

**The “Sharing” Economy:
Issues Facing Platforms, Participants, and Regulators
A Federal Trade Commission Workshop**

The Federal Trade Commission (“Commission” or “FTC”) will hold a workshop to explore issues relating to emerging internet peer-to-peer platforms—often called the “sharing” economy—and the economic activity these platforms facilitate. The workshop will examine competition, consumer protection, and economic issues arising in the sharing economy to promote more informed analysis of its competitive dynamics as well as any business practices that may affect consumers’ ability to make an informed choice. The workshop will consider if, and the extent to which, existing regulatory frameworks can be responsive to sharing economy business models while maintaining appropriate consumer protections. It also will examine how various regulatory choices may affect competition and consumers.

The Commission invites public comment on the questions outlined below. The Commission seeks the views of consumers, business representatives, economists, lawyers, academics, and other interested parties. As explained below, comments will be considered for workshop planning purposes and may inform a report or further public discussions about these issues.

Prior to the workshop, the Commission will publish an agenda, names of speakers, and further information on the workshop website.

Dates

The workshop will be held on June 9, 2015 in the Conference Center of the FTC office building at 400 7th St. SW, Washington, DC 20024.

To be considered for the workshop, comments must be received on or before May 26, 2015. In addition, any interested person may submit written comments in response to this announcement and workshop discussions until August 4, 2015. The process for submitting comments is explained below.

Contacts

For further information, contact Bill Adkinson, Office of Policy Planning, 202-326-2096; Julie Goshorn, Office of Policy and Coordination, Bureau of Competition, 202-326-3033; or send an email to sharingeconomy@ftc.gov.

Background on the Sharing Economy

Internet peer-to-peer (or sharing economy) platforms have existed at least since eBay began operating. These platforms enable commercial transactions by linking sellers of products or services with buyers of those products or services. Sharing economy platforms are peer-to-peer in that they are decentralized on both sides of the platform, in contrast to single-sided platforms, which typically involve a single seller offering products or services to potential buyers. Transacting on these platforms utilizes increasingly ubiquitous internet connectivity and

continuous growth of computing power, including the proliferation of mobile internet-enabled devices.

Despite the popularity of the term, transactions in the sharing economy typically do not involve sharing in the traditional sense of the word. Suppliers in this space are motivated primarily by commercial interests and profit-seeking opportunities. To be sure, in some sharing economy sectors, suppliers are renting or employing their assets, such as cars or apartments, for use by others, thereby improving utilization of those assets. Such transactions, however, typically involve payment for access to the asset or service rather than in-kind exchanges.

The sharing economy has expanded rapidly in recent years, most significantly in the transportation and accommodation sectors, though sharing economy platforms now operate in a broad range of areas.¹ The total value of global sharing economy transactions reached an estimated \$26 billion in 2013 and some estimates predict that the sharing economy will generate as much as \$110 billion annually in the near future.²

The development and expansion of the sharing economy can spur economic growth, promote competition, and improve the welfare of platform participants. The sharing economy has facilitated the introduction of new and innovative sources of supply, which may provide consumers with expanded choices, greater convenience and, often, lower prices. It also has enabled increased productivity and more efficient use of assets. Commercial activity in the sharing economy may, however, challenge existing regulatory structures (or traditional regulation) and pose risks to competition and consumers.

Drawing on the Commission's expertise as a competition and consumer protection agency, as well as the agency's significant economic expertise, the workshop will provide an opportunity to examine issues presented by the rapid growth and evolution of the sharing economy. While these topics have received a great deal of attention in the popular press, they are only beginning to be studied in the academic literature. The workshop will examine the economic framework underlying sharing economy platforms. The workshop also will explore the benefits and costs of commercial activity in the sharing economy and the competition and consumer protection policy issues this activity may pose. It will provide an opportunity for public discussion and comment on sharing economy issues, highlight areas for further research and analysis, suggest consumer and business education opportunities, and inform policymaking in this rapidly developing area.

Economics of the Sharing Economy

Today, a growing number of firms are using technology to change the nature of commercial interactions. Instead of delivering products or services directly to consumers, these firms serve as

¹ See Jeremiah Owyang, Collaborative Economy Honeycomb 2—Watch it Grow (Dec. 7, 2014), <http://www.web-strategist.com/blog/2014/12/07/collaborative-economy-honeycomb-2-watch-it-grow/>.

² See Sarah Cannon & Lawrence H. Summers, *How Uber and the Sharing Economy Can Win Over Regulators*, HARV. BUS. REV. BLOG NETWORK (Oct. 13, 2014), <https://hbr.org/2014/10/how-uber-and-the-sharing-economy-can-win-over-regulators/>.

intermediaries between members of the public. This has led to transactions facilitated by such intermediaries being termed “peer-to-peer.” Car-hire and housing platforms have attracted the most attention, but consumers in some areas now can use platforms to find everything from custom-made goods to designer clothes to tool and equipment rental.

The sharing economy opens new, previously unavailable opportunities for profitable trade, facilitating better use of underutilized resources such as spare rooms or apartments, idle automobiles, or the labor of underemployed individuals. Sharing economy platforms facilitate peer-to-peer transactions by using modern information technologies to enable buyers and sellers to find transaction partners, agree to terms, and execute transactions at low cost. These platforms seek to attract both buyers and sellers to participate in the marketplace, increasing the transaction options for participants. They facilitate search among transaction options, and may play a role in setting the terms of trade, including price. Because buyers and sellers on many sharing platforms have little information about each other, mechanisms to promote confidence in transacting may be important to a platform’s success.

Economics provides a framework for better understanding both commonalities and differences across platforms. In particular, economic tools can help to identify what—if anything—differentiates sharing platforms from other types of internet platforms. Formal modeling can be used to develop theories about factors that may lead some markets to favor dominant platforms rather than multiple competing ones. Empirical analysis can test such predictions.

The Commission invites public comment on questions relevant to this topic, including:

- What are the advantages and disadvantages for consumers of engaging in transactions facilitated by a sharing platform; for example, convenience, diversity of offerings, additional sources of supply, safety, quality?
- What are the advantages and disadvantages for suppliers engaging in transactions facilitated by a platform, for example, transaction velocity, broadened access to consumers, discrimination based on individualized preferences, competition with suppliers that do not use platforms?
- What features distinguish these sharing platforms from other internet platforms?
- What economic considerations might lead to the adoption of a peer-to-peer platform model as opposed to a one-sided online sales platform?
- How do platforms address challenges in developing a successful marketplace?
- To what extent do sharing platforms exhibit network effects? What are the sources of these network effects?
- To what extent may network effects lead to the development of dominant platforms in particular sectors? What other factors might affect the likelihood and durability of platform dominance from network effects?
- As sharing economy platforms evolve, how might they adjust the services they offer, for example, to earn higher profits or better serve participants? Are there particular sectors in which these platforms likely will be more (or less) successful?

Reputation Systems and Other Trust Mechanisms

Fundamentally, transactions among platform participants are peer-to-peer in nature—for example, matching homeowners with prospective renters or car owners with individuals willing to pay for transportation services. Participants on both sides of sharing economy transactions frequently are individuals or small entities with little information about each other, except for the information available on the platform itself. To address this barrier to transacting, platforms typically adopt a variety of mechanisms designed to provide participants with sufficient confidence to conduct their transactions.

Many platforms employ rating systems to enable participants to gather and disseminate information about each other. Typically, such systems enable participants to rate and comment on each transaction they enter into on the platform. The ratings for each participant usually are available as a summary score and as narrative descriptions of attributes such as the participant's quality and trustworthiness. Together, these represent an individual's reputation on a platform.

The design and operation of reputation systems can have important impacts on their accuracy and utility. For example, ratings may be subject to manipulation by interested parties. Moreover, incentives to provide reviews may bias the scores—for example, participants with strong negative or positive experiences may be more likely to provide ratings. Participants also may be able to use ratings earned on one platform to establish credibility to transact in other marketplaces.

Platforms can enhance trust in transacting by providing direct assurances to participants, who can then rely on the platform itself. For example, platforms can screen participants by performing background checks, providing training and certification for participants, or terminating participants who receive low scores within the reputation system. Platforms can offer money-back guarantees for customers buying goods and liability insurance coverage for customers injured while using a service. They also may offer mediation services when disputes between participants arise.

The workshop will address the operation of trust mechanisms, examining how they promote transacting on platforms, the extent to which they can be biased or manipulated, the incentives of reviewers, and how they both protect consumers and enable informed choice by consumers.

The Commission invites public comment on questions relevant to these topics, including:

- How effective are reputation systems in encouraging consumers and suppliers to transact on sharing economy platforms, protecting participants, and promoting informed choices?
- How effective are other trust mechanisms, such as the vetting of sellers of goods and service providers, insurance coverage, or complaint processes, in encouraging consumers and suppliers to transact on sharing economy platforms, protecting participants, and promoting informed choices?
- To what extent can, and should, participants be able to use ratings generated on one platform in transacting on another platform?

- How susceptible are reputation systems to bias? How can platforms moderate this bias?
- How susceptible are reputation systems to manipulation by marketers and other self-interested parties (*e.g.*, using fake or paid-for reviews)? How can the design of reputation systems prevent or offset these manipulations?
- How well are trust-building mechanisms on sharing platforms understood today? How useful is the existing literature in understanding the operation of trust mechanisms generally in understanding how they operate on sharing economy platforms?
- What is a sharing economy platform's responsibility, if any, to verify the accuracy and credibility of the information upon which its trust mechanism relies and/or to afford participants the opportunity to correct or respond to negative/inaccurate reviews?
- Are any connections, financial or otherwise, between the sharing economy platform and its online reviewers being disclosed clearly and conspicuously so that consumers can make an informed choice?

Regulation, Consumer Protection, and Competition Policy Issues

The workshop will examine competition, consumer protection, and regulatory issues posed by the rise of sharing economy platforms. In particular, the workshop will consider issues arising from the application of consumer protection principles and regulatory regimes to new sources of supply enabled by sharing economy platforms, as well as the role of competition policy in informing these issues. It also will assess competition enforcement issues that such platforms may raise, now or in the future.

Suppliers using sharing economy platforms generally compete with established suppliers of products or services that may be subject to state and local regulatory structures that often are decades old. Sharing economy providers generally are individuals or small entities with limited business sophistication, particularly regarding legal and regulatory matters that may govern their industry or trade. While such small-scale transactions may not have attracted regulatory scrutiny in the past, the advent of sharing economy platforms has dramatically increased the volume of such transactions, amplifying both their commercial significance and their potential for consumer injury. The most significant platforms enabling this expansion of supply generally are larger and more sophisticated than the suppliers using them. These platforms often view themselves as technology companies that should not be subject to regulatory constraints applicable to entities actually supplying the goods or services.

On one hand, some have suggested that the failure to apply existing regulatory obligations and oversight to new suppliers may pose risks to consumers and third parties similar to those posed by existing suppliers. For example, a driver hailed through platforms via smartphone could pose a risk to riders and the public if he or she did not undergo a background check, carry insurance, and pass vehicle and driving standards. The absence of prescribed fare structures might lead to deceptive pricing practices. Similarly, public accommodation obligations might be undermined if duties such as nondiscrimination obligations and service to individuals with disabilities are not imposed. Similar concerns can arise if state and local licensing requirements are not met by sharing economy suppliers. Moreover, providers of goods and services in regulated sectors of the economy argue that failure to apply regulations to sharing economy suppliers creates an unfair competitive advantage for sharing economy suppliers, tilting the competitive playing field.

On the other hand, some proponents of sharing platforms have argued that there is a mismatch between existing regulation and new platform suppliers. Regulations, they explain, should be tailored to account for these differences and to avoid undue restrictions on new entry and competition. For example, some regulations written to apply to large commercial entities such as hotels may not be needed for individuals occasionally renting their homes, and imposing them could pose an effective bar to such activity. Others argue that some state and local regulations may be the product of regulatory capture or be outmoded and that the best solution would be to reform these regulations for all sources of supply, not just for those using platforms. They also argue that features of the platform, such as assurances provided by trust mechanisms or fare notifications, may better meet the concerns addressed by existing regulation.

Regulators are considering how best to balance competition and regulatory objectives in applying existing regulation to new sources of supply enabled by sharing economy platforms. The workshop will consider how to identify which regulations are necessary to protect consumers and how to avoid regulations that may unnecessarily chill innovation, entry, and competition without fulfilling legitimate purposes such as health, safety, or consumer protection goals. It also will consider whether, and the extent to which, applying existing regulations to sharing economy suppliers could result in regulatory mismatch. It also may examine how platforms might collect data useful to regulators in carrying out their legitimate objectives while adequately protecting the privacy interests of participants.

Further, the workshop will examine whether, and the extent to which, platform trust mechanisms support the achievement of longstanding consumer protection goals. At the same time, the workshop will address how the operation of sharing economy platforms also can raise a variety of additional consumer protection concerns for participants using the platforms. For example, the platform may collect, retain, and share information about its participants, including location data, which may raise privacy questions.

The Commission invites public comment on questions relevant to this topic, including:

- How have sharing economy platforms affected competition, existing suppliers, innovation, and consumer choice in sectors in which they operate? How might they do so in the future?
- How can state and local regulators meet legitimate regulatory goals (such as protecting consumers, public health and safety) while also promoting competition and innovation?
- What particular concerns or issues for protecting platform participants are raised in the context of sharing economy transactions?
- What responsibility does a sharing economy platform bear for consumer injury arising from transactions undertaken through the platform? How might the terms of service, consumer expectations, and relative lack of sophistication of sharing economy suppliers affect the assignment of responsibility among the various platform participants?
- What representations are being made to consumers—including in advertising and marketing, privacy and data security, and claims about income opportunities and costs—and who is responsible for ensuring those claims are truthful, non-misleading and substantiated?

- To what extent should sharing economy platforms be able to monitor participants, *e.g.*, by collecting locational data? If they do monitor participants, how can they do so while adequately protecting the privacy of participants?
- How should antitrust analyze whether sharing platforms compete in the same market as other platforms? Similarly, how should antitrust analyze whether suppliers of a particular good or service using one platform compete with suppliers using other platforms, with traditional sources of supply, with both or with neither?
- In what situations are certain types of sharing economy platforms more or less likely to achieve dominance due to network effects? How might the evolution of these platforms affect competition, consumer protection, and regulatory policy?

How To Submit Comments

The Commission invites interested parties to submit written comments electronically or in paper form. Comments filed in paper form should be mailed or delivered to the following address: Federal Trade Commission, Office of the Secretary, Room H-113 (Annex X), 600 Pennsylvania Avenue NW, Washington, DC 20580; 202-326-2084. Comments in electronic form should be submitted by using [this weblink](#) and following the instructions on the web-based form.

As explained above, comments received by May 26, 2015 may be considered in preparation for the workshop. The final deadline for comments is August 4, 2015.