

Strategies For Successful Law Firm Mergers In 2025

By **Brian Salsberg and William Perlstein** (January 7, 2025)

Following a trajectory similar to other professional services firms over the past two decades, law firms are now undergoing a period of consolidation.

From high-profile transatlantic combinations — such as the merger between Allen & Overy LLP and Shearman & Sterling LLP, and the merger between Herbert Smith Freehills LLP and Kramer Levin Naftalis & Frankel LLP — to midsize mergers, 2024 merger activity kept pace with the steady stream of law firm combinations over the last four years.[1] And the expectation for 2025 is for merger activity to increase.[2]

Increasingly, top firms continue to take market share and realize record profits, while many others struggle to retain what they have.

The industry has largely broken into three segments: the top market leaders, giant global networks, and small to medium-sized boutiques. Like a sports league without salary caps, the best individual and group players are gravitating to the larger-market teams, leaving small-market teams to suffer talent loss.

And with more consolidation expected for 2025, mergers will, and probably should, be on the minds of many law firm managing partners and executives that fall outside these segments.[3]

While merging with another firm may seem routine for attorneys who regularly advise clients on mergers and acquisitions, professional services transactions are anything but ordinary deals.

Mergers of professional services firms are arguably the most difficult type of business combination to get right, primarily because the star products and most valuable assets are people, and they can walk if the combination being proposed is unacceptable to them.

In addition, most law firms have distinct cultures, often shaped by long-tenured leaders, and are typically run by a small group of powerful partners.

Therefore, these business combinations and integrations require a different playbook, incorporating a deep understanding of the unique people, processes and systems aspects of law firms.

Where is your firm?

First, where does your firm sit on the wider map? We continue to see a pattern of likely law firm winners — with a few nuances — including:

- International firms, which are increasingly focused on major financial centers, rather than full global coverage, and operate through a single global integrated financial model or, in some cases, verein structures;



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- Blue chip firms with significant New York transactional practices and brand-name lawyers who take a disproportionate share of hugely profitable M&A, antitrust or bankruptcy work; and
- Boutique firms focused on areas such as intellectual property, employment and litigation.

Most law firms do not fit into any of these categories, and are consequently most likely to be merger targets or acquirers as a way to grow.

However, based on our observations, if a firm cannot compete for top-end work and top-paid partners and lacks a unique practice specialty, it has no competitive advantage and is stuck in no man's land.

Is the firm ready?

Firm leaders who see themselves in this position should take a hard look at themselves and have a clear-eyed view of their prospects. Are you confident in your firm's ability to grow revenue and profit sustainably over the next five years? If not, then you should consider the following questions to assess readiness for a merger:

- Have you undertaken a strategic review and conducted an analysis of your firm's strengths, weaknesses, opportunities and threats within the last 12-18 months?
- Do you have a well-researched list of potential law firm targets, merger partners and suitors?
- Have you assessed and tested the strength of existing relationships with those firms?
- Do you have a framework to assess the synergies, if any, with a potential partnership?

What next?

If a firm's leadership is serious about the need to merge — whatever the motivation — as acquirer, equal partner or acquisition, leadership should take a deep look at how the firm can put itself in the best possible position for a transaction when the opportunity arises. The following pointers can help.

1. Know your firm, and be merger-ready.

Having a clear strategy and priorities helps the speed and effectiveness of execution. Honestly assess your strengths, your place in the market and the willingness of your partners to undertake transformational change.

Sometimes, the first step is to convince your partners of the need for change by assessing the firm's prospects without a merger. Many firms tend to find themselves in a merger situation without having taken the steps to prepare their firm to be positioned to execute the best possible deal.

Often, however, the prospect of a merger arises opportunistically. While it may require some lead time to implement necessary changes, mergers that are too long in the gestation phase have a tendency to founder.

2. Get to know your suitor.

Firms must resist the temptation to take the first offer, because that suitor might also be in desperate straits. Bolting trouble onto trouble is never a recipe for success.

Conducting proper financial due diligence on professional firms can be particularly challenging, as a large portion of the revenues tend to be nonrecurring, further upping the ante on credible forecasting.

For example, acquirers may not fully consider the reliability of cash flows from their target, or the fact that the firm might not be able to continue to cover all of its expenses in the event the closing is delayed.

While this would be an obvious red flag in a corporate or private equity transaction, law firm transactions are often not approached with the same rigor.

3. Pay attention to all your human assets — not just top talent.

Consider a situation, for instance, in which retention agreements are only in place only for a small number of top senior executives.

This decision could drive a critical pool of knowledgeable employees to take opportunities outside the combined firm, leading to a spike in attrition and high costs to find replacement talent. Often, little attention is paid to these employees, and most of the focus is on retaining the top revenue-generating partners.

Administrators that are not in client-serving roles are frequently viewed as undifferentiated workers in professional service and law firms, but they generally have deep institutional knowledge encompassing years of critical relationships and relevant corporate history. They can be the first to leave unless they are given market-appropriate retention bonuses and some assurances about their future roles.

4. Appreciate differences in culture, governance, processes and systems.

Understand cultural differences early on, and be deliberate about building a common culture. Culture encompasses how decisions are made, how partners and staff interact, and the firm's policies governing remote work.

Seemingly small aspects of a firm's culture — including office real estate, work-from-home policies, the quality of benefits, expense policies, and even titles and pantry offerings — can have a disproportionate impact on employee satisfaction. Firm leadership will need to plan ahead to facilitate this transition.

Similarly, firm governance, including partnership operations; business processes, including new client intake, conflicts management, data privacy and anti-money laundering; and finance and information technology systems all tend to be complex and largely bespoke elements of a professional services firm that have developed over many years, making integration especially complicated.

If an acquirer abruptly replaces a target's existing knowledge management and client matter systems with more complicated versions without a solid change management plan in place, for instance, partners at the target organization may ultimately refuse to use the new systems.

5. Don't discount the downside of mergers.

Typical procurement, general and administrative expenses, and real estate synergies generally aren't material in law firm mergers. There will be limited opportunities to consolidate offices and some larger procurement contracts.

But typically, law firm mergers aren't scalable events and should not be undertaken primarily to reduce overhead. Rather, the opportunity for growth and cross-selling must override any downside risks.

6. Manage the narrative to your advantage, and be ready for the competitors to circle.

High-profile professional service mergers are a hot topic for the financial and trade media, and leaks are commonplace. Too often, employees and clients encounter media coverage of an in-progress transaction before hearing official communications from leadership.

Since mergers — and rumors about mergers — create uncertainty within the firm, firm leadership should consider how to strategically communicate the proposed transaction to employees.

The market for top talent is highly competitive, and competitors will be looking to exploit any sense of vulnerability among high-performing partners, critical operational talent and rising stars. Firm leadership must manage this risk to engage and secure its key talent.

Conclusion

Given the dynamics in today's legal industry, for many firms that find themselves in a stagnant financial position, outside the small group of increasingly successful firms and losing senior talent, the question about mergers is less "if" than "when."

A merger may seem like a magic bullet for these firms, but hard experience shows that successful mergers for professional services firms in general, and law firms in particular, require a strategic playbook that accounts for the nuances of firm development and culture, understands the intricacies of professional services economics, and offers a structured approach to mapping the firm's own position and those of potential partners before the delicate merger dance gets underway.

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[1] Jens Peters and Daniel Hacikyaner, "Eat or be Eaten: The Urge to Merge for Professional Services," AON Professional Services Practice (July 2023), <https://www.aon.com/risk-services/professional-services/eat-or-be-eaten-the-urge-to-merge-for-professional-service-firms>.

[2] Andrew Maloney, "'Higher Level' of Law Firm Merger Activity Expected in 2025, but Tie-Ups Remain Steady so Far," The American Lawyer (October 1, 2024), <https://www.law.com/americanlawyer/2024/10/01/big-law-firm-tie-ups-in-the-pipeline-but-merger-activity-in-2024-remains-steady/?slreturn=20241118103522>.

[3] Roy Strom, Mahira Dayal, and Justin Henry, "Big Law Mergers Pop as Firms Hit Gas in Industry's Race to Scale," Bloomberg Law, (September 11, 2024), <https://news.bloomberglaw.com/business-and-practice/big-law-mergers-pop-as-firms-hit-gas-in-industrys-race-to-scale>.

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