Gig economy boom

In January, our Visa Consulting & Analytics (VCA) global advisors used VisaNet data, expert interviews, and in-house research to identify ten trends that are set to shape the payments landscape over 2023.

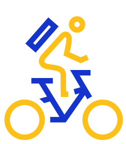
Each month, the team delves into and expands upon one of the ten trends. This month, we deep-dive into the booming gig economy – by providing an overview and outlining key trends, discussing how it'll impact different stakeholders such as financial institutions and merchants, and outlining a framework these stakeholders can use to develop or refine their gig economy strategy.

Overview of the gig economy

What is gig work?

Gig workers are individuals who earn income through activities that fall outside the scope of traditional, long-term employment relationships. Classic examples of gig work include driving for ridesharing services or delivering food or groceries. However, in recent years existing gig companies have expanded their business models into helper-like services, including package pickups and handyman services, and newer gig companies have emerged that specialize in areas such as knowledge work, creative arts, and game development. This expansion of services offered will create future revenue opportunities as demand for "classic" use cases slows due to macroeconomic headwinds such as inflation and rising interest rates.

Although these types of jobs have traditionally been viewed and presented as "side hustles", the data disproves this theory. For example, recent research from Visa shows that



63 percent

of gig workers use gigs as their primary source of income.[1]

Why is gig work so popular?

In a macro sense, the popularity of the gig economy is primarily driven by three factors:

- A shift in consumer preferences towards digital-first commerce, which gained significant traction due to the COVID-19 pandemic
- Businesses becoming more willing to pay contractors due to increasing direct labor and benefit costs
- The proliferation of the enabling technologies (e.g., smartphones) among broad swaths of the population in developed economies

At VCA, we have identified five key reasons why many people have chosen gig work over traditional employment:[1]

1. They can set their **own schedules** and earn when they want
2. They can be their **own boss**
3. They have the **potential to earn higher levels of income** beyond the service fees paid by platforms (i.e., tips)
4. They can easily **work multiple jobs** without potential employment conflicts – for example, if ridesharing is slow one day, a worker could switch to food delivery, whereas this flexibility typically isn't allowed by traditional employers
5. People **outside of traditional employment profiles** (e.g., older individuals, those who don't speak the native language) have a reliable way to earn money

Distilling these reasons leaves us with one overarching theme: flexibility. Gig work empowers workers to set the terms of their employment. As a result, gig workers are in the driver's seat when deciding whether or not they want to work on a given day, whether or not to accept a job offered to them when they're on the clock, how quickly to fulfill a given job, etc. This flexibility stands in stark contrast to the rigidity of many traditional employment relationships and is the reason why so many individuals have been quick to adopt this new form of employment.

What challenges and opportunities exist in the gig economy?

While the flexibility gig work provides has been a boon to many, the associated income volatility has left many gig workers underserved by their gig employers and financial institutions (FIs). For example, in Visa research, 20 percent of gig workers said they were struggling financially.[2]

The fact that these workers aren't having their needs met creates an interesting opportunity for both FIs and merchants. Specifically, FIs and merchants can explore money movement use cases such as real-time payouts – where gig workers can be paid in real-time for their work – to begin meeting these needs.

Implications for FIs

FIs have a strong opportunity to meet gig workers where they are and offer them products and services tailored to their needs. Developing products and services that cater to gig workers offers FIs an attractive opportunity to promote financial inclusivity and capture Gen-Z as they age into the workforce and grow their purchasing power.

FIs can begin by enhancing existing lending, saving, and card products and services to make them more accessible to gig workers.

- **More flexible lending solutions –** Because gig workers are typically classified as self-employed and don't have a steady income stream, the traditional underwriting process fails to capture their capacity for repayment. To close this gap, FIs should consider alternative data sources for underwriting. For example, FIs could use gig workers' cash flow history from checking or savings accounts they have with the FI to underwrite credit cards and personal loans and/or access earnings early. Additionally, FIs can recommend gig workers use their Visa debit cards via Visa Direct to receive real-time funds availability.[3] FIs that fail to cater to the lending needs of this growing portion of the population risk losing the customer relationships and associated revenue from a financially capable group with unconventional sources of income.
- **More relevant short and long-term savings options –** Savings can be a big concern for freelancers. Providing products and services tailored to gig workers that help them save for the short term (e.g., rainy day fund) and long term (e.g., retirement) can help address these worries.
- **More targeted card value propositions –** FIs can acquire and/or engage gig workers by offering tailored card rewards that fit their lifestyle, such as cashback on gas for ridesharing drivers.

FIs also need to consider the products and services that gig merchants need to operate their businesses and provide suitable offerings, such as faster payment solutions that provide additional optionality and speed, like Visa Direct, to pay their gig workers in real time.[3]

Implications for merchants

How does this trend directly impact gig merchants? The primary way gig merchants should serve their workers is by enabling them to get on-demand access to their earned wages via real-time payouts. These real-time payouts require integration with faster payment rails and allow gig workers to cash out their earnings and receive funds in a matter of minutes. By comparison, traditional direct deposit payments typically have one-to-three-day settlement delays.

Providing their workers with access to real-time payouts has two distinct advantages for gig merchants:

ADVANTAGE #1

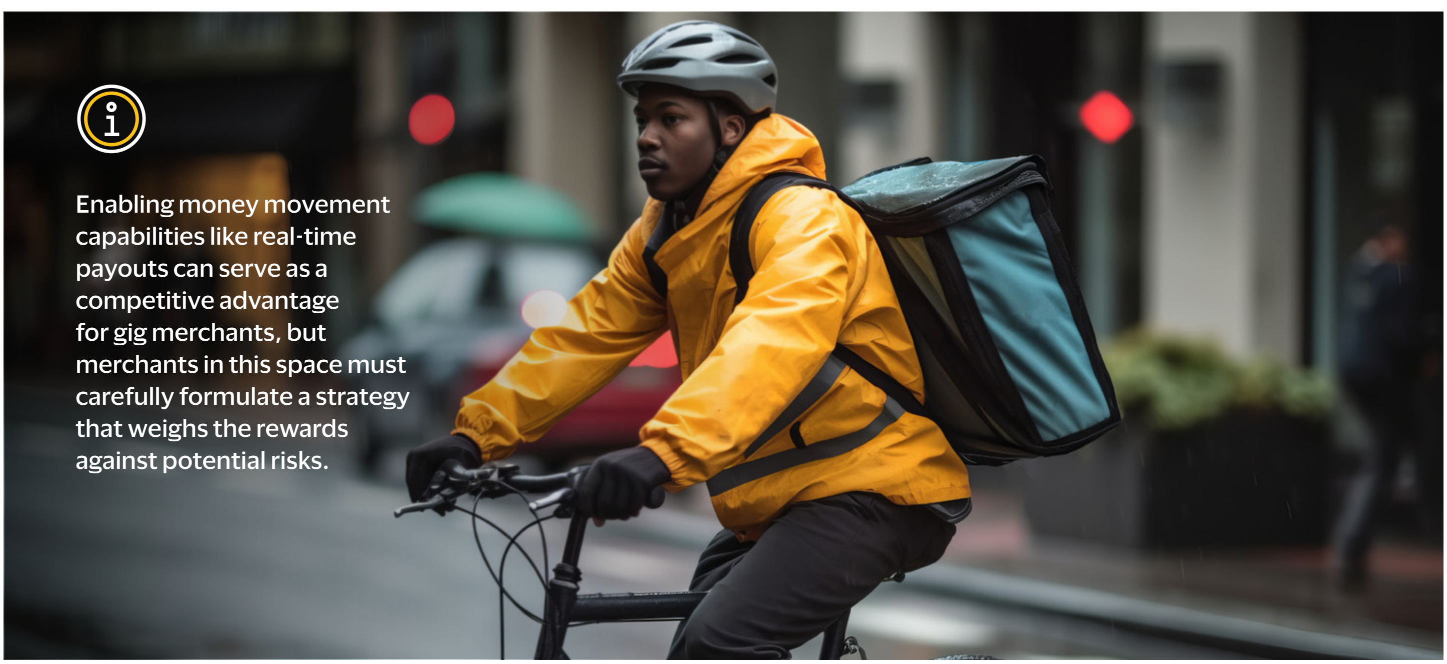
A clear differentiator in a tight labor market

- **89 percent** of surveyed gig workers said they would be more likely to sign up if a company offered real-time payouts[1]
- **66 percent** would choose to work for a gig company with real-time payment options over companies that don't[1]
- Globally, **67 percent** of gig workers said that, with traditional payouts, disbursements typically take more than one business day – with even longer wait times observed in developed markets[2]

ADVANTAGE #2

An ability to generate incremental fee revenue from real-time payments[1]

- **80 percent** of surveyed gig workers said they would be willing to pay a fee to access real-time payouts[1]
- **76 percent** indicated they would pay at least once per month.[2] However, Visa transaction data suggests that gig workers typically access real-time payouts 3-4x per month on average[4]



What might the downstream impacts of the gig economy be on non-gig merchants?

We've chosen to highlight three potential downstream impacts of the gig economy on non-gig merchants and industries. The full breadth of these downstream impacts is impossible to catalogue due to the associated uncertainty and sheer number of potential implications, but we view the following as especially important.

The most significant disruption the gig economy may cause is introducing a new player in a non-gig industry that leverages gig workers. If, or more likely when, this happens the effects can be categorized as first v. second degree. Using the gig economy's rise in food delivery as an example, let's examine its first - and second-degree effects on the restaurant industry:

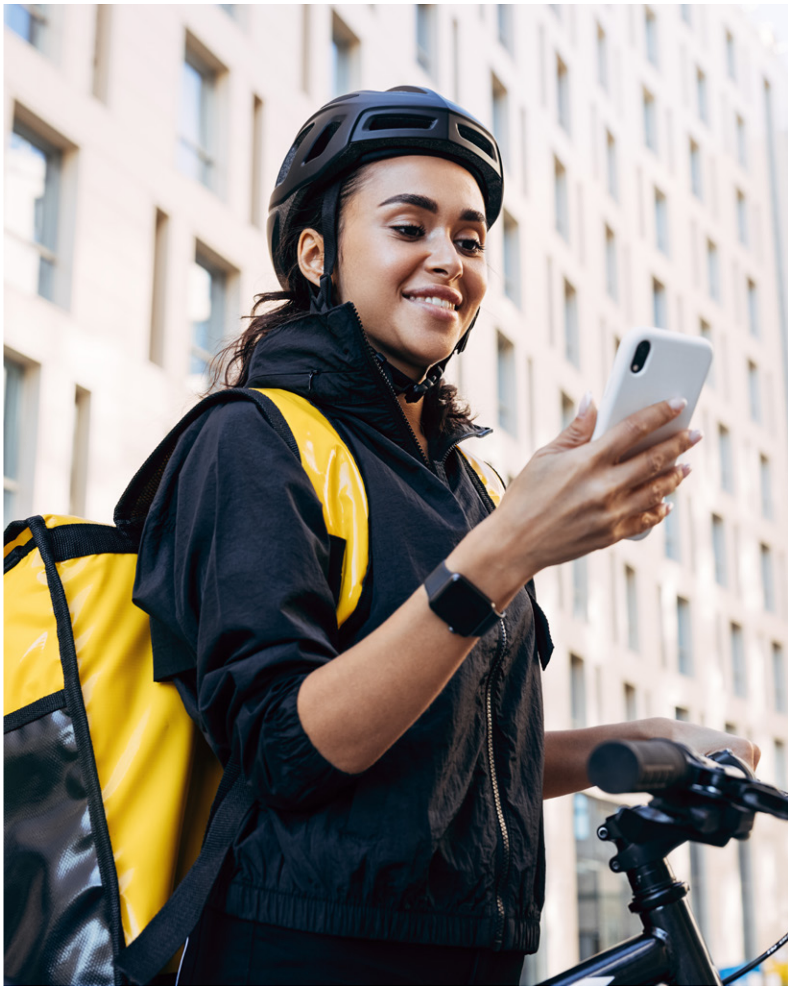
First Degree: Restaurants that traditionally employed their own delivery drivers such as pizzerias now employ fewer drivers or have eliminated their fleet entirely.

Second Degree: Existing restaurants in a given area now have increased competition in the form of ghost kitchens whose businesses are designed specifically to cater to customers seeking delivery through gig-driven apps.

Merchants in industries not currently disrupted by the gig economy should be vigilant about this possibility. These merchants should develop strategies to preempt or combat the projected first- and second-degree impacts, or better yet look for ways in which they can bring gig economy principles to their industry and gain a competitive advantage.

The second potential downstream impact we've chosen to highlight is the likely possibility of gig economy principles / practices leaking into non-gig merchants in a traditional gig industry. Continuing to use the restaurant industry as an example, consider a scenario where established QSR merchants, could turn to a vetted, pre-trained pool of gig workers to patch staffing deficits. An interesting note is that these staffing deficits ailing QSRs are likely, at least in part, caused by the popularity of the gig economy.

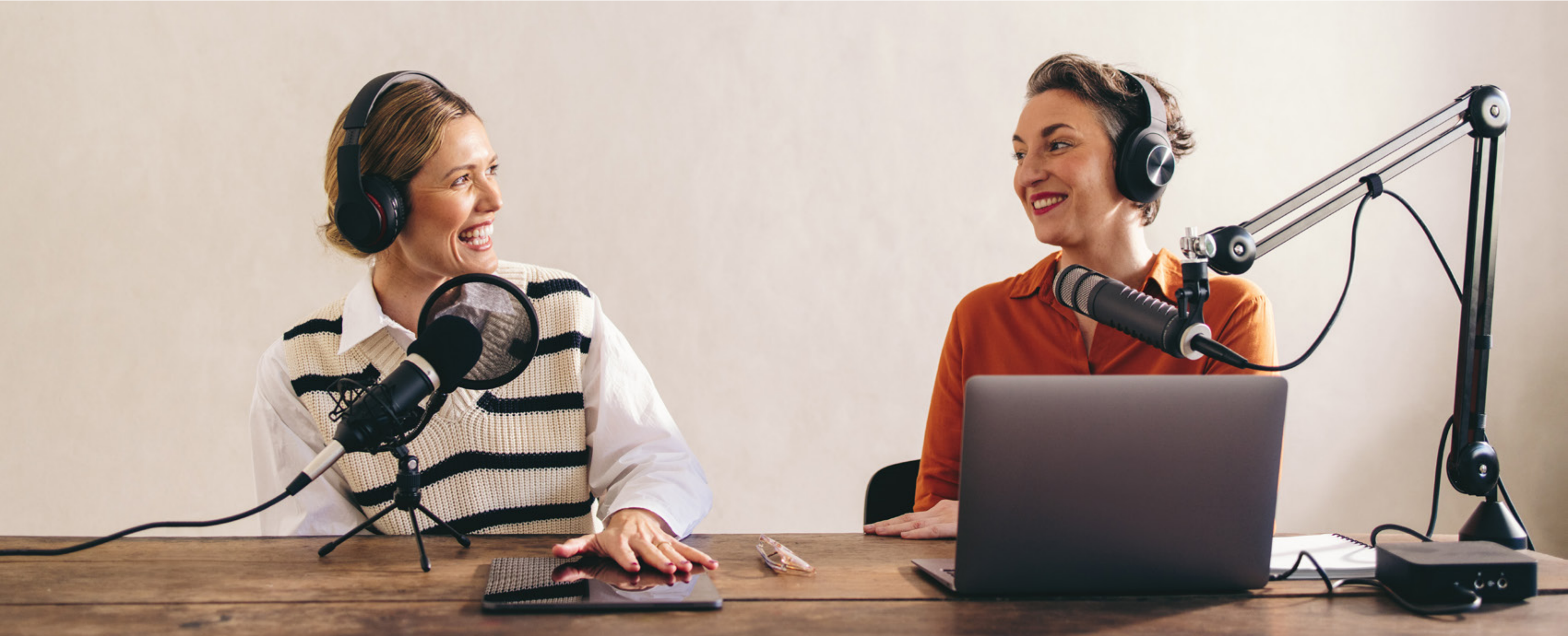
The final downstream implication of gig work on non-gig merchants and industries we want to highlight is how the flexibility treasured by gig workers informs their expectations for future work arrangements. Imagine a Gen Z college student who works for a food delivery merchant to help offset the cost of school. Once they become accustomed to the flexibility of gig work, that preference won't be easily forgotten should they pursue a more traditional employment arrangement upon graduation. Non-gig businesses that find ways to offer flexibility to their workers will likely have a leg up in hiring and retaining talent, particularly among younger cohorts.



Imperatives for developing a gig economy strategy

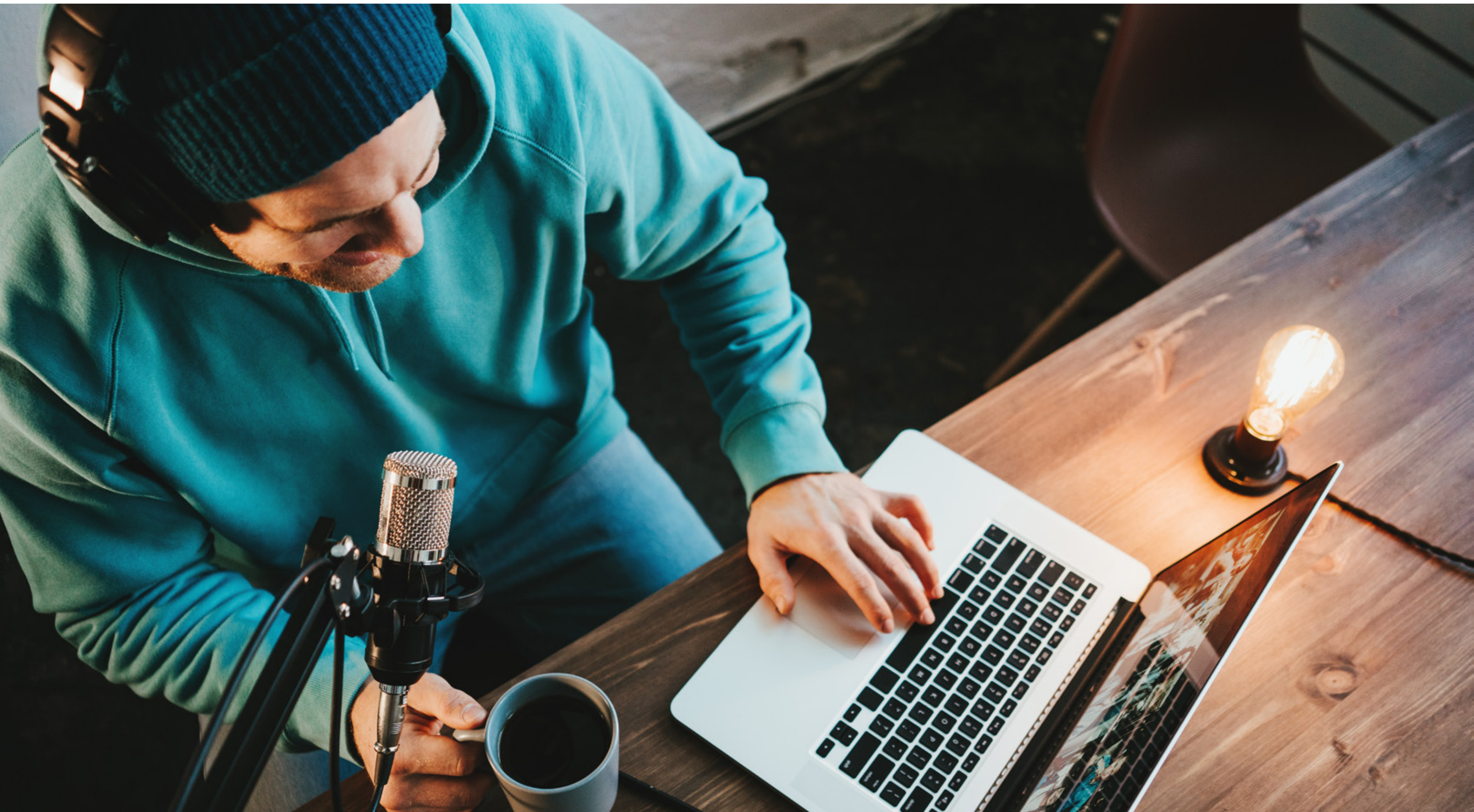
Five imperatives for FIs

Understand the market and the user needs	Conduct extensive research to understand a gig worker/customer's financial needs, pain points, current market size, and growth potential. Analyze the key geographic corridors to better understand where your gig merchant clients typically route funds. With an understanding of who your gig worker customers are and the key corridors, segment this group (e.g., US-based gig driver vs. Philippines-based graphic designer) and assess current market offerings to identify gaps and opportunities in the market.
Align on business goals	Set up an internal cross-functional team to align on end-state vision, immediate plans, and longer-term goals. The team can identify quick wins (e.g., real-time payouts, tailored card rewards program, tax planning) and medium- to long-term endeavors (e.g., customized savings products) that are suitable for the FI. This should be complementary to the overall business goals of the FI.
Design relevant CVPs	Develop new product value propositions, or enhance existing ones (across lending, savings, and card products) so they cater to the unique needs and preferences of gig workers.
Agree partnership approach	Evaluate potential partners to inform a build-buy-partner decision. Leverage selected partner(s) to solve the potential cross-functional issues (e.g., technology, compliance, implementation, UX) of bringing new or enhanced products to market.
Plan launch campaign	Determine target audience and channel mix based on solution (e.g., B2B, B2C) and implement marketing campaigns with targeted messaging (e.g., highlighting ease of use, tailored solutions for B2C campaigns) to drive adoption. Develop sales tools and resources to optimize conversion rates.



Four imperatives for merchants

Align on business goals	Dedicate a cross-functional team to articulate end-state vision, immediate plans and longer-term goals for payment solutions for gig economy workers. Conduct extensive market research to understand needs and pain points of the target user (e.g., US-based gig driver vs. Philippines-based graphic designer) across different regions.
Select product and plot roadmap	Evaluate payment product offerings (e.g., on-demand payouts, early earnings access, earnings protection plan, financial education) based on factors such as ability to address pain points, impact on worker satisfaction/loyalty, financial investment required, and level of effort. Once selected, develop a high-level roadmap including product features, timelines, dependencies, resources, and key performance indicators.
Agree partnership approach	Identify internal capability gaps that can be addressed by leveraging partnerships (e.g., transaction processing, risk & fraud support), and develop a partner evaluation framework (e.g., payment speed, optionality of endpoint - i.e., card v. wallet v. account, FX rates) that guides selection of FIs and fintech partners and accelerates time-to-market. In case of global operations, ensure payments integrations/partners support payouts in local currency and payment methods.
Deploy, promote and gather feedback	Implement targeted marketing campaigns to promote and drive adoption within gig workers. Establish robust customer support so users can report any payment-related problems with ease, expect prompt resolution, and provide feedback seamlessly.



About Visa Consulting & Analytics (VCA)

We are a global team of 1000+ of payments consultants, digital marketing specialists, data scientists, and economists across six continents.

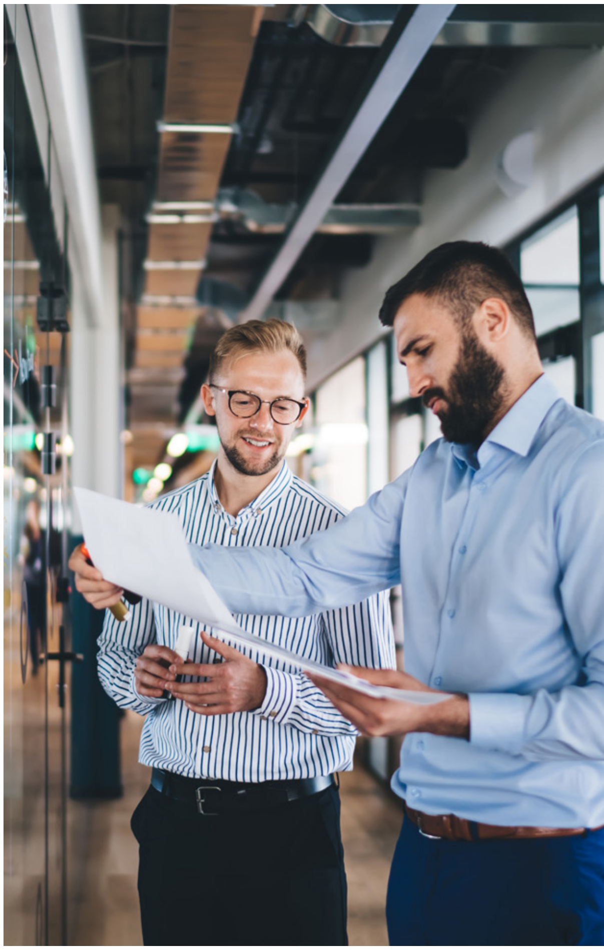
- Our consultants are experts in strategy, product, portfolio management, risk, digital, and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

About Visa Direct

Visa Direct is a network that helps transform global money movement. It offers a single connection to accessing multiple payment networks, spanning over 190 countries, 160 currencies, and 7B+ card, account, and wallet endpoints, with connections to 14,800 banks and financial institutions. It supports over 60 use cases, including peer-to-peer, cross-border payments, and more. Use cases are for illustrative purposes only.

As of December 31, 2022. Program providers are responsible for their programs and compliance with any applicable laws and regulations. Visa Direct also offers multiple APIs, real-time authorization, tokenization, receiver direction, VPL and alias directory, among other value-added services and capabilities



If you'd like an in-depth conversation on the gig economy and the opportunities for your business, please contact your Visa Account Executive, or email VCA@visa.com.

1. Visa Gig Economy Research, January 2020
2. Visa & Payments and Commerce Market Intelligence, Visa Direct Cross-Border Consumer Insights, Q3'23
3. Actual fund availability depends on receiving financial institution and region
4. Visa Direct data, as of Oct'23