BUDGETING WAR STORIES

Teaming up for victory on the budgeting battlefield

BY SCOTT BOULWARE AND KRISTEN LEIS

Chief financial officers (CFO) and chief business development and marketing officers (CBDMO or CMO) have been "at war" for decades, each party perceiving the other as misguided. After all, these two executive groups can face competing pressures: one to serve as a steward of firm resources, the other to grow spending strategically to increase clients.

According to the Colliers Law Firm Services Group, the larger a law firm's revenue, "the more likely a firm is to have a CFO." Colliers also found that 70 percent of all AmLaw 200 firms have a CMO, as marketing budgets grow to keep up with the increased level of competition for legal services. With these two positions becoming more prevalent, it's imperative that law firms begin to bridge the gap between analytical, expense-management-focused finance professionals and the relationship-driven, client-growth-focused business development and marketing professionals.

Fortunately, progress toward seeing eye-to-eye and consistent collaboration is in sight. A recent study by EY reports, "the majority (54 percent) of CFOs surveyed say collaboration with the CMO has increased." In 2014, EY reported 43 percent felt there was a strong bond between the CMO and the CFO. While these findings are still below optimal levels, the trend is clearly toward greater unity and alliance.

Start With the "Why"

Taking a step back before the budgeting process even begins and starting with a "why" is essential for developing a collaborative budget with a purpose. A "why" for legal marketers might be: to drive revenue for the firm and elevate the function from a cost center to revenue center by maximizing profitability with regard to clients and for the firm. A "why" for finance professionals can be: to ensure the highest possible return on investment (ROI) and analyze the best data to properly measure that return.

Next, tie strategy to budget. Across industries, marketing spending as a percentage of total company revenues is 8 percent on average, according to a recent CMO survey. In the consumer services, technology and retail industries, the number is about 12 percent or higher. Law firms pale in comparison, typically devoting only 2 to 4 percent of revenues to the marketing investment. That means law firms can struggle to make the impact with clients they desire. Tying the firm's strategy to its marketing and business development goals and objectives is key. This approach creates a strategic road map for the year. When budgets aren't aligned to strategy and goals, it is next to impossible to track return on investment (ROI).

Each year, firms should utilize "zero-based budgeting." Developing a budget each year based on the previous year's expenses is certainly easier, but will not tie strategy to budgeting. In zero-based budgeting, the slate is wiped clean and budgets are created to reflect the client retention and growth goals, comprising action plans with measurable objectives of the practice groups, industry teams, client service teams and individual attorneys.

What Goes Into the Budget?

Generally, law firms create budgets to match where the business development and marketing activities occur. Depending on the size and organization of the firm, marketing and business development budgets happen at any one or all of the following levels:

- Practice group
- Client team
- Industry team
- Individual
- Office

Activities that fall into these groups might include attendance at business functions, client entertainment, advertising, charitable contributions, collateral materials, events, directory listings, social media, thought leadership and public relations. Traditionally, there is also a separate budget for firm-wide marketing and business development products and resources. Items such as the firm's CRM database, referral network fees, training and coaching, competitive intelligence and research tools, and web design and maintenance are a few examples. The more subcategories within those budgets, the easier it is to track ROI, but the more challenging it is to ensure expenses are being covered out of the appropriate bu gets.

One of the golden rules to which we subscribe is: Whoever benefits from the activity pays for the activity.

Ending the War on Budgets

Let's review a few best practices when it comes to tackling budgets:

- Align budget dollars with business development plans, objectives and goals.
- Make the budget reflect a mixture of qualitative and quantitative efforts.
- Ensure budget owners have some "skin in the game" and are accountable for budget management.
- Continually enhance processes in approving expenses and managing spend throughout the year.
- Centralize traditional marketing activities in department budget.
- Streamline client development and retention efforts in industry team and client team budgets.
- Reserve business development dollars in practice group budget for individual or practice-specific business development activities, if no budgets for individuals exist.
- Remember: Historical spending should not be a predictor of future funding; utilize "zero-based budgeting."

Financial Tips

- Develop business plans in parallel to budgets in order to match objectives to anticipated spend.

- Use CRM database to match business development efforts to spend (ROI).
- The budget is just a tool — a guide — it is always changing.
- It's OK to be over budget — don't try to hide it in another bucket. Record expenses in the proper categories so that when doing the next budget, the previous year's actual spend can be a useful guide.
- Develop a process that is clearly articulated and all key stakeholders buy into.
- Develop clear key performance indicators (KPIs) linking financial performance and business retention and growth plans.

In the end, when the CFO knows the vision of the CMO and what success looks like, and the CMO understands what is important to the CFO and can demonstrate a plan for measuring success, they are in unison on the definition of success. This will result in budgets that are developed with the best interest of the law firm in mind as well as stronger mutual trust and support of each party. ■

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CMO says:
"The competition for new legal work and the pressure to retain and grow market share from key clients is more intense than ever. No one ever cost-cut their way to greatness."

CFO says:
"Like any business, we have limited resources and need to manage costs in a prudent manner. I want to see measurable results tied to the objectives."