Mayfield

INFLUENCER SERIES

THE FUTURE OF WORK

Everyone by now has firsthand experience with some aspect of the gig economy, whether they've booked a vacation rental through Airbnb or taken a Lyft from Point A to Point B or had food delivered by Sprig. Or maybe you've offered your services or assets through these companies or many others like them, pioneering a new type of work that more of us will likely pursue.

The gig economy, or the 1099 economy, so called because of the tax form issued to non-employee workers like freelancers and contractors, has grown in prominence during the last several years and we think this trend only gets stronger. This is the future of work for many of us, potentially even all of us.

The gig economy is ushering in a host of changes -- big and small -- to some of our most long-held practices and beliefs around work: Career success is no longer defined by tenure at a single organization; employment laws need to evolve if large swaths of the population are working but not technically considered employed; even traditional economic surveys and productivity measurements need to evolve to accurately reflect evolving categories of workers.

These are just a few of the many issues we're confronted with when thinking about the future of work. Anytime we see massive, fundamental shifts, especially when these shifts span industries and geographies and demographics, there's both tremendous opportunity and risk for everyone involved, from consumers to employees to employers to investors to regulators.

This will all take years and years to work through but, to jump start the conversation, Mayfield and The Influencer Series held a recent discussion focused on The Future of Work with more than 50 entrepreneurs, elected officials, workers, non-profit administrators, investors and consultants. We held interactive roundtables focused on gig economy business models, how and why millennials will propel the gig economy, policy implications of this new way of working and consuming, and the implications on global employment of an increasingly flexible workforce.

BUSINESS MODELS:
NOT ONE SIZE FITS ALL

> “I want the gig economy to work – I want to see new job creation and I want consumers to benefit. But are these good businesses? At the end of the day, they rely on people – and, usually, lots of them. The underlying unit economics sometimes don’t work, with some losing money on every transaction. Entrepreneurs need to ask themselves what is different with their on demand business that makes the unit economics better?”
>
> -TIM CHANG

The standard business model for today’s current crop of on demand companies revolves around providing the tech platform to serve as an intermediary between workers or goods (supply) and customers (demand). The company takes a little off of the top for providing the platform and infrastructure. On demand businesses are usually either people intensive or capital intensive. If expenses can be controlled while transaction volumes scale, a business can do quite well, something we see with portfolio companies Lyft and Poshmark (see sidebar starting on page 3).

But it’s not easy. Foundationally, we like to see high transaction frequency, ideally multiple times a day, in a big serviceable market. The next step is making money on each transaction. If that can’t be done at a certain scale, the business is doomed. But if there is a genuine network effect, where the value of the overall network becomes more valuable as more people use it, then a flywheel can kick in with supporting per-transaction economics.

One way to evaluate these companies is via an efficient frontier grid, according to Nikhil Basu Trivedi of Shasta Ventures, where the value of a service is on the Y axis and the frequency used is on the X axis. Ride sharing like Lyft and Uber would be on the far bottom right – the value is low but frequency is very high (once or more per week for many users). Airbnb is also on the edge of the frontier – the value is high and frequency is a couple of times per year. It can be hard to make the math work for a big business, however, if it is stuck well inside the frontier grid. A number of marketplace businesses offering chefs for a home cooked meal, such as Kitchit and Kitchensurfing, have closed down in the last month, for example, because the frequency of that kind of transaction is just not high enough.

Erik Torenberg of Product Hunt also considers frequency important – is it only episodic or will it be used everyday? Most B2C on demand services seem to be used around once a week, he said, but B2B platforms might garner higher prices or volumes, or find more appetite for subscriptions, such as on demand office cleaning company, Managed by Q. Another example: Pillow co-founder Sean Conway said it’s as much effort for his team to sign up a property owner with 70 units as it is a property owner with one unit so it’s no surprise where his focus is.

Valuation was another primary discussion point. At what point does the valuation of, for example, an on demand dry cleaner reflect traditional dry cleaning valuations (albeit one with a mobile app as a primary customer interface) and not that of a high flying tech company? The valuations between the two are completely different.

GIG WORKERS
IN THEIR OWN WORDS

“I’M EARNING MONEY ON MY OWN TERMS. ONE OF THE MOST IMPORTANT THINGS TO ME IS THE FLEXIBILITY. I HAVE OTHER THINGS GOING ON. I HAVE FOUR KIDS. I MIGHT DO 12 SOLID HOURS ON FRIDAY OR SATURDAY EVENINGS. OTHER NIGHTS, I’M FOCUSED ON THE KIDS. LYFT IS AN END TO A MEAN.”

– Rick, Lyft driver

TOP FIVE LEARNINGS FROM GIG ECONOMY LEADERS LYFT & POSHMARK

BY NAVIN CHADDHA

We partnered with the founding teams at Poshmark and Lyft in 2011, leading their Series A financing rounds in February and August, respectively. Five years later, it has been rewarding to see how Logan & John of Lyft and Manish & Tracy of Poshmark have stayed true to their mission. Milestones since our original investment include: disrupting ridesharing & fashion, respectively; establishing leadership in their markets; growing their teams; delivering innovative products/services; & continuing to build investor value.

Here are some key learnings from observing these world-class entrepreneurs which may be useful for founders of gig economy companies:

» It's all about the mobile user experience: Both companies have delightful mobile apps, which maintain their simplicity while adding power. Poshmark was mobile-only for the first two years, adding a desktop version to offer those people who wanted to continue to shop and share online (mostly while at work) the opportunity to do so seamlessly.

» Building community connections has been key to achieving scale: This is especially marked in the ridesharing market, where Lyft continues to attract passengers (5 million in 2015), drivers (315K and counting), new cities (200+), and financing (over $2 billion raised) based on a unique & authentic culture and community. Poshmark pioneered adding the social element to e-commerce, empowering sellers to follow each other on social channels & engaging users to interact with the app - not just transact on it. Today there are over 1.5 million sellers who curate over 4M items a day; Poshmark uploads inventory which is the equivalent of a Nordstrom store every 2-3 days; top influencers have 2 million or more followers; and the average user spend 20-25 minutes a day in the app, opening it 7-9 times daily.

GIG WORKERS IN THEIR OWN WORDS

"I'M VERY HAPPY PICKING AND CHOOSING WHEN I WANT TO DRIVE WITH LYFT. THIS IS NOT ABOUT THE MONEY. I ENJOY PICKING PEOPLE UP AND MAKING SURE THEY GET HOME SAFELY."

– Michelle, Lyft driver

Probably the biggest variable of on demand business models is that of worker classification, either as 1099 or W-2. Starting with 1099 workers makes perfect sense – costs are kept low. But there's also a downside to it – employers can only do so much training and they only have so much control over what hours people work. One startup participant said her team is holding weekly meetings on whether or not they should switch their 1099 workers to a W-2 classification.

The financial hit to have a W-2-classified workforce is substantial. Fortune estimated last year that Uber's costs would soar by $4.1 billion annually if it were to reclassify its drivers as employees. This is now more than a thought exercise – Uber recently settled two class action lawsuits about how it classifies its employees, paying $100 million to drivers but keeping drivers as independent contractors. Homejoy, a house cleaning platform, ended up going out of business due to legal fights around how it was classifying staff.

While 1099 workers are the most common labor sources for on demand companies, some companies purposely started with W-2 workers. Managed by Q staffs its workforce with W-2 workers as a means of reassurance to customers and so they could invest in training, which is limited with 1099 workers.

We don't believe that one size should fit all, but capacity planning and growth needs to be carefully managed or the results can be devastating. We expect growing pressure for on demand services to vertically integrate. Meal delivery businesses, for instance, will likely find it appealing to extract economies of scale via the acquisition of commercial kitchens, but even this won't be a panacea (Spoonrocket, which did exactly this, recently shut down).

BUSINESS MODELS: KEY QUESTIONS FOR ENTREPRENEURS TO CONSIDER

1. What is the expected frequency of usage and transaction unit economics of your service, and how does the corresponding payback vs. cost of acquisition look on a contribution margin basis? Does your service have an infrequent but high value transaction that can payback upon first usage, or does it require ongoing habitual usage to achieve CAC payback in a reasonable timeframe?

2. As your business scales, will it become more people intensive or capital intensive (and hopefully not both!)? Will you need to vertically integrate in order to achieve proper unit economics at scale?

3. At scale, what makes your business garner a premium valuation multiple compared to traditional industry incumbents?

4. How do the economics look servicing consumers vs. businesses, what are the trade-offs, and how did you make a decision about which customer segment to target?

5. Does your business model still hold if you are forced to convert gig workers into W-2 employees? For example, are you dictating schedules and working hours, and could this force you into a W-2 classification? Have you considered using W-2 workers from the start?

» Innovation can take many forms: Lyft is pursuing a deft partnership strategy at both the product level (eg; Starbucks) and for new market penetration (eg: Didi Chuxing in China). Poshmark worked with the U.S. Postal service to create PoshPost, the first-ever fashion shipping label where anyone can ship a package under 5lbs anywhere in the U.S., using Priority Mail in 2-3 days for just a $5.95 flat rate. These are just two examples of innovative thinking, with many more in the works for both companies.

» Clear business models deliver value: Unlike many gig economy companies with opaque or subsidized models which do not scale, Lyft & Poshmark have employed recognizable business models from Day One. Both take a commission from the sellers (drivers & retail/wholesale boutique owners respectively) & the percentage is clear (20-25% for Lyft & 20% for Poshmark). This clarity has helped management set a dashboard for running the business & has generated favorable valuation terms from investors.

» People build companies: Logan & John are first-time founders while Manish & Tracy are serial entrepreneurs. However, they are united by the common trait of being focused on a big mission with the grit to pursue it. There have been many developments along the journey - Lyft's pivot from its Saas business Zimride to a consumer-facing app, Poshmark's expansion from used to retail to wholesale listings to name a couple – but it has been a honor to watch them build their companies without compromising their values and while attracting & retaining world-class talent.

GIG WORKERS
IN THEIR OWN WORDS

"I LIKE BEING ABLE TO MAKE MY OWN HOURS – MY BEST HOURS ARE 4 AM TO 7 AM. I LIKE BEING ABLE TO CHARGE WHAT I WANT TO CHARGE AND NOT HAVING TO CHECK IN WITH SOMEONE. I WOULDN'T WANT TO BE AN EMPLOYEE."

– Shawna, Poshmark seller

MILLENNIALS: A MORE EVOLVED PURSUIT OF WORK

"We have over 1.5 million sellers on Poshmark and a large proportion of them are millennials. Many of them are doing this as a hobby but this is also a new way of life for them. It's been a really interesting journey to watch a new generation embrace a new type of work."

-TRACY SUN
CO-FOUNDER, POSHMARK

While the gig economy offers opportunities for workers of all ages, we believe that the rise of the gig economy goes hand-in-hand with new attitudes toward work and preferences for work-life balance of the millennial generation. As a group, they will transform what it means to work and evolve the meaning of career fulfillment for all of us in the near future.

Millennials became the largest share of the American workforce last year, according to Pew Research Center. They change jobs more frequently than previous generations, seeking work that is engaging and interesting and exciting, or that enables them to pursue passion projects that do fulfill them in those ways. The flexibility and freedom offered by on demand employment options is custom made for them, especially since they consider a job as a means to an end.

If large portions of the working population pursue passion projects, there's a feeling that this is an overall advancement in what it means to pursue a career, a more evolved purpose to work, if you will. People should absolutely spend time on what they enjoy! That's part of the reason we're seeing the on demand model applied to more industries, notably white collar professions like accounting (Bench), law (LegalZoom, RocketLawyer, and UpCounsel), and medicine (Heal). The workers of these new services cite flexibility and the ability to do what they are most excited about as their primary motivating factors, ranking stability and earning potential lower as priorities. As Tracy Sun said, "Millennials are great at innovating. They can take the chaos and instability and make something beautiful."

Millennials don't subscribe to the concept of "face time," preferring to work remotely when possible and forgoing long hours solely to appease superiors. They have rejected practices like meetings and conference calls in favor of communication tools like Slack and Skype, sometimes corresponding exclusively via chat. One millennial founder at the discussion hired a team of remote workers he neither met in person nor talked with on the phone – all communications were conducted over chat.

But then there's the issue of how to create a community for a band of dispersed individuals who communicate only indirectly. A wholly flexible workforce can be hard to keep together around the same goal. To some extent, the gig workers have to come up with their own answer. Lyft's drivers do informal meet-ups that they organize on their own.

The flexibility advantages millennials find appealing about on demand companies will likely cause traditional employers to adapt, as well. Citigroup announced in March a new set of programs designed to attract younger workers, including an optional service year that allows analysts to work with a charitable organization while receiving 60% of their salary.

As millennials continue to comprise a greater percentage of the workforce, we will see that generation's preferences and tendencies manifest in workplace culture in other unexpected ways.

MILLENNIALS: KEY QUESTIONS FOR ENTREPRENEURS TO CONSIDER

1. How can you motivate and incentivize workers (especially millennials) to stay on your workforce? Can you use additional methods beyond compensation, such as recognition, community, mentorship, or skills mastery?

2. How can you provide more freedom and self-expression for how your workers do their jobs? How can they be innovative with their working methods yet still stay aligned with company goals?

3. How do you foster community among gig workers? Can you encourage and reward self-organization? Can you provide top-down programs that don't feel too forced and inorganic?

4. For large corporations, how can you incorporate some of these dynamics into your workforce for fulltime employees as well?

GIG WORKERS IN THEIR OWN WORDS

"FROM AN INDEPENDENT CONTRACTOR STANDPOINT, IT'S ON US TO INVEST IN OURSELVES."

– Blake, personal trainer

POLICY: ENSURING EVERYONE CAN PARTICIPATE

"In government, one of things we get called to do is to think about the regulatory nature in which companies exist. It's important we think about how we can help ensure that everyone is able to participate and share in the economic opportunities of these gig economy companies."

-TODD RUFO
DIRECTOR OF THE SAN FRANCISCO OFFICE OF ECONOMIC AND WORKFORCE DEVELOPMENT

The rise of the gig economy has raised a number of complicated and far reaching policy issues. In theory, the promise of the gig economy is that unskilled workers or people of all ages and backgrounds in between jobs can make a living or, at the least, supplement their income through these services. In practice, however, we have hundreds of thousands of independent contractors who are working regularly yet lack the rights of traditional employees, including guaranteed stability, employer-provided health benefits or sick pay.

To the government, you are either an employee or you are not. Employees (the W-2 workers) are eligible for overtime and other benefits, such as vacation pay and health benefits and the right to unionize. Everyone else (1099 workers) is not eligible for these things. 1099 workers benefit from flexibility but are restricted by the amount of training they can receive from the companies they are working with.

But maybe there's room for another classification reflecting a more accurate reality of today's gig workers that falls between employees and independent contractors. Gig workers in many cases certainly do more than just a one-time job. Shouldn't that person be eligible to receive more protections and training? The current status quo for policies applies old employment rules to new business models, but consumers, employees and employers might all be harmed by this approach. The new approaches to work we're seeing now might actually warrant different restrictions or policies (paired with the re-evaluation of existing policies).

While acknowledging all of the positives brought about by the rise of the gig economy, Todd Rufo, director of the San Francisco Office of Economic and Workforce Development, wanted to know if the gig economy is exacerbating or helping to address income inequality, and what policies could be implemented to protect workers or encourage more inclusiveness by on demand companies?

Answers ranged from adjusting tax laws, enacting safe harbor provisions for gig workers, providing incentives for companies to help gig workers advance on a career path, creating consistency between federal, state and local regulations, and greater incentives to get on demand startups to employ people who are currently out of work or that are from disenfranchised segments of the population. Other ideas included governments providing more soft skills training (networking, communications, personal financial management), or educational services focused on legal rights and financial empowerment for independent workers.

This topic is particularly acute in the Bay Area, home to many on demand startups and a population that is willing to participate in the on demand economy as both worker and consumer. Over the last five years, there have been more than 100,000 jobs created—largely by the tech industry—and unemployment is down to 3.3 percent in San Francisco County as of March 2016, according to the State of California's Employment Development Department. This is fantastic, but anyone walking around San Francisco can see that not everyone is participating in the economic prosperity.

POLICY: KEY QUESTIONS FOR ENTREPRENEURS TO CONSIDER

1. Do you anticipate regulatory interest in your business/sector? Should you proactively reach out to local, state and federal representatives as part of an education campaign?

2. Can you organize an industry alliance or coalition to work together with competitors to legitimize the playing field?

3. How can you best demonstrate to policy makers that you are helping with job creation and improving work opportunities for more people?

4. Are there ways to innovate on benefits, training and support programs for gig workers to inspire confidence and teach government and regulators about alternative ways to look at "work" and "employment"?

GLOBAL WORKFORCE: UNLOCKING UNDERUTILIZED TALENT

> "We have the ability to unlock very valuable but idle global resources - humans - but most startups still only hire within their zip code. Leveraging global talent will be one of the biggest trends we are going to experience over the next two decades."
>
> -JONATHAN SWANSON
> CO-FOUNDER AND PRESIDENT, THUMBTACK

The primary issue that on demand companies solve for is how to turn idle resources into productive ones. Lyft created a way to turn cars into revenue through ride sharing. Airbnb let people unlock the value of their spare room or empty home. TaskRabbit enables individuals to monetize their downtime by doing tasks/errands for others.

On a global scale, people are the world's biggest idle resources. Almost 200 million people are unemployed around the world, according to the U.N., and 2 billion working-age people are not participating in the labor market. The gig economy is uniquely suited to unlocking the underutilized talent that exists around the world. If this happens, global productivity measures should increase and everyone should be better off.

GIG WORKERS IN THEIR OWN WORDS

"EVEN THOUGH IT'S AN APP, THERE'S STILL A SENSE OF COMMUNITY. THERE'S EVENTS AND YOU CAN ALWAYS COMMUNICATE WITH OTHER USERS AND CUSTOMERS. I'M COMING FROM A TRADITIONAL BOUTIQUE BACKGROUND, WHERE I HAD A WEBSITE AND A STOREFRONT. THE APP HELPS ME BUILD RELATIONSHIPS WITH MY CUSTOMERS IN WAYS THAT I COULDN'T IN MY STORE."

– Monica, Poshmark seller

But actually building up a distributed team of gig workers across borders is not easy. Cultural issues, bureaucracy, and technology adoption all have a huge impact on the ease and speed in building distributed teams. So how do companies looking for staffing options and new customers beyond major cities in the United States break through these barriers?

Talent is the number one challenge for startups. It can be daunting to think about staffing up an entire team abroad, so focus on finding that right first person, and then letting them build their own team. Thumbtack's Jonathan Swanson shared a story about searching for someone to run online customer service and content creation, so they put out an English writing test to a dozen people around the world, including the U.S. An applicant in the Philippines won the test. The prevailing market rate in the Philippines was lower than domestically, but she proved extremely motivated to do an excellent job. Jonathan said he went from scared of losing control of elements of his business, worrying about a trade-off between price and quality, to realizing that there was no downside to expanding his team around the world. That first overseas employee grew the team from 1 person to 500 people working for her in the Philippines.

Another key issue is what functions can or should be done overseas. There's no single right answer here, but customer service, content creation, IT support, and development, are generally thought of as OK to move to a place that is geographically removed from the HQ or the majority of the customer base while core product, engineering, project, or business teams are generally kept close.

For those businesses that want to import foreign talent into their home teams, a whole new raft of challenges awaits. Immigration controls limit how many people will be able to come and work in the US, and it often takes significant investment and time to complete the immigration paperwork (and the prospective employee still might be rejected).

The best investment for businesses looking to leverage global talent - and arguably the investment with the biggest potential to bring down barriers - is technology. As tech continues to mature, we see new towns "lighting up" that were once off the grid completely, with some areas becoming hotbeds of new development talent - not because the people weren't skilled before, but thanks to their town getting reliable electricity or internet for the first time.

At the other end of the spectrum, technologies such as group messaging, video conferencing, telepresence, and (the hottest topic of all) virtual reality are set to make huge changes to the way dispersed global teams interact. While we still all might feel frustrated at a crackly conference line or jittery Google Hangout, fast internet pipes capable of handling video or VR can come close to replicating an in-person experience. When that happens, the final barrier against cross-border teamwork will have fallen and dispersed teams will no longer feel dispersed.

GLOBAL WORKFORCE: KEY QUESTIONS FOR ENTREPRENEURS TO CONSIDER

1. Are there aspects of your business for which overseas gig workers can do the job just as well, if not better/cheaper/around the clock?

2. Can new technologies like chat and messaging enable more gig workers from overseas to work on your platform?

ABOUT MAYFIELD

Tim Chang and Navin Chaddha are managing directors of Mayfield, a global venture capital firm with more than $3 billion under management. Some of the firm's consumer-facing areas of interest include the gig economy (Lyft, Poshmark), digital health (Brighter, Healthtap), community commerce (Massdrop, Matrimony), adtech (Moat) and financial services (Stockpile). The Firm has been championing entrepreneurs for more than 46 years. Mayfield invests primarily in early-stage enterprise and consumer-facing IT companies, with recent successes including Elastica (acquired by BlueCoat Systems), Marketo (NASDAQ:MKTO), The Rubicon Project (NASDAQ:RUBI), and SolarCity (NASDAQ:SCTY). Since its founding in 1969, the firm has invested in more than 520 companies, resulting in 114 IPOs and more than 160 mergers or acquisitions.

ABOUT THE INFLUENCER SERIES

Founded in 2010 by Ravi Belani and Michelle Gonzalez, The Influencer Series hosts intimate, invite-only gatherings of influential, good energy leaders. Everyone invited is nominated by a peer, and screened by a hosting committee. If you wish to be considered for membership, please visit here.

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