



**How Many Drivers Would Lyft Recruit under a Traditional Work Arrangement?
An Analysis**

**Prepared by Beacon Economics LLC
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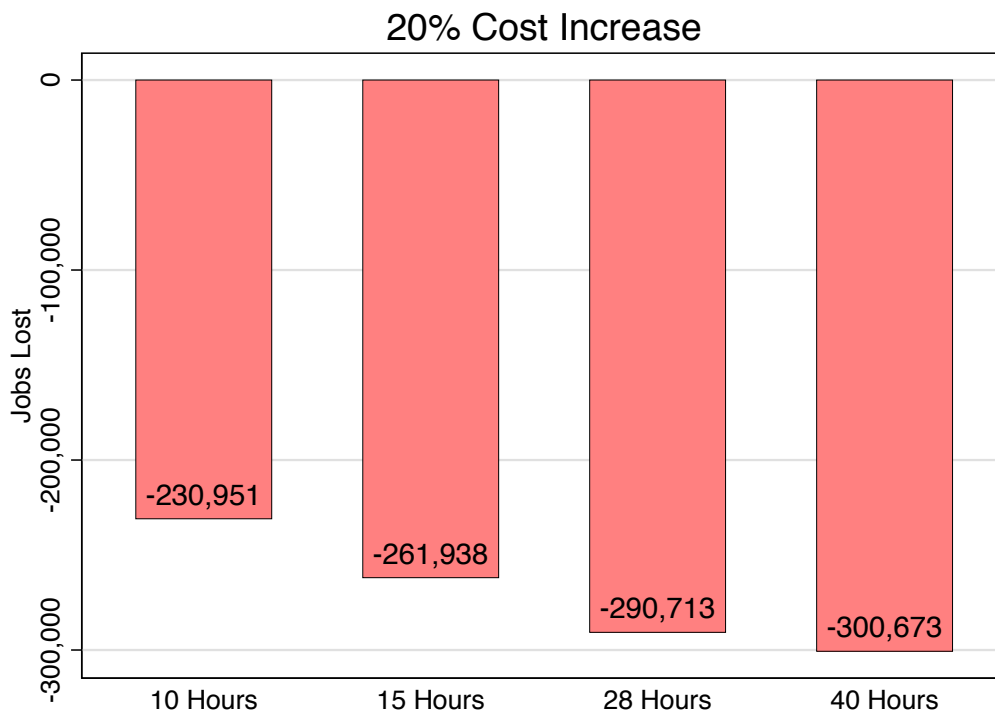
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Executive Summary

- The following study considers how changing the status of Lyft workers from independent contractors to employees could affect the number of drivers who work on the platform. In particular, the study considers how the number of drivers on the platform changes according to different work schedule and cost increase scenarios.
- The study finds that increases in the cost of providing the service coupled with the introduction of formal work schedule arrangements, would likely lead to considerably fewer drivers working on the platform. **Lyft would require as many as 300,673 fewer drivers in California under certain, plausible scenarios.**



- Traditional work arrangements are at odds with how current drivers use the platform. Based on a survey of 7,339 Lyft drivers in California, 77% of drivers identify the ability to work flexible hours as an “extremely important” consideration in using the service, while 18% say flexibility is “very important.” In fact, the average Lyft driver uses the platform for less than four hours per week. Drivers who use the service to supplement their primary source of income account for the largest share of workers on the service.

Context

- In 2018, the California Supreme Court’s decision in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles* (“Dynamex”), provided guidelines, known as the “ABC” test, to determine whether workers should be considered as employees or independent contractors.
- According to the ABC test, a worker will be considered an employee unless:
 - a. the worker is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact.
 - b. the worker performs work that is outside the usual course of the hiring entity’s business.
 - c. the worker is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed.
- In 2019, the California Assembly passed Assembly Bill 5 (AB5), which seeks to legislate the ABC test into state law, subject to the state senate’s approval.
- Such a change would have far-reaching consequences for many industries for which independent contracting is integral to their current operations, and for many workers for whom independent contracting is an important source of income.
- It is widely believed that such changes would have a big impact on the companies of the “gig economy.” In particular, if ride-sharing companies reclassify independent contractors to employees, this would radically transform their existing operations.
- The “gig-economy” is a term that captures a key feature of the work arrangement between the companies and workers of the “sharing economy.” Most workers on these platforms do not use the service as a primary source of income or a traditional form of work arrangement. At the same time, companies do not require workers to work a set number of hours according to a fixed work schedule.
- According to a survey of 7,339 Lyft drivers in California, the majority of the drivers who work on the platform a. identify the ability to work flexible hours as an important consideration in their decision to work for the service and, b. use the platform to supplement their existing (and primary) source of income.
- Introducing a conventional employment model would alter the “gig” arrangement for Lyft and its workers in a number of key ways, some of which include the following:
 1. At present, drivers are not bound to work for the service for any minimum length of time or at any particular time or on any given day of the week. Workers work

on the platform at their convenience. Under a formal employment model, this would change. This would reduce the ability of workers to supplement their income when and as needed.

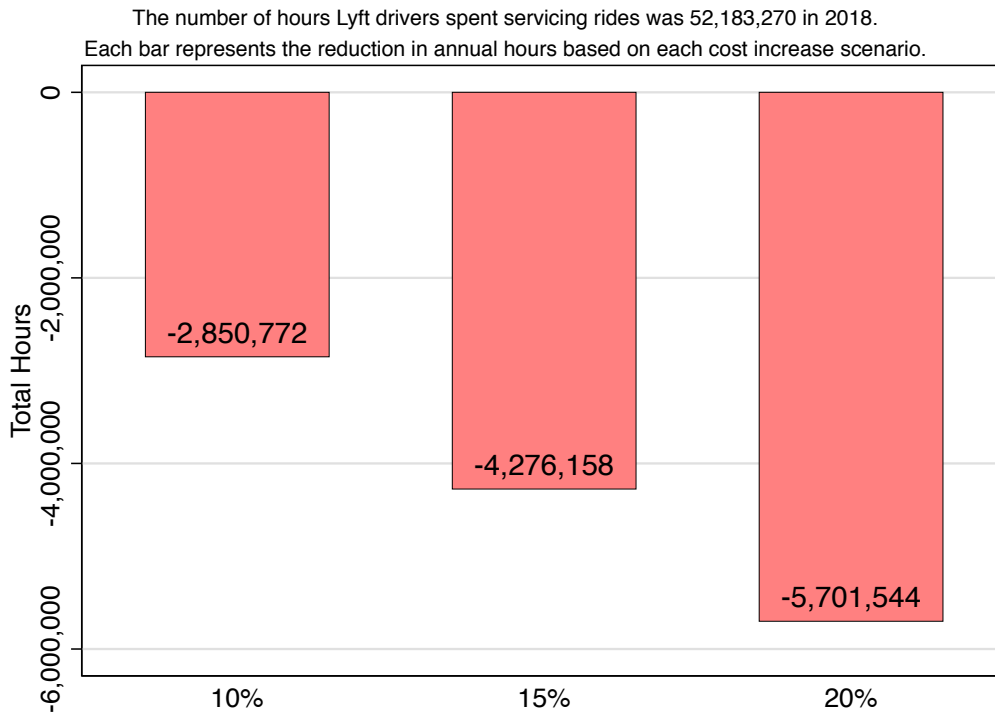
2. Under a formal work arrangement (shifting from independent contracting to employment), Lyft would be compelled to treat workers as conventional employees. This means their workers would be required to work fixed work schedules of a particular length of time, on particular days of the week and for a fixed number of hours in a week.
3. Companies would be required to set work schedules in advance, again stopping workers from using the service at their convenience.
4. Under a traditional work arrangement, companies would most likely seek a dedicated workforce upon whom they could rely on a daily and weekly basis. In other words, companies would require a core, devoted workforce, not workers who work a few hours for the service from time to time.
5. At a given time of the day, a company would require its employees to work for their platform only, meaning that workers would be limited in their ability to work for multiple “gig” platforms simultaneously (e.g. work for Lyft and Uber at the same time).

Analysis

- The following analysis considers how the number of drivers who work for Lyft and the level of service would change under different work arrangement and cost scenarios. The analysis considers changes that would emerge if Lyft reclassifies independent contractors as employees. The analysis considers three cost increase scenarios, a cost increase of 10%, 15% and 20%. The analysis also considers four potential work arrangement scenarios. Specifically, the study considers how the number of drivers required by Lyft would change if it required all of its employees to work either a 40-hour, 28-hour, 15-hour or 10-hour work week, for 50 weeks a year. This range of hours was chosen to demonstrate potential change under different scenarios. The study relies on a widely-cited estimate of how demand for ride-sharing services changes in response to a price increase¹.
- The study relies on data from 2018, the most recent year for which complete data are available. In 2018, 323,914 drivers worked for Lyft in California, working an average of 3.22 hours per week per rider.

¹ <https://www.nber.org/papers/w22627.pdf>

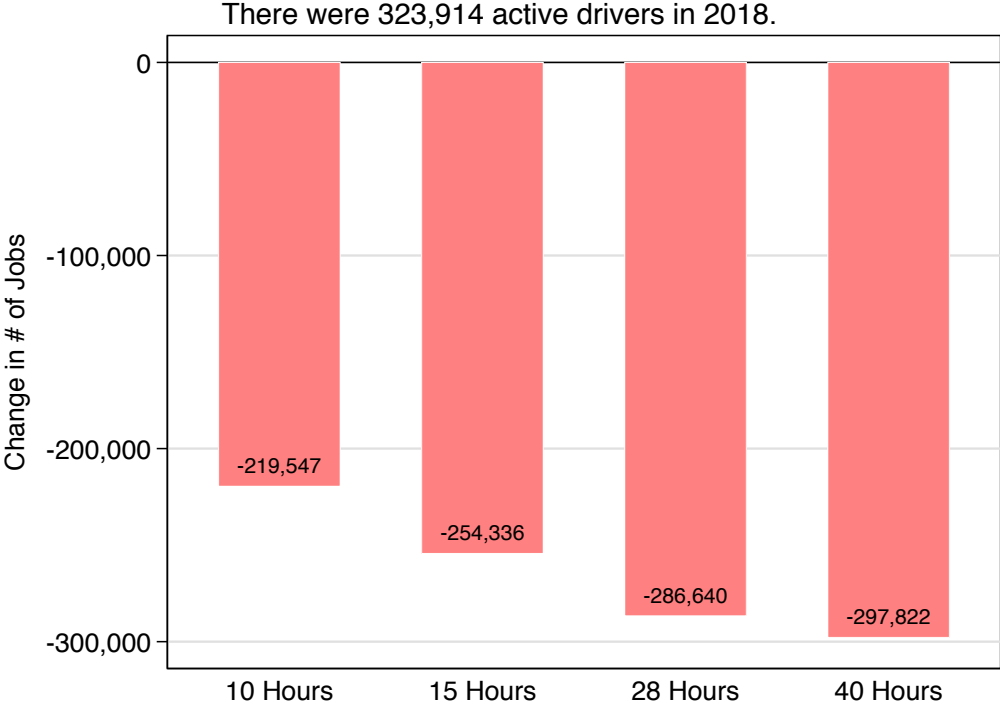
- In 2018, Lyft drivers spent 52,183,270 million hours servicing rides on the platform in California. Under the three cost increase scenarios (10%, 15% and 20%) the chart below shows how many fewer hours would be generated by Lyft’s riders, based on the elasticity estimates from the study cited above (-0.55).



- If the cost of providing the service increased by 10%, drivers would spend 2,859,772 fewer hours engaged in servicing rides.
- If the cost of providing the service increased by 15%, drivers would spend 4,276,158 fewer hours engaged in servicing rides.
- If the cost of providing the service increased by 20%, drivers would spend 5,701,544 fewer hours engaged in servicing rides.
- These figures inform the analysis in the following scenarios.

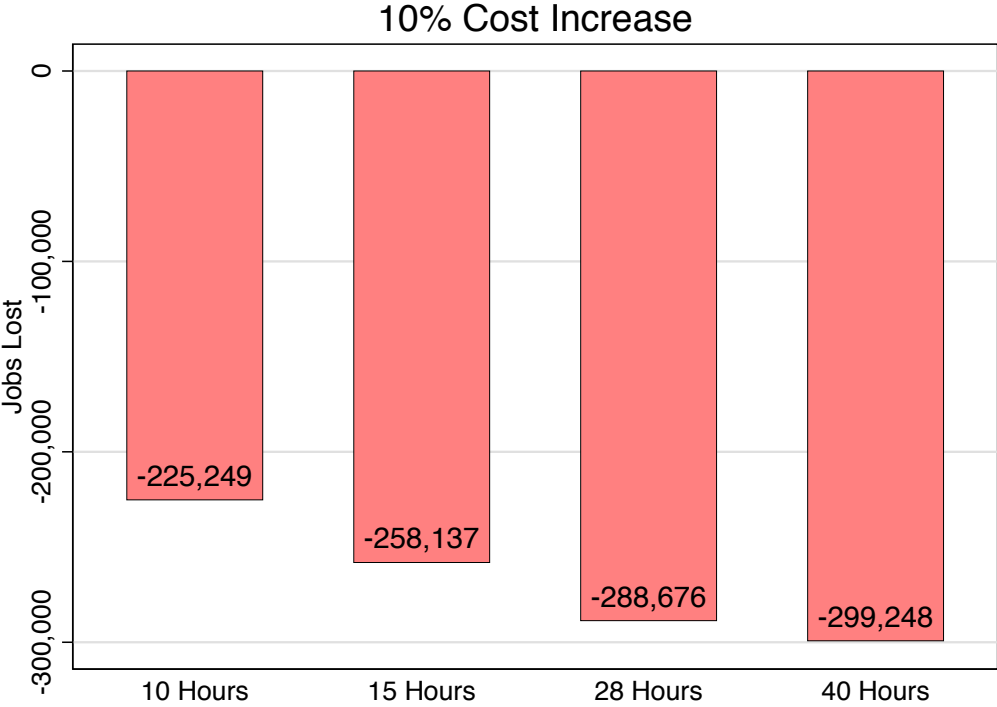
Scenario 1: A change to the law does not increase the cost of the service and there is no change to the demand in the service, but Lyft introduces one of the following weekly shift schedules. First, Lyft requires all of its drivers to work a 40-hour week. Second, Lyft requires all of its drivers to work a 28-hour week. Third, Lyft requires all of its drivers to work a 15-hour week. Fourth, Lyft requires all of its drivers to work a 10-hour week.

- Under a 40-hour work week scenario, Lyft would require only 26,092 employees to meet the current level of service, which would mean that 297,822 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 28-hour work week scenario, Lyft would require only 37,274 employees to meet the current level of service, which would mean that 286,640 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 15-hour work week scenario, Lyft would require only 69,578 employees to meet the current level of service, which would mean that 254,336 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 10-hour work week scenario, Lyft would require only 104,367 employees to meet the current level of service, which would mean that 219,547 drivers who currently use the service would lose the opportunity to work on the platform.

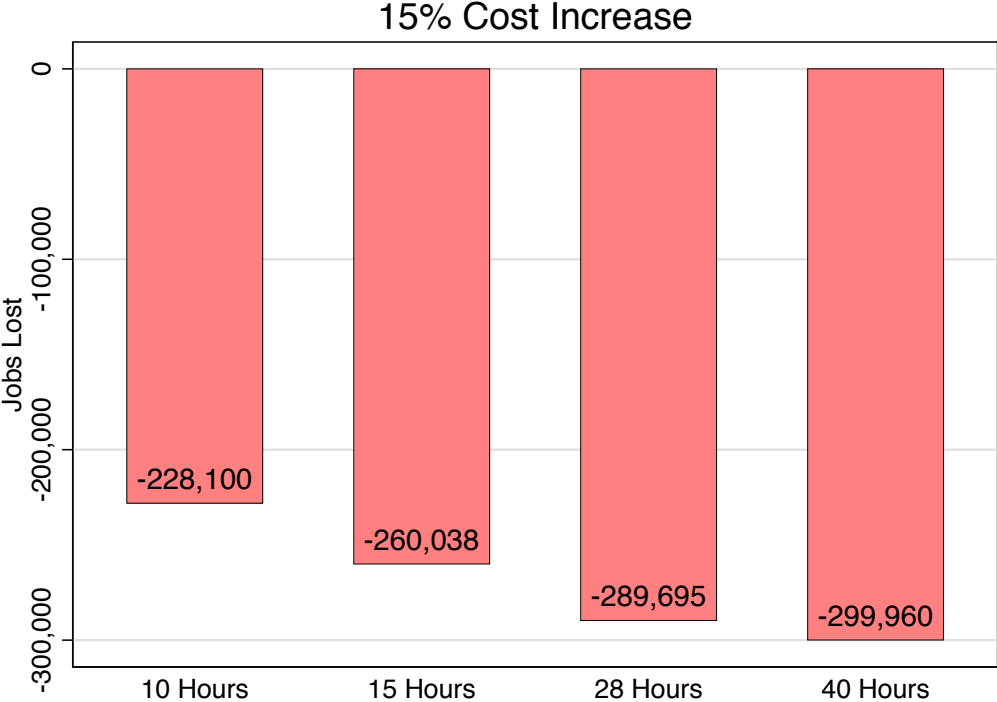


Scenario 2: A change to the law increases the cost of operating the service by 10%, a cost that is passed on to the consumer, reducing the demand for the service (as identified above). Again, Lyft introduces one of the four weekly schedules as identified above, requiring all of its workers to work either: 10, 15, 28 or 40-hours per week.

- Under a 40-hour work week scenario, Lyft would require only 24,666 employees to meet the new level of service demanded, which would mean that 299,248 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 28-hour work week scenario, Lyft would require only 35,238 employees to meet the new level of service demanded, which would mean that 288,676 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 15-hour work week scenario, Lyft would require only 65,777 employees to meet the new level of service demanded, which would mean that 258,137 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 10-hour work week scenario, Lyft would require only 98,665 employees to meet the new level of service demanded, which would mean that 225,249 drivers who currently use the service would lose the opportunity to work on the platform.



Scenario 3: A change to the law increases the cost of operating the service by 15%, a cost that is passed on to the consumer, reducing the demand for the service (as identified above). Again, Lyft introduces one of the four weekly schedules as identified above, requiring all of its workers to work either: 10, 15, 28 or 40-hours per week.



- Under a 40-hour work week scenario, Lyft would require only 23,954 employees to meet the new level of service demanded, which would mean that 299,960 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 28-hour work week scenario, Lyft would require only 34,219 employees to meet the new level of service demanded, which would mean that 289,695 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 15-hour work week scenario, Lyft would require only 63,876 employees to meet the new level of service demanded, which would mean that 260,038 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 10-hour work week scenario, Lyft would require only 95,814 employees to meet the new level of service demanded, which would mean that 228,100 drivers who currently use the service would lose the opportunity to work on the platform.

Scenario 4: A change to the law increases the cost of operating the service by 20%, which is passed on to the consumer reducing the demand for the service (as identified above). Again, Lyft introduces one of the four weekly schedules as in Scenario 1: 10, 15, 28 or 40 per week.

- Under a 40-hour work week scenario, Lyft would require only 23,241 employees to meet the new level of service demanded, which would mean that 300,673 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 28-hour work week scenario, Lyft would require only 33,201 employees to meet the new level of service demanded, which would mean that 290,713 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 15-hour work week scenario, Lyft would require only 61,976 employees to meet the new level of service demanded, which would mean that 261,938 drivers who currently use the service would lose the opportunity to work on the platform.
- Under a 10-hour work week scenario, Lyft would require only 92,963 employees to meet the new level of service demanded, which would mean that 230,951 drivers who currently use the service would lose the opportunity to work on the platform.

