

# THE SPREADING OF SHARING ECONOMY AND ITS IMPACT ON CUSTOMERS' BEHAVIOR

A sharing economy terjedése és hatása a vásárlói magatartásra

**Buda Gabriella**

**Lehota József**

## Abstract

*Sharing economy model is continuously extending dynamically due to the rapid development of digital technology and change of customer behavior. Goal of the presentation is to give an overview on the main features and economical and social environmental forces of sharing economy. Successful function of the model is supported by the significant self-regulatory impact of the evaluation system operated by service providers, which can create and maintain credibility. Based on our qualitative market research we present attitude and motivation of the customers concerning their usage. Our results demonstrate that clients using sharing services are open for innovation and typically extroverted persons, furthermore several factors could be identified as motivation elements, which are originating from the fundamental characteristics of sharing economy model and offer advantages to these customer segment, particularly quick reaction time, credibility, personal experience, economic advantage and sustainability.*

Keywords: collaborative consumption, digital technology, sustainability

## Összefoglalás

*A digitális technológia rohamos fejlődésével és a fogyasztói magatartások változásával robbanásszerűen terjed a sharing economy modell. Az előadás célja, hogy a szakirodalmat feldolgozva bemutassa a megosztáson alapuló közösségi gazdálkodás jellemzőit, főbb gazdasági és társadalmi mozgatórugóit. A modell sikeres működését segíti, hogy a szolgáltatók által üzemeltetett értékelési rendszerek jelentős önszabályozó hatással bírnak, ezáltal a hitelességet ki tudják alakítani és fenn is tudják tartani a szolgáltatók. Kvalitatív piackutatásunk eredményeire támaszkodva bemutatjuk a szolgáltatást igénybe vevők fogyasztói attitűdjeit és motivációit az igénybevételre vonatkozóan. Eredményeinkből kiderül, hogy a szolgáltatást igénybe vevők nyitottak az innovációra, és jellemzően extrovertált emberek, továbbá vásárlói motivációként jól beazonosíthatóak a modell jellegéből adódó olyan elemek, amelyek ezen fogyasztói szegmensnél egyértelmű előnyként jelentkeznek, különös tekintettel a gyors reakcióidőre, hitelességre, személyes élményekre, a gazdasági előnyre és a fenntarthatóságra.*

**Kulcsszavak:** sharing economy, közösségi gazdálkodás, digitális technológia, fogyasztói magatartás

**JEL:** M42

## The spreading of sharing economy and its impact on customer behavior

### Introduction

The sharing economy model is spreading parallel with the rapid development of digital technology and with changing consumer behaviors. In the past few years, several definitions have appeared for the sharing economy but there has been no consensus about a commonly accepted definition, supposedly due to the continuous changes in and the development of the new model.

In the study of PriceWaterhouse Hungary , the following definition was used – this by and large covers the main elements of the sharing economy. “The users:

- share with each other,
- their underutilized capacities and resources (i.e. tangible assets, services, money),
- on an on-demand basis (immediately when the need arises), usually through an IT platform,
- on the basis of trust, giving special significance to personal interaction and communal experience,
- while striving for sustainability.”

Sharing economy can be interpreted as a marketplace that brings people together in order to share and exchange their unused assets. (Koopman et al., 2014)

Parallel to the spreading of this model, sharing economy businesses have been criticized to an increasing extent, mainly because of the lack of proper regulation. In the coming years, regulatory authorities should pay special attention to the elaboration of an appropriate regulatory environment for the operation of these businesses since this new business model pops up in an increasing number of sectors and causes turmoil in the several-decade-old traditional operating model.<sup>1</sup>

In its study, PWC Hungary identified four main economic and social changes that greatly contributed to the successful spreading of the new model: the proliferation of advanced digital tools and platforms, the pursuit of the rational use of material resources, environmentally conscious consumption, and globalization and urbanization trends.

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<sup>1</sup> Koopman et al (2004) recommend the transparent regulation of companies operated in sharing economy in order to protect consumers' interest and safety. They also emphasize that regulation does not mean limitation of these enterprises.

These changes gave rise to the new business model in which enterprises operate only a single on-line platform, and allow for the meeting of demand and unutilized capacity-based supply. It supports collaboration between equal individuals, and demand and supply can meet efficiently and quickly. This is commonly called “consumer to consumer” or “peer to peer” collaboration. Building on the successfulness of the initial operating logic, a new direction has also appeared in the economy: the so-called “business to consumer” model in which the company not only operates the platform, but – instead of the individuals – it also provides the assets and services as supplier.

In this case however, opinions differ as to whether this fits the definition of sharing economy. Although utilization is done through an IT platform, practically assets and services are rented too (from a corporate point of view, the assets/services as property can mean their underutilized capacities) and the operation facilitates sustainability, there is no personal interaction but the sense of community reinforces usage.

In view of these, the customers of “business to consumer” businesses were included in the study in order to analyze the impact of this newly emerging business model on consumer behavior to the largest extent possible.

In this study, we set our aim to investigate and survey the motivation and attitude of sharing economy users.

### **Materials and methods**

To reach our objective, we chose a qualitative survey method the results of which could be the basis of a future nationwide quantitative survey. In this framework, we conducted 18 in-depth interviews and asked two focus groups (7+5 people) in April and May 2016.

Obviously, the survey is not representative but it is worth presenting the demographic characteristics of the participants which imply that a relatively broad range of users are involved (Table 1)

Table 1: Demographic data of individuals involved in the qualitative research

	in-depth inter-views	focus group
number of participants	18	12
gender		
male	10	7
female	8	5
age		
18-25	6	3
26-40	8	8
40-	4	1
education		
secondary school	3	2
University	15	10
income		
below average	2	3
average	10	5
above average	6	4

*From own source, qualitative market research (2016)*

## Results

The results of the in-depth interviews and those of the focus groups were in line with each other so the results of the two types of research are presented in aggregate.

### **Types and structure of community services**

The 30 respondents used 10 different services. More than half of the respondents (16) have used one service while the rest have already used minimum 2 services, but there was one participant who has used five different community services.

Services used by the respondents, including the industry classification:

- Mobility industry: Uber, BlaBlaCar, Oscar, Waze, Bubi
- Retail and consumer goods: miutcank.hu
- Tourism, hotel industry: Airbnb, Couchsurfing
- Entertainment, multimedia: Spotify, Netflix
- Financial sector: -
- Energy sector: -
- Human resources sector: -

Most respondents have used Uber (19/30), Airbnb (11/30) and Spotify (8/30), and the different combinations of these three services were typically observed in the case of those customers too who used several services in the past year.

There was no respondent in this research who used services in the financial, energy or human resources sector.

It is important to point out here that there are many more community-based services in addition to the above listed ones but the basis and nature of these services are mostly similar so the results of our qualitative market research can be applied in general to the sharing economy. In the future, we obviously plan to support our results with a nationwide quantitative survey.

### **Information on community services and the frequency of use**

Most respondents first heard about the services from acquaintances or friends, while some people encountered the phenomenon in the media for the first time.

They mostly met the community services 1-2 years ago, only three people heard of it even earlier (several years ago) – they become aware of this possibility through international articles or foreign friends. They first used the services 1-1.5 years ago, usually upon the recommendation of a friend or acquaintance.

Regarding repeated use, respondents gave similar answers: because of the positive experience, they naturally take into account these shared services as an alternative when their need arises next time, and they happen to choose these alternatives in most cases.

### **Consumer motivation for using the service**

When asked why they use the service, various responses were received but the advantages of the services can be summarized in the following points. These are basically the drivers of consumer motivation, and these are the reasons why they use the service repeatedly. The following drivers motivate almost all the users. Favorable pricing is definitely the No.1 argument but every user has clearly stated that in addition to the price, many other factors contribute to their use of the service:

- more favorable pricing,
- flexibility,
- prompt or very fast response times,
- simple and transparent usage,
- fairness, reliability, credibility,
- trendiness,
- personal experiences,
- no cash movements,
- traceability.

As a brief summary we can say that the customer experience is outstandingly good. Only 3 persons had to contact the customer service for various reasons so we did not include this in the above list but all the three of them had an expressly positive experience and were satisfied with the quality of customer service.

**Substitution, alternatives**

Community-based services appear as competing or substituting services within the same industry, using M. E. Porter's (1998) approach to the forces of industrial competition.

Before the rise of the sharing economy, services (e.g. travel, booking, music) belonged to one of 2 main types in terms of cost vs. value:

- cheaper services with a lower comfort for individuals (e.g. public transport, hostels, youtube) – typically mass market or standardized products/services;
- more expensive services with a higher comfort for individuals (e.g. taxi, hotel rooms, CD purchase) – typically individuals or personalized products/services.

Community services offer alternative solutions that are close to the unique services: they have similar characteristics, a similar quality but at a lower price compared to services offered in the traditional business model.

Eight (27%) of the respondents paid a higher price in order to obtain more convenient services, while 21 people (70%) felt that they received similar (or better) services at a more favorable price. Only one person (3%) felt that he was provided with a lower-quality service for a lower price. This is clearly shown in Table 2 which quantitatively presents how the spending of the respondents has changed since the appearance of community services.

Table 2: Shift in the spending of qualitative market research participants from traditional to sharing economy

	<b>in-depth interviews</b>	<b>focus groups</b>	<b>total</b>
higher spending -> better service	5	3	8
lower spending -> similar or better service	12	9	21
lower spending -> worse service	1		1
<i>From own source, qualitative market research (2016)</i>	18	12	30

### **Recommending the service**

29 respondents definitely recommend the services to friends, acquaintances and family members (only one person does not). It is important to emphasize that this is only a recommendation – if someone doesn't want to use or try the service for any reason, he won't be persuaded.

### **Sustainability**

If asked whether sustainability is a driver in the thinking and decision-making process, most respondents answered with a 'no'; only some of the decisions were consciously made for the reason of sustainability. However, the majority of the respondents were pleased and proud to learn that the sharing economy concept evolved basically in relation to sustainability.

Interestingly, when asked whether they live an environmentally conscious life – such as in terms of selective waste collection – all of them answered positively.

## Conclusions

### Success factors in the sharing economy model

Consumer preferences clearly showed us that the sharing economy model means such a new type of business model that – within its own limits – approaches the criteria of perfect competition.

It means that the sharing economy does not model perfect competition (since traditionally operating companies are also present in every industry) but it fulfills the criteria relatively well within its limits, at least it is much closer to perfect competition than any other previous economic model.<sup>2</sup> For this, the on-line platform is an indispensable condition, and the revolutionary spreading of digital technology among consumers is an additional condition. The following criteria are true mainly for the consumer-to-consumer operating model but in certain cases they are also valid for the business-to-business model.

*No barriers to entry and exit.* Anyone who has any unutilized capacity can enter the market at any time but once they don't have and/or don't want to share these capacities, they can exit the community without any restriction.

*Entries and exits do not have a perceivable impact neither on the demand nor on the supply.* Given that a significant number of individuals are typically involved in the transactions both on the demand and supply sides, no monopoly can evolve.

*An adequately large number of buyers and sellers meet.* In a successful case, i.e. when the initiators of the IT platform have properly assessed both the demand and the supply, an adequately large number of buyers and sellers will appear on the same marketplace.

*Homogeneous products.* Certain services and products are homogeneous in the sharing economy model. It means that there is no significant quality difference between them, although there are some exceptions here: when the services satisfy a similar need (e.g. accommodation) but in different quality. In this case, there is a clear marking system in place which helps consumers decide which service to choose.

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<sup>2</sup> The term and criteria of perfect competition is a basic conception described in details among others in the text book *Mikroökonómia* (editor: Kopányi Mihály)

*Every participant is a price taker.* Supply and demand are constantly changing, prompt reactions are possible, prices are not regulated so they can change relatively fast if needed. In some cases it may lead to equilibrium price levels, while in other cases, a constantly changing price level develops in line with the conditions of supply and demand.

*All participants are perfectly informed.* Unfortunately, the criteria of perfect information supply remain only theory but it is important to highlight that participants are quite well informed through the on-line IT platform: all relevant information is available, and by using filtering criteria consumers can find and check the necessary information for their decision within a reasonable time.

Other factors which – while the above criteria are still met – make sharing economy businesses successful:

*Credibility – evaluation system.* The evaluation system provides a high degree of credibility and security for the participants since after the transaction, service users can immediately evaluate the service quality, and service providers can also rate the consumers. Participants can check the evaluation at any time. This evaluation system allows for a kind of self-regulating mechanism in the sharing economy. With the help of this system, individuals and businesses not providing good-quality services will fall out from the system, and the same will happen to users who failed to use the service as expected.

*Quick and prompt response.* The participation of an adequately large number of service providers and the digital world ('anywhere, anytime') ensure that there is prompt or fast response to customer needs. Due to a relatively fierce competition generated by a market with many players, short response time is an absolute necessity and a definite expectation.

*Personal connection, enjoyable experience.* Participants in the sharing economy contact each other once or several times during the transaction, they make arrangements either on-line, over the phone and/or in person. Due to the mechanism of the built-in evaluation system, personal connections are expressly professional and highly satisfying, while different from the usual thus surprising – this leads to an enjoyable shopping experience.

*Sustainability.* As a buzzword, sustainability has key importance in the international literature. In view of the responses given in our research, sustainability is not necessarily a motivation factor or driver in Hungary. This means that sustainability itself does not motivate people to use the sharing services but it helps to create a positive attitude towards this new economic model.

*Economic advantage.* In most cases, community services provide some economic advantage to the users, i.e. they can use services with similar quality at more favorable prices. In view of the results of our qualitative survey, a cheaper price is not a sufficient driver, and in certain cases the users do not even obtain any economic advantage since they spend more compared to the traditional alternative but at that point in time they deemed their choice as appropriate in terms of cost vs. value.

In their study, Hammari et al (2015) listed sustainability, enjoyment, reputation, economic benefits as main factors, and consumer attitude as a separate factor, that affect customer behavior. Based on our research, we added credibility and quick response to this list because these two factors are also affect customer behavior to a large extent.

Credibility, fastness and enjoyment: these are very important goals for any traditionally operating company too; they also wish to give these to their customers.

We note here that while these are goals that could be achieved with significant effort and investment – and sometimes only in certain cases – in a traditional business model, these factors are not goals that might be reached in the sharing economy model but due to the nature of the model, they are the natural consequences of operation.

### **Identification of customer segments and consumer attitudes**

With the help of digital technology, the community-based sharing economy brought to life such a new economic model that could target a well-defined customer segment. Members of this segment clearly treat the opportunities offered by the new model as advantages so they not only use the services repeatedly but they tend to recommend them to others.

During the in-depth and focus group interviews, the following personal attributes were identified that are typical to a significant portion of the respondents:

### **Internet users, including in particular those who**

- prefer and are open to novelties that the digital technology can offer,
- use applications frequently,
- regularly use bankcard for their purchases – they dislike cash movements

*Flexible persons* – they tolerate unexpected situations, are aware of the uncertainty of the regulatory environment, they flexibly respond to any unexpected situation, without being bothered by them.

*Extroverts* – personal relations are highly valued, they like communicating, as well as receiving and giving information

*Cost-conscious persons* – these users are not price-sensitive. They know that the price level of these services is more favorable, and they consider it as a motivation factor. They are cost-conscious individuals but credibility, personal relationship and quick response are also considered as important factors.

### **Environmentally conscious persons**

During the interviews, we did not find any considerable difference between male and female user behaviors but education and age could be important aspects – something that we would like to verify through a quantitative method in the future.

### **Proposals**

The results of our analysis clearly show the factors that facilitate the spreading of enterprises using the sharing economy model. Traditionally working companies should also be aware of these results, and the elements adoptable for them should be incorporated in their own operation. Although here we refer back to the fact that a significant portion of the success factors derive from the basic functionality of the sharing economy, so this adoption is not an easy challenge at all.

The results of our qualitative market research induce further research issues.

It is clearly visible that the benefits of digital technology and changing consumer behaviors facilitate the spreading of community services which may induce significant changes in certain sectors given the competition being present. To this end, the following topics should be surveyed:

- understand the connection between customers and the conditions of service usage, in the framework of a quantitative survey, for example:
  - higher educated people and/or people living in big cities tend to use the sharing economy services to a larger extent,
  - identify the features that positively impact the customers' willingness to participate in the sharing economy
- identify and compare the motivations and attitudes of individuals who have used and who haven't used sharing economy services (in terms of drivers and attitudes),
- get to know the contributors in the sharing economy model (service providers and users, IT platform operators, enterprises in the traditional model, legal and regulatory actors) and develop a new operating model in consideration of the survey results.

## **Discussion**

In our study, we aimed to learn about the attitudes and motivations of customers who have already used community services in Hungary. We chose qualitative market research as our research methodology: we conducted in-depth interviews and focus group examinations.

Based on our results, we have arrived at the finding that a clearly identifiable consumer segment uses the sharing-based community services at the present, these people are characterized by openness, flexibility and cost-consciousness. Users are extroverted people who appreciate if they can use a service with some personal touch. Furthermore, five operating factors could be identified (credible evaluation system, fast service, enjoyable shopping experience, sustainability and economic benefit) which are typical to sharing economy enterprises.

At the end of this study, we briefly state that the review of the relevant literature and our results confirm that the new operating model provides an alternative solution to the needs of certain consumer segments, and this solution is extremely successful in the given circumstances. Due to its success, sharing economy offers an alternative solution for an increasing number of consumer segments thus it could create serious competition for the traditionally operating companies. Companies using the new model as well as those using the traditional model must continuously develop in order to retain their competitiveness. Our research might provide some useful information and hints for these competitive situations. On the other hand there are several arguments, criticism and debates regarding sharing economy which come mainly from lack of regulation (eg. taxation), from traditional companies' point of view the unregulated environment cause unfair competition. However, taking into consideration that sharing economy could improve our lives from sustainability's point of view and affect the economy positively; smart regulation would be the preferred solution instead of full prohibition as in some cases happened.

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## **Authors**

### **Buda Gabriella**

stratégiai tanácsadó, Atiflor Kft., [gabriella\\_buda@yahoo.com](mailto:gabriella_buda@yahoo.com)

### **Dr. Lehota József, DSc**

egyetemi tanár, Szent István Egyetem, Gazdaság- és Társadalomtudományi Kar, Üzleti Tudományok Intézete, [Lehota.Jozsef@gtk.szie.hu](mailto:Lehota.Jozsef@gtk.szie.hu)