The Sharing Economy Revolution

■ By Janine Coughlin

Private jets, parking spaces, power tools, dog walkers, babysitters – even a pristine fishing spot, are among the things that can be procured today through "sharing" platforms. Though it's been less than a decade since the first home stay was arranged via Airbnb and the first ride was booked on Uber, the rapid rise of the sharing economy is not only changing how we buy goods and services, it's disrupting industries and business strategy models, along with influencing work culture and HR practices.

"In the past, figuring out how to build the asset was the biggest challenge and the biggest risk both financially and operationally," explains CEIBS Adjunct Professor of Management Jeff Sampler. "[Today] there is a different theory of strategy underway here."

The results of a study, done by PwC for the European Commission, that was published in April 2016 estimates that the five key sectors of the sharing economy — accommodations, transportation, household services, professional services and finance — generated revenues of nearly €4bn and facilitated €28bn of related transactions within Europe in 2015, and could generate global revenues of $335 billion by 2025. China's sharing economy was estimated to be worth RMB1.95 trillion by the National Information Centre's Information Research Department in a report it issued in February 2016. There are 50 million sharing business providers in China serving more than 500 million customers, according to the report, and it predicts that the country's sharing economy will grow at an annual rate of 40% in the next five years, making up more than 10% of its GDP by 2020. The importance of the sharing economy has been recognised at the highest levels of the Chinese government. In his keynote address at the WEF's Summer Davos meeting in Tianjin in June 2016, Chinese Premier Li Keqiang noted that, "it could unleash everyone's potential, facilitate reasonable income distribution, expand the middle income group, allow more people, in particular the young, to fulfil their dreams through hard work, and promote social equality and justice."

It has certainly been attractive for entrepreneurs around the world. Three of the top five companies on the TechCrunch ranking of Unicorn Startups (private companies valued at US$1 billion or more) are sharing economy enterprises. As of March 1, 2017, Uber tops the list with a valuation of US$62.5 billion; its former Chinese rival, Didi Chuxing, is fourth with a valuation of US$33.7 billion, and Airbnb, valued at US$30 billion, is fifth.

CEIBS Associate Professor of Strategy Peter Moran, who is researching sharing economy dynamics with Prof Sampler, says the pair believe the ability to mitigate risk is a key to succeeding in this new era. "Many of the [long-held] theories around strategy are really from the supply side," says Prof Moran. "It's usually [about] heavy assets; and it's the ownership of those assets. Strategy theories are all based on preventing others from appropriating the value from those assets. What the economy of sharing allows us to think about is using these assets in very different ways so that you can actually stimulate demand and make some demand-side insights around building strategy."

Adds Prof Sampler, "In the past you'd say, 'build the market and they will come'. That's the [approach used by] Craigslist and Taobao who say, 'I'm just going to create this big exchange platform and good luck [to anyone who wants to use it]'. An alternative [approach] says, 'I'm going to create a walled garden where you know it's safe to play'. There's huge value in that. The assets you will put into play are very different when you have less risk. Obviously as technology becomes more pervasive, with mobile and so on, it only highlights these opportunities."

It remains to be seen how different consumers around the globe will take advantage of these opportunities. For example, sharing economy enterprises have a different appeal to consumers in China than in the West says CEIBS Associate Professor of Strategy Weiru Chen. "Take car-hailing as an example. Uber highlights how technology can reduce the hassle of decision-making for people, while Yidao Yongche, a pioneering car-hailing service launched

in China before Uber, gives passengers more autonomy to choose their driver, car type, and service rating," he says.

According to Assistant Professor of Marketing Lin Chen, social media has been the key to unlocking the sharing economy in China. "It all started with Didi Da Che and Kuaidi Da Che for the taxi hailing service," she says. "People are using social platforms such as WeChat and those sharing economy related apps leveraged the social platforms to get their first customers."

WeChat has also facilitated the rise of bicycle sharing platforms in China, which have become a hot area of the sharing economy for venture capital investment. WeChat's parent company Tencent led a US$215 million Series D round of funding in the Mobike platform in January this year. Several weeks later manufacturing giant Foxconn announced a strategic investment in mobike, and the Singaporean investment firm Temasek followed with one at the end of February. Meanwhile, mobike's biggest rival, Ofo, includes Chinese ride-sharing giant Didi Chuxing among its strategic investment partners.

However Profs Moran and Sampler argue that bike sharing is part of the rental economy, not the sharing economy. In fact there has been a running debate, for a number of years, on the definition of the sharing economy. It initially grew out of individuals sharing goods or services but is increasingly being used to refer to economic and social activity involving online transactions – including B2C. For Profs Moran and Sampler, they are guided by the original meaning of the term. "Mobike owns the bikes, just like Hertz owns the car," says Prof Sampler. "That's a very different business model than Uber, where the driver owns the car. I think mobike is very clever to say that they're part of the sharing economy because that's good for their hype and that's good for their valuation, but it's a Hertz business model, not an Uber business model."

Another clever Chinese enterprise that leveraged WeChat in an innovative way to transform itself into a sharing economy business is Rongchang Laundry, which was founded by CEIBS EMBA alumnus Zhang Rongyao. A case study co-authored by Prof Weiru Chen explores how it went from being a traditional bricks-and-mortar laundry chain to an 020 (online-to-offline) "e-washing" platform, where busy urban white collar workers could book laundry pick-up service through WeChat. Demand proved so great that the company had to 'share' the excess capacity of rival chain store franchisees and local housekeepers to help wash and sort the clothes, respectively. The company has also contemplated leveraging its housekeeper and customer base to extend its business into other areas of home service such as cooking and cleaning. (The case study is titled "O2O Transformation in Rongchang Laundry Chain Services: Incubating an 'e-Washing' Platform" and it won the top prize in the 2015 Global Contest for "Best China-Focused Cases" co-organised by CEIBS, the Shanghai MBA Case Development and Sharing Platform, and the Global Platform of China Cases.)

The knowledge-sharing platform Fenda is another uniquely Chinese example of a sharing economy enterprise that has leveraged WeChat. The platform allows users to share their knowledge through 60-second WeChat voice messages with others who are willing to pay a fee to have

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a question answered. It also has a feature that lets people eavesdrop on the answers for a smaller fee. It surged in popularity after its launch last summer when Wang Sicong, son of Dalian Wanda Group founder Wang Jianlin, made RMB130,000 auctioning off answers to 25 questions that covered everything from investment to his love life.

"It was an extremely popular business model," says Prof Lin Chen, explaining that the person who asks a question also gets a share of the money collected from everyone who pays to eavesdrop on the answer.

Prof Sampler expects that in future, we will see more and more professional services being offered through sharing platforms. "We see this happening already, for example with coding and platforms like TopCoder.com," he says. "The whole gig economy is expanding greatly. I think it is going to happen in very knowledge-intensive areas such as accounting, engineering, legal, and strategy consulting."

The rise of this so-called gig sharing economy is also changing the work culture in traditional companies. CEIBS Assistant Professor of Management Emily David says it can exacerbate the existing problem of decreasing employee and employer loyalty. "To borrow an example from the star of the sharing economy, Airbnb, although the first person to stay in your house through this arrangement may become a close new friend, you are unlikely to even remember the name of the 70th person to do so," she says. "A side-effect of working with so many freelancers on short-term projects is that full-time employees may become desensitised to new faces."

She adds that it can also be hard for short-term employees to integrate into a company's culture. "People need to form deep bonds in order to work through differences and cooperate meaningfully. Managers of project-specific workers need to remember that just because these workers are hired only for a specific purpose or project, they are not robots. People thrive most when they are helped to develop their skills, motivated with a compelling vision, given a sense of purpose, and recognised for their achievements."

Where is the sharing economy headed? The early-moving giants are already trying to extend their brand into other areas. Airbnb is adding on tour-booking services, and Uber is trying out food delivery in big cities such as New York. Prof Weiru Chen believes that organisational capacity, timing, and the path (i.e. what to do and when to do it) are the biggest challenges for established service businesses to expand.

"Every element of diversification introduces another party and level of complexity, which introduces different risks one might not have considered," says Prof Moran. "I think the companies that are going to be the most successful in diversifying and really changing the use patterns of the assets they make available are the ones that are more forward-looking in terms of how these assets could be used and what risks are stopping those potential uses."

He notes that the risks extend beyond just the two parties involved in a transaction. It's not just the host and the guest, or the passenger and the driver; it's the local community. Airbnb, Uber and Didi have all bumped up against local government regulations in various places. Prof Moran notes, for example, that Airbnb has been increasingly willing to facilitate paying local accommodation taxes. "They see the hotel lobby that is trying to shut them down as a bigger threat to their business," he says. "If they can show the community that they spread the wealth more geographically and they are willing to pay transaction taxes and not just siphon off this value, they gain more credibility and legitimacy, and that ensures they won't get stamped out."