SHARING ECONOMY

Sharing or collaborative economy?

Challenges of the contemporary world

The most important challenges of the contemporary world can be divided into those related to technology and the future of work, climate change and social change. Traditional business models often offer no help in addressing them, or they can even have an exacerbating effect. Advancing robotization and automation of work improve the corporate profit margin, but they are a cause of concern among the workers and pose questions about the optimal functioning of the tax and redistribution system. Competition and the need to uphold the position on the market in short term usually do not go hand in hand with care for the environment and future of the planet – which leads to choosing cheaper and simpler solutions that are not necessarily eco-friendly or sustainable. The maximization of service providers' profits does not have to go hand in hand with the maximization of the society's prosperity, which can translate into deterioration of the consumer's state, either due to the already listed challenges or to corporate strategies linked directly to consumption.

One of the answers to these challenges is offered by increasingly significant practices encompassed by the notion of *the sharing economy*. Although it had existed before, the more dynamic development of the sharing economy became possible with the dawn of technological transformation, including the development of platforms, algorithms, the Internet and mobile technologies. The sharing economy addresses the challenges listed by creating opportunities for temporary work, supporting re-using the existing (and often untapped resources), basing its models on digital applications and often on direct relationships between users, with the role of the company often limited only to being the platform supplier.

Many faces of the sharing economy

What *is* the sharing economy? Its main concept assumes shared use of goods and services, simultaneously or sequentially, without transferring ownership rights. Transactions of this type are usually based on new business models, such as various platforms or e-commerce. As Włoch and Śledziewska explain in their book, *Online platforms are a new business model of a virtual intermediary between at least two separate but interdependent (networked) groups of users that constitute market parties within multilateral markets*.[1] Meanwhile, e-commerce is an extension of trade activity into the digital market, e.g. using an online store website or a mobile app.

1 Śledziewska K., Włoch R., *Gospodarka cyfrowa. Jak nowe technologie zmieniają świat*, Wydawnictwo Uniwersytetu Warszawskiego, Warsaw 2020.

The key distinction between these two models concerns the parties of the exchange. In the case of e-commerce, we have a linear model in which companies use digital technologies to better reach their customers. In the case of platforms, the model is multilateral, and transactions occur directly between market participants who are not formally linked to the platform but who use it to make transactions.

Discussions about the essence of the sharing economy often emphasise finally defining what this notion actually means. Due to its positive connotations, the very phrase 'sharing economy' became popular also among companies whose business models are not closely linked to the concept of sharing or match it only partially.

For example, Uber is a platform that enables providing transport services. At the same time, Uber rides would not happen without the passengers' demand. Although this model enables easy participation in temporary work and peer-to-peer connections between parties on the platform, it would be difficult to genuinely call it a shared use of resources – in fact, the resource would not emerge if the platform had not been created first.

Another example is the short-term rental market and platforms like AirBnB. In principle, AirBnB should enable sharing unused space – e.g. a free room with a couch, or an apartment while its owners are absent. In practice, however, to a large extent the platform is used for conducting business based on short-term rental. As the report prepared by DELab UW for the City of Warsaw indicates (DELab, 2019),[2] in the city, only 5% of registered profiles are responsible for as much as approx. 30% of the offered locations, approx. 56% bookings and 60% of the income. It is, therefore, a platform which enables sharing spaces, but which is used to a much greater extent for conducting large-scale business activity.

Recently the popularity of companies offering equipment facilitating urban mobility has been growing as well. For instance, electric scooters (e.g. Lime) are readily called a sharing economy service. It should be noted, however, that it is rather business activity based on rental, as was the case for video rental shops. The main difference stems from the development of the e-commerce aspect and using public space to "rent" and "return" vehicles.

Examples such as Lime, AirBnB or Uber contributed to the discussion about what constitutes the essence of the sharing economy and which of its aspects have key impact on society. On this basis, a range of definitions was created, similar with regard to the sharing concept, emphasising traits such as the impact on the type of relationship between participants, the type of value provided by the platform, or the attitude of users towards the activity. Many of these terms are not mutually exclusive,

[2]Detailed conclusions from the report can be found on the website: http://www.delab.uw.edu.pl/pl/portfolio-items/airbnb-w-warszawie (access 04.02.2020).

and sometimes they also encompass activities outside of the sharing economy. However, listing these concepts will help understand how diverse sharing-based services can be in terms of strategy:

Collaborative economy – it is probably the second most used term, alongside the sharing economy. The collaborative economy puts in the first place the shared objective of users connected through the platform. It is often based on putting to use unexploited space or resources which are being used anyway. Thus, the connection with other potential users enables increasing satisfaction of all participants. A typical example of collaborative consumption can be car sharing – offering free spaces in a car to people who wish to ride in the same direction. In this case both the driver/owner of the car and passengers have the same goal of getting to a given destination. But the cost of the journey (e.g. fuel) can be divided among more people, while filling empty car seats. Similarly, AirBnB users can rent unused space in their homes for various travellers looking for cheap accommodation. Sometimes the term 'collaborative economy' is also linked to crowdfunding models – i.e. community financing. In crowdfunding models platforms enable the group to collaborate (usually through a financial contribution) on creating a particular project or service provided by the project author. Depending on the premises of the project, the participants can receive e.g. physical or digital rewards, shares in a new company, or a discount for the services provided.

Access economy – the concept of the access economy emphasises the aspect of sharing access to the service itself. In this case, the emphasis is on selling the access – as opposed to the previously presented "sharing" which means simultaneous use. The access economy underlines the platforms' capacity to combine demand for particular goods and services with the already existing resources which other participants have. An example of an access economy model is Uber – drivers offer access to their services as drivers. But in this case, they do not share the consumption, as it is not their personal goal to get from point A to point B, but only to drive their passengers there.

On-demand economy – this concept puts emphasis on the immediacy of the possibilities offered by platforms. Thus, its main distinctive feature is the possibility of finding a suitable service provider of offered goods instantly – often at any hour and in any place. So, the on-demand economy underlines two aspects. Firstly, the reduction of the importance of obstacles such as time and distance. Secondly, creating markets for services exchange which could not exist otherwise (often provided as a form of temporary work). The area of the on-demand economy can also encompass services based on crowdsourcing, e.g. Amazon Technical Turk which enables outsourcing a series of repetitive tasks to a large group of people who receive for it small remuneration (e.g. filling out surveys, categorizing photos, etc.) or Polish TakeTask enabling outsourcing various tasks (e.g. survey studies, sales or audits).

Circular economy – this model based on the continuous use and re-use of resources. As such, it stands in opposition to the dominant approach based on manufacturing, using and then discarding goods in order to replace them with brand new ones. Although the term 'circular economy' functions alongside the sharing economy, the considerable contribution of the latter to the former is often mentioned. Many activities operating within the sharing economy are based on the maximum use of resources – also those unused by their original owners. Rent the Runway is an example of a company operating in both areas; its founders pointed out the short-lived usefulness of many garments people purchase. Instead of the traditional buy – wear – throw away model, Rent the Runway enables regular rental and delivery of clothes, and then exchanging them for others. Thus, the resources are used by multiple users, and Rent the Runway fits both the sharing economy concept and the circular economy.

Gig economy (temporary work economy) – this concept focuses around the aspect of new possibilities for temporary work. Many platforms are based on a model which enables starting business activity as a service provider easily. Thus, everyone can register as a potential driver, shopping delivery person, teacher, carer, cook, etc. Furthermore, each of the service providers decide themselves whether and to what extent they make their resources available and what kind of remuneration they expect. This way, that kind of platforms create perfect environment for temporary work which can be reconciled with other obligations. Examples of services that operate within this area include TaskRabbit or Freelancer, where it is possible to outsource tasks (mainly physical labour on TaskRabbit, and mainly remote jobs such as coding on Freelancer) to other users with appropriate resources available, such as time, skills, relatively small distance, or necessary tools.

Peer to peer (P2P) economy – this model emphasises the aspect of direct interaction between two participants. Platforms enable creating connections between their users without the actual go-between of producers, distributors, etc. Thus, they reduce the need for intermediaries and agents, involving in the exchange only the directly interested parties instead. In the case of platforms, it means minimizing the role of the platform as the intermediary, so also its role in placing limitations on transactions (e.g. forcing prices). A good example of this type of platforms can be provided by those enabling the exchange of resources/services without a monetary payment. The exchange could involve either physical goods (e.g. clothes – Darpdecade) or services and spaces (e.g. accommodation – Love Home Swap). Due to the broad range of the sharing economy definition, some institutions or researchers have undertaken creating the clearest definition possible. In one of its communications, the European Commission defines the collaborative economy in the following way:

"[...] the term 'collaborative economy' refers to business models where activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services often provided by private individuals. The collaborative economy involves three categories of actors: (i) service providers who share assets, resources, time and/or skills — these can be private individuals offering services on an occasional basis ("peers") or service providers acting in their professional capacity ("professional services providers"); (ii) users of these; and (iii) intermediaries that connect —

via an online platform — providers with users and that facilitate transactions between them ("collaborative platforms"). Collaborative economy transactions generally do not involve a change of ownership and can be carried out for profit or not-for-profit."[3]

Such a broad definition enables including many business models, regardless of the objectives, motivations of the participants or characteristics of the offered resources. However, Botsman proposes a narrower definition, according to which the sharing economy is "an economic model based on sharing underutilized assets from spaces to skills to stuff for monetary or non-monetary benefits."[4] Meelen and Frenken go even further, excluding non-material resources and defining the sharing economy as "a situation where "consumers (or firms) granting each other temporary access to their under-utilized physical assets ("idle capacity"), possibly for money."[5]

According to definitions formulated in this manner, the sharing economy would not include e.g. Uber, or most of AirBnB postings based on business activity – not on making the already existing resources available. According to Botsman's definition, Uber could be an example of the collaborative economy, because the resources car drivers are making available are time and driving skills.

Meanwhile Eckhart and Bardhi point out that "sharing" is a relationship between people who know one another, based on the shared use of given goods – not on exchanging profits and earning. The authors remark that most services described as the sharing economy do not evoke in users the same impressions as the actual act of sharing – e.g. the feeling of reciprocity and gratitude. They suggest that the proper term in these cases would be the access economy, and sharing should not be linked to services devoid of the aforementioned feelings.[6]

It is difficult to come up with an unambiguous definition of what the sharing economy is. While multiple authors suggested particular definitions, there is still no single universally accepted one that would clarify what type of services and platforms it should cover. For the purpose of this report we will therefore use the broad notion of the sharing economy indicated in the European Commission communication. Our objective is not to exclude companies which identify with the sharing economy, but which do not meet some of the presented limiting definitions. This means, among other things, that this report covers enterprises that fit into various related concepts listed in this introduction.

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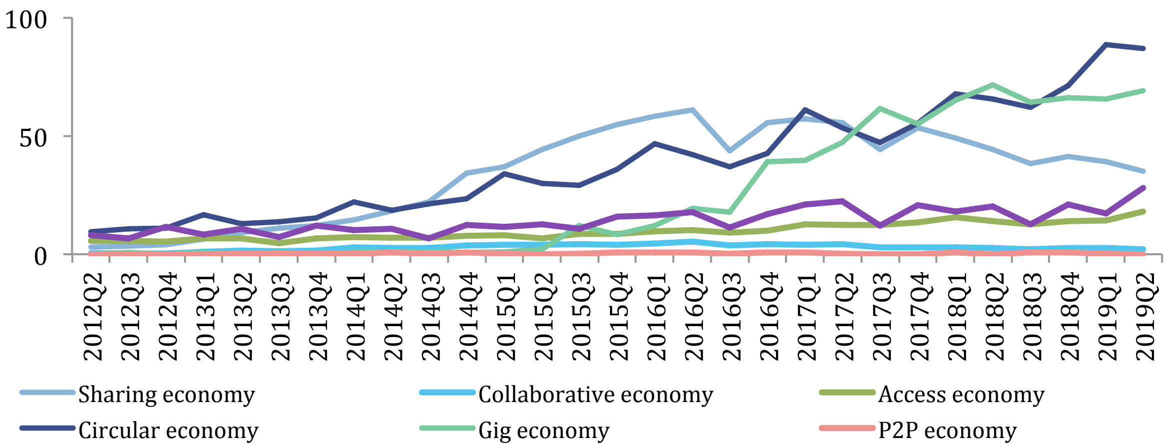
[3] the European Commission. 2016. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A European agenda for the collaborative economy. Brussels, 2.6.2016 COM(2016) 356 final.
[4] Botsman, R. 2013. The Sharing Economy Lacks a Shared Definition. Fastcompany, URL: https://www.fastcompany.com/3022028/the-sharing-economy-lacks-a-shared-definition (accessed 02.02.2020).
[5] Meelen, T. and Frenken, K. 2015. Stop Saying Uber is Part of the Sharing Economy. Fastcompany, URL: https://www.fastcompany.com/3040863/stop-saying-uber-is-part-of-the-sharing-economy (accessed 02.02.2020).
[6] Eckhardt, G.M. and Bardhi, F. 2015. The Sharing Economy Isn't About Sharing at All. Harvard Business Review, URL: https://hbr.org/2015/01/the-sharing-economy-isnt-about-sharing-at-all (accessed 03.02.2020).

At the same time, it is noteworthy that the awareness of disjunctions of various interpretations of the sharing economy is growing in societies. As evidenced by data from Google Trends, the term 'sharing economy' was gaining renown until around 2016, enjoying much more popularity than other related notions listed above. However, this trend has reversed within the last three years. Less people are searching for 'sharing economy', focusing on particular subtypes of the economy instead – particularly on the circular economy, and gig economy whose popularity in search engines surpassed the sharing economy. It is significant that both terms are directly linked to particular contemporary challenges. Due to its general nature, the same cannot be said of the term 'sharing economy'.



Source: Google Trends for the period 2012-2019.

Why now?

The phenomenon of the shared use has always existed. Within local communities we were sharing resources such as free time (e.g. watching neighbour's children) or a lawn mower which we needed only once a week. However, due to transaction costs only some potential sharing-based transactions were actually executed. The main obstacles included physical distance, little opportunity for remote communication, lack of information about where to find service providers and – on the other end – where to find people in need of a particular service.

These obstacles were reduced along with the development of founding technologies (platforms on which subsequent technologies are based) and eliminated entirely as intensifying technologies (improving the existing solutions and capacities) emerged (cf. Śledziewska, Włoch, 2020). In the case of the former, computers, the Internet and mobile devices played a considerable role in their development. For the latter, the key was the development of algorithms, machine learning, or cloud computing.

Before the popularity of computers and Internet access grew, renting equipment was limited by distance – especially if it was needed quickly. Similarly, outsourcing a given service to someone far away would involve a range of communication issues. The development of technology reduced this problem, allowing for direct and instant connection, regardless of the distance. Thus, it considerably reduced the time necessary for shipping physical objects and completely removed the problems in the case of services provided remotely.

Another trend which contributed to the development of the sharing economy was the popularization of mobile devices. At the beginning of the 21st century effective connections were limited due to still relatively uncommon access to computers and the Internet. Together with the rise of mobile technologies, wireless Internet and further solutions involving these technologies, such as cloud solutions, society was given the opportunity to permanently participate in the digital market – regardless of the location or time. This, in turn, opened the way to the emergence of new markets.

However, only the appearance of online platforms using algorithms and cloud solutions enabled unprecedented development of transactions between strangers. Digitization of services such as sales allowed for e-commerce and online sales (including entirely digital products) to emerge. On the other hand, it also enabled the aggregation of service providers within online platforms supporting contact between multiple parties of the market – even if the platform itself does not have any resources of its own. Within eight years of its foundation, Uber facilitated 10 billion car rides, while in 10 years AirBnB enabled over half a million short-term accommodations. The described business models were able to reach such a scale despite Uber starting out without any cars of its own, and AirBnB not having any premises to rent.

The elimination of previously existing limitations also facilitated fast rescaling and expansion into the international market. Since transactions between platform users usually require only at most the contact between both parties – without human intermediaries – it is no longer necessary for companies to have physical premises in each country where they want to operate. Instead, it suffices to enable users from different countries access to the platform, and transactions between users can be made without involving the company team (often a relatively small one, in terms of both size and reach of activity). This, in turn, means that in many cases the success is determined by the idea and the moment of its implementation, and only to a lesser extent by factors such as owned resources or workforce abroad.

Furthermore, many obstacles resulted from insufficient amount of available information. Platforms operating within the sharing economy supply knowledge in real time. One the one hand, this goes for the supply of services, i.e. information about what, where, when is available, and from whom. On the other hand, this concerns the demand for the services, i.e. information about where, when and who reports a given need. The development of algorithms made it possible for supply and demand to be combined instantly in order to create optimal and effective connections between service providers and users. Thus, platforms eliminated a considerable part of the information asymmetry blocking the development of the sharing economy.

An important aspect of transactions within the sharing economy is the trust necessary between the parties. In the case of traditional transactions, trust could be based only on trust for the brand, guarantees of the middlemen, or direct acquaintance with the other party. The sharing economy relies to a large extent on transactions between individuals who do not know one another. This is why online platforms introduced a solution based on mutual user rating. Such ratings are usually allowed only after a completed transaction and they enable both learning details about service providers and rating the other party as having fulfilled the agreement made. Thus, platforms are often self-regulating, thanks to the user reputation rating visible to all.

Algorithms and unlimited range enabled platforms to effectively replace human intermediaries on markets where they had existed before. For instance, business based on the management of connections between the two parties – e.g. between carriers and companies that require their goods to be transported. So far, human intermediaries attempted to connect drivers with local businesses in such a way that the lorries would not travel empty. However, this type of activity requires complex coordination between companies and is costly itself. Instead, a platform available to all interested parties can continuously accept offers and applications from both sides of the market, indicate the most effective connections, filter out users with a low rating, etc. At the same time, platforms of this kind take a smaller commission for transactions they enable to conclude. Finally, using data on user activity, platforms are able to improve themselves, their tools and offer better and more comprehensive services according to the reported needs.

As a result of all these factors, new platforms and services appear constantly, changing our consumption, distribution or the way we work.

The true face of the sharing economy

The second half of the report presents results of qualitative and quantitative research and meetings with experts carried out as part of the SharON project "Opportunities for European entrepreneurs in the sharing economy" organised in Bulgaria, Estonia, Poland, Italy and Slovakia. Profiles of companies from five countries participating in initiative were featured as well.

SharON (2017-2019) is a programme working for the competitivity of small and medium enterprises, co-financed by the European Union. The objectives of partners involved in the project were collecting knowledge about needs and challenges that must be faced by European enterprises working in the area of the sharing economy and – thanks to supplying appropriate know-how and skills – increasing their chances for market success and promotion of the sharing economy model.

About the research

- The qualitative research (in the form of in-depth interviews) was conducted in 2018 in Poland with local entrepreneurs. The researchers interviewed 10 companies active in the field of the sharing economy. Quotes taken from respondents' answers included in the study were anonymised and used with authors' permission. Therefore, quotes selected for the research do not describe detailed operations of companies, or the scope of their activities. Nevertheless, the results of international surveys show that many of the conclusions therein apply to other participating countries as well.
- The quantitative research was conducted from July to October 2018 in Bulgaria, Estonia, Italy, Poland and Slovakia. It was preceded by desk research and the already mentioned in-depth interviews with entrepreneurs.
- The results of both qualitative and quantitative interviews helped institutions involved in the project identify companies' expectation as well as challenges and difficulties they must face. An additional perspective was provided by a series of meetings organised in the five participating countries and devoted to the sharing economy. Recommendations collected during these discussions were included in the report as well.
- The report concludes with descriptions of companies participating in the DemoDay event that was held on 15 October 2015 in Warsaw. During DemoDay, companies indicated by each of the countries presented their ideas for a business and its development. The jury selected the Polish company Plenti as the pitch contest winner. The Italian start-up Very Important Choice (VIC) received a special distinction. DemoDay was an event summarising two years of the SharON project.

Where do companies get their ideas from?

The interviewees were inspired to start their business activity by their social environment. The listed sources of ideas included the consequences of the observed trends in the economy, consumption and the start-up sector.

As the research shows, the 2007/2008 financial crisis as well as changing – also as a result of this crisis – consumer behaviour influenced the popularity of the sharing economy. Post-crisis reality was marked by the instability of the job market and lack of financial liquidity. This is why, initially in Western countries more affected by the economic depression, a reluctance to huge spending and long-term obligations started to arise. Saving and more effective management of financial resources became increasingly important. At the same time, customers wanted to maintain the consumption at the previous level, paying less for the purchased goods. This situation encouraged entrepreneurs to look for new business solutions based on models of making resources available and offering services.

Their popularity was also supported by the environmental awareness, concern for nature and sustainable development. An increasingly grounded conviction – particularly among the younger generation – of wasting resources and harmful consequences of consumption for the environment went hand in hand with the attitude claiming it is possible to use things without buying them.

Polish companies were also encouraged by the success of online business working within or – as indicated in the beginning of this report – associated with the sharing economy. Respondents looked mainly at the activity of American market giants while still being aware of problems with the definition and the related potential difference, not only that of a financial nature.

Quotes

> *This is the fundamental question: why should I own a lawn mower? Each neighbour has their own. They use it maybe once a week, for an hour, right? Someone calculated that in the USA a purchased electric drill is in use on average for 16 minutes during its entire life cycle. Therefore, the question arises, should we, show people a shared way to consume and cumulate their savings?*

> *We are being convinced that the more we want to consume, the more we need to earn. Is that really the case? Or perhaps in order to earn more we should consume less, or less expensively? [...] What we would like to change in the social awareness is precisely the attitude towards consumerism.*

Results of the quantitative research

Entrepreneurs in the area of the sharing economy try to respond with their business models to new trends and threats (e.g. those related to the environmental conservation). Business ideas in the sharing economy most often evolve from the observation of the environment and identification of customer needs. In three out of five countries, the identification of market needs was most often indicated as the source for the business idea. However, respondents also declared that their prior business activities, models already functioning abroad, and social causes played a role.

Where does the idea for your activity come from?

	Bulgaria	Estonia	Italy	Poland	Slovakia
I got inspired by a business model already functioning abroad	17%	10%	15%	10%	30%
I got inspired by new trends related to the sharing economy (collaborative economy)	17%	17%	33%	24%	18%
I identified a market need	22%	23%	46%	36%	30%
I wanted to make a difference and improve my surroundings	20%	27%	0%	17%	18%
The idea originates from my prior business activity	24%	23%	5%	12%	5%

Figure 1

However, it should be noted that the results across the surveyed countries varied. In Italy the primary, by far, cause for establishing a business was the identification of market needs (46%). Polish companies (36%) also declared this cause as a crucial one for their business development. Slovak entrepreneurs pointed to the identification of market needs (30%) and being inspired with models already operating abroad (30%). In Bulgaria the most significant source of an idea for establishing a company was prior business activity (24%). Only in Estonia was the social cause indicated as crucial for the development of companies. 27% of the surveyed Estonian companies were established to make a difference and improve their surroundings.

On what markets the companies operate?

Although people who work within the sharing economy in Poland are inspired by trends and companies developing abroad, these start-ups operate usually on the domestic market, mainly in big cities. The reasons are two-fold. Firstly, big cities (over 100-150,000 inhabitants) is where young entrepreneurs who observe international trends and want to capitalise the sharing concept live. Secondly, due to the higher level of consumption expenses and more considerable digital competences inhabitants of metropolises constitute an attractive buyer group. Smaller urban centres are of less interest to the surveyed companies. Lack of demand for and trust towards sharing economy solutions as well as more reluctance to using technology discourage entrepreneurs to investing their time and resources in small and medium cities.

Although the anonymity of a metropolis supports the sharing economy, entrepreneurs declare that their first customers were acquired locally. Friends and acquaintances, as first users of the services offered by developing companies, become ambassadors of the solutions they offer. Apart from promotional activities, the closes circle of people often provides substantive support as well. At the initial stage of a company's development, the proximity of infrastructure and lower transport cost are significant, too. **Beginner entrepreneurs usually reach for their own savings, avoiding long-term financial obligations.** Their priority is the fastest possible launch of their business activity – due to the developing trend. In summary, innovative ideas, primarily due to financial constraints, are often implemented and funded by the company on its own.

However, although small sharing economy businesses develop locally, they see the most potential on foreign markets. **Entrepreneurs are encouraged to expand internationally – especially in Europe – by greater than in Poland popularity of the sharing economy and less attachment to ownership, among others.** But participants of the research realise the costs and challenges related to developing their businesses outside their native country. They indicate financial obstacles and the necessity of having an investor or a partner. They also emphasise the importance of understanding the culture of another country, which is essential for the expansion abroad. It is this understanding of the cultural context that constitutes a greater challenge to entrepreneurs than using the already existing technology and overcoming the language barrier. In theory, technology enables transposing a business model virtually everywhere. However, as evidenced by the conducted interviews, in the sharing economy companies, directions for development are clearly defined.

Although at the initial stage, thanks to smaller distances, lower infrastructure costs or a peer network sharing models operate locally, in a longer perspective entrepreneurs are planning to harness the potential of the international reach. Expansion to foreign markets is attractive even despite stronger competition in this sector of the economy. And its success depends, among others, on suitably high financial outlays and accurate reading of consumer and cultural trends.

<u>Quotes</u>

We are targeting big cities, with population over 150,000. Of course to start with, because first we need to win over the most educated people. In big cities we have the greatest potential to find people [...] who can understand our model. So this is where we start.

I'd like to expand the company abroad, as there is much greater business potential there. Much greater. But we're not going to take this step without an investor. This is serious money. For this, we need to build a new team equipped with the understanding of the local mentality of a given country.

Results of the quantitative research

International expansion – especially to Western markets – is an opportunity for the sharing economy businesses. But companies that participated in the study operate mainly on their respective domestic markets. This is the case for most Estonian (62%), Polish (55%) and Italian (53%) companies. At the same time, they rarely decide to conquer foreign markets. Only 31% of Estonian, 37% Italian and 14% Polish start-ups decided to take this step. International scope of operations is what distinguishes companies from Bulgaria (52%) and Slovakia (48%). At the same time, it was Bulgarian and Slovak enterprises that declared activity on their domestic markets less frequently – the percentage amounted to 39% and 29% respectively. The most active in their closest proximity were Polish and Slovak companies. Among Polish entrepreneurs, 17% operated in the region where the company was located; while 14% were limited to the nearest city. In the case of Slovak companies, 19% of start-ups defined their reach as the closest area; and for 5% it was the nearest city.

Figure 2

Sharing economy companies are usually small. Most of them employ less than 10 people – as is the case for 61% businesses in Bulgaria, 69% in Estonia, 68% in Italy, and 67% in Slovakia. This percentage is the highest in Poland – as many as 76% of Polish sharing economy businesses employ less than 10 people. This situation can be explained in two ways. The first hypothesis assumes that the surveyed companies can be at the initial level of their development and that is why they have few employees. The second – that technology-based business models would not require many employees. Among companies that engage 10-49 employees the leaders are Slovak (29%) and Bulgarian (22%) start-ups. Slightly less enterprises of comparable size can be found in Poland and Italy – both countries the percentage amounts to 21%. The least start-ups employing 10-49 people are active in Estonia – 15%. The most companies with 50 to 249 employees were established in Bulgaria – as many as 17%, and this percentage is exceptionally high compared to the remaining countries.

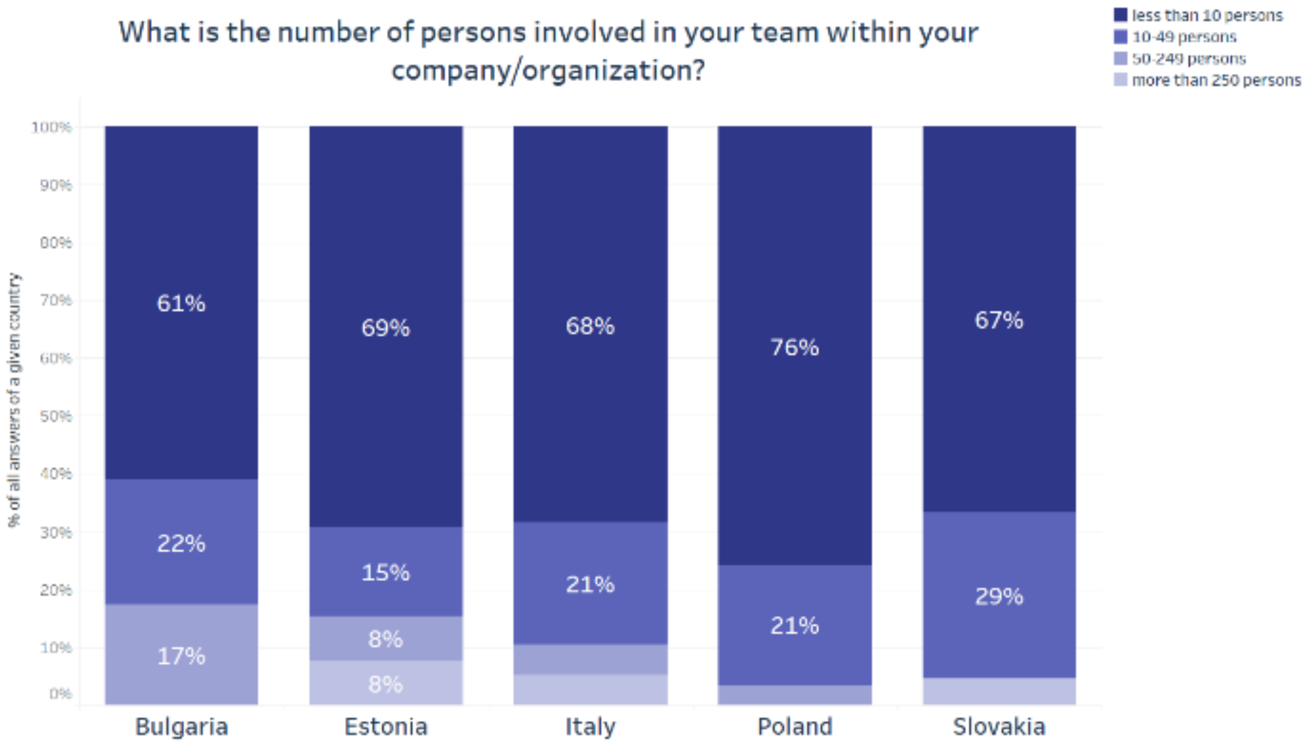


Figure 3

How were the analysed companies built and funded?

Contrary to traditional companies, sharing economy businesses benefit from relatively low initial costs and the speed of implementation. Beginner entrepreneurs usually reach for their own savings, thus avoiding long-term financial obligations, e.g. bank loans. Support is significant as well – both financial and substantive – received from the closest relatives and friends. They allow companies to save on subcontractors' services. However, regardless of the funding method and organisation, the priority at the initial stages of the company's life, due to the developing trend, is the fastest possible launch of the project.

Quotes

This project is financed entirely by my and my associate's savings. In fact, without any external financing. Including the fact that we haven't even taken out a loan from a bank.

A friend prepared the graphic design, and I took care of developing the platform. […] as some people say, "if you're not embarrassed of what you're launching, you're launching it too late." So in a way we were embarrassed of it a little, because it still lacked many features, but we decided that we shouldn't wait any longer.

<u>Results of the quantitative research</u>

The factor of the greatest significance at the start of a business is own financing. Companies financed by entrepreneurs' own funds were the most frequent in Poland (54%) and Bulgaria (53%). Equity was slightly less important for companies from Estonia (47%) and Slovakia (43%). Such a solution was the least popular in Italy (32%). Entrepreneurs sometimes started their business activity also using funds obtained from investors. 35% of Slovak, 29% of Italian and 24% of Estonian companies used investors' help. Much ore rarely financial support from investors was used by Bulgarian (13%) and Polish (6%) businesses. All remaining sources of funding, including public money (e.g. European funds, or state funds) and private funding (e.g. crowdfunding or bank loans) were decidedly less important for the entrepreneurs. For instance, only 3% of Italian companies used European funds. No Slovak company took advantage of the potential of state funds. At the same time, no Estonian enterprise declared taking out a bank loan at the beginning of their activity.

What are the most crucial sources of funding in your company?

	own capital	investor	EU funding	tangible support (e.g., goods, materials, and services)	domestic public funding	crowdfunding	bank credit
Bulgaria	53%	13%	5%	13%	5%	3%	8%
Estonia	47%	24%	12%	0%	12%	6%	0%
Italy	32%	29%	3%	6%	9%	12%	9%
Poland	54%	6%	10%	4%	4%	10%	12%
Slovakia	43%	35%	17%	0%	0%	0%	4%

Figure 4

Each of the surveyed countries was marked by a different revenue breakdown, which made it difficult to make any generalisations in this area. For example, in Bulgaria the most significant source of income were subscription payments – they were indicated by as many as 37% of the studied companies. In Polish (34%) and Estonian (29%) businesses, the most important sources of income were commissions from the customers. The key for Italian companies were commissions on both sides of the market (22%). But the importance of the commission from service providers reached the same level. The revenue breakdown was similar in the case of Slovak companies – each of the solutions listed above was indicated by 25% of the surveyed businesses. Typical for every country, with the exception of Italy (17%) was relatively small income from selling data.

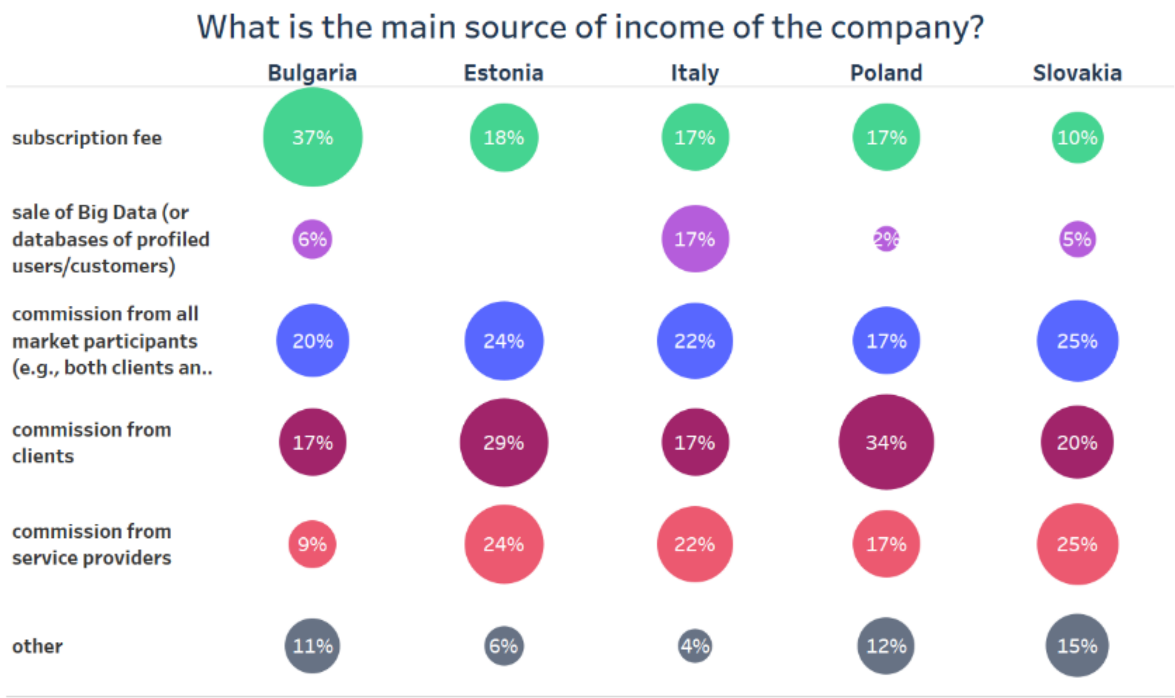


Figure 5

What is the level of technological advancement?

Polish companies do not make use and, what is one of the key conclusions of the research, do not plan to use the potential of advanced technologies. Quite the opposite – Polish enterprises more readily base their business models on simpler technological solutions which they use mainly for promotion and making their products and services available. Only few start-ups aim at implementing advanced technologies, such as full automation. It can be forecasted that in future it will be one of the factors halting companies' development and international expansion. Because advances technological solutions enable connecting various market actors and, in consequence, develop more quickly.

However, even the most reliable technology cannot replace trust for the brand and products or services it offers. All entrepreneurs participating in the research emphasised the role of trust and direct contact with the customer. Because technology only simplifies exchange processes that are based on trust to a company and trust between two parties present on the market: those who offer and those who use goods and services. At the same time, it is technology that serves as a tool to earn customers' trust. Firstly, companies invest in direct contact with their customers thanks to their activity on communication channels designed to shorten the distance. Secondly, they also try to break mentality barriers and convince their customers to trust the sharing idea through educational efforts. It is a common conviction among Polish businesses that education of potential customer base is an investment in the development of their business model.

The respondents also pointed out that depending on the offered goods and services, direct customer service is important as well. The human factor is crucial when e.g. start-ups are offering services addressed to a more demanding customer. They would rather receive personal support or advice than an algorithm. So, although automation considerably facilitates the functioning on sharing-based models, it is not always an effective solution. Quite the opposite – it can harm models in which it is implemented.

Quotes

[…] from the beginning it was essential to us that the platform is automatic. And even until this day we are not 100% automatic; in certain situations we need to operate manually. But if we were to estimate on a scale from 0 to 100%, where 100% is fully automatic, then today we're somewhere around 80%.

At the beginning we wanted all our customers to make their purchases without a human intermediary. But we realize it won't be as easy as with platforms working on a similar basis to e.g. Uber. […] there is a lot to automatize and to implement artificial intelligence. But we also realize that the form of our service and customer profile forces us to provide also other services, not only automation.

Of course the issue of trust is significant, I consider it to be absolutely crucial. But I believe that by promoting the information we can change it. We build trust for out business model mostly through education.

Results of the quantitative research

What companies consider indispensable for their development are less complex technological solutions which are used for marketing activities and payment transactions. Developing tools for electronic payments is the most important for Estonian businesses (31%). Also in Poland, Bulgaria and Slovakia over 20% of the surveyed companies are interested in electronic payments. Mobile apps are of the greatest importance for Estonians (31%) and Slovaks (26%). Developing social media profiles for marketing purposes is a priority for entrepreneurs from Bulgaria (28%) and Poland (29%). Slightly less popular are solutions which in a long term could become a competitive advantage, e.g.

the application of machine learning algorithms or geolocation data. In none of the studies countries the level of interest in machine learning algorithms, used e.g. for customer profiling, exceeded 20%. Italian companies were the most interested (18%) in machine learning techniques. These solutions were the least popular among Estonians (13%). Companies' interest in geolocation solutions was at a similarly low level. Geolocation services were the least important for business development among Estonian (9%) and Bulgarian (11%) enterprises. However, it should be noted that the potential of solutions of this type was noted by 24% of Italian and 23% of Slovak companies.

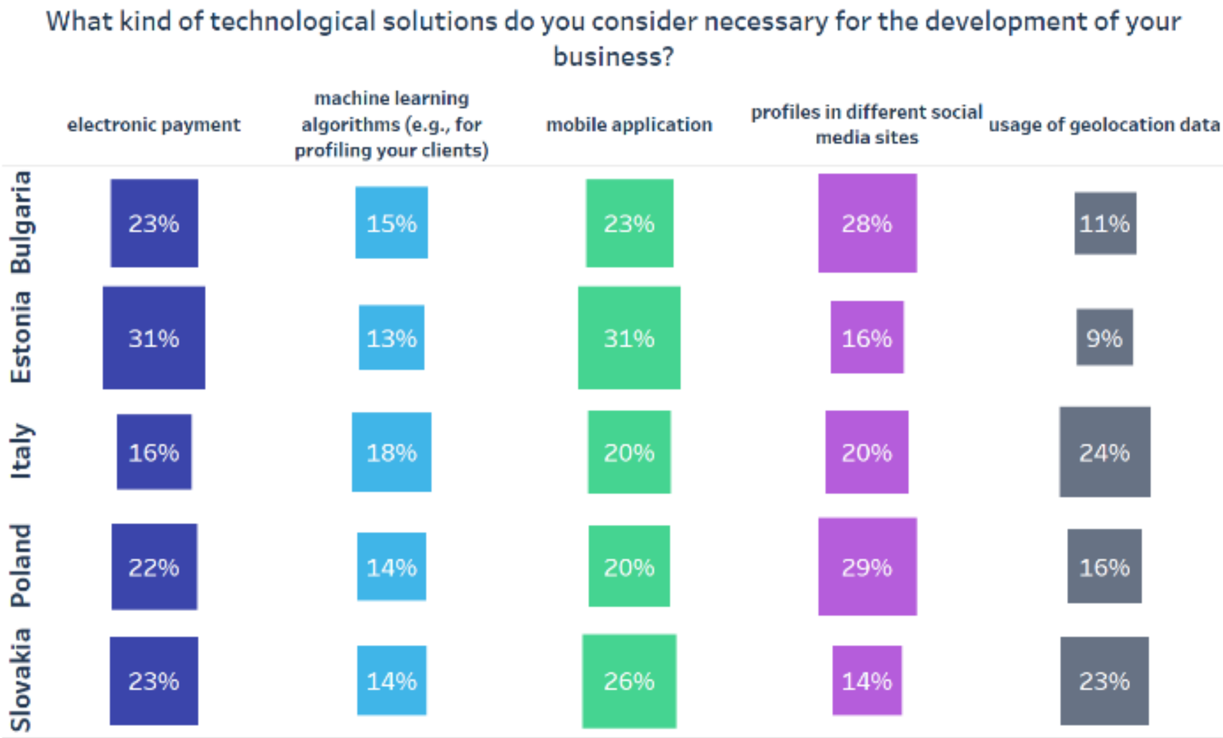


Figure 6

The companies did not see their competitive advantage in implementing advances technological solutions. The surveyed enterprises believed solutions such as data analytics or algorithm application did not sufficiently distinguish them among their competitors. In all studied countries the percentage of businesses treating data analytics as their competitive advantage did not exceed 10%. Furthermore, using data to inform decisions was not considered competitive advantage for any of the Slovak enterprises. Similar results emerged from questions on using algorithms. This situation can be explained in two ways. Companies may not be at all interested in implementing more complex solutions, or they may not be interested in them at a certain stage of their development. The surveyed entrepreneurs more frequently considered experience, soft skills or the way of conducting business as their strengths. For example, know-how acquired throughout previous professional experience was important for 19% of Bulgarian, 21% of Estonian and Polish, and 23% of Slovak companies. Slightly less, 17% of Italian companies considered their know-how as their strongest asset. The social and ethical dimension of their business activity was important to entrepreneurs as well. Estonian companies were particularly distinctive in this regard – as many as 27% of them declared social and ethical dimension of their activity as their biggest strength.

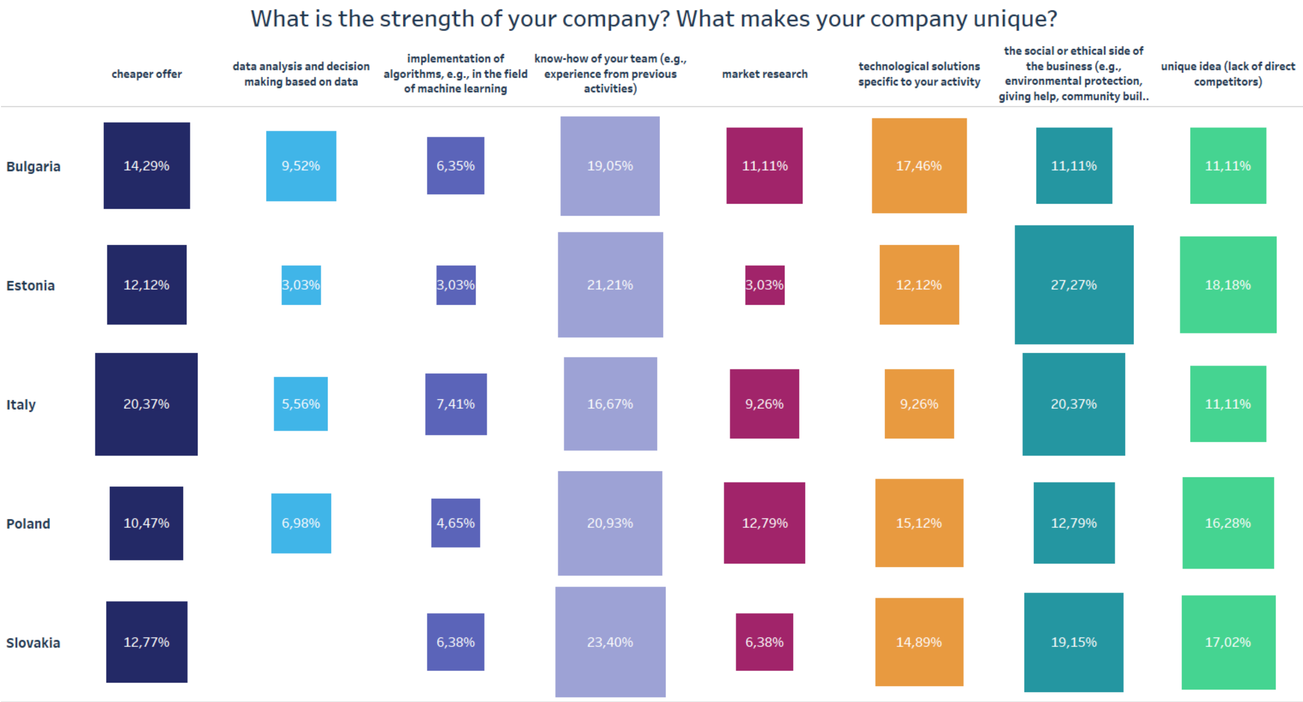


Figure 7

What are the greatest challenges for businesses?

One of the key challenges companies have to face is convincing potential customers that exchange can replace purchase or even be a superior solution. Attachment to ownership which constitutes an obstacle for the rental trend is particularly typical for post-communist countries such as Poland. However, it is not only the mentality that does not keep up with changes on the technological market and global trends. Public administration institutions and, as a result, Polish law, equally lack adequate adjustment. Due to lack of a precise definition of the sharing economy and lack of regulations at a national and European level, the biggest obstacle to business activity is lack of understanding on the part of the public administration. This lack of regulations, in turn, results in less appeal of the sharing economy sector for employees, including temporary workers. Because the failure to adjust the institutional reality of the changing consumer models makes it impossible to offer them competitive pay.

But outside of external factors, such as customer habits or lack of proper regulations, entrepreneurs also indicate difficulties resulting from the very idea of the sharing model. The essence of the sharing economy is understanding and catering to both sides of the market participating in the sharing of goods and services. Beginner entrepreneurs not always realise this double workload. Another challenge which requires significant financial expenditure is simultaneous development of physical infrastructure (in the form of offices, warehouses, or collected objects) and technological infrastructure (e.g. websites, promotional activities). Similarly, to both sides of the market, in this area, too, companies that are starting out must be active in two different areas at the same time.

Quotes

> *[…] people like to buy and own their things. The don't see that you could just rent something for a single occasion. So breaking that stereotypical thinking, the habit, is our greatest obstacle. Teaching to function is a slightly different new system.*

> *The main advantage and disadvantage of the sharing economy is the fact that it relies on trust. This is why we introduced the rating system [of users – author's note]. We looked at research indicating that young people rely on online reviews. That they are sometimes more important than other factors.*

> *First, one of such challenges that we had to face was to fund platform implementation, and partly also the maintenance of our location. After all, we need a physical space to do everything. And no one is giving spaces away for free. We've look long and hard for a venue suited to our needs.*

Results of the quantitative research

Securing funding and acquiring new customers are the greatest challenges for the surveyed companies. Finding new sources of funding is a problem mostly for businesses from Bulgaria (24%), as well as Poland and Italy (both 20%). Meanwhile finding new customers was considered the most problematic by Polish (26%), Bulgarian (22%) and Italian (20%) companies. While listing various difficulties, entrepreneurs often mentioned earning trust and regulatory obstacles. Building trust was the biggest challenge for businesses from Bulgaria (19%) and Italy (18%). Regulatory obstacles were the most hindering for entrepreneurs in Slovakia (19%) and Italy (16%). Marginal problems were related to strong competition, difficulties in securing the support of local authorities or small market demand. Each of these challenges was important in the studied countries for less than 10% of the surveyed businesses on average.

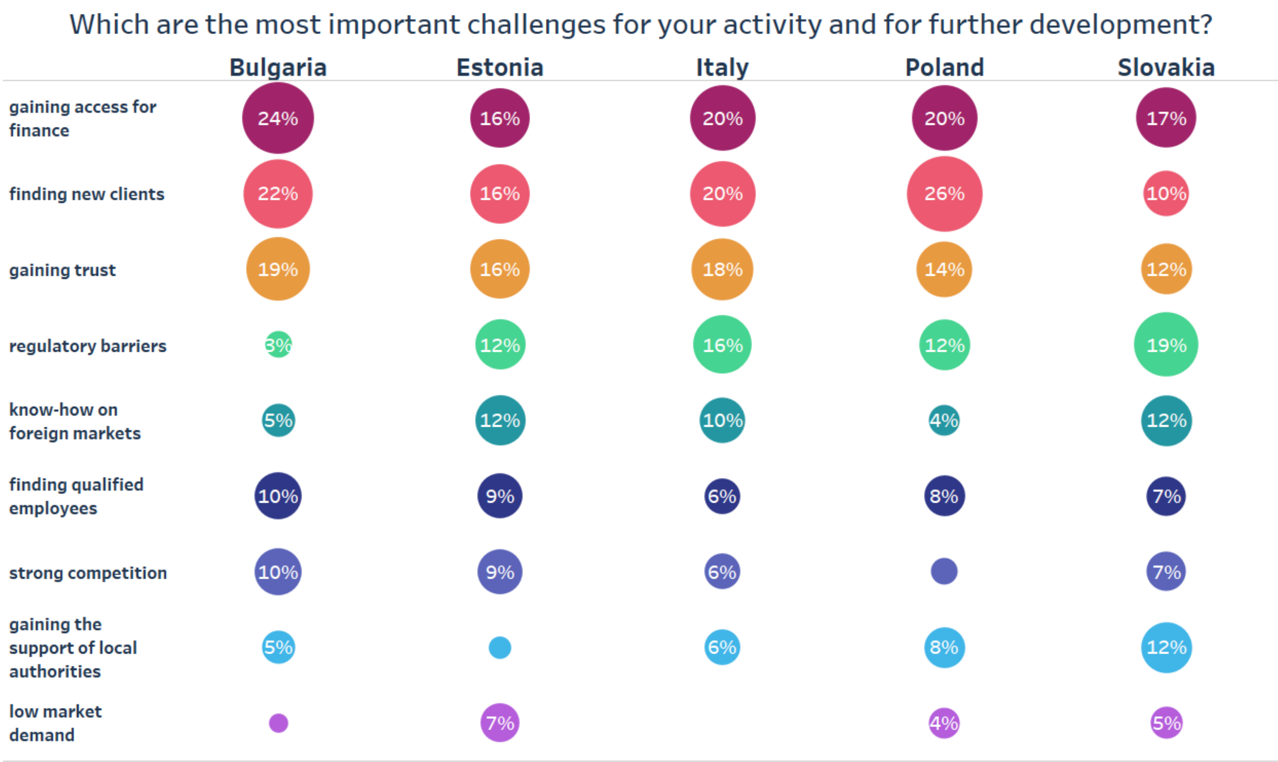


Figure 8

Recommendations

How to boost the sharing economy in the European Union?

Partners from five countries invited experts, public administration representatives and sharing economy practitioners to discuss the potential of the trend. Guests participating in debates and meetings defined key obstacles for the development of companies starting their activity in the sharing economy sector. They also deliberated on how to simplify and streamline their activity. Finally, they evaluated the chances for cooperation between commercial entities and public administration institutions. The work resulted in five key recommendations which, according to the participants of the consultations, constitute a basis for developing the sharing economy in each of the analysed countries as well as at the European level.

→ **Clear definitions** – in the European Union the sharing economy is only at the initial stage of development. However, it is becoming a significant business playground for entities that have not only different ideas but – above all – different financial and scaling potentials. Therefore, the most needed action from both the European Commission and national/local authorities is developing a clear definition of the sharing economy. First of all, such definition could determine if an entity is a sharing economy enterprise. Secondly, a set of criteria could help to differentiate between large scale and mature businesses (e.g., corporations, professionalized companies) and smaller, local, and – very often – cause driven companies. These distinctions are important for several reasons. They help identify and boost companies and organisations using the sharing economy potential. It helps to boost companies and organizations taking advantage of the sharing economy potential. Moreover, they enable to reduce abuses by entities that use the term sharing economy only for image-building purposes. Eventually, the clear definition will allow for levelling the playing field in the sector thanks to fairer competition and providing support for companies forking for the social interests, e.g. protecting the environment.

→ **Legal framework adjusted to the supranational model of the sharing economy** – the above-mentioned clear definition of the sharing economy concept is the basic condition for building a legal framework. With suitable resources and commitment, sharing economy enterprises can develop also beyond the borders of the country where they were established. As the result, the business model could operate globally, regulations are set at the various levels (e.g., European, national level), and effects of platform activities appear mostly within local ecosystems (e.g. cities). In consequence, big players on the market (such as AirBnB or Uber) have a significant, but not always positive impact on local communities (e.g., hotel or transport industry, etc.). Therefore, the representatives of central, local governments and European authorities should take part in developing the EU legislation. And the interests of mature, for-profit enterprises, developing companies, and social entities should be all taken into consideration. What is also important, regulations at the national level should be preceded by the definition of public policy goals towards the sharing economy concept.

→ **Creating new rules for the new business model** – the sharing economy also redefines relationships between customers and service providers. In this context, two issues are of key importance. First of all, legal framework has to ensure consumer rights and safety of both service providers and service users. They should also account for the interests of local communities whose welfare is – often negatively – impacted by sharing models. Prosumers should be broadly and consistently informed about the regulations concerning the protection of customer and employer rights, as well as tax regulations. At the same time, companies' activities must not be disadvantageous to less privileged social groups (e.g. due to their income or place of residence). Mitigating the negative effects of online, often corporate platforms and promoting the essence of the sharing economy, which is social-driven value creation, may be one of the main objectives to be met by such regulations. Secondly, regulations should support the sharing economy model, enabling companies and organizations to act faster and more efficiently. Although during the meetings in five participating countries, various ideas were proposed, the researchers' team distinguished several key recommendations. Due to the limited space of this analysis, the two key recommendations are presented below:

- standardizing digital policy for collecting fees or other money transfers in order to provide both users and businesses with a secure transaction system;
- classifying cause-oriented (e.g. reducing waste) sharing economy entities as non-governmental organizations.

At the same time, national governments should promote the development of the sharing economy and provide support for SMEs (e.g. access to funding or opportunities to expand to international markets). Thirdly, the legal framework should specify the ways to manage possible conflicts. As already mentioned, due to the network effect, the sharing economy connects customers and service providers operating in different countries, legal systems and cultures. The legal framework should include ways of resolving disputes that will not discriminate against any of the parties involved.

→ **Inclusion of the sharing economy into the urban ecosystems** – sharing economy services gradually transform cities and metropolises. To take full advantage of the sharing economy (e.g., better management of resources, environmental protection), metropolises need to have a strong voice in the regulation debate both at the national and European Union level. For instance, various public associations can be a good place to work out a common position (e.g., the Union of Polish Metropolises or the Association of Polish Cities). However, when implementing solutions, cities should take into account several issues. Firstly, only deeply embedding – for instance through various discounts or tax reliefs – sharing economy entities into urban ecosystems enables increasing and harnessing its potential. Just to give an example, transport platforms offering car or scooter sharing could operate as a part of local transportation systems under similar conditions as the public transportation. Secondly, local governments should evaluate the sharing economy effects in their area and identify the negative social phenomena (e.g., gentrification of districts) associated with this business model. Then, at the request of municipalities, legislative initiatives at the national level could be taken to mitigate negative effects on metropolitan communities. Thirdly, as the sharing economy has a significant impact on local ecosystems, cities should develop information campaigns devoted to the topic (e.g. rights of local communities, obligations of owners of the shared goods or environmental consequences of the new economic model.) Furthermore, by promoting the idea of the sharing economy, cities can also strengthen local ties, contributing to the better functioning of communities in districts. Fourthly, cities often have different objectives (e.g. reducing tourist traffic or – quite the opposite – supporting it). This is why particular cities should participate in shaping regulations concerning sharing economy models. Fifthly, in special cases the city could give support to sharing economy platforms, e.g. by making city data available, to support their effective functioning.

→ **Investing in knowledge and trust** – together with the increase in the popularity of the sharing economy, the need is growing to build know-how in this area. Considering the transnational character of sharing economy companies, the solution could be provided, for example, by creating an international platform for exchanging knowledge and experiences. Such a tool could be of great benefit while determining needs, opportunities and obstacles for companies and entities active in this area of economy. As it has already been underlined in the results of the qualitative research, the key element of the development of the sharing models is trust in the company and between partners in the transaction. Therefore, the exchange of goods and services based on the platform model, should be especially promoted in the countries with a significant lack of social trust (e.g., post-communist countries). In summary, the sharing economy concept requires promotion not only from corporations noticing its financial potential, but also from the public authorities. Benefits stemming from the sharing economy (e.g. environmental protection or building social capital are of a non-commercial nature and they affect the quality of life of urban communities.

Participants of the SharON programme

On 15 October 2019, during the finale of the acceleration programme, selected enterprises presented in Warsaw their ideas for businesses. Participants of the programme were in agreement that the participation in this endeavour allowed them to set new goals and directions for their business activity, identify needs and targets, and develop marketing strategies. The report also contains information about teams, company histories and their plans for the future. The winner of the SharOn Academy programme is the Plenti team. Their idea won the jury over with the maturity of the business model and its rootedness in the ideals of the sharing economy.

Shipper, Estonia

About the team: Shipper is formed by three people: Olavi – Shipper' initiator, responsible for its development; Kalli – graphic designer, tasked with preparing slideshows and presentations as well as copyrighting (privately Olavi's wife); and Timo – in charge of finances and marketing.

Company history: for Olavi, the spark to establish Shipper came from online posts by users swindled by dishonest sellers. He also remembered that as a young boy, he ordered a computer, but instead of his dream equipment he received a pack of sugar. Shipper was created to counteract such practices.

Plans for the future: Next steps for Shipper include building a test system, finding product testers and, eventually, first customers. Young entrepreneurs would like Shipper to operate outside Estonia as well, and to have offer for sellers and buyers on social media markets, and owners of small e-commerce sites. The founders are hoping that the platform will draw millions of users, and their daily turnover will exceed a million euro. In future, they would like to sell the system to a larger company.

VIC (Very Important Choice), Italy

About the team: Sara Francesca Lisot is the founder and the general director of the company. Since its inception, the company receives support from many involved experts. One of them – Mattia – is also one of VIC co-founders. He is in charge of quality protocols and company identifiability. The team also collaborates with a lawyer specialising in the fashion industry, photographers and media producers, several experts on sustainable development and professionals serving as brand ambassadors.

Company history: The mission of VIC is providing an affordable alternative to fast fashion. Thanks to the company strategy, sustainable fashion brands are to become more accessible and thus change the way fashion is consumed and perceived in Europe. The most important thing for the project creators is care for the environment, innovation and improving their users' quality of life. They want to rent out only 100% sustainable product and make these clothes an everyday choice, not just something for special occasions. A lot has change during the company building process – the name of the service, the target market and the business model. But ideas behind VIC remained unchanged.

Plans for the future: VIC plans to carry out broader tests of the platform in Italy and European cities markets.

MyEducationClub (Virtual School Ltd.), Bulgaria[7]

About the team: Virtual School Ltd. was one of the first start-ups selected for the SharON programme target group. Their social network – MyEducationClub – is the first initiative of this kind in Bulgaria, enabling sharing knowledge and skills. The platform can be used to learn or share one's

[7] The platform was presented during the SharON pitching event in April 2019. The company was not selected to particpate in the bootcamp. Nevertheless, the EEN team analyzed their needs using Innovation Health Check.

knowledge in the area of, among others, entrepreneurship, digital marketing, building websites, business management, or SEO. There is no shortage of information about more traditional disciplines (mathematics, geography, history, or Bulgarian language) or hobbies (cooking, playing instruments, embroidery or chess). Users' activity on the website is rewarded with virtual point which they can exchange for services and training.

Company history: "No one knows everyone, but everyone knows something" – is the motto of the platform. The company was supported by the EEN team that analysed its needs and objectives, and offered to work with them on the business development plan. The EEN team also advised them on the search for an investor, as well as public speaking. MyEducationClub managed to attract seed capital investments of 50,000 euro. It enabled them to add new features to the service and increase their user base. So far, there are 700 registered users on the platform. MyEducationClub operates in Bulgarian and English version is still in development. The entrepreneurs also made their first forays into the Russian market.

Plans for the future: The EEN team works with MyEducationClub on new services and segments such as knowledge exchange or networking between users.

Plenti, Poland

About the team: Plenti is an online platform which enables renting electronic devices delivered straight to your door. The team comprises six people, some of whom have been friends since high school. Members of the team divide among themselves tasks related to logistics and operations, IT, and marketing and finances. But the most important thing is cooperation between departments. It is cooperation, as well as research and observation of trends, that became the key to the team's success.

Company history: The founders of Plenti have been observing the start-up market, at the same time supporting the ones interested in succeeding in the electronics sharing sector. Conscious of a low level of trust in sharing among Poles, the team tried to develop a new vision for the company. Participation in the SharON Academy was an opportunity to present their idea to a broader audience, and verify its strengths and weaknesses. During the programme, the team had also opportunity to meet entrepreneurs, investors and, above all, other start-uppers. Their tips and forged relations are among the most important values of the programme.

Plans for the future: The team is currently working on expanding their operations beyond Warsaw. "We are hoping that soon we will appear in other cities in Poland and abroad. Increasing the scale of our activities is an immense challenge and a huge responsibility," says Wojtek Rokosz, one of Plenti founders. The next task for the team will be remodelling the mobile app, which certainly will require a lot of work.

Carrivederci, Slovakia

About the team and its history: Carrivederci is a start-up launched in July 2017 in Bratislava. It aimed at creating a community of people who will share cars. In the sharing economy, the founders see a chance for sustainable and eco-friendly resources management. Despite the initial inspiration provided by foreign start-ups, Carrivederci decided on a B2B model. In 2019 the team joined the SharON Academy programme and reached the final stage.

Plans for the future: In the nearest future Carrivederci will work on narrowing down and detailing their business plan. The current challenge is making the company stand out against other car sharing start-ups which had not yet achieved a spectacular success.

Acknowledgments

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