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Busting the Myth of the Sharing Economy – A framework to analyze this new business model of sharing

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Abstract

There have been numerous discussions on the sharing economy to identify the contributing factors of its success. The focuses are more on the demand side, the user behaviours, or the peculiar nature of platform business which is closely associated with this new mode of business operation. This article tries to work on the supply and operational side of the business, with an analytical framework covering four key aspects related to the assets being shared. Those are the value, ownership, geographical distribution of the assets and whether the assets are genuinely being shared. Four types of sharing businesses have been analyzed, namely, bikes, automobiles, apartments, office spaces. The outcome of the analysis is to predict the possible success or failure of any existing or new businesses in this new economic landscape. Moreover, the results of the analysis indicate that, from the supply side perspective, sharing is in fact not the key success factor, while asset ownership and its corresponding high or low maintenance cost are the more relevant considerations. The hype generated around this concept of sharing economy may have overshadowed the essence of this business model.

Keywords: Sharing Economy, Platform Economy, E-Commerce, B2B, B2C

1. Introduction

The sharing economy, or more accurately the business model of sharing of resources to generate sustainable profit, has been in the market for years. Some of the participants have demonstrated spectacular success, while some have faltered miserably.

There have been numerous articles focusing on different areas for its success, such as the change in consumer behaviour leaning towards environmental concerns (Liu and Chen, 2020). Or there is the simplest reason that consumers are looking for lower cost products and services (Sacks, April 2011). This point is echoed by other researchers who have proposed that companies' successes come from the offering of more convenience at a lower price, and have questioned the basic idea of "sharing economy," which is indeed not sharing, but an "access economy" where ease of access is the key to success (Eckhardt and Bardhi, Jan 2015). Some have discussed about interesting aspects such as the networking effects which drive this kind of platform businesses (Zhu and Iansiti, 2019).

All these have provided valuable insights into the demand side of the equation. However, there may not be that many operational implications for entrepreneurs who want to try out their ideas. To fill this gap, some scholars have introduced a very interesting and important concept of classifying the platforms based on the degree of intervention of the platform operators and the interaction between users (Perren and Kozinets 2017). The emphasis is more on the creation and maintenance of trust among users of the platforms.

In this article, the focus is on the assets being shared, the ownership and maintenance of those assets. Those are operational and managerial issues which are being faced by all businesspeople. There is traditional wisdom in the business world that, having a good idea may contribute 30% to 40% to the success of a business. The remaining comes from the operation. This article tries to tackle this from the supply side, how the manageability of the operation can determine its business future.

2. Basic economic models of the sharing economy

Some literatures discuss about the operation of sharing economy models, which are important in terms of crafting a better understanding of the macro picture of this business. The model usually falls into 2 different types. Type A, the platform operator purely manages the platform with information and services coming from other service providers. Type B, the platform operator manages the platform and is also the one providing the information to the platform and delivering the services to the buyers.

For Type A, the platform operator is an independent party, while the service providers upload their information to the platform and the buyers log on to the platform to search for the most suitable service providers. Buyers pay the platform operator service fees to make use of the services. Part of the service fees are kept by the platform operator as commissions or handling charges. The rest is transferred to the service providers as their revenue for providing the services. For Type B, the platform operator is not an independent player but has acquired the resources, and has uploaded the information to the platform. Buyers directly deal with the platform operator, and make use of those resources by paying the platform operator a certain amount of service fee.

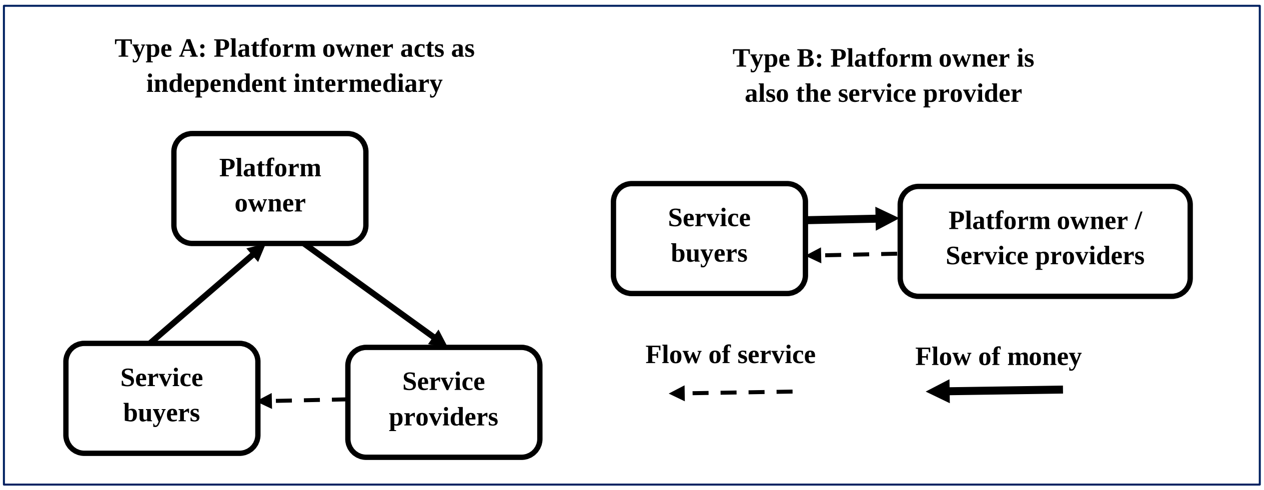

Table 1: The two major types of economic models in the sharing economy
Source: PwC 2015, with modifications by the author

For Type A business, the platform operator does not have to spend any effort in maintaining the assets, while for Type B business the platform operator will have a heavy burden of doing so. The following analysis will demonstrate that this is one key factor which can make or break the business.

One precondition for the widespread adoption of these models is the development of Internet technology (Puschmann and Alt 2016). The platform development, operation and continuous upgrade have become very affordable. Moreover, the ease of use of such platforms has eliminated any barrier for the general public to try the services. Internet has made information access extremely easy and low cost. This is indeed one of the key driving forces of the sharing economy. As summarized by American entrepreneur and author Lisa Gansky on car sharing business, "It's about information, not transport." (Gansky 2010)

3. The Four important factors to consider in a sharing economy

Up to this moment, the discussions of the factors leading to the overall successes and failures of the different companies in the market have been limited. This article is to introduce a simple analytical framework with four major characteristics to analyse the prospect of the existing businesses and also predict the odd of survival of any new sharing business models.

First of all, the monetary value of the asset being shared. From the general consumer / user perspective, if the asset value is high, there will be a much higher barrier in their purchase decision. This will drive the users to seriously consider making use of shared resources offered by the market. From the owner's perspective, high-value asset implies high opportunity cost. There will be a stronger incentive to reduce the cost by looking for opportunities to generate revenue from the same piece of asset. Hence, the owner will have a reason to participate in the sharing economy by enlisting the asset for other users to make use of at a certain fee.

Second, the ownership of the assets. Currently there are basically 2 different types of ownership in the sharing economy. The first one is that the assets are owned by individuals who have to make use of external platforms to publicize the availability of their assets for rental purpose. We call this "scattered ownership." The second type is that the assets are owned by the platform operators who manage the platform for general users to search and pay for the shared resources. We call this "concentrated ownership." In both cases, the owners have the sole responsibility of taking care of their assets. The importance of this point will become apparent when the physical distribution of assets is discussed in the next paragraph.

Third, the physical or geographical distribution of the assets. If the assets under the same owner are concentrated in certain locations, it will be much easier for the owner to manage. On the contrary, if the assets are scattered over a large geographical area, maintaining the assets will create a lot of headache for the owner. The maintenance task can even become next to impossible in certain extreme cases.

Fourth, the nature of the assets, or more specifically, whether the resources are really slack resources. There are quite many different definitions of sharing economy or collaborative consumption, such as shared usage of underutilized or unwanted commodities (Botsman and Rogers, 2011), or monetization of underutilized assets through short term rental (Kumar, Lahiri, Dogan, 2018). Eckhardt et al. (2019) have provided an excellent summary of the different definitions from different scholars. Here we use the term "slack resources" and look into the very initial purpose of acquiring the assets by the owners. If the owners purchase the assets with the objective of fulfilling their own needs, and the assets are left idle when the owners' needs are fulfilled at least temporarily, then the assets are classified as slack resources. However, if the owners are to purchase the assets with the purpose of directly generating revenues from those assets through sharing or other means, then strictly speaking those are not slack resources.

After defining the four major areas characterized by the sharing economy, four major types of sharing businesses are analyzed, namely, bikes, automobiles, apartments, and office spaces.

The below table summarizes the four major characteristics of each of the four sharing businesses, which are commonly found in different markets.

	Value of Assets	Owners of the Assets	Distribution of the Assets	Sharing of Slack Resources	Type of Business Model
1. Bikes	Low	Platform operators	Scattered	No	B
2. Automobiles	High	Individual owners	Scattered	Yes / No	A
3. Apartments	High	Individual owners	Scattered	Yes / No	A
4A. Office spaces(e.g. coworker.com)	Very high	Individual owners	Scattered	No	A
4B. Office spaces (e.g. WeWork)	Very high	Platform operators	Concentrated	No	B

Table 2: Summary of the characteristics commonly found in sharing economy

3.1 Bike sharing

The asset value of individual bike is generally low. With the current operation mode in the market, the platform operators own the bikes. In other words, Model B is the common operation mode. Because of the usage patterns, the bikes are scattered in different places after being used. Since the operators have the sole responsibility of maintaining the assets, the wide scattering of assets have made it extremely difficult or even impossible to properly take care of those assets. Another important point is that the bikes are bought by the operators with the single purpose of generating revenue. In other words, the assets are not slack resources in the strictest sense. The bikes have no other purpose to be fulfilled for the benefits of the operators other than revenue generation through rental services. Hence, bike sharing is not a business model which genuinely shares resources. Together with its difficulties in asset maintenance, its future success is very questionable.

3.2 Automobile sharing

The asset value of individual automobile is generally high. Based on the current situation in the market, the platform operators do not own the automobiles and Model A is the standard operation mode. From a macro perspective, the automobiles are scattered in different places before and after being used by users. Fortunately, the asset owners, who practically act as chauffeurs, are always with those assets, take care of the assets, and control the assets. Moreover, the owners have the strongest incentive of maintaining the assets either for the owners' utilities or the assets' marketability, the scattering of assets does not pose any difficulty in terms of proper maintenance. Finally, the automobiles are supposedly bought by the owners with some other purposes, such as offering certain convenience to the owners. When the owners are not using their automobiles, those are truly slack resources. Based on the above analysis, this model is genuinely or close to a genuinely slack resources sharing model. The ownership is clearly defined and maintenance issues are well taken care of. Leaving the regulatory issues aside which have been documented by numerous authors, automobile sharing businesses have their reasons to be successful or at least sustainable in the near future.

There is a recent trend that some drivers are turning to working full time to offer the automobile "sharing" service (Businessinsider, 20 Aug 2020). Some even have bought nice cars to meet the stringent requirements dictated by the platform operators. The concept of sharing has become blurred. However, this is indeed an indicator that this business is attractive enough. The "sharing" is to give the asset owners a chance to try out this business and to assess its feasibility. Once this is ascertained, the original sharing concept has migrated. The asset owners are ready to fully emerge themselves into this business. The assets are not slack resources anymore. More importantly, this mode of operation has ensured that the supply side is more stabilized. In the automobile sharing business, the slack resources concept has become secondary or even irrelevant.

3.3 Apartment sharing

The asset value of individual apartment is very high compared to other assets in general. The current operation mode of apartment sharing indicates that the platform operators do not own the apartments. Hence, Model B is the norm. Again from a macro perspective, the apartments are scattered in different places. Even the owners are not with those assets, they have the strongest incentive of keeping the assets in perfect order. The scattering of assets is not an issue at all with respect to the maintenance of assets. Finally, the apartments are supposedly bought by the owners with some other purposes, such as offering certain convenience to the owners. When the owners are not using their apartments, those are truly slack resources. Based on the above analysis, this model is genuinely or close to a genuinely slack resources sharing model.

Even if the assets are acquired by the owners as investment tools with the purpose of offering rental services, this model can still survive because the ownership is clearly defined and maintenance task is well taken care of. Similar to the case of automobile sharing, sharing of slack housing resources is not the key success factor, but ownership and the corresponding maintenance issues are. As long as these are handled properly and do not cost the platform operators much, this business will be sustainable.

3.4 Office space sharing

The asset value of office space is likely the highest compared to all other assets being discussed in this article. The current operation mode of office space sharing indicates that both Model A and B are adopted by practitioners. The platform operators, either like coworker.com, act as independent intermediaries to facilitate other asset owners to rent out their office spaces, or like WeWork, own / lease and then sublease the office spaces. Both cases are shown in rows 4A and 4B respectively in Table 2. From the independent platform operator perspective in Model A, the office spaces are scattered. However, from the asset owner perspective, the assets are likely concentrated. Obviously, the owners have the strongest incentive of keeping the assets in perfect order. Moreover, there is no maintenance cost incurred by the independent platform operator. This can be one key driving force of success in this operation mode. However, the nature of the business deals between the leasers and lessees are usually of longer term and higher monetary value. There are incentives for both parties to bypass the intermediaries. This disintermediation effect has to be dealt with in order to make this business model successful (Ladd, Feb 2021). If the platform operators also own or lease and then sublease the properties, Model B is adopted. The maintenance responsibility and the corresponding costs incurred by the platform operators can be prohibitively high.

For both Model A and B, the office space is supposedly acquired by the owners through purchase or lease with the sole purpose of generating rental income. In other words, those are not truly slack resources. Even if there are companies which offer such rental services for the short term with the intention of retaking the assets for their own use, they are the minority and have no significant impact on the market. Based on the above analysis, this model is not genuinely a slack resources sharing model.

In fact, office space sharing is similar to the traditional office space rental service, which has been in the market for decades. If we consider office space rental service the “old economy”, then office space sharing is of the same class. Its success is not so much related to information transparency and exchange, or the recent development of Internet technology, which has made information access extremely easy and low cost. As discussed before, this is one of the key driving forces of the success of some of the sharing businesses. If office space sharing is a success, it is not taking much advantage of the development of Internet technology. The logic behind its success is perhaps not much different from the success of any typical rental service providers.

4. Conclusion

The proposed analytical framework is to function as a tool to analyze the possible success or failure of any newly proposed model in the sharing economy. The asset value, ownership, distribution, maintenance are important factors to look into. The mode of operation of the platform, which is closely associated with the asset ownership and maintenance issues, is another key determinant of success.

The high value of the asset, the ownership of asset being dispersed instead of concentrating in the hands of the platform operators, the wide distribution of asset while at the same time being well-maintained by the large number of owners, all these can be contributing factors to the success of a business. For the case that assets are concentrated in a handful of owners/leasers, the aggregated maintenance costs can be prohibitively high which may render the business unprofitable. Moreover, whether the assets are truly being shared is another good indicator of future performance of the sharing businesses. If an asset has its original purpose of being owned by the owner and is being shared while being left idle for a certain period of time, this mode of operation is really taking advantage of the benefits offered by the sharing economy.

From a slightly different perspective, this is a good starting point for service providers to dip their toes into this business. As the market evolves, the concept of sharing has migrated to offering of services by the asset owners with the assets functioning solely as revenue generation tools. The service providers are ready to fully emerge themselves into this business. This has not diminished the viability of the business model, but instead, has made the business more sustainable in terms of stabilizing the supply.

This framework can also be adopted as a litmus test of any emerging ideas of sharing business for entrepreneurs, who are encouraged to observe the dynamics of the market, identify hidden opportunities and create values for users.

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