



NEW YEAR, NEW BEGINNINGS, NEW OPPORTUNITIES

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Back in the day, when my work world was primarily filled with numbers and newly emerging technologies, the new year was my favorite time. The routines for starting a new year, which included setting all the starting balances for revenues and expenses to zero, and crafting a new budget for the forthcoming year, all provided me with a sense of renewal and optimism. As some of you have heard me say in seminars, I choose to wake up and be happy each day. My morning mantra includes an affirmation that no one has yet ruined the day, so all is well with the world. In similar vein, I choose to start each new year with the same positive attitude. The purpose of this article is to share a few insights into how to build your start-of-year routine to get you off to a great start.

Let's start with the budgeting routine. Most firms produce budgets of some sort. Whether they budget well or use the budget properly is yet another story. And for those of you who believe you are too small to warrant a budget, let me say at the outset that even a solo firm should have a budget for the new year.

In economically challenging times, a zero-based budget will be more productive to containing costs than the typical inflation-based budget. In the latter, which is most frequently employed, the firm starts with the prior year's actual numbers and then extrapolates what factors in the coming year will impact the numbers.

As an example, payroll will be increased or reduced based on assumptions about desired hiring and firing and then increased based on the anticipated percentage allocated to pay increases. As you can imagine, not much thought goes into this process.

A zero-based budget, on the other hand, sets the budget to zero for payroll, and then the dialog begins with asking who do we need and why. Notice, this is not an assumption that everyone will remain except for the person whose spouse has just retired; but rather by first questioning needs and justifying everyone we've tossed into the icy waters before we pull them into a seat on the lifeboat. (I always referred to this exercise as "The Poseidon Adventure")

It is these types of thoughtful processes that initiate meaningful discussions (or internal thought for the solo) about what the firm should actually be doing, with full knowledge of the costs and reasons, rather than just assume that things will and should continue as they have previously.

Completing the budget isn't a matter of dividing each expense category by 12 and putting 1/12 in each month's column. The budget's 12 columns should show ups and downs based on when certain payments will be due. For example, each three months includes one month with an extra payroll. Insurance premiums and installments come due at certain times. Budgeting that additional payroll or premium payment in the appropriate month will help the firm properly anticipate upcoming cash demands for the month ahead. The same can be done with institutional client revenues, if they pay on a quarterly schedule.

Once a budget is in place, the monthly profit & loss statement (P&L) should always compare actual to budget. Many firms run off the tracks in this area. They keep adjusting the budget to actual, rather than footnote significant differences. For example, if the firm takes advantage of opportunity midyear and hires a practice group from a dissolving firm, they will often adjust the budget retroactively rather than properly footnote the P&L with the reason for discrepancy from budget for affected areas like payroll, payroll tax, benefits and so forth.

While many of you will think "what's the difference?," the point of comparing to budget is for the debriefing exercise management should take at end of year. The point is not to force the budget to match P&L. The point is in comparing how and why the actual P&L diverges from budget. Was it due to unforeseen circumstances, like the acquisition? Was the firm not thinking strategically about the marketplace when the budget was built? Does it call for doing things differently in the coming year? Were lackluster results the result of inaction, poor execution, and what might have improved that?

Each year a firm goes through this exercise it becomes better at applying strategy and improving accuracy in the budget process. Strategy is the key word. Analyzing and discussing the divergences will spark strategic thought which defines goals and improvements for the coming year. Translation: progress and action.

When working up the income part of the budget, one can just take revenues produced based on prior year rainmaking and working activity and apply an



inflationary approach, e.g. stay the same, increase x% or decrease x%. Or it can take a zero-based approach and look at individual clients and practice areas to determine what is fairly certain, what is at risk, and most importantly, what new opportunities can be explored. This necessary conversation — repeated throughout the year for smart rainmakers — forces the firm and its attorneys to examine the very factors which will make or break the next year. It also feeds directly into marketing plans for the firm and individuals. This exercise not only produces a more valid revenue budget number, but leads to the necessary additional planning and calendar time-blocking needed to implement plans and achieve goals.

Is there some initiative you've wanted to implement? The budgeting process is the time to push to incorporate new strategies so that the supporting funds can be allocated.

Last but not least, the new year is an opportunity to incorporate new policies and procedures. Is this the year for upgrading and replacing technology? (Hint, if you still have Windows 7 in use, YES!) Is this the year to move forward on becoming more paper-independent? To put a new records-management system into effect? To improve the firm's cyber security stance? To make the branch office a reality rather than a wistful thought? All of these considerations will have some simple relationship to the budget, whether it be some temporary staffing needs or a new set of general ledger accounts to help break down revenues and expenses for another location.

So many wonderful opportunities occur at the start of the year. We are literally given an opportunity to reexamine, reinvent, and rebuild our firms from scratch. Don't miss out because you think it is a perfunctory numbers exercise. It can and should be so much more.

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