COLLABORATIVE ECONOMY: DEFINITION AND CHALLENGES
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1. **Definition**
   - Proposed definitions
   - Application
   - A definition: what for?

2. **Challenges**
   - For platforms
   - For customers
   - For providers
   - For governments
Definition.

A definition is a statement of the meaning of a word, phrase, concept, or other set of symbols. (1) Definition (noun) [1] Definition (noun) [2]
What are we talking about?
"Business models where activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services often provided by private individuals."

3 categories of actors

- **Service providers** who share assets, resources, time and/or skills — these can be private individuals offering services on an occasional basis (‘peers’) or service providers acting in their professional capacity ("professional services providers");
- **Users** of these;
- **Intermediaries** that connect — via an online platform — providers with users and that facilitate transactions between them (‘collaborative platforms’).

Collaborative economy transactions generally do not involve a change of ownership and can be carried out for profit or not-for-profit.”

**Source:** European Commission (2016)
Opinions

- **CEPS Task force Outline**
  - The [previous] definition (…), while helpful as a starting point, is outdated and needs revision."

- **PROSEco**
  - Platform Regulation and Operations in the Sharing Economy
    - 5-year Interdisciplinary research project (Economics, Law, Operations) at UCLouvain & UNamur
    - Overarching question: How can platforms in the sharing economy deliver long-lasting value for their stakeholders and for society as a whole?
    - 3 sub-questions: business models, rating & review systems, pricing policies
  - Our view: “It’s a pretty good definition.”
    - We came, independently, to a similar characterization (see next slides).
PROSEco view of the sharing collaborative economy

"Providers"
Individuals or small businesses that ‘supply’ goods and services

Platform
Potentially the same people

"Customers"
Individuals who ‘demand’ (buy, rent, consume) goods and services

Undertaking (for profit or not-for-profit) that facilitates the sharing (no transfer of ownership) of goods and services by …

- Matching the two sides
- Insuring coordination and trust among users
- Providing value-added services (search, ratings & reviews, payment, insurance, etc.)
Applying the definition
A definition: what for?

- Definitions serve a purpose
  - Different analyses (economic, legal, etc) require different definitions.

- **Here**: Economic analysis
  - Relevant questions
    - What sets digital platforms apart from other organizations?
    - What sets collaborative economy platforms apart from other digital platforms?
    - Implications for competition, for users’ welfare, for efficiency, for the environment, ... ?
  - Caveat
    - Business models are endogenously determined
      - Platform vs. integration?
      - For profit or not?
    - If definition too strict, impossible to analyse these decisions properly.
A definition: what for? (2)

- Economic viewpoint: 4 important features
  - Not specific to the collaborative economy
  - Specific issues seem of second order
    - Sharing (no transfer of ownership)
    - Potentially the same economic agents on both sides
    - Coordination and trust are even more crucial than on other platforms
The collaborative economy is a land of promises and of great perils.
- The most famous platforms are still struggling to make a profit.
- The failure rate of startups is higher than in other sectors.
- Also, many non-profit platforms fail to stay active.

Uber narrows loss but is a long way from finding profit

Deliveroo's sales rise to £277m but losses soar

Take Eat Easy files for bankruptcy

Insolvent bike-sharer Obike abandons bicycles throughout Europe
Investors are pouring money into food delivery in India

“...is that it may prove to be little more than a free gift “from pensioners in California to the Indian middle class”. And, for now at least, to the drivers.”

Uber Eats and Deliveroo riders to strike alongside McDonald's, Wetherspoons and TGI Fridays employees

Industrial action dubbed 'McStrike', aims to highlight 'poverty pay' and insecure working in UK hospitality industry
**PLATFORMS. Business model?**

**PIPELINE**
Value is created in a linear way with centrally employed staff and owned assets.

**PLATFORM**
Value is created by facilitating interactions between external providers and consumers.

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**Marriott plans to launch home-rental market platform that would compete with Airbnb, report says**

Published Mon, Apr 29 2019 11:53 AM EDT | Updated Mon, Apr 29 2019 12:05 PM EDT

Airbnb hires Jesse Stein as global head of real estate

Published 22nd January 2020

The move shows continued interest by Airbnb in direct real estate investment, eyeing up more traditional hotel and housing style properties.
PLATFORMS. Competition

- **Platforms vs. Incumbents**
  - So-called ‘Uberization’
  - Highly asymmetric competition
    - ≠ business models
      - But convergence (see previous slide)
    - ≠ cost structures, qualities of service
    - ≠ regulatory frameworks
      - Employment contracts, safety regulations, ...
  - **Regulatory challenges**
    - Level-playing field
    - Lobbying by incumbents
    - Regulatory obsolescence

- **Platforms vs. Platforms**
  - Potential tipping
    - Positive network effects, economies of scale, data-driven learning effects
    - But, differentiation and possibly negative network effects
  - Switching costs
    - Reputation scores can’t be ported
  - Good aspects of monopolies
    - Larger network effects
    - Interoperability, convenience
  - **Regulatory challenge**
    - Competition for the market by deep-pocketed platforms
PROVIDERS

Positive effects
- Entrepreneurship and innovation ↑
  - Platforms facilitate relatively low-risk micro-entrepreneurship
  - Potential to improve productive efficiency
- Additional source of revenues
  - But often comes at expense of existing (professional) providers.
- Regulatory challenges
  - Level-playing field
  - Cope with winners and losers

Negative effects
- Unclear status
  - Employee, dependent contractor?
- → Uncertainty regarding social protection
  - Health insurance, payroll deductions, or welfare benefits
- Risk of exclusion by platforms
- More discrimination (?)
- Regulatory challenge
  - Which status for workers in the ‘gig economy”, given platforms’ difficulties to turn a profit?
CUSTOMERS

Positive effects
- Lower prices
  - Mobilizing demand through reduced search and transaction costs
  - Platforms help consumers to choose products that best fit their needs
  - Platforms foster healthy competition between suppliers.
- Higher quality
  - Protecting consumers through increased reputation concerns
  - Reduced asymmetry of information between providers and customers

Negative effects
- Concerns regarding consumer protection
  - Safety, privacy
- Exclusion by platforms
- Potential abuse by other users
- Regulatory challenge
  - How to combine platforms’ self-regulation mechanisms with sectoral regulation to ensure the protection of customers?
GOVERNMENTS

- **Risk of over-regulating the ‘collaborative’ transactions**
  - Example of *Menu Next Door*: burdensome obligations for food sector of FAVV/AFSCA (food security) not adapted
  - Other constraints from: data protection, liability, accountancy, labour law, etc.?

- **Risk of under-regulating the global profit-driven companies**
  - Example of *Uber* claiming to be just an information society provider to escape liability and obligations (but CJEU, Uber Elite)

*Source: Strowel (2019). Online Platforms: To Regulate or Not To Regulate?*
GOVERNMENTS (2)

- Fiscal issues
  - Many platforms operate worldwide
    - And pay little corporate taxes in the countries in which they operate
  - Many providers produce in their spare time
    - Without labour contract
    - ... and sometimes without (direct) monetary compensation
  - Tax incidence on two-sided platforms is complex.

**Regulatory challenge**
How to design a fair taxing scheme for the collaborative economy?
Externalities

- Positive
  - Mobilization of underused resources,
  - Innovative business models
- Unclear
  - Shifts in asset markets (modified incentives to purchase manufactured goods)
- Negative

Regulatory challenge
How to take advantage of positive externalities while minimizing the harm of negative externalities?

Airbnb and the so-called sharing economy is hollowing out our cities

Are Uber and Lyft helping or hurting the environment?

Berkeley researchers will get unprecedented access to data from both companies and riders to analyze if on-demand ride services are climate friends or foes

The plight of Barcelona shows the damage Airbnb can do, exacerbating urban inequality and freezing out young locals
Thank you for your attention

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