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Post COVID-19 Normal?

By James D. Cotterman

Over the last few weeks, you have probably worn yourself, other leaders and your crisis response team down with day-to-day operational priorities. This crisis came on suddenly and has shifted continuously (go to bed with one set of problems only to wake up and quickly see a new set has developed overnight). Flexibility, being able to shift quickly and significantly, has been vitally important.

Let's take a moment to recap, then forge ahead.

Preamble – Done.

The initial scramble to secure the safety and health of employees, clients, vendors and anyone who might be on premises with access restrictions, intensive cleaning and a surge in hand sanitizer stations. Followed immediately by the quick shift of almost an entire workforce to remote work as isolation and shelter at home orders multiplied. Concurrent with that initiative came a sudden need for portable, secure technology (primarily for staff), IT infrastructure adapted for the surge in remote access and faster, secure internet at home. And you likely have ramped up your personal communications to all in an open and honest manner. Empathy with how this affects all stakeholders in your firm helps your messaging and credibility.

Chapter One.

Firms should have completed an initial set of financial models and gone to the bank to bolster credit facilities. Filings under the CARES Act, if applicable, are underway. More extensive modeling of future cash flows will carry greater importance for surviving the maelstrom – plan for a siege and hope for a skirmish. Timing is uncertain as public health officials get a better handle on the virus and efforts to flatten the curve. And as more data becomes available and research gives public health officials a better sense of when treatment and prevention options will arrive, models will be updated and refined.

Here is the problem. The slow-down (more aptly a near shut-down) of portions of an economy slows the velocity of money and has the same, however inverted, magnification that spending has – one dollar multiplying its economic impact as it moves through the economy. The vulnerability that is inherent in this situation is serious and not to be underestimated.

Thank goodness most firms worked hard on improving balance sheet strength by increasing capital and reducing debt since the Great Recession. Unfortunately, the 2019 year-end distributions have mostly been disbursed, leaving cash-flush firms with a diminished cash balance to confront this situation. Bringing some of that cash back to augment capital would be prudent. Also, unfortunately, little has been done to address the surplus of labor in the profession. That could haunt us all shortly.

In this situation expect your clients to curtail all but essential requests for your services and to hoard cash (pay slowly). A focus on essential services likely means a surge in use of employment and health care practices, while corporate and litigation see a contraction in demand. Unfortunately, that leaves a rather large gap in your budgets. (Please tear up all budgets and plans done prior to March 2020 and especially hourly budget goals – this is an all hands-on-deck effort to manage through to the other side).

Chapter Two.

Significant draw reductions for partners and meaningful, tiered compensation reductions for all employees are certainly necessary. It is the quickest and most effective corrective action to substantially reduce cash outlay in your firm. Keeping everyone working, if possible, is an appropriate and sensible step given the specifics of this unprecedented event[i]. But it may not be enough. That is why your modeling must be robust. Feedback from partners on the level and timing of new work, continued work in process, billings and client payments must be fast and reasonably accurate. Build the capability to iterate and update projections up and down the line.

While holding on to cash is also sensible, remember that just as you need your clients to pay you – your vendors are in the same situation and need cash to survive. Remember the cascading effect of slowing the velocity of money.

Chapter Three.

Now is the time to augment day-to-day operational priorities with longer term thinking and planning. You need to look out over the next six months and envision how you get to the end of September at a minimum and optimally at least a year into the future.

Among the outpouring of advisory writing on managing through this crisis, three recent offerings are worth your consideration. Each of these offers insights, timing and context critical to your team in fashioning a flexible and coherent set of scenarios and options. Remember that these analyses will be updated as data and research continue – you must continually acquire new information and update your projections and planning.

McKinsey & Company recently published a paper, *Getting Ahead of the Next Stage of the Coronavirus Crisis*[ii], where they advocate for “an operating model that accommodates the extreme level of uncertainty facing your business” as the best means to respond to the likely economic shock. They advise a “Plan-Ahead Team” to gather the relevant forward-looking information across multiple timelines, assess its meaning and develop strategic options for leadership to guide decisions.

An article in The Atlantic, *The Four Possible Timelines for Life Returning to Normal*[iii], suggests that 'back to normal' will occur when a sufficient percentage of the population is resistant to the virus. They set forth four possible timelines:

- One to two-month duration - requires the virus quickly to become dormant as citizens comply with isolation and social distancing
- Three to four-month duration - would occur if sufficient testing provided a more robust understanding of the virus coupled with the emergence of developed immunity which could allow more tailored relaxation of isolation and social distancing.
- Four to 12-month duration - if, like the flu, the virus has some sort of seasonal pattern. Such a scenario would hopefully give the health care system time to expand capacity to deal with a seasonal surge in the fall. It is a model that has two distinct paths depending on the seasonality pattern of the virus.
- 12 to 18-month duration (or longer) - would likely be the case if development of a vaccine or population-wide immunity are the primary protective mechanisms. Vaccines have long lead times for development and testing as well development of a supply and distribution channel capable of vaccinating 330 million in the US plus other nations.

A Morningstar report, *Coronavirus Update: Long-Term Economic Impact Forecast to Be Less Than 2008 Recession*[iv]*,* provides an in-depth assessment of three scenarios, with baseline, bull and bear models.

- The base case – three-month shutdown and more moderate second-wave shutdown has a 50% probability with a negative 4.5% contraction to US GDP in 2020.
- The bull case – successful containment and surveillance, business largely reopens in June has a 20% probability with a negative 2.5% contraction to US GDP in 2020.
- The bear case – longer economic shutdown, late mitigation and lack of pipeline progress has a 30% probability with a negative 7.5% contraction to US GDP in 2020.

The weighted average of the combined cases for 2020 US GDP contraction is a negative 5%. But the value of the Morningstar report is not the assessment of the impact on GDP, but rather the in-depth analysis that supports the GDP contraction conclusions.

Chapter Four.

It is quite possible, actually probable, that COVID-19 has placed a marker in the ground – becoming a permanent inflection point. Just as post-9/11 we saw a new trajectory for security and travel and post-Great Recession there was an acceleration of change within the legal profession, post-COVID-19 will permanently alter our business norms. What might that look like?

This is the time to have a team looking to how best to operate on the other side of the pandemic and working diligently to improve the efficiency of the business.

Law firm leaders have devoted all of their time to the initial stage of this crisis, but as we transition to the next stage leaders should delegate a sizable portion of operational management to others, and devote time to the assessment of a bigger picture, including multiple, longer term scenarios. A key part of the leader's role is to think about the future and how to operate there. Firms with the deepest well of curiosity and creativity may be the best positioned to capitalize on whatever the new normal becomes.

There will surely be more chapters to come as this saga continues.

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End Notes

[i] Also, work to keep your employees actively engaged in their business role. A prolonged period of isolation and reduced work needs will be detrimental to their ability to jump back in when needed. And this is complicated by the homeschooling thrust upon so many families.

[ii] McKinsey & Company, *Getting Ahead of the Next Stage of the Coronavirus Crisis*, by Martin Hirt, Sven Smit, Chris Bradley, Robert Uhlaner, Mihir Mysore, Yuval Atsmon, and Nicholas Northcote, April 2020
https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/getting-ahead-of-the-next-stage-of-the-coronavirus-crisis

[iii] The Atlantic, *The Four Possible Timelines for Life Returning to Normal*, by Joe Pinsker, March 26, 2020
https://www.theatlantic.com/family/archive/2020/03/coronavirus-social-distancing-over-back-to-normal/608752/

[iv] Morningstar, *Coronavirus Update: Long-Term Economic Impact Forecast to Be Less Than 2008 Recession*, by Preston Caldwell and Karen Andersen, April 1, 2020
https://www.morningstar.com/articles/976107/coronavirus-update-long-term-economic-impact-forecast-to-be-less-than-2008-recession