The Business Model Concept and the Sharing Economy

An Overview

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Abstract

The aim of this article is to give an overview of the business model concept and theories focusing on the sharing economy. Selected concepts and studies are presented, and its application, usefulness and limitations are discussed.

The concepts and models that are presented in more detail build the foundation for the realization of a digital business plan. The plan was part of the overall examination for the course ‘Digital Business Development’ at Linnaeus University.

The theories and studies concerning business models are being traced back to 1975. With the advent of the Internet mid-1990s the academic community picked up on the business model concept and an increasing number of articles, publications and studies were published. Although the huge interest in the concept, there is still no common theoretical foundation and established researchers such as Michael E. Porter even argue that the business model doesn’t help a company to develop or to assess competitive advantage instead it only helps to understand basic questions.

Airbnb and Uber have been the companies mostly cited when articles were written about the ‘sharing economy’. The research field of the sharing economy is rather new and most of the theoretical foundation is rooted in the concept of ownership. Recently, researchers have begun to investigate frameworks around the sharing economy i.e. understanding the determinants of a successful sharing model from a marketing and technological perspective.

The literature related to the sharing economy is still in its formation phase. The theory must reach a higher level of generalizability and move away from pure descriptions of ‘successful companies in the sharing economy’. Most studies have focused on identifying motivational factors for consumers and companies to participate in the sharing economy.

In conclusion, both concepts have its strengths and weaknesses, but they provide useful insights for analyzing current situations and developing potential strategic directions.

Keywords

Business Model, Sharing Economy, Competitive Advantage, Collaborative Consumption, Value Creation Driver.

Thank you

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1 Introduction

The purpose of this article is to describe the two key theories which have been applied for creating a digital business plan. The plan was part of the overall examination for the course ‘Digital Business Development’ at Linneaus University.

The Business model concept and the emerging theory of the Sharing Economy has been identified as key theories to build the digital business plan.

2 The Theory of the Business Model

2.1 The Business Model Concept

The Business Model concept has emerged mainly during the advent of the internet mid-1990s. For Teece (2010) a business model consists of the financial and organizational architecture of the business. Furthermore, Teece (2010) writes that “The essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value and converts those payments to profit.”.

According to Wirtz, B. W. et al. (2016) three different streams in the academic literature can be found, technology-oriented, organisations-theory-oriented and strategy-oriented. An overview of selected publications categorized according to their orientation can be seen in the appendix.

Amit and Zott (2001, 2011) have researched the concept of the business model from all three perspectives and offer a general definition of the concept that is based on the understanding of different management theories and their contribution to the concept of the business model. They define the business model as “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities”. They extend their definition to conceptualize a firm’s business model as “a system of interdependent activities that transcends the focal firm and spans its boundaries”.

According to the definition, the transaction content relates to the products, services or information that are being exchanged, and the resources and capabilities required for the exchange. The transaction structure refers to the actors that participate in the exchange and how they are connected to each other. It also includes the order in which the exchange is handled, and which exchange mechanism is used for enabling the transactions. While the transaction governance refers to the ways in which flows of information, resources, products, and services are controlled by the relevant actors. In addition, the governance also relates to the legal form of organization, and

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1 Zott, C., Amit, R. Massa, L. 2011
2 Wirtz, B. W. et al. 2016
3 Zott, C., Amit, R. 2010
to the incentives for the participants in transactions\(^4\). In later publications, Amit and Zott (2010) refer to content, structure and governance also as the design elements of the business model\(^6\).

In addition, Amit and Zott (2001) identify in their empirical study four sources of value creation in e-business. These are efficiency, complementarities, lock-in, and novelty. Efficiency relates to transaction efficiency of a business i.e. the lower the cost of the transaction, the higher is its value contribution, examples are search costs or simplicity. Complementarities are present when a bundle of products or services together results in a higher value than its individual products or services, examples bundle between offline and online services or between activities. Lock-in results in repeated transactions thru switching costs, it creates value by preventing customers and partners to choose other products and services e.g. loyalty programs or customization. As a fourth source novelty has been identified which relates to innovative ways of doing business e.g. new participants or new transaction structures\(^7\).

With the help of Amit and Zott’s (2001) research, two important design parameters\(^8\) have been recognised, design elements and design themes which characterize a business model. Design elements refer to content, structure and governance of the model i.e. the activity system\(^9\) while design themes describe the dominant value creation drivers in a business model.

What is a business model then? Thompson and Morgan put it very simply “The business model is an explanation of the organization’s ‘recipe for success.’”\(^10\).

2.2 Concept application, usefulness, and limitations
The business model concept was applied to understand the viability of the researched company. Porter (2012) supports this view by arguing that “There are different ways of getting revenue and different ways of managing costs, and the business model lens can help you to explore those.”\(^11\).

The value creation drivers identified by Amit and Zott (2001) in combination with Johnson et. al. (2008) business model conception that breaks down the model in customer value proposition, profit formula, key resources and processes were a very useful way to analyse the current situation of the company and to understand potential gaps and opportunities. Especially Johnson et. al. (2008) elements for a successful business model framework made it possible to challenge the current situation e.g. revenue model and cost structure but also to be very specific about the

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\(^4\) Amit, R., Zott, C. 2001
\(^5\) Haftor, D. M. 2015
\(^6\) Zott, C., Amit, R. 2010
\(^7\) Amit, R., Zott, C. 2001
\(^8\) Amit, R., Zott, C. 2010
\(^9\) Amit, R, Zott, C. 2012
\(^10\) Thompson, J., Martin, F. 2005
\(^11\) Magretta, J. 2012
customer value proposition. Amit and Zott’s (2001) value driver also contributed to a better understanding of the situation and potential future developments.

Gregor (2002) identifies five different types of theory that can be distinguished, theory for analysing and describing, theory for understanding, theory for predicting, theory for explaining and predicting, and theory for design and action.

To understand the current situation and to build on future opportunities identified during the initial analysis it was decided to select theories that enhance understanding and contribute to further development of the business.

The work of Amit and Zott (2001, 2010) led to an understanding of the ‘how’ and ‘why’ as they identify the value creation drivers that are relevant for a successful business model. Johnson et. al. (2008) article can be interpreted as ‘theory of design and action’12 as it describes the ‘how to do’ i.e. delivers a concrete framework for a business model.

The advantage of using the business model concept is that it is rather broad in its application and tries to answer basic questions such as how is the company going to make profit? What will our cost structure be? How does our revenue model look like? What is our offering to the customer?13. Based on Amit and Zott’s (2001, 2010) work there is a clear understanding of the relevant design elements and themes that need to be addressed combined with Johnson et. al. (2008) methodology it results in a sharp and easily to apply tool box.

The strength of the business model concept is also its disadvantage at the same time. Although there is an extensive base of articles, reviews and publications, it is not clear what a business model really is, and the variety of perspectives become counterproductive14. George and Bock (2012) write that “While the term ‘business model’ has gained a widespread use in the practice community, the academic literature on this topic is fragmented and confounded by inconsistent definitions and construct boundaries.”. Porter cited in Magretta (2012) is especially critical towards the business model concept. He argues that the business model doesn’t help a company to develop or to assess competitive advantage.

Amit and Zott (2001) attempt to ground their findings of the business model concept in established theories such as Transaction cost theory, Resource-based view and Schumpeterian innovation and Value Chain analysis. While Johnson et. al. (2008) bases their model mainly on company observations and management experience.

12 Gregor, S. 2002
13 Magretta, J. 2012
2.3 Recommendation

The business model concept is useful when analysing a company’s situation as it is simple to apply. It helps a company to understand and challenge current thinking and generates insights as to how to improve the situation and how to allocate resources and improve transactions in the future. The business model conception is of practical value and should not be confused with strategy\(^\text{15}\). Therefore, some authors see business models as the connection between strategy and execution\(^\text{16}\).

As highlighted by several researchers, there is a need to understand better the interface of the business model compared with established management concepts such as Value Chain Analysis and Competitive Advantage. Also, another area of research is that of business model fit i.e. link between specific design themes and actual business model performance outcomes\(^\text{17}\).

3 Sharing Economy

Airbnb and Uber are the most commonly cited examples of the so called ‘Sharing Economy’. The increasing adoption of the internet drives the growth of sharing platforms and communities based on decreasing transaction costs. Mobile apps enable an even more instant exchange of information\(^\text{18}\). The theories and research are still at an early stage and publications, empirical studies are sparse compared to the field of the business model conception.

3.1 Collaborative consumption vs. Sharing Economy

In the literature, the Sharing Economy is also referred to as collaborative consumption\(^\text{19}\), access-based consumption\(^\text{20}\) or the gig economy, the on-demand, peer, or platform economy\(^\text{21}\). According to the literature, the terms do not describe the same phenomena. Bardhi and Eckhardt (2012) argue that access and sharing differ from each other regarding the perceived sense of ownership i.e. the consumer simply gains access to use an object. While Möhlmann (2015) defines collaborative consumption as “[…] takes place in organized systems or networks, in which participants conduct sharing activities in the form of renting, lending, trading, bartering, and swapping of goods, services, transportation solutions, space, or money”\(^\text{22}\).

\(^{15}\) Magretta, J. 2002
\(^{16}\) DaSilva, C. M., Trkman, P. 2014
\(^{17}\) Amit, R, and Zott, C. 2015
\(^{18}\) Möhlmann, M. 2015
\(^{19}\) Möhlmann, M. 2015
\(^{20}\) Bardhi, F., Eckhardt, G. M.
\(^{21}\) Narasimhan, C., Papatla, P., Jiang, B. 2018
\(^{22}\) Möhlmann, M. 2015
Based on the work of Belk (2014), Möhlmann (2015) argues that “collaborative consumption is located between traditional forms of sharing within a family context and usual market exchange activities.” The evolving discussion around the definition of sharing, collaborative and access-based consumption merely centres around the concept of ownership. Although sharing private assets might be new, rental markets for products such as cars, hotel rooms, vacation homes as well as services such as accounting, or car repairs have been existing for a long time23.

Based on an overview provided by the Business Model Toolbox24, the system of the sharing economy can be illustrated as follows:

![Overview of the sharing economy](image)

Figure 1: Overview of the sharing economy25

While traditional rental markets have been based on two-way transaction, in the sharing economy these have become three-way transactions. In most sharing marketplaces, there is a platform that brings buyers and sellers together, collecting and processing payments, and providing recommendation systems that allows buyers and sellers to market and rate the shared assets in a transparent way26.

Möhlmann (2015) develops a framework on the determinants of choosing a sharing option. The author identifies ten variables that impact satisfaction with a sharing option and the likelihood of choosing a sharing option again. The variables are community, belonging, cost savings, environmental impact, familiarity, internet capability, service quality, smartphone capability, trend affinity, trust, and utility.

The empirical study conducted by Möhlmann (2015) shows that respondents seem to be driven mainly by rational reasons, serving their self benefit i.e. using services that help them to save money and that the service is characterized by a high utility.

23 Narasimhan, C., Papatla, P., Jiang, B. 2018
24 http://bmtoolbox.net/patterns/sharing-economy/
25 Adapted from Narasimhan, C., Papatla, P., Jiang, B. 2018
26 Narasimhan, C., Papatla, P., Jiang, B. 2018
In addition, familiarity with a service was also found to be an important variable based on lower transaction costs of getting to know the specifics of the sharing process.

Multisided platforms are not new, companies such as American Express, PlayStation or Xbox have been linking merchants to consumers and linked users and developers. Westerman et. al. (2014) identify the sharing economy as a driving force for companies to change their established business models while at the same time they raise the question if sharing platforms create additional value or just replace existing businesses. The authors argue that well-executed platforms create significant barriers to entry based on substantial network effects.

3.2 Concept application, usefulness, and limitations
The Sharing Economy is a rather new research field which has gained substantial attraction in recent years. For the analysis of the sharing platform in the digital business plan, the empirical work of Möhlmann (2015) has been selected as to its clear framework of determinants of satisfaction with sharing options.

One of the guiding ideas in the digital business plan was to develop a ‘neighbourhood cloud watch’ therefore it was important to understand what the success factors would be for a sound sharing concept. The framework contributed to the analysis of the current situation with clearly defined elements. In addition, the conceptual model adapted from Narasimhan, C. et. al. (2018) allowed a common understanding of the transactional structure of the sharing economy and the platform bringing together buyer and seller.

The work of Möhlmann (2015) was chosen as it stated clearly the ‘how’ and ‘why’ of the theory about collaborative consumption. It was important to select a framework that could be easily applied to a real-life company in a B2C context and used in the analysis of the current situation. The determinants identified by Möhlmann (2008) brought clarity into the current approach of the ‘neighbourhood-cloud watch’ but also provided valuable insights into how to improve the platform in the future. The work by Narasimhan, C. et. al. (2018) is focussed on ‘design and action’ and provides thereby a practical toolbox.

As mentioned before, the framework developed by Möhlmann (2012) is an easy to understand framework which allows to identify the important determinants of a successful sharing option. The overview of the transactional structure of the sharing economy adapted by Narasimhan, C. et. al. (2018) is of practical value and lets its user understand the structure and relationships in a sharing model.

Most of the theory building in the field of the Sharing Economy is based on the work of Belk (2007) and his thoughts around the concept of ownership. The theory of the Sharing Economy is far from consistent and well grounded. A rather big proportion of the work has been developed from a marketing and technological perspective. In addition, most studies have focused on identifying motivational

27 Westerman, G., Bonnet, D., McAfee 2014
factors for consumers and companies to participate in the sharing economy. Also, Möhlmann’s (2015) empirical study is focused on identifying potential alternatives for B2B and B2C companies to improve satisfaction with their sharing options.

3.3 Recommendation
The theory needs to broaden its scope i.e. from marketing and technology management to other management sciences. The academic literature on sharing economy needs to evolve and continue to study the dynamics of changes in purchase behaviour, pricing but even more important how the sharing economy contributes to competitive advantage and strategy.

In addition, most of the empirical research focusses on Airbnb and Uber and some other established companies associated with the sharing economy. Further research needs to expand its scope on other companies in different industries and need to understand how established, non-sharing companies will be affected by this.

28 Acquier, A., Daudigeos, T., Pinkse, J. 2018
References


Belk, R 2014. You are what you can access: sharing and collaborative consumption online. *Journal of Business Research*, 67(8), ss. 1595-1600.


Appendix

The business model research field: Literature overview\textsuperscript{29}.

\textsuperscript{29} Wirtz, B. W. et al. 2016