

Is digital expert knowledge facing a race to the bottom?

How the Tinders of Freelancer platforms are forcing prices down.

IS DIGITAL EXPERT KNOWLEDGE FACING A RACE TO THE BOTTOM?

The need for expert knowledge and services has been around for years. What's new is the rise of independent professionals – known as 'ipros' for short – and the platforms facilitating their careers. Broadly speaking, there are two types of ipro-enablers that shape the supply side:

- a) 'Full service catalysts' for the consulting industry, e.g. a-connect and Eden McCullum.
- b) 'Transactional platforms', e.g. Upwork, freelancer.com and mba&company.

Let's use the terminology of the dating industry to explain these two platforms. Full service catalysts try to deliver the 'perfect match'. Based on a deep understanding of a client's business challenge, they choose the best talent from their quality-approved network, while owning the client relationship throughout and beyond the project. Just like in dating, a client-talent matchmaker does not let their clients search through the open database, but rather adds value by scoping and determining which skills are important in order to do the best possible job.

Transactional platforms, on the other hand, could be described as a 'cheap adventure' – the Tinder of freelance contracting. Businesses can hire online freelancers for tasks and knowledge work that can be done remotely – from every tech task imaginable, to project management, customer support, marketing, design and even legal services. The buyers of these services are able to search the talent database themselves, thereby insourcing the risk of selecting talent; in return, they demand full transparency, especially in terms of pricing. This article focuses on how complete transparency on transactional freelance platforms leads to freelancers undercutting each other and commoditizing their services.

The most obvious implications that transactional platforms have on independent professionals are positive ones.

- Scale: a large number of buyers become accessible for independent business owners, who only have to publicize their value proposition in one central place.
- Speed: the average number of days from a request to kicking off the work is three days.
- No boundaries: freelancers get to offer their services to a global client group.

One could assume – and most data supports this – that there has never been a better time to become an independent professional. A Romanian data scientist can now easily land an assignment for a Californian tech company. But the downsides are hardly ever addressed, as the individual ipro hasn't got a voice (first downside right there!). The more powerful the platforms get, the less power the individual has. This is a common phenomenon – just think about Uber driving down the prices of drivers, but nobody being able to protest.

But, as the graph in Figure 1 shows, the supply of freelancers has been growing faster than the demand of clients, increasing the competition for assignments. Upwork (formerly Elance-oDesk) is currently the largest freelance talent marketplace, and their numbers are impressive. Almost 10 million freelancers and 4 million clients are registered on the platform, producing \$1 billion worth of work annually. Freelance earnings thereby account for \$941 million.

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TOTAL REGISTERED ON UPWORK: 13.5M

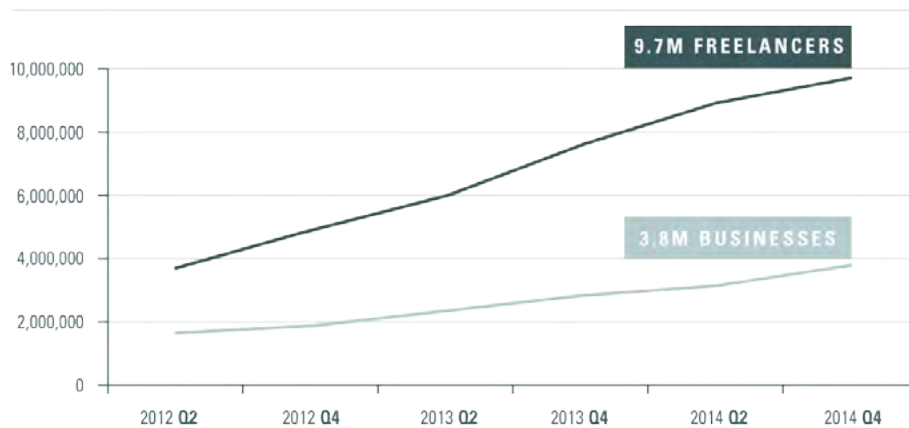


Figure 1: The number of total businesses and freelancers registered on Upwork.
Source: <http://elance-odesk.com/online-work-report-global>

As a consequence, freelancers are starting to lower their prices in order to win projects. This works mainly because buyers are rarely able to differentiate in terms of quality when choosing a freelancer. Generally, the buyers are not aware that a less expensive backend developer's code, for example, might be producing much higher costs in hindsight. This happens due to the lack of a sophisticated catalyst that has the know-how to compare the quality of the skills on offer to the price; this leads to purely price-driven decisions.

This, as well as the risk of buyers choosing the best service provider themselves, leads to people undercutting openly listed prices.

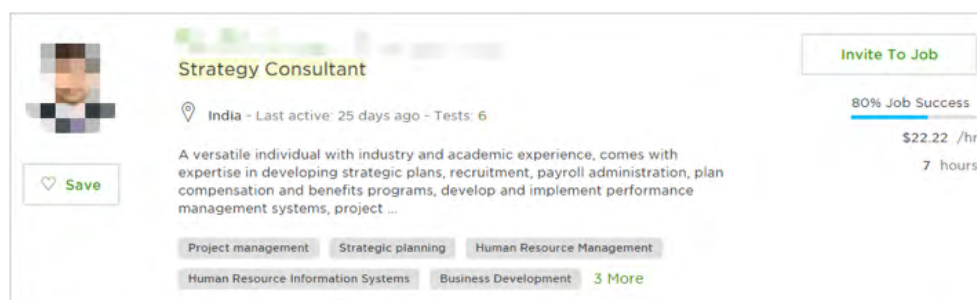


Figure 2: Profile of an independent professional on upwork.com displaying his hourly rate



As a freelancer, you can see what peers with the same skill set are charging, and you can even see if they adapt their rates according to the amount of work available. Most management consultants on Upwork charge between \$30 and \$60 per hour. Within other online freelancing categories, this rate is much lower, with the majority (47%) earning below \$10 per hour.

DISTRIBUTION OF HOURLY MANAGEMENT CONSULTANT RATES ON UPWORK

DISTRIBUTION OF FREELANCERS' RATES ON UPWORK

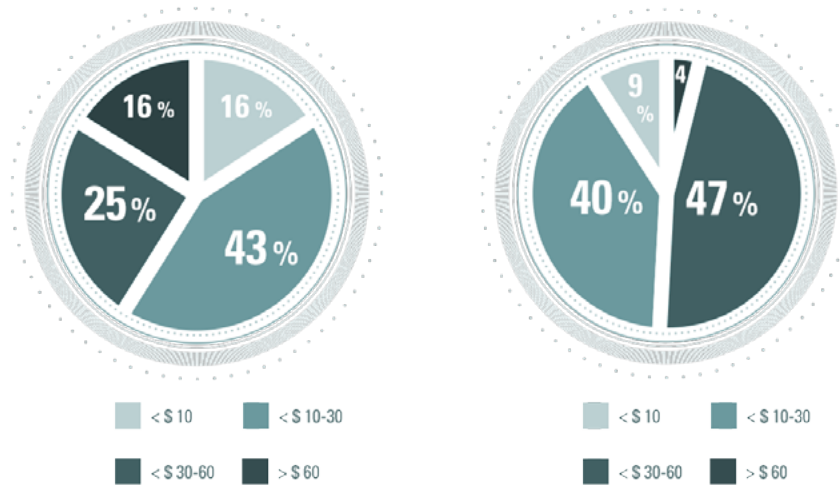


Figure 3: Distribution management consultant rates compared to all freelancers' rates on Upwork

Consequently, as online expert services are getting commoditized, freelancers need other differentiation criteria, such as test results or customer reviews. On Upwork, independent professionals can take as many exams as they like and show the results on their profiles.

Tests	
Name	Score (out of 5)
Time Management Test	3.75 Top 10%
Corporate Strategy Test	3.50 Top 20%
ERP Test	4.00 Top 30%
Management Skills Test	3.75 Top 10%
Negotiations Skills Test	4.10 Top 30%
Organizational Behavior Test	3.10 Top 30%
English Spelling Test (U.S. Version)	4.50 Above Average
U.S. English Basic Skills Test	3.60 Above Average

Figure 4: Upwork offers freelancers the chance to take as many tests as they want to

Exams	
Freelancer Orientation	100%
Employer Orientation	80%
General Orientation	85%
HTML Level 1	80%
UK English 1	80%
Blogging 1	83%
US English Level 2	90%
Numeracy 1	90%
Unix Level 1	80%

Figure 5: Freelancer.com offers freelancers the chance to take exams advertising the results on their profile.

Tests range from broad topics like time management tests and English language tests to subject matter, expert-specific tests like those on Python or HTML5. But just because a management consultant is rated in the top 20% in the Excel test, this doesn't automatically make him/her a good problem solver.



Whether these mechanisms are strong enough to countersteer the race to the bottom remains in question. One potential solution could be customer reviews – although these also come with flaws. For Airbnb, at least, reviews have enabled superior hosts to separate themselves from the rest of the pack and justify charging higher prices. Similarly, freelancer.com lets buyers rate the freelancer, and thereby tries to predict their quality for prospective buyers of their services. The problem with this approach is that many profiles get the maximum rating – five stars – which again forces differentiation via price. Reviews therefore don't seem to be the lever to stop commoditization completely.

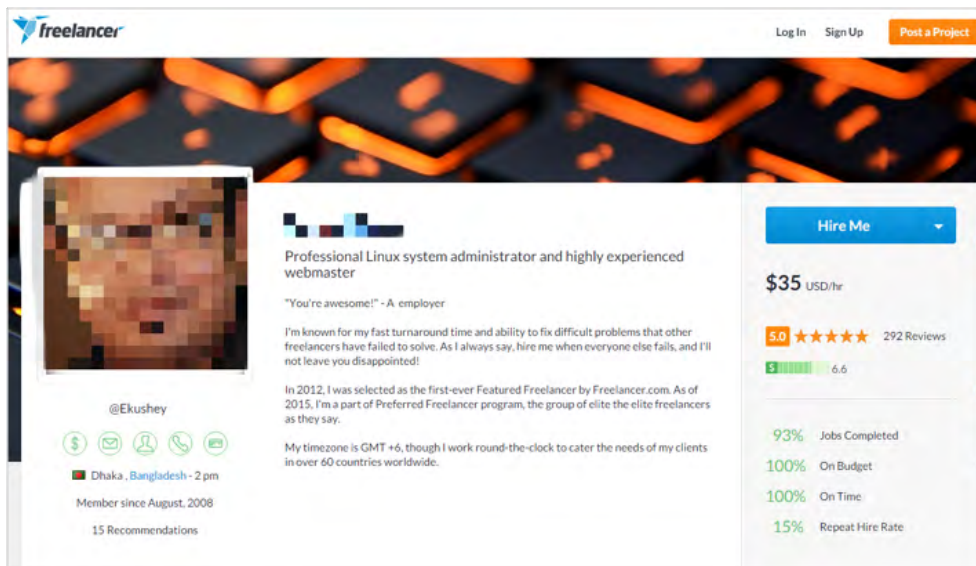


Figure 6: freelancer.com presenting their experts' profiles, including price and customer reviews

Transactional platforms for independent professionals have many advantages, such as scale, the speed of contracting, and global reach. However, the transparent display of hourly rates, as well as how difficult it is for buyers to predict quality prior to contracting someone, leads to independent professionals undercutting each other. This is where intermediary catalysts are missing, as they're needed to assess skills and client needs, while at the same time acting as negotiators for independent professionals. Platforms' efforts to establish differentiation criteria might still result in price dumping if the supply side of equally qualified professionals (or at least those perceived equally by buyers) outweighs demand.



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