

The “Peer-to-Peer Economy”: Competition “In” and “For” the Market

Business models in the Peer-to-peer economy

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Brussels School of Competition
Brussels, February 16, 2016

What are we talking about?

- **“The sharing economy lacks a shared definition.”** (Botsman, 2013)
 - ‘Collaborative economy’, ‘Collaborative consumption’, ‘Sharing economy’, ‘Peer-to-peer economy’
 - 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

gfxtra.com



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

WHEN? Evolution over time

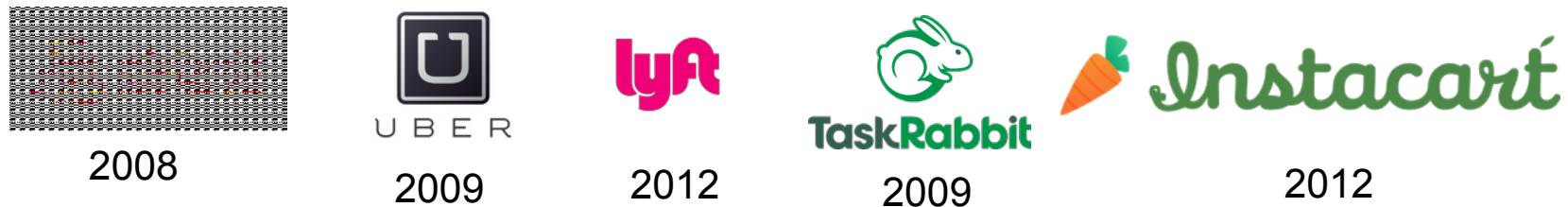
First generation: e-commerce markets

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



Second generation: more personal service companies

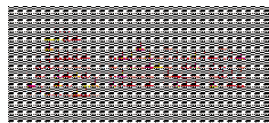
- Much more ‘intimate’ ⇒ Requires a lot of trust
- Leverage new technologies (mobile internet, GPS, big data)
- Allow sharing or exchange of otherwise underutilized assets.



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

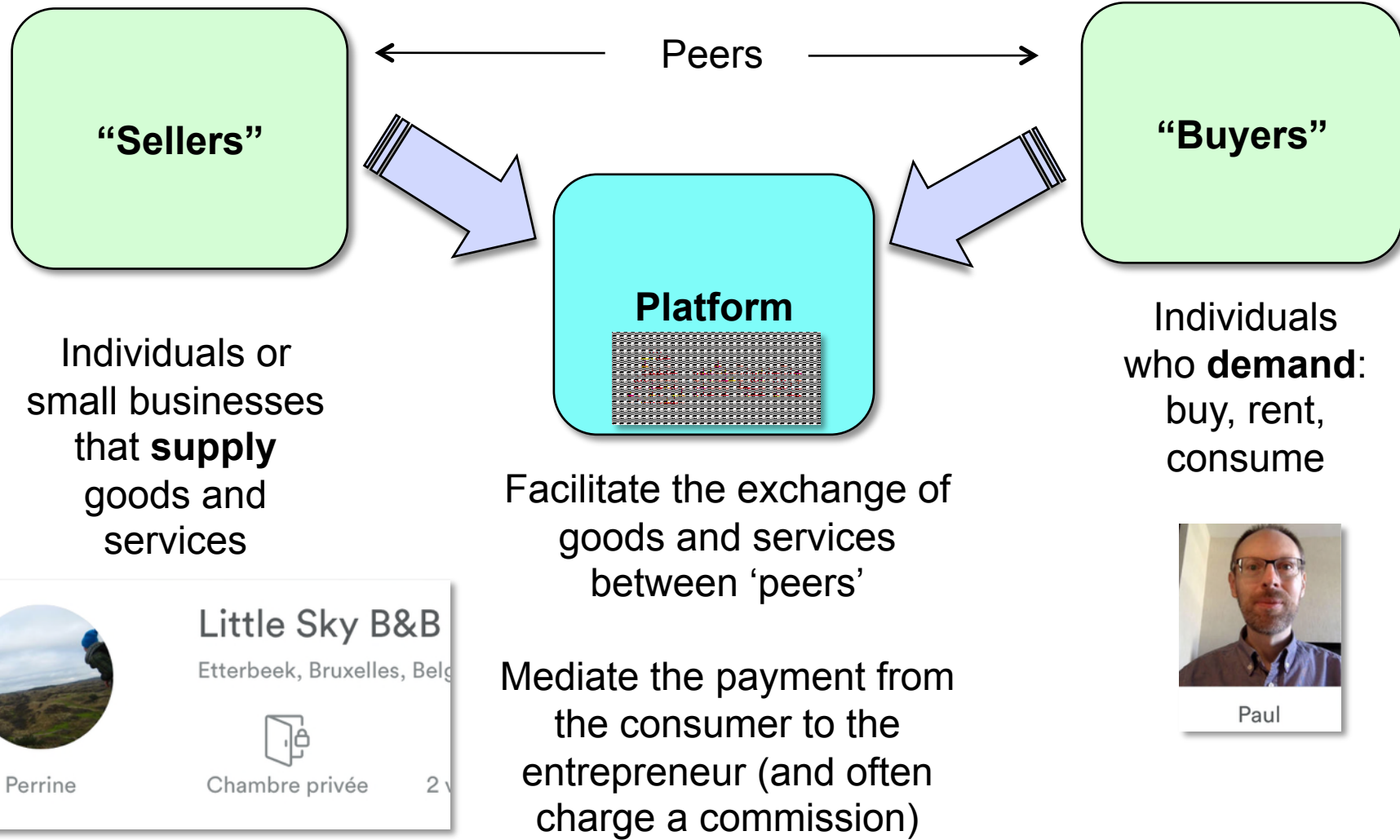


- Peer-to-peer asset sales

- Allow entrepreneurs to sell goods directly to consumers.

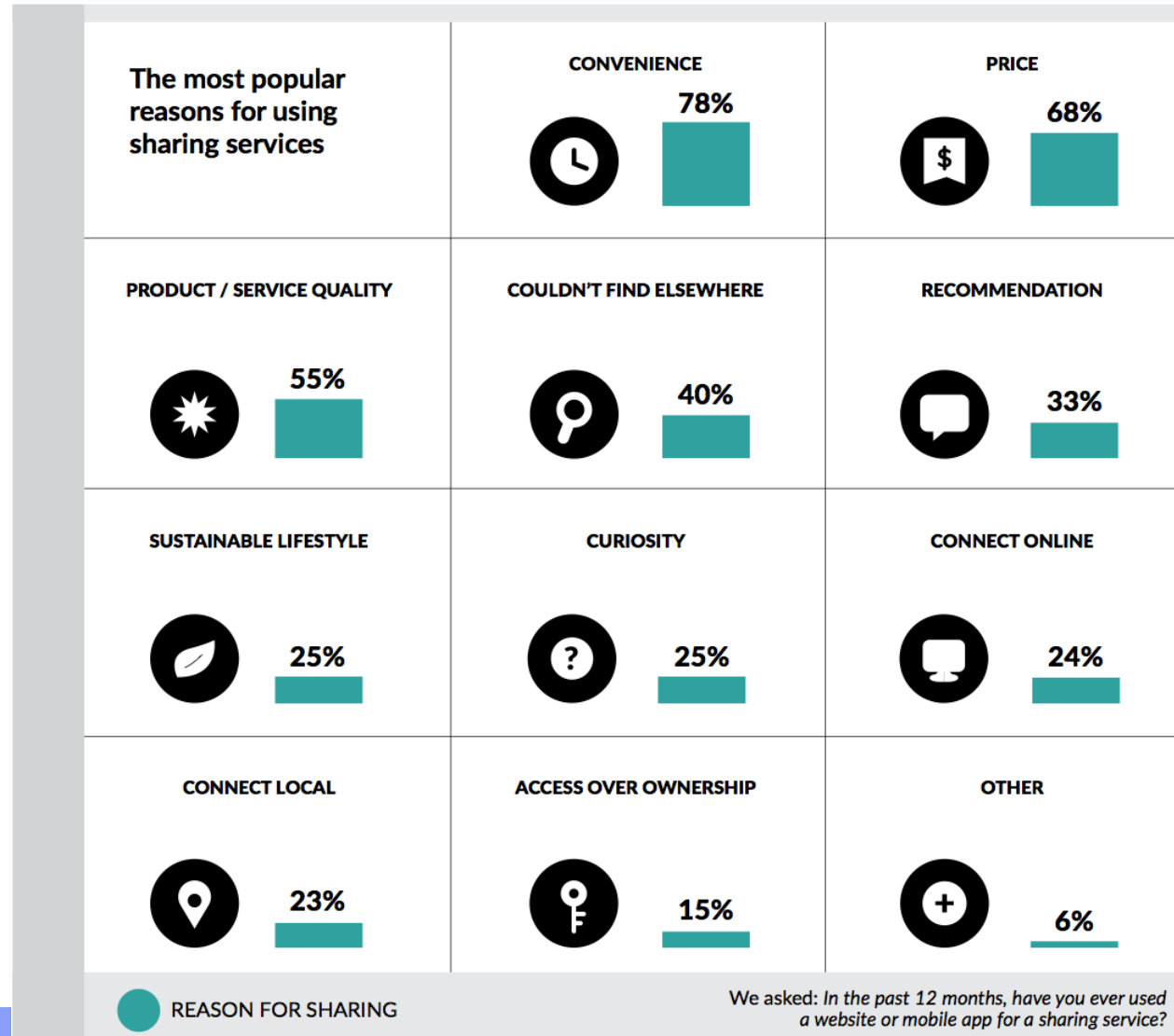


WHO? The players



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? "Buyers"



We asked: *In the past 12 months, have you ever used a website or mobile app for a sharing service?*

Owyang & Samuel
(2015)

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?

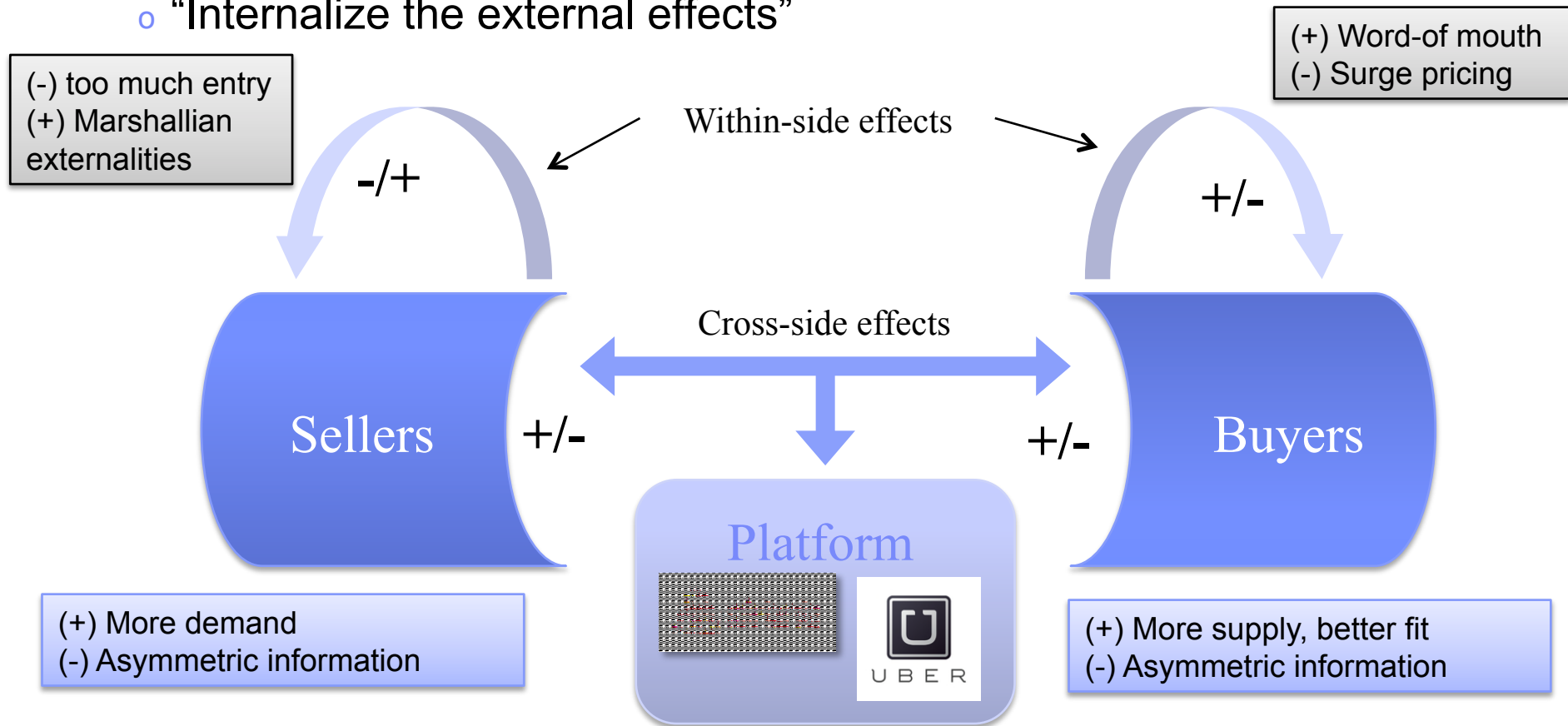
WHO? “Sellers” (2)

- **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"



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



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



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



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



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