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How Uber and the Sharing Economy Can Win Over Regulators

by Sarah Cannon and Lawrence H. Summers

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Sharing economy firms are disrupting traditional industries across the globe. For proof, look no further than Airbnb which, at $10 billion, can boast a higher valuation than the Hyatt hotel chain. Uber is currently valued at $18.2 billion relative to Hertz at $12.5 billion and Avis at $5.2 billion. Beyond individual firms, there are now more than 1,000 cities across four continents where people can share cars. The global sharing economy market was valued at $26 billion in 2013 and some predict it will grow to become a $110 billion revenue market in the coming years, making it larger than the U.S. chain restaurant industry. The revenue flowing through the sharing economy directly into people's wallets will surpass $3.5 billion this year, with growth exceeding 25%, according to Forbes. The business model – where peers can offer and purchase goods and services from each other through an online platform – continues to be applied to new industries from car sharing to peer-to-peer fashion, among many others.

These firms bring significant economic, environmental, and entrepreneurial benefits including an increase in employment and a reduction in carbon dioxide emissions (in the case of car sharing services). Shervin Pishevar, a venture capitalist and an investor in Couchsurfing, Getaround, Uber and other startups in this space, believes these services will have a major impact on the economics of cities; "This is a movement as important as when the web browser came out."

However, rather than rolling out the red carpet, city governments have resisted many of these new entrants issuing subpoenas and cease-and-desist orders. Just in the last month, Pennsylvania's Public Utility Commission issued a cease-and-desist order on Lyft and Uber operations. The companies face fines of $1,000 per day, and 23 drivers face civil and criminal charges.

Regulation is often the most significant barrier to future growth for sharing economy firms. This is particularly unfortunate since the incentives of city governments and sharing economy firms are often aligned. Given the benefits these types of firms bring to cities and firms' vested interest in the very consumer protections that city governments are seeking to ensure, one would expect a less rocky start for these new entrants.

The relationship between sharing economy firms and regulators will likely remain uneasy for the foreseeable future. But companies in this space can benefit from being more cooperative with regulators. As a manager in a sharing economy firm, you can increase the growth of your firm, reduce unnecessary delays, avoid conflict with regulators and expand access for consumers, by pursuing the following maxims:

Be offensive (rather than defensive) with regulators: The sharing economy is a new concept and many city regulators are unfamiliar with the business model. As a result they are often skeptical and assume sharing economy firms are trying to make a profit by skirting the regulations 'traditional' industries (i.e., taxis) face. It makes far more sense to be proactive and explain your business to regulators rather than wait for them to approach you with a concern. By approaching regulators yourself you can avoid misperceptions. It is likely in your interest to reach out to the regulators to explain your business and work with them early on to classify your business under the city's existing regulatory infrastructure rather than having them come to you.

For example, Uber would like to be classified as a communications platform rather than a "transportation network company" and reaching out to local regulators could avoid challenges and conflicts down the road given the nature of the initial classification. Further, given the newness of the business model, regulators may not be aware of how existing regulation may unfairly bias one business model over another, particularly when comparing traditional and sharing economy businesses. For example, rules (currently under consideration in Washington D.C.) that prevent passengers using taxi services from specifying their destination in an effort to avoid discrimination would likely favor Uber and Lyft over Sidecar (which asks for your destination to facilitate true ridesharing). Firms should not hesitate to pro-actively make the case for fair policy to the relevant regulator.

Lastly, many sharing economy firms are true intermediaries, providing a platform for consumers rather than providing services directly, and should be regulated as such. Without explaining the nature of your firm you will likely be regulated as a traditional firm not as an intermediary resulting in higher taxes and requirements.

Be responsive to regulators' legitimate concerns. Many sharing economy business models do raise legitimate concerns about user safety, privacy and access. Airbnb needs to be sure the apartments they list are safe for renters and Lyft needs to make sure the cars its drivers use are safe for passengers. Where regulators' concerns are legitimate companies should respond, both because it is the right thing to do and because it will build credibility with the authorities. In making their case, companies should make arguments they would believe if they were regulators.

While it is easy to categorize business as in line with the free market and progressives as anti-market, the reality is far more nuanced. In fact it was a truly bipartisan coalition that drove the de-regulation of the trucking and airline industries in the 1970s. By being focused on consumer interest and responding to regulators legitimate concerns, sharing economy firms will reach a broader audience of advocates than they anticipated and better outcomes.

Use state of the art approaches to reaching out to government. Just as there are best practices in compensation or writing code, there are best practices in influencing public policy. Best practices in approaching government include, forming coalitions and industry associations to represent a shared point of view rather than each company approaching regulators independently and only in times of crisis. Further, sharing economy firms should seek outside validators. As President Lincoln once said about lawyers, "He who represents himself has a fool for a client." This is even more true in the public relations sphere. Public officials are suspicious of self-interested argumentation and wherever possible it is best to use trusted external validators that can provide a credibility signal that government officials can trust.

Share your data: Data need not be made public in order to share it with government, and can help your case by reducing regulator concerns. Sharing economy entrepreneur Shelby Clark, Founder of car-sharing service RelayRides, suggested the idea of metrics-based regulations. Under this model a firm such as RelayRides could share accident and insurance claim data that could lead to lower insurance requirements given a track record of infrequent accidents. Regulators, like the California Public Utilities Commission, need data to make sure ridesharing firms, for example, aren't restricting access for people in particular neighborhoods or for the disabled. Sharing that data will likely ease these concerns for regulators and minimize requirements for firms. Sharing data about the number of users, for example, enables cities to see the benefits your firm is providing to their citizens in terms of increased transportation options.

Make a well-researched case for the value provided by your firm: Rather than relying on maxims about the usefulness of the sharing economy, it helps to have concrete data, especially in the face of skeptical regulators. Airbnb commissioned a study that found that; "Because an Airbnb rental tends to be cheaper than a hotel, people stay longer and spent $1,100 in the city, compared with $840 for hotel guests; 14% of their customers said they would not have visited the city at all without Airbnb." These positive spillover effects are a compelling case for authorities in cities like San Francisco, the focus of the study. Although such research is inexpensive since much of it is already gathered by sharing economy firms, it is worth noting that supportive research may already exist, such as an analysis from Susan Shaheen, an expert from U.C. Berkeley, that found that, "car sharers report reducing their vehicle miles travelled by 44% (addressing travel congestion). In addition, surveys in Europe show CO_2 emissions are being cut by up to 50%". Firms should marshal such evidence and take it on themselves to publicize the benefits their firms provide.

Find the best regulations out there and share them with the government: City governments are often under-resourced and many existing rules are simply outdated and are not relevant given the business model of sharing economy firms. There's no reason firms themselves cannot find the best rules out there and propose them to the Mayor's office. It is a challenge for many cities to develop new regulations, and firms could take the first step to gather input from users and consumers to understand existing obstacles and identify outdated rules that need to be re-written in line with these new models. The California Public Utilities Commission decided that 16-point vehicle inspections were required in addition to background checks for drivers for ridesharing services, but a firm like Getaround could just as easily have proposed such a solution. Certainly city governments will make the final decision and firms should not be writing their own regulations, but if there are good rules out there, let the city know.

It is easy to blame regulators for business problems and be right. It is more difficult but far more rewarding to avoid regulatory problems and enjoy business success. Since many of these businesses come out of Silicon Valley it is easy to think the largest risk is the underlying technology or competition. However, the major risk to the viability of many sharing economy firms is that a city or state government rules its business model impermissible. Hoping regulators play along is not an option, and antagonizing city governments is ill-advised. Instead, these firms need to find a new way to do business and should start by sharing with regulators.

Sarah Cannon is a Manager at Google Capital and recently graduated from a joint degree program at Harvard Kennedy School and Harvard Business School.

Lawrence H. Summers is the Charles W. Eliot University Professor and President Emeritus at Harvard University. He served as the 71st Secretary of the Treasury for President Clinton and the Director of the National Economic Council for President Obama.
