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BUSINESS MODELS

Sharing Economy Business Models: Focus on Ride-Sharing

by Marina Arshavskiy

The history of conventional taxi regulation could tell us about the future of ride-sharing apps like Uber and Lyft. How can companies work to provide fair opportunities that benefit everyone?

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Ride-sharing businesses have disrupted a traditional business model that was in place for many centuries. Earlier, horse-driven transportation was available for public use, but that business model was unregulated until 1635 in England. Today's taxi industry has come a long way from the 1600s. New companies like Uber and Lyft, which can turn anyone with an app into a driver or passenger, have ignited the debate again: should this new business model be regulated? And if so, how?

What Goes Around

17th century royal proclamation ushered in the horse-drawn ride-for-hire era in London and Paris. In its infancy, the taxi industry was a target from other transportation providers, who pressured authorities to regulate the new type of ride-for-hire business. In 1635, authorities regulated how horse-drawn hackney carriages did business. Legislation focused on public safety, consumer protection, congestion, and value-delivery proposition.

This regulation fever spread across the Atlantic, and soon engulfed the USA. Taxi regulations in New York, for example, have been around since the 1850s. Similar regulatory frenzy caused schisms between taxi operators and other transporters in Toronto during the 1920s, leading to the infamous Taxi Wars – likely a precursor to the tensions seen today between traditional taxi drivers and Uber/Lyft drivers.

The 1891 invention of the Taximeter further changed the ride-for-hire business models. This fare-calculating device meant that cab drivers needed to adapt their business models to societal (and legislative) demands.

They say “What goes around, comes around…”, and that’s exactly what digital ride-sharing companies are facing today. As disruptive business models like those pioneered by Uber and Lyft emerge in the shared economy, existing players in the taxi industry are demanding more (equal? fairer?) regulation.

So, what should such regulation look like? And, will regulation stifle innovation?

A Platform for Change

Our definition of the “shared economy” is one popularized by Prof. Arun Sundararajan, of the New York University, and author of the book: “The Sharing Economy and the Future of Digital Governance.” The underlying assumption is that these digital “sharing platforms” improve the efficiency of an existing business process/model to better facilitate the free flow of labor and capital. While matching supply with demand, the platform drives down cost for the consumer, and is more transparent in how they operate. In their upcoming article, **"A Compass for Navigating Sharing Economy Business Models,"** authors Pablo Muñoz and Boyd Cohen describe the ride-sharing business model using terms that span a range of key features: Uber and Lyft's business model is tech-driven, peer-to-peer, with conventional corporate governance (among other features).

In effect, the Uber/Lyft business model uses proprietary technology to put lift-seekers in touch with lift-providers, adjusting fares based on market conditions. The model enables vehicle owners to freely move from being private owners to public service providers, and provides "work flexibility" to drivers, allowing them to choose when and where to work, and transparency by way of trip-tracking and driver-rating. The Uber/Lyft business model does so without (thus far!) overburdening service providers with exorbitant licensing, registration fees and tariffs.

Clearly, these digital shared economy business models are delivering much needed change in an industry that's heavily unionized and change-resistant. But for any business model to be a success, we need to assess utilization rates. A National Bureau of Economic Research study shows that Uber drivers experience higher utilization rates than traditional cabs. The innovative use of technology, and the lack of inefficient regulations are cited as likely reasons.

The Need for Regulated Change

Regulating new-era digital shared-economy businesses is a complex issue. While Transportation Network Companies (TNCs) such as Uber and Lyft deliver a valuable service, they also disrupt existing business models that have worked well, causing social issues. There has been an increase in taxi drivers and dispatchers committing suicide because they feel threatened by the new business model.

Environmentalists, on both sides of the ride-sharing economy divide, clash as well. Some say cheaper ride-sharing causes more people to shun environment-friendly public transport in favor of an Uber or Lyft cab. Others say that, based on data analysis, ride-sharing is helping the environmental cause – prompting more riders to start/end their journey at public transportation hubs.

Regulators must consider the fact that many Uber/Lyft drivers are now infused with the entrepreneurial spirit and are embracing the gig-economy. From a consumer standpoint, this offers more choice for ride-hailers. This makes getting a ride and paying for it more efficient – something that Prof. Sundararajan highlighted as a key metric governing success of shared economy business models.

Other regulatory aspect to consider is the "value proposition" that shared-economy business models offer – especially in/around poorer neighborhoods. A study commissioned by Uber confirmed that their service resulted in shorter wait times and lower fares in below-average income areas, compared to conventional taxi services.

Whether the legislation should be at the State or local level is debatable. A legislative framework has been proposed by Schaller Consulting, which is a starting point. For instance, "flagged" services (such as on a local street or at a bus terminal or airport) could be legislated locally (either city or county level). "Dispatched" services could be legislated State-wide.

Any regulatory framework that takes the best of both business models (the digital ride - sharing and traditional taxi cab industry) and enforces it on both participants, will be a win-win for everyone – especially for consumers.

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