All eyes on the sharing economy

Collaborative consumption: Technology makes it easier for people to rent items to each other. But as it grows, the “sharing economy” is hitting roadblocks

WHY pay through the nose for something when you can rent it more cheaply from a stranger online? That is the principle behind a range of online services that enable people to share cars, accommodation, bicycles, household appliances and other items, connecting owners of underused assets with others willing to pay to use them. Dozens of firms such as Airbnb, which lets people rent out their spare rooms, or RelayRides, which allows other people to rent your car, act as matchmakers, allocating resources where they are needed and taking a small cut in return.

Such peer-to-peer rental schemes provide handy extra income for owners and can be less costly and more convenient for borrowers. Occasional renting is cheaper than buying something outright or renting from a traditional provider such as a hotel or car-rental firm. The internet makes it cheaper and easier than ever to aggregate supply and demand. Smartphones with maps and satellite positioning can find a nearby room to rent or car to borrow. Online social networks and recommendation systems help establish trust; internet payment systems can handle the billing. All this lets millions of total strangers rent things to each other. The result is known variously as “collaborative consumption”, the “asset-light lifestyle”, the “collaborative economy”, “peer economy”, “access economy” or “sharing economy”.

It is surely no coincidence that many peer-to-peer rental firms were founded between 2008 and 2010, in the aftermath of the global financial crisis. Some see sharing, with its mantra that “access trumps ownership”, as a post-crisis antidote to materialism and overconsumption. It may also have environmental benefits, by making more efficient use of resources. But whatever the motivation, the trend is clear. “People are looking to buy services discretely when they need them, instead of owning an asset,” says Jeff Miller, the boss of Wheelz, a peer-to-peer car-rental service that operates in California.

As they become more numerous and more popular, however, sharing services have started to run up against snags. There are questions around insurance and legal
liability. Some services are falling foul of industry-specific regulations. Landlords are clamping down on tenants who sub-let their properties in violation of the terms of their leases. Tax collectors are asking whether all the income from sharing schemes is being declared. Meanwhile, the big boys are moving in, as large companies that face disruption from sharing schemes start to embrace the model themselves. As the sharing economy expands, it is experiencing growing pains.

By far the most prominent sharing services are those based around accommodation and cars. The best-known example is Airbnb, based in San Francisco, which has helped 4m people find places to stay since it was founded in 2008—2.5m of them during 2012 alone. People can list anything from a spare bed to an entire mansion on the site, setting rental rates and specifying house rules (such as no smoking or pets). Anyone looking for somewhere to stay in a particular city can enter their dates and browse matching offers from Airbnb’s 300,000 listings in 192 countries; Airbnb takes a cut of 9-15% of the rental fee. Others offering similar services include Roomorama, Wimdu and BedyCasa.

Car-sharing schemes divide into peer-to-peer car-rental services in which you pay to borrow someone else’s car (Buzzcar, Getaround, RelayRides, Tamyca, Wheelz, WhipCar) and taxi-like services (Lyft, SideCar, Uber, Weeels) in which people use their cars to ferry paying passengers. Some peer-rental schemes focus on particular types of customer, such as students, or particular types of vehicle, such as high-performance cars. Peer-to-peer taxi services use location-aware smartphone apps, coupled with a central dispatcher, to bring drivers and passengers together.

Variations on these models include DogVacay and Rover, both of which are dog-kennel services (like Airbnb for dogs), and Boatbound, which offers short-term, peer-to-peer boat rental. There are also peer-rental sites for car-parking spaces (Airbnb for cars, in effect), bicycles, photographic kit, musical instruments, garden equipment, outdoor gear, kitchen appliances, and so on. These sites generally start off serving a particular city or region, as Airbnb did in San Francisco. But the more successful ones have expanded to cover multiple cities and entire countries.

All these services rely on ratings and reciprocal reviews to build trust among their users. Staying in a stranger’s apartment in another city seems much less daunting when you can read testimonials from previous guests. Similarly, before welcoming strangers into your home it is reassuring to read reviews from other hosts they have stayed with. Many
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platforms also carry out background checks, looking into their users’ driving and credit histories and checking for criminal records. In addition, some peer-rental services (including Airbnb, RelayRides and Lyft) integrate with Facebook to let owners and renters check to see whether they have friends (or friends of friends) in common.

“We couldn’t have existed ten years ago, before Facebook, because people weren’t really into sharing,” says Nate Blecharczyk, one of Airbnb’s founders.

Airbnb doesn’t require its users to connect their accounts to Facebook, but when people find they have friends in common with another user it sets their minds at ease. Thanks to social media, says David Lee, founder and managing partner of SV Angels, an early investor in Airbnb, “people are generally more comfortable meeting new people using technology.” Providing a secure platform for financial transactions is vital, he says, but creating a trusting community is just as important when it comes to attracting users.

Shelby Clark, the founder of RelayRides, says his company checks its users’ driving records for major violations, but relies on user reviews when it comes to assessing the cleanliness of both cars and drivers. Such systems, he says, tend to create norms that keep owners and renters in line, because they fear the repercussions of bad reviews: other people on the site will be less willing to do business with them, and they may be kicked out altogether. Travis Kalanick, the boss of Uber, a service that matches up drivers with passengers, says the review system means drivers with poor ratings don’t last long, while passengers who behave badly find it hard to get a ride.

Most systems don’t provide immediate confirmation when one user applies to rent something from another, allowing the provider to decide whether to proceed or not, based on the applicant’s ratings, reviews or other factors. Being turned down can lead to hard feelings, but there is usually no opportunity to complain, because only people who actually engage in a transaction can review each other. Another characteristic of such services is that users or listings with plenty of reviews will be sought after, whereas those with no reviews look less attractive. Mr Blecharczyk says Airbnb recommends that first-time listers set their prices “less aggressively” to encourage renters who might avoid a place without a review. As soon as one review appears, he says, inquiries can increase tenfold, and listers can raise their prices.

Growing pains

For the most part this self-policing approach works well. But occasionally things can and do go wrong, which has forced peer-rental sites to take steps to protect themselves and their users. Airbnb suffered a rash of bad publicity in mid-2011 when a host found her apartment trashed and her valuables stolen after a rental. After some public-relations missteps, Airbnb eventually agreed to cover her expenses, and added a $50,000 guarantee for hosts against property and furniture damage. That was increased to $1m in May 2012 with the backing of Lloyd’s, an insurance marketplace. Airbnb also improved its site to allow hosts and guests to find out more about each other in advance.

Peer-to-peer car-rental services also provide insurance as part of the deal. Mr Clark says it took RelayRides 18 months to find an underwriter for the $1m policy that backs each driver during rentals. (Much of the 40% commission RelayRides takes on each rental goes towards insurance.) But the question of whether a car-owner’s insurer is liable in the event of an accident remains untested. Three states (California, Oregon and Washington) have passed laws relating to car-sharing, placing liability squarely on the shoulders of the car-sharing service and its own insurers, just as if it owned the car during the rental period. The laws also prohibit insurers from cancelling owners’ policies. One insurer, GEICO, rewrote its policies in 2012 to withdraw accident coverage for cars that have been rented to others in states that permit it. A fatal accident involving a RelayRides
driver in Boston in 2012 may test the limits of existing policies in Massachusetts.

Insurance is just one example of how peer-rental services are running into regulatory barriers. In many cases they also find themselves in conflict with the complex rules that govern some industries. In an effort to avoid such difficulties Lyft, SideCar and other peer-to-peer taxi services do not set a price for a given journey and do not handle billing. Instead, passengers are prompted to give drivers a voluntary “donation” of a particular amount—and they know that failure to do so will lead to negative reviews, making it difficult to find a ride in future.

But regulators are unimpressed. In November 2012 the California Public Utilities Commission issued $20,000 fines against Lyft, SideCar and Uber for “operating as passenger carriers without evidence of public liability and property damage insurance coverage” and “engaging employee-drivers without evidence of workers’ compensation insurance”. All three firms appealed against the fines, arguing that outdated regulations should not be applied to peer-rental services. In January the city of San Francisco agreed to allow Lyft and Uber to continue operating while it devises new rules, due by July. Uber has also won permission to operate its service in Washington, DC. But in many other cities it faces bans, fines and court battles.

It is not just car-sharing services that have run into legal problems. So have apartment-sharing services, which have fallen foul of zoning regulations and other rules governing temporary rentals in which the property owner or occupier are not present. Many American cities ban rentals of less than 30 days in properties that have not been licensed and inspected. Some Airbnb renters have been served with eviction notices by landlords for renting their apartments in violation of their leases. In Amsterdam, city officials point out that anyone letting a room or apartment is required to have a permit and to obey other rules. They have used Airbnb’s website to track down illegal rentals.

Officials in San Francisco have raised similar red flags. The city’s treasurer ruled in April 2012 that Airbnb and other similar sites were not exempt from the city’s 15% hotel tax. Airbnb responded that the regulations, dating back to 1961, should not apply to internet-era business models. The city’s mayor, Ed Lee, has championed the notion of the “sharing economy” as a means to stimulate economic growth. City officials have promised to work out a regulatory and tax framework, but for the time being Airbnb and other such services remain in a legal grey area.

In New York, meanwhile, a landlord faces fines of as much as $30,000 after one of his tenants sub-let his room in an East Village apartment via Airbnb while going out of town for a few days in September 2012. (A law passed in 2010 does not allow the renting out of homes or rooms in them for less than a month unless the usual occupant is also resident at the time.) Having previously taken the position that it is up to hosts to ensure that they are complying with local laws and taxes, Airbnb has recently shifted its stance in response to a growing regulatory backlash. In October 2012 it appointed David Hantman, previously the head of government relations at Yahoo, as its head of public policy. He says Airbnb is now working with governments around the world “to clarify and even change” the patchwork of laws that apply to its hosts. “The more policymakers and neighbours learn about our service, and the better they understand it, the more they realise that this activity should not be prohibited,” he adds.

Here come the big boys

Meanwhile, the peer-rental model has been endorsed, at least in the field of car-sharing, by incumbent carmakers and rental firms. GM Ventures, the investment arm of America’s biggest carmaker, was among the investors who put $13m into RelayRides in 2011. ZipCar, a pay-by-the-hour car-rental firm that maintains its own fleet of vehicles, led a $14m investment in Wheelz, a peer-rental firm, in 2012. ZipCar was in turn acquired by Avis, a conventional car-rental firm, in January 2013 for $491m, giving Avis a stake in
Wheelz.

As well as being a vote of confidence in the peer-rental model, investments by incumbent firms highlight the fact that it can make sense for them to work closely with these upstart rivals. After the GM Ventures investment, for example, RelayRides was given privileged access to GM’s OnStar navigation system, which is installed in 6m American cars. The sign-up process for RelayRides has been streamlined for OnStar users, and OnStar-equipped cars can be locked and unlocked by renters using an app, so there is no need to meet to hand over keys. GM hopes this will encourage more car-owners to sign up for its OnStar service in the hope of making some extra money on the side—an average of $715 a month, according to RelayRides. For Avis, meanwhile, owning ZipCar and a stake in Wheelz gives it exposure to a new model that threatens to upend its business.

What looks like a disruptive new model will probably end up being mixed into existing models and embraced by incumbents, as has often happened before. Tim O’Reilly of O’Reilly Media, a long-term watcher of internet trends, says such consolidation is inevitable. “When new markets come in, they often look more democratising than they end up becoming,” he says. The idea of renting from a person rather than a faceless company will survive, even if the early idealism of the sharing economy does not. The fact that regulators, tax collectors and big companies are now sniffing around a model that has been embraced by millions of people is a measure of its value and growth potential.

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