urgency both internally and externally, create a team focused on the effort and clearly communicate that it is reassessing all its existing processes and third relationships and considering all options. Impacted parties will quickly recognize that not only is the merged firm a significantly larger customer, but that there is significant risk or opportunity if different legacy incumbents exist across the new account. Firms can utilize this unique position to leverage the already established existing relationships without having to go through a prolonged evaluation or RFP process and are rarely ever in a better negotiating position.

A firms' greatest challenge is prioritizing such efforts. The number of major relationships across different departments will all be at varying stages in their respective lifecycles. The potential savings and complexity to implement those opportunities varies by category as well. Because the window of opportunity to optimally renegotiate is relatively short, firms can benefit from a fast and thorough third-party analysis of their spend data, contracts and vendor base so they can prioritize those contracts with the greatest potential or the best prospects for "quick wins."

Moreover, experienced outside professionals are well-suited to provide contemporary market intelligence related to best practices and market pricing as well as comparisons within and outside the legal industry to help prioritize efforts based on potential benefits.

Effective Information Sharing

Mergers can create a sense of competing interests within law firms that stalls and frustrates short-term integration efforts. Leaders need to anticipate areas of friction and act fast to facilitate trust and free exchange of information between legacy firms.

Consider the example of two IT managers: If they go into a merger without their future in the new firm clearly defined, they can waste crucial time jockeying for position by attempting to control critical information. Key staff members need to understand their post-merger status to provide necessary service during the transition. Objective outside experts can provide insight and guidance on the subtleties of these unfamiliar but critical aspects of law firm integration.

Not all information issues are personal. Mergers with significant geographical or office overlap often times offer the greatest opportunity. However, regional or international mergers present a number of additional factors to consideration. Concerns as simple as managing time differences, gaining familiarity with a new vendor base or existing process, varying labor laws with outsourced service providers or cost recovery regulations can play a major role in the speed of integration. It is essential that firm leadership and functional managers are on the same page and communicate effectively to ensure all parties fully understand and execute upon the merger's original objectives.

Thoughtful Action

Significant changes right away can create anxiety that stalls the integration process. Phasing and prioritizing transitions while ensuring short-term or "quick hit" wins are realized and communicated is one of the most delicate and sensitive parts of any merger. Understanding that making even modest changes on day one can have dramatic and cumulative negative effects is an important consideration when developing the integration plan.

For example, altering an activity as basic as who delivers the mail to partners can have an impact because it changes a daily personal interaction. Such reactions—while emotionally driven—can have a meaningful impact on the integration process.

Firms must be extremely sensitive to the order and timing of any operational changes that result from the merger. Whenever possible start with the least intrusive changes and gradually implement progressively larger shifts as the comfort level and momentum grows. Demonstrating success in small areas can help gain confidence. Upsetting the apple cart on the first day can easily result in lasting resistance that can permeate into mission-critical areas.

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Creating a Roadmap

Although the first year is a critical window for integration, the solutions chosen must be sustainable over time. Building in checkpoints for all major departments is necessary to maximize adoption and performance over time. Firms too often focus on the transition itself, but neglect to track the realization of anticipated savings or the effectiveness of efficiency efforts.

Even firms that make the correct decisions before and immediately following a merger often fail to realize the full potential of the deal simply because they shift into status quo once the initial push of the integration process has been completed. Developing a roadmap focused on (1) identification of opportunities, (2) results measurement and (3) a mentality for on-going optimization following a merger ensures that the firm keeps its focus not only on short-term outcomes but long-term sustainability.

Employees are understandably stretched thin during the integration process and frequently take on increased responsibilities. The perspective and experience of outside professionals can be particularly beneficial in this context. Integration specialists can provide the long view necessary to make sure the merger continues to provide advantages long after the moving vans have departed.

Experience Matters Most

Taken individually, the challenges of law firm integration are manageable, but firms rarely have the luxury of tackling them one at a time. Most law firms have relatively lean administrative functions, especially after such a prolonged recession. Mergers can strain that capacity—at the time when it's most important.

In the worst cases, crucial partners or practice groups depart for greener pastures or scuttled deals result in bad publicity. Much more common is persistent grumbling from lawyers and staff who do not buy in. This level of dissatisfaction can infect a firm's culture, dragging performance and stalling or preventing the anticipated synergies.

No aspect of a merger should be left to chance because of the many moving parts, time-sensitivity and overall impact on the firm's legacy. The issues involved are too complex and interrelated to learn on the fly. In this area, an outside party with expertise working directly alongside operational executives and functional managers through the vendor management and back office integration process to achieve significant savings and create even greater efficiencies than expected without sacrificing quality or service. By doing so, the firm's finance and operations executive leadership can help ensure that the new partnership realizes the expected benefits of the merger and are poised to enhance profitability.

Meet the Author | Matthew Sunderman

Matt is a senior director in the Infrastructure & Business Process Practice at HBR Consulting. He has extensive strategic and operational consulting experience across Fortune 500 as well as $150M - $3B privately held organizations. Matt has led engagements within legal, private equity, financial, retail, airline, technology and transportation services sectors focused on strategic sourcing, mergers & acquisitions due diligence and integration, operational assessments & improvements, organizational planning & design, cost avoidance & recovery, large scale project management and labor management.

Before joining HBR Consulting, Matt was a founding member and director at Blue Hill Consulting Group. Prior to Blue Hill, he was a manager in Huron Consulting Group's Operational Consulting practice.

Matt has worked and studied abroad including leading engagements focused on streamlining operations and enhancing cross functional collaboration efforts across domestic and European, South American and Asian operations.

Matt received his Bachelor of Science in Finance from University of Illinois at Urbana-Champaign and is currently pursuing his MBA at Kellogg with concentrations in Finance, Management & Organizations and Entrepreneurship & Innovation. In addition, Matt received his Certified Purchasing Manager (C.P.M) designation in 2005.