

centerbase.com

Centerbase CloudBased Law Firm Management & Growth Platform

Why Law Firms Struggle With Budgeting and Why Budgets Matter

Joseph Benstowe · Thursday, September 21st, 2023

Written by Robin Neill

Law firms, like any other business, need to have a firm grip on their finances to thrive and grow. Yet many law firms struggle with [budgeting](#) and other tasks that help their firm run like a well-oiled machine.

In this article, the first in our new series on budgeting for law firms, we'll explore the challenges that law firms face when it comes to their finances and the benefits of a law firm budget.

Why do law firms struggle with budgeting?

Budgeting has never been a favorite task of legal professionals. After all, attorneys don't typically go to law school to earn a business degree. They're trained to understand the intricacies of the law, not the detailed aspects of business planning.

However, the business side of law is just as important as legal practice. The problem is, law schools don't offer courses that teach business skills, such as how to manage law firm finances. This knowledge gap can hinder attorneys' ability to feel confident about business financial decisions.

Moreover, most attorneys don't want to focus on the numbers. They want to practice law and provide legal counsel to their clients. There's no extra time in the billable day to crunch the data and generate budgets. This can overshadow the importance of understanding a law firm's financial health and lead to neglecting the practical business aspects of running a firm.

Finally, many attorneys think they can set their firm's budget once and forget it. Attorneys may struggle to balance client demands with long-term strategic planning for the firm. Law firms must recognize that budgeting is not a one-time event but rather an ongoing process that requires regular monitoring and adjustment.

Fortunately, there's a growing understanding within the legal industry that law firms are, at their core, businesses. While the law is the foundation of the work, the business side is equally critical for long-term firm sustainability and growth.

Why budgeting matters for law firm success

Why is [budgeting so important for law firms](#)? The answer lies in its direct impact on the firm's financial sustainability. Here are three key reasons why law firms should prioritize budgeting.

- **Getting financial clarity:** Budgets enable law firms to track revenue, expenses, and [cash flow](#) meticulously. They allow for a systematic evaluation of income and expenses, identifying areas for improvement. With this granular insight, law firm leaders can make informed decisions across all areas of their practice.
- **Increasing overall profit:** Law firm budgets aren't just about managing expenses; they also serve as a blueprint for [increasing profitability](#). By setting revenue goals and monitoring progress toward them, law firms can focus on opportunities for growth. Budgets provide a roadmap for expanding client portfolios, adjusting billing rates, and diversifying practice areas.
- **Evaluating matter and client profitability:** [Not all clients and cases are equally profitable](#). Budgeting enables law firms to make decisions based on which clients and practice areas contribute most to their bottom line. Armed with this knowledge, firms can tailor their marketing efforts, pricing strategies, and resource allocation to focus on the most lucrative opportunities.
- **Managing expenses:** When law firms understand their expenses, they are more likely to identify areas where costs can be trimmed without compromising quality, leading to improved profit margins and a healthier bottom line.

- **Allocating resources:** Budgeting empowers law firms to monitor areas where they may be overspending or where they can reallocate resources more efficiently. This newfound control can help prevent financial crises, reduce waste, and ensure financial stability in the short and long term.
- **Making strategic decisions:** Budgets help firms evaluate the financial feasibility of expanding into new practice areas, opening additional offices, and hiring more staff. Budgets also help firms assess the risks and rewards associated with major investments, such as technology upgrades or marketing campaigns. Having a budget ensures that decisions are based on financial considerations rather than gut feelings or ad hoc responses to market trends.
- **Ongoing financial planning:** Budgeting isn't just an annual exercise; it's a dynamic process that supports ongoing financial planning. Regularly reviewing and adjusting budgets in response to changing circumstances, such as economic downturns or unexpected expenses, ensures that law firms remain adaptable and resilient. It also facilitates long-term financial planning, including retirement planning for partners, succession planning, and capital investment strategies.
- **Building accountability:** When each department or team has a budget to adhere to, it encourages responsible spending and resource management. It also fosters transparency as financial information is readily available for partners and staff.

Where can law firms get help to improve their budgeting?

Law firms don't have to go it alone, muddling through the [budgeting process](#). a variety of resources that can help.

First, consider whether you need to bring in an outside expert, such as an accountant or financial manager. You need access to an expert who understands the intricacies and challenges specific to law firm budgeting.

Podcasts and online resources can provide insights into financial management best practices. Attorneys may also seek advice from local or state bar associations, which may offer salary surveys and other useful financial data.

Additionally, attorneys should embrace collaboration. The legal profession is filled with experts who love to share their experiences and provide feedback. Asking for referrals and engaging in dialogues with peers can lead to fresh perspectives and better financial management.

And, of course, [legal technology](#) is a game-changer for financial management in law firms. Implementing a robust system that tracks expenditures and provides [meaningful financial reports](#) is essential. These tools should offer insights into cash flow, expenses, profitability and more.

Budgeting leads to a stronger law firm bottom line

Budgeting isn't just about numbers; it's about building a strong foundation for the future of a law firm. When attorneys recognize the importance of budgeting and seek the right expertise and tools, they can positively transform their firm's financial practices.

[Sign up for a free demo](#) to learn more about how Centerbase can help you take the pain out of the budgeting process.

This entry was posted on Thursday, September 21st, 2023 at 2:51 pm and is filed under [Billing & Accounting](#). You can follow any responses to this entry through the [Comments \(RSS\)](#) feed. Both comments and pings are currently closed.