
Why talent is family and marketplaces are not the solution

In times of talent scarcity, and growing pressure to find resources, turning to large talent marketplaces may be appealing...but is this the right solution for your hiring needs?

The gig economy is perhaps one of the most important global trends to have occurred in the past decade, but its definition, how it fits into the talent market and a true understanding of its shortcomings are still unfolding. This is problematic for employers, because as they turn more increasingly to the human cloud, it's not clear exactly how gig workers fit into their overall workforce strategies.

Ride sharing platforms, such as Uber and Lyft, are seen as the vanguard of the gig economy, but are drivers who earn close to minimum wage and heavily dependent on a platform relevant to your need for on-site interim managers earning hourly rates of \$150 or more? And can you actually rely on a platform such as Amazon Mechanical Turk, an on-demand clickworker marketplace that crowdsources talent, without ever having contact with these individuals? These are very different models that fall under the gig economy umbrella and would be difficult to uniformly apply to most company's talent needs.

Ironically, the main drivers of the gig economy are not economic in nature, meaning most workers who participate in gig workers are motivated by other factors

beyond compensation. Nowadays, work flexibility, job satisfaction, career growth opportunities and meaningful work are the key values that Millennials and Gen Z are pursuing through gig work. Of course these values are not exclusive to gig workers as HR departments all over the world are struggling to deliver these benefits across all talent arrangements in their workforce. In an era of talent scarcity, companies are forced to deliver a strong employee value proposition or risk losing out to competitors. As HR technology analyst Josh Bersin noted years ago, "The war for talent is over, and the talent won".

As a result, employers often have interests that directly conflict with gig workers. While companies are looking to enhance operational stability, predictability and efficiency, talent is prioritizing their need for interesting and challenging work, as well as achieving a good work-life balance. To survive in this challenging market, companies from all over the world need to thoroughly understand the gig-economy landscape and holistically rethink their talent engagement strategy to build a strong talent pipeline.

This holds true for not just the gig economy, but all

forms of labor. Companies need to embrace a holistic approach to talent. The future workforce will contain a wide variety of work arrangements: permanent employees, temps, independent contractors and freelancers. Employers will have to curate many different categories of workers, such as retirees (who may be a recurring resource for different projects), interns, alumni, etc.

Against this dynamic backdrop, Managed Service Providers (MSP) and Recruitment Process Outsourcers (RPO) will have to adjust their service offerings. Software providers of Vendor Management Systems (VMS) and Applicant Tracking Systems (ATS) will have to strategically rethink their product roadmap. In the near future, hiring managers will only think about a resource requirement (by skill, location, duration and rate), while the work arrangement will be sorted out following a process to check legal compliance. Contracting in the contingent space will be done by a third-party supplier (such as a broker, payroller, employer of record or agent of record).

Talent acquisition will play a stronger role in support of a holistic talent model. Historically, procurement departments led the function of acquiring flexible labor, but HR will take over the role within the next few years (if not already). Contingent talent will become an even more vital part of the total workforce. While cost will always influence decisions made about talent, financial KPIs will not be the only criteria in the future.



HOW THE GIG ECONOMY DEVELOPED

Over the past 30 years, labor markets have been incredibly successful as they have matured. In the 1990s, free platforms like Craigslist (1996) started to create directory services similar to the offline concepts of Yellow Pages. They boasted basic functionalities and allowed customers to search and filter in various labor categories. From 1999 onwards, platforms such as Elance and oDesk (now Upwork), twago marketplace, freelancer.com, 99Designs and Fiverr grew large talent marketplaces to facilitate workflow.

Around 2010 those platforms began blossoming into full-grown software solutions supporting all steps of the project lifecycle – from bidding, automated matching, project communication and time tracking – to payment and escrow services. Millions of predominantly remote freelancers in offshore countries increasingly leveraged these online platforms to find work for companies located on the other side of the globe. While freelancer platforms might be strictly defined as a B2B business model, the largest marketplaces are essentially B2C marketplaces. The “B” side comprises small businesses and freelancers offering their services, while the buyer side acts as consumers. They register online, pay with a credit card and are the final decision maker. Few marketplaces provide compliance checks, and vendor management is left up to the buyer.

Typical projects include creating a website for a law firm or designing a menu for a restaurant. Many jobs are small statement of work (SOW) projects with total costs averaging between \$200 and \$1,500.

These marketplaces are very fragmented. A lot of one-time customers, in combination with limited project size, make it questionable if high customer acquisition costs can actually be earned back. As a result, most public talent marketplaces moved into the enterprise space starting around 2013.

Additional verticals and models have also risen since 2005. The most prominent is ride-hailing platforms

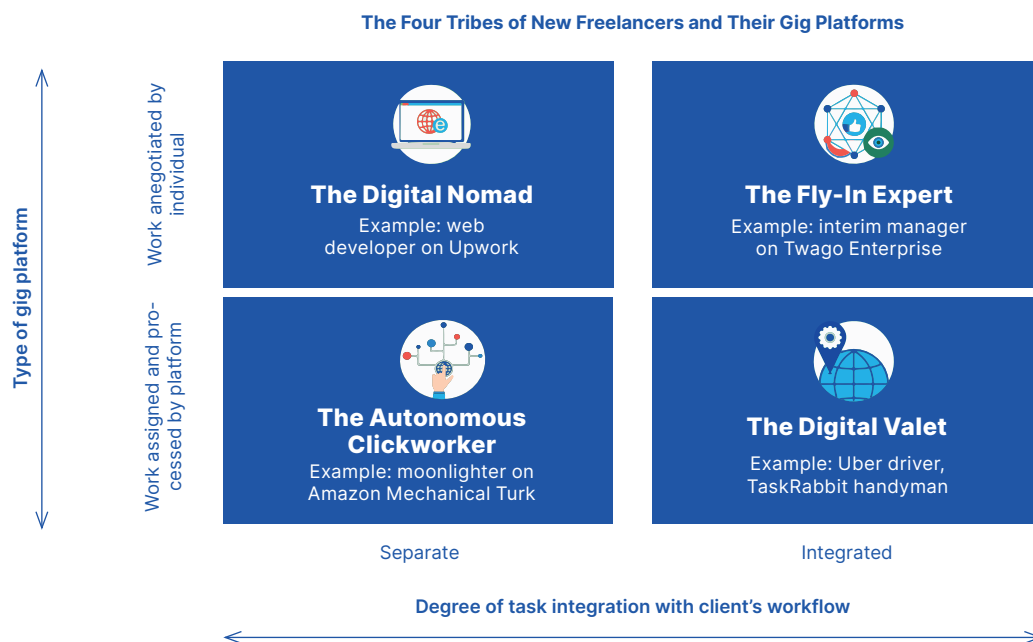
such as Uber and Lyft. Even more models were introduced in the past several years. While traditional labor marketplaces acted as contact broker, some platforms such as Uber have transformed the direct customer/worker relationship to insert itself more into the transaction. Other platforms such as Amazon Mechanical Turk completely obscure the buyer/worker relationship, so at no point do the parties have direct contact.

A shortcoming is that many platforms have not evolved their model to specifically meet the needs of corporate buyers and have instead turned to marketing to sell their concept. For large employers, the value proposition sounded too compelling: access to millions of freelancers in times of talent scarcity and the ability to acquire specialty skills for a fraction of the cost char-

ged by traditional supplier. At the same time, the gig economy is so fragmented that one platform is unlikely to meet all of the needs of an employer.

With the first success of companies like Upwork winning corporate clients, competitors saw the business opportunities and created business models that from day one were targeted to large enterprise buyers. Platforms like WorkMarket or later Toptal arise. But not only new players arise, also completely new models (like HackerRank) tried to enter the B2B world addressing exactly the pain point of hard-to-find resources. These models didn't look like marketplaces at first view, but are actually just leveraging a smarter way in creating communities around the talent.

BCG¹ has summarized the gig economy's development into 4 quadrants:

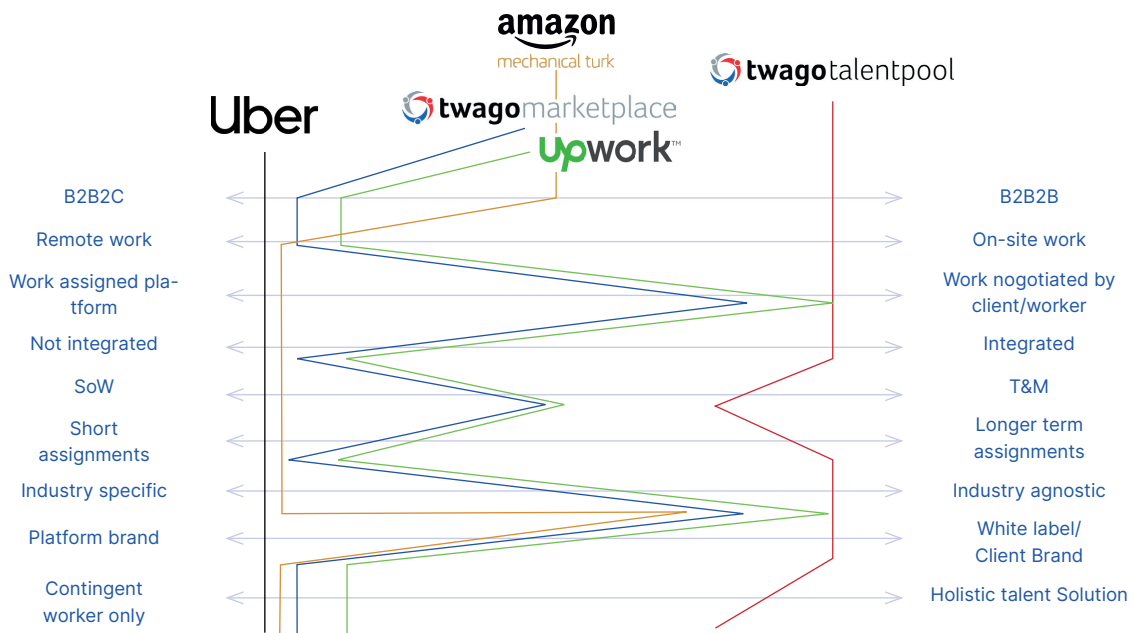


The analyst firm has identified two distinguishing characteristics among the different models:

- Whether the work is assigned, or negotiated individually and
- Whether the solution is integrated into the client's workflow

While this visualization gives a good first impression about the complexity of the market, but the authors believe that also here a lot of information gets blurred. Therefore and without any claim to comprehensiveness the authors have added few dimensions knowing that the illustration gets harder to read.

¹ *The new Freelancers – Tapping talent in the Gig Economy (BCG Henderson Institute)*



MEETING THE NEEDS OF CORPORATE EMPLOYERS

Leveraging the offerings of the gig economy may be difficult for corporate employers because of the market's fragmented nature and because companies face many challenges. Experienced professionals are scarce, as are talent with in-demand skills in emerging sectors. Retirements are on the rise due to graying demographics, and the half-life of knowledge is decreasing dramatically. Younger generations have totally different expectations when it comes to their work-life balance. Digitalization, globalization and improved mobility are changing the way we work together. In this changing world of work, large organizations need to rethink their talent strategy fundamentally and holistically. Companies need a paradigm shift. Today, most still prefer working with on-site talent and HR. In some markets, talent acquisition teams mostly deliver permanent hires while procurement departments are responsible for contingent. And while TA teams rely on ATS technology, procurement uses VMS platforms and is incentivized on cost savings and delivery speed.

This all shows how badly companies are prepared for

the upcoming challenges. Companies operate with redundant processes offering different value propositions to talent. What organizations need is a new way of thinking.

Tear down the silos

HR (TA) needs to start workforce planning holistically and include all forms of talent into their resourcing. In today's competitive landscape, access to talent should be a top boardroom priority if companies want to remain competitive. Hiring managers should no longer decide whether they need a contingent worker or a perm employee. Decisions should be made based on skills required, duration of need, costs and location. Legal and compliance experts should then step in to decide on the suitability of the contract type.

Managed service providers (MSP) will have to develop capabilities of recruitment process outsourcing (RPO) companies or vice versa. Vendor management systems (VMS) will integrate vertically and add application tracking system (ATS) functionality and or vice versa.

For example, let's look at the intern and alumni recruitment processes within a large organization. While HR may regularly engage with this population for permanent employment opportunities, they are rarely contacted about contingent roles. This is far from efficient considering the ongoing skills gap and the fact that 47% of the millennials² worldwide are engaged in some form of freelance work.

Companies need to start leveraging the full potential of the network they have.

² Forbes: Are We Ready For A Workforce That is 50% Freelance?

Consider talent family

Having a sustainable talent supply strategy is a core competitive advantage, and employers need to approach their talent strategies in the same way as they treat their product strategies. Especially for contingent workers, the relationship to the talent is currently often being outsourced to suppliers or even to marketplaces. The idea behind this is: "If I add a supplier with a large pool, I have access to more people." This line of thinking is fundamentally wrong.

Over the past 10 years, global transparency on personal data and profiles has increased dramatically. While in a pre-social-media world it was difficult to find the lost brother of your grandmother on the other side of the globe, in today's world this seems like an easy task for any 14-year old.

The same holds true for the talent landscape. Soon we will have total transparency through work platforms, such as LinkedIn, Upwork or twago. Having access to a big database is not a sustainable competitive advantage; everyone will have the same access. Instead, companies need to build, own and nurture a relationship with the talent so they are seen as the employer of choice. Companies need to create an emotional connection with the people they hope to recruit.

Today, companies invest significantly on their employer brand to attract permanent employees. In comparison, contingent workers rarely enjoy this level of attention – most notably after their assignment has finished. Once an assignment is complete, companies typically don't engage with that talent until they are needed again. More likely, talent has a stronger relationship with a supplier or other intermediary. And the intermediary will typically place their best talent at the client paying the highest rate.

Therefore, it is of utmost importance, that company own, build and nurture the relationship with its talent (perm and contingent) and do not (only) rely on intermediaries.

Reconsidering the need for on-site

While talent scarcity is a problem for most organizations, this is really a localized issue. If you adopt a global view, the skills you need are available somewhere

else in the world. Companies need to reconsider which profiles they really need on-site and which functions can be performed off-site. Working with remote talent (and training the line organization on how to do this) is very often a most cost-effective and faster alternative.

Furthermore, socio-demographic developments will force companies to accept remote work and other forms of job flexibility if they want to retain young professionals. More than 47% of the millennials worldwide³ and more than 30% of all U.S. workers work from home or on some type of contingent basis.⁴ "Work flexibility is becoming the norm. The challenge is how fast can organizations provide it. Those that can are going to be in a far better position to retain top talent over the next three to five years."⁵ says Jason Phillips, CISCO's VP Digital HR & Global Chief.

WHY MARKETPLACES ARE NOT THE SOLUTION

Of course, as every careful reader will have noticed, public marketplaces do not satisfy any of the needs mentioned above. Marketplaces may be a component in a more complex solution design but pool size alone is a dangerous and very misleading KPI.

Marketplaces reinforce silos

All existing talent marketplaces are niche solutions and reinforce workforce silos. They focus on freelancers or recruitment and duplicate a lot of the existing enterprise infrastructure (consolidated invoicing, VMS, etc.). What's needed are holistic talent solutions that can strategically grow into integrated perm/flex solutions helping to attract and engage all types of talents (freelancers, silver medalists, retirees, interns and alumni). Likewise, marketplaces are rarely integrated into corporate workflows and would further divide the different types of talent in an organization.

³ *Forbes: Are We Ready For A Workforce That is 50% Freelance?*

⁴ *Talent, Technology and HR Predictions for 2019 (Josh Bersin)*

⁵ *LinkedIn Trends Report 2019*

External talent marketplaces do not enable a holistic view on talent.

Access to talent is not the key to success

Social platforms already give recruiters access to a large part of the global workforce. And in the near future, employers will gain total transparency into the available talent pool. Everybody will have access to the same database, so the challenge will shift from sourcing to engagement and marketing. Today, professionals with in-demand skills are already overwhelmed with job opportunities through professional networks, social media or online marketplaces, so the key is to deliver roles they most value.

Marketplaces do not support companies in building long term relationships with talent.

Marketplaces increase dependency

Because marketplaces are comprised of profit-oriented companies that will deploy their best talent to accounts with the highest margins, it's essential employers establish their own channels to compete for talent. Large marketplaces such as Uber or Amazon aim to own their space, so relying on the winner may lead to a monopoly.

Marketplaces increase dependency on a single supplier.

Half-life of knowledge and lifelong learning

On top of all this, the value of knowledge is decreasing faster than ever before. According to current research, skills are losing 50% of their value in 2.5 to 5 years⁶. While in the past people attended school, learned a skill and then worked for the rest of their lives, today life-long learning is the new norm.

Companies already invest significant amounts to help their employees upskill because it's more efficient to retain than to hire new employees. For contingent workers, however, this process is not well organized. Freelancers, independent contractors and other flexible workers are treated as entrepreneurs responsible for their own careers, yet the same paradigm is applicable. New freelancers or independent contractors bring higher risk of project failure and higher onboarding costs than working with known talent, so

employers would serve themselves well by upskilling a known talent population.

Marketplaces with its millions of users are acting very transactional and are not a good fit for helping talent with their personal career plan.

Understanding the problem before implementing a solution

Because the talent landscape is so fragmented, choosing the solution right for you can be difficult. Platforms like Upwork fulfill a totally different need than Amazon Mechanical Turk (compare illustration 2). Broad corporate adoption of these solutions have occurred even though many of these employers are actually looking for on-site talent. It is essential to understand exact resourcing needs before integrating marketplaces into a workforce strategy.

THRIVING IN A BRAVE NEW WORLD

In the near future companies will continue to consider talent more holistically. HR and TA, in particular, will own the total talent architecture and work more closely with procurement. Successful companies will decrease the dependency on certain channels and partners, and try to build a talent supply architecture that is holistic and leverages the strengths of the different approaches. Private talent pool solutions will build and nurture resources that are specific to a company's needs, with talent increasingly treated as family.

These talent pool solutions will be seamlessly integrated into the current VMS and ATS landscape. At the same time, traditional procurement structures will remain because they bring value for the supply chain. While private talent communities are great for addressing recurring needs, there's no need to build and nurture talent pools for niche skills that are rarely requisitioned. For these roles, leveraging the existing supplier base or public talent marketplaces is most efficient.

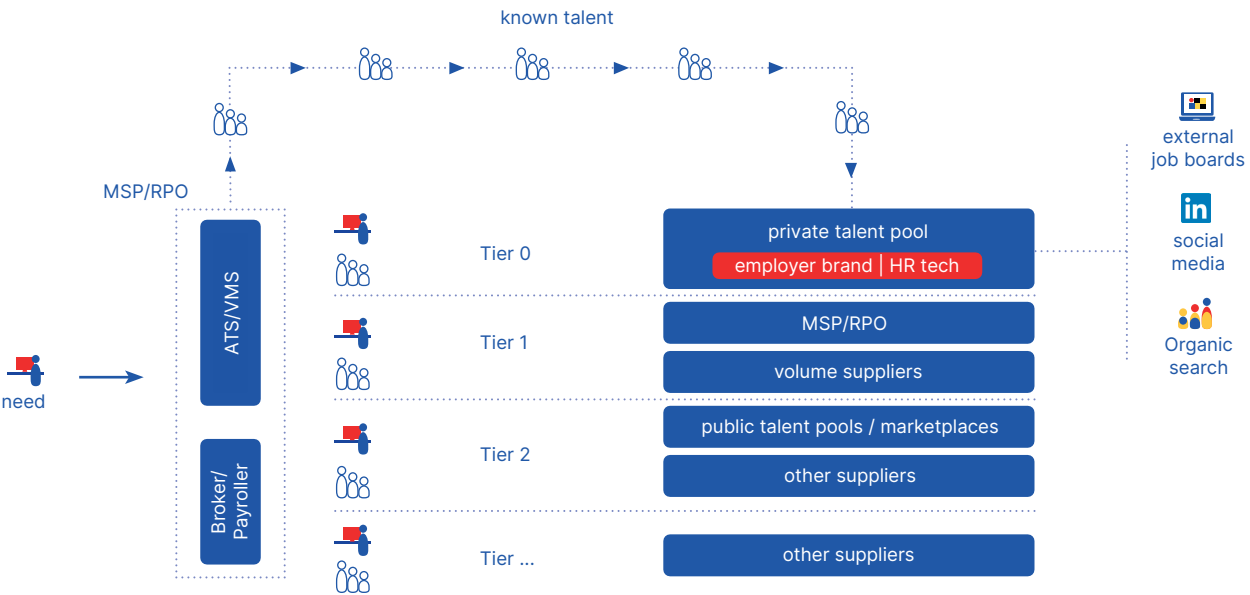
⁶ *Half Life: The Decay of Knowledge and What to Do About It (Shane Parrish)*

Fully integrated talent pool solutions that leverage the client brand provide not only technology to build a relationship between employer brand and talent, they also offer a platform for coping with fast-moving HR technology developments. Talent pool solutions will continuously incorporate the latest innovation to ensure employers have access to the new tool sets.

At the same time, companies likely offer more remote work to cope with growing talent scarcity and to achieve cost savings. Because of this, expect procurement departments to leverage marketplace solutions to better reign in rogue spend and gain better transparency. Solution providers, in return, will help develop a path for their platforms to be integrated

with corporate infrastructure (vendor management- and talent pool solutions) and allow companies to operate without silos.

As corporate employers face a variety of challenges in a rapidly evolving world of work, the path forward is clear: embrace a holistic talent strategy that includes all work arrangements, including independent and gig workers, or risk losing out on access to important resources. The challenge is to choose a sustainable solution that will deliver the skills and engaged workers needed to life organizational performance. While this may require significant internal changes in mindset and practices, the payoff will be well worth it in the end.



Thomas Jajeh
 Founder & CEO
 twago talent pool
 twago marketplace



Arco Elsman
 Managing Director
 twago talent pool
 twago marketplace