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Musings

#57: Leveraging the Gig Economy
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Much has been written about the "gig economy" where individuals contract to do work on a project basis. Most of the writing focuses on the "supply" side of individuals lining up gigs like Uber driving. I would like to focus on the "buy" side and companies leveraging this development.

In 2018, Gallup conducted a study that found that 36% of U.S. workers are gig workers. They wrote: "Gallup estimates that 29% of all workers in the U.S. have an alternative work arrangement as their primary job. This includes a quarter of all full-time workers (24%) and half of all part-time workers (49%). Including multiple job holders, 36% have a gig work arrangement in some capacity." This works out to about 57 million Americans.

Many policy makers are concerned about this trend as these "gig workers" don't have access to healthcare and retirement benefits. Under the Obama administration, the Department of Labor and the NLRB applied a stringent five part test you had to pass for someone to be a contractor vs being deemed an employee. Some states like California have passed new controversial legislation "drawing the line" much differently forcing companies to treat "gig economy workers" as employees and benefits eligible.

Keep an eye on these regulatory trends but I recommend you embrace and leverage the gig workforce by tapping into new talent without increasing fixed costs. When you hire someone in the "gig economy," they don't hit your regular payroll and you don't have the 20-30% of salary cost of benefits. By definition, they also are a variable cost. You don't have to keep paying them after the project. This gives you more flexibility as you face a volatile revenue line. Ideally, you would have fixed costs only for the revenue which has certainty and then flex up with the variability of demand with contracted labor.

Ideally, you develop a stable of contractors who you know and trust. You don't have to explain the company and its culture because they already know it. Certain fields are known to have personalities more accustomed to this work structure like creative, digital marketing or website development. Many software coders and project managers are also free-lancers. On the other hand, I don't know many gig economy accountants.

Make sure you have a contract form that ensures the work product belongs to the company and not the contractor. It needs to be "work for hire" especially with technology contractors.

You need to have a "control system" where these contracts are budgeted and managed. A common mistake is to have tight financial control of hiring employees and salary increases but not to have oversight of a manager signing up a contractor. This can become an "end around" on a hiring freeze and an unexpected expense when you close the books.

Technology has created numerous “matchmakers” for the gig economy. From broad sites like www.upwork.com or www.freelancer.com to vertical sites like www.fieldengineer.com to demographic sites like www.themomproject.com , there are lots of ways to tap into the talent.

Netflix famously used the gig economy in a competitive style. In 2009, it launched a $1 million prize contest to the development team who could best increase the accuracy of its recommendation engine (ironically, it never deployed the code due to engineering costs to put it in production).

If you put in a system to ensure quality, the gig economy is something to be leveraged especially as we enter a deflationary environment in many sectors.

Be safe. Work hard.

Jml

Second Thoughts

Yesterday I mentioned the hiring of a talented technology professional in Puerto Rico as an example of the future of remote work. Relevant article in the WSJ: silicon-valleys-next-big-office-idea-work-from-anywhere

It must be nice to “play” with someone else’s money. According to CNBC, ”SoftBank recently gave WeWork a valuation of $2.9 billion as of March 31 based on a discounted cash flow method, down from $7.3 billion as of Dec. 31, following its failed IPO. SoftBank has reportedly invested $18.5 billion in the company. WeWork’s private valuation was as high as $47 billion before its botched IPO last year.” ***So they invest $18 billion of shareholder money to own part of a company worth $3 billion now.*** “We made a failure on investing in WeWork and I’ve been admitting that several times I was foolish,” Son said. Here is a slide from the presentation --- two unicorns (that is over $1bn in value each) die and one makes it to the other side? No thanks.