

Sharing or paring?

Growth of the sharing economy





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A day in the life of the sharing economy

8:00

While he does his morning workout, Peter listens to his Cardio playlist on **Spotify**.



9:15

Yesterday Peter applied for an online data gathering distance work assignment on **TaskRabbit**.

So he can concentrate better, he books office space in the **Kaptár** coworking office.



12:30

Nearby a young mother offers her home cooking via **Yumber**, and Peter jumps at the opportunity.



On **Skillshare**, he listens to the Nature Photography for Beginners course.

13:45

15:45



On the way home stops to pick up the foodstuffs he ordered last week from the shopping community **Szatyorbolt**.

16:00



To unwind, he starts watching a film on **Netflix**, but gets bored of it and reads his book, sourced from **Rukkola.hu**, instead.

18:00

A friend shows him a new Hungarian board game under development, on **Kickstarter**. He likes it so much he orders one too.



18:30

Next week he's going on holiday in Italy with his girlfriend.

Peter books a place to stay on **Airbnb**, and sorts out the transportation using **BlaBlaCar**.



20:00

He's late for dinner with his friends, so he calls an **Uber car**. The Uber driver is using **Waze** to get advance warning of accidents and avoid traffic jams.



19:00

Peter wants to assemble the furniture he bought at the weekend, but he doesn't have a screwdriver. Luckily, he manages to get hold of the tool he needs quickly through **Miutcánk.hu**.



20:15



At the usual monthly dinner with friends, they are trying out home dining.

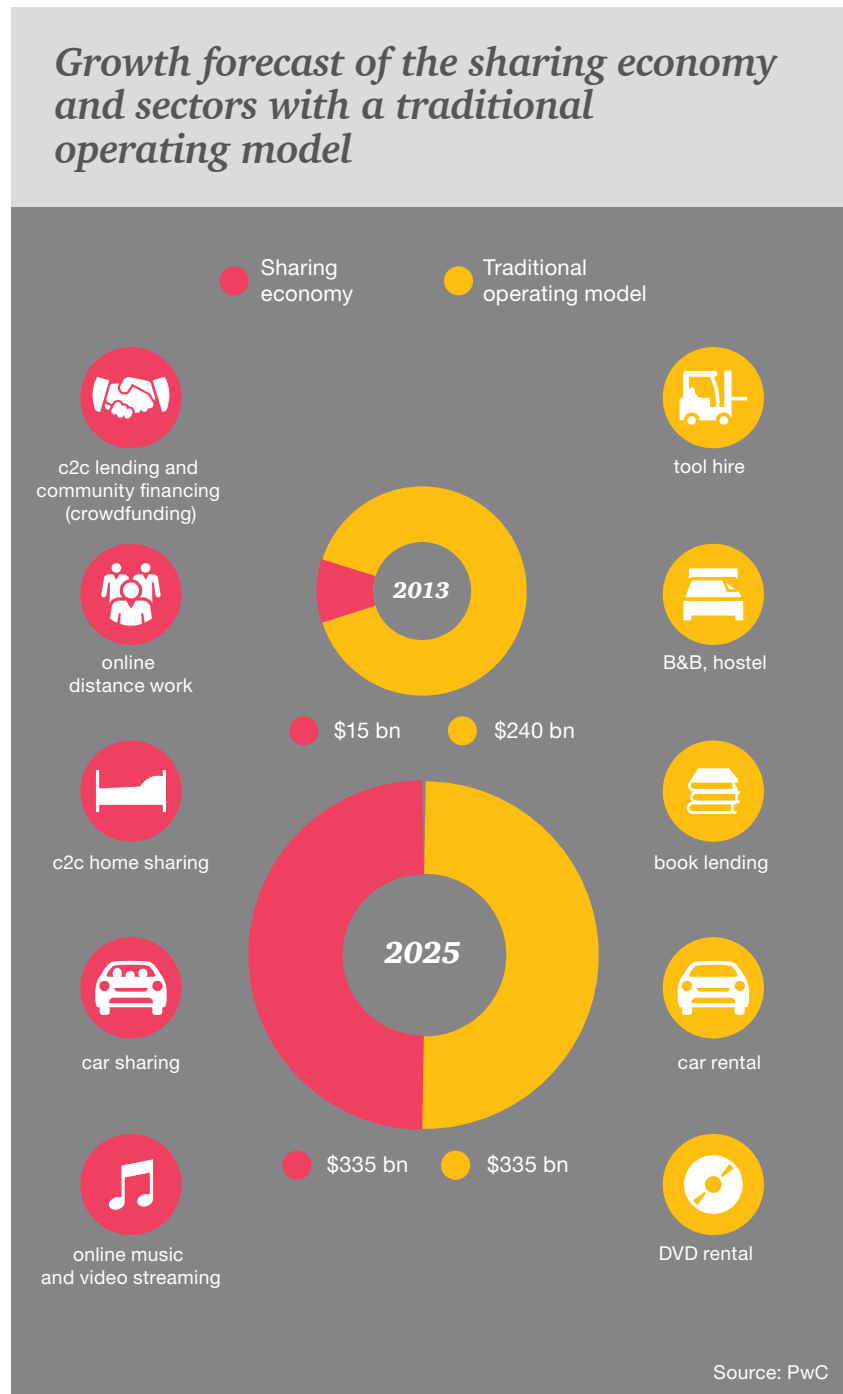
23:00

After supper the friends ride home on **MOL Bubi** community bicycles in the pleasant summer evening.



Executive Summary

The “sharing economy” companies that are emerging on the back of radical changes in consumer habits – Couchsurfing, Airbnb, Uber and their peers – have overturned entire sectors with their so-called “creative disruption” in the space of only a few years. We can safely say that they are associated with one of the most important global trends and success stories of recent years and, with all certainty, of years to come, and – although controversial – they are going to bring profound changes to our business environment. Certain sharing economy players have grown into global companies in the space of only a few years. In July 2015, according to an analysis by the Wall Street Journal, Uber’s value had topped 50 billion dollars, making it worth more than 80% of the S&P 500 companies, while Airbnb was valued at 24 billion dollars. A related study by PwC shows that while in 2013 the sharing economy companies in the five sectors where the new business model is the most prevalent earned sales revenue of 15 billion dollars, by 2025 this will have risen to 335 billion dollars, so half of the revenues in these markets will go to companies with a sharing-based model.



We at PwC continuously monitor and keep our clients informed about the changes that affect them and impact their operation. As one of the world's leading providers of professional services, in keeping with the spirit of the sharing economy, we too are happy to share our knowledge and experience with others. In this study we will attempt to outline, comprehensibly and comprehensively, everything that a business decision-maker needs to know about the phenomenon. The purpose of our study is not to analyse every aspect in the minutest detail, but to give our readers a broader overview.

We will explain what exactly the sharing economy means, how it works and what factors have led to its emergence. We will explore in detail the occurrence of the phenomenon in certain key sectors, and present the related regulatory issues, as well as the societal, economic and political implications.

During our investigation of the phenomenon we identified the following 4 main social and economic changes that have contributed greatly to the rapid spread of the model:

1. The spread of advanced digital platforms and devices
2. Efforts to use material resources more efficiently, economic rationality
3. New consumer needs – closer cooperation and a change in attitudes to ownership, more environmentally friendly consumption choices
4. Social changes – globalisation and urbanisation

Along with these factors, one of the main reasons for the success of the sharing economy companies is the considerable cost advantage resulting from their economies of scale: global players entering the local market have a lower fixed cost ratio for their services than local participants. Moreover, their business model enables them to expand extremely rapidly, as breaking into a new market only entails minimal costs for them.

A universally accepted, standard Hungarian definition has yet to emerge, but nevertheless we can apply the following definition on the basis of the main features and characteristics:

In the sharing economy users

- ***share with each other***
- ***their idle capacities and resources (e.g. fixed assets, services, money)***
- ***on an on-demand basis (as and when the consumer need arises), usually via an IT platform,***
- ***on the basis of trust, ascribing particular importance to personal interaction and the community experience,***
- ***with an eye on sustainability.***

In this study we have investigated 7 key sectors where the sharing economy is already substantial or has high growth potential. We analysed the main forms it takes, some interesting examples, the trends and their impacts, with a special focus on the participants that operate in Hungary.

1. Mobility industry

Car clubs (car sharing), real-time vehicle sharing (ride sharing), parking space rental, on-demand car and bicycle rental, community-based traffic and navigation applications

BlaBlaCar, Uber, Lyft, Wundercar, Zipcar, BMW DriveNow, Car2Go, MOL Bubi, Waze



2. Retail and consumer goods

Everyday functional objects (e.g. for housework and household tasks, kitchen, sport), food sharing, closet sharing, shopping communities, community gardens

Peerby, Shareyourmeal, Threadfilp, Poshmark, Piqniq, Yummbier, Miutcank.hu



3. Tourism and hotel industry

Monetised home sharing, non-monetised home sharing, home exchange, community tourism services, coworking offices

Airbnb, Couchsurfing, HomeExchange, KAPTÁR



4. Entertainment, multimedia and telecommunication

Online music and video streaming, wireless community networks

Spotify, Deezer, YouTube, Netflix, Fon, Ott One, UPC Wi-Free



5. Financial sector

Community financing (crowdfunding), c2c lending, community innovation (crowdcreation)

Kickstarter, Indiegogo, Lending Club, Zopa, InnoCentive, Creative Selector, MagNet Bank



6. Energy sector

Wind farms, community solar projects, virtual power plants, electricity storage solutions

Mosaic, Solar Share, Sunshot, Wien Energie, Tesla



7. Human resources sector

Provision of various services, odd jobs (household tasks, distance work, etc.), online teaching

TaskRabbit, Sorted, SkillShare, Polyglot klub



With sharing economy companies, too, we can distinguish between consumer-to-consumer (c2c) and business-to-consumer (b2c) business models.

The c2c model involves collaboration between “equal partners”, as the providers and users services are brought together through the intermediation of a company that is independent from them, via its (IT) platform. Most of the well-known players, such as Uber, Airbnb or Couchsurfing, work with a c2c model.

In the b2c model, the provider of the service and the operator of the intermediation channel are one and the same: so the users obtain the resources they need from one company, via its own platform. An increasing number of traditional companies globally are using this new b2c business model to supply products to their consumers, creating new revenue streams in the process. Examples include Daimler (car2Go) and BMW (DriveNow); but the MOL Bubi (community bicycle scheme) also works with a b2c model.

Although innovation is a natural by-product of market competition, and indeed one of its main driving forces, the operation of sharing economy companies raises many regulatory problems.

- In terms of taxation and employment, the sector is in a grey zone, so from a budgetary perspective whitening it up, thus increasing tax revenues and the number of registered employees, could be an objective.
- Participants in the sharing economy – even those who provide their services professionally on a full-time basis – have lower costs and smaller administrative burdens to contend with than the traditional players, which could give them a competitive advantage. However, this type of service provision is hard to fit into the traditional frameworks of self-employment, as this would negate the advantages stemming from its simplicity.
- The feedback systems operated by the sharing economy platforms do have a considerable self-regulatory effect; however, adequate protection for the users (health and safety, asset security, quality problems) is not assured in every case when it comes to events or faults that cannot be foreseen.

In most cases the legislature is still unready for the sharing economy companies that are already present in several countries and have a complex operating model. There is no perfect solution for their regulation. The regime that applies to traditional players is automatically inapplicable to them in most cases, but neither do total bans appear sensible, as in many cases companies can circumvent these with legal loopholes. Given the appropriate regulation, however, sharing economy companies could benefit the economy. Since one of the elements of their competitive advantage is precisely their unregulated environment, traditional regulation would endanger their fundamental business model and thus their existence. Decision-makers need to examine the many positives and potential risks of the phenomenon together, and use this as the basis for determining any steps that may need to be taken. Internationally, we can observe various different strategies for resolving the problems:

1. Taxes to be paid directly by the platform providers, rather than the providers of the services.
2. Data reporting obligation for the platform providers.
3. Individual agreements with sharing economy players.
4. Informing service providers of their tax obligations.
5. Holding inspections as a deterrent against non-compliance.
6. Registration and monitoring of service providers.
7. Making sharing economy players subject to a portion of the rules that apply to traditional industry players.
8. Distinguishing between service providers based on whether they participate in the sharing economy on a casual basis or commercially, and regulating them accordingly.
9. Time limits – for example, in the case of homes, a limit on the number of days they can be rented out via a sharing economy platform.
10. Location-based restrictions – the service may only be provided in designated zones.
11. In many cases, however, regulators have opted to impose a complete ban on the service.

Many question whether the operating model of the sharing economy companies can really be sustainable, since several companies with a considerable user base are still operating at a loss. It is questionable whether these companies will be able to operate at a profit in the medium and long term, after the aggressive, typically venture capital-fuelled, market acquisition phase of the life cycle.

However, the increasingly rapid spread of the sharing economy model, and the explosive growth of these companies, is an undeniable fact, and companies

can't afford to ignore this trend.

First and foremost, the traditional companies need to consider which of their service areas are susceptible to the potential emergence of a sharing economy player; then after identifying these areas, the companies need to find an answer as to how they will be capable of keeping pace with this trend.

PwC has identified 3 main directions:

1. ***Protection of the existing customer base:***
(1) developing products and services, possibly in collaboration with other traditional companies, in order to boost their competitiveness, or (2) creating a strict regulatory environment through proactive lobbying.
2. ***Strategic partnerships:***
(1) Initiating partnerships with sharing economy companies for promotional purposes or for the testing of shared platforms, or (2) strategic investments, acquisitions, followed by expansion of the existing portfolio with the successful products and services.
3. Developing sharing economy products, or even ***switching the entire operation*** to a sharing economy model.

The most effective responses may differ between sectors and companies. In the less threatened sectors, where sharing economy players can only acquire a small segment, reactive responses such as protecting the customer base are more likely to be the right approach in the short term. In the medium and long term, however, and in sectors that are under a greater threat from the sharing economy, proactive steps will be necessary.

Main drivers

By the second half of the 2000s consumer behaviour had changed significantly; a growing number of people were starting to recognise that their consumer habits would no longer be sustainable going forward. In this environment, companies were established that offered a new kind of solution to the changed consumer problems. The term “the sharing economy” started to be used to refer specifically to companies of this type from around 2009-2010 onwards. By this time the players that have since become the best-known companies in the sharing economy – such as Couchsurfing, Airbnb, Uber – had already been set up.

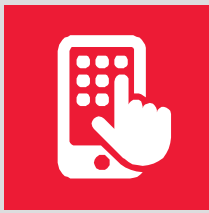
Sharing economy companies are cropping up in a growing number of sectors, and through a process of so-called “creative disruption” they are upturning whole industries within the space of a few years. We can safely say that

they are associated with one of the most important global trends and success stories of recent years and, with all certainty, of years to come,

and as such they will bring profound changes to our business environment.

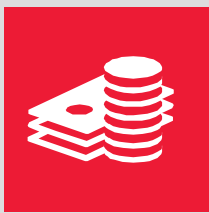


It is worth taking a look at just how this phenomenon was able to take root so quickly and become so widespread in just a few years. We have identified 4 main economic and social changes that contributed greatly to the rapid spread of the model, because the novel business model of the sharing economy was able to provide a response to the changed environment and to the new need that have arisen.



1. The spread of advanced digital platforms and devices

The basis for the business model of the sharing economy is the emergence and exponential growth in the take-up of digital platforms and devices. Although people have always engaged in access-driven economic activity (e.g. rental, barter trade), the latest technological advancements have made it possible, via an online platform (1) for the transactions to take place on demand, (2) for them to be precisely measurable in time, and thus more scalable, and (3) for supply and demand to be dynamically matched. The rapid uptake, meanwhile, has contributed to a dramatic reduction in the transactional cost of the trade, as a consequence of the technological advances. Someone wants to rent a car, for example, after requesting one on the Zipcar platform, can effectively pick up the car immediately at the location specified by the application, using the card received upon registration.



2. Efforts to use material resources more efficiently, economic rationality

Research by the European Commission has found that some 740 million of the approximately 1 billion cars on the world's roads today are used by only one person, and the average household has an asset with a value of 3 000 dollars mainly sitting idle on the driveway.

The use of the sharing economy could be a rational economic decision from two perspectives: on the one hand, the users don't have to invest in an expensive assets, and on the other the providers of the service can use their idle assets to earn extra income.

Ownership entails a large financial burden, as purchasing and maintaining the product is a costly business. In the access-driven economy, however, you only need to pay for actual use, so it is better to make use of a community-based solution for the use of products that are only needed occasionally (e.g. a chainsaw).

On the flipside, the owners of such items can earn extra income by sharing them. Many view the opportunities provided by the sharing economy as a means of supplementing their earnings, while for others it has become a primary source of income. One of the reasons for this is that the individual activities do not require a substantial or supplementary asset investment or complicated bureaucratic procedures, so the barriers to entry are low, and entering the market entails relatively small burdens and sacrifices.



3. New consumer needs – closer cooperation and a change in attitudes to ownership, more environmentally friendly consumption choices

A growing number of people are demanding a form of consumption that entails a high degree of personal interaction, and a community experience, with products offered by individuals rather than “faceless” companies. In this way business services go from being transaction-based to experience-driven, and basis for this is trust. A good example is the free Couchsurfing, where hosts often show their guests around the town in person, or Miutcank.hu, the primary function of which is to create communities of good neighbours. The cooperation aspect is also reflected in the fact that the success of sharing economy services is largely dependent on the retrospective feedback provided by individual users, which helps other users decide whether to use the service. However, we should not lose sight of the fact that the primary incentive is still the convenience and favourable price, and only secondarily the personal relationship.

The other important consumer trend is that while in the past ownership represented a kind of status symbol, today this is no longer the case, especially among the young.

In America 43% of consumers take the view that ownership is mainly a hassle: choosing takes time, the cost of acquisition is high, the asset has to be repaired and stored, and once the purchase has been made the opportunity to make further

choices is lost. In contrast, users of the access-driven business model are far less tied down; they can change their products any time they like, and naturally they aren't burdened with the costs of purchasing and maintenance either.

Moreover, for many people, more environmentally friendly and sustainable consumption is growing in importance. Some 76% of American adults who are familiar with the sharing economy believe that sharing-based business models are more environmentally friendly, so this is another trend that is supporting growth in the sharing economy.



4. Social changes – globalisation and urbanisation

The change in attitudes towards ownership are closely related to the fact that with the strengthening

of globalisation the range of products and services on offer is increasingly large and varied; with the emergence of online marketplaces, it is effectively possible to procure anything from anywhere in the world. So it could be a major boon for consumers if they don't have to commit to any one product for the long term.

And, as a consequence of the growing urbanisation, more and more people are living in any one place, which boosts opportunities for sharing as supply and demand are also becoming geographically closer to each other.



Main features of sharing economy companies

A universally accepted, standard Hungarian definition has yet to emerge. The most commonly used expressions are the sharing-based or network economy, or the access-driven business model. In the absence of an appropriate Hungarian expression, in the remainder of this study we will use the term “sharing economy”, which is widely accepted in English literature.

In this study we make no attempt to create a standard definition, but we do present the main directions and characteristics that are typical of sharing economy companies.

1. Sharing-based

In sharing economy models, users share their resources, which may be physical assets or services, with each other for the short or long term. In the case of the car sharing services, many of which are already present in the Hungarian market – Uber, Wundercar, Oszkár, BlaBlaCar – car owners share their vehicles with users who need a means of transport at any given time. This group also includes solutions where the members of a community (e.g. a residential community, village or a group of towns) share

the costs of an investment, and then following its implementation they also enjoy the benefits accruing from the project.

2. Idle capacities, resources

Another important characteristic of the sharing economy is that participants offer their idle capacities and resources for sale, or share them with others. With TaskRabbit, in their free time users offer their specialist skills for shorter or longer periods, to those who have need of them. Similarly, the users of Airbnb or Couchsurfing make their empty homes or rooms available.

3. On-demand access

With on-demand services, users can satisfy their needs as consumers as and when they arise, and in exchange for the resources used they only need to pay an amount that is proportionate to their usage. Companies that fulfil needs on-demand are usually capable of providing their services via an IT platform. A good example of this is the MOL Bubi public bicycle system, which can be used immediately and for as long as you like with a card and mobile application.

4. A higher degree of personal interaction

The extent of personal interaction is far higher in the sharing economy business models; users often see themselves as members of a community. A typical feature of these communities is that their members trust each other without being personally acquainted. This mutual trust is a very important building block of the model, as without it the sharing of resources between strangers would not be workable. The establishment of this atmosphere of trust is facilitated by the evaluation and feedback systems.

5. Drive towards sustainability

Sharing economy initiatives aim to achieve sustainability. Instead of buying new products, members prefer to share their idle assets with

In the process of preparing this study we drew on numerous sources of information in order to give the most comprehensive possible overview of the sharing economy phenomenon. Particularly noteworthy among these are the papers on the subject by certain experts in the field – Rachel Botsman and Roo Rogers, Lisa Gansky and Richard Belk – the PwC global network’s earlier studies relating to the topic (“Five steps to success in the sharing economy”, “The Sharing Economy – Consumer Intelligence Series”), the results of the PwC Global CEO Survey, and many other research papers and articles in the public domain.

each other as a means of saving costs, increasing the useful life of the individual products and reducing the extent of environmental pollution resulting from the purchase of new products.

An explanation of these common features can give guidance when determining which companies we consider to be a part of the sharing economy; however, not all of the above features apply to every initiative.

Besides this, there are numerous companies and business models that exist on the periphery of the sharing economy. In this study we have not dealt with these companies, principally because the available literature also regards them as outliers. Examples of these are the auction, small-ad and coupon sites (e.g. Ebay, Vatera, Bónuszbrigád).

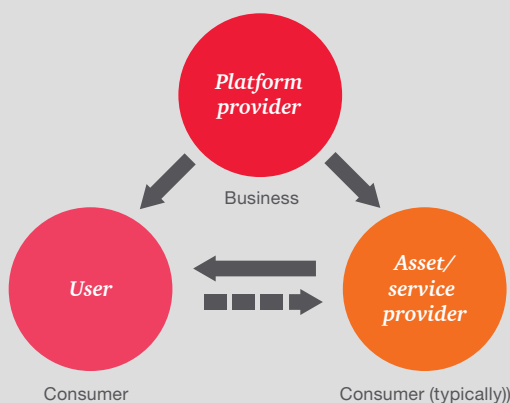
Business models

We can distinguish between sharing economy companies in terms of the parties participating in the exchange or transaction; that is, between consumer-to-consumer (c2c) and business-to-consumer (b2c) business models. In the case of the former, the demand and supply side interact with each other with the intermediation of a third company, via the platform it provides. This category includes, among others, accommodation sharing and ride sharing services, such as Wundercar, which enable users to make contact with the person providing the service via the application or website.

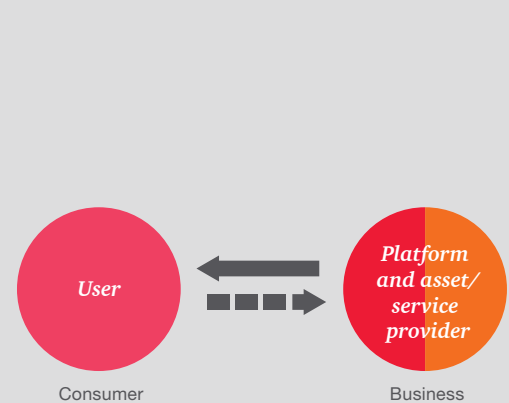
Coworking offices can also be slotted into this category. In Hungary for the time being we can mainly find examples of c2c companies, but globally more and more traditional companies are starting to recognise the opportunities that the sharing economy provides for them to supply their products to users using this business model as well, establishing a new revenue stream in the process. The Car rental company Avis and the car manufacturers BMW and Ford have launched their car sharing applications at numerous locations worldwide, where they allow users to rent cars for short period on an on-demand basis.

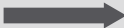

In the b2c model, the supply side and the intermediation channel are combined, so the users obtain the resources they need in order to fulfil their particular requirements from one company, via its own platform.

Consumer-to-consumer (c2c) modell



Business-to-consumer (b2c) modell



 Provision of services
 Flow of money

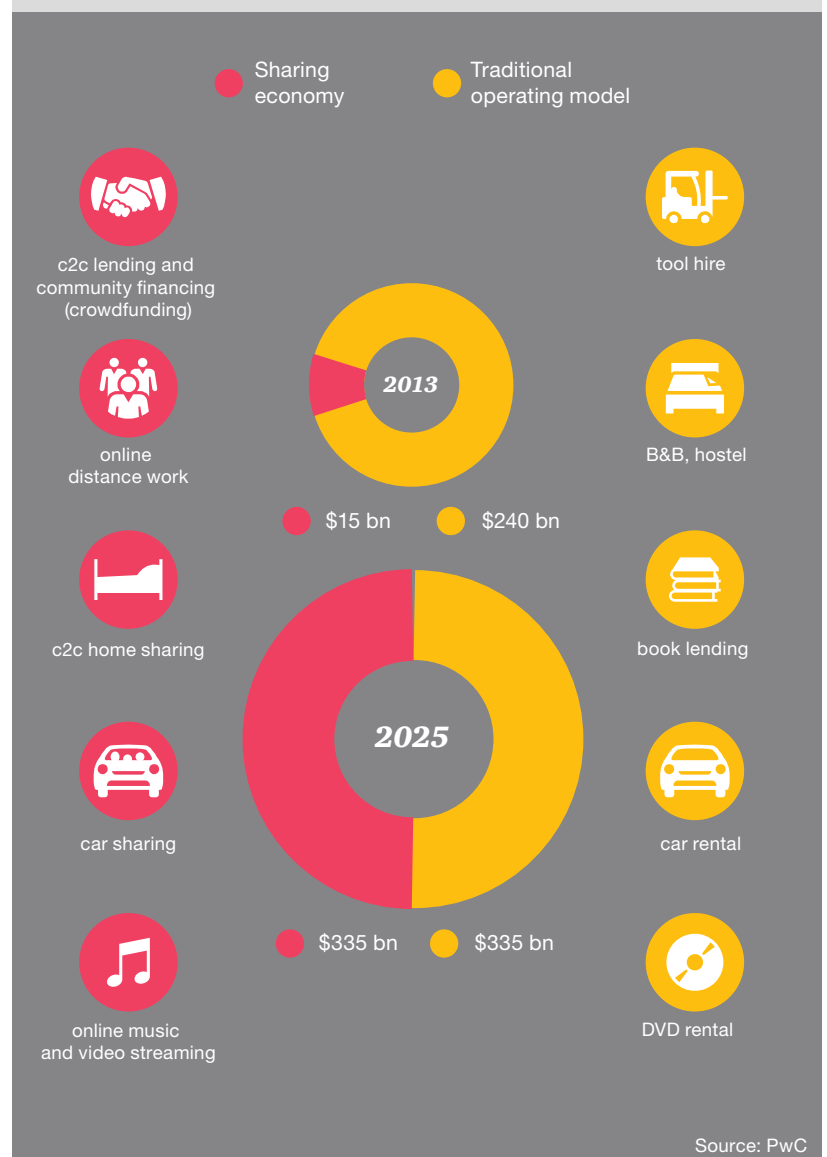
A contender for the throne

The power and importance of the sharing economy is well illustrated by the fact that in the past 15 years (especially between 2010 and 2015) more than 200 startups following a sharing-based model received investment totalling 11.5 billion dollars. Because they are so new, the global and local regulatory environment is unprepared for them, but it is unlikely that the present status quo in the sectors concerned can be maintained even with strong regulation.

We should point out that, of the largest players in the sharing economy, Uber and Airbnb have grown to become global companies. Their worldwide importance is shown by the fact that every day more than 140 000 people book accommodation through Airbnb, making it one of the largest providers of holiday accommodation in the world, while Uber manages 157 000 rides globally on an average day. In July 2015, according to an analysis by the Wall Street Journal, Uber's value had topped 50 billion dollars, while Airbnb was valued at 24 billion dollars, overtaking the Marriott hotel chain, which has been valued at 21 billion dollars. By comparison, the market capitalisation of the two biggest Hungarian multinational companies OTP Bank Nyrt. was around 5.7 billion dollars based on the stock price for 31 July 2015, while MOL Nyrt.'s market cap equates to around 5.4 billion dollars.

The rapid growth of sharing economy companies is clearly illustrated by the cases of the two companies already mentioned. Airbnb, which was launched in 2008, placed 500 000 guests in 2011, then 1.5 million in the following year, and in 2013 it booked accommodation for 4 million people. Uber can boast similarly rapid growth: It has managed to secure further capital investment every year since its launch in 2009, making a total of 4 billion dollars to date. This rapid growth, however, is typical of the entire sector. According to Jeremiah Owyang's roundup, between 2002 and the present day companies linked to the sharing economy have received financing of some 17.5 billion dollars, most of which went to Uber and Airbnb.

Growth forecast of the sharing economy and sectors with a traditional operating model



Owing to its relative newness, however, it's relatively difficult to assess precisely what size of market we are talking about. According to a related study by PwC, among the companies in this category the five main sectors – c2c lending and community financing, online distance work, c2c home sharing, car sharing, online music and video streaming – achieved sales revenue of around 15 billion dollars, or 5.8% of their respective overall markets, in 2013. It should be highlighted that, according to the same study, 2025 the revenue of sharing economy companies will grow 22-fold, to 335 billion dollars, which means that companies the follow a sharing-based model will command half of each of the five markets covered by the study.

One of the main reasons for the rapid growth and spread of sharing economy companies, in addition to the drivers already mentioned, can be found in the companies' cost structure. The appearance of sharing economy companies often results in the globalisation of the local market, for example when global players enter a characteristically local passenger transport market. These companies,

due to their economies of scale, have a considerable cost advantage over the local participants, because their fixed cost ratio for each service transaction is lower.

While a taxi company, for example, typically operates in a single town and maintains a dispatching centre and management, Uber uses the same platform in almost 300 towns and only has a few members of staff in each individual town. Besides this, they can achieve a further cost advantage with their global tax optimisation solutions. In this way they can provide similar, or even more innovative, services more cheaply, which gives them a competitive advantage. We should also mention that, with the c2c business model, the rate of expansion is speeded up exceptionally by the minimal cost at which they can enter new markets, which is due to the way in which they operate. Since all they have to do is made an existing platform available in a new market, with only a few employees necessary for its operation, they mainly only need to budget for

People, too, are using the sharing economy business models in ever increasing numbers. According to the 2015 study by PwC Consumer Intelligence Services, 44% of the US population are familiar with the sharing economy, and 19% of them have already used the services of one of the companies.

People Who Share calculates that in the 12 months prior to May 2013, some 64% of the adult population of the United Kingdom, or around 32.4 million people, participated in transactions associated with the sharing economy. Some 36% of the adult population used a car sharing service, while 39% indicated that they would like to try it in the future.

USA

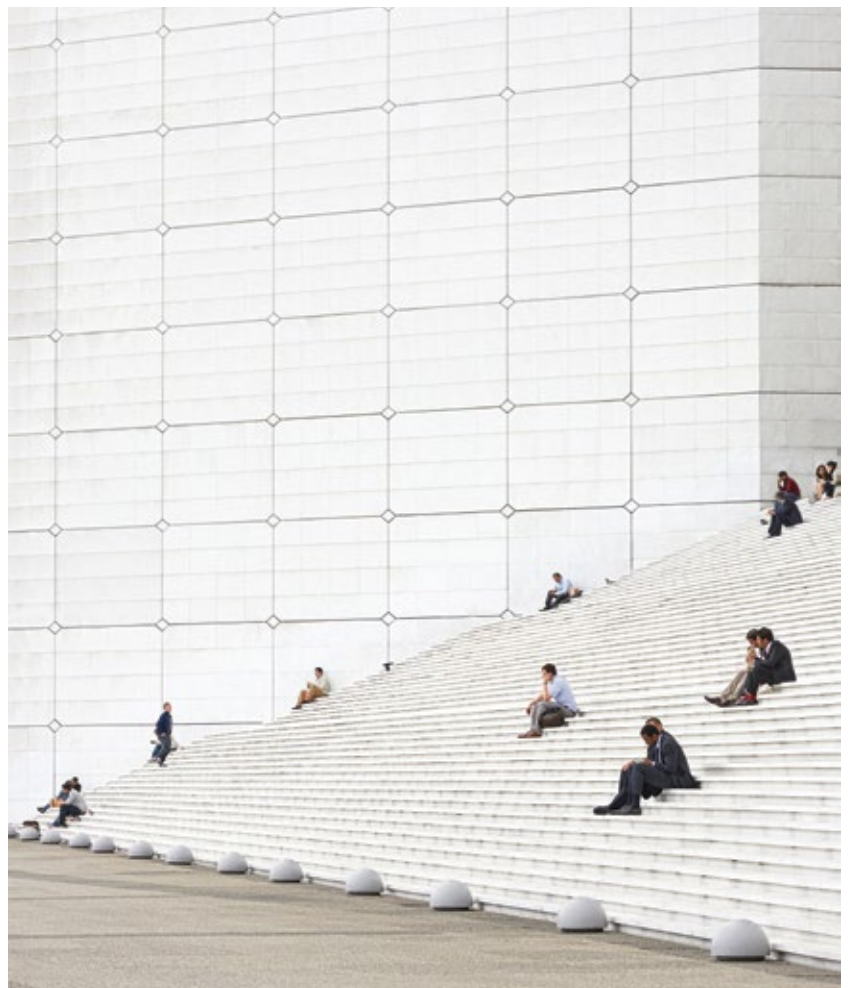
19%

have already used the services

United Kingdom

36%

have already used the services



Emergence of the model in certain key sectors

In the next chapter we take a look at the main forms of the business model that we might come across in the 7 keys sectors of the sharing economy. We present a few interesting examples, cast light on the main trends and their impacts on the industry concerned, and briefly describe the situation in Hungary.



Car-sharing

Car sharing was the first manifestation of the sharing economy in the car industry. The basic concept is that drivers can use an application to search for fellow travellers to join them on journeys that they have already planned, and split the travel costs. In this case the market is supply-driven, and the purpose of the ride is not primarily to make a profit, but to share costs. A notable example is BlaBlaCar, which has 20 million members in 19 countries, and also operates in Hungary.

Ride-sharing

This is a variation on car sharing, which functions in a demand-driven way, providing short rides in a c2c model, typically on a for-profit basis. Notable examples are Uber, which currently has 55 000 users in Hungary, as well as Wundercar.

I. Mobility industry

One of the most spectacular advances can be observed in the automotive industry (and other means of transportation), which have brought the industry itself to the threshold of a major transformation. With the spread of sharing-based and access-driven solutions, what is referred to as the mobility industry appears to be forming in parallel with the car industry, and to a certain extent from within it, in which classic vehicle manufacturers are also increasingly trying to reposition themselves as mobility service providers. One of the many drivers of this trend that should certainly be highlighted is the change of attitude that is typical among the younger generations. This age group increasingly views the car as a transportation alternative, and not as a status symbol, the use and maintenance of which entails cost and commitment.



over
55 000
users in Hungary

Parking space rental

There is a visible trend in major cities around the world for increasingly large areas to be closed off to private vehicular traffic, and pedestrianised or transformed into zones where only community transport is permitted. As a result of this parking spaces are increasingly scarce, and several community-based solutions have emerged to address this problem. The JustPark platform with its almost 500 000 users, for example, hooks up motorists looking for somewhere to park with property owners renting out their free parking spaces.

On-demand car rental

On-demand car rental services are an integral part of the sharing economy, despite the fact that they use a b2c model. The basic principle here is that, similarly to the community bicycle services available in several towns, cars that can be picked up by anyone and dropped off virtually anywhere are provided for occasional use. A prime example of this is the aforementioned Zipcar, the world's largest community short-term car rental service, with 900 000 registered members and close to 10 000 cars for rent.

This concept allows scope for the traditional car manufacturers to reposition their products as services, opening up a new sales channel. In this way manufacturers can reach a new group of customers and earn their loyalty to the brand. Good examples of this are the DriveNow service launched by BMW, with which the company primarily targets young people who aspire to the premium category but can't (for now) afford to pay for it, or the Daimler-run

Car2Go service, which has more than 1 million users, and Peugeot's Mu service.

Community car rental opportunities can also carry serious cost-cutting potential for companies with large, underutilised vehicle fleets.

Sharing economy solutions already exist in the market for transportation vehicles outside the car industry. Boatbound, for example, enables people to share or borrow boats.

In addition there are numerous transportation-related sharing economy initiatives out there that provide a solution to various social needs and problems. One such example is the special route planner for wheelchair users, Route4U, or the world's biggest community-based traffic and navigation app, Waze, which on the basis of users' input shares real-time traffic information to help avoid traffic jams and find the best possible route.

Meanwhile in Hungary...

Apart from BlaBlaCar, another notable example of a Hungarian car sharing service is Oszkár, which has a 200 000-strong community of users.

The on-demand car rental service providers present in Hungary include Avalon Car(e)Sharing, and the Yes Autorent service, which is another Hungarian company engaged in community car sharing, with 6 000 regular users. In the case of the latter the cars are rented out by private individuals, who share the revenue with the operator of the intermediation platform. An interesting plan for the near future is that the Budapest Transportation Centre (BKK) is also working on a community car sharing system, and a new private service provider, SharingCar will also enter the market shortly.

In addition to short-term car rental, bicycle rental is also widespread, for example in the form of the MOL Bubi b2c bicycle rental system, with 1 150 bikes available for use at 91 docking stations, the number of which is increasing continuously in line with the number of subscribers.



II. Retail and consumer goods

The appearance and rapid spread of the sharing economy in the retail sector is primarily attributable to the emergence of

more cost-conscious consumer habits.

The solutions that it offers are cheaper, simpler and permit quicker access. All this is the most conspicuous in the case of assets that are typically only used occasionally, such as small household tools and appliances (this is the main purpose of the Peerby and Open Shed applications, for example), the various kitchen appliances, or even sports equipment (for example Spinlister), where the idle capacity allows scope for a profit to be made from their rental. Through the food sharing site Shareyourmeal, home cooking in a value of 400 000 euros was shared in 2014, and it is estimated that the number of users is increasing by 20 000 a year; but there are also many examples of non-monetised services.

Growing concern for the environment is also driving, among others, the spread of sharing



and/or short-term rental solutions in the fashion industry – with examples such as Threadflip or Poshmark, which facilitate the sale of second-hand clothing, and on-demand clothes rental services Vinted and Rent the Runway – as well as in the FMCG sector. The latter category includes the so-called shopping communities, which jointly buy direct from fruit and vegetable growers, then share out the goods purchased in this way. Community gardens, meanwhile, are gardens that are usually created and tended in a community initiative for the purpose of urban horticulture (mainly fruit and vegetable growing). There are presently 33 such gardens in Hungary.

By joining the consumer sharing economy market as an intermediation platform, companies with a traditional operating model gain an opportunity both to control quality consistency and strengthen brand loyalty, and to win the custom of numerous potential, but less active shoppers in the long term based on their positive experience of such interaction.

Meanwhile in Hungary...

A notable example among the solutions for the sharing of consumer goods in Hungary is the Rukkola.hu site, which boasts 58 000 items and which enables books to be exchanged free of charge. Piquiq focuses on the discussing and sharing of food, while the recently launched Yumber application – similarly to Uber – allows users to eat as guests in the kitchen of a person they've never met before, as and when the need arises.

With the strengthening of globalisation and the growing sense of alienation, the cohesive power of local communities is proving increasingly important, and this is especially difficult to achieve in a metropolitan environment. Certain solutions aim to strengthen this local solidarity; an excellent example of this being Miutcánk.hu, which presently has 30 000 registered users. Its purpose is to forge good relationships between neighbours, which brings numerous benefits from the ability to lend tools and provide services on a reciprocal basis, to the holding of joint events.

III. Tourism, hotel industry

In the tourism and hotel industry, the sharing economy services are best grouped into the following categories:

Monetised home sharing

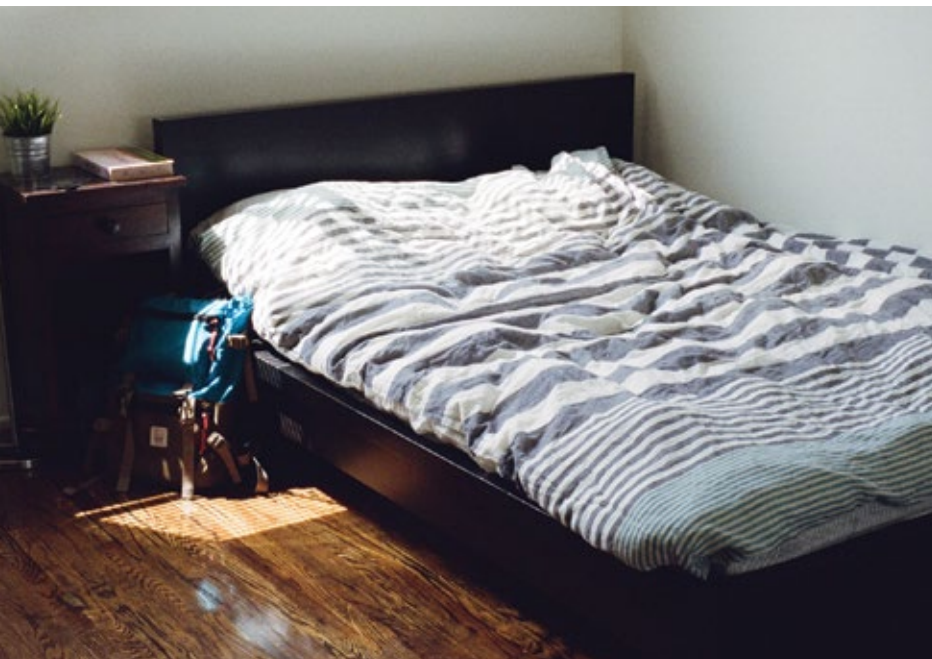
The best-known form of monetised home sharing is where someone rents out their own or a leased property for a profit. The leader of this market by a huge margin is Airbnb, as already been mentioned in the earlier part of this analysis, which has achieved explosive growth in recent years. The strength of the trend is shown by the fact that the number of users and guest nights has increased by almost 150% in recent years in all the countries of the region. It's important to point out that not only private individuals, but companies also rent out flats on Airbnb, so it now goes beyond the classic c2c model.



7 000
apartments on
Airbnb in Hungary

Non-monetised home sharing

The best-known form of non-monetised home sharing is the Couchsurfing site also mentioned above, where hosts share their “couch” and home with travellers, free of charge. This has a strong community background, as the hosts can stay with other couchsurfers during their own travels, based on reciprocity and trust.



Home exchange

The top global platform for home exchanges is HomeExchange, which lists the details of 65 000 properties (of which 300 are in Hungary), where registered members can set up home exchanges with each other in return for payment of an annual subscription.

Community-based tourism services

Community-based tourism services include home dining services, for example, where home owners offer occasional meals in their private homes.

Other

Coworking offices fall mainly into the b2b segment. They only differ from renting space in a conventional office building in that the participating companies or private individuals do not rent a permanent space, but instead work flexibly in the available spaces within the coworking office, and also share the common service areas (e.g. meeting rooms, kitchen).

Meanwhile in Hungary...

In Hungary at present it is estimated that up to 7 000 apartments may be partially or fully rented out via Airbnb, and in 2014 approximately 150 000 visitors used it to find accommodation. Couchsurfing, meanwhile, already had more than 15 000 users back in 2010.

IV. Entertainment, multimedia and telecommunication

One of the most prominent c2c and b2c forms of sharing economy enterprise is online content streaming (where content can be watched or listened to without downloading), which have shaken the entertainment industry to its foundations. These services are usually available for a subscription fee, but in some cases some of the content can be accessed free of charge, but only with advertising or reduced functionality.

Where music is concerned, the two market leaders are Spotify and Deezer, while Apple music, which was launched in June 2015, is intent on catching up with them. Their size is illustrated by the fact that Spotify has more than 75 million active users, 20 million of whom pay for the service. The undisputed global leader among online video streaming services is YouTube with its more than 1 billion users. It was one of the “early birds” of the sharing economy, having been launched in 2005. Just how widespread the service has become is shown by the fact that 300 hours of video content is uploaded to the site every minute, with more than 4 billion views a day.

The market-leader among providers of television programme and film content is Netflix, with more than 60 million users worldwide.

The statistics reveal that one third of internet traffic in America is related to Netflix. In contrast to the classic cable TV service providers, instead of fixed packages Netflix’s subscribers can flexibly choose the content that interests them, sometimes with the help of recommendations from the other users. In addition to third-party content, the company has also started to produce its own content, such as the serial House of Cards. While there is no doubt that the online streaming services deprive the classic film and music industries of certain revenues, in return they also acquire new users who would not otherwise pay for similar content, but instead would use other, in many cases illegal channels.

Wireless community networks, where users make a secondary network available via their router to those who also share their own networks, are also becoming increasingly widespread globally. One of the most successful examples of this is Fon, which has around 15 million access points worldwide.



Meanwhile in Hungary...

Netflix is expected to launch in the Hungarian market in 2016 at the latest. A service similar to Netflix was provided by the Hungarian Fuso, albeit with a far smaller base of subscribers.

The Wi-Free service introduced by UPC serves as a wireless community network in Hungary. In theory, it is setting up a wireless community network consisting of 300 000 access points, but its success in practice depends on how open its users are to the initiative.

Among the most popular online music streaming services, Spotify, Deezer and Apple Music are now all available in Hungary. The telecommunications service providers, recognising the popularity of these companies, are also offering them to their subscribers as bundled services: Telenor offers a premium subscription to Deezer, while Telekom offers the same for Spotify, with certain tariff packages.

V. Financial sector

Crowdfunding, the community-based financing of certain objectives, is an increasingly popular means of starting a business. Now a given new business, startup or lone entrepreneur can not only aspire to secure the support of venture capitalists and “business angels”, or to take out a loan from a bank, but can also gain access to new, alternative sources of funds. The leading crowdfunding platform is Kickstarter, through which more than 80 000 projects had been successfully funded by March 2015, in a value of more than 1.6 billion dollars.



80 000
financed projects
in a value of
1.6 billion
dollars

More than 20 million dollars was raised through the site for the production and marketing of the Pebble smart watch alone. Many Hungarian projects have also been financed in this way, such as the board game Trickerion, or the Brewie home brewery, with investment totalling between 200 000 and 300 000.

Meanwhile, c2c lending is growing in popularity worldwide. The basic principle here is that prospective investors lend an amount of their choosing to loan applicants, via an online broking platform. In theory it works like a bank, but since its upkeep costs are considerably lower, the return structures are more favourable for the investors, as are the loan terms for the borrowers. Lending Club is the largest player in the c2c lending market, having placed more than 9 billion dollars in private and business loans by March 2015. Another major player is Zopa, which so far has brokered loans totalling 951 billion UK pounds. The popularity of businesses such as this, on top of the obvious financial advantages, stems from the fact that citizens increasingly want their loans to be flexibly configurable, and to retain a greater degree of control over their own money. If the banking sector wants to keep up with this trend, then more personalised, advanced online platforms and related products will need to be created.

A special type of community fundraising is known as crowdcreation, which is where users contribute their ideas to the solving of a complex – possibly an R&D – problem, or to the development of a product. One such site is InnoCentive, which has almost 400 000 users who have already solved more than 40 000 problems since the platform was established, either for fun or for remuneration, but NASA has also set up a similar project.

Meanwhile in Hungary...

Kickstarter’s Hungarian “little brothers” include Creative Selector, which – with significantly smaller amounts of funding – focuses on the creative industries (e.g. film making, running creative summer camps).

The guiding principles of the first Hungarian community bank MagNet Bank, which was established in 2010 as a cross between a savings cooperative and a traditional commercial bank, are transparency and partnership. The bank currently has almost 35 000 customers, who can choose what purpose the bank may use their deposited funds for, and in addition they can decide how much of an account management fee to pay, on an “honesty box” basis. One forward-looking initiative is that the deposit holders can also decide for themselves which civil-sector organisations to support with the 10% of the part of the bank’s profit that is apportioned to them.



VI. Energy sector

The most common manifestation of the sharing economy in the energy sector is the

community financing of renewal energy sources,

the benefits of which lie in the profit and cost-effectiveness aspects on the one hand, and environmental considerations on the other. Decentralised energy production can be for the participants' own consumption and/or for feeding back into the grid and selling. Notable examples include the wind farm in the Hvinde Sande harbour in Denmark, which was partly funded by the local residents, or the community solar projects created by the American Mosaic or Canadian Solar Share companies, and the solar panel shares that embody a stake in them. The town of Feldheim in Germany has made itself completely self-sustaining, partly with the help of a solar power station purchased from its own funds.

Several traditional energy suppliers also participate with similar transaction structures, as it enables them to generate additional revenue, or at least helps them retain consumers who otherwise would still choose this model but with the help of a different service provider. It also has great advertising value, as the base of consumers who are looking for "green" and sustainable solutions, even at a higher price, is growing rapidly. Recognising this, Wien Energie, for example, is also offering virtual solar power station products, allowing consumers to purchase a stake in a community solar power station, as investors.

Virtual power plants, which first emerged in the USA, are based on alliances of small power stations, which are linked to a single control centre by an electricity controlling metering and infocommunication link. This makes it possible to regulate geographically separate power stations from a central location, so that they can operate in the electrical energy market together, as a virtual large power plant. A 2014 study by Navigant Research predicted that the global aggregate capacity of virtual power plants could rise from 4 800 MW at that time to 28 000 MW by 2024. (By way of comparison, Hungary's total combined power station capacity is around 9 000 MW.)



Another solution that presents major opportunities is the use of batteries with a high energy storage potential, which could possibly be purchased jointly by residential communities. Tesla, among others, plans to market several models of battery with varying capacities.

The spread of sustainable energy solutions and the change in consumer preferences is also bringing profound changes to the energy and utility sectors. Leveraging these trends could bring huge benefits for the classic companies in the sector, and in order to do this they will need to develop products that connect with the sharing economy.

Meanwhile in Hungary...

When it comes to virtual power plants, Hungary does not lag behind the global leaders. The largest participant in the Hungarian small power station market is the VPP virtual power plant with an installed capacity of 143 MW, consisting of 34 gas engine small power stations, which has participated in the domestic balancing system since 2011.

Where community solar projects are concerned, the situation is not as favourable. Although several companies have introduced decentralised energy production in recent years, including solutions that support solar panel installations (e.g. the ELMŰ enHome or the E.ON Solar service package), so far there are no local examples of community solar projects.

VII. Human resources

An increasingly important area of the sharing economy is the sharing of human resources, allowing individuals to make use of their specialist knowledge and experience to provide c2c services – for free or in return for payment – to others. This has a profound effect on the mobility of human resources, as on the one hand it removes numerous potential employees from the labour market, but on the other it offers a plannable source of supplementary income for a part of the population. In addition to this, it encourages more people to start their own micro-businesses, which in turn has the effect of stimulating consumption and the economy. One of the main reasons for the popularity of these solutions is the high degree of flexibility and controllability that they offer.



An outstanding example is TaskRabbit, a platform on which people who need various services (e.g. household tasks, distance work) can choose from among service providers who have been screened by the site, and are thus quality-checked, at terms that are agreed in advance. Approximately 30 000 registered service providers advertise on the site, some of whom potentially earn several thousands of dollars a month, while Sorted, a similar site, also has 12 000 registered service providers.

Online solutions offer many new, efficient solutions not only for work, but for training too. On the SkillShare site, for example, for a fixed subscription fee, people who want to learn new skills have masses of online courses to choose from, covering a wide range of topics. Effectively it can be regarded as an open university where students can put together their own training plan from subjects that interest them.

Meanwhile in Hungary...

The Miutcánk.hu site, as mentioned earlier, supports the provision of reciprocal services as well as the swapping of products.

Polyglot Club works on a similar principle to Skillshare in Hungary, organising events at which participants can only speak in a foreign language, helping them to improve their own language skills.



VIII. Peripheral areas of the sharing economy

There are some solutions and trends that are not a part of the sharing economy in the strictest sense, but nevertheless are closely related to it or have an impact on it.

- One of these is “smart cities”, the demand for the development of which is growing worldwide as the related technology evolves. A smart city is an ecosystem that encompasses every area of urban life, which, with the cooperation of city stakeholders, building on the engagement and active participation of the population, and using advanced technological and IT solutions, is capable of becoming sustainably more liveable and improving the life of local residents. In the course of this process, it becomes more efficient, improves its attractiveness and performance both in terms of tourism and the economy, and develops and expands the range of urban services. Sharing economy solutions constitute an integral part of the smart city concept, so it is increasingly important for local decision makers to be receptive to these innovations.
- Although they do not fall into the sharing economy category in the classic sense, it is worth mentioning that a growing number of companies are open to forms of collaboration that are different to anything that came before, both in terms of their nature and scale. It has never been unusual for companies to share certain back-office functions, but it is increasingly common for companies to share burdens by launching joint investment projects that are related to their core business operations. A good example of this is the joint development by Magyar Telekom and Telenor of the latest-generation network, a type of partnership that would have been unthinkable only a few years ago. An interesting statistic is that more than 40% of Hungarian chief executive officers taking part in PwC’s 2015 CEO survey, and more than 50% globally, said that they could see potential in collaboration with their direct competitors.
- Certain analyses also treat the various online marketplaces as sharing economy services; potential sellers and buyers negotiate their transactions on these sites, either through direct bargaining or in the form of auctions. In Hungary, Vatera and Jófogás are examples of such online marketplaces, while notable international examples include Craigslist, eBay and Amazon.
- We do not regard the classic social networking sites or forums as part of the sharing economy, because – although sellers and buyers could also use them as a place to meet – their primary function is not economic.
- Another peripheral area is the phenomenon whereby traditional commercial accommodation (e.g. hotels), or even non-tourism companies, are increasingly realising that the community-based rental of premises could be a suitable means of utilising their idle capacities and thus obtaining new sources of income. For example a hotel, in addition to traditional events (e.g. weddings, conferences), rents out its empty rooms for other purposes (e.g. project rooms for companies), allowing it to improve its profitability, and to boost brand recognition and brand loyalty at the same time.



Like it or lump it

The added value of the sharing economy

The rapid and spectacular success of dynamic and innovative new market entrants, as well as fear of a change in the status quo and the loss of market share, has triggered a wave of antipathy towards sharing economy companies among the traditional market players. Innovation is a natural by-product of market competition, and indeed one of its main driving forces. From this perspective, the verbal and occasionally physical protests against sharing economy companies, and legal action, could be seen as a form of 21st century “Luddism”. So while this in itself does not require regulatory intervention,

there are numerous regulatory needs or problems (grey economy, competition regulation, consumer protection) that could make it necessary to address the issue of sharing economy companies.

With the spread of Airbnb, for example, a growing proportion of home owners – in order to leverage the higher potential income – are only renting out their apartments in the short term, and the resulting drop in supply is pushing up rents significantly. The positive impacts should not be forgotten, however – alongside the extra income generated by the apartments; for example, in Budapest this will probably make it possible to cope with the spike in demand for accommodation due to certain high-profile international events. Another example is that while a negative aspect of the growth in community car services is the drop in income for professional tax drivers, a positive effect is that the spread of community car services could lead to fewer accidents. This is because it results in fewer people driving under the influence of alcohol (in California, after the launch of UberX the number of drunk-driving accidents fell by 60% in the under-30 age group), or reading their emails behind the wheel. Besides this, people can use the time freed up in this way to carry out more productive activities.

We should also bear in mind that sharing economy companies do not only poach customers from the traditional players, but also bring new consumers to the market. So they increase the size of the market, and in doing so they also lend impetus to the economy.

An important question, however, and one for which the economists have not yet managed to come up with a clear answer, is whether the sharing economy just

provides more people with a new opportunity to earn money, or whether overall, it replaces the traditional, relatively secure jobs offering higher earnings, with part-time, lower-paid and more uncertain job options.

In summary, the phenomenon has many positive sides and potential risks, which the decision-makers will have to weigh up in all their complexity.

The problem of the grey economy

The sharing economy can be regarded as a grey zone in terms of taxation and employment, so clearly from a budgetary perspective whitening up the sector, and thus increasing tax revenues and the number of registered employees, could be the primary objective. It’s important to distinguish between the sharing economy company providing the platform and the individual or company providing the resource.

Although there is no precise data, experience shows that a substantial proportion of service-providing individuals and small companies are not declaring, or are only partially declaring, their sharing economy incomes. The main problem is the difficulty of monitoring them, because typically the providers of the resource are not employees of the company providing the platform, so the intermediaries do not usually report data on them. And owing to their small size, higher number and high rate of churn, detecting them is extremely difficult for the tax authority. A further problem is that the taxation conditions are not clear, so it’s not even obvious what kind of tax obligations apply to the service providers – for example, whether their income is classified as “income from independent activity” or “other income”.

Where the companies providing the platform are concerned, the main problem is their tax-optimising conduct. Although they are registered companies that comply with the tax laws, in most cases they only pay a negligible amount of tax in the country where they provide services.

Their operating model means that in Hungary they only pay tax on a few local employees, while the generated revenues are taxed in the country where their head office is registered. In Uber's case, for example, this is the Netherlands. It's important to understand, however, first that this isn't just a dilemma for Hungary, and second, that the problem stems not from the sharing economy business model, but from the global nature of the operation; so for example the same is true of Google or Amazon.

Fair competition?

In many cases the sharing economy models create an opportunity to circumvent the requirements of certain sectors. In this way, the sharing economy players have lower costs and smaller administrative burdens to contend with than the traditional players, which could give them a competitive advantage, especially if they provide the service "professionally" on a full-time basis. Someone offering home dining, for example, doesn't have to comply with the many strict and costly requirements that traditional restaurants do, so they can provide their service more cheaply. It's a problem that sharing economy service providers don't function if the laws applicable to sole traders are complied with, because this would eliminate precisely the benefits arising from their simplicity (quick, minimal administration).

A safe bet

In order to protect their users, most sharing economy platforms operate evaluation and feedback systems. Given a sufficient number of users and transactions, these have a considerable self-regulatory effect (e.g. people avoid doing business with service providers/users with a bad score, or they may even be shut out of the system). With the better-known platforms, this usually represents an adequate guarantee of a satisfactory standard of service, but the feedback doesn't always give a true picture. For platforms with a smaller user base, for example, there isn't enough feedback and users do not enjoy sufficient protection if an event or error occurs that couldn't have been predicted in advance. Although many sharing economy solutions come with consumer protection guarantees, there are three main areas that need to be managed in the case of all service providers:

1. Protection of the users' health and safety (for example, home restaurants and food sharing services could serve rotten food)
2. Guaranteeing the security of users' assets (for example, damage could be caused to a rented apartment)

3. Enforceability of quality complaints (for example, the replacement of a faulty product, or a refund)

Regulatory strategies

There are two reasons for considering appropriate regulation rather than a blanket ban on sharing economy companies. (1) In many cases companies can use legal loopholes to get around the bans, or they may even continue to operate semi-illegally. (2) Another aspect is that the sharing economy, as a global trend with a fundamental impact on numerous sectors, should not be managed with a total ban in the medium to long term because innovative, competitive initiatives, if properly regulated, can have a positive impact on the economy, and boost tax revenues and employment (creating flexible, part-time job opportunities, for example, could certainly be beneficial).

However, in most cases the legislature is still unready for the sharing economy companies that are already present in several countries and have a complex operating model.

There is no perfect solution for their regulation.

It's important to bear in mind that, by their very nature, the regulations that apply to traditional players are in most cases automatically inapplicable to participants in the sharing economy, since this would endanger their basic business model and thus their existence. Any attempts to regulate these kinds of companies, therefore, should certainly be preceded by a comprehensive and thorough assessment.

Generally, we can safely say that in most cases there is no one-size-fits-all solution for sharing economy companies, and typically attempts are made to adapt laws to the new environment not at national, but at a local, municipal level. In what follows we use some international examples to present the possible regulation approaches (in most towns in Hungary it is still only Airbnb and Uber that are having a major impact, so most examples of regulation relate to them).

1. One of the best means of whitening the grey economy is if the regulator can achieve a situation where, instead of the high number of hard-to-monitor service providers, the taxes are paid in directly by the platform providers. As well as several large American cities, Amsterdam also applies a model in which users pay the tourism tax directly through the Airbnb platform, rather than through the host. In California, meanwhile, the labour court has ruled that Uber drivers are not sole traders but employees of the company, and so the company has to pay the necessary taxes in respect of them.

2. Requiring platform providers to report data in order to ensure effective monitoring. In America attempts are being made to achieve this by making it mandatory to report every Uber trip, so that drivers' income is trackable and their taxation can be monitored. It's important to note, however, that sharing economy companies – just like Airbnb in the Netherlands – either don't supply data to the tax authority at all, or only hand it over with great difficulty.
3. In many cases, in exchange for the legalisation of sharing economy companies, individual agreements – either to ensure data reporting or taxation – yield results. An example of this is Philadelphia, which has authorised the operation of Airbnb, and in exchange levies an 8% special tax on the software application.
4. Informing players of their tax obligations, the precise method and amount thereof, and the consequences of a failure to comply. In the United Kingdom the introduction of an online calculator was recommended, enabling service providers to easily and quickly work out how much tax they need to pay on their income from the sharing economy.
5. Holding inspections as a deterrent against non-compliance. We have seen several examples of this in Hungary too.
6. Registration and monitoring of service providers. In San Francisco, for example, a separate bureau deals with apartment lets arranged through Airbnb.
7. In order to ensure that they don't gain a major competitive advantage by circumventing regulations, in many towns some of the rules that apply to participants in the traditional sectors are also being made mandatory for players in the sharing economy. What differs is the extent to which these rules are imposed upon them. Typically not all of the rules applicable to traditional players are introduced, so that the companies can still leverage a portion of the advantages stemming from their model. In London, just like traditional taxi services, Uber drivers and vehicles have to obtain a PCO (Public Carriage Office) licence, which is issued following a strict procedure, while in California Uber drivers need to secure a licence from the CPUC (California Public Utilities Commission), similarly to taxi drivers. So Uber's own internal controls are not considered adequate; but in exchange, the Uber app can serve as a payment platform, and is also accepted as an official taxi meter.
8. It's important, from the perspective of regulation, to distinguish between the providers of services in terms of the extent to which they take part in the sharing economy: either on an ad-hoc or on a full commercial basis. For those who only dabble, for example by only renting out their home for a few days a year, far less cumbersome regulation is warranted than for those who let out their apartments for most of the year, on a commercial basis. In the latter case the use of regulations similar to those that apply to professional hotel booking agencies is recommended. In Philadelphia, for example, people who rent out their apartment for more than 30 days must apply for an official permit.
9. There are towns where the aim is to ensure that providers of the services really do only operate on an ad-hoc basis to supplement their income, and not as a full-time business, and so their activity is restricted. In Barcelona a rule has been introduced that a maximum of two rooms may be rented in a single property through Airbnb, for up to 4 months in a year, while in Amsterdam rentals are limited to 60 days a year.
10. As well as time limits, location-based restrictions can be imposed: In Philadelphia, for example, short-term lets are only permitted in designated zones.
11. In many towns, extreme measures have been imposed, with certain sharing economy services banned outright; but in contrast, in other towns no regulations have (yet) been imposed, so the companies operate without restriction.
12. In the medium and long term, due to the nature of the business model, the emergence of monopolies could be a real risk in the sharing economy, similarly to other digital platform-based industries – for example, Google when it comes to internet search or Facebook in the case of social networking. To avoid this, the regulations must provide sufficient opportunity for competition. The key factor could be enabling users and the providers of services to switch easily between the individual platforms. This could be promoted, for example, by making it possible for personal profiles, including the feedback received by the individuals, to be moveable between the various sharing economy companies.

What next?

One of the most important lessons we can learn from the examples above is that the increasingly rapid spread of the sharing economy model is an undeniable fact, and is fundamentally disrupting the business status quo.

Many question whether the operating model of the sharing economy companies can really be sustainable. Although there is very little information in the public domain, and the companies have typically only operated for a few years, and so nothing can be stated with certainty, we know that several sharing economy companies with a substantial user base (such as Spotify, for example) are making a loss. It is questionable whether these companies will be able to operate at a profit in the medium and long term, after the aggressive, typically venture capital-fuelled, market acquisition phase of their life cycle. But there are several reasons why – even while operating at a loss – it could be worthwhile to use the sharing economy model: reaching and acquiring new customers, boosting the loyalty of existing customers, establishing new revenue channels. It's also worth considering what kind of cross-financing opportunities might arise, which could be made to turn a possibly loss-making division into a profitable venture. It is certain, however, that the companies' explosive growth and the increase in customer numbers means that companies cannot afford to ignore this trend.

PwC has identified 3 main directions with respect to the possible strategic responses:

1. Protection of the existing customer base

Ensuring that products and services can compete with the sharing economy, possibly through collaboration with other traditional companies. Many sharing economy companies provide more innovative services than traditional companies, for example by using an IT platform or providing an evaluation and feedback system.

In order to remain competitive, the traditional companies need to develop their services.

A good example of this is that several Budapest taxi services have introduced the possibility of ordering a taxi online, where the dispatched vehicles can be tracked in real time.

Another solution could be to join forces with the other players in the sector and, through effective lobbying, pro-actively create a strict regulatory environment so that sharing economy companies can't secure a competitive advantage due to a lack of regulation or to an avoidance of the statutory provisions. Sharing economy transport services have triggered vehement protests in practically all countries, but there has also been heavy lobbying against Airbnb in a number of foreign cities, although typically this was carried out not by hotels but by the local authorities, who were fearful of losing their revenues from tourism taxes.

2. Strategic partnerships

Initiating partnerships with sharing economy companies, testing shared platforms. PepsiCo, for example, has collaborated with TaskRabbit on several occasions for promotional purposes, and the video streaming service provider Netflix concludes strategic agreements with various telecoms companies when entering new markets, while in Hungary Telenor has partnered with Deezer, and Telekom with Spotify. A higher level of collaboration involves the making of strategic investments or acquisitions, followed by the expansion of the existing portfolio with the successful products and services. For example, in 2013 the car rental firm Avis bought up Zipcar, which had broken into its market, then continued to operate this sharing economy service successfully.

3. Developing sharing economy products

There are good examples from the car manufacturers that we have already mentioned. BMW, Daimler and Peugeot all offer on-demand car rental services; in other words, instead of ownership, they provide access to cars. In this way they can sell their products via new channels alongside the existing ones, reaching new users in the process.

Another interesting initiative is where certain companies help consumers to sell on those of their products that they no longer use. IKEA has created its own platform for this, while the clothing manufacturer Patagonia advertised in conjunction with eBay, encouraging its customers to sell their used items. This step may appear damaging to the companies, given the threat of cannibalising their own sales, but in fact after selling the used products consumers want to replace

their furniture and clothes, so in this way demand for new products increased. Besides this, the initiative had great advertising value, and brand recognition was also boosted substantially.

There are also examples of a complete switch to the sharing economy model, as in the case of the Hilti Group, which manufactures and supplies construction industry tools and products. At the end of the 1990s the company's revenues declined due to the cheap substitute products of competitors. Hilti's response was to switch from selling tools to providing customers with access to them, and to comprehensive tool management services (e.g. repair, replacement) for a fixed monthly fee.

There is also a model in which consumers finance a company with assets that they themselves – due to the nature of the asset – would not be able to manage, and in exchange, the company provides some kind of service. For example, it's possible to “lease” cows from Swiss farmers, and in exchange for the amount they pay, the customers can buy cheese at a substantial discount; a similar business model exists in the wine industry. A similar initiative is the Hungarian YouTyúk (a play on the Hungarian word for “Hen”), where in exchange for a symbolic fee for the upkeep of the hens, consumers are supplied with fresh farm eggs.

The effective responses may differ between sectors and companies. In the less threatened sectors, where sharing economy players can only acquire a small segment, reactive responses such as protecting the customer base are more likely to be the right approach in the short term. In the medium and long term, however, and in sectors where sharing economy companies pose a more imminent threat, proactive steps are necessary. In the United Kingdom, at first hoteliers pursued a strategy of lobbying for stricter regulation; but in the past year they have focused on differentiating their services, and a growing number are also advertising their rooms on hotel booking sites (e.g. Booking.com).

Above all, traditional companies need to consider which of their services are ones where a sharing economy player could potentially emerge; then, after identifying these, the companies will have to find an answer to the threat and to the question of how they will be capable of keeping pace with this trend.

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