

July 11, 2014

Dear clients and colleagues,

The U.S. Labor Department reports key employment data the first Friday of every month. Segmented by sector, it contains information related to all aspects of the job market, including unemployment rate, total hours worked, etc. The report is important for several reasons – not only is the job market the heartbeat of the economy, its vitality (or lack thereof) has a large impact on the bond and equity market.

But there's a crucial part of the economy that is not captured in the employment report – a missing data point in what many would characterize as an economic revolution. This unaccounted-for puzzle piece is known as the sharing economy. It's an underground system that focuses less on ownership but more on collaborative access to a range of products and services.

What is the Sharing Economy?

Peer-to-peer, or sharing arrangements, happen when individuals by-pass traditional institutions in order to directly access what they need from each other. These individuals are providing services like hotel room, taxis, professionally prepared meals, etc. The ecosystem is backed by powerful technologies, like social networks and mobile devices - it is both self-organizing and in most cases, self-regulated.

People who advocate for selling or trading services directly, instead of going through conventional corporate channels ask: Why not leverage the assets we already possess, such as our cars, homes, and individual talents to the max? Why not share instead of buying more and in the process, use our mobile devices to make those peer-to-peer deals easier to broker than ever.

This might remind you of the good old days when musicians did a gig in return for something, like a hot meal or a place to stay. However the sharing economy is much more disruptive to traditional businesses because it has grown increasingly organized and widespread. Just like eBay allowed any one to become a retailer, sharing sites are helping individuals turn profits on unused assets, like an empty spot at their dining table, and an unused apartment or car.

What Can You Really Share?

The best known example of organized sharing is Airbnb, an internationally known website where people rent out lodgings they own. These ranges from humble to deluxe, including studio apartments, entire homes, castles, boats, private islands and more. It has over 600,000 listings in 34,000 cities and 190 countries. The company is valued at an estimated \$10B, up from \$2.5B in 2012. Even Warren Buffet mentioned the website to help investors save on hotels for the Berkshire Hathaway annual shareholders' meeting in May.

Uber is another growing peer-to-peer service. It's a San Francisco-based venture funded startup that makes mobile apps that connect individuals in need of a vehicle to drivers in possession of a car. The company is valued at \$18.2B as of June 2014.

Relay Rides is another peer-to-peer car sharing service. It allows private car-owners to rent out their vehicles via an online interface. Car owners can set their own prices, and the company takes 25%. It currently offers cars at 300 airports across the country. Google Venture is one of its investors.

Taskrabbit is an online portal linking thousands of people to clients who need an extra pair of hands for errands and chores, a little extra time to wait in line, or even a stranger's gumption to help pull off the perfect prank. The company takes a flat 20% cut of all tasks, no matter how small the task may be.

DogVacay is an online sharing community that has over 10,000 vetted and insured dog sitters across the country ready to care for your dog like a member of their family. They serve clients in the US and Canada and place dogs with host families in lieu of the dogs being boarded in a kennel.

And many more.....

What is the Appeal?

The sharing economy is appealing because it is personal. Peer-to-peer arrangements build relationships, foster trust, and for many enthusiasts offer a welcome chance to circumvent corporate monopolies. Plus it also allows you to get more from an otherwise idle asset. Airbnb users pay less when compared to a traditional hotel room provider, and car-sharing is usually much more affordable than traditional car rental companies. Also, there are obvious and appealing environmental benefits to renting a car rather than owning one.

Crucially, the sharing economy provides employment opportunities to the millions who are un/underemployed.

Is There a Future?

Think about it: 15 years ago how many of us thought online shopping would be as big as it is today? The main concern then with online shopping was security - but do we worry about it now when ordering gifts and gadgets from Amazon? The same goes for the sharing economy. Many peer-to-peer networks have rating systems in place so users can report any suspect or fraudulent behavior, as well as publicly assess the quality of services provided. These measures have helped increase user confidence, and quell fears regarding safety or accountability.

Large corporations are also recognizing that sharing could be a threat and are embracing the change. BMW is offering subscription base car sharing thru its partners. GE has opened up some of its patented technology. Avis Budget Group Inc., once a skeptic about car sharing services, bought Zipcar Inc. for \$491M, signaling a shift in the industry to embracing drivers who don't want to own cars.

The sharing economy may force the traditional business model to cut their prices, and may even help list excess capacity. Think about how cheap a last minute airfare could get.

We do not believe that traditional business models will be entirely displaced; however, the explosion of sharing practices will demand some degree of change. The “I sell you stuff, you buy it” premise of the consumer economy is being undermined, and big companies wanting to survive must strive to understand an important new shift in consumer consciousness. Corporate giants will need to learn “how to share” - not because it’s the nice thing to do but because, like the internet itself, it’s becoming an unavoidable part of doing business. Remember all those DVD and small book retailers who believed they would never be replaced by online vendors?

Have a good weekend.

The Global Alpha Team