Business models in the Peer-to-peer economy

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What are we talking about?

- “The sharing economy lacks a shared definition.” (Botsman, 2013)
  - Often used as synonymous

- The phrase “sharing economy” creates a misconception
  - What we mostly observe are digitally-enabled platforms, operated by business intermediaries.
  - Some may facilitate sharing but they are typically not managed nor owned in some ‘shared’ way (">< cooperatives or collectives)
  - These businesses are grounded in simple free enterprise, individual property rights, external financing, trade-for-profit, market-based prices, and new opportunities for exchange. (Sundararajan, 2014)
What are we talking about? (2)

- **What matters for an economic analysis is to identify...**
  - The context *(why, when & where?)*
  - The players *(who?)*
  - Their strategies and business models *(how?)*
  - The resulting economic impacts *(what?)*  → Alexis Walckiers
WHY? Driving forces

- Consumerization of digital technologies
  - Innovation driven by the needs of consumers

- Emergence of “digital institutions”
  - Reputation & recommendation systems, DRMs, digital ID

- Urbanization and globalization
  - City population X2 in 2050
  - Cities = natural sharing economies

- Ecological and resource considerations
  - Renting preferred to ownership as a primary form of consumption

Sundararajan (2014)
WHEN? Evolution over time

- **First generation: e-commerce markets**
  - Add liquidity to local/small markets
  - Reduce transaction costs, especially for “niche” products/services
  - Relatively anonymous (limited trust requirement)

<table>
<thead>
<tr>
<th>Year</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>eBay, Craigslist</td>
</tr>
<tr>
<td>2005</td>
<td>Mechanical Turk</td>
</tr>
<tr>
<td>2009</td>
<td>Kiva, Kickstarter</td>
</tr>
</tbody>
</table>

- **Second generation: more personal service companies**
  - Much more ‘intimate’ \(\Rightarrow\) Requires a lot of trust
  - Leverage new technologies (mobile internet, GPS, big data)
  - Allow sharing or exchange of otherwise underutilized assets.

<table>
<thead>
<tr>
<th>Year</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Uber, Lyft</td>
</tr>
<tr>
<td>2009</td>
<td>TaskRabbit</td>
</tr>
<tr>
<td>2012</td>
<td>Instacart</td>
</tr>
</tbody>
</table>
WHERE? Forms of P2P marketplaces

- Repurposing owned assets as ‘rental’ services
  - Provision of asset-based services

- Professional service provision
  - New channel for existing providers of different services

- General-purpose freelance labor provision
  - New marketplaces for different kinds of freelance labor

- Peer-to-peer asset sales
  - Allow entrepreneurs to sell goods directly to consumers.

Sundararajan (2014)
WHO? The players

“Sellers”
Individuals or small businesses that **supply** goods and services

Platform
Facilitate the exchange of goods and services between ‘peers’

Mediate the payment from the consumer to the entrepreneur (and often charge a commission)

“Buyers”
Individuals who **demand**: buy, rent, consume

Little Sky B&B
Etterbeek, Bruxelles, Belgium

Perrine
Chambre privée 2

Paul
## WHO? “Buyers”

<table>
<thead>
<tr>
<th>Reason for Sharing</th>
<th>Convenience</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>The most popular reasons for using sharing services</td>
<td>78%</td>
<td>68%</td>
</tr>
<tr>
<td>Product / Service Quality</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Couldn’t Find Elsewhere</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Recommendation</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Sustainable Lifestyle</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Curiosity</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Connect Online</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Connect Local</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Access Over Ownership</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Owyang & Samuel (2015)

This report is based on two surveys conducted between February 2015 and May 2015 by Vision Critical’s Voice of Market with participants from the U.S. and Canada ages 18 and over. The initial survey of 51,078 respondents provided data on the overall incidence, frequency and nature of participation in the collaborative economy. The questions regarding
WHO? “Sellers”

- Expansion in entrepreneurship and innovation
  - P2P business allows relatively low-risk micro-entrepreneurship
  - May be the first step to broader entrepreneurship thanks to supplemental income, extended expertise and professional network.
  - Eco-system of intermediaries (e.g., cleaning services for Airbnb hosts)

- Shifts in asset markets
  - New P2P rental opportunities affect the extent to which people purchase manufactured goods.
  - Example of car rentals
    - Some who would have bought a car before will now refrain from buying (because they can rent more easily from others).
    - Some who would not have bought a car before will now do (because they can rent more easily to others).
    - Net effect?

Sundararajan (2014)
WHO? “Sellers” (2)

- Status of ‘entrepreneurs’ on P2P marketplaces?
  - Neither employees
    - They work only part-time and when they choose to (“fractional employment”)
  - Nor independent contractors…
    - They work for a single platform, often with large control over their work
  - “Dependent contractors”?
    - Category that exists in Germany (more protections than free-lancers but distinct from full-time employees)
WHO? Platforms

- **Two-sided platforms**
  - Facilitate the interaction between the 2 groups of ‘peers’
  - “Internalize the external effects”

- (+) More demand
- (-) Asymmetric information

- (+) More supply, better fit
- (-) Asymmetric information

- (-) too much entry
- (+) Marshallian externalities

- (+) Word-of-mouth
- (-) Surge pricing

- (+) Within-side effects
- (-) Cross-side effects

- Sellers
- Buyers

Platform
HOW? Platforms’ main roles

- Matching buyers and sellers
  - High heterogeneity on both sides
  - High information dispersion
  - Need to aggregate information successfully, while keeping transaction costs low
  - Option 1: Centralized process
    - Example: Uber → matching through the mobile app
  - Option 2: Decentralized markets
    - Main challenge: create a streamlined and informative search process
    - How?
      - Search engines
      - Recommendation systems

Einav, Farronato, Levin (2015)
HOW? Platforms’ main roles (2)

- Pricing mechanisms
  - Large variety (thanks to the Internet)
    - Auctions (eBay, Prosper, oDesk)
    - Real time price adjustments by sellers (Airbnb, Etsy, Amazon)
    - Automated price adjustments by algorithms (LendingClub, Uber)
  - Cross-side effects must be taken into account
    - Price structure matters!
    - Often skewed: ‘Money side’ & ‘Subsidy side’
    - ‘Subsidy side’ is the one...
      - That is the most sensitive to price changes, and/or
      - That exerts the strongest external effect on the other side.
    - Subsidies allow to solve the ‘chicken-and-egg’ problem

Einav, Farronato, Levin (2015)
HOW? Platforms’ main roles (3)

- Trust and reputation
  - Essential in markets that seek to facilitate spot trades between large numbers of dispersed buyers and sellers
  - Trust can derive from
    - **Upfront inspection**
      - Harder online than in traditional markets
    - **External enforcement**
      - Platform takes action to limit entry, certify quality or insure bad transactions
    - **Reputation**
      - Reputation or feedback mechanisms
      - Substitute to inspection or upfront screening
      - Easy to set up online

Einav, Farronato, Levin (2015)
HOW? Platform competition

- P2P marketplaces vs. Incumbents
  - So-called ‘Uberization’
  - Highly asymmetric competition
    - Different business models
      - Multisided platforms vs. Vertically integrated businesses
    - Different regulatory frameworks
      - Employment contracts, safety regulations, ...
    - Different cost structures and quality of service
      - E.g., Airbnb hosts don’t face the same costs as hotels
  - But asymmetries are likely to diminish in the future
    - Incumbents embrace the new P2P business model
    - P2P marketplaces adapt to regulatory pressure
HOW? Platform competition (2)

- Among P2P marketplaces
  - Much more symmetric competition
  - At this early stage, getting buyers and sellers joining your platform and not the competitors’ is the primary objective.

This is Uber’s playbook for sabotaging Lyft

Lyft and Uber compete for drivers

Lyft Seeks New Funding to Better Compete With Uber
Key takeaways

- ‘Sharing economy’ is a misnomer
  - OK: the basic idea is to ‘share’ underused assets
  - BUT: not much else is shared; for-profit intermediaries run the trade

- Better to talk of ‘Peer-to-peer marketplaces’
  - Multisided digitally-enabled platforms
  - Facilitate interaction between buyers and sellers

- Business models focused on
  - Matching dispersed buyers and sellers
  - Innovative pricing mechanisms
  - Building trust efficiently
References

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