Industry treatment of Sharing Economy units

Australian Bureau of Statistics
PURPOSE

This paper aims to identify information that is relevant and specific about a new and emerging kind of economic activity termed the ‘Sharing Economy’, and outline new issues of classification brought about by the robust changes in business activity associated with this economy in Australia.

Pending broader international treatment agreement, this paper provides interim guidance to Australian Bureau of Statistics (ABS) Subject Matter Areas (SMA) on how to approach these issues when classifying business units involved in the sharing economy to industry (i.e. the Australian and New Zealand Standard Industrial Classification (ANZSIC)).

This paper targets the treatment of services provided through the sharing economy.

BACKGROUND

New businesses are being established that utilise information/communication technologies to facilitate economic activities among both individuals and small businesses, and this is changing the way services are provided. Central to this innovation, across many industries, are the development of mobile and internet-based software applications on smart devices and computers that provide decentralised platforms through which connections and transactions take place.

In Australia, the sharing economy has grown significantly over recent years, particularly in the transport and accommodation sectors as well as in task services, peer-to-peer lending and household goods sharing. It is more established in the United States and some European economies and it is a widely held view that the sharing economy will continue to grow within the Australia economy. The continuing entrance of these businesses’ into the market is creating competitive pressures on existing 'traditional' business models and is disruptive to the domestic legislative environments they enter, forcing legislation to be reviewed after these businesses enter a market.

At present, the operations of these businesses may not fully comply with existing laws and regulations designed with the traditional economy in mind. Within the ABS context, these new business models have created industry classification issues which will require interim solutions pending broader international treatment agreement and broader measurement issues.

However the sharing economy is part of internet and application developments that are currently on the radar internationally. The recent 10th Meeting of the United Nations Advisory Expert Group on National Accounts in April 2016 identified some of these industry classification issues, highlighting potential future changes to the ISIC treatment of Contract Wholesaling, Non-Storefront Retailing, Web Portal Operation and Online Advertising.

In the agenda item ‘The Internet Economy’ (13-15 April 2016) the discussion paper observes the emergence of new activities, new products and more varieties of similar products, and proposes the question whether these changes are sufficiently reflected in the existing industry and product classifications:

...It appears that the existing ISIC/NACE classifications cannot straightforwardly provide an indication of internet developments, because this is not considered to be their purpose. The internet is implicitly considered only a means, among more traditional ways, to transact the sale of specific goods and services. Units that sell goods and supply services exclusively through the internet are classified to the industry of their principal activity, therefore units engaged in e-commerce can potentially be found in any industry of ISIC/NACE.
This rule has an exception...: in retail trade, units that undertake their sales exclusively or predominantly through the internet are classified within ISIC/NACE class 479 (Retail sale via mail order houses or via internet)... *See reference list for full discussion paper

Conclusions from the UNAEG meeting regarding the Internet economy (13-15 April 2016):

20. Agreed that the conceptual framework of the SNA is robust in capturing the internet (digital) economy, but that there may be problems measuring some of the transactions, including the capturing of price and volume measures.

21. Recognized that users need more guidance on the recording and measurement of internet related activities in the national accounts, and agreed that a short paper on these issues should be prepared which could be finalised through electronic consultation with the AEG. The OECD offered to prepare a first draft of such a paper.

22. Did not support the proposed imputation of additional consumption of free media services, but would support further research on how to provide additional information on the internet (digital) economy.

From this information it is the position of the UNAEG that the internet is only a means to transact goods or services and units are classified to the industry of principal activity. This is supported by ABS Statistical Standards and Infrastructure.

Another recent meeting considering internet/application developments was the ITU Global Symposium for Regulators 2016. The discussion paper from this source gives weight to the argument that there is a need to look beyond traditional "Value Added" to assess and determine the industry classification of a business unit. It presents some significant challenges to measuring economic activity as part of a discussion of the 'App Economy'.

"The development of the app economy may be leading to a systematic understatement of national productivity growth as measured by traditional methods and, at the same time, be leading to improvements in consumer welfare that are not being measured." (p.41)

"Once a summary of total consumer expenditure on apps and related services is estimated, consideration needs to be given to the economic concepts of ‘consumer surplus’. Consumer surplus is a central concept in microeconomics and refers to the fact that, in most transactions, consumers receive a benefit from the transaction that is greater than the price they need to pay to secure the good or service." (p.45) *See reference list for full discussion paper

These agendas use the terms 'Internet Economy', 'App Economy' and 'Sharing Economy' to describe an interrelated set of important developments occurring in business models and individual enterprises. The developments are a result of the disruptive nature of the technology-driven changes. In order to maintain a clear understanding, a focused definition of sharing economy and specific scope needs to be set for this investigation.
DEFINITION OF THE SHARING ECONOMY

The Australian Tax Office (ATO) defines the 'Sharing Economy' as “…a new way of connecting buyers (‘users’) and sellers (‘providers’) for economic activity. Sharing economy arrangements are generally booked through a facilitator using a website or app.

Common examples of what providers do in some sharing economy services include:

- renting out or letting a room or other property for accommodation;
- renting out or letting car parking space;
- providing odd jobs, errands, deliveries or more skilled services on an ad hoc basis; and
- using a car to transport members of the public for a fare."

Other terms also used to refer to this are: on-demand economy, collaborative consumption and on-demand services.

In essence, digital technologies are used in some way to directly match service and goods providers with customers, bypassing traditional middlemen. Sharing economy arrangements, or peer-to-peer exchanges, are generally booked through an independent third party ‘facilitator’ using a platform delivered via a website or mobile application.

The Australian Competition and Consumer Commission (ACCC) commissioned research into the sharing economy (Deloitte, 2015):

“The defining feature of the sharing economy is the existence of a platform connecting buyers and sellers in a market and reducing transactions costs, where the buyers and sellers are individuals or small businesses.

The sharing economy is also known as the “collaborative economy” and the “peer-to-peer market”. There are many possible definitions of the sharing economy and what it includes. The breadth of the sharing economy can reach from sharing of physical assets and providing services, to linking people with surplus goods, space or time to those who can make use of them."

The ACCC research identified secondary benefits from sharing economy platforms including:

- coordination benefits, reducing bargaining costs and the need for individual contracts to be negotiated for every transaction; and
- assistance with policing and enforcement through peer review structures and requirements for background checks, safety checks, or insurance.

The number of start-ups, models and platforms that have emerged each seek to target an opportunity in a particular industry, and the many terms used to describe these kinds of sharing activities are being used interchangeably despite important differences in the way they operate. *Refer to Appendix A for Terminologies in the sharing economy*
CLASSIFYING SHARING ECONOMY UNITS – ISSUES

This brief outline highlights how units must be classified to an Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 class following the logic of ANZSIC Chapters 3 and 4:

- establish that there is a producing unit to be classified;
- classify the unit according to its predominant activity at the finest level of the classification;
- use the top-down method of four steps, classifying first to division, sub-division, group and then class;
- in cases when the unit is engaged in multiple activities, assess the Value Added of each activity, keeping in mind that proxies of Value Added may not be the most reliable indicator (i.e. sales of goods and services for units undertaking both market and non-market activities); and
- the activity with highest Value Added is the predominant activity. *Refer to Appendix B for ANZSIC concepts.

Issues encountered in applying this standard process to units in the sharing economy are presented below.

1. Distinction between the provider and the facilitator

- It is common for independent sellers to operate their own business through a sharing economy platform that has been developed and maintained by a technology company. It is important to make a distinction between entities acting as sellers of goods and services, i.e. Providers, and entities acting as a third party facilitator for the service. These are two distinct units, each requiring an assessment of predominant activity to determine the class which they operate in.

- The ATO makes the distinction that people providing the goods and services are to be recognised as operating their own enterprise independent of the organisations that facilitate connections:

  "If you are engaged in sharing economy activities where you let a room, let a car parking space, do odd jobs or other activities for payment or drive passengers in a car for a fare, you may have a GST obligation where you have an enterprise. If you rent out property (for example, a car parking space) on a regular basis to make money, this will be an enterprise (even if it is not a business)."

- Providers must register for Goods and Services Tax (GST) if their annual turnover from their business/enterprise is $75,000 or more. An exception to this is when Providers supply 'taxi travel' in which case they need to be registered regardless of turnover (for the purpose of Australian Government tax law an activity is taxi travel when a car [vehicle] is made available for public hire that is used to transport passengers for fares).

- This distinction implies that the Provider and the facilitator who collaborate in this new technologically enabled way are in all cases operating separate business units and will require separate treatments in applying an ANZSIC code based on the predominant activity method of industry classification. Therefore, Providers are
individuals or enterprises selling goods or services whereas facilitators are third party enables of the transaction, often via a mobile application.

2. Assessment of the Value-Added of the facilitator

From a supply-side perspective, the platform/application developed by the third party facilitator company is a technological innovation that does not “look like” a more traditional form of service business. A technological form such as a software application on a Smart Phone device could incorrectly be identified as an information media/telecommunications service.

The key question here is the nature of the supply of capital and labour that fulfil the criteria for establishing Value Added. What this means is that the production activities undertaken by a facilitator such as ride or accommodation sharing platform involve kinds of capital and labour that may be different to those of normal service businesses. *Refer to Appendix C for ASNA concepts.*

Through research it must be ascertained exactly whether the business is performing maintenance of a predominantly information media technology that simply provides access to the marketplace of service providers via the application, or whether they are participating in the provision of goods and services of a particular group and class alongside and in collaboration with a network of providers, or just providing services to businesses via a new platform, similar to some kind of agent i.e. insurance brokers.

In the case of ride-sharing, the issue has been determining whether ride-sharing applications are producing and supplying services to customers that add value to the service that the end provider supplies (i.e. taxi cab management service) or whether they supply services to the car driver who is on the road.

3. Expansions in operations

Future industry classification issues are anticipated when a business diversifies their activity by developing other platforms/applications across a range of industries, reporting under the same entity.

The existing ABS industry classification methodology provides the solution to this diversification issue and should be followed:

- identify the different activities;
- calculate the industry Value Added for each activity; and
- ascertain the impacts of the changes to the industry cell totals - a change of 3% at the subdivision level or 2% at the division level is considered significant.

Where the cell impact is significant the activity is mapped to new homogenous reporting units that have been moved into the ABS Maintained (Profiled) Population. The decision tree outlined in the schematic below provides a solution covering newly emerging or reported sharing economy activity. Each newly identified activity should be treated on its own merits with existing industry coding requirements followed.

Note that any potential change in activity must meet the condition of being consistent over two consecutive years in order to be enacted.
ABS ECONOMIC STANDARDS’ RECOMMENDED APPROACH AND CURRENT EXAMPLE

In order to address the issues of industry classification for sharing economy units, Economic Standards has constructed the decision tree below.

Resolving classification queries via a decision tree

The general solution to resolving the ANZSIC classification for sharing economy activity units is to work through the logic mapped out in the decision tree schematic. The tree maps the decision making processes involved in order to classify an activity unit to the correct class. It begins at the point where a producing unit has been identified, researched and profiled.
Explanation of decision points in the decision tree:

A) Establish whether the business unit is involved in sharing economy activity, what institutional units are involved. Several activities are identified that are characteristic of businesses trading in the sharing economy. A greater number of characteristics that apply to a case provide greater evidence. This means that the existence of a mobile application by itself is unlikely to be deemed conclusive evidence to prove a case as there may not be an application. To be sure, there is overlap between examples and meaning of terms but there are also distinct differences that are important to note (Botsman, 2015). See Appendix A for an outline of definitions that encapsulate the behaviours, business models, economic principles and companies typically used under the term. "On-Demand Services" are included as they are commonly discussed as part of the same economy.
B) Distinguish whether the facilitator operates separately from a provider, i.e. does not physically provide the service. This is required to establish whether there is one business unit to consider for classification or more than one. Independent sellers providing services are highly likely to be operating as an entity independent of the platform/facilitator that connects them with a customer.

C) Decide whether a business is operating as a facilitator or a service provider. If the business is a service provider, they are supplying services directly for either the customer e.g. management and administrative services. These encompass a broad range of technologically enabled activities that vary markedly between industries that the businesses operate in. The services supplied by the service provider often allow the network of small, independent providers to compete with established, dominant competitors akin to IGA's buying group or a franchiser. They extend the core benefit of connecting a customer to a provider through telecommunication/information technology by reducing transaction costs, and they enrich the end-user experience through secondary benefits (outlined under definition above).

D) The 'direction' of revenue flows is central to the classification because the activities undertaken by the businesses must be framed in terms of who is the actual service provider. The question of who receives the customer payment and therefore where the facilitator operates within the production process is used to make an ultimate decision on how to classify the facilitator.

**Example: Accommodation sharing services**

Accommodation sharing platforms are pioneering businesses designed to give customers the means to experience short-term accommodation shared by private properties.

- Characteristics that together demonstrate that accommodation sharing platforms are a sharing economy case include:
  - use of website software or application;
  - decentralised marketplace of accommodation providers and customers;
  - sharing of residential properties or rooms;
  - matching customer with providers;
  - accommodation sharing hosts (i.e. residential property owners) must sign up with accommodation sharing platforms - the facilitator - to provide the accommodation service.

- Accommodation sharing platforms allow owners of a residential property to register to become a host. Hosts are independent providers of accommodation services separate from the accommodation sharing platforms. The property owner may or may not have an ABN, but in either case has a view to profit from their hosting activity. This information is used to decide that they are separate entities.

Further research into the extent to which accommodation sharing platforms performs management and administration activities related to the accommodation service for the customer will be central to deciding how it is classed in ANZSIC.

The payment model consists of a confirmation of booking by the customer along with an e-commerce payment to accommodation sharing platforms, which is then held until 24 hours after the commencement of the accommodation stay, and then the majority share of this payment is released to the provider. This information, along with who receives the gross and net incomes, will be used to make the ultimate determination.
SUMMARY OF TREATMENT OF SHARING ECONOMY UNITS

(The information below provides a short summary of the above decision tree and is provided as an alternative view to assist SMAs to classify units undertaking sharing economy activities).

Does the unit share the characteristics of a sharing economy business?

- Uses internet or phone application software to undertake business.
- Unit matches a customer with relevant service provider.
- Registered to pay GST by ATO.

Note: Sharing economy businesses only differ from traditional on-selling and commission based business in that they use software to enable business transactions. This use of software does not change the classification of the business i.e. the ANZSIC classification should be based on predominant activity.

Questions to consider:

1. What parties are involved in the transactions for the provision of the services?
   - Two (Customer and Provider); or
   - Three (Customer, Facilitator and Provider).

2. If only Two parties are involved:
   - Customer
   - Provider (classify to relevant ANZSIC class for services).
   - The provider is providing services to the customer only and should be classified to the relevant ANZSIC class for services provided.

3. If Three parties are involved:
   - Customer
   - Facilitator
   - Provider (classify to relevant ANZSIC class for services).

4. Determine the transaction flows:

4a. If the customer pays the facilitator for services, then the facilitator pays the provider (these payments constitute intermediate use of the facilitator):
   - The facilitator is providing the services to the customer and should be classified to the relevant ANZSIC class for the services provided. The provider is providing services to the facilitator.
4b. If the customer pays the provider and either the customer or the provider, or both, pay the facilitator a fee or commission:

The facilitator is providing a support services and should be classified to the relevant ANZSIC class for the support services associated to the services provided. If difficulties are experienced in determining the correct ANZSIC classes, contact Economic Standards for assistance.

**Example: Treatment of sharing economy platforms/applications in the case of ride sharing services**

The following information was researched to make assumptions and address the question of classification of ride-sharing services as a test case of a facilitator of a sharing economy platform.

- The facilitator engages predominantly in managing a taxi-type service:
  - Matching and connecting the rider with a driver.
  - Calculating and setting prices based on distance and level of user demand (known as surge-pricing).
  - Administrative functions relevant to ride-sharing (i.e. payment systems, ratings, driver coverage).
  - The passenger makes their payment to the facilitator using the platform/application at the conclusion of the ride. The driver receives their share of the fare from the facilitator.
  - The facilitator is not seen to be simply performing a service for drivers for which drivers pay a fee but receives payment for ride-sharing services from passengers directly.

In cases when the ride-sharing facilitator receives a gross payment from passengers via a platform/application and subsequently pays the driver the majority share of the fare, the facilitator is providing a "taxi cab management service" and the appropriate industry code is ANZSIC class 4623 Taxi and Other Road Transport.

The ANZSIC classes below are considered based on the activities undertaken by ride-sharing service facilitators and independent car drivers. Note that each class is most appropriate under differing sets of facts.

**Class 4623 Taxi and Other Road Transport**

This class consists of units mainly engaged in operating taxi cabs or hire cars with drivers, or other forms of road vehicles not elsewhere classified, for the transportation of passengers. It applies to this determination in the following scenarios.

**Applicability for facilitators:** In cases where the passenger pays the facilitator via a platform/application and the facilitator pays the driver.

The predominant activity of ride-sharing facilitators, that adds the most value to the business, is the provision of services where it connects passengers to the nearest driver and manages the administrative functions of ride-sharing such as setting prices, managing payment systems and ratings, conducting background checks and providing driver coverage. This revenue model is similar to the taxi industry, where taxi cab management service fares are calculated on a distance basis.
The facilitator engages predominantly in managing a taxi-type service rather than simply providing support services to drivers. The activity of this particular type of unit is similar to a combination of the listed primary activities within the class, "Taxi cab management service (i.e. operation on behalf of owner)" and "Hire car service (with driver)". Therefore Class 4623 Taxi and Other Road Transport is the best fit for units facilitating ride-sharing in this scenario.

**Applicability for drivers:** In cases where the driver is the owner of the vehicle.

The predominant activity of the driver is to provide the ride-sharing service as an independent contractor, transporting passengers using a privately-owned car and receiving a fee for the service provided to the customer. This class is considered because the independent driver is engaged in operating the ride-sharing service in a registered vehicle that is privately-owned and operated. Drivers should also be classified as Class 4623 Taxi and Other Road Transport.

**Class 5299 Other Transport Support Services n.e.c.**

This class consists of units mainly engaged in providing transport support services not elsewhere classified. It applies to the current determination in the following scenarios.

**Applicability for facilitators:** In cases where the driver charges the passenger and subsequently the driver pays a commission to the facilitator.

This class includes services like taxi driving services (except owner/driver) or taxi driver (except owner/driver) or chauffeur service (except owner operator). Also included in this class is the operation of taxi radio bases. If the ride-sharing facilitator receives a commission of each fare for its services, that is, the driver pays the facilitator for services rendered then this class would be applicable because the predominant activity is to maintain the application for drivers and passengers to connect.

**Applicability for drivers:** In cases where the driver is not the owner of the vehicle.

This class covers driving services not performed by vehicle owners. If independent car drivers do not own the vehicle they are operating when providing a road vehicle driving service, then this class should be used for their classification.

**CONCLUSION**

Following the logic in the sharing economy decision tree provides guidance on how to approach the industry classification issues specific to business units involved in the sharing economy.
Appendix A - Terminologies in the sharing economy (from Botsman, R., 2015)

Collaborative Economy: An economic system of decentralized networks and marketplaces that unlocks the value of underused assets by matching needs and haves, in ways that bypass traditional middlemen.

Good examples: Etsy, Kickstarter, Vandebron, LendingClub, Quirky, Transferwise, Taskrabbit

Sharing economy: An economic system based on sharing underused assets or services, for free or for a fee, directly from individuals.

Good examples: Airbnb, Stayz, Cohealo, BlaBlaCar, JustPark, Skillshare, RelayRides, Landshare

Collaborative Consumption: The reinvention of traditional market behaviors—renting, lending, swapping, sharing, bartering, gifting—through technology, taking place in ways and on a scale not possible before the internet.

Good examples: Zopa, Zipcar, Yerdle, Getable, ThredUp, Freecycle, eBay

On-Demand Services: Platforms that directly match customer needs with providers to immediately deliver goods and services.

Good examples: Instacart, Uber, Washio, Shuttlecook, DeskBeers, WunWun

Appendix B - Relevant conceptual framework - Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 (Revision 2.0)

Australian units model

ANZSIC is used to classify the industry in which the Type of Activity Unit (TAU) has productive activity. Each unit is assigned a four digit (class level) ANZSIC code which reflects the predominant industry of the TAU's economic activity.

2.9 The conceptual framework adopted for the development of ANZSIC 2006 uses supply-side based industry definitions and groupings. Using this approach, units engaged in similar productive activities are grouped together. Units in an industry will therefore exhibit similar production functions (a term used to describe the transformation of intermediate inputs, through the application of labour and capital, to produce outputs).

2.17 Following this approach, business units in a particular class will use similar inputs and apply similar transformation processes to produce similar outputs.

3.1 Individual business units may use structures for their taxation, management, financing, production and employment functions which differ from the structures used for the same purposes by other business units.

3.11 To study production and production functions, producing units need to be defined that are as homogeneous as possible in terms of the economic activities undertaken. The 1993 SNA recommends that producing units with the same principal activity be grouped into industries according to the ISIC.

4.5 As recommended by the ISIC, the ABS and Statistics NZ use the concept of Value Added (refer to the Australian System of National Accounts: Concepts, Sources and Methods (cat. no. 5216.0) for the definition of Value Added) to determine the predominant activity of a unit undertaking multiple activities, that is, the activity with the highest value added is the predominant activity.

5.19 An industry is defined as ‘a group of establishments engaged in the same or similar kinds of activity’.

5.20 The international standard for the classification of industries is the ISIC, a four-level hierarchical classification, which includes in the same industry grouping all establishments with the same principal activity. It takes into account not only the goods produced and services rendered but also the inputs into the production process and the technology used in the production process.

5.21 A one-to-one correspondence does not exist between activities and products and hence between industries and products. Certain activities produce more than one product simultaneously, while the same product may sometimes be produced by using different techniques of production.

Appendix D - Participation in the collaborative economy: recent and projected (USA, Canada and UK, 2013)

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<th>Participation in the Collaborative Economy: Recent and Projected</th>
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<td>Loaner products</td>
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<td>Custom products</td>
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Source: Sharing is the new buying, www.slideshare.net/jeremiah_owyang/sharingnewbuying
Investigation resource list

- Macquarie definition of sharing economy, at: https://www.macquariedictionary.com.au/features/word/search/?word=sharing+economy&search_word_type=Dictionary


