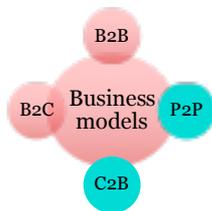


How new business models change business environment

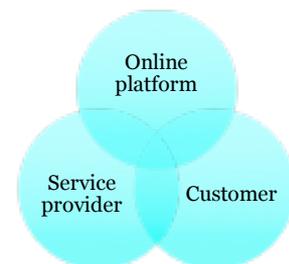
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The increasing use and development of digital platforms has created numerous new phenomena and opportunities on the commercial field. Among these, the new business models (as large part of collaborative economy) have emerged as one of the economic forms which is developing the fastest and is on the course of **changing the meaning of the conventional economic environment**¹. Although this phenomenon itself is relatively new and started gaining ground in the end of 2000's, it has already achieved a considerable market share. It is estimated that the total revenue of the collaborative economy in Europe was around €103b in 2016² with almost a triple growth within last three years. The forecasts of the European Parliament state that the growth potential of the collaborative economy is even higher and could grow up to seven times as fast as the traditional economy, amounting to the total revenue of €572b in the future³.



When in conventional economy we have used to offer goods and services from business to business (B2B) or from business to customer (B2C), then new business models introduce individual persons as traders offering goods and services to businesses (C2B) and other individual persons (peer-to-peer or P2P). While B2B or B2C business models resemble traditional economic activities taking place on an online platform (e-commerce), the models where **individuals act as the service providers** are often the ones

understood as the new types of approach to economic activity. New business models form a triangle of service provider (individual person), online platform (registered business unit) and customer (individual person). Two individual persons may conduct business transaction also without an online platform – it's a traditional form of trading in the market, but scalability can be reached only via online platform. Even if online platforms only serve as mediators or enablers to connect service providers and customers, they are an essential part of the new business model. Transport, accommodation, finances and online skills (household and business services, online courses) have enjoyed the most rapid development of new business models.



The new business models have introduced a **shift from the business-centred approach** of the traditional economy **to the customer-centred approach** of the collaborative economy. This has brought a number of new services to the market offering wider selection and better quality to the customers, but has raised a multitude of questions about whether and how it could be fitted to the existing business environment as well as regulatory frameworks. Traditional economy companies are upset and disturbed. In Estonia, as an example, traditional hotels have lost about 10% of their customers to Airbnb and Booking.com. Taxi drivers strike in all countries worldwide as they see Uber is offering illegal ridesharing service. City governments limit renting apartments for short-term use in order to protect the accommodation market (and traditional hotels). What makes the new business models so intriguing? Why some people use Uber or Airbnb and some not? How do we know what is the impact of new business models to the economy?

New businesses offer a variety of aspects, which makes the new approach unique and shakes the world, but also rises a number of questions. First, **the biggest driver** for new business models is development of technology - businesses using online platforms enjoy scalability and profits without any

¹ Goudin, P. 2016. The Cost of Non-Europe in the Sharing Economy: Economic, Social and Legal Challenges and Opportunities. European Parliament: Brussels

² EY. 2015. The Rise of the Sharing Economy: The Indian Landscape. [http://www.ey.com/Publication/vwLUAssets/ey-the-rise-of-the-sharing-economy/\\$FILE/eythe-rise-of-the-sharing-economy.pdf](http://www.ey.com/Publication/vwLUAssets/ey-the-rise-of-the-sharing-economy/$FILE/eythe-rise-of-the-sharing-economy.pdf)

³ Goudin, 2016; European Commission|Business Innovation Observatory. 2013. The Sharing Economy: Accessibility Based Business Models for Peer-to-Peer Markets. Case study 12. European Union: Brussels

geographical limitations. The **rise of the platform economy** and the **improvement of digital possibilities** boost further businesses and attract more and more customers. The more people get used to online purchases and the better they become in acquiring digital skills, the more natural and trustworthy it seems to perform daily activities via online platforms. The development of smartphone technologies and applications is another major factor, because it allows to use the services of platforms while on the move, an essential prerequisite in services which require short notice, such as transportation. This is further encouraged by the generational tendencies and the changing consumption patterns, especially in the age group of people below 35 years old⁴. As more technology is integrated into our everyday life, as more we are getting used to benefits of it. Improved digital skills and access to internet, wider availability of smartphones, the 4th industrial revolution, digital learning methods, cybersecurity, digital economy – all these trends **will drive our habits and decisions** more and more, inspired by technology and addressing societal challenges. There is not much difference in the use of technology in traditional or collaborative economy, the resources sold or shared makes the difference.

Second, **change in consumption patterns** during last three years has been explained with a shift in values towards environmental and resource efficiency from one side, but also long-term overconsumption in western countries, which have created tonnes of underutilised assets in households (e.g cars, tools and other). Also, long-lasting economic depression, causing overall decrease of purchase power and trust towards traditional economy as well as increase of unemployment are forcing more and more people to look for alternatives. People are coming back to roots - we consume less and lend more, we own less and share more, we use our internal resources (skills) to create added value. These trends will definitely influence our consumption habits and force traditional businesses to change their business models. Going to a holiday, we may not want to sleep in an expensive hotel, but rather in a private apartment in a local neighbourhood with all its naturalness. We give up in secured hotel service and trust the adventure. Or we do not digest lactose and have difficulties with buying a birthday cake from traditional pastry, why not to ask a home chef to bake us a cake without lactose.

Third, platform economy attracts people to work part time for many employers. This will bring housewives, retired, handicap people or students back to the labour market offering **flexible working conditions**. Everybody can be employer to oneself. Offering services by private persons on conditions set down by oneself, changes people's values on time and persons as individuals – people value more personal time and personal development, life-long learning becomes new normality and we'll see more and more **diversity of skills**, where technological skills have an enabling role. Also, among promising approaches, new digital learning platforms enable high-quality, low-cost learning content to be scaled through personalised, adaptive learning and blended learning technologies⁵. These trends will bring us to the era, where companies fight even more for talents, people work for many employees at the same time and employees drive the labour market, not employers. Why not to have a part time job at a traditional employer, then be a home chef or teach online courses or drive Uber car?

Forth, the new businesses also **improve overall economic efficiency** – through reduction of the transaction costs e.g. GPS tracking helps to find the service provider closest to the customer, automatic price surges balance supply and demand. Furthermore, the online platforms reduce the information asymmetries and as such often provide the same services at a lower price which increases the demand for these services. Another important benefit of the new businesses is the flexibility provided by platforms. The suppliers can choose the time, amount and often the price for which the services and goods are provided. The same advantages apply for the customer. The **self-regulating mechanisms** based on the feedback of the customers of the platform make sure that the expected service is delivered with high quality. At the same time the service providers can offer variations within the service which leads to the phenomenon of mass-customisation especially in the age group of people below 35 years old⁶. Already today, the traditional businesses (hotels, transportation companies) had been forced to adjust their business models for keeping their market share – improve quality, offer customised

⁴ ING International, 2015; Strategy&. 2010. The Rise of Generation C: Implications for the world of 2020. http://www.strategyand.pwc.com/media/file/Strategyand_Rise-of-Generation-C.pdf.pdf

⁵ World Economic Forum, The Human Capital Report 2016, http://www3.weforum.org/docs/HCR2016_Main_Report.pdf

⁶ ING International, 2015; Strategy&. 2010. The Rise of Generation C: Implications for the world of 2020. http://www.strategyand.pwc.com/media/file/Strategyand_Rise-of-Generation-C.pdf.pdf

services and faster or adjust price level. Even if these trends are not welcomed by traditional businesses, they have to admit the triumph of new business models.

The future **business environment** will be more diverse and driven by customers – there are more business models used in the market and more customised services required. While the main question traditional businesses ask is ‘how can I serve the most people with the highest efficiency’, then new businesses ask ‘how can I serve more people with higher satisfaction in the most efficient way’. The difference is in approach – new businesses offer tailor-made services to its customers (customer driven approach), traditional businesses offer mass production, which enables them gain more profits with less efforts (business driven approach). The approach makes difference also in size – new businesses are rather small and medium size companies (many of them are in start-up phase), mass-production is an approach in larger traditional economy companies. Nevertheless, economy needs both of them, however, the customer oriented approach tends to gain more popularity in the future.

For customers it doesn't matter that they own things, **they just need to address their needs** – as less consumptive and resource efficiently it can be done, as better (for getting from point A to point B one doesn't need to have a private car). The mind-shift from consumption towards resource efficiency (e.g. time, finances, human resources) will reshape the business landscape – customers will become more demanding forcing companies to personalise their services and goods. This in hand reduces the value of mass-production and requires better understanding clients and their needs. Social challenges become more important than personal well-being, at the same time Y-generation values entertainment and personal leisure time more than focusing on serving an employee. Diverse set of skills, flexible working conditions and working for different employers enable them to get this dream life. Digital solutions will enable companies to reach more clients cross-border (except some services still requiring local presence like home chefs or mechanics), the importance of scalability enabled by technology is the main key for internationalisation. As an example, an online course of a top ranked university may have 10 million and more users thanks to the online platform. This had not been possible before the triumph of online platforms. The market is the world, the customers are spread globally, the profit is made by scalability.

There are **no mechanisms yet in place for measuring the effect of new business models**. As more the new business affects conventional economy, as more governments are interested to monitor it and understand the economic effects. The main concerns are related to customer protection, competition, taxation and labour market. There are some countries (Spain, UK, Netherlands, Estonia) tried to analyse the effects of new business models, but as there is no categorisation in statistics which company is driven by new or traditional business model, it's complicated to catch the whole effect of the new businesses. Also, when online platforms can be monitored (they are registered business units) through publicly available databases, then their service providers (normally individual persons) cannot be tracked as this information is owned only by online platforms. The market is new, there are not many players in the collaborative economy market and online platforms see their service providers as their business secret, which is why they are not willing to share it with anyone. Limited availability of statistics makes understanding of the whole market share possible only through secondary sources. Nevertheless, the European Commission has foreseen in its collaborative economy agenda to develop a monitoring framework to measure the collaborative economy in member states and on sector level. This foresees development of a set of indicators to measure development of collaborative economy in EU periodically.