

The Impact of Succession Challenges in Smaller Markets

By [Michael D. Short](#) on March 2, 2016

Last month I wrote about the [succession planning challenges](#) that many firms are, or will soon face. Based on what we're hearing and seeing, there are a *lot* of law firms with a *lot* of client relationships and brainpower at stake because both are tied to senior partners approaching retirement.

In private conversations, many of these firms are confident that they can address this challenge by doing what they have always done – bring in some small groups or laterals with portable books of business. I'd feel good about these firms' prospects if I could think of even one law firm in the U.S. that is not looking for these needles in their local haystacks. The demand for these scarce resources far exceeds supply. At best, some of these firms will not succeed, and at worst some will be the source of other firm's targeting. The futures of these law firms are at stake. This is a big deal!

As I listen to many firms as they plan to implement the exact same solution, and I look at smaller markets where I know several firms must be facing the exact same challenge and are looking at each other as the sources of their potential hires, I think about how this plays out at the marketplace level. What is going to happen? As I peer into my crystal ball, I foresee "solving the succession issue" as a market redefining event that will exacerbate the winners/losers phenomenon that we have been writing about for years, because the demand for the needed resources (the laterals) far exceeds the supply AND time marches on.

Assume, for example, that four of the top firms (by size) in a relatively small market all need savior laterals (a scenario that is very realistic, by the way). Each will call the same headhunters and scour the other firms' websites to identify targets, points of connection, and existing relationships with others' talent to try to create moves. While each firm is pursuing talent elsewhere, its talent will likewise be pursued.

An outcome of "shuffled talent," where people move but no firm solves the problem, accomplishes nothing and is not an acceptable outcome to any of the law firms. The movement of Partners must continue until one or two firms amass enough new talent to solve their problems. Those who are moving – the laterals – will be aware of this and will move toward the firms with long-term viability for their practices. As this migration occurs, some firms will win and they will take from those who cannot sustain their competitive positions. Those firms will lose. There is no "in between" scenario.

Based on this thinking, I offer the following "script" as examples of how the next few years might play out. Per my prognostications:

1. The firm with the leading market position (and the related profits that go with this position) will lure the most talent from the other firms and grow.
2. Two of the other three firms will merge to try to keep pace.
3. The fourth firm will downsize significantly, split up into a couple of smaller firms, or dissolve.

Of course there are other scenarios, such as:

1. A non-leading firm will develop a re-defining strategy that links strongly to the marketplace in a new way. The firm then sells this new vision to the talent in the marketplace; the talent sees the merits and moves; and a new market leader emerges.
2. The former market leader lives off of its reputation too long, quickly loses market position, and merges with one of the other two firms.
3. The fourth firm will downsize significantly, split up into a couple of smaller firms, or dissolve.

Or....

1. The leading firm acquires another firm quickly and this combined firm then lures more talent from the other two firms.
2. The other weakened firms either merge or downsize significantly, split up into a couple of smaller firms, or dissolve.

My scenarios assume a “closed market” perspective. Of course, any one of these scenarios can be disrupted by a firm from a larger market acquiring any of these four firms, thus adding a whole new level of disruption to the market.

Notice that within each scenario, the competitive gap between the winners and the losers widens as the marketplace is redefined. This is what happens when too many firms have the same problem and try to solve it in the same manner.

If you are in a smaller market, have succession challenges and need a couple of laterals to make everything better, please assess the competition. If they're in the same situation then I predict that the competitive structure of your marketplace will look significantly different within a few short years.

Be the winner.