

# Chapter 1

## Challenges and Opportunities for Shared Economies

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### ABSTRACT

*Shared economy or access economy has ushered in a new revolution. It is often mentioned that the fourth industrial revolution will be propagated by sharing economies. This study reviews the nature of shared economy and its impacts. It focuses on the challenges posed by access economy, especially in context of emerging nations. It discusses the unique nature of trust as a construct, the potential of sharing economy platforms to reduce the information barrier, the changing nature of relationship with the factors of production and most importantly, the regulatory challenges in this particular market structure.*

### INTRODUCTION

Sharing Economy is a colloquial term used to represent a number of peer-to-peer decentralized markets that have emerged as alternatives to mainstream suppliers of goods and services that have been long established (Byers, Proserpio, & Zervas, 2013). The term is also used to represent a type of business model that allows transactions and sharing of resources directly between peers in a market to ensure efficient access of goods. While the sharing of goods has between neighbors, family and friends has long been in our popular culture, in recent years the concept has evolved from being a community practice to a profitable business model (Böckmann, 2013). Sharing economy is revolutionizing the way we know business. Today companies like AirBnB, Uber has reached the scale within a very short time what companies in the traditional market took decades to achieve.

The fundamental belief that drives sharing economy is the fact that ownership is not required to enjoy benefits of a product or service. You need a hole and not the drill as some sharing economy proponents popularly put it. The idea didn't start with sharing economy per se, but it caught on when people started downloading online instead of owning physical DVDs or CDs (Tomalty, 2014).

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Defining sharing economy is a difficult task as it may mean different things to different people, so long as we understand that, we are fine. A sharing economy takes care of three important problems. First, it takes care of the excess capacity due to the underutilized resources and not only that, it allows the owners to make profit out of it. On the other hand, this allows the customers to consume the goods at a lesser than regular market price. Second, it promotes a sustainable consumption pattern as under a sharing economy a consumer doesn't have to be the owner to enjoy a good or service. Third, as the entry barrier is quite low, it encourages entrepreneurship and can help reduce frictional unemployment to some extent. According to Botsman and Rogers (2011) for sharing economy to work successfully, it needs to follow four principles: *a. Trust between strangers, b. Idling capacity, c. Critical Mass and d. Belief in Commons.*

Shared economy or the model of collaborative consumption has been a topic of discussion in recent years. Ferrary & Granovetter (2009) had talked about the role of venture capital firms in silicon valley's complex innovation network, and Harwood & Garry (2010) talked about participation and ownership within virtual co-creation environments. Kassan & Orsi (2012) outlined the legal landscape of sharing economy. Song, Zo, & Lee (2012) in the same year analysed the effect of mobile network sharing in Korea. Böckmann (2013) talks about value creating factors in access economy. Byers et al. (2013) discuss the rise of access economy through empirical evidence. Hamari & Ukkonen (2013) spoke about why people participate in access economy. McKerlich, Ives, & McGreal (2013) examined the use of open educational resources in Higher education. Schultz (2013) in the same year investigated the adjacent opportunities in access economy. Lin & Viswanathan, (2014) empirically studied crowdfunding in the context of sharing economies.

## TYPES OF SHARING ECONOMY

Schor (2014) provided a framework to categorize sharing economy into four broad activities of “*recirculation of goods, increased utilization of durable assets, exchange of services, and sharing of productive assets.*”

In the Indian context, *recirculation of goods* usually used to happen secondary markets at designated places in cities. For e.g. in Hyderabad, there are *Jummaraat Bazaars* (Thursday night markets) held where people get to sell/purchase used goods. With the advent of Internet however, many sharing models have emerged to enable direct peer-to-peer transactions. The origins date back to 1995 in US with the founding of eBay and Craigslist, the two secondary marketplaces for used goods. India has also seen successful models of recirculation of goods in Sulekha and Quikr.

Quikr, a classified advertising platform as founded by Pranay Chulet in 2008, and as of 2013 it reported more than 12 million listings. It has listings in more than 1000 cities in varied categories such as mobiles, cars, household goods, real estate, jobs, services and education etc.

One of the primary reasons of success of these kinds of sharing economy models is the technology that enabled it. The traditionally high transaction costs usually associated with secondary markets had come down, reputational information crowdsourced from market participants significantly reduced the risk of transactions with strangers, and the sheer scale of supply and demand matching that has become possible through advanced technological platforms.

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