

The challenges and threats of the shared economy

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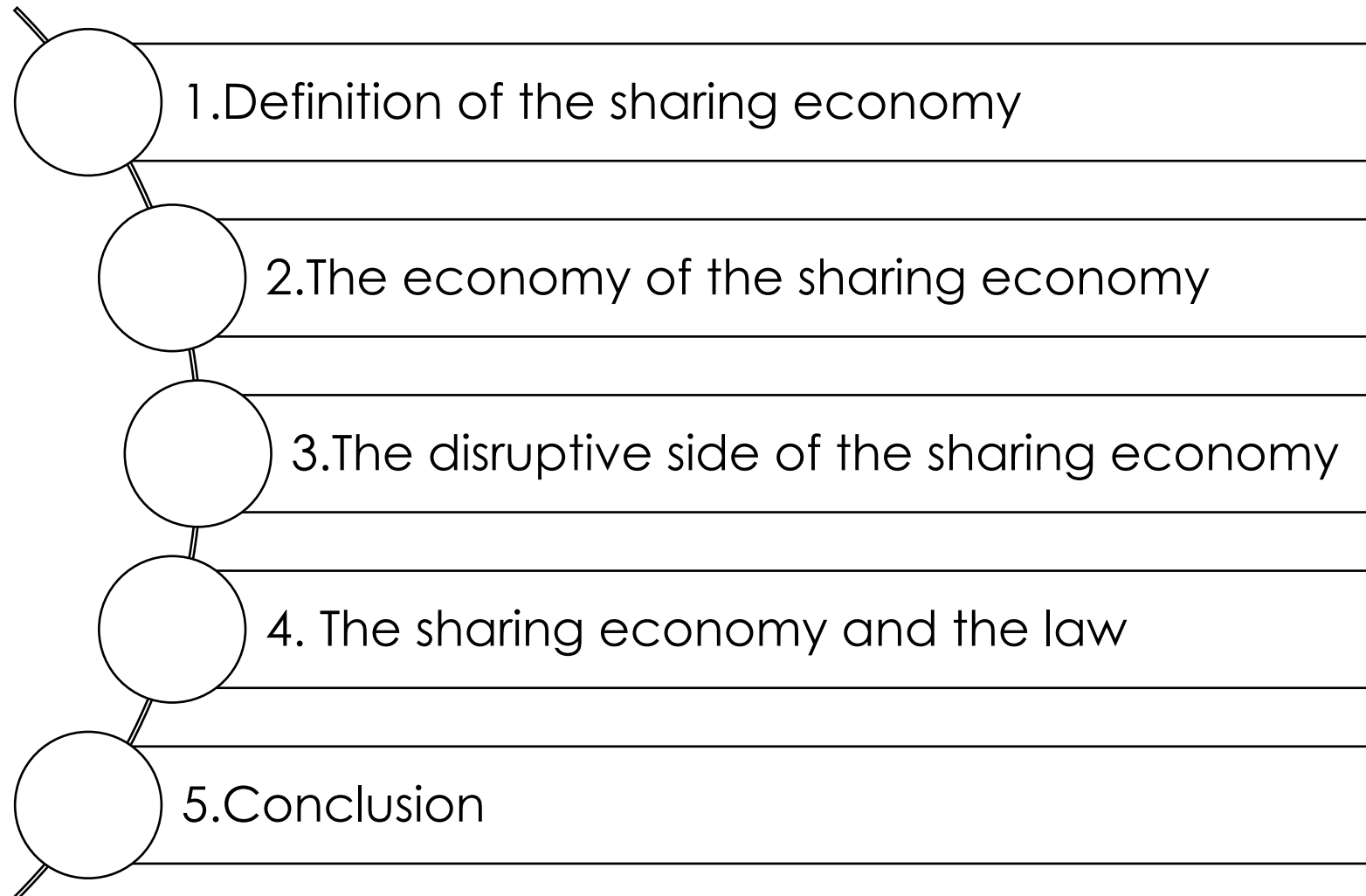
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Table of contents



1. Definition of the sharing economy
2. The economy of the sharing economy
3. The disruptive side of the sharing economy
4. The sharing economy and the law
5. Conclusion

Definition of the sharing (or collaborative) economy

“An economic system in which assets or services are **shared between private individuals**, either free or for a fee, typically **by means of the Internet.**” (Oxford Dictionary)

The “sharing” economy finds place through a **sharing platform.**



It is however **hard to define the scope** of the “sharing” economy as definitions vary widely.

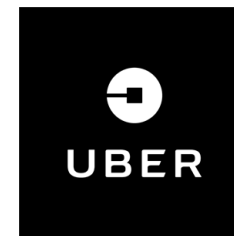
What are sharing platforms?

“**sharing platforms** are taken to be online platforms that **co-ordinate** a group of individuals (or ‘peers’) to enable the sharing of an asset or resource.” (Oxera, 2015)

People can **share, rent or swap** goods and services on these platforms.

Typical assets and products being shared:

- Transportation
- Labor services
- Accommodation
- Open data



The weight of the sharing economy

A study by PWC estimated that the revenues of the “sharing” economy were of about **\$15 billion in 2014**.

It could increase **to \$335 billion by 2025**.

Industries affected by the “sharing” economy make up **50% of the GDP** of developed countries.

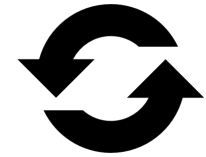
But for the moment the “sharing” economy **does not affect the GDP** significantly.

9% of the Americans **independent workers** provide services **through the “sharing” economy**.

Main qualities of sharing platforms

A sharing platform facilitates an exchange

It replaces costly intermediaries and allows two sides to come easily together.



Its structure bring many people together

The more people are on the platform, the highest the likeliness to find a “match” is.



Confirmations or “matches” are usually instantaneous

Trust is needed to have transactions

Review and reputation systems give “safety” to the parties’ making the transaction.



Main Positive externalities of the sharing economy

Open the competition to new players



Challenge existing monopolies or exclusive rights

Decrease obstacles to market entry: foster competition to enter into markets and to compete within the markets.

Foster innovation

New Business models; new features of the value chain; new types of services.



Benefit to consumers

Larger scope of services; more diversity of services/products and of suppliers, decreasing prices.



The disruptive effects of the sharing economy

The “sharing” economy will **disrupt all the industries** which it will enter but on a different scale.

The **most at risk** are the ones having a *de facto* monopoly and proposing services with a low differentiation (taxis for example).

The **transportation services and lodging** have already begun to **experience some disruption** due to the “sharing” economy.

The disruptive effects of the sharing economy: concrete examples

In transportation services:

- The **price of taxi medallions** in New York city **fell by 23%** between 2013 and 2015.
- In Seattle, Taxi revenues **shrunk by 28%** in two years.



In lodging:

- Hotels revenues in Texas **dipped by 0.37%** for every **10% increase** of listings on Airbnb.
- There are evidences that **flats were taken out** of the market to be put on “sharing” platforms.

Competition with the incumbents

The “sharing” platforms will **take a substantial share** of the markets were they establish themselves.

Incumbents can however react by:

- **Becoming facilitators** themselves
- **Partnering** with the new entrants
- **Differentiate** themselves by offering unique value
- **“Destroy”** the competition



Established market players only have a few more years to prepare themselves.

The sharing economy and the law

The actual legal framework is not adapted to the “sharing” economy as it diverge from the mainstream.

Problems are arising, for example, concerning:

- **Insurance obligations** → an Uber driver has an accident, is Uber’s insurance or the driver’s one supposed to cover the costs?
- **Licensing** → Should an Airbnb short term rental apply for the same licenses as hotels?
- **Safety legislation** → Should an Uber driver have a maximum number of hours that he can drive (it is not the case now)?

The sharing economy and the law: the tax issue

An issue that has been discussed a lot lately concerning the **payment of taxes** by all the “internet” companies including the ones of the “sharing” economy (Uber and Airbnb especially).

The problem is found at the “sharing” platform (company) and user level:

- Company's are using **fiscal optimization** techniques to pay the minimal amount of taxes in the country where they operate in
- The users or providers have a tendency to **underreport their earning** from their activities in the “sharing” economy
- The **payment of local taxes** (such as visitor's taxes) is often not made



Workers in the sharing economy

Most of the workers in the “sharing” economy are classified as independent contractors. It means that they potentially experience **income instability** and **are not receiving benefits** such as : **minimum wage, overtime pay, saving plans** or **sick leave**.



They also often have to:

- **Train** themselves
- **Maintain their working tools** and make **capital investment**



Concluding remarks

The “sharing ” economy impacts the market structures as well as the traditional paradigm of the demand and the supply:

→ New ways to do business, new business models, new types of services, new organization of the value chain, new habits of the customers, new competitive forces (5 forces),...

The “sharing” economy poses **multiple challenges** to our existing legal framework and, to many incumbent players in the concerned markets.

The main challenge will be to establish a **fair “playing” field** between the new entrants and the established players. Trying to keep a competitive environment where consumers will have the best offers with the best safety.

Thank you for your attention!

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