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Schumpeter

The business of sharing

What do you do when you are green, broke and connected? You share

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WHY buy when you can rent? This simple question is the foundation stone of a growing number of businesses. Why buy a car (and pay for parking) when you can rent one whenever you need to load up at IKEA? Why buy a bike (and risk having it stolen) when you can pick one up at a bike rack near your home and drop it off at another rack near your office? Why buy a DVD when you can watch it and return it in a convenient envelope?

Renting is not a new business, of course. Hotel chains and car-hire firms have been around for ages, and the world's oldest profession, one might argue, involves renting. But for most of the past 50 years renters have been conceding ground to owners. Laundromats have been closing down as people buy their own washing machines. Home ownership was, until the financial crisis, rising nearly everywhere. Rental markets grew ossified: hotels and car-hire firms barely changed their business models for decades. All this is now changing dramatically, however, thanks to technology, austerity and greenery.

The internet makes it easy to compare prices, which makes rental cars and hotel rooms cheaper. It also allows new ways of renting and sharing to thrive. For example, car-sharing is booming even as car sales languish. Zipcar, an American firm, has 400,000 members who pay an annual fee and can then rent cars by the hour. They log on to find out where the nearest Zipcar is parked, and return it to one of many scattered parking bays rather than a central location. Netflix, a film-rental firm, made $116m last year by making it easy to hire movies by mail. Governments are joining in: London is one of several cities that rent bikes to citizens who take the trouble to fill out a few forms.

Trendy folk are applauding. "Sharing is clean, crisp, urbane, postmodern," says Mark Levine of the *New York Times*. "Owning is dull, selfish, timid, backward." ("Crisp"? Never mind.) The sharing craze has spawned two new books: "What's Mine is Yours: The Rise of Collaborative Consumption", by Rachel Botsman and Roo Rogers, and "The Mesh: Why the Future of Business is Sharing", by Lisa Gansky. The first book is much the better of the two. But the second, written by an internet entrepreneur, contains some valuable practical advice.

People are renting things they never used to rent, such as clothes and toys. Bag Borrow or Steal, for example, applies the Netflix principle to posh handbags. The firm boasts that it allows women to avoid "the emotional and financial sacrifices" of "the endless search for the 'right' accessory." Rent-That-Toy does the same for trikes for tikes. TechShop, in Menlo Park, California, rents tinkering space and equipment to amateur inventors.

Other pioneers of “collaborative consumption” have dispensed with inventories and act purely as brokers. Some help people sell their spare capacity in everything from parking spaces to energy. CouchSurfing connects people who have a spare sofa with travellers who wish to sleep on it, on the tacit understanding that the travellers will do the same for someone else in the network some day. There are 2.3m registered couchsurfers in 79,000 cities worldwide. Other groups have created barter economies. thredUP specialises in exchanging children’s clothes, but also has exchanges for everything from make-up to video games. Freecycle helps people give things away so that they do not end up in landfills: its website has 7.6m members.

The moguls who run Zipcar may have different motives from the greens who run Freecycle, but they share the same faith: that access often matters more than ownership, and that technology will make sharing more and more efficient. The internet has always been good at connecting buyers and sellers; GPS devices and social networks are enhancing its power. GPS devices can connect you to people around the corner who want to share rides. Social networks are helping to lower one of the biggest barriers to “collaborative consumption”—trust. Couchsurfers, for example, can see at a keystroke what others in the network think of the stranger who wants to borrow their couch. If he is dirty or creepy, they need not let him in.

People are growing impatient with “idle capacity” (ie, waste). The average American spends 18% of his income on running a car that is usually stationary. Half of American homes own an electric drill, but most people use it once and then forget it. If you are green or broke, as many people are these days, this seems wasteful. Besides, “consumer philandering” sounds fun. “Today’s a BMW day,” purrs Zipcar, “Or is it a Volvo day?”

New ways to show off

Attitudes to conspicuous consumption are changing. Thorstein Veblen, who coined the term, argued that people like to display their status by owning lots of stuff. But many of today’s conspicuous consumers—particularly the young—achieve the same effect by virtual means. They boast about what they are doing (on Twitter), what they are reading (Shelfari), what they are interested in (Digg) and whom they know (Facebook). Collaborative consumption is an ideal signalling device for an economy based on electronic brands and ever-changing fashions.

There are obvious limitations to this new model. Few people, besides tramps and journalists, will want to wear recycled underpants. Returning Zipcars on time can be a hassle. But the sharing stampede is nevertheless gathering pace. Zipcar has imitators in more than a thousand cities. Every week sees the birth of a business describing itself as the Netflix of this or that. Collective consumption is also disrupting established business models based on built-in obsolescence. The internet may be synonymous with novelty, but by encouraging people to reuse the same objects rather than buy new ones, it may revive the old virtue of building products that last.

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