

## THE NEW NORMAL: THE U.S. SHARING ECONOMY

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### WHAT IS THE SHARING ECONOMY?

In the United States, the sharing economy is no longer out of the ordinary. It is beginning to be accepted without resistance. More business travelers head to airports in locals' cars and stay at guest houses in their destinations, instead of using taxicabs and hotels. The reason is that the new alternatives provide higher quality and lower prices than the traditional means.

The sharing economy refers to "an economic system based on the sharing of things that would otherwise be wasted, such as unoccupied spaces, vehicles, and goods, or sharing service itself." The concept is not new, and it has been around for a long time. For instance, to plow fields, people would often borrow from neighbors farming instruments that were not being used, which is similar to the sharing economy. That said, there is a big difference: the sharing economy, recently flourishing in the U.S., is business. Information technology makes it possible to share with the world any and all information, such as when, who, where, and what to offer or use, thereby facilitating matching between providers and users. With a smartphone, anyone can now have easy access to such service.

Behind the mushrooming of sharing-economy companies in the U.S. is the fact that frustrated traditional-service users created business models utilizing information technology. Many of these companies have been formed in California, home to IT ventures.

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### THE WAVE OF THE SHARING ECONOMY

The sharing economy market is expected to reach approximately 40 trillion yen<sup>1</sup> by 2025. Leaders in the sharing economy, Uber and Lyft, both headquartered in San Francisco, are companies that give rides in private cars driven by owners who are non-professional drivers, to destinations such as airports, as mentioned earlier, and the growth of these two companies drove San Francisco's largest taxicab company Yellow Cab, to file for bankruptcy at the beginning of 2016. Debuting in New York in 1897, the taxicab has over 100 years of history, but its existence is being threatened by startups that came into the world just a few years ago. Initially rejected repeatedly by the taxicab industry, Uber and Lyft cars were banned from airports, and in the state of Nevada, their business operations were not permitted until recently. However, most airports have opened the gates to the startups, and Nevada, too, permitted their business operations in the fall of 2015. Their services are spreading widely and are now available in about 190 cities nationwide. In New York, the birthplace of the taxicab, the number of Uber drivers has surpassed that of taxi drivers.

San Francisco-based Airbnb launched a service to match lodging seekers and room owners. While the Hilton Group spent 93 years gaining 610,000 rooms in 88 countries, Airbnb's list of lodgings expanded exponentially to 650,000 rooms in 192 countries in no more than four years.

That said, there are still many people reluctant to use driving or lodging service in the U.S. However, such services have employed a system for mutual evaluation by owners and users. In the case of Uber, for example, if an evaluation score is below a certain level, the user or owner will no longer be able to use the service. Consequently, Uber can deliver higher service quality than general taxicabs, and in the sharing economy, mutual evaluation is the source of quality maintenance. What is more, Uber provides personal injury and property damage liability insurance, while Airbnb has a compensation insurance and guarantee system for hosts against unexpected events. Uber charges customers USD 1.35 per ride, while Airbnb includes such charge in a brokerage fee. In the U.S., with a strong sense of self-responsibility, they may prepare an insurance system to protect service providers or workers rather than users.

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## NOTABLE SHARING ECONOMIES IN THE U.S.

The following are some of the sharing economy startups to pay attention to.

### Private jets:

Most private jets usually convey the owners to destinations and return straight to their home base airports with no passengers on the planes. This vacancy caught the attention of JetSmarter. In the U.S., the area between New York, Miami, and Los Angeles is called the Golden Triangle, as private jets frequently fly over it. With a focus on customers traveling across the Golden Triangle in particular, JetSmarter offers an annual-fee based membership service (annual fee: USD 9,000 as of January 2016). JetSmarter's three basic offerings are: JetShuttle for booking at least one seat on existing flights up to six months in advance; JetDeals for booking two to five seats when any seats are available and open to members just before the flight; and JetCharter for booking all the seats. As a basic rule, members have unlimited use of JetShuttle and JetDeals with an annual membership fee only, but JetCharter requires a separate fee in addition to the annual membership fee.

Having announced its partnership with a European company in October 2015, JetSmarter is expanding its service area and currently partnered with over 3,000 aircraft. Customers can confirm flights and book seats from smartphones and, in contrast to the traditional rental of an entire plane, seats are available on a per-seat basis. JetSmarter is also making arrangements for limousines and helicopters while gradually expanding its peripheral services. Since the investors in this company were private jet owners, they may have known very well that return trips generated nothing but air. JetSmarter is trying to generate new value by sharing return trips.

### Rental cars:

Getaround is a company that developed a system to use private cars as rental cars by using information technology. Operating in six cities in the U.S., Getaround has acquired 200,000 members. The company's concept is to utilize private cars as rental cars while not in use, because private cars are parked for an average of 22 hours a day<sup>2</sup>. Users only have to input a preferable place to rent, etc., into the dedicated smartphone app so that a list of cars available will appear and users can choose from the list. Car owners simply register their rental periods and prices, and matching with members is automatic. Delivery of keys is unnecessary: Cars are remotely unlocked using a dedicated device. With auto insurance for a maximum of USD one million, private cars, from low-end to high-end, are rented out in the range of USD 5-50 per hour.

FlightCar is another high-profile company. Travelers, whether on business or pleasure, pay a charge for parking their cars at airports. FlightCar allows them to park their cars at airports for free, but rents out the cars instead. In addition to free parking, car owners will not only receive a rental fee of about USD 10 a day, but also a benefit of having their cars back washed. Meanwhile, customers can use a car at a lower cost than through a traditional

rental car company. It may feel awkward to rent out your own car to a stranger, but many would apparently prefer earning USD 50 and having their cars back washed to paying USD 100 if they were to park their cars at an airport for five days. Currently, the FlightCar service is available at 12 airports in the U.S. As crowds of cars are parked at vast premises, there should be potential demand in other areas.

Pet hotels:

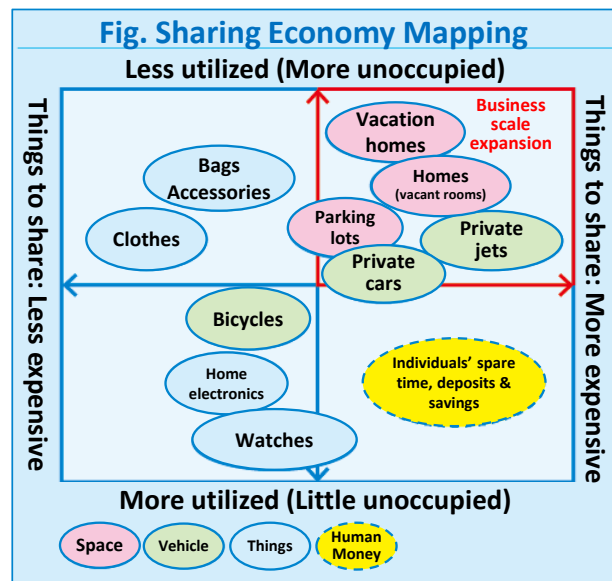
In the U.S., which is such a huge country, there may not happen to be a pet hotel in your neighborhood, and finding someone who will temporarily keep your dog or cat is difficult. In response to this situation, DogVacay was formed to match people who need care for their pets and people who can give the care they need. With service available in the U.S. and Canada, the company has already made millions of matches, with more than 20,000 registered pet sitters. A pet-sitter seeker enters a postal code into the company's website or smartphone app, and gets a list of the nearest sitters with details including environment, facility, user reviews, and price. This helps pet-sitter seekers find the right one. In California, entrusting a pet dog generally costs USD 40-60 per night, which can make great extra money for pet lovers with a vacant room. The pet sitters pay the company a matching fee, which makes sales of the company.

## THINGS TO SHARE AND BUSINESS OPPORTUNITIES

Things to share include private cars, vacant rooms in homes, vacation homes, private jets, bicycles, clothes, accessories, individuals' spare time, and even deposits and savings. While the pioneers' success has paved the way for followers to add anything to a list of things to share, what would grow into a sizable business is considered to fall into a category in which shared things are somewhat expensive and not often in use (see Fig.). This is because people opt to own things that do not cost a lot, factoring in the trouble of renting and convenience. On the other hand, if the goods are often in use, they cannot be shared. Therefore, a low rate of utilization is an absolute requirement in scale expansion.

It should be noted that, as a major premise, things to share must be used constantly and regularly by the owners. If the good is owned merely for the purpose of renting out, that is no different from existing rental business. In Japan, there have been many cases where people purchase condominiums for investment purposes and rent them out like hotels through Airbnb, but this may be far from what the sharing economy is supposed to be. Although this form of business could eliminate the condominium vacancy issue or provide temporary lodgings, it should be categorized as rental business. In addition, individuals' spare time and deposits and savings are often regarded as things to share, but should be treated as temporary staffing and fintech. For this reason, in this report, these are merely for reference purposes.

The sharing economy has been drawing attention as a business disruptor, and often singled out for criticism, but that is not so from a long-term perspective. It is intrinsically suitable for segregating functions. On the one hand, there are traditional forms of business, such as taxicabs, hotels, and rental cars, which own assets and cover fixed demand. On the other hand, there is the sharing economy, which does not own assets but uses



matching instead, and absorbs fluctuations in demand. In a type of business where companies have to own facilities and people tuned for either on-season or off-season, they cannot respond to change in demand, thus causing Muri, Muda, and Mura, or overburden, waste, and unevenness. The sharing economy is promising as a function to mitigate such situation. Given that thorough segregation is impossible and that there will be some overlapping, the overall service market will grow in scale through co-existence.

This new form of business has also been reported as having negative aspects pertaining to employment and regulation issues, but underpinned by users' strong needs, the general trend in the U.S. is toward accepting it rather than eliminating it. The sharing economy, successfully flourishing by incorporating information technology, will continue to expand across borders and regions.

- 1 PwC "The sharing economy – sizing the revenue opportunity"
- 2 Getaround's website