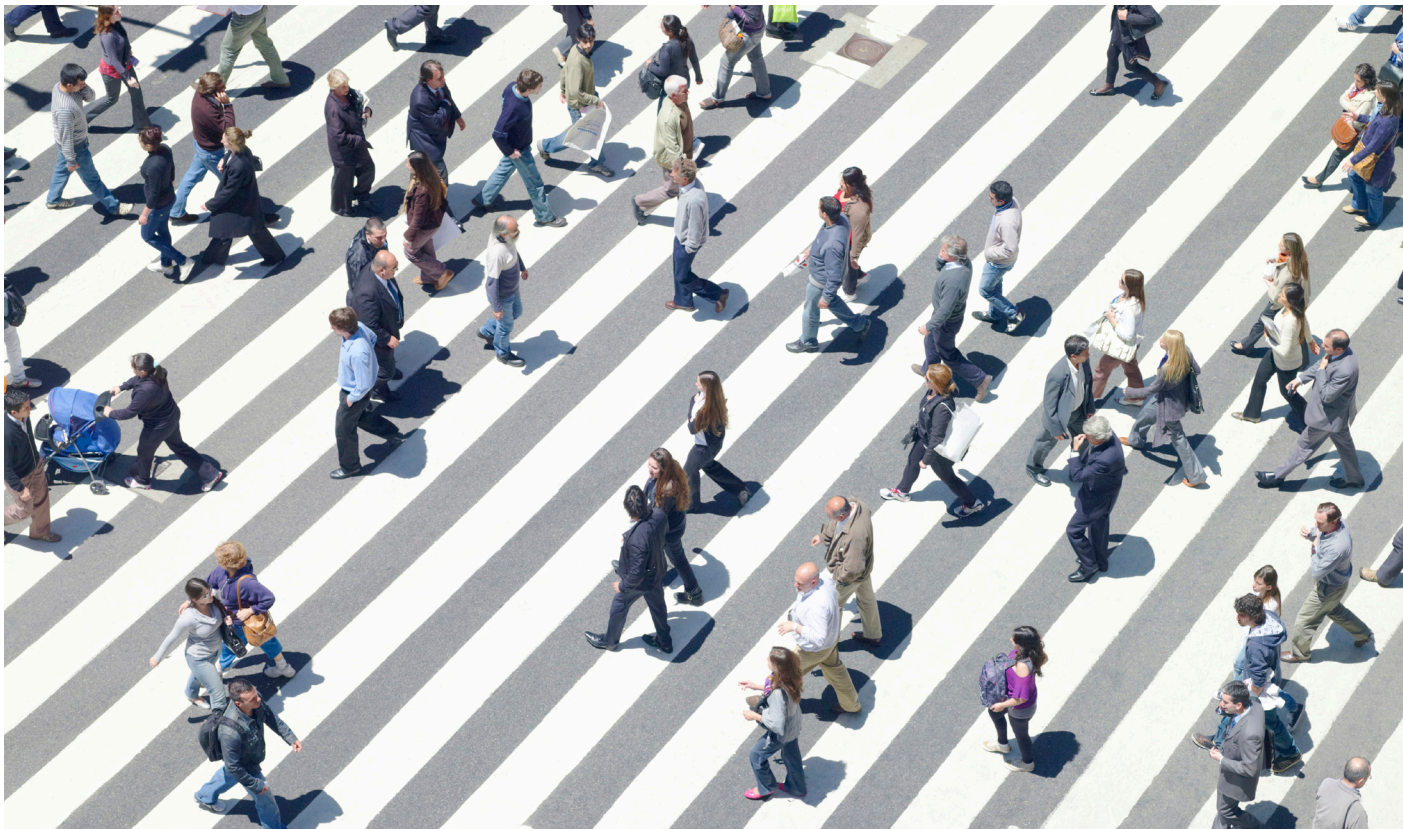


Megatrends collisions
The sharing economy

Five steps to success in the sharing economy



Introducing the five steps

The sharing economy

In August 2014, we released research projecting that five 'sharing economy' sectors – peer-to-peer accommodation, car sharing, peer-to-peer finance, music, TV and video streaming, and online staffing – could potentially generate global revenues of around \$335bn by 2025.

Since then, sharing has moved up the business and political agenda: the UK Government announced an independent review to develop a route-map for the UK to become the 'global centre' of the sharing economy, referring to our research as the opportunity available to the UK¹ and latest funding rounds continue to see valuations in the sector soar.

Over the last few months, we've engaged further with companies in the sharing economy leading the disruption, established organisations looking to take part, and policy makers designing regulations and policies. We have also invited comments from the public in our online debate.

We've used these insights to test our thinking and in this summary we outline our ideas on how organisations can engage with the sharing economy to create value for their stakeholders.

Future or fad?

Our online debate, *The sharing economy: Future or fad?*, asked our web readers about their experience of the sharing economy and whether they thought it would thrive and disrupt traditional industries, or fade away.

Around three-quarters of those we spoke to saw the sharing economy as likely to be a significant feature of the business landscape in the future, while just over a quarter saw it more as a passing fad.

Five facts every organisation should know about the sharing economy

1 *A third of hotel senior managers we spoke to have seen some impact from new P2P accommodation sites, with one in ten saying demand had been negatively affected*²

2 *Fifty percent of contingent workforce* managers are familiar with online staffing*³

3 *Manufacturing facilities operate at an average of 20% below capacity*⁴

4 *One car club vehicle takes an average of 17 privately-owned cars from the streets*⁵

5 *Sharing economy companies are currently attracting \$2.5million in funding, every hour*⁶

One of the most common themes expressed in our debate was that the sharing economy is a great model for ensuring **cost efficiency**, not just for businesses but also for consumers. Car sharing for instance is one sector of the sharing economy which has been driven predominantly by the pressures of cost. As highlighted by one of our commentators, "the most expensive trip you will ever take is to drive a newly purchased car home from the show room".

This incentive of cost efficiency is in turn generating a more **proficient use of our resources** generating extensive **environmental and economic benefits**. As articulated by one of our debate participants, sharing is "not only possible but essential as it enables us to use scarce resources, time and skills much more efficiently".

Technology was another theme which featured heavily in our debate. In particular, technology is credited with acting as an essential enabler for the sharing economy. As highlighted by one of our participants for instance "technology has allowed connection on an unprecedented scale, creating endless possibilities".

In line with the role of technology, many of our debate commentators highlighted that the sharing economy reflects a **shift in consumer patterns** and in particular a demand for **more accessible goods and services**. As noted by one, "the sharing economy relates to innovation in creating new platforms that provide similar services to conventional business sectors but are more **consumer friendly**".

1 Unlocking the sharing economy, An independent review, by Debbie Woskwo (www.gov.uk/government/publications/unlocking-the-sharing-economy-independent-review)

2 PwC UK Hotels Forecast 2015 questionnaire results: <http://www.pwc.co.uk/hospitality-leisure/uk-hotels-forecast/overview-uk-hotels-forecast-2015.jhtml>;

3 Staffing Industry Analysts ©2014: All rights reserved; *temporary workforce

4 PwC analysis of Thomson Reuters Datastream data

5 Car Lite London (<http://www.zipcar.co.uk/car-lite-london>)

6 Crowd Companies (<http://www.web-strategist.com/blog/2014/04/29/the-collaborative-economy-raises-over-800m-in-one-month/>)

Note: All comments excerpted from our online debate, see www.pwc.co.uk/megatrends

Our five steps to success in the sharing economy

We believe ‘access’ and ‘peer-to-peer’ models will become available to consumers in the vast majority of industries over the next decade. In some sectors, these models may well overtake ownership as the predominant consumption model (as streaming in the music sector has already started to do in several countries). In other sectors, it may remain more of a niche activity, but potentially still a profitable one.

We think every CEO should take the time to understand these new business models from the point of view of the customer, and to imagine how they could play out in the sectors relevant to them. Leaders will need to swiftly translate their thinking into action, identifying the responses that best align with the capabilities of their organisation.

Since regulation could be a major roadblock holding back some sharing sectors, those looking to promote peer-to-peer services will need to factor this into their market entry strategy – engaging with local policy makers and interest groups at an early stage. And every organisation could do more to assess how sharing platforms could unlock hidden value from their tangible and intangible asset base by conducting a ‘sharing audit’ of their balance sheet.

Our perspective is that whatever an organisation looks like today, the sharing economy poses opportunities and risks that it would be unwise to ignore. So how can organisations position themselves to make the most of the sharing economy?



Step one

Understand two core ‘sharing’ models and the potential role they could play in your sector

Two core sharing models

Defining the sharing economy has been a significant challenge, even for those within the industry. We believe it’s important for organisations to understand two fundamental, but overlapping, business models:

- **Access:** are types of transaction that result in access to a product or service, rather than ownership. These include renting (e.g. Peerby), subscribing (e.g. Spotify, Netflix), reselling (e.g. eBay), swapping (e.g. Home-exchange), investing (e.g. Kickstarter), gifting (e.g. Freecycle) or lending (e.g. Lending Club).
- **Peer-to-peer:** are transactions that connect the spare capacity of consumers with demand from their peers. Examples include car-pooling and ridesharing, peer-to-peer accommodation lodging and Wi-Fi hotspot sharing.

Spot the disruption

Organisations should start the process of identifying the potential for these models to permeate their sector today, asking themselves difficult “what if” questions about the potential for change in their sector. The music, TV and, more recently, the hotels sectors didn’t identify the challenge quickly enough, and value has been displaced whilst they waited. In contrast, the automobile industry spotted the trend early and got ahead of it: most car manufacturers now run their own car-sharing schemes and others have made strategic investments in new entrants – such as Avis in Zipcar.

Comments from our online debate

“Most retailers missed the first revolution in retail that digital technology brought: e-commerce. I am determined not to miss the second one: which I believe is collaborative consumption. We won’t be just a retailer in the future – we’ll be an organisation helping you to improve your home.”

Veronique Laury, CEO of Kingfisher group

“New verticals [in the sharing economy] such as food and fashion are emerging to sit alongside accommodation, transport, finance and skills.”

Debbie Woskow, CEO of Love Home Swap, Founder of Collaborative Consumption Europe network and Chair of the UK Government’s independent review of the sharing economy

“The traditional resistance to sharing (as opposed to owning) is clearly starting to break down....the mobile phone model of leasing and upgrading has helped a new generation to be comfortable accessing services rather than owning products, and unlocks enormous potential worldwide.”

Will Day, Sustainability advisor to PwC

The failure to spot disruption can often come down to an attachment to a traditional business model or the need for broader thinking. But organisations we spoke to don’t think that innovation in the sharing economy is over – instead they see new verticals emerging. Leaders that step out of their comfort zone on a systematic basis will be the ones that see change occurring first, spotting ‘radical’ new business models or collaborating with others to explore an idea before it even enters the market.

Step two

Take action: protect, prepare or pivot

Three strategic options

We see three strategic options for organisations looking to engage with new sharing economy business models:

- **Protect the base:** Differentiate existing products in order to compete with sharing rivals. Join together with other major players to argue in favour of stricter regulation for sharing platforms. Fund acquisitions to neutralise tactical threats.
- **Prepare for change:** Test new sharing ventures by developing strategic partnerships with sharing platforms or by making strategic investments. Include the successful products or services as complements within the current portfolio.
- **Pivot the organisation:** Build and promote a full-service “sharing” model as a core product or service proposition. Invest significantly in product development or acquire a new business model externally.

Take action

The right approach will differ across organisations, depending on both the outlook for “sharing” business models in the sector and the organisation’s unique capability set.

Not all organisations will need to change their core business model as peer-to-peer or access models will remain a niche play in some sectors. Others may see sharing challengers emerge but are not culturally prepared to disrupt themselves immediately. These organisations may have to take protective measures in the short-term, but as the megatrends continue to evolve and compound the sharing economy over time, more proactive strategies will need to be developed in the medium to long-term.

We’ve observed organisations move to a more proactive response over the last six months. For example, the hospitality and leisure sector is shifting its reaction from lobbying for tighter regulation, to a more considered approach on ways to engage with the underlying trends in the sector. Hotel group CEOs are deliberating over whether to target listing rooms on these platforms and how to differentiate their offering in order to compete (see hotels inset).

How is the hotel sector responding to peer-to-peer entrants?

In our UK research over half of respondents saw continued efforts to differentiate their offerings as the best way to fight back to justify hotel pricing structures. Over a third said they would consider listing their rooms on peer-to-peer platforms. But none admitted to considering acquiring or investing in players in this space yet. Half of those hotels not currently considering a strategic response would consider doing so in the future.

Source: PwC UK Hotels forecast 2015

Comments from our online debate

“Large companies don’t need to fight this unstoppable trend, but instead can collaborate with this movement and make their products available on demand, motivate a marketplace around them, or provide a platform for customers to build on top of them.”

Jeremiah Oywang, Founder of Crowd Companies

“In a sharing economy, new ideas, speed of learning and innovation will increase rapidly and will be key to future competitive advantage. Organisations must become excellent at managing improvement and change. Like a start-up they should be hungry to try new things, supporting those that work and cutting those that don’t. Disruption will become a way of life for those that will thrive.”

Mike Greig, Partner, PwC

Step three

Focus on the consumer experience

Innovation in delivering consumer outcomes

Sharing economy platforms have flourished in part as a result of how they have helped consumers to achieve the outcomes they want, without the requirement of ownership.

Challenge your existing business model

In response, forward-looking companies must consider the consumer outcome that their business model is geared towards and ask themselves whether ownership is the only method to deliver this. Often this will mean re-defining how you do business. BMW talks about being a “leading provider of premium products and premium services for individual mobility” rather than selling cars.

In the hospitality and leisure sector, for example, organisations that have traditionally seen their offering in terms of a product, or room stock, will increasingly need to view it from the lens of a consumer experience. For many organisations, this will require a mind-set change: nearly a third of senior managers we surveyed for our UK Hotels Forecast 2015 currently view the rise of personalised travel as a threat to, rather than an opportunity for, their business model.

For organisations born in the sharing economy, many of their leaders talk about starting their businesses because they “needed this service to exist in the world”. As they become as big as the traditional competitors they disrupt, they must work to keep sight of this unique commitment to purpose, if possible by entrenching it in the values of their organisation.

Comments from our online debate

“Many of those who engage with p2p travel platforms on their holidays have actually made the decision to travel thanks to these services, not despite them...for example, people shop around for places to stay before even considering flights. Conventionally these people would not travel so often. Now they feel encouraged to travel for the experience of staying with someone just as much as the destination. Their incentives have doubled.”

Emily Elwes, Founder, trip4real

“Staggeringly the average drill is used 10 minutes in its life. We don’t all need drills, ladders, wheelbarrows, bikes, golf clubs, tennis racquets, paddle boards or cars. What we need are the holes drills make, the transport cars provide, the accommodation homes deliver.”

John Sullivan, Founder of Sharely.us

Step four

Conduct a ‘sharing audit’ of your organisation’s asset base – both tangible and intangible

One of the most immediate routes for organisations to engage in the sharing economy is to assess the potential for sharing within their own asset base. By engaging in B2B sharing platforms, organisations are already saving costs or opening up new revenue streams.

Tangible assets

Tangible assets are an obvious place to start. Today’s manufacturing facilities operate at an average of around 20% below capacity, but sharing platforms will allow these to move much closer to maximum efficiency. In the average office, half of the desks go unused at any one point in time. Most retail premises are closed for 15 hours every day. That’s value left sitting on the table.

Intangible assets

As online platforms that are oriented toward industrial companies emerge, it will be more feasible to share large raw materials, distribution infrastructure, and other capital costs. Shared sourcing platforms could also make it easier for companies to pool their purchases of materials with low environmental impact.

The sharing market for **intangible assets** – a company’s brainpower, knowledge, brand and other intellectual capital – shows just as much promise. These assets now make up around 80% of global corporations’ value¹, but in many cases are still going under-utilised. This could open up an even bigger source of value creation for large organisations than sweating tangible assets.

Intangibles that have previously been closed or proprietary have suddenly become much more liquid through the same evolution of digital platforms that have facilitated P2P transactions:

Comments from our online debate

“For far too long we have held onto the analogy of businesses being like machines, with staff likened to ‘cogs’, ‘resources’ and ‘assets’. Economies of scale are being replaced by dis-economies of scale through disengagement. Workplaces are undergoing an irreversible change leading to a future of work which has the re-humanisation of business at its core: a return to relationships over transactions; a more fluid, innovative and collaborative economy.”

Neil Brook, Collaborator-in-chief, Coincidency

“The sharing of knowledge is another area that will be transformational... more and more knowledge is being shared by companies and individual experts as part of either their marketing activity or personal reputation building efforts. Business that are built on proprietary content or methods will face extreme competition from these sources of shared knowledge... Sharing is going to shake many service businesses to their core, and they will face the levels of disruption that industries like music have faced for the last 20 years. The effect will be transformational.”

Matthew Tod, Partner, PwC UK

GE partnered with Quirky in 2013 in a \$30 million deal that saw Quirky’s inventor community given open access to GE’s patents and technology. GE benefits from Quirky’s ‘playful’ consumer products invention, a competency which the company previously lacked.

The potential impact of this goes well beyond saving cost. Offering a segment of a company’s intellectual property base to the world at large is likely to spur innovative and foster new discoveries that benefit consumers.

Step five

Anticipate regulation and highlight the value of your organisation

For many pioneering peer-to-peer business models, the most immediate potential impediment to growth is regulation. Regulatory issues are occurring everywhere and are most visible within cities, many of which have taken contrasting approaches.

Work with regulators and policy makers

Sharing companies are under investigation in some large cities, for example, New York, but other city governments are more open to sharing. Seoul, for example, was the first major city to re-brand itself as a “sharing city” with local authorities investing in dozens of resident-led sharing initiatives, and opening up its own resources for use by consumers and businesses. 50 cities across 15 different countries have now signed up to the “Sharing Cities Network”¹, to commit to making their city more ‘shareable’.

These contrasting approaches make it difficult for those looking to expand peer-to-peer services globally to roll-out a single “one size fits all” product. Organisations will need to ‘micro-manage’ their market entry strategy, selecting which cities to enter using local knowledge and robust market prioritisation techniques.

They will also need to engage local policy makers and interest groups early on, probably before they even begin local operations. The most balanced regulatory solutions so far have been built by regulators and business working together, for example Airbnb worked with Amsterdam’s local council to develop a set of rules for residents looking to rent out their spare rooms, allowing a limit of two months a year.

Demonstrate the value your organisation brings

Most enterprises in the sharing economy claim to have a positive economic or social impact, but the Collaborating Centre on Sustainable Consumption and Production² estimates that as few as one in five are measuring it. Given the level of regulatory scrutiny, organisations operating in the sector can take more responsibility for measuring the full range of impacts they have in their communities (across economic, fiscal, environmental and social dimensions).

Developed in a credible way, a robust evidence base can help to foster more informed conversations with regulators and policy-makers, and deepen relationships between all stakeholders. Ultimately, the most important benefit may be better business and policy decisions, supporting the growth of the sharing economy ecosystem overall.

Comments from our online debate

“There is no doubt that the sharing economy needs to be regulated. However, the laws need to be looked at from a fresh perspective. We can’t expect to use the laws that were designed ages ago today.”

Richie Khandelwal, Co-founder, PriceLab

The sharing economy has the potential to change the way we live, changing our ownership and consumption patterns. But is this simply a new way of doing business or does it offer us the opportunity to reshape our communities? If we want the sharing economy to be something more than just business, we have to ensure that the economic, social and environmental benefits offered by it are indeed shared.”

Emma Clarence, principal researcher, NESTA

¹ Source: <http://www.shareable.net/sharing-cities>

² Source: <http://www.scp-centre.org/>



How can PwC help you prepare your business for success in a sharing economy?

We are working with our clients – both big and small – to help them navigate the risks and possibilities that the sharing economy opens up for their organisations. Here's just a few ways we can support your organisation:

- **Strategic planning:** We will help you understand the role sharing economy business models could play in your sector. We will work with you to create a strategic roadmap for how your organisation can avoid disruption and use your unique capabilities in new ways to create stakeholder value.
- **Conduct a sharing audit:** We will conduct a review of your asset base, helping measure the potential value that you could unlock from your under-used assets, both tangible and intangible, from emerging sharing economy platforms. We will lay out the strategic options for unlocking this value, and offering the potential to use PwC's proprietary crowd-sourcing software as part of this process.
- **Measure and manage your total impact:** Our Total Impact Measurement and Management (TIMM) tool will help you develop a holistic understanding of the social, fiscal, environmental and economic impacts of your sharing activities. It will provide you with the ability to compare strategies and help provide a robust evidence base for your conversations with regulators and policy makers in new markets.
- **Fast-growing tech companies:** Our Fast-Growth companies programme specialises in advising start-ups, mid-tier and Venture Capital backed companies on tax, finance and strategy, helping them to manage their high-growth phase and prepare them for funding rounds and eventual Initial Public Offering. Through our My Financepartner accounting service, we are already helping several sharing economy businesses to better capture, interpret and make decisions from their management information.

Speak to our experts

For more information on any of our support services for businesses looking to engage in the sharing economy, please speak to our team. The sharing economy is one part of our thought leadership series on the megatrends and their collisions. To find out more and learn how your organisation could be affected, please visit our website pwc.co.uk/megatrends.



Robert Vaughan
Manager, Strategy & Economics

+44 (0) 7854 198607
robert.p.vaughan@uk.pwc.com
@robpwv



John Hawksworth
UK Chief Economist

+44 (0) 2072 131650
john.c.hawksworth@uk.pwc.com



David Lancefield
Partner, megatrends sponsor

+44 (0) 207 213 2263
david.lancefield@uk.pwc.com
@Dlancefield

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2015 PricewaterhouseCoopers LLP. All rights reserved. In this document 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network, Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

