

# Platforms and the Sharing Economy

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# Key Takeaways

Platforms and the sharing economy are central to modern business strategies and the evolution of contemporary economic systems.

## **Definition & Characteristics:**

**Platforms:** Digital or physical infrastructures that facilitate interactions between two or more user groups (e.g., producers and consumers). Examples include Airbnb, Uber, and Facebook.

**Sharing Economy:** An economic model that leverages technology to share access to goods or services among a community of users. This often reduces costs and increases utilization of assets.

## **Network Effects:**

Platforms often benefit from positive network effects, where the value of the platform increases as more users join. This creates strong barriers to entry for competitors but also makes getting initial traction very important.

## **Winner-Takes-All Dynamics:**

Many platform businesses tend toward monopolistic or oligopolistic structures because of the power of network effects. Once a platform reaches critical mass, it becomes challenging for competitors to challenge its dominance.

## **Importance of Trust:**

Trust is foundational in the sharing economy. Platforms invest heavily in building and maintaining trust, often through ratings, reviews, and verifications.

## **Regulation & Compliance:**

Many sharing economy platforms face regulatory challenges, especially in industries that have traditionally been highly regulated (e.g., transportation, housing). Understanding how to navigate these regulations is crucial.

### **Value Creation & Capture:**

Platforms are intermediaries that create value by reducing transaction costs, improving match quality, and fostering trust. They capture value by monetizing these interactions, often through fees, advertising, or data.

### **Data & Analytics:**

Platforms generate vast amounts of data. Leveraging this data for improved user experiences, efficient matching, and dynamic pricing can be a key competitive advantage.

### **Innovation & Agility:**

The fast pace of technological change means that platforms must continuously innovate. They also need to be agile in adapting to user needs, regulatory changes, and competitive threats.

### **Multi-Sided Markets:**

Understanding the nuances of balancing the needs and desires of multiple user groups on a platform (e.g., drivers and riders on Uber) is vital for platform success.

### **Global vs. Local Strategies:**

Platforms need to decide on scaling strategies: do they adapt their model for local markets or pursue a global one-size-fits-all approach?

### **Externalities and Social Impacts:**

Platforms can have significant societal impacts, both positive (increased accessibility, more efficient resource use) and negative (potential job displacement, increased inequality). MBA students should be attuned to these broader implications.

### **Business Model Adaptability:**

The success of platform-based businesses often requires iterating on the business model, based on user feedback, market dynamics, and emerging technologies.

# Case Study: AirBNB

## Background and Development:

- **Founded in 2008** by Brian Chesky, Joe Gebbia, and Nathan Blecharczyk, Airbnb started as a simple idea to rent out air mattresses in a living room to offset high rent costs in San Francisco.
- **Rapid Expansion:** The platform quickly expanded, offering rental listings worldwide. It transformed from a small-scale idea into a global enterprise, challenging traditional hotel and lodging industries.

## Economic and Social Impact:

- **Market Disruption:** Airbnb disrupted the traditional hotel industry by offering diverse, often cheaper accommodation options. This led to increased competition, forcing traditional hotels to innovate and reconsider pricing strategies.
- **Income Opportunities for Hosts:** Many property owners and tenants found a new source of income by listing their spaces on Airbnb. This has been especially beneficial in cities with high tourism demand.
- **Community Tourism Growth:** Airbnb contributed to the growth of community-based tourism, where travelers seek more local and authentic experiences, often preferring to stay in neighborhoods rather than tourist-centric areas.
- **Regulatory Challenges:** The rapid growth of Airbnb led to regulatory challenges in various cities. Issues like taxation, zoning laws, and housing shortages became prominent, leading to the implementation of new policies and regulations in some areas.
- **Impact on Housing Markets:** In some cities, Airbnb has been criticized for contributing to housing shortages and rising rental prices, as landlords prefer short-term vacation rentals over long-term tenancies.
- **Cultural Exchange and Social Connections:** The platform has enabled cultural exchanges and social connections that transcend traditional tourism experiences, allowing guests to live like locals.

# Case Study: UBER

## Background and Development:

- **Founding:** Uber was founded in 2009 by Garrett Camp and Travis Kalanick in San Francisco. It began as a luxury car service before evolving into a ride-sharing app.
- **Global Expansion:** Uber expanded rapidly, operating in hundreds of cities worldwide. Its app-based platform connected drivers with passengers, making transportation more accessible and often more affordable than traditional taxi services.

## Economic and Social Impact:

- **Disruption of the Taxi Industry:** Uber's biggest impact has been the disruption of the traditional taxi industry. Its lower prices, convenience, and user-friendly app attracted a large user base, challenging the established taxi services.
- **Employment Model:** Uber popularized the gig economy model, where drivers work as independent contractors rather than employees. This model offers flexibility but has also raised concerns regarding job security, benefits, and workers' rights.
- **Regulatory Challenges:** Uber's rapid growth led to numerous legal and regulatory challenges. Governments and cities around the world grappled with how to regulate ride-sharing services, leading to bans, restrictions, or new regulations in some areas.
- **Urban Transportation Landscape:** Uber has impacted how people navigate cities. Its services have been linked to a decrease in DUI incidents in some areas and have provided transportation options in underserved or poorly connected regions.
- **Surge Pricing Model:** Uber introduced dynamic surge pricing, which adjusts fares based on real-time demand. While this can lead to higher prices during peak times, it also incentivizes more drivers to be available when needed.

# Further Reading

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