

A green silhouette of the United States map is positioned at the top of the page, with the 'fiverr' logo overlaid on the top-left portion of it.

fiverr

Understanding The Impact Of The

Freelance Economy

Independence in America's Largest
Specialized Knowledge Worker Cities

Independent work is an increasingly large sector of the US economy, albeit one that takes many forms. Spanning everything from construction work to high-end consulting, independents as a group can be difficult to parse and fully understand, especially when it comes to specialized knowledge workers.

Fiverr and market research firm Rockbridge Associates recently concluded an extensive study of specialized knowledge workers in the freelance economy to better understand where workers live, what kind of work they do, and how much they're growing as a population and in terms of revenue earned. Self-employed specialized independent workers generate more than \$110 billion in the 15 biggest metropolitan areas of specialized independents: between 1 percent and 2 percent of the GDP, on average, of each metropolitan area.

Self-employed specialized workers include lawyers, graphic designers, wedding musicians, and engineers: anyone who receives a 1099 at the end of the year for work that requires specific skills and abilities. Demand is growing for their services: the self-employed specialized knowledge worker population in the 15 biggest metropolitan areas rose 7 percent on average from 2013 to 2015, and the average revenue growth for the same time period was 11 percent.

However, specialized independent workers also face unique challenges: limited legal protections, lack of access to reliable internet service, and difficulty acquiring customers can limit earning potential. Fiverr's study is one of the first in-depth looks at specialized knowledge workers in the self-employed economy, and one we hope provides a launchpad for further study.

Introduction

The United States is in the middle of an independent labor explosion. As of 2016, the Bureau of Labor Statistics estimates that there are 15 million independent workers in the United States¹, and that number has been on a mostly steady growth track since 2000².

Although it's impossible to track precisely the number of independent workers in the United States - that is, workers who are self-employed as either independent contractors or running their own business entities - there are a number of different benchmarks which can be used to estimate how many Americans are now part of the part-time or free-time freelance, "side hustle," or self-employed workforce. One of these benchmarks is the number of 1099-MISC forms filed with the IRS.

1099-MISCs show reported income for individuals receiving between \$600 and \$20,000 outside of traditional employment relationships. It includes entrepreneurs, freelancers, workers receiving income through labor platforms like Uber, Lyft, and Instacart, taxi drivers in many municipalities, and individuals providing outsourced services to companies such as cleaning and technical support.

According to an analysis by Eli Dourado and Christopher Koopman of the Mercatus Center at George Mason University, there has been an approximately 22 percent increase in the number of 1099-MISC forms issued by the IRS between 2000 and 2014; in the same time period, the number of W-2s (tax forms issued to formal part-time and full-time employees) have stayed relatively stagnant with a 3.5 percent decrease.

There is one particular area of the self-employed economy that is of interest: specialized workers performing knowledge-based independent work. Specialized independent workers perform services in technical, creative, and administrative fields. Approximately half of this workforce provides what are commonly termed "professional services," with the remainder working in arts/entertainment or technical services.

Although independent and freelance work has been researched extensively by Dourado and Koopman, along with many others, specialized independent work has not been segmented out and examined extensively.

¹ <https://www.bls.gov/spotlight/2016/self-employment-in-the-united-states/home.htm>

² IRS data via <https://www.mercatus.org/publication/evaluating-growth-1099-workforce>

In order to understand this sector of the economy, Fiverr recently teamed up with Rockbridge Associates, an independent research firm in Great Falls, Virginia, to conduct a study of specialized independent workers in 15 metropolitan areas across the United States comprised of urban, suburban, exurban, and some rural counties.

The goal is to better understand the state of specialized independent workers in the United States, and, using original and previously published research, to determine educational, social, and policy initiatives which could effectively grow freelancing across America and make it easier for independent workers to earn a well-paying living on their own.

Who are Specialized Workers?

Within the independent and freelance workforces, there is a specific subgroup that we define as “Specialized Workers.” Specialized workers are independent workers classified under a number of North American Industry Classification System (NAICS) codes who perform knowledge-based labor which requires specialized skill sets and experience.

Specialized workers encompass a huge swath of the independent workforce: they include software engineers, voiceover artists, accountants, consultants, and many more.

We are interested in specialized independent workers for several reasons:

- Specialized independent workers’ jobs are unlikely to be automated out of existence, thanks to the creative and service-oriented elements of their work.
- Specialized independent workers serve as a major talent driver for both small and large businesses.
- Specialized independent workers are able to earn a living regardless of geographical location, as long as they have reliable access to a fast internet connection.

While specialized independent workers are, roughly speaking, self-employed professionals, their labor can take multiple forms. Hundreds of thousands of Americans are self-employed, full-time professionals; whether they are lawyers, architects, or photographers, they run full-time businesses earning income from professional services. Many more Americans “moonlance” in part-time positions using specialized skills; this category covers everyone from part-time wedding musicians to graphic designers who take on additional work through marketplaces like Fiverr on a regular basis. There is also a large pool of casual specialized workers who take on freelance knowledge-based work on a seasonal or occasional basis.

About Our Study

Fiverr teamed up with Rockbridge Associates, an independent research firm, to understand the United States' independent workforce. We defined the independent workforce based both on the type of work being done independently and on the type of professionals. Their jobs were classified according to 26 different NAICS codes, and divided into three groups. The first are creative arts/performances (artists, writers, graphic designers, performers, video and sound professionals), the second is technical services (data processing, architecture, design, engineering, computer/IT, and scientific professions), and the third is professional services (legal, accounting/bookkeeping, management consulting, marketing, and business support).

Rockbridge then analyzed annual datasets for 2011, 2013, and 2015 from the U.S. Census Bureau's Non-Employer Statistics (NES) data series comprised of tax return data for businesses without employees (i.e. self-employed individuals who file forms 1120, 1065, or Schedule C), and homed in on what we believe are the top 15 regional markets for specialized independent professionals. Previous research on independent workforces was leveraged as well, and projections were made for 2017 data, as tax return data for 2017 is still pending.

To learn more about our methodology, see Appendix A.

Key Findings

Market Findings:

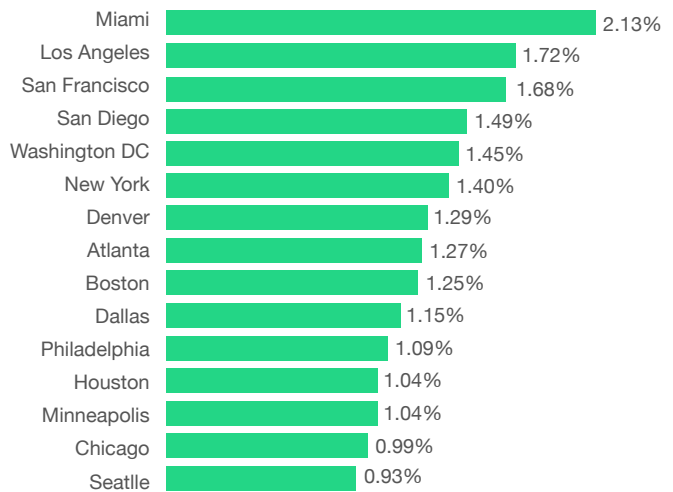
- New York matters for specialized independent workers. The New York metropolitan area has approximately 533,000 specialized independent professionals, by far the largest of any market. Predicted total revenue for them in 2017 is \$24,485,431,000.
- The Los Angeles metropolitan area is the second largest for specialized independent professionals after New York. There are approximately 400,000 specialized independent professionals there, earning a predicted \$18,271,118,000 total revenue in 2017.
- The Chicago metropolitan area is the third largest for specialized independent professionals. There are approximately 185,000 specialized independent professionals, earning a predicted \$6,685,479,000 in total revenue in 2017.

Top Markets for Specialized Independent Professionals

Market (Metropolitan Statistical Area)	# of Independent Creative Professionals (2017 Predicted)	\$ Revenues (000) (2017 Predicted)
New York	533,159	\$24,485,431
Los Angeles	398,967	\$18,271,118
Chicago	185,540	\$6,685,479
Miami	177,954	\$7,593,414
Washington	171,395	\$7,816,484
San Francisco	162,077	\$8,192,286
Dallas	143,258	\$6,307,195
Atlanta	138,129	\$4,710,265
Houston	122,887	\$5,386,991
Boston	121,932	\$5,400,942
Philadelphia	116,760	\$4,851,713
Seattle	86,865	\$3,167,987
San Diego	81,673	\$3,512,572
Minneapolis	81,070	\$2,652,387
Phoenix	78,151	\$3,139,517

- The three smallest markets we examined — Minneapolis, San Diego, and Seattle — all have between 78,000 and 90,000 specialized independent professionals. This range appears constant across metropolitan areas with roughly similar populations of 3.5 to 4.5 million.
- Specialized independent professionals' revenues in the 15 markets we studied account for over \$110 billion combined. Within each market, these revenues represent roughly 1-2 percent of GDP.

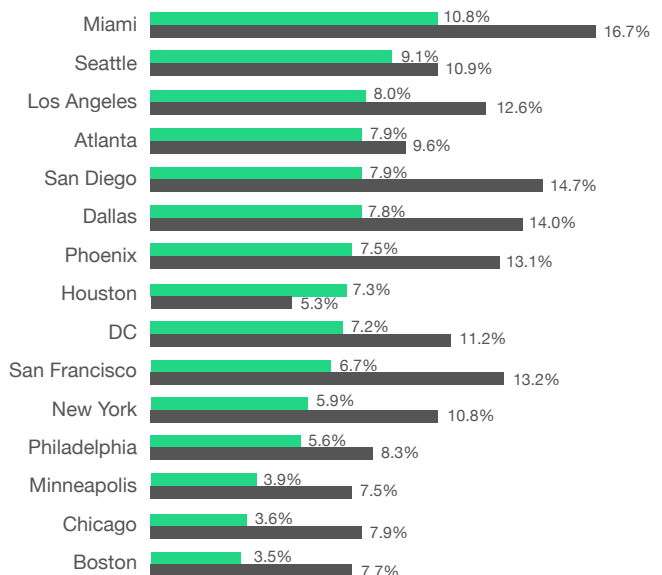
Specialized Independent Workforce Revenue Revenue as a % of GDP (2015)



- Local cost of living has an impact on earnings. Specialized independent professionals in San Francisco had the highest average revenues, \$50,600, while specialized independent professionals in Minneapolis had the lowest average revenues at \$32,700. It's worth noting that these averages do not take into account how much time a specialized worker is devoting to an independent enterprise, nor does it account for those who do not rely completely on the income from their independent enterprises as a sole source of revenue.
- The average growth rate for specialized independent professionals across the top 15 markets was 7 percent from 2013 to 2015, and the average revenue growth for the same time period was 11 percent.

Growth in Specialized Independent Workforce Professionals and Revenues (2013-2015)

■ Growth in Professionals
■ Growth in Revenue

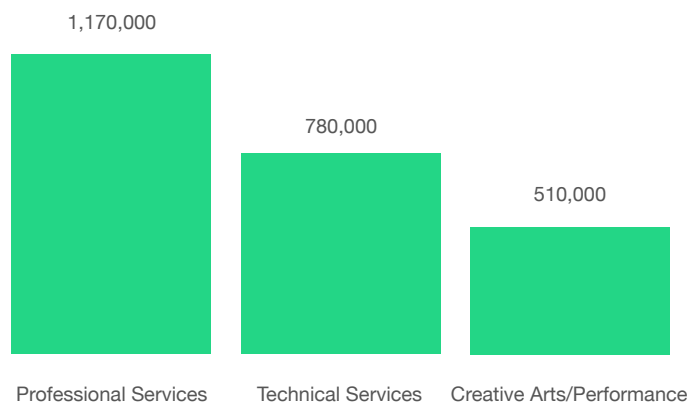


- Revenue growth is outpacing the growth of the specialized independent workforce, which illustrates how specialized workers are not just going independent, but successfully growing their businesses. During a period of record-low unemployment, the growth of the freelance economy and corresponding revenue suggests specialized independent workers are choosing to remain independent.

Category-Specific Findings:

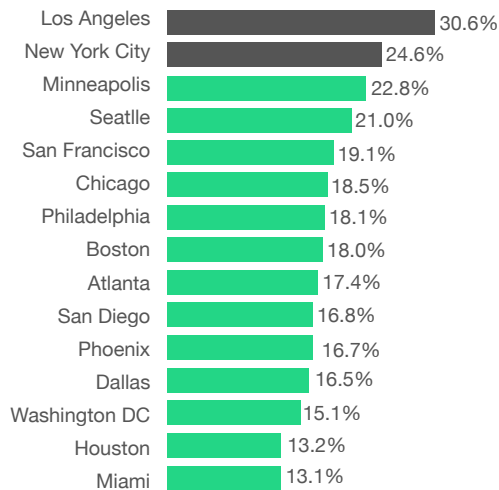
- Approximately half of the specialized independent workforce provides professional services; technical service providers comprise slightly more than one-third, and creative arts/performances make up the remainder.

Number of Professionals by Category (2015)



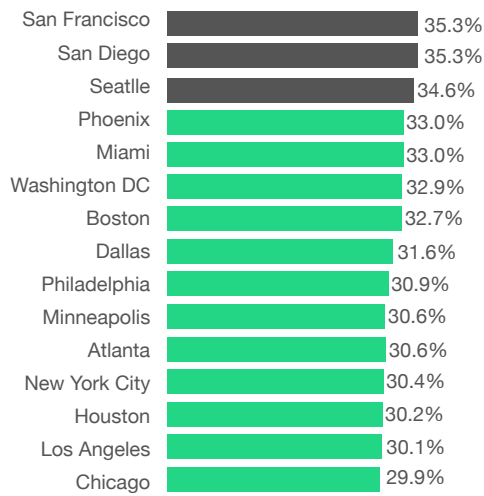
- Los Angeles and New York have a greater share of specialized independent professionals in creative arts/performance than in any other market (31 percent and 25 percent, respectively). In fact, Los Angeles’s specialized independent professionals actually outnumber its technical service providers.

% Creative Arts / Performance Professionals



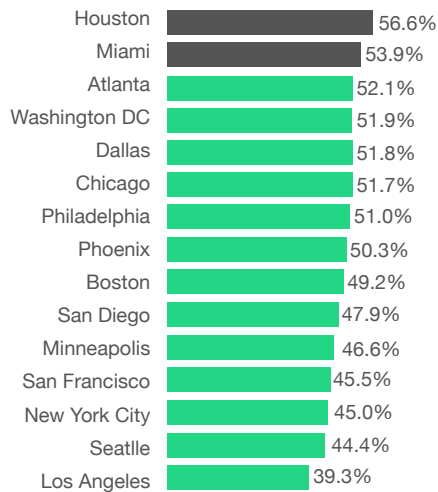
- San Francisco, Seattle, and San Diego have the largest share of technical services professionals (35 percent each).

% Technical Services Professionals



- Houston and Miami lead the way when it comes to professional services professionals (56 percent and 54 percent, respectively), however many of the cities studied have a professional services workforce that makes up more than 50 percent of their population.

% Professional Services



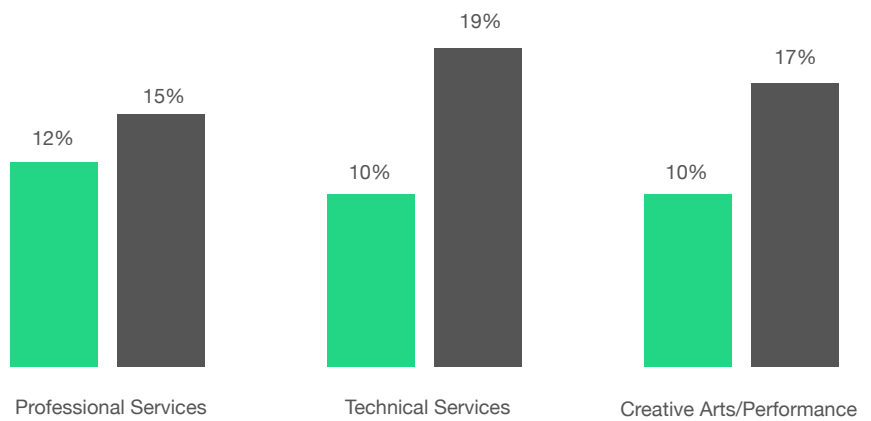
City Snapshots

Miami

Only Miami has seen double-digit growth in the number of specialized independent professionals at 11 percent from 2013 to 2015. The professional services sector has experienced more growth (12 percent) than technical services (10 percent) or creative arts/performance (10 percent) in Miami. However, revenue growth was faster for technical services (19 percent) and creative arts/performance (17 percent) than it was for professional services (15 percent).

Growth in Professionals and Revenue - Miami (2013-2015)

■ Growth in Professionals
■ Growth in Revenue

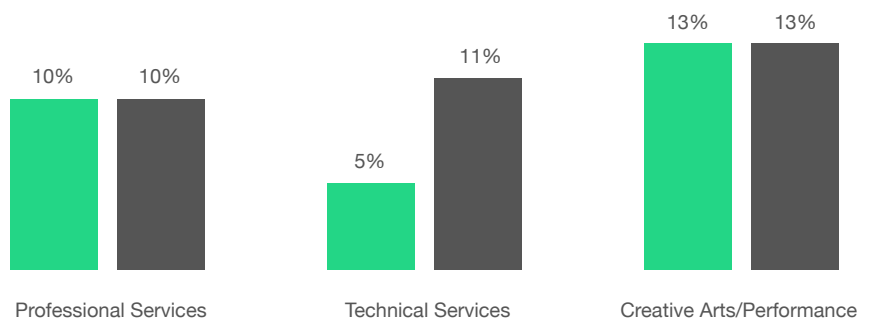


Seattle

Seattle is the second fastest growing market for specialized independent professionals, growing 9 percent between 2013 and 2015. The creative arts/performance category was the primary driver, gaining almost 2,000 professionals from 2013 to 2015. Technical services showed the lowest rate of growth of specialized professionals (5 percent), but revenues in this area grew at twice that rate (11 percent).

Growth in Professionals and Revenue - Seattle (2013-2015)

■ Growth in Professionals
■ Growth in Revenue

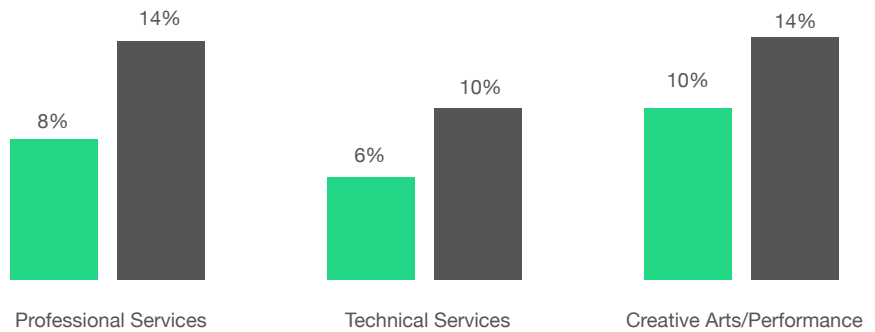


Los Angeles

In Los Angeles, the long-robust creative arts/performance category led the growth of specialized independent professionals (10 percent), followed by growth in those providing professional services (8 percent). Specialized independent professionals make up nearly 6 percent of the total workforce in Los Angeles, which is higher than any other market in the top 15 except for San Francisco.

Growth in Professionals and Revenue - Los Angeles (2013-2015)

■ Growth in Professionals
■ Growth in Revenue



Specialized Workers, Self-Employment and the Freelance Economy

The existence of a specialized independent workforce is nothing new. Musicians have offered after-school piano lessons for a long time, and professionals like lawyers and architects have always traditionally started their own businesses.

However, three macro trends have both enlarged the size and potential client/customer base of the specialized workforce:

- The rise of the internet and easier access to high-speed internet connections have widened the customer base for many specialized workers. Platforms such as Fiverr, Udemy, and LinkedIn offer specialized workers access to a much larger customer base in exchange for commissions or fees; specialized workers may also build their own web presences and social media accounts to acquire clients outside of their immediate neighborhood, town, or metropolitan area. For instance, *Fast Company* magazine recently published a feature on freelancers who moved to rural areas and now find customers online¹.
- Society's expectations for technology are changing more rapidly than the skill sets of the workforce at large. Certain fields such as cybersecurity and analytics currently suffer from an acute job shortage, with 3.5 million unfilled security jobs by 2021 alone². Professionals with those in-demand skills, in many cases, find independent consulting or project-based work better paying than conventional in-house positions.
- The nature of the full-time workforce has changed, with a variety of structural factors including the Affordable Care Act³, a shift from a manufacturing-based to⁴ service-based economy in many areas⁵, and increasing outsourcing and offshoring of tech jobs leaving many skilled workers with limited or even no attractive full-time job options. For many of these workers, self-employment or a mix of part-time employment and entrepreneurial work is an attractive option.

1 <https://www.fastcompany.com/3065007/why-these-freelancers-ditched-cities-for-rural-america>

2 <https://www.csoonline.com/article/3200024/security/cybersecurity-labor-crunch-to-hit-35-million-unfilled-jobs-by-2021.html>

3 https://my.vanderbilt.edu/carolynheinrich/files/2016/06/DHH_Effects-ACA-on-Part-time-employment-6-9-16.pdf

4 <https://www.pcworld.com/article/3175682/technology-business/laid-off-it-workers-worry-us-is-losing-tech-jobs-to-outsourcing.html>

5 https://www.washingtonpost.com/blogs/govbeat/wp/2014/09/03/watch-the-u-s-transition-from-a-manufacturing-economy-to-a-service-economy-in-one-gif/?utm_term=.0d135b3d6482

Largely speaking, our study confirms this transformation in America's self-employed specialized workforce. Broadly speaking, knowledge-based independent work is a source of economic opportunity. Workers can engage with either local revenue streams or create global revenue streams by seeking global clientele online.

What's Next?

American self-employed knowledge workers share many similarities across metropolitan areas. Due to Census Bureau data formats, we were limited in our ability to analyze the workforce outside of these fifteen metropolitan areas. However, we believe that earning potential is largely similar even in rural areas as long as workers have the necessary education and access to steady, reliable internet.

Because specialized knowledge workers are a distinct slice of the self-employed workforce, trends among these workers don't necessarily apply to all self-employed workers. For instance, research from the University of Chicago finds entirely different labor trends among ride-hailing drivers⁶.

Other sectors, such as house/office cleaners and couriers, are subject to entirely different labor dynamics: a dentist's office in Seattle can hire a SEO expert in Miami quite easily, but a delivery person in Seattle is limited to packages that need delivery in the Seattle area.

Professional services, technical services, and creative arts/performance are likely to remain attractive career categories for moonlighting or full-time freelancers in coming years. One interesting trend we foresee arising is more hybrid work, such as professionals working with high-end image/video editing software and service providers offering logistical support to small creative agencies.

However, there's a long way to go in increasing accessibility for the specialized independent workforce. The wide variation in local earning potential we encountered in different metropolitan areas is a sign that, despite the promise of the internet, revenue from self-employed specialized work varies considerably across metropolitan areas.

⁶ <https://economics.uchicago.edu/blog/study-finds-gender-pay-gap-among-uber-drivers>

There are several things that can be done to improve the playing field for self-employed specialized work professionals:

- **Legal protection:** Legal protection for self-employed professionals varies wildly across the United States depending on whether they are independent contractors or run their own corporations. New initiatives such as New York City’s “Freelance Isn’t Free” act, enacted in 2017⁷, give the self-employed important legal protections that make it easier for them to earn a sustainable living. Largely enacted thanks to the efforts of the Freelancers’ Union, an advocacy group, the legislation gives freelancers enhanced legal protection and better footing in the eyes of the law when writing contracts and receiving payment from clients.
- **Faster, more reliable internet access:** Internet speeds vary broadly across states and communities. According to data from Akamai, a content delivery network, the United States ranks #10 behind South Korea, Norway, Japan, and others in average connection speed⁸. Notwithstanding efforts to make broadband available to all such as New NY Broadband Program⁹, the FCC’s Lifeline program¹⁰ and the municipal wireless movement, there is a long way to go. Worst of all, Akamai’s data indicates that Washington, D.C. and Delaware are the only two places in the United States where the average internet speed surpasses the FCC’s 25 Mbps threshold for broadband¹¹.
- **More worker education:** The NAICS codes covered by our study include a wide range of professions united by two similarities: Practitioners are largely self-employed or operate a business outside their permanent job, and their work requires specialized skill sets and domain knowledge. However, many lack education in the business and management aspects of their profession (including finding clients, managing their businesses and broadening their geographic reach) which limit their earning potential.

With concerted policy-making decisions and initiatives on the ground by community groups and local organizations, barriers can be removed to well-paying freelance and specialized independent work. Ensuring affordable broadband, expanded educational opportunities and more work opportunities can go a long way towards closing the freelance gap.

7 <https://www1.nyc.gov/assets/dca/downloads/pdf/about/Freelance-Law.pdf>

8 <https://www.akamai.com/fr/fr/multimedia/documents/state-of-the-internet/q1-2017-state-of-the-internet-connectivity-report.pdf>

9 <https://nysbroadband.ny.gov/>

10 <https://www.fcc.gov/consumers/guides/lifeline-support-affordable-communications>

11 <https://www.recode.net/2017/6/9/15768598/states-fastest-slowest-internet-speeds>

Appendix A

At the outset of the project, Rockbridge Associates and Fiverr jointly defined the independent workforce based on the type of work being done independently and on the type of professionals using Fiverr. The 26 NAICS industry codes that make up Fiverr’s independent worker definition are represented in table 1. These NAICS codes are further classified by type of independent work: creative arts/performance (AP), technical services (TS), and professional services (PS), noted in parentheses below.

Independent Workforce NAICS Codes

5121	Motion Picture and Video Industries (AP)	54151	Computer Systems Design and Related Services (TS)
5122	Sound Recording Industries (AP)	5416	Management, Scientific, and Technical Consulting Services (PS)
518	Data Processing, Hosting, and Related Services (TS)	5418	Advertising, Public Relations, and Related Services (PS)
5191	Other Information Services (TS)	54191	Marketing Research and Public Opinion Polling (PS)
5411	Legal Services (PS)	54192	Photographic Services (AP)
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services (PS)	54193	Translation and Interpretation Services (TS)
54131	Architectural Services (TS)	54199	All Other Professional, Scientific, and Technical Services (TS)
54132	Landscape Architectural Services (TS)	5611	Office Administrative Services (PS)
54133	Engineering Services (TS)	56141	Document Preparation Services (PS)
54134	Drafting Services (TS)	56149	All Other Business Support Services (PS)
54136	Geophysical Surveying and Mapping Services (TS)	611	Educational Services (PS)
54137	Surveying and Mapping (except Geophysical) Services (TS)	7115	Independent Artists, Writers, and Performers (AP)
5414	Specialized Design Services (TS)	81292	Photofinishing (AP)

Rockbridge then analyzed annual datasets for 2011, 2013, and 2015 from the Non-Employer Statistics (NES) data series, published by the U.S. Census Bureau annually approximately 18 months after the end of the reference year. This data series compiled by the Census Bureau is based on tax filings from over 20 million businesses among 450 NAICS industries that have no paid employment or payroll, are subject to federal income taxes, and have receipts of \$1,000 or more. The data are available at the national, state, county, metropolitan statistical area, and combined statistical area geography levels¹.^[1] The data set is based on the number of “establishments,” or individual tax filings, based on the address of the entity. It should be noted that the unit in the NES dataset is not exactly the same as independent professional, but can be considered a good approximation.

1 <https://www.census.gov/programs-surveys/nonemployer-statistics/about.html>

To identify the top 15 markets for independent professionals, Rockbridge first identified and analyzed the top 30 most populous metropolitan statistical areas in the United States, as identified by the U.S. Census Bureau's Population Division. This ensured that the top markets for independent professionals would not be missed, and the range in size of the independent workforce in each of those top 30 metropolitan areas varies widely enough to ensure confidence that none are missing from the top 15 identified.

NES data for particular NAICS codes may be withheld from publication in the NES datasets for two reasons. First, the data will be suppressed if there are fewer than three non-employer businesses for any level of geography. Second, the data will be suppressed if more than 40 percent of either the receipts or establishments are from firms with an imputed industry classification.² For the years that Rockbridge examined in this analysis, the percentage of records that were suppressed ranged from 8% (2015) to 15% (2013). Less than one percent of records were suppressed due to imputed industry classifications. When data for a particular NAICS industry were withheld from publication in the NES datasets for either reason, Rockbridge imputed the data using the percentage that the NAICS industry code makes up nationwide in the NES dataset.

Because NES data are released approximately 18 months after the end of the reference year, 2016 data will not be available until June 2018 and 2017 data will not be available until June 2019. To estimate the number of independent professionals and their receipts in 2017, Rockbridge used US GDP growth for 2013-2015 and 2015-2017 to predict 2015-2017 growth in independent professionals and applied that to the actual number of professionals and their receipts from 2015. In conducting this same analysis to predict 2015 numbers based on 2011-2013 US GDP growth, the results suggest that estimates may be conservative.

² https://www.census.gov/programs-surveys/nonemployer-statistics/technical-documentation/methodology.html#par_textimage_245304869

Sources

Independent workforce establishments and receipts (2011, 2013, 2015)	U.S. Census Bureau. <i>Non-Employer Statistics (NES)</i> . ¹
Top 30 metropolitan statistical areas by population (2015)	U.S. Census Bureau. <i>Population Division, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2015</i> . ²
FIPS codes for metropolitan statistical areas	U.S. Census Bureau. <i>Metropolitan and Micropolitan</i> . ³
GDP for metropolitan statistical areas by year	U.S. Department of Commerce. <i>Total Gross Domestic Product (MSA)</i> . ⁴
United States GDP by year	U.S. Department of Commerce. <i>Current-dollar and "real" GDP</i> . ⁵
Labor force size for metropolitan statistical areas	U.S. Department of Labor (2018). <i>Civilian labor force and unemployment by state and metropolitan area</i> . ⁶
2012 NAICS codes definitions	U.S. Census Bureau. <i>North American Industry Classification System</i> . ⁷

1 https://www.census.gov/programs-surveys/nonemployer-statistics/technical-documentation/methodology.html#par_textimage_245304869

2 <https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>

3 <https://www.census.gov/programs-surveys/metro-micro.html>

4 <https://fred.stlouisfed.org/categories/27281>

5 <https://www.bea.gov/national/index.htm#gdp>

6 <https://www.bls.gov/news.release/metro.t01.html>

7 https://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart_code=51&search=2017%20NAICS%20Search