How has COVID-19 affected the gig economy?

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The arrival of the novel coronavirus and subsequent shutdowns of economies across the globe have caused hardships not seen in generations. But for business professors, it's also a once-in-a-generation research opportunity.

USC Marshall Assistant Professor of Marketing and Kenneth King Stonier Assistant Professor of Business Administration Davide Proserpio was one of the first academics to study the sharing economy as he completed his Ph.D. Today he is considered a leading expert in the so-called "gig" economy. We asked him five questions about how the COVID-19 pandemic and resultant shutdown are affecting the sector.

Q: Describe your expertise with researching the "gig" economy? How did you get interested? Can you point to interesting findings from your research?

I started working on the topic of the sharing economy during my second year as a Ph.D. student (2012). At the time, Airbnb was still a small and not very popular startup, and I started using it both as a traveler (a guest) and a host (I was a host for almost three years in Cambridge, Massachusetts). Noticing the fast pace at which it was growing, we (my advisor and another Ph.D. student) decided to start collecting data from the platform, because it represented a new business model, and we thought we could find an interesting research question to study.

After a few months of data collection and some analyses that ended up with nothing concrete, we decided to study whether Airbnb had an impact on the hotel industry. It seemed such a natural question to study, and we were surprised (and happy) to find no research on the topic.

We started analyzing Airbnb and hotel data at the beginning of 2013, and we had a draft of our first paper on the sharing economy by the end of 2013. In it, we analyze Airbnb's entry into the state of Texas. We estimated that in Austin, where Airbnb supply was the highest, the causal impact on hotel revenue was in the 8 to 10% range; moreover, we showed that the impact of Airbnb was non-uniform, with lower-priced hotels and those hotels not catering to business travelers being the most affected. We were among the first academics studying the sharing economy, and today this paper is my most cited work.

Q: Uber, Airbnb, all are taking ugly hits. What will these businesses have to do to survive the pandemic...and future ones?

Companies like Uber and Airbnb had to react very quickly to the changes imposed by the current pandemic. They all tried to implement changes aimed at ensuring user safety so that people would continue to use their services. However, despite these changes, the lockdown imposed in many cities around the world made some of these services very hard, if not impossible, to use.

One of the industries most affected by the pandemic is the travel industry, which directly affected short-term rental companies like Airbnb. Improving safety measures did not help in this case because most people on lockdown are not allowed to travel these days, so many Airbnb hosts converted their properties to long-term rentals, where risks associated with infections are considered much lower and where there is still demand (despite the pandemic, people need a place to live).

However, there is a problem with this switch: the long-term rental market is likely to be less profitable than the short-term. This means the move to the long-term rental market might be just a short-term effect of the pandemic, because many hosts may have the capital to survive a couple of months earning less revenue. However, if conditions don't improve soon, many hosts—especially those that are financially constrained—may be forced to sell their properties, and this could put Airbnb in a difficult position.

Q: If such companies are forced to change their business models to to be more employee-friendly (sick leave, health care, higher wages, etc.), what changes then ripple out into the larger economy?

This is an interesting question. I think more and more people might decide to participate in this economy so we might see an increase in substitution between traditional 9-to-5 jobs and gig work. In turn, this might lead to the disappearance of certain types of jobs that require low to no skills.

Competition between the sharing economy and incumbents might also become stronger, so whether incumbents will survey this type of change is hard to predict; for example, if Uber drivers get the same benefits of a traditional taxi driver, the motivations to participate in the traditional economy may decrease substantially.

Q: What's the silver lining here? For investors? Employees?

Employees might end up getting better working conditions and benefits. This is because sharing economy companies need to step up and guarantee their workers safer conditions and likely better benefits if they want to survive and, hopefully, recover fast once the pandemic is over (these companies need people willing to work for them once the pandemic is over).

The pandemic exposed the weaknesses of the sharing economy, and investors have seen how fragile many of these companies are, so they probably are wondering whether their investments are going to end up being a bad decision.

Q: Does this pandemic portend the end for the gig economy? If not, what does a gig economy look like, circa 2025, in your thinking?

Some platforms that are not very popular may disappear, but the whole concept of the sharing economy will survive along with the best players, such as Uber and Airbnb. The pandemic reminded these companies that without their users, they are not worth a penny. So I hope that this will fundamentally change the way they are treating their workers.

Provided by University of Southern California

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