Upwork Case Study Analysis

Upwork is a platform where the client's job openings are matched with the best freelancers. The process starts with clients posting their job openings. They could either send out an invitation for freelancers to submit job proposals or the freelancers could directly submit their proposals. Freelancers can bid for the project, if agreed by the client, then a contract was submitted by the client to the freelancer. Then the freelancer could either accept or reject the offer.

Business Model:

Revenue streams:
- Upwork's revenue stream is mainly generated from the money freelancers paid Upwork as a service fee of 10% of the billing. Most of the freelancer-client matches were under $500, hence this caused a low margin to Upwork.
- Premium paid services:
  - Upwork Pro – Upwork targeted mid-market clients for this paid service. The main reason is that these kinds of businesses do not have an established name and couldn't find the right freelancer to fill up the position. By paying a fee of $149, clients could get help with finding the best freelancers to match their job openings. Additionally, Upwork also generated revenue by charging the clients who availed Upwork Pro, 10% of their billings for the first year.
  - Enterprise Space – Upwork not only acted as a platform that provided suitable client-freelancer matches but also made use of their existing contracting and payment platform by letting the large companies use their platform for a subscription fee and a service fee.
- Managed services: Acted as an agency model service where it hired workers for the clients and managed the entire project.

Cost Structures:
- Upwork has a high cost of Revenue [Upwork financials]. This includes the AWS hosting fees, the payment processing fees, payment made to the freelancers for managed services, customer service cost, etc. This continues to grow. In addition, Upwork spent on online ads and search engines to acquire more clients.
- Operating expenses: Highest operating expense is from sales and marketing followed by research and development. It also includes general and administrative expenses and transaction losses. These continue to grow as well.

The freelancer labor industry's key stakeholders are the business/clients and freelancers. Upwork provides several values to both clients and freelancers.

To Freelancers:
- Had the flexibility to work from the location of their choice and could set their prices for the work.
- Build a reputation among the clients through Upwork's 3 programs. New freelancers had the badge of 'Rising Talent' on their profile which showcased their skills. Experienced freelancers had 'Top Rated' and were provided with seminars and resources to stand out. Job success score of 0 to 100 was given based on the feedback from the previous clients which helped them reach out to potential clients.
- Upwork made sure that the clients paid the freelancers for their work in a timely fashion. For fixed-price projects deposits were made by the clients before the start of the project and for hourly projects, the client's payment methods were verified. Upwork also provided dispute resolution services through which they could settle the payment disputes with the clients.

To Clients:
- To clients, Upwork was a great platform to obtain quality freelancers. Most of the freelancers had a college degree. Clients had access to the freelancer's profiles providing information about their past earnings, the number of hours worked, client ratings, types of jobs worked on, etc. All these helped the clients in choosing the best freelancer for their work which simplified the process.
- Through Upwork, the hiring time took only 3 days compared to the 23 days through traditional services. Also, clients didn't have to pay any fees to Upwork for the freelancers matching. This cut down the costs for the clients significantly.
- Clients had access to a streamlined contracting and payment system (invoicing), helping them keep the process simple. This was Upwork's major incentive to clients which helped in client retention and avoided circumvention. Clients also had an option to monitor the hourly work of the freelancers for the correct billing.

Network effects:

As Upwork is an online-based marketplace, network effects play an important role in revenue generation. In the early stages, Upwork faced the classic chicken or egg problem. Although Upwork overcame this problem and was successful in client-freelancer retention as well as new client-freelancer acquisition, the real challenge was in potential client-freelancer matches with greater deal size. This is crucial for Upwork's revenue generation. As more clients post their openings on Upwork's network, the matching rate is also enhanced. The platform scalability is increased. Upwork brings in more clients by providing them with values and their platform is built to sustain the growing demand. In 2015 Upwork had 12 million freelancers, 5 million clients, and over 100,000 job postings on their platform. Freelancers are attracted by these massive number of postings, encouraging new users to try the platform.

Freelancers often believe that it is hard to build a reputation and hence are loyal to the platform they are already in. This boosts the network effects on Upwork and makes it hard for the new entrants to establish. Growing too fast too early adding no value to the Upwork platform could be a disadvantage. I believe that providing value to the business and freelancers is important for their retention and Upwork should focus more on this than just increasing the user base.

On one hand, I do not believe that the market for freelancer labor will tip because more than half of the businesses are yet to try the online marketplace such as Upwork. Millennials prefer flexible and geo-independent work. So, there is great room for growth. The businesses who can afford full-time employees are also looking to hire freelancers because of the decreased overall cost and faster hiring. The survey shows that 60% of the workers who left their full-time job and started freelancing are earning more compared to their previous job. This shows the potential the freelancing industry holds. The need for skilled workers is growing every day and freelancers keep themselves updated with these skills.

On the other hand, the current ratio of client to freelancer is 1:3. Since 2010, the number of freelancers has been growing drastically. This, at some point might tip because there can only be so many job openings available for skilled freelancers. Although Upwork tried to curate the platform by restricting to qualify for the sign-up, there still exists more skilled freelancers against the number of available jobs.

Struggling to make money:

- Since Upwork's majority of the revenue comes from Freelancer's 10% fee, and most of the matching is under $500, Upwork cannot generate much revenue from this.
- Even if there were 100s of jobs posted, many jobs would go unfilled, and many freelancers were not finding work. This was one of the reasons for Upwork's low revenue. Hence, Upwork should focus on improving the matches of greater deal size.
- Circumvention also led to decreased revenue. Although Upwork tried to provide incentives and values to retain the clients and freelancers, circumvention continued.

Upwork Financials:

- It is clear from the financials that Upwork's Operating expenses are more compared to the total revenue that they are generating. Hence, they are incurring net losses.
- The revenue generated through managed services is much less when compared to the marketplace.
- Till 2014, Upwork was operating separately as Elance.com and oDesk. Hence, Upwork doesn't have a solid history of financials that it can rely on to make future business decisions.
- Upwork indeed is investing a lot in research and development which is a good thing because of the the ever-changing technology market and Upwork being an online marketplace should cope with this.
- Upwork has fluctuating operating expenses for each half-year, which makes it even more difficult to forecast the financials.
- General and administrative expenses are a big pain to Upwork. AWS is 10% of total sales, customer support and customer acquisition costs are over 20% of total sales and maintaining a full-time legal team because of the varying legal policies around the world also cost Upwork a significant amount.
- An alarming thing to note is that the percentage increase of interest expense from the 2017 first half to the 2018 first half is 152%. If it grows at the current rate, then it would be tough for Upwork to make any profit.

Pricing:

- The current pricing model is a 10% fee from freelancers irrespective of the size of the transaction. Most of the matches are under $500, from which Upwork is not making much profit. So, the pricing should be based on the size of the transaction. The % fee should be increased for bigger transactions when compared to smaller transactions because even a slight increase in the % fee for bigger transactions would make a big difference in terms of revenue.

- Smaller jobs were getting filled quickly when compared to larger jobs. This meant that freelancers worked on more hourly jobs when compared to fixed jobs. So, eliminating the smaller-sized transactions wouldn't be the best idea and doing so would only mean decreased revenue. So, a different freelancer % fee could be adopted for these segments. Increasing the freelancer fee for hourly jobs would increase Upwork's revenue (n*p).

- As Upwork's revenue is majorly based on the 10% fee from freelancers, giving them the complete power to bid their prices is risky to Upwork. If most of the freelancer's bid is of less price, then this would affect Upwork's revenue. So, a 'minimum price' rule should be set by freelancers and Upwork together based on the type of work.

- There is no fee charged to the clients for posting their jobs, payment processing, collaboration etc. They only have to pay the freelancers for the work they do. This one-sided pricing model should remain the same. This is because if both the parties are charged then there is a high chance of circumvention happening. Also, by this model even if the fee for one side is increased, Upwork can still go on with it because circumvention can only happen when both parties decide to take it offline. Clients stick to Upwork and avoid having a relationship outside of the Upwork because of the incentives (free collaboration and payments) provided and they wouldn't gain anything by taking the collaboration offline.

- Freelancers could get an additional 30 bids by subscribing to a premium plan for some amount of fee. This could remain the same, as an additional revenue generator.

- A $149 monthly subscription fee and 10% fee on billing for the first year to help the clients in finding the best freelancers to fill their open positions. This could remain the same.

- Decreasing the fee for each repeat matching wouldn't be a good idea if the goal is to reduce circumvention because if a freelancer decides to take the relationship offline, a reduction in the fee or the same fee wouldn't make a difference. A freelancer could still negotiate terms with the client saying they could pay them less if the business is taken offline. It would be a win-win situation for both the client and the freelancer. So, the fee shouldn't be reduced on subsequent matches. Instead, the freelancers should be charged rightly so that even if they decide to take the relationship offline, the reduction in the amount that the client has to pay wouldn't compensate for the incentives the clients are missing out.

- Pricing based on the demography doesn't sound like a great idea as well because it is not possible to track the freelancer's location and even if it is based on the location provided, a freelancer would choose the one where they are charged a lesser fee. This wouldn't work for the clients as well because a single client can have multiple locations across the world and a different pricing structure would only lead to a mess.

- A minimum of $2500 opt-out fee to clients to take the match offline. This can remain the same giving another possible reason for the client to stay on Upwork.

Suggestions:

- The matching process should be improved because most of the initial matches are one-time. They do not repeat. Also, only 44% of the jobs were filled in 1 month of posting and 67% after 3 months of posting. Some small businesses were impatient and would take down the positions if they are not filled. So, a better matching process would fill up the positions soon.

- There should be a good balance between skilled freelancers (supply) and available projects (demand)

- Freelancers should be provided with a limited number of bids so that they use them effectively to apply only to the ones that match their skill set and avoid spam.

- Enterprise services to large companies is an area where Upwork is not making much progress. There is a scope for potential growth in this area. Upwork should effectively leverage its existing platform to generate additional revenue.

- Some clients had positions that were impossible for Upwork to fill such as 'need a skilled worked in Cincinnati immediately'. This is because Upwork does not have a segment of workers who could fulfill these positions. A suggestion would be to have a different segment of available on-site workers listed separately on Upwork.