

# Mergers in the Rue Morgue

*With a raft of US firms taking the plunge and entering the Parisian market, the number of potential merger partners is diminishing. **Laurent Marliere** and **Ziggy Wrench** outline how best to identify the right partner for a successful merger*

The French legal profession is evolving and so is the market. The legal scene is becoming more 'market-driven' rather than 'law-driven'.

A wave of mergers and alliances with French firms have taken place during the past three years, and the result of a repositioning by US firms playing catch-up with UK rivals.

It is also the strategy used by non-Wall Street firms or non-City firms to create a global presence that can compensate for their weak presence in New York or in London.

Many US and UK firms have had an ambivalent attitude towards the French legal market to date: opt-in or opt-out?

The trend is now back towards consolidation.

Several firms are ready to land in France within the next few months.

## **Land of opportunities**

With a population of 61 million and 36,000 lawyers, the French legal market is a beehive of opportunities for international law firms, particularly in Paris, where 40% of these lawyers are based and where three-quarters of the turnover generated by legal services is made.

Such is the case for many US law firms which have a traditional clientele.

Many of the US law firms are attracted to Paris by the presence of sophisticated, demanding and international clients who bring complex cases for them to deal with.

The last wave of investment made in France involved full service or large corporate firms.

This has been the case for newcomers like DLA Piper Rud-nick Gray Cary, Morgan Lewis & Bockius, Paul Hastings Janofsky & Walker and Weil Gotshal & Manges.

We now detect a developing trend of niche firms specifically focusing on the Parisian market — and this is what US firm Howrey has just done with IP niche firm Couste.

In Europe, London is the city that welcomes the most foreign law firms — approximately 120 — half of which are US law firms that want to serve their clients using English law.

Brussels is in second place with about 73 foreign firms due to the fact that it is the seat of the European Union, the heart of Europe.

Paris is in third position with 65 foreign law firms.

Foreign firms used to serve their international or national UK or US clients on the French market.

However, nowadays, they also tend to develop a specific strategy to approach pure French clients.

Although this rivalry still exists, it is less harsh than it was five years ago.

Many French lawyers now work under an 'Anglo-Saxon flag' and US or UK firms have become 'true nationals' in the French market.

## **How to get on in France**

The way to develop a firm in the French legal market and take advantage of potential opportunities is achieved by either creating a partnership, or by gradually developing the law firm's presence in the market.

Traditionally, the French legal practice was a boutique firm made up of a small number of partners who were not interested in merging on an international scale.

This has changed. The average size of French business firms has grown and French partners have realised that if they want to be given the interesting instructions or be short-listed, they must have some sort of international structure.

On the other hand, many US and UK firms understood that it was unwise to ship one lawyer and his secretary into a tiny office, realising that the investment needed to be much more substantial.

Therefore, the aim was to either merge or attract a team of local lawyers.

Competition in Paris is increasing and the future of many French law firms is uncertain; therefore they are being forced to change and adapt.

Most of the French fiancées have already found a UK or US suitor, and as a result, good and evident opportunities to merge are now scarce.

The most effective solution is to use the local expertise of French management and marketing consultants.

This then enables the US or the UK firm to follow a six-step methodology that is, according to our experience, proven to work effectively.

### **Getting to know yourselves**

The first step is to be precise and clarify the mission. A preliminary for the local consultants is to undertake a serious analysis to identify clearly what you want and 'who' you are to be sure to find the right match: objectives and expectations, vision, values, strategic plan at the international level, partners' compensation and remuneration system.

A cross-border merger (it will be considered as such by the French candidate) has its own characteristics. To approach the French market, it is important that the consultants draw the attention of the foreign partners to specific issues in France and the evolution of the legal sector in the country.

If your firm already has a presence (whether correspondent, best friend or flagship) in Paris, consultants will also provide an external opinion at this stage on the possible reasons for dissatisfaction/weaknesses between the firms and their local partners to avoid encountering similar difficulties in the future.

### **Identifying the potential merger candidates**

Consultants will review and assess in detail the top 100 French candidates and beyond, if necessary. Firstly, you submit a panel of the 10 most relevant potential candidates.

This should be achieved by an initial benchmarking strategy. The review should include: ratios and statistics; client structure; firm turnover and partner turnover; financial compatibility and fee levels; methods of invoicing; services offered and areas covered; history; culture and vision.

After the joint evaluation meeting with your firm's management committee, a short-list of the most valuable opportunities will be defined. Once the 'chosen few' (maximum three) are selected, consultants will assess further and provide your firm with more precise information on the targeted merger partners.

At this stage local consultants need to:

- . assess your firm's benefits with each specific candidate and the potential for profile-raising;
- . assess business synergies: a successful merger needs to be mutually beneficial (a win-win strategy);
- . study the profitability of the partners;
- . understand the benefits for your firm's prospects;
- . track possible conflicts of interest; and
- . evaluate the risk. Will valuable referral work from other lawyers dry up as a result of the merger? Will clients drop out? Will partners leave the merged firm, taking business or reputation with them?

### **Approaching the merger partner and opening talks**

An evaluation meeting between your firm's representatives and the consultants will lead to a decision on one

particular potential merger partner to consider as a priority.

At this stage you need to define who leads the pre-merger talks and arguments to 'sell' them the merger. You will need to sell your firm in France: your firm might not have the outstanding reputation or branding that it enjoys in the US, the UK or elsewhere.

Potential French candidates might be reluctant to envisage talks with an unknown partner.

If the chemistry and compatibility between the firms work out and both parties agree to undertake a pre-merger process, the consultants can continue to assist and accompany the process or act as an independent mediator on various issues.

Your local external consultancy firm needs the ability to introduce you to the right consultant to analyse the tax and regulatory structure of the firms.

This is what it takes to create or strengthen your presence in Paris.

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