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SIGNALS for strategists

Big companies now have a hand in the collaborative economy

THE term "collaborative economy" refers to the growing practice of consumers serving each other directly rather than being served by companies, and paying for the use of goods rather than owning them. Mobile, social, and geolocation technologies have propelled collaborative commerce well beyond the realm of bartering and tag sales to impact almost every consumer sector of the economy, from transportation to lodging to finance. Big brands are now starting to invest and partner to establish a foothold in the collaborative economy.

Signals

- Venture capital have firms invested more than $2 billion in over 500 collaborative economy ventures globally since 2012.[1]
- 40 percent of North American adults used a collaborative commerce service in 2013.[2]
- Airbnb arranged 6 million guest stays in individuals' homes in 2013.[3]
- Dozens of major brands and tech firms have joined a "brand council" to develop strategies for the collaborative economy.[4]
- The car-sharing market is projected to include 26 million users globally by 2020.[5]

Jeremiah Owyang, a business technology consultant and strategist, describes a business trip in which his transportation to and from the airport, his lodging, his meals, his office space, and even the capital he raises for his start-up, are provided by other individuals, not companies. The trip is hypothetical, but entirely realistic, thanks to the growth of what he and others call the "collaborative economy." In the collaborative economy, people increasingly get the goods and services they need from other individuals rather than from companies. And they often pay for using goods rather than owning them. This trend has been building for several years. What's new is that big companies are starting to invest in this concept to gain access to new sources of revenue and, in some cases, to thwart the risk of disintermediation and revenue loss.

Technology and societal factors are driving the collaborative economy

The main reasons consumers cite for participating in the collaborative economy are traditional: convenience, price, quality, and the uniqueness of the product or service.[6] This suggests that collaborative economy companies can compete directly with traditional businesses—by leveraging societal trends and empowering traditional sharing, borrowing, and swapping behaviors with new technology.

Near-universal high-speed Internet connectivity, coupled with search technology, allows individual buyers and sellers to find each other; processing payments on mobile devices is simpler than ever; geolocation technology, based on GPS and mobile devices, have made it easy to coordinate transportation and other services; and online reputation systems with post-transaction ratings, coupled with the "digitized social capital of Facebook or LinkedIn" (as one economist put it), help foster trust between buyer and seller.[7] At the same time, 3D printing is bringing new participants into the collaborative economy: digital artisans able to turn out custom goods manufactured on demand to precise specifications.

Societal forces are also propelling the collaborative economy. Urbanization increases population density, which raises the value of sharing and location-based services. Growing interest in environmental sustainability motivates some consumers to reduce their environmental impact by reusing and sharing goods rather than acquiring new possessions. A broader trend toward freelance employment[8] may also be finding expression in more fluid relationships to possessions, transportation, and even office space, all of which can be swapped, shared, or rented by the day or hour.

Momentum is building

While collaborative commerce services such as Craigslist or eBay have been in existence for nearly 20 years, the phenomenon has gained momentum as a new generation of start-ups have launched and grown rapidly. For instance, Airbnb, the service founded in 2007 that allows travelers to rent room in people's homes as an alternative to hotels, helped to arrange 6 million guest stays in 2013.[9] Ride-sharing service Uber, which has about 500 employees, plans to at least double the size of its staff this year.[10] About 40 percent of adults in North America have made use of some kind of collaborative commerce or online sharing service in the past year.[11] The rapid growth of these services has attracted significant investment. Venture capital firms have invested well over $2 billion in over 500 collaborative economy ventures globally since 2012 (and nearly $2 billion in over 300 deals in the United States alone).[12] There are now dozens of services offering new forms of access to goods, professional and personal services, transportation, office space and accommodations, and lending and start-up funding.[13]

Obstacles and risks abound

The collaborative economy has faced and will continue to face significant obstacles to its growth. The most significant of these is regulatory frameworks that can be unwelcoming. For example, the California Public Utilities Commission issued fines against the car-sharing services Lyft, Sidecar, and Uber for operating without proper insurance. (The companies appealed, and the city of San Francisco agreed to allow Lyft and Uber to continue operating while it devised new rules.)[14] The city of San Francisco is suing FlightCar on the grounds that it is operating illegally at San Francisco International Airport.[15] Apartment-sharing services such as Airbnb have run afoul of zoning regulations and other rules governing temporary rentals in which the property owner or occupier are not present. Existing health, safety, and liability regulations may not be well suited to the business models emerging in the collaborative economy. Tax authorities are pressing participants to pay taxes on income generated from these services, which some participants had not considered.[16] Operators are working through these challenges, but there will be more. Other obstacles include lack of trust between buyers and sellers and a proliferation of start-ups with similar offerings, not all of which can survive.

Big brands are taking action

Despite these obstacles, big brands are watching the rapid growth of the collaborative economy and are starting to take action. Over two dozen brands have joined Crowd Companies, the corporate peer network Owyang recently launched, with the goal of learning how to respond to the rise of the collaborative economy.[17] They include Home Depot, Hyatt, Nestle, Taco Bell, and Wells Fargo. These companies realize that the collaborative economy has the potential to transform every business function, including finance, product development, manufacturing, merchandising, marketing, and sales. Crowd Companies members also include companies such as Adobe and RadioShack, providers of technologies that empower product designers and developers to participate in the collaborative economy.

Big brands are also beginning to make strategic investments in this area. For instance, Avis paid around $500 million to acquire Zipcar, a car rental company with a collaborative economy ethos—favoring car access over car ownership and encouraging customers to name the cars in the company's fleet—and a business model enabled by mobile technologies.[18] GE invested $30 million in Quirky, a service that solicits product ideas from inventors and votes from ordinary consumers on which ideas they like best. Winning products are manufactured and sold by major retailers including Bed Bath and Beyond, The Home Depot, and Target.[19]

There are three principal ways that consumer brand companies are beginning to adapt their business models to the collaborative economy: tapping into the crowd, offering places and things as a service, and supporting reuse marketplaces.

Tapping into the crowd

Tapping into the crowd means working with unaffiliated individuals as if they were an extension of the company's staff. There are numerous ready-made marketplaces of talent and services that organizations can tap into. Some examples:

- Knowledge workers (for example, oDesk and freelancer.com; a previous issue of *Signals for Strategists* analyzed the emergence of knowledge work marketplaces)
- Personal and household services (for example, TaskRabbit and Angie's List)
- Drivers (for example, Uber and Lyft)
- Artisans (for example, Etsy and Shapeways)
- Inventors (for example, Quirky)

Examples of companies tapping into the crowd include the following:

- GE's investment in Quirky gives it access to a community of inventors that can help fill its product pipeline.
- Home Depot enlisted Uber as a freelance delivery service during the 2013 Christmas season to offer home delivery of Christmas trees to parts of New York City.[20]
- Walgreens partnered with TaskRabbit, a personal services marketplace, to offer home delivery of over-the-counter cold medicine in any of the 19 cities in which TaskRabbit operates.[21]
- Retailer West Elm is working with Etsy, an online marketplace where thousands of sellers offer artisanal goods such as jewelry and clothing. West Elm is merchandising groups of items from local Etsy sellers in its new stores.[22]

Offering places and things as a service

Implementing new, resource-efficient business models serves customers in new ways and reaches new market segments. Providing temporary use of goods or services is obviously not a new model. Consumers have been renting things such as cars and hotel rooms and purchasing services such as transportation and housecleaning for a long time. The collaborative economy is growing in part because digital technologies are enabling significant refinements of the as-a-service model that serve new use cases and new customer segments. For instance:

- **Renting cars and office space:** These goods and services can now readily be found quickly and rented by the hour via streamlined reservation, payment, and use processes.
- **Renting clothing:** Rent the Runway is one such service; it makes high-fashion women's clothing and accessories available for four- to eight-day rentals, offering a vast selection that dwarfs any offerings from the old tuxedo rental shop model.

The as-a-service model can enable brands to:

- Monetize idle or excess inventory
- Deepen relationships with customers by shifting from infrequent transactions to recurring interaction
- Serve new market segments
- Drive trials among prospective customers

Examples of companies that have implemented new as-a-service businesses include the carmakers Ford, Toyota, Volkswagen, Daimler, and BMW, which have all established car-sharing services, a market that is forecast to include 26 million users globally by 2020.[23] In the United States, where ownership has been declining,[24] carmakers see car sharing as a way of replacing lost revenue and building relationships with future buyers.

Supporting a reuse marketplace

Brands can support a marketplace to foster reuse of their or others' products. This model has also been in use for a while. An example is certified pre-owned programs of major automakers, which now account for 20 percent of franchised auto dealer used car sales.[25]

Supporting a use/reuse marketplace enables brands to:

- Serve new market segments
- Drive trial among prospective customers
- Create positive associations with the brand

New examples are emerging, facilitated by digital technologies:

- Patagonia and eBay launched an online marketplace to allow consumers to buy and sell used Patagonia clothing. Patagonia doesn't profit from the sales, but it does advance its mission of reducing resource consumption and makes its products available to buyers who might not be able to afford them otherwise.[26]

- IKEA organized an "online flea market" to help customers sell their second-hand IKEA furniture. This was a marketing tactic rather than a profit-making endeavor.[27]
- Citigroup invested $41 million to sponsor New York City's popular bicycle-sharing service, called Citi Bike in honor of its sponsor.[28]

The risks for brands

The collaborative economy presents risks to consumer brand companies—both to those that embrace it and those that ignore it. Companies that embrace it face execution, compliance, and brand risk. Companies without a collaborative economy strategy risk being disintermediated.

Product companies that implement an as-a-service model confront challenges in service design. They encounter organizational and operational challenges as they develop new sales and customer service channels. They may face channel conflict and cannibalization of product sales by product rentals. They will need to comply with regulations that cover service delivery. And they will need to manage the impact on their brands of any execution or regulatory failures, while ensuring that the service experience is aligned with the brand promise that covers their products.

Companies that tap into the crowd, rather than implement new as-a-service models, face other risks. Chief among them: Individuals not in companies' direct employ could have a significant impact on customers' experience and could create liability, compliance, or reputation problems if they do not properly follow procedures. For instance, West Elm stopped doing business with a maker of artisanal goods who was discovered to be copying the designs of another artisan supplier.[29]

For all the risks of wading into the collaborative economy, those who stay on the sidelines risk being disintermediated. With consumers increasingly getting what they need from each other, rather than from companies, brands risk diminished importance or irrelevance as the collaborative economy grows. One example of how a brand has reckoned with this threat is Wells Fargo's decision to forbid its employees from lending their own money through peer-to-peer loan platforms. The firm determined that "for-profit peer-to-peer lending is a competitive activity that poses a conflict of interest."[30] Companies will need to do more than turn their backs on this trend if they are to prosper.

Conclusion

Hundreds of start-up companies supported by billions of dollars in venture capital investment are shaping the collaborative economy. Incumbents across the consumer sectors of the economy face threats and opportunities. Traditional business models risk disruption by peer-to-peer alternatives. But big brands are also starting to perceive opportunities to diversify their revenue, build new relationships with customers, and monetize their assets more efficiently. Now is the time for corporate strategists, customer experience architects, research & development leaders, merchandisers, manufacturing executives, and supply chain and logistics professionals to take notice of the collaborative economy and consider its potential impact on their companies.

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