

Company Failures in the Sharing Economy

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Abstract. *In the digital age, a number of sharing activities have emerged and are forecast to accelerate further. According to experts' estimations, the value of the sharing economy will increase 23 times worldwide. The main reason for this success is that all sectors of the population are involved in the practices of the sharing economy and participate in it to a greater or lesser extent. The examples of the most well-known and successful businesses with a small number of employees show that companies often achieve the best results if they utilize sharing technologies. Researchers and practitioners argue that the sharing economy creates new advantages and potential sources of revenue and profit which include expanding markets, the willingness of customers to pay more in order to get higher quality goods and services, and lack of governmental regulation that allows sharing businesses to act with relative freedom and without limitations. According to the statistics, 44% of sharing businesses fail after 5 years of work. Only 10% of sharing companies stay in the market after 10 years of their activity. In the view of the experts, one of the main reasons for it is a wrong business model chosen by companies. It can be concluded that sharing economy startups should focus more on possible risks related to their market entry. The purpose of the paper is to identify failures of on-demand sharing economy business startups at the A series around the world. In order to collect and systemize data about the most significant international sharing economy startups for the period from 2001 to 2018, we used CrunchBase and Business of Apps platforms. At the next stage, we employed a case study method to describe businesses' activities by using companies' sites which made possible to identify strengths and weaknesses in their business models. Then the Business Model Canvas has been used to provide visualization of the business model and describe links between various segments of the organization. We utilized Canvanizer online software to create Business Models Canvas that allowed us to reflect the most typical failures of the sharing businesses. In total 126 failed sharing economy companies were investigated. We identified critical challenges and problems they faced and found the most typical mistakes which led them to failure. The following mistakes have been identified and presented as Business Models Canvas: lack of strong networks, underestimation of local culture, unwillingness to work on technologically undeveloped market, failure to use pioneer business models/ technologies/ services/ goods, reluctance to be able to revenue-generating from the first day, inability to have scalable effect (business model, goods, services); unclear regulatory framework. Based on the investigation we can propose some areas of improvement in this field: utilizing Business Models Canvas to plan sharing economy business; investigation of not only best practices of successful sharing economy companies but also their failure experience; starting business it is worth changing the existing business model constantly even if you have achieved sustainable development.*

Keywords: *sharing economy; business model; entrepreneurship; Canvas.*

Introduction

The sharing economy emerged over the last decade has increased significantly in recent years due to the growing interest in online platforms offering a share of resources among users. According to the international consulting company PricewaterhouseCoopers, the value of the sharing economy will increase 23 times from 15

billion dollars in 2015 to 335 billion dollars in 2027 worldwide (PwC, 2015). The main reason for this success is that all sectors of the population are involved in the practices of the sharing economy and participate in it to a greater or lesser extent (Parente, Geleilate, & Rong, 2018). These practices allow people to find a temporary job, earn more income, find housing, travel and gain access to various resources (Hong, 2018; Kumar, Lahiri, & Dogan, 2018; Querbes, 2018). Forecasts indicate that the number of mobile application downloads will increase by 20 percent in 2022 in comparison with 2018 worldwide (Figure 1).

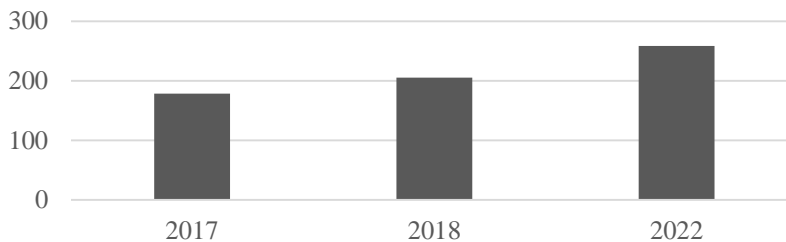


Figure 1. Annual app downloads in billions USD (STATISTA, 2019)

The most downloadable producers of non-game apps in the Google Play market in January 2018 were Facebook, WhatsApp and Google.

Researchers and practitioners argue that the sharing economy creates new advantages as well as potential sources of revenue and profit which include expanding markets, the willingness of customers to pay more in order to get higher quality goods and services, and a lack of governmental regulation that allows sharing businesses to act with relative freedom and without limitations (Frenken, 2017). The examples of the most well-known and successful businesses with a small number of employees show that companies often achieve the best results if they utilize sharing technologies which make it possible to reduce the transaction (Geissinger, Laurell, Öberg, & Sandström, 2019) and labor costs since the staff is recruited to perform certain work on an interim basis (Ginès i Fabrellas, 2019). Nevertheless, most businesses face an internal and external funding shortage which affects their survival significantly. Since high tech companies have higher risks of investing, investors are cautious in selecting projects for financing.

The studies completed in 2018 show that from more than 1100 technology companies established in the USA over the period 2008-2010, just 3 percent of companies exist at present, at the E-round (Geissinger et al., 2019). Approximately 48 percent of companies managed to come to the second round (A-series) from the seed stage. In each successive round, increasingly few companies remain.

The literature analysis shows that most cases describe successes of sharing businesses (Apte & Davis, 2019, Piscicelli, Ludden, & Cooper, 2018) while there is little material on their failures. Empirical studies indicate that learning from business failure experience (Querbes, 2018) has a positive impact on the development of new businesses due to the increasing level of preparedness for new opportunities and risks (Ifedapo, Adeleyeb, Donbesuorc, & Gyensared, 2019).

The purpose of the paper is to identify failures of on-demand sharing economy business startups at the A series around the world.

Methods

To identify the development challenges faced by sharing businesses, the research includes the following stages. In the first stage, successful companies using online platforms for their business activities were selected. This stage aimed at building a business model reflecting characteristics of companies and identification of critical success factors. Business Model Canvas has been used to provide visualization of the business model and

describe links between various segments of the organization (Osterwalder, 2004). This model includes nine main clusters: segments of consumers, key values, marketing channels, interrelations with clients, income flows, key actions, key partners, and cost structure.

In the second stage, the sharing economy businesses were selected registered for the period from 2001 to 2018 and liquidated before 2019. The main purpose of this stage is to systemize key failures of sharing economy businesses. To achieve this purpose, we employed a case study method to identify regularities of their emergence and development and speculate about failures within their business models.

To conduct an analysis of failures faced by the sharing economy businesses, the companies at the third funding round (round B) were selected, since these companies are already able to generate income, work without making losses, have innovative business models that can be scalable, provide innovative goods/jobs/services in the market, create and develop close links among clients.

As the information source the authors used the database CrunchBase (Crunchbase, 2019), an open data set containing data on innovative companies, their development trends, investors, founders, and other information; as well as Business of Apps platforms (Business of Apps, 2019), a portal containing data on business related to the use of new technology, analysis of the new trends in the development of innovative enterprises and their products.

Results

Sharing economy business models have been classified according to various criteria. In our research, we based on the classification according to the type of market in which companies operate (Barbu, Bratu, & Sirbu, 2018). We selected the companies with the on-demand delivery services business model because a number of these companies are growing more intensively in comparison with e-commerce businesses.

Our research findings demonstrate that the number of on-demand companies set out in the CrunchBase database was increasing every year before 2015 (from 120 in 2001 to 930 in 2015). Then their number went down and by the end of 2018, there were 227 enterprises according to the constantly updated database (Fig. 2).

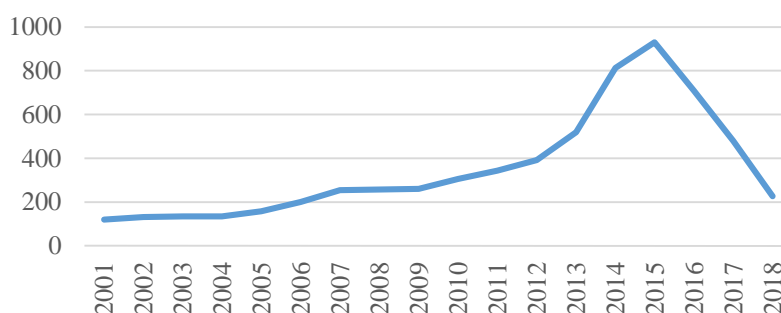


Figure 2. Annual app downloads in billions USD
(CrunchBase, 2019)

Based on the analysis of the successful business-models developed by the on-demand companies such as GOJEK (Indonesia), Postmates (USA), Grab (India), Uber (USA), Netflix (USA) and some others, we built a generic model depicting their sharing activity by using Canvanizer online software (Figure 3).

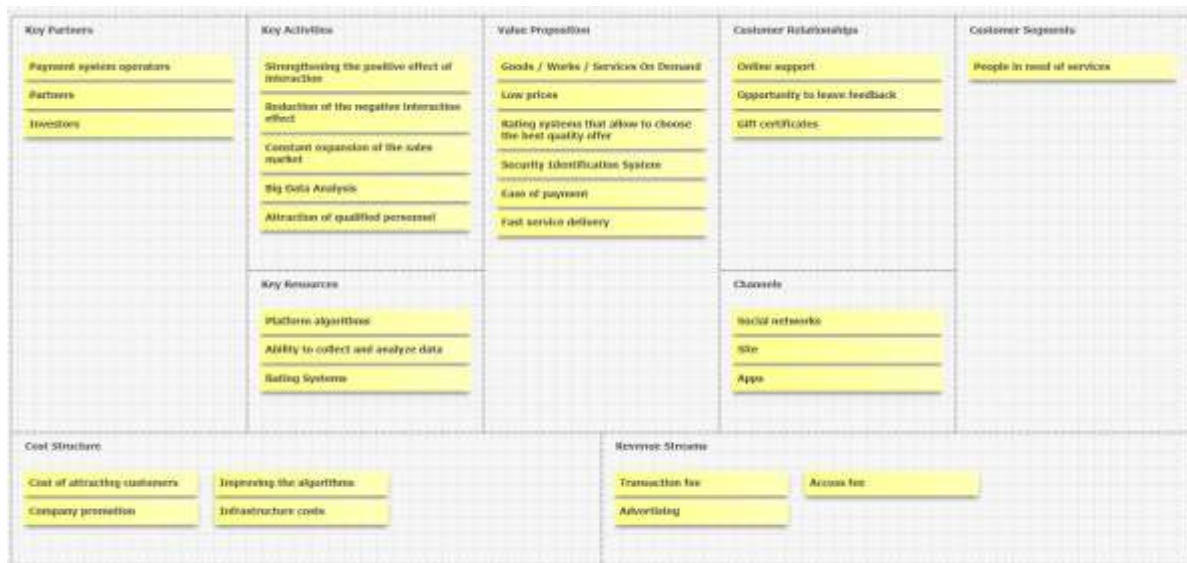


Figure 3. The typical business model of companies providing services on demand

The essence of the business model lies in its value proposition to provide services at lower prices by means of online platforms. On-demand companies are client-oriented. Service payments, the interaction between suppliers and clients are carried out via special apps. Platforms ensure the effectiveness of interaction and enable to evaluate suppliers and customers by means of ranking systems.

However, not all businesses are successful in meeting efficiency targets. According to our estimations by means of the CrunchBase data, 2.3 percent of all the round B companies presented on the site since 2001 ceased to exist, while 13.5 percent became parts of other companies. In total 126 failed sharing economy companies were investigated.

The authors analyzed the main reasons for closing the companies that had sustainable business-models from the perspective of investors.

Table 1. The main reasons for the failure of companies in the sharing economy

Reasons for the failures	Reason description	Share of failed companies, %
Low prices	To attract customers, companies offer discounts and special offers that do not cover their expenses.	75
Constant market expansion	The company does not have time to scale its products / services / operations in other markets.	57
Low qualification of personnel	Low qualification of the staff does not allow to provide quality services to consumers, which reduces customer loyalty.	52
Free shipping	In an effort to attract more customers, companies are making free delivery while not always calculating the minimum purchase price.	50
Platform algorithms	Low integration of the apps with partners does not provide timely access to products and services of partners	47
Service speed	In an effort to provide services faster than competitors, companies do not always calculate the cost of their implementation.	43

One of the main reasons is the provision of services at low prices in order to attract clients. To that end, the companies provide discounts and special offers and eventually cannot cover their costs (for example, Homejoy, PepperTap, Shyp).

Another important reason for closing the business is steady market expansion. A company does not keep up with adapting their goods/services/operations to other regions. In this case, the companies extend their operations to other regions but do not have sufficient resources (labor, material, financial). The low level of AppStore application integration with partners of the company does not provide timely access to goods and services of the partners (PepperTap). For instance, clients of the food delivery company were not able to see a full range of products while using the app and the price of goods given in the app is different from the real one.

Conclusion

Although business-models of the companies are scalable, meet requirements of the investors, have strong interaction with local communities, the ability to generate income since the day of establishing the company, they face a number of challenges.

First, on-demand businesses find it difficult to scale up their services, because the number of their users is limited by the size of the territory. Even if companies operate successfully in large cities, they often face difficulties in the suburbs and small towns, since the provided services are not popular with small-towns residents because they have other preferences or lower income level.

Second, trying to attract new clients with special offers and discounts, companies cannot always cover their expenses.

Third, there is a challenge related to the frequency of service use. While such platforms as Uber and Netflix are in demand every day, other services like cutting hair or cleaning cannot be often used which affects these businesses' revenue models.

As a result, after the analysis of the on-demand companies' experience, we came to the conclusion that although companies provide services, they face similar problems which necessitate further more detailed study of their operation at different stages of development. Based on the investigation we can propose some areas of improvement in this field: utilizing Business Models Canvas to plan sharing economy business; investigation of not only best practices of successful sharing economy companies but also their failure experience; starting business it is worth changing the existing business model constantly even if you have achieved sustainable development. The conducted research can be considered as the first stage of further study to prevent sharing economy business failures and to provide a framework of knowledge base development for business owners.

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