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The profit potential of paralegals

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If your firm’s work has slowed, like most, during the past several months of lockdown, you are likely looking for actions that will bring your 2020 budgeting goals back in line. In addition to focusing on the more obvious ways, consider an opportunity with your paralegals. If other priorities keep you from considering this improvement in 2020, then save this article and put it in a file for 2021.

Is the Profit Potential from Paralegals Worth Investigating?

Since the economic downturn in 2008-2010, many firms have become more attentive to measuring their profit. Focusing on the more obvious and traditional generators, partners and associates, they tend to ignore a valuable contributor – their paralegals.

Many firms view their paralegals as a necessary expense to support their attorneys’ work, and the discussion of salaries, billing rates and billable hours ends there. In some cases, a paralegal’s billable rate and hours are limited by a particular client and the work at hand. Still, many firms neglect to realize the potential profit by viewing the paralegal position differently. This article will explore your paralegals: their untapped potential to contribute to your firm’s profit, what indicators to consider and what steps the firm could take to realize that potential.

Here is the profit potential: if you are currently experiencing a 20-25% profit margin on your associates, you could likely be getting at least a 30% profit margin on your paralegals. The profit would be a smaller dollar amount relative to your associates but compare that to breaking even, or realizing a loss, on your paralegals and you will recognize the value. Firms of all sizes are routinely seeing this type of profit.

What Indicators Point to the Potential to Increase Paralegals’ Profit?

To begin, check your firm’s data for any of the following bulleted items. These metrics are similar to how you track your attorneys, so the data should be available.

What Actions Could I Take to Increase Paralegals’ Profit?

The first and most important action is to ensure your partners understand the financial value of appropriately billing your paralegals’ work. Set the paralegals' billing rates at a market competitive level, set expectations for the billable hours your paralegals should work and bill their time.

Recognize that establishing your partners’ understanding and most of the actions described below would occur gradually if you are successful, and they would evolve into the same process you use to manage the profitability of your attorneys.

1) Begin by discovering your baseline. What is your paralegals’ current profit or loss (Fee collections minus expense (salary + employee benefits + overhead) and profit
margin (profit divided by fee collections) and is that representative of the past 2-3 years?

2) Set a goal. Decide the level you would like the profit, profit margin and billable hours to be by the end of your first year and beyond.

3) Billable hours expectation. Raise the acceptable level of billable hours your paralegals record as time entries. Remember this is a process of understanding what is and has been happening in your firm (the starting point), deciding on a reasonable goal for hours and communicating this not only to your partners, but also the paralegals. Although some will have to work more billable hours, recognize that when paralegals believe no one is reviewing or caring about the amount of billable time they record, they become lax in recording it.

4) Market billing rates. Know the market billing rate for the work each of your paralegals is doing. For example, the rate for litigation, estate administration and corporate may be very different for your paralegals' level of experience. You likely make the same considerations for associates. Again, if you are significantly below the market of what other firms are charging, you may want to increase the rate over a couple of years rather than immediately, but you know your clients best. For firms whose paralegals do most of their work for a client with low, fixed billing rates, remember that you could be charging a market billing rate for the work that paralegal does for other clients.

5) Write-offs. Monitor any write-offs of paralegals' time as closely as you would your attorneys. Oftentimes, billable paralegals' time is the first to get cut when a bill seems high.

6) Expenses. Manage your paralegal-related expenses. Less experienced paralegals usually have lower salaries than more experienced paralegals. Paralegals skilled in certain practice areas are paid differently in the market. Make sure that your paralegals and their specialties align with the needs of the firm and re-evaluate this systematically.

7) Monitor results. Measure and report on the changes since the implementation of your new approach. This action is important to build momentum and to know which actions have been effective and which need additional attention.

Conclusion

Paralegals, like attorneys, should be expected to contribute positively to the firm's profit. The long-term results are worth the investment in time to understand whether your firm's paralegals are contributing at the level you need, as well as to implement the actions to achieve that desired level.