COLLABORATION

The Dark Side of Crowdsourcing

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Crowdsourcing has been touted as an efficient and inexpensive business practice, but can it really be a win-win proposition? Critics are vehemently urging people not to work on a crowdsourced basis, calling it the equivalent of slave labor and lamenting the jobs lost as a consequence of the practice.

It's a bad time to try to grow a startup -- unless of course your overhead is low. Fortunately for Ryan Born, CEO of AudioMicro, his company falls in that category.

Last year, Born launched his crowdsourced music and sound effects platform to good reviews. Customers range from amateur videographers who want background music to accompany what they post on YouTube 🔍, to corporations that need content for their own internal multimedia projects.

All have the same goal: to legitimately download content for a minimal cost.

By the end of the 2008, Born's efforts reaped a successful round of Series A venture capital. For the sound designers who contributed their work, money began to flow as well. Born recently sent out his first wave of royalty checks, which were typically US$50 to $100 each.

From Born's perspective, the relationship is a win-win. "These people are making money every month -- and will make more as the site really begins to take off," he told LinuxInsider.

In many ways, the AudioMicros venture -- and crowdsourcing in general -- are Web 2.0 commercial success stories. An entrepreneur successfully leverages the Internet to harness the power of the crowd and gets VC funding -- in the depths of a harsh recession, no less.

There's a darker side, though. Crowdsourcing may be killing a lot of jobs.

User-Generated Unemployment

Crowdsourcing is still a nascent business strategy that works well only in certain scenarios. It can't be lumped in with outsourcing 🔍 as the cause of mass layoffs 🔍. As is the case with outsourcing, though, it can be particularly difficult to quantify crowdsourcing's negative impact.

Lost jobs -- or in the case of small businesses that compete with crowdsourcing, eroded income streams -- are an obvious starting point.

Indeed, bloggers and other observers have been picking at this subject for a couple of years. In 2008, to cite just one example, ZD Net's Tom Foremski reported that Intuit (Nasdaq: INTU) 🔍 CEO Brad Smith told the audience at *Fortune Magazine's* invite-only Brainstorm conference that he had asked his managers to figure out what salaries could be cut because users were volunteering to do certain customer service jobs for free.

Smith apparently said that users were providing better answers to key questions than Intuit staff. In his blog post, Foremski pondered whether social media was going to usher in user-generated unemployment -- and whether Intuit would pass on savings in labor costs to users.

The Defense Speaks

Such fears are grossly overstated, in the view of Jack Hughes, chairman and founder of TopCoder.

Crowdsourcing is more "a resource allocation issue than anything else," he told LinuxInsider. "[It's] a company looking for someone with a specific skill set to solve a specific problem. We haven't seen it replace people."

Software development, which often turns toward crowdsourcing, proves his point, argued Hughes. "It is very rare that someone will tell you that his or her software development needs have been met. There is always a need for developers. What happens is that companies find themselves with resource allocation mismatches -- they have people working in areas that are no longer needed and a dearth of people working in areas that do need input."

Sites like AudioMicro do not even cannibalize business from established providers of music or stock photography, argued Born. "We are catering to people who would not buy anything at all rather than pay the prices these companies ask. What we are doing is creating a new market of buyers."

Job losses resulting from crowdsourcing are minimal -- if they occur at all, said Rick Brenner, principal of Chaco Canyon Consulting.

"I don't know of any jobs that have been lost," he told LinuxInsider.

Freelance Generation

The logical counterargument is that companies would have to acquire needed content or intellectual property from somewhere if crowdsourcing were not available.

More than likely, that "somewhere" would be freelancers or small companies -- the types of businesses that are oftentimes established by people who have just lost their jobs. Crowdsourcing, the argument goes, undercuts this constituency.

Still, that's the nature of the Internet -- and life in general. Ten years or so ago, when Expedia and Travelocity burst onto the scene, people flocked to their sites because they aggregated travel options and made the booking process easier than ever before. Left in their dust were thousands of suddenly irrelevant travel agents.

"In the Internet world, people are always undercutting each other," Born said. "For instance, I am talking to you on a Skype 🔍 phone right now."

If the Crowd Gets a Real Job

Companies -- and critics -- would do better to consider other practical drawbacks to crowdsourcing, Brenner said, which can be considerable.

For instance, while the recession is making high-quality participants more available in many categories, "companies that adopt crowdsourcing now -- or become dependent on it now -- face a risk that these people will become far less available when, or if, economic conditions change for the better," he said.

"What might seem like a viable business model now might become unviable with dramatic suddenness, if the 'crowd' gets jobs elsewhere."

A dependence on crowdsourcing could also lead to companies abandoning or severely curtailing their investments in automation and technology.

"The low cost of crowdsourcing makes investment in automation and technology much more difficult to justify," explained Brenner, "but automation and technology offer far more than replacements for labor. High-tech approaches to production can shorten time-to-market and enhance quality. In this way, crowdsourcing can weaken the company, making it vulnerable to competitors that make investments that truly change the game."

By the same logic, it becomes more difficult for a corporation to justify investment in new products or services that supersede those that are benefiting from crowdsourcing.

"Deferring such investments makes the company vulnerable to competitors who develop innovative next-generation products or services," Brenner warned. "These competitors have less difficulty making the investment decision, because they're buying into the market." **ECT**

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