



Six Observations on the Pandemic Year and the Path Ahead

As this extraordinary year comes to an end, we were asked by a client to share some brief observations based on our client work over the last 12 months. We want to share this with our clients and contacts and hope you find this to be helpful:

- While most of our law firm clients are having a challenging yet surprisingly good year financially, many are having a record setting year. The fact that law firms are doing well is not surprising given the volume of urgent, reactionary work prompted by the pandemic, the disruption and subsequent vibrancy of the capital markets, and the disproportionate economic impact of the pandemic on lower income/consumer level service workers (which has less impact on the work for *most* large institutional law firms). This year may in fact be so profitable that some leaders are already whispering about under-reporting results to various publications out of concern about client reactions.
- Despite the preceding observation there is a stark difference between how law firms have performed during the pandemic versus how clients are performing. Just because clients have spent significant legal fees this year does not mean they are thriving. Many companies are profitable in the short term but face worrisome, long term issues about industrial/retail overcapacity and declining sales. In-house counsel report they feel far more challenged than law firms, they want counsel who better understand both their industry and their company, and many are troubled by articles about extraordinary associate bonuses this year.
- Law firm merger discussions and predatory lateral hiring of high-profile rainmakers are now accelerating. While the number of *reported* mergers in process may not be up that is largely because most firms do not want anyone to know when they are in merger discussions. More important than the number of mergers being explored, leaders are expressing increasing skepticism about historic random-growth mergers and are now pursuing better, more progressive combinations. Rather than focusing on increasing size or gross market share, firms are doing a dramatically better job of identifying opportunities that increase market position and depth.

As the General Counsel of a large public company told us: "Too often merged law firms are bigger but not necessarily better, not well integrated, and more inconsistent in quality and depth."

- Segmentation in the profession is increasing – the top has less in common with the middle. While many firms are easily capable of paying extraordinary bonuses this year due to their economics and market position, there are a wealth of firms that cannot or should not be paying such bonuses. All

firms should take a hard look at their economic model and decide: Are we who we say we are, and if not, do we want to change and are we willing to make the sacrifices to change successfully?

- One positive outcome of the pandemic is that many firms are now fundamentally rethinking their overall strategy. We see more firms capitalizing and building on the strengths they have rather than just growing to avoid addressing tough, existing issues. Shorter, focused strategic plans that mandate real change in partner behavior, market opportunities, incentives, and teamwork are emerging. And early successes with such plans are producing even more segmentation in the profession.
- Managing Partners/Chief Operating Officers have observed for years their firms are overstaffed but felt their hands were tied in making meaningful changes. Too often powerful, and sometimes not-so-powerful, partners prevented law firms from getting rid of underutilized yet obedient staff. Even among firms that radically streamlined operations after the 2008 recession, staffing continued to be bloated. But the pandemic has helped partners realize it is possible to work with dramatically lower staffing levels despite heavy workloads. The cuts we have seen in 2020 are likely just the beginning of a longer-term trend to realize more effective staffing levels. Unfortunately, legal secretaries and some marketing staff will bear the brunt of these changes.

Regardless of whether you run a legal department or a law firm, and regardless of whether your profits are up or down, 2020 will likely be remembered as the most challenging and emotionally turbulent year of your career. Or at least, let's hope so. But as so often happens in terrible times, they also bring out the best in many people and organizations. It is inspiring to see how people have come together to help one another, even when they themselves were suffering personally or professionally.

Last, a personal note to our clients and contacts: We hope your holidays are full of good health and happiness for you and your family. We at MesaFive thank all of you for your confidence in us this year. It really made a difference. We hope to see you soon.

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