Is the gig economy good for employees?
An analysis of contractor compensation.

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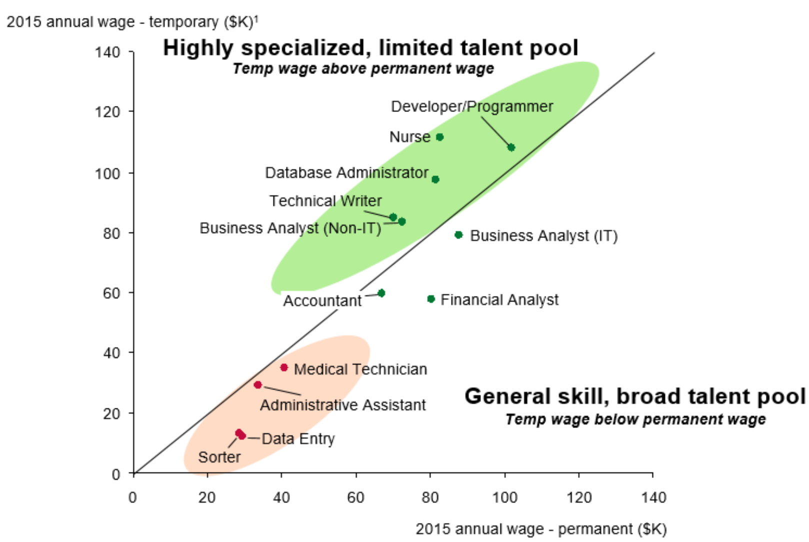
Recent years have witnessed significant changes in the talent landscape as it relates to internal full time vs. external contract employment. Beginning with the recession in 2008, there has been a steady increase in the use of external workers. Many experts and workers alike view this as a positive shift to a gig economy that gives employees greater freedom, rewards and flexibility. But like all changes, the increasing move to externa work may also pose some risks in addition to opportunities.

To better understand this move towards external work, we analyzed compensation levels for several in-demand external positions using data collected by SAP Fieldglass, a longtime leader in external workforce management and services procurement, to determine whether rates were competitive. While it can be challenging to quantify many benefits such as flexibility and autonomy that drive workers to enter the flexible workforce, exploring bill rates can offer a starting point for this discussion.

Figure 1 compares the average annual billings of external workers with full-time employee salaries for twelve common contract positions. The full-time employee wage data displayed on the X axis is taken from the US Bureau of Labor statistics website. The contractor wage data on the y-axis was calculated using anonymized data from 2013 to 20016 on hourly bill rates for nearly 30,000 positions managed through SAP Fieldglass. We estimated annual contractor income based on working 40 hours a week over 48 weeks per year. Annual contractor income was then adjusted assuming workers must pay incremental social security (4.15% after tax deductions), Medicare tax (1% after tax deductions) and $15,000/year for health insurance.

Figure 1. Comparing Contractor and Fulltime Employee Income for 12 Jobs



1. Assumes a 40 hour workweek and 48 working weeks per year. Assumes temp workers need to pay incremental social security (4.15% after tax deductions) and Medicare tax (1% after tax deductions), plus $15,000/year in health insurance.
Source: Fieldglass, Bureau of Labor Statistics

If a job paid contractors and full-time employees the exact same annual wage it would fall precisely on the diagonal line in Figure 1. Jobs below the diagonal line pay contractors less than full-time employees.

Jobs above the line pay contractors more. The jobs in Figure 1 largely fall into two general clusters. On the lower left are what might be called "general skill" jobs, with a broad talent pool available. These positions typically do not require specialized education or training, and are often open to workers with little prior job experience. Thirty percent of the jobs in this sample fell into this category. Forty two percent of jobs fell in the upper right cluster and could be called "highly specialized" assignments. These often require an undergraduate degree or beyond, advanced certification and/or extensive prior job experience. There is typically a limited talent pool for these in-demand roles, and contracted rates were higher on average than that of full-time employees.

The data in Figure 1 provides an interesting answer to the question "is the gig economy good for employees?" At least in terms of compensation, it depends on employee job qualifications and the kind of contract work they are pursuing. The gig economy appears to be financially beneficial for employees in many high skilled jobs. Given the data in Figure 1, it is not surprising that the percentage of the workforce made up of external talent is expected to grow, and that highly specialized work of the future will increasingly be done by experts who are increasingly opting-in to flexible work.

For employers, the question to ask is not whether the gig economy is good for workers – that is a decision employees must make for themselves. The question for organizations is how can they prepare for a future workforce that encompasses both full-time and external workers. The key to success in this new world of work will be having tools and methods that allow companies to identifying opportunities to gain competitive advantage by targeting the right combination of resources, in the right location, at the right time.