Peer-to-Peer Business Model: Navigating between Social and Economic Pressures

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***Abstract*—Peer-to-peer business models enable exchange of goods, services and financial resources between individuals through a platform managed by an third party, an intermediary. This paper explores cases of peer-to-peer business models in finance and hospitality industry. The paper suggests that peer-to-peer business models were accelerated through development of information and communication technology, maintain characteristics of hybrid business models with combination of social and for-profit business aspect, and are attributed to the new economy that facilitates sharing culture. There are several common characteristics that peer-to-peer models sustain. These characteristics can be concised under acronym SHARE, where S stays for Social sharing, H – for Harmony with values, A – for Amazing experience, R – for Revolutionary concept, and E – for Enabling consumer.**

***Index Terms*—Business model, peer-to-peer, hospitality industry, finance industry.**

I. Introduction

Scholars and practitioners alike have become increasingly interested in the topic of business models in recent years [1], [2]. Researchers have studied business models in e-business [3], strategy [4]-[6], innovation and technology management [7] and entrepreneurship [8] among others.

Despite the growing amount of research on business models, it is surprising to see that several crucial topics remained underexplored. One of the uncovered themes refers to the antecedents, formation processes and operation logics of novel business models that emerged during the last decade. These business models are called peer-to-peer business models. Peer-to-peer business models facilitate exchange of resources, goods and services between persons. The exchange usually takes place on a platform managed by an intermediary. Peer-to-peer business models represent entrepreneurs' realized attempt to leverage on the recent development of technological platforms, the increasing transparency and ease of information flows between consumers, the relative effortlessness of information exchange, and the growing segment of so-called sharing economy. One of the most interesting attributes of peer-to-peer business models is their potential to leverage the tension between social and profit-oriented logics of an enterprise. These new business models bring potential for Schumpeterian creative destruction that can reshape the landscape of traditional industries while strengthening the entrepreneurial and community spirit [9].

Given the growing importance of peer-to-peer business models, it is surprising to observe the lack of research on peer-to-peer models. On the other hand, it is also understandable, because peer-to-peer business model is a relatively new phenomenon. Reports on peer-to-peer business models have appeared in business press, but only little academic research exists on the topic. Despite its newness the topic of peer-to-peer business models warrants theoretical and empirical investigation. This paper aims to close the gap and attempts to explore mechanisms of peer-to-peer business models functioning; logics of their existence, and their potential to successfully navigate between social and economic pressures that contemporary enterprises are exposed to.

The paper is structured as follows. First, an overview of the methodology and data that has been collected so far in order to analyze the peer-to-peer business models is provided. Then, a short description of each case in hospitality and finance industry is presented. Based on the case descriptions, propositions explicating antecedents, mechanisms and logic of peer-to-peer business models are developed. The paper is concluded with implications and suggestions for future research.

II. Previous Research

Any venture employs a business model that in its core performs two crucial functions: value creation and value capture [10]. Business model outlines the set of activities that create a new product or service in a matter that value is produced for the parties involved. A business model also captures value resulting from the activities to be able to sustain the activities, develop further and maintain competitive advantage over time.

The functions of business model can be described as the following [10]. Firstly, business model depicts the value proposition, i.e. the value created for customers by the firm service or product. Then, business model positions the firm in the market segment, i.e. identifies the customers who would make use of the firm's product or service. Thirdly, business model outlines the value chain needed by the firm to create and distribute products or services. Also, business model depicts the mechanisms of revenue generation, cost structure and potential profits. Finally, business model is utilized to formulate strategy that would enable the firm to create and maintain long-lasting sustainable advantage in the competitive landscape.

Business model is a useful concept that can be utilized by the company owners, managers, researchers and consultants.

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However, the definition by [10] is not complete. Other authors [8] identified major themes with matching characteristic definitions existent in business model literature (Table I).

TABLE I: FOCAL SUMMARY OF BUSINESS MODEL LITERATURE (ADOPTED FROM [8])

Theme	Sample Publications	Summary
Design	[11], [12]	Agent-driven or emergent configuration of firm characteristics.
RBV (resource-based view)	[13], [14]	Organizational structure co-determinant and coevolving with firm's asset stock or core activity set.
Narrative	[15]	Subjective, descriptive, emergent story or logic of key drivers of organizational outcomes.
Innovation	[7]	Processual configuration linked to evolution or application of firm technology.
Transactive	[5], [6]	Configuration of boundary-spanning transactions.
Opportunity	[16], [17], [18]	Enactment and implementation tied to an opportunity landscape.

The novel peer-to-peer business models may be ascribed into the category of the so-called sustainable business models [19]. A sustainable business model creates, delivers and captures value that benefits the company and its stakeholders in accordance with the environment and society. Sustainable business models can be divided into several categories, such as maximizing of material productivity and energy efficiency, creating of value from waste, substituting with renewables and natural processes, delivering of functionality rather than ownership, adopting a stewardship role, encouraging sufficiency, re-purposing the business for society, and developing scale-up solutions [20]. These sustainable business model archetypes are not mutually exclusive and more often the combination of different elements is utilized.

III. DATA AND METHOD

The study focused on the phenomenon of peer-to-peer business models in finance and hospitality industry. The choice of the industries was not accidental. Both finance and hospitality industries are dominated by business logics of traditional players, where entrants generally follow the business model of the incumbents. Therefore the emergence of new business models especially in these industries seemed as a promising avenue for research.

The empirical material of this study is based mainly on secondary sources, such as articles from print media and online sources, as well as media interviews and company documents in English, German, or Finnish. Further, the preliminary findings were triangulated via interviews with several company affiliates and users of company services in several European countries. The data has been collected during June 2013-December 2013.

As typical in qualitative research, data analysis consisted of multiple iterative and overlapping phases [21]. In the first phase, media reports and articles on peer-to-peer business models in hospitality and finance industry were collected. Then open coding of the articles was carried out to identify important dynamics relating to business model development. This helped to identify themes that would then be coded more systematically in phase two.

Then, tables to code the nature of peer-to-peer business models were used. The following elements of the business model were identified: logic of business model, required capabilities and resources, risks, and developmental pattern.

Furthermore, the elements that unify peer-to-peer business model across focal industries were identified. For each of the companies, their history, plans, activities, collaboration with other companies, customer value proposition, and concrete results were mapped. Five elements that were similar across the companies that utilized peer-to-peer business models were recognized.

In the final stage of the analysis, the conceptual reasoning was applied to understand why and how peer-to-peer business models emerge and what potential they have in navigating between social and economic pressures that contemporary enterprises are exposed to.

IV. FINDINGS

A. Case Descriptions

Case of peer-to-peer business model in finance industry. Peer-to-peer business models in finance industry have emerged as a response to the global financial crisis that started in 2007, and lack of credit lending to businesses and consumers from traditional institutions of banking sector. Under a concept of peer-to-peer lending, savers have a possibility to make loans to other individuals and small businesses, rather than keeping their money in a bank or at home. Individuals or small businesses, on the other hand, get access to the capital they otherwise wouldn't be able to attain, due to credit restrictions of the financial sector.

The benefits for the lenders include low transaction costs, attractive returns that can be chosen according to lender's own risk profile, and a possibility to lend to actual businesses, instead of diluting financial assets in e.g. a hedge fund. Yet another type of peer-to-peer business model in finance that progresses towards peer-to-business model, enables equity investment for the lender. Thus, lender becomes a co-owner of a business she would like to support.

Especially in the current financial climate entrepreneurs might find it challenging to obtain credit from traditional lending institutions, such as banks. In some instances, small business owners might lack a track record in their new industry, or past credit problems might hinder their ability to get loans. Typically owners of small businesses or start-ups turn to borrowing money from family and friends in their social circle. Peer-to-peer business models build upon this social circle approach. Like social media sites, individual borrowers and lenders set up profiles to communicate with each other on the site. Potential lenders browse site listings of each borrower's purpose for seeking a loan and review interest rates for the proposed loan amounts, as well as referrals and reviews by other lenders.

Peer-to-peer lending websites include for example companies from UK and US, such as Zopa, Yes-Secure, Funding Circle, RateSetter, Lending Club and ThinCats. Their aim has been to undercut regular banks both on funding costs and operating expenses. Large financial institutions no longer have a natural advantage in lower funding costs.

Case of peer-to-peer business model in hospitality industry. Peer-to-peer business models have emerged also in hospitality industry as a viable alternative to traditional options such as hotels, hostels and bed & breakfast accommodations. One of the most successful examples of peer-to-peer business model is company called Airbnb. Airbnb is a privately held company headquartered in California. It was founded in 2008. The company business model offers an online service that provides a platform for individuals referred to as "hosts", generally private parties, to rent living space and other short-term accommodation to guests. As of December 2012, the company had over 250.000 listings, including rooms, apartments, castles, boats, tree houses, private islands and other interesting properties, in 30.000 cities and 192 countries.

Airbnb value proposition states that it connects people to unique travel experiences. Users of the peer-to-peer site must register and create a personal online profile before using the service. Hosts' profile includes the list of properties, reviews by previous guests and response rating. Airbnb itself does not own any properties, as these are associated with a host on a sharing economy platform.

Airbnb constantly develops its business model. It maintains that both hosts and guests who join the community of Airbnb users are enabled towards more variety in their quality of life. For example, Airbnb has introduced a new initiative, the Public Policy Blog as a place for updates on important debates and discussions and policy initiatives around the world, as well as for sharing of local knowledge, advice, and suggestions.

Airbnb standardizes the norms of hospitality for both hosts and guests whereby explicit norms of hospitality are provided by the platform. Price is recommended by platform owners, but set by the host. The work processes are standardized in a manner that adherence to certain work rules effects the overall rating of the user (e.g. requirement to answer booking requests within 24 hours). The user profiles contain reviews, ratings and recommendations that are part of the online reputation system on the platform. Private messaging system exists on the platform to facilitate the information exchange between a host and a guest before booking and accepting a reservation and during the reservation period. The online payments are facilitated through the platform's payments system whereby a transaction fee is withheld by the platform.

B. Implications

With the development of peer-to-peer business models, the question arises what will be the future of peer-to-per business models. The concept of sharing and giving back to community through peer-to-peer models was developed in individualistic societies of the West, although at the same time the concept is based on logic of profit generation. Thus, peer-to-peer business models can be described as so-called hybrid business models those that combine different institutional logics in a novel, unprecedented way [22]. Yet another feature of hybrid business models is that they enable combination of for-profit and for-community (for-common good) motives. Indeed, each of the described cases had a social component, but also a profit-making logic behind it.

Perhaps, these business models represent the pattern of our time, where public-private dichotomy gives way to a third dimension: community. Will the concept work in traditionally more community-based societies? For example, South African concept of Ubuntu (creating through community) was utilized in the same-named company that created an alternative to Windows and Mac Operating system, based on Linux that was created as open source coding software.

Peer-to-peer business models have a potential to contribute to the better world, the world were people give back to the community and contribute to common good, share experiences and create joint memories.

Based on the case descriptions and extensive data analyses, the following propositions regarding the nature of peer-to-peer business models can be put forward.

Proposition 1. Peer-to-peer business models were enabled through advent of technology and rise in global connectivity during the last decade.

Proposition 2. Peer-to-peer business models maintain characteristics of hybrid business models whereby they combine social aspect and for-profit business logic in an organic way.

Proposition 3. Peer-to-peer business models are attributes of the new economy of sharing facilitated through the rise of social media (including review systems) that shifts power to the hands of consumer and thus creates a possibility for disruption of traditional industry logics.

There are several common characteristics that peer-to-peer models maintain. These characteristics can be summarized under acronym SHARE, where S stays for Social sharing, H – for Harmony with values, A – for Amazing experience, R- for Revolutionary concept, and E – for Enabling consumer/user. These characteristics have preliminary nature, and call for further investigation.

V. Implications and Conclusions

The peer-to-peer business models have risen in prominence in the past decade. Their development is associated with the accelerated speed of technological advancement, break-through innovations disrupting the existing industries, and cultural shift of consumer/user perceptions towards more sustainable ways of producing and consuming.

While many unanswered questions regarding the development of peer-to-peer business models remain, these novel business models all seem to share certain attributes, such as social sharing, adherence to an implicit or explicit value system, an inclination to provide unique and local experience, a disruptive element that revolutionizes the existing industry, and power shift towards consumer/user.

The peer-to-peer business models, being a specific type of sustainable business models, have uncovered potential to deliver positive social, economic and environmental impact for the stakeholders and society at large. As such, the sharing economy business models highlight a number of important organizational, societal, and management issues in novel contexts. Sharing economy business models and ecosystems exemplify new practices of organizing. The new business models for organizations will less likely be based on centralization, hierarchy, supervision, control and rigid employment forms, and more on decentralized networks of independent contractors and entrepreneurs with performance management systems organized by information and communication technology.

As any research, this study has limitations. First of all, the study has mainly utilized secondary data sources, such as articles from print media and online resources. Further studies on peer-to-peer business models could conduct surveys and in-depth interviews in order to better understand phenomenon in question. Secondly, this is a conceptual study. It outlined the principles and characteristics of the peer-to-peer business models. Future studies could apply the above-mentioned propositions to in the empirical setting of a developed and developing countries in order to understand whether the propositions hold true in different geographical, economic and cultural settings. Thirdly, this study has not focused on the critic of the peer-to-peer business models, as outlined by previous studies [23], [24]. Forthcoming studies could investigate in detail the shortcomings of peer-to-peer business models and delineate the possible solutions. Fourthly, the study only investigated peer-to-peer business models in two empirical settings: finance industry and hospitality industry. Potential studies could focus on other industries where the effect of peer-to-peer business models is mostly visible, such as mobility [25] among others.

Finally, future studies could investigate in detail how different attributes of peer-to-peer business models - social sharing, adherence to an implicit or explicit value system, an inclination to provide unique experience, presence of a disruptive element that revolutionizes the existing industry, and power shift towards consumer/user - manifest in different institutional settings.

For researchers, managers and entrepreneurs it is important to understand the functioning of peer-to-peer business models. While researchers may develop theoretical foundations of business model innovation, managers and entrepreneurs may learn to adapt the existing business models to the contemporary demands presented by their respective industries and consumers, whereby leveraging the tension between social and profit-oriented model of an enterprise.

Conflict of Interest

The author declares no conflict of interest.

Author Contributions

The author has solely contributed to this paper and approved the final version.

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