

In business blog

Could the 'Freemium' model work in legal services?

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Twenty-first-century businesses are making vast sums of money by charging their customers nothing. This is the paradox at the heart of Chris Anderson's new book *Free, the Future of a Radical Price*, which argues that new technologies are causing production and distribution costs to plummet.

Organisations can now do what was previously unthinkable and offer their services for free, thereby enabling themselves to make substantial gains elsewhere.

This may sound counter-intuitive; but what has become known as the 'Freemium' model is already paying dividends. Let's take air travel as a familiar example. The cost of a ticket from Ryanair to travel from London to Milan is around £20, yet the cost to the airline of flying the passenger is closer to £70. On first impressions, it seems as if Ryanair should be making a thumping loss. Instead, it makes a profit thanks to sharing the profits from car rentals and hotel bookings, advertising revenues, credit card fees, refreshments and charging you extra to check in your luggage.

Not only is this model outperforming the more expensive airlines, Michael O'Leary's eventual plan is also to charge nothing for flights. He has even proposed including casinos and poker games on his planes. It would only take one passenger with a gambling problem to bankroll the entire trip.

How about the music industry? Here the concept of 'Freemium' should be repugnant, given the ways in which illegal downloading is crippling the big record labels. Yet artists such as Prince and Radiohead have been giving their albums away for free; the latter even asked fans to 'name their own price' for their record. As a result, both have generated record concert deals and achieved greater commercial success. Outside the decline of the big record labels, virtually every other part of the music market is growing as artists have embraced the model of giving away their work in order to gain greater publicity and revenue from touring.

In the information markets, the Freemium model has become established to an almost farcical degree. Entire departments at Google are now spending their days dreaming up products to give away to consumers. The reason? Studies show that users of Google's applications are twice as likely to click on search adverts. Using Google maps to work out your route home, or Google mail for your personal email, keeps you and millions of others engaged with the company and builds the internet traffic that is vital to Google's future as a business.

The Freemium model is therefore transforming other industries. But surely this kind of paradigm couldn't apply to the legal profession, especially given that most firms operate on a margin of 20-30%? The answer lies in the technologies that are beginning to make their impact felt on the legal services market; sophisticated document assembly systems and back-office workflow.

As Professor Richard Susskind has long argued, the types of services which are most susceptible to automation and commoditisation are those where the output of a lawyer's work is the preparation of a document or form – such as wills, employment agreements, shareholder agreements, powers of attorney and so on – which can be packaged up and provided for clients through the online channel. These will effectively become commonplace, commoditised

products which can be reproduced and distributed at marginal cost. Over time, competition among providers of these products will drive the cost towards zero. This is a fearful prospect for most lawyers, since, while it's great that technology leads to lower prices, it's another thing altogether when your recoverable hourly rate is completely eroded.

This, however, ignores the possibilities for Freemium in the legal marketplace. It will inevitably be the case that margins at the lower end will erode as the 'digital' legal services market develops. Lawyers can use these types of services to enhance their profile and generate more profitable work from their client base.

Reputation and attention are becoming the new currency upon which much of the internet world is based. While Freemium may be more associated with free giveaways and trials of products, it is also applicable to ways in which law firms can give away advice and information to generate new work from prospective and existing clients. Just like rock stars, in the future law firms could adopt a new model based on reducing the cost to serve by servicing clients online and providing free-to-access tools and information, as well as suites of free-of-charge lower-end services.

Developing this kind of model can cause clients to become heavily reliant on a particular firm's expertise and act to generate more bespoke work with higher margins, as clients come to the firm with more complex legal issues.

Lawyers in the future will be paid not to produce 'boiler plate' but only when they add their intellectual rigour to a project. As a profession we are going to have to get paid when we add value, not when we have a pen in our hand.

Whatever model law firms eventually adopt, it is clear that the market will change beyond all recognition. We may even see the entry into the market of certain types of alternative business structures which do not have a primary focus on the delivery of legal services. These are not going to be the collegiate partnerships that we in the profession are used to. These organisations will be money-making machines complete with chief executives, sales and marketing directors, access to capital and driven to make profits for their shareholders. They will be offering digital legal products, very likely for free, but they will be much more interested in capturing valuable client data and selling it on for a profit.

This can be achieved by extracting the customer's details from the legal services they provide. A will, for example, contains a vast array of information that is of considerable interest to a vendor of financial services: the value of the customer's property; the size of their mortgage; the insurance policies they hold; whether or not they have children; even the pets that they have. Provided the ABS complies with the Data Protection Act and they have client consent, they are at liberty to harvest this data in the same way that Facebook does and begin the process of cross-selling a range of financial services products at a much greater profit than the underlying legal service can produce. In this way the Last Will and Testament – a document which symbolises the professional bond of trust between solicitor and client – will become a mere 'loss leader' for an organisation to mine data and generate profits for its shareholders.

Such a prospect may be repugnant to the profession, but these are the kinds of models which are made possible by deregulation and the emergence of a new digital legal landscape, one in which the old ideals will be swept aside and the cost of certain services may plummet towards zero.

As a profession, whether we like it or not, 'Free' is a radical and dangerous price, and it is one we need to be prepared for very soon.

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