The sharing economy's effect on business

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Olin research shows the phenomenon of product sharing can be profitable for both consumers and business firms. Credit: Washington University in St. Louis

Collaborative consumption is an expanding economic force in our country and globally, with consumers sharing everything from cars, bicycles and even agricultural equipment. It happens quickly and efficiently, with a simple click of a button or a swipe of a finger.

Many product-sharing transactions involve renters paying a fee to product owners through an online platform, reaping several inherent benefits to this consumer-to-consumer system: profits for the product owner; lower costs for the user; benefits to the environment.

But how does the explosion in this new business practice affect manufacturers?

New research from Washington University in St. Louis' Olin Business school shows that the rising tide of product sharing can indeed lift all economic ships, including those of the product manufacturers, or firms.

"These past few years have seen an enormous growth in sharing," said Baojun Jiang, assistant professor of marketing at Olin. "There have been discussions in the popular press that found some companies were worried their customers were sharing products, so some of them might not buy the product anymore. So when should companies help facilitate the sharing, when should they not, and what should they do to respond to such a market?"

To answer those questions, Jiang and co-author Lin Tian from Shanghai University of Finance and Economics used an analytical framework to explore the effects of consumer-to-consumer product sharing. The researchers analyzed a firm's best strategic responses, in terms of pricing and quality decisions, to the consumer's product-sharing behavior. They find that peer-to-peer sharing can be a win-win situation, with consumers being better off and firms making higher profits, especially for high-cost products such as cars or other major assets. Two main effects appear to counterbalance each other.

"When consumers can share products, some of them may decide not to buy anymore," Jiang said. "So the firm's own customers may compete with the firm in this sharing market, cannibalizing some of the firm's sales.

"But sharing can also have market-expansion effect, because some consumers may decide to buy the product because there is a sharing market—they would not have bought the product if there wasn't a sharing market," he said.

"Suppose I use the product, say a car, during weekends only, and I don't use it during weekdays, because I take the bus to work on weekdays, but on weekends I need cars for recreational activities," Jiang said. "I might not buy the car before. But now, I can buy the car, and when I don't use it, I can rent it out and earn some income. In fact, I may even buy a better car or add some upgrade options, because I can also get a higher rental price if I have a better car with upgrades, which I can now afford. The sharing market actually makes the product more valuable to the firm's customer."

Jiang said product sharing among consumers will increase a firm's profits if that firm strategically adjusts its product quality and price. Some have already realized the benefit of doing just that, and are actively embracing the new economic system.

"Many firms promote product sharing on their websites, informing the consumers that sharing is very easy and there isn't too much risk but a lot of flexibility," Jiang said. "Some manufacturers are actually partnering with the product-sharing platforms to reduce the hassle and transaction costs of sharing, because consumers will value the product more, knowing they can generate some income with it, thus, the consumers are less price-sensitive."

Jiang's research was recently accepted for publication by *Management Science*.

Provided by Washington University in St. Louis