Sharing Economy

New sharing economy start ups have begun eating into the market share of existing businesses. Companies such as Uber, Lyft, and AirBnB have begun to heavily disrupt the market and eat into the market share of established companies. Businesses should begin adapting to the sharing economy because more companies are beginning to use sharing as a platform for commerce and newer forms of technology have made it easier for a sharing platform to exist. It is time for large corporations to start employing the sharing model so that they can expand their user base and create a recurring source of revenue. Not adapting to the sharing economy can prove incredibly costly to businesses, and may even cause a business to go extinct.

Lately, businesses sharing with their consumers has become a huge trend among new companies in the sharing economy. Daimler AG, for instance, recently created a new service called Car2Go as a way of renting out cars. The service only requires that a customer pay a registration fee and then pay each time the car is used. Car2Go is an amazing example of how businesses can share with their customers. Customers are now able to save on several costs due to the fact that they only have to rent a car rather than actually buy one. Furthermore, customers can simply drop the car wherever they want. What makes this business model feasible in this current era is the recent developments in smart phone technology and satellite technology. These cars are trackable via GPS and can be found through any smart phone. Transactions no longer
need to take place within an office but can happen all via the Car2Go app. Since the inception of Car2Go, more than 600,000 people have been using this service and the service has expanded to include over ten thousand cars (Matzler, Veider, Kathan). Car2Go’s success shows an increasing demand for recyclable items that can be used on demand rather than ownership of a product that the individual may not find as useful.

Another company that has begun taking part in the sharing economy is the large furniture manufacturer and seller, Ikea. In 2010, Ikea launched a service known as Ikea Family in Sweden, where, through this platform, families could resell their old furniture to others. Those on the loyalty program are even allowed to resell their old furniture for free. This new service quickly garnered 1.6 million users within just months of its creation (Matzler, Veider, Kathan). What makes Ikea’s new idea so lucrative is that it fits in with Ikea’s ethos of an environmentally friendly company while also allowing customers to recycle used items rather than merely purge the furniture by throwing it away. Furthermore, Ikea’s idea also makes it easier for homeowners to free up space within their house and buy more Ikea furniture, creating a win-win between consumers and the corporation itself.

Markets such as ridesharing and space-sharing have become ripe for entering. As more and more startups are entering the market, a well-established corporation can greatly benefit by entering through online services such as apps.

Many cab companies have begun to claim that Uber has been eating into their revenues. Because Uber does not need a medallion—which all taxi cab companies require—in order to provide its transportation services, and because Uber is not limited by fixed pricing and can change its price dynamically, it is afforded a scale of growth of 20% increases in revenue per
year, a rate unprecedented by many growing startups (Blodget). Whether the fault lies with lawmakers for not allowing taxi cabs to adapt to the Uber model due to regulations, or with taxi cabs simply not having found a way to adapt fast enough, one thing is certain: Companies such as Uber and Lyft have forever disrupted the transportation industry and the companies that have not adapted to the sharing model are paying the price through their diminishing market share.

Many articles point out how the new sharing economy businesses simply emerged from a bubble, like companies that emerged from the Dotcom bubble and social media bubbles have done. These articles often point out the ridiculous business models that new companies have emerged with. In OuiShare Magazine, contributor Marc-Arthur Gauthey, a former sharing economy tech entrepreneur, points out what many people feel about the current sharing economy bubble. Gauthey points out that “a great idea does not necessarily translate to a financially viable business” (Gauthey). Gauthey’s remarks are true; for a brand new emerging corporation, just because one decides to facilitate the sharing and reuse of goods, that does not mean the company will succeed or even survive for that matter. An existing corporation, however, does not have the same issues as that of a new start up; it has greater access to capital and can afford some diminished revenues. Newly formed companies are not afforded this luxury. You may then rightfully ask, “If joining the sharing economy trend does not guarantee profits, why take part in it to start with?” The answer to this is best provided through the taxi companies of New York which saw their businesses as untouchable and did not prepare for the rise of a new kind of competitor. Once Uber actually entered the market, it quickly took over. According to Certify, “An average 46 percent of all total paid car rides were through Uber” in major markets across the state (Bender). An existing corporation keeping up with the newest technological trends keeps a
rookie start up from gaining any access to its market share. There may be some cost to participating in the sharing economy, but the cost of a brand new company taking away a huge portion of one’s market share, as Uber did with American taxi cab companies, is massive.

Participating in the sharing economy also helps further a corporation's image and can allow a company to interact better with its loyal customers. Today's generation places heavy emphasis on both reusability and moderation. Companies willing to adapt to changing circumstances that technology has created have begun to adopt the same philosophy as Generation Y. These businesses have started to play a more involved role with their customers.

In 2011, a clothing maker named Patagonia Inc. announced a partnership with Ebay in which they encouraged individuals to buy used clothes rather than new clothes (Matzler, Kurt, Veider). Patagonia's new initiative adopted the values upheld by the Generation Y philosophy and focused on reusability in order to promote environmentally friendly practices. As a result, not only did Patagonia become branded as an environmentally conscious clothing brand, but their clothes began to flood the internet, giving Patagonia a greater brand recognition to online shoppers. Furthermore, individuals selling their Patagonia clothes now had more cash and closet space and were able to buy more new clothes.

Today's companies need to take a socially responsible outlook towards business practices. Companies focused on bettering customer experience and emphasizing reusability and moderation over consumption are finding themselves more profitable and popular in the new sharing economy. As corporations such as Patagonia, Ikea, and Daimler have showed, it is possible for an existing corporation to take advantage of the sharing economy and keep new competitors from stealing business. Furthermore, the downfall of the taxi cab companies shows
that it is possible for new sharing platforms to replace old business paradigms and completely uproot large established business practices. Businesses owe it to themselves to not only get involved with a new generation of customers, but to survive in the new generation’s marketplace by adapting to the sharing economy.
Bibliography


Critical Information Sheet

Intent Statement:

Companies should support business practices that emphasize moderation and reusability because companies that emphasize reusability and moderation are growing in revenue and market share.

Companies should support business practices that help grow revenue and market share.

Audience Description:

My audience is likely filled with old school businessmen who do not understand why new corporations such as Uber and AirBnB are making as much money as they are making. The points that I agree with my audience are that a good business strategy is one that either helps a company expand its user base, or helps make a company more profitable. My audience’s main issue with my argument would likely be that this new business model is a “fad” like social networking and the Web 2.0 bubble seen during the 90’s.

Other Information:

Uber is a private ride sharing company valued at 17 billion dollars and has quickly taken over the paid ride service market. Patagonia is a clothing brand with over 600 million dollars in annual
revenue. Ikea is a furniture retailer with around 140,000 employees and an annual revenue of 28 billion euros. Finally Daimler AG (Parent company of both Mercedes Benz and Smart Car) has an annual revenue of around 130 billion euros.