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The sharing economy: how will it disrupt your business?

Megatrends: the collisions

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The Sharing Economy: Key Messages

1. The 'sharing economy' uses **digital platforms** to allow customers to have **access** to, rather than ownership of, tangible and intangible assets. This **economises on scarce resources** and often involves **deeper social interactions** than traditional market transactions.

2. **Five key sharing sectors** (P2P finance, online staffing, P2P accommodation, car sharing and music/video streaming) have the potential to increase **global revenues** from around $15 billion now to **around $335 billion by 2025**.

3. **In the UK, these five sharing sectors could generate revenues of around £9 billion by 2025**.

4. But there are **major regulatory and fiscal barriers** to overcome to fulfil this potential and, in scaling up, **sharing companies face challenges in maintaining their uniqueness and authenticity**.

5. **Incumbents** need to see disruption coming from an expansion of sharing and develop effective strategies to respond, whether by **acquisition, partnership or launching their own sharing services.**

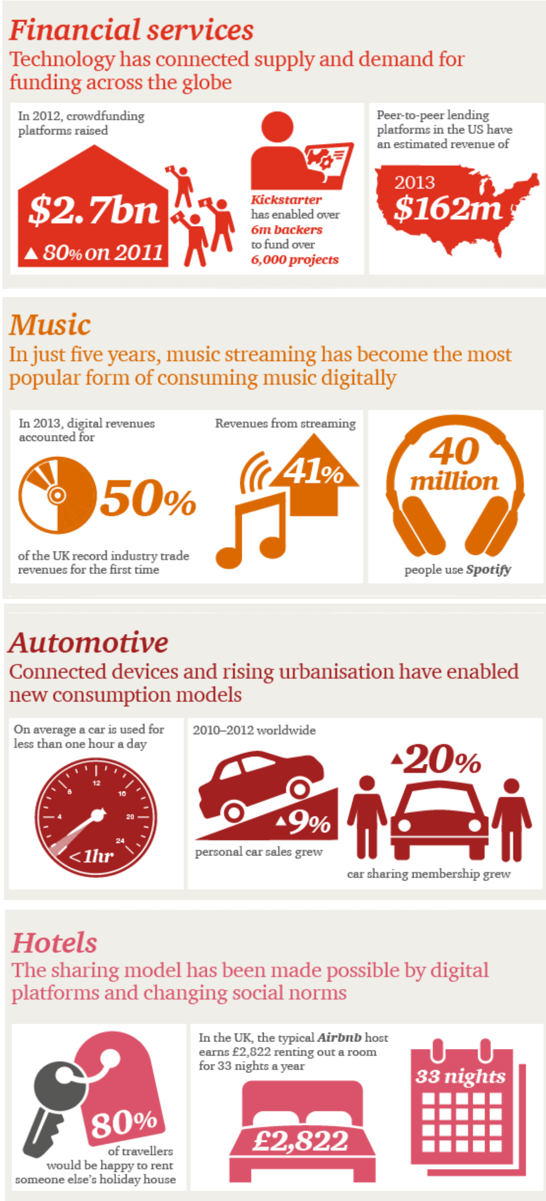
Introducing the sharing economy…

- Over the last decade, “sharing” has grown from a means of transaction that took place between friends and family to the basis of a pool of global businesses which are increasingly being valued in the billions. From Uber sparking protests by black cab drivers in London, to AirBnB unsettling hoteliers in New York, it is also a model which is threatening to disrupt established organisations and ways of doing business, particularly in “post-materialist”, developed economies.
- We know that many sectors in the economy offer alternatives to ownership. But “sharing economy” sectors are different because they hold three core features:

  (1) Business models are hosted through **digital platforms** which connect demand and share capacity dynamically in real-time

  (2) Transactions are completed through a variety of methods that offer **access over ownership** (e.g. P2P sharing, subscribing, re-selling and swapping)

  (3) Consumers are more comfortable with consuming products in a way which involves **deeper social interactions** than traditional methods of exchange
- Several high-profile companies have pioneered this new type of business model and have created vast amounts of value – disrupting traditional competitors in the process (see right). The megatrends are evolving and colliding together to drive this value creation:
  - o The growing number of connected **digital devices** makes matching demand and supply easier than ever before.
  - o **Social norms** are adapting as consumers become more comfortable sourcing trust using peer-review systems, which most sharing networks use to self-regulate quality.
  - o **Resource scarcity** is pushing up the cost of ownership.



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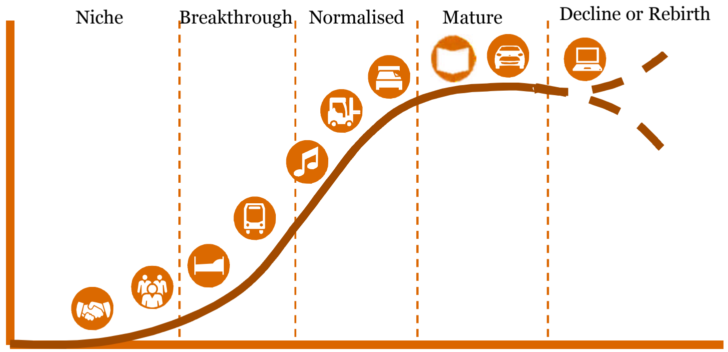
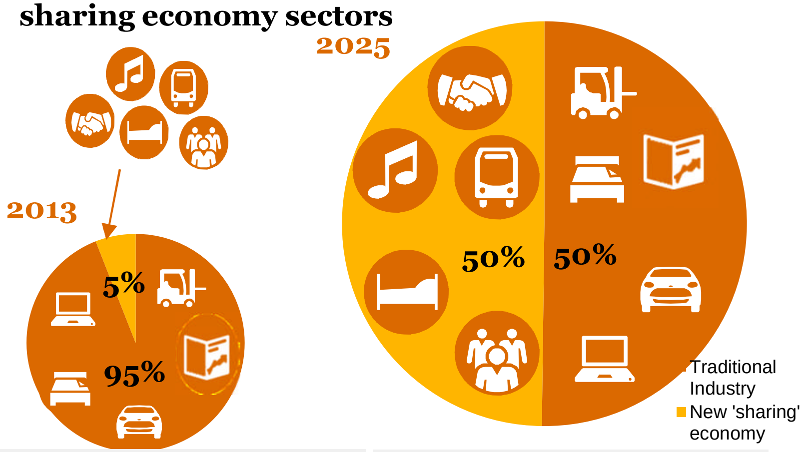
We estimate that the potential size of the revenue opportunity in five sharing sectors could be $335bn by 2025

- Beyond these small collection of pioneers, we believe there's a big opportunity for the sharing economy to play an even more pronounced role in the commercial landscape.
- We observe that many sectors have progressed along an "S-curve" pattern where initial low and volatile volumes make way for a breakthrough company to accelerate growth before the market saturates. At this point, old sectors mature and decline – to be replaced by the next overlapping innovation (see top-right).
- We believe traditional industries are in the midst of disruption from the sharing economy as S-curves for traditional products and sectors are displaced by the start of a **new "Sharing S-curve"**.
- To investigate the scale of the potential revenues at stake, we've projected industry revenues for ten sectors, split between a sharing economy group (P2P finance, online staffing, P2P accommodation, car sharing and music and video streaming) and a traditional sector group (equipment rental, B&B and hostels, car rental, book rental and DVD rental). We've used historical industry and company revenue data and subject-matter expertise to place each industry on the S-curve.
- Today, we estimate that the sharing economy group contributes just $15bn – or 5% of total revenue . **By 2025, these same five sharing economy sectors could make up half of overall sales with potential revenue of around $335bn.** We estimate that the UK's slice of this pie could be around £9bn.

Sharing economy sectors in the industry life-cycle



Illustrative revenue potential for traditional and sharing economy sectors



Revenue for all ten sectors: **US$ 255 billion**
Revenue for five sharing economy sectors: **US$15 billion**

Revenue for all ten sectors: **US$ 670 billion**
Revenue for five sharing economy sectors: **US$ 335 billion**

Source: PwC analysis. Note: Industries in the lifecycle of the Sharing Economy from left to right: Peer-to-peer lending and crowd-funding, online staffing, peer-to-peer accommodation, car sharing, music and video streaming, equipment rental, Bed&Breakfast and hostels, book rental, car rental, and DVD rental.

However, for the sharing economy to realise this potential, it will need to overcome significant barriers to growth

- So this trend poses big questions for established businesses trying to avoid disruption, new entrants looking to scale their offering and policy makers trying to regulate and manage the market.
- But there are a range of hurdles for the sharing economy to overcome before it can realise this potential:
  - New regulatory action makes sharing economy transactions illegal or costly to facilitate
  - Governments raise tax burden on sharing economy transactions
  - High-profile events raise significant safety concerns, triggering a loss of trust in the sector.
  - Unanticipated technological disruption (that leapfrogs sharing economy models)
  - As sharing economy platforms scale, they lose authenticity and differentiation over competitors
  - Potential for large-scale acquisitions that reduce investment and subsequent growth potential
- The decisions that actors make today will decide how far the sharing economy can overcome these barriers to live up to its initial hype. We've engaged a range of influencers in this space – from sharing start-ups to established businesses (see right) – to hear their insights on where the trend is heading – and what steps they are taking to respond.

"The sustainable Sharing Economy uses technology to reshape the world through transforming the need to own. It's a world in which our collective capability meets our collective needs, where we collaborate to enhance each others' lives, protect our planet and create wealth from which everybody benefits."
Benita Matofska, Chief Sharer, Compare and Share and global expert on the Sharing Economy

"We don't see retailers and manufacturers as competitors – we want to work with them. Buying new stuff isn't going to go away. So this is really about growing the base by sharing the same ecosystem"

Tom Chapman, CFO, +Swappow, February 2014

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

Veronique Laury, CEO of Castorama (part of the Kingfisher group), May 2014

We've learned that whatever your organisation looks like today; the sharing economy is too big an opportunity to miss out on, or too big a risk not to mitigate

- Organisation's response to the sharing will depend where they lie in the development cycle – from a disruptive new entrant to a traditional organisation. For **incumbents**, the immediate challenge is to **avoid being disrupted**. Most sectors have already been touched in some way by the sharing economy; but only a few may see a breakthrough sharing economy business emerge as a serious competitor. Where a consumption model has prevailed in a sector for many years, it is often most at risk from disruption. Streaming in the media sector dispelled the myth that ownership and rental models were the only ways to consume music or films. Retail businesses should assess the potential for sharing models pioneered by start-ups like *Peerby* and *Bag, Borrow and Steal* to do the same in their sector.

- Organisations should also assess the potential for consumers to club together in a **peer network** to replicate their value proposition. P2P networks are most likely to emerge where products and services that are widely distributed amongst the population, involve high fixed costs but low marginal costs and often go under-utilised. The automobile and accommodation sectors were the first sectors to see peer networks emerge: but this could spread to other sectors who hold similar characteristics. As energy supply becomes more distributed, customers could start to share excess electricity to their neighbours. In the communications sector, *Fon* already allows WiFi customers to share their connection with others in return for free access to other *Fon* hotspots around the world.

- Organisations should start the process of identifying the potential for disruption in their sector **today**. The music, TV – and more recently the hotels sector – didn't identify the challenge quickly enough, and value has been displaced whilst they waited. In contrast, the automobile industry spotted the trend early and got ahead of it: most car manufacturers now run their own car-sharing schemes; and others have made strategic investments in new entrants – such as *Avis* in *Zipcar* and *BMW* in *parkatmyhouse.*

- The next step is to develop a **mitigation strategy**. The right one will differ across organisations; whether that's acquiring a new entrant, partnering or investing in them; or differentiating products to continue to justify the existing pricing structure. There's also an opportunity for organisations to develop their own sharing economy concepts: and in this space, innovation often starts with imitation – for example, using a tried-and-tested approach in one industry in your own (such as developing "access" options alongside traditional sales channels) – or taking a C2C concept in to a B2C or B2B environment.

We believe the sharing economy demands a sharing organisation: one that monetises spare capacity – and improves business outcomes through sharing intangible assets

- Perhaps one of the most profitable routes for big organisations to engage in the sharing economy is to assess the potential for sharing within their **own asset base**.
- Tangible assets are an obvious place to start. Today's manufacturing facilities operate at an average of 20% below capacity but sharing platforms will allow these to move much closer to maximum efficiency. In the average office, half of the desks go unused. Most retail premises are closed for 15 hours. So the sharing economy opens up big opportunities for cost savings – and new revenue streams.
- Beyond the bricks and mortar, an exciting market is opening up to facilitate the **sharing of intangible assets** between businesses. An organisation's IP, brainpower and brand, now make up around 80% of global corporation's value but in many cases still goes under-utilised. These assets – which have previously been closed or proprietary – have suddenly become much **more liquid** through technology, and the potential impact of that goes well beyond saving cost. New innovations are rising at GE after it opened up its patent pool to Quirky, an online inventor community (see bottom-right).
- Today's talent demands flexibility and variety from their employers. Organisations should be considering "sharing" a larger portion of their talent base, be it with entrepreneurial activity, leisure – or even another company. Google is leading the field through its high-profile "20% time" initiative, which motivates employees to forget their job title and pursue their own business-enhancing ideas for a day a week.

Examples of innovative B2B sharing models

MERCK MedImmune

In 2012, Merck and Medimmune signed an agreement to share Medimmune's manufacturing facility. The deal provided long-term utilisation of excess capacity for Medimmune; whilst Merck received flexible and rapid access to capacity for the company's maturing biologics pipeline.

FareShare
fighting hunger, tackling food waste

Fareshare secures surplus food through its partnerships with the food industry , including leading supermarkets, to distribute this to hundreds of local charities across the UK; reducing waste and helping to feed thousands of vulnerable people every day

Quirky + GE

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

In order to scale sustainably, today's sharing economy disruptors will need to have a bigger voice in the regulatory and policy frameworks that are currently emerging

- For **new entrants pioneering** the sharing economy, the most immediate potential impediment to growth is regulation. The regulatory flash-points are everywhere. In New York, Airbnb is under investigation by the State Department for violating tax and health and safety codes. Uber's presence in London has been referred to the European Court of Justice, with the company already banned in seven US states alongside European cities like Brussels and Berlin.
- These examples highlight the imperative for sharing economy companies to open a **more conducive dialogue with policy makers and regulators**. There is little agreement between the sides arguing whether the growth of the sharing economy will result in a net benefit or cost on society. But each organisation operating in the sector can take responsibility for measuring its economic, fiscal, social and environmental impact in its communities in a much more credible manner. Currently, as few as one in five may be measuring their impact in this way. There are tools available to do that, including PwC's market-leading Total Impact Measurement and Management (TIMM) approach.
- Ultimately, we believe sharing economy companies will only be able to scale sustainably by **formalising their business models** within the regulatory, legal and tax framework. But this doesn't mean these frameworks don't need to be updated to be fit for a new age. Too often, regulations that are suitable to facilitate and coordinate B2B or B2C transactions, are not always applicable to the newly created C2C market. And, in general, there is a lack of tailored policy frameworks for regulating new sharing economy industries.
- The right balance of solutions need to be built from the bottom-up, where local authorities can more quickly trial and experiment with new models. And its easier to find these solutions when both sides work together – when Airbnb worked with Amsterdam's local council earlier this year, they developed a balanced set of rules for residents looking to rent out their spare rooms, allowing a limit of 2 months a year.
- Organisations born in the sharing economy are endowed with a **unique commitment to purpose** – their leaders talk about starting their businesses because they "needed this service to exist in the world". This passion to make a difference flows through them to define their whole organisation: BlaBlaCar's founders talk about their 125-person organisation "building a new transport network". As today's new entrants become as big as the traditional competitors they disrupt, they must work to keep sight of this differentiating factor – if possible , by codifying it in the values of their organisation

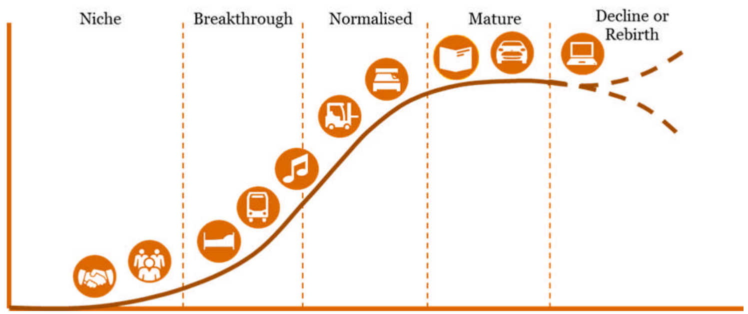
How did we got to our revenue projections? A more detailed methodology

1. Through a literature review, we identified five prominent sectors in the sharing economy. We then identified a comparator group of five sectors based on more traditional rental models

> ***New 'sharing' sectors:*** Car sharing; Online Staffing; Streaming (music and video); Crowd-funding and P2P lending and P2P accommodation
>
> ***Traditional 'rental' sectors:*** Car rental; Book rental; B&B and Hostels; DVD rental and Equipment rental

2. We collected a historic data series for revenues generated in these sectors by conducting a comprehensive review of existing market, sector and company sources.

3. We developed our projections based on an "S-curve", a frequent empirical observation of revenue patterns across sectors and product lines. We have identified 5 stages of growth (see below) and each stage implies different sector growth rates.



4. We use historical revenue growth data and subject-matter expertise to place each sector's general position on the curve.
5. We projected individual sector growth rates using its predicted path on the S-curve, triangulated against reliable existing sector forecasts (where these are available). We assume each sector is likely to move through roughly two stages of this model by 2025.

Please note that the projections above form an illustrative projection of the potential of five sharing economy sectors. We describe several challenges that could see revenue outturns considerably under-shoot this projection. Due to lack of available data on some sectors and countries, projections are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios and view the overall total figures as more reliable than individual industry results.

Contacts and services

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