

## **Kristóf Gyódi: Sharing Economy vs Traditional Firms: A War Between Standards?**

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### Abstract

*Purpose:* Sharing economy firms, based on online platforms, have become strong competitors of traditional companies in many services sector, including the taxi industry. Regulatory authorities all over the world are facing the challenge how to react to Uber and other platforms, as they may enjoy unfair competitive advantage in otherwise heavily regulated sectors. The aim of this article is to provide an economic framework for the analysis of the competition between traditional and sharing economy firms.

*Methodology/Approach:* The business model and success of sharing economy firms is explained using economic literature on platforms, transaction costs and network effects. A novel model is introduced based on the theoretical literature on “standard wars”, which describes the competition between technological standards (such as operating systems). From the perspective of a full-time service provider, the choice between a platform and a traditional firm is similar to the dilemma of choosing a standard. Platforms, just like technological standards, are subject to network externalities and lead to the lock-in of users. As a case study, Uber and the taxi industry is chosen. The model translates the problem of drivers into a two-player coordination game.

*Findings:* Collaborative platforms represent a new business paradigm, only partially compatible with the rest of the economy. The coordination game reveals the different equilibria of market shares and the possible strategies of Uber and taxi companies. The competing firms will try to attract drivers, often sacrificing profit. Uber may try to decrease the service fee it acquires from every transaction, or introduce social security contribution for the drivers. Taxi companies may also try to decrease commission charged to the drivers, provide better and more convenient vehicles etc. Finally, the model also shows the important role of regulatory authorities to create a level playing field. Adequate policy may include either the decrease of entry costs to the traditional economy or impose the same regulation for sharing economy platforms.

*Originality/Value:* The analysis contributes to the literature by showing that the theoretical models on the competition between technological standards can be implemented to analyse the rivalry between traditional firms and sharing economy platforms. A novel framework is presented to analyse such rivalry on the example of Uber and the taxi industry, also enabling to examine the policy impact on competition.