

# insights

## Distributed law firms – a differentiated model? September 2021

Last summer, as we prepared to launch arch.law as a distributed law firm, we looked at as many of the operators in the market place as we could find to understand how they worked and what made them different. This led to a survey of the number of advisors engaged through 27 of these firms.

This year we have conducted the same exercise, this time over 35 law firms that operate in this way. The increase in advisors and operators working in this way has indeed come about and it is a trend that we don't see slowing down.

### What is a distributed law firm?

The 29 law firms that we identified last year have now increased to 35. These are law firms that pay their lawyers largely on a revenue sharing basis and have a mixture of dedicated office space, hubs and virtual platforms.

As you can see from the list, the number of advisors working in these types of law firms has increased from 1,932 last year to 2,457 – we predicted last year that the pandemic would see growth but didn't anticipate that it would be as high as 27%! Some of this can be partially explained by the two or three firms that have made it on to the list this year that we missed last year but even adjusting for that on a like for like basis there is still over 23% growth year on year.

### Who are the lawyers that work in these distributed law firms?

Most of the distributed law firms continue to be focused on private practice lawyers with just two GC Hub type law firms such as the Legal Director <https://www.thelegaldirector.co.uk/> that are focused specifically at former General Counsel. There are also a few of the smaller distributed law firms that offer a combination of private practice lawyers and former general counsel.

## “Revenue Share” – what does that mean?

The primary remuneration model of distributed law firms seems to be that the lawyer is paid a percentage of the work that they bring in, bill and get paid for. The percentages vary but seem to broadly be based upon:

- (1) Work that you generate and do yourself: the lawyer tends to keep up to 70% of the fees billed and paid for this category of work;
- (2) Work that you refer to other lawyers: the lawyer tends to receive around 15% of the fees billed and paid for this category of work;

The lawyer does have the ability to employ team members directly but in many of the larger firms in particular they also have the ability to hire more junior lawyers employed by the law firm directly. Most of the growth within the distributed law firm space seems to still be focused on individual lawyers. We deliberately set arch.law up as a distributed law firm model focused on teams working together rather than just individual lawyers as this enable a better service to be provided to clients.

## What does the law firm do for its share?

This doesn't seem to have changed very much over the last twelve months. The basic “hygiene factors” remain starting with the the regulated law firm itself which enables the lawyers to trade with their clients. However, not all distributed operators are regulated by the SRA.

The relevant support services that are needed sit alongside that – finance, IT and marketing in particular. PI insurance is also included within the central cost as is a degree of admin support. There has been an increased focus on health and welfare during the pandemic but the cultural change of working remotely for distributed law firms has been far less than it has been for traditional law firms as distributed law firms were already established on the basis of remote working and had built strategies to ensure cultural integration accordingly.

IR35 has become a more prevalent concern for operators and individuals working this way but there doesn't seem to be much support being offered centrally to ensure that individuals stay on the right side of the rules. At arch.law we partnered with Brookson as a specialist employment and payroll solutions provider to ensure that the necessary support is available..

## Are lawyers fans of this way of working?

As we identified last year, a combination of flexibility, autonomy and a direct correlation between what they earn and how hard they work continue to be the main themes as to why advisors decide to work this way.

There is no doubt that large law firms have had to become a lot more flexible in terms of where and how they let their people work. This should take an advantage away from distributed law firms whose key selling point was that flexibility. However, there continues to be a focus by larger law firms on securing some form of return to the office for their advisors. One of the problems, culturally, with large law firms, is the ability of advisors to actually switch off with constant Teams and Zoom meetings becoming the norm. Under the distributed law firm model, the advisors decide how much they want to work and when they want to work and do have the ability to

turn down work if they decide to do so. This lack of “mutuality of obligation” is key in ensuring that advisors stay on the right side of IR35.

I think that we are going to see more and more distributed law firms appear in the near future as lawyers look for different ways of working compared to the traditional model. The challenge and opportunity will be for the distributed law firms to respond to the demand appropriately.

## Conclusion

In last year's Insight we flagged that we thought that there would be a movement towards this way of working by advisors across the sector. This has definitely proven to be the case. The larger firms seem to be the destination of choice at the moment for many risk averse lawyers but over the next 12 months we predict that a number of the firms in the “next tranche” will continue to grow as advisors looking for that focus on culture and values whilst ensuring that there is a safe platform from them to work from moving forward.

**insights**

Firm Name	Partners 2020	Partners 2021	Lawyers 2020	Lawyers 2021	Total 2020	Total 2021	Movement
Keystone Law	328	360	65	96	393	456	+63
Gunner Cooke	211	249	50	54	261	303	+42
Setfords	0	0	265	328	265	328	+63
Taylor Rose	13	0	141	253	154	253	+99
Exello Law	0	0	105	117	105	117	+12
Spencer West	0	74	0	10	0	84	+84
Acuity Law	32	40	57	37	89	77	-12
Temple Bright	0	0	73	75	73	75	+2
Davitt Jones Bould	0	0	48	48	48	48	0
McCarthy Denning	47	50	12	15	59	65	+6
Nexa Law	0	0	61	106	61	106	+45
The Legal Director	0	0	44	43	44	43	-1
My Business Counsel	0	0	40	36	40	36	-4
Fletcher Day	19	23	21	16	40	39	-1
Scott Moncrief	0	0	39	41	39	41	+2
Arch Law Limited	0	0	0	27	0	27	+27
Jurit	5	7	24	17	29	24	-5
W Legal	0	0	26	33	26	33	+7
Inksters	0	0	25	24	25	24	-1
Aria Grace	19	25	3	0	22	25	+3
Richard Nelson LLP	0	0	0	24	0	24	+24
Valemus Law	0	0	21	23	21	23	+2
Legal Edge	0	0	19	23	19	23	+4
Carbon Law Partners	0	17	0	3	0	20	+20
Level	0	0	0	18	0	18	+18
Artington Law	0	0	17	13	17	13	-4
Woodstock Property	0	0	15	22	15	22	+7
Legal Studio	0	0	15	15	15	15	0
Bexley Beaumont	15	21	0	0	15	21	+6
My In House Lawyer	0	0	14	19	14	19	+5
Haddletons	0	0	21	19	21	19	-2
Radius Law	0	0	14	14	14	14	0
Constantine Law	0	7	0	5	0	12	+12
Converse Law	8	7	0	3	8	10	+2
<b>TOTAL</b>	697	880	1235	1577	1932	2457	+525

The numbers in the table are taken from publicly accessible information. Inevitably the information, particularly that sourced from websites, will be out of date by the time you read this. I will happily amend and update the list if operators let me know where I have got my numbers wrong. I would also like to hear from anyone who I have missed off!