OCT 12
Rachel Wolff

Gig economy companies Uber, DoorDash, Instacart find their business model under threat

Article

The news: The US Labor Department released a proposal that would **make it easier for workers to be classified as employees, qualifying them for benefits such as a minimum**

wage and overtime pay. The news caused **DoorDash**, **Uber**, and **Lyft** shares to fall as investors worry about the added costs the new rule will bring.

How it works: Under the current guidelines, the two most important factors in determining whether a worker should be classified as an employee are the nature of the work and how much control the worker has, and the worker's opportunity for profit or loss. The narrow criteria made it easier for companies like Uber and Lyft to keep drivers classified as gig workers, but also increased the likelihood of misclassification.

The new rule would expand the number of criteria needed to determine whether a worker is economically dependent on their employer for work, or is in business for themselves. Only by taking the "economic reality of the whole activity" into consideration, the Biden administration argued, can workers be properly classified as independent contractors or employees.

The implications for Uber, Lyft, Instacart, et al: Reclassifying workers as employees would be an expensive undertaking for ridesharing companies, food delivery platforms, shipping operators—or any of the multitude of businesses that rely on gig workers. For example, investment firm Wedbush estimated that **Uber and Lyft could see their costs rise by 20% to 30% if they had to add employees to the payroll**, per Reuters.

- For **FedEx Ground**, which is already grappling with low morale among contractors, the rule could be an opportunity to follow **UPS**' lead and convert all drivers into full-time employees.
- But it could also pose an existential threat to rapid delivery companies like **Gopuff** and **Gorillas** that are already struggling to make money, and potentially lead to greater consolidation within the food delivery space.
- Nor will consumers escape unscathed: Higher labor costs will trickle down into more expensive Lyft rides and Instacart orders, and could also lead sellers on **Amazon** and **Walmart** to hike prices in response to increased fulfillment costs.
- Raising prices could seriously affect these platforms' ability to attract consumers at a time when many are cutting back on extraneous spending, and slow growth considerably.

On the other hand, the promise of wage security and some job protections could make recruitment easier and reduce turnover.

The bigger picture: While there's no question the rule could make life a lot harder for companies that rely on gig labor, the proposed changes are in line with the Obama administration's policy, which allowed Uber, Lyft, and others to avoid classifying drivers as employees.

- Lyft said in a statement that the Department of Labor's proposal wouldn't require it to reclassify its workers, nor change its business model.
- DoorDash and Uber issued similar remarks, with DoorDash noting that 90% of its Dashers prefer to remain independent contractors.

Despite the Biden administration's more aggressive stance on labor protections, it's too early to tell whether the proposed rule change will pose a serious challenge to the status quo.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*