

Internet Marketplaces for Freelancers – The Future of Work?

Marketplaces for freelancers and freelance projects are an example of the many new business models on the web. The chances for survival of many B2B marketplaces are discussed controversially today. However, freelancer-marketplaces still have a good image in terms of future prospects. Freelancing is widely seen as the model for work in 21st century. Accordingly, the industry is enthusiastic.

For a more down-to-earth analysis, this article will describe how the business model works. Then we discuss, what these marketplaces really can offer their members – buyers and sellers of services. Finally, we have a look at the future of (freelance) work.

The Business Model

Like all digital marketplaces, freelance exchanges bring together buyers and sellers of goods. Here, the good is the capacity for work, arranged in different areas of expertise. Freelancers offer their experience, expertise and time, without entering the traditional exclusive relationship to one employer. Buyers place projects they cannot perform themselves or do not want to perform themselves. Often, these projects are tasks that are of one-off type for the buyer (e.g. development of a business plan or a web-design). Other buyers invite for tender for tasks they want to assign to freelancers on an ongoing basis. Typical tasks are writing of articles for newsletters, ezines, etc.

Alternatively, many marketplaces allow buyers to select freelancers from their pool and to approach them directly. Freelancers are assigned an area where they can post their profile, resume, references and portfolios to present themselves to potential buyers.

Most marketplaces are operated by a third party, not by some sort of organization of buyers or sellers of services. The operator offers the transaction platform and sets general rules for doing business (e.g. what information to provide when posting a project). Normally marketplaces also offer some additional functions that provide more service or security for players. Examples are payment functions, rating functions for service providers and sometimes even buyers, help and mediation functions or community features.

This mix of functions makes the marketplace a valuable tool for buyers and sellers to find suitable business partners. Ideally, marketplaces attract many buyers and sellers; hence, there is no need to do an individual research for possible partners. Standardized processes ensure that projects and bids are easily comparable. Easy-to-use functions support all stages of the business.

Most freelance marketplaces make their revenue from a fee, normally a percentage for the value of the contract / agreed price. Depending on the particular business model, the buyer or the seller has to bear this fee. Usually, the fee is 5 % to 10 % of the agreed price for the project. For some marketplaces, interests should be another source of revenue. They require the buyer to deposit the price for the project on a trustee account as soon as he selects a service provider for a project. After completion of the project, the marketplace deposits this money on the service provider's account. This procedure does not only guarantee security of payment for both parties, it also brings larger amounts of money on the marketplaces

accounts for an exactly known period. It should be possible to generate some interest earnings from this.

Brave new World?

The model is promising. It offers a solution for two social and commercial trends:

- Many people wish to be independent and flexible in their professional career and
- Many businesses need flexible (human) resources.

However, freelancer marketplaces have to cope with the same economic rules that have always been valid in the old economy and that become valid in the new economy as well: Only the best will survive. This is a truth for suppliers of services, buyers of services and intermediaries – the marketplaces. Here are some things that will make the difference.

Suppliers of services / Freelancers: Competition is fierce with a tendency to become even harder. On highly frequented marketplaces, interesting projects can attract 100 and more bidders. 10 to 30 bidders for a project are normality. Only projects that are not attractive or require specialised skills and knowledge will gain the attention of less than 10 bidders. Among the bidders, you will find a great variety of service providers. There are freelancers with great rankings from former buyers who take higher prices for excellent service, and there are freelancers that operate with very low dumping prices. This can have two reasons: Online marketplaces are truly global places. So there are people from areas with low cost of living like India or Eastern Europe. They can operate at considerably lower prices than someone from the United States or Western Europe. This is nothing more than an outcome of globalization. Nevertheless, there are also such people that obviously do not have an idea about the real value of their working time. Alternatively, they seriously underestimate how long it takes to complete a project in high quality.

Of course, somebody from a country with low cost of living or somebody who makes a bit of additional money besides his regular job will be able to bid with lower prices. However, this should not result in a price war that can be seen on some projects.

This leads to the following problems: Quality and timely work are a must. A poor feedback is visible for all other buyers of services and will be a serious disadvantage to get future projects. Moreover, a poorly finished project bears the risk that the buyer is disappointed and will never ever use a freelancer again. On the other hand, high quality takes time. Even if somebody really can work for 5 \$ an hour, he will not be able to finish a complex research project for 25 \$, hence within 5 hours. Either he is a victim of self-exploitation or he will deliver poor quality. Sellers and buyers should keep these things in mind when thinking about pricing.

In the long term, only those freelancers will survive and successfully establish their competitive position, who can offer good services for a reasonable price. The hope for the big money, however, will come true for very few of them.

Buyers of services: The whole industry of freelancing is still emerging; hence, many buyers are “newbies” as well. Typical mistakes are:

- Unclear or misleading descriptions of projects – nobody is able to make a realistic bid if he can only guess what he is required to do. Accordingly, the buyer will have problems to find a suitable partner.
- Wrong ideas about the price range – despite the price competition – every service has its price. Despite that, it happens that projects are withdrawn because all bids are far above the expected price. Sometimes a freelancer uses the public board to explain what scope of services is possible for a given price range and what not. Obviously some buyers do not have an idea about the real value of the services they require or they have the intention to make their advantage from the inexperience of some service providers.
- Late decisions or no decisions at all: Normally buyers set an end date of bidding period and a date of delivery for their project. However, many of them do not award the project to a bidder within an appropriate period after the end of bidding. This makes it impossible for the freelancer to meet the deadline for delivery. Moreover, it makes it more difficult for the bidder to assign his time to different projects.

Marketplaces: Like all businesses, freelance marketplaces have to differentiate themselves from competition in order to gain the attention of customers (here: buyers and service providers). The problem is that the general business model and the level of fees offer limited scope for differentiation. Hence, the efforts focus on issues like handling, transparency and additional functions. Here are some existing variations of these features:

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| Handling | Search for projects: <ul style="list-style-type: none"> • Lists of projects in different categories • Search functions for different search terms • Database-based matching of service providers profile with project requirements |
| | Registration: <ul style="list-style-type: none"> • Online forms • Formal application and qualification process with qualification tests • Voluntary or compulsory development of profiles and portfolios |
| Transparency | Transparency of existing bids: <ul style="list-style-type: none"> • No information about existing bids • Information about bid value (sometimes also rating of the bidder) • Complete information about all details of existing bids (including user name of bidder, rating, profile, value of bid, text of bid) |
| | Information about other service providers: <ul style="list-style-type: none"> • No information • Number of registered service providers, sometimes by category • Profiles, portfolios and ratings are publicly open |

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| Additional functions | Examples: <ul style="list-style-type: none">• Voluntary or compulsory payment function• Verification of credentials, references etc.• Community / public discussion board• Selection of freelance-related “how-to” articles• Sufficient space to upload examples of work• Different regional sections / languages |
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Figure: Examples of different expressions of handling, transparency and additional functions from the freelancers view

The judgement of these different types of marketplaces is subject to each player's preferences. However, it is obvious that those marketplaces with a high transparency and with easy handling attract most buyers and sellers. Even today, there are active places with lots of projects and there are exchanges with less than 10 open projects.

This leads to the most important prerequisite for success: to reach the critical mass of customers in terms of buyers and sellers of services. A marketplace with little traffic will not attract more buyers and sellers in future because there is little choice of potential business partners for them.

Hence, we can expect the same consolidation process for the industry of freelance marketplaces that other industries have experienced before. This consolidation will not only cover marketplaces, but also buyers and sellers who do business there. The survivors of this shakeout will be reliable service providers and buyers of services, and those marketplaces that offer the best platform for transaction in the perception of buyers and sellers.

The following rule might give some orientation in this industry: Potential buyers and potential sellers should have a look at various marketplaces. Thus, they can compare the different functions and processes, and they can have a look at existing projects. This provides an idea about the behaviour of players at this place and the price level. With this information, it is possible to select one or more marketplaces that best meet the individual needs and preferences.

Is freelancing the future?

Doubtless, we see the beginning of a development that will reinforce in the years to come. Since demand and supply for one-off projects will increase, there are good future prospects for freelance exchanges and marketplaces.

However, this is not the beginning of a “breakdown of big companies” whose employees resign to become freelancers, as a newspaper wrote recently. Even if the future will require more flexibility, there will always be some core functions that need to be performed by own staff. To hire freelancers is an other form or outsourcing – and it comes with the typical problems of outsourcing, e.g. legal problems with contracts and payments, quality supervision, and the handling of recourses. These issues are much easier to deal with for own employees.

On the other hand, life as a freelancer is not an attractive alternative for every employee. The advantages like independence and flexibility in time and place have been discussed often. Nevertheless, not everybody can cope with the ongoing pressure to market himself and to acquire new projects.

An important future trend is the loose cooperation between freelancers in networks and virtual teams. This reduces the risk of isolation that many home-workers fear, and it provides the chance to take over larger projects. According to the requirements of a particular project, freelancers can form teams with different areas of expertise for the period of the project.