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A strategic framework for a profitable business model in the sharing economy

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ABSTRACT

There is an increasing interest in the rapid rise of the sharing economy, from both academicians and practitioners. Recent research has focused primarily on the relationship between sharing economy firms (service enablers) and customers. Moreover, service enablers have primarily allocated their resources to acquire a critical mass of customers. This study takes a balanced two-sided customer relationship approach toward understanding the dynamics of this triadic business model (service enabler – service provider – customer). To maintain this emerging economy's fast-growth pace, service enablers should strive to acquire, retain, and win-back profitable service providers and customers simultaneously.

We propose a conceptual strategic framework for the development of service providers and customers considering multigenerational aspects based on inferences from the literature, popular press, and interviews with members of the triad in the sharing economy. Based on our investigation, the sharing economy services are mostly adopted by Generation Y, whereas other generations are still in the early phase of adoption. Additionally, customer and service provider churn is high. We argue that this double-sided customer relationship framework will help firms take appropriate measures to keep all the actors involved in the process satisfied, loyal, and profitable in the long run.

1. Introduction

Businesses of the future will continue to be challenged by the dynamic forces of the economy in which they operate. These effects include the enhanced complexity of predicting customer demand, consumerization of digital technologies, as well as economic and environmental constraints. Therefore, firms need to adapt their business models to meet customer expectations in a more efficient, convenient, and sustainable manner.

Led by the shift in customer needs, a new business model termed as the sharing economy has emerged wherein the salesforce in the traditional B2B2C sector is substituted with micro-entrepreneurs who we call service providers. In the sharing economy, three participants create a triadic platform-based B2B relationship: service enablers (e.g., Uber, Airbnb, Luxe), service providers (e.g., driver, host, valet), and customers (e.g., rider, guest, user). Here, the customer can either be businesses (B2B) or individuals (B2C). Similar to other triadic business structures, such as e-commerce firms, the strength of the interaction

between the service provider and the customer determines the sustainable success of the service enabler. The long-term success of the sharing economy from the service enabler's side rests on the well-balanced acquisition, retention and win-back of profitable service providers and customers.

Why should we care about the sharing economy? It has disrupted well-established fields, such as the taxi and hotel industry, by providing low-cost convenience without the responsibility of ownership (Eckhardt & Bardhi, 2015). Further, the sharing economy is estimated to be worth \$15 billion and is expected to rise to \$335 billion by 2025 (PwC, 2015). This new business model is being adopted across various industries by many companies such as Uber (ridesharing), Airbnb (accommodation), TaskRabbit (on-demand freelance labor), Lendico (peer-to-peer (P2P) lending), Machinerylink (farming equipment), and Gwynnie Bee (used clothes). Uber, the torchbearer of the sharing economy, is currently the highest valued start-up, valued at \$70 billion (Beales, 2016). Airbnb, another shining star of the sharing economy, is valued at \$31 billion (Thomas, 2017).

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This paper attempts to answer the following research questions, pertinent to academics and practitioners:

- Why does the sharing economy, as a two-sided market, need to be investigated separately from its traditional counterparts?
- How should service enablers balance their focus and resources among service providers and customers to manage, grow, and sustain a double-sided customer relationship business model profitably?

The paper is organized into three sections. The first section, study context, takes a deep dive into the semantics of the sharing economy given the nascent stage of the phenomenon. It also exhibits the uniqueness of the business model along with its success factors. The following section sets the base for the conceptual background based on the insights from literature and practice. Further, we discuss the threats and opportunities of the business model regarding all parties involved that determine its long-term success. In the next section, we propose a strategic framework for customer development, addressing the identified internal and external threats. This proposed strategic framework helps to build a strong service provider and customer base complementing each other to ensure sustainable business practices. In addition, we provide strategies on how service enablers can utilize multigenerational segmentation for acquiring and retaining profitable customers and service providers for a sustainable business model. We conclude the final section by discussing the managerial relevance, limitations of the study, and directions for future research.

2. Study context

2.1. What is (and is not) the sharing economy?

Academic literature does not have a consensus regarding the definition of ‘the sharing economy.’ The action of sharing involves “the act and process of distributing what is ours to others for their use and the act and process of receiving or taking something from others for our use” (Belk, 2007). The sharing economy has also been referred to as ‘collaborative consumption’ or ‘collaborative economy’ which is defined as a socio-economic model based on the shared usage of underused or unwanted commodities (Botsman & Rogers, 2011). Botsman and Rogers (2011) further argue that such a collaborative system counters the wastage and underutilization of resources associated with the unequal distribution of wealth and resources. Reducing the cost of accessing products or services and utilizing idle assets based on the consumer demand could help the system achieve the intended efficiency of operation. They feel that collaborative consumption is an antithesis to the trend of hyper-consumption, which leads to the increased waste of individual and social resources in addition to harming the environment. Sundararajan (2016) defines the sharing economy as crowd-based capitalism since there is a transfer of ownership through on-demand access. Thus, it has been argued that the sharing economy is more like an access economy as the sharing aspect in this context is only secondary, and is market-mediated by an intermediary firm (Eckhardt & Bardhi, 2015). Additionally, Belk (2014) defines collaborative consumption as “people coordinating the acquisition and distribution of a resource for a fee or other non-monetary compensation like bartering, trading, and swapping.”

We define the sharing economy as: *the monetization of underutilized assets that are owned by service providers (firms or individuals) through short-term rental.* Taking a business standpoint, the economic incentive – rather than collaborative lifestyle – has been given priority in our definition. Hence, companies like Couchsurfing, WeFarm, or Freecycle are not included within the scope of this study since they do not involve any monetary compensation. The other boundary condition is that the interaction between the dyads should be market-mediated. Hence, we do not consider traditional carpooling or the concept of giving a lift as it

lacks an intermediary. Moreover, we are not including pure marketplaces (e.g., eBay) or recommerce systems (e.g., thredUp). These platforms enable market exchange for sales rather than rentals, which is against the nature of the “sharing” action. Further, the resources should not be owned by the service enabler as it defeats the purpose of peer-to-peer (P2P) economic systems. For this reason, we do not consider such firms (e.g., Zipcar, Redbox). Since the firm takes on the role of a service provider, the sharing aspect that Zipcar and Redbox offers is among customers, and there is no interaction between the sharing parties. An empirical study supports our separation of such firms as it is shown that Zipcar members do not have community bonds or the desire to share communal links with one another (Bardhi & Eckhardt, 2012). Additionally, even though co-working spaces (e.g., WeWork) can be a part of collaborative systems, they are not a part of the sharing economy as the relationship consists of two dyads instead of a triad.

As the last characteristic of our definition, the sharing economy has a unique business model that maximizes the utilization of idle assets. It is important to note that it is not realistic to expect any asset to be fully utilized. For instance, a car is used only 4 to 8% of the time (Brook Porter, 2015; Sundararajan, 2016), with 25% occupancy on average (CSS, 2016). We understand that while higher occupancy of any asset will increase its productivity, it will also reduce its lifetime; and this should also be considered as a cost.

From a strictly theoretical economics standpoint, the immediate availability of an asset can also be considered a utility. For instance, having a car parked at work (versus renting it out during this idle time) provides flexibility for the owner to move around. However, we do not consider this type of utility in our definition. For our purpose, we view any asset that stays idle when it could have been used as underutilized. In this sense, it is similar to the concept of opportunity cost where there is a trade-off between foregone and gained (or potentially gained) utilities.

2.2. How does the sharing economy work?

The business model of the sharing economy consists of a firm, or service enabler, which acts as an intermediary between the suppliers of a good or service (service provider) and customers who demand those underutilized goods and services (Fig. 1).

This triadic business model differs from the traditional B2B2C setting. In a traditional B2B environment, there is a dyadic sales relationship between the intermediary firm and the seller (or the buyer), without the need for a direct interaction or transaction between the seller and the buyer. Partners in the supply chain add value to the product or service as there is a transfer of the product or service in both dyads. For example, in a manufacturing context, Whole Foods' suppliers and customers are not required to interact in order to function

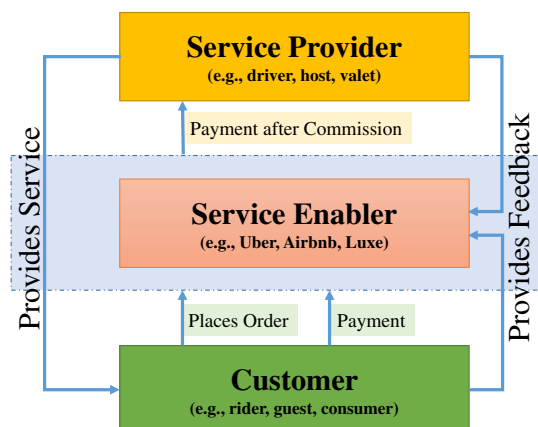


Fig. 1. The sharing economy business model.

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