Agencies vs. Freelancers?
A market analysis

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ata

American Translators Association

Mike's story

From new translator to agency owner, back to freelancer

Mike's story

- Why start an agency?
  - You're good at something, so you start a business…
  - …but you don't get to do what you enjoy anymore

- Why go back to freelancing?
  (See previous bullet…)

Overview

- Freelancers vs. agencies
  - Focus on the U.S. market
- In the beginning
- Transaction costs / Theory of the Firm
- The role of technology

Overview

- From boutique to corporate agencies
- Freelancer's perspective
- Current playing field
- What does the future hold?

In the beginning

- The professionalization of language services is fairly recent in the United States (since the 1970s)

In the beginning

- While there have always been translators and interpreters in the U.S. market, they tended to be:
  - volunteers
  - part-time
  - academics
  - …and often informally trained
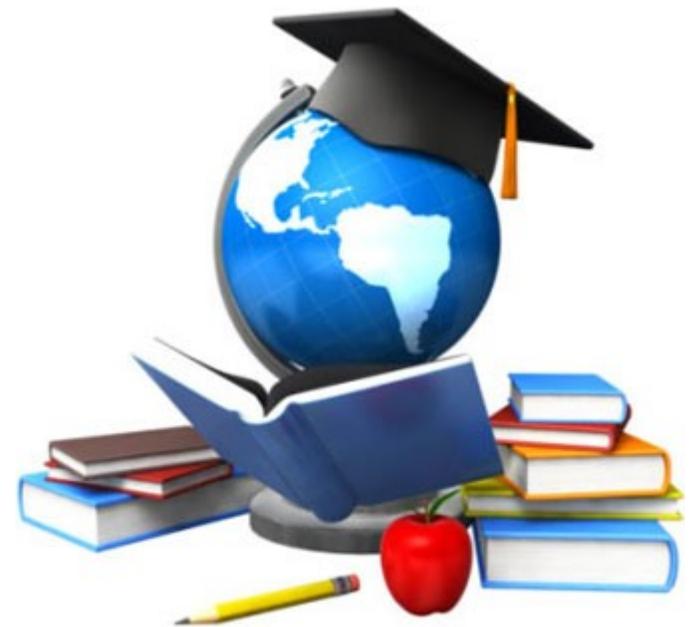
In the beginning

- Professionals were limited to a few big cities and international organizations
  - Full-time in-house jobs were few and far between

In the beginning

- Technology and globalization have changed that reality

Why do agencies exist?

- Two words:
  - Transaction costs

- Examples include:
  - finding translators/ interpreters
  - negotiating rates/deadlines
  - developing new business
  - managing projects
  - billing/collections

Why do agencies exist?

- Transaction cost – Definition

  "The cost associated with the exchange of goods or services, incurred in overcoming market imperfections"

Why do agencies exist?

- Three types of transaction costs:
  - Search and information
  - Negotiations
  - Administration

- Agencies exist as an attempt to lower these costs
  - More efficient than individuals

Why do agencies exist?

- Theory of the Firm
  - Ronald Coase (1937)
  - Nobel in Economics (1991)
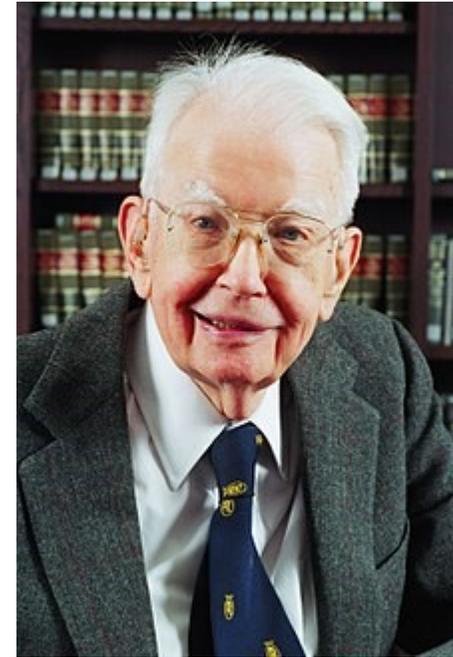
- Why do businesses exist?
  - Imperfect information
  - Because the cost of trying to coordinate every transaction on the market is greater than the cost of doing so within the firm

Why do agencies exist?

- Firms are designed to solve a problem
  - In our industry: communication
- They thrive when they do so cost-effectively
- They use technology to find more cost-effective ways to solve problems

Technology's impact on language services

Technology's impact on language services

- Technological changes and globalization
  Faster travel, more international trade

Technology's impact on language services

- Greater demand for language services
  - Global communications, Internet

Growing demand for language services

- Global language services market estimated at $40 billion

- In 2017, US government, by itself, awarded $500 million in contracts for translation/interpreting

Growing demand for language services

- Numerous studies indicate continued market growth
  - Market averaging nearly 7% annual growth (CSA Research)
  - Expected job growth as much as 30% in 10 years (UCSD)
- More demand means more work, but also more transactions
  - Hence, more transaction costs

Growing demand for language services

- Higher transaction costs are an incentive for consumers to work with agencies (instead of individuals)
  - Why?

Growing demand for language services

- Companies, governments, hospitals may initially try to work with individual translators/interpreters

- But as their language-service needs increase, they have an incentive to prefer a single provider (LSP) to meet their needs
  - Lower transactions costs

Boutique agencies

- Most agencies are founded by freelancers to provide boutique or specialty language services

Boutique agencies

- In a recent corporate-member survey, ATA found that:
  - 60% had fewer than 10 employees
  - 50% had less than $1 million a year in revenue
  - 32% had no branch offices (another 35% only 1 branch)
- In short, large corporate LSPs are the exception, not the rule

However…

- While most agencies are small, a few have grown exponentially
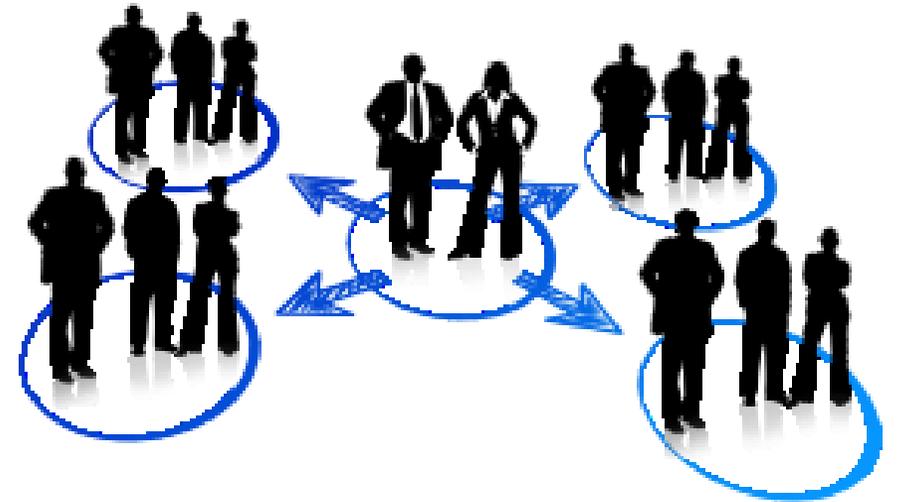
- Large-scale investors have entered the sector and begun buying up smaller firms, consolidating the market

However…

- These large firms have a lot of capital
- They invest in technologies to lower costs and streamline operations
- They offer services in every language pair, on a global scale, relying on technology and freelancers worldwide

However…

- Their scale and scope enable them able to affect market prices

View from the top

A few, large, corporate LSPs
- economies of scale
- appeal to corporate clients
- capital + resources for technical innovation
- less vulnerable to market pressures

View from the top

A few, large, corporate LSPs
- less personal relationship with clients and vendors
- "one-size-fits-all" attitude toward labor
- product is a commodity

View from the top

- Many small, local LSPs
  - personal relationships/connections
  - rapid decision-making and service
  - better knowledge of conditions "on the ground"

View from the top

- Many small, local LSPs
  - large clients might view them as lacking sufficient resources (not taken seriously)
  - smaller vendor pool
  - fewer technical capabilities
  - more vulnerable to pressure

The freelancer perspective

- Knowledge workers
  - Not interchangeable
- Technology means more potential clients
  - …but more competition as well

The freelancer perspective

- Market has separated
  - Bulk
  - Premium
- Agencies have "bulk" advantage
- Freelancers can outperform on "premium" jobs

The freelancer perspective

- Downward price pressure from agencies
- Better-paying LSPs attract more qualified freelancers
- Client education: not all translators/interpreters are alike
  - ATA outreach

What can be done?

- Translators/interpreters should always demonstrate how much they care about their work
  - Knowledge
  - Quality
  - Attention to detail
- Corporate LSPs have to avoid depersonalizing the industry
  - Can undermine their business

What can be done?

More-experienced freelancers focus on premium, higher-paying work

- Opportunity for new/younger translators in "bulk" market
  - Leverage situation to gain experience
  - Gradually increase rates by moving to higher-paying clients

What can be done?

- Freelancers must do the "calculation"
  - How much work do I have to do at what rate to make the income I want?

See your future here...
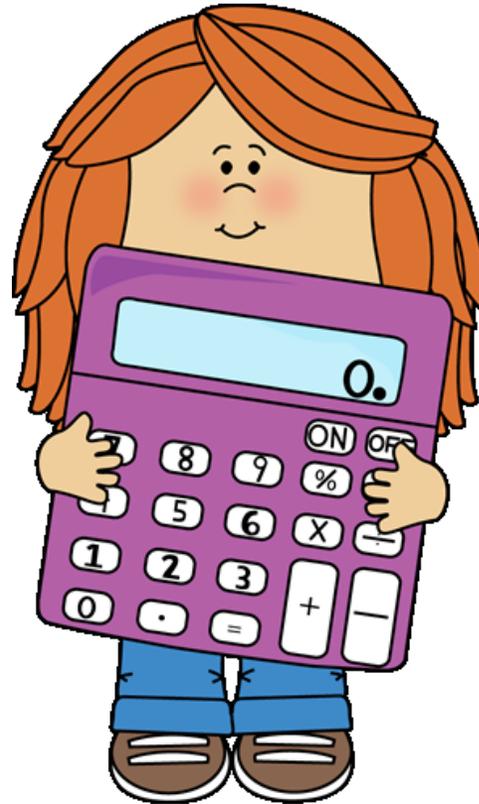
What can be done?

- Plan ahead:
  - ➤ Where do I want to be in 5 years? ...in 10 years?
  - ➤ Where are the trends headed? ...use your imagination
- Be prepared for change
  - Embrace it (or be ready to move on)

Conclusions

- Businesses exist because of imperfect information
  - They thrive by lowering transaction costs
- In our sector, agencies seek to "solve" the communications problem
- They employ technology to lower transaction costs

Conclusions

- Translators and interpreters are knowledge workers, with a unique skill set
- As freelancers, they work in a rapidly changing environment, often with little leverage
  - … but there is room to succeed
- They thrive when they focus on quality, premium work, adapt to change

Conclusions

- Agencies and freelancers can improve their relationship by understanding what motivates the other side
  - Take time from the daily grind
  - Plan ahead

Questions & Answers

Thank you!

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