THE BUSINESS OF SHARING MOBILITY: How the Sharing Economy Creates and Drives Value

Eric Israel – May 3, 2017
‘Of course, now we’ve put a value on the environment we can start selling it.’
VALUE CREATION  

versus  

VALUE EXTRACTION
REDEFINING VALUE

THE BUSINESS AND SUSTAINABILITY CHALLENGE
REDEFINING BUSINESS VALUE

A VERY COMPLEX LANDSCAPE
HOW TO DRIVE AND CREATE VALUE?

FACTS MATTER BUT THEY DON’T TELL THE WHOLE TRUTH

So, what’s the answer?  Integrated thinking!
Integrated Reporting Key Features:

- Improve the quality of information available to **providers of financial capital** to enable a more efficient and productive allocation of capital;

- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to **create value over time**;

- Enhance accountability and stewardship for the **broad base of capitals** (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies;

- Support **integrated thinking**, decision-making and actions that focus on the creation of value over the short, medium and long term.

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Vigeo Eiris 2015 “Paying the Penalty” Study Key Findings:

- Out of 2,522 listed global companies, 484 companies appear to have been subject to CR-related legal sanctions in 2012/13 (19.2%); of which 30% are North American and 22% are European companies.


- Penalties, in the form of judicial convictions, administrative sanctions or settlements, were approx. $105 billion for the companies analyzed.

- In particular legal sanction were exposed in sectors: Waste and Water Utilities (50%), the Automobile industry (43%), Pharmaceuticals and Biotechnology (34%), the Food industry (23%), and Banks (21%).
FINANCIAL CAPITAL

The pool of funds that is:

- available to an organization for use in the production of goods or the provision of services;
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

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“The challenges are immense. The company has set aside €17.8 billion ($20 billion) to cover costs related to the scandal, but the total damage remains difficult to predict, even if the company now has a better grasp on the risks.”

“Sales, meanwhile, have plunged in the U.S., Brazil, and Russia. In China, the company’s largest market, competition is intensifying as demand for new cars ebbs after years of rapid growth.”

“The company -- previously among the busiest issuers of debt -- was effectively locked out of the corporate bond market.”

“That added urgency to the company’s push to trim bloated costs, while its development budget had surged in recent years.”
Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:

- buildings;
- equipment;
- infrastructure (such as roads, ports, bridges, and waste and water treatment plants)
“The Company has one plant in the U.S. that started producing cars in 2011 with a lot of financial help from the Tennessee state government. Taxpayers paid more than a half-billion dollars for initial construction of the plant with 1,500 direct jobs and thousands more suppliers.”

“The company’s CEO hinted that the embattled car giant could abandon diesel engine technology in the wake of the scandal: "Against this background, we have to ask ourselves whether... do we want to spend more money on diesel development?"

“The repercussions are also forcing other carmakers to rewrite strategic plans that will shape their futures for years to come.”

Reuters, 2016
Organizational, knowledge-based intangibles, including:

- intellectual property, such as patents, copyrights, software, rights and licenses;
- “organizational capital” such as tacit knowledge, systems, procedures and protocols
• “The Dow Jones Sustainability Index (DJSI) crowned the company the world’s most sustainable car company only 10 days before the scandal became public.”

• “Before the crisis in 2015 the company’s brand value was valued at just over $31 billion (2014: $27B), making it the world’s 3rd most valuable auto brand.”

• “The developments sent this trend into reverse, resulting in a brand value down by $12 billion to $18.9 billion, and leading to a fall in its global rank from 17th to 56th in 2016. (current 2017: $25B/41st)”

BrandFinance
Global 500 Ranking
People’s competencies, capabilities and experience, and their motivations to innovate, including their:

- alignment with and support for an organization’s governance framework, risk management approach, and ethical values;
- ability to understand, develop and implement an organization’s strategy;
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.
“The company plans to cut thousands of administrative jobs in Germany to trim costs as it grapples with the crisis and shifts new hiring to skills such as software programming and technology.”

“HBR (September 2016) research shows that executives with scandal-tainted companies on their résumés pay a penalty on the job market, even if they clearly had nothing to do with the trouble.”

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes:

- shared norms, and common values and behaviors;
- key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders;
- intangibles associated with the brand and reputation that an organization has developed;
- an organization’s social license to operate
“Sales in the US fell by 14.6% in the first six months of 2016 compared with the same period a year earlier, prompting 650 dealerships to start a class action against the company. The company ultimately agreed to pay dealers close to $1.2 billion.”

“A German auto supplier mentioned in April 2016 that it had set aside €650 million for potential legal costs. In 2017 it reached a $328 million settlement in the U.S.”

“The company has been thrown into a crisis after a dispute with a supplier forced it to halt production at six plants and cut the hours of nearly 28,000 workers that could take a €100 million hit to its profits if car production is halted for a week.”
All renewable and nonrenewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.

It includes:

- air, water, land, minerals and forests;
- biodiversity and eco-system health
“Affected cars in the U.S. are likely emitting between 10,392 and 41,571 tons of NOx into the air every year, based on typical annual mileage counts. If those vehicles had complied with federal pollution standards, they would have emitted 1,039 tons.”

“A study released by Harvard and MIT found that 59 Americans will die prematurely from the excess pollution caused by the affected cars in the U.S.”

“The health implications in Europe are more significant given that half of the passenger cars are diesels, compared to just three percent in the U.S. The 11 million affected cars on the road worldwide could be emitting some 237,161 to 948,691 tons of NOx emissions annually. In contrast, Europe’s biggest electrical power station emits 39,000 tons each year.”
“What if we don’t change at all ... and something magical just happens?”

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“Sharing economies allow individuals and groups to make money from underused assets. In this way, physical assets are shared as services.”

“Eighty percent of the things in our homes are used less than once a month, and self-storage has increased by 1,000% over the past three decades.”
— Nicolas Voisin, TheAsset.co

“By monetizing the untapped potential of underutilized goods, the sharing economy may prompt consumers to purchase more expensive products that are more durable and possibly eco-friendly as well.”
– Knowledge@Wharton, December 2015
DIGITAL DISRUPTIVE INNOVATION

INCREMENTAL  versus  DISRUPTIVE

Insight. Expertise. Results.
SHARING ECONOMY: CREATING NEW MARKETS

RISK versus OPPORTUNITY

Insight. Expertise. Results.
SHARING ECONOMY: NEW BUSINESS MODELS

"This really is an innovative approach, but I’m afraid we can’t consider it. It’s never been done before.”

TRADITIONAL  versus  EMERGING

Insight. Expertise. Results.
PwC predicts that five key sharing sectors have the potential to increase global revenues from roughly $15 billion today to around $335 billion by 2025.

Compound Annual Growth Rate (CAGR) by product category are estimated to be between 17% and 63% for sharing economy sectors versus 2% and 5% for traditional rental sectors.
19% of PwC survey respondents had engaged in a sharing transaction; 7% as providers.

The demographic groups “most excited about” the sharing economy after trying it included 18 to 24 year-olds, households with annual incomes between $50,000 and $75,000, and families with children under 18.
CREATING AND DRIVING VALUE

• Uber — a unique combination of transportation company, mobile Internet company, and real world engineering — is currently valued at $68 billion after a total of nine rounds of funding worth $12.9 billion since its launch;
• It only took Uber five and a half years to surpass the market cap valuation of 107-year-old General Motors ($50 billion);
• Uber has leapfrogged other iconic carmakers such as Ford ($45 billion), Honda ($52 billion), and BMW ($54 billion) while almost catching up to luxury carmaker Daimler ($71 billion).
CRITICAL SUCCESS FACTORS

• “The concept of building trust is critical for economic growth in the sharing economy;

• Trust and reciprocity are limited in time and scope and, once trust is lost, it can be extremely hard to get back and can potentially destroy an industry that relies on sharing, trust and cooperation.”

  behavioraleconomics.com (Trust and the Rise of the Sharing Economy, July 2016)

• “The Sharing Economy isn’t about sharing at all, it’s an access economy where consumers rely on companies to offer more convenience at a lower price and to police the sharing system so it’s equitable for everyone;

• Companies that emphasize convenience and price over the ability to foster connections will have a competitive advantage.”

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• “Innovative “exchange” platforms that provide solutions for current “market-failures” by leveraging existing “misfits” between existing regulation and the exchange that they facilitate.”

• “These peer-to-peer, collaborative, sharing-economy platforms are new market-firm hybrids that centralize certain activities associated with the provision of commercial services (like branding, trust, and payments) while decentralizing others (like pricing, supply infrastructure, and service provision).”

• “Self-regulatory governance system that provides an effective mechanism to self-regulate the platform and the marketplace exchange facilitated by the platform.”
“By enabling more people to participate in the sharing economy, companies can access significant untapped revenue through user acquisition, build stronger relations with stakeholders, and establish more resilient businesses.”

Business for Social Responsibility (An Inclusive Sharing Economy, September 2016)

“By 2025, our supply-side analysis shows that the actual number of individuals who stand to gain is some 540 million people who could find employment, increase the number of hours they work, or find jobs that are a better fit. Through online talent platforms leading companies are likely to attract higher-performing employees and boost results, supporting the process of creative destruction that generates long-term improvements in productivity and living standards.”

• “Specific underserved groups of consumers can benefit from the sharing economy over traditional models. For example customers with disabilities have found that Uber and Lyft make it easier to get around cities.”

Pew Research (Shared, Collaborative and on Demand: The New Digital Economy, May 2016)

• “For the past decade, Facebook has focused on connecting friends and families. With that foundation, our next focus will be developing the social infrastructure for the community.”

Facebook’s new Mission to empower communities (Marc Zuckerberg, April 2017)
There is significant environmental benefit to increasing the use of existing goods and reducing the demand for new goods. Although Americans discard about 40 million tons of durable goods each year, there is early evidence that Craigslist significantly decreased waste disposal as it expanded to more cities.

Anders Fremstad, Colorado State University (Economics Professor)

However, hard data is hard to come by and therefore identifying and quantifying just how environmentally friendly the new peer-to-peer economy is can be difficult, resulting in many green claims that are anecdotal.
SHARING ECONOMY: ALL YOU NEED IS...

• Dedicated Leadership Team
• Website Development
• Budget
SHARING ECONOMY: STRATEGY

- **Exceed competitors verticle offer**
  - Ensure world class ease of use on the platform across all product verticles

- **Drive listings BTL Marketing**
  - Data driven social/digital/direct marketing and direct sales.

- **Launch brand ATL Marketing**
  - PR and digital media and become synonymous with the category of sharing, renting

- **Leverage competitive advantage**
  - Tailor messages to key market segments

- **Expand offering**
  - Further into verticles with partnerships, acquisitions and builds

- **Add to business model revenue**
  - Insurance, and advertising revenue

- **Add to Geography**
  - Global
Ease of Entry & Use Layer
(example – Identify me, Log me in, allow me to set my name, address etc.)

The Product Layer
(example – Let me load up information on items, auto interfaces needed for business)

Dialogue Layer
(example – Answer my Questions before or after I ask them)

The interactive layer
(example - real time data on availability, calendar, price, know my preferences)

Broker Transaction Layer
(example – take the hassle out, take my money and pay the supplier, manage deposit)

Assurance layer
(Example – Clear policies, Solve problems, insure my items and earn my trust)
SHARING ECONOMY: WHY IS THIS HARD?

- A website that offers all categories is complex... Think relevant website info/function for renting parking space versus dresses versus tools;
- The business model is driven by small values and small profit margins, therefore volume is critical;
- Listings and traffic require medium term investments;
- Trust – Risk – Reward ..... If you share/rent something you have to trust that you are covered. Reward needs to be greater than the risk.

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SHARING ECONOMY: KEYS TO VICTORY

Develop fast and leverage the juncture of multiple trends;
• Environmental sustainability, sharing economy, online use, online media spend, desire of capital markets to invest in digital solutions, micro community solutions

Competitive differentiation of the platform;
• Solving the customer need currently only served by vertical platforms
• Global scale, local relevance.
• Share to create environmental benefits
• solve needs, faster and more effectively than competitors and traditional methods, quality and trust

Attracting and maintaining listings;

Win the race to mass market awareness;
• Launch ATL and become synonymous with the category of renting/sharing

Creating a high volume online destination;
Leadership, Business partners, capital and cash flow.
THANK YOU!

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