How the **sharing economy** can make its case

These challengers must develop a smarter approach to external engagement.

Alberto Marchi is a director in McKinsey's Milan office.

The sharing economy, popularized by the likes of Airbnb and Uber, has enjoyed remarkably rapid growth over the last five years and looks set to scale new heights over the next decade. Some projections put the sector's revenues at $335 billion globally by 2025, and the scope for further widening its geographic reach remains huge. But as with any fast-expanding sector, governments, regulators, and industry incumbents are taking greater interest, and the growth pains are becoming louder.

Ellora-Julie Parekh is a consultant in the Brussels office.

Amid the confrontations and the name calling—not to mention legal problems from California to continental Europe— sharing-economy players must now adopt a fresh approach to external engagement. Some of the leading ones are tentatively developing a new tone, to be sure. In our view, however, they must demonstrate a greater willingness to collaborate with governments, to help shape emerging regulatory frameworks, and to take an active part in countering the recent volleys of negative publicity that could undermine their innovative potential. This article sets out some ideas to underpin such a strategy.

Negative publicity

The best-known sharing-economy companies do business in ride sharing (BlaBlaCar, Didi Kuaidi, Lyft, Uber, and Yandex.Taxi, for example) or in room sharing (Airbnb, Couchsurfing, onefinestay, 9flats). But in other areas too, companies have succeeded by identifying market inefficiencies and transferring control over transactions to consumers. They include shop and office sharing (We Are Pop Up), meal sharing (EatWith, Meal Sharing, Traveling Spoon)—and even clothes sharing (Yerdle) and solar-energy sharing (Yeloha).

In all cases, the common threads are disintermediation, the sharing of excess capacity, and increased productivity—as well as commercial challenges, on an unprecedented scale, for incumbent operators such as taxi firms, hotels, restaurants, and utilities. From a standing start seven years ago, Airbnb is now active in more than 190 countries and valued at more than $20 billion. Uber, launched six years ago, operates in more than 300 cities in over 60 countries, has more than one million drivers globally, and is valued at more than $50 billion. The appetite of investors remains keen, as shown by the recently oversubscribed fund-raising of Didi Kuaidi, a company made up of China's two biggest taxi-hailing services.

Not everyone is happy, however. Courts in Belgium, France, Germany, Italy, and the Netherlands have declared ride-sharing services using nonprofessional drivers, such as the company's uberPOP service, to be illegal. The service was also effectively banned in the Hamptons area of Long Island in the summer of 2015. A California court ruled that a ride-sharing driver is an employee, not a contractor, and an administrative judge later recommended that Uber be fined $7.3 million and suspended from operating in the state altogether. The South Korean government banned Uber to encourage the development of alternative, locally developed apps. And the Delhi authorities imposed a ban on Uber (later revoked) following a well-publicized rape case in the Indian capital.

More broadly, regulators and governments have started to question the long-term impact of the sharing-economy business model on incumbents and communities. The mayor of Paris, for example, set up a team of 20 agents specifically to crack down on illegal room-sharing hosts. As a result, 20 owners of 56 such apartments incurred large fines. Catalonia and other regions want to assess the potentially negative impact of extra tourism on pollution, rents, and local convenience stores.

Sharing-economy players have generally fought back using either of two approaches. The first is to operate until they get noticed and then respond to challenges in the courts. The other, seen by critics as a touch patronizing, is to educate stakeholders about the benefits of the sharing economy until they finally recognize them.

Both approaches, fine when companies were small and business models niche, now show signs of fatigue. Litigation and resentment are increasing, and recent EU debates have been peppered with references to the arrogance of some sharing-economy players, notably about taxes and the law.

A new type of engagement

A more active engagement stance seems to be on the way. Airbnb, for instance, decided to hire Blackstone's ex-CFO, no doubt to assure markets that its valuation is realistic. Uber recently established a policy-shaping team under ex-Google highflier Rachel Whetstone, and David Plouffe, Barack Obama's 2008 campaign manager, serves as a company advisor. As these companies work to adapt the economic model of the sharing economy to more communities, they should take three actions to start rebuilding trust.

1. Establish the facts around the sharing economy's societal benefits

Although Airbnb already publishes economic-impact reports, it and others can go further than they do at present. It's one thing to highlight the economic benefits for the 50 percent of room-sharing hosts who use the service to pay their rent and utility bills. It would be much more useful and transparent for sharing-economy companies to use their data to identify segments, such as owners of multiple properties, that compete directly with incumbents and should perhaps be regulated in a more traditional way.

In addition, a better case should be made for the sharing economy's contribution not just to employment but also to other social concerns, like the environment and female participation in the workforce. What, for example, might be the role of ride sharing in cutting emissions in the 93 Asian cities that rank among the world's 100 most polluted, according to the World Health Organization? And although less than 20 percent of Uber drivers are women, the company should highlight its pledge to have one million of them worldwide by 2020.

Sharing-economy players are in an ideal position to use their data-analytics capabilities to inform discussions with

stakeholders. As one government official from a Southeast Asian country explained to one of our colleagues, "bad lobbying is telling me something I know. Average lobbying is telling me something I did not know. Excellent lobbying is telling me something I did not know and that's useful to me. Good analytics can make that difference."

Sharing-economy businesses should also dispute incorrect factual claims. Contrary to general opinion, for instance, Uber drivers *are* required to have insurance, and their contracts with the company provide additional coverage. Airbnb now has in place property-damage insurance of $1 million. Recent debates on contingency have tended to obscure rather than illuminate, but existing laws on copyright and consumer rights apply as much to the sharing economy as to the traditional one.

2. Identify common ground and build alliances

Sharing-economy companies have so far failed to build the sort of powerful trade associations and alliances found among traditional industries. In our experience, the most successful and influential of these associations share three characteristics: they align their members on one important topic, have a strong and committed leader (typically, the CEO of a member organization), and use analytical capabilities to buttress their ideas and shape the debate. The potential for such a body is wide open in Europe, where the European Commission, seeking to examine the sector's aggregate economic contribution, has launched a formal assessment of the sharing economy.

Cooperation and alliances, moreover, should go beyond immediate peers in the sector. The insurance industry, for example, is an interesting opportunity for the sharing economy. Only a couple of years ago most insurers treated it as an afterthought, but many now realize that it may become more mainstream and therefore relevant to their own future business success. Insurers need help to fit these new models into their traditional actuarial analysis, which is why partnerships with Trōv and sharing-economy middlemen could be one path forward. Meanwhile, many new feeder businesses, ranging from rental-management to cleaning to meal-delivery services, are springing up around room sharing. If such ecosystems are

orchestrated well and their benefits can be demonstrated, they could underpin new development models for tourist areas.

In other cases, sharing-economy players might even consider partnerships with incumbents, notably what we call the "sleeping beauties" among traditional industries. Yandex.Taxi, Russia's main ride-sharing service, developed by the country's most popular search engine, at first quickly won market share by helping established taxi companies win additional orders. The food-sharing service Eatro pivoted into another business that delivered courses prepared by professional chefs, thereby creating new channels for (rather than bypassing) them. As incumbents respond to changing consumer needs, more such opportunities will arise.

To broaden this kind of external engagement beyond traditional stakeholders, such as legislators, sharing-economy players might consider deploying their superior consumer data-mining capabilities, much as best-in-class multinationals now use big data to identify the needs of their stakeholders and to reframe their narratives.

3. Shape regulatory frameworks—don't just litigate
Policy confusion about the exact definition of the sharing economy represents a big opportunity for companies competing in it. The European Union, for example, is soon to decide whether ride sharing is a digital service (regulated under the 2006 EU Services Directive) or a transport service (regulated by member states). Rather than just asking, quite rightly, for "smart and proportionate regulation," sharing-economy companies should learn from other industries, such as telcos and energy producers, how to help policymakers identify areas for regulatory intervention. Potential issues might include these:

• **Clarifying roles and responsibilities for tracking and penalizing abuses.** How can ride-sharing companies collaborate with local authorities to prevent rape in New Delhi? How can room-sharing companies address the concerns of the authorities about rising rents in cities such as Florence and Reykjavik or about the degradation of neighborhoods in, say, Barcelona?

- **Coexisting with incumbents.** How can the sector's ride-sharing and taxi offers be more clearly differentiated for the benefit of consumers? How can room-sharing services help municipalities host big one-off events such as the United Nations' COP21 conference in Paris in December 2015 or the 2016 Olympics in Brazil? How, for example, could sharing-economy companies help Brazil's government if the Olympics attract the same number of visitors (1 million) as the 2014 World Cup did?

- **Collecting taxes.** Airbnb has started collecting occupancy taxes for its hosts in Barcelona and in Paris.

- **Preventing abuse of data privacy.** Sharing-economy players can help clarify the risks and, in collaboration with regulators, ensure that customers know their rights.

● ● ●

The sharing economy is growing rapidly and creating new opportunities across the globe. Like all major disruptions, it is putting pressure on existing business models and regulatory frameworks and triggering other significant changes. Participants have an opportunity to play a role in developing long-term solutions that encourage innovation while protecting consumers and society more generally. ○