The Shared Economy: It is time to start caring about sharing; value creating factors in the shared economy

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This research identifies the customer value and drivers of the shared economy. The literature review conducted defines the important terms. Ultimately the factors contributing to the shared economy and its customer value factors are discussed. The 4C model facilitate…. is created including the customers value in regards to those four dimensions. The findings show that there is a shift in what customers value when participating in the shared economy.

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Keywords
Asset-light lifestyle, Collaborative consumption, Collaborative economy, Peer economy, Access economy, Shared economy, Value creating factors, Driving Factors

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1. INTRODUCTION

The term ‘rent’ is becoming the new ‘own’; why should you own something when you can rent it cheaper from someone else. This shift is facilitated by online services that enable people to share items like cars, accommodations, and even smaller objects such as bikes and household appliances, with others that are willing to pay for it.

In recent years many companies have appeared that act as matchmakers between owners and (potential) renters. Examples of such companies are RelayRides, which helps individuals to rent their cars, or Airbnb, which assists individuals in renting out their spare rooms. The firms help to allocate resources where they are needed (Hamari & Ukkonen, 2013) and charge a small percentage in return.

These so-called Peer-to-Peer rental services provide extra income for owners, and provide less costly and more convenient options for borrowers and users of the service (Porter & Kramer, 2011). Occasional renting of items is cheaper than buying from a firm or renting from traditional providers of such services as for example hotels or car-rental companies.

The emergence of mobile technology has helped to create hyper-efficient marketplaces (Nov, Naaman, & Ye, 2010) that allow us to share anything with the rest of the world. The Internet, in combination with mobile services, made it cheaper and easier to aggregate supply and demand where needed. For instance, smartphones, GPS-mapping and satellite placing can help find the next nearby apartment to rent or car to hire. Social networks and user recommendation systems help to establish trust (Hsu, Ju, Yen, & Chang, 2007); intelligent internet account and payment systems provide easy invoicing. These types of services facilitate the establishment of trust between strangers; a crucial element when renting from one another. They provide services that promote a certain lifestyle which has been referred to in a great variety of ways such as ‘asset-light lifestyle’, ‘collaborative consumption’, ‘collaborative economy’, ‘peer economy’, ‘access economy’, or ‘shared economy’.

It is no surprise that numerous peer-to-peer firms have started to appear during the aftermath of the global financial crises between 2008 and 2010 (Kriston, Szabo, & Inzelt, 2010). A few see sharing as a solution to materialism and overconsumption. But it may also have environmental benefits by making more efficient use of resources. Whatever has helped the trend to gain momentum, clear is; people are looking for an alternative to buy a service directly when they need them, instead of owning an asset permanently.

The reason why people see a higher value in sharing is not really clear at this point in time, but some value to customers must be created when sharing with one another. As of yet, it is clear that the trend of the ‘shared economy’ is gaining market share against the original business model of a modest purchase. This new appearing trend gives new profit motives to firms (Porter, Hills, Pfützer, Patscheke, & Hawkins, 2012). However, it is less clear why consumers gain more satisfaction from sharing than ownership, or in other words, which value creating factors contribute to the rising popularity of renting versus buying. Most scientific literature concerning sharing addresses the advantages and disadvantages of leasing in comparison to renting. This research aims to complement the current renting literature by conducting a literature review, to gain insights into the reasons behind the growing demand of sharing compared to owning. Specifically, this research attempts to do this by identifying the value creating factors of a ‘shared economy’ and through the application of the service marketing-mix model by Lauterborn (also known as the 4Cs model). Therefore the following research question is constructed: What drives the shared economy and its customer value?

2. DEFINITIONS AND STATE OF THE ART

2.1 Defining shared economy and value creation: ecological and social aspects of business conduct

The term ‘shared economy’ is a relatively new term not used much in the current scientific literature. The ‘shared economy’ describes a type of business model that builds on the sharing of resources between individuals through peer-to-peer services—allowing customers to access goods when needed. While sharing goods has always been a mutual repetition between people that are close to each other (neighbours, family and friends), in recent years the concept of sharing has progressed from a community practise into a profitable business model. This growing legitimacy reflects the phenomena of peer-to-peer networks, collaborative consumption and the access economy.

Value creation and how perceived customer value is created has been defined in recent literature by a measure of cost for acquiring a product (Guenzi & Troilo, 2006). Customer value is represented by the difference in ‘customer perceived benefit’ and ‘customer’s perceived costs’ (Day, 1990). ‘Customer perceived benefit’ is the gain from the purchase; the activity of purchasing and acquisition can already be a benefit, while the maintenance is seen as a ‘customer’s perceptive cost’ (Huber, Herrmann, & Morgan, 2001). It is only recently that customers have started to look more closely to ‘benefit enjoyed’ versus ‘costs incurred’ in buying products, or more simply; what do you get for what you pay (Ulaga, 2001; Ulaga & Chacour, 2001). As mentioned before, customer value is the difference between customer perceived value and customer perceived cost (Day, 1990; Guenzi & Troilo, 2006; Huber, Herrmann, 2001). So value is what the customer is concerned about, and thus motivation for somebody in going to market should not be to maximize one’s gain but to maximise customer value (Lai, 1995). Furthermore, customer value in the context of this paper is the return in a good or service benefit (Lai, 1995). A benefit can be of financial, social, or of sustainable nature. Eventually the individual itself defines what is perceived as a benefit.

This upcoming trend has implications on ecological and social aspects. In most large cities the current infrastructure (private car, public transport) is not satisfactory and more and more people are on the search for alternative resolutions to escape the traffic (Kriston, Szabo, & Inzelt, 2010). Renting services for bikes and cars seem to be a solution to this matter. These services would be able to increase urban mobility and decrease the environmental burden. In some city centers bike hire services are increasingly gaining in popularity for short distance travel. Paris offers more than 10,000 bikes and Copenhagen about 2,000 bikes that are positioned all over the city and are available for rent (Kriston, Szabo, & Inzelt, 2010). Furthermore, the demand for car-sharing models for fast, comfortable and long-distance transportation between the city center and suburbs is increasing. Car-sharing firms place available vehicles around the city that can be shared and rented by several individuals.
estimated at 400,000 in the world (Shaheen & Cohen, 2007) and has more than doubled during the past years (Kriston, Szabo, & Inzelt, 2010). Renting of shared services provides a flexible alternative that meets diverse transportation needs across the planet, and that reduces the negative effect of private ownership and environmental inefficiency (Kriston, Szabo, & Inzelt, 2010). Mentioned above are only two out of many examples of how a shared economy can have a positive impact on the ecological system. A shared economy does not only help by solving complex traffic problems but also gives the possibility to make more efficient use of all kinds of resources. It might help to have a look online and see what individuals already share with one another to realise what is meant by all kinds of resources.

Additionally, features of the shared economy offer social aspects. For instance, the appearance of the shared economy is believed to help people teach the power of sharing and collaboration (Hamari & Ukkonen, 2013). Once people experience that power, it is natural for them to apply the same logic in every part of their lives. A long-term trend in sharing finite resources is created.

In regards to business conduct the shared economy or collaborative consumption is moving beyond homes and cars into even more niche markets, giving new opportunities to share.

3. FACTORS CONTRIBUTING TO THE SASHRED ECONOMY AND VALUE CREATION

3.1 Factors driving the shared economy and its global recognition

An increase in the activity of sharing can be recognized by the increasing number of firms that have started to appear, and their explosive growth in the market. Airbnb (apartments for private), Zipcar (car hire), Spotify (music streaming), eRetah (all you can read book for a monthly fee), SnapGoods (Building tools) are just a few out of many examples. The rise of the shared economy and its global recognition is driven and enabled by the forces that are adapting now. As these developments will start to accelerate so will the Shared Economy. In previous literature the trends driving change in economy were identified and summed into three classifications; Societal Drivers, Economic Drivers, Technological Drivers. The same classifications can help classify the drivers of the global recognition of the shared economy. Figure 1.0 visualises how the factors are acting towards and helping the shared economy receive recognition.

Societal Drivers;
- Increasing Population density (Kriston, Szabo, & Inzelt, 2010) - high population concentration enables sharing to occur with less friction. Access to areas with high population means that supply and demand increase, and that it becomes simpler to create a match in the shared economy.
- Drive of Sustainability (Porter & Kramer, 2011) – there is growing awareness of the environmental impact of our consumption practices. Increasing corporate social responsibility (CSR) programs exercised by an increasing number of cooperations give an indication about the seriousness and recognition of the problem.
- Desire of Communication – individuals have the desire to communicate and socialize with others in their surroundings. New ways to economical trends also call for new ways of communication.
- Generational Altruism – feeling responsible for people in challenging situations. Teaching others old as well as new social norms. One social norm taught by the shared economy is to have the community collaborate together to ensure sustainable development. For instance to think in a more responsible way towards infinite resources.

Economic Drivers;
- Monetize Excess or Idle Inventory (Botsman & Rogers, 2012) – Idle resources, which are robust and stay in good shape for long, can now be shared and often monetized. Botsman reports that the total average use of an electric drill in 12 minutes per day gives a good indication about more effective use of idle resources in a sharing economy.
- Increasing Financial Flexibility (Chui, et al., 2012) – Increasing globalization and communication across the globe allows people to discover the benefit of earning income with ownership or the empowerment of independence by non-ownership. Owners find possibilities to earn income and gain financial independence. Non-owners gain greater flexibility to invest in different products.
- Access Over Ownership – Expensive and luxury goods suddenly become affordable in the shared economy for new customer groups that where not able to afford them before. It opens new profit markets for businesses and allows for a more effective use of recourses.
• Influx of Venture Capital (VC) Funding (Chui, et al., 2012) – Investors are essential to the rise of the shared economy. Previous research has shown that about $2 billion in VC funding was invested in 200 sharing start-ups, with an average of $29 million (Kriston, Szabo, & Inzelt, 2010).

Technological Drivers;

• Social Networking (Constantinides & Fountain, 2008) – Social networks help to facilitate peer-2-peer transactions by matching up supply and demand.
• Mobile Devices and Platforms (Black & Lynch, 2004) – The rise of the smartphone devices has helped start-ups in the shared economy. GPS-mapping in real time gives customers the possibility to locate the closest match of goods and/or services in the area at any place and time wanted or needed.
• Payment Systems (Black & Lynch, 2004) – Intelligent e-commerce and invoicing systems required for quick transactions help customers to gain trust and insure for payment. At this point in time most payment systems rely on credit cards, and some allow the use of gift cards. In the future new forms of digital value currencies are expected to emerge (Nakamoto, 2008).

All three-market drivers act equally towards the creation and global recognition of the shared economy. The further those single drivers are developed and integrated into individual’s everyday life the higher the degree of acceptance of the shared economy among the society as a whole. For example, as more people care more for sustainability and see overconsumptions as one of the threats to sustainable development, they will start to explore alternatives to purchasing a product they might only need once. In order to find an alternative they search peer-2-peer services in combination with GPS-mapping to find the solution that is most closely located. Eventually the peer-2-peer services help to create a match in the close surrounding. As they are linked to social networks they show that the person offering the solution shares a common acquaintance with the ‘searcher’. This immediately creates additional trust between the two individuals that share the common friend. After the transaction, the billing is organized by intelligent invoice services. The overall result is; higher sustainability, lower overall consumption, increased efficiency of idle products, increased financial flexibility, and a win-win situation for the individuals involved in the transaction.

3.2 Factors that add to customer value in the shared economy

Customer values in the sharing economy have been mostly linked to Rational Benefits and Emotional benefits (Elster, 1998). Rational benefits reflect a product’s usefulness and quality to the consumers, while emotional benefits are related to the human’s emotions (Schmitt, 1999). Or in other words, the perceived rational benefits mostly focus around reduction and practicality, whereas the emotional drivers centre around confirmation and belonging. To deliver customer value in the shared economy it must focus on creating value with meaning, which is different for every individual customer. Campbell Mithun conducted a research where he asked respondents to rank emotional and rational benefits in the shared economy. The results were the following, from most important to least important;

• Community – the need of value and belongings to others in the community
• Lifestyle - the need of feeling smart
• Lifestyle – the need to feel more responsible
• Cultural – feel part of a larger cultural movement

The categories of the rational benefits were ranked in the following order;

• Financial – the need to save money
• Environmental – does it positively add to the environment
• Lifestyle – does it provide higher flexibility
• Lifestyle – does it provide higher practicality
• Trail – provides access to goods/services

Financial perspectives were ranked first in the rational benefits list. This money-saving response becomes significant when considering that the highest ranked emotional benefit was chosen to be ‘generosity to others and myself’. These two top responses indicate that in the shared economy consumers want to own less but gain more. Indicated by the emotional factors, there is a perceived benefit created when sharing such as the benefit of generosity or adding to community. On the other side, rational benefits are the personalized values; what an individual is looking for without considering others in the surrounding.

3.3 The integration of value creating factors that make it more attractive for individuals to share

This has implications for corporations and their relationship with customers. According to Porter and Kramer the shared economy will disrupt firms severely (Porter & Kramer, 2011). They state that for example companies with easily transferable goods, or high cost and low usage goods, will be most disrupted. They also state that companies such as travel, automotive, multimedia, and electronics are first impacted by the shifts in value creating factors in the shared economy. Eventually they claim that all markets will be impacted by a varying degree of disruption depending on which market forces come into play.

Enterprises face a high risk in the shared economy of being disintermediated as customers monetize their assets and compete directly (Porter, Hills, Pfitzer, Patscheke, & Hawkins, 2012). Crowds that position themselves with the support of the peer-2-peer services will act like companies, providing and consuming goods and services to- and with each other. The model of ‘consume and throw away’ will develop into a different model of ‘consume and collaborate’. Innovative platforms and increasing consumer approval will help individuals to find easy ways to monetize goods and services, and to purchase directly from one another at lower cost and at greater convenience. Eventually these crowds, structured in such a new fashion, might be able to exert buying power above companies.

Customers will be on the search for products that are more durable and maintain their value for a longer period (Ghosh, 2005). In other cases customers will be looking for products of higher quality. For instance the resale value of a car will be increased and prolonged to all segments as customers seek to buy products that are of higher quality and have a longer lifecycle. Due to those reasons goods can be shared and resold easily in the shared economy. This will help to increase demand.
for goods that are more durable, maintain their value, and are easily transferred from one holder to another.

Additionally, the customer experience will extend beyond the first purchase. Every time products are shared and passed between owners, customer experience is extended on the collaborative market and the benefit experienced is increasing (Porter & Kramer, 2011). The ‘Total Customer Benefits’ will be evaluated and reviewed by the consumer in the shared economy. The word-of-mouth will lead customers to trust each other more than brands (Sernovitz, 2008). In the shared economy reputation matters and business will be build around reputation. Ultimately, companies will have to join the shared economy by meeting customers as power shifts to the consumer.

4. INVESTIGATION OF IMPORTANT VALUE CREATING FACTORS BY THE 4CS MARKETING-MIX

4.1 Important value creating factors: Methods in relation to Customers, Costs, Communication, Convenience

This research applies the Lauterborn’s marketing-mix model, also known as the 4Cs model, which entails the consumer, cost, communication and convenience dimensions. This model helps to design a marketing mix that help indicate what to focus on when companies want to create customer value in the shared economy. This will help businesses that are enthusiastic to move into these new niche markets to oversee what customers value in the shared economy. As stated earlier, to deliver customer value in the shared economy one must focus on creating value with meaning, and this will differ per individual customer. Lauterborn’s 4Cs model will be applied because this model entails a more consumer relationship viewpoint compared to the usual 4Ps (Product, Price, Promotion and Place) model (Perreault & McCarthy, 2002). The 4Cs model attempts to better fit the movement from mass marketing to niche marketing (Lauterborn, 1990; McClean, 2002). This is evident in the shared economy because customers in the shared economy focus on access to a need, which is personal and different for every individual customer.

- Customers: only buy what they specifically want to have. Consequently companies should study customer’s wants and needs (Lauterborn, 1990). Furthermore, Gueniz and Chui (2006) mention that a company will only be able to engage in business after they have searched, found and inclined towards understanding the customer needs and provide service accordingly. Hamari and Ukkonen (2013) report that in the shared economy customers are valuing sustainability, enjoyment and economic benefit rather than owning a product permanently. This indicates that companies should ensure easy accessibility for the consumer at any time and any location. Companies have to give customers the feeling of belonging to the community in combination with providing personalized product offerings that are sustainable for sharing. For many sharing economy companies, personalization is the key part of the experience.

- Costs: This is the most critical factor that motivates people to start participating in the shared economy. A lot of different factors affect the cost of a product or service. People start to engage in collaborative consumption because they see it as a means to save or earn money. In the shared economy people have discovered the benefits of either earning money with ownership or the flexibility of non-ownership (Chui, et al., 2012). Taking a look at the rational benefits in the previous section, the need to save money is ranked first. Companies must provide service at a higher quality and with a higher level of convenience. The products that are available must be in excellent condition, almost like new, in order to ensure that customers have an experience similar to those of purchasing a new product. The experience of idle high quality resources in combination with a lower price for access than the price of owning and discontinuation of maintenance, gives customers a higher satisfaction (Guenzi & Troilo, 2006). Those factors combined allow companies to offer customer experience at a higher value using their products, and help companies to make a profit with ownership.

- Communication: When promoting a product communication usually originates from the seller and is aimed to attract consumers’ attention. As in the shared economy communication is ‘cooperative’ and originates from the buyer that has a need (Lauterborn, 1990), the aim is to create a conversation with the potential customer in regards to their needs and wants. The value that individuals get from the interaction with others on these platforms is at this moment in time hard to quantify. But it seems that there must be value created. People even participate in the shared economy either as buyers or sellers because of community interaction, with economic reasons being more trivial. Companies can benefit, as customers will develop a relationship with the company. Furthermore, companies can learn from the sharing economy how to connect with customers involved in producing a product or a service. In the shared economy companies have a huge possibility to connect to customers at a very personal level. Once a company has engaged in such a relationship with their customers they will be rewarded with a high level of customer’s loyalty and trust (Huber, Herrmann, & Morgan, 2001). Ultimately the experience that people value in the shared economy is the genuine interaction with others. This is most likely the most important benefit next to the monetary rewards – the saving for buyers or the earning for sellers.

- Convenience: Convenience combines simplicity, efficiency and satisfaction and basically measures the ease of doing things. In this context, convenience might be related to buying, searching for information or other activities in the shared economy. With the increasing importance of the Internet and hybrid market models of purchasing the level of convenience increases (Kriston, Szabo, & Inzelt, 2010). As mentioned before, in shared economy people have discovered the advantages of ownership and own-ownership (Guenzi & Troilo, 2006). It can be considered that some individuals enjoy the concept of having access to products only when they are desired or needed, and do not want to bear full ownership. On the other hand, individuals might find it convenient to have a financial gain from ownership once they do not make use of it themselves. As the convenience factor is important in the shared economy, companies have to make sure their service is convenient and easily accessible. Marketers should know how the target market prefers to share, how
guarantee convenience in the shared experience (Schultz, Tannenbaum, & Lauterborn, 1993).

5. CONCLUSION

This paper sought to gain insights into the shared economy and investigate its value-creating factors. An examination of the current literature has revealed three main classifications of drivers. Those have helped the shared economy to develop and reach its global recognition. The found drivers can be classified into social, economical, and technological drivers. As these drivers will further develop and become more integrated into people’s life so will the shared economy. Furthermore, customers in the shared economy were found to value emotional and rational benefits of sharing: Generosity was ranked first among the emotional benefits, and financial perspectives were ranked first among the rational benefits. Subsequently, as customers in the shared economy connect value to these two benefits this has consequences on how companies need to engage with customers. This is due to the risk firms face: the threat of being intermediated. As Porter and Kramer already mentioned, power is shifted away from firms towards customers that organize themselves throw the shared economy. Furthermore, the marketing mix showed that customers in the shared economy value sustainability, enjoyment, and economical benefit. Additionally, costs or cost savings turned out to be the most critical factor. Even thou customers want to save they still want to have an experience similar to those of an actual purchase of a new product. Moreover, some customer value is created by new ways of communication and interaction between individuals. Some people are solely participating in the shared economy because of the increased interaction among individuals. The last factor in the model considers the convenience in sharing products. The values were found to be liked to ownership and non-ownership. In the shared economy people have a different way to exchange products, leaving them to create value in different ways.

Having discussed the major drivers and value creators of the shared economy, this research adds to the current literature because it give a first general inside into the value creating factors of the shared economy. So far, it has been known that the shared economy is increasingly gaining in popularity but it was not clear what customers value in the process of sharing. However, this paper suggests that customer value in the shared economy is created in different ways with focus on usefulness to others and oneself. Furthermore, it has the possibility to create a shift in people’s mindset in a positive way in regards to consumption patterns and the values they enjoy. It seems that the values are shifting away from this individual mindset of one and into the direction to think about society as a whole before purchasing a good or service. We could perhaps say that customers become more thoughtful when it comes to consuming.

6. LIMITATIONS & FUTURE RESEARCH

One of the biggest limitations to this research is the lack of literature in this field. As this topic is relatively new to the academic world, and is only recently gaining recognition, it is difficult to find sources that discuss the shared economy and specifically in regards to value creation. Previous finding are centered around how sharing and a sharing economy will gain in recognition and what government interactions and measures can have for an impact on the sharing economy.

In the context of this paper, it would be interesting to investigate cost saving, sustainability, and economical effects and when it pay off for an individuals, and the society. Some studies do talk very limited about those topics, but no actual figures can be found. Therefore, it would be interesting to investigate by exploratory studies the mentioned above.

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