Practice Note

The Role Management Accountants the New 'On-Demand' Sharing Economy

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Australian Taxi Drivers are up-in-arms and protesting in front of State Parliaments. They are not protesting about the safety of taxi drivers or about the amount of taxi licenses issued by State Governments. Instead they are protesting about the *Uber*, a five-year-old company which gets ordinary people worldwide to operate as cabdrivers using their own vehicles. Uber is valued at $41.2 billion, making it one of the 150 biggest companies in the world–larger than Qantas, FedEx or Viacom. Taxi Drivers are claiming that Uber drivers do not have the costs incurred by them such as purchasing taxi licenses; doing police checks on drivers etc. State Governments are trying to collect registration fees from Uber drivers; the Australian Tax Office is trying to get them to collect GST on collections etc. But people are voting with their feet and using Uber's services in large numbers.

The key to this shift was the discovery that while we totally distrust strangers, we totally trust people recommended to us by platforms such as Uber; and we trust them significantly more than we trust corporations or governments. Further, Uber drivers also have to have the confidence that an individual who is rated highly by Uber will not attack them after they get a ride in their car. Uber gets a rating on both the driver and passenger after the ride, usually with one to five stars. That has eliminated the few bad apples who made everyone too nervous to deal with strangers. Also, no money exchanges hands. It's all collected and paid by Uber based on the trip distance. The traditional way is 'no' - you can't do it unless you get a license. That made sense up until we had data. Now the starting point is 'yes'.

Airbnb is another big player in the sharing economy. The idea that people will rent out their spare rooms to strangers was rejected by almost every venture capitalist it pitched itself to, and even the people who wound up investing in it thought it was unlikely to succeed. Now an average of 425,000 people use it every night worldwide, and the company is valued at $13 billion, almost half the value of 96-year-old Hilton Worldwide, which owns actual real estate.

Joel Stern, in an excellent article in the Time Magazine (Jan. 29, 2015), says that it's unclear if most of this is legal; and that the disrupters are being taken on by governments and the entrenched institutions they are challenging. Uber and Airbnb, which are exorbitantly funded by Silicon Valley, generate most of the controversy, says Stern. But there are thousands of companies–in areas such as food, education and finance–that promise to turn nearly every aspect of our lives into contested ground, poking holes in the social contract if need be. After transforming or destroying publishing, television and music, technology has come after the service economy.

In the interest of eliminating bureaucracy, overhead, middlemen and waste, individuals are turning themselves into *mini-diversified corporations*. Besides being a taxi company, an individual can become a rental-car company by giving a stranger to use his/her car; a restaurant by cooking a meal for a stranger and a hotel by renting out a spare room in the home. There are at least 10,000 companies in the sharing economy. Individuals are finding that it's a lot of fun being a part of the sharing economy, at least until something goes wrong. The change in cost structures between the

[1] [1]First Published: Ratnatunga, Janek (2015) "The Role of Management Accountants the New 'On-Demand' Sharing Economy", *On Target,* ICMA Australia Newsletter, 19(5), Sept-Oct, pp.3-4.

traditional and sharing economy organisations is significant, and management accountants must be aware of this.

Joel Stern says that to have today's 'on demand' sharing economy, we needed *eBay, PayPal* and *Amazon*, which made it safe to do business on the web. We needed *Apple* and *Google* to provide GPS and Internet-enabled phones that make us always reachable and findable. We needed *Facebook,* which made people more likely to actually be who they say they are. And we needed the global financial crisis (GFC), with its low-wage, jobless recovery, which made us ask ourselves how many possessions we really need and how much extra we could make on the side. The sharing economy–which isn't about sharing so much as ruthlessly optimizing everything around us and delivering it at the touch of a button–is the culmination of all our connectivity, our wealth, our stuff.

Talking about "stuff", it is a fact that that we all own a lot of stuff that we don't use. This is where *Yerdle* comes in. Yerdle allows people to give away their stuff. Users have given away cars and pianos on the site in exchange for credits. What can they use the credits for? They can use their credits to get other users' unwanted stuff! More than 25,000 items get shipped through Yerdle every month, and companies such as Levi's and Patagonia have used it to distribute unsold merchandise to market their brand instead of sending goods to a landfill. Purchasing goods for credits instead of money is another headache for management accountants.

The economic shift these companies are exploiting isn't just technological; it's also cultural, and management accountants should be aware of this. First of all, it's easier to share now that more people live in cities. (More than half the world's population now lives in urban areas, according to the U.N.; by 2050 it will be 66%.) More important, the homes of rich people and those of the millennial generation are increasingly stark; only poorer people are still piling up stuff in their guest showers and storage units. Material goods have gotten so cheap, they've become burdensome Almost all happiness studies show that experience increases contentment far more than purchases do, and young people intrinsically understand that, thus fuelling an experience economy. Stern says "We've moved from conspicuous consumption to conspicuous experience". So the sharing economy is really the experience economy, and more specifically the experience-it-right-this-second economy. So how do you cost or price an 'experience"? This will be a new role for the management accountant.

it also doesn't hurt that amateur drivers of Uber are surprisingly pleasant. No matter how well-trained service employees might be, everyone is nicer when they're dealing with customers directly. Even customers are nicer. Nearly everyone who stays at an Airbnb rental, for instance, hangs up their bathroom towels after they use them. You do not want to ask a hotel manager what guests do with their towels. *The customer is no longer the king.* Everyone is equal in the shared economy. This human element has been crucial in fuelling the growth of sharing-economy companies. When *RelayRides* installed a convenient gadget in renters' cars that allowed them to unlock it without owners having to meet up to hand over the keys, satisfaction went down nearly 40% and complaints shot up fivefold. When they met in person, rentees kept their cars cleaner and renters returned them on time way more often.

Of course, the legislative battles will increase, and management accountants need to keep an eye on the fast-changing market environment. In December 2014, Uber quit its Spanish operations after a judge ruled that some of its services broke the law, giving it unfair advantages over taxi drivers. It has appealed decisions in France and the Netherlands prohibiting it from operating its lowest-cost service. It watched as South Korea indicted CEO Travis Kalanick for wilfully breaking the law by operating there. It was ordered out of Thailand; and it got banned in New Delhi after a driver raped a passenger.

In New York City, Airbnb's largest market, the battle with regulators has been particularly fierce. In 2010 a law was passed that increased the enforceability of a 1929 regulation prohibiting rentals of less than 30 days. After subpoenaing Airbnb's data, New York State Attorney General issued a report that found that three-quarters of Airbnb's New York City rentals were illegal. Even though Airbnb shut down about 2,000 rooms in what were essentially unlawful hotels that it said it didn't know about until it saw the attorney general's analysis, the law still makes most Airbnb transactions in New York illegal.

It is clear that all developed countries have built up a lot of regulations. In the 1950s, 5% of USA jobs required a license; now it's one-third. Professor Arun Sundararajan of New York University Stern School of Business who has studied the sharing economy says, "one hundred years ago there wasn't a clear line between someone who ran a hotel and someone who let people stay in their homes. In those days we drew clear lines between people who did something for a living and people who did it casually not for money". Airbnb and Uber are blurring these lines.

The ICMA also has launched a platform that uses the sharing economy. It has sponsored Calwest University (www.calwest.org) for its members that links up World-Class professors in universities such as Harvard, MIT and Stanford that provide *Massive Open Online Courses* (MOOCs) with members wishing to undertake MBA and DBA degrees. However, as a university degree is the end result, Calwest has had to abide by the Californian State Government regulations that govern the granting of degrees.