

DEMAND MANAGEMENT

*What is it? And why is
it important to law firms?*



Building a competitive and sustainable firm in today's legal marketplace requires law firms to be strategic in planning *both* the present and the future. To do this, many forward-thinking law firms are implementing demand management techniques.

What Is Demand Management?

Demand management is the process of managing internal and external factors that impact the amount and mixture of work a firm should do over a given interval.

For law firms, it is balancing client demand with the firm's output capacity as efficiently and profitably as possible.

When done properly, law firms deliver timely and quality work to satisfied clients while still making a profit.

While demand management can have many benefits, it can be counterintuitive. It takes courage to implement, especially since law firms are often guided by the belief that “more is better”. They would rather choke on overcommitment than starve from lack of work.

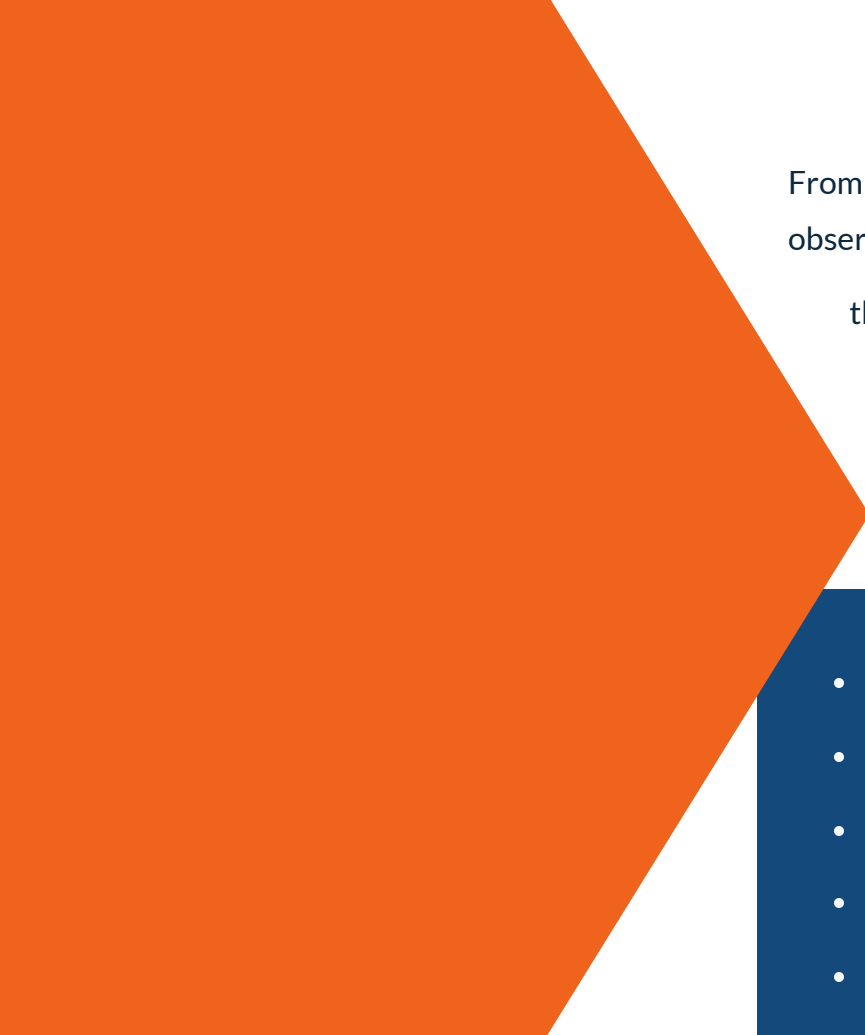
We appreciate the innate fear that drives the need to add business. Law firms are expensive to run, and underemployed lawyers can quickly zap capital reserves. Work done for paying clients is what generates cash flow at a firm.

So how should a firm manage demand in the real world?

The unpredictable nature of legal work can make resource planning a nightmare. Complex litigation cases can quickly escalate, requiring significant resources and causing production challenges for even the largest firms. Complex transactions, too, can develop into complicated mega-projects in an instant.

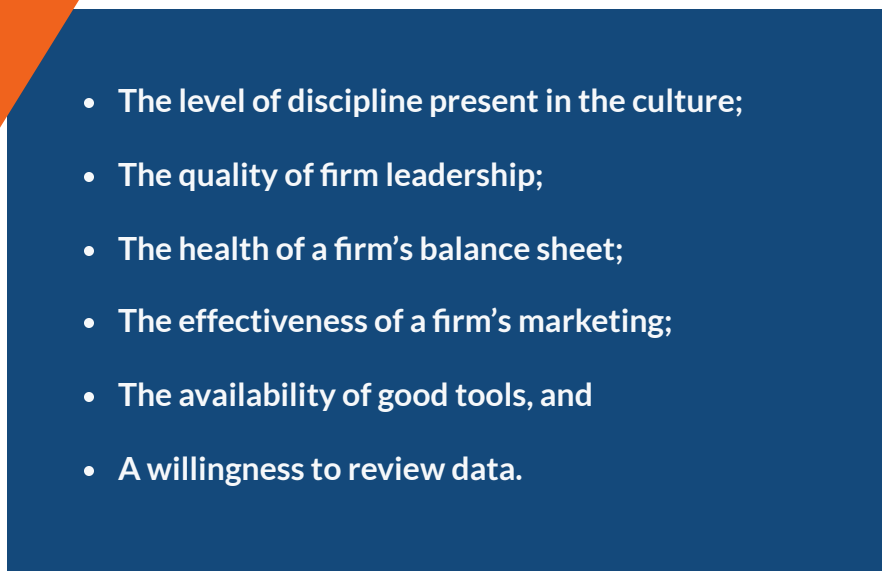
Most small and mid-sized law firms don’t have the budget for excess lawyers and staff to handle material surges in demand. Even when extra capacity is available, it is difficult to quickly bring people up to speed. A typical reaction is to redline (overwork) the project team.





From our many years of working with law firms, we have observed law firms achieving various levels of success in their use of demand management techniques. Their success depended upon certain factors, the most significant being:

- The level of discipline present in the culture;
- The quality of firm leadership;
- The health of a firm's balance sheet;
- The effectiveness of a firm's marketing;
- The availability of good tools, and
- A willingness to review data.



While certain firms are more likely to succeed with demand management over the long term, all law firms can use various short-term solutions for meeting increased demand.

What should a firm do when faced with demand challenges and work surges?

Let's consider several demand management techniques that can help.

Narrow the scope of work the firm will accept



Purge unprofitable clients



Dismiss unreasonable clients



Use dynamic pricing and rate discipline



Budget and price in surge staffing



Associate specialist law firms



Negotiate deadlines



Negotiate staffing mix



Control who can accept new work

Utilize a client rating system



Demand Management Techniques



Narrow the scope of work the firm will accept

An excellent tool for a firm that has the capacity in some areas but not others. Common ways to implement this include limiting the types of cases taken or restricting roles within assignments.



Purge unprofitable clients

Firms need to first calculate client profitability. Unprofitable clients zap resources and keep the firm from working for better clients. After implementing profitability improvement measures, unprofitable client relationships should end.



Dismiss unreasonable clients

Clients who don't respect or appreciate that the firm has other commitments don't fit any firm. Unreasonable clients typically go from firm to firm. Don't let them take your law firm over the cliff.



Use dynamic pricing and rate discipline

Dynamic pricing is an excellent tool to slow demand. Discounting rates when a firm is in a period of high demand is counterproductive but often happens. Accepting assignments when a firm is at capacity causes inefficiencies and costs the firm money. Firms have to charge a higher rate to overcome these inefficiencies.

In periods of high demand, increase rates. Or at least quit discounting. This technique may not work for firms with existing retention agreements but can apply to new clients. Use the extra income to build capacity and reward people for their extra work.



Budget and price in surge staffing

When creating the firm's budget, allocate money for surge staffing. When firms redline, they make money in the short run but often cause harm in the long run. Turnover is a significant unintended consequence of overproduction. Take a longer view on profit, and you will have a better firm.

Here is a [link to a capacity analysis to help with budgeting](#).

More Demand Management Techniques



Associate specialist law firms

Most firms struggle to associate with other law firms. Introducing potential competitors into a client account has risks in terms of loss of future business and reputational risk if a firm recommends another firm that underperforms.

Measure those risks against the consequences of poor performance from overworking people or providing weak advice because of limited expertise. Knowing when to ask for help can save a client relationship.



Negotiate deadlines.

When applicable, negotiate deadlines in periods of high demand. Resist the urge to over-promise. Missing the aggressive deadline or hurting the progress of other matters all lead to poor client satisfaction and attorney morale.



Negotiate staffing mix

Too often, firms and lawyers overcommit specific lawyers to a case. Clients often try to dictate case staffing, but many lawyers also have delegation issues. In periods of high demand, negotiating the staffing mix and encouraging delegation are practical tools.



Control who can accept new work

At the firm level, controlling who can take new work and under what terms is effective for controlling demand. Intake policies can sometimes conflict with compensation systems, so this is not as easy as it sounds. Still, controlling the flow of new work into the firm is a solid risk management technique and worth the time and energy to manage the conflicts with compensation.



Utilize a client rating system

Using critical success factors to rate clients before demand surges occur can help decision-making in busy periods where time is limited for analysis.

Consider billing rates, payment history, ability to do the work, reasonableness, responsiveness, quality, and loyalty to help prioritize production allocations. It is important to remember that the required service levels apply regardless of the client rating once a matter is accepted.

For example, law firms can never do less than necessary because clients are slow to pay or unprofitable. Law firms can have their reputation harmed by poor clients in several ways. Client rating can help prioritize demand and manage risk.

What are the best tools & processes to accomplish demand management?

Law firms typically have weak demand forecasting and management systems, causing them to react too intensely to current events.

Common reactions include overhiring or cutting staff in response to changes in clients or case flow.

These reactions compound the problem they intend to solve.



Innovation is difficult in law firm environments. Lawyers spend their time focusing on cases and obtaining the best results for their clients. Most have precious little time for anything else and have a low tolerance for short-term disruptions in workflow. They resent what they see as unnecessary micromanagement and have a natural resistance to creating internal performance management systems.

Pushing through those impulses and building systems to manage demand and production will lead to *better client satisfaction, morale, better case outcomes, and higher profitability*. Focusing on performance at the demand stage is essential to achieving these outcomes.

One challenge is finding the right applications for the legal environment. It is unlikely that a firm will find one application that does time, billing and accounting, demand management, production (case) management, marketing, and CRM in one platform. More often than not, firms need two or three applications to handle all of their information needs.

Tools and Processes

We recommend the use of project or practice management software to keep track of workload and capacity, as well as demand trends. Law firms keep a lot of data in these systems that can be put to use to assess current and future caseloads.



Cost-effective, off-the-shelf applications

Off-the-shelf database applications like [Airtable](#), and project management software like Teamwork or [Monday.com](#) have advanced task management capabilities that law firms can adapt to the legal environment.

These systems allow for detailed task and hour allocations and allow users to build out reports and dashboard visualizations that simplify demand (who and how much gets in) and case (production) management. For the motivated, it is not too difficult to learn and adapt these systems to almost any environment.

Custom legal applications

Several legal industry-specific applications exist that can also help. For example, [Litify](#) and [Nulaw](#) are built on a customizable platform but also include prebuilt case management features.

Firms that embrace a technology-driven project management approach can use workload planners and task schedulers to manage staffing levels and assess capacity for additional work. By assigning tasks to users along with a time estimate and a deadline, managers can monitor current and upcoming workloads on a more granular level.

While it's not always possible to project accurate task timelines, especially in litigation matters, it is possible to create the basic steps and assignments at the outset and adjust later.

For example, a general outline of a case could give the case manager the ability to allocate tasks and time to an associate or a paralegal a few weeks out. If this is done in all cases across the firm, management will get a good picture of how busy everyone is currently and how much capacity they may have for additional work.

Practice Management Applications

Practice management applications like **ZolaSuite**, **Centerbase** or **Actionstep** are fully integrated with case management, document management, and accounting functionalities. They are less sophisticated in their project management capabilities, however, if used properly, they can provide basic information on workloads and demand. These systems also offer a degree of integration with other critical management applications.

Policies Needed

To ensure system reports are informative, it is critical to implement policies to capture the right data. In other words, users need to consistently fill out form fields, track time, and update matters in the system. This will allow for powerful reporting that simplifies workload monitoring and forecasts future productivity, including files opened/closed per month, average time spent on a matter, staffing ratios, and more.



For more information on operational reports and KPIs, check out our article on Financial and Operational KPIs your firm can track right now: [KPIs ARTICLE](#)



Our hope is that you can think about demand management separately from production management. Demand management requires a strong strategic vision and adherence to the firm's core values.

More is not always better and can crowd out better opportunities.

Software mentioned in this article:

- Airtable
- Teamwork
- Monday.com
- Litify
- Nulaw
- ZolaSuite
- Centerbase
- Actionstep

PerformLaw works with clients to improve performance in systems and processes, profitability, organizational development, and strategic planning. Many of our clients have recognized the need to modernize their systems and processes and embrace the new ways of getting work done.

**If your law firm needs an update or a new plan altogether,
*we can help.***

LET'S TALK