9. Work on Demand: How Freelancing Will Change the Economy

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The Rise of the Sharing Economy

The sharing economy, also known as the collaborative economy, has spread rapidly around the world. Millions of people are sharing or renting goods and services, from cars and car rides to apartments and money. Barely 8 years old, Airbnb is already valued US$ 25 billion, making it worth more than any hotel chain in the world, without owning or running any hotels itself. Uber, another flagship company of the sharing economy, is valued at US$ 65 billion, without owning a single vehicle or having an own workforce to speak of. Lesser known companies such as Lending Club, world's largest peer-to-peer marketplace that enables people to borrow money from each other, or Etsy, a peer-to-peer website focused on handmade items with more than 50 million registered users, have been able to achieve tremendous growth rates in the last few years as well. So far the sharing economy has created 17 billion-dollar companies[1]. Although most of them are based in the US, there are already a few billion-dollar companies based in Europe, Asia and Oceania. Annual global investments in sharing economy start-ups increased from US$ 300 million in 2010 to more than US$ 14 billion in 2015. The success of well-known sharing economy companies and the huge increase in funding evidence how promising this model is and how much more successful it may become.

In the sharing economy people can get what they want from each other via online platforms and apps. Goods and services have become available at a click of a mouse around the globe and the search and transaction costs tend to be free. This has led to changes in the traditional business model. Instead of providing goods and services themselves, companies such as Airbnb and Uber provide online exchange platforms where buyers and sellers can meet. In other words, the sharing economy encourages a form of micro-entrepreneurship where anybody can become a supplier. It has never been easier to go online and start earning income as an individual. This form of flexible, project-based work is also known as the 'gig economy' or the 'on-demand economy'.

Only by utilising micro-entrepreneurs and thus avoiding massive up-front investment costs sharing economy companies were able to achieve the impressive growth rates and vast scalability of their offering. Staff on demand is a crucial component for 'exponential organisations', companies that achieve exponential growth, become significant if not dominant in their market in a short-time and very often disrupt the business model of less nimble competitors[2]. So benefits can accrue to the most information-enabled companies. Instead of having, for example, all support services such as translation or design in-house or instead of turning to a classical outsourcing partner, a company can tap into the on-demand workforce as the need arises and thus achieve faster growth at lower cost.

The Gig Economy: From Employee to Freelancer

This is especially true for services. In addition to goods, all types of work can be offered via sharing economy platforms to interested companies or individuals, at short notice and on a flexible basis. Companies that provide such platforms are intermediaries between people offering services and the ultimate customer. People are not employed by the platform operators; they work when they want and as much they want. One of the leading companies, Upwork, connects a pool of ten million freelancers across the globe to four million companies and individuals. The range of different services offered is wide, from administration, data research, design, product management and translation, to financial and legal consultation. Another example is the company OnForce, which was bought by the largest provider of personal services, Adecco, in 2014.

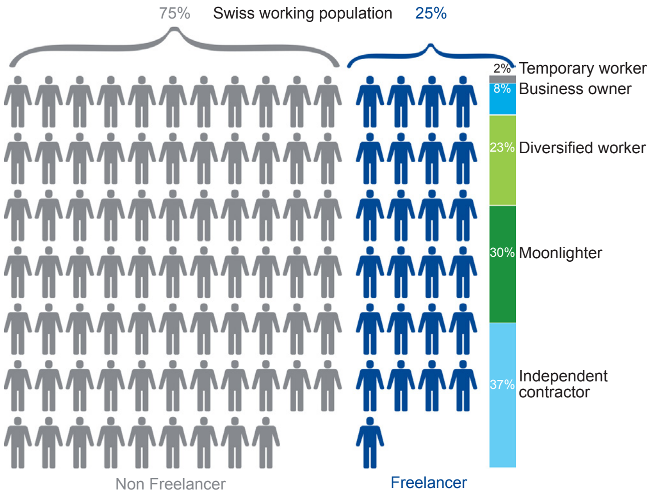
In the US, the use of on-demand working is increasingly common. According to a recent survey nearly 53 million Americans or 34% of total workforce are doing freelance work[3]. The survey defined freelancers as individuals who in the past 12 months have engaged in supplemental, temporary or project/contract-based work. 40% of the independent workforce are 'traditional' freelancers who do not have an employer and work full-time on temporary and project-based tasks. The second largest group (27%) are 'moonlighters', professionals with a primary, traditional job who also do additional work 'on the side', for example a web designer who is employed by a company, but also does jobs for other customers in the evening. 18% belong to the category 'diversified workers'. Those freelancers are people with multiple sources of income from different types of work, e.g., a part-time receptionist who also works as an Uber driver and an online English teacher. The remaining freelancers are either temporary workers with a single employer (10%) or business owners with one to five employees considering themselves both a freelancer and a business owner (5%).

The amount of freelancers is likely to grow over the next years. 32% of freelancers surveyed have seen demand for their services increase in the past year, compared to only 15% who have seen a decrease. According to the Intuit 2020 Report, the share of freelancers will increase to 40% of total US workforce by 2020[4].

One in Four Swiss Residents Do Freelance Work

The trend towards freelancing has also made its way to Switzerland. According to a representative survey of 1,000 Swiss residents of working age commissioned by Deloitte, 25% of the respondents are working as freelancers[5]. The survey was based on the methodology of the above-mentioned US study, and freelancers were defined as all workers who had pursued project-based, temporary or additional work on a full or part-time basis in the previous 12 months. Compared to the US, the number of people working as 'moonlighters' and 'diversified workers' is slightly higher (see Figure 1). Those people are doing different types of freelancing and can benefit the most from the wide range of opportunities the sharing economy offers.

Figure 1: Freelancers in Switzerland



Source: Deloitte Research

According to the Deloitte survey, the number of freelancers in Switzerland will continue to rise in the coming years. Nearly a third of non-freelancers are planning to take on additional or project-based work in the next 12 months. In addition, 45% of freelancers believe that the demand for their work will increase in the next 12 months. Only 8% anticipate a fall in demand. This is not a surprise given the fact that the earning potential of freelancers is likely to rise as a result of the growing importance of the sharing economy.

Advantages: Higher Flexibility, Lower Costs

For many people the gig economy means more flexibility and independence. In addition, people can achieve higher earnings and faster growth of their business as they get empowered to leverage their skills in an online marketplace. On the other hand, freelancers do not have access to the same benefits as employees do, such as protection against dismissal and the requirement for social security contribution from an employer.

For businesses, using freelancers means more flexibility and lower costs which might be the main reason for the growing number of companies interested in the gig economy. According to Deloitte's Global Human Capital Trends 2015, 51% of respondents reported that their need for contingent workers will continue to grow over the next three to five years[6)]. There is especially an opportunity for small and medium-size enterprises to make use of additional know-how without increasing their fixed costs. An estimated 3.2 billion people had internet access in 2015 globally[7)] – a vast potential talent pool to tap into and to increase the knowledge base of a company. This naturally includes talent that would be outside the traditional hiring scope of most companies, which underlines the potential for higher expertise, fresh ideas and enhanced learning that staff on demand offers. In an age in which skill-sets tend to depreciate faster and in which new ideas are valued higher than before, a permanent workforce might fall behind in training or simply lack fresh insight, so that on-demand staff can massively improve the competitiveness of a company. The internet and sharing economy reduce simultaneously the administrative effort that was formerly needed to identify, attract and hire an international workforce.

Challenges: Confidentiality and Regulatory Framework

Nonetheless, there are potential challenges. Freelancers might still become an administrative burden, must be managed, require appropriate interaction for coordination, and tasks need to be specified and apportioned clearly. External staff-on-demand might be a security issue, requiring supervision and robust firm-wide compliance mechanisms, such as non-disclosure agreements and on-boarding processes for new freelancers. There is also a natural tension between tapping into an independent highly skilled talent pool which could share this expertise with competitors versus bringing this expertise in-house so as to deny competitors access to it. By working for several competitors, highly successful freelancers can further develop an information advantage over their employers by having inside knowledge into several companies' projects. Legal agreements can limit this risk to a certain degree. But with higher utilisation of outside talent, demands on management and HR departments increases since decisions must be made as to which expertise to hire externally, which to bring in-house and which projects to allow external staff to work on in the first place.

Company culture and consistent external communication are additional areas of potential challenges. While the core team is likely to develop stronger bonds and intrinsic motivation in an agile, successful, fast-growing company, outside staff is likely to be more independent, diluting company culture and external communication. Online tools such as customer reviews can compensate for the loss of central control at least partially, but control mechanisms and management techniques need to be adapted accordingly.

There are also risks of regulators deeming freelancers to be full time and therefore entitled to normal benefits and protections from employers, which could undermine the model and eliminate employer's flexibility and cost advantage. The rise of the sharing economy has outpaced statistics and regulation. The search for the optimal integration of freelancers not only into companies but also into social security or labour statistics is ongoing.

While there are areas that are naturally unsuited to staff on-demand, such as capital-intensive industries or highly confidential projects, most information-enabled companies can benefit by utilising the sharing economy. As long as robust compliance mechanisms are in place, adoption can be bottom-up, piecemeal, cheap – as flexible as the on-demand workforce itself.

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4) Intuit 2020 Report (2010): Twenty Trends That Will Shape the Next Decade

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