

BOSS TALK

## E lance Taps Growing Demand for Freelancers

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Fabio Rosati, CEO of online freelance marketplace Elance, says tomorrow's workforce should worry about being employable, not employed. *Jennifer Weiss for The Wall Street Journal*

Is freelance the future? More and more corporate tasks are being farmed out to a global network of independent workers.

Fabio Rosati has made it his business to help that happen.

Since joining Elance Inc. as chief executive in 2001, Mr. Rosati has transformed the company from a vendor whose software helped companies manage their contract workers to an online freelance marketplace that connects, say, a Seattle startup with an engineer in India, or a Montreal bike shop seeking a logo with a graphic designer in Slovenia. Clients like browser maker Mozilla and the Motley Fool, an online investment research company, use the site to

outsource such tasks as Web development and writing.

The Silicon Valley company makes most of its money from an 8.75% transaction fee it places on each project. In 2013, projects billed through the site grew 46% to about \$300 million from a year earlier.

In December, Elance announced a merger with its biggest rival, oDesk Corp. The new company will be the market leader in the nascent online staffing industry, with expected billings of about \$1 billion this year. Staffing Industry Analysts, a research firm, expects the sector to grow from \$1.5 billion last year to \$23 billion or more by 2020.

Mr. Rosati, a former management consultant, will become CEO of the combined company when the

deal closes in the spring. The 49-year-old recently talked about the future of work and why tomorrow's workforce should worry about being employable, not employed. Edited excerpts:

WSJ: Broadly, what's happening in the labor market?

Mr. Rosati: We're living through a period of unprecedented transition from skill set to skill set, where technologies that were relevant even two to three years ago are different from the technologies that are going to be relevant in the next two to three years, [and that's moving] at increasing speed.

Does the workforce have the tools to understand the labor market? I believe that's the number one challenge for our society because there's so much turnover in skills.

WSJ: Where do you see the highest demand for freelancers?

Mr. Rosati: We continue to focus on areas where there's an enormous mismatch of supply and demand. So technology-related work is still over 50% of our business, and we see a great need for marketing-related skills, creative design, writing, market research.

The composition of our clients has also evolved, from small early adopters to larger companies. They need creative and technical work and they're moving from [using traditional staffing firms] to a direct-to-talent model.

WSJ: What does Elance's growth say about how careers are evolving?

Mr. Rosati: Millennials want to work independently and control their careers. They are really comfortable with this online model of work.

Also, this worker is capable of learning new skills much faster because they're used to adopting new products, whether it's Instagram or Snapchat. The ability to ditch whatever you liked before and start the new thing—that's essential.

WSJ: Will the online labor market displace permanent, full-time employees?

Mr. Rosati: Companies will always have core teams of employees and extended workforces of independent contractors, agencies, freelancers. That's

always been the model... There will be some pain as people move from one model to the other. We're entering a new phase, and it's hard to predict what it looks like.

The inefficiencies will be squeezed out of the system by displacing staffing companies. That's the biggest difference, and as long as an independent worker has access to benefits [like health insurance], that individual will gain.

WSJ: What about workers who prefer the security of the traditional work arrangement?

Mr. Rosati: Individual workers who keep their skills fresh will thrive. Individuals who are unable to do that will not thrive, and that's the stark reality.

If I had to give advice to anybody about their careers, I would say your number one priority should be to remain employable as opposed to remaining employed, because your employer may terminate you, may be acquired and restructured, may go bankrupt; and if you're not employable, you're in big trouble.

WSJ: Most freelancers on your site bid for jobs. Is this a race to the bottom in terms of the cost of labor?

Mr. Rosati: We want to discourage people from lowballing so if you go 30% below the client's stated budget, you're blocked. We track how often freelancers use pricing as a strategy to win work. If they do it too much, they get penalized over time on our reputation system.

WSJ: Does the model pit workers in developed countries against workers in lower-cost countries who, thanks to technology, have the same skills?

Mr. Rosati: The barriers to hiring people across any geography are coming down. In a world with open labor markets, a San Francisco-based freelancer will be competing with somebody in North Dakota or Mexico or India. That will absolutely be part of the future.

However, businesses are getting more sophisticated. They'll go where they find the best value-for-money equation. They may want the very best writer, the person who works in their time zone, the person who speaks the language perfectly, and they will [be less sensitive to] cost.

Hourly rates on our system have increased 3% year-over-year. The average in 2013 was \$24 an hour. For U.S. freelancers, it was \$33 an hour and it went up 4%. By comparison, average hourly rates for the whole U.S workforce rose only around 1.8%.

How do we explain that? Better talent with an established reputation can increase their rates. Also, we're shifting to bigger companies that are used to spending money on marketing campaigns and technology projects.

WSJ: What jobs can't be converted into a freelance model?

Mr. Rosati: Anything that requires a high level of coordination and collaboration—things like policy setting, product generation, product design. Also, doctors probably. We don't see that as an opportunity, at least in the near term.

WSJ: What was the rationale for the oDesk merger?

Mr. Rosati: We both have customers who kept saying to us, 'Why can't you provide better collaboration

tools? Why can't you anticipate which freelancers should be matched with which clients? Why can't you localize the platform in different languages?'

All those things require investment and we looked at the size of the market. Are we better off duplicating all those investments or are we better off uniting?

WSJ: You and oDesk both have grown organically. Do you expect to do acquisitions in the near future?

Mr. Rosati: Yes. We now have the ability to better identify technologies and teams of talent that could be relevant for us. We'll be making appropriate moves in the next year or two.

WSJ: As individuals lose the benefits of traditional employment such as retirement plans, are you helping them prepare for a less secure future?

Mr. Rosati: I can honestly tell you we're not doing enough. We try to create awareness of what skills are in demand and what the trends are but there's more to be done. I don't have all the answers today.

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