Sustainable Investing in the Gig Economy
The Gig Economy is good for business, but is it good for giggers?

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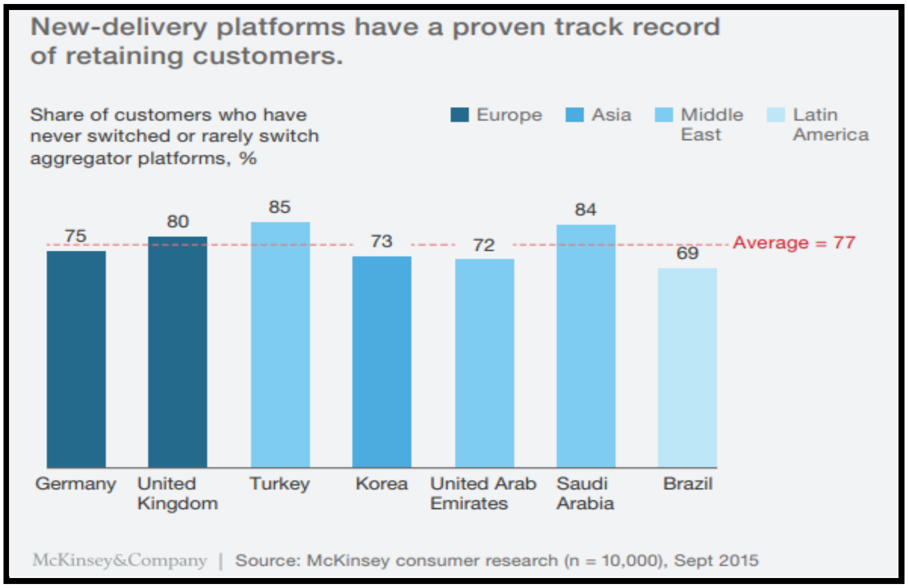
Image by Sahacha Nilkumhang

If you're a Gen-Xer or a Boomer, your concept of work likely includes an office building and a swivel chair. But if you're a Millennial, "work" might mean something entirely different. New technologies have so transformed the traditional business model that freelance work, or "gigging", is rapidly becoming the new normal. The Bureau of Labor Statistics reported in 2017 that 55 million people in the U.S. were "gig workers".[1] This accounts for approximately 34% of the U.S. workforce, projected to increase to 43% in 2020. According to a recent McKinsey report, the gig economy might well represent the biggest structural shift the labour market has seen since the Industrial Revolution. History has shown us that dramatic changes like this deliver big opportunities to those in the right position to leverage them. No doubt, savvy investors stand to gain from this paradigm shift. In our view, the gig economy can translate into an attractive investment opportunity for sustainable investors.

[1] International Labour Organization, Helping the gig economy work better for gig workers.

Disrupting value chains

Food delivery is a fitting example of how the gig economy is disrupting traditional value chains. Customers drawn to new online food-delivery platforms have a different set of needs and expectations from the traditional pizza customer. Time is critical—speed of delivery is the biggest variable in customer satisfaction with an average of 60 percent of consumers across markets citing it as a key factor.[2] The vast majority of orders are placed from customers' homes (82%) and on the weekend (74%), making shift work the status quo for drivers[3]. Delivery platforms personalize the ordering experience by storing relevant customer data, making them sticky. Once customers sign up, 80 percent never or rarely leave for another platform, creating a strong winner-take-all dynamic in which the reward goes to the player who can sign up the most customers in the shortest amount of time.



But as we invest in this trend, we must also ensure that the rights of "giggers" are being preserved. What happens when a job for a lifetime becomes a job for a day? Independent contractors are not treated like employees of companies, they often provide their own cars or computers, they find and pay for their own health insurance and save for retirement on their own. While giggers have the flexibility to maintain their own hours, they don't have paid sick leave or holiday time. Lack of job security ranks high on the list of drawbacks. In the new gig economy, the rules and regulations are still being defined, and not all companies take the same approach to workers' rights. For investors, it's important to know how a company treats its workers because this will inevitably impact its overall performance.

Two approaches to food delivery: Delivery Hero vs Takeaway.com

Consider two very different business models: one prioritises ESG factors (Takeaway.com) and the other does not (Delivery Hero). Takeaway.com is a leading online food delivery platform with operations in ten European countries and Israel. The company is headquartered in the Netherlands, where workers rights are strong, and it has made a strategic choice to provide for a more expensive labour cost base in order to ensure better overall quality and sustainable business practices. In contrast, Delivery Hero, one of the world's leading online food ordering and delivery platforms, prioritises growth. The company is expanding rapidly in global markets including Asia, where worker protections are not as advanced. In September 2018, the International Transport Workers' Federation called out Delivery Hero for abandoning its operations in Australia after failing to pay wages and taxes there. The main risk in

[2] McKinsey & Company, The changing market for food delivery, November 2016.
[3] McKinsey & Company, The changing market for food delivery, November 2016.

our view is that the company will face regulatory scrutiny over how it treats its workers, and this may force the company to take on more costs associated with labour, which it has not factored into its current strategy.

Nordea's STARS analytical framework: Investing in gigs that are good for giggers

At Nordea, we use the STARS framework to identify key ESG risks associated with the gig economy. Our STARS strategies invest only in companies that live up to Nordea's ESG standards. To ensure this is the case, our ESG specialists identify and score critical ESG issues like labour policies and worker compensation. In addition, they carry out an in-depth analysis using data from multiple sources (e.g. data published by the company, specialised ESG data-providers, international organisations and non-governmental organisations). These steps result in an internally-evaluated ESG score (A/B/C). The score is an aggregated metric that represents Nordea Asset Management's view on how well a company is positioned regarding ESG risks and opportunities. The investment team further incorporates key risks in the company-specific valuation models, which include pay structure, gender diversity and regulatory risk.

Analysis is followed up with field trips and engagement. In the case of Takeaway.com, we believe the market underestimates the company's growth rate and longer-term profitability, driven by demand and an attractive operating leverage. Currently, the company is in the early stage of development and not profitable. As a result, the potential outcome range is quite large and carries risks. The company recently announced a potential bid for Just Eat, the leading UK food delivery operator, which also warrants attention on potential ESG risks. Still, we believe Takeaway is very well positioned towards consumers' changing consumption habits and offers an attractive investment case—stocks are not included in Nordea strategies unless the investment team has a compelling valuation case. This, combined with Takeaway.com's clear labour policies and strong links between KPIs and labour conditions, made Takeaway.com an attractive candidate for inclusion in Nordea's European STARS Equity strategy.

The gig economy continues to expand with profound impact on workers, businesses and investors. The potential for workers and investors is great—but smart and effective policies are needed to protect both and to live up to the potential of this significant technological evolution.