



## AFFILIATION AS A PRECURSOR TO MERGER

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Back in October 2001, I wrote an article entitled “*Merger Mania*” in which I proposed that forming an affiliation was a less risky venture than a law firm merger for a whole host of reasons. The response to that article was significant, so I wrote another article entitled, “*Law Firm Affiliations*,” which revisited this topic. In that article I explored the workings of long-term affiliation using the international Multi-Law Association as an example. In this article I examine an affiliation which eventually led to merger between a small and mid-sized firm. I believe this example will have significant applicability for many firms which find themselves facing the question of whether to merge.

The first question one would naturally ask is how and why these affiliations get started. Usually it is a natural outgrowth of a desire to satisfy client needs in an area in which a firm does not practice, and a further desire to do so without risk of losing the client to a “full-service” firm.

The smaller of the firms, Rothenberg Silverman & Furman PC (“RS&F”), was a 3-attorney labor and employment law boutique situated in Montgomery County. Although the firm was small, their practice was national in scope. The larger of the firms, Cohen, Seglias, Pallas & Greenhall, P.C., was a 23-attorney boutique situated in Philadelphia, serving the construction industry with a multitude of services, mostly litigation-oriented. They had satellite offices in New York and New Jersey.

In this instance, these two boutique firms discovered quite by accident that they had a large number of clients in common. Two clients of RS&F partner Marc Furman mentioned that they were clients of the Cohen Seglias firm. Rather than go to the large firm where Cohen Seglias normally referred its clients’ labor work, they chose to come to RS&F because they felt there was less delay in getting an appointment and getting their matter resolved, and that they were dealing more directly with the partner in charge of their matter. So when Furman received a call from Roy Cohen inviting him to lunch, he recognized the name and agreed to meet.

Cohen had heard from several of his clients that they were very satisfied with RS&F’s services. This prompted his call. His practice of sending his clients to one of Philadelphia’s large firms for labor matters created a risk of loss of the client. He also experienced little if any reciprocity for his referrals. Cohen recognized that there must be a better alternative.

After an initial exploration, Furman and Cohen discovered that they already had about fifteen to twenty major clients in common. In fact, about one quarter to one third of RS&F's practice concentrated in the same industry as the clientele of Cohen Seglias. Those clients initially sought out RS&F's services because of their labor union issues. And as Furman explained to me, as the labor union issues quieted down, other non-union issues like ADA, harassment, wrongful discharge and other employment work increased for those construction contractor clients, and kept them returning to RS&F for additional assistance.

With so many clients in common, with positive feedback regarding each other from existing clients, and with each in a non-competitive position to the other, it was a natural situation for forming an affiliation. Furman and partner Steven Silverman were listed on Cohen Seglias' letterhead as Of Counsel, and Cohen Seglias was listed on their letterhead as well. Referrals began going back and forth. They started actively cross-marketing their services through a series of joint seminars.

As they sent work back and forth and got to know one another better, they began to discover additional benefits of their affiliation. For example, Cohen Seglias had a bonafide New Jersey office. This gave RS&F the ability to control work in New Jersey better from beginning to end than by associating with local counsel. RS&F also discovered that Cohen Seglias could get injunctions more cost effectively for their clients. And so forth.

Each firm carefully monitored client feedback, and copiously tracked the dollar value of work referred out and referred in. The affiliation was proving so successful that a formal merger was proposed not long thereafter. But RS&F had been courted many times before by larger firms, and had backed off for a variety of reasons. Furman and Silverman decided to learn more about how successful mergers worked before making a decision.

Furman and Silverman chose to work with a variety of recruiters to be sure they knew what their firm's perceived market value really was, and how mergers actually worked, before signing on with any particular firm. They began the process of opening themselves up to evaluation as a potential merger candidate, and looking at other firms. As an unforeseen result of this process, the firm learned how to make significant improvements to its management practices and improve its profitability as well. For example, Furman told me that they thought they were doing a really good job with marketing until they saw what some of the other potential merger candidate firms were doing in that area. He even discovered that they were losing billable time with their inadequate timekeeping and billing practices. Furman states that in striving to answer questions which merger candidates asked about their practices and procedures, and in reviewing other firm's responses to the same, they were able to improve and grow the firm an amazing thirty percent without adding any additional personnel.

Ultimately, none of the waters RS&F's toe stepped in felt comfortable. Except, of course, for Cohen Seglias'. "It felt like a natural extension of RS&F", Furman states. And so roughly four years following that initial lunch meeting, after years of familiarity developed by a successful affiliation relationship, a merger was consummated and officially announced. Furman swapped his suburban office for a center city office and



his name on the new masthead. The suburban office remains staffed by his partner, Steven Silverman.

There are never any guarantees anymore about the likelihood of a law firm flourishing, or even staying intact. But for the firm of Cohen, Seglias, Pallas, Greenhall & Furman, P.C., the odds are a lot better than at most post-merger firms. The merger happened for the *right* reasons from a strategic marketing perspective. There was more than ample due diligence to determine that there was a compatibility to management styles and firm cultures. And there was a sufficient period of time to the affiliation to ensure that personalities would mesh and the clients would be satisfied with the new blend of practice areas.

Had the affiliation not worked out, the two firms would have lost relatively little from their experiment. Each gained some new clients from the other, and that benefit would have remained post-affiliation. The marketing efforts were successful for both firms, and less costly for each firm than doing them alone. So again, if the affiliation ultimately ended, there was no loss there. Neither firm had made any large investment in marketing pieces, formal announcements, relocation, changes to bank accounts and so forth. And the relationship itself was not so formal as to raise eyebrows if it were discontinued. Nor would it be costly to do so. In sum, the affiliation process offered a relatively low risk method to determine if, ultimately, a merger would be beneficial for both firms. So if your firm is seeking to expand in terms of practice areas or geography and believes that merger is the way to achieve that goal, consider forming an affiliation first to test the waters.

*A version of this article originally appeared in the July 8, 2002 issue of the Pennsylvania Bar News*

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