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Why Buy? The Evolution of Sharing

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For those millennials who were in their formative years during the recession, the risks now associated with ownership in an unpredictable economy has started to outweigh the great American dream of asset collection.

Mass Urbanization is Fueling the Collaborative Economy (Or Is It the Other Way Around?)

By R. Rodney

A lot of credit has been given to millennials for disrupting generational patterns of the material accumulation of assets. The collection of "stuff," that on a normal basis goes unused for 95% of each day has caused many to think of whether the need to accumulate resources is a necessity or a psychological crutch to help distinguish ourselves from the masses. The Great Recession saw the loss and foreclosure of many "owned" things. For far too many, ownership started to become burdensome and hindering. For those millennials who were in their formative years during the recession, the risks now associated with ownership in an unpredictable economy started to outweigh the great American dream of asset collection. Minimalism has become a safeguard against financial overexposure and in some cases it has becomes its own badge of superiority.

What has been revealed for many in the sharing economy is that ownership rarely brings full utility of an asset. Possessions often lay idle for hours, days, weeks and sometimes even months on end. Vehicles remain parked most of their lives and many rooms in apartments and houses go mostly unused. This has been true for decades, but now the collaborative community is exposed to advance communication which bridges the gap between a neighbors' idle assets and those in temporary need of these products or services.

What has spurred this movement? Mass urbanization tangled with social media and the proliferation of smart devices has made instant communication within local communities possible. With the proper validated platform, a well-established community can establish peer-to-peer transactions within a matter of seconds and the rendering of services can begin within a matter of minutes. The incredible convenience factor and the cashless transfer of funds have made this a no brainer for the ever-connected Millennials. Their enthusiasm with the proven effectiveness of peer-to-peer services has spilled over to older generational cohorts who are now becoming fully engaged in the collaborative economy. As the population continues to move to tighter quarters, the need for these services will only continue to increase, which in turn stimulates the population to grow even denser.

At the center of the collaborative economy is one essential ingredient that is extremely difficult to earn and far too easy to lose in the modern social media era. The element of trust cannot be understated and lies at the heart of this movement. Without it, the system fails to gain foothold. The peer review system plays a monumental role in allowing complete strangers to feel comfortable with sharing resources. The web-based platforms themselves are the underlying foundation upon which the community participants go to seek or offer services. However, the magical concoction here is consumers review service providers and those same service providers review the customers. Each party is, therefore, rewarded for being thoughtful and kind to each other and being kind service providers and respectful customers. Future users are informed of the reputations of the community and may choose to bypass participants who have not earned the minimum expected trust level of the group. Many users of the collaborative economy were driven away from traditional service providers because of low trust levels and the seemingly minimal effort made to satisfy customers. There is a certain harmony that must exist for both sides to participate in the collaborative economy. Those who choose not to comply with the established rules risk exile.

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How can traditional companies benefit from the gathering storm that is the collaborative economy? If they are not allowed to join, can traditional companies create their own sharing services or create hybrid solutions to deliver products or services for the end user? There are rumors of shipping services utilizing ride sharing services to deliver packages in that very expensive final customer mile. Luxury German automakers are investing in their own ride-share platforms, using their own vehicles in millennial filled cities. Hotels are investing in home sharing services that offer leisure travelers unique stay experiences. This service could prove very beneficial with mass urbanization increasing the cost of owning traditional sized dwellings in urban environments. Temporary access to these types of facilities will become a great option for social gatherings. What is apparent is that traditional B2C companies will be forced to be more creative in order to participate in these communities.

Asset light strategies have already been used in many commercial industries to diversify risk when the cost of expensive assets might jeopardize an anticipated return on investment. This same principal has now trickled down to the common man with the use of affordable, connected mobile devices and close-knit online social environments. With the continued move to tighter geographic population centers, we should see an acceleration of the need for the sharing of idle capital. The reduction of waste, an increase in personal savings, improved services and social collaboration will lead to healthier and more vibrant local economies. Does this movement stand as a threat to the traditional service provider? Do they need to supplement their current business model with supportive services or will lobbyists enter the fray to stifle these disruptors with regulatory measures? Time will tell, but we do know that innovation often comes out of necessity. New services will need to sprout as population densities increase. There is no doubt that opportunists in these areas will work to supply the connection points between the peer-reviewed service providers and the empowered consumer.

Quick Facts

Among US adults familiar with the sharing economy, they perceive many benefits to it.

86% agree it makes life more affordable

83% say it makes life more convenient and efficient

76% believe it's better for the environment

US adults are re-thinking the value of ownership

81% agree it is less expensive to share

43% say owning today feels like a burden

57% believe access is the new ownership

19 percentage of the total US adult population has engaged in a sharing economy transaction.

Source: PwC Consumer Intelligence Series: The Sharing Economy. April 2015

The Mixed Bag of the Sharing Economy

By Kristi Castano

Even the darkest of times can have a silver lining. Consider the rise of the "collaborative economy," a growth of sharing services and businesses that have their roots in the immediate aftermath of the 2008 recession. With the average American suffering a loss of disposable income (or employment), these upstart sharing networks enabled individuals in local communities to find and share common goods. For example, rather than purchasing a $300 Kitchen Aid mixer why not find someone nearby who already has one and rent it for an hour? The owner of the Kitchen Aid mixer makes money off of a possession that was likely being underutilized and the renter is able to complete their culinary experiments without a hefty appliance purchase from the manufacturer. Simple concept.

In many ways this phenomenon is no different than the banding together of local communities following the Great Depression. John Steinbeck wrote of his Depression experience, "We joined our money when we had some...Farmers and fruit growers in the nearby countryside could not sell their crops. They gave us all the food and fruit we could carry home."[1]

This sharing concept is supported by our religions, moral conventions and concepts of social justice. Particularly in an age where we are bombarded by ever growing, seemingly insurmountable threats: debt crisis, global warming, population growth, water droughts and grim projections of our global food production. All signs point to the death of individual excesses, disposable products, and rampant consumerism. Conceptually, it's easy to understand: as a community of humans with limited resources we all win when we share.

One might argue that this rising economic disruption, called the "sharing economy," is something very different. Rather than the sharing, it's the commoditizing of resources held by individuals and fueled by opportunistic middle-man businesses. There is a chance this new phenomenon is less a silver lining and more of a dark cloud.

How did we get here?

Fast forward from 2008 to 2015 and this simple sharing concept has exploded into a plethora of businesses sharing services and goods in a litany of industries – a growing part of our economy, in some estimations worth over 3.5 billion of dollars.[2] How did this happen?

The sharing concept has been fast-tracked by the junction of social, economic and technical changes. The embrace of the "sharing" concept by society catalyzed by the popularity of Facebook, Instagram and Twitter over the past ten years. The ability to create networks and communicate and locate services has been made simple through the internet-driven, GPS-navigation enabled smartphones and their almost ubiquitous use by the masses. Finally, the swinging of the social opinion pendulum was fueled by the excesses of the 80s and 90s and the economic "corrections" of 2000 and 2008. There is a collective, popular, and cultural movement away from McMansions and "have-it-all" mentality of the recent past to the "tiny-house" and the do-more-with-less mentality of today. All these factors come together to create a perfect petri dish for the great sharing economy experiment.

Let's throw in one more economic factor – jobs. The lack of jobs during the slow 2008 recovery, the number of "under" employed (people working jobs beneath their experience or skill), and the growth of the "flexible" or "fractional" workforce. The fractional workforce refers to the number of independent contractors, freelancers or part-time employees who were once full time.[3] The employee swaps full time employment for flexibility while the company saves money on benefits and salary. This scenario also puts the tax burden and medical health burden on the now lower-paid employee. No longer are pensions, 401k contribution matches and profit sharing commonplace expectations. It's in this environment that the idea of peer-to-peer selling, the promise of more flexibility and control, takes hold.

Cost Benefit Analysis

The peer-to-peer or sharing economy seemingly enables individuals to grow their income renting items they already own or services they can provide. In some instances, this is true. An example is the case of RelayRides, a car-rental company that enables an individual to post a calendar of when their car is available for rental. RelayRides creates a trusted community of both renters and car providers. In addition, the company provides insurance coverage for both renter and car provider. In exchange, RelayRides collects 25% of each rental transaction. In this case, the owner of the car may be realizing income from a car that is underutilized or perhaps not used at all: truly passive and incremental income. From the renter's perspective, the cost to rent is generally much lower than a traditional rental car company – seemingly.

The downside for the renter? The car's reliability and safety is a big unknown. With no way to thoroughly evaluate the condition of the vehicle RelayRides is reliant upon the car owner to accurately report the condition, cleanliness, quality, and safety of the automobile. Traditional rental cars are inspected and serviced regularly.

There is also the insurance: RelayRides' website explicitly indicates that most credit card companies don't recognize RelayRides as a legit car rental service. This means none of the insurance services provided by these credit card companies apply to a RelayRides rental. RelayRides' own insurance is only meant to be "supplemental" to the insurance the renter already has. So if the renter's insurance company doesn't cover RelayRides rentals, any damage would be 100% the responsibility of the renter. All of this can be filed under "Buyer Beware" – but aren't these issues really roll-backs of the many regulations that have been put in place to protect the consumer in the first place? Some might say consumers are simply opting to take a chance in favor of a lower price, but the end cost might be greater than the end user could possibly have expected.

A more controversial and egregious example of regulation subversion are taxi services like Uber and Lyft. The promise? Download their smartphone application, locate rides available in your area, and call a taxi in minutes. For drivers, flexible work on your own terms: use your own car, set your own hours, work as much as you want, and make as much as you want (for $35 an hour). This concept has been quick to gain popularity in many cities, particularly among drivers. They claim the new system provides an even playing field for the drivers, the ability to make more money or even break into a market that was seemingly impenetrable.

Most major metropolitan areas have highly regulated taxi services to limit the number of livery service cars in the city and control car emissions. With companies traditionally paying millions of dollars for the right to be one of the vehicles permitted to pick-up passengers, it's been a market that hasn't been easy to penetrate Lack of competition has definitely inflated the price of these taxi medallions, particularly in NYC, and drivers can't afford to purchase one themselves. Most drivers lease their cab from taxi service companies by the hour. Competition for hours is rough and some claim they need to bribe dispatchers to get rides. It's understandable why this new system would be appealing.

On the positive side, this industry disruption has certainly shined a light on the plight of the average taxi driver and it may even force the existing regulated taxi services to revise their practices. Cities may need to review their taxi license and medallion policies as well. But does the driver and rider really benefit with these share-services? Again, the reality is mixed.

Regulated taxi companies must pay for maintenance, insurance, and workers comp for their drivers. Much like RelayRides the cab's quality, reliability, and cleanliness are all up for grabs; all maintenance and maintenance costs are left to the drivers. In addition, Uber and Lyft limit the amount drivers can make on a ride by capping the fare. These companies take a cut of the wages drivers earn. The end result? The driver gets the squeeze and realizes a smaller net profit than the drivers of the regulated taxi companies.[4]

In a recent press release, Uber shared its average hourly wage for their drivers by city. Based on the data they provided a NYC Uber driver makes approximately $6 more per hour than the traditional NYC cab driver. This does not take into account expenses such as car ownership, maintenance, insurance, etc. When all these are taken into account the Uber driver is earning basically the same as the traditional NYC cab driver. But once again, the burden of capital expense is on the individual, not the company. What about the investment traditional cab drivers and cab companies have had to make to acquire their licenses and medallions? Should an upstart be permitted to subvert this system and take jobs away from drivers and companies who have long played by the rules.

Not all Sharing is Created Equal

To quote Izabella Kamishka from the Financial Times: "The uncomfortable truth is that the sharing economy is a rent-extraction business of the highest middleman order."[6] As Izabella correctly points out, some of the larger and astronomically growing "sharing" companies are structured to subvert existing regulations within an existing marketplace and transfer capital expenses to the employees in exchange for higher profits - which benefit their wealthy owners. "For the most part, the sharing economy is owned by Silicon Valley's one percent," Izabella explains.

That's not to say there aren't idealist true-blue sharing communities out there. There are. But many are in the nonprofit sector or remain focused on local community sharing. For example, the growing "Maker Movement" is fueled by many of the same social, economic, and technological influences described earlier – with a mission to return to a DIY and creation society over pure consumption.

> "The uncomfortable truth is that the sharing economy is a rent-extraction business of the highest middleman order."
>
> Izabella Kamishka

Big companies are getting in on the act. Since March of 2012, GE has been building "GE Garages," spaces where makers can come and learn modern ways of prototyping and manufacturing new products using devices like laser cutters and 3D printers.

The Maker Movement has been the driver behind Quirky, an innovative invention platform that connects inventors with companies that specialize in specific product categories. Their service recognizes that good ideas can come from anywhere or anyone, but it takes a team of people to bring an idea to market. The case study on their website is an interesting example. A busy mom of a young infant has a great product idea based on her child care experiences. She shares her product concept on the Quirky platform and designers in the Quirky community she elects help her refine and bring a product prototype to life. Community members selected to assist in the project do so in exchange for a piece of the anticipated product revenue. Inventors begin with a possible 80% interest with Quirky retaining 20%. Eventually, this mom's product prototype is evaluated by the Quirky community and voted for. Each week the strongest concepts are pitched to brand partners. In this case, the prototype was voted for, pitched and brought to retail. The mom, the designers and of Quirky all get a piece of the action.

Some Maker Communities go beyond online collaboration and enable local in-person sharing. One local non-profit, Hack N'Craft NJ has had success in creating shared space for innovators to gather and work on their products – providing access to welding, 3-D printing, woodworking tools and more. "It's really about the community. We bring together like-minded people to share their interests, work on their projects and share ideas," board member Frank Gibbons explains. "One of our goals is to expose young children to this technology and all its possibilities. Many have never seen a 3-D printer work, but when a five-year-old sees an idea transform from the computer to a live-printed piece, it can ignite a real spark of interest." Frank's modest space is open to members who pay a monthly fee for access. It's a growing trend, with more local libraries and growing physical shared spaces with shared materials and tools to back up the online networked maker movement community.

Big companies are getting in on the act. Since March of 2012, GE has been building "GE Garages," spaces where makers can come and learn modern ways of prototyping and manufacturing new products using devices like laser cutters and 3D printers.[6] Now GE is expanding GE Garages globally – makers can collaborate on ideas and find solutions to problems on an international level. This is exciting stuff.

The Wild West of Sharing

In the end, is the growth of the "sharing economy" good or bad? Of course, it's not that simple. As they say, the devil is in the details. If a sharing company or peer-to-peer business is structured to benefit the masses, a mission to harness the benefits of our collective resources with profits is a happy side effect; it can be a very good thing. Perhaps even an amazing thing! However, if a sharing company is structured to subvert the regulations of an industry, fly under labor protection rules or push the capital investment and expenses of a business back on the individual worker – that may not be a good thing.

As with all previous generations, we are challenged to meet the future while hopefully learning from our collective past. It would be a shame, if in our zealousness to capture cheaper solutions to costly or taxing markets, we subvert the lessons we learned from our past.

Labor unions, minimum wages, benefits, overtime, hour limits to work: as employees we seem all too ready to relinquish these hard-won benefits in exchange for freedom and flexibility. The promise of the shared economy: "we all benefit," either from the service or in a more direct transaction – goods or services in exchange for money. "Peer to peer." "No middle man." "Better use of underutilized resources." "Great way to earn extra income." My advice - be wary. Sometimes it is harder to spot the real boss, especially when you never actually have to report to their office for a review.

See footnotes on page 9.

Shared Economy

By G. Bivens

The concept of the "Shared Economy" resonates differently with different audiences. Its meaning, for the purpose of framing our discussion is, per www.thepeoplewhoshare.com, "a socio-economic ecosystem built around the sharing of human and physical resources. It includes the shared creation, production, distribution, trade and consumption of goods and services by different people and organizations".

With all of the talk of the shared economy and introduction of companies such as Lyft and Airbnb, it seems like this is a new concept. However, the more I thought about it the more I realized that the concept is not a completely new one. I thought back to my honeymoon, some 21 years ago. My wife and I stayed at a Victorian bed and breakfast in Lake George, NY. At the time I did not know that the beginning of my married life would also be an education on the shared economy.

There were three specific scenarios that elaborated upon the meaning and importance of the shared economy.

■ **Underutilized Asset:** Upon checking into the inn, the innkeeper presented us with a proposition. The inn was not very full that week. He offered us a look around at the vacant rooms and if there was a room than we found a room better that the one that we booked, we could upgrade to it for half the price. This accomplished two things: (1) he was able to get some production from an underutilized asset (the more expensive room), and (2) I demonstrated my frugality to my new wife.

■ **Collaborative Consumption:** After we checked in, the innkeeper presented us with yet another possibility. He and his girlfriend, the other full time staff member, were going out for the evening. His offer, " if anyone comes tonight seeking a room, please show them to an empty room and tell them the rate is $50 more per night than what I charged you. If this occurs, you keep the $50". Thus, he received a service from us, as needed, and we could potentially profit from his asset employment.

■ **Peer Economy:** The night of the innkeeper's dinner was another opportunity to see the collaborative economy at work. On that evening, the guests dined with the innkeepers and a couple of their

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Next Q: The Millennial: The Changing Winds

From product development to human resources, millennials are causing businesses to rethink management, marketing and…everything. The impact of the millennial is significant: becoming the most important customer your business has ever seen. What's your strategy?

friends. The chef for the evening, we learned, was a friend of theirs who joined us for dinner as well. Over the course of the dinner discussion, we learned the chef was not a "paid" (by traditional definition) staffer. They explained how they would exchange either rooms or other amenities for the services of their friend, the chef.

As I have reflected on my honeymoon over the years, I also think of this interesting business lesson from an unanticipated source. Today, there is a proliferation of terminologies being used to describe the new marketplace being defined by companies like Airbnb and Lyft. No matter the term applied to this space, there are interesting implications and possibilities. Rachel Botsman of The Collaborative Lab has characterized the lynchpin of this space as "collaborative power". This represents the notion that "power is shifting from big, centralized institutions to distributed networks of individuals and communities".

> No matter where an organization falls along the continuum, there should be a plan for how to benefit, and profit, from the new economies on the horizon.

This situation has been a part of some communities for generations. No matter where an organization falls along the continuum, there should be a plan for how to benefit, and profit, from the new economies on the horizon. Theodore Roosevelt put it well when he said "It is not often that a man can make opportunities for himself. But he can put himself in such shape that when or if the opportunities come, he is ready."

"The Mixed Bag of the Sharing Economy" Footnotes

1. *The Great Depression: Fear Took Hold as an Economy Came Apart*
2. *Forbes: Airbnb and the Unstoppable Rise of the Share Economy*
3. *Wharton: A Job For Life Is Dead – Long Live Fractional Working*
4. *WSJ: How everyone gets the "Sharing" economy wrong*
5. *Time: Uber reveals how much its drivers really earn, sort of*
6. *Financial Times: The sharing economy will go medieval on you*
7. *What's the Maker Movement and Why Should You Care?*