# The Rise of the Sharing Economy

Haiyang Luo

School of Economics, University of Wisconsin-Maidson, Wisconsin, US

hluo68@wisc.edu

**Abstract.** Examining the sharing economy as an economic framework is the focus of this article. The sharing economy as a newly emerged economic pattern has become intensively discussed in the 21st century. It differs from traditional economic patterns, in which buyers buy goods from sellers. It rather shares assets like cars and houses by providing paid service through online platforms. Two famous examples that are talked about frequently in this article are Airbnb and Uber. These two enterprises are the most successful and influential, thus becoming the representatives of the sharing economy in recent years. Additionally, this article explores the pros and cons of the sharing economy. Shortly speaking, it is more flexible, more beneficial to the producers, and more friendly to the customers. The downside of it is that it lacks government regulations which may be necessary to prevent serious event happen. Overall, the sharing economy has already occupied a huge portion of the market and still grows at a believable speed. It has a bright future and it is worth studying.

**Keywords:** The Sharing economy; Potential; Market Size; Pros and Cons; Airbnb, Uber.

## 1. Introduction

The sharing economy is a peer-to-peer (P2P) activity that is typically made possible by a community-based online platform and involves the buying, giving, or sharing of access to goods and services [1]. Different from traditional secondary marketplaces, the sharing economy focuses on making regular short-term leases or service provisions possible rather than allowing asset ownership transfers through resales [2]. It also differs from traditional short-term rental services for consumption involving durables in that it encourages transactions primarily between people or peers rather than between a person and a company that is established to offer rental services [2]. The definition of the sharing economy can be easily understood using the following examples. First, one of the development of the sharing economy recently is represented by Airbnb. It is a website that offers short-term room or house rentals. Travelers can use the website or a mobile device to find and book distinctive residences all around the world. Another famous example of the sharing economy is Uber. Uber offers ride-hailing (which allows clients to reserve a car and driver for transportation in a way similar to a taxi), courier services, package delivery, food delivery, and freight transportation in addition to mobility as a service [3]. These two examples perfectly illustrate the characteristics of the sharing economy such that customers are doing peer-to-peer activities of renting houses and vehicles through online platforms.

Why is research on the sharing economy important? One reason is that even though the sharing economy emerged recently, the market size of sharing economy is already huge and it also grows at an extremely fast rate. According to Proficient Market Insights, the size of the sharing economy market, which was estimated at $113000.0 million in 2021, is anticipated to grow at a 32.08% CAGR over the course of the forecast period and reach $ 600000.0 million by 2027 [4]. The growth of sharing economy is growing so fast that it will undoubtedly become a significant part of the whole market. Another reason is that the sharing economy has many advantages. One of them is that in sharing economies, individuals and organizations can profit from unused resources. In a shared economy, vacant assets can be rented out when not in use, including parked cars and extra bedrooms. As a result, services are exchanged for physical assets, which both benefits individual owners and develops the economy for the society [5].

This article will discuss the definition of the sharing economy. It will talk about the specific characteristics of the sharing economy, and also discuss the impact of the sharing economy.

Furthermore, the advantages and disadvantages of the sharing economy will be illustrated. Lastly, this article will specify the potential and future of the sharing economy.

## 2. Definition and Characteristics of the Sharing Economy

There are many ways to define the sharing economy. Obviously, there is no need to explain what is economy, so the important part is the word “sharing”. The term of "sharing" varies among authors, but they all agree on the essential idea: the sharing economy refers to a particular context of transaction that is not constrained by conventional industry standards [6]. The characteristics of participating players and the interactions they have with one another define the context of exchange. Actors can be individuals or groups that act in the roles of the buyer and seller and are unrelated to one another. In the sharing economy, transactions are enabled through connections between sellers and buyers who share resource access in exchange for a non-monetary or monetary incentive [6]. Due to the fact that platforms connect buyers and sellers and that such interactions are impossible without the platforms, these firms are also known as platform businesses [6].

Some may ask that the sharing behavioral has existed for thousands of years, but why does the sharing economy emerge recently? For thousands of years, groups of people have shared resources, but the Internet and the usage of big data have made it simpler for asset owners and those looking to use those resources to communicate with one another [1]. Beginning in the year 2000, by connecting the offline and online worlds, society started to use the Internet to increase productivity in response to the increasing importance of natural resource restrictions, and the sharing economy was one of these endeavors [7]. That’s why the sharing economy recently arose. From the above definitions, it is easy to conclude the following characteristics of the sharing economy:

(1) The whole sharing economy exists three parties: buyers, sellers and facilitators which are online platforms.

(2) In contrast to models with a true intermediary, interactions between buyers and sellers take place directly, but the transaction would not have been possible without the platform that connects them. The platform makes the transaction possible. However, whether to proceed with the deal and under what circumstances is ultimately up to the buyer and seller [6].

(3) Short-period peer-to-peer (p2p) transactions are used in the sharing economy to promote collaboration or share the use of underutilized resources and services [1].

(4) Assets are shared or rented under the sharing economy instead of sold. Traditional e-commerce platforms like Amazon do not belong to the sharing economy since they are selling goods and assets.

These characteristics are solid and can be easily understood with the following two examples. These two examples are the most famous, typical, and successful sharing economy companies: Airbnb and Uber. Airbnb is a US-based business that runs an online marketplace for lodging and travel-related services. Although Airbnb does not own any of the listed homes, it does make money from each booking by way of a commission. The buyers here are people who want to rent houses; the sellers here are house owners who would be willing to rent out their houses to earn money; the facilitator here is Airbnb, which provides online platforms for users to do such sharing. The houses are ‘shared’, not sold. Airbnb perfectly fits the characteristics of the sharing economy. Uber is another perfect example. Similar to Airbnb, Uber is a company that runs a transportation network. In addition to offering sharing economy services like ride-matching and the lease of passenger automobiles, it develops smartphone applications that connect drivers and riders. The buyers here are people who want to rent cars or who want ride services; the sellers here are car owners who would be willing to rent out their cars or people who want to provide ride services; the facilitator here is, absolutely, Uber which provides online platforms for users to do such sharing. The items they shared here are cars, and the cars are not sold to others. That’s why one of the representatives of the sharing economy is Uber.

## 3. Pros and Cons of the Sharing Economy

The sharing economy as a new industry is much different than the traditional industry, so it is essential to understand the advantages and drawbacks of the sharing economy. Because of the special composition of the sharing economy, there are many advantages, as specified below.

The sharing economy makes it possible for individuals and businesses to profit from unused resources [5]. Unused resources can be extra vehicles, facilities or even houses. Without the sharing economy, unused resources can only be sold or idled. The most obvious example of all of this is when it comes to assets that are normally only seldom utilized, like tiny household tools and appliances, different culinary appliances, or even sporting equipment, where the available capacity provides room to make money from their rental [8].

The sharing economy model provides flexibility to both consumers and producers. For consumers, flexibility applies in many ways. One way is that consumers can be more flexible on time. Compared to traditional house renting, for instance, consumers can only rent for one day or few days depending on them in the sharing economy instead of renting houses for a whole month which waste a lot of money. Also, consumers have more freedom to choose the products or services they want. In the platform of the sharing economy, consumers have the chance to look at pictures, descriptions, or comments of the products, so they can choose the better fit.

Flexibility also has effects on the supply side. Suppliers become more flexible in choosing when to provide their services. For example, with a simple swipe on an app, Uber drivers may simply add or remove themselves from the pool of available drivers. Other suppliers can do the same with their supplies of products and services [9]. Flexibility also plays a role in pricing. The supply side can adjust the price of their goods and services quickly through the platforms inside the sharing economy. A typical and most frequent example of adjusting prices is Uber. Their riding services' prices adjust with time. When someone need a ride during the rush hour of the day, the price of the ride would increase a lot. Generally speaking, inside the sharing economy, suppliers can increase the price of their products if demand is smaller than the supply, and decrease the price as supply exceeds demand. The way of flexible pricing provides much surplus for the supply side.

The sharing economy enables small suppliers to make money off of their spare capitals. This characteristic raises the possibility of significant welfare gains in peer-to-peer markets for small business owners, enabling micro entrepreneurship for those with insufficient access to finance and more "democratization of chances." [10]. Additional to providing chance to microentrepreneurs, the sharing economy also provides job opportunities for less education and low-income population [11]. For instance, people don't need high education to drive an Uber. The only thing they need is a driver's license.

Customers can enjoy cheaper prices when participating in the sharing economy. There are a few reasons why the sharing economy can provide services and products at lower prices. One reason, as mentioned before, suppliers can decrease prices when the supply exceeds demand, which is likely to happen frequently. Another reason is that the sharing economy company's global tax optimization solutions can help it gain an additional cost advantage. They can offer comparable or even more inventive services more affordably in this way, giving them a competitive advantage [8]. Furthermore, the sharing economy models frequently offer a way to get around particular sectors' regulations. As a result, the sharing economy participants have fewer expenses and administrative difficulties than the traditional participants, which may give them a competitive edge [8].

However, there are also a few disadvantages. Information on the people selling the things can also be found because the sharing economy operates through online platforms. In an effort to promote confidence, many platforms encourage sellers to provide personal profiles and even upload photographs of themselves. However, it might be simpler to discriminate against vendors based on their race, gender, age, or other physical traits if they possess these traits. One study found that in the case of Airbnb, non-black hosts often charge 12% more than black hosts for the same rental [8].

Critiques of the sharing economy usually mention regulatory ambiguity. Because rental service providers are typically governed by federal, state, or local legislation, unlicensed persons offering rental services cannot be expected to follow these regulations or pay the associated fees. On the one hand, this might entitle them to a benefit that allows them to set cheaper prices, but on the other, a lack of government regulation will result in major abuses of both customers and sellers [1]. This is made abundantly clear by a number of widely known instances involving things like lawsuits alleging discriminatory contractor treatment by ride-sharing networks, concealed cameras in rental spaces, and even the killing of customers by honest or dishonest rental and ride-sharing businesses [1].

Even though these two disadvantages seem serious, the sharing economy is overall pros outweigh cons. Also, when the development of the sharing economy perfects and the government publishes more policies toward the sharing economy, the two disadvantages would disappear somehow.

## 4. The Potential and Impact of the Sharing Economy

The sharing economy has a history of upending established economic sectors. Sharing-based enterprises can run more efficiently because they have less inventory and expenses. Through improved efficiencies, these companies may deliver value to their consumers and supply chain partners [5]. The rise of the sharing economy will undoubtedly hurt the traditionally business. Two areas that are challenged and hurt most are hotels and taxis. These competitions basically comes from companies like Airbnb and Uber. One example is that Airbnb has hurt the hotel industry. According to Tai Nguyen's research, a 10% increase in Airbnb supply results in a 1.3% decline in hotel prices and a 1.2% drop in hotel income, which lowers the cost and increases the profitability of the incumbent business [12]. Another example is that the growth of Uber has hurt the traditional taxi. Since Uber entered the market, traditional taxi demand has gradually declined. In New York, the number of taxi journeys decreased by 8% between 2012 and 2014. The shift was even more pronounced in San Francisco, where 65% fewer people used cabs in the two years following the launch of Uber [13].

The sharing economy has only appeared for about 20 years, but the market size of it is already enormous. Not only the market size is huge, it also increases at an extremely fast pace. According to one report, the value of the worldwide sharing economy market is anticipated to increase from $0.3737 trillion in 2019 to $1.5 trillion in 2024, with a 31.9% CAGR (compound annual growth rate) from 2019 to 2024 [14]. Another report claimed that the size of the global sharing economy market was estimated at $ 113000.0 million in 2021 and is projected to grow at a 32.08% CAGR from 2021 to 2027, totaling $ 600000.0 million [4].

Looking at the two famous examples of the sharing economy, Uber made $17.4 billion in revenue in 2021, a 56% year-over-year rise, and Airbnb generated $5.9 billion, a 73% year-over-year increase [15]. The sharing economy has a promising future thanks to both the rapid growth rate and the development of the sector as a whole. Over the past few years, the phrase "sharing economy" has evolved to serve as an umbrella term for a range of online business ventures, including exchanges between enterprises. The sharing economy now includes the following platforms:

(1) Co-working Platform: Businesses in large cities that provide remote employees, business owners, and freelancers with shared, open work spaces.

(2) Websites called freelancing platforms offer to connect independent contractors with clients for a range of assignments, including standard freelance work and handyman services.

(3) Websites that allow users to buy, sell, or rent garments are called "fashion platforms."

(4) Platforms for peer-to-peer lending: These companies let consumers borrow money to each other with interest rates lower than those offered by traditional credit lending companies [1].

The future of the sharing economy is not limited to only share houses or vehicles. More and more items could participate in this industry and make it flourish.

## 5. Conclusion

The sharing economy is a form of commerce that buyers and sellers process sharing process on online platforms. Inside the economy, products are not sold, but shared with others or provided as services. The benefits of such a pattern include higher flexibility, more consumer and producer surplus, and more job opportunities. The drawback of the sharing economy is that it has no sufficient government policies to help regulate this industry. The rise of the sharing economy has hurt some traditional industries like taxi and hotel renting. The sharing economy only occurs for two decades, but already occupies a large portion of the market. It is also growing at an extremely fast pace. The recent data shows that it has been estimated to have totaled USD 600000.0 million market size in 2027, and grown at more than 30% annually. Not only the number of the sharing economy is growing, participants in it are also enlarging. In the future, more and more products and items can be shared and will participate in this economy. Future study of the sharing economy can be what products are profitable in this industry. All in all, the future of the sharing economy is anticipated to be promising.

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