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# VIABILITY OF A COLLABORATIVE BUSINESS MODEL

A new business paradigm is gradually taking shape. It has been called sharing, collaborative or peer-to-peer (p2p) economy, and it has already fostered companies that became household names: Wikipedia, Uber and Airbnb, to name a few. These ventures proved to be disruptive forces in their respective fields, but there are significant questions about their long-term efficiency and social sustainability. Supporters say that people are able to avail themselves of more services at cheaper prices through improved access, democratized supply and the efficient sharing of underutilized assets. Critics argue that the new paradigm makes labor arrangements more precarious: fixed contracts are replaced with serial, part-time work. And by taking advantage of weak regulation in this area, new breeds of tech giants are gaining monopoly power.

**Three key aspects of the collaborative business model have been identified that affect the viability and long-term success of the venture:**

1. The sharing economy enhances access to the market by an extended network of customers and suppliers thanks to a reduction in transaction costs and a better matching of supply and demand made possible by new technologies. However, the question remains: to what extent do these oft-cited advantages translate into market creation or expansion? What we more often see instead is a market substitution or re-intermediation effect. For example, Uber mainly substitutes supply options for an existing market, and Airbnb re-intermediates by offering customers of traditional hotels an alternative. Certainly there is a continuum between market substitution and market expansion (for example, in addition to its re-intermediating effect, Airbnb enables a partial market expansion as well), but the key point here is that the greater the market expansion, the greater the economic advantage of the new model.

2. The second important feature relates to how resources are used to deliver services. Thanks to the "democratization of supply", customers will theoretically benefit from an enlarged pool of providers and lower prices. The matching of supply and demand via Uber's dynamic pricing algorithm results in better resource availability for customers as well as better resource utilization for providers. The greatest advantage of the collaborative model arises when there is real resource sharing: when a resource previously used individually or idle during certain times is now shared across customers. There are net efficiency gains in the form of higher utilization of otherwise underutilized resources, because people are willing to share something that they owned previously. For instance, this is the case of BCar, where a private driver who was making the trip anyway now shares the ride and its cost with other customers and may even earn a bit extra. Airbnb also creates some net gains in this manner by offering private rooms, which have previously not been part of the hospitality offerings, but as its popularity rises, more and more people make a living by buying up apartments and renting them via the service, which puts the offer on a similar footing with hotels, and works against the sharing element. The greater the improved matching and sharing elements, the more there will be net efficiency gains.

3. The third element to consider is governance: to what extent do collaborative models improve the monitoring of quality, enforce a proper functioning of the market in which they operate, and facilitate a fair allocation of the economic and social benefits generated? The thesis here is that collaborative models can avoid market failures and self-regulate, without the need for costly regulation, thanks to the collaborative knowledge of thousands of users, who themselves monitor each other's behavior and exchange opinions, and access to big data that can be filtered, analyzed statistically and communicated. The pioneering example was eBay's review system in which customers rated the sellers, and users could judge for themselves who was reliable. The observation here is that when the activity is repeated in a similar manner over time and the risks to the customers are well known or transparent, then the collaborative logic tends to work.

There is a tremendous business opportunity in becoming a hub in a two-sided network by expanding markets via connecting individual suppliers and customers. Two distinct user groups mediated by a platform reaps great network benefits, and may lead to a "winner takes all" situation, as has happened with Facebook. Of course, while this is a great opportunity for entrepreneurs, it is a great challenge for regulators, who need to work on lowering the negative effects of monopolies.

The danger of many collaborative models is that they really do not create or expand new markets, but simply substitute existing ones. For entrepreneurs, this will set you on a collision course with incumbents and, in some cases, existing regulation. As long as your business model competes in terms of substitution, rather than increasing the number and variety of options available, the fight will be tough.