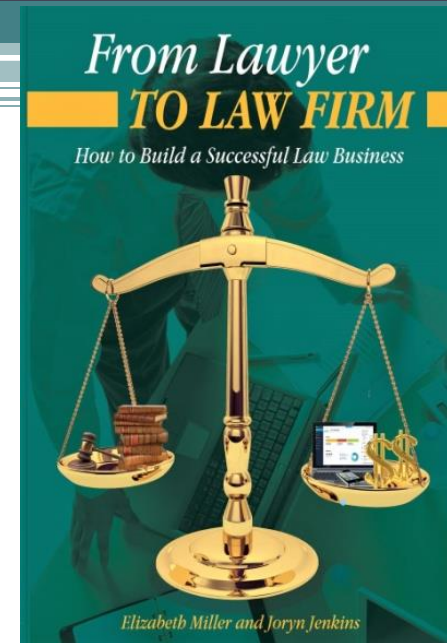


Show Me The Money: Secrets of Effective Law Firm Budgeting and Expense Management

Manage Your Law Firm's Budget – Don't Let It Manage Your Firm!

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Why Does My Law Firm Need a Budget?



Like any business, law firms depend on the revenues the firm generates to pay overhead expenses. In short, revenues are crucial to the financial survival of a law firm.



Five Reasons Why Your Law Firm Needs a Budget



Achieve Long Term Goals

1. Hiring additional timekeeping staff that should contribute to the bottom line
2. Purchasing an office building to build equity as opposed to leasing office space

You Can't Spend Money You Don't Have

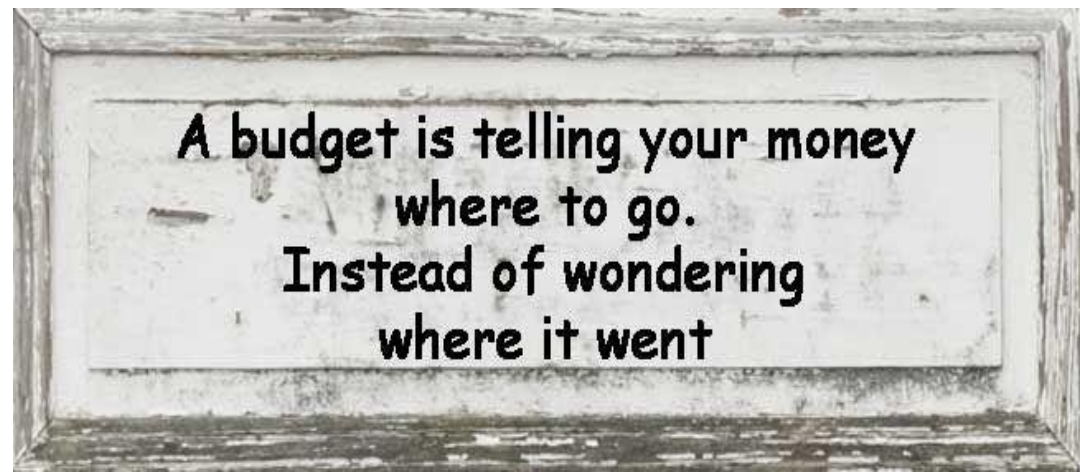
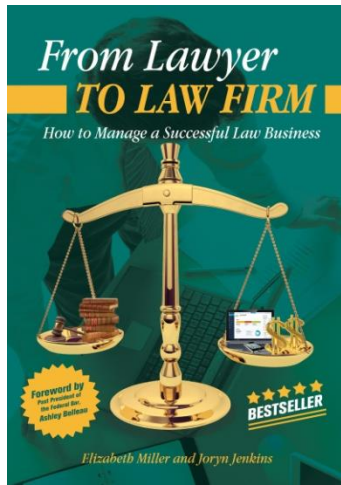
1. Preparing a budget and sticking to it will keep you from making unnecessary or frivolous purchases because there is no money for it.
2. Until clients have actually paid you, you do not have that money. You should never use a credit line or firm credit card to make purchases that have not been budgeted for nor should you use a credit line or cash advance to meet overhead expenses.



Helps Your Law Firm Be Prepared for Unexpected Expenditures

1. If anything can go wrong it will, a/k/a Murphy's Law, happens in law firms just like anywhere else. Is your firm prepared for unexpectedly having to replace a computer, printer, monitor, copier, etc.?
2. Budgeting your monthly expenses, including a line item for unexpected expenses will ensure that an unexpected expenditure does not become a financial crisis for the firm.





A Budget Will Help You Determine Where Your Firm is Bleeding Money

1. Do you look at your monthly income and wonder how there is no money for unexpected expenditures, growth and other purchases?
2. You will realize that it is not the big expenses that are draining your firm – it is the \$10 here, \$100 there that are adding up at the end of the month and bleeding your firm's revenues dry. You will recognize this when you look at your actual monthly expenses, and compare it to what you have budgeted for.



You Will Be Able to Sleep At Night and Your Employees Won't Worry Whether They Will Get Paid the Next Pay Period

1. The law firm has your name on the door, and it is your credit that is on the line with vendors, your landlord, credit cards and leasing companies. You won't lose sleep over overhead expenses if you know that your revenues are budgeted to pay the bills.
2. Don't fool yourself into believing that employees don't know when the firm's cash flow is in crisis.





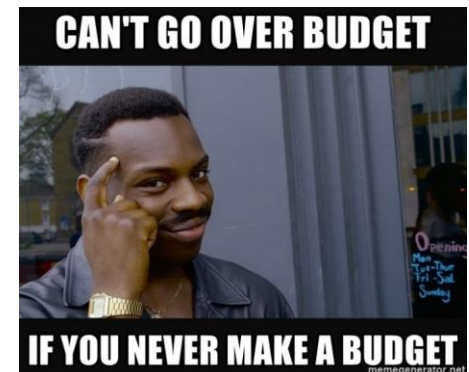
Where Do I Start?

The obvious answer is *at the beginning*, of course! Preparing a budget is different for a brand new firm than a firm which has been in business for a year or more. Let's start with the firm that has been in business for a year or more.



Use your firm's past overhead expenses as a starting place

Take the firm's annual operating expenses from the past year and run a total for the year. These expenses should ONLY include fixed operating expenses: rent (mortgage), payroll, insurances, telephone, vendors that you pay monthly such as IT, equipment leases, etc. These would be monthly recurring expenses; not expenses such as bar dues, CLE courses, or other discretionary expenses such as bonuses, staff luncheons, marketing expenses and the like.



Divide the total of those fixed overhead expenses from the previous year and divided by 12.

On the side of income projection, this figure is the projected income that your firm's timekeeper billings will need to generate (at a minimum) on a monthly basis to cover those fixed expenses.

*Remember – *NEVER* borrow to cover fixed monthly overhead expenses. If your firm cannot generate the revenues needed to keep your firm running, your firm has other problems besides not having an annual budget.





Set up a 12 month, month by month spreadsheet. Everyone does these differently, I use excel because it's easy. Itemize out one month's fixed expenses for the month of January, listing each fixed expense and the amount. Duplicate that for 12 months – each month should have the same monthly fixed total at this point.

Then add to each month that month's expenses that are not payable every month. For example:

- March – 6 month auto insurance premium - \$2,871.00
- May – malpractice insurance - \$4,144.00
- June – Bar dues (amount of dues x each attorney) – total amount due
- September – auto insurance 6 month premium - \$2871.00
- December – Christmas bonuses (you can budget a discretionary lump sum depending on what the firm does to budget for a ball park amount)

Any expenses which are payable only once or twice a year need to be added to the budget in the months that they are payable.

**Now, every month's budget
is not the same, is it?**



This is the #1 reason that most budgets fail

Preparing a workable budget that accurately reflects the monthly expenses of your law firm is not simply a matter of taking the prior year's annual operating expenses, dividing by 12, and using that as your budget. Dividing auto insurance premiums paid twice a year by 12 is not going to ensure the money is there when the 6 month premium needs to be paid. Paying a 6 month premium every month usually costs an additional \$50 per month. So paying the 6 month/twice a year premium in 12 monthly installments costs the firm an additional \$600 a year. Those revenues can be used elsewhere.

Malpractice carriers, insurers of any kind and other creditors will allow you to pay premiums or expenses in monthly installments – but that comes with additional fees. Unnecessary expenses that can be avoided if the firm has a true budget prepared.

Be Sure to Expect - and Be Prepared For - the Unexpected



Be sure to add in a discretionary amount each month to account for unexpected expenses such as a new computer, office furniture, software program upgrades, etc.

No budget is going to be perfect or for that matter accurate throughout the year. In fact, the budget is really only accurate the day it is written. However, budgeting for even unforeseen expenses will reduce the stress when there is an unexpected firm expense – and you have the funds to pay for it.



If You Just Started Your Law Firm . . .

You don't have a prior year, or maybe even a prior month, to use as a starting point. Nevertheless, a budget is still a necessity. The best time to start working with a budget if you are newly in practice is before you open your firm.

New law firms need at least 90 days of income and operating expenses and preferably 180 days until the firm can determine its' financial position.

Keep Your Overhead Low

- You can get very professional expensive looking business cards much less expensively through various resources.
- Use outsource services that are available for receptionists and other office support staff.
- Have a virtual office or work from home, with a virtual office or conference room arrangement with a law firm where you can meet clients
- Take advantage of no/low budget client development/marketing strategies. You don't have to pay \$5000 for a website and \$500 or more a month for a company to host your site.
- Track all of your expenses every single month. Know where every penny of your money is going.

As each month goes by you should have a better idea of what your monthly budget is for your new law firm.

- Track your expenses every month
- The income that you are generating should start to cover your monthly expenses
- Remember you do not always have to spend money to make money.
- After 6 months and then after a year you should be able to track your income and expenses and begin planning an annual budget for your new firm.

Establish a Financial Safety Net

Saving for a rainy day



And you can too!!

Your firm should be generating revenues in excess of its expenses every month.

Open a firm money market and make regular transfers from the operating account to the money market. Law firms have rainy days just like everyone else. Always be prepared!



CONCLUSION



Law firms are not exempt from the rise and fall of the economy. The profit margin and income of law firms have been affected in recent years and have necessitated a cut back in excessive or unnecessary spending. It has also precipitated law firms more closely tracking their income and reducing expenses wherever and whenever possible.

There are many solutions to the income and expense aspect of running a law firm. Managing the business of practicing law[®] has become a necessity.

If you take the time or have someone managing the expenses of a firm, it will have a positive effect on the profits of your firm and contribute to the survival of your law firm, regardless of the economy.



About Elizabeth M. Miller, MBA

Elizabeth M. Miller is a successful business executive and leader with more than 20 years' experience in all areas of business management including finance, financial analysis, budgeting, human capital management, legal and non-legal recruiting, technology, information systems, client/development and marketing, client relations and operations. Prior to venturing into law office administration, Liz worked for 18 years as a paralegal specializing in personal injury, medical malpractice, litigation and trial work. In 1997, she segued her career into law office administration. In 2007 she earned her BA degree in 2 years and 4 months, graduating from the accelerated Program for Experienced Learners program at Eckerd College. She went on to earn an MBA with a specialty in finance in 2009.

In late 2015, Liz opened her business, *From Lawyer to Law Firm*, in the Tampa Bay area, providing independent law firm administration and support to law firms. Her book, "*From Lawyer to Law Firm – How to Manage a Successful Law Business*" was published on May 11, 2017 and was #4 on the best seller list on May 23, 2017. She has clients in the Tampa Bay area and around the country that she works with.

Liz Miller has done webinars on billing and collections, trust accounting and conflicts of interest. She has participated as a guest speaker at bar seminars and workshops focused on issues of managing the business of practicing law®. She writes for Law Office Manager and is currently working on her second book. She can be reached at liz.managementconsultant@gmail.com. Her book is for sale through her website at a discounted rate. Visit her website at: www.fromlawyertolawfirm.com.

“From Lawyer to Law Firm – How to Manage a Successful Law Business”

Managing the business of practicing law® should be as important to the lawyer as the practice of law itself. It is pivotal to the success or failure of a law practice. The lawyer who considers hanging his own shingle cannot appreciate all of the moving parts involved in managing a profitable law practice until he has actually done it. When you do venture out, on your own or in a partnership with others, you soon realize that there is much more to the business of practicing law than you ever expected. Everything about your law firm affects the most important asset that your law firm owns: *the attorney/client relationship*.

Buy the book: *From Lawyer to Law Firm - How to Manage a Successful Law Business* author direct and save \$50 off the cover price plus free shipping:

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