SOCIAL IMPLICATIONS OF COVID-19 ON THE SHARING ECONOMY

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Abstract

The late 2019 outbreak of the COVID-19 pandemic, among many consequences, has put a serious strain on many sectors of the economy, causing GDP in numerous countries to plummet. Among the different business fields which have suffered, is a fairly new one – the sharing economy. The sharing economy is different from traditional economies since it is less regulated; it's based on a two-sided rating system which serves as a confidence-building mechanism between the customer and the service provider. Additionally, this kind of economy, in most cases, demands physical interaction between both parties. This interaction between individuals is the reason COVID-19 is still posing a major threat globally but at the same time it is crucial for the sharing economy to survive.

This paper discusses the challenges to the sharing economy caused by COVID-19, and provides an in-depth look into the aspect of regulation versus the sharing economy's non-traditional confidence-building mechanism - its ratings system. By analyzing the two most popular sharing economy representatives Airbnb (hospitality) and Uber (individual transportation), this paper gives evidence to how fragile the underlying business foundations of these successful companies are and also provides evidence for these unstable trust-based economy schemes.

Key words: *sharing economy, Covid-19, crises, Uber, Airbnb, social dimension*

INTRODUCTION

Bill Gates's 2015 *Ted Talk* (Gates, 2015) contained sinister predictions of a highly infectious deadly virus pandemic which has materialized in late 2019. Originating in the Chinese province of Hubei, in the city of Wuhan, later to be known as COVID-19, the virus has spread globally infecting and killing people but also causing whole economies to freeze. The freezing of the economy has happened on two parallel levels, that is, governmental actions to impose social distancing but also customer fears of exposing themselves to the virus. While the former aspect is controllable by the government, the majority of sectors of economy have been unlocked, the latter, social behaviors, are beyond central control.

In this new environment, a new type of economy, the sharing economy, is facing challenges of an existential nature. The set of preferable circumstances that has allowed the sharing economy to expand is being put to the test by COVID-19, possibly requiring this new model of economy to reshape in order to subsist. A vital element of the sharing economy is that participants of this economy trust and rely on their service providers. These aspects and the way they challenge the sharing economy nowadays is going to be the focal point of this article. Taking into consideration that contemporary knowledge about COVID-19 and also that this stage of pandemic we are currently in is still not satisfactory, the paper will examine only the current situation with moderate predictions for the future. The analysis is conducted predominantly on the basis of the two most popular and widely used sharing economy actors, that is: *Airbnb* and *Uber*. *Airbnb* being the sharing economy equivalent of a hotel and *Uber* of a taxi.

BACKGROUND

The sharing economy, also known as peer economy/on-demand economy/digital economy, is a relatively new phenomenon. The concept, which was being shaped earlier, was first described in 2004 by Harvard law professor Yochai Benkler in an essay in *The Yale Law Journal* pointing at possible advantages derived from a framework based on large-scale effective practices of sharing private goods (Benkler, 2004). The sharing economy started to gain momentum with the Great Recession that was

started by the subprime mortgage crisis in the United States. The recession times posed new opportunities for entrepreneurs and also demanded resigning from old habits by the consumers and a search for satisfying their own needs in alternative ways.

The sharing economy, in its purest form, challenges the secondary market (second-hand or used products) since it stresses not the aspect of owning a product but the functionality of it, which is of core interest for the user. The notion of the sharing economy demands technology and certain technology fluency from the participants of it. Above the goods which are being shared, the environment for the sharing economy is the Internet and the tools which are required are smartphones and dedicated applications. The dedicated application installed on the smartphone links the user of a good with the provider via the Internet. In the case of *Uber*, the two-side transactions is built as shown below:

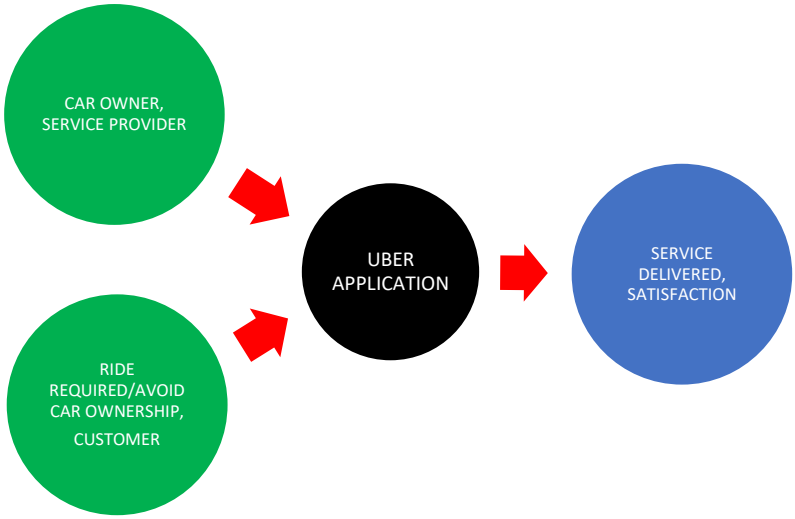


Figure 1. Two-side Uber transaction

Uber as a company, links the car owner (and provider of a service) with the customer (user) who lacks a car but needs transportation. The owner of the application, *Uber*, charges a fee for providing a platform where the two sides of the transaction are matched. The platform provider, as a company is based in California, but since the transaction, unlike the product – local transportation, is online it can deliver service globally.

For *Airbnb*, which is the sharing economy's riposte to traditional hotel accommodation, the two-sided transaction is uniform, yet the good is not a car (or ride) but accommodation. An individual (provider), for an agreed price, shares his apartment with a customer who seeks accommodation. The transaction is being completed by an online platform, often via an application.

TRADITIONAL ECONOMY VS. SHARING ECONOMY (UBER AND AIRBNB)

The sharing economy is both new and revolutionary in terms of customer approach, simultaneously. The establishment of the two examples illustrating the phenomenon of the sharing economy dates back to 2008 in the case of *Airbnb* and 2009 for *Uber*. These sharing economy firms are disrupting traditional industries across the globe for manifold reasons and this tendency has been amplifying with the growing access to the internet, free data transfer, more user-friendly applications, and growing fashion for these alternative solutions.

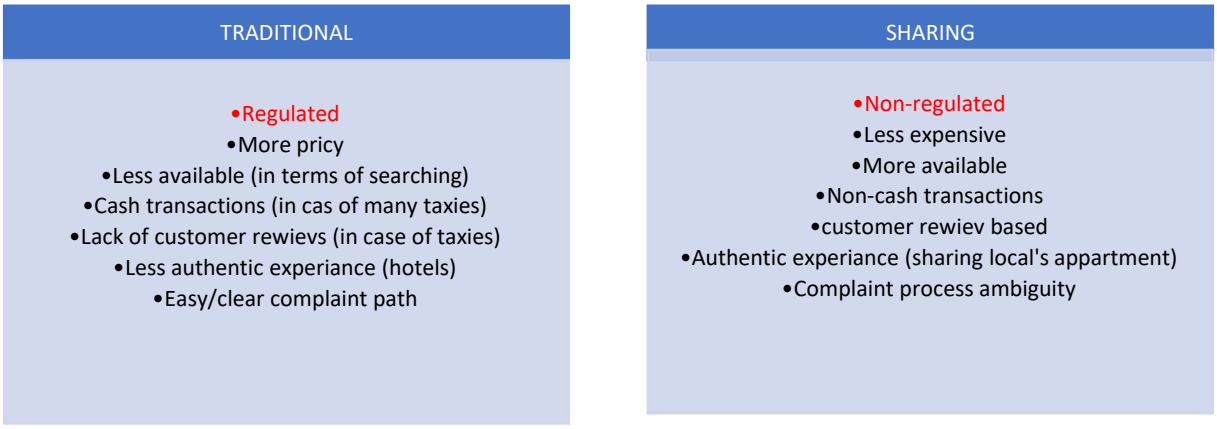


Figure 2. Comparison of traditional and sharing economies

In the above comparison one element that requires a thorough comment is the aspect of regulation and the lack of regulation that, especially in the COVID-19 era, has a magnitude of consequences. Governmental regulation is providing a framework for a business, or more broadly a sector of economy, to function. The main cornerstone functions of regulation is governmental control of a sector – legislation, transparency, taxation, monopoly avoidance and, among others, safety for the customers of goods or services. The customer views regulation as safety and trust, that comes at a higher price and possible inconvenience. For several years the pros of regulation, still done in the majority of sectors of the economy, outweighed the cons. Together with the latest phase of digital revolution, Web 2.0, smartphones, and social media, new types of enterprises appeared, changing the approach to many sectors of the economy and changing these economies as well. Among the business/services that were heavily influenced by this revolution were (still are) hospitality and individual passenger transport – or a taxi. The newness of the business concepts of *Airbnb* and *Uber* with all the advantages that it carried out-balanced the imperfections these concepts were burdened with.

EXPANSION OF SHARING ECONOMY

The sharing economy's success, among others, corresponds to a social and sociological change that the world has been undergoing in the first decade of the 21st century. The reasons for this modern economy's expansion are technological proliferation, the Great Recession, the social media, user-to-user prescription, millennials, and finally, social awareness (Grybaite, Stankeviciene, 2016).

Technological proliferation and especially advanced mobile technologies reinforced by geo-localization tools allowed both the customer and the entrepreneur a proximity not available earlier. The product or service offered by *Airbnb* or *Uber* were, in colloquial terms but also practical, in the pockets of the customers, available at all times (the sharing economy is also known as the on-demand economy). The geo-location of the smartphones reassured that the product or service is quickly and precisely delivered. The Great Recession sparked by the subprime mortgage crisis had a sociological effect on customers. Owning products was replaced by renting and sharing them which was strengthened by growing awareness about the importance of saving. By sharing goods on one side, a savings was created and to the provider side a profit was generated. One of the consequences of social media growth, especially Facebook, was the bringing-together effect, the effect that sociologically users felt closer to one another, knowing more about other users and developing trust as a consequence. Belonging to a social network, users developed an ability to trust people (or at least the digital representation of people) they did not know personally. Intimately linked to the use of social media is the user-to-user prescription also known as the peer-to-peer prescription. This concept of collective experience is an essential part of the success of such sharing economy platforms as *Airbnb* and *Uber*. User-to-user prescription, with the aid of social media, familiarized new products and services turning mistrust into trust. Additionally, the generation

born between the late 1980's and 2000, identified as millennials, largely contributed to the success of the sharing economy model. There are two main, yet general, explanations to this – millennials are the generation fluent with the new technological gizmos and also are also characterized by being less affluent or wise-spenders. Finally, social awareness, the need to reduce their environmental footprint, is among the reasons for the social economy boom. Millennials, who do not have a need of ownership, see themselves as more environmentally aware by sharing.

Airbnb is among the companies that took advantage, or even the lead, of this revolution. A well-designed application, attractiveness as a concept, greater/immediate access to accommodation ranging in prices are among the reason for success.

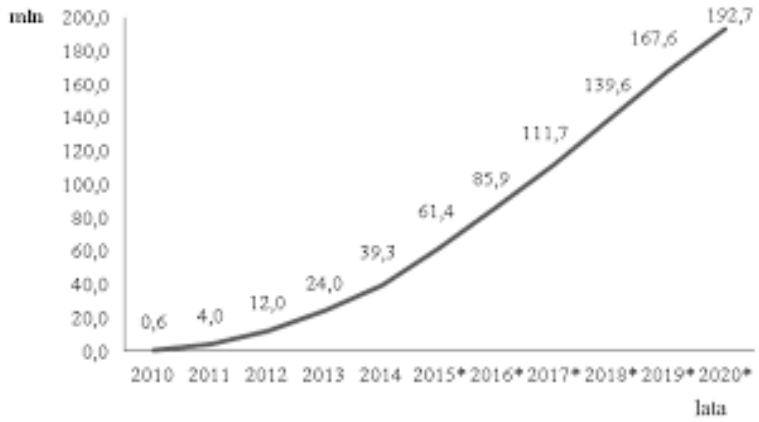


Figure 3. Room night rented out through Airbnb 2010-2020 (Jarema, Nawrocka, 2017)

According to Jerema and Nawrocka, the rise of popularity of *Airbnb* can also be attributed to the rapidly growing offering base (owners of available properties) versus the old and even slightly boring offer of traditional hospitality solutions, that is hotels, which are not being built as rapidly.

Uber is another venture that was capable of catching the attention first of the millennials and later other generations. In the case of *Uber,* two other critical factors contributed to its success. The route that you were travelling with your *Uber* driver was based on geo-location of other vehicles (traffic) therefore being optimal, moreover the route together with the travelling time was shown on users' smartphones in *Uber* application. Other information which was available to the customer was the cost of the ride. This information was available at the ordering time. The payment was done via the customer's credit card linked to the application; therefore the user did not need to have cash at hand or the local currency when travelling from the airport.

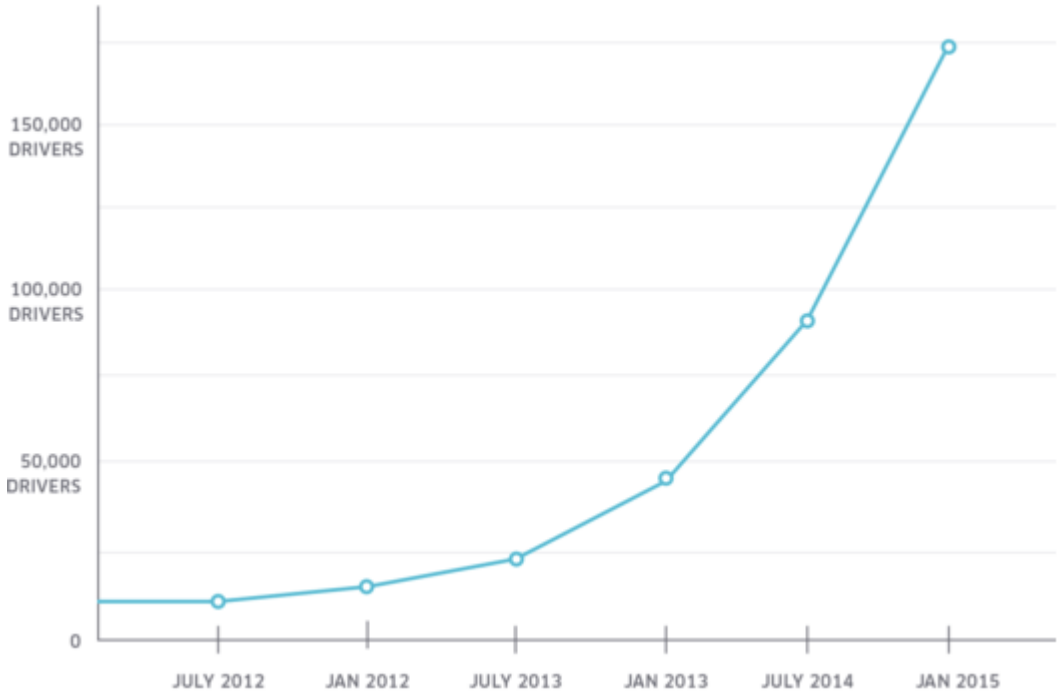


Figure 4. Uber' Rising Popularity (Tamberino, 2015)

The graph above presents the rapid growth of *Uber* from the perspective of the provider (drivers). This new business model was just as luring for the customer as for the service provider who, owing to *Uber*, had his ride and payment organized, while still having direct contact with the customer and having the opportunity of being tipped.

RATINGS AND TRUST AT THE HEART OF SHARING ECONOMY

The two key, interrelated words or concepts which are cornerstones of the sharing economy – rating and trust, serve regulatory purposes and have a regulatory dimension. Sharing economy platforms promote a rating service that has been purchased. This rating is expected from both sides of the transaction, the customer and the provider (as presented below):

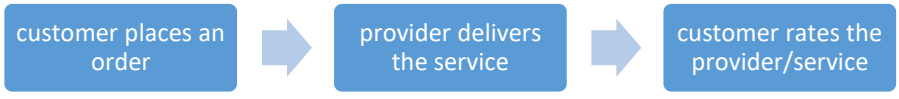


Figure 5. Provider rating process

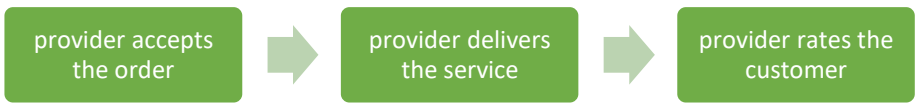


Figure 6. Customer rating process

Exceeding the critical filters as location, price and availability, ratings and comments of both sides of the transactions are crucial for accepting or refusing the contract (order). Both parties have the power of accepting or refusing the contract. Therefore, an *Uber* driver (the provider) has the power of refusing to give a ride to a customer who has especially negative opinions: is noisy, vulgar, unpunctual, or messy.

The above simplified trust-building mechanism, which is reinforced by the bringing-together effect of digital platforms, until COVID-19, was equal to governmental regulations in the eyes of millennials (the first customers) and later others. Bilateral ratings and a trust-mechanism, even if non-obligatory, not only helps to identify preferred contract partners but eliminates ones that for different reasons are unwilling to cooperate at an agreed level. An *Uber* driver, who drives in an unsafe way or even too aggressively, smokes in the vehicle, or talks on a phone will get a bad rating, fewer orders, and as a consequence, will be eliminated from the market. Likewise, an Airbnb customer who has a bad rating history for being too noisy in the apartment, messy, or organizing parties, will find it difficult to find an apartment to rent out in the future. Rating scores are fundamental for both the customer's and provider's existence on the platform and, therefore become crucial for the existence of the sharing economy, serving as an indicator of whether a product or service provided was as expected or exceeded expectation (Moriuchi, 2019). Rating mechanisms should not be mistaken with competition mechanisms (as price, location or availability), the sole purpose of rating, commenting, and scoring is building shared trust and reputation among participants of the sharing economy.

TRADITIONAL AND SHARING ECONOMY UNDER COVID-19 CHALLENGE

The late 2019 revelation of a new virus in China, did not spark global attention a first. Yet, in a couple of weeks, it had proven to be more serious than the 2003 SARS (Severe acute respiratory syndrome) or the 2003-2009 H5N1 Bird Flu, or the 2013-2016 Ebola outbreak just to name the most recent virus-related crises. The three above, compared to COVID-19, proved to be less deadly – SARS 774 dead, H5N1 455 dead, and Ebola over 11,000 (Świderak, 2020). The global tally for COVID-19, up through the end of July 2020, is over 650,000 dead. Above the many pure virology studies and findings referring to the characteristics of viruses, one reason for the rapid spread of COVID-19 is globalization. Never before was Earth such a global village in terms of intercontinental business requiring high volume of travel but also travelling for pure pleasure. Never before has travelling been so available and popular, which served as a *highway* for COVID-19's spread.

Consequently, local and global economies have experienced contractions and in many countries, have come to a freeze. With no country immune from the Covid-19 crisis, according to Kristalina Georgieva, IMF managing director, from an expected rise in prosperity in 160 member countries in early March 2020, 170 will face a falling output (Giles, 2020). With numerous business sectors such as aviation, tourism, hospitality, and beauty services experiencing a lockdown, many others, often related, were forced to cut down production and make redundancies. Without convincing evidence proving at what stage of the pandemic the world is at, any kind of optimistic forecasts concerning the economy are not made by the governments, analysts, corporations or companies.

Parallel to Covid-19 forcing governments to freeze many sectors of the economy, customer confidence has been paralyzed. Simultaneously to freezing the economy, governments imposed social distancing, wearing masks and other hygiene requirements, prohibiting travel and closing down cities or towns. Potential customers were reluctant to leave their houses, socialize, or spend money. Watching TV became competitive to going to a cinema, cooking to dining in a restaurant, or even having yoga classes with an online teacher instead of going to a yoga club. Growing unemployment and uncertainty about future earnings magnified lack of customer confidence across Europe, the USA, and globally. As presented on the graph below, in the case of the UK, consumer confidence plummeted from early this year by nearly 30 points.

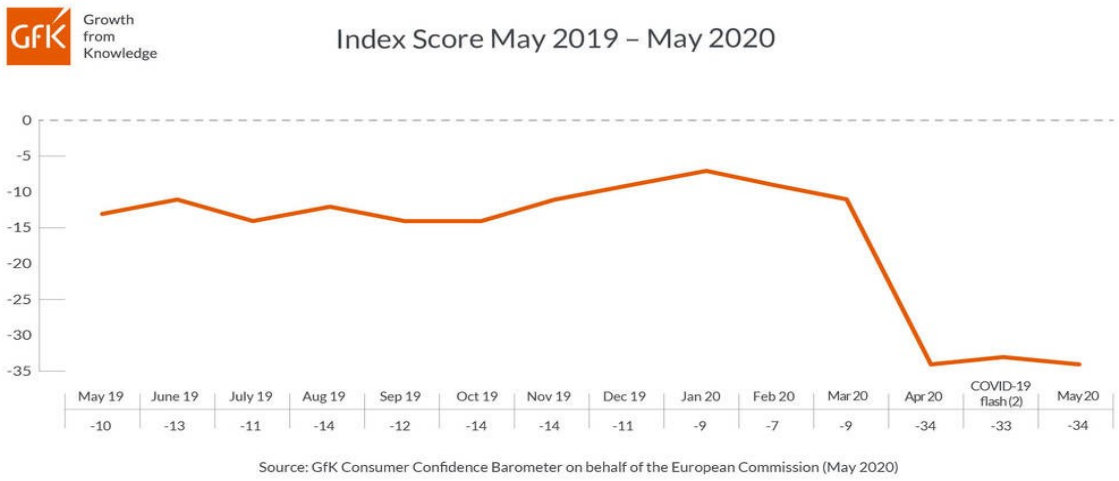


Figure 7. Consumer Confidence Barometer (Jahshan, 2020)

Covid-19 affected the traditional economy and the sharing economy likewise. The freezing of travelling had a damaging effect not only on traditional hospitality business but also *Airbnb* globally.

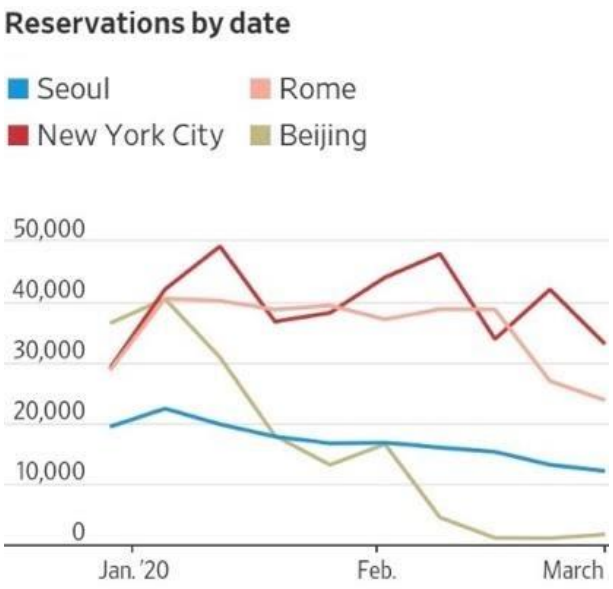


Figure 8. Airbnb bookings in major cities have tanked amid the pandemic (Rana, 2020)

Potential customers lost the opportunity to travel and fearing health consequences and a possible two-week quarantine, decided to stay at home in their places of residence. Since, as stated above, millennials are the key customers of the sharing economy, under lock-down, they were responsible for the safety of their elderly family members (parents and grandparents), who were more at risk (in the case of Italy and Spain).

SOCIAL DIMENSION OF COVID-19

Fear and the avoidance of socialization were the immediate effects of COVID-19 on society. Self-isolation, social distancing, lack of access to many services (health clubs and beauty salons or barbers), mask/glove wearing were both, simultaneously, imposed by governments and as an upwards initiative of the individuals. The latter, partially, as a result of the lack of knowledge about the virus but also, in many cases worldwide, inadequate preparation for the challenge of the healthcare systems. On top of that, the public was (and still is) unconvinced if governmental measures aimed at tackling the virus are proper and adequate. Yet, without numerous services and products daily *existence* is challenging, take hairdressers or even post offices. In such circumstances governmental regulations (the original and newly introduced) are some sort of a guarantee that the product or service is safe. While it is widely understood that a full *guarantee* under COVID-19 does not exist, an active government that takes actions and imposes measures builds confidence in the society. COVID-19 as possibly the most socially disruptive event in modern history (alongside terrorism) caused, and is still causing, a number of transformative social behaviors. While the need of socializing is a need that is deeply rooted in humankind, shopping behaviors can change. COVID-19, for reasons stated above, forced such changes. Not only the type of products/services that were purchased changed but also the style acquiring them was modified as well. Research carried out by OECD compared Google search for retail items between April 2019 and April 2020. The findings, as presented in the graph, prove customer behavior change with an increased interest in essential items (grocery and food, pharmacy and consumer electronics) and a decrease in non-essential goods (luxury goods, home appliances, home furnishing, apparel, and travel accessories) (OECD, 2020).

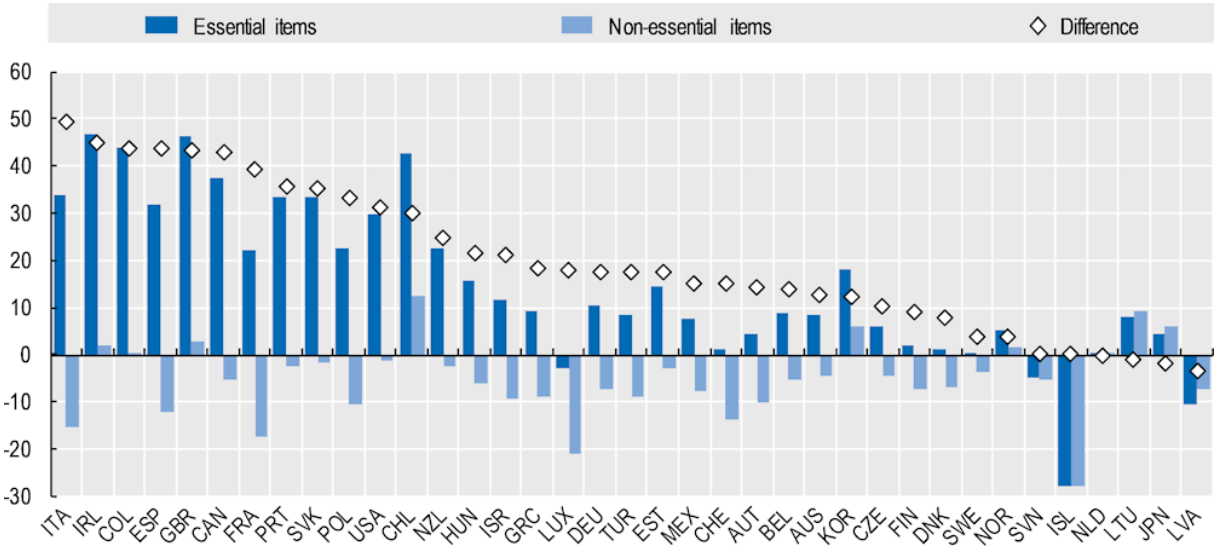


Figure 9. Change in demand for essential versus non-essential retail goods (OECD, 2020)

As presented on the graph, this was a global tendency. This web search tendency climaxed with online purchases. With brick and mortar shops being locked down, customers completed their purchases online. Therefore, only what the customer was buying changed under COVID-19, but also how the channel of shopping changed to e-commerce. While e-commerce is growing, the graph below distinctly shows that the product order line peaks as the governmental COVID-19 restrictions are imposed. These social and customer behavior schemes are predicted to strengthen as the global pandemic is accelerating, socializing is dissuaded, and the e-commerce industry is satisfying expected shopping experience and needs.

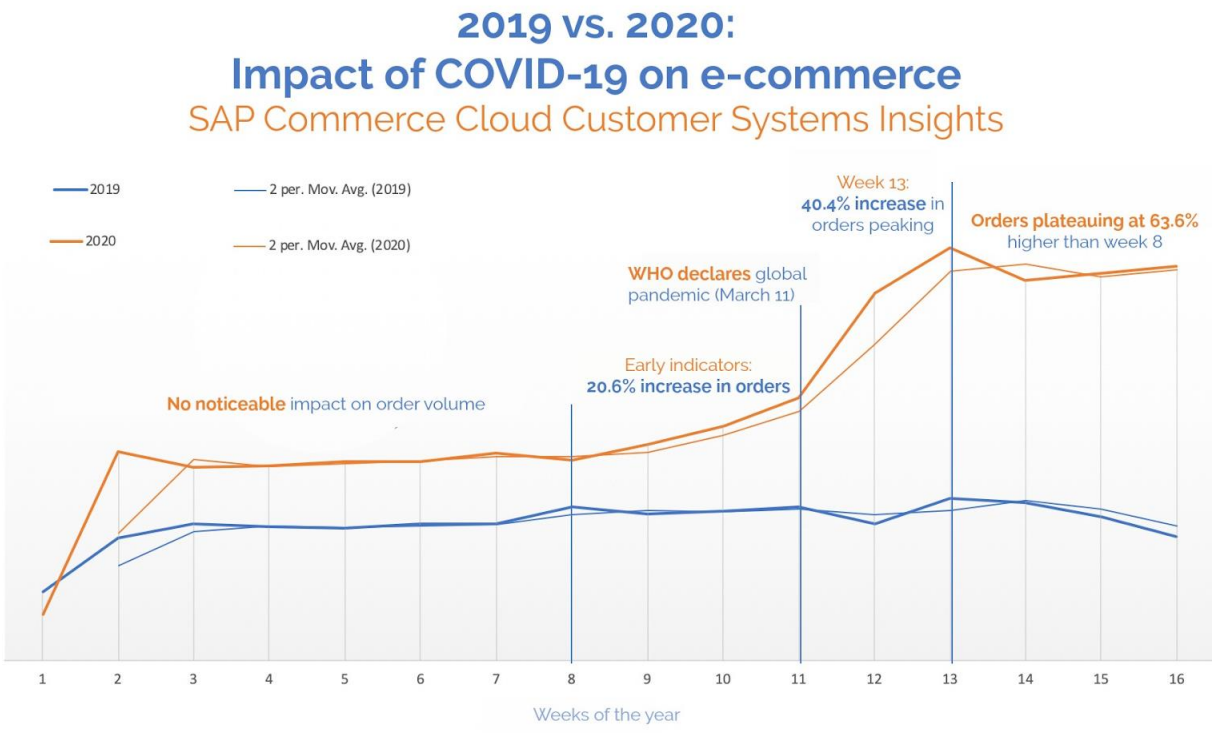


Figure 10. 2019 vs. 2020. Impact of COVID-19 on e-commerce (Chung, 2020)

CONCLUSIONS

The sharing economy, exemplified in this text by *Uber* and *Airbnb*, is facing a magnitude of challenges in the COVID-19 era. As discussed in the text, the underlying characteristics of the sharing economy are contrary to the social and customer behavioral changes and expectations. While governmental regulations are often seen as extensive, limiting, and harmful, today they are the most needed confirmation of safety. The sharing economy is largely unregulated which resulted in it being so competitive and attractive for both the customer and the provider. Moreover, in the circumstances where knowledge about the stage of the pandemic is still limited, one's own safety becomes a priority and governmental regulations are a welcomed component. In case of the businesses discussed, hygiene and sanitary measures that might guarantee safety and improve customer confidence, are under provider auspice. This auspice lacks clear guidelines and control measures.

The two examples of the sharing economy discussed in this paper, and also the most popular ones, are directly (*Airbnb)* or indirectly (*Uber*) linked to travelling. Since this customer activity was the first one to be frozen, the discussed business entities were heavily affected. Closed borders, lock-downs of whole cities, which for *Airbnb* as a company meant a tremendous loss of business and for the accommodation providers, a complete drainage of customers. In the case of *Uber*, self-isolation and social distancing meant a huge decrease of customers. Schools and universities closed down and companies turned to the home-office model for their employees. Socializing was both prohibited by regulation and common sense. The amount of work (number of customers) for *Uber* drivers sharply decreased. Traditional taxi companies became attractive for the customers who needed this kind of service under COVID-19, since they are regulated and appear more trustworthy.

As discussed in the paper, confidence is essential for the customer. In the case of the sharing economy, confidence derives from their rating systems. This source of confidence has proven not to be sufficient. Fewer current (or even none) reviews is discouraging for potential customers, poses questions, and contributes to reluctance. Under COVID-19 the mechanism of two-sided rating was put to a halt, or at least severely limited. This rating equilibrium of the sharing economy, the source of two-sided trust building, appears to be insufficient in the COVID-19 era.

The question which is self-imposing concerns the future of the sharing economy. The future of the sharing economy and many other sectors of the economy is highly correlated with COVID-19 and the way this crisis is managed. Customers most likely will expect this kind of product or services but they may require a different framework, one which will guarantee more. This customer expectation might be difficult and expensive to provide, and most likely it will increase the cost of the service these companies provide. Since price was among the main competitive advantages of the sharing economy over the traditional one, customers might restrain from participating in it for pure economical reasons. COVID-19 might also influence our customer behaviors for a longer time span which might mean outflow of potential customers not only for *Airbnb* and *Uber* but also for traditional hotels and taxi companies. Despite all the odds, successful sharing economy entrepreneurs, and indisputably this is the case of *Airbnb* and *Uber* founders, are among the most enterprising and creative. Finding solutions to the current COVID-19 crises and winning back the trust and confidence of customers will be a priority for them. The outcome might not only bring back already existing customers but also attract new ones.

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