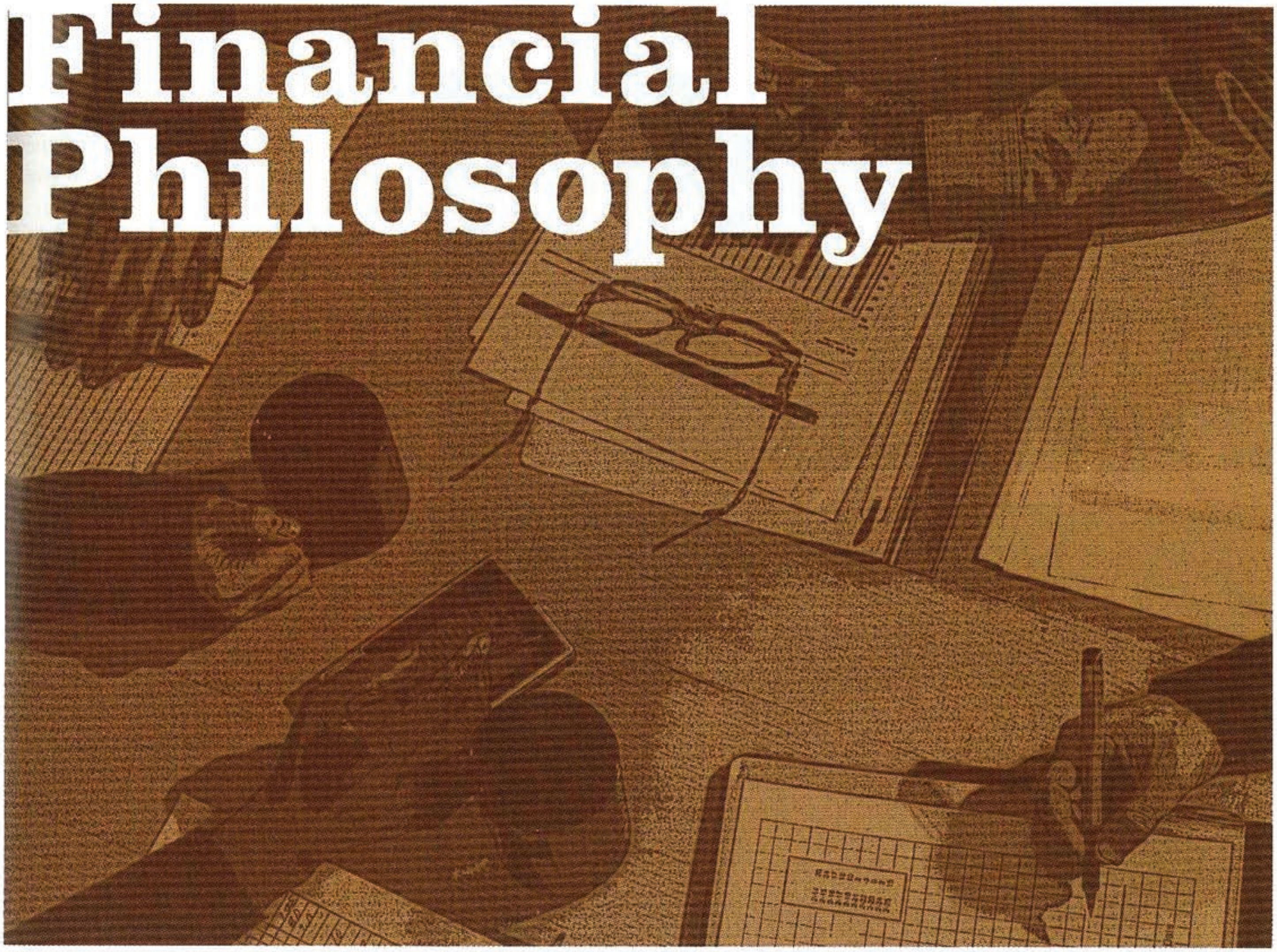
Financial Philosophy



BY NATHAN S. COLLIER

Collier Companies doesn't do budgets—it creates a financial plan. And, by seeking input on decision-making from staff, all become invested in the process.

Collier Companies, a privately held company with more than 8,500 apartments in 34 communities, eschews budgeting and rather prefers to engage in a process known as "financial planning."

To some, the difference may be largely semantic, but Collier believes that words create distinct mindsets and that an emphasis on financial planning rather than budgeting reflects an important difference in attitude and approach. Budgeting conveys a sense of constraints and restrictions, while financial planning focuses on goal setting and managing assets toward a desired financial outcome.

To increase buy-in and an understanding of the community's financial workers, Collier involves community and service managers in the financial planning process and actively solicits their input. No one knows the ins and outs of individual communities better than the onsite team.

During the financial planning process, Collier surveys onsite staff members with open-ended questions, including what they would do differently if they were owners, as well as stop/start/continue questions: "What should we stop doing? What should we start doing? What should we continue doing?" Then don't forget to ask, "What did we forget to ask?"

A Zero-Based Plan

A zero-based financial plan is a process in which every expense and cost must be revisited for necessity every year. Just because ownership provided the community manager a BlackBerry this year does not automatically mean that it is included in next year's financial plan. What was the benefit? What was the return on investment? Is it the best place to spend that money? Are there other, greater benefits that could be achieved with the same resources? Momentum and inertia should not drive financial plans.

Once a norm has been established, it can be difficult to eliminate. For example,

in response to an overbuilt market, ownership increased marketing allocations and staffing levels. When occupancy levels recovered several years later, it was challenging for ownership to convince community managers and regional property managers that they could survive at the prior levels of staffing and marketing. Even a review of prior years' empirical data showing that high occupancy and service levels had been maintained at lower staffing and marketing levels was of minimal effectiveness. Although achieving managerial buy-in to the financial plan is important, some things must be done on faith.

Start With Revenue

The start of any financial plan is revenue. Generally, it is easier to raise revenues than to cut expenses. Any competent, motivated property management company whose interests are aligned with those of the owner has harvested most low-hanging fruit long ago. That said, many nice but not necessary things can creep into a financial plan, and pruning is definitely in order.

One analogy of a good financial planning process is that of edging a flowerbed or trimming a hedge into a desired shape. Over time, expenses can grow out of control and will need to be cut back. Set aside a time annually to do nothing but look for what is nice but not necessary. Rarely is money truly wasted, but frequently resources are spent on activities or products that are nice or enjoyable, but do not measurably increase NOI.

Ideally, financial plans serve at least three main functions: 1. Expense control; 2. Cash flow forecasting; and 3. Goal setting. Obviously, those functions can be at odds with each other. A leader might desire a "stretch" plan that motivates staff to extraordinary effort, an owner might want to know what income stream they can count on and a manager might want to keep a tight rein on expenses. ■

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