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The Role Of Business Development In M&A Law Firms

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In today's highly fragmented and competitive mergers and acquisitions environment, financial buyers and legal advisers searching for lucrative deals and mandates are more successful when utilizing a focused and proactive business development strategy. Furthermore, having a dedicated business development professional may provide access to relevant opportunities that the competition has overlooked or missed. In the long term, firms with dedicated business development professionals may improve their market share of relevant closed deals.

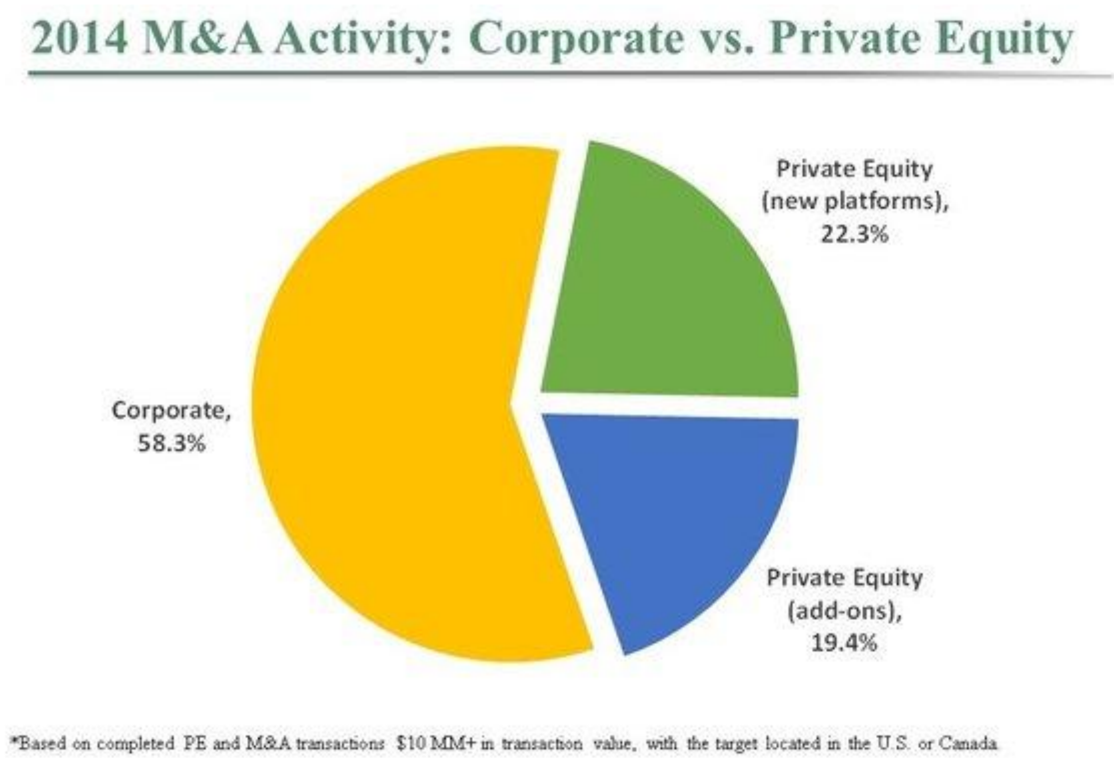
Let's evaluate the difference between the private equity business development professional and the legal business development professional.

Private equity firms that have focused on enhanced deal sourcing techniques have had positive impact on returns, often resulting in lower purchase multiples. Most private equity firms understand the value in a dedicated business development resource. As the role evolved, it has become an integral part of the firm's overall success, even when it comes to weaving the deal sourcing strategy into the messaging with shareholders.

PE business development professionals today are heavily involved in deal sourcing, relationship building, as well as measuring the effectiveness of the process. The professional is on the road building relationships with key stakeholders, as well as generating deal flow. Private equity firms are actively logging and analyzing deals, giving them a better sense of their market share, the firm's status relative to the competition, and how to continually improve results. Moreover, PE firms can be more sector or industry specific, enabling them to develop and understand the sector-specific markets.

Conversely, the business development professional in the legal M&A advisory world is an evolving role often focused on supporting partners in business development. M&A law firms invoke a different interpretation of the role. The larger law firms have dedicated business development teams who set the stage for the partners to build the relationship and generate business. Whereas, the medium or smaller law firms tend to have one (or zero) business development or marketing professional tasked with managing multiple practice groups. These professionals are involved in the strategy and support aspects of the role, but are not exclusively dedicated to the corporate practice group. Moreover, these firms may not have the resources or time to implement effective business development strategies.

When it comes to generating leads, law firms often view intermediaries such as investment banks, as well accountants and other advisers, as good referral sources. However, the bulk of the emphasis has been placed on marketing to private equity firms, and for good reason. In 2014 in the U.S. and Canada, PE firms were the buyers, either directly or through their portfolio companies, on 41.7 percent of all transactions that occurred (see chart below).



The primary corporate M&A law strategy focuses on building and expanding relationships with existing customers, with the intention of repeat business. For the law business development professional, the role is designed as an inside sales, support role, involved in drafting RFP, pitches, proposals, as well as research. Also, the professional is integral in organizing events, conferences and networking opportunities for the partners. For the most part, these professionals are not client facing, leaving the relationship building to the partner.

Conversed with private equity, corporate M&A practices are generally not sector specific; the focus is broad and dependent on the specific skill set of the partner. However, some law firms focus on a specific region or transaction size. Furthermore, compared to private equity, corporate M&A law does not effectively utilize a customer relationship management (CRM) tool. These tools are meant to manage pipelines, opportunities, relationships and contacts. Yet, most of a partners' business is relationship driven; therefore, it is not as common to publish a client's or potential client's information in a database. Compared to private equity, corporate M&A law business development professionals do not consistently log deals — therefore it is difficult to understand the firm's (or partners') market share or business development effectiveness relative to the competition.

The current corporate M&A law environment is very competitive, with 594 firms having closed at least one transaction in 2014 (see league table below). In order to surpass the competition, law firms should focus on developing its business development resource, as well as defining a list of targeted prospects. There has been tremendous growth in the business development and marketing law profession. This indicates an appreciation in the value that these professionals have in the corporate M&A environment. However, many firms still are not effectively implementing or utilizing these roles. There continues to be a lack of clarity in the overall role: is the business development professional in corporate M&A a true business development professional or are they acting in a sales role? Or, is it simply a support or administrative role for the partner?

For law firms, the potential success of the business development professional is exponential. Yet, at this point, the resource is underutilized, as the professional is not directly involved in growing business. There are numerous ways for a law firm to generate new leads and prospects, yet the focus is on referrals and repeat business. The first step in any business development initiative is identifying a targeted list of prospects to build business. From there, in the legal M&A world, while there is a desire to then proactively market or build relationships with these firms, it is unclear how to approach this.

There is even uncertainty around if or what specifically may be illegal or unethical for a law firm in prospecting potential clients. In discussing the topic of proactive marketing with various professionals from different regions of the country, there are anecdotal opinions on the legality or ethicalness of cold calling or emailing a potential client. For many professionals, back-door techniques are the most effective measures to obtaining soft introductions to prospective clients. From a business-to-business perspective, it seems difficult for law firms to communicate its message to its targeted audience under these circumstances.

2014 Legal Advisors*

Firm	# of Deals	% of Total	Cumulative % of Total
Kirkland & Ellis LLP	185	4.65%	4.65%
Jones Day	118	2.97%	7.62%
Latham & Watkins	111	2.79%	10.42%
Weil, Gotshal & Manges	85	2.14%	12.55%
Skadden, Arps, Slate, Meagher & Flom	78	1.96%	14.52%
Ropes & Gray	71	1.79%	16.30%
Simpson Thacher & Bartlett LLP	69	1.74%	18.04%
Vinson & Elkins	62	1.56%	19.60%
Goodwin Procter	60	1.51%	21.11%
Fenwick & West	58	1.46%	22.57%
Shearman & Sterling	57	1.43%	24.00%
Cooley	56	1.41%	25.41%
Paul, Weiss, Rifkind, Wharton & Garrison	54	1.36%	26.77%
Stikeman Elliott	49	1.23%	28.00%
Morgan, Lewis & Bockius	45	1.13%	29.13%
Winston & Strawn	44	1.11%	30.24%
Choate Hall & Stewart	43	1.08%	31.32%
Sidley Austin	43	1.08%	32.40%
DLA Piper	42	1.06%	33.46%
Davis Polk & Wardwell	41	1.03%	34.49%
Gowling Lafleur Henderson	40	1.01%	35.50%
Willkie Farr & Gallagher	40	1.01%	36.50%

Firm	# of Deals	% of Total	Cumulative % of Total
7 Firms Closed 30-39 Deals	244	6.14%	42.64%
27 Firms Closed 20-29 Deals	662	16.65%	59.30%
43 Firms Closed 10-19 Deals	570	14.34%	73.64%
83 Firms Closed 4-9 Deals	481	12.10%	85.74%
412 Firms Closed 1-3 Deals	567	14.26%	100.00%
Totals	**3,975**	**100.00%**	

Almost 70%[1] of legal advisors active in 2014 closed 3 deals or less

* Includes completed private equity and M&A transactions with the target located in the U.S. and Canada with an estimated enterprise value of $10 MM and greater, with a sell-side or buy-side legal advisor identified.
1. Firms closing 3 deals or less (412) / total active firms (594) = 69.4%

—By Nadim Malik and Catherine Daly, Sutton Place Strategies LLC

Nadim Malik is CEO of Sutton Place Strategies, which provides deal origination analysis to help private equity and mezzanine investors, corporations, lenders and advisers improve their deal origination and business development effectiveness.

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