Harvard Business Review

CUSTOMERS

From Zipcar to the Sharing Economy

by Arun Sundararajan

JANUARY 03, 2013

Avis has taken an interesting (and bold) step by acquiring Zipcar, absorbing an innovative but struggling competitor at what is likely to be seen as a bargain price while acquiring a small but desirable customer base and gaining a foothold in the rapidly growing world of collaborative consumption.

Sadly, the Zipcar culture may not survive the merger. But in the world of new “sharing economy” models that generate efficiency gains, theirs is just the tip of the iceberg. True, they pioneered the creative use of technology to open up flexible new ways of renting a car. However, although their members can rent the (more urbane and green) Zipcar fleet by the hour and pick up their vehicle at a local parking space using a smartphone app, this is still a dedicated fleet, still inventory that the company has to acquire, manage and monetize. Under the hood, the business model is fundamentally not very different from that of a traditional rental car company.

Contrast Zipcar with RelayRides and GetAround, both genuine peer-to-peer car rental marketplaces which tap into the existing (and massive) installed base of cars that people already own. These marketplaces don’t need to carry inventory. Their business model advantages are clear — the “fleet” renews itself naturally, there are no parking or logistics issues, geographic expansion and scaling is more seamless. Reputation systems and active supplier screening maintain quality, and the need for insurance keeps customers from bypassing the marketplaces.

Relayrides and Getaround are just two of a host of companies — Airbnb, Lyft, Sidecar, carpooling.com, Snapgoods, and TaskRabbit, to name a few — that are dramatically expanding the set of industries susceptible to transformation by information technology, taking its impact well beyond familiar (content) industries like music, movies, and books.

Furthermore, these “peer economy” marketplaces transcend the simple trade conducted on eBay, and are instead inventing an entirely new asset-light supply paradigm. They enable the disaggregation of physical assets in space and in time, creating digital platforms that make these disaggregated components — a few days in an apartment, an hour using a Roomba, a seat in your drive from Berlin to Hamburg — amenable to pricing, matching, and exchange.

Accompanying these peer economy companies are others (like Zipcar) which simply leverage technology and lower transaction costs to make flexible renting a viable alternative to asset acquisition. (One of my favorite classroom examples is GirlMeetsDress.) Collectively, they’re spawning a range of efficient new “as-a-service” business models in industries as diverse as accommodation, transportation, household appliances, and high-end clothing.

This “reengineering” of consumption is a natural consequence of the ongoing consumerization of digital technologies. Think back to the 1990s, a decade after corporate PCs and client-server became commonplace. Led by the writings of Michael Hammer and Tom Davenport, firms realized that they didn’t need to organize work the way they used to. Instead, they could leverage new information technologies to reengineer, reorganize and radically streamline their production and service delivery. Although Hammer's mantra of "Don't automate, obliterate" may have induced process redesign overkill for a while, an important lesson emerged: The returns from digital technologies are amplified dramatically when they are used as enablers for the fundamental reinvention of old processes and models (rather than to speed up existing ways of doing things, or simply for conducting entirely new activities).

Today, a decade after the launch of the iPod, consumers are starting to reach the same realization. Our mobile devices are powerful computers connected to high-speed networks. The digitization of social brings real-world trust and social capital online. We are comfortable with the notion of commercial transactions mediated by computers or smartphones, and we've had over ten years of experience with the idea of semi-anonymous peer-to-peer exchange.

So the reengineered consumption models of the sharing economy are now well poised to go mass-market, and the battle cries of Hammer and Davenport won't be necessary this time around. While the marketplaces that facilitate sharing and peer exchange do begin at the fringes, they will spread organically among consumers as their value proposition becomes apparent. If you don't need to own the assets you use, not only do you spend smarter, but your product variety and quality options expand quite dramatically.

In 2013, corporate America will need to pay very close attention to this new paradigm. The terms "collaborative consumption" and "sharing economy" might seem more reminiscent of flower power than of Gordon Gekko, but the business threats they embody are very real. For companies in a growing number of industries, it's no longer sufficient if you leverage digital technologies to rationalize and optimize your internal production. If your business relies on a model of consumption that is inefficient for your consumers, chances are that there's already a new sharing economy marketplace that is looking to streamline it for them.

Arun Sundararajan is a professor at NYU Stern School of Business who studies how digital technologies transform business and society. Follow him on Twitter @digitalarun

JOIN THE CONVERSATION