The Sharing Economy as Both a Retail Threat and Opportunity

Here's What You Need To Know

Airbnb, the popular app for short-term rentals, has a valuation higher than that of hotel companies Hilton and Hyatt combined. It has also been said that the short-term rental industry was one of the factors that spurred the September 2016 merger of Marriott and Starwood.

Could a site that simply allows people to share their apartments or homes really be that valuable?

Yes, it can. Welcome to the sharing economy.

The sharing economy is a popular term today and is used to describe pretty much any online or mobile transaction in which people buy, sell, share, or rent products or services from each other, usually bypassing a traditional retailer or service provider. Alternative names for this trend include the gig economy, platform economy, access economy, and collaborative consumption.

The sharing economy is not new, of course; people have been listing their vacation rentals on Craigslist or selling junk in their attic on eBay for close to 20 years in a "peer-to-peer" environment.

But the sharing economy is different, as it relies much more on technology to drive engagement and transactions. Big data, algorithms and artificial intelligence (AI) are used to deliver relevant results and even pricing that would most likely be of interest to the user. The mobile app versions of the same services include expanded mapping technologies, location based platforms and alerts, which encourage engagement and of course, drive sales.

According to the Brookings Institution, a Washington, D.C.- based public policy organization, the sharing economy was estimated to grow from $14 billion in 2014 to $335 billion by 2025.

The Poster Children

Uber and Airbnb are the darlings of the sharing economy. With market capitalizations of $69 billion and $31 billion, respectively, all eyes are on these companies for their technology, marketing, operations, and of course, business models.

Ironically, Uber and Airbnb do not take possession of the very assets or properties they rent out. They are merely "introduction services," a term with which they fiercely self-identify, which has helped them in litigation as drivers, riders, hosts and guests continue to challenge these companies legally.

Uber and Airbnb have spawned dozens of lookalike companies both here and globally, and have served to challenge and disrupt industries that have traditionally kept inventory of a product and then sold it to consumers.

Uber and Airbnb have certainly provided tremendous opportunities for people, both buyers and sellers, but could such a model work in retail?

Retail Taking a Hit?

Indeed, an economy in which people are renting instead of buying -- or renting and buying from strangers on the Internet -- does not bode well for the retail industry. In my previous book, The Future of Retail, I reference how the Internet has greatly impacted business. Those who have not adopted and evolved have gone out of business.

One industry which has witnessed a complete shift from sales to rentals is the music industry. Revolutionizing digital music purchases in 2001 with the launch of the iTunes marketplace, Apple has witnessed downloads of close to ***40 billion songs***.

Today, streaming services such as Spotify and Pandora dominate the industry, offering consumers a way to rent songs in a subscription model rather than purchasing outright. With its freemium model, Spotify boasts 50 million subscribers paying $10 per month for the premium service, representing about 20 percent of total users -- one of the highest conversion rates for "freemium" business models.

Even Apple has admitted defeat, purchasing music subscription and accessories company Beats in May 2015 for $3 billion and forming Apple Music -- pushing listeners into monthly subscriptions rather than individual music purchases on its iTunes store.

Some music industry insiders believe that the end of iTunes is near, and Apple's music business will move to a completely subscription model. Though the shuttering of iTunes is inevitable, ComputerWorld magazine and others believe that it will take time for this to happen.

Global Headaches, Too

The subscription model vs. direct purchase certainly has implications outside of the U.S.. Even China has experienced the headaches of the sharing economy, most notably with the bicycle industry.

Shanghai Phoenix Bicycle Co., Ltd., is a 120-year-old bicycle brand that has become one of the suppliers to Ofo, the largest bicycle sharing company in China. Shanghai Phoenix reported a 10 percent drop in sales in 2015, directly due to the rise of consumer interest in sharing rather than purchasing.

The China Bicycle Association has predicted that the number of shared bikes will reach 20 million by the end of 2017, a tenfold increase from late 2016.

Clearly, purchase orders are not being placed by individual consumers, but rather from companies offering sharing.

Wang Chaoyang, CEO of Phoenix, has ironically praised the bike-sharing industry, which he credits for solving the "last mile" problem for commuters, and creating a new wave of cycling culture.

In a nod to the opportunities which could abound for manufacturers accustomed to producing products for retail distribution, Wang said, "In the internet era, we must follow the inevitable trend and adjust our strategy faster. I believe there are ample opportunities for us."

Vice Versa

In an interesting reversal, some sharing economy companies have found ways to incorporate elements of "traditional" e-commerce into their business models.

Indeed, often times products that consumers discover in a rented, shared environment could prompt them to make a direct purchase at a later date. Some companies have found a way to present this in a compelling format.

An example of a sharing economy company that has found a way to incorporate retail into its business model is Rent the Runway (RTR). Founded in 2009, RTR is a fashion rental and e-commerce company that sells subscriptions on more than 65,000 different clothing items and accessories. Rather than make an outright purchase of a dress, a shopper on the RTR site can rent an item for 4 or 8 days, or simply pay a flat $139 per month for an unlimited number of items, as long as only 3 at a time are signed out. For added convenience, RTR pays for the shipping and dry cleaning.

RTR has raised over $190 million in venture funding and has been called the "Netflix of Haute Couture," according to the New York Times.

However, in efforts to capture additional business -- and recognize that people still do want to own something rather than share it -- RTR has 6 physical store locations as well as a clearance section on its website -- where the very dresses it has rented out are made available for purchase. No refunds or exchanges are allowed, and all sales are final.

Similar fashion-sharing companies include Bag, Borrow or Steal for handbags and Borrowing Magnolia for wedding dresses. These two companies are similar to RTR; however, they are clearer in giving shoppers a choice of direct purchase rather than a rental. Perhaps they are hedging their bets.

It's no surprise that women's fashion startups have jumped in and created sharing economy companies. Apparel is a $225 billion industry in the U.S. alone, and "women now drive the world economy," according to *Harvard Business Review*, controlling about $20 trillion in annual consumer spending. As women account for a whopping **85 percent** of all consumer purchases, these experiments can serve as guidance for both online and offline retailers.

What's Old Is New Again

For years, Home Depot has offered tool rentals to small contractors or DIYers who did not feel the need to make outright purchases of tools for projects. This may make sense for the DIYers but for contractors, the idea was to present a "try before you buy" solution. Indeed, if contractors could capture business and successfully complete jobs using tools they did not previously own, they might be in a position to later make a purchase of that same tool (or perhaps, a nicer model).

In a way, Home Depot takes advantage of elements of a sharing economy in order to build trust in both small businesses and consumers, hoping that if the situation changed down the road, that contractor or DIYer would consider Home Depot as its go-to place for purchasing tools.

Home Depot does not break down revenue for its tool and truck rental unit but the company witnessed $95 billion in revenues for fiscal year 2016.

Whether the sharing economy serves as a direct threat to retailers remains to be seen. Some people actually want to buy something unused and simply do not want to rent something or buy something from strangers.

Further, according to the Brookings Institution, it will be difficult for any single sharing economy company to form a monopoly since the cost for customers to switch between sharing economy services is quite low.

According to data compiled by JPMorgan Chase, just over 50 percent of people working on platforms like Uber or who list their properties, goods, or services on sites like Airbnb vacate in the first 12 months.

As such, retailers have an opportunity to take care of customers -- and even employees -- in a way that sharing economy companies cannot, by building loyalty. Traditional loyalty marketing programs, such as club cards, point systems, or frequent buying discounts, are not offered by Uber and Airbnb.

Rewriting the Rules, Offering Value and Experiences

Some retailers have flat-out decided to avoid the perils of changing their business models from selling to renting. Instead, they seek to create experiences or environments for customers that simply cannot be captured via a short-term rental or uncertain subscription.

Doug McMillon, President and CEO of Walmart, in an article published by the World Economic Forum, noted that despite the growing presence of shopping online, consumers will still look to shop at brick and mortar stores for several reasons. One of the drivers of continued in-person shopping is the opportunity to buy items that they've never seen before or to participate in an experience that they simply cannot get by buying online.

For the latter reason, the in-store buying experience should delight consumers with personalized service and more importantly, provide critical purchasing information that is unavailable online.

If shoppers are willing to pay for unforgettable experiences -- such as a DIY demonstrations, wine tastings, art classes, fashion shows or fitness competitions -- they are incentivized to keep returning to the store, thereby building loyalty to the brand. The retailer can reward this loyalty, by offering unique merchandising around these live events and experiences to these special customers, ensuring steady sales.

Commercial real estate companies -- i.e., mall owners -- are keenly aware of this trend, and are courting retail chains that can deliver this unique experience as potential new tenants, taking over the space of bankrupt retailers that failed to remain relevant.

Thus, to distinguish themselves from and even combat online or app-based sharing economy companies, brick and mortar retailers can find tremendous opportunity in shedding a product-centric approach for their physical stores and replacing it with one that is much more experiential.

"There is no question that rather than merely purchasing material items, consumers are looking for experiences that enrich their lives," notes Berkley Bowen of consultancy and training firm MarketingProfs.

Such customer experience is the result of an emotional or physical connection with the products offered in the store. This encourages the shopper to make a purchase, so as to retain that experience once he or she leaves. The emotional tie-in or memory of the product also serves as a reminder that a future trip to that physical location might be in order. As such, a unique customer experience often leads to customer loyalty.

Focusing on People as an Asset and Selling Point

Further to the discussion about creating memorable store experiences, a retailer cannot launch or implement this strategy without the active participation of qualified, knowledgeable and most importantly, engaged store associates.

Retail leaders can seize on this opportunity by providing ongoing, outstanding training and incentives to employees.

In most sharing economy companies, training is left to the FAQ pages. After reading a few pages of a website, sellers, drivers, or hosts are suddenly now on their own to figure out selling and customer service. If these sellers receive low ratings from buyers or guests, they are still left on their own to fix it and figure things out.

Retailers can take a leadership position by taking care of their employees, who in turn, will take care of their customers in an environment which cannot be replicated with an app.

What's Next?

Retailers need to continue to do what they've always done when in transition: listen to their customers. Study them. Analyze their purchasing habits. It's not a bad idea to check in on the competition, or to see what new technologies, platforms, and apps abound, but ultimately, retail is a service business.

Companies have a golden opportunity to either incorporate elements of a shared economy into their existing business models, or to bypass the sharing economy altogether by offering something unique and compelling that makes customers coming back for more.

The most important thing is to constantly access your business model to make sure that it is not in jeopardy.

The sharing economy has created 17 billion-dollar companies (and 10 unicorns)

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