

There's Light at the End of the Tunnel: What's Next for the Legal World?

By [Joseph B. Altonji](#) on March 30, 2021

Through the heroic efforts of many people in the medical and pharmaceutical worlds, the United States and other countries are on the brink of emerging from the long Covid nightmare. With it, the legal industry is waking up to a very different world than anyone might have expected. At the onset of the pandemic, as the world was just beginning a tragic year of lockdowns, quarantines and fear, the top of the agenda for Managing Partners everywhere included:

- *How do we keep our people safe?*
- *How do we actually practice law, and can we make this shift to remote work actually function?*
- *Can we survive economically? Do we cut staff drastically? Will our business dry up? Will our clients pay us?*

Would anyone back then have believed that a year later some of the more immediate questions on these same leaders' minds would include:

- *How do we repeat the record profit year we had in 2020 (recognizing that much of it was due to reduced costs, but revenue generally held up or grew as well)?*
- *How do we react to the new associate compensation war starting up on Wall Street?*
- *How do we get our people to come back to the office, at least to a sufficient degree to assure maintaining our culture?*

Quite a difference a year has made – and vastly different than the last global crisis.

We have little doubt that the (relatively) easy questions above will be answered satisfactorily for most firms over the next several months. Current year expenses will remain depressed through at least mid-year, cushioning the expense side of the “return to normal.” The bonus wars will be confined to a limited number of elite firms. Everyone, though, will have to struggle with balancing their peoples' desires to maintain the benefits of working from home with the firm's need to reconnect people and keep them reconnected.

Of course, these are not the most critical challenges facing the industry. Beyond these immediate questions, law firm leaders are waking up to some newfound conditions in the industry. Among them are:

- A rapidly increasing emphasis on technology, accelerated by the pandemic. Most firms managed satisfactorily through the pandemic, in the sense that they continued to get the work done, bills issued, and the like. However, it's clear that some firms were far more adept than others in making this transition, and even more importantly, some cultures are far more technologically adaptive than others, capable of shifting when conditions require it, or opportunity suggests it. Those firms will have a continuing advantage.
- Related to technology, an intensifying focus on data. In the short-term this will include significant efforts around simple “clean-up” efforts but in the longer term will lead to a more data-focused management style across

successful firms. Note that here we are not referring just to traditional economic performance data (see “Profitability” below), but to a host of topics including HR management, clients, marketing, retention and performance data, etc.

- A rapidly changing competitive environment. Lawyers no longer just compete with lawyers – the competitive environment has grown more complex. ALSP’s are rapidly growing and taking on, in various combinations of both partnership and competition with law firms, roles once reserved solely for traditional law firms. Accounting firms are taking on more functions formerly thought of as “law.” Virtual and heavily virtual firms are growing and taking on more of the market (with a huge cost advantage.) Just a few days ago the first law firm entirely owned by non-lawyers opened in Utah. It is just a matter of time before Venture Capital and Private Equity firms start to move beyond their current participation in the legal space and actually start to own law firms!
- The drive to scale. Not so long ago, the concept of scale had not even entered the lexicon of most law firm leaders, and even today remains a topic rife with confusion, allowing partners to focus the internal debate around whether the firm should “grow.” However, the contrasting positions of “No growth for growth’s sake!” vs. “Grow or die!” are not the point. Scaling the business is not the same as growing the business. Scaling is about growing revenues faster than the associated costs, which ultimately drives increases in margin and profitability. There are many avenues to scale, including technology, platform, working with external partners such as ALSP’s, concentration of talent, industry knowledge, etc., and for the most successful, multiple tools will come together to create success. The prevailing wisdom once was that there are “no economies of scale in law,” but this has proven false. For firms of any size, failing to scale the business or, worse, growing it without scaling it, is likely going to put your firm further behind.
- Related to scale but not the same, a consolidating and stratifying legal environment. For an industry the size of ours, law remains an amazingly fragmented one. Much has been written about legal consolidation, which virtually all observers of the market anticipate will accelerate as we emerge from the pandemic. Much less has been said about the increasing stratification and compartmentalization of the industry.
 - From 2000 through 2019, the top 50 AmLaw firms grew 101% in lawyer count and 260% in revenue, while growing profitability by 299%. Meanwhile, AmLaw firms 51-200 grew revenue by 141%, and lawyer count by 41%, while growing profits by 148%. *Adjusting for inflation and firm size growth*, the AmLaw 50 as a group have grown their profit pools at almost 3X the rate of the remaining AmLaw firms. The top 20 saw revenue and profitability growth that was even more dramatic. (See “scale” discussion above.)
 - Perhaps even more importantly, firms increasingly fall into different “segments” of law, and the idea that many firms realistically compete outside of their primary segments is becoming more difficult to sustain. The elite deal-oriented firms are clearly in a segment of their own, as are the small group of globalizing firms focused on delivering core business services in a “one stop shopping” fashion. Two or more decades ago, we would regularly experience law firm leaders from good but small local business firms tell us with complete conviction that their “competition” was Skadden, Latham, or other brand name firms. Today, few would maintain that illusion, and they are better for having dispensed with it. They exist – appropriately – for a different market. The ability to cross lines in the industry will likely continue to decrease.
- Profitability management as a survival skill. Law firm partners earn great livings, and most lawyers focus first and foremost on how to provide great work and service to their clients. Nonetheless, the need to develop *institutional* skills and capabilities around profitability management has never been greater and will continue to grow as non-law firm competition increases and some firms make advances. This is not a discussion about the need to make more money at the expense of the client – it’s a discussion about the need to manage each segment of the business in an optimal manner, efficiently utilizing the firm’s resources to deliver service, and taking fiduciary responsibility as an owner for the manner in which you run your practice. It’s also about developing analytical skill

sets and the ability to educate your people about their roles in profitability management. As some firms get better at these skills and others lag behind, the laggards will feel increasing pressure for change from their most valuable people. In addition, those who fail to learn these skills will inevitably be left with less investment capital and in an increasingly difficult position competitively. Developing a profitability culture and associated skill set may not give you a unique competitive advantage, but failure to do so will likely lead to your gradual but inevitable erosion and potential demise.

- Societal change and its impact on the industry. Although not specifically pandemic related, the past year has also seen both an acceleration of societal change and the beginnings of a rebalancing of societal mores. While still in flux, these societal changes have made the industry's focus on efforts around Equity, Diversity & Inclusion and Environmental, Social & Corporate Governance concerns more crucial than ever before. Law firms will continue to focus on how best to integrate critical societal values in their cultures, structures, processes and strategy – and getting it right will have much to do with long term success.

We've had many black-swan-type crises over the years, and inevitably people argue that nothing will ever be the same again. Generally, this is true. Crises do, in fact, drive lasting change in most industries, affecting some more than others. Today we appear to be at a point where many things are coming together to drive change in the legal industry. The pandemic didn't create this situation, but it certainly highlighted a number of emerging stress points. Over the next several years, we are likely to see much more attention placed on how each individual firm can craft its own unique response to this new menu of challenges.