

Global army of online freelancers remakes outsourcing industry

By Jeremy
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1 of 16. An employee works on his computer at the office of CloudFactory, a Canadian startup that based itself in Kathmandu, where it hires teams of Nepalese October 5, 2012.

Credit: Reuters/Navesh Chitrakar

(Reuters) - Not far from the world of regimented cubicles and headset-toting call center operators, a quiet revolution is stirring in its slippers.

University librarian Sheila Ortencio, for example, was so poorly paid that half her salary went for childcare, and her meals amounted to dried fish and one fried egg per day. Four years on, she juggles two daughters, a husband and two Pomeranians as she catalogues ebooks online from her parents' couch.

In her freelancing job, she's earned enough money to buy land for a house nearby and make down payments on a condo in the capital.

"I have double the work but, it doesn't bother me because it doesn't feel like work," she says.

Ortencio is one of more than half a million Filipinos registered on freelance website oDesk.com - more than are currently employed by the country's growing business process outsourcing (BPO) industry.

While it's early days, proponents of so-called commercial crowdsourcing contend that a swelling army of global freelancers is already disrupting traditional outsourcing - from preparing tax statements to conducting research on pediatricians.

"This is all about cost arbitration across borders," says Siou Chew Kuek, a Singaporean researcher who works with the World Bank. "Now you can farm out your work to anyone in the world."

LOW-HANGING FRUIT

Driving this trend are a dozen mostly U.S. startups that let other small and medium-sized companies carve projects into chunks and then recruit individuals or teams of freelancers to do the work. By leveraging a faster, more ubiquitous and cheaper Internet, the startups can pluck the low-hanging fruit of IT and data-entry outsourcing that big BPO players such as Infosys and Wipro once considered their own.

Australian-U.S. startup 99designs, for example, has paid out \$40 million to some 180,000 graphic designers, with its largest user base outside the United States being in [Indonesia](#). Elance has 266,000 freelancers in India who have earned nearly \$150 million. Odesk has 2.4 million registered freelancers and more than 480,000 clients - companies including Cisco and HP.

"This is moving the entire BPO industry - that was dominated by these large middlemen organisations that take most of the profits - to the cloud," says Anand Kulkarni, an academic-turned-entrepreneur. "Now you no longer need to be able to afford Infosys rates to be able to get quality results out of an outsourcing system."

For sure, the BPO industry is not necessarily quaking in its boots. The industry was worth \$150 billion last year and is growing at 5-6 percent a year, according to Pradeep Mukherji, an Indian IT consultant and adviser to the World Bank.

Crowdsourcing companies admit it's still an uphill struggle to persuade firms to experiment with outsourcing work to freelancers rather than keeping it in-house or sticking with established BPO players.

For freelancers, many face a precarious career: not always getting paid for work completed, going without healthcare insurance, and job opportunities not always being available. Indeed, many freelancers who have signed up with oDesk have never received feedback from clients - suggesting they have either not tried to pitch for work or haven't won any yet.

"It's true to say that it's hard to get that first contract," says Panos Ipeirotis, an associate professor at New York University who studies oDesk data.

SECOND WAVE OF INNOVATION

Such imbalances are feeding a second wave of [innovation](#) in the industry. The first outsourcers focused on what oDesk.com CEO Gary Swart calls the eBay model — using recommendations, feedback and trust to create a market where companies find good freelancers and freelancers can build a reputation.

But as freelancers build closer relationships with clients, both sides prefer a more structured model where trusted freelancers hire their own team, prompting oDesk and others to tweak their [software](#) to accommodate them. Ortencio, for example, manages several other oDeskers on behalf of long-term clients.

In the past couple of years, other startups have tried to mend weak links in the chain. A potential employer posting a project on Elance or oDesk, for example, can be overwhelmed by applicants - making it difficult for them to find the best freelancers quickly, and harder for freelancers to stand out from the crowd.

Kulkarni hopes to solve this problem by having his startup MobileWorks train workers to guarantee quality, and by breaking down projects into micro-tasks to lift less-skilled workers onto their first rung. Tasks range from

transcribing hedge fund forms to generating sales leads.

Once they're proficient at micro-tasks, Kulkarni says, "they would be let loose on sites like oDesk or Freelancer.com" where they can earn higher fees.

Ortencio similarly multiplied her pay. She started out charging \$1.50 an hour - the same she was earning as a librarian — but is now billing \$8.50. Her experience is far from unique: The average contractor on oDesk, the company says, has seen monthly income grow 190 percent after three years.

Nearly all crowdsourcing companies make their money by charging a fee to contractors for each successful transaction. All declined to share detailed [earnings](#), but oDesk, which claims to be the biggest online workplace, said that its contractors earned about \$75 million in the first quarter of 2012, against \$40 million a year ago.

"MICRO-ENTREPRENEURS"

While crowdsourcing is global - Elance boasts clients in 180 countries and freelancers in 155 - much of the growth is coming from Asia. Indonesians, for example, flock to 99designs.com, where instead of up-front contracts they submit graphic designs in the hope of winning a prize.

Recently dozens gathered in the Javanese city of Yogyakarta to thank 99designs in a video. The first the company's Australian president and CEO, Patrick Llewellyn, heard about it was when it was posted online. "I was moved to tears," he said.

Such growth is prompting crowdsourcing companies to set up operations nearer to where the action is. Taskus, a boutique outsourcing company, and Freelancer.com, for example, have both based their Asian operations in the Philippines.

Some are going further afield. On a trip to Nepal, Canadian Mark Sears saw so many engineers and MBAs sitting idle that he saw a business opportunity and moved his family to Kathmandu. Now CloudFactory trains teams to complete micro-tasks on behalf of clients back home, like annotating videos of amateur hockey games. His latest recruit: Mohamud Juman, an English-speaking [Facebook](#) addict who collects trash outside their office.

Indeed, companies like CloudFactory and MobileWorks say they are out not only to turn a profit but also to battle poverty. World Bank adviser Mukherji says this so-called "impact sourcing" already employs 560,000 workers and could account for nearly a quarter of the total BPO workforce by the end of the decade.

Governments and organisations such as the World Bank are taking note of the potential for an industry that generates foreign exchange but requires very little capital outlay. Bangladesh was one of the first countries to declare online [earnings](#) tax-free, for example, and MobileWorks has recently signed an agreement with the government of Jamaica to deploy the service on a national scale.

All companies stress they're out to make money by mobilizing what Ajay Vinze, of the W.P. Carey School of Business at Arizona State University, calls a movement of "micro-entrepreneurs."

Sheila Ortencio puts it more simply: "We want to be an independent, modern Filipino family."

(Reporting By Jeremy Wagstaff; Editing by [Ken Wills](#))