Shared Consumption (SharCo)

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Conclusion
Introduction

The aim of this business plan is to find a creative and innovative solution to three global pressing problems, hyper-consumption, lack of community spirit and weak social bonds and environmental degradation.

The first issue, hyper-consumption, relates to the current unsustainable consumption levels. We keep buying things that we do not necessarily need and at faster consumption rates than before. Hyper-consumption can also be identified as a symptom in the sense that it reflects the increasing obsession for personal appearance and ownership.

The second issue, lack of community spirit and weak social bonds, relates to high virtual interconnectivity between people combined with the loss of physical social contacts. One can observe that people are much more connected and open to sharing and collaborating, but at the same time are more isolated from each other. This impairment of social bonds, a global trend brought by the post-modern lifestyle, is characterized by increasingly distrust, egocentric and materialistic values. As a result, people build more and more their own forts in order to feel protected and confident against the uncertainties and other types of conflicts outside.

The third issue, environmental degradation, is focused specifically to natural resources and waste disposal, which have been affected by the current unsustainable consumption and production levels.

In order to solve these problems, we will create a social enterprise that aims to raise awareness about the negative consequences of hyper-consumption and encourages individuals to become more conscious and smarter consumers through the creation of a physical and online network where individuals can participate and interact with each other to share goods, skills and knowledge. The name of our social enterprise is “Shared Consumption (SharCo)”. As SharCo, we envision a world where production and consumption systems are sustainable and communities, the driving actors of the economy, value more access to benefits than individual ownership.

In the following chapters, the global pressing problems, the current situation of the new sharing economy, the creation of the social enterprise, including operational structure, marketing and communication plan, team members selection, financial projections, social impacts and future success are explained in detail.
1. The Problem

This chapter will be divided in two sections. The first section explains the three main problems that motivated the creation of the social enterprise, Shared Consumption (SharCo). The second section explains why and how we got to these situations and what are the main causes from an economic point of view. Through economic literature, we will understand how consumption became so important nowadays and how we could combine solution to the problem we identified and economic growth.

1.1. The identified problems

The three global pressing problems that motivated the creation of SharCo are the following:

1.1.1. Hyper-consumption

Limits of consumption have been reached. Society cannot continue consuming at the current consumption rates, and hence producing, polluting and impoverishing millions of people. A new sustainable consumption model exists today (i.e., collaborative consumption). It is compulsory to raise awareness about this new movement because it offers a solution to hyper-consumption. In the following section, hyper-consumption’s definition, its origins and causes are presented.

The first term for hyper-consumption appeared in 1899 with Thorstein Veblen, a Norwegian economist and sociologist as “conspicuous consumption”. This term characterized the emerging class of the 19th called “nouveau riche” who was eager to display their wealth and social power. They buy and consume goods more for self-advertisement than for utility. Excessive mass consumption appeared in the 1920s and exploded later in the 1950s. Hyper-consumerism or hyper-consumption is the phenomenon of buying always more and in bigger quantities.¹

Consumption is not a problem in itself. The problem arises when we end up buying a majority of stuff for convenience instead of necessity. Today, people define themselves through ownership and “they have to have”.

According to Rachel Botsman and Roo Rogers², four big forces have played a critical role in manipulating and feeding hyper-consumption, as follows:

- **Power of Persuasion**: Persuasion is a social influence leading someone to act, think or behave in a certain way. Advertisement and marketing have used psychology techniques

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² Idem
and images to influence people’s perception and wants making them believe that they need what they do not need. For example, social habits and norms have been changed for the sake of the cigarette industry by linking smoking women to the idea of freedom.

Media has also helped spread marketing campaigns around the world using images that work on perception and wants. The consumer revolution began after World War II when millions of superfluous gadgets (e.g., toaster, batter, washing machine, etc.) entered our lives, which later take more time to store than we actually use them.

Another factor that influenced in the increase of consumption is the Diderot Effect. This effect helps explain how people’s possessions define their sociological status. For example, when someone buys a new lamp and think that they need to change their furniture, curtains, carpet, etc., to match the new element. At the end of the day, replacing a lamp because it broke makes people throw away the rest of their living room and turns them into slaves of the new. Ralph Lauren understood this very well. They sell a variety of products that match each other (e.g., sunglasses, wallpaper, sheets, slippers and clothes).

- **Buy Now, Pay Later:** Some people cannot imagine life without a credit card anymore. Credit cards are used for everything. They transformed the unaffordable to affordable and made people spend money they did not have. Between 1989 and 2007, credit card debt nearly quadrupled in the U.S., soaring from $238 billion to $937 billion. Nowadays, an American has on average four credit cards. In Europe this phenomenon is much smaller, there is only 0.23 credit cards per person. However, even in Europe, where people do not live as much on credit as in the U.S., credit cards are needed. Just think of online shopping and the pay method must use while travelling. Since credit cards are easy to use and addictive, consumers can get caught in unhealthy spending habits. According to Rachel Botsman and Roo Rogers, there are three common unhealthy habits as follows: accelerated spending, mindless spending and the latest and greatest spending.

The accelerated spending means that people need to have the things they want “right away”. For example, people do not want to wait for the next payday to buy something. Additionally, the average human brain does not realize the exponential interest that is incurred with credit card debt. The mindless spending refers to impulsive expenditures made on resources or services that people do not need. The latest and greatest spending

2 Botsman, Rachel and Rogers, Roo, “What’s Mine is Yours: The Rise of Collaborative Consumption”, 2010
3 Idem

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http://www.eoi.es
refers to people who have the need to buy newest and latest version of something, even though their actual version works perfectly.

- **Life Cycles:** In 1929, Charles Kettering wrote, “The key to economic prosperity is organized creation of dissatisfaction... If everyone were satisfied no one would want to buy the new thing.” The concept of planned obsolescence was born and introduced not only in products but also in people’s minds. Companies changed their focus from production to demand and tried to work on this aspect to sell more and faster.

Planned obsolescence refers to intentionally reducing products life cycles from their conception to increase consumption and hence, profits. Companies develop, design and produce products that will break after a much shorter period of time than they would have if they had been produced with the actual technological and knowledge capacity available. Durable goods including refrigerators, toasters, and washing machines have a shorter life span than fifty years ago. This goes into the opposite direction of developments in the field of science, technology, materials, etc.

- **Just One More Factor:** People want “right away”, faster, better, newer and more. People want choice. Therefore, they own many similar goods in order to enjoy having choice. For example, people have several TVs, computers, radios, fridges, etc. The “Just One More Factor” implies that people sometimes consider buying a durable goods as they would consider buying a cheap and non-durable good. In the UK and the U.S., there are more televisions than people in the average home.

As a conclusion, hyper-consumption has led people to buy more and more things and look for material wealth at the expense of their basic social needs. Hyper-consumption makes people accumulate goods thinking it will lead to happiness. This system is changing and people around the world are realizing that. People are not able to link material wealth with happiness anymore and are looking for a more meaningful goal in life. This project aims at having an impact on hyper-consumerism and transform current consumption and production systems into more sustainable and fulfilling ones.

### 1.1.2. Community spirit and social bonds

The second issue refers to high virtual interconnectivity between people combined with the loss of physical social contacts. One can observe that people are much more connected and open to sharing and collaborating than before, but the same time are more isolated from each other. As it was explained in the previous section, hyper-consumption drives people to own more material

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6 Kettering, Charles, “Keep the Consumer Dissatisfied”, Nation’s Business 17, no. 1 (January 1929): 30-31, 79
wealth and makes them forget about their basic social needs. Family, community bonds, personal passions and social responsibility have been left out. Hyper-consumption can be referred as a symptom to the lack of community spirit and weak social bonds because it encourages the increase obsession for personal appearance and ownership. Today, people realize that this issue has many important impacts and contributes to other societal problems. In this section, the current situation on community spirit and social bonds is presented.

The global trend brought by the post-modern lifestyle is characterized by individuals being increasingly time bound and stressed due to overworking and distrust. They are fearful about their peers and surrounded by egocentric and materialistic values. As a result, people are building their own forts to feel protected and confident against uncertainties and conflicts in the outside world. Another important aspect that supports this individualistic paradigm is competitiveness. The last generations have been pushed since kindergarten to be the better, faster, smarter and ultimately, winners.

The Mental Health Foundation, a British mental health charity, has just published a report called “The Lonely Society”. It shows that the impact of modern life is making people feel increasingly lonely. The numbers reveal that one in 10 people in the UK often feel lonely. The report highlights that loneliness can strongly impact people’s physical health, identifies the decline of community and a growing focus on work as the most significant of the root causes. Also, according to The Lonely Society Report, “nearly 60% of those aged between 18 to 34 questioned spoke of feeling lonely often or sometimes, compared to 35% of those aged over 55”.

Sarah Brennan, head of the charity at YoungMinds, an NGO committed with mental health and emotional well being of all children and young people, emphasizes the importance of physical presence in relationships in. Brenna said, “the young people we work with tell us that talking to hundreds of people on social networks is not like having a real relationship and when they are using these sites they are often alone in their bedrooms”. She also points out the relevance of tackling loneliness as a big problem of this era, and attributes it to the fact that “in the last few years communities have broken down and become atomized.”

Aligned with this, a year ago, BBC published an analysis about Social Media and loneliness, in which it is suggested that “new technology meanwhile may be both a boon and a burden”, on one

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9 YoungMinds http://www.youngminds.org.uk/
10 Idem
hand “it has enabled people to make connections they might not otherwise have made, and virtual friendships can evolve into real-life relationships”, but on the other hand “there are also concerns that technology is being used as a replacement for genuine human interaction”. Finally, the news report adds: “Whether this has any genuine biological impact is unclear, but it has been suggested that physical presence is needed for the hormone oxytocin to be released - believed to be the chemical process underpinning the relationship between social contact and healthy hearts.”

As a conclusion, community spirit and social bonds are needed. Social bonds and community have a central role in people's lives. With this project, we would like to reduce this problem and offer a solution to the “interconnected loneliness” characteristic of the 21st century.

1.1.3. Environmental Degradation

The third issue is the consequence of unsustainable development with regards to natural resources depletion and the enormous amount of waste generated by human beings. One of the root causes for these environmental problems is hyper-consumption. People buy too many things they don't need and often don't really want. In the following section, the effects of hyper-consumption on natural resources depletion and waste generation are explained.

1.1.3.1. Depletion of natural resources

Natural resources depletion, its definition and other topics such as, biodiversity, ecological footprint and sustainable management, are explained.

Natural resources are raw materials and sources of energy essentials for survival and satisfying needs. They can be classified in categories such as, biotic or abiotic, renewable or non-renewable, exhaustible or inexhaustible, actual or potential. Today, one can observe unsustainable extractive industries of minerals, oil and natural gas. Not only extractive industries are concerned. Many other organizations make serious and irreversible damage to the environment. According to an Indian proverb, “Earth does not come from our parents; it is our children that lend it to us”. Irreversibly damaging the environment is not a right they can exert. The ultimate goal of this project is to be able to influence unsustainable productive industries in the direction of responsible management systems. Too often, companies, industries or countries use the precautionary principle (“when an activity raises threats of harm to human health or the environment, precautionary measures should be taken even if some cause and effect relationships are not fully established scientifically. In this context the proponent of an activity,
rather than the public, should bear the burden of proof“)\(^3\) as an excuse to produce unsustainably. This behavior is unacceptable.

Environment and natural resource management is important for sustainable development. Biodiversity is the sum of genes, species and ecosystems of a region. This diversity is of vital importance to people, because it underpins a wide range of ecosystem services on which human societies have always depended, although their importance has often been greatly undervalued or ignored.\(^4\) Biodiversity is of great importance because when it decreases the ecosystem will lose resilience and thereby less able to provide the services that depend on it. External pressures such as diseases and climatic extremes will have a greater impact.

Biodiversity also plays different roles in ecosystem services, such as provisioning services and goods, cultural services, regulating services and supporting services. In order to ensure sustainable extraction, biodiversity has to be measured in monetary terms, which is rarely done in conventional markets. It contributes to wider needs and desires of society and in this way it is possible to determine the value according to for example the willingness of people to pay.

Population growth, high consumption and resource inefficiency are the three contributing factors of biodiversity loss. Especially, the main causes of the biodiversity loss are the following:

- **Habitat loss, alteration and fragmentation**: conversion of land for agriculture, aquaculture, industrial or urban, dams or other changes to river systems.

- **Over-exploitation of wild species population**: Harvesting of animals and plants for food, materials or medicine at a rate above the reproductive capacity of the population.

- **Pollution**: Mainly from excessive pesticide use in agriculture and aquaculture; urban and industrial effluents; mining waste; and excessive fertilizer use in agriculture.

- **Climate change**: Due to rising levels of greenhouse gases in the atmosphere, caused mainly by the burning of fossil fuels, forest clearing and industrial processes.

- **Invasive species**: Introduced deliberately or inadvertently to one part of the world from another. They then become competitors, predators or parasites of native species.

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\(^3\)http://www.sehn.org/precaution.html

\(^4\)Romero, Felix, Environment and Natural Resources Management, IMSD, 2010-2011
According to the WWF’s Living Planet Index, which measures the health of forests, oceans, freshwater, and other natural systems, there has been decline of almost 30% in Earth’s ecological health between 1970 and 2007.\textsuperscript{15}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Living_Planet_Index}
\caption{Global Living Planet Index}
\end{figure}

In addition, the global ecological footprint, which tracks humanity’s competing demands on the biosphere by comparing human demand against the regenerative capacity (bio-capacity) of the planet, has more than doubled between 1961 and 2007.\textsuperscript{16} In 2007 (the most recent data available), the ecological footprint exceeded the world’s bio-capacity and there was an “ecological overshoot” of 1,5 years.\textsuperscript{17}

\textsuperscript{15}WWF, “Living Planet Report”, 2010
\textsuperscript{16}idem
\textsuperscript{17}idem
The ecological footprint should be lower than Earth’s bio-capacity to allow the ecosystem to regenerate. As you can see in the picture below, the ecological footprint has been higher than earth’s bio-capacity since early 1970s. From then, we are increasingly depleting the natural resources of the planet.

All these issues are linked with sustainable management criteria. One of the main sustainable management criteria is to maintain people’s contribution to the global carbon cycles. This means that the management of an organization has to verify they are able to absorb at least as much carbon as they emit. Another important sustainable management criterion is to maintain the
productive capacity of the ecosystem used. Producing organizations must be able to continue producing on the long-term and protect the ecosystem at the same time. Today, many management systems do not enough include sustainable criteria. This leads to strong environmental damage with irreversible impacts on all forms of life that depend on it, including humans. This is possibly happening for the sake of hyper-consumption and hence the belief more wealth and ownerships equals well being and happiness. Yet, hyper-consumption is the opposite of wellbeing and happiness. It brings about diseases, environmental and natural disasters and social drama.

As a conclusion, the consequences of hyper-consumption, especially natural resources depletion, have a very big negative impact on the environment and in return the environment impacts humans. The stress on natural capital of the world and the impacts on ecosystems such as, forests, reefs and fisheries are producing major changes in costs and supply of materials for all businesses. The limits of the planet and the effects population will suffer have been recognized. Yet, people do not take the necessary actions to allocate resources responsibly and sustainably. The projects aims to increase awareness regarding hyper-consumption and consequently influence current production and consumption models to become more sustainable. Thus, guaranteeing growth without depletion of resources.

1.1.3.2. Waste generation and disposal

Waste disposal induces building bigger mountains of toxic garbage. The United States alone annually produces 1,4 billion tons of waste, the majority of which winds up in landfills. The Great Pacific Garbage Patch, also known as the Garbage Island, is a floating gyre of litter situated in the North Pacific Ocean, composed from 80% of plastics, corresponding to an estimated six kilos of plastic for every kilo of natural plankton. It’s size is estimated to be as twice as big as the size of Texas. Plastic is non-biodegradable and has been around for 144 years. Apart from a very small amount, which have been incinerated, every piece of plastic ever made, still exists. No wonder we have such disasters given that we consume huge quantities of plastics everyday all over the world. Plus, the effect on wildlife and the marine ecosystem is critical. Marine birds and animals end up stuck in it or with those plastics in their stomachs as you can see in the picture hereunder.

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No country with a seat on the United Nations has claimed any responsibility for the patch, and therefore has not taken action to clean it up. Worse, this Garbage Island is one of the five massive garbage “islands” that all together cover 40% of the Earth’s oceans. There is an urgent need for reducing, reusing and recycling our waste. By doing that, we could reduce our impact by 50% or more.

In Spain, like other European countries, waste generation has increased in parallel with economic growth. In 2006, Greenpeace published a report about Spain’s waste generation and it showed that urban solid residues increased by 40% between 1996 and 2003.

Greenpeace’s initiative, joined with other similar advocating pressures, helped to create awareness about the issues both in government, economic and social levels. Consequently, several strategies and actions to tackle this problem were undertaken in recent years: waste treatment infrastructure has increased, a solid business sector specializing in waste management has emerged, re-use was encouraged, and separate collection of differentiated waste was implemented. New legislation was also created.

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22 The Great Pacific Garbage Patch Treaty, online at http://gpgpt.org/about.html
All these efforts have been improving the waste disposal conditions and incrementing the production of recycle material. However, according to European Environment Agency\textsuperscript{24}, the total amount of waste generation is still increasing, and has reached 24 million tons in 2008.

The conclusion we can draw from this is that perhaps society, business and authorities, are letting apart one important driver of the problem, which is the unsustainable production-consumption cycle. This notion gets very clear in the book “\textit{What’s mine is yours}\textsuperscript{25}”; according to the authors, Rachel Botsman and Roo Rogers, “\textit{As much as we recycle our paper, bottles and plastic, the biggest way to help prevent waste is to buy less new stuff and reuse and redistribute more of what we already have}.”

Paul Hawken\textsuperscript{26}, an important environmental activist of our decade, estimates that for every 45,5 kg of product made, 1.454,5 kg of waste are produced, which means a 32-to-1 ratio. Consequently, when a 45,5 kg table is reused, it means not only 45.5 kg out of landfills, but also 1.454,5 kg of raw material that would be wasted to make a brand new one.

No matter how disposal infrastructure is developed or how recycling system is efficient, natural resources remaining in the Earth are no longer sufficient to sustain our growth standards. Besides, current and future generations will have to battle against climate change challenges. The present production system and economic growth have to be reshaped in other to reduce greenhouse gas (GHG) emissions and mitigate possible climate change cost on Earth.

According to European Environment Agency’s (refer to graph below)\textsuperscript{27}, over 55% of GHG emissions in the European Union, such as manufacturing, energy industries, industrial processes, international maritime transport and waste are directly or indirectly related with production and consumption. Therefore, long-term strategies focused on the reduction of production and consumption volumes have strong and efficient impacts on the overall emissions reduction.

\textsuperscript{25}Botsman, Rachel and Rogers, Roo, “What’s Mine is Yours: The Rise of Collaborative Consumption”, 2010
\textsuperscript{26}Hawken, P. “\textit{Natural Capitalism}”, 1999
1.2. Economic Literature

In the following section, consumption will be explained using three economic theories (i.e., Keynes, Friedman and Modigliani) to demonstrate how consumption has evolved in people’s lives and which variables are considered when calculating consumption. Then, the relationship between consumption and utility, preferences and wellbeing will be explaining through economic theories on utility and Gross Domestic Product (GDP). Following this section, the effects of consumption on the economy, including growth models and the relationship between economic growth and employments, will be examined. To conclude, the macro-ecological theory is discussed.

1.2.1. Consumption

Consumption is a concept that varies a lot among academics, governments and individuals. According to Tim Miller\textsuperscript{28}, consumption is the total amount of goods or services that people wish to purchase for immediate consumption. In macroeconomics, consumption is the main component of aggregate demand (defined as the total expenditure in an economy). In microeconomics,

\textsuperscript{28} Miller, Tim, “Explaining Keynes’ theory of consumption and assessing its strength and weaknesses”, 1996
consumption is the main component of individuals’ well being, which is calculated using the utility function (a mathematical function of which consumption is the main variable). Therefore, in economic terms, consumption is the driver of happiness (wellbeing) for individuals and it contributes to the aggregate demand of a country.

By going deeper in economic literature, it will be explained how aggregate demand in equilibrium matches a country’s GDP and how “happiness” of individuals can be quantified through a mathematical function.

1.2.1.1. Keynes’ Theory

One of the most studied and used articles regarding consumption is the “General theory of employment, Interest and Money”29 from J. M. Keynes written in 1936. In this article, Keynes developed the idea of aggregate demand and an analysis of how consumption is determined. According to Keynes, consumption could be explained by the following formula “c = a + bY”, where c=consumption, a= autonomous expenditure, b= marginal propensity to consume and Y= income.

According to this formula, the only variable affecting consumption is the income available to an individual at a certain time (Y). A percentage of income is used in consumption; therefore, the individual will contribute to the aggregate demand. The percentage was defined as the marginal propensity to consume (MPC) and is a value ranging from 0 to 1(b in the formula). In his own words, Keynes said: “… men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not as much as the increase in their income”30. MPC does not exceed 1 because an individual cannot continually spend more than he earns. Another component of consumption is the autonomous expenditure (a), which is the level of consumption necessary for an individual to stay alive. It consists of spending on food, heat and shelter. In an open economy, the amount of income that the government retains in the form of taxes must be taken into account. Therefore, the formula is changed into “c = a + b (Y - t)”, where t represents the amount of taxes to be paid.

A key idea raised from this theory is that what is not paid-out, is saved. Below is a graph explaining the Keynes’ concepts.

29 Keynes, J.M, (1936): “ A general theory of employment, interest and money”
The 45° line represents where consumption is equal to income, a situation of constant zero savings. The red line expresses the level of consumption of an individual in relation with the income and is less steep than the 45° line, since the MPC represents the inclination (and is lower than 1). The intercept with the Y-axis represents the autonomous spending a.

Keynes then argued that the whole economy (being equal to the aggregation of all individuals’ consumption) would in average have a constant marginal propensity to consume. The implications of such a theory were to be found in how an economy would react to change in national income. Predicting how things would change can enable policy makers to best decide how to intervene in every situation.

In Economics, the role of a theory is to stimulate empirical research, the necessary tool to prove if a model or a theory represents the reality described. Following Keynes’ work, many scholars tried to identify if the actual data confirmed his theory. The results were on the same direction of Keynes’ theory, but it was noted that in the long run the autonomous spending was approaching 0. Therefore, the theory was more realistic in the short term. Many factors were taken into consideration, such as increase in wealth, interest rates and expectations. It was necessary to develop another model to take into consideration these findings. Many theories were consequently proposed in the following years. Two models gained interest and were generally accepted by economists. These were the “Permanent-income hypothesis” developed by Milton Friedman and the “Life-cycle hypothesis” by Franco Modigliani. The two theories share the same hypothesis, that the marginal propensity to consume should not be constant at all levels of income.

Source: Keith Silats, "Assess critically Keynes' proposition"31
1.2.1.2. Friedman’s view on consumption

The main idea in Friedman’s model\textsuperscript{32} was that individuals prefer to have a smooth path of consumption (i.e., they prefer to achieve the same level of consumption from week-to-week or month-to-month). Therefore, to avoid volatility they must get rid of variables that change over time such as income. How can individuals overcome the fluctuation of their income in order to maintain a constant level of consumption? They must look not at their current income, but at the long-term income prospects.

Friedman states that there are two kinds of income, a transitory and a permanent one. The permanent income varies only proportionally with a fluctuation of current income, while the temporary income fluctuates from period to period. As the periods taken into consideration become bigger, the transitory income converges to zero. Therefore, in the long run, the transitory income decreases importance and eventually becomes negligible. The consumption and income model will look Graph 6 below.

Graph 6. Friedman’s view

\[ c = \beta y \]


Where beta (\( \beta \)) is the MPC, which tends to one in this model. The combination of Keynesian (short term) and Friedman’s (long term) theory delivers a relation as the graph below.

\textsuperscript{32} Friedman, M (1957) A Theory of the Consumption Function, Princeton University Press
1.2.1.3. **Modigliani’s life cycle**

Slightly different is the approach developed by Modigliani in 1963. He suggests that permanent income is calculated over the life span of individuals. When beginning work, an individual will incur in debts that will be paid off as his wage increases over time, eventually having enough money to save for retirement. It should be noted how permanent income remains constant all over his life. If someone is born with an initial wealth his permanent income will be increased, decreasing net saving\(^{35}\).

In conclusion Keynesian model alone cannot explain how an individual decides to consume over his life.

Three different ways to express consumers’ behavior have been presented. Starting from a simple consumption function, in which consumption depends entirely on the level of current income, to more complex functions, which include more variables (e.g., wealth, future expected income, interest rate, etc.) and actual income is just a component.

Economists will keep arguing on which model best represents consumers’ choice, but this issue goes beyond the purpose of this brief economic introduction to consumption.

A micro economical application of consumption includes utility and consumers’ choice. In the following chapter, utility will be further discussed to explain in economical terms how it influences choices in consumers’ consumption.


1.2.2. Utility

An important question in Economics is how consumers decide what to consume and why. Decisions taken by individuals are reflected by the so-called concept of preference. Different goods yield a different effect to individuals. This issue is described by utility.

Early economists thought that utility was a physical property that can be measured and compared across consumers “utils” for utility, like degrees of temperature. This is an extreme form of cardinal utility, used to compare different goods and the benefits that they yield to individuals. Around 1900, the Marginalists believed that utility cannot be meaningfully compared across people, but that an individual could assign meaningful numbers to the utility of consuming the first orange, the second orange and so on.

Even for an individual, the happiness derived from consuming a particular good (e.g., cookies) depends on what other goods are being consumed (e.g., milk). Utility should be based on combinations of consumption goods, called consumption bundles. For simplicity, we usually assume two goods, x and y. Under ordinal utility, we can only give a rank ordering of different consumption bundles (which bundle is preferred).

In other words, consider a utility function that assigns a number to every possible consumption bundle. A bundle with a higher utility number is preferred over a bundle with a lower utility. Under ordinal utility, the magnitude of the utility numbers has no meaning, only the ranking. For example, individuals cannot say that one bundle gives them twice as much utility as another or by how much more a bundle is preferred. Since a consumer chooses the affordable bundle that is most preferred, only the ordinal properties of a utility function are important.

Utility and comparison between goods can be stated through the concept of preference. The following axioms will give us the possibility to introduce the concept of indifference curve, a way used to compare bundles to which consumers are indifferent. Bundles belonging to the same indifference curve yield the same utility when consumed.

According to John Hey\textsuperscript{36} six axioms must be stated in order to introduce the concept of indifference curves, as follows:

- Axiom 1: Preferences are complete: for every pair of bundles (A, B) either A is preferred to B, B preferred to A or it is indifferent between the two. This axiom states that a comparison between bundles will always be available.

\textsuperscript{36} Hey, Jhon, “ Economía intermedia”, Mc Graw Hill, 2004
• Axiom 2: Preferences are reflexive: a consumer will always be indifferent between A and A.

• Axiom 3: Preferences are transitive: if a consumer prefers A to B and B to C, then he will prefer A to C. This axiom avoids inconsistent behavior.

• Axiom 4: Preferences are continuous: If a consumer prefers A to B and C is sufficiently close to B then he will prefer A to C.

Axioms 1-4, allow preferences to be represented graphically by indifference curves, and by a utility function, u. An indifference curve yields the combination of goods that give the same utility to a consumer. In a two-goods economy substituting a good with the other (respecting the marginal rate of substitution) leaves the consumer “indifferent”.

Under two more axioms, consumer demand will be well downward sloping):

• Axiom 5: More is better. Starting with bundle A = (xA, yA), then increasing any of the goods in A yields a new bundle that is preferred to A. For any positive ε, u(xA + ε, yA) > u(xA, yA). This rules out the possibility of having as much consumption of some good as you would want.

This axiom states perfectly the idea underlying economic models. An increase in consumption yields a higher utility to a consumer; therefore, the well being of individuals depends on the level of consumption reached.

• Axiom 6: All indifference curves exhibit diminishing marginal rates of substitution. The interpretation of the marginal rate of substitution is the amount of good y that the consumer is willing to give up for 1 unit of good X, or the internal rate of trade between the two goods. Diminishing marginal rate of substitution occurs when the more X you have, the less Y you are willing to give up.

In conclusion, when individuals decide which goods they are willing to consume, they consider the “utility” they from them. Individuals then weight this utility to the utility they would derive from other goods (marginal rate of substitution). Meaning that a good has a value in term of other goods. An important factor is the diminishing marginal utility, which explains that the more people have of a good, the less utility they can derive from consuming an extra unit of it.

Some people disagree with the idea that satisfaction can only be defined by consumption. Other factors besides consumption must be considered when defining individuals’ level of wellbeing.
Economics focuses on consumption and income as the main driver of wellbeing. Even if it may appear as a limitation to some people, many economic models describe relations between income or consumption and happiness because higher incomes guarantee health and education systems, employment, and environment awareness. Instead of initiating a long-term debate on which is the main variable for determining wellbeing, Economics explains that the only way to disagree is to know what other theories say.

1.2.3. Wellbeing

The increase of income leads to an increase in consumption that consequently translates as an increase in utility according to the models stated so far. Therefore, the indicator most used for calculating wellbeing is the Gross National Product. However, GDP doesn’t incorporate all aspects of human life, like education achievement, life expectancy and environmental degradation. This has raised a lot of discussion about the importance and the usefulness of GDP as a “wellbeing” indicator. According to many studies, an increase in income is correlated to an increase in other indicator such as life expectancy and quality of life, but a support is not found in stating that GDP is the cause of such increase in quality life.

At the same time we must describe that many terms incorporated in the GDP are bad for the society. For example, in case of an earthquake the reconstruction accounts as an increase in the indicator. On the same line externalities, such as pollution, which are responsible of decreasing life quality do not enter the GDP.

Many scholars, politicians and individuals don’t agree with using GDP as an indicator of happiness, as expressed in the following quote by Mike Nickerson “If a truckload of toxic chemicals spills somewhere, the money spent cleaning it up is added to the GDP”.

If nearby residents can no longer use their wells for water, their expenditures on bottled water is added to GDP. If they become sick from exposure to the substance, their medical costs are also added to the official measure of well-being”\(^{37}\).

GDP remains anyway the most used indicator in determining the wellbeing of a country.

A new research conducted by the OECD aimed at establishing an index that was able to include all important aspects that determine happiness, according to a vast survey performed by OECD. Indicators were then formed following the result. The index covers eleven areas, as follows: housing, incomes, employment, social relationships, education, the environment, the administration of institutions, health, general satisfaction, security and the balance between

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\(^{37}\) Nickerson, Mike, “The Sustainability Project”, Ontario, 1997
work and family. Every area is divided into indicators that try to explain the situation in one country while comparing it to the past. Indicators range from quantitative to qualitative data. Comparability is assured between different countries as the scale goes from 1 to 10 in each indicator.  

The innovative tool is that every individual can assign different weight to each indicator in order to reflect his/her personal opinion on how much a single topic is important. The OECD plotted a chart of the index (using equal weighting) over GDP and the result is reported below.

Graph 8. OECD better life index

Source: OECD Better life index

The result shows a strong correlation between GDP and the index. One thing must be noted, no indicator includes the level of consumption of a country.

As it will be explained in chapter three, this project will foster consumption in terms of usage (i.e., access to goods and services) rather than ownership (i.e., buying more units). Since goods will be used several times, the consumption per unit will be higher and prices per unit will be lower. Hence, the utility of goods will be higher. Moreover, since the level of consumption remains at the same level, but at a lower price for consumers, there will be an increase in savings and investments. However, the GDP formula takes into account the purchase and consumption of new goods only. In this case, the number of products sold calculates consumption. Reuse of goods will have to be introduced into the formula in order to measure prosperity taking into account this new change.


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1.2.4. Effects of Consumption on the Economy

Microeconomics sets the basis for understanding individual choices, an essential step in order to understand and calculate the aggregate demand of a group or a nation. Combining demand and production becomes a key step in order to calculate how much an economy grows, why, how it could grow more and all the implications and issues brought by growth. Growth has always been calculated as the increase in the economic growth, which is the increase of per capita gross domestic product (GDP) or other measures of aggregate income, typically reported as the annual rate of change in real GDP. Economic growth is primarily driven by improvements in productivity, which involves producing more goods and services with the same inputs of labor, capital, energy and materials.

The GDP takes into consideration all goods and services produced within a year in a country. According to the Okun’s law, economic growth is necessary to create jobs, to increase factor of production and to increase wellbeing of a country. Even if the per capita measure is considered, nothing is said about the distribution of income across a country, the stock of natural resources and the environment depletion. This will be explained later on Section 1.2.5. In the following section, the objective is to represent the role of consumption in the economic academic world, which has influenced decision makers in the past years.

1.2.4.1. Growth models

The neoclassical growth models are the ones that affected most academics and politicians in the world in the last decades. The pioneer of this growth model was Robert Solow who depicted and tried to explain why countries grow at different rates, what are the drivers of growth and how policies can affect it.

According to Solow\textsuperscript{40}, the production depends on two factors, labor and stock of capital. The function used to transform the two inputs into production is characterized by constant returns of scale. An important feature is the diminishing marginal product of capital, meaning that when the stock of capital increases the effect of every extra unit is less productive.

On the other side, the demand of goods is made of consumption and saving. The consumption function is of the form: \( c = (1-s) \cdot y \), where \( Y= \) income, \( c= \) Consumption and \( S \) is the quantity saved that will increase the stock of capital of the economy (money that we all save), and the investment.

\textsuperscript{40}Solow, Robert, “contribution to the theory of economic growth”, quarterly journal of economics, pp 65-94, 1956

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The model identifies that capital depreciates at an exogenous rate, and that the economy will reach a steady state when the investment in capital equals depreciation.

The important conclusion is that a higher saving rate, especially when the GDP is low, will increase the long-run growth and that the main driver of changes in growth is given by the technological change, which increases productivity of the factor of production.

This is a simplification of the model, but the main idea from Economics is that income is divided into consumption and savings, and that higher consumption yields higher utility to individuals. Most important for the project is the key role of saving, which is a driver of economic growth.

1.2.4.2. Unemployment and economic growth

As we stated before economic growth is needed not only for economic and social reasons. In fact, in Economics it is stated how only economic growth can reduce or maintain unemployment constant. History told us how the high level of unemployment could cause many social problems. The scholar to whom was attributed the discovery of such relation was Okun, from whom the theory Okun’s law derives.

Okun, at the high tide of Keynesianism, referred to a stable relation between GDP growth and the change in the unemployment rate. According to “Okun’s Law”41 an increase of the economic growth rate by 3 percent (above the normal rate) was expected to reduce the unemployment rate by 1 percentage point. In other words, the gain of real GDP associated with a reduction in unemployment of one percentage point was estimated to be 3 percent. The Okun’s law can be represented by the graph below, where the quarterly change in GDP is plotted over the quarterly change in the unemployment rate in U.S.

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Of course we must add that employment will rise only if economic growth rates are higher than the increase in productivity, meaning that if the economic growth is just explained by productivity increase then there might not be job creation, but only a better use of existing production factors.

The way and the amount in which a change in GDP is translated into higher employment is referred as “employment elasticity”, such a coefficient varies from country to country as it can be affected by the rigidity of the labor markets (i.e., It is easier to fire and hire someone in U.S. than in Europe), the minimum wage salaries (which could leave out of the market unskilled labor force). For these reasons the coefficient appears higher in U.S. than in Europe. The labor market is more correlated to economic growth (i.e., during a recession people are fired and during expansions people are hired).

Other variables that affect the coefficient are the level of unemployment and an increase in the active population. Both variables lead to higher elasticity because high unemployment and more active population exert a pressure to increase employment.

It is evident that employment will only increase if GDP is rising faster than productivity. In the EU, during the nineties, a GDP-growth rate of 1.8 percent was necessary to keep employment constant and as labor supply increased, a rate of 2.3 percent was necessary to keep unemployment constant at existing labor market regimes. Empirical data for Spain shows how the elasticity is 0.76, one of the highest in the period between 1970-1999.

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This paragraph investigated the essential relation between economic growth and unemployment. In the last few years, society has experienced how recession translates to social insecurity deriving from increasing unemployment. What is needed is therefore a new model that would guarantee employment and sustainability.

1.2.5. Macro-Ecological economics

Ecological economists have suggested that environmental and resource constraints imply limits on economic scale, and thus limits to growth. In a macroeconomics model, the aim to maximize production would be subject to a constraint based on the resources available and their use. In this way growth is “slowed” by the inclusion of such a constraint.

In contrast to this view, neo-classical economists have always rejected the possibility to limit the growth of an economy. Maybe for this reason an agreement in economics has never been found. On the other hand, it is time to re-discuss the all neo-classical approaches as many studies suggest the need of reducing environmental impact of the business activities. For example, in 2007, the Intergovernmental Panel on Climate Change (IPCC) suggested a 50-85 % reduction in carbon emission in order to reduce the risk of a more than 2° Celsius increase in temperature.

Clearly, according to the historical trends of business as usual, this target is in conflict with the existing patterns of economic growth. Macroeconomic theory is heavily oriented towards an assumption of continuous exponential growth in GDP. The economic activity is characterized by business cycles deviating from the stable long-term economic path as we discussed before and as it can be seen in the image. Unfortunately, as growth demand more energy and energy is mainly produced trough fossil fuel, the correlation between growth and CO2 emission is strongly verified.

The IPCC suggests that emissions should follow the path depicted in the graph below to be consistent with the target set.

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The question of the impact of such a low-carbon economy on employment and economic growth arises. If technologies, investment and consumption remain the same then limiting or constraining carbon emission would definitely slow down growth. On the other hand, such a goal could be achieved by a reduction in demand that could be fostered by a stabilization of the world population or a more efficient demand side.

The key role is played by consumption. Standard economics models underline ever-growing consumption, which means an ever-growing production and GDP. How can we overcome the limits that a not-growing consumption implies in standard macroeconomics? Resource depletion will at some point limit the increasing volume of consumption, putting the entire system under pressure. To guarantee a more respectful production or growth, ecological economists decided to focus on a different approach.

As it has been mentioned before, a diminishing consumption could be balanced by an increase in investment or in governmental spending in order to keep the jobs offer at a certain level. This is necessary, since a decrease in GDP, has a direct effect on unemployment.

Investment is economically viable only to the extent that it will maximize consumption over time. However, if a new perspective implies limits on consumption, then the impact on investment must be considered. If resources are shifted from consumption to investment, this implies an even greater potential for consumption growth over time. However, if investment is reduced, there is a danger of rising unemployment. Harris, of the Global development and environmental institute, proposes a solution to this dilemma. According to him, “it can only be resolved by forms of

\[http://ase.tufts.edu/gdae/Pubs/wp/08-02EcologMacroEconJuly08.pdf\]
investment which improve wellbeing but do not contribute to greater consumption of material goods and non-renewable energy”.  

Going back to the initial Keynesian model explained in section 1.2.1.1., the idea of Harris could be explained as follows:  \( Y = C + I + G + (X - M) \). Where \( Y \) = Income, \( C \) = Consumption, \( I \) = Investment, \( G \) = Government Spending, \( X \) = Exports and \( M \) = Imports.

A limit of \( C \) can only be absorbed by an increase in \( I \) or \( G \), but an increase in \( I \) is highly problematic. Therefore, the only option left is to increase in \( G \), which can be argued that large government spending is not good and it could be associated with a significant environmental impact as well. What happens if investment is detached from consumption? What if the level of investment is not used to increase consumption over time? To capture this logic in terms of macroeconomic aggregates, it is necessary to break them down the formula more specifically, as follows:

\[
\begin{align*}
C_g &= \text{consumption of non-durable goods and energy-intensive services} \\
C_s &= \text{consumption of human-capital intensive services} \\
C_m &= \text{household investment in consumer durables} \\
I_{me} &= \text{investment in energy-intensive manufactured capital} \\
I_{mc} &= \text{investment in energy-conserving manufactured capital} \\
I_n &= \text{investment in natural capital} \\
I_h &= \text{investment in human capital} \\
G_g &= \text{government consumption of non-durable goods and energy-intensive services} \\
G_s &= \text{government consumption of human capital-intensive services} \\
G_{me} &= \text{government investment in energy-intensive manufactured capital} \\
G_{mc} &= \text{government investment in energy-conserving manufactured capital} \\
G_n &= \text{government investment in natural capital}
\end{align*}
\]

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Gh = government investment in human capital

Thus, the basic equation of macroeconomic balance can be restated as:

\[ Y = [C_g + C_s + C_m] + [I_{me} + I_{mc} + I_{n} + I_{h}] + [G_g + G_s + G_{me} + G_{mc} + G_n + G_h] + (X - M) \]

\[ Y = [C_g + I_{me} + G_g + G_{me}] + [C_s + C_m + I_{mc} + I_{n} + I_{h} + G_s + G_n + G_{mc} + G_h] + (X - M) \]

To satisfy sustainability criteria, the terms in the first set of brackets \((C_g + I_{me} + G_g + G_{me})\) should be stabilized or reduced over time, but the terms in the second set of brackets \((C_s + C_m + I_{mc} + I_{n} + I_{h} + G_s + G_n + G_{mc} + G_h)\) can be expanded. This should give plenty of scope for macroeconomic policy aimed at the maintenance of full employment, as it would guarantee economic growth. Regarding the foreign sector term, a trade surplus or deficit might be acceptable depending on the situation of a given country, though very large trade imbalances linked to excessive consumption (as in the case of the United States) or perverse capital flows (as in the case of developing nations debt service) should be avoided.

Therefore, all the investment provided to transition to a low carbon economy appear as an economic benefit, not a cost. This is in keeping with the original Keynesian insight that increasing aggregate demand in an underemployed economy confers net benefits both through the original spending and through multiplier effects. It also offers greater scope for “green” taxes. To the extent that such taxes reduce aggregate demand, their revenues can be recycled to promote spending in the more socially and environmentally beneficial sectors of the economy.

This macroeconomics model explains how to combine economic growth and a higher respect to the environment. The main idea is to shift the way consumption is characterized right now, focusing on durable goods. This is linked to our project, a way to create a community that will share goods designed in a long-term view. Durable goods are therefore seen as an investment, a way to increase saving in the future while at the same time following the Economics’ idea of utility. If different individuals can enjoy the same good at different time they will keep their level of utility up but at the same time they will be saving money. In this way, three different objectives may be achieved at the same time. First, increase savings (fundamental for personal security and economic growth of a country). Second, diminish waste (shifting consumption away from the “use and throw” approach dominating the scene nowadays). Third, create a community (important raiser of wellbeing according to many surveys). The project will start in a small scale, but raising awareness and involving individuals can be seen as an investment, every person shifted away from nowadays practices will create awareness to his personal community (family, friends, and colleagues). Using economic and social incentives, we will work in building a community that believes in the power of shared knowledge and goods.
2. Current Situation

In the following chapter, the Collaborative Consumption (CC) movement and the systems are explained in detail, examples of current businesses operating under this new movement are provided and in conclusion key success factors are identified.

2.1. Collaborative Consumption movement

2.1.1. Definition

Traditional sharing, lending, bartering, trading, renting, gifting, and swapping are redefined through technology and peer communities. It is amazing the amount of examples we can identify every day. Lately, we have been noticing that new business examples such as CouchSurfing, AirBnb or ZipCar appeared to succeed and become more common. As we will present it with other examples in the next section on Collaborative Consumption systems, CC can be done in various sectors and with all types of goods and services, knowledge, space and skills included.

2.1.2. Background, evolution and future

The concept of sharing and cooperating is as old as the world and can be traced back to the Romans. They used the term “the commons” to speak about resources that belong to all of us. The commons defined res publica (“things set aside for public use”) such as parks, roads, etc. and res communis (“things common to all”) such as water, air, culture, language, etc. Of course, over the centuries privatization increased and new regulations were created.

The Collaborative Consumption movement is synonym of the reinvention of traditional sharing, trading, swapping, bartering, renting and gifting combined with network technologies like the Internet. It brought innovative business models that expanded incredibly rapidly and at a scale
never seen before. **Airbnb** for example, is the service created in August 2008 that allows you to meet people from all over the world, was valued at $1 billion several months ago\(^{48}\).

There are several types of Collaborative Consumption systems, ranging from marketplaces such as eBay and Craigslist, to social lending and car sharing. This movement reinvents what we consume and especially how we consume by enabling peer-to-peer exchanges. Every day we can observe new business that are created following this idea.

Technological and social changes such as Collaborative Consumption are happening much faster than it used to be. We all know one of the most important revolutions of our time - the industrial revolution - just a few centuries ago. It took almost hundred years to take root. Now, life-altering technological and social advances are happening within a few years, if not months.\(^{49}\) Internet is one example. Only fifteen years ago, Internet was not massively adopted as it is today. We did not realize nor could imagine how the Internet was going to change our lives. It brings incredible opportunities, from worldwide communication to social media and networks, brings a voice to oppressed populations, brings invaluable information to every connected person on the planet, mobile technology and the list continues. It brought new lifestyles and broke the rules of commerce. Together with electricity, it brings development and knowledge. Internet and mobile technology allow networks, groups, communities and movements to become self-conscious and identifiable in real time and in turn spread and grow. People reflect on, report activities and thoughts on **Twitter** and **Facebook**, which in turn are disseminated. This is a hyper-revolution of which Collaborative Consumption is part. And as Collaborative Consumption is about sharing and exchanging, two things that almost disappeared with hyper-consumption but are innate into human nature, it has a bright future.

**“There is no delight in owning anything unshared.”** Seneca

According to Axelle Tessandier, ““Digital Natives” are those born after 1980 and are now growing up during the digital revolution. What does this mean? They are connected; they know that the world is now a group of interest based communities ripe for collaboration. Collaboration is not only our nature but has become a necessity. The world is more complex than ever, and the idea that you cannot solve anything by yourself is now accepted. The tools the digital generation embraces are the ones demonstrating this trend everyday like Twitter, Meetup, and Kickstarter, to name a few.”

As you can see it in the figure below, the 20th century was characterized by hyper-consumption. The 21st century will be characterized by Collaborative Consumption. From points, economic and


\(^{49}\) Botsman, Rachel and Rogers, Roo, “What’s Mine is Yours: The Rise of Collaborative Consumption”, 2010
trade systems will go to reputation. From advertising, businesses will go to communities. From individual ownership, people will go to shared access.

Picture 1: Evolution from 20th century to 21st century

Collaborative Consumption is not a niche trend, nor a reactionary movement to the 2008 global economical and financial crisis. This movement actually involves millions of people from the four corners of the world. It is a fast rising consumption movement with enormous growth rates.

There are three different systems of Collaborative Consumption, which will be described into more details in section 2.2;

- Product Service System: paying for the use of a product without owning it.
- Redistribution Markets: give a second life to unused products.
- Collaborative Lifestyles: sharing of goods and services.

Let us give you an idea of the fast growing rate and the immense potential of collaborative consumption for each type of system.
- **Product Service Systems**

**Picture 2. Product Service Systems**

Source: Collaborative Consumption Groundswell video by Rachel Botsman

- Bike-sharing is the fastest-growing form of transportation in the world. Every major city in the U.S. has a bike-share program in development and we can see bike-sharing systems all over the world.

- By 2015, the estimated worth of the car-sharing market is US$ 12.5 billion. When the three big car companies were being bailed out, there was a 51.3% increase in car sharing membership. When Zipcar released its iPhone application in 2009 it had 100,000 downloads, within the first week alone.

- The peer-to-peer rental systems are booming; the current estimated size of the market is US$ 36 billion. A key aspect for consumers is also that they can make money with the stuff they have but do not use. For example, one member of Zilok, a peer-to-peer renting website, has made 1015 US$ by renting out his camera a few times over a period of 9 months.

- **Redistribution Markets**

**Picture 3. Redistribution Markets**

Source: Collaborative Consumption Groundswell video by Rachel Botsman
- In 2009, the market for the exchange of “secondary goods” is estimated by eBay at US$ 500 billion. For slightly used kids clothes this is estimated by Thredup at US$ 1.2 billion.

- Freecycle, a non-profit movement of people who are giving (and getting) stuff for free in their own town is present in 86 countries and has over 7 million members. This network was created in 2003 and today Freecycle is the third most searched environmental term after “global warming” and “recycling” but before “earth”. Every year 9.1 million goods are given to Freecycle and the impact on waste reduction and landfills landscapes is enormous.

- Swap.com, an online swap marketplace, saw its revenue grow tenfold from 2008 to 2009. People have 5.5 million items on their “have lists” and 3.5 million items on their “want lists”.

- On April 2nd, 2010, 23000 books were swapped on BookMooch only.

  • Collaborative Lifestyles

![Picture 4. Collaborative Lifestyles](source: Collaborative Consumption Groundswell video by Rachel Botsman)

The first main evolution of Collaborative Lifestyles that we can point out is regarding agriculture and land sharing. Local farmers markets are booming and the evolution in numbers can confirm it. In 1994, there were 1755 local farmers markets in the U.S., in 2006 there were 4385 of them and in 2009 there were 5274 of them. In 2010, there were 1000 more farmers markets than Walmart’s in the U.S. SharedEarth.com is a “garden dating site” for land owners and gardeners. In the first three months of launch, 29 million square feet were posted on the website. Today, we are over the 30 million square feet.

We are not only speaking about individuals but also about business. In 2008, businesses bartered goods and services valued at US$ 10 billion.
Peer-to-peer lending is another fast growing market. It reached US$ 5,8 billion in 2010. This represents 10% of the total personal loan market, including the big banks. LendingClub has received US$ 52,7 billion in venture finance since 2007.

Thinking of the hospitality sector, we think of CouchSurfing.com. This website is working very well worldwide and is the most visited hospitality service visited on the Internet, with more than 40 million page views per day! In this kind of community, one could be sceptical about the trust between strangers. Well, almost 5 million CouchSurfing stays have been rated as a positive experience, representing 99,797% of the total stays. In the hospitality sector also, peer-to-peer room rental is booming. AirBnb is the main example. Not only people are considering this as an alternative to a traditional hotel but also as an alternative to a full-time roommate. In New York, the average amount of someone renting his room out throughout AirBnb is US$ 1600 per month.

*It is happening today and it is very, very big.*

2.1.3. The four principles

2.1.3.1. Critical mass

This principle stands basically for the “tipping point” - famously named by Malcolm Gladwell - at which there is enough momentum in a system to make it become self-sustaining. It is critical for Collaborative Consumption for several reasons. First of all, it will determine the choice. If we want to make it attractive it should be as varied as a conventional shopping experience with a huge quantity of choice. The customer has to be satisfied in order to choose Collaborative Consumption over traditional shopping. The golden rule however is not to bring what you would not like to receive. This is also the golden rule of this project, as we want to offer quality.
2.1.3.2. Idling capacity

Idling capacity is the unused potential of goods. The best-known example is the power drill. It is used on average between six and thirteen minutes but almost every household has one gathering dust at home. The same happens with the car used for 2 hours per day, the spare bedroom that is eventually used, the beautiful dress that is waiting for the right occasion, the bike used during the holidays only, empty offices spaces, roads used only during peak hours, and we could continue endlessly. These goods or spaces that could be considered as waste at some point are at the heart of Collaborative Consumption. The aim is to find a way to use this idling capacity and redistribute it.

Thanks to the current technologies such as the Internet, the social networks and the GPS technology one could find many ways to solve the problem of idling capacity. Some examples are related to tangible assets such as cars, bikes, etc, but others are related to intangible goods and services such as time, spaces, knowledge or commodities like electricity. It works with all kind of assets, which gives a wide space to creativity.

2.1.3.3. Belief in “the Commons”

“The commons” - we saw it previously - is a term dating back to the Romans used to speak about resources that belong to all of us. This notion has begun to be challenged from the fifteenth century when private owners began to enclose common grounds and claim ownership over it. This process of privatization of grounds increased over the eighteenth and nineteenth centuries in developing countries. The reason behind privatization was that shared resources were misused and overused as individuals acted according to their self-interest and on the short-term. This situation was called “The Tragedy of the Commons” by Garrett Hardin in 1968 in an article he wrote. He pictured this scenario with a field available for grazing cattle. Each herdsman could use it and they all had the incentive to add another animal in order to maximize profits. This would be done by rational herdsmen and the field would be overused and become unproductive in the end. This is the tragedy. This term is widely cited and its article has become the most reprinted article in scientific journals.

So, it is about the resources individuals are competing for, which is at the heart of our economic system and free market theory. The debate is about how to balance the interests of individuals with interest of the group. On one hand, when people follow each one a rational decision-making process it results in a non-optimal or negative outcome for the community. They would need oversight. Some examples are the current environmental issues such as over fishing, water scarcity, etc. On the other hand, we can see for example with the Internet and the online commons that many opposite cases exist too, showing that people can self-organize themselves to take care of resources they value. Through digital experiences we can see that people value the community and their social input. People need to give something to the community in order to get
something out of it. Some examples are *Flickr* for the pictures, *Wikipedia* for the knowledge, *Bepress* and *NeuroCommons* for the research, etc. Ten years ago, “the King of Internet Law”, Lawrence Lessig, launched Creative Commons in 2002, recognizing the need to facilitate the sharing, remixing and reuse of content. Its mission is to develop, support, and steward legal and technical infrastructure that maximizes digital creativity, sharing, and innovation. According to Lessig, it is a “solution to failed sharing”. Creative Commons issued more than 100 million licenses and is used by the White House, universities, artists and inventors among others.

Obviously, the Commons principle is a necessary condition to the Collaborative Consumption system. It can be applied in many areas of our lives and the network effect it brings is of a high value to the system. Every person that enters into the system brings value to every other member including himself and the community as a whole is better off also, being more attractive.

### 2.1.3.4. Trust between strangers

The “commoners” can self-organize themselves to take care of resources they care about. There is one condition to this statement though. The common characteristic between successful experiences is the availability for members of tools to coordinate projects and the possibility to monitor each other. We can think of feedback, rating, comments,... In this new kind of marketplace, the middleman disappears and exchanges are made through peer-to-peer platforms. Transparency is total and trust between strangers is built. One can think trust between strangers is an utopia but it is actually happening. You do not have to look further than platforms like *eBay*, *AirBnb* or *London Liftshare*. The middleman is now replaced by tools for trust and monitoring in order for the members to manage themselves their trading and contributions.

The tools to coordinate projects and monitor each other create a community sense. Thanks to those new online and offline marketplaces, people are in a global village. Members can meet and create nonlocal trust, meaning that we have returned to a time when if you do something wrong the whole community will know. Personal relationships and social capital returned to the center of exchanges.

### 2.1.4. The Drivers for Sharing

*Picture 6. The four drivers for sharing*

Source: “What’s Mine is Yours: The Rise of Collaborative Consumption”

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[http://www.eoi.es](http://www.eoi.es)
2.1.4.1. Economic driver
In order to make use of something without paying or paying a lower price, the best option is to buy it at a cheaper price, swap it against something you do not use anymore or lend it from someone. This is what Collaborative Consumption offers, and even much more. In those times of economic crisis, especially in Spain where unemployment is as high as 20%, the economic driver of consumers can be easily identified.

2.1.4.2. Sustainability driver
Civil society, public institutions and government, NGOs and the society as a whole is much more aware of the environmental and social challenges we are facing. Sustainability is not a trend anymore and sustainable development is a necessary step towards the future. Consumerism, waste disposal, depleting natural resources, pollution, poverty, unfair trade and unhappiness being related with our lives overwhelmed by “stuff”, are all scourges of our time that could be solved by a more conscious way of consumption like for example the Collaborative Consumption. By sharing, lending, bartering, swapping or renting, we participate to a more sustainable development. It enables either less pollution or less over-production or less over-consumption or reuse or recycling or a more optimal use of what we have. Even if it is not the main purpose for some of the mainstreaming collaborative consumption businesses, it results in enormous amounts of positive impacts on sustainable development in various ways, directly and indirectly. People know that and it is often a way for them to participate at their level and with their resources towards a more sustainable world.

2.1.4.3. Social proofing
People get to know Collaborative Consumption enterprises, websites, organisations or places because they have heard about it. Recently, we hear more and more about people experiencing car sharing, bike sharing, CoachSurfing, swapping books or DVDs, or sharing land. It is a new and trendy conversation topic. More and more people think that owning the very last, big and highly consuming 4 x 4 is not something you bride on anymore. This impact from peers, also called social proofing, is crucial in Collaborative Consumption as people need to see or experience relatives make the small yet needed habit change. Moreover, the impact of advertisement is decreasing. Only 14 percent of people trust advertisers, yet 78 percent of consumers trust peer recommendations.50

2.1.4.4. Peer-to-peer technologies
The peer-to-peer (P2P) technologies are drivers to Collaborative Consumption. Nowadays, the concept of P2P is increasingly evolving to an expanded usage as the relational dynamic active in

50 Qualman, Erik, on the book “Socialnomics: How Social Media Transforms the Way We Live and Do Business (John Wiley, 2009)”

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http://www.eoi.es
distributed networks, i.e., not just computer to computer, but human to human. Yochai Benkler has coined the term commons-based peer production to denote collaborative projects such as free and open source software\(^{51}\), such as Linux, and Wikipedia.\(^{52}\) Through technology and especially the Internet, the Collaborative Consumption movement has been able to expand at rates and scales never seen before. People from all over the world are able to connect everywhere at any time. Peer-to-peer technologies add the many possibilities we can think of. Moreover, social networks are becoming the main social communication channel.

2.1.5. Benefits

We have identified three main categories of benefits to this new movement. The first one is environment, the second concerns the community and the third is economics.

2.1.5.1. Environmental friendly

Car-sharing, books swapping, second hand sales and other similar businesses were not always created in order to protect the planet from climate change neither to respond to the global environmental challenges we are facing. But the impact on energy use efficiency and waste reduction is high. Obviously, redistribution markets and product service systems reduces waste and the carbon emissions and resources that go along with new production. For every new product, we can think of raw materials, energy used for the production process, transportation pollution and plastics and paper used for packaging.

2.1.5.2. Community as a brand

The collaboration is at the heart of the Collaborative Consumption movement. It can be face-to-face taking place physically, on the Internet taking place digitally or virtually, or both. This new way of consuming “stuff” brings interaction and a sense of community. As we saw it above, peoples’ awareness of community momentum and purpose is reappearing. With the era of hyper-consumerism we experienced, our natural behaviors and instincts around sharing, cooperation and exchanging were suppressed.

Community building is the new channel to advertise brands as it is the new way we define ourselves. We are moving towards an era of self-definition. Indeed, we do not define ourselves anymore with what we wear or use but by what we join, what we like, what we do, what we see, what we read, in what we participate, how we do things,… The community can comment on our activities, rate the exchange, like our picture, and suggest a book we will probably like. Thereby, the community with its interconnections are rising in importance in our lives, becoming the essence of what we do, why, how, where and with who.


2.1.5.3. **Economically less demanding**

A benefit for the user or consumer to have access to products and services over ownership is that it is economically less demanding. As you do not have to pay the full price for the good, service, class, space,... and that you need it and are ready to give something in exchange, it is clearly a win-win situation. If you can have what you want throughout this way, at the expected quality and with the exact features you want but cheaper than if you would have to go buy it in a store, it represents an economic advantage.

Apart from the strict financial aspect, Collaborative Consumption also enables people to realize other indirect economic-related benefits. Indeed, by enabling access to products and services over ownership thereby saving not only money but also time and space.

2.1.6. **Challenges**

Collaborative consumption is a nice concept but may appear naive. Indeed, it requires conditions in order to make it work. Let us analyze some of the most important challenges collaborative consumption has to face.

2.1.6.1. **Planned obsolescence**

Planned obsolescence is a current issue. It is a business strategy in which the obsolescence (the process of becoming obsolete — that is, unfashionable or no longer usable) of a product is planned and built into it from its conception. It can be done by planning its shortcomings or breakages, by adding new features and improving the design of the following models or by making the new versions upwardly compatible only. It does not concern the luxury goods as they are more seen as an investment and worth more over time. This phenomenon brings quite some questioning and can be seen by consumers as a bad practice of the producers in order to make more profits.

Regarding this project, planned obsolescence could represent a real challenge. In order to reuse goods, they have to be more resistant and reliable. Collaborative Consumption is aiming at reusing goods and lengthens their period of use or uses them more intensively. If products are made to break down after a certain period of time, it is not relevant to set up a business of this kind.

2.1.6.2. **Consumer mindset**

Collaborative Consumption does change the way people consume. It was created among others to face hyper consumption and other current global environmental issues. Until some years ago, in order to get something you had to go to the shop, you saw advertisement; you bought it and went back home with your new product. Hyper-consumption is synonym of credit, advertisement and individual ownership. Collaborative Consumption is actually the opposite. It is synonym of

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reputation, community and shared access. People are part of a community, online and/or offline, and thereby member of a peer-to-peer platform. Reputation is their image and the way trust between strangers can be established. Individuals consume in their community following a sharing ownership model.

It requires a fundamental shift in consumers’ mindsets. Not only need they to be open-minded and able to shift to this new model - we can almost say in some cases a new way of living - they also need to adapt practically. They have to give back their car, they will have to shop online or in a specific physical space, they will have to trust strangers when renting their spare bedroom during holidays, etc. Of course, the advantages are clear. But let us be honest, the change is radical. People could find it too risky or not see the benefits. They can also not be interested by the sustainability cause behind it. Last but not least, people could interpret and see Collaborative Consumption as the old-fashioned second-hand social initiative or ecologist left-sided temporary revolution.

2.1.6.3. Ownership

We believe the transition from individual ownership to shared access will face resistance. Indeed, according to many economists, philosophers and thinkers along history, humans are by nature egoist and wants to own. If it is not because of the human nature, resistance will appear because of the cultural and mentality change it involves. Our economy is based on buying and selling, leading to ownership. People define who they are with what they have. The car is the best example as for many men it is their image. People work to earn money, to buy more stuff and have a bigger house. Although it is changing as many people realize happiness is not to be found in material goods. But this process is slow.

The Collaborative Consumption proposes a new ownership model, being the shared access. In order for this transition from individual ownership to shared access to be accepted widely, individuals need to see the gain they can get out of it. Every participant has to see how, where and why he wins by switching from owning to sharing. The step is big, it has to be worth it and the risk has to be low. It represents a very big barrier for people to openly share and distribute their own stuff online with millions of other people.

Nevertheless, future is promising regarding the pace at which this movement is rising. An amazing and unexpected example of assets being shared is knowledge. Not to speak about crowdsourcing, which is the fact of outsourcing a task, traditionally performed by an employee or contractor, to an undefined, large group of people (the “crowd”) through an open call. Today, websites like www.crowdsourcing.org are gathering people to fund, innovate openly, create, labor and build communities.
2.2. Collaborative Consumption Systems

According to Rachel Botsman, the author of the book “What’s Mine is Yours: The Rise of Collaborative Consumption”, there are three types of collaborative consumption systems, as follows:\(^54\)

2.2.1. Product Service Systems (PSS)

PSS are systems in which people pay for using a product without the need of owning it. Within this system, multiple products can be owned by a company and shared by several people (e.g., car sharing or Laundromats) or individually owned and shared or rented peer-to-peer (e.g., peer-to-peer car sharing and rental markets).

These systems are disrupting the traditional business models, which are based on individual ownership and measure their success in unit sales. Today, people are moving to a “usage-mindset”, where the benefit of the product is more important than the ownership.

The main environmental advantage of this system is that it extends the useful life of products. Instead of having individual owned products with low usage-rate, it creates shared services that maximize utility of products.

![Picture 7. Product Service System Model](source: “What’s Mine is Yours: The Rise of Collaborative Consumption”)

Some subcategories and examples of PSS are as follows:

- Car sharing: Zipcar, Streetcar, GoGet
- Peer-to-Peer Car Sharing: Whipcar, RelayRides, Spride, Drivemycar Rentals, Getaround
- Bike sharing: Velib, Bixi, Barclays Cycle Hire, Smartbike
- Ride sharing: Zimride, Nuride, Lifshare, GoLoco, Amovens, Comuto

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• Solar Power: Solar City, Solar Century, PretaSol, One Block Off The Grid
• Toy Rental: Dim Dom, BabyPlays, Rent-a-toy
• Fashion: Bag Borrow & Steal, Fashionhire, FromBagsToRiches
• Movies: Netflix, Lend A Round, Renttherunway
• Peer Rental: Zilok, Rentoid, Ecomodo, HireThings, Thingloop, Rentalic, Rentcycle
• Neighborhood Rental: Sharesomesugar, Neighborborrow, Neighborgoods

2.2.2. Redistribution Markets (RM)
RM are social networks where people can redistribute old products they no longer need, want or use to somewhere or someone where they may be. This system is disrupting the traditional business models of producers, retailers, and consumers and the ideology of “buy more” and “buy new”.

The main environmental advantages of these marketplaces are the encouragement of reuse and resell of used items rather than throwing them out and reduction of waste and resources involved in new production.

![Picture 8. Redistribution Market Model](source)

Source: “What’s Mine is Yours: The Rise of Collaborative Consumption”

The marketplaces may vary by type of exchange, as follows:

• Free Exchanges - Donations or giveaways. For example, FreeCycle and AroundAgain.
• Cash Exchanges - Sell items for money. For example, eBay and Flipped.
• Point Exchanges - Sell items for points. For example, BarterQuest and UISwap.
• Swap/Barter Exchanges - Swap similar goods. For example, ThredUp, MakeupAlley, SwapStyle, Toyswap and Dig ‘N’ Swap. Swap goods of a similar value. For example, SwapTree and SwapSimple.
Mixed Exchanges - These include systems that include free, cash or swap exchanges. The best example of this would be Craigslist.

Most of the exchanges take place between strangers. However, there are marketplaces where you can share with family and friends, such as Neighbor Goods, Share Some Sugar, EcoModo, Neighborrow, etc.

2.2.3. Collaborative Lifestyles (CL)

CL are systems that include more than physical used goods. People who have similar interests are coming together to share and exchange less intangible assets, such as time, space, knowledge, skills and money. These exchanges are happening at the local and international level.

In this system, trust is the main concern as the exchange involves human-to-human interaction and not a physical product. Consequently, if a high degree of trusts involve the creation of innumerable relationships and social connections.

Picture 9. Collaborative Lifestyles

Source: “What’s Mine is Yours: The Rise of Collaborative Consumption”

The collaborative lifestyles systems may be divided in subcategories depending on what is being exchanged, as follows:

- Shared Working Spaces: Citizen Space, Hub Culture
- Shared Tasks, Time and Errands: DaveZillion, Ithaca HOURs
- Shared Gardens: Urban Gardenshare, Landshare
- Skills: Brooklyn Skillshare, Teach Street, TradeSchool, Patio Maravilla, Bancos del Tiempo
- Knowledge: Hourses Mouth, EcoLocal
- Food: Neighborhood Fruit
- Parking Spots: ParkatMyHouse
• Social Lending: Zopa, Prosper, Lending Club
• Travel: CouchSurfing, Airbnb, Roomorama

2.2.4. Collaborative Consumption Systems in Spain
In the following section, we include a list of Spanish companies involved in the Collaborative Consumption system and a short-description of their business model. As in the picture below, they will be divided into Product Services Systems, Redistribution Markets and Collaborative Lifestyles.

<table>
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<th>Product Services Systems (PSS)</th>
<th>Redistribution Markets</th>
<th>Collaborative LifeStyles</th>
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<tr>
<td>Amovens</td>
<td>E-Bay</td>
<td>EcoLocal</td>
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<td>Comuto</td>
<td>Sem um Cam Cousoteca</td>
<td>Bancos del Timepo</td>
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<td></td>
<td>Esto no lo tiro mamá</td>
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<tr>
<td></td>
<td>Segundamano</td>
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<td>Tabacalera</td>
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Source: Picture created by the team

2.2.4.1. Product Service Systems in Spain
Amovens\(^{55}\): A free web platform that enables people with similar rides to find each other and share a car to get around. Ride sharing may include daily commutes or long distance trips. All individuals must register to participate in the network. Registration is free. Nonetheless, members may contribute to the social platform with personal donations available through the web. Amovens also provides paid car sharing services to institutions and sells products online to generate revenue.

Amovens acknowledges that users main concern is sharing rides with strangers. Therefore, it has established several tools to guarantee safety to their users. In order to guarantee safety and trust among its members, Amovens does the following:

• All users must abide to the norms disclosed on the Amovens Commandments. Additionally, users may report inappropriate behavior to Amovens.

\(^{55}\) http://www.amovens.com/amovens/faq

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• Users who register as part of an institution must provide their corporate email to verify they belong to the mentioned institution.

• Users must provide their mobile phone number to activate their account. An identification code will be sent through text message and must be entered online to validate the account. As of 2009, all mobile phone numbers are associated to an official identification document (e.g., NIE, DNI, passport, etc.).

• Users who own a car must provide their license plate number.

• Users’ personal information is stored in Amovens database and is not disclosed online or to other third parties. Users decide what information they would like to make public on their profile, such as telephone, email, address, etc.

To avoid conflicts amongst members regarding the price of rides, car owners set the price upfront and disclose that on the platform. Individuals willing to share the ride must accept to pay the price.

**Comuto** 56 A website that promotes sustainable mobility by allowing individuals to contact each other to share car-rides. Similar to Amovens, rides may be range from daily commutes to one-time rides for special events, such as holidays. All individuals must register, accept the terms of use and provide necessary personal information, such as full name, address and telephone number. The service online is free, except for when the users refuses to disclose his email and wishes to be contacted privately through Comuto’s private telephone line. The price of the rides are set by the car owner. Travelers must contact the car owner if they agree on the price and other conditions set by the car owner.

To promote car sharing in Spain, Comuto launched an online tool called “Agenda by Comuto” which lists the most important events taking place in Spain, such as sports, festivals and cultural activities, so individuals interested in traveling to attend can contact each other, organize and share rides among each other. Comuto’ objectives include the following:

• Efficiency: Optimize searches so users can rapidly find a ride.

• Simplicity: Facilitate all details regarding the trip to reduce the number of operations

• Availability: If you are looking for a trip, you are allowed to see the list of available trips without joining.

• Immediacy: You may join Comuto for free and contact the driver or passenger directly without middlemen.

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56 http://www.comuto.es/blog/Sobre-nosotros

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2.2.4.2. Redistribution Markets in Spain

**eBay**[^57] - An online marketplace where individuals can sell new or used items through bids or classified ads. The bid section of eBay is known as “eBay Classic” and the classified ads is known as “eBay Anuncios”.

- **eBay Classic**: All users must register online and enter personal information, such as full-name, identification number, address and phone number. Registration is free; however, there are other fees such as posting fee, transaction fee after sale is complete and special feature fees (e.g., Buy it Now feature allows a buyer to purchase the item immediately without waiting for the bid to close). All members must have a *Paypal* account (an account online, linked to a debit or credit card account, that secures and speeds up purchases online) to conduct a sale or purchase. The exchange of items may be through shipment or face-to-face.

- **eBay Anuncios**: Users don’t have to register to post or respond to advertisements. The buyer may contact the seller directly and agree on payment and exchange method.

Three major barriers for eBay Classic in Spain are the *Paypal* account verification and the fees associated with the bids. Based on our interviews, in general, Spanish do not trust online sites as much as other cultures do, such as Americans. Additionally, they would rather not pay the transaction fees and prefer using other forums of exchange, such as *Segundamano*.

**Sem Um Cam**[^58] - A social center located in Galicia that initiated a project called *Cousoteca*. *Cousoteca* is a library of things that individuals can share with each other.

No further information was available online.

**Esta no lo tiro Mamá**[^59]. It is a blog where used or pre-owned clothes and accessories are sold at affordable prices. Individuals interested in purchasing an item, must send an email describing the item they wish to purchase to the seller. The seller emails them a bank account for deposit of payment or *Paypal* may used of international buyers. Once the seller has received the payment, the item is shipped to the buyer.

Similar to eBay, the barriers of expanding would be the shipment of items and the payment through a local deposit. Additionally, the variety of items listed in this website is limited, thus preventing the fast growth associated with a critical mass.

**Segundamano**[^60] - An online website where individuals can create adds to buy, sell or rent items or places.

[^57]: http://pages.ebay.es/sellercentral/basicseller/whysellingonebay.html
[^58]: http://www.clavesocial.com/la-cosateca.html
[^59]: http://estonolotiromama.blogspot.com/
[^60]: http://www.segundamano.es/preguntas.respuestas/?ca=0_s
Unlike eBay, Segundamano does not require membership registration, shipment of items, credit card or Paypal account verification. Registration is only required when you wish to sell or rent an item and it is free. All the exchanges happen locally, within cities. Individuals interested in buying may contact the seller directly through email or telephone number (if the seller has agreed to publish his phone number). Additionally, Segundamano doesn’t charge any transaction fee. Low barriers and no transactions fees have made Segundamano successful in Spain.

Loquo\(^61\)- An online website where individuals can create adds or forums. Individuals can sell, buy or exchange goods or services. Similar to Segundamano, does not require membership registration, shipment of items or credit card or Paypal account verification. Registration is only required when you wish to sell or rent an item and it is free. All the exchanges happen locally, within cities. Individuals interested in buying may contact the seller directly through email. Additionally, there are no transaction fees.

However, unlike Segundamano, many advertisements are spam or outdated. Thus, decreasing their competitive advantage.

2.2.4.3. Collaborative Lifestyles in Spain

EcoLocal\(^62\) - Located in Sevilla, Spain it is a classroom about the urban environment open to everyone. The work is focused around information, development, sensitization and exchange of socio-environmental experiences. The members include neighbors from the community that actively participate through the proposal and development of socio-environmental activities.

Their objective is the continuous learning through theory and practice, promoting participation, sharing and redistributing of knowledge.

Besides having an open classroom for sharing knowledge, EcoLocal has time banks, a community where individuals services with other members using time as the exchange currency. To participate in the time banks, individuals must register.

Bancos del Tiempo\(^63\) - Individuals exchange services for time. Tries to promote social relationships among individuals. Currently, there are more than 300 time banks in Spain.

The Hub Madrid \(^64\) - A shared working space to inspire, connect and promote social innovators. Located in the heart of “Barrios las Letras” in Atocha, Madrid, the Hub combined the best aspects of an office, a coffee shop, a conference room and the comfort of a home to create a new social space to work, get together or carry out events in an atmosphere of creativity and collaboration.

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\(61\) http://madrid.loquo.com/en_us
\(62\) http://www.ecolocal.es/Que.html
\(64\) http://madrid.the-hub.net/public/index.html
It has a flexible and vibrant open space of shared working, using features such as “hot desking” (desks that are shared by several individuals in order to save space), private rooms, conference rooms, coaching rooms, innovation lab and a cozy kitchen and library.

Individuals can share and exchange visions with other entrepreneurs, knowledge, resources, dreams, can develop ideas and nourish those projects that will transform the reality in which we live.

To be part of the hub you must become a member. There are different fees for the several membership levels.

**Patio Maravillas** - A multipurpose and self-managed community center in Malasaña, Madrid, where different activities are organized to involve the people living in the neighborhood. It allows free participation by a large number of different groups and individuals.

There are several permanent activities such as, the bicycle repair workshop, video and documentary screenings, a free-access Internet room, a cafeteria that served as a meeting point and cultural and social exchange, English classes, remedial classes, a storytelling and creative writing workshop, subversion point (political and feminist discussion), the “chikiasamblea” (children's activities and games room), a photography workshop, legal advice, rap workshop, and others.

There is also theatre, painting, music, audiovisual, and immigration groups that meet, rehearse, and carry out their activities. Further, there are special activities such as concerts, exhibitions, neighborhood meetings, talks about health and consumer issues, and meetings of different groups.

**Tabacalera** - A self-managed social and cultural center in Lavapiés, Madrid. It is housed in an old tobacco factory. The place works as a collaborative art space through the cooperation of local artists, neighborhood and the Spanish Ministry of Culture. The huge old building is a raw canvas for painters, filmmakers, photographers, sculptors, dancers, skaters, etc. They promote free courses, workshops, daily offer of film screenings, art exhibitions and performances and all organized in a quite ad-hoc manner. People can also leave any second hand clothes and come away with other. Dance and salsa nights are organized on every weekend. All activities at the Tabacalera are free and there really is a buzz about the place at the moment.

Besides these activities, Tabacalera is also a “free culture” producer, where people work in groups or individually with art. There is also a heavy collaborative philosophy and sharing believes behind its activities.

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65 http://defiendelo.patiomaravillas.net/
66 http://latabacalera.net/c-s-a-la-tabacalera-de-lavapies
2.2.5. Other Examples of Collaborative Consumption Systems in the World

In the following section, we include a list of companies involved in the Collaborative Consumption system, a short-description of their model and their key success factors.

2.2.5.1. Product Service Systems (PSS)

Peer-to-Peer Rental

**Zilok**[^1] An online marketplace that allows individuals and professionals to list any kind of items for rent, so that anyone can rent them. It shows listings of all the items for rent in a given location along with their price, conditions and available dates, conveniently mapped around the location of the user. Individuals, groups, public organizations or associations can all join our community. Located in US, France, Belgium, Netherlands, UK and Luxembourg.

Registering in Zilok is free. However, renters must pay a retainer fee paid to reserve a rental object from its owner and receive the owner contact information. For Zilok to hold a retainer fee, renters must enter payment information (credit cards, Paypal and ClickandBuy are accepted). The retainer system allows renters to make specific and committed inquiries to rental items owners.

If the transaction goes through and is not canceled within three days of its confirmation, the retainer is charged from the renter’s account. The balance (total rental amount minus the retainer fee) is due and paid directly to the owner when meeting for the rental item pick up. The method of payment between the owner and the renter is set by the owner of the rental items, and should be clearly indicated on the item listing.

In case something goes wrong, such as loss, damage or no show at rental point, a rental contract, or agreement, is established between the owner and the renter to confirm the deal and its conditions. This contract is available for display within the description of the items listed for rent. The consequences of an incident are governed by this contract and of course by any legislation that is in effect. Zilok also provides a standard contract that individuals are free to use, that includes all the essential clauses of a classic rental agreement. In case of loss or damage of the rented item, the clauses regarding the security deposit are particularly helpful to resolve the issue. The security deposit amount is set by the owner.

Zilok has an evaluation system for every transaction completed in order to enable trust and confidence within the Zilok community. There are three elements that are evaluated as follows:

- The owner who has posted his item for rent
- The renter who has rented the item
- The quality and description accuracy of the rented item

This triple evaluation is very important for Zilok, and the site is designed to make it easy for members to quickly give an evaluation of their rental transactions.

The product description page will display these evaluations, and the profile page of each member will show their evaluations as a renter and/or an owner.

**Picture 11. How Zilok Works**

Source: “How does it work?”, Zilok Support Explanation

**Neighborhood Rental**

*EcoModo* - Currently operating in Great Britain, *Ecomodo* is an online marketplace that lets you lend and borrow each other’s everyday objects, skills and spaces with confidence. Items to lend are as follows:

- everyday objects such as an electric drill, hedge cutter, baby chair, tent, foot spa
- your skills such as guitar lessons, computer repair, gardening advice, DJ
- your spaces such as a garage, a car parking space, classroom, beach hut

Individuals wanting to lend or burrow must register. Registering and listing items is free. Users must provide some contact information, such as full name, contact details, a screen name and a *Paypal* e-mail address to pass fees. Lending may be free, for a fee or for charity and *Ecomodo* facilitates the transaction to make good returns for all. *Ecomodo* takes a small cut of every fee transaction.

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68 http://us.zilok.com/support/explanation/
69 http://www.ecomodo.com/pages/info_about.aspx

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Ecomodo advises lenders to have a deposit taken and / or include insurance; therefore, in event that something does go wrong they may be compensated. The system recommends a deposit of 20% of the value of the item. Lenders may raise the deposit amount before the item is booked. If lenders wish to have more cover for an item and it’s replacement value is over £50 you may wish to include our insurance option.

Lenders and burrowers may provide feedback on the transaction after it has happened to encourage trust among members.

On Ecomodo people can create lending circles that use existing community connections to help feel more confident about who they are lending and borrowing with. As a member of Ecomodo you can join lending circles that are already set-up or create your own and invite others to join you. You can belong to as many lending circles as you want to fit your life and the communities you hang out in.

NeighborGoods70 - A community that aims to save money and resources while strengthening local communities by sharing stuff with friends and neighbors. It works as an online inventory listing goods available and wish lists from individuals in your neighborhood.

Borrowing and lending items is free of charge. Members may charge a deposit or a rental fee for the use of their items but NeighborGoods does not charge transaction fees. Members also have the flexibility to decide whom they want to share with (e.g., only friends or friends and neighbors).

NeighborGoods helps facilitate transactions with a reservation calendar, automated reminders, wishlist alerts, and private messaging between neighbors. NeighborGoods keeps track of all your stuff.

Through peer ratings and reviews, NeighborGoods provides members with all the tools they need to share safely and confidently. NeighborGoods also verifies members for an additional layer of security.

Members may choose to verify their account for $4.99. The verification system builds more trust into the network and provides verified members with access to more items. Verification is optional.

Car or Ride Sharing

Of all the stuff (tangible or intangible assets) that people are willing to share, transportation is the oldest and fastest growing area, according to a study of the new sharing economy performed by Latitude (a team of people that provides creative research for leaders in content, technology and learning) in collaboration with Shareable (an online magazine and community about sharing).

70 http://neighborgoods.net/about
Transportation is also one of the greatest areas of opportunity for new sharing businesses because there are not that many sharing services in the automobile industry and a large number of people are currently either sharing casually or not sharing at all but would be interested in sharing. People are most interested in sharing infrequent-use items that have a high barrier to ownership or a high burden of ownership. This is the primary reason car-sharing has met with such success over recent years. The picture below depicts the evolution of the car market sector.

Picture 12. Evolution of the Car Market Sector

![Car Sharing Evolution](image)

Source: “What’s Mine is Yours: The Rise of Collaborative Consumption”

Car sharing:

**ZipCar** - Cars are located in several central points in a city. Individuals become members and are then allowed to rent, “share”, a car for a couple of hours or days depending on their needs. It is currently located in more than 50 cities in Canada, US and UK.

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72 [http://www.zipcar.com/about/](http://www.zipcar.com/about/)

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[http://www.eoi.es](http://www.eoi.es)
Ride Sharing:

Zimride\textsuperscript{73} Individuals in a social network do car-pooling. For example, Zimride is a network that connects individuals on college, universities or corporate communities.

P2P Rental:

Drive My Car- An online community connecting car owners looking for extra income and drivers looking for an alternative to higher priced, conventional car rental companies, who offer less variety of car makes and models. Registration online is free. Car owners pay an Annual Listing Fee of $25 per car. Drivers pay the advertised car rental including insurance, daily rental, administration, insurance and any optional services such as Roadside Assistance. To confirm a booking the Driver pays a deposit online (15%) and the balance of the rental is paid directly to the Car Owner via Paypal, Direct Debit or Cash. Currently located in Australia.\textsuperscript{74}

2.2.5.2. Redistribution Markets

Old-Market Places

eBay\textsuperscript{75} - Sale of used or new items and novelty products. There are different ways of buying at eBay, such as:

- Auction-Style Format: purchases happen through bids
- Buy It Now: buy items immediately at a fixed price
- Classified Ads: connect buyers and sellers who then complete the sale outside of eBay

All buyers and sellers must register. Registering is free. For the auction-style and fixed price format listings there is an insertion fee for listing the item and a final value fee when the item sells. In addition, there are optional feature fees for reservation, buy it now, listing upgrade, eBay picture hosting and seller tools fees.

Payment methods are defined by the seller. Most sellers accept Paypal because it transfers funds immediately and items may be shipped right away instead of waiting for funds to clear. Other methods of payment include credit or debit card, moneybookers, paymate, propay, pay upon pickup, escrow, money orders, checks or bank wire transfers.

For each transaction, buyers and sellers can leave feedback for each other. Feedback represents an individuals’ reputation as an eBay member. The feedback is made of comments and ratings left by other members you have bought from or sold to. The auction-style and buy it now purchases are backed up by eBay feedback and problem resolution services.

\textsuperscript{73} http://www.zimride.com/
\textsuperscript{74} http://www.drivemycarrentals.com.au/About
\textsuperscript{75} http://www.ebayinc.com/
**Craigslist**\(^{76}\) - Online Website where people post ads of goods or services for sale or purchase. Examples: tickets to attractions, apartments, electronics and many more. Currently located in the America, Europe, Asia, Middle East, Africa and Oceania.

*Craigslist* has eliminated the use of a middleman; therefore, allowing buyers or sellers to contact each other directly and agree on payment and exchange methods.

**New Market Places**

**Points Exchanges:**

**BarterQuest**\(^{77}\) - An online US-based platform founded in 2006 where people can trade and barter goods, services and real estate. Individuals must register to browse for items and post, but will not be able to trade until they verify their account. Registration is completely free and there are no trading or listing fees. All users must verify their accounts (a fee of $9.99), to enhance site security by better assuring that your trading partners are who they say they are. Verification increases the confidence of others to trade with you. Verification may be done through *Paypal* account or credit card.

Points are a non-cash exchange currency issued by *BarterQuest*. The principal use of points is to equalize the value of a trade, for example, my item plus 10 points for your item. Consequently, points are best utilized when the parties believe that there is a significant difference in the value of the items to be traded. You cannot initiate a trade by making an offer and requesting only points. One point equals $1.

You can redeem points at any time for cash (U.S. dollars), unless the points were provided to you as a promotion. Promotional or bonus points can be redeemed by any user to whom such points are transferred. You may purchase and transfer points without a fee.

A transfer fee will be charged to the user who receives points. The transfer fee is expressed as a percentage of the total value of the points transferred plus a minimum charge for each transaction. The higher the points value, the lower the percentage. The transfer fee will be paid as a deduction from the points received.

A redemption fee will be charged at the time points are redeemed for cash. The redemption fee is expressed as a percentage of the value of the points redeemed plus a minimum charge for each transaction.

Shipping and timely delivery is the responsibility of the one giving away a good or service. Trust is guaranteed by the verification of the accounts, Terms of Use, Secure Payment, profiles of the users and a system of confirmation when trading.

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\(^{76}\) [http://www.craigslist.org/about/](http://www.craigslist.org/about/)

\(^{77}\) [http://www.barterquest.com/home/article/faq](http://www.barterquest.com/home/article/faq)

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[http://www.eoi.es](http://www.eoi.es)
**UISwap** - An online website that allows selling, trading, batering and purchasing of items or services. **UISwap** emphasizes detailed user profiles and enables live chat sessions with whomever you are dealing with. **UISwap** hopes that a community will be built where people can deal with each other online with the same feeling we have in our daily lives whether it involves purchasing a car, insurance, clothes or any other product or service. Therefore, **UISwap** has reated a forum for sellers to include their profile along with their product description. Thus, giving an opportunity to learn about the seller before making a purchase.

Joining **UISWAP** is free. Listing your services or products is free. Negotiating and chatting is free. Making offers is free. Completing any transaction for a trade or purchase is free.

Secure Swap is a way to trade your items securely. The way it works is that if a user has selected to securely trade their item by selecting it as a Secure Swap item, the other party is required to submit a deposit to UISWAP for the estimated value amount of the item, which is being requested. There is an additional $10.00 charge per party for each secure swap transaction.

**SwapSimple** - Online platform created in 2003 enabling swaps of books, DVDs and video games for free by using points, without any buying or selling, in the United States only. **SwapSimple** was initially created to positively impact the lives of students and families across the United States, by giving all students the ability to afford the textbooks which are so vital to their education, while concurrently enabling avid book readers, movie collectors and video gamers to constantly refresh their collections at minimal cost. The owners monitor and guarantee each trade in order for the clients to enjoy full trade security.

**Swap/Barter Exchanges:**

**Swapstyle** - Online platform for women around the world, created in 2004, where members can swap clothes, accessories, shoes, style tips, books, make up and more for free. One way of guaranteeing the trust between members is the Address Verification. By paying 10 dollars you can ask the website to send you a letter with a code and this code will confirm the address you mention is correct.

**U-Exchange** - A Swap Site specialized in all types of bartering including goods, services, home exchange (permanent or vacation), vehicles, boats, motorcycles, real estate and more. No barter currencies or commissions are taken on trades and membership is free. The user can contact, post and swap with other members. It is one of the most successful and largest of all swap sites and saw a 70% increase in new members in 2008.

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78 http://www.uiswap.com/about-uiswap.php
79 http://www.uiswap.com/howit-works.php
80 http://www.swapsimple.com/about-used-textbooks.jsp
81 http://www.swapstyle.com/about_us.php
82 http://www.u-exchange.com/howitworks

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**Neighborgoods**\(^{83}\) - A U.S. online platform created in 2011 where members can borrow and rent “stuff” with their friends. In order to guarantee trust they have sharing guidelines, Terms of Service, members must be 18 years old and US citizens.

**Swap**\(^{84}\) - Individuals list items that they have for swap, such as books, music, movies or games (soon they will be bringing cloth swapping), and the items they want to obtain. The computer then matches individuals and you can go ahead and trade. Initially, the costs associated were a swapping fee, as less as $0.50 or as much as $3.20, and shipping. As of June 2011, Swap notified their members that they were removing the swapping fee. No money exchanged between swappers. *Swap* is only available in the US.

**ThredUP**\(^{86}\) - A peer-to-peer kids clothing exchange on the web. The swapping platform helps parents exchange clothes their kids no longer wear, for new clothes that fit. The service aims to bring a new level of affordability, convenience and eco-consciousness to a billion-dollar market for second-hand children’s clothing. A member logs on and browses boxes of kids clothing, picking one that best meets their criteria. That same member prepares a box of gently worn kids clothes and lists it on *thredUP*. When a box is picked, the listing member sends it on request. *ThredUP*

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\(^{83}\) [http://neighborgoods.net/about](http://neighborgoods.net/about)

\(^{84}\) [http://www.swap.com/about-us/](http://www.swap.com/about-us/)

\(^{85}\) [http://www.swap.com/how-to-swap/](http://www.swap.com/how-to-swap/)

\(^{86}\) [http://www.thredup.com/about](http://www.thredup.com/about)

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coordinates the home pick-up and delivery of all boxes so exchanges are completed from home. Every box purchased costs a $5 flat fee.

2.2.5.3. Collaborative Lifestyles

Travel

AirBNB\(^{87}\) - They connect people who have space to spare with those who are looking for a place to stay. Offering a diversity of accommodations - from private homes to private islands in over 8,000 cities in 166 countries. It is free to list and you pay 3% only when you receive a successful booking.

Knowledge

HorsesMouth\(^{88}\) - An online website of informal mentoring learning. Private one-to-one mentoring relationships between private individuals sharing the wisdom from their personal experiences. Mentors may be professionals in their own right, but when registering they are operating in a personal capacity and profile themselves according to their own perspective. Horsesmouth does not host discussion forums or chatrooms - conversations are one-to-one and people can choose who to talk to via their profiles. However, people are encouraged to share their conversations with the community and to publish their 'Pearls of wisdom' for all members to browse. Horsesmouth does not offer professional advice. It’s free for mentor and mentees. Edge, the independent, charitable foundation devoted to raising the status of practical and vocational learning, has provided funding to help launch Horsesmouth.

Social Lending

ZOPA\(^{89}\) - The system will match money from Lenders who are prepared to offer their money to potential Borrowers as a function of the risk and loan term, hence the name Zone of Possible Agreement. Matching is done on a many-to-one basis, so that each lender's loan is spread across many borrowers, thus reducing the effect of any defaults.

In listings the potential borrower is able to state their reasons for wanting to borrow money, along with their preferred interest rate and repayment period. Lenders offer funds to the potential borrower in a reverse-auction where the lowest interest rates win. The borrower is then able to accept or reject the loan. Borrowers from listings undergo the same underwriting checks as

87 http://www.airbnb.com/home/about
88 http://www.horsesmouth.co.uk/publisha.content/info/about_us.publisha

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markets borrowers, with the exception of an Affordability Check (though a system of stars is provided for lenders to assess this). 90

For borrowers the loans are very flexible, allowing variation of monthly payments and early repayments without penalty. For lenders, their money is committed for the duration of the loan, with no way to exit early unless the borrower chooses to repay early.

The bad debt risks are taken by the lenders, and priced into the rate offered to borrowers. If a borrower defaults, the debt is normally sold to a debt collection agency and lenders will be paid a portion of any money recovered. Zopa Markets applicants have slightly worse credit profiles than the UK average but the very strict underwriting and possibly the human to human lending and benign economy have resulted in very low default rates, well below the estimates used by Zopa.

Both borrowers and lenders are charged fees by Zopa. It charges the borrower a fixed fee of £124.50 for each loan (whether from Markets or Listings). Before 6 April 2010 this fee was £118.50 and prior to 5 April 2008 the fee was a variable 0.5% of the loan value. New lenders currently pay an annual fee of 1% of the amount lent, which is deducted monthly from the lender’s account. The lender fee was 0.5% for lenders who joined before August 2008. Founder Members are exempt from the lender fee.

2.3. Key success factors of the Collaborate Consumption Systems

Based on the research performed of several Collaborative Consumption systems in Spain and around the world, we can conclude that the key success factors for our social business model will include trust, critical mass, idle capacity, quality and value. Each of them are presented in this section.

2.3.1. Trust

A main concern within the Collaborative Consumption systems, in particular the Collaborative Lifestyles system, is trust among individuals with whom individuals will be sharing, lending, trading, swapping, or exchanging products, services, skills and/or knowledge. As mentioned before, trust is must important to the Collaborative Lifestyles because it involves a high degree of human interaction.

All the systems evaluated have implemented security systems to build trust among their members. These security systems guarantee ensure that the transactions are safe and goods and services are of good quality. Some examples of security systems include the following:

- Required registration to include full name, email and picture.


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• Integration with other Networks: many systems are giving to users to register using their Facebook, Twitter or Linkedin account.

• Verification through email, cell phone or credit card information to validate that users are who they say they are.

• Deposits or transaction fees are charged through credit card or Paypal to guarantee that the exchange takes place, goods are used appropriately and goods are returned.

• Peer-to-peer review systems encourage members to provide feedback to other members after the transaction to take place. This security tool has resulted extremely effective because members highly value their reputation and understand that a bad review will lose face.

• Circles of Trust are when individuals, who previously had some type of personal connection, form a group to exchange among themselves. A particular may join a circle through another members’ recommendation or through evaluation of the Circle Administrator.

2.3.2. Critical Mass
As mentioned before, a main driver for Collaborative Consumption movement is reaching the critical mass. Based on the above research of the Collaborative Consumptions systems (i.e., PSS, RM, CL), these systems are successful because they have myriad of members participating in the swapping, renting, bartering, exchanging, sharing, etc. The more members participating in the system, the higher the probabilities for people to find what they are looking for.

How is critical mass achieved? Well, there is no one correct answer to this question. All of the systems have reached their critical mass at different points in time and through different strategies. Nonetheless, the rapid spread of word-of-mouth has without a doubt influenced. The rapid spread of word-of-mouth has been possible thanks to the proliferation of new technologies, such as smart phones, apps, QR codes, next generation reputation systems, etc., and online social networks which help create efficient communication channels among users.

Given that importance of critical mass, our marketing will have a strong focus on social media. Social media facilitates the rapid spread of word-of-mouth, which will help us reach our critical mass. For further details refer to Chapter 6 (Marketing & Communication).

2.3.3. Idle Capacity
Based on our market research, individuals are interested in swapping items of high idle capacity such as household appliance, electronics and books. All these items have a long useful life but are not used frequently. Therefore, this is an opportunity for our business to redistribute goods from people who don’t need them anymore to others who may need or want them.
2.3.4. Quality
The goods and services shared must be of good quality so individuals are motivated to participate. If the items are not working properly or don’t have a good aspect, the people will not share and the system will fail. Therefore, all members participating must abide to the golden rule. In other words, you must only share and swap those goods or services that you would want to receive because they will fulfill your needs and wants.

2.3.5. Value
Whether individuals are selling, renting, swapping, bartering, trading or exchanging, they want to receive equal value for what they are willing to give up. This success factor is closely related to the critical mass. If there is a large pool of members sharing goods and services in the system, the higher the probability everyone will find something that they want and like.
3. The solution

Our business solution is to create a social enterprise that aims to raise awareness about hyper-consumption and encourage individuals to become more conscious and smarter consumers through the creation of a physical and online network where individuals can participate and interact with each other to share goods, skills and knowledge. The name of our social enterprise is “Shared Consumption (SharCo)”. As SharCo, we envision a world where production and consumption systems are sustainable and communities, the driving actors of the economy, value more the access to benefits than the individual ownership.

We have chosen Madrid, Spain, as our target city given that we are all living here at the moment. Based on the results from interviews and surveys conducted, we have identified what Madrileños are more interested in sharing and motivational drivers for sharing. Refer to chapter 4 - “Marketing Research” for further details. In order to satisfy the needs and wants of Madrileños, we have decided to have a physical space and an online network for individuals to share.

In this chapter the different sharing mechanisms, the membership, the physical location, the online network and the earned-income strategies are presented into further details.

3.1. Sharing Mechanisms

One of our main objectives is to attract many people to join our network (both physical and online) of collaboration to promote sharing of tangible (e.g., goods) and intangible (e.g., skills and knowledge) assets among them. Individuals may share many different forms, such as lending, renting, bartering, swapping, trading, donating, gifting, etc. Therefore, in this section we will explain the sharing mechanisms we have selected for our social enterprise and the collaborative consumption systems we best fit under.

3.1.1. Renting

The renting involves borrowing of durable goods or physical working space in exchange of points (1 point = 1 Euro). Points may be obtained in two ways, as follows:

- Giving away ownership of unused durable goods to SharCo’s warehouse
- Purchase of points with money
- (For more details on the points mechanism, refer to Chapter 5 - Operational Structure)
- The value points of goods will be determined by us based on the following:
  - Type of goods (e.g., ski equipment vs. driller),
  - Good market value (original sale price)
• Good model/version
• Good purchase year
• Goods condition (e.g., new, fairly new, used, refurbished, etc.)
• Goods usage rate/frequency (e.g., used daily, monthly, etc.).
• Rental period of time

The renting transactions will take place only between SharCo and its members. This means that SharCo will own multiple durable goods and physical working space which will be shared among several people.

The sharing of multiple durable goods among several people, which are owned by one company (e.g., SharCo) is known as the Product Service System. The sharing of physical working space is known as Collaborative Lifestyle System. Refer to Chapter 2.2 for more details on the collaborative consumption systems.

**Picture 14: Renting Mechanism**

Source: “What’s Mine is Yours: The Rise of Collaboration Consumption”

### 3.1.2. Swapping

The swapping involves exchanging of durable goods, skills or knowledge. The swapping transactions may take place in two ways, as follows:

• Exchanging tangible or intangible assets for other tangible or intangible assets
• Exchanging tangible or intangible assets for points (1 point = 1 Euro)
• As we mentioned before, points may be obtained through the following:
• Give-aways of unused durable goods in good condition to SharCo’s warehouse
• Sharing skills or knowledge
• For purchase in exchange of money
The swapping transactions will only take place between members. Individuals will be able to contact each other through our website and agree on the swapping exchange mechanism (i.e., swap for durable goods, skills or knowledge or swap for points).

The durable goods, skills and knowledge will have a suggested value in points (e.g., iPod Nano 8GB, 3rd Generation = 100 points) to simplify swapping transactions among members. The points will serve as an exchange-currency and as a framework of reference indicating members the value or cost of something.

The value of the durable goods, skills and knowledge will be determined by members. Nonetheless, if members do not know how to determine a fair value, we will help them set an appropriate value for their goods, skills or knowledge using a “value calculator”.

The durable goods value calculator will consider the following:

- Good new market value (original sale price)
- Goods model/version
- Goods purchase year
- Goods condition (e.g., new, fairly new, used, refurbished, etc.)
- Goods usage rate/frequency (e.g., used daily, monthly, etc.).

The skills and knowledge value calculator will consider the following:

- Skills or knowledge market value (e.g., real market-value of a French or Yoga class)
- Number of hours
- Complexity (e.g., legal advice versus baking lessons)

The sharing or redistribution of durable goods among individuals is known as the Redistribution Market System. The sharing of skills and knowledge is known as Collaborative Lifestyle System. Refer to section 2.2. for more details on the collaborative consumption systems.

**Picture 15: Swapping Mechanism**

Source: “What’s Mine is Yours: The Rise of Collaboration Consumption”

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3.2. Membership

Individuals must register and become members of SharCo to participate in the physical and online platform. We have defined three membership levels to provide future users a variety of benefits depending on their level of participation. The three levels of membership are as follows: basic, silver, and gold. Basic membership will be free because we want to promote sharing and provide people accessibility to more goods and services. Silver and gold membership will include additional benefits at a cost.

Users will have the option to choose their desired level and length of membership. Users will not be obliged by a contract to be a silver or gold member for a defined period of time (e.g., three-month, six-month, one-year membership) because we believe our users need flexibility to decide what works best for them. This is why they will be able to decide every month the type of membership. The membership levels and the benefits for each include the following:

- **Basic (Free)**
  - Access to the classes and warehouse of goods
  - Rent rooms for individual working space. (Renting must be done through the purchase of points. Refer to Chapter 5 - Operational Structure, for a detailed explanation on the Points System)
  - Free Wi-Fi for 1 hour/day

- **Silver (10 Euros/month)**
  - Same as basic; and
  - Early registration to all events and classes
  - Priority access to rooms in the physical location
  - Free Wi-Fi for 3 hours/day

Two free deliveries of items per month (Individuals must be within a 10 km radius)

- **Gold (20 Euros/month)**
  - Same as Silver; and
  - Attend free one event per month
  - Free Unlimited Wi-Fi
3.3. Physical Location

The physical location will be a trendy and hip place for people to come together. It will include a warehouse of goods available for sharing, an open space with working areas for people to share their skills and knowledge and a comfortable cafeteria area with couches for people to network.

The physical location will only be available for members. All members must register online through our website. Since the physical location will have WiFi, people who walk-in our physical location may enter and join.

Once a week, we will open our doors to everyone, so people can come visit our physical location, interact with our members and ourselves, and learn more about who we are and what we do. These events will be free.

3.3.1. Events

We will also organize internal and external events. Internal events will be developed by us to promote SharCo, our values and raise awareness regarding sustainability issues (i.e., environmental, social, governance and ethical topics). External events will be for members or non-members who wish to organize an event at our location. External members’ events must be related with our values and principles.

Members who organize their event at our location may receive or pay points depending on the purpose of the event, whether it’s general knowledge or private business sharing.

If the event is general knowledge (e.g., member will discuss about climate change) and they are do it to share with others, then they will receive points. The amounts of points received will depend on the topic, the length of the event and the number of attendees. Members and non-members may attend these events, but they will have to pay points. The amount of points will depend on the topic and length of event.

If the event is in the private interest of the member (e.g., member just published a book and is doing a book reading), then members must pay with points to rent out the space at our physical location. The rent prices will depend on the length of the event. Members’ invitees will not have to pay to attend.

Non-members who organize their event at our location will have to join SharCo first (a simple registration - name and email, may be done to avoid hassles or barriers of entry). Similar to members, they may receive or pay points depending on the purpose of the event.

3.3.2. Knowledge & Skills Sharing

There will be a board at the physical location and a calendar online listing all the knowledge and skills available for sharing. The sharing of knowledge and skills will be among members and they will have the option to develop their classes/workshops of sharing at our physical location.
Both members and non-members may attend the workshops. All classes/workshops will be valued by the individuals conducting the sessions. If members do not know how to determine a fair value, we will help them set an appropriate value of their classes/workshops (refer to section 3.1.1. for more details on the value calculator). All other members attending the classes/workshops will have to pay with points to registering.

Members may register for the classes online. Non-members may also register online, but they will have to become a member first. If non-members do not want to join online, they can walk-in to our physical location to register and purchase the points.

3.3.3. Goods Sharing

In the warehouse of goods, we will include durable goods (tangible goods that yield utility over time rather than being completely consumed after one use) with high idle capacity (capacity of use is high but actual utilization rate is low), easiness of transportation (hand-carried) and storage.

Good must be durable because the intention of our business is for goods to be used more than once and shared by several individuals. Therefore, it will increase their total utility. We want to redistribute goods from places they are no longer used to people who want and need them.

These durable goods must have a high in idle capacity because goods that are used frequently (e.g., every day) are less likely to be shared among individuals. Durable goods that are used less frequently and stored most of the time, such as a drill, are more likely to be shared. Our business will increase utility of goods and reduce the necessity of storage or disposal.

Goods must be easy to transport to avoid shipments or car transportation. We are an environmentally conscious business and shipments involve CO₂ emissions. Additionally, we will have a small warehouse initially and it is more convenient to have small items that are easy to store and carry.

Some examples include the following:

- Books and magazines
- Electronics (e.g., radios, dvds, cellphones, e-readers, video games, etc.)
- Household appliances (e.g., irons, drills, blenders, small ovens, toaster, coffee maker, tea pot, etc.)
- Sport goods (e.g., balls, rackets, roller blades, etc.)
- Events Equipment (e.g., speakers)
- Music Equipment (e.g., guitar, violin, etc.)
To build our inventory of goods, we will do an advertising campaign across Madrid asking people to donate those durable goods that still work properly and they no longer use in exchange for points.

All the goods in our warehouse will be listed on our online network to keep a good inventory track. Members may access the list online and come by our physical location to rent them in exchange of points (1 point = 1 euro). The value of goods will be determined by us (refer to Section 3.1.1. for more details on the value calculator).

3.4. Online Network

The online network will be a social network where members can create their own profile to share goods, knowledge and skills while building a stronger community.

When users register on our website, they will be given the option to enter all their information manually or integrate their accounts with other social networks, such as Facebook, Twitter or LinkedIn. As we discussed in Chapter 2 - Current Situation, two of the main drivers of collaborative consumption movements is critical mass. An effective way to build critical mass is through word-of-mouth viral spread through social networks. By giving our members the option to join-up through Facebook and Twitter we become visible to their network of people. It also facilitates our members to share their participation and interaction within SharCo, thus, exerting some curiosity or influence on their friends. We will further discuss our role in social networks in Chapter 5 - Operational Structure.

As we have discussed in Chapter 2 trust is one of the main drivers for Collaborative Consumption systems and if not addressed properly it may become a constraint. Therefore, we have adopted several measures to guarantee trust and safety among our members. Verification will be done as follows:

**Members must enter personal information, such as full name, address, phone number, email and picture. This information will not be released to other members or organizations. This technique**
may not always be efficient as members may enter false information and there is no certification or authentication of information from a third-party. Nonetheless, this is always the a good first step to request users to identify with the community.

A welcome phone call will be made to all members to ask them about their motivations to join, explain what services and events are offered and inquire about their interests. This technique may be cost and time effective at the beginning of our business, when the number of customers joining is low. Nonetheless, this may time constraining and labor intensive. Therefore, as our business grows we may phase out this technique and move to automated welcome emails.

Members will have the option to register using their corporate email if they have one. Corporate emails enhance a users’ credibility. As we will see in Chapter 5 - Operational Structure, we intend to partner with other organizations. These organizations may then promote our website to their employees and encourage them to use their corporate email. A reason why a company may agree to this is to advertise their social responsibility activities internally and externally.

Peer-to-peer review system for members to post reviews and comments regarding the effectiveness of the transactions and the peer-to-peer interactions. This review system will include several levels of trust; therefore, encouraging people to keep providing feedback and build on their reputation. Based on our research (refer to Chapter 2 - Other Examples of Collaborative Consumption Systems in the World), CouchSurfing has one the best review systems and is very detailed. Therefore, we will use their safety model as a basis to define our peer-to-peer review system. The system will operate as follows:

References: are feedback members write on each other’s profiles describing their experiences with one another. A member cannot delete or change any references left for them. References provide insight into a member’s actions within the community and are a valuable tool for predicting what they would be like if you met them yourself.

Vouching: shows a strong bond between two members and is a carefully considered sign of trust. A member’s vouch says that they stand behind another member and their actions. Anything that a member does, whether good or bad, reflects on those who have vouched for them, so this tool is used very carefully.

Identity Verification: it is a system that lets members contribute to the community’s safety in a few different ways. First, verified members have all made a donation to help SharCo keep running, so they’ve demonstrated that they care about the community. Second, they’ve confirmed both their identity and physical location, indicating that they are who they say they are. The Verification system makes it much more difficult for someone to misrepresent themselves as a member. The verification works as follows:

References:
91 http://www.couchsurfing.org/safety.html
92 http://www.couchsurfing.org/safety.html

EOI Escuela de Organización Industrial
http://www.eoi.es
Identity is verified through a secure credit-card donation transaction. Member’s profile will then be updated with an “Identity Check” status bar.

Location is verified by sending a postcard with a verification code to the member’s billing address (P.O. Box addresses are not allowed to be entered). The verification code is then entered in our website and the member is verified.

Circles of Trust: Members may form groups to include individuals with whom they had previous community connections (e.g., family, friends, colleagues, neighbors, etc.). Therefore, allowing our members to share only with those individuals they want.

Members will value their own durable goods, skills and knowledge in points (1 point = 1 Euro). If members do not know how to determine a fair value, we will help them set an appropriate value through the a value Calculator (refer to section 3.1.2 for more details).

All the transactions will be local to avoid greenhouse emissions and for building a sense of community.

3.4.1. Knowledge & Skills Sharing

Members will be allowed to post a description of the intangible assets they posses (“I Have” list) and they ones they would like to obtain (“I Want” list). Our website will include a matching feature option which will match a member’s haves with another member’s wants (e.g., members enter their “I Want” and “I Have” lists and then hit the “match” button).

From that point on, members will contact each other via their preferred channel of communication (i.e., telephone, email) to discuss the exchange.

Unlike the exchanges in the physical location, which happen in-house, the exchanges online have no limits since it could be face-to-face, telephone, Skype, or simply sharing documents, such as pod-casts, power point presentations, documents, etc.

3.4.2. Goods Sharing

Unlike the physical location, any durable goods with high idle capacity and in proper condition may be traded. However, shipping of items will not be an option in order to avoid greenhouse emissions.

Members will be given the flexibility to decide on the type of exchange (e.g., barter/swap or points exchange). All members will have an “I Have” and “I want” list and our website will be designed to make automatic matches to avoid members from searching for what they are looking for. The results will return however many matches were found and members may choose who to contact and trade with. Members may contact each other through their preferred channel of communication (e.g., email, phone, Skype, etc.).
3.5. **Earned-Income Strategies**

Our main sources of revenue in the first year will come from the following sources:

- **Online advertising on our webpage** - We will allow other businesses, organizations or individuals to advertise in our website.

- **Membership Fee** - Everyone can join and become a basic member for free. However, there will be other membership levels (e.g., basic, silver, gold) and these will incur a fee depending on the level.

- **Purchase of points from members and non-members** - Points may be used for renting or exchanging goods, attending events or classes and rental of working space. (*Points may not be used to purchase food or beverages at the cafeteria*)
  - All non-members must purchase points to attend events or classes
  - Members who don’t have points will have to purchase points to attend classes or rent items.

- **Cafeteria outsourcing**

- **iPhone application**

- **Donations** - After every transaction, members will be asked if they would like to donate a 10% to cover operational costs of SharCo

- **Verification of Members** - We will offer an optional verification for members who want to increase safety in our community and support our business. The identity verification will be done through credit-card donations.

- **Franchises** - As we have discussed in Chapter 2, collaborative consumption is a movement on the rise and has the potential of becoming mainstream. The collaborative consumption systems are growing fast because of their capacity to reach a huge critical mass. As our social enterprise grows, there will be individuals in other cities demanding systems like ours. Therefore, we will offer these social entrepreneurs the option to purchase our registered brand (SharCo) so they can operate with our name in their own cities.
4. Market Research

This chapter on market research will be divided into four sections. The first section explains the procedure used for the market research, which includes a survey and open interviews. The second and third sections present respectively the results and conclusions of the survey. The last section presents the results and conclusions of the interviews.

4.1. Market Research Procedure

In order to identify the needs and characteristics of the population of Madrid, a behavioral survey and four open interviews were undertaken with local residents. This market research has given support to understand local consumption habits, the level collaborative culture and consequently the acceptance of SharCo in the area. It also gave background data and insights to develop the strategic business analysis, as it enabled the identification of opportunities and threats in the selected region.

The investigation was developed in order to grasp four main important issues for the development of the project, which are the following:

- **Consumption Habits:** For a better understanding about people’s consumption habits, particularly what, how, how much, why and how long do people consume particular durable goods. Additionally, this part of the investigation aims at finding out what happens to these durable goods once they are no longer used.

- **Sharing and Community Values:** This part of the investigation is in order to recognize what people value the most and what are their views on sharing, collaborating and the community.

- **Level of Environmental and Sustainability Awareness:** This part of the investigation aims at comprehending how aware and engaged people are regarding environmental and sustainability issues.

- **Social Relations:** This part of the investigation inquire about the level of cohesion among people, in particular how they organize themselves, at what frequency they meet other people and what they think of social relationships.

The survey was done using two different methods: the multiple-choice questionnaire and the open interview.

4.1.1. Questionnaire

A survey made of sixteen questions was developed by the team with the assistance of two professionals; Fernando Garrido - EOI Marketing Director, and Esperanza Campos - Bachelor in Publicity and Public Relations.
It was distributed by the team in the city of Madrid and throughout the Internet in order to reach a sample of 200 people. The survey has a confidence level of 95% and a standard error of 9.82%.

4.1.2. Open interview
Five open interviews – lasting each approximately one hour – were undertaken by the team with local residents. This was done in order to go in-depth into observations as well as to explore possible behavioral opportunities and constraints. The interview was composed of ten broad questions. The content of these questions is much more subjective and sensitive than those from the questionnaire, given that the interviewer is not constrained to closed question.

4.2. Questionnaire Results
The most useful conclusions drawn from the questionnaire regarding the feasibility of SharCo in the city are related to the following: the age range on which SharCo should focus, the sort of goods and services preferred by the population, the potential interest and engagement of people in this initiatives, the main constraints this sample usually encounters regarding collaborative platforms, the level of environmental awareness and the level of social organization. In this section, each one of these topics is explained into more details.

4.2.1. Age range
The survey covered five ranges of ages: “18 - 25”, “26 - 35”, “36 - 45”, “46 - 55” and “over 56”.

The three younger age ranges – from 18 to 45 – have shown more interest in collaborative initiatives than the older groups. Those who are older than 46 years old have shown themselves, on average, a little bit hesitant regarding collaborative consumption platforms.

In the group ranging from 18 to 25 years old, 81% affirm they are up to join sharing goods platforms, 91% services/skills platforms, and 79% collaborative communities associations. Within the group ranging from 26 to 35 years old this percentage remains high; 78% of them are interested in sharing goods platforms, 85% in services/skills platforms, and 76% in collaborative communities associations.

The older the sample of interviewees, the lower the willingness to participate in these networks. In the sample of people ranging from 36 to 45 years old, 75% were interested in sharing goods platforms, 77% in services/skills platforms, and 63% in collaborative communities associations. Those percentages remain high though. In the group of interviewees ranging from 46 to 55, the percentages are lower. As little as 37% would engage themselves in sharing goods platforms, 41% in services/skills platforms and 41% in collaborative communities associations. Finally, in the group of people older than 55 years, the percentages are relatively low: 31% for the willingness in goods and services platforms and 23% for the interest and potential engagement in collaborative communities associations.
4.2.2. Preferred goods and services

Two third of the interviewees (64%) assume that they store their belongings they no longer use at home. What they do not use and store are mainly household appliances (48%), books and magazines (26%) and sport equipments (32%). However, when talking about sharing, they show a great interest into sharing goods and services/skills if they had a proper platform that would enable it. Among the possible sharing items, the preferred options were services/skills (51%), books and magazines (55%) and household appliances (32%). The questions and results of the survey related to this topic are presented in the following pictures.

Picture 17. Question: “Of the durable goods you own, which do you rarely use?”

Picture 18. Question: “What would you like to share?”

Similar results are observed when they are asked about second-hand goods. They are mostly interested in acquiring second-hand household appliances, books and magazines, but in this case also electronic devices (55%). Showing that they are more individualistic regarding electronic goods, as they want to acquire them but not share them.

Concerning the possible collaborative platforms’ structures (see picture 19 hereunder), 48% of the sample state they would prefer both an online social network and a physical location, 25% prefer
an online social network only, 11% a physical location only and 14% of them are not interested in any kind of platform. It might reflect not just the need of the flexibility and facilities of the Internet in their daily lives, but also the necessity of a physical place where they can see, feel and touch what and whom they are dealing with. We would have expected the ranking of the option offering only the online platform to be higher, given the high virtual connectivity of people. Instead, we can observe 49% of people choosing for both platforms and 11% choosing for the physical platform. This can be explained both by the lack of trust on these platforms and a sociological need of strong human bonds. In Spain, people are less relying on online platforms only and seek the social relations and physical connections.

As one of the interviews show (see Javier de Corral’s interview), an attractive aspect of collaborative platforms is the human contact that they can provide to different types of people, having different cultural backgrounds but perhaps similar needs.

**Picture 19. Question: “What kind of network or exchange platform would you like?”**

![Diagram showing the percentage of preferences: 49% both, 26% online social network, 14% physical location, and 11% online social network only.]

### 4.2.3. Interest and engagement

Regarding the willingness to engage in Collaborative Consumption schemes (see pictures 20 and 21 hereunder), 70% of the people consulted affirm they would participate in sharing goods networks and 78% affirm they would also join sharing services networks. Besides, when they are asked if they would involve themselves in a community organization that embraces the Collaborative Consumption concept, they are also very positive with 63% of acceptance (see “4.2.6. The level of social organization in Madrid” and picture 26).
4.2.4. Main constraints regarding the collaborative platforms

This section is related to the main constraints this group of interviewees identifies in the existing collaborative platforms. The main constraints are quality of goods and services, trust, and inequality. Indeed, 66% of them said the doubtful quality of products and services represent the most important problems of these networks, 60% of them have identified trust and security as the main problem, and 27% of the sample identified uncertainty about equality and fairness of the transactions. Also, 14% have stated that these platforms do not provide all the services they need. Finally, 1% of them also pointed out other problems like long waiting time require obtaining the good or service.
The lack of trust between strangers can also be identified when asking about the way they are mostly sharing their goods, in case they do. A great part of the interviewees (77%) affirm they would prefer to share their objects with their own family. Less than 20% say they share with workmates, classmates, neighbors, friend of friends or complete strangers.

**Picture 23. Question: “Whom would you share your durable goods with?”**

From the pictures above (picture 22 and 23), we can conclude that people are concerned with quality of the items shared and trust between strangers. They can be translated in two decisive requirements for a successful sharing platform: quality standards supervision for goods and services provided and security policies.

There is a necessity to build a safe environment so that exchanges and social bonds can be generated between members, creating a collaborative atmosphere where people can rely and feel comfortable to interact.

**4.2.5. The level of environmental awareness**

In terms of the ecological level of engagement, the sample was asked if they would change their consumption habits in order to be more ecologically friendly. The results are very positive; 84% affirmed they would do it (see picture 24 hereunder), which is a great opportunity for SharCo.

**Picture 24. Question: “Would you reduce your consumption in order to be more ecologically friendly?”**
4.2.6. The level of social organization in Madrid

The level of social organization in Madrid appears to be very weak throughout the survey. When the interviewees are asked if they are member of any kind of social association as sport groups, scouts, NGO, religious groups, neighborhood association or others, 52% of the answers are negative. However, when asked if they would like to join a social group related with collaborative consumption, 63% of them answer positively. Those results are represented in pictures 25 and 26 hereunder.

Picture 25. Question: “Which groups do you belong to? You may select more than one.”

- Grupos de deportes: 21
- Scout: 42
- Voluntario en alg...: 63
- Grupo Religioso: 84
- Asociación de barrio: 105
- Ninguno: 0
- Other: 42

Picture 26. Question: “Would you like to be part of a social group in your community where you could share goods or services?”

- Si: 126
- No: 74

4.3. Questionnaire Conclusions

4.3.1. Social context findings

During the research, three important social aspects for the setting up of SharCo in Madrid were identified:

- A vast intention of change in consumption habits toward sustainability.
- A lack of strong community bond and organization.
• A good acceptance of collaborative consumption ideas among the sample, especially in younger population.

4.3.2. Target Group

Despite the positive conclusions drawn from the survey, Madrid is a very heterogenic city and results can vary considerably. For this reason, the concept of sharing goods and skills will be more accepted in areas where people are open-minded.

Therefore, SharCo will start and “SharCo’s seeds” can be planted in those areas where there is a higher certainty about those trends, initially in Chueca. From there, SharCo will be mainstreamed and spread all over Madrid and worldwide.

Another important topic to be taken into account is the diversity of people. In order for SharCo and collaborative consumption to be successful, it has to enable exchanges among all types of people, including persons with different income levels. The central idea is to facilitate the unity and cohesion between people having all types of backgrounds and, despite being different, aspire for a more sustainable living.

4.3.3. Possible Implementation Areas

According to the results of the market research, three areas in Madrid have been identified as adapted and full of options for SharCo’s first physical location. They are presented in this section. The requirements are a central location, a good accessibility from other areas of the city and an open-minded atmosphere.

The first one is Chueca, which is located just to the north of the central downtown of Madrid (see picture 27 hereunder). It is a very dynamic neighborhood with many street cafes and boutique shops. Its population and visitors are considered as middle to high-income people, very trendy, lively young and very inclusive, especially regarding sexual orientation.

The second one is Malasaña, which is also at the heart of Madrid and is easily accessible. It is famous for its creative artists, political activism and countercultural scene. Malasaña is an energetic neighborhood full of lively bars and clubs overflowed by young people. Its residents are considered as very engaged in social movements and aware of art and politics.

The third one is Lavapiés, which is located nearby Sol, in the very centre of Madrid. Lavapiés is a multicultural and diverse neighborhood whose population is composed by artists and immigrants. On average, it is a middle to low-income class area, but embracing a strong sense of community. It is also a rising trendy and young neighborhood.

Salamanca was also considered, as it is centrally located and perceived as “open-minded”. However, it was not selected because the majority of the people living in this neighborhood are
high-income and the rental prices are too high. High-income populations have less financial incentives to participate in sharing platforms than middle and low-income populations.

After this locations analysis, Chueca has been identified as the most suitable area to establish the first SharCo physical location. First, it has an open-minded atmosphere. Besides being cool, hip and trendy area, the people in this neighborhood are characterized by being innovative and creative, less conservative to old habits and customs and much more receptive to new ideas and trying different things. Second, the people who live in this neighborhood are middle-income class. Therefore, they have more financial incentives, especially in this current unemployment crisis, to be part of sharing platforms. Third, Chueca is located in the center of Madrid and it neighbors with Salamanca on the east, Malasaña on the west, Alonso Martínez on the north and Lavapies on the south (refer to picture below). Consequently, Chueca, is surrounded by neighborhoods with people from different income levels (i.e., Malasaña and Salamanca are high-income neighborhoods and Lavapies is a middle-to-low income neighborhood) which will bring diversity to SharCo.


Source: www.29072011.info

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Another reason why we have chosen Chueca is because there is no such thing as a sharing platform or network. Malasaña has Patio Maravilla and Lavapiés has Tabacaleras (refer to Chapter 2 for examples of collaborative systems). Therefore, when SharCo opens its doors, we would like to partner with associations like them to sum efforts towards a better and collaborative society (refer to chapter 6 for more details on partnerships).

4.4. Open Interviews Results and Conclusions

As explained previously, four in-depth interviews were performed to obtain qualitative information about consumption and collaboration trends in Madrid. The interviewees were selected according to what our selected target group: Individuals between 18 and 36 years old who are conscious about environmental problems.

Javier de Corral Villota

**Age:** 25 years old  
**Neighborhood:** Mira Sierra, North of Madrid (High class)

**Profile Overview:** Javier has a Bachelor’s degree in Environmental Science and currently doing a Master in Sustainable Development and Corporate Responsibility. He has traveled to many parts of the world, which has given him a holistic perspective of life, including environment, society and culture. He has also worked as a volunteer in an Indian NGO for six months. In addition, Javier is a photographer and a blogger during his free time.

**Key Findings:**

- Conscious consumer; necessity and utility are the main drivers for him.
- Very low prices or cheap second-hand products are attractive.
- Sharing platforms are not well advertised. He would like to participate more often in them. Security, quality of the goods or services and a nice design are essential characteristics for these platforms.
- What he likes the most in those platforms is the human contact and the variety of connections that can be made.
- He is aware of environmental problems.
- He does not feel part of a community, but feels part of many different small groups.

Elisa Gomez Gonzalez

**Age:** 23 years old  
**Neighborhood:** Sol, Center of Madrid (Middle class)
Profile Overview: Elisa has a Bachelor’s degree in Environmental Science and currently doing a Master in Sustainable Development and Corporate Responsibility. She was born in The Canary Islands and is living in Madrid since three years. She is young, enthusiastic, loves challenges and enjoys changing environments. Besides, Elisa believes in the society’s responsibility towards the environment.

Key Findings:

- Impulsive consumer; her main drivers are advertising, good prices and good quality. She feels good when buying. The buying process has a satisfactory effect on her.
- She tries to find a usage for every good and when not possible, she stores or donates them.
- She has never tried any sharing platform because she does not know them and she thinks they are not secure. She would be interested to participate in money or points exchange schemes.
- She is aware about environmental problems.
- Community for her is a big common interest group. However, she does not feel part of a community.

Esperanza Campos

Age: 31 years old

Neighborhood: Chamartin (Middle class)

Profile Overview: Esperanza has a Bachelor’s degree in Publicity and Public Relations. She works at EOI Business School as a programme coordinator. She was born in Madrid, where she has always been living. She is a very hard worker and enthusiastic person, worries about the environment and the well-being of people around her.

Key Findings:

- Moderate consumer: quality is the main driver that makes motivating her to consume. Shopping is a burden for her; she does not feel any pleasure doing it. The level of sustainability of the product does not interfere in her final decision-making.
- She keeps at home most part of her no longer useful things. When is possible, she tries to recycle them.
- She has never used any kind of sharing platform because she has never found something interesting. However, she thinks it is very useful, once it matches the interests from different people. “It is a win-win situation”, she says.
• She is very aware about environmental problems; in her daily life she tries to reduce as much as possible her impacts, among others recycling and saving water.

• She does not feel part of a community, but she believes it is a choice she makes.

Eduardo Garin

Age: 26 years old

Neighborhood: Chamartín (Middle Class)

Profile Overview: Eduard is a Research & Development Project Coordinator in a big company in Spain. He is originally from Pamplona, but is now living in Madrid. He likes to travel and get to know new people.

Key Findings:

• Very moderate consumer; Friends’ advices are very important for him when choosing a product.

• He buys based on necessity rather than wants. He feels satisfied when throwing away things he no longer needs.

• He only buys expensive goods and services when it is very necessary.

• He does not like to buy on the Internet using his credit card, but admits that it is very convenient. He really likes sharing platforms, but is not himself very engaged into them.

• Very environmental aware.

All the interviews lead us to several common conclusions. Some of them were also identified in the survey. First, people really care about trust and security in the platforms. Even though they like the idea of sharing, trust between strangers is still an issue for most of them. Second, easy access and the quality of goods and services is another important requirement that can lead people to participate into collaborative networks.
5. Operational Structure

In this chapter, the operational structure is defined in regards to the sharing mechanism, the points system, the physical location and website structure and operations, the legal structure of the social enterprise and the decision-making structure.

5.1. How To Share?

In chapter 3, we explained that members in our network will be able to share using two mechanisms; renting and swapping. In this section we define how these two sharing mechanisms work.

5.1.1. How does Renting Work?

The renting transactions involve borrowing durable goods or physical working space in exchange of points. In the following pictures, those transactions can be visualized step by step.

Picture 28. How to Rent an Item

1. FIND Item to rent
2. REQUEST item
3. CONFIRMATION Item available
4. COLLECT From SharCo
5. USE item
6. RETURN item
5.1.2. How does Swapping Work?
The swapping transactions involve bartering (i.e., durable goods, skills or knowledge are directly exchanged for other durable goods, skills or knowledge without using a medium of exchange, such as money or points) or exchanging/trading (i.e. trading) goods, services or knowledge for points. In the following picture, bartering and trading can be visualized step by step.

5.2. Point System
As we explained in chapter 3, all durable goods, skills and knowledge will have a value in points (1 point = 1 Euro) to simplify sharing transactions for members. Points will be used in both sharing mechanisms (renting and swapping) as a currency exchange and/or as a framework of reference.
indicating members the value price or cost of something. In this section we will explain how to obtain and redeem points.

5.2.1. How to Obtain Points
Points may be obtained in three ways, as follows:

Give-away ownership of unused durable goods in good condition to SharCo’s warehouse. Individuals will receive points for donating the good to SharCo (e.g., Bicycle Give-Away = 10 points) and for every time someone rents the goods they have donated (e.g., Bicycle Rent-Out = 1 point). This mechanism can be visualized in the picture below.

Sharing Skills or Knowledge: Individuals who share skills or knowledge, such as French or yoga classes, legal advice, plumbing service, etc., will receive points. This mechanism can be visualized in the picture below.

Picture 31. Give-away ownership of durable goods & Earn Points

Sharing Skills or Knowledge: Individuals who share skills or knowledge, such as French or yoga classes, legal advice, plumbing service, etc., will receive points. This mechanism can be visualized in the picture below.
5.2.2. How to Redeem Points

Points may be used in several ways, as follows:

- Renting durable goods
- Renting working space
- Swapping durable goods, skills or knowledge (Skills & knowledge include events, classes and workshops).
5.3. Physical Location

In this section, we will present the location description, the available location options, the operational and staff working hours, the design and layout, the warehouse, the activities and the cafeteria.

5.3.1. Location description

The ideal physical location for SharCo would be composed by a lounge area, a cafeteria, a reception (help desk), a warehouse, two meeting rooms, two restrooms and a small external garden. The minimum internal area (excluding the external garden) required for it is 165 m². The rooms are presented in the table below.

<table>
<thead>
<tr>
<th>Room type</th>
<th>Room description</th>
<th>Room content</th>
<th>Minimum size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lounge and Cafeteria</td>
<td>- Living room where members can talk, get to know each other, use WiFi, read a book, have a coffee and have a good time.</td>
<td>One 4m counter with 6 seats, one 3m sink and appliances space, two 3m long tables, three 2m coaches, 3 puffs, 1 swinging chair, 3 recycling trash cans, 1 wall shelve for books and DVDs</td>
<td>49 m²</td>
</tr>
<tr>
<td></td>
<td>- Place designed as well for social events such as cocktails, lectures and small stage presentations.</td>
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<tr>
<td></td>
<td>- Books and DVDs storage</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Cafeteria installation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reception</td>
<td>- Help desk where people can apply for membership, check-in and check out products, see events’ timetable board and request further information.</td>
<td>One curved counter desk equipped with a computer, a chair and a telephone.</td>
<td>9 m²</td>
</tr>
<tr>
<td>Warehouse</td>
<td>- Place where most part of the inventory will be</td>
<td>20 top-down shelves</td>
<td>49 m²</td>
</tr>
</tbody>
</table>
stored, except for books and DVDs
- Quality verification and maintenance place

Workshop/Meeting rooms
- Rooms for meeting, work shops and lectures.
One 20 seats round table, wall with big blackboard, one overhead projector
2x 25 m²

Restrooms
- Toilet and sink with access for disabled people.
One toilet, one sink
2x 4 m²

Total area required (minimum):
165 m²

5.3.2. Available location options

According to three real estate agencies⁹⁴ consulted in Madrid, commercial locations’ renting prices in Chueca vary from 3 500 € to 4 500 € by month on average.

The ideal layout must be adapted according to the locations available for rent. In the following table the three selected potential locations for SharCo are presented, according to size and price requirements.

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EOI Escuela de Organización Industrial
http://www.eoi.es
Table 2. Available location options

<table>
<thead>
<tr>
<th>Option</th>
<th>Renting</th>
<th>Deposit</th>
<th>Size</th>
<th>Pro’s</th>
<th>Con’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>4 000 € /month (27 €/m²)</td>
<td>4 000 €</td>
<td>150 m² ground floor + 20 m² attic</td>
<td>Good design, Good illumination, Storage rooms and facilities, Immediate availability, Low Deposit price, Already furnished</td>
<td>Limited Space, Expensive renting price</td>
</tr>
<tr>
<td>B</td>
<td>4 500 € /month (15 €/m²)</td>
<td>9 000 €</td>
<td>260 m² ground floor + 50 m² attic</td>
<td>A lot of space, Good rooms disposal</td>
<td>It has to be reformed, High deposit price</td>
</tr>
<tr>
<td>C</td>
<td>3 500 € /month (20 €/m²)</td>
<td>3 500 €</td>
<td>169 m² ground floor</td>
<td>Cheaper renting price, Low deposit price, Immediate availability</td>
<td>Limited space, Bad disposal, Bad illumination</td>
</tr>
</tbody>
</table>

Option A: pictures

Option B: pictures

Option C: pictures

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100 http://www.fotocasa.es/local-comercial/madrid-capital/alonso-martinez-chueca-libertad-125187725?opi=1&ti=3&pagination=1&RowGrid=1

EOI Escuela de Organización Industrial
http://www.eoi.es
5.3.3. Operational & Staff Working Hours
SharCo will be open from Monday to Saturday, from 10AM to 9PM. SharCo will also open on Sundays if we observe a demand for it. This operational time refers only to conventional activities; such as check-in/check out of rented goods and cafeteria services. Punctual events can be organized outside of the opening hours.

The interns and the cleaner (see chapter 8) will cover the morning and evening shifts (10AM to 2 PM and 5PM to 9PM respectively). During the first year, the “siesta” time - between 2PM and 5PM - will be covered by the four SharCo partners.

5.3.4. Design and layout
The layout of SharCo’s physical location will be designed following two principles; sustainability and integration.

Sustainability: The use of efficient energy appliances and light bulbs, recycling trashcans, second-hand and recycled furniture, and non-disposable cutlery and dishware will be integrated and implemented in order to decrease as much as possible the environmental impact SharCo’s location can induce.

Integration: All the furniture and layout arrangement are thought with the aim of integrate members, especially those that do not know each other. Tables design, for instance, incentivize people to sit together and establish a conversation. The informal and “cool” atmosphere also pushes people to be more open. Additionally, in order to integrate and be inclusive with the whole society, the installation will be adapted for handicapped necessities, such as ramps at the entrance, handrails in the restrooms and Braille signals.
5.3.5. Warehouse

The warehouse management includes two main tasks; inventory management and quality verification. Those tasks will be under the responsibility of the front desk attendant and the four SharCo founders.

Inventory Management: accountability, check-in and check out of goods.
Quality Verification: Every single good will have to pass through an inspection every time it enters or leaves the warehouse. This applies also when goods are donated. Goods considered not useful or in bad condition will not be accepted.

5.3.6. Activities
For regular activities, we will operate from 10 AM to 6 PM, from Monday to Saturday. With regular activities, we mean all the check-in and check out of goods, lounge, garden, meetings rooms, cafeteria, regular workshops, inventory and agenda consultation. Extra activities, such as social events and workshops, can take place at other moments as long as previously scheduled. The use of the meeting rooms by members (using points) will require previous booking, in order to avoid overcrowded spaces.

All the services and events offered or required will be reported on the board, where members can check what activities are available and what activities are looked for. This information will be disclosed on the website too. In case of interest in any service or event, the member applies online or on the board in the physical space (with online synchronization to share with online community).

5.3.7. Cafeteria
The cafeteria will be outsourced through renting payment. It will have to operate according SharCo’s operating time (10 AM to 6 PM). The legal permission for operating and any other required license will be in charge of the outsourced firm.

When social events including food and beverages will take place, such as cocktails or dinners, the cafeteria will be used.

5.4. Website Structure
In this section, we will present the operational aspects of the website structure regarding the design, the technical specifications and the points system.

5.4.1. Design & Layout
The first characteristic of the website design and layout is the modern style. SharCo is an innovative, “cool”, forward-thinking and new business and the website can be compared to our business card. The website has to represent our mindset and vision which is trendy, qualitative, positive and straightforward. Hereunder you can see a picture of the homepage of SharCo’s website.
The most important characteristic of the website is certainly the user-friendliness. Potential consumers and clients have to adopt the concept from the first page view. If not, it is highly probable those potential consumers and clients will be lost forever, given the competition and current online behavior of people. The website will be user-friendly also in order to reduce the barrier of use. The user has to be able to find in a short time where he has to click to find what he wants. The website also has easy to navigate. How to register, participate, share, look for what you want, get what you need, has to be fast, easy, straightforward and nice.

Regarding the colors, we will use a mix of white, black and green. This is in order to give the image of a very easy and green image. Black and white would represent the simplicity and economical dimensions and green for the ecological and sustainability dimensions.
The design and layout of SharCo’s website will be attractive and comprise a high number of visuals. We would like the website to be pleasant and give the user a friendly and nice experience.

5.4.2. Technical Specifications

The structure of the website is the following. There are three main pages; Home, Share and Knowledge Center.

The Homepage briefly presents the shared consumption concept and give a general idea on why and how the user can get value out of it. On the top right, it includes widgets to Facebook, Twitter and Foursquare to make the link to social media and networks, which are important to bring trust and critical mass. A live chat open for all kinds of questions from users will be available at the bottom of the page and operate during office hours. At the bottom, the website includes four sections with additional information; advantages of this system, events organized by SharCo or other individuals, a “Did you know” section and a tool to meet up with other members of the community.

The Share page will comprise the “I have” lists and the “I want” lists of the members. It will be accessible by everyone. On this section, members will be able to log in on their personal account, complete their profile and personal information, including complete their lists.

The Knowledge Center page is the section where members can share ideas and knowledge, discuss, debate, co-create and mainstream the concept of Collaborative Consumption. This is also the section where virtual sharing of skills and knowledge will take place, both openly and privately. For example, a finance or French teacher will be able to share a presentation or a video online under this section. In this section also, writers, psychologists, professors, or any other member will be able to share articles.

The website will include a credit card system to pay for points. We will work with Paypal and with an online payment system directly usable for non-Paypal users. Paypal is the world leader of online payment systems. Thanks to this feature we can offer to our members a secure, convenient, widely used and fast payment system. The website will also offer the option to pay online for non-Paypal users. Indeed, this option is important to be available, as this would imply another step and barrier in case members do not use Paypal. The system has to be adapted to everyone and easy to use.

There will be three Paypal buttons; Donate, Subscribe and Buy Now (see picture hereunder). The Donate button will be used for donations to SharCo. The Subscribe button will be used when members register or upgrade as Silver or Gold members. The Buy Now button will be used when members will buy points.
The website design, programming, hosting and maintenance will be outsourced to PLANET MEDIA IT SOLUTIONS. Our contact is Pablo Jose Fernandez Nuñez who is the Project Engineer. This decision is made for two reasons; first, we do not have to necessary technical skills and second our goal is to have a professional website. Indeed, the needed skills are both design and IT technical skills as SharCo’s website has to be efficient, fast, well thought and above everything, the “Match button” which is at the center of our system has to work efficiently. This “Match button” requires expertise and the creation of the right programme behind. The hosting and maintenance has to be done on a regular basis, ideally every day, in order to be able to update the technology and programme language whenever possible, adapt the website to new features and customer demands as well as protecting it from hackers.

The website will be first launched in a BETA version in order to ask for as many feedback as possible to adapt the final SharCo website to expectations and needs of the community. The Web 2.0 website will still include many multiple channels communication but the BETA version will enable the programmer to create the most adapted website programme according to the first results. The final version of the website is already in construction and included into costs, as the BETA version will only be used for the first weeks.

The markup language used for the website is HyperText Markup Language (HTML). This decision has been made according to several criteria. First, this language enables the website to be faster. Second, as opposed to the Flash language, the website is less subject to bugging and it requires less space on the server. As the programme behind the website is complex and heavy, the needed space will already be important and using Flash would increase it even more.

5.5. Legal Structure
SharCo needs to be registered and created as an enterprise. We do believe that our company should have a relevant social effect on the members we will serve and the community we will create. Being a social enterprise does not prevent us to be for profit, as we would like to make our enterprise grow and be rewarded for the risk we assume and the result we achieve.

SharCo will be based in Madrid so it must comply with the Spanish commercial law. In the Spanish framework the legal structure that best fit with our requisites is the limited company, because of the small capital needed to create it, the possibility to retain profits, the personal limited
responsibility (which therefore acts as a hedging strategy: in case SharCo is not successful we could lose just the initial required capital).

According to the law “Ley 2/1995, de 23 de Marzo, de Sociedades de Responsabilidad Limitada”, a company is constituted with a minimum equity of 3 050,06 €. The characteristics are the following:

- Limited responsibility
- Under 210 000 € per year, tax rate 30%
- 50 days to create it
- Inscription in the national registry with presence of a notary
- Write a statute

A long-term view based on the possible success of SharCo will be to expand our business model to many places, as we strongly believe a bigger network will guarantee benefits to every member (if they travel then they could go to the local SharCo to be integrated into this community or to find and rent useful goods). Hence, we will use the following long-term strategy: create a franchise network with which we would provide the know-how in terms of legal, economic, functional and organizational issues. Therefore in exchange of a constant fee we will provide the use of our website, the website programme for matching goods around the world, the name and the management related issues.

5.6. Decision-Making Structure

The power of decision in SharCo is equally balanced between the 4 founding partners; Natália Torres, Giulio Monesi, Marie-Laure Moens de Hase and Marcela Duron (see Chapter 8). Each one has one equal vote in every relevant decision-making process and a general consensus has to be reached in order to approve it.

By “relevant” we mean the decisions that affect significantly SharCo’s structure and operation, such as involving investors, high expenses (above five thousand euros), business expansion, membership, operational system, shares and sales.

Small-scale decisions within each department that do not affect the overall business can be taken by the manager in charge. However, each manager is encouraged to consult other manager when necessary.

The expense approval process varies according to the amount. As said above, expenditures over 5 000 € are considered “relevant” and require the approval of all the partners. For expenditures
between 3 000 € and 5 000 €, at least three partner signatures are needed. For expenditures between 1 000 € and 2 999 €, two partner approvals are required. All expenditures less than 1 000 € can be approved by only one partner.

Meetings between partners will be set up every month, for financial data reviewing, performance evaluation, following month agenda settings, strategy discussions and all issues regarding operation monitoring.
6. Marketing and Communication

As we have seen from the current situation in chapter 2 and from the public survey results in chapter 4, there are several drivers that motivate individuals to share. We want to distinguish these drivers in two categories, self-interest and value drivers.

Self-interest drivers, as the name itself explains, are those motivations spurred from selfish interests, such as cheap products or services, convenience (rapidity and efficiency) and more free space. Individuals who share based on self-interest may drastically change their sharing habits if they no longer feel directly benefited by these drivers. Therefore, these individuals will have an elastic demand. Elasticity, in economic terms, refers to the ratio of the percent change in one to the percent change in another variable.101 In other words, a small change in the drivers will cause a big change in sharing habits.

Value-drivers are motivations that originate from principles, morals and ideals such as, collaboration, community involvement, environmentally conscious, ethics (i.e., doing the right thing), etc. Individuals who share based on values are not as volatile as individuals sharing on self-interest, because their true motivation comes from strong beliefs.

Based on this classification of the drivers, our marketing strategy will not discriminate among individuals who share on self-interest or values. We believe it is necessary to portray the self-interest benefits. However, more important is to promote our values and principles. After all, we are a social enterprise whose purpose is to find creative solutions to hyper-consumption.

By focusing on our values and principles, we will attract those individuals who share our beliefs. These individuals will become our evangelists (i.e., passionate supporters). According to Guy Kawasaki, “you do not find the evangelists because they come to you. Evangelists are those individuals who love your product or service so much that they will promote it voluntarily.”102

On the sections below we explain the communication channels chosen, the reason for selecting them and the implementation strategy.

6.1. Invite your friends

6.1.1. Background
This strategy will be used to encourage “word-of-mouth” communication. Word-of-mouth refers to the passage of information from person to person. Word-of-mouth communication is without doubt the most influential advertising. Individuals believe and value more highly what friends,

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101 [http://en.wikipedia.org/wiki/Elasticity_(economics)]
102 [http://www.youtube.com/watch?v=FdowygwbGSs]
family or colleagues say rather advertising campaigns. A successful example of word-of-mouth is *Groupon*.

In 2010, *Groupon*, an online website that features a daily deal on the best stuff to do, see, eat or buy in more than 500 markets and 44 countries, was named the overnight success and fastest-growing company in Web history by Forbes. According to report released by CNBC in December 2010, *Groupon* was expected to exceed revenues of $500 million in 2010, just after two years of launching. Part of *Groupon* success is that they inserted virality in their product in two ways. Since the deals only last one day and for it to take place a certain number of “hits” must be obtained (i.e., certain number of people must purchase the deal), *Groupon* created a sense of urgency for users to tell their friends. Second, the deals provided include significant discounts (sometimes 50% or more of original price) and are cool stuff that people would like to buy.

*Groupon* successfully created a “buzz” (i.e., everyone is talking about it) among people of all demographics and in a couple of months they had generated viral marketing effects.

### 6.1.2. Strategy

Our goal is to create the same “buzz” and viral marketing effect as *Groupon*. We plan to do this by providing the best products and services, excellent customer service and developing a strong community feeling among our members. We want our members to be satisfied and tell their friends how amazing we are.

When users join, they will be prompted to *invite their friends* to join SharCo and in exchange they will receive points. For example, if five of your friends register on SharCo and participate through renting of objects or swapping, you will receive 10 points (1 point = 1 Euro). Members can invite their friends through email notifications, *Twitter* or *Facebook*.

Besides bringing people together by their own willingness, this strategy will create trust and strengthen the community feeling among members.

### 6.2. Social Networks

#### 6.2.1. Background

Web 2.0 refers to the second generation of websites that are user-centered and facilitate participation among individuals through collaboration and sharing of content online.

Web 2.0 has revolutionized the way individuals interact online. It represents the move towards a more social, collaborative, interactive and responsive web. It has changed the philosophy of web

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103 [http://www.groupon.com/about](http://www.groupon.com/about)
companies and web developers, but more than that it is a change in the philosophy of society as a whole.

Before Web 2.0, website users were only consumers, meaning that they were limited to the passive viewing of content that was created for them online. Today, website users are “prosumers” (producers and consumers), meaning that they create content and share it with other people through a virtual community.

Some examples of Web 2.0 applications include the following:

- **Blogs, Videos & Podcasts**: Offer a new way to communicate and share information
- **Social Networks**: Take advantage of the connections among users to offer new possibilities
- **Wikis**: Facilitate co-creation of content or applications through the participation of many people

![What is Web 2.0?](http://www.concentricsky.com/blog/2009/09/what-is-web-20/)

Given the rise in Web 2.0 applications and its impact in societies, we must include these tools as part of our daily business operations. Furthermore, it is also important to highlight that the use of
social networks reduces customer services costs, because responding to customers via a web thread is much cheaper than calling them.107

6.2.2. Strategy
Through Web 2.0 applications or tools we aim to build effective and efficient two-way communication channels with and among our members. As a social enterprise our mission is to raise awareness about hyper-consumption and influence individuals to become more conscious and smarter consumers. Below is a list of the applications we will use.

- Blog

Given that the four founding members (refer to chapter 7) have a Master in Sustainable Development and Corporate Social Responsibility, the blog will focus on sustainability topics. Specifically, on raising awareness about hyper-consumption and its impacts on environment and societies. As well, we would like to share stories from other inspiring people, their initiatives, achievements and impacts around the world. For example, Rachel Botsman and the collaborative consumption movement.

Furthermore, we would like to partner, cooperate and share with other websites that share our values. Some examples include the following:

Shareable.Net - a nonprofit online magazine that tells the story of sharing. They cover the people, places and projects bringing a shareable world to life. They also share the “how-to’s” so people can make a shareable world real in their lives.108

ConsumeHastaMorir.Org - a website that scrutinizes the consuming society we live in, through one of their own communication instruments, advertising, to demonstrate how much you can die consuming.109

- Facebook

Everyone who is anyone is registered on the #1 social network platform in the world, Facebook. Therefore, we cannot miss the opportunity of being on this social platform and benefiting from its users and their social connections. We intend to use Facebook in several ways, as follows:

First, we would like to use Facebook as a two-way communication channel with our customers. We will post links of the latest topics released on our blog, date of events and classes, videos and pictures. Therefore, members will be able to follow us and stay up-to-date with SharCo activities

108http://shareable.net/about
and news. As well, members will be able to provide us with feedback and comments. This strategy helps build loyalty with our members.

Second, we would like to use Facebook as a word-of-mouth communication tool. As mentioned before, members will be provided the option to register and invite their friends through Facebook. Registering through Facebook (also known as Facebook Connect) allows a business sites to become more social. Those businesses that have installed Facebook Connect have boosted their subscriptions from 30-300%. This strategy helps build the critical mass.

Another channel for sharing, swapping, renting and bartering among our members by encouraging members to post on their status what they need (e.g., “I need a drill @SharCo”) and our website will do the matching. User-generated content allows to transform friends into future customers. Therefore, allowing our members to express themselves and share information through Facebook, you encourage members to provide information about themselves so other people can view their opinion and identify people with whom they share similar likes.

- **Twitter**

Unlike Facebook, Twitter is not widely used by everyone and in Spain it’s not quite known or regularly used. The few people who know Twitter, use it mostly as their main source for obtaining news. However, we believe that it will grow and spread fairly quickly as more people spread the word.

We plan to tweet about news related to SharCo, events, classes and any other important news we feel our members may be interested in reading.

- **Peer-to-Peer Review System**

In our online website, we will have a peer-to-peer review system, giving our members the opportunity to interact and participate among each other. For a detailed explanation on this system, please refer to chapter 3.

- **Live Chat Customer Service**

Our customer service will consist of the following: Frequently-Asked Questions (FAQs), ‘Contact Us’ emails, customer-help phone number, feedback from social networks and a live chat customer service. In this section, we would like to explain why and how a live chat customer service is an important customer service tool.

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In this fast-paced world people want products and services as quickly and as efficiently as possible. Today's customers expect businesses to provide high levels of customer interaction. Customer who wait for answers or whose needs are not satisfied through the answers provided, are less likely to engage with us. Therefore, we selected a live chat software tool because it allows our members to engage on live discussions with service representatives and obtain real-time responses.

6.3. Social Events

6.3.1. Background

Social events are a good communication channel alternative for our marketing strategy because they promote face-to-face interaction. Especially nowadays, when social networks are on the rise and becoming more important to people, particularly young generations who use it as their main channel of communication. Gregory Northcraft, a professor of Executive Leadership at the University of Illinois, said: "Technology has made us much more efficient but much less effective. Something is being gained, but something is being lost. The something gained is time and the something lost is the quality of relationships. And quality of relationships matters."111

Unlike virtual social networks, social events do not use technology (e.g., computers, laptops, smart-phones, tablets, etc.) as an intermediary. Through face-to-face communication channels, individuals can share ideas, opinions, beliefs and experiences, as well as more subtle cues such as gestures (e.g., facial expressions and body language), eye contact and voice intonations (e.g., tone, volume, speed and inflection). Gestures, eye contact and voice intonation change the context in which ideas, opinions and beliefs are perceived. Therefore, expressing your ideas, opinions, beliefs, etc., face-to-face may have a greater impact on others than they would online.

Gregory Northcraft also said that high technology communications (which are sometimes known as "lean communication" because they have fewer cues like eye contact and posture for people to rely on) remove the personal interaction needed to raise trust. In all types of social relationships, trust is a necessary condition for effective cooperation within a group. His argument is reinforced by our public survey results, (refer to the graph below and chapter 4 for details) which revealed that trust is a major barrier for sharing. However, if addressed properly it becomes a key success factor and a main principle for Collaborative Consumption systems (refer to chapter 2). Since social events promote personal or face-to-face interactions, it becomes easier to build trust among strangers.

Additionally, the public survey results also revealed that 11% of the sample prefers a physical location and that 49% of the sample prefers both (an online social network and a physical location). This demonstrates how people value physical contact when joining a group. (Refer to section 4.2.2.)

Face-to-face interactions combined with online communication channels reinforce the creation of social capital, “a cross-disciplinary concept generally referring to the benefits of social networks, including problem solving related to mutual interests”\(^{112}\), among members which represents a powerful tool to integrate society around its common interest.

### 6.3.2. Strategy

As we mentioned in chapter 3, we will develop several social events in our physical location. The social events may be internal or external. Internal events will be developed by us to promote SharCo, our values, raise awareness regarding sustainability issues (i.e., environmental, social, governance and ethical topics) and we will also promote cultural, artistic and leisure events that encourage community bonding.

External events will be for members or non-members who wish to organize an event at our location. External members’ events must be related with our values and principles.

Some type of social events are the following:

- **Lectures from Guest Speakers** - Some of the speakers we would like to invite include the following:

Rachel Botsman - Collaborative Consumption Movement
ConsumHastaMorir - Hyper-Consumption
Diego Hidalgo - CEO & Founder of Amovens, car-pooling company in Spain
Daniel Trurán - Social Media

- **Talent night** - Encourage our members to share any artistic talent with the community. For example: small concert night, open microphone night, salsa night, etc.

- **Vernissages** - Reception for artists whose show is about to open to the public

- **Book launching** - Individuals who are launching a book related to our values or principles can organize their book launching at SharCo.

- **Classes/Workshops** - As we explained in detail on Chapter 3, members can share knowledge and skills among each other. These sharing of skills or knowledge can take place in our physical location. Some examples include the following:
  - Language Classes
  - Yoga Lessons
  - Musical Instrument Lessons
  - Financial or legal advice

- **“Planting Together”** - As we explain in Chapter 5, we would like to find a physical location with outdoor space to have a garden shared by our community. In this event, we would invite members to get together and plant flowers and/or food.

- **Swap Events** - Once a month, ideally, we would like to organize swap events for members to come together and exchange goods, such as clothing, shoes, collectible items, antiques, baby clothes, jewelry, etc.

- **Give-Away Events** - The purpose of these events is to encourage people to give-away ownership of old and unused durable goods to SharCo to facilitate and increase sharing of goods among many individuals.

113http://dictionary.reference.com/browse/vernissage

EOI Escuela de Organización Industrial
http://www.eoi.es
We plan to publish these events on social networks and through partnerships with others organizations such as universities, schools, NGO’s and other social groups (e.g., Tabacaleras and Patio Maravilla).

6.4. Partnerships

6.4.1. Background

Based on our research of Collaborative Consumption systems, make partnerships have been a great method to grow critical mass and build trust. Through partnerships, businesses are able to spread the word among more people and create more networks. For example, if you partner with a university, all the contacts from the university become potential customers and those customers already share a relationship (e.g., coworkers, classmates, etc.); therefore, the level of trust is higher.

Amovens, the ride sharing or carpooling company in Madrid, has partnered with festivals and events (e.g., concerts, fairs, awards, etc.), Ogilvy (a public relations and strategic communications multidisciplinary agency in Spain), Ford and 20 Minutos (a free newspaper) to promote their enterprise. For example, whenever there is a festival or event taking place, the organizers of the events will publish Amovens on their website under the category “How to get There”. This helps spread the word and build on trust, because Amovens is being advertised by third parties, thus guaranteeing the website legitimacy.

Consequently, festivals and events will increase attendance because people who wish to attend have found a cheap, convenient and fun way to travel. Car owners split the cost among the passengers, so they can earn money. And passengers pay a cheaper price than a bus or train and they carpool with people who share their interests.

6.4.2. Strategy

We plan to partner with other local organizations that share our values, beliefs and principles. Some of the organizations we have already considered for partnering include the following:

- **Patio Maravilla & Tabacaleras**: As we described in chapter 3, these are self-managed cultural and social centers in Malasaña and Lavapies, respectively, where activities are organized to involve the people living in the neighborhoods. We plan to partner with them to coordinate activities together to share knowledge, skills, experiences, etc.

- **Consume hasta Morir**: a website that scrutinizes the consuming society we live in through one of its communication instruments, advertising, to demonstrate how much you can die consuming. We plan to collaborate with each other by placing widgets, a stand-alone

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114 http://www.letra.org/spip/spip.php?article92

EOI Escuela de Organización Industrial
http://www.eoi.es
application that can be embedded into third party sites by any user on a page where they have rights of authorship, in each others' websites, coordinating awareness campaigns, workshops and activities.

- **Escuela de Organización Industrial (EOI):** The oldest business school in Madrid who offers several Master programs focused on environmental and sustainable issues. We will partner to EOI to get in contact with their wide network of alumni, professors and current students who have a similar mind-set as SharCo. We plan to invite students to visit SharCo and share with them our philosophy. If possible, we would like to get interns to help on the operational aspects of the company and we believe EOI candidates are among the best. As well, we plan to invite professors or ex-alumni to SharCo for events, workshops and promote skill & knowledge sharing.

- **The Hub:** A flexible and vibrant open space of shared working. We plan to partner with the Hub because their members are open-minded, creative and innovative social entrepreneurs who would be interested in the concept of sharing.

- **Companies:** We want to partner with companies such as, IKEA or VodaFone, to create a “Return & Redistribute” system. Companies will provide customers the option to return old products that they do not longer use and are in good use. In exchange, customers in return will receive a small discount on their next company purchase and points to be redeemed in our website. In return, companies will be engaging in Corporate Social Responsibility through the “Return & Redistribute” system.

- **Second-hand shops:** We want to partner with second-hand stores to promote redistribution of goods that have been idle in their store for long periods of time and only contribute to inventory cost or waste. Second-hand shops can donate their idle inventory to us and in return, they receive tax-breaks and also engage in corporate social responsibility by keeping waste out of landfills and increasing access to goods to others in need.

- **Repair Shops:** We want to partner with a few repair shops that would be interested in the repair of our old and used goods. In return, they could send their customers to SharCo and promote less consumption and more usage.

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7. Social impacts

As a social enterprise, our core business is directly linked with tackling the social issues/promoting positive social impacts. All the strategies and services are focused on generating as much social benefits as possible. This is the motivation and the main aim of this project.

This chapter will present the social impacts of our project, meaning how Shared Consumption’s actions are expected to affect the surrounding and non-surrounding communities. In the two first sections, the social direct and indirect impacts will be presented respectively and they will each be linked with indicators. Then, we will analyze what success will look like.

Unlike conventional enterprises, which measure their success through financial methods such as profit margin, ROA (Return On Assets), ROE (Return On Equity) and so on, social enterprises evaluate their prosperity by assessing their effectiveness in reaching the social purpose. However, the issue regarding the measuring of social impacts is that it is not incorporated in numerical metrics yet. Indeed, the majority of the impacts are intangibles. Sustainable Return On Investment (SROI) is very hard to measure. Therefore, at Ashoka, they measure the social impacts of the social enterprises created by their Fellows with proxies on 5 years and on 10 years. Although, investors and funders need more specific metrics and we totally agree that what cannot be measured, cannot be valued. Let us anyway identify the social impacts of Shared Consumption (SharCo) and the indicators that we thought are adapted to our project, keeping in mind there will be a certain bias.

7.1. Social Directs Impacts

SharCo will imply the following social direct impacts. Those impacts are issues we identified and on which our project has an influence. They are directly linked with our activity, online and offline. They will impact those issues from the first day and will increase over time.

7.1.1. Create a community and strengthen social bonds

The first and basic impact that SharCo intend to bring about is rebuild community values, such as trust and cooperation. These values are the pillars that will sustain all the subsequent benefits we aim to create.

In the five in-depth interviews undertaken during our market research, all the interviewees have affirmed they do not feel themselves as part of a community. In the survey section, 52% of the consulted people have affirmed they do not belong to any kind of social association.

As we have seen in the first chapter, all these facts are part of a global trend brought about by the post-modern life style, in which individuals are increasing timeless and stressed due to
overworking, distrust and fearful about their peers and surrounded by egocentric and materialistic values.

What SharCo aims to do is provide society with a tool for rebuild humans bonds through collaboration and sharing either in virtual or physical dimensions. More than goods and services, we want to offer a space where life experiences could be exchanged and trust re-established among neighbors. It would give back, or even rise for the first time, a “community feeling” for the current generations.

According to Rachel Botsman and Roo Rogers\textsuperscript{116}, in their book “What’s mine is yours”, sharing platforms make easier for people to come together and share resources in ways that fit into their modern lives. Collaborative lifestyles “give people permission to collaborate, form new social bonds, and break down the emotional barriers an stigmas we often have around sharing or asking for help”.

Additionally, get people together means more than create a good community environment, it means also putting similar problems, dreams and anxieties in the same place. The empathy - the ability to understand and share the feelings of another - that can be born out of this circumstance is extremely productive in terms of innovation, mobilization and solution creation.

An example of an already existing global online community is the Changemakers from Ashoka. “Changemakers (…) supports everyone’s ability to be a Changemaker by inspiring, mentoring, and collaborating with other members of the community at every level of Changemaking. Changemakers hosts collaborative online competitions to identify and connect the best social innovators and implementers. Participants compete to surface the most promising solutions, and then collaborate to refine, enrich, and implement them.”\textsuperscript{117} This community is a space where members of the same group can gather, co-create, brainstorm, share, etc.

The Millenial generation is often characterized by people born between the mid-1970s and the early 2000s. They are driven by values that are not only characterizing their age group. Older as well as younger people are willing to “change the world”, share, collaborate, be open and interactive. They are investing a considerable amount of time and energy in virtual worlds and other online activities. These online communities are leading more and more to off-line communities. Indeed, we can see many websites organizing off-line activities, meetings, etc where people get to meet each other face-to-face. According to Scott Heiferman, one of the three founders of Meetup, “We are using the Internet to get off the Internet and form a twenty-first century civil society.”\textsuperscript{118}

\textsuperscript{116} Botsman, R. Rogers, R. “What’s mine is yours”, 2010
\textsuperscript{117} http://www.changemakers.com/about/changemakers
\textsuperscript{118} Scott Heiferman and Jeremy Heimans, “We Are the Stimulus”, Huffington Post (March 12, 2009), online at www.huffingtonpost.com/scott-heiferman-and-jeremy-heimans/we-are-the-stimulus_b_174511.html
Thanks to the Internet also, reestablishment of community relationships can happen not just through local activities but also thanks to such a global infrastructure as the Internet. We will still use the words of community and neighbor, but in a new and broader way of the 21st century.

**Indicators**

- Number of members attending our free social events.
- Frequency of each member in our free social events.
- Periodically surveys on member satisfaction regarding group feeling and social engagement. In these surveys people will be asked, for instance, to describe how SharCo has helped them to interact with their community.

### 7.1.2. Social Capital creation and space for dialogue

We believe that dialogue has a crucial role in the construction of a sustainable world system. Dialogue, a trivial concept very often ignored or misunderstood by current generations, can be a powerful tool to manage great part of our century biggest problems, but just if it is used properly with equity and freedom of speech.

Aligned with the previously stated social impacts we would like to achieve, we want people to have a room for exchange ideas and life experiences. From homemade recipes to stock market investment advice, we trust on the influence of peer-to-peer communication to improve life quality.

Every individual has a value background in life, in which success and failures are included. SharCo values these intangible assets and acknowledges its potential opportunities to foment social entrepreneurship.

We intend to amplify communication channels based on conventional neighborhood style. This means going beyond virtual connections, a key aspect as well, by giving special attention to physical spaces. More than typed conversation, SharCo wants to promote voices, eye contact and warm exchange.

The resultant of this high number of interactions between neighbors, friends and strangers provided by SharCo, either physical or virtual platform, is the creation of a great Social Capital (Putnam, 2000) in the communities we are.

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119 “Dialogue” according to Oxford Dictionary: “a discussion between two or more people or groups, especially one directed towards exploration of a particular subject or resolution of a problem”.


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Indicators

- Volume of members using our lounge areas
- Number of members using our message/chat online
- Number of members and non-members applying for events

Number of ideas created/shared and discussions created (It can be measured analyzing the “ideas section” on the website and the number discussions on the on our Blog, Facebook and Twitter.)

7.1.3. Increase the accessibility to goods and services, thereby reducing social inequalities

The inherent characteristic of the Collaborative Consumption movement in which this project is part of, is that people are switching from ownership to access. It is one of the main radical changes regarding the consumption habits between last century and today. People do not need to own the goods but only need to access them. This will enable people with a lower income level to access a higher number of goods as well as goods of a higher value. And it will increase their quality of life. It is also applicable for the services. If people cannot afford to take management or language classes, they will be able to do it thanks to this project and the community.

The increase of accessibility to goods and services for low-income people will have an impact on social inequalities and poverty. Two thirds of the world’s population, i.e. 4 billion people, are living with less than four dollars a day in purchasing power. They are called the “Bottom of the Pyramid”. The gap between rich and poor is growing. According to the United Nations, in 1960 the richest 20 percent of the world accounted for 70 percent of total income. In 2000, this number was 85 percent. Over the same period, the fraction of income accruing to the poorest 20 percent in the world fell from 2,3 to 1,1 percent. Those poor people are not only in the rural Africa or Asia, but they are also in “rich” cities in the so-called developed countries. Roughly 14.9 percent of Madrid residents live in relative poverty according to a report on living standards in the Spanish capital published by the trade union Comisiones Obreras (CC.OO). As you can see in the picture below, in 2010 took place a demonstration against poverty organized by the Alianza Española against Poverty with the motto “Poverty is not in crisis, it increases”.

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122 Idem

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Our project takes place in Madrid, the Spanish capital. Our aim though is this business model to be replicable in other cities and the more inhabitants the better in order to reach the needed critical mass. The world is becoming increasingly unequal but also urban. Over the 20th century, urban population raised from 220 million to 2,8 billion and the next few decades will see an unprecedented scale of urban growth in the developing countries. Urban poverty is estimated to affect approximately one third of all urban residents, or one quarter of the total poor in the developing world. Estimates suggest that around one third of the urban populations in developing countries - nearly one billion people - are living in slums.

Picture 40. Cities, Challenges for Humanity

Source: National Geographic Magazine

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124 UN Population Fund, For humanity’s sake, developing world must prepare for soaring urbanisation, online at http://www.citymayors.com/society/urban-population.html

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Although our project will be launched in Spain, we would like it to be replicable in other urban areas and in megacities of the world. Urban poverty is present in developed countries as well as in developing countries. As we can see in the figure below, in 1950 the world had 14 megacities and in 2015 this number will be 21. Megacities represent an important and growing issue and that has to be seriously considered and thought by governments. Although megacities are more widely present in Southern countries, they are also present in Northern countries. Moreover, shared consumption can be applied to all types of goods and services. The largest the city, the more opportunities of sharing and community bonds.

![The World’s Megacities](source: www.megacitiesproject.org)

Throughout this platform, available and open to everyone, people can access goods and services at a much lower price. The members of Shared Consumption will not only be able to access more goods or more services but also to access some basic goods and services at an affordable price. With this project, we would like to reduce the level of urban poverty and improve the purchasing power of the low-income people. This will, in turn, decrease social inequalities.

**Indicators**

- Access to more goods and services: number of people having access to goods and services throughout the SharCo platform.

- Access to basic goods and services: number of people having access to basic goods and services throughout the platform.
- Increase in purchasing power throughout the use of the platform.

### 7.1.4. Increase of domestic savings

We aim to impact domestic life of members by decreasing the amount spent by them on goods and services. From all the SharCo social impacts, this might be the most direct and consistent, mainly because it has very short-term results and it is easy to notice on the daily life.

According to Boletín Económico of Banco de España of April 2011\textsuperscript{126}, since financial crises in 2008 the amount of households loans designated to consumption has dropped in 50%. As reported by the Boletín, there was a general decrease of the expenses in durable goods in Spain due to increasing distrusts from the consumers. Despite being a surveys focused on expensive durable goods, it provides us with a great pictures of the current trend. The whole packet brought by financial crises in 2008, including unemployment, high prices and investment uncertainties, have slow down people from shopping.

In this sense, SharCo appears to facilitate the access to durable goods and enable people to save their earning for further and more useful investments. Instead of paying full prices for a good or service, SharCo’s members will be able to pay just a little amount, using money or points, to have the entire convenience of the product for how long they need. This mechanism enables members to keep the amount that would have been used for purchase and cut costs drastically.

Consequently, SharCo will generate a systematic surplus on household life, which can be used for other purposes, such as education, health care, leisure and even entrepreneurship.

**Indicators**

- Number of transactions in SharCo’s physical platform
- Number of transaction in SharCo’s online platform
- Periodical survey. In these surveys people will be asked, for instance, whether SharCo has impacted their domestic spends and, if so, how relevant is this impact for their lives

### 7.2. Social Indirect Impacts

In this section we will present the social indirect impacts. They will happen on the short and on the long run and the impact will increase over time. They also imply significant direct and indirect environmental impacts.

\textsuperscript{126}Banco de España, Boletín Económico, “Encuesta sobre préstamos bancarios en España”, published on April 2011.
7.2.1. Environmental Benefits

As we have seen in the first chapter, the consumption system in which we live is no longer sustainable. Despite being the root cause of the main environmental problems we have, hyper-consumption is frequently let apart by society, business and authorities, who are usually focus on superficial causes and palliative measures to try to solve these problems. For instance, in the case of over waste Rachel Botsman and Roo Rogers stated in the book “What’s mine is yours”, “the biggest way to help prevent waste is to buy less new stuff and reuse and redistribute more of what we already have.”

Although being a long-term effect, bringing environmental benefits for society, as reduction on waste disposal, carbon emission and resources depletion, are in the core of SharCo business. For these, our proposition involves the creation of new patterns of consumption and product use. Through SharCo system of swapping and renting durable goods, the relationship between goods and use will be redefined, in a way that maximizes the utility and life cycle of the products and minimized it obsolesce.

It will impact directly the environment. In the short term, it will avoid the disposal of hundreds of products and consequently the waste accumulation. In the medium/long term, it will impact the system of production, reducing resources depletion and greenhouse gases emissions, once the patterns of consumption will be based in the experience provided by the product instead of it acquisition.

The social impact comes indirectly as consequences of environmental benefits listed above. On one hand, less waste generation means less public expenditures on waste residues management, less public spaces designated to landfill, less visual pollution, less soil contamination, less risk of diseases and so on. On the other hand, the reduction on resources depletion represents a longer and more democratic distribution of natural assets throughout current and future generations.

Indicators

- Number of transactions in Sharco’s physical platform.
- Number of transaction in Sharco’s online platform.
- Number of CO2 emissions saved for each product usage (rented), based on the amount released by the product manufacture process and product disposal.

Each product redistribution generates a measurable CO2 savings and waste benefits. For instance, a digital camera release on its manufacture process approximately 60 kg of CO2 into the atmosphere. Every time somebody rents a camera at Sharco, 60kg of CO2 is being saved. Reusing

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127 Botsman, R. Rogers, R. “What’s mine is yours”, 2010
it means that somebody is not going to buy a brand new one. It also means one camera less disposed in landfills.

7.2.2. Access to education

As far as education is concerned, SharCo’s online and off-line platform will enable sharing not only books in printed and electronic version but also a variety of skills and knowledge. Enable easier access to those books, skills and knowledge is giving the opportunity to people having less resources the opportunity to access education. Libraries go beyond formal education, it is at the heart of personal and community development. This idea is mainly applied in Sub-Saharan Africa but poverty is also present in rich countries. SharCo will offer as many options as possible, from online individual or collective webinars and electronic books as well as off-line individual teaching and classes taking place in our physical location.

Moreover, we can think of very basic education but also of more technical or specific education. University books for example are very expensive and often student can not afford to buy them all. Technical skills such as Information Technology related skills is another example. Small companies could make use of some classes on how to build a website or how to use e-commerce for example. Another example are language classes for travellers or with the purpose of integrating immigrants into the local society, including cultural discussions and exchange of points of view. Every member can bring his contribution to the system, be it his language, his skills, his knowledge, his life experience, or any other kind of skill or knowledge he can think of. Education would be accessible at a very economical price or even for free if a common agreement between the members can be encountered.

Indicators:

- Number of hours shared on an individual basis
- Number of classes
- Number of people attending the classes
- Types of classes given

7.2.3. Space for collaborative values creation

As we already saw it before, hyper-consumption defined the 20th century and we are now moving towards collaborative consumption in the 21st century. The big shift is happening and it is both fast and big. Numbers clearly show the big shift towards Collaborative Consumption is happening.

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128 Ruth Makotsi, Sharing resources - how library networks can help reach education goals, Book Aid International
and people are keen on having more spaces to share this new life-style with each other. People are much less defined by what they have but by what they are and how they live. This new mindset is part of a more communal and collaborative life-styles. Our project would offer to its members and non-members a physical as well as an online space for those people to gather together.

Picture 42. Values

Source: www.linkedin.com, CSR Europe group

Online and off-line members of our community will have the opportunity to share experiences, stories, thoughts, ideas, etc. in an atmosphere where activities are led by environmental, social, governance and ethical principles. SharCo aims at mainstreaming Collaborative Consumption in all areas and will offer various tools for the community to create and develop discussions, exchanges, ideas, knowledge, articles and share the concept even beyond SharCo community through other social media and networks. Shared Consumption would also enable adherents to live and expand this chosen life-style.

Indicators

- Number of articles posted
- Number of ideas shared
- Number discussions created
- Number of mentions of #Sharco and @Sharco on Twitter and Facebook
- Kloud.com (links your Twitter, Facebook, blog,… and measure your impact)
- Number of meetings
- Number of people taking part in the SharCo activities

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7.3. What success looks like

As our mission states, our goal is to transform current consumption behaviors centered on consumerism into more sustainable consumption behaviors centered on collaboration. We want to give people the opportunity to participate in a sharing network. People in return will become smarter and conscious consumers who will help us spread and expand on the idea of collaboration. By ultimately impacting the consumption habits, we will be able to address other social and environmental issues such as, income inequality, lack of community spirit, weak social bonds, depletion of natural resources and waste generation. These impacts have been analyzed in detail on the previous sections of this chapter.

Our social business model is based on the Collaborative Consumption movement, which is currently happening all over the world and it is big. People are sharing at unimaginable scales and businesses within this collaborative model are experiencing humongous growths. For example, Airbnb, a peer-to-peer room rental, was created in 2008 and is now in 8 000 cities and over 160 countries. According to an interview with Brian Chesky, co-founder and CEO of Airbnb, in May 2011, the company had booked approximately $150 million worth in revenues since its creation and revenues were growing between 30% and 50% each month. Recently it was valued at $1 billion.

These new businesses based on Collaborative Consumption, have without a doubt positive impacts on society and are self-sustainable. Following this viable and successful business model, we plan to start in Madrid, Spain. However, our long-term intention is to replicate and spread globally to involve as many communities as possible.

An indirect impact of these new businesses is the transformation of massive and polluting production systems into long-term sustainable productive systems. If people share, rent, barter, swap, give-away, trade or lend their resources and assets, there will be a need of more robust and long-lasting products. Products that are intentionally built to break after a period of time will not fit in the new business model of sharing. Thus, this could result in negative impacts for companies producing these types of products based on planned obsolescence. Some of the negative impacts include reputational damage and loss in market share, which consequently translate to financial losses.

We envision a strategic change from industries towards sustainability through innovation. Production systems will have to become sustainable. Therefore, companies and industries will have to rethink their business models and increase the quality of their products by investing in innovation and research and development. Ian Cheshire, CEO of DIY retail Chain, KingFisher/B&Q,
said “We need to radically redesign our business models with less emphasis on growth and more on wellbeing”

Products will have to be designed and produced taking into consideration the complete life-cycle assessment. Investing in the design of products can improve drastically the environmental efficiency and close the loop of material waste.

Some companies are already transforming their business models, as follows:

- **Timberland** has designed an extended-life product system. They provide a shoe sole repair option to their customers. Instead of a customer having to buy a new pair of shoes, they can bring their Timberlands and get the sole repaired. The soles come in different colors and design to provide wider choice to customers.

- **Interface** has made the big shift from selling carpets to renting carpets, thereby taking care of maintenance and increasing drastically the life cycle of their products.

- **Nike** developed a Material Analysis Tool, which evaluated materials in four areas: chemistry, energy impact, physical waste and water impact. It ranks materials, helping designers make material choices that reduce environmental impact without sacrificing performance, such as for the Free TR Fit which is made from environmentally preferred rubber, water-based cementing and recycled polyester. Today, Nike is the third largest purchaser of organic cotton, using 21 million pounds, which eliminated the need for 7 million pounds of agricultural chemicals.

**Indicators**

- Break-even after three years
- Profits
- Number of people influenced
- Number of replications of SharCo’s physical location
- Number of SharCo members worldwide in three years

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8. Team members

8.1. Four partners

Marie-Laure Moens de Hase, Online Manager & Founder

Background

She has a Bachelor in Economics and Management from FUNDP University in Belgium, and a Master in Management (magna cum laude) from Louvain School of Management (UCL) in Belgium. She also has an International Master in Sustainable Development and Corporate Responsibility from Escuela de Organización Industrial (EOI) in Madrid, Spain. She worked for one year as a Consultant in the grants and incentives department at Ernst & Young in Belgium and then worked for one year as a Project Manager for a small real estate company in Brussels.

As a consultant, she gained experience in various sectors such as ICT, green innovations, transportation, renewable energies, extracting industry, chemicals and public sector.

As a Project Manager, she gained experience in Market and Business Development, Sales, Client Relationship Management, Renting, Rebuilding, Public Relations and Website Management.

Role and Responsibilities

Given her experience in the ICT sector, website management, Client Relationship Management, Sales and Renting, she will naturally manage the online part of the Shared Consumption company. Moreover, she has a keen interest and is knowledgeable with Web 2.0 and is an active blogger as well as a social networker (Twitter, Facebook, LinkedIn,...). She is also member and active user of similar websites as Shared Consumption (eBay, ride-sharings,...).

The main responsibilities will include the following:

- Online communications - assisted by Marketing Manager regarding communication aspects
  - Facilitate participation of members
  - Message all members
  - Message categories or groups of members
  - Manage communication channels of the members to the team
• Trust Mechanisms
  ○ Ensure and promote development of peer-to-peer review system (evaluations and feedback to build on their trust and reputation capital)
  ○ Manage the Circles of Trust
  ○ Manage referrals
  ○ Review of evaluations
  ○ Manage disappointments and claims

• Webmaster
  ○ Website design
  ○ Website improvements
  ○ Relationships with website supplier (Designer, Programmer, Editor and Information Structure)

• Content & Knowledge Management
  ○ Exchange elements: manage comments and contributions of the members in the discussions
  ○ Manage the topics and contributions of members into the various Content & Knowledge sections.
  ○ Mainstream Collaborative Consumption: find writers on the subject, experiences of members, specialists, crowdsourcing
  ○ Knowledge center: articles related to Collaborative Consumption.

![Natalia Sant’Anna Torres, Marketing Manager & Founder](image)

Background

Bachelors of International Relations from Universidade Estadual Paulista (Franca-Brazil) and an International Master in Sustainable Development and Corporate Social Responsibility from Escuela de Organización Industrial (EOI) in Madrid. Worked for two years as a Third Sector Coordinator and Project Manager at Orbe-Relações Internacionais in Franca.

As Third Sector Coordinator, she developed social and educational programmes in low-income communities in Brazil. Experienced also in public relations and social events organization as conferences, meetings and lectures.

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Role and Responsibilities

Given her experience in public relations, her role is to manage communication channels, brand and reputation, customer management and social events (Sharco’s events agenda) in order keep member as much involved as possible and ensure both good social environment among members and Sharco’s philosophy propagation.

The main responsibilities will include the following:

- Communication Channels
  - Partner Relations
  - New Partnership engagement
  - On-line and telephone customer service (complaints, new ideas, suggestions, etc)

- Brand and Reputation
  - Publicity Projects
  - Collaborative consumption philosophy spreading and awareness campaigns

- Customer Management
  - Members periodically feedback surveys (once per semester)
  - Motivation survey (on the entrance)
  - Welcome phone call (on the entrance)

- Social Events
  - Social events creation (at least once a week)
  - Events agenda management
  - Events room renting

Marcela Durón Tábara, Operations Manager & Founder

Background

Bachelors of Science in International Trade & Finance from Louisiana State University and an International Master in Sustainable Development and Corporate Social Responsibility from Escuela
de Organización Industrial (EOI) in Madrid. Worked for three years as a Senior Consultant for Risk Advisory Services at Ernst & Young in New York.

As a consultant, she gained experience in several industries, such as Retail & Consumer Products, Pharmaceuticals, Media & Entertainment, Government & Public Sector and Professional Firms.

Experienced in risk and control assessments and identification of performance improvement opportunities within companies’ supply chains, operational processes and financial functions.

**Role and Responsibilities**

Given her experience in risk and performance improvement within several industries, her role is to manage the day-to-day operational activities involved with the offline and online platforms and support new Business Development.

The main responsibilities will include the following:

- **Supply chain Management**
  - Acquire through donations of durable goods for the warehouse
  - Assist the Marketing Manager to recruit more members, especially those members who are interested in sharing skills and knowledge
  - Locate and contract external contractors to repair goods
  - Proper disposal of goods
  - Quality Management - all goods donated and returned after rental are working properly

- **Inventory Management**
  - Registration of all goods in the inventory database
  - Placement of identification labels on all goods
  - Update the inventory database to reflect items that have been Checked-In/Out
  - Scheduling of classes online
  - Managing reservations/cancellations of classes

- **Points System Management**
  - Together with the Financial Officer, establish a pricing/value schedule for goods, classes and events

Business Development: Look for new opportunities to expand our physical locations within Madrid, Spain, Europe and the world. Primarily focus on big cities.

SharCo is a social business that has the easiness to be replicable anywhere in the world. As the collaborative consumption movements grows and individuals mindsets change from “owners” to
“users”, there will be a huge demand for business models like ours and therefore a rapid growth of other SharCo locations.

It is the responsibility of the Operations Manager to assist individuals in other locations that would be interested in opening a SharCo franchise.

Giulio Monesi, Financial officer (online and off-line)

Background

International education in Economics. Currently attending Master in Sustainable Development and CSR. Wide knowledge of finance, marketing and economics models; with well developed critical analysis skills. Good skills in communication, working in groups and in a multicultural context.

He achieved a bachelor degree in Economics and finance at the oldest university of the world (University of Bologna). Master in science in pure economics at the university of Bologna. During this master he won a scholarship to study 7 month in Australia at the university of technology of Sydney.

In the spare times he trades in the stock market with his personal portfolio.

Role and responsibilities

Given his knowledge in the financial market he will be in charge of relation with investors, banks, municipality.

The financial and legal aspect of the company will lay into his responsibilities.

Finding investors ready to support the SharCo company will be under his revision.

His operating activities will consist of:

- Costs
- Revenue
- Profit & Loss
- Cash Flow
8.2. Other staff

8.2.1. One part-time cleaner

Background

Woman or man over 18 years old legally allowed to work in Spain (including people with disabilities). Discipline, flexibility, honesty and good communication skills are also crucial requirements for this position.

No educational qualifications are necessary to start working, although some skills are helpful to ensure that the building are kept clean and hygienic for the people that use them, such as a reasonable level of literacy for understanding written instructions.

Role and Responsibilities

The cleaner will be responsible for a variety of cleaning tasks involving cleaning and organizing.

The main responsibilities will include the following:

Practical Details

The cleaner will be required to work a minimum of 3 hours a day in the morning shift from Monday to Saturday. The wage is 6 € per hour, totaling 432 € per month. It was calculated based on the average salary in Spain\textsuperscript{133}, where salaries for housekeeping services are usually calculated by hours.

8.2.2. Two full-time Host Internship

Background

Polite and friendly 18-years old woman or man and legally allowed to do an internship in Spain (including people with disabilities). Social and environmental awareness, discipline, flexibility, honesty and good communication skills are also crucial requirements for this position.

The knowledge requirements are the following:

\textsuperscript{133}Website for Job searching in Spain. http://trabajo.mitula.com/trabajo/auxiliar-limpieza

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http://www.eoi.es
- Technical services and quality verification systems
- Customer service (online, by phone and physically)
- Social Media and IT skills (Microsoft Office)
- Collaborative Consumption interest and experience
- A minimum level of English skills is desirable.

**Role and Responsibilities**

The receptionists will be responsible for all the activities involving inventory, membership and hospitality.

The main responsibilities will include the following:

- Front desk attendance
- Membership register
- Host of the SharCo physical location: make people feel at home and comfortable
- Products check-in and check out and quality verification of goods
- Inventory management
- Occasional activities as host in social events
- Keep the environment nice and (supervise cleaning service, cafeteria service, music, heating and so on).

**Practical Details**

The receptionists will be required to work a minimum of 8 hours a day from 10 AM to 2 PM and 5 PM to 9 PM from Monday to Saturday.

The wage calculated based on the average salary for interns in Spain[^134], is 1 000 € per month.

[^134]: Website for Job searching in Spain. Average Salary for interns
http://empleo.trovit.es/index.php/cod.jobs_stats/similar_search.practicas%20madrid

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9. Financial Projections

The financial plan is divided into several sections, which are the following: general overview of investment, costs and revenues; initial investments needed; operating costs; revenues; financial projections; different scenario’s with sensitivity analyses; risk analysis; and funding sources.

9.1. General overview

9.1.1. Initial investment

The initial investment is composed of several items, which are the following:

- Creation of a website: acquire a domain name and space on a server, the persons that will be hired or subcontracted to design, implement and make the website operational.

- Creation of the company: as a new entity, the legal framework has to be created. An initial investment has to be taken into account depending on the type of company, which in this case will be a limited liability company.

- Initial marketing campaign: marketing campaigns may be conducted throughout the lifecycle of the company but at the beginning the effort and investment will be higher in order to launch the enterprise, create awareness and inform people regarding the principles of shared consumption. The success of SharCo will depend on the number of adherents. Hence, this initial marketing campaign is important and will be supported by a thorough marketing plan.

- Restoration of the physical location: the amount spent for restoration of the physical location will depend on the condition of the place rented. An accurate financial analysis will be conducted to select the place that maximizes accessibility and attractiveness and minimizes the financial outflow for restoration.

- Facilities: In order to be attractive and to differentiate itself from already existing second-hand stores SharCo must create a pleasant atmosphere through nice furniture, design and facilities. Facilities must as well comply with national, regional and local legislation.

- License: in order to create and operate a cafeteria in the physical location, a license must be purchased for selling drinks and food.

- Cafeteria: Appliances must be bought or leased.

- Online miscellaneous: initial partnerships with credit and debit cards online payment companies; invest in website hosting, programming and maintenance; invest in computers; develop online advertisement.
The initial investment will be obtained by summing the previously mentioned items. This amount will be collected through internal equity or debt of project financing; The different sources of funding are business angels, national and city government, Friends/Family/Fools or other organizations helping young entrepreneurs to start up. Depending on the source of funding we will face a different interest rate.

9.1.2. Costs
With the term costs we refer to normal operating costs; costs that we will face with a regular basis, in contrast with the initial investment. The operating costs are the following:

- **Rent**: the physical location will be rented; therefore a monthly fee must be paid to the owner
- **Employees**: in this chapter we will include our salaries, and all the other workers’ salaries.
- **Utilities**: being a physical place too, SharCo will consume electricity, heating, cooling, Internet connection, water and gas. If an initial installment must be performed it will be added to the investments.
- **Maintenance**: the website and physical location will need constant maintenance in order to function properly. These costs might include: domain and server monthly costs, eventual in location reparation, cleaning of the facilities and the network maintenance: the system of points and points must be run in a technological way, therefore constant maintenance is required.
- **Raw materials and products for the “cafeteria”**: two possibilities can be investigated: outsourcing of the place which would guarantee a constant revenue or the auto-management of the space: in this latter case products, employees, utilities must be calculated as they form part of the budget.
- **On-going marketing campaign**: a part of the budget must be allocated to marketing activities such as: promotions, advertisement and partnership.

9.1.3. Revenues
We define revenues as the income generated on a regularly basis. On these revenues we will build our business plan and on the cash flow. The revenues will come from the following sources:

- **Points**: our system will be based on points: with points our community members will be able to rent goods, to attend courses and to participate to every activity of Sharco. Members can gain points by providing courses or by donating goods. When donating goods a member will receive 10% of the value of the good donated (based on e-bay or second
hand store) plus every time the good will be rented a small fee will be guaranteed to the donor. In this way we will incentive people to donate goods in good condition and that can generate interest in the community. Every time there is a rent a commission is taken by Sharco in terms of points, in this way we favour the buying of points by members. When renting a good the cost will depend on the length of the renting and on the quality of the good.

- **Space renting**: Sharco includes rooms that can be rented as office space or for external courses. This will generate a income for our company.

- **Advertisement**: Online and on site. As the online website grows the advertisement will be more attractive to companies or other sponsors.

- **iPhone app.**: The development of an application for smart-phones will enable members to have more access to information, courses, goods offered, to exchange goods on the online platform.

- **Cafeteria**: As discussed before the two options available can be the leasing of the facility (outsourcing): in this case the revenue would be a rent paid to Sharco. The other option would determine a direct management of the facilities, where therefore the profits will be held at Sharco.

- **Upgraded memberships**: there are two levels of upgraded membership: silver and gold at a price of 10 and 20 € respectively per month.

### 9.2. Initial investment

As stated in the legal structure we decided to create a limited company which best fits with our objectives and concerns. The easiest way to create one is to rely on a company that provides this service as in Spain it usually takes up to 40 days to fulfill all the bureaucratic requirements. The best idea would be to use an intermediary to outsource the creation and the bureaucratic process: the overall initial cost for this would be 540 € according to “tuguilegal” 135.

The website will cost around 10 000 euros, according to Pablo Jose Fernandez Nuñez PLANET MEDIA Advanced IT Solutions136.

The initial marketing campaign will be based on an initial event during the inauguration of SharCo, an opening Cocktail. This cocktail will cost around 1000 euros. It will be a buffet. The average price in Madrid per person is 8 euros. We expect around 70 people.

The selection we made of the physical place we will rent does not need any restoration, a choice that was made in order to reduce the initial investment while guaranteeing a fancy place.

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135 [http://www.tuguilegal.com/crearsl.htm](http://www.tuguilegal.com/crearsl.htm)

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Reducing initial investment is a way of reducing risk (liquidity and operational) as we will minimize our debt exposure.

Furniture and decoration will cost around 6,700 euros. The amount of money required for this topic is relatively low in comparison with other ventures due to two reasons. First, most material used are second-hand and recycled items came from sharing platforms such as eBay and Segunda Mano. Second, the place chosen (Option A, see chapter 5) has already workmanship and is equipped with great part of furniture required, such as shelves and closets. Main spends are 6 tables, 1 desk, blackboard painting, LED lumps, 2 couches, 4 beans bag, 30 chairs, 7 top-down shelves, stage construction, 2 computers, 1 swinging chair, decoration items, etc.

Another strategic choice we made was to lease out the cafeteria, another measure to be coherent with our desire to divide risk with other entities. In this way we will not need to worry about obtaining license, invest in the structure and facilities and provide salary to other workers. Our aim is to be a light and dynamic enterprise, which does not need to finance fixed costs.

As a complement to the online website we will develop an “i-phone” application that will be sold at 1.99 €. According to Pablo Gavillan the cost of developing an application will be 4000€.

Therefore the initial investment can be summarized in the following table.

<table>
<thead>
<tr>
<th>INITIAL INVESTMENT</th>
<th>Cost in €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of the company</td>
<td>540 €</td>
</tr>
<tr>
<td>Creation of a website</td>
<td>10.000,00 €</td>
</tr>
<tr>
<td>Initial marketing campaign</td>
<td>1.000 €</td>
</tr>
<tr>
<td>Restoration of the physical place</td>
<td>0 €</td>
</tr>
<tr>
<td>Facilities</td>
<td>6.700 €</td>
</tr>
<tr>
<td>License</td>
<td>0 €</td>
</tr>
<tr>
<td>I-Phone application</td>
<td>4.000 €</td>
</tr>
<tr>
<td>Total initial investment</td>
<td>22.240 €</td>
</tr>
</tbody>
</table>

137 I-phone app expertat entelelectores.com

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9.3. Operating cost

In this section we give a number to the operating costs already stated before. The main expenses will be employees and rent, as you can see hereunder.

- **Employees**

A cleaner will be required to work a minimum of 3 hours a day in the morning shift from Monday to Saturday. The wage is € 6 per hour, totalizing € 432 per month. It was calculated based on the average salary in Spain, where salaries for housekeeping services are usually calculated by hours.

One intern will be required and an extra one after the third year. The wage calculated based on the average salary for interns in Spain, is € 1000 per month.

The receptionists will be required to work a minimum of 8 hours a day from 10AM to 2PM and 5PM to 9PM from Monday to Saturday.

From the third year onwards we will need an extra intern to cope with the extra amount of work that an increase number of members require.

- **Renting**

The rent perceived will be around 4,500 euros. The features of the place are described in chapter 5 (Option A).

- **Opportunity cost**

When an individual becomes a member he donates a durable good that he doesn’t need anymore. We provide some initial points to him that he can use for attending curses or renting out other objects. The initial amount of points that we give is low but then every time someone rents out his object a 10% of the renting goes back to the donor. In this way we incentive individuals to donate good quality objects as their personal financial return will be based on how many times the object is rented out. Therefore a 15 % of all renting out will be converted into points that therefore represent a reduction in revenues, an opportunity cost. Our business model is based on a long-term view, therefore the pricing and the incentive we provide must be consistent with it.

Utilities: we based our projections on what “The Hub” spends for utilities as the place and the activities are very similar. Inflation has been taken into account for the following years.

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• Maintenance

1 200 € a month has been calculated for the maintenance again based on The Hub measure (increased in our case as we will need higher assistance on products).

Therefore the projection for the initial five years (monthly cost) will be as follow:

<table>
<thead>
<tr>
<th>Operating Costs</th>
<th>1st year</th>
<th>2nd year</th>
<th>3rd year</th>
<th>4th year</th>
<th>5th year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>4,500 €</td>
<td>4,554 €</td>
<td>4,609 €</td>
<td>4,664 €</td>
<td>4,720 €</td>
</tr>
<tr>
<td>Employees</td>
<td>1,652,50 €</td>
<td>1,652,50 €</td>
<td>2,665,55 €</td>
<td>2,678,96 €</td>
<td>2,692,44 €</td>
</tr>
<tr>
<td>- ShareCo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cleaner</td>
<td>652,50 €</td>
<td>652,50 €</td>
<td>665,55 €</td>
<td>678,96 €</td>
<td>692,44 €</td>
</tr>
<tr>
<td>- Intern</td>
<td>1,000 €</td>
<td>1,000 €</td>
<td>2,000 €</td>
<td>2,000 €</td>
<td>2,000 €</td>
</tr>
<tr>
<td>Utilities</td>
<td>550 €</td>
<td>561 €</td>
<td>572 €</td>
<td>584 €</td>
<td>595 €</td>
</tr>
<tr>
<td>Maintenance</td>
<td>1,200 €</td>
<td>1,200 €</td>
<td>1,200 €</td>
<td>1,200 €</td>
<td>1,200 €</td>
</tr>
<tr>
<td>Opp. cost</td>
<td>136,32 €</td>
<td>137,40 €</td>
<td>491,05 €</td>
<td>638,42 €</td>
<td>829,95 €</td>
</tr>
<tr>
<td>Total</td>
<td><strong>8,039 €</strong></td>
<td><strong>8,295 €</strong></td>
<td><strong>9,538 €</strong></td>
<td><strong>9,765 €</strong></td>
<td><strong>10,038 €</strong></td>
</tr>
</tbody>
</table>

As we structured our company as a limited one then we (ShareCo in the table) will be paid with the profit of the company, without a fixed salary.

9.4. Revenues

The way our model becomes profitable is when the community increases, therefore we will have more people donating, more people willing to rent out goods (as we will have more goods available), more events created and more people willing to attend them. For this reason we must create a joyful experience for the members, in order to attract more with the help of the word-of-mouth.

According to the market research we have conducted there is 59% of the population sample interested in a physical place sharing community. This gives us the opportunity to calculate the potential customers market here in Madrid, as the market research was performed in a way to be statistically significant. Of course a 59% interest doesn’t translate to the same amount of members in our community, but it can give us an idea on the penetration opportunity that we have.

So the model for the revenues projections will be based on the number of members, from this number we will elaborate the projected revenues for renting out, for events attendance, for the iPhone app selling, for the upgraded membership and for the online advertisement. This allows us to perform a sensitivity analysis in which by changing the number of members we will be able to predict different scenarios.
In the first month we assumed to be able to reach 120 members, a very achievable result as in the opening day we will invite around 70 people. 120 members would represent the 0.005% of potential customers in Madrid.

The growth rate we assumed for the first year is 10% a month, meaning that in the second month we will reach 132 members. Comparing to other realities in the sharing community the number seems realistic and very conservative. Following this growth at the end of the first year the members will still be lower than 300 (therefore the 0.01% of potential market). As we stated before the number of members is used to calculate the revenues streams:

- Renting out: 65% of the members are assumed to make at least one transaction a month (10% twice, 5% three times and the remaining 50% once, considering an average price of transaction of 5€). Of course it is just an assumption but still it has been considered in a conservative way; for example in the first month this will result in an average of 3 transactions per day.

- Events: we will organize 4 events on average per month, we assumed that only 20% of members will attend at an average price of 8€.

- Memberships: 7% of members will upgrade to silver (10€ per month) and 3% to gold (20€ per month).

- Space renting: the rooms we provide will be booked 2 hours per day at a price of 20€ per hour according to our projections (based on the cost and amount of “The Hub”)

- Online advertisement: 1€ cent every visitor per month (therefore calculated on the projected visitors online)

- iPhone app: at a cost of 1,99€ only 5% of online and physical members will buy it

- Cafeteria: we rent the space for the cafeteria at 2000€ per month

The first year projections of revenues will therefore be as follows:
Table 5. First year projected revenues

<table>
<thead>
<tr>
<th>Revenues</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>155,50 €</td>
<td>171,43 €</td>
<td>185,76 €</td>
<td>201,54 €</td>
<td>218,48 €</td>
<td>236,44 €</td>
<td>255,44 €</td>
<td>276,44 €</td>
<td>299,44 €</td>
<td>324,44 €</td>
<td>351,44 €</td>
<td>380,44 €</td>
</tr>
<tr>
<td>- Silver</td>
<td>94,50 €</td>
<td>102,43 €</td>
<td>112,76 €</td>
<td>125,54 €</td>
<td>138,48 €</td>
<td>153,44 €</td>
<td>170,44 €</td>
<td>186,44 €</td>
<td>203,44 €</td>
<td>223,44 €</td>
<td>246,44 €</td>
<td>272,44 €</td>
</tr>
<tr>
<td>- Gold</td>
<td>57,50 €</td>
<td>62,43 €</td>
<td>68,76 €</td>
<td>75,54 €</td>
<td>82,48 €</td>
<td>90,44 €</td>
<td>98,44 €</td>
<td>107,44 €</td>
<td>117,44 €</td>
<td>128,44 €</td>
<td>140,44 €</td>
<td>153,44 €</td>
</tr>
<tr>
<td>Renting out</td>
<td>551,00 €</td>
<td>615,43 €</td>
<td>683,76 €</td>
<td>755,54 €</td>
<td>830,48 €</td>
<td>910,44 €</td>
<td>995,44 €</td>
<td>1085,44 €</td>
<td>1180,44 €</td>
<td>1285,44 €</td>
<td>1400,44 €</td>
<td>1525,44 €</td>
</tr>
<tr>
<td>Events</td>
<td>501,00 €</td>
<td>564,43 €</td>
<td>632,76 €</td>
<td>704,54 €</td>
<td>780,48 €</td>
<td>860,44 €</td>
<td>945,44 €</td>
<td>1035,44 €</td>
<td>1130,44 €</td>
<td>1235,44 €</td>
<td>1350,44 €</td>
<td>1475,44 €</td>
</tr>
<tr>
<td>Column revenue</td>
<td>2,031,00 €</td>
<td>2,200,00 €</td>
<td>2,401,00 €</td>
<td>2,608,00 €</td>
<td>2,835,00 €</td>
<td>3,091,00 €</td>
<td>3,380,00 €</td>
<td>3,703,00 €</td>
<td>4,071,00 €</td>
<td>4,483,00 €</td>
<td>4,940,00 €</td>
<td>5,443,00 €</td>
</tr>
<tr>
<td>Space renting</td>
<td>1,018,00 €</td>
<td>1,080,00 €</td>
<td>1,142,00 €</td>
<td>1,212,00 €</td>
<td>1,298,00 €</td>
<td>1,392,00 €</td>
<td>1,494,00 €</td>
<td>1,608,00 €</td>
<td>1,733,00 €</td>
<td>1,872,00 €</td>
<td>2,028,00 €</td>
<td>2,202,00 €</td>
</tr>
<tr>
<td>I-phone app</td>
<td>15,50 €</td>
<td>20,50 €</td>
<td>25,50 €</td>
<td>31,50 €</td>
<td>38,50 €</td>
<td>47,50 €</td>
<td>58,50 €</td>
<td>71,50 €</td>
<td>86,50 €</td>
<td>103,50 €</td>
<td>123,50 €</td>
<td>146,50 €</td>
</tr>
<tr>
<td>Online advertising</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
<td>15,50 €</td>
</tr>
<tr>
<td>Total revenues</td>
<td>4,661,00 €</td>
<td>5,030,00 €</td>
<td>5,441,00 €</td>
<td>5,919,00 €</td>
<td>6,450,00 €</td>
<td>7,059,00 €</td>
<td>7,742,00 €</td>
<td>8,502,00 €</td>
<td>9,337,00 €</td>
<td>10,263,00 €</td>
<td>11,296,00 €</td>
<td>12,453,00 €</td>
</tr>
</tbody>
</table>

So for the first year revenues minus operating cost will still be a negative number as we can see in the following picture:

Picture 43. First year revenues and operating margin

During the twelfth month we will stop needing extra fund as the business will become self-sufficient according to our estimates.

In the following years we will experience an increase in revenues as the members will increase.

It is important to mention that at the end of the 5th year the overall members in the physical place will be around 1000, meaning 0.05% of the potential market we identified in Madrid. The rate at which we grow is 50 % in year 2 and 3 while then it decreases at 30%. It may sounds as a high growing pace but all the competitors that we have analyzed grow even at a higher rate. Achieving a 1000 members in Madrid in 5 years is still a conservative view in our opinion. In the following graph the number of basic members represents the 90% of the overall members for the physical place, while the remaining 10 % generates income through the silver and gold membership.
9.5. Financial projections

Being a limited company in Spain the tax rate we are subject to is 30%, according to the accounting rules if in one year the company is not making profit it generates a credit in terms of taxes that can be used in the following years. This explains why the tax we pay and the 30% of the earning after interest differs.

The debt structure depends on the amount of money that we need before the revenues generated are higher than the operating costs. The interest that we will have to pay will 9 %, which is according to Maria Zapata140 the average cost of funding for social enterprises.

Table 7. Net income base scenario

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial investment</td>
<td>70.801,22 €</td>
<td>122.453,90 €</td>
<td>162.761,77 €</td>
<td>199.678,74 €</td>
<td>244.003,86 €</td>
</tr>
<tr>
<td>Operating costs</td>
<td>-96.466 €</td>
<td>-99.539 €</td>
<td>-114.450 €</td>
<td>-117.179 €</td>
<td>-120.452 €</td>
</tr>
<tr>
<td>Operating income</td>
<td>-47.905 €</td>
<td>22.915,15 €</td>
<td>48.311,64 €</td>
<td>82.499,97 €</td>
<td>123.552,16 €</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1.340,00 €</td>
<td>1.340,00 €</td>
<td>1.340,00 €</td>
<td>1.340,00 €</td>
<td>1.340,00 €</td>
</tr>
<tr>
<td>BIT</td>
<td>-49.245 €</td>
<td>21.575 €</td>
<td>46.972 €</td>
<td>81.160 €</td>
<td>122.212 €</td>
</tr>
<tr>
<td>Interest</td>
<td>5.850,00 €</td>
<td>5.850,00 €</td>
<td>5.850,00 €</td>
<td>5.850,00 €</td>
<td>5.850,00 €</td>
</tr>
<tr>
<td>Earning before tax</td>
<td>-55.095 €</td>
<td>15.725 €</td>
<td>41.122 €</td>
<td>75.310 €</td>
<td>116.362 €</td>
</tr>
<tr>
<td>Taxes (30%)</td>
<td>-16.528 €</td>
<td>4.718 €</td>
<td>12.336 €</td>
<td>22.593 €</td>
<td>34.909 €</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>23.119 €</td>
<td>34.909 €</td>
</tr>
<tr>
<td>Net Income (loss)</td>
<td>-55.095 €</td>
<td>15.725 €</td>
<td>41.122 €</td>
<td>98.429 €</td>
<td>151.271 €</td>
</tr>
</tbody>
</table>

As we can see from the table Sharco will be needing funding until the second year when (according to our projection) it will become self sustainable from an economic point of view. The debt that we will need will be around 60000 € in order to be liquid and to be able to keep the business running (including a buffer for extra fund needed).

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9.6. Different Scenario’s

We stated before that all the projections are made based on the number of members, therefore we can build different scenario in which the initial number of members is different or the growth rate is changed.

Therefore we will present an optimistic scenario and a pessimistic scenario, keeping in mind that the base-scenario is conservative.

9.6.1. Pessimistic scenario

In this scenario we perform the same model but starting from a lower member numbers in the beginning. We therefore reduced the initial members in the physical place by 20%, which affects all the variables in the long run as the growth rate of members doesn’t change. Changing the number of members affects revenues but cost as well; the opportunity cost is in fact 15% of revenues from renting out.

Table 8. Pessimistic scenario first year revenues

<table>
<thead>
<tr>
<th>Revenues</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>140.0€</td>
<td>140.0€</td>
<td>157.10€</td>
<td>173.03€</td>
<td>190.03€</td>
<td>209.10€</td>
<td>230.30€</td>
<td>251.53€</td>
<td>278.67€</td>
<td>316.51€</td>
<td>377.13€</td>
<td>370.91€</td>
</tr>
<tr>
<td>- Basic</td>
<td>90</td>
<td>99</td>
<td>109</td>
<td>120</td>
<td>132</td>
<td>145</td>
<td>159</td>
<td>175</td>
<td>193</td>
<td>212</td>
<td>233</td>
<td>257</td>
</tr>
<tr>
<td>-Silver</td>
<td>70.0€</td>
<td>77.10€</td>
<td>84.70€</td>
<td>93.17€</td>
<td>102.48€</td>
<td>112.74€</td>
<td>124.01€</td>
<td>136.41€</td>
<td>150.05€</td>
<td>165.04€</td>
<td>183.54€</td>
<td>195.72€</td>
</tr>
<tr>
<td>-Gold</td>
<td>60.0€</td>
<td>66.10€</td>
<td>72.60€</td>
<td>79.06€</td>
<td>87.85€</td>
<td>96.63€</td>
<td>106.29€</td>
<td>116.92€</td>
<td>128.62€</td>
<td>141.48€</td>
<td>155.62€</td>
<td>171.39€</td>
</tr>
<tr>
<td>Renting out</td>
<td>425.50€</td>
<td>467.10€</td>
<td>514.15€</td>
<td>565.60€</td>
<td>622.24€</td>
<td>684.47€</td>
<td>752.51€</td>
<td>821.20€</td>
<td>911.01€</td>
<td>1.012.13€</td>
<td>1.112.34€</td>
<td>1.212.57€</td>
</tr>
<tr>
<td>Event rent</td>
<td>640.0€</td>
<td>704.10€</td>
<td>774.40€</td>
<td>851.04€</td>
<td>935.02€</td>
<td>1.030.73€</td>
<td>1.130.36€</td>
<td>1.247.10€</td>
<td>1.370.30€</td>
<td>1.513.03€</td>
<td>1.660.03€</td>
<td>1.826.59€</td>
</tr>
<tr>
<td>Cafe/tea rent</td>
<td>2.000.00€</td>
<td>2.000.10€</td>
<td>2.000.20€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
<td>2.000.00€</td>
</tr>
<tr>
<td>Space/renting</td>
<td>1.010.00€</td>
<td>1.150.10€</td>
<td>1.220.10€</td>
<td>1.297.63€</td>
<td>1.315.51€</td>
<td>1.376.28€</td>
<td>1.440.10€</td>
<td>1.477.46€</td>
<td>1.531.33€</td>
<td>1.616.28€</td>
<td>1.710.34€</td>
<td></td>
</tr>
<tr>
<td>Online advert.</td>
<td>15.00€</td>
<td>20.00€</td>
<td>24.00€</td>
<td>28.04€</td>
<td>32.19€</td>
<td>35.40€</td>
<td>38.59€</td>
<td>41.63€</td>
<td>44.42€</td>
<td>47.01€</td>
<td>50.75€</td>
<td>54.72€</td>
</tr>
<tr>
<td>Total revenues</td>
<td>4.285.10€</td>
<td>4.375.70€</td>
<td>4.460.75€</td>
<td>4.560.40€</td>
<td>4.681.79€</td>
<td>4.852.05€</td>
<td>5.025.10€</td>
<td>5.216.05€</td>
<td>5.414.03€</td>
<td>5.623.01€</td>
<td>5.843.46€</td>
<td>6.074.27€</td>
</tr>
</tbody>
</table>

From the following graph we can see that after twelve month the company is not yet self-sufficient. The total amount of debt that must be raised not to incur into liquidity problem is around 60 000€. In a risk-management view we decided to raise for all scenarios this amount of money through debt, in order to prevent any lack of funding if our projections were too optimistic.
After five years we can see how the 20% change in initial members affects revenues, through the compounding growth that amplifies the initial change. Still the company would be profitable in the long run, but we as SharCo owners would need to wait until year 4 to collect some profits.

Table 9. Pessimistic scenario outlook

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>65.690,38 €</td>
<td>110.179,79 €</td>
<td>144.350,61 €</td>
<td>175.744,23 €</td>
<td>212.889,00 €</td>
</tr>
<tr>
<td>Initial Investment</td>
<td>-22.240 €</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>-96.193 €</td>
<td>-98.884 €</td>
<td>-113.468 €</td>
<td>-115.902 €</td>
<td>-118.792 €</td>
</tr>
<tr>
<td>Operating income</td>
<td>-52.743 €</td>
<td>11.295,84 €</td>
<td>30.882,66 €</td>
<td>59.842,30 €</td>
<td>94.097,19 €</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-1.340,00 €</td>
<td>-1.340,00 €</td>
<td>-1.340,00 €</td>
<td>-1.340,00 €</td>
<td>-1.340,00 €</td>
</tr>
<tr>
<td>EBIT</td>
<td>-54.083 €</td>
<td>9.956 €</td>
<td>29.543 €</td>
<td>58.502 €</td>
<td>92.757 €</td>
</tr>
<tr>
<td>Interest</td>
<td>-5.850,00 €</td>
<td>-5.850,00 €</td>
<td>-5.850,00 €</td>
<td>-5.850,00 €</td>
<td>-5.850,00 €</td>
</tr>
<tr>
<td>Earning before tax</td>
<td>-59.933 €</td>
<td>4.106 €</td>
<td>23.693 €</td>
<td>52.652 €</td>
<td>86.907 €</td>
</tr>
<tr>
<td>Taxes (30%)</td>
<td>-17.980 €</td>
<td>1.232 €</td>
<td>7.108 €</td>
<td>15.796 €</td>
<td>26.072 €</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>6.155 €</td>
<td>26.072 €</td>
</tr>
<tr>
<td>Net Income (loss)</td>
<td>-59.933 €</td>
<td>4.106 €</td>
<td>23.693 €</td>
<td>58.808 €</td>
<td>112.979 €</td>
</tr>
</tbody>
</table>

9.6.2. Optimistic scenario

In the same way of reasoning we perform now an optimistic scenario, starting from 160 members in the first month. As you can see in year 3 the company will be already paying taxes which means that we will be already generating profits.
After ten months the pink line in the following graph enters the positive area, meaning that external funding will not be necessary as revenues will generate enough cash flow to keep the business running.

### Table 10. Optimistic scenario outlook

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€</td>
<td>€</td>
<td>€</td>
<td>€</td>
<td>€</td>
<td>€</td>
</tr>
<tr>
<td>Initial investment</td>
<td>-22,240 €</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>-97,011 €</td>
<td>-100,848 €</td>
<td>-116,414 €</td>
<td>-119,732 €</td>
<td>-123,771 €</td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>-38,228 €</td>
<td>46,153,79 €</td>
<td>83,169,59 €</td>
<td>127,815,31 €</td>
<td>182,462,10 €</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>-1,340,00 €</td>
<td>-1,340,00 €</td>
<td>-1,340,00 €</td>
<td>-1,340,00 €</td>
<td>-1,340,00 €</td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>-39,568 €</td>
<td>44,814 €</td>
<td>81,830 €</td>
<td>126,475 €</td>
<td>181,122 €</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>5,850,00 €</td>
<td>5,850,00 €</td>
<td>5,850,00 €</td>
<td>5,850,00 €</td>
<td>5,850,00 €</td>
<td></td>
</tr>
<tr>
<td>Earning before tax</td>
<td>-45,418 €</td>
<td>38,964 €</td>
<td>75,980 €</td>
<td>120,625 €</td>
<td>175,272 €</td>
<td></td>
</tr>
<tr>
<td>Taxes (30%)</td>
<td>-13,625 €</td>
<td>11,689 €</td>
<td>22,794 €</td>
<td>36,188 €</td>
<td>52,582 €</td>
<td></td>
</tr>
<tr>
<td>Taxes paid</td>
<td>0 €</td>
<td>0 €</td>
<td>20,858 €</td>
<td>36,188 €</td>
<td>52,582 €</td>
<td></td>
</tr>
<tr>
<td>Net Income (loss)</td>
<td>-45,418 €</td>
<td>38,964 €</td>
<td>96,837 €</td>
<td>156,813 €</td>
<td>227,854 €</td>
<td></td>
</tr>
</tbody>
</table>

As we stated before this scenarios analysis is important in order to determine the amount of external funding required, that was set at 60,000€.

### 9.7. Risk Analysis

In this section we will try to identify the biggest risks that SharCo will be facing and that could affect the financial statement and projections performed so far.

The main risks we can identify are:

- Members less than projected
- Renting out takes place at a slower rate
• Events are not attended as projected
• Members not willing to pay for upgraded membership
• No cafeteria will be willing to pay 2000€ rent
• Members not interested in room renting for working
• No individuals are willing to donate goods to become members
• Degradation of goods
• Liquidity risk

In order to take into account the risk identified we must be ready to manage this potential threat to our business model and projections. We will perform therefore our projections under this scenarios starting from the most likely or best case scenario that we identified. Alternatively we will take action in order to prevent the risk.

• Members less than projected: we have already performed what would happen in this case
• Renting out takes place at a slower rate: let us see what would happen if the renting drops 20 % from our scenario: therefore not 65 %of members would be involved in the renting but only 52% ( 8% twice, 4 % three times , 40% once)

<table>
<thead>
<tr>
<th>Table 11. Slower rate renting out outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>Initial investment</td>
</tr>
<tr>
<td>Operating costs</td>
</tr>
<tr>
<td>Operating income</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>EBIT</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Earning before tax</td>
</tr>
<tr>
<td>Taxes (30%)</td>
</tr>
<tr>
<td>Taxes paid</td>
</tr>
<tr>
<td>Net Income (loss)</td>
</tr>
</tbody>
</table>

As we can see revenues will be affected and reduced but at the same time operating cost will be it too (as they are a percentage of revenues). Therefore a drop of 20 % in renting out rate wouldn’t undermine the business model profitability.

• Events are not attended as projected: again we perform a sensitivity analysis by reducing 20% the attendance to events to our base case scenario (therefore the rate of attendance would drop to 15% of members)
This case scenario would reduce the net income but again the profitability of the company would just be postponed in terms of profits.

- members not willing to pay for upgraded membership: in this scenario we will run the model without membership extra fee:

<table>
<thead>
<tr>
<th>Table 12. A 20% drop in events participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Initial investment</td>
</tr>
<tr>
<td>Operating costs</td>
</tr>
<tr>
<td>Operating income</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>EBIT</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Earning before tax</td>
</tr>
<tr>
<td>Taxes (30%)</td>
</tr>
<tr>
<td>Taxes paid</td>
</tr>
<tr>
<td>Net Income (loss)</td>
</tr>
</tbody>
</table>

- No cafetería will be willing to pay 2000€ rent: by analyzing the prices for cafetería renting around Madrid we classified this event as mostly unlikely, anyway we perform the model without the 2 000€ a month revenues coming from it:

<table>
<thead>
<tr>
<th>Table 13. No membership outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Initial investment</td>
</tr>
<tr>
<td>Operating costs</td>
</tr>
<tr>
<td>Operating income</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>EBIT</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Earning before tax</td>
</tr>
<tr>
<td>Taxes (30%)</td>
</tr>
<tr>
<td>Taxes paid</td>
</tr>
<tr>
<td>Net Income (loss)</td>
</tr>
</tbody>
</table>
Table 14. No cafeteria outlook

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>46,801.22 €</td>
<td>98,459.90 €</td>
<td>138,761.77 €</td>
<td>175,678.74 €</td>
<td>220,003.86 €</td>
</tr>
<tr>
<td>Initial investment</td>
<td>-22,240 €</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>-96,466 €</td>
<td>-99,539 €</td>
<td>-114,450 €</td>
<td>-117,179 €</td>
<td>-120,452 €</td>
</tr>
<tr>
<td>Operating income</td>
<td>-71,905 €</td>
<td>-1,084.85 €</td>
<td>24,311.64 €</td>
<td>58,499.97 €</td>
<td>99,552.16 €</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-1,340.00 €</td>
<td>-1,340.00 €</td>
<td>-1,340.00 €</td>
<td>-1,340.00 €</td>
<td>-1,340.00 €</td>
</tr>
<tr>
<td>EBIT</td>
<td>-73,245 €</td>
<td>-2,425 €</td>
<td>22,972 €</td>
<td>57,160 €</td>
<td>98,212 €</td>
</tr>
<tr>
<td>Interest</td>
<td>-5,850.00 €</td>
<td>-5,850.00 €</td>
<td>-5,850.00 €</td>
<td>-5,850.00 €</td>
<td>-5,850.00 €</td>
</tr>
<tr>
<td>Earnings before tax</td>
<td>-79,095 €</td>
<td>-8,275 €</td>
<td>17,122 €</td>
<td>51,310 €</td>
<td>92,362 €</td>
</tr>
<tr>
<td>Taxes (30%)</td>
<td>-23,728 €</td>
<td>-2,482 €</td>
<td>5,136 €</td>
<td>15,393 €</td>
<td>27,709 €</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Net income</td>
<td>-79,095 €</td>
<td>-8,275 €</td>
<td>17,122 €</td>
<td>51,310 €</td>
<td>114,389 €</td>
</tr>
</tbody>
</table>

This case appears interesting: in this situation the higher damage will be in the first two years, where the cafeteria rent would affect the most total revenues. A stable income would reduce the fixed cost that we face reducing therefore the risk of no profitability.

In case we cannot find someone willing to pay 2000€ we could provide a more flexible rent that starts lower and grows as the number of members increases. In this way we could provide an incentive for the management of the cafeteria by reducing the initial risk (there is a correlation between number of members and revenues of the cafeteria).

- Members not interested in room renting for working:

Previous research has shown the feasibility of this business model, many competitors get most part of their revenues in this branch of the model. In any case, let us analyse what would happen under this scenario.

Table 15. No working space renting

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>54,884.09 €</td>
<td>98,453.90 €</td>
<td>135,761.77 €</td>
<td>169,678.74 €</td>
<td>214,003.86 €</td>
</tr>
<tr>
<td>Initial investment</td>
<td>-22,240 €</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>-96,466 €</td>
<td>-99,539 €</td>
<td>-114,450 €</td>
<td>-117,179 €</td>
<td>-120,452 €</td>
</tr>
<tr>
<td>Operating income</td>
<td>-63,822 €</td>
<td>1,084.85 €</td>
<td>21,311.64 €</td>
<td>52,499.97 €</td>
<td>93,552.16 €</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,340.00 €</td>
<td>1,340.00 €</td>
<td>1,340.00 €</td>
<td>1,340.00 €</td>
<td>1,340.00 €</td>
</tr>
<tr>
<td>EBIT</td>
<td>-65,162 €</td>
<td>-2,425 €</td>
<td>19,972 €</td>
<td>51,160 €</td>
<td>92,212 €</td>
</tr>
<tr>
<td>Interest</td>
<td>5,850.00 €</td>
<td>5,850.00 €</td>
<td>5,850.00 €</td>
<td>5,850.00 €</td>
<td>5,850.00 €</td>
</tr>
<tr>
<td>Earnings before tax</td>
<td>-71,012 €</td>
<td>-8,275 €</td>
<td>14,122 €</td>
<td>45,310 €</td>
<td>86,362 €</td>
</tr>
<tr>
<td>Taxes (30%)</td>
<td>-21,304 €</td>
<td>-2,482 €</td>
<td>4,236 €</td>
<td>13,593 €</td>
<td>25,909 €</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Net Income</td>
<td>-71,012 €</td>
<td>-8,275 €</td>
<td>14,122 €</td>
<td>45,310 €</td>
<td>106,314 €</td>
</tr>
</tbody>
</table>
Taking into account that we used the worst case scenario with no renting at all the results are highly affected. Year 5 would be the first one in which SharCo produce net benefits in the form of profits.

If in the first year we see that the space renting is struggling a more aggressive strategy should be undertaken, maybe by reducing the hourly price to attract more customers or by providing extra benefits to those who rent it.

- No individuals are willing to donate goods to become members: This hypothesis would for sure undermine the business model of SharCo, but the market research conducted by us shows the interest that the population has in the idea of a physical place where sharing consumption. We do believe that the incentive system that we constructed will foster the growth of SharCo and its business model.

- Degradation of goods: a special fund has been created in the maintenance cost that allows us to repair goods rented out. If the good becomes un-repairable then the responsible will pay for it substitution

- Liquidity Risk: We have already stated that we decided to use debt that would be sufficient under the pessimistic case scenario, other measure that we can use would be extra external funding procedures: many institutions and association are providing fund to social enterprise. If in the first month we see that even the pessimistic scenario was too optimistic we can decide to use these external funding sources (as we could incur a serious liquidity risk).

We can therefore draw a matrix where risks are a plotted over financial impact and probability, in order to assess priorities and decide risk management actions. The picture can be observed in the following picture.
9.8. Funding Sources

Part of the initial capital will be raised through external funding. In order to diminish the insecurities, we decided rely on multiple sources. The organizations listed below are potential investors or investments schemes that will be approached in order to raise either donations or loans:

9.8.1. Crowd Funding

Crowd funding is a collective cooperation, usually via virtual networks, that allows different kind of creators, individuals or organizations, to post information about a project and ask for donations. Members can assess the initiatives and invest money, through donations or loans, in order to support it. These initiatives can have a great variety of purposes, from disaster relief to citizen journalism, to artists seeking support from fans, to political campaigns, to funding a start-up company or small business or creating free software.\(^\text{141}\)

Examples of crowd-funding platforms include the following:

- Fandyu\(^\text{142}\)
- Kiva\(^\text{143}\)
- Kickstarter\(^\text{144}\)

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\(^{142}\) Fandyu http://www.fandyu.com/
\(^{143}\) Kiva http://www.kiva.org/
\(^{144}\) Kickstarter http://www.kickstarter.com/

EOI Escuela de Organización Industrial
http://www.eoi.es
9.8.2. Social Ventures Capitalists

Social venture capital, or social impact investment, is a form of venture capital investing that provides capital to businesses socially or environmentally responsible. The aim behind these investments is both to provide financial returns to investors and to provide market-based solutions to social and environmental issues. It can be debt or equity investment in socially-engaged enterprises.147

Examples of social venture capitalists include the following: 148

- **Acumen Fund**149: Focus on solving problems of global poverty through loans and equity in India, Pakistan and East and South Africa.
- **Big Issue Investment**150: Focus on medium-term growth capital.
- **Central Fund**151: Strong focus on sustainable jobs for low-income populations; services for distressed communities.
- **City Light Capital**152: Early stage, social mission-driven companies; focus on good financial returns.
- **First Light**153 (an initiative of Gray Ghost Ventures): Incubator and investment partner to seed-stage, for-profit social ventures
- **Good Capital**154: Expansion fund; high-engagement, hands-on investment partner.
- **Gray Ghost Ventures**155: Early stage enterprises focused on low-income communities in emerging markets.

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145 Sponse http://www.sponse.com/
146 RocketHub http://www.rockethub.com/
149 Acumen Fund www.acumenfund.org/
150 Big Issue Investment www.bigissueinvest.com/
151 Central Fund www.centralfund.com/
152 City Light Capital www.citylightcap.com/
153 First Light www.firstlightonline.co.uk
154 Good Capital www.goodcap.net/
155 Gray Ghost Ventures www.grayghostventures.com/
● Investors’ Circle\textsuperscript{156}: Investors’ Circle matches social entrepreneurs with its circle of angel investors.

● TBL Capital\textsuperscript{157}: Focus on social enterprises in consumer products, service providers, software, clean technology, green building, health and wellness, and retail.

● Triodos Bank\textsuperscript{158}: Equity and debt fundraising; Social Enterprise Fund and EIS Green Funds.

● Underdog Ventures\textsuperscript{159}: Focus on natural and organic food, environment and conservation, socially responsible consumer products, and socially responsible investment companies.

● Grassroots Business Fund\textsuperscript{160}: Aimed at building and supporting high impact businesses that provide sustainable economic opportunities to people at the base of the economic pyramid.

● Tandem Fund\textsuperscript{161}: Investing on patient capital to build and scale up businesses that offer solutions to poverty.

● Bridges Ventures\textsuperscript{162}: Focus on environmental and social projects.

● Citizen Capital\textsuperscript{163}: Investing in small and medium social enterprises.

In case we will need extra funding we plan to get financing from Triodos Bank because it is a European bank with locations in Spain that is focused on ethical and sustainable banking.

9.8.3. Angel Investors

Unlike social venture capital, which manage the pooled money of others in a professionally-managed fund, angel investors, also known as business angels or informal investors, are individuals that normally invest their own funds providing capital for a business start-up, usually in exchange for convertible debt or ownership equity\textsuperscript{164}. These investments reflect the judgment of the individual, based on beliefs, trust and passion.

To find an angel investor, we plan to attend two events promoted by the Hub Madrid (a new workspace to inspire, connect and promote social innovators), “Hub Investor Connection” and “Hub Ventures”. “Hub Investors” is a monthly event where members expose their business ideas

\textsuperscript{156} Investors’ Circle www.investorscircle.net/
\textsuperscript{157} TBL Capital www.tbicapital.com
\textsuperscript{158} Triodos Back www.triodos.co.uk/
\textsuperscript{159} Underdog Ventures www.underdogventures.com/
\textsuperscript{160} Grassroots Business Fund www.gbfund.org/
\textsuperscript{161} Tandem Fund www.tandemfund.org/
\textsuperscript{162} Bridges Ventures www.bridgesventures.com/
\textsuperscript{163} Citizen Capital www.citizencapital.fr/
\textsuperscript{164} http://en.wikipedia.org/wiki/Angel_investor

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to investors and these provide advice on how to improve the business plan. “Hub Ventures” is a monthly event that connects social entrepreneurs with investors.

9.8.4. Organizations supporting Social Entrepreneurship

These organizations work by supporting social entrepreneurs around the globe. The process usually starts with a rigorous selection of projects or individuals through a deep assessment using criteria such as innovation, replicable possibilities and social transformation impacts. Once the project or individual is selected, the organization start to give support by investing, training and connecting it with other entrepreneurs, organizations and actors also involved with the topic.

Skoll Foundation\textsuperscript{165}: Investing in, connecting and celebrating social entrepreneurs and other innovators dedicated to solving the world’s most pressing problems. Every year the Skoll Foundation presents the Skoll Awards for Social Entrepreneurship to a small number of social entrepreneurs. This award includes a core support grant to the organization to be paid over three years and a non-cash award to the social entrepreneur that is presented at the Skoll World Forum on Social Entrepreneurship. To be considered for the Award, organizations must meet very specific criteria. Winners have a tested and proven social innovation that addresses an issue of critical importance and is positioned for large-scale impact.\textsuperscript{166}

Schwab Foundation\textsuperscript{167}: A global platform to promote social entrepreneurship as a key element to advance societies and address social problems. The Schwab Foundation does not give grants. Rather, it invests its limited resources in creating unprecedented opportunities where social entrepreneurs who have successfully implemented and scaled their transformational idea, can further the legitimacy of their work, have access to usually inaccessible networks, and in consequence, mobilize the financial and in-kind resources that enable them to continue to strengthen and expand.

Ashoka\textsuperscript{168}: A global association of social entrepreneurs that develop models for collaboration and design infrastructure needed to advance the field of social entrepreneurship and the citizen sector. Ashoka invests first of all in people. The search the world for leading social entrepreneurs and at the launching stage, provide these entrepreneurs—Ashoka Fellows—a living stipend for an average of three years, allowing them to focus full-time on building their institutions and spreading their ideas.\textsuperscript{169}

Since our social enterprise is in the initial stage, we do not qualify yet for obtaining support from the three organizations listed above. Nonetheless, we will still consider them as future options for obtaining funding.

\textsuperscript{156} Skoll Foundation http://www.skollfoundation.org/
\textsuperscript{166} http://www.skollfoundation.org/about/skoll-awards/
\textsuperscript{167} Schwab Foundation www.schwabfound.org
\textsuperscript{168} Ashoka http://www.ashoka.org/
\textsuperscript{169} http://www.ashoka.org/support

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9.8.5. Personal Investment

SharCo is a social initiative of four co-partners. As founders of the social enterprise, an initial investment of 1000 € will given by each member.
Conclusion

In this business plan proposal, we have explained the global pressing issues that motivated the creation of our social enterprise (SharCo), the current situation of the new sharing economy, the solution to the problems, which encompasses the business plan development of SharCo, including the operational structure, marketing and communication plan, team members selection, financial projections, social impacts and future success.

The world, without a doubt, is undergoing a big shift in market behaviors. Old ideas and market behaviors are being reinvented through peer-to-peer technologies and communities (e.g., Facebook, Twitter, YouTube, TripAdvisor, etc.), which are progressively growing due to the proliferation of the latest technologies (e.g., smartphones, tablets, peer-to-peer review systems, etc.).

Individual ownership of resources is being replaced by access to benefits gained from the usage of resources. Individuals, in particular the Millennials (also known as Generation Y) who are characterized by the increased use and familiarity with digital technologies and media and for being community orientated and environmentally conscious, are moving towards a usage-mindset. These individuals care about the benefits they can obtain from resources. They do not want to be defined by wealth accumulation or ownership. Nowadays, more and more people are being defined by what they like, what they do, what they see, what they read or what they participate in.

Advertising and marketing are losing their power of persuasion, and social proofing (i.e., impact exerted by peers) is booming. Community building is the new channel to advertise brands. According to a report from Nielsen Company in 2007, 78% of people trust their peer recommendations and only 14% of people trust advertisers. Individual credentials are no longer defined solely by credit ratings. Individuals are being evaluated by their online reputation, which is built by what community comments about them online. Their online reputation is their new image and helps them build trust with strangers (e.g., Zopa, CouchSurfing).

Now more than ever, people are engaging, participating, sharing and collaborating with each other. Community building is the new way people want to interact. Ultimately, hyper-consumption will be transformed to Collaborative Consumption.

170 Trurán, Daniel, Web 2.0, Social Entrepreneurship, IMSD 2010-2011
However, skeptics of the new sharing economy, often question if Collaborative Consumption is the answer to end to consumerism. In addition, they claim that less consumption will ultimately lead to higher unemployment. We do not agree with them in either aspect for several reasons we will present below.

Skeptics argue that Collaborative Consumption is a trend and short-term response to the 2008 financial crisis and global recession. Although the global recession has influenced consumers to make more conscious purchasing decisions, Collaborative Consumption is not a trend. It is big, growing and happening right now. People are sharing and collaborating at unimaginable scales. Collaboration is part of our intrinsic values as human beings. We all have a social-self\(^\text{171}\) seeking connections and a sense of belonging. Additionally, Collaborative Consumption is already disrupting business models and legal systems. For example, peer-to-peer car sharing companies in California and Oregon succeeded in having state laws changed to ensure car-owners' personal insurance is not affected by car-borrowers who may damage their cars. Companies are also acknowledging that there are many business opportunities in the new sharing economy. For example, Berkshire Hathway recently agreed to act as the insurance provider for Getaround, peer-to-peer car sharing and local car rental. Peugeot, BMW, Daimler and Volkswagen have all launched their own car sharing platforms.\(^\text{172}\)

Skeptics also dispute that less consumption means less production, which consequently leads to less economic growth and higher unemployment. They believe this logic of reasoning because they rely on traditional economic models to explain the relation between economic growth and employment. However, the traditional economic and business models have already proven to be unsustainable. Hyper-consumption has several negative social and environmental effects on society, such as environmental degradation, in particular with depletion of Earth's resources and waste generation, and the weakening of social bonds and loss of community spirits.

Old business models are linear (i.e., more is always better). The new sharing economy, on the contrary, has a systematic approach. We are all part of the environment and everything must follow a sustainable lifecycle (i.e., whatever is taken from the Earth has to be given back).

Going back to the argument of higher unemployment caused by less consumption, business models will adapt to the new way sharing economy. People will move into green jobs and industries will adapt their current production models to sustainable practices. Industries will not be focused on producing and selling more units. Instead, they will be focused on providing benefits to consumers through services rather than units. Furthermore, since people will not be focus on accumulating...
wealth and extravagant lifestyles. They will not be overworked and will have more time to engage in leisure and meaningful activities.

SharCo aims to change the consumer mindset, from ownership to usage, by encouraging the sharing of resources and assets. Thus, providing individuals an alternative solution to hyper-consumption. Additionally, through this new way of thinking, Madrileños will have the opportunity to reduce their environmental footprint, develop a community and strengthen community bonds while saving money.

SharCo is a solution that is easily replicable and scalable. Our goal is to start in Madrid and expand worldwide afterwards. SharCo envisions a world where production and consumption systems are sustainable and communities, being the driving actors of the economy, value higher the access to benefits rather than individual ownership.