THEME 02

The sharing economy is dead, long live the rental economy

TECHNOLOGY AND INNOVATION | POLITICS | ECONOMY

After hearing a lot about the sharing economy in the past ten years, the craze now seems to have passed. Society is more critical of use of the term and the actual added value of platforms that offer these services. However, this doesn't mean that the as-a-service-model has become any less popular. In fact, the coronavirus crisis seems to create even more demand for access to products and services at low cost and with minimal obligations. The difference is that this is now grouped under the much more pragmatic heading of the "rental economy".

Our observations

- The term sharing economy has been bandied about in the past decade by various digital platforms in order to portray themselves favorably. The term suggests that platforms and services make valuable contributions to society. That is, that they bring people closer together and liberate the world from its abundance of things. Misuse of the term by companies that are actually not a part of the sharing economy has considerably weakened the craze surrounding the sharing economy.

- Whereas the sharing economy is essentially based in consumer-to-consumer services, the rental economy, now coming (back) in vogue, is more focused on business-to-consumer services. The use of this term as opposed to the more idealistic "sharing economy" reflects a pragmatic shift, both rhetorically as well as regarding the services referred to. In the rental economy, low costs and minimal obligations are the main objectives.

- A number of these rental services initially suffered because of the coronavirus crisis. Especially services to do with travel and mobility were hit hard at first. Airbnb and car rental services are examples of this. Now, these and other rental companies have found ways to profit from the coronavirus crisis (e.g. by providing an alternative to public transportation or offering temporary workspaces). Business models based on temporary use are as old as the economy itself. Since the early days of the car industry, cars have been rented out to people who can't afford their own car or only need one occasionally. Telephone companies such as AT&T even obligated their customers to rent phones from them, supposedly so they could guarantee the quality of the phone connection.

- Because of digitalization, a lot of things or spaces can now be rented out that previously could not. First, this is because supply from large numbers of providers and demand can be more efficiently brought together, with digital means of communication also awakening much latent supply and demand to become manifest (e.g. people with a car in the driveway who would be open to renting it out can do so more easily by signing up to a platform, while people with a smartphone can quickly find a car near them). Second, administration costs have decreased dramatically, making it more lucrative to process modest transactions (from cheap products to short-term rentals).

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Connecting the dots

One of the most significant promises of digitalization is that it can make a wide array of transactions simpler and cheaper. This is where especially the rental, lending and sharing platforms excel; they enable us to have a simple and real-time overview of the availability of various goods, to book them and pay. This provides us access to an assortment of products and services, without having to purchase anything or being tied down by long-term contracts.

In the past decade, the term sharing economy was widely applied. In the ideal sharing economy, consumers offer their own means when they're not using them themselves. This allows for all sorts of capital goods to be used more efficiently, leading to a decrease in the use of natural resources and pollution in the manufacture of these goods. This would enable consumers to (partly) earn back their investment and increase their wealth. Moreover, the sharing economy would stimulate social cohesion by bringing people together and could revive old practices of shared ownership.

Now, the term sharing economy has lost much of its cachet and, both in the framing of this market as well as in the services involved, we're seeing a shift to a more traditional rental economy. The framing of the sharing economy has been done away with because the practice has failed to live up to the ideal, with all sorts of companies claiming to be part of the sharing economy without actually contributing anything in regard to the values the sharing economy purportedly upholds. Many of these companies (such as Uber) are in fact more a part of the gig economy or operate partly or entirely in a traditional rental market (such as Airbnb). As such, these companies have failed to contribute anything to achieve the societal goals of the sharing economy. With respect to the services involved, we can now carefully conclude that real consumer-to-consumer sharing is not without disadvantages. Although digital platforms are specifically able to bring together supply and demand and facilitate financial transactions, this doesn't mean the transaction is always smooth, cheap or fair in the end. In practice, the use of a private share car is more complicated than hiring a car from a 24-hour car rental service; think of the key exchange and possible damage claims. On the side of the private provider, there are still high costs involved; a rented-out residence needs to be cleaned afterwards and acquiring good ratings requires time and effort. In other words, amateurism is inhibiting the growth of the real sharing economy.

Nonetheless, the demand for cheap and temporary services is increasing and the (digital) rental economy is eagerly playing into this. Before the coronavirus crisis, it was already clear that the as-a-service model, in mobility for instance, caters to the needs of new generations. The crisis has enhanced this. First, because it has led to a demand for temporary solutions, e.g. regarding work space and office furniture and personal mobility solutions. In the longer term, the crisis will also leave us with lasting economic and societal trauma, and chances are that many of us will not be very eager to commit to any long-term obligations for fear that another crisis, of any nature, will create problems for us. This kind of no-strings-attached mentality plays into the hands of as-a-service providers.

The rhetorical and factual transition from a sharing economy to a rental economy is also interesting and relevant with respect to the long-term success of this kind of service. We could view this as the unmasking of the supposedly socially committed millennial. The sharing economy has specifically fed into this image, with its ideals such as cohesion and sustainability, but it now appears that millennials mostly want user-friendly services at low cost and with minimal obligations. In the longer term, this offers better (economic) perspective for providers of rental services than the "youthful idealism" aimed for by the sharing economy. The same appears to apply to Gen Z, who are said to have had an overprotective upbringing, causing in them a strong aversion to any potential source of worry. The success of Swapfiets is telling in this respect; Gen Z are more than willing to pay for services that relieve them of responsibilities.

Implications

- **The pragmatic transition from the sharing economy to the rental economy means that the platforms offering services of the latter kind are likely to be successful in the long-term, as they are less dependent on ideals that may go out of fashion. Nonetheless, the professional rental economy could still contribute to a more efficient use of resources and goods and serve (some of) the ideals of the sharing economy in this way.**
- **With the label of the rental economy, these parties are now once again expressly part of the regular economy, subjecting them to stronger regulation (already visible in the fact that Airbnb and its lessors are now treated more like regular hotels in many places).**
- **The demand for professional rental services, not offered by "amateurs", will also compel some of the platforms to operate in a more "asset-heavy" way. This trend was already incited by an increased need among platforms to gain more control over the user experience and acquire more data with their own hardware. This does mean, however, that because of the investment costs, these platforms will be less scalable and there will be less of a winner-takes-all dynamic.**