

# Work Marketplaces and Dynamism

By Upwork Chief Economist, Dr. Adam Ozimek

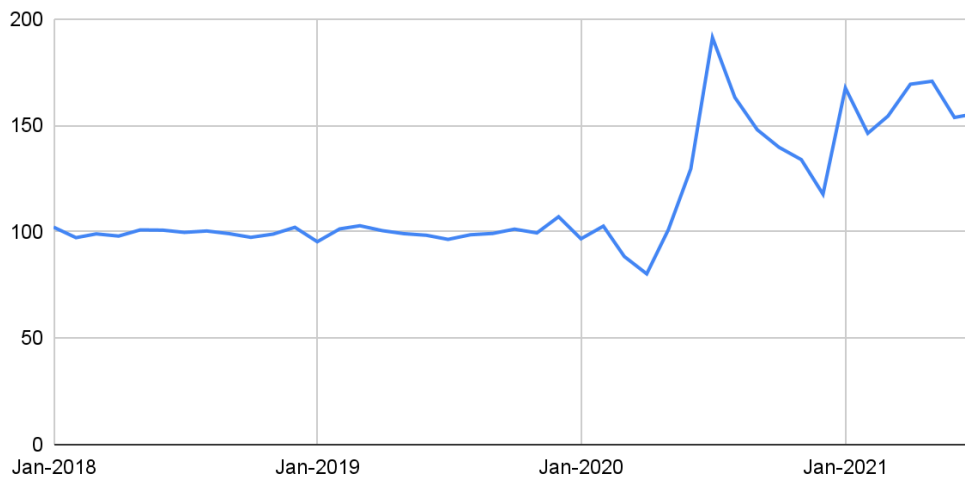
Business dynamism in the United States has been falling for decades, and was exacerbated by the fact that the startup rate fell during the Great Recession and never fully recovered. Yet in the aftermath of the pandemic, new business formation has surged. The data shows that much of this is in small businesses and self-employment. So, what is driving this? In this analysis, we will argue that online platforms, like Upwork, are unlocking a wave of entrepreneurship and are a force for more dynamism in an economy that greatly needs it.

## Remote Work Marketplaces and Business Formation

In the early months of the pandemic, new business registrations plummeted as the economy shut down from social distancing and other responses to the virus. In March it fell 14%, in April it fell again, reaching a total decline of 22%. This decline in business formations is what was expected from conventional wisdom and past recessions. However, by May it had fully rebounded, and by June it skyrocketed to the highest levels in the history of the data, which goes back to 2004.

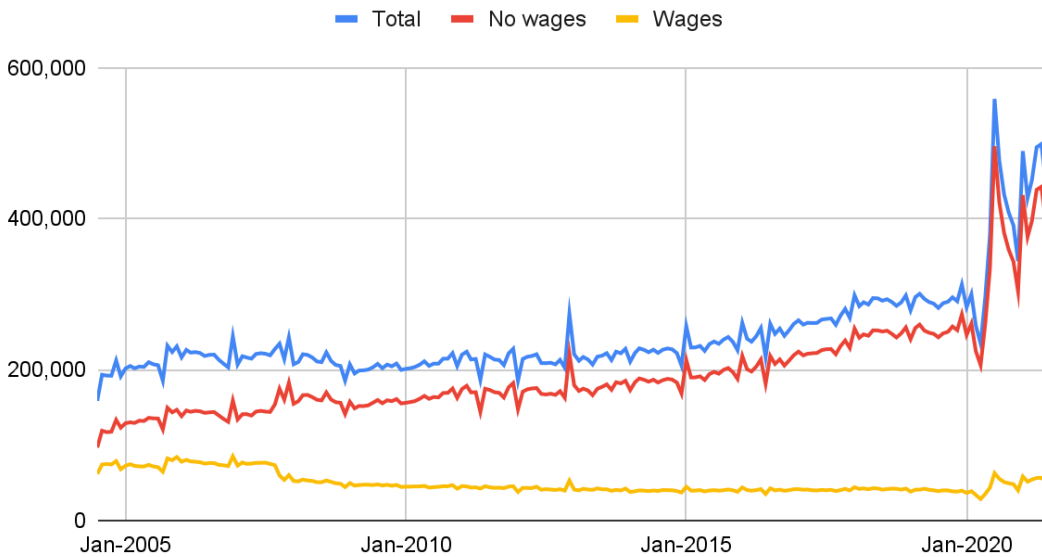
### New business registrations

Index: 2019 = 100



The increase in registrations is significant. By July it reached a peak of 90% above pre-pandemic levels and has remained consistently elevated.

## New business registrations



What is driving the boom? Although likely a variety of factors, the strong growth among non-employer business registrations provides a significant clue. Non-employer businesses represent the self-employed, freelancers, and sole proprietors. These are exactly the types of businesses who are empowered by online platforms like Upwork.

Indeed, the evidence suggests that these platforms are an important driver. First, detailed industry breakdowns from October 2020 from the Census show that the strongest growth in business formations was among non-store retailers, which would include e-commerce platforms like Shopify and Ebay. More opportunity for small businesses on these platforms is not surprising given that E-commerce sales have increased significantly over the pandemic. As a share of all retail sales, E-commerce was 13.3% in the second quarter of 2021, compared to 11.3% in the fourth quarter of 2019.

The growth in small businesses is more than just online retailers. The third biggest growth sector for non-employer business registrations is professional, scientific, and technical services, and the fourth most popular was administrative and support services. These are the industries where most Upwork freelancers would be included. Strong growth in business registrations here is consistent with Upwork data as well, which spiked early in the pandemic and although volatile, remains consistently above pre-pandemic levels.

## Upwork U.S. Freelancer Registrations

Index: 2020 average = 100

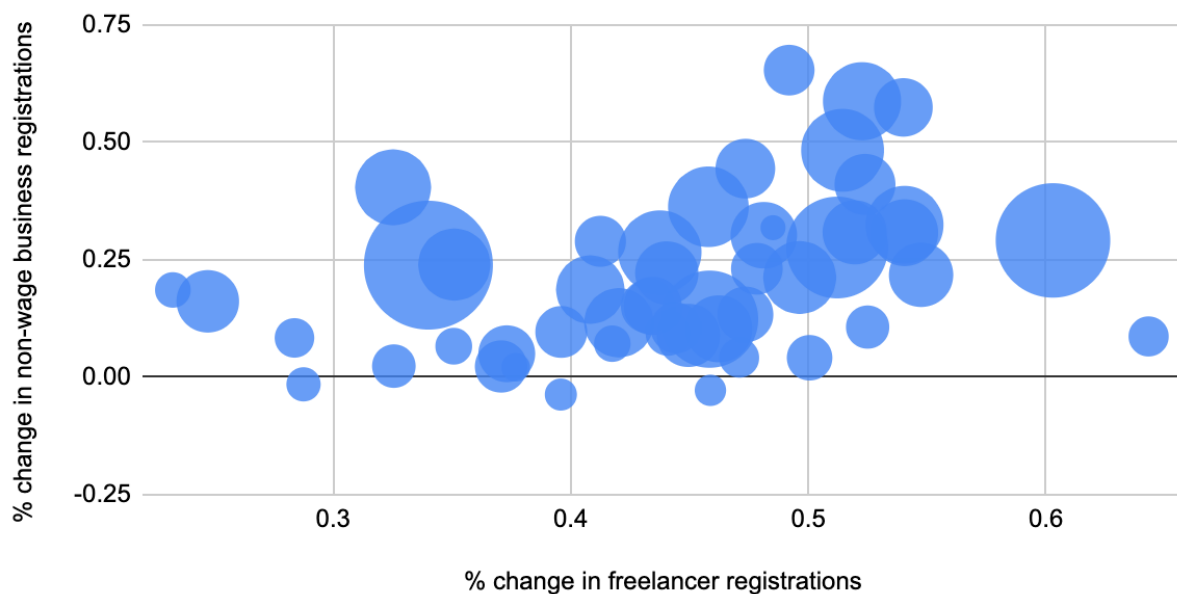


Note: Four week moving average

For further evidence that freelancing platforms are a driver of the new business registrations, we can compare state level data. **Growth in Upwork freelancer registrations from 2019 to 2020 at the state level is correlated with non-wage business registrations at the state level over the same period.**

## Upwork freelancers and business registrations

By state, 2020



The data also suggests this relationship is not just about which states are growing the fastest. Regression models confirm the relationship is statistically significant even when population growth and job growth are controlled for. In a panel model using annual data from 2017-2020 forward, we can see that while the relationship between Upwork registrations and business registrations is not new, it is stronger and more statistically significant in 2020 than in past years.

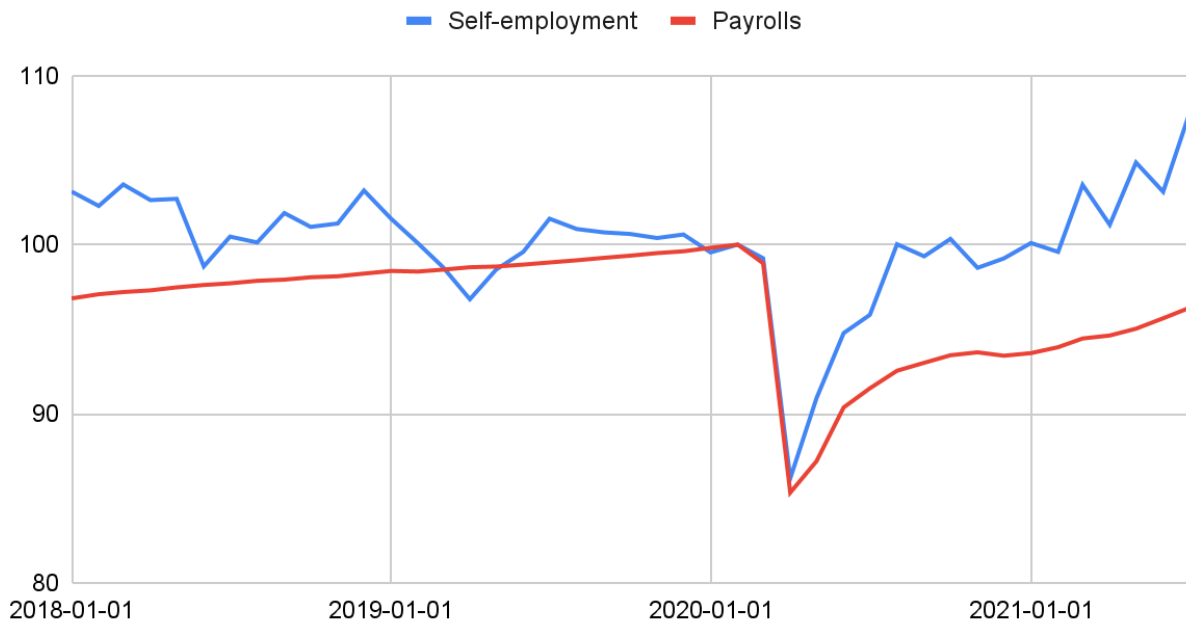
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Coefficient / p-values						
Freelancer registration growth	0.723	0.517	0.771	0.598		
	0.006	0.016	0.004	0.008		
Employment growth			1.908	2.381		
			0.088	0.120		
Population growth			-5.500	-8.725		
			0.200	0.037		
Log(freelancer registrations)					0.196	
					0.007	
Log(population)					-2.324	-2.281
					0.060	0.088
Log(employment)					1.315	1.323
					0.100	0.155
Log(freelancer registration) x Year						
2017						0.196
						0.011
2018						0.179
						0.018
2019						0.260
						0.009
2020						0.225
						0.004
Sample	50	50	50	50	200	200
Adjusted R-squared	0.13	0.09	0.15	0.15	0.84	0.86
Population Weights		X		X	X	X
Panel Model					X	X

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Finally, we can see the growth in remote platforms and business registrations reflected in employment data. In the early stages of the pandemic, self-employment declined at a similar speed as overall payrolls, but has since bounced back much more quickly. Self-employment is booming, and online platforms are part of the story.

## Self-employment recovered faster



### The Value for Freelancers

The pandemic recession has, in many ways, led to a boom in independent work, and the empirical relationship between Upwork data and business registrations suggests online platforms are playing a role, but why? There are a variety of ways that online platforms like Upwork help to spur self-employment, small businesses, and dynamism in general.

Upwork is, first and foremost, a work marketplace for small businesses to sell their services. Freelancers are self-employed, they are small business owners. Our surveys show that **full-time freelancers are three times more likely to describe themselves as small business owners than gig workers or on-demand workers.**

For these small business owners online marketplaces, like Upwork, provide a way to find new customers all over the world, and to create a track record of valuable and credible experience, assurances of payment, remediation services, payment solutions, time tracking, and much more.

### The Value for Clients

On the other side of the platform, Upwork creates value for a significant number of businesses for two reasons: the nature of the work, and the nature of the platform. For both of these reasons, this kind of work is a force for greater dynamism.



## **Fractional and Variable Demand Work**

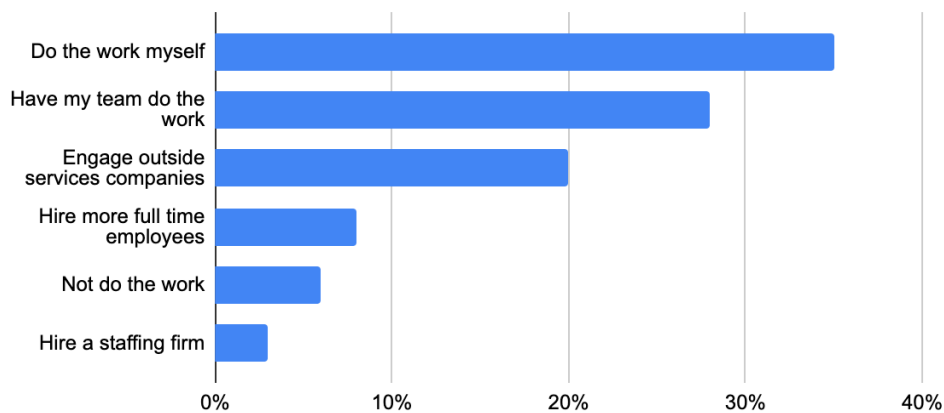
Work done on Upwork is not just replacing jobs that would be done by a full-time employee in the absence of our platform, in part because it is often fractional or highly variable work.

Fractional work is tasks and projects that are one-off, occasional, or otherwise do not justify a full-time permanent hire. This kind of work is most likely to be needed by small and mid-sized businesses, which represent 80% of Upwork's service volume.

In many of these cases, without freelancers the extra work would be done by crowding out other work, occupying the time of a busy small business owner client, or stretching a busy existing staff thinner. And even when that capacity exists, they are often lacking specialized skills to do the work well. For example, a small business owner can do their own digital marketing, accounting, customer service, and market research, but this can crowd out work that is in their core competency.

The importance of fractional work for small businesses can be seen from a recent survey of just over 600 Upwork clients. If they had not hired a freelancer, the most common way they would have gotten the work done is to do it themselves. In contrast, only 8% would have hired more full-time employees to do the work. This shows how platforms like Upwork help free up time for small business owners and leaders. It also illustrates that this work is net additive for the economy, as it does not primarily crowd out traditional employment.

If you hadn't hired or worked with independent staff in the past twelve months, how would you primarily have gotten the work done?



Source: Upwork client survey

Another type of work that freelancing adds value for is highly variable work. Businesses' need for certain types of work may scale up and down quickly over time, a use case that will be especially common for startups. Quickly scaling businesses or those with highly variable needs face high costs to hiring and laying off full-time employees all the time. Freelancing by nature is on a project by project or variable usage basis, so it is designed for quick scaling.

## **Remote Digital Marketplaces**

The need for fractional and variable work in the face of economic uncertainty is surely one factor driving demand for work platforms during the pandemic, but it is far from the only factor.

Demand is also growing due to the nature of platforms like Upwork as large, global, digital, work marketplaces.

Compared to offline work, even offline freelancing or outside services, remote work platforms have a variety of advantages. Among those advantages is that remote platforms allow businesses to work together regardless of where they are in the world. For clients located in high cost of living places with very tight local labor markets, this can mean finding workers easier and at a lower cost. For clients in lower cost of living places there is tremendous value as well, as these labor markets may lack access to scarce skills. Whether they are driven by lower costs or access to talent that is not available in their local labor markets, remote work platforms help businesses be less constrained by their location.

Remote work platforms also provide an information rich environment that increases the odds of successful matching and reduces the risk of having negative outcomes. Previous clients and reviews are available, which research shows is highly valuable in helping freelancers win a contract. In addition, because work is done on a project basis, a longer trail of experience exists than for traditional full-time workers, whose resumes may only have a handful of references.

## **Why Work Marketplaces Drive Dynamism**

The data suggests that work marketplaces, like Upwork, are helping to increase new business registrations. The unique value that these marketplaces create for freelancers and clients make clear that this is additive to the economy. However, there is a case to be made that platforms can and will have an even bigger long-run effects on dynamism as the country grows more comfortable with remote work.

To understand the type of long-run effects, consider two types of startups that use a work marketplace. One, located in a high cost of living area, is able to grow faster than local labor supply and office markets by accessing talent that is scarce in their market. The other, a startup in a more rural and struggling place, is able to find the talent that they need in order to run a successful business. In both cases, Upwork can ease the cost of small business formation and, in turn, allow startups to be more successful. This creates a positive cycle and should mean more small business creation in the long run.

As comfort with remote work has grown over the pandemic and will stick around afterward, the business case for utilizing remote work marketplaces like Upwork is strengthened. While working remotely was something many companies were unfamiliar with before, now most have done it to some extent. And for most, they have found it works better than expected. As remote work increases the global search for talent, the role of information and ease of hiring across borders has become increasingly important.

Overall, and at its core, Upwork helps labor markets to be faster, larger, more information rich, and more accessible to businesses, large and very small, all over the U.S. and the world.