



WORKFORCE OPTIMIZATION

Four Forces Driving the New World of Work

Savvy businesses must acknowledge and adapt their workforce to thrive in today's modern business model.



If asked what their most strategic asset is, almost any business leader will respond in the same way: “our people.”

But do business leaders really mean *all* of their people? Truthfully, many only consider their traditional full-time employees (FTEs) when they make these pronouncements, neglecting to include the army of independent workers who may not be directly on the corporate payroll. Nonetheless, these workers play a critical role in supporting their clients, driving organizational performance and creating institutional value. This external workforce of non-employees may even be larger than the FTE population for many companies. Still, today, few leaders see this population as anything other than a necessary expense to be tolerated as opposed to a strategic opportunity

Corporate leaders who ignore the independent workforce is short sighted at best, and a business death sentence at worst. In the wake of a global crisis such as COVID-19, this lack of foresight can cause irreparable damage as well.

Over our decades of experience, MBO Partners® has seen this perspective in action at some of the most iconic brands in the world and helped many of those organizations shift from a tactical to a strategic mindset through workforce optimization initiatives. Today, we discuss four forces driving the fundamental shift in businesses, and why these forces represent a need for a new, modern business model.

A FUNDAMENTAL SHIFT

MBO has been studying this growing population for almost a decade in our State of Independence in America series (SOI)¹, the longest running research on the independent workforce. Today, 41 million Americans are independent, and work across all ages, genders, and skill sets. Independents are integral to and embedded in all major industries, including highly in-demand areas like software development, artificial intelligence, and engineering.

The economic contribution of these workers is \$1.28 trillion annually, which is nearly equal to the GDP of Spain. By and large, this contribution comes from independents who work full-time. While much attention is given to certain players in the so-called Gig Economy like ridesharing services and commodity platform work², the fact remains that full-time independents do better than their traditionally employed counterparts on almost every measure. Independents earn on average \$68,300 per year, far higher than the median family

¹ MBO Partners State of Independence in America: <http://www.mbopartners.com/state-of-independence>

² McGregor, Jena (2018 September 24) How much people really make in the ‘gig economy. Retrieved from <https://www.washingtonpost.com/business/2018/09/24/how-much-people-really-make-gig-economy/>

household income of \$59,039. More than three million full-time independents (about one in five) earn more than \$100,000 annually for their work.

Demographic shifts are pushing much of this change. Baby Boomers are retiring from full-time employment at a rate of 10,000 a day, but many are not interested in pursuing the traditional vision of retirement. They are healthier than previous generations and often feel that they have “more gas in the tank.” Many in this cohort have also developed in-demand skills and substantial networks over the years, which they can leverage to great effect.

This new reality of work, enabled by technology, has upended the notion that full-time employment is the optimal way to make a living.

On the other end of the spectrum, younger generations of workers are entering the workforce with a different view of how they want to both work and live. This population is more interested in seeking opportunities that excite them, while also creating meaning in what they do. On average, they ascribe less value to the often-misguided vision of stability that comes with the increasingly outdated traditional vision of employment. They are more open to leveraging technologies that make work possible from anywhere in the world as opposed to being relegated to an office desk.

This new reality of work, enabled by technology, has upended the notion that full-time employment is the optimal way to make a living. Individuals who choose to work independently do so for many reasons, including a desire for work/life flexibility, greater income stability, and most importantly: **the opportunity to have the control to do the work they love, the way they want to do it.**

BENEFITS OF AN EXTERNAL WORKFORCE

The benefits to enterprises are manifold.

Some 65 percent of executives say that the external workforce is important or very important to operating at full capacity and meeting market demands, and 68 percent say it is critical to developing or improving products and services³.

³ Oxford Economics External Workforce Insights 2018: <https://www.oxfordeconomics.com/my-oxford/projects/432690>

These workers offer enterprises staffing flexibility, in-demand skillsets, and access to strategic expertise. These benefits are particularly important as the rate of change accelerates and the demand for skilled workers grows. In many industries and disciplines, skills shortages or critical talent shortages have emerged, giving highly skilled independent professionals negotiating power to engage with clients, customers, and corporations on their own terms. It is not uncommon for the most in-demand independents with specialized expertise to have three to five client opportunities at a time.

Business leaders must ask and be ready to answer this question: would they rather have these talented independent professionals working for them or creating strategic advantage for the competition?

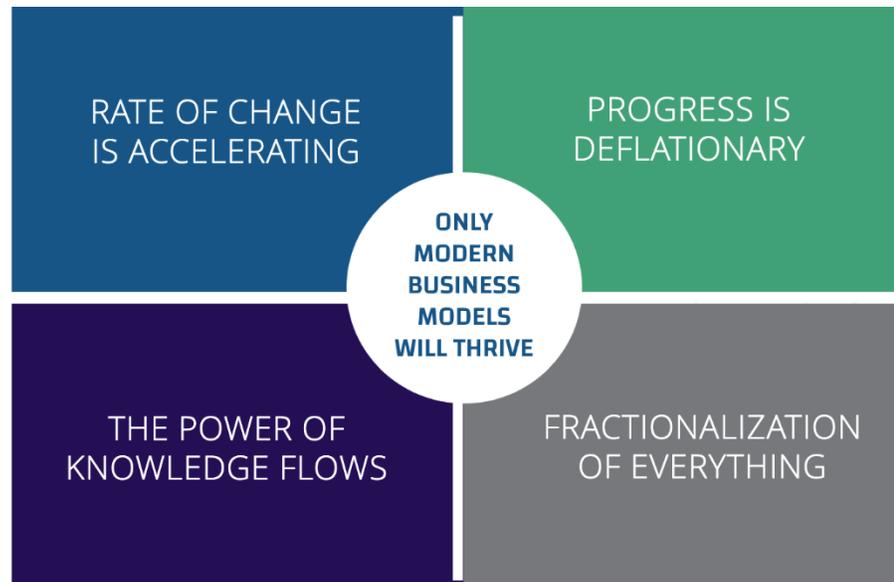
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THE FOUNDATION OF A MODERN BUSINESS MODEL

Put simply, enterprises must evolve or be left to follow the model of other companies resistant to change—Blockbuster comes to mind. The “Run Faster on the Treadmill Strategy”—doing what has historically been done better and faster—won’t cut it.

In order to tap into the power of the total workforce, organizations must build a modern business model where external talent are viewed as strategic players alongside FTEs. No longer can these workers be seen as transactional resources to be used and discarded.

A modern business model involves strategic engagement of full-time employees and external workers in all shapes (including offshore), ideally in a targeted and pre-planned mix in order to have the right capabilities at the right time. MBO Partners has firsthand experience leading businesses through both the strategy and execution of such a workforce optimization strategy. The successful implementation of this strategy not only resulted in a significant cost savings but also allowed unprecedented agility in our ability to respond to new market opportunities and deliver upon client promises.



IN ORDER TO DEVELOP AN ORGANIZATION'S APPETITE FOR WORKFORCE OPTIMIZATION— THEIR IDEAL MIX—BUSINESS LEADERS MUST UNDERSTAND FOUR FORCES SHAPING TODAY'S EVOLVING WORK ENVIRONMENT.

The Rate of Change Is Accelerating

There is no question that the rate of change is accelerating. This is resulting in more innovations occurring at an increasingly rapid pace. While many will focus on a single innovation and latch onto that as a key driver, it's when multiple innovations converge that we get demonstrable societal change.

Think of artificial intelligence, a concept dating back as far as Mary Shelley's *Frankenstein*, but born, as we know it today, out of a workshop at Dartmouth in 1956. Today, AI is finally mass-adopted after the fourth try. Why is that? Because in 1956, we didn't have the power (at scale) for AI to take off. Now, innovations like high-speed networks, cloud computing, and data convergence allow AI a fighting chance. As the rate of change increases, more innovation occurs, thus allowing for even greater and more powerful convergences of innovation.

These large-scale changes are borne out in innovations in both B2B and B2C industries. Think about the human genome, first mapped at the turn of the 21st century at a total cost of \$2.7 billion and now available to consumers for just a few thousand dollars today⁴.

In the case of the independent workforce, a number of innovations—technological and administrative—are converging at once that make independent work both possible and profitable. For instance, online marketplaces allow for near frictionless engagement of talent regardless of geography. These marketplaces, for the first time, are empowering forward-thinking organizations to access the best talent wherever they may be. The rise of the Digital Nomad⁵ is the starkest example of this trend. These workers often work remotely from foreign countries. The growing acceptance of remote work is accelerated through increased acceptance

⁴ CNBC (2015 December 10) Unlocking my genome: was it worth it? Retrieved from: <https://www.cnbc.com/2015/12/10/unlocking-my-genome-was-it-worth-it.html>

⁵ MBO Partners Digital Nomad Report 2019: <https://www.mbopartners.com/state-of-independence/research-trends-digital-nomads/>



and adoption of technologies such as Zoom, Slack, and Basecamp that make the virtual office a reality, particularly as organizations turned to remote work to keep businesses open during COVID-19.

As technology continues to evolve—and the comfort that remote work “works” grows—we will see even greater adoption and further innovation that makes it technologically and logistically simpler for organizations to source, engage, and manage independent workers.

Progress is deflationary

Converging innovations not only change societal norms, but they also often disrupt existing industry value chains. Taking advantage of these changes in supply chain and distribution, innovative companies can beat out well-established incumbents faster than ever by improving the quality, speed, or price at which value is delivered.

This force is known as deflationary progress. For example, 20 years ago the technology that makes up the average smartphone—memory, processors, etc.—would have cost \$3.6 million⁶. Today, almost everyone carries such a supercomputer in their pocket for a fraction of that price, with even the most advanced smartphones costing under \$1,500.

These technological advances better enable work. Using external talent improves business flexibility and agility for businesses and can often also lower employment costs, as well as dramatically increase utilization of resources to enable greater profits and innovation. Studies on cost savings like this have shown anywhere from a 15 to 35 percent reduction in employment expense when businesses leverage the external workforce. Anecdotally, such numbers don't even tell the full picture, as successfully implementing independent workforce programs also leads to greater client satisfaction and improved processes. A more efficient use of resources is leading to a more efficient way of working.

⁶ McKendrick, Joel. An iPhone would have cost \$3.6 million two decades ago. Retrieved from: <https://www.zdnet.com/article/an-iphone-would-have-cost-36-million-two-decades-ago/>



Knowledge stocks to knowledge flows

Traditionally, companies have been built on an ethos of knowledge stocks; meaning, they developed a proprietary product or idea and then defended that innovative advantage against all rivals. In today's business climate, the value of these breakthroughs is quickly eroded by rapid innovation and the unbridled power that comes from instant access to the best ideas and talent. Modern businesses find innovation at the edge of their businesses as opposed to their proprietary core. They measure competitiveness, not by the number of engineers on their payroll, but by their degree of access to a global talent pool—knowledge flows, instead of knowledge stocks.

Just twenty years ago, opening a company's proprietary code base (knowledge) to others would have been heresy. Today, even the biggest tech giants are doing it.

Moving from knowledge stocks to knowledge flows helps industry innovate more quickly and more creatively to create new products and outcomes. An example of knowledge flows is how open source software (like Linux) is quickly improving technology in many industries. Many processes are improved by open innovation and knowledge flows, by allowing teams and individuals all over the globe to contribute to projects and share ideas.

In the past, a typical work relationship consisted of a worker selling their skills to a company in the form of employment—a binary transaction, or knowledge stock. The problem with this relationship, which creates a binary market, is that it does not have much liquidity, or flow. Selling skills on an open market, however, does.

The fast-growing independent professional workforce creates a market with liquidity where buyers and sellers can compete, ultimately creating more value for the people that participate in it. Knowledge flows open up

movement of assets, giving enterprises access to skills they need and contingent workers the control to do the work they love, the way they want.

The fractionalization of everything

In today's world, fractionalization is all around us. We have fractionalized everything, including company ownership, home ownership, our computing environment, and even our bedrooms through companies like AirBnB.

The gig economy is powered by technology, data, and fractionalization of the human workday. With the click of a button, you can have groceries delivered to your doorstep, hire a dogwalker, or call a car to give you a ride. The entire human career itself is being fractionalized. This fractionalization is happening in professional careers at scale—ignore it at your own peril. Highly skilled workers—from graphic designers and writers to personal finance experts and cloud engineers—lend their expertise to agile enterprises.



Freelance marketplaces are evolving, and continue to evolve, to support this way of working. A marketplace enables the transaction between an enterprise and independent professional directly online, allowing a company to post open positions and evaluate candidates for the job, and contractors to search for and apply to opportunities that match their skillsets. Workers that participate in a marketplace—approximately one quarter of the total independent professional market⁷—facilitate the fractionalization of their career and are better off because they can sell their targeted skills to an addressable market.

⁷ MBO Partners State of Independence 2019: <http://www.mbopartners.com/state-of-independence>



In fact—despite their claims to the contrary—let’s wager that 100 percent of the Fortune 500 have some portion of their workforce as independent talent, and that this number is growing, not shrinking. In order to grow and evolve, organizations must optimize their workforce in a way they haven’t before.

The total number of independent workers in America, based on SOI predictions, will rise to 47.8 million by 2023, up from 41.1 million today. That represents a 2.6 percent annual growth rate, which is more than 3 times the overall employment rate of growth projected for this period by the U.S. Bureau of Labor Statistics. In a down economy, this number will rise even faster as people turn to independent work to replace full time income, or to supplement existing wages.

CONCLUSION

When enterprises participate in this next way of working, they will outperform their competition by enabling access to the best talent available. The most competitive organizations are those that engage a variety of workers to fulfill the specific job, long-term role, or project they need completed. By understanding the forces at play and developing a modern business model to incorporate independent professional talent, enterprises can gain access to the skills they need in a flexible way and at a lower cost than current supply chains allow.

ABOUT MBO PARTNERS®

MBO Partners delivers solutions that make it safer and easier for enterprise organizations and top independent professionals to work together. Through its proprietary platform, MBO has built a comprehensive workforce ecosystem that fuels both sides of the independent economy. MBO strengthens relationships, minimizes risk, and maximizes value for its clients. Its unmatched experience and industry leadership enable it to operate on the forefront of the independent economy and consistently advance the next way of working. For more information, visit mbopartners.com.