

How did we develop our sharing economy revenue projections?

A detailed methodology

Existing estimates

Existing estimates for the size of the revenues generated by the sharing economy range between \$110-\$530 billion¹. However, these sources do not provide a definition of the sectors or the methodology. To build a clear foundation for our assessment, we focussed on sizing a sub-set of sectors associated with the sharing economy.

Our approach – defining the sectors

Through a literature review, we identified five prominent sectors in the sharing economy. We then identified a comparator group of five sectors based on more traditional rental models. This helped us to distinguish between the growth prospects of genuinely new business models against more traditional ones:

Sharing economy group



Traditional rental group



Source: PwC research conducted in 2014

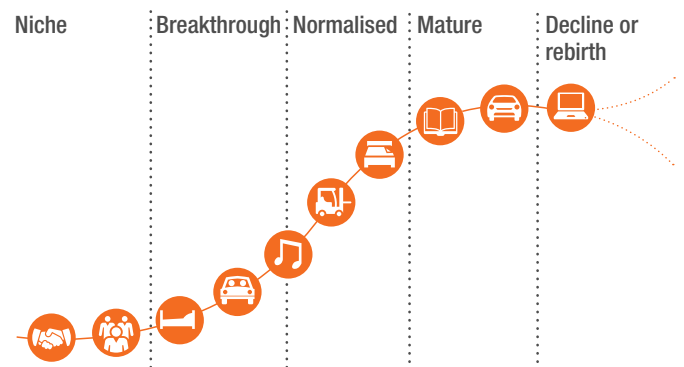
Collecting the historic data

For both sets of sectors we conducted a comprehensive review of existing market, sector and company historical revenue data, alongside forecasts of future revenue potential where available. Our review resulted in a historic data series for revenues generated in these sectors, but we were only able to capture data over a short time period (typically of less than five years).

Choosing a forecasting approach

The constraints of our data-set meant that we were unable to build a predictive, econometric model which related sector volumes to drivers of demand. Instead, we developed our projections based on an ‘S-curve’, a frequent empirical observation of revenue patterns across sectors and product lines. The S-curve has five general stages, described in Figure 1.

Figure 1: Illustration of the S-curve



Source: PwC research conducted in 2014

At the beginning of the life-cycle, several small start-ups enter the market – cash flow is often negative and revenues are low but often grow quickly, driven by innovators and early adopters. As the early majority starts to adopt the product, network effects become more important and one company is likely to breakthrough as the leading platform in the marketplace (i.e. airbnb in the P2P accommodation market). Eventually, the growth slows as the product moves from a niche to a mass offering in the sector (i.e. streaming is starting has become the most popular form of consumption of music in several economies). Eventually penetration of the new market reaches its maximum point and the sector matures and growth slows significantly. After this period, the offering is likely to decline being replaced by a substitute and an overlapping S-curve (DVD rentals decline in favour of video streaming, for example).

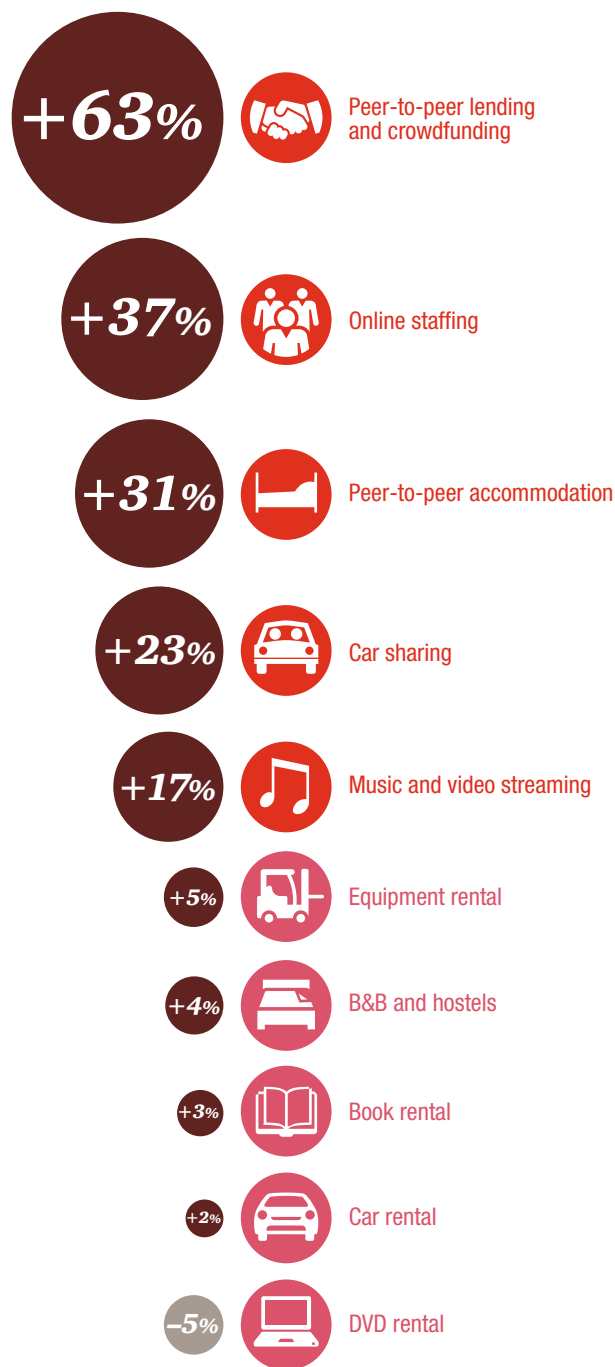


1 \$110bn+: Rachel Botsman cited in various; \$350bn: World Economic Forum (2013) (<http://www.collaborativeconsumption.com/wp-content/uploads/2013/06/YGL-Sharing-Economy-Position-Paper-FINAL-June-2013.pdf>); \$530bn: The People Who Share (2013) (http://www.thepeoplewhoshare.com/wp/assets/File/TheStateoftheSharingEconomy_May2013_FoodSharingintheUK.pdf).
2 Note: Peer-to-peer finance includes both the peer-to-peer loan and crowd-funding sectors.

First, we used historical revenue data and views from subject-matter experts to place each sector on the S-curve. In all cases, our data-set represented only a portion of the curve so qualitative judgement formed an important part of our assessment. Then, we projected future growth rates using its predicted path on the S-curve – and triangulated this against reliable existing sector forecasts (where these were available). We assume each sector is likely to move through roughly two stages of the S-curve by 2025. Our projected growth rates are laid out in Figure 2.

Due to lack of available long-term data for the sectors included in our assessment, projections are subject to considerable uncertainties. We recommend that our projections are viewed to illustrate the potential of these sharing economy sectors. The total figures should be viewed as more reliable than individual sector results.

Figure 2: Projected sector growth rate: CAGR 2013–2025



Source: PwC research conducted in 2014

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