

PUBLIC CONSULTATION ON NEW MODELS FOR SERVICE DELIVERY AND THE “SHARING ECONOMY”

DOCUMENT 2: EFFECTS OF THE NEW ECONOMIC MODELS ON THE MARKET AND THE REGULATION

Over recent years, new models for service delivery have arisen which, regardless of their compatibility with current regulations, place supply and demand in contact with each other in a novel manner. This phenomenon is having increasingly more relevant effects on the markets, where these services compete more or less directly with those offered by “traditional” agents.

The effects of the new models on markets is determined to a large extent by their specific characteristics, thus before analysing those effects it is important to understand what the differentiating factors are in relation to traditional service delivery models. In this regard, it can be said that the development of **information and communication technologies** and their application in the rendering of services has been determinant for the new service delivery models to appear and has defined their main characteristics, among which the following may be cited:

- The use of **internet** as the main means for the interaction of supply and demand for products and services. The universal presence of internet supposes the elimination of many of the barriers to exchange existing in traditional markets, at the same time allowing for the reduction of intermediaries and transaction costs, and benefitting consumers in terms of immediacy, information and comparison of available supply.
- The use of virtual platforms that allow for great **data management capacity**, immediately and at low cost, which enables the efficient management of a large number of transactions in very liquid markets with relatively low initial costs.
- The use of **mobile devices** as a means to access these exchange platforms, by way of specific applications that provide demand with immediacy and ubiquity of access to services.

Among the new service delivery models, that known as “**sharing economy**” is arousing the most attention, as, in addition to the aforementioned characteristics, it also has some elements that render it a novel economic and social phenomenon. Although there are no commonly-accepted definitions for the “sharing economy”, we

can say that this consumption model is based on the exchange, between private individuals, of goods and services that were previously unused or under-used, in exchange for a compensation agreed by the parties. Some examples of these exchanges include the offering of free car spaces on a trip that one may be planning to go on, or of a house that is left empty during vacations, or of tools that have been used just once or twice, etc.

“Sharing exchanges” have certain specific characteristics that differentiate them from the rest of the new digital models, among which the following may be cited:

- The exchange of goods and services takes place **between private individuals**, not professionals, with said exchange not entailing the exercise of a remunerated professional activity by the supplier, although there may indeed be an economic exchange in the form of shared expenses or a compensation.
- The goods and services exchanged were previously **unused or under-used** by the supplier, and, therefore, these goods and services were not created or acquired to be offered on the market.

In many cases, these phenomena have taken place traditionally in society, but the use of information and communication technologies has brought a quantitative change with disruptive characteristics in diverse markets that enables talk of a new phenomenon. Other factors explaining the rise of the sharing economy are a certain cultural change, in which the “use” of a service is preferred to the “ownership” of the asset providing the same, and the reduction in available income and access to credit as a consequence of the economic crisis, which has intensified the use of previously under-used assets and thus the consumption of services in better economic conditions.

Therefore, in accordance with the foregoing, not all of the new service delivery models can be classified as “sharing” models, although on occasions the frontier between what may be considered as “sharing” and what may not, is very unclear. The distinction may seem a priori of little relevance for the effective rendering of the service, but it could be important from the point of view of taxation, labour relations, responsibilities or liabilities derived from the service, or compatibility with existing regulations.

Based on the preceding characterization, the main effects of the new service delivery models on their respective markets may be identified:

- More information on the asset or service available for consumers, which allows for easy comparison between products and for better consumption decisions. The marker and reputation mechanisms existing in diverse platforms constitute a novel instrument to enhance consumer information. By way of these mechanisms users can appraise the services received, thereby reducing the problem of asymmetric information that future users of the same service may face.
- However, non-compliance by new operators with the regulations applicable to traditional operators in these markets could, a priori, worsen the problem of asymmetric information, should this not be offset with a reputation system with sufficient votes from previous users.
- Elimination of intermediaries between the supplier and the end consumer and, therefore, a reduction in transaction costs and an increase in the general competitiveness of the product.
- Pro-competitive effects generated by the increase in the quantity and variety of supply, compelling traditional suppliers to reduce their margins and prices and to invest in innovation in order to differentiate their products and services.
- Greater variety of supply for consumers, with the elimination of geographic limitations and customized services, thereby providing consumers with greater choice to come to their optimum decision.
- Transfer of demand from traditional sectors to the new models, albeit at the same time as the creation of new demand due to more variety in the supply, which generates a positive aggregated effect on GDP and employment.
- Improvement of the efficiency and competitiveness of the economy, by facilitating greater average use of existing resources.
- The use of resources that were going to remain unused, which leads to a greater economic efficiency and to possible positive environmental externalities.

Some of the new models that have arisen in the sectors of passenger transport and tourist accommodation are specified here below. It is important to indicate that, in this document, the applicability and/or compatibility of the new service models with existing regulations in these sectors is not analysed. Only their possible

consequences on the market from an economic point of view are being presented. The alignment of the new models with current regulations shall be covered in the third phase of this public consultation.

Effects of the new service models on the road passenger transport sector

The taxi and VTC (car-with-driver) sector

In the discretionary road passenger transport sector in cities, platforms based on the internet have arisen that put passengers who need to travel in contact with drivers willing to offer the transport service in exchange for a pre-established price, on which the platform charges a commission. In this regard, the service offered by these platforms competes with that performed by taxi and VTC services.

Some of the possible effects of the new service model on the taxi and VTC markets are the following:

- Consumers can access a priori information on the vehicle and the driver via the reputation system of the platform, based on the voting and opinions of previous users. This information may also be offered by applications and platforms for taxi services which have incorporated reputation systems too.
- Greater flexibility and variety in the supply available for consumers. Indeed, they have more choice in terms of types and categories of vehicles.
- A possible price reduction in relation to regulated tariffs for taxi services. The new platforms suppose greater effective competition, quality and innovation in the market. In addition, consumers are provided with new forms of locating, contracting and paying for urban transport services.
- Greater use of existing vehicles, in the case of private cars used for the service.
- Transfer of the demand from taxi and VTC services (and, to a lesser extent, from other collective transport) to the new platforms, which represents a lesser use of these traditional services and, therefore, a reduction in their profitability.

The regular bus lines sector

In the inter-urban road passenger transport sector, platforms based on the internet have arisen that put passengers who need to travel in contact with drivers who are making the same journey and who can offer free spaces in exchange for a price, on which the platform charges a commission. Under this service model, there may be both drivers who share free spaces for journeys that they are planning to make, in which case the transaction would have a “sharing” character, and drivers who will make the journey with the purpose of obtaining income by means of transporting passengers.

The service offered by the mentioned platform is similar to that offered by other regular inter-urban transport services, such as bus lines. Some of the possible effects on the regular transport market by bus are the following:

- Greater flexibility and variety in the supply, which may include different types and categories of vehicles, negotiation of points of collection and destination, destinations not covered by regular lines, etc.
- A priori information on the driver and the vehicle on the basis of the reputation system of the platform, although this information might possibly not compensate that offered by the regulation of the regular lines.
- A possible cost reduction for users compared to regular line service tariffs, improved quality and innovation in the rendering of the service.
- Transfer of the demand from regular transport lines (mainly buses and, to a lesser extent, trains and aeroplanes) to new platforms, which supposes a reduction in the occupancy of regular lines.
- An increase in the use of under-used resources (free spaces) in automobiles that are going to make a journey, which may generate positive environmental externalities since the average occupancy of vehicles would be higher, although a contrary effect could occur due to the lesser occupancy of the vehicles of regular lines, if there was a shift of demand from the latter to the new platforms.

Tourist accommodation sector

In the tourist accommodation sector, there are platforms that put tourists demanding short-term accommodation in contact with owners of “tourist apartments” for the same period, in exchange for a price, on which the platform charges a commission.

Some of the possible effects on the tourist accommodation market are the following:

- Greater flexibility and variety in the supply (a different supply to traditional tourist accommodation).
- An increase in the use of unused resources (private residences that are left empty for certain periods of time).
- A possible price reduction in traditional tourist establishments as a consequence of the increase in competitive pressure due to increased supply.
- Partial transfer of the demand from “traditional” tourist accommodation to tourist apartments, which may have an impact on their profitability, combined with the creation of new demand (derived from tourists who are seeking tourist apartments in particular).
- Positive externalities in other sectors (restaurants, commerce, etc.) motivated by the increased available income (generated by a lower accommodation price) and the creation of new demand.
- Possible negative externalities for the neighbours of tourist apartments as a consequence of having tourists around.

Based on the above, the following questions are put forward:

- 1. Do you agree with the description and characterization of the new service delivery models and of the “sharing economy”? Can you provide any additional characteristics?*
- 2. Do you agree with the effects indicated of the new models on the market in general, and on the two selected sectors in particular? What other effects could there be?*