Author: Daniel Libertin (Trade News, November 2017)
Translated version

Philippe Gugler:

"Sharing economy can't be stopped It's a new reality we need to adapt to"

Prague has recently suffered from a traffic collapse due to taxi drivers' strike against Uber, one of the best known sharing economy services. The resolution has been postponed for now by the Prague administration, but if Prague chose to ban or restrict Uber's services, it wouldn't be the only city in Europe to do so. For example, Uber has recently been banned in London, and it cannot operate in Berlin and other German cities, either. Professor Philippe Gugler, a respected Swiss economist and director of the Center for Competitiveness of the University of Fribourg, argues that Uber can never be completely stopped. We talked to Professor Gugler about sharing economy and its impact on SMEs when we met at a conference on sharing economy held recently by the University of Economics in Prague.

Why do you think there is no stopping Uber?

Taxi drivers and governments are mostly using their bargaining power. They know that they need more time to adopt the right regulations or modify the existing ones. By banning Uber, they give them the signal that they cannot be trying to find loopholes in the existing regulations – labour or safety regulations to name a few. Once they comply with all these, I believe they will be able to offer their services.

Overall, many sharing economy services are using loopholes in the regulations, and that raises many problems. Therefore I predict many regulations to be implemented. Any attempts to ban sharing economy are pointless. Some companies are even lobbying with governments against sharing economy services – but that doesn't make sense, since they will only be able to stop them for a while. SMEs in particular shouldn't waste their time and energy fighting against something that's a clear trend – I'd like to stress that right at the start.

We assume that most of our readers will know the term sharing economy, but still – could you please briefly describe what it means?

Sharing economy is a new economics trading system, and most of it is realised digitally. What is new here is that there are private individuals who share their services, resources or other assets through online sharing platforms – sometimes this can be free, sometimes for a fee. The best-known examples include Uber, Airbnb or TaskRabbit, that is widely known in the US and where you can exchange all types of services, from gardening to moving services or electrical installation. I'm sure the service will soon spread all over the world. But you can also exchange data in a similar way – an example of that may be London Data Store – perhaps not so well known, but equally important.

Sharing is based on flexibility

What's the typical business model of sharing economy services?

Their business model is all about flexibility. They don't have many fixed costs on facilities, devices or administrative staff. There are not so many barriers to enter the market and they can also exit quite easily. By contrast, traditional businesses need to build, buy or rent and set up all facilities, hire and pay for staff. When you are a sharing economy business, everything is online, and you can save many office and staff costs, as a lot of the business is done directly with the customer and your staff can work from home or in the field. That's a completely different business model, and also a different, much more connected and virtual value chain.

How about marketing, do social media rely more on social media?

Yes, sharing economy marketing is less about the one-way vertical relationship with the customer, and much more about the two-way interactive communication between the seller and the buyer. Another important factors are online customer reviews and testimonials, which are crucial for sharing economy companies. You can see that traditional companies are also adopting these new marketing strategies.

What about human resources?

Human resources are and will be a big challenge for sharing economy. Traditionally, there are many points like minimum income, pension schemes, sickness schemes, safety regulations safeguarded in labour contracts, but very few of these are adopted by sharing economy businesses. For taxi drivers for example, there are regulations in many cities that they can only drive for a certain number of hours, which also means safety for the customer. But there's none of that with Uber.

Pros and cons

What are the main reasons for such unprecedented success of sharing economy these days? Have the traditional companies underestimated the risk?

- " Speed, flexibility and ease of use. Those are the main reasons of sharing economy's success." (Philippe Gugler) -

Perhaps traditional companies have underestimated the impact of the internet, especially in the way that internet can make all transactions easier. Internet has dramatically reduced the importance of intermediaries, who would typically take a commission, which increased the price by some 10-15%, extended the time of delivery, decreased the customer's choice of supplier etc. Another advantage of sharing economy is its speed – the services are being delivered real-time. The customer doesn't get the deal next week or tomorrow, he or she gets it right now. The speed, flexibility and ease of use for the customer are the main reasons of sharing economy's success and something that other companies should have thought about much earlier.

Look at the example of traditional airlines which were completely challenged by low-cost airlines. If you wanted to buy air tickets twenty years ago, you had to go through a travel agent – there was very little that the customer could decide, and it was costly. Then came low-costs, and this business model was finished, and soon other airlines have enabled direct ticket booking through the internet, all thanks to these newcoming companies. I see this as the first step toward today's digital and sharing economy that gives the customer more flexibility and puts him in the centre of all decision. Companies in all industries have to keep in mind that even their industry may be challenged by this one day and that it will be their turn to adapt, or die.

What are the pros and cons of shared services?

The positives include more competition in a given industry and thus more innovation – that means more choice and better quality for the customer, as well as the lowest prices possible for the customer. A clear negative is that these new businesses are often not complying with the regulations, but that's rather an issue of the existing regulations and a huge task for governments to update those. For traditional companies, especially those serving products or services with low differentiation, there's a risk that they won't catch up once these new competitors enter their market – but if they're able to innovate, it should only be a short-term risk.

Should SMEs feel threatened?

What's the biggest risk or threat of sharing economy specifically for SMEs?

While big companies have enough resources to fight, or even to acquire sharing economy businesses, for SMEs it's much more difficult. If you're an SME providing services such as house rebuilding, painting, plumbing etc., you don't have that much flexibility – you don't have many employees, and you cannot change their number as you like. And these will be challenged by sharing economy the most. If you want to have your house repainted, it has to be much quicker these days – you want to see the quote much earlier than in a few days. And that's something that craftsmen may not be able to offer.

Another point is the supply chain and logistics. As an SME, you don't often have the warehouse space to keep all your goods in stock, and that extends the possible time of delivery. By contrast, sharing economy services may have much shorter supply chains and may cooperate with other sharing economy agents within their supply chain, who are already used to higher flexibility. In my view, all the traditional value chains will be completely turned around, and in a way that is not in favour of SMEs.

How can sharing economy help SMEs? Can they get some inspiration from it?

Any SMEs can be part of those new value chains of sharing economy, or they can have partnerships with some sharing economy agents, like some digital-only companies. Their advantage is the technical know-how and experience, which they can offer in exchange for the new business model and knowledge of the digital market. I'm sure that in a few years, the sharing economy landscape will be different – there will perhaps be some conglomerates. Just one example is car sharing – it's not just about the individual who shares their car, but now car manufacturers, banks and insurance companies also want to be involved. I see it as a big opportunity of SMEs to get involved in these clusters, too.

Moreover, any traditional companies have a great advantage in that they are well established in the market and have good reputation. They should build on that. If you are a well-known, experienced company that people know and can trust, and offer the same type of services with the same flexibility, I believe the customer is always more likely to choose you.

Europe still behind the US

In the US, 9% provide services through some form of sharing economy. What are the figures for Europe?

I don't have the numbers for Europe, because it's very difficult to measure. But the trend is definitely going to continue and expand, also thanks to demographics. Young people but even people from my generation are used to doing almost everything online, including shopping and ordering services. Today's 15-25 year olds will be the new main buying force in the near future. Plus, older people will soon have a reduced mobility, which again increases the importance of digital economy as well as the fact that today's 50-60 year olds are perfectly used to using the internet for most things, too. SMEs as well as other companies will have to follow this trend, and take it as an opportunity to diversify their services for instance.

In which industries do you expect the sharing economy principles to expand the most in the coming years? Which industries will remain immune?

Service industry is the most obvious one. But since sharing economy is closely connected with digital economy, all industries will be affected to some extent. The impact on manufacturers may be as follows: when people share their cars or gardening equipment for example, their sales and production will get lower. Manufacturers will therefore need to offer some extra value, and become more connected with the services sector, and maybe even offer some sort of sharing platform themselves.

Also, the role of intermediaries will continue to decrease, since they add little or no value to the product – the value chain will become more integrated, and seller-buyer transactions will become more direct. Even with pure manufacturing companies, I'm not really sure if they will still be able to rely on the traditional ways. They will still be challenged by the higher flexibility and shorter delivery raised by the existence of sharing economy.

- "The future is in non-scientific innovation." (Philippe Gugler) -

What's the relation between shared economy and innovation?

Innovation is no longer only about scientific discovery and research & development. The future, in my view, or at least what's relevant to business, is mostly in non-scientific innovation, namely business model innovation. Look again at low-cost airlines – they used the same aircraft, the same airports, the same equipment as big airlines, but the only thing they innovated was their business models – and it was key to their success. That's exactly what sharing economy is doing – the way to do business, the way to organise their activities, the way to try to serve the existing needs of customers differently. We can also see that they have managed to find newly emerging customer needs or start using resources that were not utilised so far. And that's a huge inspiration for any business.

Bio:
Professor Philippe Gugler is a Swiss economist, director of the Center for Competitiveness of the University of Fribourg and president of the Department of Economics at the Faculty of Economics and Social Sciences at the University of Fribourg. Before, he served as Dean of the Faculty. He is Affiliate Faculty Member at the Institute for Strategy and Competitiveness led by Professor Michael Porter at the Harvard Business School. Since December 2012, he is Chairman of the European International Business Academy (EIBA), an Association of Academics and Practitioners of around 600 members. Since January 2014, he is Editor in Chief of the UK scientific journal *Competitiveness Review*. He is also board member of several institutes in Switzerland and abroad (Thailand, Italy, Netherlands). You can find more info on Professor Gugler's work on www.unifr.ch/pes and www.unifr.ch/competitiveness/en.