Agencies vs. Freelancers?
A market analysis

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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?
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.
Most agencies are founded by freelancers to provide boutique or specialty language services.
• 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...

• They offer services in every language pair, on a global scale, relying on technology and freelancers worldwide

• These large firms have a lot of capital
• They invest in technologies to lower costs and streamline operations
However...

- Their scale and scope enable them to affect market prices
A few, large, corporate LSPs

- economies of scale
- appeal to corporate clients
- capital + resources for technical innovation
- less vulnerable to market pressures
A few, large, corporate LSPs
- less personal relationship with clients and vendors
- “one-size-fits-all” attitude toward labor
- product is a commodity
- Many small, local LSPs
  - personal relationships/connections
  - rapid decision-making and service
  - better knowledge of conditions “on the ground”
• 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?
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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