

Class Actions Threaten “On-Demand” Industry—Uber And Lyft In Glare Of Unwelcome Spotlight

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The explosion in the development of smartphone applications has allowed for all sorts of new businesses to pop up—personal shoppers (Instacart), restaurant delivery (GrubHub) and private chauffeurs (Uber and Lyft). We, as consumers, now have instant access to goods and services we didn’t even know we needed. This new boom has even earned its own title: the “on-demand” economy.

One of the ways in which “on-demand” companies like Uber and Lyft have grown so fast and become so profitable is because of their business model which relies on the classification of their drivers as independent contractors, rather than employees. Doing so allows the companies to keep overhead and labor costs low. However, this business model is now coming under the scrutiny of the courts—most recently in two separate class action lawsuits that are pending in California federal court against Uber and Lyft. These lawsuits have been filed by drivers who allege that they are employees, not independent contractors, under California law and that they are being denied the benefits and protections that an employment relationship provides, such as overtime pay.

Earlier this month, the judges in both cases denied motions for summary judgment filed by Uber and Lyft, in which they argued that the drivers are properly classified as independent contractors. The result of these rulings is that it may be up to juries to decide the issue of whether the “on-demand” workers are independent contractors or employees. Applying the traditional test for worker classification to these drivers will not be a simple task—one of the California [federal judges described the dilemma](#) [pdf] as follows: “...the jury in this case will be handed a square peg and asked to choose between two round holes.”

Whether these particular cases actually go to a jury is unknown; however, the question of how to handle the “on-demand” workforce will undoubtedly be addressed in one way or another in the near future. We will continue to provide updates on this issue as it unfolds.

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