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Article

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Journal of Business Models (JOBM)

Provided in Cooperation with:

Aalborg University, Aalborg

Suggested Citation: Novikova, Olga (2021) : Business model transformation of a service provider on a sharing economy platform, Journal of Business Models (JOBM), ISSN 2246-2465, Aalborg University Open Publishing, Aalborg, Vol. 9, Iss. 1, pp. 35-42,
<https://doi.org/10.5278/jbm.v9i1.4281>

This Version is available at:

<https://hdl.handle.net/10419/318949>

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JOURNAL OF BUSINESS MODELS

Business Model Transformation of a Service Provider on a Sharing Economy Platform

Olga Novikova¹

Abstract

The study investigates a business model transformation of a service provider on a sharing economy platform using a dynamic business model perspective. The study takes an inductive approach and draws on a set of semi-structured interviews, observations and other sources from a longitudinal single case study. The study is among the first ones to depict the process of the business model transformation of a service provider on a sharing economy platform along four dimensions: resource structure, organization structure, value proposition, and process dimension, i.e. "trial-and-error experimentation". The study also uncovers the service provider's multiple channel API (application programming interface) strategy whereby the provider uses API to cross-list the listings on various online platforms. This strategy has implications for other providers and platforms within the sharing economy context.

Keywords: Business model transformation, sharing economy, hospitality, multiple channel strategy

Please cite this paper as: Novikova, O. (2021), Business Model Transformation of a Service Provider on a Sharing Economy Platform, Journal of Business Models, Vol. 9, No. 1, pp. 35-42

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DOI: <https://doi.org/10.5278/jbm.v9i1.4281>

Introduction

During the last few years the phenomenon of sharing economy, also referred to as collaborative economy or even on-demand economy, became almost ubiquitous. Even though some argued that the term has been misleading (Slee, 2015), the sharing economy has firmly accommodated itself in the popular press (Economist, 2013; Karsten, 2017; Owyang, 2016) and has also found its way into the academic research (Laamanen, Pfeffer, Rong and Van den Ven, 2018; Mitchell and Strader, 2018).

The sharing economy is an umbrella concept (Acquier, Daudigeos and Pinkse, 2017) that covers diverse sectors and a variety of organizational forms and practices, both for-profit and non-profit (Schor, 2014; Sundararajan, 2016). Examples of companies disrupting traditional industries are abundant and range from accommodation marketplace Airbnb in hospitality industry (<http://airbnb.com>), to transportation network Uber (<http://uber.com>) and car-sharing company Zipcar (<http://zipcar.com>) in transportation industry, to peer-to-peer lending platform Zopa (<http://zopa.com>) in finance, and online course platform Coursera (<http://coursera.org>) in education (Botsman, 2012, 2013; Owyang and Samuel, 2015).

Despite a surge of attention to the sharing economy, little is known about the business model development of service providers that constitute one of the pillars and driving forces behind the growth of sharing economy. Studying business models within the sharing economy is particularly important because of their novel nature and a potential to disrupt established industries (Dreyer, Lüdeke-Freund, Hamann and Faccar, 2017). This paper aims to enhance knowledge on business model evolution in the context of sharing economy, with a focus on business model transformation of a peer service provider on a sharing economy platform, which has been identified as important but under-researched area (Benoit, Baker, Bolton, Gruber and Kandampully, 2017).

This will be achieved by answering the following exploratory question:

How does a hobbyist peer provider in sharing economy develop its business model in the process of becoming a professional service provider?

The longitudinal study is based on the data obtained from interviews, analysis of company documents, discussions, and observations of a sharing economy peer service provider from Finland. The paper begins with a review of business model literature to anchor this research in its specific context. Then, the methodology section is presented followed by the empirical findings. Finally, findings, limitations and future research directions are discussed.

Approach

The primary intention of this research was the exploration of the business model development in the context of sharing economy in a particular case of a peer provider on a sharing economy platform. The study was designed as a qualitative single case study (Yin, 2003; Demil and Lecocq, 2010) due to the explorative nature of the research question and limited amount of research conducted in the area of business model development within the particular context.

The data for this study has been collected through semi-structured interviews, participatory observations in the meetings, discussions and analysis of company documents, available for the years 2013-2018, to ensure triangulation of various methods (Gibbert, Ruigrok and Wicki, 2008). In addition, website information, publicly available digital documents and other online media resources were used to deepen the understanding of the studied phenomenon. Such approach has been pursued to ensure the robustness of the study (Creswell, 2007; Denzin and Lincoln, 2003). The data was collected during five years period from 2013 to 2018. As typical of inductive research, the analytical process was iterative and overlapped with the data collection (Yin, 2003). The data collection consisted of several phases. Initially, 11 interviews with the peer provider and users of the particular peer provider services on Airbnb platform were conducted. Further, 12 interviews with both professional and non-professional peer providers on Airbnb platform were conducted in order to uncover the motives, challenges and actual processes of hosting on the peer-to-peer platform. Additionally, interviews with sharing economy experts were conducted to gain deeper understanding of the sharing economy phenomenon. In total, 30 interviews (ranged from 45 minutes to 1 hour 30 minutes) were conducted for this study.

The interviews were recorded and later transcribed, followed by a coding procedure where firstly basic codes were identified and summarized, and later grouped into meaningful themes using thematic coding procedure (Miles, Huberman and Saldana, 2013). The secondary data was triangulated towards the insights obtained from the interviews. Based on the data derived from the interviews and company documents a factual timeline of critical events in the process of firm evolution was constructed. The emerging findings were iteratively discussed with the peer provider to gain further insights and sharpen the understanding of their business model development.

Key Insights

Case description

The empirical setting of this study is hospitality context of the sharing economy, with focus on a service provider or 'host' on a peer-to-peer accommodation platform Airbnb. The service provider of this case study is located in Finland. The peer provider has started its operations in 2011 by becoming an individual host on Airbnb platform with two properties. In 2013 the host has decided to establish a venture that would focus on a branded hotel experience. At the same time, together with like-minded entrepreneurs he created a business entity that rented several apartments in Helsinki in order to further list them on Airbnb platform. The apartments were co-called themed apartments, with every apartment named and decorated according to a certain theme. In 2014 the company has expanded its offering to over 20 apartments, whereby apartment's interior design was streamlined and themed apartments lost in importance. In 2014, after observing the declining occupancy rates for the apartments listed on Airbnb platform, the case company's board of directors has decided to list the apartments on different hospitality channels, such as i.e. booking.com and hotels.com. The cross-listing of properties on multiple online channels and subsequent increased exposure of the apartments to potential guests have raised the occupancy rates and enabled to further expand operations by doubling the amount of apartments to rent. At the same time, an own website and brand were created, whereby apartment rental bookings

began also through an own channel. As of 2018, only 7% of company's revenue came from Airbnb, compared to 100% before, around 50% of revenue came through booking.com, and over 30% - from its own channel. The growth of the business entity through multichannel strategy has allowed to strengthen the brand and potentially expand the provider's value proposition towards becoming a service provider to other peer providers within sharing economy hospitality space.

Resources and competencies

The resources of the organization may be developed internally or come from external markets, while the competencies refer to the abilities and knowledge of managers to develop the services their resources can offer (Demil and Lecocq, 2010). The experience, diverse knowledge, expertise and skills of co-founders and shareholders of the company that evolved into a professional service provider have played a substantial role in the business model creation and development. Shareholders' complementary capabilities regarding the value network aspects, such as legal, real estate management, property sales and technology have been instrumental for the company. In the process of business model development, the host has acknowledged the financial resources as a major challenge in sustaining of business operations.

Organizational system

The organizational structure pertains to the organization's activities and relations it has established with the stakeholders in order to utilize and exploit its resources. It encompasses the activities and value network consisting of relations with its suppliers, customers, competitors and regulators (Demil and Lecocq, 2010, Amit and Zott, 2001). The organizational system of a service provider consisted of online platforms, customers, government, city and professional organizations and competitors.

Value proposition

The value proposition of a peer provider has changed with the process of the business model evolution. Starting as an individual host on Airbnb platform with focus on experience accommodations, the peer provider has formed a business entity and ex-

panded its offering. Later, faced with the challenge of booking calendar synchronization, peer provider adopted a multichannel API strategy, and was able to increase exposure and absorb the demand on various hospitality channels (Beritelli and Schegg, 2016). Finally, own brand Experience Living was created and expanded, with a potential future focus on becoming an operator for other peer providers

Discovery driven approach

In the process of business model transformation the peer provider has adopted a discovery driven approach. As McGrath puts it, "discovery driven processes demand that business model assumptions are both articulated and tested. Having come up with an idea that an executive thinks represents an opportunity, the next step is to validate whether it can really deliver a compelling result for the company" (2010: 258). In the process of discovering the right approaches as new information is revealed, the peer provider has embraced an interplay of "trial-and-error experimentation" i.e. exploration and exploitation of emerging opportunities (Ahokangas and Myllykoski, 2014; Sosna, Treviño-Rodríguez and Velamuri, 2010). Indeed, the peer provider has revealed the instances reflecting on the process of trial and error in business model development:

"We made many mistakes during this past. We hired a lot of cleaners, service people. That's not scalable, then you are stuck with your human resource cost." [Peer provider]

"Now we are trying to outsource scalable resource model, when we don't have any people on our HR and we pay per cleaning/service." [Peer provider]

Trial and error learning (Sosna *et al.*, 2010) is influenced by cognition of the entrepreneur, in form of cognitive maps that can be conceptualized as perceptions of environmental cognitions coupled with own prior knowledge. This is reminiscent of the notion of 'entrepreneurial judgement' as put forward by Penrose (1959), the ability to discover new ways of dealing with known problems, perceive productive possibilities outside of the established routines and engage in the process of carrying out new combinations of resources in development of a venture (Ghoshal, Hahn and Moran, 1997; Langlois, 1995).

Multichannel API strategy

During the process of professionalization, growth has become one of the provider's major objectives:

"We need to keep up pace of multiplying every year, otherwise it dies. We just need to keep up growing, and the bigger multiplier we can achieve, the better." [Peer provider]

Observing the limited demand on Airbnb platform as one of the major obstacles for growth, peer provider has pursued a multiple online channel strategy with the use of APIs. Beritelli and Schegg (2016) find out in their recent study on traditional hospitality channels, that the multiple online channel strategy seems to be the more effective approach to maximizing bookings online, regardless of the platforms chosen. In this study's case, the sharing economy provider has utilized APIs in order to synchronize booking calendar across channels. Application programming interface, or API, is "a way for two computer applications to talk to each other over a network using a common language that they both understand" (Jacobson, Brail and Woods, 2012). The API, in its simplest description, is a contract that allows software to communicate with each other and share information. APIs are becoming enablers of omnichannel selling and diverse service business models and could be most useful in creating new business models and streamlining selling across all channels. The greatest revenue potential they provide is removing barriers to growing revenue by integrating platforms and apps so organizations can launch new business models and scale fast (Jacobson *et al.*, 2012). So far APIs has been looked upon as a tool for organizations (Zachariadis and Ozcan, 2017). However, with users of sharing platforms becoming businesses in themselves, a new potential use for API is emerging. Indeed, the peer provider has acknowledged the revenue optimization and commissions management that was enabled by the multichannel API strategy:

"Until everyone is linked to every sales channel, you have competitive advantage, where you can optimize revenue according to sales channel demand and everything, you can charge a bit lower price on Airbnb because Airbnb has significantly lower commission, than booking.com." [Peer provider]

Discussion and Conclusions

This study has explored the process of business model development in the context of sharing economy, with a focus on the professionalization of a peer-provider on a sharing economy platform. The study is the among the first ones to depict the adopted strategies of the service provider, that have been identified as important but under-researched areas in the emergent literature on sharing economy (Benoit *et al.*, 2017).

Embedded in the Penrosian (1959) dynamic view of the firm growth and consistent with the conceptualization of Demil and Lecocq (2010) and George and Bock (2011), the study presents the business model development along four dimensions: resource structure, organization structure, value proposition, and process dimension, i.e. "trial-and-error experimentation". The peer provider has adopted a discovery driven approach in the process of business model transformation, whereby embracing the interplay of "trial-and-error experimentation" with emerging opportunities (Sosna *et al.*, 2010) and exercising 'entrepreneurial judgement' in carrying out new combinations of resources in creation of a new venture and development of its business model (Ghoshal *et al.*, 1997; Langlois, 1995; Penrose, 1959). The study contributes to the emerging literature on dynamic perspective of business models with its focus on actual process of business model development (Wirtz and Daiser, 2018; Wirtz, Göttel and Daiser, 2016) in a new context of sharing economy. It also introduces the concept of API – application programming interface – as a strategic tool utilized in business model development.

The findings of this study have practical implications for online sharing platforms and peer service providers. The increasing impact of the sharing economy on hospitality industry has been noted (Zervas, Proserpio and Byers, 2017). With IT as enabler of sharing economy (Puschmann and Alt, 2016), it is conceivable that more individual hosts would pursue the path of

professionalization. The adaptation on multichannel API strategy might create a further impact on traditional hospitality industry by increasing competition within online booking channels. Furthermore, some (Slee, 2015) have argued that majority of hospitality platforms' revenue comes from hosts with multiple listings. The multichannel strategy and potential creation of own sales channels decreases host dependency on sharing economy platforms and can have implications for the supply of listings to the platforms on which they rely in their growth strategy (Lane and Woodworth, 2017). Finally, multi-channel API strategy has a potential of a wide-scale adaptation within peer service providers on sharing economy platforms as APIs enable omnichannel selling and diverse service business models.

Limitations and future research directions

This research was carried out as a longitudinal single case study therefore its findings are not generalizable on a larger population. Multiple case studies, as well as quantitative studies on the process of professionalization within the sharing economy could be carried out to shed light on the potential effects the professionalization and multichannel strategies may have on sharing economy platforms, as well as hospitality industry at large.

Further research could study in detail what effect the professionalization of peer provider has on the business model of platform provider, and whether peer service provider professionalization is beneficial for the platform provider in a long term.

Additionally, studies on peer service providers in different cultural and geographical settings would shed light on the dynamics and differences in the development of professional service providers. Also, this study has focused on a peer provider in hospitality setting. Future research could investigate whether and how the professionalization occurs in different industry context and how the value is created in the interplay between consumer, provider and the platform.

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