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**The attractiveness of the on-demand economy for
investors**

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I. Introduction

The following research intends to analyse the attractiveness of the on-demand economy from an investor's point of view. The purpose of this study is to analyse the investor's perception and understand the general aspects that make the on-demand economy attractive. The importance of this subject has grown since the on-demand economy has begun to disrupt several industries, such as hospitality and transportation. Two well-known companies of this emerging economy model are Airbnb and Uber. However, this new business model is also creating a debate around the need of a specific legislation to frame this new phenomenon, which could harm its attractiveness in the end.

As the on-demand economy is a recent subject, relatively little literature exists around this topic. Moreover, the perspective of investors is frequently neglected despite the fact that current growth rates may attract important investments. In this study, we interviewed three investors and an entrepreneur in order to understand their point of view and completed it with reports issued by several entities.

The structure of the paper will be as follows: firstly, it starts with a literature review highlighting the main characteristics of the on-demand economy, business angels and venture capitalists. Then, the two research questions will be developed based on the previous section. Afterwards, the methodology used in this study will be explained and there will be a brief description of the data used. In the following chapter the results will be discussed and interpreted. And finally, the conclusion will be drawn and the limits and further research topics will be identified.

II. Literature review

2.1 The on-demand economy

The attention given to the sharing economy comes from the fact that the number of businesses that are using this concept is booming (Belk, 2014b). With the increase of consideration, comes a proliferation of different names describing the same phenomenon. Indeed, “sharing economy”, the “on-demand economy”, the “Uber-economy”, the “gig-economy” and several other terms are employed to identify similar practices. The abundant variety of names given to the same phenomenon reflects the confusion around this concept (Maselli, Lenaerts, & Beblavy, 2016). As a consequence, the sharing economy has to face different definitions. The first is used in a broad sense and can be defined as:

A human activity that seeks to generate public value and is based on new forms of work organization. It is based on a more horizontal organization, with sharing of goods, spaces and tools (usage rather than ownership), the organization of citizens' 'networks' or communities and, generally, intermediation by internet platforms. (David, Chalon, & Yin, 2016, p.135)

The other definitions are more restrictive and are based on two main factors: firstly, it uses a digital platform (mobile application or internet website) and secondly, it is based on a temporary access. (Belk, 2014b; Cockayne, 2016; Frenken, Meelen, Arets, & van de Glind, 2015; Richardson, 2015; Stephany, 2015). However, in the literature, there is an agreement on these two factors, some authors (Frenken et al., 2015; Stephany, 2015) believe that the sharing economy includes only the temporary access to underutilised assets while other authors (Belk, 2014b; Cockayne, 2016; Richardson, 2015) take into account goods and services.

All the confusion surrounded the definition of the “Sharing economy” and the numerous terms used has been defined as « Semantic Confusion» by Belk (2014a) and he believes that the term sharing is used in an all-inclusive manner. He goes even further by defining as Pseudo-sharing «a business relationship masquerading as communal sharing» (Belk, 2014a, p.11). However, he points out that it can be valuable to everyone but highlighted that the concept of sharing economy is not anymore about sharing (Belk, 2014a). Bardhi and Eckhardt (2012) shared the same idea and believe that the access consumption can be different from sharing since it is not always pro-social or altruistic.

For this reason, we preferred using the term on-demand economy. In the media, the definition of on-demand economy is similar to the restrictive definition of the sharing economy. It refers to «the economic activity created by technology companies that fulfil consumer demand via the immediate provisioning of goods and services» (Hubbard, 2016, para. 2). However, we will base our definition of the “on-demand economy” on the work of Frenken et al. (2015), which considers it as a platform that connects consumers to provide services to each other. Furthermore, we will use “users” instead of “consumers” since theoretically the client and the provider are interchangeable (Richardson, 2015). And as Maselli et al. (2016), we will also include in this definition the sharing economy as defined by Frenken et al. (2015) where only the underutilised assets are considered otherwise the definition will be too restrictive. So the on-demand economy can be defined as an Internet platform (website or application) which connects users in order to provide services to each other or to give temporary access to underutilised assets.

The companies using a business model based on the on-demand economy are able to make the services and goods more accessible thanks to the digital platforms (Bell & Colby, 2016). Indeed, these companies enable providers to offer their goods or services to a wider range of consumers (Farronato & Levin, 2015) as it decrease the costs to reach potential users (Richardson, 2015). The costs are also reduced for the company itself compared to traditional companies and so there is a low need for investments (Smith, 2016). The companies have a “capex light” structure. Their transaction costs are near to zero, the only expenses they have will be related to the office, the application, and IT platform and to ensure a safe payment system (Neumann, 2015). The low level of cost is due to their ability to capture value from assets or services that they do not own or provide (Smith, 2016). One of the advantages is that they maintain almost no inventory, if they have any (Smith, A., 2016). It also means that they do not employ the service providers (Sheiber, 2014). As a consequence, the service providers are independent contractors who are only paid for each service they provide. (Taylor, 2016). Furthermore, the “on-demand economy” enables a more efficient use of the assets since it can be easily shared (Frenken et al., 2015). This can impact well-established industries since consumers will make fewer purchases as a result (Boesler, 2013). Regarding the services, the same ascertainment can be made. It will allow a more optimal use of the workforce where the companies can easily outsource work and employ only freelancers when it is needed. (Sheiber, 2014).

The proliferation of companies using this business model highlights the changes operating in the society in general. Firstly, the growth of the “on-demand economy” can be perceived as a trend announcing a shift of the consumption model (Saussier, 2015) where people would prefer to have temporary access to goods rather than owning them (Bardhi & Eckhardt, 2012). The consumer identity will be defined by what he can access and not anymore what he owns (Belk, 2014b) which was the normative ideal (Saussier, 2015). Secondly, it takes place in an after-crisis context where young people distrust institutions and large corporations (Bond, 2015; David et al., 2016) and prefer to trust people (Stein, 2015).

This new business model will have to face some threats and uncertainties about his further development. First of all, a successful on-demand business needs more than just applying a smart business model to different sectors (Kessler, 2016). Some businesses are founded without a value proposition or a sustainable cost advantage. They just hope that they will reach enough users in order find a better business model afterwards (Sachdey & Wessel, 2015). Furthermore, the regulatory authorities are struggling to define a clear regulatory and policy structure for this new business model (Smith, A, 2016). Historically, the legal norms were based on ownership (Abele, Feubli, & Iacangelo, 2015) with clear boundaries between our possessions and others with the property rights. This regulated the responsibilities and freedom towards the objects (Bardhi & Eckhardt, 2012). However, the on-demand economy is not based on the concept of ownership but rather on a temporary access, which opens a new regulation territory (Abele et al., 2015).

Besides the regulations based on proprietorship, the on-demand economy also puts some pressure on the existing labour regulation (Smith, A., 2016). The traditional employment model with a clear distinction between self-employed and employees do not answer the specific characteristics of the on-demand workers. This confusion can be highlighted by the opposite decisions taken by different American courts where some declared the Uber workers as independent contractors and others as employees (Maselli et al., 2016). This unregulated space regarding the employment regulation can be exploited by the on-demand platforms (Richardson, 2015). It allows them to avoid classic employment benefits as health and disability insurances or to purchase the necessary equipment and it protects them when problems arise during a transaction (Boeseler, 2013).

Otherwise, there are also two other main critics given to the on-demand companies. Firstly, they gain an unfair competitive advantage compared to existing businesses through avoiding tax regimes, local restrictions and licensing requirements (Farronato & Levin, 2015).

And secondly, the lack of information and control over the supplier can potentially be a problem even if often a rating system is put in place (Abele et al., 2015).

All of these specific characteristics and lack of regulation about the on-demand economy arise certain questions about the future impact of this new business model on the whole society since little is known about the further development of this new phenomenon. A positive impact on the environment can be expected thanks to the more efficient use of assets, nevertheless it will be difficult to forecast the real influence of this business model. In addition, the economic and social impact of this phenomenon will be difficult to predict since it will depend on the institutional changes that will take place and further technological development (Frenken, 2017).

Currently the on-demand economy is growing quickly and attracts an increasing number of users. It doesn't attract only early adopters now, but also mainstream users who have an interest in this new economy, and this business model is also used in more and more industries. Between 2014 and 2016, it has expanded from 76 companies in 6 industries to 280 companies in 16 different industries, although it is still in his early stage of adoption (Bell & Colby, 2016). And there is still a huge growth potential since they are unknown by a significant part of the population. In 2016, platforms like Uber and Airbnb were only used by respectively 15% and 11% of the American population. Moreover, approximately 30% of the Americans had never heard about ride-hailing apps and the home sharing platforms were only known by the half of the Americans (Smith, A., 2016). PwC (2015) quantified these growth potentials, and for them, the sharing economy was worth \$15 billion dollars in 2015 and could reach a value of \$335 billion in 2025. This is mainly thanks to the five following sectors: finance, music and video streaming, car sharing, travel and staffing. Even if it does not completely correspond to our definition of the on-demand economy, it shows the great upside potential for these new business models.

Another further development possibility for young companies in the on-demand economy will be through investments from and/or partnerships with major corporations. Indeed, this new business model is challenging several industries and the main firms realize that they will have to embrace it, and that it will become too important to miss (Bell & Colby, 2016) so they will have to adapt in order to meet the changes operating in the society to survive (Bond, 2015).

2.2 Investors

As the on-demand economy is still in an early stage of adoption (Bell & Colby, 2016) and has to face several uncertainties as seen previously, we will focus on two types of investors, business angels and venture capitalists, which invest in high-risk companies with great returns potential (Maier, Sandner, & Geibel, 2016) since they are the most likely to give us relevant information on why investors are attracted by the on-demand economy.

2.2.1 Business Angels

A business angel can be defined as

A high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors. (Mason & Harrison, 2008, p. 309)

This definition can be completed by adding that this type of investor participates principally in young companies at seed or start-up stage in the form of equity or convertible debt (Dibrova, 2015), they invest in start-ups operating in sectors where they have relevant experience and in which they are interested (Maier et al., 2016) and they often had a previous experience as a successful entrepreneur or in the business world (Bilau & Sarkar, 2016). The amount invested by these investors varies on average between 25 000 and 50 000€. However, it is not a fixed range, and the investment can be lower or higher (Dibrova, 2015). The post-investment attitude from the business angel varies, depending on the companies, entrepreneur and investor characteristics. Nevertheless, they bring two main contributions to the firm. First, they help entrepreneurs by sharing their experience or giving strategic advice. And second, they provide the company with a professional network, which helps them to get access to important resources (Söderblom, Samuelsson, & Mårtensson, 2016). Furthermore, when some additional financial resources are needed, the business angel can play a crucial role in order to facilitate further financing (Sørheim, 2005). The active involvement that they take in the company can also be perceived as a way to mitigate the risks that they have to face. Indeed, the investors are confronted by two main risks, relationship risk and performance risk. The first one concerns the entrepreneur who can act in his own interest and will not anymore take into account the best interest of the business angel. Monitoring activities can mitigate this risk. And the second one concerns external factors or operational obstacles, which can affect the development of the company. Here for the investors will provide value-adding activities such as providing

expertise, know-how, a network and by transferring social capital to the enterprise (Söderblom et al., 2016).

The business angels are the category of investors who invest the most in early stage ventures and they mainly focus on four different sectors: ITC, Biotech, applications and manufacturing (Dibrova, 2015). As they invest in young companies, they have to face a lot of uncertainty for which they want to be compensated with a high return on investments (Dibrova, 2015). Even if the high return is one of the main reasons for the business angels to invest, often the willingness to take part in an entrepreneurial adventure is the most important motivation for them (Rédis, Cerhoux, Demerens, & Paré, 2015). And on the contrary to portfolio theory, the risk is not defined as the variance of the return but rather as the probability of failure for the company, which means that the investor will lose all his investments (Jeffrey, Lévesque, & Maxwell, 2016)

2.2.2 Venture Capitalists

Venture capitalists (VCs) are intermediaries who raise capital from institutions and wealthy individuals in order to invest it in firms with high growth potential (Panda & Dash, 2016). The companies in which VCs invest are at several development levels (Dhochak & Sharma, 2016) and they could benefit from several financing rounds with the same venture capitalist firm (Sahlman, 1990). The investments are mainly made as a purchase of convertible preferred stock (Kaplan & Strömberg, 2003). And the VCs expect to exit from the companies in a middle-long term, most preferably thanks to a merger, an acquisition or an IPO (Tyebjee & Bruno, 1984), with a rate of return between 30 and 60% per year (Sahlman, 1990).

The VCs expect from the entrepreneurs that they run their businesses profitably and that they consult them for each important decision but they do not want to be involved in the daily operations of the firm (De Clercq, Fried, Lehtonen, & Sapienza, 2006). As the business angels, venture capitalists do not only provide financial support to the companies they fund. As a matter of fact, they also provide human capital, like a representative on the board of directors or give strategic advice, and a network, as for example connecting the company with different players in the market or with credit facilitators (Alexy, Block, Sandner, & Ter Wal, 2012; Faber, Castaldi, & Muskens, 2016; Tyebjee & Bruno, 1984).

This type of investor is looking for investments that reach a high level of profit in a reasonable amount of time (De Clercq et al., 2006). Therefore, they have an intensive screening process before they decide to invest in any company (Dhochak & Sharma, 2016). They mainly

focus on five different aspects: the attractiveness of the market, the product differentiation, the management team, the resistance to environment threats and the liquidity of the project (Tyebjee & Bruno, 1984). Regarding the team, it will be critical that they have relevant experience in developing a start-up as well as in the industry where they will operate (De Clercq et al., 2006).

The VCs have to face agency risks, which occur when the entrepreneur acts opportunistically, and follow his own interest rather than the one of the investors (Panda & Dash, 2016). This attitude of the entrepreneur is possible since there is an information asymmetry between the entrepreneur and the shareholders (Gompers, 1995). In order to mitigate this risk, the VCs take different steps to control the actions of the entrepreneur. Firstly, they draw strict contracts addressing the main issues such as the valuation, control rights, compensation and exits and including several covenants (Kaplan & Strömberg, 2004). The covenants will contain a limitation to the management salaries, equity dilution or capital expenditure and establish under which conditions the VCs can take over the board's control, force a change in the management team or sell the company (Tyebjee & Bruno, 1984). Another way to decrease the risk is to invest in the ventures through different financing rounds. Staged financing will give to the VCs the ability to abandon a venture if the company do not perform as expect and did not reach some milestones (Sahlman, 1990). Finally, after the investment, investors are actively involved in the company. They provide advice where they act as consultants and require from the entrepreneur frequent reports to monitor the performance of the firm (Sapienza & Gupta 1994).

III. Research Questions Based on Literature Review

The first research question will be: « are investors attracted by the potential disruptive aspect of the on-demand economy? » The disruptive aspect of the on-demand economy comes from two aspects (Bell & Colby, 2016). On the one hand, it can take advantage of the change in the consumption model. Indeed, as explained previously, a transformation is operating in the society where there is a shift from owned-based to an access-based consumption (Belk, 2014b). On the other hand, their new business model is challenging industry incumbents since they are able to capture value from assets and services that they do not own nor provide (Smith, 2016). The on-demand economy, as mentioned previously, is quickly growing and can expect to further develop through an attraction of new users (Bell & Colby, 2016) and a development in new industries since all the business categories could be affected by the on-demand economy (Smith, 2016). And as investors are looking to invest in companies with high growth potential (Panda & Dash, 2016), this new phenomenon could be attractive for them.

The second research question will be: «Are the great potential returns expected from these companies high enough to cover the uncertainties? » Indeed, in order for an investor to fund a company, he has to perceive that the expected return is high enough to cover the risks that he takes. Business angels and venture capitalists are ready to take a great deal of risks but they want to have high growth potential and expect high returns (Maier et al., 2016). For this kind of investors, the risks can be explained by the probability of failure of the company (Jeffrey et al., 2016). So the unpredictability of the real impact that the on-demand economy will have on the society due to the uncertainty of the reaction of the regulators to this phenomenon (Frenken, 2017) can play a major role in the increase of the risks. Indeed, though regulation regarding on-demand economy will increase the costs structure of these firms as for example, it could oblige them to enter in a normal employee/ employer relation (Farronato & Levin, 2015). This increase in costs will reduce their cost advantage, which will raise their probability of failure.

IV. Methodology and data information

4.1 Methodology

In order to be able to answer those two research questions, we conducted four interviews in total with one business angel, two venture capitalist and private equity investors and one entrepreneur. The interviews allowed us to collect in-depth information regarding the on-demand economy based on the opinion and experience of the interviewees. This kind of data collection seems the most appropriate in order to collect potential conflicting information between the interviewees since it gives the opportunity to react directly and gather more information about the conflict (Harrell & Bradley, 2009). The interviews were semi-structured in order to guarantee that all the important topics were covered and that we had some control over the discussion to ensure a consistent data collection. However, the conversational aspect of the interview allowed us to go deeply into the subject and to understand it completely (Harrell & Bradley, 2009). Afterwards, the data was analysed from a qualitative perspective where a particular interest in some topics was emphasised rather than the frequencies in order to highlight trends, new and unexpected facts or global indications (Aktouf, 1987).

In order to underpin the information collected during the interviews, we used a second source of information being reports issued by consultancy firms, well-established companies, a not-for-profit organisation, the European Union and an independent agency of the United States government. It allowed us to go in detail and to confirm or reject the data collected during the interviews.

4.2 Data Information

Regarding the interviews, the first one was conducted with the CFO of an investment company focusing on marketing related businesses, which include digital transformation consulting, branding, market research but also e-commerce. They invest mostly in mature companies. However they also take part in some young technology-focused firms. Further in this research, we will mention him as interviewee 1. The second interview took place with a business angels having an investment scope on SaaS, especially Fintech and invested in two on-demand economy start-ups. He will be further referenced as interviewee 2. Afterwards, we discussed with a software specialist working for a company providing services related to systems and software. He also works on entrepreneurial projects related to the on-demand economy and he will be mentioned as interviewee 3. Finally, the last interview was conducted

with a Principal of an investment company with experience in venture capital and private equity and focusing on connected consumer, smart industries, healthcare and sustainable cities. She will be referenced as interviewee 4.

Concerning the reports, five different documents about the sharing economy were analysed. Each of these documents had a definition of the share economy similar to the definition given for the on-demand economy in the beginning of the research. The papers were issued by the Insurance Institute of Canada, the Federal Trade Commission, DHL customer Solution & Innovation, EY and the European Union. However, even if the last one was issued by the EU, it does not represent their opinion and was written by Dervojeda, Verzijl, Nategaal, Lengton, Monfardini and Frideres from PwC. Similarly, the documents issued by the Insurance Institute of Canada and DHL customer Solution & Innovation were written by Kovacs and Gesing respectively.

V. Discussion of Findings

Throughout this section, the results of the interviews and the findings based on the reports will be discussed in order to answer the research questions. It is important to highlight that the answers are mostly personal beliefs of the investors and the report writers, which means that the answer can be subjective and that different answers are possible.

5.1 Are investors attracted by the potential disruptive aspect of the on-demand economy?

First of all, it is important to highlight that none of the interviewee doubts about the fact that the on-demand economy is disruptive. As a matter of fact, all of them heavily insisted on the fact that it was highly disruptive even if they all gave different explanations. For interviewee 1, this new phenomenon was going to change the world and found his origins in the lack of incentives to invest in assets since nowadays the utilisation rate of assets is lower compared to similar economic cycles. Interviewee 2, mentioned that the on-demand economy was a real new economic model and that there were no signs that it will not continue to grow. Interviewee 3 said that the disruptive aspect came from the convenience that it creates for consumers. And finally, interviewee 4 mentioned the asset light structure of these companies and their impact on the markets.

The opinion expressed in the reports are similar. They confirmed the disruptive aspect of the on-demand economy since it challenges incumbents in different sectors and gave as explanation that they are able to compete with traditional companies by offering alternative services forcing the incumbents to think about a new business model (EY, 2015; Federal Trade Commission, 2016; Gesing, 2017; Kovacs, 2017).

With all these confirmations that the on-demand economy is disruptive and with nobody refuting it, we can affirm that the on-demand economy is disruptive. The examples of Airbnb and Uber were often cited by the interviewees and reports to illustrate this aspect of the on-demand economy and their high valuation highlighted the great opportunities for this new business model. In the beginning of 2017, they were valued at \$31 and \$69 billion respectively (Abboud, 2017; Lunden, 2017). Overall, they were able to raise \$3.4 billion in 10 rounds and \$8.81 billion in 14 rounds of equity funding. Furthermore, it is interesting to notice the evaluation from the first to last round in order to emphasize the increasing interest of the

investors. Indeed, Uber was able to raise \$200 000, \$1.25M or \$11M during the first rounds where it raised \$3.5B during the last funding stage. There was a similar increase in Airbnb who raised amounts like \$20 000, \$600 000 or \$7.2M during the first rounds and who raised approximately half a billion dollars in 2017. (Crunchbase, 2017)

However, even if they are the best-known examples, there are several other companies reaching the billion dollar valuations. Several of these companies are ride-hailing or home-sharing platforms such as Didi Chuxing (\$50B), Lyft (\$7.5B), Ola Cabs (\$3.5B), Grabtaxi (\$3B) and Tujia (\$1B) (Chen, 2017; Kharpal, 2017; Newcomer, 2017; Schechner, 2015; Yourstory, 2017). Other sectors are also represented as Peer to Peer lending with Lending Club (approximately \$5.6B), food delivery with Instacart (\$3.4B) and BlablaCar (\$1.5B) for the ride-sharing (Bloomberg, 2017; Huet, 2017; Ycharts, 2017). Smaller companies offer also numerous services and goods such as for example meal preparation, delivery of goods and their storage, project funding, insurances, labour hire, space and parking availability, clothes and tools sharing, healthcare services. (Federal Trade Commission 2016; Kovacs, 2017). Although, this new business model is well-known to disrupt industries performing in a business-to-consumer context, it entered already the Business to Business environment in sectors like the Agricultural and Construction industry where it offers equipment sharing platforms (Gesing, 2017). All these start-ups operating in different industries highlight the growth potential and ability to adapt the business model to different industries. All the interviewees confirmed that the on-demand economy could adapt to a broad range of industries. Interviewee 2 even confirmed that he is sure that a new Uber or Airbnb will appear in another industry. However, interviewee 3 and 4 mitigate their answers by noticing that some industries with for example complex production processes will be preserved and that the on-demand economy will mainly be related to services and platforms. In the reports, Dervojeda et al. (2013) and Gesing (2017) consider that these business model can be applied to all industries. Furthermore, the interest of the Insurance Institute of Canada and DHL in the on-demand economy proves that there is a potential to disrupt industries that are not heavily affected for the moment. However, EY (2015) mentioned that the growth will be driven by an expansion into specialised services.

The disruptive aspect of the on-demand economy is not only related to the new business model. The disruptive aspect is also linked to the shift of the consumer behaviour. All the interviewees agreed that the on-demand economy increases the convenience of customers and believe that there will be a further development of the access-based consumption. However, interviewee 4 highlighted that changes always go slow even if in some communities it will go

faster. Furthermore, interviewee 2 demonstrated a personal conviction that there is a real aspiration towards this new consumption model and highlighted that the millennials are really convinced by access-based consumption and that even certain persons from the baby boomer generation made the shift from an own-based to access-based consumption which demonstrated, in his opinion, the convenient aspect of the on-demand economy. Regarding the reports, they also confirmed the shift from a preference for ownership to temporary access of goods and services and mentioned as well the convenience as a factor which increases the preference of sharing over owning (Kovacs, 2017). Furthermore, the fact that the millennials are more attracted by the on-demand economy was confirmed by several reports (Dervojeda, 2013; Gesing, 2017; Kovacs; 2017) and Dervojeda et al. (2013) highlighted that the older have a lack of skills regarding new technologies in order to participate in the on-demand economy. Overall, we can conclude that the shift is a reality. However, it has to be mitigated since the change is more evident among the young part of the population. It means that the transformation in the consumption model offers a great growth perspective on the long term when the younger generation will become older and that the new generations will all be used to the new technology.

As expected from the literature review, the on-demand economy is disruptive and offers real growth potential. Both aspects of the disruption create new opportunities to expand to new sectors or consumers. As interviewee 1 said, investors invest in something that offers future growth opportunities, and the on-demand economy through his disruptive aspect will offer it to the investors. However, it is difficult to quantify the future evolution of the new phenomenon. Indeed, none of the interviewees could give some figures to forecast the growth. Interviewee 1 mentioned that companies like Uber and Airbnb are highly valued due to all the possibilities that they offer without exactly knowing how they would proceed and Interviewee 2 declared that he believes that the growth of the on-demand economy will continue thanks to new ways that we have not figured out for the moment. Interviewee 3 stated that the development will go really fast but that in the next 5 to 10 years no drastic change has to be expected and that we will have to wait 30 to 40 years to see everyone embracing the new way of consumption. And finally interviewee 4 was more sceptical since the regulation could harm the new business model. However she recognises the great potential for these companies.

The opinions of the reports are similar to the one expressed by the interviewees. Kovacs (2017) confirmed that the on-demand economy will continue to growth rapidly and highlighted that only relatively few experts were assessing the current size and the expansion over the next

decade. Only EY (2015) and Dervojeda (2013) forecasted a growth rate, 139.4% per annum between 2012 and 2016 in India and 25% per annum respectively. Furthermore, the experts predict that well-established industries will look similar in ten years compared to today (Kovacs, 2017) which confirms the idea of interviewee 3. However, Uber and Airbnb proved that a disruption can take place in less than ten years, so some drastic changes can be expected in some specific sectors. And EY (2015), like interviewee 4, highlighted that the success of the new phenomena will depend on the regulatory framework.

Regarding the interviews and reports we can deduce that the difficulty to forecast the growth of the on-demand economy comes from the lack of clarity regarding the future development. Indeed there are uncertainties about the regulation and future expansion methods. However, Kovacs (2017) figured out the three different ways the evaluation will take. Firstly, the current services offered by the on-demand economy will reach a broader public by developing it in new demographic and geographic groups. Secondly, current companies will increase their services in the same sector thanks to a vertical or horizontal expansion and thirdly, new on-demand services will appear.

In summary, the on-demand economy offers a great growth potential to investors even though it is impossible to predict an exact growth rate due to high uncertainties.

5.2 Are the great potential returns expected from these companies high enough to cover the uncertainties?

Regarding the uncertainties, the major one is the regulatory framework that the legislator will adopt. To assess it, it will be necessary to understand the purpose of the regulator and evaluate all the different possibilities the regulator have. In addition, it will also be interesting to analyse the reaction of incumbent towards the on-demand economy.

Most of the interviewees agreed that the well-established companies will try to resist as long as they can to this new trend and mostly by taking the on-demand economy companies to court. However, in the long-run, these companies will have to adapt and as interviewee 2 mentioned one of the ways to adapt will be to co-operate with these new companies. There are already examples of incumbents which invested in on-demand economy companies. For example, Caterpillar is one of the main investors in Yard Club, a sharing platform for construction equipment, General Motors has purchased a stake in Lyft, one of Uber's main competitors and Hyatt invested in OneFineStay, a home-sharing platform (Gesing, 2017; Federal Trade Commission, 2016). Thus, the incumbents can be considered in the short-run as a threat and

will probably harm the on-demand economy. However, in the long-run they will probably turn into an opportunity to further develop the on-demand economy.

Currently, there is a debate around the need of regulation for the on-demand economy. As mentioned in the literature review, it operates in a dead zone since it blurs the existing regulation with a new type of employment between the personal and professional activity. As a consequence, the current regulation does not cover the activities performed which enable them to avoid safety, employment and other typical fees paid by the traditional operators. Even further, as the suppliers using the platforms are often individuals using their personal property, they are maybe unaware of the specific tax legislation which results in tax evasion, considered as illegal. (EY, 2015; Dervojeda, 2013; Kovacs, 2017)

Interviewee 2 said, there are two main objectives for the legislator, tax collection and the protection of the consumer in order to find the right balance for the greater good. Federal Trade Commission (2016) highlighted that the regulator had to find the right equilibrium between consumer protection, public safety and other governmental objectives and the right incentives for innovation. Kovacs (2017) added that the legislator also had to take care of the public services, fair competition and ensure the tax collection.

Concerning the debate, there are mainly two opposite opinions. The first opinion, which is mainly defended by the representatives of incumbents, argue that the same set of regulations should apply to the on-demand economy and the traditional companies in order to guaranty consumer and public protection. In their opinion, both of them are providing similar services and the on-demand economy should not benefit from unfair competition only because they offer an innovation. However, the current legislation was designed for the well-established companies and applying it to new business models could serve to protect them without actual benefits for consumers since it will harm the competition and the consumer welfare (Federal Trade Commission, 2016). Additionally, the platform representatives argue that they do not have to comply with the classic regulation since they are not traditional companies (Kovacs, 2017).

Concerning the second opinion, even if there is an agreement on the need for a specific regulation, the opinions differ in how far the new regulation should go. There are defenders of the least restrictive regulation possible by avoiding unnecessary regulation that could harm the innovation. In their opinion, the regulator should choose the least restrictive regulation in order to achieve their goals and will have to take into account some features of the platforms such as

the review of the consumers which protect them and therefore reduce the need for regulation. This light regulation will allow the on-demand economy to continue to grow. Furthermore, there are also defenders of a neutral regulation. In this case, the regulation will differ between the traditional and the on-demand economy as long as the regulation achieves the same goals (Federal Trade Commission, 2016).

Overall a clear legal framework will be beneficial for all participants. Indeed, regulation will clarify the current situation of the on-demand economy and achieving safety and tax rules, will develop the confidence of consumers (EY, 2015; Kovacs, 2017).

Regarding the opinion and the hesitations of some of the interviewees concerning the future evolution of the regulation, we realise the difficulty to predict the way the legislator will take. Indeed, interviewee 1 and 3 were convinced that the regulation will adapt in favour of the on-demand economy. Both of them highlighted the convenience for the consumer and that the legislator had to adapt to the consumer's desires. Furthermore, Interviewee 1 mentioned that it will be unwise not to embark to the trends of the future since it decreases the competitiveness of the industry and interviewee 3 mentioned that as the business model of the on-demand economy and traditional ones are completely different, the regulations should be different for both. Interviewee 2 defended the idea that a legal framework for the on-demand economy was necessary for the greater good and that it could not continue to take advantage of the dead zone. However, he also explained that a prohibition will not be possible since it is against what the consumer wants. And finally, interviewee 4 had a different perspective since in her opinion, the regulator will not change the rules only for the benefits of the consumers and highlighted that the incumbents still have high influence on the legislator.

The difficulty in predicting the direction the legislator will take comes from the fact that everyone has his opinion and personal conviction about what is needed for the society. In this case, the four interviewees have contradictory beliefs and they covered the three possible ways the legislator could take. Besides this problem, the prediction has to face another problem, the timing. As interviewee 2 and Kovacs (2017) mentioned, the changes in regulation are slow and it will be difficult to predict when they will occur.

Finally, when we ask the interviewees if they consider that the growth might potentially outweigh the uncertainties, it is interesting to realise that the interviewee 1 and 3 strongly agreed that the potential is greater than the risks where interview 2 and 4 were hesitating and are not sure at all that the growth could cover the risks. It has to be highlighted that interviewee 1 and

3 also expected from the legislator to adapt in the advantage of the on-demand economy where interviewee 2 and 4 were thought that the legislator would be less favourable to the on-demand economy.

Overall, it seems difficult to predict exactly the direction the legislator will adopt regarding the regulation since there are many different opinions opposed to each other. It adds considerable uncertainty to the further development of the on-demand economy since it could harm it as it was the case with several European courts which judged UberPOP as illegal. However, even with this extra uncertainty some investors will find the on-demand economy attractive and will judge that there is enough growth potential to overcome the uncertainties. These investors will probably expect that the future legal framework will be propitious to the further development of the on-demand economy whereas other investors would be more reluctant to invest in this new phenomenon and have a more pessimistic opinion about the future regulation.

VI. Conclusion, Limitations and Further Research

The on-demand economy is a recent phenomenon and is still in an early-stage of development. However, there is a growing interest from several stakeholders such as traditional firms, regulators, consumers but also investors. Therefore it is interesting to take the perspective of an investor to analyse this phenomenon and understand what could make it attractive or not. A great growth potential and a disruptive aspect is recognised for the on-demand economy. Although, high uncertainties are linked to this new business model, mainly concerning the evolution of the regulation.

The disruptive aspect is refuted by nobody. All the interviewee and reports agreed on this point. It offers to the on-demand economy great growth potential since it could adapt and disrupt new industries. There is a general agreement that it could adapt to a really broad range of industries, for some, the disruption could even take place to all the existing business models. However, the disruption is not only linked to the industries it could change but also to the shift of consumption model. The change of the consumer's behaviour is a reality but is more evident among the younger part of the population. It offers future growth opportunities to the on-demand economy since the millennials will get older and that the new generations will be raised with the new consumption model. So, as investors are looking for growth potential, the disruptive aspect will be attractive to them. Unfortunately, it is difficult to quantify the further development since there are too many uncertainties.

The future legal uncertainties decrease the attractiveness for investors since the regulations could harm the further development of the on-demand economy. Indeed, as for the moment the on-demand economy operates in a blur, it avoids certain fees paid by the traditional companies. This situation should evolve in the future and the regulator should put in place a clear legal structure. There are three main directions, the legislator could take: Apply the same regulation in place for the traditional companies to the on-demand economy, create a different regulation for the on-demand economy and the incumbents as long as they achieve the same goals and put in place a light regulation in order to avoid harming the new business model. However, it is difficult to predict which direction the legislator will go since everyone has a different opinion. Therefore, it is interesting to highlight that the personal convictions of the investors regarding the future legal framework play an important role in order to assess if the high potential returns outweigh the uncertainties. Indeed, when the investors believe that there

will be a favourable regulation, they expect returns to be high enough to compensate for the risks whereas in the opposite situation, the investors will not especially perceive high enough returns to cover the uncertainties.

Further research could be conducted around the on-demand economy from an investor's point of view. Firstly, it could be interesting to analyse and compare the perspectives of investors who invested in the on-demand economy with the opinion of investors who refused and study the differences based on their geographical localisation. Secondly, when more information and data will be available, it could be wise to compute the financial impacts of the different legal scenarios. Thirdly, as companies like Uber and Airbnb achieved high valuations quickly, it will be interesting to analyse the impact of the right timing on the investments but also study the risks of speculative bubbles. Furthermore, from a general perspective, additional research on the on-demand economy could be done such as a macroeconomic analysis of the impact of the new phenomenon, especially on the labour market or the competition.

To conclude, it is important to highlight that the sample of interviewees was too small to be significant and that another sample of four interviewees could have led to different results. Furthermore, the objective of this research was to have a first general impression on the investor's perception regarding the on-demand economy. Therefore, several key aspects of the new business model were not analysed and could play a significant role in the attractiveness of the on-demand economy for investors.

VII. References

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