

## Could Mid-Law Come Out On Top In A Recession?

By Emma Cueto

Law360 (December 15, 2022, 3:33 PM EST) -- After a successful 2022, experts say Mid-Law firms may be poised to thrive in the event of an economic downturn in 2023 if they are able to take advantage of more budget-conscious clients and a slower talent market.

As forecasts continue to predict an economic downturn, the legal industry is bracing for a potential recession, but midsize, midmarket and regional firms may be poised to thrive in such an environment, especially after two years when most firms saw strong financial performance.

"I think they have a window of opportunity right now," said Domenic Leo, vice president and general manager of the law firm unit at intellectual property management technology provider Anaqua. "I truly think they have an opportunity to invest [in the firm]."

As 2022 draws to a close, many Mid-Law firms are coming off of two successful years, with a recent Wells Fargo report on the first nine months of the year showing that the AmLaw 200 **appears to be outperforming** the AmLaw100, including and maybe especially the AmLaw50.

However, across the industry, profits are down compared to the same period of 2021, a trend that is unlikely to reverse in the final quarter of the year. Overall, said Peter Zeughauser of the law firm consulting operation The Zeughauser Group, firms will likely have a less successful 2022 than 2021 — and a less successful 2023 than 2022.

"I think firms' expectations generally, across the board ... are going to be modest for next year, and they're going to be cautious in their budgets," he said.

However, experts said Mid-Law firms have some built-in advantages in an economic downturn, meaning this segment of the industry may continue to outperform.

"When the macro economy softens, firms outside the AmLaw 100 sometimes outperform firms inside the AmLaw100," said Kent Zimmermann, also of The Zeughauser Group.

One of the key advantages for midsize, midmarket and regional firms when the economy sours is that they simply tend to see less work dry up. The sorts of blockbuster M&A deals, for instance, that tend to be scarce on the ground aren't the sort of work that Mid-Law firms rely on.

Mid-Law firms also tend to have closer relationships with many of their clients by virtue of the fact that they tend to represent small organizations, making it easier to strengthen ties, Leo noted.

Jennifer Leonard, the chief innovation officer at University of Pennsylvania's law school and executive director of its Future of the Profession Initiative, said firms that are smart will take this as an opportunity to reach out to clients and simply discuss their business in order to potentially find new ways the firm can support them.

"All of these clients are about to head into the same economy the law firms are heading into," Leonard pointed out.

Another inherent advantage is that Mid-Law firms simply tend to have lower rates, therefore becoming much more attractive to clients looking to keep their own costs down.

Zimmerman noted that some midsize firms may be having their own cost-related difficulties, given

the rising attorney compensation over the past two years, which has driven up many firms' expenses.

However, even in an economic downturn, Mid-Law firms need to raise rates in order to keep up with expenses without sacrificing their pricing advantage, Leo of Anaqua argued.

"Inflation is on everyone's mind," Leo said. "It's not like getting a rate hike out of the blue."

Firms that are able to explain the rate increases to clients with data and demonstrate that they are still a better value will likely be able to do so without damaging client relationships, Leo argued.

However, perhaps an even bigger benefit for Mid-Law firms after two years of intense competition for talent would be a more favorable talent market. As client demand grew starting in late 2020, BigLaw's highly motivated recruiting efforts and sky-high salaries saw many talented lawyers depart for bigger firms.

With the demand for talent reportedly easing and layoffs already starting at some firms, including Cooley laying off 78 attorneys and 72 staff members at the end of November, Mid-Law firms will be better able to hold on to their attorneys — and potentially even lure some back.

Leonard noted that layoffs rarely sit well even with those who remain. "It creates an enormous amount of volatility in your organization, and a huge morale issue," she said.

Mid-Law firms thus have an obvious pitch — stability and potentially a more collegial culture — to any attorneys feeling vulnerable at their new firms or who are feeling burned by the experience. If an attorney parted on good terms, she said, it might be worth opening a conversation about coming back.

Overall, Mid-Law firm leaders seem optimistic heading into 2023.

"Our thought process is: We're built for this," said Gregg Eisenberg, managing partner at Benesch Friedlander Coplan & Aronoff LLP.

The firm is focused on retaining its talent and keeping its existing team happy, he said, as well as continuing to grow.

Ronald Schectman, managing partner of Pryor Cashman LLP, said he is "cautiously optimistic" about next year. "Our firm has weathered previous recessions quite well," he said.

Overall, experts said that sort of optimism is likely justified for Mid-Law firms, though they noted that firms should still be planning for the future.

"You still have to be mindful that the monster is going to come back," Zeughauser said. "When the economy picks back up ... if you're not mindful of keeping your performance up, you just fall further and further behind."

Leonard said that after a few strong financial years, the smart thing to do now is more planning and more engagement with clients, attorneys and staff. "My hope would be that these midsize firms took the boom time that we just experienced and set aside resources wisely and can use that to take their foot off the gas a little bit and engage in those conversions."

--Editing by Marygrace Anderson and Alyssa Miller.