

# Research on the Risk and Profit Guarantee Mechanism of the Sharing Economy Business Model

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**Abstract:** Sharing economy develops in various fields continuously because of its characteristics of improving the utilization rate of idle resources. However, with the expansion of scale, various risks gradually appear. Studying the existing risks and profit patterns sharing by the industry is conducive to the healthy development of the sharing economy. Based on the author's learning and practical experience, this paper first discussed the business model of sharing economy, then studied the connotation of sharing economy, then summarized the risks in the sharing economy business model, and finally put forward the profit guarantee mechanism of the sharing economy business model taking Mobike as an example.

## 1. Introduction

With the popularity of the mobile Internet, the sharing economy gradually reveals its advantages in allocating resources. At present, there are many sharing bicycle enterprises including Mobike, ofo, Harrow bicycle and so on, and the market competition is fierce. Mobike was founded in 2015 and officially launched the smart sharing cycling service in Shanghai in 2016. It entered into more than 180 cities in nine countries, including China, the United States and South Korea, and it becomes the world's largest platform of intelligent sharing bicycle operation and mobile Internet of things. A good business mode is the premise of sustainable operation, and the business model of sharing bicycle still needs to be optimized. How to realize profit and sustainable development is one of the main problems faced by sharing bicycle enterprises[1]. Therefore, it is very important to take Mobike, which is the representative enterprise of sharing bicycle, as research object, analyze the business model and forecast its development in the future.

## 2. The Connotation of Sharing Economy

With the help of the network and other third-party platforms, the sharing economy temporarily transfers the right to use idle resources on the supply side, realizes the socialization of production factors, and creates value for the demand side by improving the efficiency of the stock assets use, therefore it promotes the sustainable development of social economy. The sharing economy involves main participants, such as the supply side, the demand side, and the sharing economy platform. From the view of the supply side, each individual or enterprise can become a supplier of products and services as long as each individual or enterprise has idle resources and is willing to temporarily transfer the right to use the products, so the potential of supply-side expansion is remarkable and its market capacity is huge, and it can form huge "capacity supply pool". The motive of the supply side source is to improve the utilization ratio of the stock resources and obtain certain income[2]. "Idle resources-temporary transfer of the right to use-get the income" forms the dynamic industry closed loop, which has the inherent tension and the sustainability. From the view of demand side, every individual or enterprise can become the demand side of products and services. The demand side does not own the ownership of the goods directly, but satisfies the product and service demand by means of rent, sharing and so on. The price advantage of supply-side product or service brings the relative income of the demand side to obtain the same service, and forms the huge "service demand pool" of the sharing economy. The sharing economy gives the demand-side the right to participate, choose and take the initiative, and reduces the cost of the demand-side based on

the transparent transaction of sharing economy platform[3]. From the view of the sharing economy platform, it combines with the location sharing of idle resources and uses big data algorithm and other precise matching and connection to realize the mutual benefit between the supply side and the demand side. The platform itself does not have the fixed cost expenditure based on the product and the service, and its cost comes from the related expenditure such as the maintenance of the sharing economy platform, which belongs to the operation of light assets. The sharing economy platform based on transaction extraction model realizes the reduction of fixed cost expenditure and the increase of transaction success rate, improves the efficiency of idle resources utilization on the supply side, and satisfies the personality of the demand side and customized services. The connotation of sharing economy is the process of disintermediation and re-intermediation.

Disintermediation means that the supply and demand parties no longer rely on traditional commercial organizations, such as P2P lending. Fund providers and fund demanders no longer need to rely on banks and other financial organizations for the funds allocation, but match directly between fund providers and demanders. Ride-hailing software eliminates the need of service providers and passengers for commercial organizations, such as rental companies, and service providers can match directly with passengers. It is not difficult to see that the sharing economy is the process of disintermediation, which leads to the disintermediation of finance, taxi and other industries. In the same way, the sharing economy is also a process of re-intermediation. Both supply and demand parties depend on sharing economic platforms, such as P2P lending. Fund providers and fund demanders need to use P2P network lending platform to realize the matching of capital supply and demand. Service providers and passengers need to use ride-hailing software to match supply and demand, so the sharing economy platform becomes a "new intermediary" between supply and demand.

### 3. Business Model Analysis of Sharing Economy

#### 3.1 Business model in which commissions are charged for transactions.

The business model that collects commission is the business model that the enterprise extracts from the transaction by offering it to the merchant mobile internet platform to carry on the transaction. Airbnb is a typical example of this model by connecting tourists to people with idle homes and charging agency fees. Airbnb charges the landlord 3%, and the reservation 12% which means that the rental price of the house directly determines the size of the profit, so Airbnb has made a lot of investment in improving the user experience and service quality, creating the difference of beauty. On the other hand, Airbnb's tenant protection makes it necessary for landlords to fulfill a series of obligations to meet tenants' demands. For example, the source should meet the minimum standards of safety, cleanliness, availability, etc., and use a credit mechanism to evaluate to ensure that the interests of tenants are protected. The schematic process of this model is shown in figure 1.

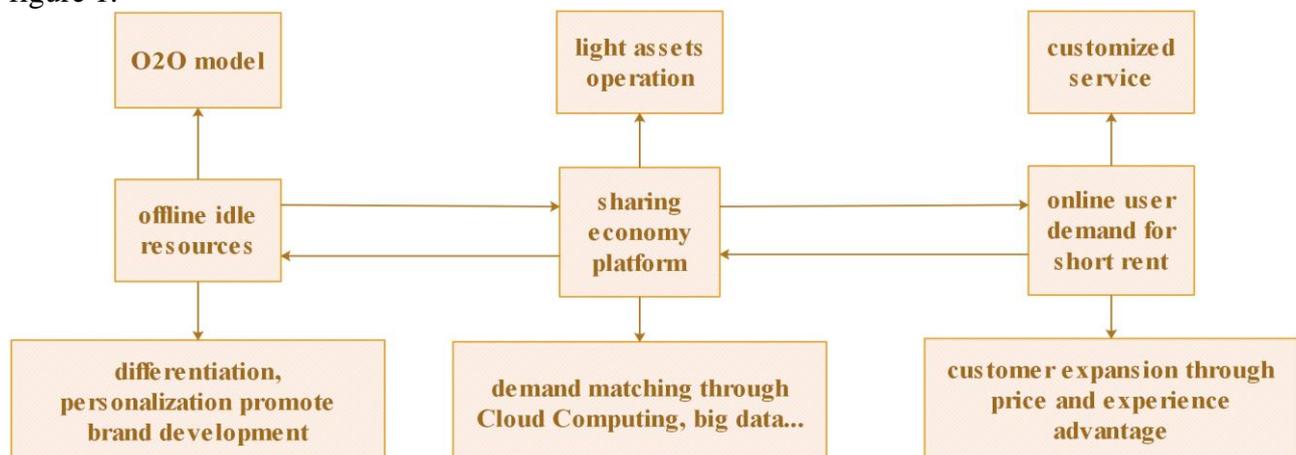


Fig. 1 The schematic process of business model in which commissions are charged for transactions

### 3.2 Business model for charging rental fees.

This model a business model that collects rental fee according to the certain standard when renting the sharing goods. According to The Monitoring report of China's sharing Cycling Industry in the first half of 2018, the scale of sharing bicycle users will reach 235 million in 2018. Subsequently, the growth rate will slow down to 14.6%, and the number of sharing bicycle users will reach 235 million in 2018. Ai Media Consulting analysts believe that the sharing bicycle industry will enter a mature period in 2018, and the growth trend will stabilize. This business model depends on the scale of users, so it faces the dilemma of high operating cost and fierce competition. The schematic process of this model is shown in figure 2.

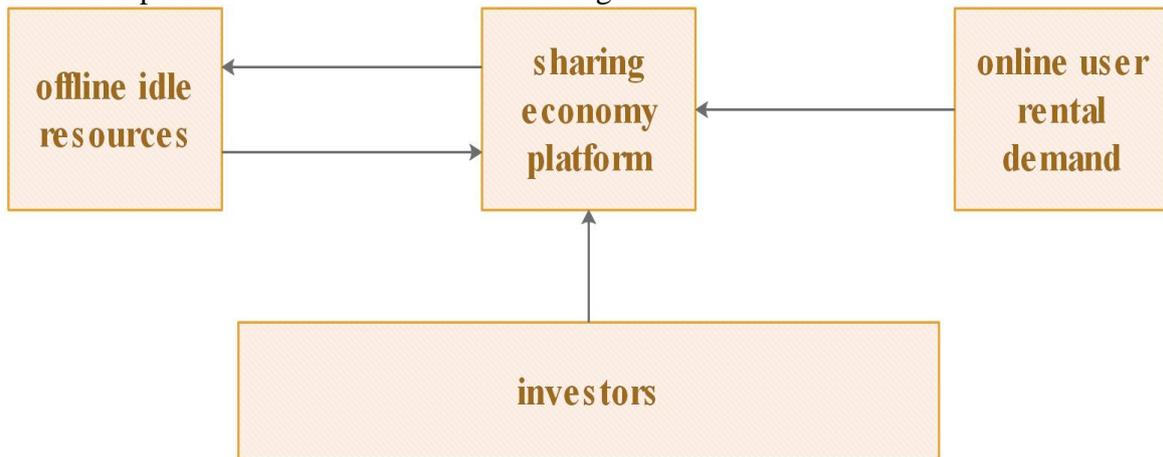


Fig. 2 The schematic process of business model for charging rental fees

### 3.3 Business model for charging promotion fees.

Off-line commercial advertising promotion mode is a business model which can provide users with information and services and obtain revenue through reasonable placement of commercial advertisements. Providers of sharing services can make full use of their offline user traffic resources for commercial promotion. For example, sharing umbrellas, like the new mobile advertising carrier, are with characteristic of being liquid and regional. The real operating logic of the umbrella is similar to that of newspaper's "mobile advertising" position, says Gu Man, the founder of the drifting umbrella, which requires printing ads on the umbrella to share the cost of revenue. In addition, the scene application of QR code, NFC and other technologies will also bring advertising revenue. The schematic process of this model is shown in figure 3.

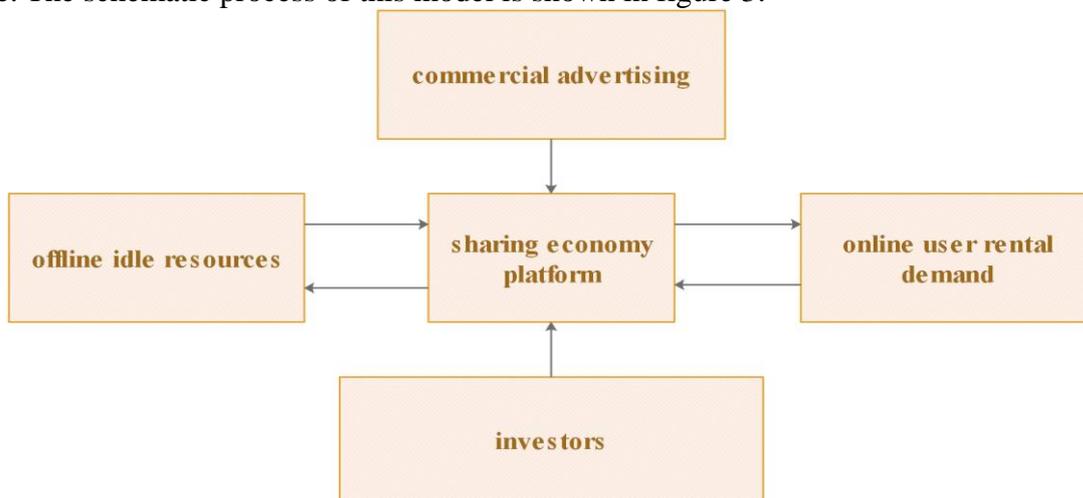


Fig. 3 The schematic process of business model for charging promotion fees

### 3.4 Business models for data mining value-added fees.

Data mining is a kind of business model which uses a large amount of data accumulated on O2O

platform to construct data center and explore the realization of user data. For example, to conduct research and analysis of certain social hot issues, or cooperate with third parties to assist in business decision making, etc. The business model is built on the basis of operation, and the key is to find out the value added point of business, to establish the ecological circle of sharing economy through the interconnection of platform and platform. Alibaba used Xianyu APP to link Taobao with the second-hand transfer market, and accumulated a large amount of data to count users' second-hand search, purchase, and upload history to optimize Taobao shopping. At the same time, there is more decision-making basis on advertising push. The schematic process of this model is shown in figure 4.

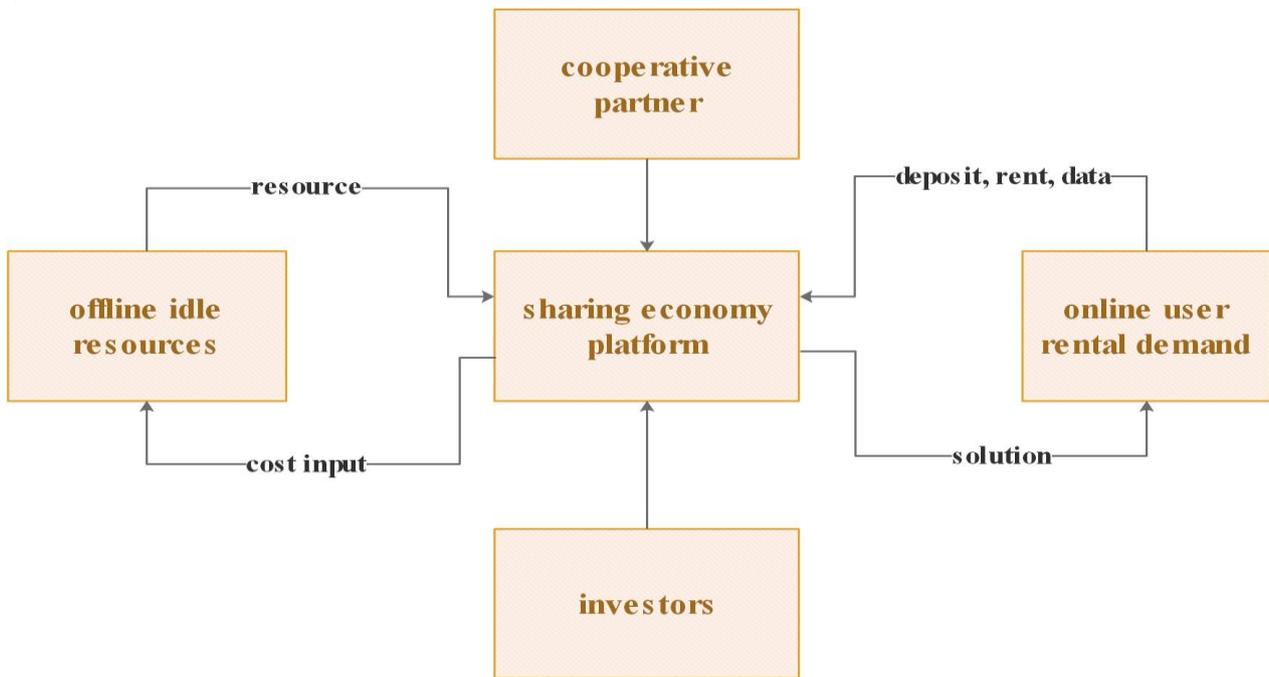


Fig. 4 The schematic process of business model for charging promotion fees

These four models are common in business practice. But companies tend to combine these business models and iterate and innovate on their basis, rather than relying solely on a fixed business model to continue to operate. Looking at the evolution of enterprises in recent years, we will find that those that remain unchanged tend to go not far and quickly drown in the flood of business model evolution. At present, the business model of many enterprises is a combination of the above-mentioned several types of models. For example, sharing portable battery gains income from rent, data line sales and advertising

## 4. Risks in the Business Model of Sharing Economy

### 4.1 Social risks.

Sharing economy lets individual suppliers get rid of their dependence on business organizations and can enter the market because of the third party connection platform, so many brands may compete disorderly in order to seize market share, for example, they continue to increase the amount of investment and take a low-cost strategy. The amount of input will become more and more saturated, which will lead to waste of resources. Low price competition will squeeze the profit space of enterprises and make most enterprises unable to carry out technological innovation, so the industry tends to be low end homogenization[4].

### 4.2 Legal risks.

The platform will require registered users to provide information such as mobile phone number, ID number and other information in order to collect user information and credit rating. While the network platform has certain security risk, if these information leaks and is grasped by the illegal

elements, they are likely to send the accurate spam message for harassment, even be the fraud.

#### **4.3 Financial risks.**

Its main risk includes: the profitability of the platform is weak. As a new field, sharing economy is facing the dilemma of imperfect development and weak profit model inevitably while showing great vitality and vigour. The causes of this phenomenon are the serious homogeneity and lack of innovation ability in the industry; The industry has technical defects and institutional loopholes due to the lack of experience. The user's deposit was used without authorization. Because the sharing product has certain public attribute, most platforms adopt the way of collecting deposit to reduce their own loss because of the lack of users credit detection mechanism. Sharing products take the mode of one-to-many leasing, deposits generate financial attributes, so they should be monitored by a third party. However, due to unclear regulatory authority and responsibility, some platforms secretly use deposits for other purposes. If the behavior of collecting deposits is suspected of raising funds in disguise and the platform does not have a specific authorization, it would be suspected of being illegal.

### **5. Profit Guarantee Mechanism of Sharing Economy Business Model**

#### **5.1 Improving the technical defect of the platform and strengthening the governance of sharing bicycle.**

Firstly, the platform should strengthen its own technical construction, and Mobike should do a good job of technical transformation, such as: replacing mechanical lock with intelligent lock and setting network technical security index to protect the privacy of registered users; Secondly, the amount of sharing bicycle should be controlled. It is reported that the scale of sharing bicycle is close to the saturation point, so we should pay more attention to increasing the share rate instead of blindly increasing the amount of stock. At the same time, it should strengthen cooperation with the government and actively engage in the governance of sharing bicycle. For example, enterprises and the government should jointly set up special parking areas and establish a fingerprint database together. It facilitates government fingerprint collection while regulating the use of sharing bicycle by the public. Finally, the company can also open a reservation function to reduce the users' worry that they can not use a car so occupy a bicycle.

#### **5.2 The government should strengthen the quality education and exerts the moral restriction function.**

The government can improve the quality of citizens by strengthening propaganda and promoting the construction of honesty and morality. Certainly, civilized participation and sharing is a kind of self-discipline behavior, which can only be reduced by the supervision of the government and enterprises, but can not be eliminated. Therefore, in the final analysis, it is necessary for users to improve their consciousness of self-discipline, strictly require themselves, establish the concept of honesty and resist and dissuade the behavior of dishonesty. The Government should strengthen the guidance of sharing bicycles and coordinate arrangements to promote the development of sharing bicycles while planning cities. It should consider slow-moving system while making urban traffic planning, such as bicycle lane planning and electronic fence construction. Furthermore, the characteristics of high cost and long payback period also determine that the operating platform has the nature of public welfare. In this way, the platform needs more government support and needs to actively seek government subsidies.

#### **5.3 Strengthening government management and establishing credit system.**

The phenomenon that sharing bicycle has been privately occupied and maliciously destroyed is not prohibited repeatedly, which reflects from the side that the market economy of our country has not been fully mature, the social problems can not be solved in time, and the establishment of the credit system in China at the present stage is still relatively lagging behind. Therefore, firstly, the government should put the sharing bicycle in the height of the urban public transportation system,

perfect the supporting measures from the policy, set up the special bicycle lane to facilitate people to pass through, and make the traffic more smooth[5]. Secondly, it should improve the relevant legal system, solve the malicious damage and private possession phenomenon caused by the credit loss, increase the sharing economy innovation support, and form a good environment that is propitious to its development. Thirdly, it should establish a credit system, perfect the construction of the national credit system, strengthen the data sharing of various credit platforms, and bring the behavior of users' uncivilized use of sharing bicycle into the social integrity system. It can adopt a point deduction system or a blacklist system to increase the penalty cost. It can also encourage users to regulate their own behavior and participate in the supervision to report violations behavior.

#### **5.4 Establishing deposit custody system and managing reasonably the fund pool.**

Deposits are transferred directly to the sharing bicycle platform, and users can not know the direction of the deposit and whether there is third party supervision after paying the deposit, which creates conditions for the platform to encroach on and misappropriate the users' funds. So governments should set up regulators and use independent third-party agencies to monitor the flow of deposits to avoid the risk of fund precipitation and misappropriation.

#### **5.5 The platform should build the brand effect and raise the market access threshold.**

The great amount of places to put in sharing bicycles and the differences of customs and habits in various regions determine that the operation way of sharing bicycles is different in various regions. Sharing bicycle platform can create a local life travel program for users based on the actual local conditions. What is more, the platform should focus on creating independent media outlets such as public numbers in each city and providing a feedback platform for local users. In a word, when the sharing bicycle platform is dedicated to providing value-added services to users, its brand effect can greatly improve the customer's sense of belonging and loyalty to the brand.

### **6. Summary**

Since its emergence, sharing bicycles have won popularity with the idea of solving the "last kilometer" problem. At the same time, the development of sharing bicycle accords with the new development concept proposed by the Nineteenth National Congress, advocates people to choose a more green and healthy way to travel, and alleviates the pressure of urban traffic, which is bound to become the main theme of the future development. The emergence of sharing bicycle greatly facilitates our travel. Mobike, as the pioneer of the industry, has great brand influence and good development potential. In the future, it is bound to lead and even determine the direction of the industry development to a certain extent. So how to solve the problems in development is particularly important.

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