

Peer-to-Peer Business Models: Good for Some, Not So Good for Others

Peer-to-Peer business models are hot. The idea was that if you only use a power saw or a high-end camera once or twice a year, why buy one if your next-door neighbor has exactly what you need and would be willing to rent it to you for a modest fee. The failures include BlackJet, a service that matched the owners of private jets with people who wanted a seat on a private jet for a trip, Ridejoy, a car-pooling service, and Neighborrow.com, a service that allowed people to list household items for rent, such as vacuum cleaners, tools, and food mixers. Sam Altman, president of Y Combinator, a start-up accelerator, was quoted in a Wall Street Journal article saying "We're bullish on the sharing economy (a catchall term for peer-to-peer businesses), and we'll definitely make more investment in it." On the surface, BlackJet, Ridejoy, and Neighborrow.com seem very similar to Airbnb, Uber, and Lyft in that they matched people wanting a particular service with someone willing to offer it. BlackJet's basic premise was that once a person joined the service, s/he could book a seat on a private jet within minutes for a ride to a desired location. The success of Airbnb, Uber, Lyft, and others has captured the attention of investors, who are generally bullish on the peer-to-peer concept. Instead of paying Ridejoy its 10 percent transaction fee for a trip from Portland to San Francisco, for example, the car owner and riders would just exchange cash among each other instead of paying by credit card on Ridejoy's website or mobile app. Relying to some degree on smartphone technology's capabilities, Lyft and Uber match people who need a ride with people who are willing to provide rides. For those seeking rides, BlackJet charged a \$2,500 yearly membership fee and up to \$4,000 per ride. Anyone can book a first-class seat on an airline and ride in relative luxury, without having to pay a yearly membership fee. Neighborrow.com would let people list household items for rent, such as vacuum cleaners, cameras, tools, and electronics. Airbnb, Uber, and Lyft, three of the most successful firms in the peer-to-peer business model space, are growing and are worth hundreds of millions of dollars. Ridejoy was a carpooling service that focused on connecting people that wanted to share rides for long distances, such as Los Angeles to San Francisco. During its first year, 2011, its user base grew about 30 percent a month, with more than 25,000 drivers signed up and an estimated 10,000 rides completed. Peer-to-peer businesses act as matchmaker between individuals with a service to offer and others who want the service. In addition, it had competition from free alternatives, such as carpooling forums on college websites. The site got plenty of publicity when it launched, including a story in USA Today and a spot on NBC's early morning program, the Today Show. The idea was that BlackJet would sign up a large number of owners of private jets, who would let BlackJet know when they were making a trip. In addition, a private jet ride isn't something people need frequently, so BlackJet wasn't an option that was foremost on people's minds. said Howard Morgan, co-founder of First Round Capital, in the same Wall Street Journal article mentioned above. Further compounding BlackJet's challenge, there are readily available substitutes for BlackJet's service. Lyft and Uber, mentioned earlier, focus on short rides. Ridejoy shut down in the summer of 2013, returning about half of its funding to its investors. Airbnb, for example, matches people who are looking for a place to stay (for a day or two or longer) with people who have an extra room that they're willing to rent. If a seat was open on the jet, it would be made available to a BlackJet member who was looking for a ride to the same destination. Ridejoy experienced early success. But it

didn't grow fast enough to satisfy its investors. Also, some riders started cutting Ridejoy out once they got to know one another. In addition, borrowing an item such as a power drill isn't typically an urgent need, so people didn't tend to think about it. Although they may have read about the company in USA Today or seen it featured on television, they soon forgot about the service. Neighborrow.com folded in 2011, after a five-year run. Despite the promise of the peer-to-peer business model, several high-profile peer-to-peer businesses have failed. As it turned out, there just weren't enough people willing to pay that stiff fee for the service. If you have to reacquire the customer every six months, they'll forget you. BlackJet closed in late 2013, after only about a year in service. It also had thousands of people sign up and list their items. What the company eventually found is that people don't like borrowing things. Could it get that through Neighborrow.com? So, what went wrong? The problem: very few people actually used the service.