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FRANCHISE AGREEMENT IN GIG ECONOMY

AUTHORED BY - UJJWAL JAIN

1. Abstract

Now that the gig economy is common, people choose flexible jobs and work as independent contractors more often than finding traditional jobs. Given how things are changing today, connecting businesses with entrepreneurs is often done with the help of franchise agreements. The paper looks at how franchise agreements and the gig economy meet and interact. It looks at their laws, investigates the possible advantages and dangers, and considers what they might bring in the future.

Exploring in the paper is how small business franchises could function as an employment model in the gig economy. Since problems arise with regular gig jobs due to difficult working circumstances and uncertain employee status, franchises offer another possible route. It might help bring more workers into the group of full employees and fewer independent contractors. To test if franchising can help with platform work problems, we compare existing franchise models and current structure of the gig economy. The study investigates actual experiments conducted by popular platforms with systems like franchises, considering the positive impact and the dangers related to them. Some hybrid models we look at are worker cooperatives and similar models.

From what we found, the idea that franchising would benefit gig workers sounds appealing, yet serious problems, such as the cost of starting, control over services by computers, and legal hurdles, still exist. The paper closes by recommending ideas for vastly equal employment that would benefit both platforms and their workers.

Keywords: Gig Economy, Franchise Agreement, Platform Workers, Exploitation in Gig Work, Smart Contracts for Gig Workers

2. Introduction

The way people earn an income has changed, because the gig economy now attracts more independent contractors than traditional work. Businesses have had to reconsider their franchise deals because digital platforms have become very common.

2.1. The Rise of the Gig Economy and Its Challenges

In the gig economy, people are hired with temporary contracts, do freelance jobs, and offer immediate services, all made easier by digital mediation. Because of this model, a person can enjoy unmatched independence and option, choosing to work as an independent contractor instead of an employee. Even so, this major change in the industry has introduced several issues, for instance, uncertain laws, fluctuating earnings, and challenging contractual terms.

It was celebrated for its freedom and entrepreneurship at the beginning, but lately, the gig economy is widely linked to uncertainty, restrictions from computers, and instability when it comes to finances. People who work for Uber and TaskRabbit are commonly treated as independent contractors, which means they have little or no protection against minimum wage, job security, and healthcare. Because of this situation, countries across the globe have taken strong action against businesses by making important decisions like how California's AB5 and the UK Supreme Court's verdict against Uber forced them to review their employment systems.

2.2. Franchising: A New Framework for Gig Work?

Traditional franchising means an entrepreneur will use an identified brand and get training in exchange for paying fees. Being a part of the gig economy, franchising must handle production under remote or mobile labour, plus, it's important to set out legitimate contracts and policies on who qualifies as a worker, how revenue should be split, and adherence to the brand.

The paper seeks to find out if franchising a business could address the main issues faced by the gig economy. In franchising, independence isn't vague but rather ordered and supervised by the help and acknowledgment of a big brand. Applying these principles could bring new benefits such as territorial rights, better sharing of earnings, and higher bargaining power to gig workers – things that are missing in the present gig economy.

2.3. Navigating the Legal and Operational Intersection

Franchising and the gig economy overlap brings up considerations that are not present in other

scenarios.

- **Worker Classification:** How are Gig workers classified? Do they work for a franchise, or are they considered independents or employees? It makes a big difference in both legal and financial areas.
- **Operational Control:** Depending on how fragmented an operation is, how much monitoring can franchisors do without stifling the gig workers' freedom?
- **Regulatory Compliance:** Labor, tax, and IP laws can be very complex, so it is vital to address them in different jurisdictions.

2.4.The Potential and Peril of Gig Franchising

Adopting franchising is a potential way for gig workers to get more stability, but there are some dangers involved. There is a main issue: will allowing gig franchising really help employees or simply make exploitation take on a new legal form?

☆ **The main topic for consideration in this paper is:**

- The methods in which franchise companies could be reshaped to satisfy gig worker needs.
- Uber's experience in Australia and Rappi's idea of micro-franchises were noted as examples to learn from.
- How cooperatives can be a different, fairer model for who really holds or benefits from company ownership.
- How to guarantee that workers have real authority without the constant influence of corporate hands.

2.5.How This May Effect Gig Work?

It would be better for gig workers to have their own small businesses rather than act as temporary contractors.

- Take on a delivery zone or ride-hailing territory in a digital way, working for a company just as taxi medallion owners did.
- Rather than enduring AI-based cuts, workers are paid their fair share (for example, 70 percent for them and 30 percent for the platform).
- Healthcare – In the future, your franchise fees could be used for healthcare pools and plans.

3. Comparison: Traditional vs. Gig-Based Franchise Agreements

Historically, franchise agreements depended on clear corporate models, but the gig economy approaches things in a very different way.

3.1. Traditional Franchise Agreements

- The business is arranged centrally with specific guidelines for how it operates.
- Franchisees set up their stores or service centres at different locations.
- This type of arrangement requires making a long-term contract containing specific rules.
- The existence of strict regulations that secure your rights as a franchisor.

3.2. Franchising in the Gig Economy

- Franchises characterize by franchisees acting without much direction from the head office.
- Online platforms allow people to do their work from any spot.
- Contracts give businesses a lot of flexibility, though it can be hard to enforce them.
- Workers' classification is a topic that keeps being debated.

4. Key Insights: Legal and Operational Hurdles

Issues highlighted in this category are legal and operational in nature. Gig economy franchises must face many legal and operational problems when creating their agreements.

4.1. Employee Classification and What They Are Entitled To: Gig-based franchising is concerned with deciding the proper role for workers, who might be described as employees, independent contractors, or micro-franchisees. Laws created worldwide, for example California's AB5 and ongoing EU reforms, determine who is considered an employee or a contractor.

4.2. Revenue Models & Brand Consistency: It is important to set up a well-defined revenue model and keep the brand consistent to attract customers. Different from common franchise agreements that fix a set amount of fees, gig-based franchises use:

- Such models usually consist of giving a percentage of earnings to a marketplace.
- Digital supervision is based on the information gathered from platform analytics.

- Brand compliance is mainly achieved by using algorithms, not by having employees watch over merchants.

4.3.Contract Enforcement & Liability: This also concerns instances where contracts are broken and how liability is assigned. Since gig work is temporary, it becomes hard to enforce any agreement with restaurant franchisees. In addition, responsibility issues are more significant if an employee acts improperly or if something goes wrong with the service. It is not easy to strike a good balance between giving autonomy to workers and the responsibilities of running a franchise.

4.4.Fitting In with New Rules: Governments all over the world are constantly updating the laws for the gig economy. Because the French Supreme Court stated that Uber drivers should be classified as employees instead of independent contractors, this ruling may have a major impact on the global gig-based franchising sector. In the same way, India's new rules for the gig industry present new tax issues and changing consumer protection rules for these models to handle.

5. The Pros – Why Franchising Could Fix the Gig Economy

The following section will look at the reasons why franchising could solve the problems of the gig economy.

5.1.Keeping a Stable Approach Without Lose Flexibility

- Because of, gig workers currently must handle changing earnings.
- When prices go up or down during surges, drivers end up making less money.
- Most platforms do not allow users to appeal when their accounts are suddenly blocked.

5.2.A franchising approach may give you:

- It's considered a base salary with the chance for earnings more if you work well.
- All transparency in the structures for wages – there are no tricks to the algorithm.
- Possible arrangement of Group Insurance – If needed, small business owners can ask their association to negotiate health plans.

5.3. Individuals are protected by the law from being exploited.

It keeps happening that the law views gig workers as employees rather than contractors (like the Uber case in the UK and California's new AB5). It is simpler to understand the laws because they are specifically geared to franchises.

- People who are part of a franchise are their own business owners and not considered employees.
- These platforms could protect themselves from legal issues and still supervise their brands.

5.4. Workers' bargaining ability

Gig workers in today's world are cut off from others and without power. Franchisees? Such associations (like the National Franchisee Alliance) are made by them.

Imagine:

- Unions at the gig economy franchises are fighting for more pay.
- In place, there are standard contracts to stop businesses from making abrupt pay cuts.

Uber Australia Pilots the Franchising System in 2023

Uber's trial of the Australia Franchise in 2023 shows lessons in making design better for workers.

The Model adopts a mixture of various approaches.

Uber started a trial in 2023, letting drivers partner as Uber Franchisees.

- In March, customers can get a Hyundai Ioniq using Uber's lease service for A\$299/week (or A\$185/week, based on Uber's regular incentives).
- Some of the perks I gained are: 1.2x more surge multiplier and priority at the airport.
- According to franchising rules, ran for 40 hours a week and earned 85% of what was collected.

The Outcomes: Financial Gains with Structural Risks

- According to Uber, 15% more net earnings are possible for drivers with UberX Select compared to UberX regulars (AU Impact Report 2023)
- For participants, fuel costs fell by 60% when using EVs.
- There is a 22% decrease in reported incidents with branded cars.

Critical Flaws

- There is something known as the “Golden Handcuffs” effect.
- Anyone who breaks their lease early is charged a \$5,000 penalty.

When demand for drivers fell, drivers who could not break the annual contract were affected unexpectedly. But authorities and banks were allowed to maintain their powers through algorithms. Uber can change the prices for both drivers and passengers at any time and still has the power to temporarily remove people from its platform.

The testimony of workers shows the interesting contradiction.

"The EV was great, but I worked 60-hour weeks just to cover the lease. When my mother got sick, the exit fee ruined me."— Priya K., former franchisee driver (Sydney Morning Herald interview)

Important points for future models.

Flexible Commitments: It should be possible for someone to opt out on monthly basis, instead of an entire year.

Franchisee Voice: Advisory boards that can discuss and agree on franchise policies

Managing territory: Setting time periods when a business has geo-exclusive rights

Overall, trial with franchise models may help companies earn more, but this attempt did not ensure worker freedom at Uber. Future releases will have to add the following:

- Problems with payment and taxes in leases
- Algorithms being easy to check
- Dispute resolution by bodies that do not work for the companies

6. Why There Are Upcoming Risks

6.1.High Cost Could Lock Out Low-Income Workers: A lot of money to study may keep low-income people from joining the profession.

It usually costs more than \$100,000 to set up a traditional franchise. If gig platforms decide to collect the same fees:

- The richer employees made up the main participants.
- Loans for buying into an area often lead to debt, and low earnings from the property invested in.

6.2. Deceiving Publication of the Algorithm: Those working under a franchise business may still see these problems:

- The practice of changing price according to the market.
- Overly harsh consequences if you fail certain task.
- Employees are not allowed to work for competing apps due to clauses in their contracts.

6.3. There are many issues where laws are unclear: Some nations (as in the case of EU and Canada) may group franchisees in the dependent worker category if there is too much control.

Rappi's use of micro-franchises in Latin America – Benefits and Drawbacks

How Gig Workers Have Turned into Micro-Entrepreneurs

Top performers in Rappi's delivery service in 2022 tried out a micro-franchise model and were able to:

- ✓ Franchisees can manage five to ten riders through their account and become sub-franchisors
- ✓ You can earn up to 15% from the food that your team serves
- ✓ Get priority when placing batch orders and enjoy superior customer service

Results show that there are useful gains, but also drawbacks that have remained hidden.

Positive Outcomes:

According to Rappi Internal Data, team leaders earn around 25% more than people who deliver alone (2023).

New Trends in Risks.

- Team leaders had to work 15 hours or more every week for mentoring and did not get paid.
- If team members missed the delivery targets, the franchisor could suspend the user's account.
- In some cases (12%), it was reported that leaders took part of their team members' tips.

The perspective of Bogotá's workers

Managing a team helped me earn \$500 more every month, yet the stress made it not worth it to me. I get blamed by Rappi when riders quit the job. – Carlos M., who used to act as the team leader for Rappi (interviewed in March 2024)

Top Points on Franchising

Proves that franchising offers the opportunity to make more money in gig jobs

Brings out the need for:

- Clear franchisee/franchisor contracts
- Wages and benefits are given to management staff that are protected by law.
- The monitoring of all payment systems happens independently.

This case is one example of how franchising can provide more job opportunities but also shows that more rules are needed to prevent exploitation.

7. The Future of Franchising in the Gig Economy

The trend of the gig economy is resulting in new changes for franchising as well. Because of constant changes brought by technology, deals between franchises are adjusting to fit with remote teams, digital services, and different earning models. Changes in the way franchises operate will be mostly influenced by how adaptable, clear the rules are, and how creative businesses get.

7.1. Hybrid franchises-gig Models.

There are now more agreements that let franchise partners use gig workers as needed. There is no need for actual stores because digital services allow small local operators to work independently under the same brand. Services such as Uber and DoorDash prove this model by giving their gig workers structure that resembles a franchise.

7.2. Contract management is being transformed using AI technology.

Due to the changing nature of franchise agreements, rules for contract enforcement and compliance should change as well. AI is making contract management more efficient by monitoring contracts, maintaining the company's image, and reducing chances of conflicts. It is expected that, because of blockchain, smart contracts will soon be critical in franchising by ensuring transparency and reducing mistakes.

7.3. New Rules for Jobs & Better Protection for Workers

Many governments across the world are reviewing their labour laws to allow for new kinds of employment in franchises. Laws such as the California AB5 law prove that there is a greater move towards stronger protections for workers. Places such as France and India are developing

their own rules for taxes and labour related to the gig workforce to fit in with digital franchising.

8. Conclusion

Because of the gig economy, franchises are now more flexible and mix the advantages of being independent contractors and following the rules of online platforms. This major shift is made clear by Uber renting cars to its drivers in Australia and Rappi giving better opportunities to its top couriers in Latin America. They are meant to solve the main issue for platforms regarding their workers: the need to respect autonomy as well as make sure services are consistent and the brand is always well protected. Three major reasons are encouraging the sweeping transformation in the workplace. Since there are so many global lawsuits battling over who is an employee and what it means, using franchising as an alternate solution in California and across the European Union provides a much better option than the extreme of being a full employee or an independent worker. Also, with these tools, platforms can monitor their performance closely, use flexible pricing rules, and ensure high quality of service without supervisors. Gig workers are also demanding more than what the gig economy has to offer; gradually they aim for greater security and access to benefits that are usually found in traditional employment. Still, no matter how promising these models are, several major challenges must be tackled so they can thrive. It means coming up with secure revenue plans that reward platforms and their partners equally, clearly assigning responsibilities in case of problems, and providing easy-to-use and transferable benefits to workers regardless of their employment status on various platforms. Those who do well in this changing field will probably mix blockchain-powered smart contracts into their models to provide the highest transparency in monetary transactions, take advantage of AI-driven tools to elevate their service quality along with respecting workers' independence, and work on establishing new official rules that legally distinguish gig franchisees from other groups in the digital economy. In this sector, companies that focus equally on fresh technology and the workforce's welfare will succeed and work together with the platform to create a stable space that can prosper in today's economy.

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