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Gig economy businesses like Uber and Airtasker need to evolve to survive

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The honeymoon is over for the gig economy. The loose collection of online platform companies - from Airtasker to Uber and Deliveroo - has long trumpeted its difference from the business norm, but is starting to lose its shine. Now these companies must own up to the limits of their business model.

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Murmurs of criticism that always existed around aspects of the gig economy's operation have turned into a chorus of challenge. Labour activists take aim at platforms' treatment of workers and their refusal to define themselves as employers. Tax regulators are following the money and checking whether gig companies pay their fair share. Even some of the investors who bankroll these platforms are wondering if they are really just get-rich-quick schemes for their owners.

Some observers even suggest that gig economy leaders are deliberately ignoring serious flaws in their business models. The most recent example is former Uber boss Travis Kalanick, who was forced to resign after a series of scandals centred on the organisation's toxic work culture.

Platform companies cannot ignore these controversies and hope to ride out the storm. The sector as a whole needs to change to survive, and there are potentially large competitive advantages available for firms that respond quickly to these emerging opportunities and constraints.

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The business cycle

Right now, business and employment conditions are weak. Firms are slow to hire and there is an oversupply of workers. Many platform companies exploit this, offering new recruits attractive starting pay rates and then reducing them as more people join the app.

The crunch will come when labour market conditions improve and workers have more alternatives. Then, the balance of costs and benefits will look very different for potential gig workers, and the attractions of flexibility may not be enticing enough.

At that point, platform companies will not have a long queue of eager workers at their door. They will have to improve (and maintain) the conditions they offer - just as other firms do when facing skill shortages.

This will be a difficult adjustment for many platform companies. Most have simply not built the culture of trust and reciprocity that would help them to retain their most capable workers in the longer term.

Instead, most platforms have viewed workers as interchangeable units whose jobs can be done easily by anyone with a little training. Few companies would be so sure about finding good replacements for their current workers or so unfazed about the costs of doing so. But many platform companies continue to drive a hard bargain with their workers.

Moving upstream

Jobs in the gig economy today are mostly at the low end of the labour market. The work often involves “one-off” tasks where formal training requirements are low and personal interaction is limited or absent - things like painting a wall, delivering a parcel, or checking digital media content.

The platform model is much less prevalent higher up the occupational ladder. This is partly because skilled workers prefer and can demand the better conditions of traditional employment, and also because licensing and accreditation barriers make it difficult for platforms to employ professionals.

However, there is evidence that platforms are starting to gain a foothold in some professional labour markets. New platforms exist for services in accounting and the law, and even in more sensitive areas such as personal care. One example is Better Caring, an online marketplace for aged and disability support workers.

The emergence of these new types of platforms suggests that the platform model may be capable of adapting itself to a wider range of labour markets. Expanding into professional, caring and other skilled occupations is a survival imperative for the platform economy, given the many projections about where the future jobs are likely to come from.

Yet the challenge for the gig economy to transcend its origins is also about the platform model’s suitability for a different and more discerning group of customers. The person ordering a meal delivery has little need to know the name and life story of the rider who brings it. But a person arranging a carer for an elderly parent will want to know a great deal about the person they are employing.

Platform companies may become more permanent players in our economy if they evolve to add value even for customers making choices about these very different types of transactions.

Competition

Past experience suggests that, once an app is operating, its functions can be easily copied by rival firms. Uber and Lyft offer similar platforms, as do Deliveroo and Foodora.

The platform model can be copied by other types of businesses offering similar services but with different ownership models and better working conditions.

One example of this is "platform cooperatives" that mimic the leading platforms but are owned by their workers. Unionised taxi drivers in the United States have developed apps that channel profits back to drivers through healthcare and other benefits.

By carving out a niche of the market, these new rivals pose a potential competitive threat. Perhaps more importantly, they serve as a reminder of some fundamental flaws in the "default" model used by more mainstream platform firms.

The cooperative model is just one option towards making the gig economy more resilient to the business cycle.

Today's manifestations of the gig economy are tilted in favour of too few beneficiaries and are not built to last. To prosper in the longer term, platform companies must do what they claim to do best: innovate.

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