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Competition Mechanisms in the Sharing Economy

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The article is based on the results of the statutory study "Competition mechanisms in the 21st century", conducted under the supervision of Professor Jerzy Pietrewicz. The study was conducted by the author in 2018 at the Collegium of Business Administration of the Warsaw School of Economics. The purpose of this article was to identify the competition mechanisms utilized by the leading online platforms operating within the sharing economy based on a number of case studies (20 cases).

In recent years, the sharing economy has experienced rapid growth around the globe in terms of the number of participants and transactions, as well as profits. This has become possible due to the proliferation of the internet across the globe (Ericsson, 2015). The total value of transactions conducted in 2015 by EU member states ('EU') via online platforms in the main sectors of the sharing economy exceeded EUR 28 billion (European Parliament, 2017a).

Many experts, including Botsman and Rogers (2010), Allen and Berg (2014) and Sundararajan (2016), as well as institutions such as the European Parliament (2017b) and the European Commission (EC, 2016), claim that the sharing economy offers new possibilities in terms of: 1) growing entrepreneurship, 2) reducing operating costs, 3) creating new jobs, 4) increasing the effectiveness of economic systems, 5) more optimal resource and asset allocation, 6) increasing the competitiveness of many sectors of the economy, and 7) contributing to consumer prosperity. It is also important to note that, according to the European Parliament (2017b), the sharing economy is beneficial to EU society, even despite the challenges it poses to many traditional economic models. On the other hand, experts such as Slee (2015) and Toroń and Wiese (2017) note that the largest online platforms, such as UberX and Airbnb,¹ operate outside local and domestic legal frameworks.

Moreover, the relevant literature poses questions regarding the economic and social implications of the sharing economy (Pietrewicz and Sobiecki, 2017, pp. 11–12) and the possibility of a paradigm shift from market capitalism to collaborative commons (Rifkin, 2016, pp. 9–35). In order to answer the above questions it is first necessary to determine the competition mechanisms utilized in the sharing economy. The purpose of this article was to identify the competition mechanisms utilized by online platforms operating within the sharing economy. Case studies were conducted for 20 leading online platforms operating in the main sectors of the sharing economy (e.g. transportation, tourism, finance, catering, education, leisure, animal care), which rendered it possible to identify five different competition mechanisms, ranging from aggressive, profit and advantage-oriented competitive pricing to pro-social, non-price competition based on non-profit activities, as well as acquiring a social and epistemic advantage.²

The essence of the sharing economy

The sharing economy became the center of attention between 2011 and 2012 due to the success of two online platforms: Uber and Airbnb (Martin, 2016). The dynamic growth of the sharing economy which has taken place in the last 10 years, experts claim, has been caused by a change in the attitudes of consumers: 1) from the need to possess assets to the need to access them (Pietrewicz and Sobiecki, 2017), 2) from preferring full-time employment to flexible forms of work (Woskowiak, 2014), 3) from private consumption to sharing what we possess with others (Belk, 2007), 4) from polluting the environment to reducing our environmental footprint (Schor, 2014), and 5) from extensive economic growth to sustained development (Heinrichs, 2013). Moreover, the neoclassical

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¹ The relevant literature is divided on whether UberX and Airbnb are part of the sharing economy (see also Slee, 2015; Meelen and Frenken, 2015; Sundararajan, 2016).

² The study of the competition methods used by online platforms utilized a methodology as presented in Konecki, 2018; Corbin and Strauss, 1990; Glaser and Strauss, 1967.

economic theory of sharing uses the example of club goods to emphasize that the sharing of private goods ceases the moment the costs of sharing such goods with another person exceed the benefits of sharing these costs (Buchanan, 1965, p. 5).

It is worth noting that the first attempt at defining the term *sharing economy* was made by Lessig (2008), who claimed that it constituted consumption via sharing, exchanging and lending one's own resources without transferring ownership rights. Botsman (2015) notes that the sharing economy should be understood to only encompass online platforms with clear values, operating based on transparent rules, which value and respect their users and offer them access to assets, not ownership of them, under more beneficial conditions compared to the traditional model. Frenken and Schor (2017) emphasize that the key aspect of the sharing economy is the less risky use of unallocated resources via sharing with strangers who can be rated.

The relevant literature (Slee, 2015; Einav, Faronato and Levin, 2015; Sundararajan, 2016) lists the following features shared by online platforms in the sharing economy, including Airbnb, UberX, EatWith, TaskRabbit and Getaround: 1) the ability to create new markets and challenge the leaders of the traditional economy, e.g. UberX challenging taxi corporations; 2) operating on two-sided markets, e.g. Airbnb is successful due to attracting a large number of both hosts (i.e. service providers) and guests, i.e. service beneficiaries; 3) utilizing network effects – e.g. dog owners (service beneficiaries) using Rover benefit from the increasing number of new dog walkers (service providers); 4) reaching users with the use of digital technologies, e.g. Getaround uses an application to find and open unused cars in the area; 5) use of mechanisms which match transaction parties, e.g. BlaBlaCar uses adverts posted on its online platform; 6) use of rating systems, e.g. TaskRabbit awards a special status to users with the highest ratings and who are the most active on the platform; and 7) cornering new markets, frequently by circumventing regulatory barriers.

It is worth noting that the sharing economy is primarily targeted at millennials living in urban areas who use the latest technologies, leaving the older generations and those living in rural areas outside its boundaries and sphere of influence (Wagner et al., 2015). Moreover, research conducted by the Center for a New American Dream (CNAD) demonstrates that 72% of all Americans participating in the sharing economy are motivated by purely financial reasons, not social ones (Fremstad, 2018). Mikołajewska-Zajac and Rodak (2016, p. 68) underline that this “commodification of the sharing economy” may constitute the next stage of development of the market economy.

Competition mechanisms in the sharing economy

Effective competition mechanisms are crucial to global economic development (Śliwińska, 2013). Companies operating as part of the sharing economy compete with traditional market actors by using online-based business models. Online platforms provide the technologies necessary for transactions to take place between individual users (peer-to-peer, 'P2P') or businesses and individual users (business-to-peer, 'B2P'). Sharing economy entities compete in what are known as two-sided markets, and, in order to achieve success, they must acquire both service providers and recipients (Rochet and Tirole, 2003). Moreover, two-sided markets are characterized by the ability to expand rapidly and economies of scale (Demary, 2015). In addition, due to the network effect, the value of a service increases with the number of users, constituting a barrier to entry, which has affected certain Polish online platforms such as Wulu.pl, InOneCar.com and JadeZabioire.pl. The largest online platforms in the sharing economy profit from commissions charged for acting as an intermediary in transactions between service providers and recipients. Platforms such as Uber, Lyft, Getaround and Zipcar compete against one another and traditional market actors, striving to achieve analogous or similar goals, on occasion preventing their competitors from achieving their established targets.³

The competition mechanisms used by online platforms in the sharing economy are to a large degree determined by their market orientation and structure (Schor, 2014). An online platform may be profit-oriented or non-profit. The market structure adopted by the online platforms of the sharing economy is based on exchanges, leasing or sharing between participants (P2P) and/or exchanges between businesses and individual participants (B2P).

What is more, the credibility of an online platform and its users, as well as whether it possesses a relative competitive advantage (Kim, Yoon and Zo, 2015) are also significant factors determining the competition mechanisms. The credibility of an online platform and its users can be built upon: 1) reputation via a rating system, e.g. Getaround; 2) free insurance, e.g. TaskRabbit and Airbnb; 3) social media presence (Facebook, Twitter, etc.), e.g. JustPark; and 4) posting comments, e.g. Airbnb. Moreover, rating systems used by online platforms, where ratings are based on comments and being active on the platform, are supposed to indicate the “digital quality” of platform users. Nonetheless, the European Parliament (2017a and 2017b) notes that online platforms may apply unfair and arbitrary practices with regard to publishing ratings and compiling user rankings based on those ratings. It should also be noted that a relative competitive advantage may

³ Competition as defined in Stankiewicz (2005, p. 18).

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be achieved by online platforms based on the following benefits (Kim, Yoon and Zo, 2015): 1) economic benefits, e.g. rendering less expensive services than traditional businesses; 2) social benefits, e.g. potential new relationships; and 3) epistemic benefits, e.g. acquiring new experiences.

The analysis of 20 leading sharing economy platforms operating in the transportation, tourism, finance, catering, education, leisure and animal care sectors (see Table 1) identified the following competition mechanisms:

1. Aggressive price-based competition with ratings

Online platforms which utilize an aggressive price-based competition mechanism with ratings base their exclusively for-profit activities on offering an economic advantage. They compete with prices against one another and against traditional market actors. Transactions on such platforms occur between individual users (P2P). In addition, service providers on such platforms are rigorously assessed and rated by service recipients and the platform itself. Certain platforms (e.g. UberX) prevent service providers from creating their own pricing policies or selecting their “customers” (recipients) by use of sanctions (e.g. banning) for the “excessive” rejecting of jobs assigned by the platform. This mechanism is utilized by transportation platforms such as JustPark, UberX and Lyft.

2. Aggressive price-based competition without ratings

Online platforms utilizing this mechanism operate based on a strict for-profit model. In addition, they utilize economic and social advantages, competing with prices among themselves and against traditional market entities. Transactions on such platforms occur between businesses and individual users (B2P). Service providers on such platforms (businesses) are not rigor-

ously assessed or rated by service recipients, as opposed to the rating model. This mechanism is utilized by food and grocery delivery, as well as office sharing platforms such as Postmates, WeWork and Instacart.

3. Moderate price-based competition

Online platforms utilizing the moderate price-based competition mechanism use both economic and non-economic (social and epistemic) advantages. They operate strictly for profit, but also undertake additional activities to enable their users to (at least in theory) meet new people and acquire new experiences. Such platforms compete with prices among themselves and against traditional market entities. Transactions occur between individual users (P2P). In addition, it is the service providers who are most frequently rated on platforms utilizing the above mechanism. This model is used by platforms offering meal and car sharing services such as EatWith and BlaBlaCar, as well as platforms acting as intermediaries in task delegation such as TaskRabbit and Handy.

4. Price-based competition with moderate non-price competition

Online platforms utilizing this combination of competition mechanisms operate based on an economic advantage and are strictly profit-oriented. They compete among each other and against traditional market actors using pricing and non-price factors, e.g. the experience and reputation of their service providers. Transactions on such platforms occur primarily between individual users (P2P). In addition, both the recipients and providers are assessed and rated. This model is utilized by platforms which offer car and sports equipment rental services such as Getaround and Spinlister, as well as platforms which act as intermediaries in renting out rooms and providing animal care services, such as Airbnb and Rover.

Table 1. Competition mechanisms utilized by online platforms operating within the sharing economy

Name of online platform	Service	Competition mechanism (CM)*	Type CM**	Market structure	Market orientation***	Rating system****	Relative advantage*****
JustPark	Renting of parking spots	PC	Aggressive PC with ratings	P2P	FP	P	E
UberX and uberPOOL	Sharing of means of transport	PC	Aggressive PC with ratings	P2P	FP	P	E
Lyft or Shared	Sharing of means of transport	PC	Aggressive PC with ratings	P2P	FP	P	E
Postmates	Package delivery, e.g. food, groceries	PC	Aggressive PC without ratings	B2P	FP	None	E and S
WeWork	Office space sharing	PC	Aggressive PC without ratings	B2P	FP	None	E and S

Table 1 – cont.

Name of online platform	Service	Competition mechanism (CM)*	Type CM**	Market structure	Market orientation***	Rating system****	Relative advantage*****
Rent the Runway	Renting out clothes and accessories	PC	Aggressive PC without ratings	B2P	FP	None	E
Instacart	Grocery deliveries	PC	Aggressive PC without ratings	B2P	FP	None	E and S
TaskRabbit	Assigning tasks	PC	Moderate PC	P2P	FP	P	E and S
Handy	Assigning tasks	PC	Moderate PC	P2P	FP	P	E and S
EatWith	Meal sharing	PC	Moderate PC	P2P	FP	P	EP, E and S
BlaBlaCar	Car sharing	PC	Moderate PC	P2P	FP	R and P	E and S
Favor	Food deliveries	PC	Moderate PC	P2P	FP	None	E and S
Getaround	Renting out unused cars	PC, NC	PC, moderate NC	P2P	FP	R and P	E
Spinlister	Renting out high-end sports equipment	PC, NC	PC, moderate NC	P2P	FP	R and P	E
Airbnb	Renting out unoccupied rooms, apartments and houses	PC, NC	PC, moderate NC	P2P, B2P	FP	R and P	E and S
Rover (DogVacay)	Looking after dogs and cats	PC, NC	PC, moderate NC	P2P	FP	P	E
Coursera	E-learning courses and specializations, post-graduate programs	PC, NC	PC, moderate NC	B2P	FP	None	E
Kiva	Loans of between USD 25 and 700 for new businesses in developing countries	NC	Pro-society NC	P2P	NP	R	E and S
Streetbank	Sharing tools with neighbors	NC	Pro-society NC	P2P	NP	None	E and S
Couchsurfing	Couch sharing	NC	Pro-society NC	P2P	FP	R and P	EP, E and S

* Price competition (PC) and non-price competition (NC).

** Price competition (PC) and non-price competition (NC).

*** For-profit (FP) and Non-profit (NP).

**** Recipients (R) and Providers (P).

***** Economic advantage (E), e.g. participating in costs, additional income or flexible terms of employment; Social advantage (S), e.g. meeting new people; Epistemic advantage (EP), e.g. new experiences.

Source: author's own work based on 20 case studies of the largest online platforms in the sharing economy.

5. Pro-society, non-price competition

Online platforms utilizing the pro-society, non-price competition mechanism do not operate for profit, and focus primarily on non-economic advantages. They do not compete using prices against one another or traditional market actors. Transactions on such platforms occur between individual users (P2P). In addition, it is the recipients who are most frequently rated. This model is utilized by platforms which focus on non-profit activities, such as Kiva and Streetbank.

The sharing economy allows both online platforms and users to apply various competition mechanisms. Despite the promises by the largest sharing economy platforms regarding applying social economy principles or ensuring a fair distribution of profits, price-based competition is pervasive in practice. Service providers on those platforms compete for customers (service recipients) primarily using pricing, not quality or experience. Only platforms such as Kiva, Streetbank and Couchsurfing do not force their service providers to apply price-based competition mechanisms. A possible explanation is that these platforms do not operate for profit (with the exception of Couchsurfing⁴). Many researchers believe that the price-based competition occurring between service providers on online platforms may lead to the formation of a new form of precariat (Standing, 2011). Moreover, research conducted by Slee (2015) and Zervas, Proserpio and Byers (2015), for example, confirms that the rating systems used by online platforms are inflated and inaccurate, as more than 98% of all service providers on platforms such as Airbnb, Handy (Homejoy) and TaskRabbit are rated higher than 4.7 (out of 5). Thus, service providers, instead of utilizing non-price competition mechanisms based on reputation, are forced to compete using prices. In addition, online platforms in the sharing economy do not allow users to transfer ratings between them, their stated reasons being that having a high rating as an Airbnb host, for example, is not comparable to a different activity, e.g. being an Uber driver. Nevertheless, users of online platforms such as Airbnb, Rover (DogVacay) and Getaround use non-price mechanisms in addition to price competition, emphasizing their experience or offering additional services. In addition, a case study on Airbnb has demonstrated that an "appropriate" photo of the host has an impact on the popularity of what they offer and whether or not they can demand a higher rate (Ert, Fleischer and Magen, 2016).

Summary

Online platforms operating in the sharing economy use various competition mechanisms, from aggressive, profit and economic advantage-oriented, price-based methods to pro-society, non-price mechanisms based on non-profit activities and social and epistemic advantages.

Nevertheless, in practice, users are frequently "forced" by online platforms to aggressively compete for customers using pricing. This happens especially in situations where both the prices and the processes of matching providers with customers are regulated in a top-down fashion by the platform. Online platforms such as Uber, Postmates and Instacart offer service providers no freedom in terms of decision-making.

Moreover, online platforms, by way of using inflated and hardly credible ratings (Slee, 2015), prevent users from applying non-price, reputation-based competition mechanisms. This phenomenon may lead to the formation of a new form of precariat (Standing, 2011). Nevertheless, users of online platforms such as Airbnb, Rover (DogVacay) and Getaround use non-price mechanisms in addition to price competition, emphasizing their experience or offering additional services. In addition, platforms such as Kiva and Streetbank, which are non-profit in nature, allow their users to use non-price mechanisms.

It is worth noting that, according to numerous researchers (e.g. Scott and Edda, 2014; Slee, 2015; Frenken and Schor, 2017), online platforms operating as part of the sharing economy frequently resort to unfair practices, as unlike traditional market actors, many regulations do not apply to them, enabling such companies to avoid certain costs by transferring them and their related risks to service providers, i.e. the users of these platforms, the majority of whom are natural persons (microenterprises).

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⁴ Couchsurfing is a platform where hosts make their couches available for free to guests of their choosing.

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Abstract

In recent years, the sharing economy has experienced rapid growth across the globe in terms of the number of participants and transactions, as well as profits. Experts claim that the sharing economy offers new possibilities for entrepreneurship, reducing operating costs, creating new jobs, increasing the effectiveness of economic systems, giving better allocation of resources and assets, as well as increasing the competitiveness of numerous sectors and the quality of life for consumers.

The purpose of this article is to study the competition mechanisms utilized by online platforms operating in the sharing economy. Case studies were conducted on 20 leading online platforms operating in the main sectors of the sharing economy (e.g. transportation, tourism, finance, catering, education, leisure, animal care), which rendered it possible to identify 5 different competition mechanisms, ranging from aggressive, profit and economic advantage-oriented competitive pricing to pro-social, non-price competition based on non-profit activities, as well as offering social and epistemic advantage.

The main actors in the sharing economy apply various price and non-price competition mechanisms. Nevertheless, in practice, users are frequently "forced" by online platforms to compete for customers using pricing. This happens especially in situations where both the prices and the process of matching providers with recipients are regulated top-down by the platform. Online platforms frequently offer service providers no freedom in terms of decision-making. Moreover, online platforms, by using inflated and hardly credible ratings, render users unable to use non-price, reputation-based competition mechanisms, which, experts claim, may lead to the creation of a new form of precariat.

Keywords: sharing economy, competition mechanisms, two-sided markets, P2P, internet platforms

Małgorzata Godlewska is a Doctor of Economics and Adjunct at the SGH Warsaw School of Economics. She has been researching competition mechanisms, including in e-commerce, for the past six years. Her research interests include knowledge-based economic growth assisted by artificial intelligence, as well as the impact of the sharing economy on the competitiveness of EU member states.

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