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LEARNING TO LOVE (OR LIVE WITH) THE SHARING ECONOMY

By Judith Wallenstein and Urvesh Shelat

This is the second of three articles on the sharing economy. The first article focused on opportunities created by the sharing economy and provided a preview of industries (besides mobility and hospitality) likely to be affected, as well as insights into consumer attitudes toward sharing drawn from a survey conducted in Germany, India, and the US. This article examines the strategic options that sharing offers for emerging and established companies and how both can create competitive advantage. In the third article, we will peer into the future of sharing in the global economy and analyze promising business models.

The sharing economy, exemplified by the rise of Uber and Airbnb, has been one of the most notable economic forces of this decade. Traditional patterns of ownership and consumer behavior have seemingly been turned upside down by startups, leaving incumbents to ponder a fundamental threat to their businesses.

The forces that underlie sharing are economics and business logic, not the aversion to ownership often attributed to millennials or their desire to consume less for the sake of sustainability. Sharing platforms can provide access to new markets and customer segments by lowering costs for consumers who want to use an asset but cannot afford to own it or who want to use it for only a short period of time. Sharing platforms can also increase the purchase price of shareable assets, since buyers are often willing to pay a premium for items that can generate revenue by being shared.

To be sure, the sharing economy poses threats to companies with business models based on ownership. But in those threats lie the seeds of opportunity.

The Advantages of Sharing

The sharing economy has reached far beyond rides and room rentals to include high-end cameras (ShareGrid), boats (Boatbound), clothing (Rent the Runway), and agricultural machinery (Trringo and Ravgo). These examples just hint at the potential for sharing to ripple through the economy. Sharing is gaining in popularity precisely because it makes economic sense. Consumers who use sharing services are looking for value, according to BCG's research.

The German truck manufacturer MAN, for example, established its LoadFox sharing platform in 2016 to help smaller German logistics providers and carriers supplement the cargo of trucks with less than a full load. (BCG Digital Ventures is a partner in LoadFox.) Traditionally, an inefficient mix of telephone calls, emails, and even faxes has been used to match carriers that have spare capacity with those that have excess loads. LoadFox does this far more efficiently with its online platform.

LoadFox extends MAN's business beyond manufacturing while providing a platform for additional services and visibility into usage patterns that can potentially influence product design. Moreover, it helps small carriers not just increase profitability but also improve utilization and balance uneven demand. As a result, they are able to compete more effectively against larger carriers that can solve those same challenges through scale.

The Risks and Rewards of the Sharing Economy

Similar to e-commerce, the sharing economy is built on a foundation of radically lower transaction costs. In the physical world, lending is time-consuming and inefficient. The lessee often has far less information than the lessor, but digital platforms flatten out the bumps and straighten the curves that prevent both from reaching a deal.[1]

In other words, a radically different economic environment is driving the growth of sharing, rather than a change in consumer preferences on the part of millennials and others. By viewing sharing through an economic lens, companies can understand how to address it.

Supply and Demand. The economics of supply and demand can help companies assess how vulnerable their industry might be to the threat posed by sharing.

In terms of supply, not all assets are equally capable of being shared. The best assets for sharing are interchangeable: the user does not need to reconfigure them for each use, and their usage patterns facilitate sharing. That is, they are used for relatively short periods of time, and those uses can be stacked sequentially to build a recurring revenue stream. Finally, transfer and transaction costs need to be low. Otherwise, the time, effort, and expense of arranging a sharing transaction will swamp the need.

In terms of demand, customers gravitate toward certain assets according to frequency of use, cost of ownership, and other factors. The price per use needs to make economic sense. For example, a customer might be willing to rent a tool once at one-tenth of the purchase price, but he or she would not take frequent trips using Uber or Lyft at one-tenth the cost of a car.

Shareable assets must be easy to use in the sense that they allow consumers to avoid the direct and indirect costs of ownership. For many, renting a Zipcar is simply easier than maintaining and insuring an automobile, and renting camping equipment is easier than storing it in a small apartment for an annual wilderness expedition.

Finally, shareable assets often appeal to the desire for product variety and specialization. A consumer can own multiple jackets and trousers that he rarely wears—or rent a designer suit for special occasions; she can buy a minivan—or own a sports car and rent a van for trips to the neighborhood recycling center.

Value Chain. Companies need to understand the vulnerabilities of their value chain to the sharing phenomenon. For example, sharing can introduce an intermediate step, as when an Uber driver buys a car in order to transport passengers. If the intermediary—the ride-sharing platform—negotiates or makes the purchase on behalf of the driver, what was formerly a B2C transaction in essence morphs into a B2B transaction. The car maker loses some control of the customer relationship and, potentially, of its pricing power.

Sharing can also replace a link in the value chain, as ride-sharing platforms are doing by taking business away from taxi and black-car fleets, and as room-sharing services are doing by reducing overall demand for hotel rooms.

While both intermediation and replacement are disruptive, their impacts are vastly different. Thus, while car manufacturers and taxi fleets both face challenges to their business models in the age of sharing, the former are in much better shape than the latter.

Harnessing the Sharing Economy

Most businesses that are vulnerable to the effects of sharing can still control their destiny. But how can they turn sharing into a source of competitive advantage? Here are several options that will allow companies to flourish in the sharing economy. (For a set of practical suggestions to ensure success, see the sidebar “How to Enter the Sharing Economy.”)

Embrace the sharing model. Creating a sharing platform is a viable option for companies that wish to expand into markets that were closed when ownership was the primary option, or to diversify their product offering or compete with sharing startups. AccorHotels’ acquisition of onefinestay and Squarebreak, and its proposed acquisition of Travel Keys, will expand its portfolio to include 8,500 private rental properties, enabling the hotel chain to compete against Airbnb and other sharing companies. As we mentioned in our first article, Mahindra & Mahindra, the equipment and vehicle arm of India’s Mahindra Group conglomerate, has created a standalone sharing subsidiary, Trringo, which rents out tractors and other farming equipment. (See the sidebar “Mahindra’s Sharing Strategy.”)

Build durable products to be shared. In the same way that beach houses often sell above their intrinsic value because of their rental potential, shareable products command a price premium. Economists such as Thomas Weber, of École Polytechnique Fédérale de Lausanne, have theorized that sharing markets create incentives for consumers to spend more on products and to seek out durability. Indeed, in our consumer survey, 80% of respondents in India and the US reported that they are willing to pay a premium for products whose durability or other features make them amenable to sharing. For example, Local Motion, a US company acquired by Zipcar, is developing keyless entry and online fleet management tools that will facilitate sharing.

Create shareable business lines. Taking shareable products to the next level, companies can design new product lines, possibly in partnership with platforms, that are suitable for sharing. Mahindra, for example, has announced a partnership with Ola Cabs, the leading ride-sharing platform in India, which it will supply with 450,000 vehicles.

Be a buyer, not just a seller. Businesses can buy sharing services to improve their costs, efficiency, and flexibility. This option can help smaller outfits and startups improve their level of service and lower their operating costs, as small carriers and logistics providers in Germany are doing with LoadFox.

Buying Time by Playing Defense

Companies that are more vulnerable to the sharing economy may want to offer creative alternatives as a way to buy time while they develop their own sharing strategy.

Encourage product stickiness. Owners of exclusive brands may have legitimate concerns about maintaining the aura surrounding their products, while other brand owners may simply want to retain control of the overall user experience. Measures such as access codes and double authentication can tie products such as consumer electronics to their owner. Luxury brands may shift toward highly customized or bespoke products that meet niche needs, making them less exchangeable. If consumer backlash is a concern, such moves can be aimed at select customer segments and markets.

HOW TO ENTER THE SHARING ECONOMY

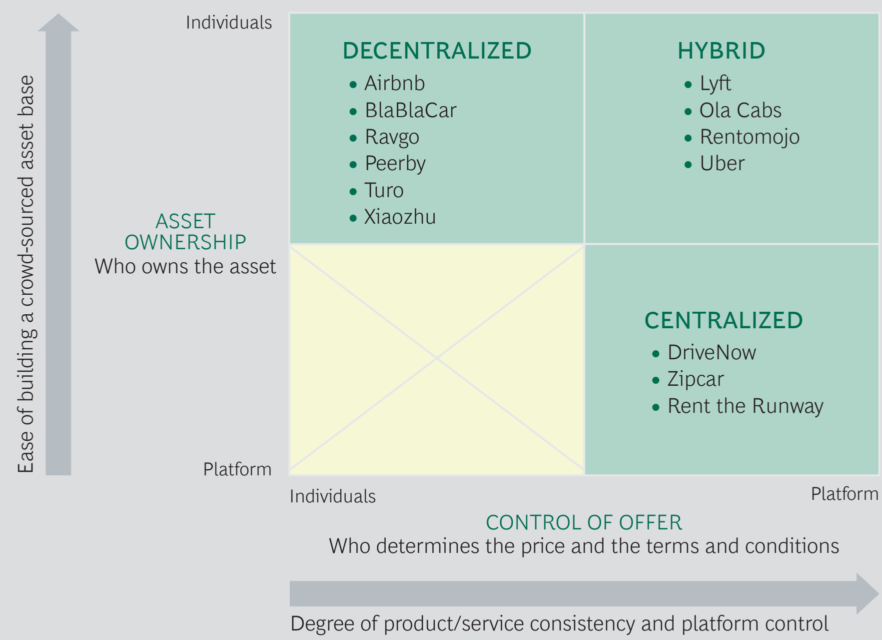
Here are six suggestions for how to join the sharing economy effectively. They are based on interviews with more than 25 founders of startups in more than 15 countries, including China, Germany, India, Nigeria, Singapore, the UK, and the US.

Pick a business model. In our first article, we laid out three business models—decentralized (Airbnb), centralized (Zipcar), and hybrid (Uber)—distinguished by who owns the assets and who sets the price. (See the exhibit below.) In creating Trringo, for example, Mahindra opted for a combination of centralized and decentralized models. Trringo rents and sets terms for its fleet of tractors (centralized), but also allows others to rent its equipment through the platform (decentralized). For manufacturers, the centralized and hybrid models allow greater control over the use of their brands. Other companies may not want to create a sharing platform themselves but will want to participate in a sharing business, as Mahindra is doing with Ola Cabs in India.

Start right. First impressions matter. An early misstep can be fatal to a sharing company's brand and reputation. When Uber moved into new cities, it would pay drivers to drive around in empty cars so that passengers would not have to wait long for a ride. Those early adopters became brand ambassadors. Today, with Uber's reputation having taken a hit, Lyft—its smaller competitor—is presenting itself to potential drivers as a more welcoming alternative. Likewise, in its early days, Airbnb sought hosts with especially distinctive apartments and rooms. Over time, it expanded to a wider array of offerings but credits its early success to this deliberate choice.

Change behavior. Sharing platforms are not simply storefronts waiting for customers. They actively convert users to

The Best Business Model Is a Function Who Owns the Asset and Who Controls the Offer



Source: BCG analysis.

HOW TO ENTER THE SHARING ECONOMY (continued)

new behaviors. For example, Xiaozhu, a Chinese apartment rental platform, gives property owners remote-control locks for their front doors to simplify check-in for guests.

Scale, scale, scale. The larger a sharing network grows, the greater its value. With scale comes greater convenience and choice for customers and greater profits for the owners of the largely fixed-cost platform. Companies need to plan how they will achieve scale as they expand into new markets, new products, and new customer segments. They must also understand the investments required to build the business to reach scale. For example, Uber benefits financially from surge pricing—its practice of increasing fares when demand is high. And since customers expect both reliable pricing and fast availability, they tend to choose Uber because its scale offers both. To offset the potential negative effect on consumers' perceptions, the company tries to minimize surge pricing by ensuring large networks of drivers.

Plan each battle. Not all markets are created equal, and they need to be managed differently. Many markets are primarily revenue generators, while others have different strategic purposes. Airbnb's push in China, where it faces a strong local competitor, is partly aimed at building awareness among outbound Chinese travelers and capturing their bookings. Other markets may not be highly profitable but are strategically important in terms of forestalling local competition and improving the company's negotiating position with regulators.

Prepare for tomorrow. The sharing economy is not static. Self-driving cars will fundamentally change the economics of the ride-sharing business. Drones could radically alter logistics. Blockchain has the potential to remove intermediaries altogether by uniting lessor and lessee in a binding relationship. Sharing companies keep their eye on all these developments.

Bend the economics. Sharing makes sense when per-use charges are small compared with the overall cost of ownership. By creating a line of lower-cost products, manufacturers can shift demand toward ownership and away from sharing.

Play the regulatory card. Where the assets being shared are not regulated, incumbents may seek intervention from regulators, as taxi fleet operators and hoteliers have done, albeit with mixed success. While the argument may be strong that regulation is needed to ensure a level playing field, it also cuts against choice, convenience, and access, which risks having a negative effect on consumer perceptions of the company.

Co-opt the model. Incumbents can adopt the popular characteristics of sharing platforms, such as transparency and easy payment methods, without actually sharing assets. Arro in the US and mytaxi in Europe are apps that allow traditional taxi fleets to mimic the user experience of ride-sharing services.

The Meta-Lessons of Sharing

Even when companies do not face the disruptive risks of sharing, they can adopt many of the practices that have made sharing services popular.

Generate and analyze customer data. On sharing platforms, each transaction generates identity, location, time-of-day, and behavioral data. Companies mine this data to improve the service. By emulating the near-real-time data collection of sharing-economy companies, incumbents can tighten their relationship with customers

MAHINDRA'S SHARING STRATEGY

Mahindra & Mahindra sells more tractors than Deere & Company or any other manufacturer. But in its home market, only about 15% of India's 120 million farmers use mechanical equipment, either because they cannot afford the cost of ownership or because they find existing rental businesses to be inefficient and costly.

To reach these farmers, Mahindra created the Trringo sharing platform. Farmers can rent a tractor (plus driver) and other farming equipment by the hour through their smartphone. (To accommodate users without mobile internet access or a smartphone, Trringo operates call centers staffed with agents fluent in several local languages.) The equipment is either owned by a Trringo franchise or by a nearby farmer. Mahindra chose this open approach to encourage usage, build scale, and improve the livelihood of farmers, even though it means that customers can rent equipment made by Mahindra's competitors.

Mahindra made Trringo a separately managed subsidiary staffed with outside hires in order to maintain its independence and startup culture. Trringo currently operates only in India, but Mahindra anticipates expanding into other countries. At $175 billion in annual sales, the global agricultural-equipment market should offer plenty of opportunities.

and generate insights into their behavior and preferences. Customers themselves often enjoy receiving updates and self-service options for the products and services they use.

Identify the key customer benefits. Automakers were caught off-guard by Uber in part because of a failure of imagination. They viewed themselves as vehicle manufacturers (even when selling to fleet owners) and did not anticipate the rapid rise of transportation as a service or the possibility that individual car ownership might decline precipitously. This failure represented an opportunity cost, with automakers now planning to sell to ride-sharing fleets or to otherwise participate in the sharing economy.

By viewing the benefits that their products provide and thinking of other ways in which those benefits might be delivered, manufacturers can anticipate potential disruptions in their industry before they occur.

Monitor transaction costs. Any development that lowers transaction costs is a potential game changer. Smartphone-based remote access technology, for example, enables users to rent on platforms like car2Go without ever worrying about keys or agency opening hours. Incumbents should carefully watch as changes to products, platforms, and logistics affect the shareability of their own products.

The sharing economy shifts rather than upends traditional notions of competitive advantage. In a world of sharing and declining transaction costs, scale arguably matters even more than before. B2C companies that sell goods to sharing platforms may suddenly find that they have also become B2B companies. Companies that fail to consider their exposure to sharing, both positive and negative, will be at a competitive disadvantage.

Note

1. For an academic discussion of transaction costs and the economics of the sharing economy, see John J. Horton and Richard J. Zeckhauser, "Owning, Using and Renting: Some Simple Economics of the 'Sharing Economy,'" February 10, 2016, http://john-joseph-horton.com/papers/sharing.pdf.

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