

# FinanceWeek

## M&As, regulations and recessionary lessons from history

Posted by Lucy Saunders in [Strategy & Planning](#), [Risk & Regs](#), [Industry Sectors](#) on Mon, 24/08/2009 - 12:07

- Focused not opportunistic M&A activities
- Hard lessons learned from previous recessions
- Increased government appetite for new regulation to decrease risk



With more than 100 employees, the 250 year old solicitor, Ellisons, is realising the benefits of learning lessons from more than one recession. In October, it completes the third merger in 16 months, backed by a loan from Barclays Commercial.

Guy Longhurst, one of the three managing partners, says the mergers are all strategic choices based work across a range of practices and moving away from the parts of law that are being commoditised. The aim is to provide excellent service as well as value to their clients.

### **Eyes wide open**

In this downturn, they have received calls from practises wanting to be taken over, but Longhurst and the FD, David Wrycraft, are focused, rather than opportunistic.

"We've had our eyes open for a long time," says Longhurst. After the recession in the 90s, the partners agreed, that if Ellisons was going to be around for another 250 years, then things had to change."

Then, as now, the property market was hit badly, and domestic conveyancing, which had been a significant part of their business, diminished dramatically. Ellisons always had a broad portfolio of work, and they consciously planned to develop in specific fields, such as commercial, private client work, agriculture, insurance, family and employment law.

"We have a particularly strong insurance litigation team," says Longhurst, "Which is unusual in a firm of our size."

Year-by-year, it has managed down the proportion of turnover from residential property and commercial and domestic property is now 30% of turnover. Wrycraft says: "It was 44% when I first came and domestic property is only 15% of that proportion of turnover."

### **Tackling red tape and investing for growth**

The other aspect changing Ellisons was the transformation of the regulatory world around business in

general and law in particular. The overall increase in business regulation, such as VAT, data protection, insurance, health and safety, has increased the amount of time required to do unbillable administrative work just to stay in business. Anti-money laundering legislation puts particular responsibilities on solicitors, which are time consuming.

"We have a designated money laundering officer and every member of staff has to attend regular money laundering training. This additional compliance cannot realistically be charged for, so it is a burden placed upon our business," says Longhurst.

Over the last five years, Ellisons has reduced the ratio of secretarial and admin support to fee-earning individuals. Which seems like an almost impossible equation given the unavoidable increase in administration. However, technology, in particular digital dictation, has helped Ellisons to reduce the admin/fee earning ratio from 1.5:1 to less than 1:1 in that time.

Alongside tech investments, it has also substantially restructured the business. In the past, every partner was involved in every business decision. Now, there are three managing partners who develop business strategy as well as doing fee paying work.

All the partners agree the overall strategy, the managing partners implement it working closely with the increased administrative team of financial director, practise manager, marketing consultant, and financial administration.

Fee-earning members of the team concentrate on client service. Another cultural change has been the increased connection with the clients, both through using email and video conferencing and by going out to meet the clients more.

"The old fashioned approach and perception was that the clients came to the solicitor and not the other way round," says Longhurst.

### **Strategic planning and financing**

Ellisons approach is to anticipate, to think ahead and put themselves in a position to benefit from change rather than be limited by it. As Longhurst says, the last few years have created a very different market for the legal profession. Against this background, merger targets have to offer some significant development for the overall business in one of its chosen areas.

Marshall Legal, which will merge with Ellisons in October, brings specific expertise in private client work, civil litigation and family. Ellisons is also influenced by the professional insurance implications of their merger partners.

Property conveyancing has traditionally been seen as higher risk than other parts of legal practice, with corresponding effects on professional insurance. The increase in professional indemnity insurance is actually putting some high street solicitors out of business and the insurability of a merger target must be a real consideration.

Taking on a loan to service the mergers was a practical decision. Wrycraft investigated various financing options before choosing the loan offered by Barclays.

"We were looking for something simple and straightforward, a shortish term loan is easier to manage regards cash flow than other alternatives," says Wrycraft.

He adds: "Ellisons has been with Barclays for over a hundred years. We like to think we have a good track record with them. Their pricing has gone up, in terms of funding, and we did get alternative quotes but Barclays was the most economical. It is always important when completing mergers to allow some contingency, because the costs may be higher than expected.

### **Managing risk**

The solicitors Regulatory Authority has recently brought in more regulation to reduce risk. Necessary, according to Wrycraft, but adding yet more to the non-billable hours. With more regulations to come, Ellisons strategy to be in the best competitive shape possible will continue to demand changes in the business at every level, from the way people work, to the type of work that they concentrate on. The quality of service for clients remains the top priority.

Ellisons has seen several recessions in its 250 year history. What makes this one unique is the combination with the transformation of how businesses are allowed to do business. The credit crunch has only increased Government appetite for regulation as the route to decreasing risk. At Ellisons, the overall strategic approach is to anticipate and respond to change effectively.

"My determination is that Ellisons will come out of this recession stronger than the last recession," says the acquisitive Longhurst.