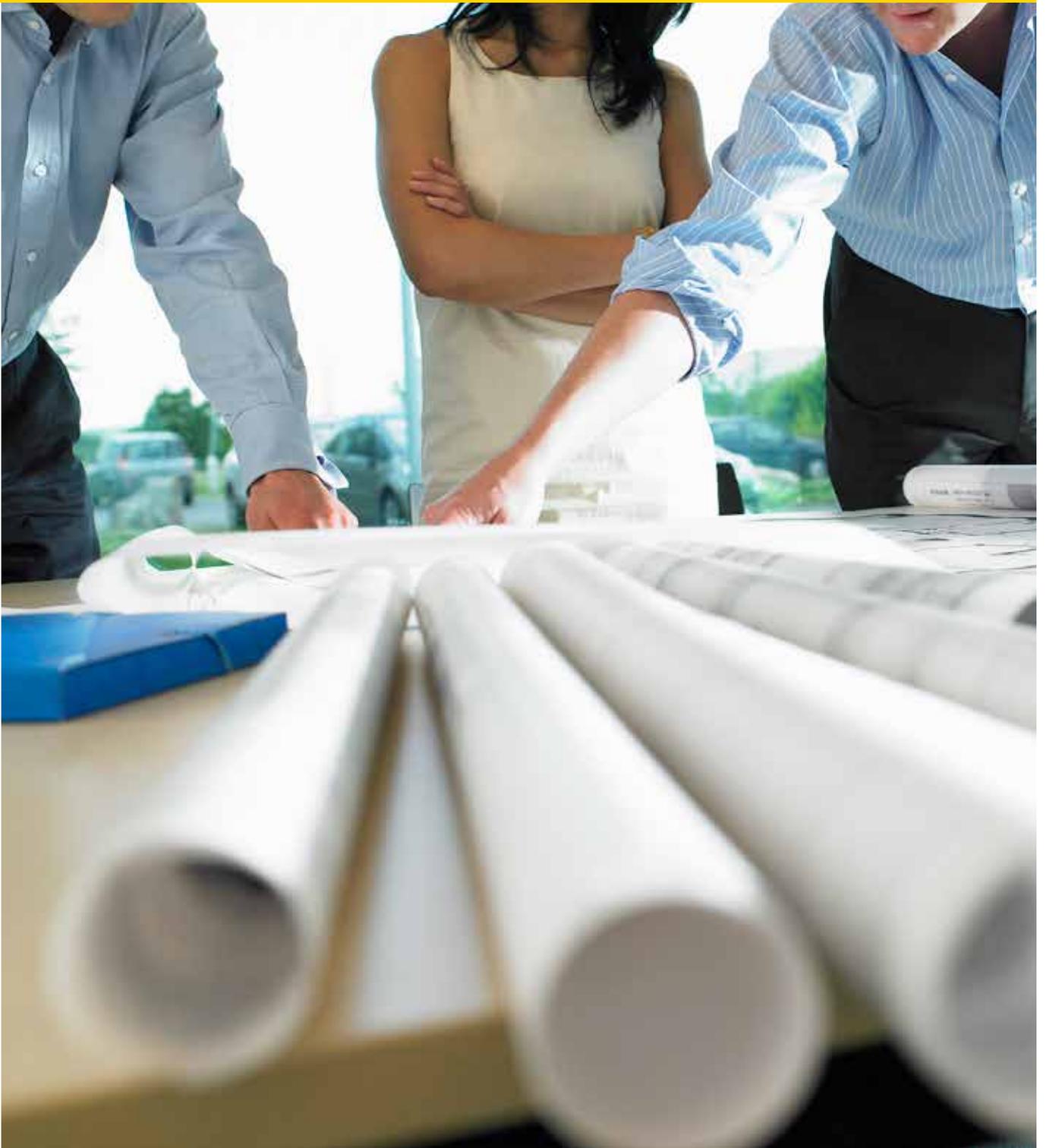


# The sharing economy - view from the top



The sharing economy is 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.

Sharing economy activities fall into four broad categories:

- ▶ Recirculation of goods
- ▶ Increased utilization of durable assets
- ▶ Exchange of services
- ▶ Sharing of productive assets

Sharing businesses either:

1. Own goods or provide services that they rent to customers, often on a short-term basis, or
2. Create peer-to-peer platforms connecting providers and users for the exchange, purchase, or renting of goods and services.<sup>1</sup>

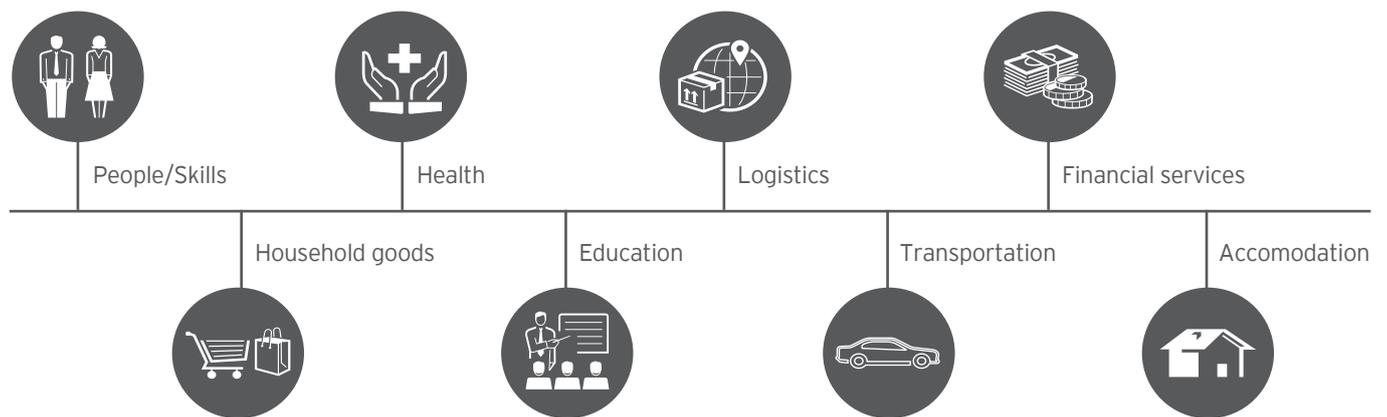
This can encompass everything from crowd-funding sites to on-demand technologies, such as Uber and Ola (transportation),

to hospitality platforms such as Stayzilla, Stayology and OYO Rooms (hospitality). The uniting factor for these companies and initiatives is their ability to bring people together, often through an online platform, to share or exchange underutilized assets without large transaction costs.

The sharing economy has spurred “micro-entrepreneurs” and facilitated the creation of new markets and economic activity where none previously existed. Enterprising citizens can now generate income by renting assets as varied as furniture, camping equipment and parking spots.

The proliferation of digital platforms and mobile applications in recent years has been the primary driver for the momentum in collaborative consumption in recent years. Although it is a relatively new concept in India, it is prevalent across the globe in the form of peer-to-peer ride-sharing (BlaBlaCar), accommodation-sharing and renting household items. Globally, the sharing economy is estimated to grow at a CAGR of 139.4% to reach US\$115 billion by 2016 from US\$3.5 billion in 2012.<sup>2</sup>

**Diagram 1: Segments of the sharing economy**



<sup>1</sup>Rauch, Daniel E. and David Schleicher. Like Uber, But for Local Governmental Policy: The Future of Local Regulation of the Sharing Economy. George Mason Law & Economics Research Paper, No. 15-01

<sup>2</sup>“Share. Don’t Own: The Sharing economy takes off,” Forbes India website, [www.forbesindia.com/article/chgsb/share.-don't-own-the-sharing-economy-takes-off/39241/0](http://www.forbesindia.com/article/chgsb/share.-don't-own-the-sharing-economy-takes-off/39241/0), accessed 30 September 2015;

This sharing economy coupled with new technologies drives substantial economic, social and environmental benefits by cutting down costs, conserving resources and reducing environmental impact.

The sharing economy services in most sectors in India are in its initial stages. Nonetheless, the adoption of platforms has been

encouraging, led by the willingness of consumers to try new things and the ease of going cashless through smartphones. The sharing economy as a concept first became popular in India with on-demand transportation platforms. The trend is now being followed by other sectors including hospitality and food & beverage.

**Diagram 2: Sharing economy ecosystem**



	Consumers	Aggregators/marketplaces	Suppliers
<b>Drivers</b>	<ul style="list-style-type: none"> <li>▶ Rising mobile adoption</li> <li>▶ High internet penetration</li> <li>▶ Growth in digital platforms</li> </ul>	<ul style="list-style-type: none"> <li>▶ Quick market penetration and higher revenues</li> <li>▶ High speed internet availability</li> <li>▶ Current inefficiencies in services</li> </ul>	<ul style="list-style-type: none"> <li>▶ Better resource utilization</li> <li>▶ Expanded consumer reach and faster go-to-market</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>▶ On-demand services</li> <li>▶ Convenience</li> <li>▶ Lower prices</li> <li>▶ Shared experiences</li> <li>▶ Personalized/customized product/service</li> <li>▶ Choice of multiple options</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increased efficiencies</li> <li>▶ Brand creation</li> <li>▶ Better supplier prices</li> <li>▶ Lower capital intensity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increased business due to wider market reach</li> <li>▶ Digital literacy</li> <li>▶ Social mobility</li> <li>▶ Skill development</li> <li>▶ Brand creation</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>▶ Trust and safety standards</li> <li>▶ Consistent service experience</li> </ul>	<ul style="list-style-type: none"> <li>▶ Streamlining operations</li> <li>▶ Regulatory considerations</li> <li>▶ Management of unconventional workforce</li> <li>▶ Delivering consistent service quality</li> </ul>	<ul style="list-style-type: none"> <li>▶ Insurance and security of assets</li> <li>▶ Infrastructural challenges</li> <li>▶ Consistent and quality service experience</li> </ul>

“Having a good spread of supply ready, ensuring service reliability, building tech platforms/processes that enhance trust with the stakeholders are some of the critical capabilities that on-demand service aggregators should possess to succeed in the market.”

**Nandan Reddy,**  
*Co-founder, Swiggy*

Consumers, on-demand technology platforms and suppliers are critical elements of the sharing economy ecosystem, and their effective interaction leads to increased efficiency aimed at achieving better utilization of resources for all the concerned stakeholders as illustrated below.

- ▶ **Consumers:** From the demand side, consumers see numerous benefits such as on-demand services at lower prices, convenience and variety of options.
- ▶ **On-demand technology providers and suppliers:** There are increased benefits such as better utilization of infrastructure, easier access to wider customer base and increased business opportunities for micro-entrepreneurs.

Increased demand for goods and services enable suppliers such as hotels and restaurants to tap new customer groups who can access their platforms via the internet that were otherwise inaccessible.

In order to create trust among consumers, platforms must ensure their systems allow for consistent experience to consumers and suppliers to grow their businesses.

“Demographics and smartphone penetration are key drivers that are accelerating the adoption and usage of the sharing economy at this point. India, in the coming year will be the world’s second largest smartphone and mobile internet market pushing the US to the third place. In terms of demographics, over 50% of the population is under the age of 25 and over 65% under the age of 30. Both these drivers, in conjunction, would mean more and more Indians would choose not to buy a car and instead look at transportation as a service at the tap of a button rather than a product sitting in their garage.”

**Arvind Singhatiya,**  
*Vice-President, Corporate affairs, Ola Cabs*

## 1.1 Landscape of the sharing economy

While new sectors like health care, groceries, handyman services, commercial trucks aggregation etc have members joining the sharing economy, the highest adoption rates are seen in these three industries: transportation, hospitality and food & beverages

### Transportation

The most prominent examples in the transportation sector are on-demand technology aggregators such as Uber and Ola. These services allow consumers to connect with a verified nearby driver users willing to drive them to their destination for rates set by the service.

The sharing economy may also change other aspects of the transportation market. Emerging car-pooling platforms have emerged as an alternate to both car ownership and car rentals, by offering convenience and flexibility.

Similarly this concept is being applied to inter/intra-city logistics and movement of goods, thereby, organizing a highly fragmented transportation sector and ensuring customers enjoy a swift, simple and smarter on-demand service. Owners/drivers of traditional assets such as trucks and tempos drivers now enjoy increased, more predictable and sustainable earnings.

### Hospitality (peer to peer accommodation)

New business models are allowing travellers to forgo traditional hotels in favour of renting new options like spare rooms and homes. Airbnb, Stayzilla and OYO rooms are among some of the platforms for accommodation currently present in India.

### Food and beverage (F&B)

The F&B business is taking advantage of on-demand technology platforms by cementing the gap between

restaurant-goers and facilitating accelerated delivery. These businesses are making food delivery and payment more efficient. Success in these models is anchored on its user-friendly interface, comprehensive and verified listings, updated information and analytics to more effectively match supply with demand. Companies active in this sector include Swiggy, Food Panda, Tiny Owl and Zomato.

Compared to “traditional” markets’, the on-demand sharing economy, facilitated by technology platforms, offers the following unique attributes:

- ▶ **More sustainable use of idle and under-utilized resources**
- ▶ **De-centralized exchange, leading to cost reductions**
- ▶ **Alternative pricing models such as dynamic pricing**

“As more Indians begin to embrace services offered by the sharing economy, we see the sector growing by leaps and bounds in the next few years. Trust must be achieved as a first step but more and more Indians are embracing services such as ride-sharing because the technology has made it more reliable, affordable and safe. We will see more players enter the Indian market just by virtue of its sheer size and potential.”

**Bhavik Rathod,**  
General Manager Bangalore, Uber India

## 1.2 Economics of the sharing economy

Recently, innovative on-demand technologies have significantly reduced transaction costs of exchange of goods and services. They have done this by making knowledge inexpensive and ubiquitous. Combining this with innovative software platforms, it has significantly extended the ability to coordinate economic exchanges.

### 1.2.1 Transaction costs

The reducing transaction costs arising from new technologies have had a deep impact on the way individuals undertake economic exchange.

Transaction cost economics focus on making the transaction—rather than commodities, which are the basic unit of analysis and by assessing governance structures, of which firms and markets are the leading alternative, in terms of their capacities to economize on transaction costs. A workable concept of transaction costs can be split into three main parts:

- ▶ Search and information costs
- ▶ Bargaining and decision costs
- ▶ Governance and enforcement costs

The importance of transaction costs is best illustrated through an example. You may be willing to pay someone INR100 to walk down the street and purchase a coffee. There may also be another individual who is willing to undertake the task for INR50. There is clearly potential for a mutually beneficial trade here. The reason why this may not occur is transaction costs – it is likely to take time, and potentially money, to discover who the other individual is, bargain a price with them (somewhere between INR50 and INR100), and enforce the agreement. In this scenario, transaction costs “eat up” the profitability of exchange, preventing mutually beneficial trade from taking place.

As economies grow, so do the number of potentially, mutually beneficial trades. The problem is that we cannot access all of them. When transaction costs are too high, many of these exchanges are rendered “unprofitable” and will not take place.

### 1.2.2 Dynamic pricing

With less costly and expanded information, we can leverage market mechanisms and match dynamic supply and demand more accurately.

Markets coordinate knowledge to match supply and demand. The sharing economy is able to implement several novel models for this purpose. This section touches on a prominent example – leading transport aggregators’ “dynamic” or “surge” pricing model. This is only one of the many examples emerging in sharing economy platforms.

On-demand technology transportation providers may charge peak-time variable fares in order to ensure that people get around reliably. Price variations under the dynamic pricing model are determined by an algorithm, which analyzes multiple factors to equalize demand and supply to arrive at a rate that incentivizes driver users to provide services at a time where no other service provider is willing to do so.

Dynamic pricing is not dependent on the time of the day, but rather on the conditions at the point of origin. The objective of dynamic pricing is to maximize supply and ensure service providers are available to address service requests and hence,



