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Pragmatic Policy Group

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Minnesota App-Based Delivery Work in 2024

Measuring the impact of employee reclassification on labor outcomes

About this Report

Pragmatic Policy Group (PPG) was commissioned by DoorDash to independently estimate the impact on app-based workers in Minnesota if they are reclassified as employees.

Our focus is on Minnesotans who currently choose to earn money by working flexibly on app-based delivery platforms.

Pragmatic Policy Group

PPG is an independent economic research agency, which models the impact on the economy of various legislative and regulatory scenarios.

PPG is particularly focused on the unintended consequences of government policies for the most vulnerable members of the community.

We use advanced analytical techniques and industry experience to forecast the impact of regulations, share evidence-based insights and help inform strategic decisions.

About the Author

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Oliver has also worked for nearly a decade in economics, finance and law at BlackRock in New York, J.P. Morgan in Sydney and at global law firm Ashurst.

The cost of undertaking this research was covered by DoorDash. The conclusions PPG presents are entirely our own, based on our independent analysis of the data.

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1. Executive Summary

In this report, we determine the economic impact of reclassifying app-based delivery workers as employees in Minnesota. Currently, app-based workers are classified as independent contractors. This classification allows workers to have flexibility over the hours and the extent to which they choose to work, as well as enabling workers to engage in other forms of work (including working on multiple apps at the same time). Some 94% of Americans view a flexible schedule as a benefit of app-based work and 68% believe the appropriate description for this work is independent contractor.[1]

However, some policymakers aim to reclassify app-based workers as traditional employees. An employment model would impose a number of costs on companies, such as additional staff to manage human resources and accounting, as well as onboarding, recruiting, and supervising. It would also mean that app-based workers would likely have fixed schedules of 20 – 40 hours per week, and that app-based companies would be financially responsible for providing benefits to all workers. Our analysis suggests that such policies would lead to a loss of **88% – 91%** of earnings opportunities for delivery workers.

There are two major channels for these consequences:

01

Higher costs leads to lower demand for app-based delivery work

When contractors are reclassified as employees, app-based companies will be financially responsible for providing benefits to their employees. In order to cover these new costs, companies will have to increase prices. The extent of this price increase varies; companies may pass all of this cost on to customers or choose to absorb some of the cost themselves. We analyze a range of potential outcomes but assume that most of the cost is passed on to the customer.

Price Increases

- We expect prices to rise by **20% – 29%** for app-based delivery services to cover the cost of employment.

When prices increase, customers respond by lowering their demand for delivery services. Customers will forgo delivery services and merchants will likely lose business. We provide several estimates for the degree to which customers respond to a change in prices of app-based delivery.

Lower Consumer Demand

- We project consumer demand for delivery to fall by **11% – 34%**.

(1) Pew Survey of U.S. adults conducted Aug 23-29, 2021. "The State of Gig Work in 2021."

Lower consumer demand means that app-based delivery services will not receive as much business as they did previously. This causes hours and total earnings available for workers to fall.

Fewer Worker Hours Needed

- We project that demand for deliveries will fall by **21,000 – 67,000** hours per week**.** This means significantly fewer hours available for app-based delivery workers to work.

Fewer hours available for Minnesotans to work in app-based delivery means that workers earn much less each year from this type of flexible work.

Lower Worker Earnings

- Our modeling predicts that Minnesota workers' earnings will fall by **$30 million – $96 million** annually across delivery services**.**

02

Fixed schedules lead to fewer opportunities to earn through app-based work

Reclassifying workers as full time employees would take away the flexibility that enables so many individuals to earn money on app-based platforms. Currently, there is no minimum number of hours that workers need to work and the majority of delivery workers work fewer than 10 hours per week. If workers are reclassified as employees, app-based companies must pay a large fixed cost to employ each worker. Companies incur these costs no matter how much an employee works, so will be incentivized to minimize these costs by employing a fraction of the original number of workers and requiring them each to work extended, fixed shifts (which most workers could not commit to given their other family and work obligations). The lower number of hours now available (due to lower demand) would be distributed among a much smaller number of workers because each worker is now significantly more expensive to hire.

Fewer opportunities to earn

- We forecast **57,000 – 59,000** delivery earnings opportunities will be lost**.**
  - This represents a loss of **88% – 91%** of current opportunities.

2. Introduction

This report focuses on the economic consequences of reclassifying app-based delivery workers in Minnesota as full-time employees. We assess the likely impact of reclassification on workers who currently choose to work flexibly on one or more of the DoorDash, Grubhub, Postmates, and Uber Eats platforms.[2]

Our starting source of data comes from a report by BW Research (2022)[3] which studies hourly earnings for app-based workers in Massachusetts. We update these estimates to 2023 levels for delivery workers in Minnesota using industry data, and publicly available economic data. Our approach follows the model and logic set out by Beacon Economics (2022),[4] who study the impact of reclassifying app-based rideshare and delivery workers in California.

First, we estimate the increase in cost of worker benefits that would follow transitioning to an employment model. This increase cost of benefits is then passed on to the customer in the form of higher prices. Customers respond to higher prices by reducing their demand for app-based services, which reduces the number hours available for delivery workers to work, their total earnings, and the number of earnings opportunities available. Our model then takes this lower estimate of hours available to work and converts it to a smaller number of part-time and full-time employees that would be hired, each of whom would be required to work 20 hours or 40 hours per week, respectively.

We model two scenarios**:** a base case and a downside case:



Base Case:

This scenario is the minimum impact we expect employment classification would have. It assumes a benefits cost that is the average for private employers, predicts that the companies will pass on only 75% of this cost to customers, and that customers have a price elasticity of -0.55, meaning for every 1% increase in price, demand will fall by 0.55%



Downside Case:

This scenario reflects the potential for a more significant impact. It assumes a higher benefits cost similar to the transportation services industry, predicts that the companies will pass 100% of this higher cost on to customers, and that customers have a price elasticity of -1.2, meaning that for every 1% increase in price, demand will fall by 1.2%.

(2) The data we use is limited to "major meal delivery services" and does not include companies like Instacart & Shipt. If we were to include them lost opportunities and earnings would be even higher.

(3) BW Research Partnership. Hourly Earnings of App-Based Rideshare Drivers and Food Delivery Workers in Massachusetts: March 2022.

(4) D Lewin, W Hamm, M Kim, Berkeley Research Group, Analysis of driver jobs if gig economy companies must reclassify drivers as employees rather than independent contractors: May 2020.

3. Impact of reclassification on prices

Should independent workers be reclassified as employees, the companies will be required to pay significantly higher costs for traditional employment benefits for each worker. Workers can currently choose to work zero hours in any given week. Most benefits don't make sense to offer to workers choosing to work infrequently and inconsistently: **two-thirds of workers work less then 10 hours a week,** and many have weeks where they do not work at all. Further, **68% of workers report app-based work is a side job,** suggesting that the majority of workers already have benefits through their other full-time or part-time job.[5]

The cost of paying benefits is significant. Following our research peers studying California, we estimate that the cost of benefits under an employment model for app-based companies using the ratio of benefits to wages typical of private industries, according to the Bureau of Labor Statistics 2023 (BLS).[6] As a fraction of gross revenue for the companies, it represents a **26% – 29%** increase in company expenses.



Increased cost for companies

- Costs for app-based delivery companies expected to rise by **26% – 29%**

As companies will most likely be unable to afford this increase in expenses, they will need to pass on some fraction of this cost to customers in the form of higher prices. Our research peers studying California assumed companies would pass on 100% of their increased cost to customers. We have chosen to be conservative and consider a lower bound of 75% cost pass-through in our base case, in addition to 100% cost pass-through in our downside case. When 75% – 100% of increased costs are passed on to customers, it results in **a 20% – 29%** increase in the prices that customers pay for delivery services.



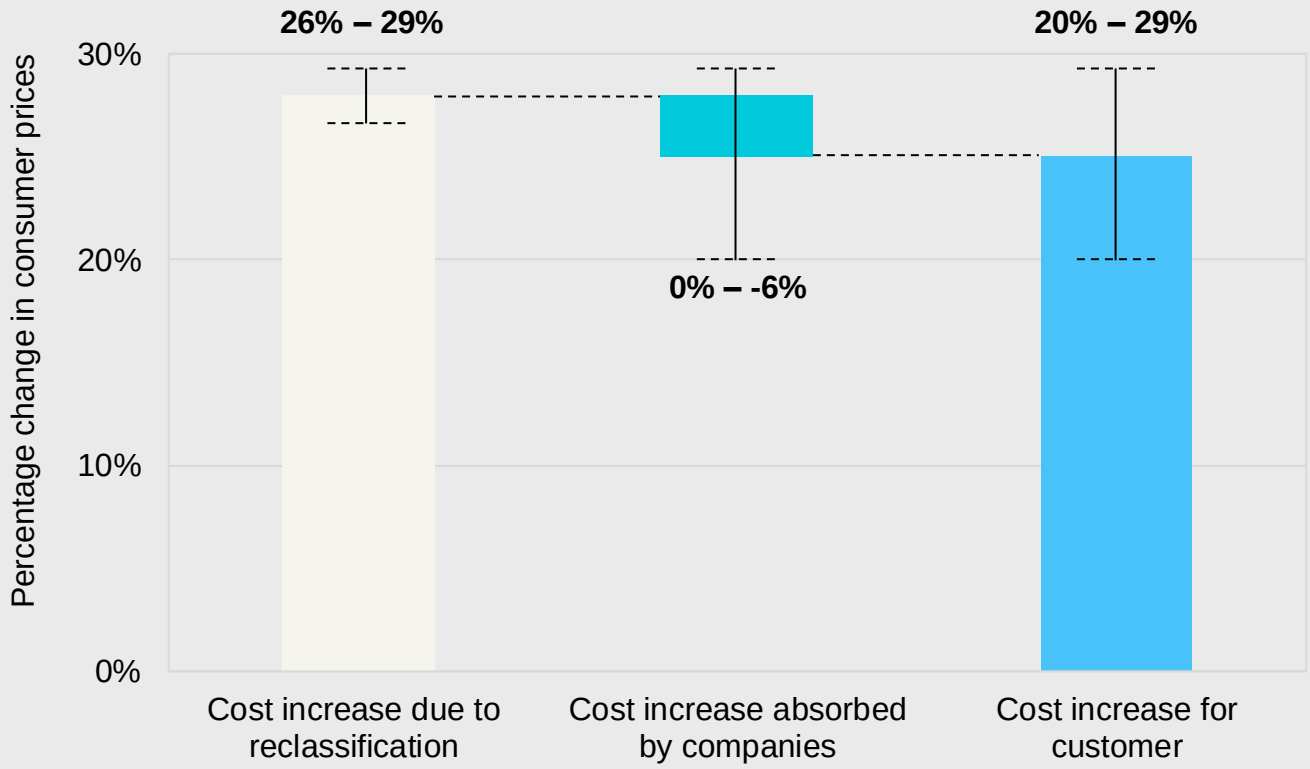
Rise in consumer prices

- Prices expected to rise by **20 – 29%** for customers of app-based delivery.
  - We reach this result by assuming that companies choose to pass on **75% – 100%** of their increased costs to customers.
  - **Our assumptions are conservative compared to our research peers studying California who assumed companies would pass on 100% of their increased costs to customers.**

(5) Pew Survey of U.S. adults conducted: Aug 23-29, 2021. "The State of Gig Work: 2021"

(6) Bureau of Labor Statistics (BLS), Employer Costs For Employee Compensation: June 2023 [USDL-23-1971].

Fig 1: Price increases of 20% – 29% for delivery services



4. Price increases and customer demand

When the price of delivery increases, consumers will use app-based delivery services less often. Demand for app-based delivery services will fall as consumers prefer to buy cheaper alternative goods and services that are not impacted by these price increases.

The extent to which an increase in prices affects how much consumers choose to buy is referred to as 'price-elasticity of demand'. Our research peers studying California's legislation (cited above) assumed that app-based rideshare and delivery services have such a price-elasticity of demand equal to -1.2, which would mean that for every 1% increase in prices, customers will order 1.2% fewer services.

- This assumption was also used by economists who supported employment-like protections for rideshare workers in New York City.[7]

We estimate a range of outcomes, including the more conservative assumption that customers might have a lower price elasticity of demand equal to -0.55, based on another U.S. study into the impact of similar proposed reclassification in Massachusetts.[8]

- This would mean that for every 1% increase in prices, consumers will order 0.55% less. Consumers don't adjust their spending as much in this more conservative scenario, so the negative impact on demand and work opportunities will be smaller.

We multiply the projected consumer price increase of 20% – 29% by the price elasticity of demand of between -0.55 and -1.2 to estimate a 11% – 34% decline in demand for app-based delivery services. This decline in demand represents the reduction in orders that companies can expect following a reclassification of app-based workers to employees, which requires an increase in prices to cover the higher costs of traditional employment.



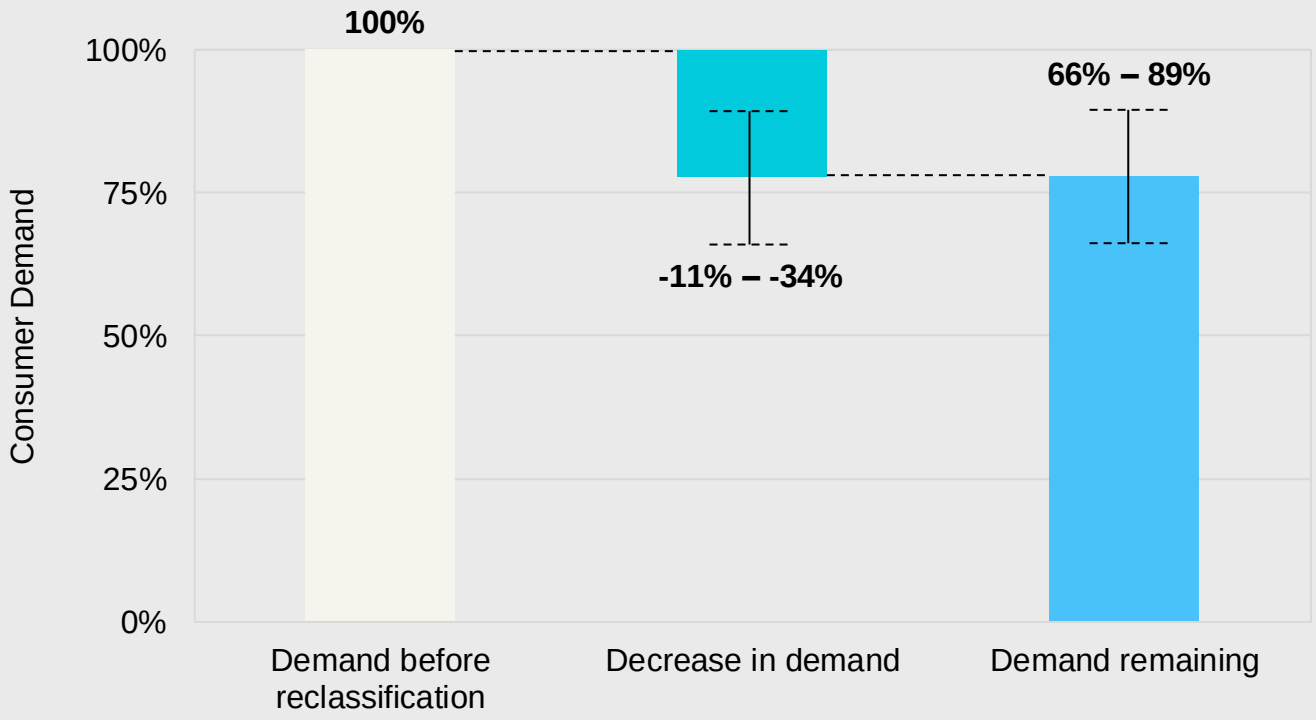
Lower consumer demand for app-based delivery services

- We project a fall of **11% – 34**% in consumer demand for app-based delivery services due to large price increases for consumers.

(7) J Parrott and M Reich, Report for the New York City Taxi and Limousine Commission, An Earnings Standard for New York City's App-based Drivers: Economic Analysis and Policy Assessment: July 2018

(8) T Osman, Beacon Economics, How many app-based jobs would be lost by converting rideshare and food delivery drivers from independent contractors into employees in the Commonwealth of Massachusetts?: February 2022

Fig 2: Consumer demand declines by 11% – 34%



5. Decline in worker hours and earnings

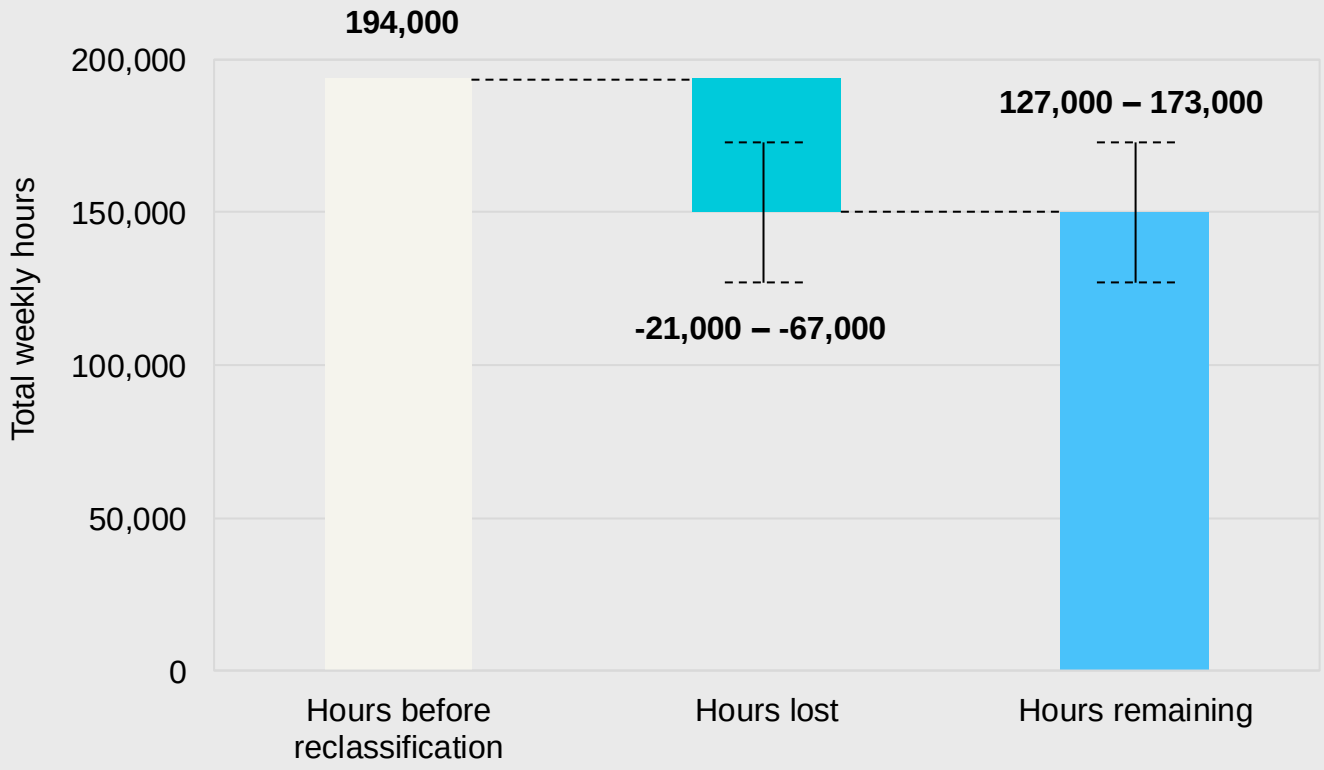
When app-based delivery companies receive fewer orders, workers will have fewer hours to work and will earn less.

Adjusting the estimates provided by BW Research to the level expected for Minnesota in 2023, we calculate that app-based workers currently together work 194,000 hours per week. **If demand for app-based delivery fell by 11% – 34%, this would lead to a corresponding decline in hours available to be worked. We estimate this decline to be 21,000 – 67,000 hour per week.**

Fewer weekly hours available

- When demand falls **11% – 34%**, total hours available to be worked fall by a corresponding amount, or by an aggregate of **21,000 – 67,000** hours per week.

Fig 3: Decline of 21,000 – 67,000 in total weekly hours



When work hours are lost, worker earnings decline

A reduction of **11 – 34%** in hours worked causes a corresponding decline in worker earnings.

We assume an hourly wage of $27.58, based on industry data for Minnesota in 2023. With 52 weeks in the year, and a decline of **21,000 – 67,000** weekly hours, we calculate the decline in annual worker earnings as follows:

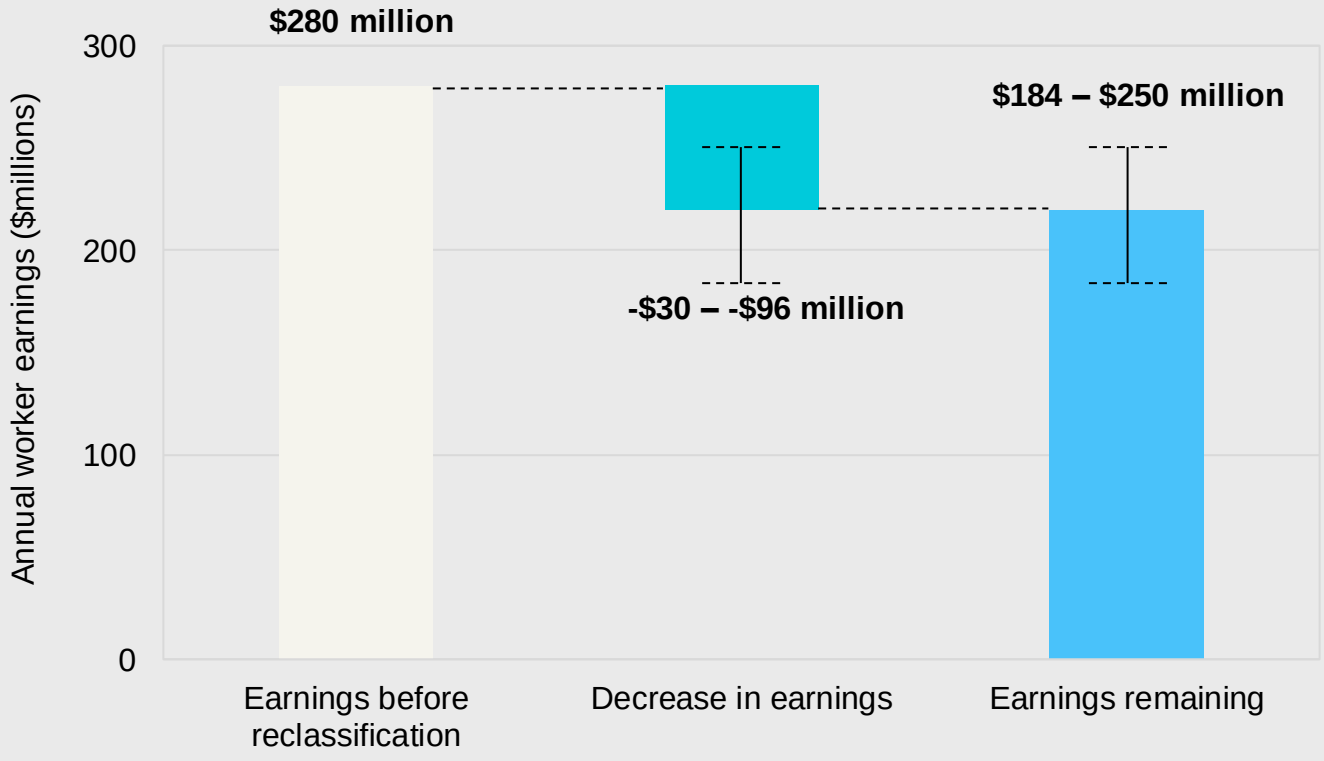
Decline in weekly hours X **Hourly Rate** X **Weeks in Year** = **Decline in annual worker earnings**

Decline in annual worker earnings = $30 – $96 million

Reduction in annual worker earnings

- At an hourly rate of just under **$28/hour**, we estimate a reduction in workers earnings between **$30 million** – **$96 million** over the course of a year.

Fig 4: Up to $96 million worker earnings lost annually



6. Fewer Earnings Opportunities Overall

As detailed above, the reclassification of app-based delivery workers as employees leads to higher costs for companies and higher prices for customers, which reduces demand for app-based delivery and causes a drop in worker hours and earnings. It also has significant consequences for the number of earning opportunities i.e., the number of Minnesotans who can access app-based delivery platforms to work and earn income.

Currently, we estimate that there are roughly 65,000 earnings opportunities with app-based delivery platforms in Minnesota. This calculation comes from an estimate for the number of hours worked each week in the industry, divided by the average number of hours that workers work (roughly 3 hours). 65,000 workers is also equivalent to 1.6% of Minnesota's adult population, which aligns with an estimate from Pew Research Center that 1.63% of adults current do gig work.[9]

The impact of reclassification on earning opportunities occurs via two channels:

Initial loss due to lower demand

'When costs increase, companies pass on some or all of this higher cost to customers in the form of higher prices. Customers respond by lowering their demand for app-based delivery services, leading to fewer hours of work available for Minnesotans who choose this flexible work.

Our model suggests that weekly hours available for app-based workers will fall by 21,000 – 67,000 if workers are reclassified as employees. If app-based workers who are retained could continue to work around 3 hours per week, there would be a loss of around 25% of current earnings opportunities from lower customer demand alone.

Weekly hours lost ÷ **3 hours per week, per worker** = **Decline in annual worker earnings**

7,000 – 22,000 earnings opportunities lost due to decline in customer demand.

(9) Pew Survey of U.S. adults conducted: Aug 23-29, 2021. "The State of Gig Work: 2021"

Secondary loss due to fixed schedules

Should Minnesota reclassify app-based delivery workers as employees, we expect that the companies will require full control of workers' schedules. This would entail having workers work a minimum number of hours per week.

We assume that if workers are reclassified, companies will require every employee to work either 20 or 40 hours per week (which translates to 15 or 30 hours per week of actually being 'engaged' in performing a delivery or enroute to do so).

- This is more conservative than our research peers in California (cited above) who assume that rideshare and delivery companies would require all employees to work 40 hours per week (i.e. 30 'engaged' hours per week).

When the lower number of hours available to work are consolidated into part-time and full-time jobs, the number of opportunities to earn falls further, by a total of **57,000 – 59,000 opportunities** (including the impact of lower demand).

Weekly hours lost ÷ **15 or 30 engaged hours per week, per worker** = **Earning opportunities lost**

57,000 – 59,000 earnings opportunities lost after reclassification

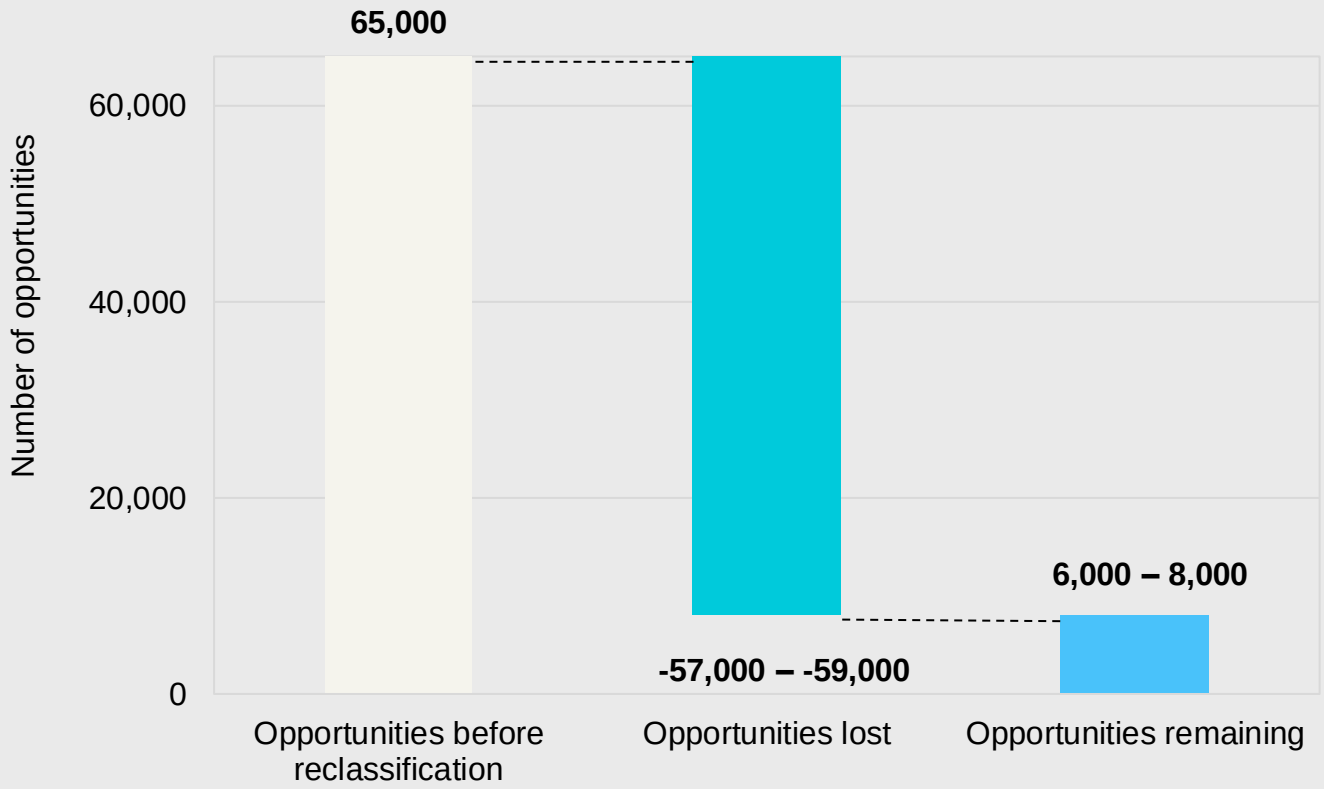
88% – 91% decline in the number of Minnesotans who can earn on app-based delivery platforms.

Total loss of earnings opportunities

- We expect **57,000 – 59,000** app-based delivery earning opportunities will be lost.
- This means **88% – 91%** of current app-based delivery earning opportunities will be lost.
  - The number of Minnesota-based workers able to work on these platforms will decline by **57,000 – 59,000** (from 65,000 currently).
- The main group of workers impacted will be:
  - Workers who depend on the flexibility of app-based work to fit with their lives.
    - **53%** of app-based workers routinely provide care for loved ones.
    - **68%** have a job outside of app-based work.

(10) Lyft's Economic Impact Report: 2023

Fig 5: Elimination of 88% – 91% of earnings opportunities



7. Appendix: Methodology

Our methodology is similar to that of Berkeley Research Group's (BRG) study in California (2019).

First, we derive driver payout for the four app-based delivery network companies (referred to as DNC below, and including DoorDash, Grubhub, Postmates, and Uber Eats) using industry data for Minnesota in 2023.

We then calculate driving expenses (e.g. fuel, maintenance) using estimates for Massachusetts (BW Research, 2021) and scaling for delivery services in Minnesota in 2023. While workers pay these expenses under the independent contractor model, under an employment model the companies will pay this cost directly. We therefore deduct driving expenses from driver payout to get an estimate of wages under an employment model.

Consistent with BRG's research, we estimate the cost of benefits under an employment model as a share of the driver labor compensation that is typical of private industries, according to Bureau of Labor Statistics 2023 (BLS) data.

From this assumed cost of benefits, we subtract an estimate of current benefits cost under the independent contractor model. This difference is the increase in cost to the employer from reclassification. Next, we pass a share of this new cost on to consumer prices and estimate how this impacts demand using a range (-0.55 to -1.2) of price elasticities.

We then take the new (lower) demand and calculate the change in engaged worker hours and earnings that would result from the reduction in customer demand.

Next, we calculate the impact of reclassification on overall earnings opportunities, assuming half of the workers retained as employees are required to work 40 hours per week (equal to 30 'engaged' hours) and half of the workers retained as employees are required to work 20 hours per week (equal to 15 'engaged' hours).

Additional details about our methodology are available upon request.

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