

Gig Economy - quarterly update

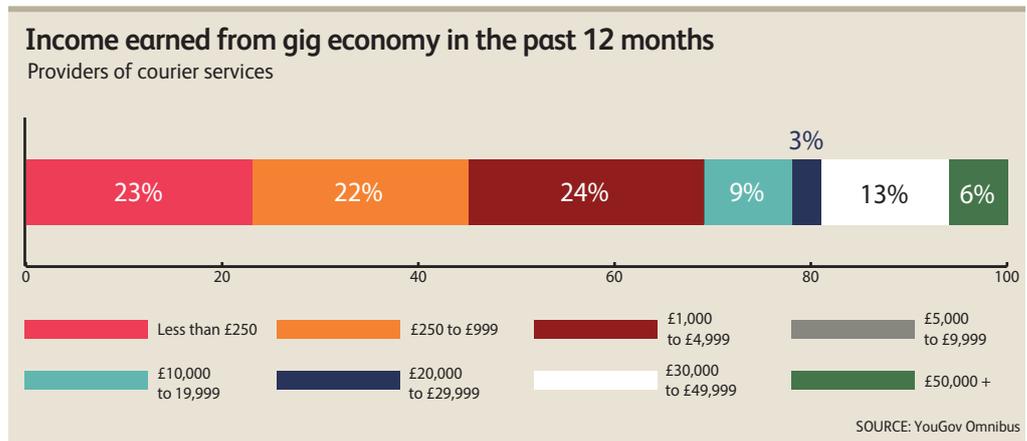
IBISWorld covers more than 400 UK industries, from Steel Drum Manufacturing to Supermarkets, but some trends run across the UK economy and cannot be explored at the industry level. In this quarterly update, analyst Yusuf Allinson explores the key recent developments and landmark cases affecting the Gig Economy.

Many have urged the government to bring employment laws up to date to safeguard gig economy workers

A report early this year by the Department for Business, Energy and Industrial Strategy (BEIS) which detailed the characteristics of the people working in the gig economy found that 56% were aged between 18 and 34 years old. This has driven the number of participants in recent years. However, approximately 24% of participants earn below £7.50 per hour, which has fuelled the number of service providers demanding minimum wage and other benefits. As a result of rapid user growth in the gig economy, many have urged to government to bring employment laws up to date in order to safeguard the wellbeing of gig economy workers. In the past few years, several legal challenges have been raised questioning whether gig economy workers should be classified as employees, rather than self-employed. However, supporters

of gig economy work have highlighted the benefits of working flexibly and emphasised the ability for workers to supplement income from another job through gig employment.

Employment classification is expected to change after the landmark ruling by The Supreme Court in June to class a plumber as ‘employed’ by Pimlico Plumbers Ltd instead of ‘self-employed’. This is likely to have wider ramifications for the structure of the gig economy and has encouraged flexible service providers such as Uber drivers to claim entitlement to minimum wage, in a case that will be decided later in the year. The gig economy is structured so that workers are technically self-employed and are paid for each task completed rather than being offered a base salary. This is aimed at minimising wage costs



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and other costs related to employee benefits such as holiday pay, protection against forms of discrimination and mandatory wage increases.

Courier services

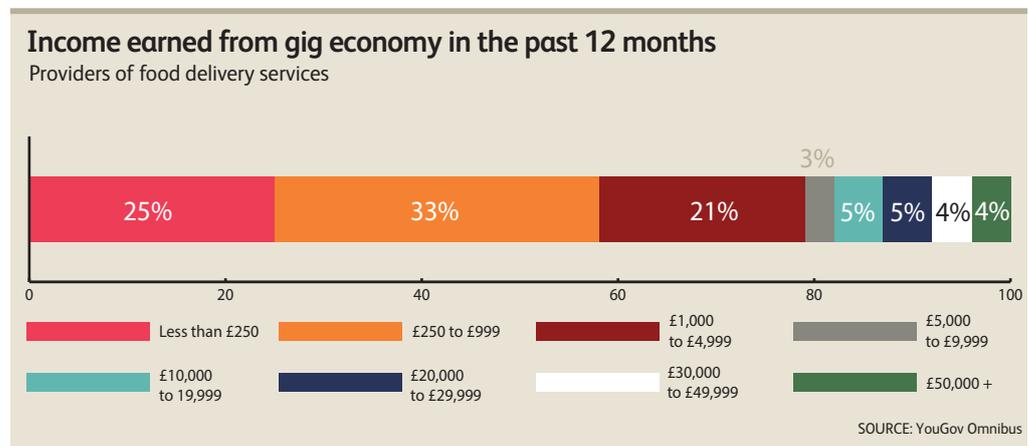
Courier services remains the most common form of gig economy. IBISWorld estimates that the UK Postal and Courier Activities industry (IBISWorld report H53.000) to be worth over £21 billion in 2018-19, with overall wages declining despite revenue growth. This is set to change in the coming years after a group of couriers won a legal battle against Hermes to be classed as employees in June 2018. This is likely to have implications for the company's network of over 14,500 couriers if they are legally classed as employed by the company. Wages currently account for approximately 36.7% of revenue in the Postal and Courier Activities industry with future increases expected to limit industry profitability. Major platforms in the gig economy that connect couriers with customers have expanded flexible employment options aimed at removing the obligations to pay minimum wage and other employment benefits. Following several similar legal cases challenging aspects of the gig economy, increased regulation and employment laws are expected in the Postal and Courier Activities industry.

Food delivery

Approximately 21% of employees active in the gig economy provide food delivery services through apps like Uber Eats, Deliveroo and Jinn, and one-quarter earn less than £10,000 annually, according to the BEIS. This is a significantly small sum has left many dissatisfied with earnings. In May 2018, the Independent Workers Union of Great Britain, a union representing gig economy workers, raised £50,000 to fund its continuing legal challenge with Deliveroo over the classification of its couriers as self-employed. It argued that this classification unfairly removes Deliveroo's obligation to offer holiday pay and minimum wage to members of its delivery network. Rising demand for delivery services in the Takeaway and Fast-Food Restaurants industry (IBISWorld report I56.104) is expected to encourage platforms such as Deliveroo to offer irregular workers a larger slice of revenue to retain their services. These companies may have to offer incentives such as Deliveroo's £50 bonus to new drivers.

Transport

Transporting people is one of the most prominent services offered in the gig economy, with 28% of people active in the gig economy providing mobility services via digital platforms such as Uber. A BEIS report stated that Uber is the most commonly used transport service with 18% of gig economy



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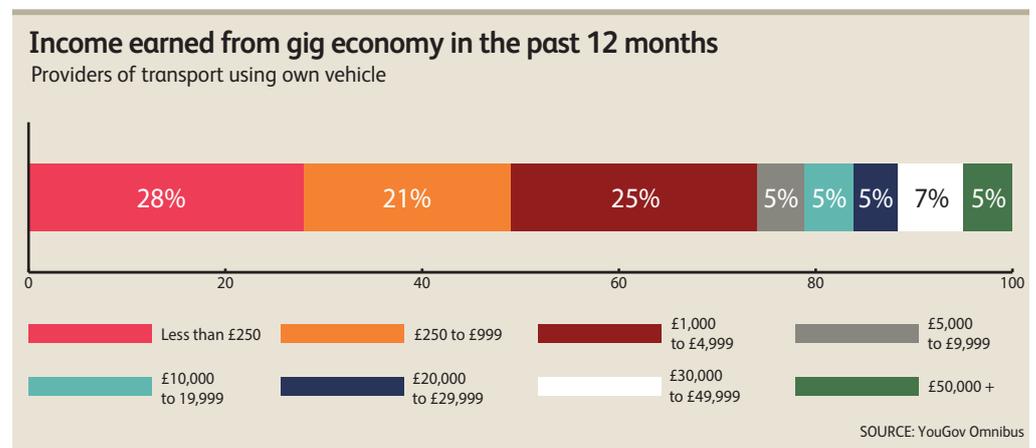
workers providing transport services through the app. The company managed to win its operating licence back after a court battle with Transport for London, after agreeing to drive towards a goal of ensuring public safety and improving its social responsibility. In addition to this, Uber is expected to pool resources into improving benefits for its drivers and end the use of Greyball software, which limits regulatory scrutiny. The company agreed to other concessions too and in May 2018 Uber announced plans to introduce free insurance cover for its drivers to provide benefits such as sick pay and maternity cover. The use of insurance policies to provide the safety net usually provided by employers is expected to lead to an increasing number of insurance companies creating tailored policies aimed at gig economy workers. It is easy to enter the transport service platform industry, and the restoration of Uber's licence under more stringent conditions is not enough to deter companies like Ola from providing the same service. The ride-hailing app, which holds a significant share of the Indian market, has implemented plans to accelerate into the UK market, which could lead to increased price competition and encourage existing operators to offer extra benefits in order to maintain market share.

Accommodation

Accommodation platform providers such as Airbnb do not facilitate the exchange of labour and thus fall outside of the BEIS's definition for the gig economy. However, as they share many similarities with gig employment providers, it is useful to consider the market alongside the gig economy. The rising popularity of accommodation platforms has provided opportunities for businesses that cater to this market such as cleaning companies, dry cleaners and self-employed individuals that offer cleaning services. Over the past year, this sector has benefited from a boost in tourism as the pound has remained weak, with data from the Office for National Statistics showing that visits to the United Kingdom by overseas residents reached 39 million in 2017. The rapid growth in the use of platforms such as Airbnb has encouraged the company to implement plans to offer hotels and luxury properties on their platform. These new offerings may provide rising competition for the Hotels industry (IBISWorld report I55.100) and force them to make room for platforms such as Airbnb.

Brexit and beyond

The European Commission has actively sought to offer more protection for workers in the gig economy. The Commission recommended that workers should have minimum levels of social security protection such as employment benefits and maternity



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leave. Limited changes are expected after the United Kingdom leaves the European Union due to the number of legal challenges decided in favour of service providers in UK courts. The European Union has insisted that the UK government maintain European standards in areas such as employment and tax policy. However, a significant number of EU citizens provide courier, transport and other gig economy-related services and restrictive migration policies in the long term could reduce the pool of workers in the gig economy, which may have a long-term effect on rates set by irregular workers. However, the main benefits of these platforms are that they offer customers access to cheap and flexible service providers and higher rates may discourage usage.

As user growth for gig economy platforms continues to rise rapidly and companies rewrite contracts to clarify self-employment, future developments in the gig economy will be shaped by domestic legislation upon the UK's exit from the European Union. Ultimately future legislation will have to accommodate an evolving labour market which aims to

protect workers' rights and make sure no one is left behind. In the long term, workers in the gig economy may have PAYE income tax deducted from earnings, following a recommendation in July from independent tax advisor, the Office of Tax Simplification. A proposed new system will consider whether online platforms could operate a system equivalent to pay as you earn before final payments are made to service providers. Acceptance of this recommendation by the government will ease the compliance burden faced by gig economy workers, currently treated as self-employed. After declaration, most workers in the gig economy face a high one-off payment to HMRC at the end of the year which will be eliminated if a pay-as-you-earn system is implemented. Most service providers are likely to favour monthly deductions over a significant tax bill at the end of the year. As the gig economy continues to face new pressures and opportunities while delivering new challenges to lawmakers, this article will be updated on a regular basis to account for the latest developments.

IBISWorld Industry reports used in this special report:

| | |
|----------------|--|
| G47.520 | Hardware & Home Improvement Stores in the UK |
| G47.599 | Furniture, Lighting & Homeware Retailers in the UK |
| H49.311 | Urban Passenger Rail Operations in the UK |
| H49.319 | Bus & Tramway Operations in the UK |
| H49.320 | Taxi Operation in the UK in the UK |
| H49.420 | Removal Services in the UK |
| H53.000 | Postal & Courier Activities in the UK |
| I55.100 | Hotels in the UK |
| I56.101 | Full-Service Restaurants in the UK |
| I55.200 | Holiday Accommodation in the UK |
| I55.300 | Caravan & Camping Sites in the UK |
| I56.104 | Takeaway & Fast-Food Restaurants in the UK |
| K65.120 | General Insurance in the UK |
| N81.210 | General Building Cleaning in the UK |
| S96.010 | Dry-Cleaning & Other Cleaning Services in the UK |
| UK0.006 | Pizza Delivery & Takeaway in the UK |

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