# Everything Old Is New Again: Sharing Economy Companies Start Hiring W-2 Employees Instead Of Contractors

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Gig companies – at least some – are discovering the upside to hiring W-2 employees.

Wait, what? Well, as it turns out, for some companies that rely on repeat business, there appears to be a potential argument in favor of hiring W-2 employees instead of retaining independent contractors. Surprisingly, the stated motivation is not the specter of misclassification lawsuits which have dogged gig companies since their inception. Instead, gig employers that take on the additional costs of W-2 employees repeatedly point to the ability to control, train, and motivate employees and thereby ensure higher quality service from more reliable and knowledgeable employees.

As Fast Economy contributor Susan Johnston Taylor recently noted, gig employers like HelloAlfred have found success in hiring employees rather than contractors because the individuals are going back to the same home or apartment to handle the company's work, and repeat business depends in large part on the customer trusting the individual who is coming into their home and on the individual, over time, better understanding and meeting the customer's needs. This focus is also echoed by other gig companies, such as MyClean, Managed by Q, Eden, and Honor, that have a recurring service business model. Gig companies also point to the ability to control employee work schedules to meet demand. For example, Munchery (on-demand meal-delivery services) and Luxe (on-demand parking service) note that having employees allows them to adequately staff for busy days and optimize geographic coverage.

Not everyone agrees that gig companies that are making the switch are doing so purely for business model reasons. The threat and cost of litigation and agency action is on decision makers' minds, even if they do not want to publicly say so. As Rebecca Smith, deputy director at the National Employment Law Project recently noted, "As we see more courts and agencies diving in and saying, 'Just because you use a shiny app or platform doesn't make you not an employer,' the more we will see these sorts of changes happening."

Similarly, not all W-2 employment arrangements go well for gig companies. HomeHero, a venture-backed home health care startup, folded earlier this year, and HomeHero's CEO and founder, Kyle Hill cited among other reasons for the failure the W-2 employment model, which he called "an inferior employment business model."

Gig companies that hire W-2 employees have similar reasons for doing so. In exchange for providing benefits, they gain additional and necessary control, especially important when a gig company's business success relies on repeat business, and minimize their exposure to misclassification audits and lawsuits. But one statistic shows up time and again when gig companies announce a move to W-2 employees: the move tacks on an additional 20–30% to the company's bottom line. So it is not surprising that W-2 employment has not caught on in a big way in the gig economy, and instead is more of a microtrend. That said, there may be an important niche role for W-2 employment in the gig economy.

Given the success that some gig companies are experiencing with hiring W-2 employees, gig employers may want to consider whether the potential benefits would outweigh the potential costs for their business model.