In an increasingly competitive market filled with cost pressures, commoditization and change, midsize firms are charged with navigating through murky waters. 2015 has posed an interesting year for midsize firms as they hover just above neutral demand territory as other key indicators show signs of recovery.

One cannot be too optimistic, however, as this growth is delicate at best. 2015 is proving to be the first time since 2012 that midsize firms are showing signs of stabilization and modest demand growth, at 0.5% for Q2 2015 and 0.4% for the midyear.

Hiring continues to outpace demand growth, putting pressure on productivity. Lawyer growth for midsize firms reached 1% by midyear — which is about 0.5% lower than the other segments. Even with the relatively tempered lawyer growth rate, productivity growth remained negative (-0.4% YTD 2015).

In terms of productivity and hiring, the midsize appears to be the bright spot — in spite of negative productivity growth — as they are better balanced than the Am Law One Hundred with -0.6% productivity growth and the Am Law Second Hundred with -1.6%.

Worked rates have remained stable for the midsize at 2.3% growth year-to-date — in line with the past few years — whereas the Am Law One Hundred struggled to hold onto the levels seen in previous years, slipping 1.1% compared to 2014.

As seen in Chart 3, midsize firms have benefited from the momentum within the marketplace for transactional practices; however, the real story for the midsize and practice mix is litigation. Midsize firms are the only segment experiencing positive growth in litigation at the midyear with a humble 0.2% increase.

This is particularly significant since litigation is the largest practice area among midsize firms, accounting for 37% of the total market. Only time will tell if this neutral to slightly positive growth for litigation and the midsize is an aberration or a fundamental shift for the industry.

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1 The report uses the term “midsize firms” to refer to firms that are outside the Am Law One Hundred and Second Hundred categories. The midsize firms included in this analysis averaged 138 lawyers.

2 Demand for services is measured by the total number of billable hours.

3 “Productivity” is measured by dividing the number of billable hours recorded in a given period by the average number of lawyers during that same period.

4 “Worked rates” refer to the average rates actually billed to clients by firms. They may be contrasted with standard rates, which may not be reflected in actual billing.

5 “Transactional” work represents tax, corporate, mergers & acquisitions and real estate practices.
Another anomaly for the midsize is the slightly negative posture for patent prosecution while the Am Law One Hundred and Second Hundred post positive results. The remaining practices paint a very similar story among the segments.

Although the growth to the midsize is delicate, it is a break from the negative trend this group has been entrenched in the past few years. The nominal momentum for the midsize begs the question of what are midsize firms doing differently in 2015 to evolve and adapt to the market?

Based on a recent study by Thomson Reuters and the Managing Partner Forum, midsize firms are focusing on growing select practices, winning new business based on firms’ values and investing in infrastructure. As John Remsen Jr., president and CEO of the Managing Partner Forum put it, “[midsize firms] are focused on identifying new areas where they can add value to their clients, while at the same time, investing in their infrastructure with the aim of increasing productivity and efficiency, and reducing costs.”

New technology was cited as a major driver in increasing productivity and efficiency as well as reducing cost pressures in the Managing Partner Forum study, with nearly 76% of midsize firms identifying this as their number one priority. On average firms increased spend to technology by nearly 2% for the rolling year 2015 (July 2014 - June 2015) and 7% for the rolling year 2014 (July 2013 - June 2014).

Technology investments include mobile technology, productivity tools and easily accessible information technology. The investment in technology also allows midsize firms to better service their customers, adding value to help differentiate themselves within the marketplace. This adaption to technology is a pivotal piece for the midsize market, as they are better equipped to implement and execute faster than their larger counterparts.

It still remains that going forward midsize firms will face challenges within the ever increasingly competitive and commoditized market. Some of these challenges include the management of information, talent, price competition and changing legal fee structures6. Even with these challenges, midsize firms are confident they can successfully navigate this new landscape; the majority have indicated that they are at least “moderately confident,” with more than half indicating that they are “very confident” or “extremely confident” in their firm’s ability to succeed in the current legal market7. While an optimistic stance, it is one that could help provide the momentum needed to continue to bolster midsize performance.

Optimism alone won’t accomplish this though as Remsen notes, “As competition for clients becomes fiercer, it’s important for a firm to speak with one voice about what differentiates it from its competitors.” Midsize firms will need to develop a strategic plan and vision, with strong execution to make up the difference in a market that is still showing a pulse, albeit a weak one.

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6 Strategic Planning Key to Smart Growth. 2015 Thomson Reuters and Managing Partner Forum Midsize and Small Law Firm Survey. 2015.
7 Strategic Planning Key to Smart Growth. 2015 Thomson Reuters and Managing Partner Forum Midsize and Small Law Firm Survey. 2015.