

Hot Topics in Corporate Responsibility

The Sharing Economy: Exploring New Business Models for Sustainability by Adiva Kalms



Foreword

This latest Doughty Centre for Corporate Responsibility Hot Topic started life as an MBA student assignment for a sustainability assignment. The day I was reading the assignments, by coincidental symmetry, the front page headline in the London Evening Standard read "Spare rooms to let revolution."

The accompanying story was about deregulation specifically to encourage the Sharing Economy. So the issue is certainly topical. What makes it also hot is whether the sharing economy can also be part of creating sustainable prosperity for all. Sharing Economy has the potential to be part of the much bigger game-changing Circular Economy.

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This article has been written in a personal capacity and all views expressed are the writers own.

Executive Summary

As resource scarcity becomes an ever closer reality and the world population is set to hit nine billion by 2050, new ways in which to decouple growth from the rate of consumption of natural resources need to be found. Enabled by new technologies, the sharing economy is offering an avenue for alternative business models that can be adopted and scaled across new sectors and markets.

Public interest in the sharing economy has grown significantly especially as the large scale success of businesses like Uber, Airbnb and Zipcar begin to gain significant financial rewards. As with all disruptive models, they begin on the outskirts, too small for big business to notice, until before long they are shaking entire markets.

This report explores the advent of the sharing economy, the companies that partake in it and showcases some of the businesses that are exploiting it in order to drive forward their sustainability agenda. In order to take advantage of these new emerging business models companies must begin to challenge their concept of value creation and explore how they can bridge their strategy, new technology and existing operations. For companies to succeed, strong leadership and a new mindset amongst the executive team will be required.

To harness the growth of this new 'market' there is a crucial role for governments across the world too. A number of initiatives and key activities are explored in order to nurture these new business models and equally discover

opportunities to generate income for public coffers. These include: reviewing planning and land rights; taxation; insurance and licensing and certification.

Whilst sustainability is not necessarily the driving force behind the sharing economy, firms seeking to enhance this agenda and indeed build their business for the long term, should look very carefully at these new business models that are reshaping our understanding of consumption from having more ‘things’ towards greater customer requirement for access as a route to value creation.

Introduction

The prevailing business models, reliant on a seemingly abundant supply of resources, are simply untenable for the foreseeable future.¹ The “linear” approach of businesses satisfying demand based on principles of ‘take, make, waste’ has been highly successful over the last decades with companies succeeding in becoming ever more efficient in their operations. Yet, as we begin to see huge demographic shifts with the planet reaching nine billion people in 2050 and rising affluence, demand pressures will surpass supply resulting in significant strain on the planet’s resources, the effects of which we are already witnessing². This means supply disruptions and price volatility for companies reliant on natural resources, not to mention reputational risk associated with environmental degradation.

The circular economy is being advocated by many³ as a means of decoupling growth from the use of scarce resources and looking again at the entire business model to concentrate on longevity, becoming increasingly involved in the use and disposal of products, and redefining the customer as a user as opposed to a consumer.

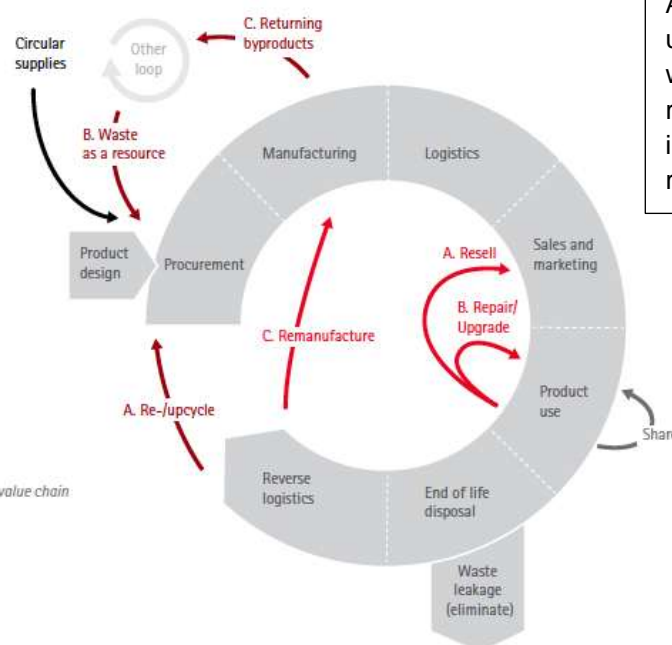
For the purpose of this paper, the area that is of particular interest is the concept of the ‘collaborative economy’ or the ‘sharing economy’ (used interchangeably) – one of the outlets for beginning to work towards a circular business model [See Diagram below]. In their Circular Advantage paper, Accenture refer to this as: “*Liquid markets* where products and assets are optimally utilized by becoming easily accessible and convertible between users (e.g. sharing/trading idle product and asset capacity).”⁴

Five circular business models

Business Models

- **Circular Supplies:** Provide renewable energy, bio based- or fully recyclable input material to replace single-lifecycle inputs
- **Resource Recovery:** Recover useful resources/energy out of disposed products or by-products
- **Product Life Extension:** Extend working lifecycle of products and components by repairing, upgrading and reselling
- **Sharing Platforms:** Enable increased utilization rate of products by making possible shared use/access/ownership
- **Product as a Service:** Offer product access and retain ownership to internalise benefits of circular resource productivity

* Can be applied to product flows in any part of the value chain



Accenture identified five underlying business models with companies looking at resource productivity and innovative models for resource reduction.

Source: Accenture, *Circular Advantage: Innovative Business Models and Technologies to Create Value without Limits to Growth*, 2014

¹ Accenture, *Circular Advantage: Innovative Business Models and Technologies to Create Value without Limits to Growth*, 2014

² Intergovernmental Panel on Climate Change, “Climate Change 2014: Impacts, Adaptations and Vulnerability”, October 2014

³ Ellen MacArthur Foundation, Accenture and others.

⁴ Accenture, *Circular Advantage: Innovative Business Models and Technologies to Create Value without Limits to Growth*, 2014

The principle of sharing has always formed the core of human relationships. We know from evolutionary psychology that human beings are innately predisposed to cooperation and sharing.⁵ Ebay was the first business to really show the power of sharing on a mass scale. Since the success of big name brands such as Uber and Airbnb in the last decade, the spotlight has been on the potential of this marketplace and the disruption that it is causing in industries such as hospitality and transport.

The UK government itself published a report on the 26 November 2014 looking at how the UK can benefit from the sharing economy, seeing it as an opportunity to unlock a new generation of *microentrepreneurs*.⁶

As Rachel Botsman and Roo Rogers' book *What's Mine Is Yours: How Collaborative Consumption is Changing the Way We Live*⁷ argues, there is an emergence of a 'new economic paradigm' which they term collaborative consumption. The real shift change was the advent of technology. NESTA's most recent definition of the collaborative economy suggests it is:

"The resurgence of traditional methods of consumption, production and service delivery across all industries, supercharged through collaborative technologies to shift power away from centralized institutions and towards more distributed and empowered networks, communities and individuals".⁸

The sharing economy has a number of key traits:⁹

1. Facilitated by online technology
2. Connecting networks of people and /or assets
3. Utilizing idle capacity of assets (tangible and intangible)
4. Promoting interactions and trust amongst people
5. Harnessing openness, inclusivity and the commons

Effectively, the sharing economy is about connecting spare capacity and assets with demand. PWC estimate that this will form an increasingly accepted feature of the business landscape with significant revenue opportunities for those partaking.¹⁰ It is estimated that total revenues for the sector could top £9bn – this year and set to rise to a massive £230bn by 2025 globally.¹¹

This report is designed to explore this emerging market looking through a sustainability lens at companies that have been successful to date in their implementation and the ways in which these successes might be translated to businesses exploring innovative ways to reduce waste, increase product usage and integrate new systems into their sustainability agenda.

Exploring a new business model – examples from the field

Understanding who is taking advantage of this model is a challenge in itself. As stated by Emma Clarence, Principal Researcher Social Innovation NESTA, in a recent interview for this paper: "This is a very young, new and nebulous area where boundaries are amorphous".¹² Defining who is in and out is difficult, especially as there is no shared sense of identity by the people operating in the same space. There is greater clarity in the hospitality (accommodation) and transportation sectors but, as new and emerging economies begin to exhibit characteristics, new learning is constantly being developed.

The sharing economy has created markets out of things that simply would not have been seen as monetizable before. A spare driveway can now become an income source through JustPark. On Zaarly you can create your own store, marketing your services which can be anything from a home-made pie to roofing. SnapGoods, means the drill lying in your garage can now become a day income source from someone needing to quickly put up a painting.

⁵ Julie Verity, *Evolutionary Psychology: its contribution to management thinking - A working Paper*, 2005

⁶ Debbie Woskow, Unlocking the sharing economy - An independent review, Department for Business Innovation and Skills, November 2014

⁷ Rachel Botsman and Roo Rogers, *What's Mine Is Yours: How Collaborative Consumption is Changing the Way We Live*, 2010

⁸ <http://www.nesta.org.uk/blog/defining-collaborative-economy-how-do-we-do-it-and-why>

⁹ <http://www.nesta.org.uk/blog/defining-collaborative-economy-how-do-we-do-it-and-why>

¹⁰ <http://www.pwc.co.uk/issues/megatrends/collisions/megatrends-the-collisions.html>

¹¹ http://pwc.blogs.com/press_room/2014/08/five-key-sharing-economy-sectors-could-generate-9-billion-of-uk-revenues-by-2025.html

¹² Emma is a Principal Researcher on Social Innovation in Nesta's Policy and Research unit. She joined Nesta in April 2014 and is working on areas including the collaborative economy and social action.

What we are seeing in the transportation system is an adaptation of a model - effectively short-term rentals. Zipcar, recently acquired by Avis, allows drivers to rent their car by the hour with members being able to unlock thousands of cars on demand through the Zipcar app. To counter this, Hertz has itself set up a short-term rental service in house. The key difference being that Zipcar is a 'club' you are part of, whilst Hertz is effectively a hire-by-the-hour model.

In the hospitality sector, what Airbnb have managed to do is to shake up the whole hotel industry. We are witnessing the process of Creative Destruction, as termed by economist Joseph Schumpeter. New market places are being formed and as such an evolution of economies is taking place facilitated by the advent of technological advancement. *"Initially, a disruptive innovation is formed in a niche market that may appear unattractive or inconsequential to industry incumbents, but eventually the new product or idea completely redefines the industry".*¹³

Opportunities for disruption in the collaborative economy are being leveraged by vulnerability in existing business models: redundancy, broken trust, limited access, waste and complexity.

Firms can counter disruption and create value by being direct and open, advocate for empowerment, prioritize efficiency and opt for simplicity. By looking at these areas companies can identify where they are more likely to face disruption and where they can disrupt themselves to create a new market.¹⁴

This is exactly what Marriott Hotels did. Recognizing their assets, mainly conference rooms, were being underutilized they decided to partner with LiquidSpace to offer on-demand shared work spaces in under-used locations in their hotels.

Vodafone are equally embracing this new opportunity through their Vodafone Service Friends programme, which was recently launched in Germany in partnership with start-up Mila.com. The aim is to connect those needing technology support with young tech-savvy Germans who can do anything from setting up your iPhone to connecting up your home entertainment system.¹⁵ This is about enhancing customer service and ensuring that clients are able to get what they need when they need it, regardless of whether the entire entertainment system is Vodafone branded or not. Of course there are reputational risks associated in endorsing freelancers from a quality perspective and therefore building the right partnerships is vital to guarantee, as far as possible, quality assurance. What is clear is that standing still is a greater risk.

Business can play a pivotal role in evolving and scaling new business models. This may occur through acquisition, mutually beneficial partnerships, or adopting new ideas within an industry. Partnerships, impact investing and innovation platforms are also ways in which innovations are being developed, leveraged and proliferated.

According to the consulting firm SustainAbility, whilst smaller companies often lead the way in business model innovation, bigger companies play an important role in helping to enhance the impact of the most important innovations, especially from a sustainability perspective.¹⁶

Innovating for sustainability

What we are witnessing with these new business models is an offering that places the consumer at the heart of the experience, giving them more choice, tools, information and power over their decisions. Efficiency is at the core of the operation; this boosts the bottom line and equally lowers the pressure on natural resources, thereby providing better social, economic and environmental impacts.¹⁷

The driver for businesses to engage in this new model is that closer, direct and longer-term relationships are being created with customers. With longer-term contracts, repair or replace options, the incentive is therefore to produce

¹³ <http://www.christenseninstitute.org/key-concepts/disruptive-innovation-2/#sthash.d1QYk8Rz.dpuf>

¹⁴ Rachel Botsman, *Sharing's Not Just for Start Up's: What Marriott, GE and other traditional companies are learning about the collaborative economy*, Harvard Business Review, September 2014

¹⁵ <http://www.dw.de/vodafone-service-friends-offer-custom-tech-support/a-18043701>

¹⁶ SustainAbility, *New Business Models*

¹⁷ Felix Preston, *A Global Redesign? Shaping the Circular Economy*, Energy, Chatham House, March 2012

more reliable, durable and repairable goods looping back to the advocates of the circular economy or closed loop business models.

It is important to note that, for many, sustainability is not a driver. This is a market opportunity to be exploited. As stated by Mike Barry, Director of Sustainable Business, Marks and Spencer:

*“New Business Models are not popping up because they’re a grand design for sustainability, they’re popping up because they’re better for the consumer. The reasons that AirBnB, that Zipcar, have emerged and are doing so well is because they deliver something consumers want. Oh and by the way, is more sustainable.”*¹⁸

In order to begin to see the value in these new business models, it is important to break down what we mean by consumption. Is it about consuming more ‘things’ or is it about consuming value? Are we shifting from product to service models and therefore do we need to begin to focus on more durable goods? Addressing these fundamental questions is where we begin to see greater synergy with the sustainable consumption agenda.¹⁹ This is equally the trend which business schools, such as Cranfield School of Management, are advocating the direction the market is heading. Key Account Management lecturers are strong campaigners of the need for value-creation in the sales relationship process for example, moving towards ever increasing collaboration, partnership and joint working.²⁰

We are seeing many examples of businesses taking advantage of these new business models in order to directly drive their SEE agendas.

Categorized as a *Dematerialization innovation*²¹ by the NGO WWF, Kingfisher is an exciting example of how a large corporation is adopting sharing economy practices to design a scalable solution that can significantly cut the use of natural resources it consumes.²²

In 2011 Kingfisher announced it would explore new business models, for sustainability through models of collaborative consumption. The firm launched StreetClub in 2012 – an initiative allowing communities to form local community groups, whilst it’s French brand Castorama rolled out Les Troc’heures – a skills sharing website.

The initiatives are being tested out to see if there a profit making opportunities and sit within the context of Kingfisher’s Net Positive Plan, released October 2012. The company is working with the Ellen MacArthur Foundation as part of a broader shift change towards a circular model, decoupling consumption from ownership and exploring new ways of value creation and our relationship with products.

Kyocera is another big business that has adapted its business from selling printers to offering pay-per-print managed document solutions. As stated by the head of CSR, Tracey Rawling Church, “The product to service shift represents a genuine opportunity for businesses to consider adjustments to their business model that could enable them to increase market share, expand into related markets and create economically and environmentally sustainable revenue streams.”²³

Lessons on implementation

Two key barriers to a leasing model that have been identified by Kingfisher are culture and systems. B&Q is yet to overcome the system challenges required to adopt a leasing model – primarily IT and finance processes. The firm is

¹⁸ <http://www.thecrowd.me/sites/default/files/NewBusinessModels.pdf>

¹⁹ <http://reports.weforum.org/global-agenda-council-2012/councils/sustainable-consumption/>

²⁰ Cranfield School of Management, Key Account Management Lectures September – November 2014.

²¹ “Dematerialisation is the process by which businesses decrease their dependency on continual resource supply by embracing models based on sharing, collaboration and services. This category of strategic innovations is characterised by large firms moving away from traditional ownership models. At the macro level such business models reduce demand for individual products without reducing the utility provided to end-users. This reduces the strain on natural resources”

²² http://assets.wwf.org.uk/downloads/1121_1_wwf_greengamechange_aw_web_2_.pdf?ga=1.74851538.1360122817.1413116224

²³ <http://www.forumforthefuture.org/blog/opportunities-%E2%80%98sharing-economy%E2%80%99>

learning from its pilot initiatives. Based on their rental equipment experience they have decided not to subcontract services but to keep them in house, ensuring high levels of customer service.²⁴

In order to take advantage of these innovations, businesses need to begin to build a strategy that allows for adoption of innovation. Reviewing the opinions and experiences of 218 people, the Wisdom of the Crowd pulled together three building blocks needed to integrate a strategy for implementation.²⁵

1) Understand your current business model

Too often businesses can't leverage new opportunities because they don't understand their core competencies or interconnections well enough. Furthermore, there is a need to re-think the purpose of your business. Unilever. and Danone are redefining themselves as nutrition companies rather than food companies. This is about value creation – what is your *purpose* beyond the core product you produce?²⁶

2) Change the way you think

Understand that assets are underutilized and design products that fit emerging business models geared towards robustness and long-term usage. Explore new markets through which to test out your ideas, such as in emerging markets where incumbents have less momentum.

3) Get yourself out there

Build exposure to these new business models. Resource for disruptive innovation and embed breakthrough ambition in your culture. Use management structures to protect and nurture breakthrough innovations. This might require separate dedicated teams with a different mindset to work on innovations; building partnerships with new organizations or even buying up new start-ups.

Additionally, I would advocate the need for strong and compelling leadership. If greater numbers of businesses begin to adopt these new business models, consistently exploring greater ways of optimizing efficiency of resources and moving away from unsustainable sources, we will begin to see a serious shift towards greater sustainability where the emphasis is on value, performance and quality over quantity and short-termism. To achieve this, strong leadership is required in order to see through the significant challenges of cultural shift, business redesign, new ways of working and potential short-term financial losses as the system is implemented.

Creating an enabling environment for the sharing economy to succeed

As the positive social, environmental and economic aspects of the sharing economy become more evident, there is a need to both create an environment that harnesses the innovation as well as to establish new regulations to manage it.

The UK government's recent report (published in November 2014) sets out a whole array of recommendations to explore how to nurture the sharing economy in the country. Top amongst these are:²⁷

- Fostering innovation through an Innovation Lab for the sharing economy acting as an incubator and research centre.
- Increasing trust by opening up verifications systems currently in use by the government
- Government operations should be actively engaged in the sharing economy. For example, procurement options should be more accommodating to sharing platforms
- Continue existing digital inclusion efforts
- Establish a kitemark for responsible sharing

²⁴ http://assets.wwf.org.uk/downloads/1121_1_wwf_greengamechange_aw_web_2_.pdf?ga=1.74851538.1360122817.1413116224

²⁵ *The Wisdom of the Crowd: New Business Models - Leading experts share their views on the emerging generation of more sustainable business models*, The Crowd and Fishburn, January 2014 www.thecrowd.me/sites/default/files/NewBusinessModels.pdf

²⁶ Professor David Grayson CBE, Melody McLaren, Nadine Exter, Charlotte Turner, *Combining Profit and Purpose: A new dialogue on the role of business in society* October 2014, http://www.cokecce.com/system/file_resources/210/W21883_TL_Report_A4_FINAL.pdf

²⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378291/bis-14-1227-unlocking-the-sharing-economy-an-independent-review.pdf

Cities across the world are exploring how they can exploit and create revenue streams from these new platforms, as well as benefit their citizens, under tighter public purse strings. The Shareable Cities Resolution, signed by 15 United States mayors, or Seoul's Sharing City agenda are but two examples. The sharing economy can offer those in our society with few income opportunities to generate funds for themselves and begin to pump money into local communities. In contrast, some cities, e.g. Brussels, are litigating against companies such as Uber operating in their cities; also we are seeing mounting pressure from regulators to cap the activity of these start-ups. Equally many simply haven't found a way to manage these new entities.²⁸

Where it comes to legislation there are numerous areas that can be explored. The key is to know whether and which existing policies and regulations are insufficient, unsuitable, non-existent, or anachronistic.

The responses can range from new policies drawn up; building upon or expanding existing policies; offering exemptions, relying on self-regulation, collective self-regulating mechanisms, or combinations of the above.

Areas to be explored include:²⁹

1) Planning regulations

Where currently, particular types of land are reserved for specific usage, under the collaborative economy multiple purposes can be leveraged and therefore a review of planning permissions and processes is needed.

2) Insurance

A key driver for participation in the collaborative economy is trust and safety. Insurance is a key area that needs to be reviewed in order to explore how new demands can be met where asset ownership models are shifting. A whole area of risk management solutions and innovative tools should be explored.

3) Licensing and certification

Where the sharing economy allows for a blurring between personal and commercial, the issue of licensing and certification, as for taxis for example, needs to be opened up. This is where monetization for the public sector can come from.

4) Taxation

Within the sharing economy the issues of taxation are complex. The blurring between personal, ad hoc or one-off activity to professional or commercial is difficult. Beginning to unfold this will start to address activities that are indeed taxable. What is clear is that where they are taxable, the system needs to be easy and accessible for people to interact with it.

Conclusion

The advent of the sharing economy is delivering a paradigm shift and an opportunity for businesses to think now about how they will operate in a resource-constrained world. Facilitated by the collision of four main megatrends: technological breakthroughs, climate change and resource scarcity, rapid urbanisation, and demographic growth, the sharing economy has become a key agenda item for many of those rethinking how our cities operate and how businesses can and should be run.

Rethinking consumption as value-creation is one such mind shift and the sharing economy offers some innovative ways of running a business. From a sustainability angle this is but a part of the solution. Companies will need to look afresh at their entire supply chains in order to create significant impact on a macro level.

What is clear from the emergence of these new models is that they are driven by market forces - this is about ensuring greater experience for the end user. Efficiency happens to be at the core of their operation, and that in turn is good for the sustainability agenda. We need to see more companies, like Kingfisher and others, experimenting with

²⁸ <http://www.economist.com/news/leaders/21601257-too-many-obstacles-are-being-placed-path-people-renting-things-each-other-remove>

²⁹ NESTA, *Making sense of the UK Collaborative Economy*

these new business models both to explore profit but equally with a sustainability driver at the heart of their motivations - looking at driving positive impact through growth rather than simply doing less harm.

The sharing economy is but one part of the solution and an entire system change as advocated by the proponents of the circular economy will be required to really begin to change our relationship with products. The more we can begin to see doing business as usual with a sustainability lens the better it could be for business, consumers and our planet too.

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