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RESEARCH

Every Crowd Has a Silver Lining

Crowdsourcing is Gaining Traction Despite Inherent Challenges

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Introduction

Crowdsourcing has been around in some form or the other for sometime now. Its first big wave arrived with a rise in internet start-ups looking to access a large pool of low-cost labor over the web. In what we potentially see as a second inflexion point, large corporations in recession-hit economies are willing to experiment with crowdsourcing in three ways: a) as a model to support new areas such as content localization, translation, and advertising b) as an alternative to traditional BPO models with high fixed costs for insourced and outsourced processes and c) as an option to access globally distributed talent quicker and priced lower than other sourcing models.

On one hand, several large corporations, such as Google and AOL, are now using crowdsourcing for low-end tasks such as keyword optimization, adsense, and content categorization. On the other hand, few companies, such as Procter & Gamble, are leveraging crowdsourcing for more than 50 percent of their product-led projects such as packaging, design, marketing, research, engineering, and technology.

Whether crowdsourcing can gain a foothold as a proven sourcing model in a wider enterprise community depends on how it incrementally ups its benefits and overcomes its challenges. This viewpoint outlines some of these benefits and challenges that will determine the future of crowdsourcing.
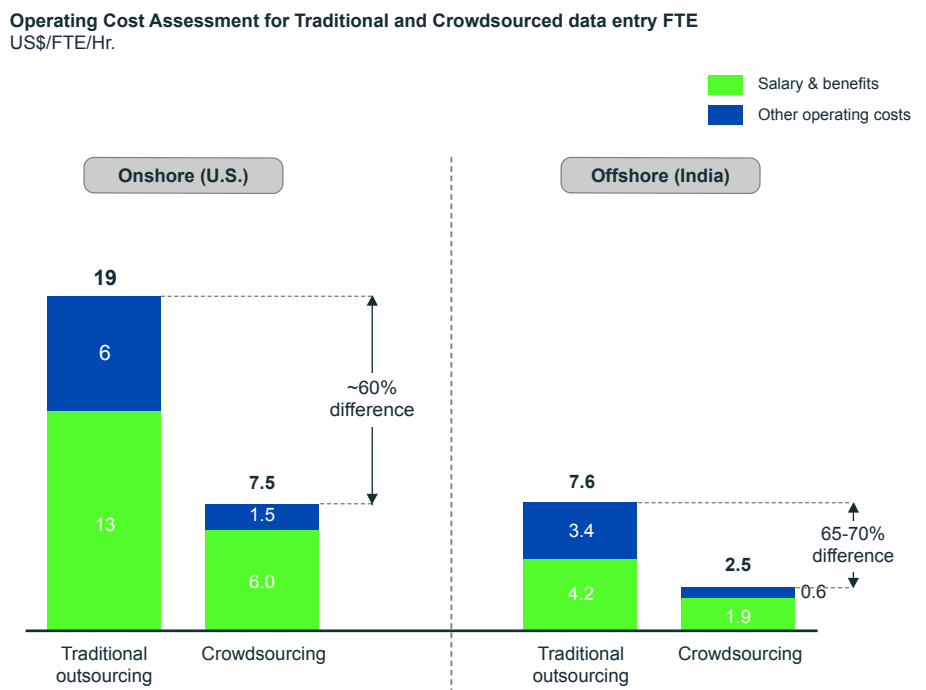
Why Crowdsourcing?

Favorable economics of crowdsourcing

Irrespective of whether the crowd is used as a spot solution for low-end tasks, or whether it is viewed as an emerging alternative to traditional sourcing, the main business case for crowdsourcing is its relatively low cost. As shown in **Exhibit 1**, the costs associated with a crowdsourced data-entry FTE are 60 to 70 percent lower in comparison to a similar outsourced FTE in both, the onshore and offshore geographies.

EXHIBIT 1

Relative cost advantage of a crowdsourced FTE

Source: Everest Group Pricing Assurance

Operating Cost Assessment for Traditional and Crowdsourced data entry FTE
US$/FTE/Hr.

Note: The operating cost analysis does not include service provider margins

It is important to note that crowdsourcing, also presents a distinction between onshore and offshore FTEs similar to the traditional model, whether it is in the perceived quality of work or the price per FTE. However, we see that this distinction is common in low-end transactional tasks, and not as much, in creative solutioning projects, wherein clients offer 'rewards' irrespective of where the best option comes from.

Crowd labor is phenomenally cheaper on account of low wages, no benefits, and no facilities or support costs. Due to the anonymous relationship with the crowd, the employer also does not need to bear any recruitment, training, supervision, or turnover costs. Also, the crowd allows a buyer to avoid spending on infrastructure or network partnerships in each geography.

Besides the direct FTE related cost competitiveness discussed above, the element that further improves the economics of crowdsourcing is, on-demand labor. In any outsourcing relationship, onshoring or offshoring, there is always an inherent 'non-utilization' component (on account of bench strength, training, business development etc.) that is recovered by the service provider in its FTE billing rates. The 'crowd' on the contrary, offers 100 percent utilization due to its on-demand nature. As a result, an additional saving of 10 to 15 percent on FTE-run costs can potentially be realized as illustrated in **Exhibit 2**.

EXHIBIT 2

Economics of crowdsourcing savings

Source: Everest Group Pricing Assurance

Net Operating Cost Assessment for Traditional and Crowdsourced FTE
US$/FTE/Hr.

Note: Does not include service provider margins
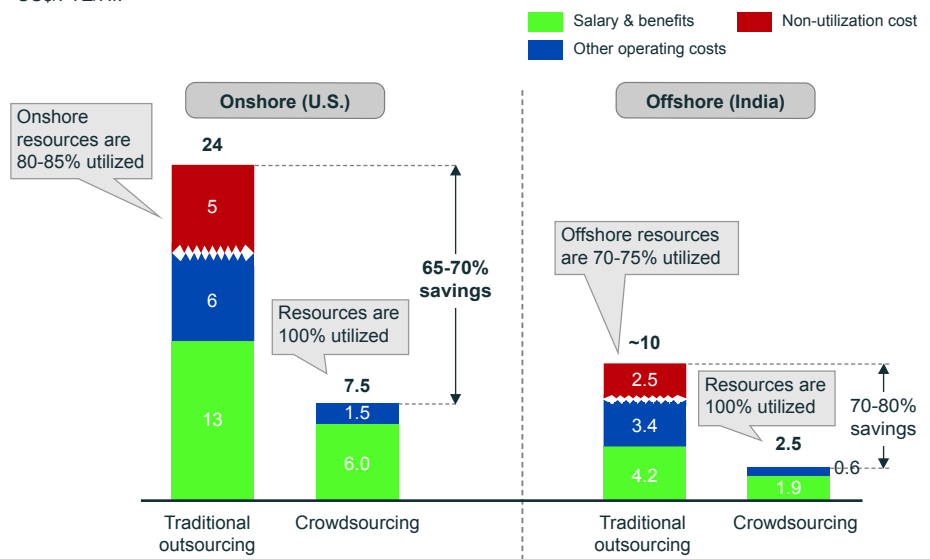
The crowd economics can vary significantly because of variables such as type of work, (trade versus project) or nature of employability (full-time versus part-time crowd worker).

Given the amorphous nature of the crowd, a mature crowdsourcing relationship benefits from a third-party intermediary which provides governance, quality assurance, and contractor management infrastructure in order to supervise productivity and service levels. Such intermediaries typically charge 15 to 30 percent of the labor cost, thereby adding to the total cost of crowd ownership.

In corresponding BPO outsourcing relationships, service providers typically charge a markup of 5 to 15 percent for IT infrastructure, governance, and margin, over and above the labor cost. Nonetheless, the difference in price stack-up between the two models continues to remain substantial.

The richness of diversity

Companies using crowd also get to leverage the skill diversity available over the ether. The crowd offers an amazing variety of skills and experiences, which the traditional sourcing models cannot replicate. Companies can enter and exit crowdsourcing agreements without significant contractual hurdles. They can also dip into the perennial labor pool without incurring the latencies involved in the formal shortlisting and selection processes of traditional service providers.

Additionally, the flexibility this model provides to the crowd workers in terms of work timings, quantum of work, incremental income, location of work etc., draws a multitude of competencies & skill profiles companies can source from.

For example, crowd is already being used to reach specialized skill sets such as certified doctors, accountants, and auditors at a fraction of time and cost compared to other sourcing models.

What Are the Inherent Risks?

Crowd may not work in all situations, for example, a large multi-process IT or BPO deal. Instead, paid crowds (not reward crowds) are preferred for templatized and transactional tasks. Even in these viable areas of work there are some perceived risks. Due to the amorphous nature of the crowd, large enterprises feel that there is lower accountability, and consequently, an impact on quality and timeliness of work.

Also, some corporations believe that due to the unrestrictive nature of the web there can be instances, wherein the crowd (or a part if it) plagiarises work, which can then become a liability for the employer. Additionally, large corporations are sceptical about the intellectual property risks that may arise from sharing work with an anonymous pool of workers.

Besides the above challenges perceived by the buy-side community, there are apprehensions raised by the worker pool most commonly around information asymmetry. Most online-worker marketplaces provide limited information regarding the task at hand. Most tasks become clear after signing up. At which point, if one quits then it affects one's 'completion rate' and therefore, follow-through employability. On the other hand, employers can see the workers' complete employment history. In project-based works, employers can reject unsatisfactory work (and commensurate payment) while retaining the right to use it. All these aspects, coupled with the extremely low pay and no benefits, make this sourcing model especially unacceptable to somewhat skilled and experienced workers.

How Can These Risks Be Addressed?

Some of the afore mentioned apprehensions are typical for any nascent business model (think outsourcing back in the '90s). However, most perceived risks associated with crowdsourcing can be mitigated by a comprehensive approach adopted both, by the buyer and the crowd provider.

Buyers generally procure contingent labor via managed service providers. Typically, the rates associated with such ad-hoc labor are higher than average. Instead, buyers can liaise with enterprsie crowdsourcing providers to procure

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such temporary labor at much more competitive rates. But to do so, buyers will need to think about contingent labor not only in terms of jobs, but also in terms of tasks. As buyers develop the knack to effectively break down work into 'tasks' they'll make their procurement requirements amenable to crowdsourcing.

In order for buyers to feel secure in a crowdsourcing relationship, crowd vendors will need to engage as enterprise crowdsourcing service providers managing 'private crowds' for the buyers. Such providers will need to recruit closely mapped skills based on a clear understanding of buyer requirements, perform due-diligence checks on crowd workers, ensure that non-disclosure agreements are managed, establish stringent quality measures around delivery, arbitrate wage structures and payment terms, and facilitate global crowd payments. As an end-state these enterprise crowd providers will be the brands that attract buyer demand on one side, good skill pedigree on the other, and manage both sides exclusively.

The Way Forward

Given the immense cost and skill outreach benefits of crowd, this sourcing model has the potency to gain significant traction. Currently, crowd is typically leveraged by small and medium enterprises for specific areas such as content review, categorization, translation, online advertising, and transcription which traditional models don't cover. Some companies leverage the crowd as a 'social vehicle' to collect product feedback.

However, if the crowd intends to win these works from large buyers or even wishes to move beyond these specific work categories, then it must create a compelling proposition beyond cost advantage. The future of the crowd will be largely determined by the evolution of the crowd vendors and their role in managing the crowd.

Crowd vendors will need to take greater ownership in understanding the client's scope, staffing the crowd accordingly, creating wage levels which are win-win for clients and workers, and leveraging tools and platforms to ensure ease of delivery and service-level compliance. They will also need to give structure to the amorphous crowd, in order to accelerate the penetration and utilization of crowdsourcing. All these responsibilities are hard to undertake unless somebody already has the intent and expertise.

About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

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