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BUSINESS MODELS

Towards a More Enlightened Sharing Economy

by Robert Springer

One of the goals of the sharing economy model is to enable the more efficient use of existing resources. But regulators are clamping down on services like Uber and Airbnb. But regulators are clamping down on services like Uber and Airbnb. How can sharing economy companies balance profits with positive community impact?

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One of the goals of the sharing economy is to enable the more efficient use of existing resources. If a typical car is parked 95 percent of the time, integrating that underutilized resource into a ride-sharing network to ferry dozens of people to and fro makes some sense. It's a win-win for all concerned. And all those unused rooms across America?

Airbnb, which calls itself “an economic lifeline for the middle class,” says that a typical host earns $7,530 a year from renting a room, while Americans as a whole have earned $3.2 billion from Airbnb-ing. What’s not to like?

Plenty, it turns out. Recent research has shown that the benefits of the sharing economy aren’t being enjoyed by those who should benefit the most. The New York City Taxi and Limousine Commission (TLC) found that while Uber and Lyft were experiencing “stunning growth,” full-time drivers weren’t sharing in the prosperity. The TLC is proposing that drivers receive an un-gig-economy-like “minimum pay standard” of $17.22 per hour, which would amount to a net pay increase of 22.5 percent for the 85 percent of drivers who would benefit from it. A study commissioned by the TLC said that the ride-hailing companies could raise prices by 3 to 5 percent and passenger wait times could increase by 12 to 15 seconds to pay for the increase.

Like New York, cities around the globe are taking regulatory action after discovering that the sharing economy seems to benefit large corporations rather than the drivers and landlords of the “rides and rooms” economy. So is there no hope for the promise of the sharing economy? Is it destined to be just another profit-making engine? The jury is still deliberating.

The Sharing Economy Business Model Compass
(Click to expand)

Sharing-Based Business Models

Not all sharing economy companies are alike. Sharing-based businesses have evolved from simple peer-to-peer lending sites (like Kickstarter) to complex platforms and decentralized networks focusing on a range of sectors, from farming to scientific research.

Pablo Munoz and Boyd Cohen, in their recent article **“A Compass for Navigating Sharing Economy Business Models,”** developed a public domain framework that helps clarify the differences between sharing-based business models, and helps entrepreneurs determine what type of sharing economy company they’d like to create.

Based on design science, the Compass includes six key dimensions that describe a company's platform type, transaction type, technology use, business approach, governance model, and shared resources. Each of the six dimensions are accompanied by three different choices (decisions) to be made by sharing economy entrepreneurs. Evaluating sharing economy companies based on these dimensions allows for better classification, and can also serve as a guide for entrepreneurs interested in making decisions that promote better outcomes for network participants.

The Sharing Economy and Corporate Citizenship

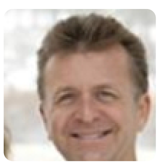
Munoz and Cohen assert that even those sharing economy companies with a profit-driven approach can be good corporate citizens. They cite Kickstarter as a for-profit company that has legally committed itself to social goals by becoming a certified B-corporation, "which obligates them to transparently track and monitor their sustainability performance." B corporations "are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment."

> *"Profit does not have to be a bad word, however, and we do not believe a sharing firm that is profit-driven to necessarily be bad corporate citizens. But there are viable alternatives."*

Apart from the profit-driven approach, there are promising alternatives - like the platform cooperative and hybrid sharing models, which allow for shared governance and a more equitable distribution of revenue (platform cooperative) or a corporate governance model with restrictions on what entrepreneurs can charge (hybrid sharing). One example of a platform cooperative is Resonate, a blockchain-based music service that has embraced decentralized governance. Artists who contribute to Resonate collectively own 45% of the platform, while listeners own 35% and employees own 20%. As trends towards decentralization grow, governance models for sharing platforms can become even more complex.

Policy makers are still struggling with the best approach to regulating the sharing economy. Regulation is complex in part because of the large variety of business models, which have had both negative and positive effects on communities. As such, effective regulation must account for greater complexity - not all sharing economy companies can be painted with the same brush.

More than 12 cities around the world have partially or fully outlawed Uber. But cities are also leading the way in proactively promoting sharing startups that have been found to improve their communities. Local governments could, for example, encourage business models that rely on recirculating under-utilized resources while actively seeking governance models based around more equitable platform cooperatives. As entrepreneurs and users explore new opportunities in the sharing economy space, policy makers should seek a thoughtful balance that can reward all parties equitably, and operate sustainably. One thing is clear: the sharing economy model is here to stay.



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