Business Insight
Sharing economy

Lynk & Co is thinking outside the car: Towards a new era of sharing

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From digital to physical: The sharing economy is evolving. Today, we are not only sharing digital goods, but also goods of high value, for example apartments and cars. Sharing models not only have the potential to profitably expand existing business models. Less ownership – especially of cars – is also better for the environment. However, sharing a high value asset comes with challenges.

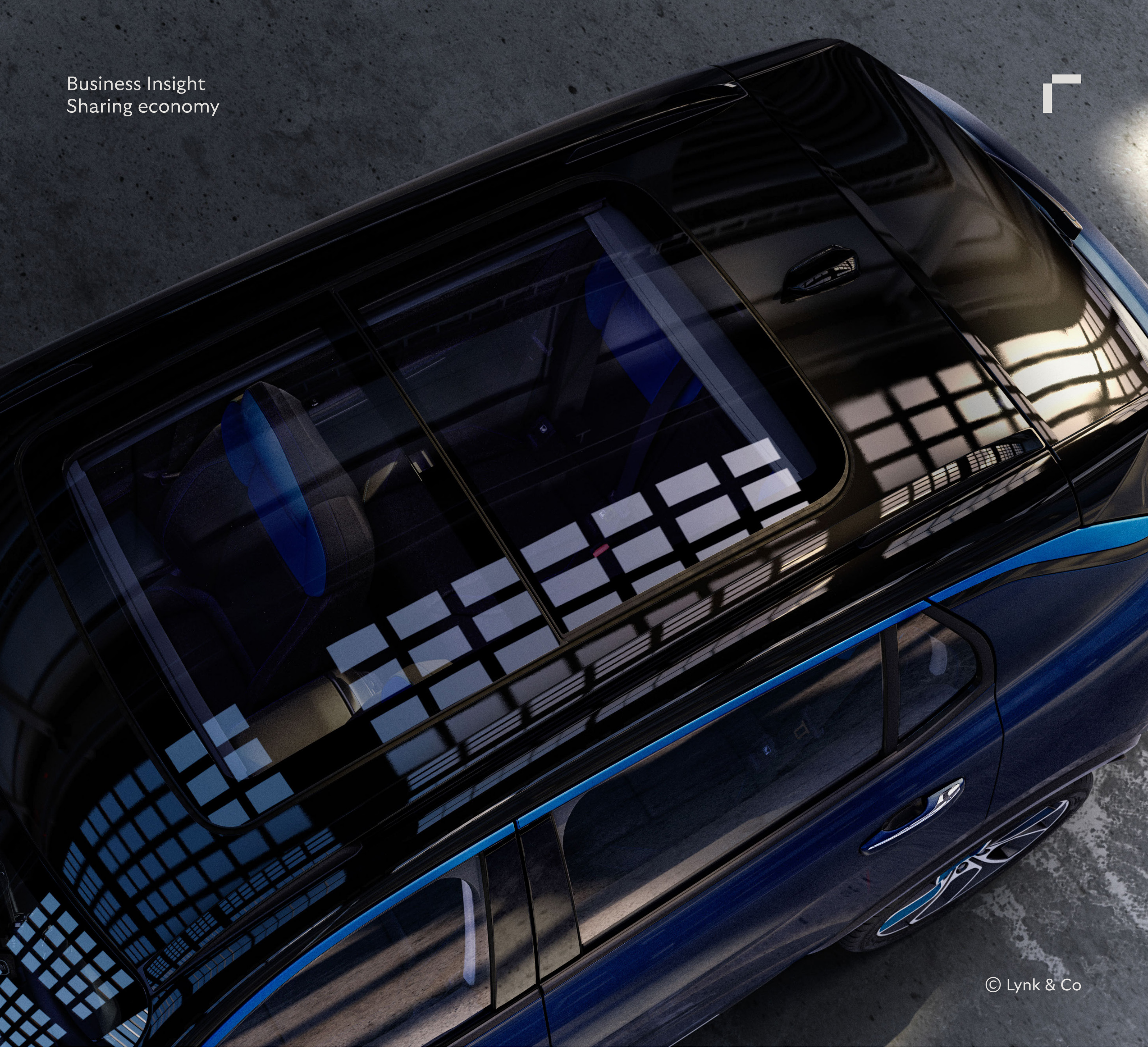
In this insight we show you what these challenges are – and how Lynk & Co managed to overcome them. The case of Lynk & Co's subscription- and sharing-based business model illustrates how two main questions related to the circular economy can be answered: How do we encourage shared consumption despite the known effects on loss aversion and status quo bias? And how do we complement existing linear business models to promote product retention and utilization, without a negative reverse effect on company profitability?

1. From digital to physical. Car subscriptions drive the evolution of the sharing economy.

The sharing economy has been rising over the last couple of years. It started with digital goods like music and videos and has now evolved to encompass ever more valuable and complex physical goods. Today, we are sharing apartments through digital platforms like Airbnb, while Uber and others enable sharing cars and rides – a popular means of transport around the world. And yet, the idea of sharing resources seems to have been pushed back during the past two years. The social distancing that came with the COVID-19 pandemic has certainly played its part.

Throughout the western world, people were led to consume even more in a digital fashion. Consumption became easier than ever. This has led to a consumption experience in western societies which is now largely shaped by the "everything store". An ever-increasing selection is available at a click, an hour away to be consumed and with social distancing adhered to. The principles behind the "everything store" consist of a set of rules that describe the main elements of the 21st century consumption experience: convenience, selection, availability, trust, and a low price. With all this convenience in mind – why should consumers care about abandoning linear consumption patterns? And why should companies care about sustainability? Why should they embrace trends such as design for recycling, product lifetime extension or retention of product ownership?

One potential answer to these questions can be connected to the trend to servicize and share products. The idea: the servicization of products works as a catalyst for sharing, provided that a clear framework for sharing has been established. This is especially important for high-value physical products. The willingness of consumers to engage in the risky transactional relationship of sharing something they own is considerably reduced through servicization. Why? Servicization enables the right to return the product. The ownership is only temporarily.



Lynk & Co is a good example of how this works – a car company and yet, not just another car manufacturer. The case of Lynk & Co's subscription- and sharing-based business model illustrates how two main questions related to the circular economy can be answered.

First, from a consumer psychology point of view: how do we motivate shared consumption despite the known effects on loss aversion and status quo bias? And **second,** from a company's strategic perspective: how do we complement existing linear business models to promote product retention and utilization? Can it be done without a negative reverse effect on company profitability?

2. The case for sharing (access to) cars

The concepts of the sharing economy, collaborative consumption, peer consumption, and access-based consumption are often used interchangeably. Regardless of the name used, most descriptions are based on five conceptual pillars:

1.

Online market mediated access: This assumes the sharing transaction is facilitated through the internet with underlying components – such as computer technology, information systems and new data models that have the potential to drive machine learning and artificial intelligence. In this case digital technology helps to reduce the information asymmetry between lenders and borrowers (e.g. of cars or apartments).

2.

Utilization: A higher utilization of goods through sharing can help to avoid waste and make better use of consumers' time or the product itself. Therefore, there are both economic and social benefits related with consumption through sharing.

3.

Ownership: Ownership has been the normative ideal among modes of consumption. It is perceived to be cheaper and gives many people a sense of personal independence and security.

4.

Relationship: This concept deals with the interference and trust between people and groups of people willing to participate in a sharing transaction and the underlying perceived consumer risk.

5.

Convenience: This pillar concerns the question how easy and accessible using a good is – and what friction is incorporated in facilitating a sharing transaction.

This case study deals with all of these concepts – although to a varying degree. When it comes to cars, the question of ownership, for example, is a decisive one. Owning one's car has been the cultural norm in western societies for decades. Motivating consumers to get used to a different concept of ownership is a key factor in driving the success of a business model based on subscription and sharing.

There are four degrees of control of ownership applicable to an object in a direct-to-consumer setting:

1.

Buying an object by means of a cash transaction.

2.

Financing an object by means of a financial intermediary, usually a bank. This increases the indirect costs in comparison to the direct cash purchase due to interest. Yet the cash-out is often more acceptable to consumers.

3.

Leasing an object: this is similar to financing with one fundamental difference – ownership isn't transferred to the customer after the lease period.

4.

Servicization of an object through subscription: this provides a different degree of cost control as the subscription period usually can be terminated on a monthly or daily basis after an initial subscription period.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How does servicization change the ownership rights of customers compared to the other three cases?

It helps to look at the different dimensions of property rights:

Ius usus	Ius abusus	Ius fructus	Ius successionis
the right to use a good	the right to change the form or shape of a good	the right to earn income from a good	the right to transfer a good and the associated rights

Subscription and sharing models grant customers rights to use and earn income from a good as well as the right to transfer the good – temporarily – through sharing it with others. To put it more simply: The value proposition of sharing models relies on granting full access to goods without transferring all property rights at the same time. To make this proposition attractive is one of the main tasks of any go-to-market strategy in the sharing economy.

However, the interconnections between ownership and the other conceptual pillars of the sharing economy also play an important role: how can shared consumption and, thereby, higher product utilization be facilitated? How can this be done without affecting existing linear areas of business within the same company? How can consumer value be generated – functional value, but also emotional and social value? How can risks for consumers associated with sharing the product be mitigated through digital platforms? And how can the subscription and sharing experience be made as convenient as possible for consumers?

Let's explore the case of Lynk & Co.

3. The subscription and P2P-sharing model of Lynk & Co

One fundamental feature of a car subscription model is that it reduces transactional risk. This also leads to a higher willingness of car subscribers to rent out their cars to friends, family, and potentially unknown members of the community.

In practice this is all a little more complicated. To overcome uncertainty and an emotional attachment to the product, Lynk & Co facilitates the actual sharing transaction through their platform. It includes insurance coverage, identity verification and management on behalf of the borrower. When a firm enables its customers online to share their property within a P2P-community, there are two risks to be balanced: The first is the risk of matching a consumer with the appropriate cost of ownership. At the same time, the firm must manage the risk of the online community as it operates as a merchant of record to enable the P2P-sharing functionality. The second risk and also limitation is associated with the concept of ownership retention. The limitations arise from the fact that the strategy is interesting for companies that offer products to consumers with a lot of embedded value or simpler products. It might require to also invest heavily in after-sales and maintenance capabilities. Most direct-to-consumer business models are tightly linked to a linear relationship between a firm and a consumer. In contrast, most non-linear models focus on recurring payment contracts such as pay per use, pay per activation, and pay per subscription – all driving usage of the good rather than ownership. In that way, they reduce the initial entry barrier (the price of ownership) towards the good or service. This imposes a direct cash-flow impact for the firm.

For high-value goods, this can be even more pronounced. These goods are traditionally sold against a large one-off payment – such as cars. Therefore, this is a challenge also faced by Lynk & Co, as CEO Alain Visser explains: “When we positioned Lynk & Co, the most difficult part was not the positioning of the business case on the basis of cost efficiency.

The more difficult part within the business model was the tremendous cash-flow issue we were struggling with.” The idea of Visser and his team: car dealers were already making more money with maintenance of the cars. If Lynk & Co was to increase utilization through their subscription model, maintenance was expected to go up. “Especially with upcoming electric vehicles we have a win-win if we manage to bring up utilization and can ensure that people care more about experience than ownership”, says Visser. “At the same time everyone needs to accept that you are getting to a new industry and service which might be less profitable compared to the traditional model of car manufacturers – but quite profitable when competing against other car rental service platforms.”

But how can a company generate the cash-flows needed to operate sustainably using a subscription model for cars?

By looking at the nature of a company’s revenue streams we can get a better idea of this challenge. Revenue streams can be divided into direct and indirect sources. The value capturing strategies in the sharing economy are often based on

either of the two or, in the case of Lynk & Co, on both. In direct revenue models consumers subsidize themselves and pay the cost of the organization. A classic example of this are phone operator contracts sold to consumers who pay for a specific service. For indirect revenue models there is a third actor that sub-sidizes the consumption of the service. For example, cross-subsidization in newspapers by advertisers, allowing a lower price for the readers of the newspaper. Indirect revenue models are always part of a multi-sided market, as the triadic relationships are needed to keep the organization running.

Knyphausen classifies revenue streams in another way: he distinguishes between transactions bound to utility and transactions not bound to utility. In the case of Lynk & Co the P2P-transaction between a borrower and a lender for an agreed-upon price and amount of time can be classified as bound to utility. Unbound transactions drive revenue if the created value is not directly related to the economic benefit of the exchange and is paid periodically, regardless of how much utility was extracted by the customer. In our case this is the subscription model between Lynk & Co and the subscriber. The case presents a combination of direct/indirect revenue streams and revenue bound/unbound to utility in a spectrum for both Lynk & Co and owners who wish to share their vehicle.

As Lynk & Co's CFO Mathias Holst puts it: "When the world becomes self-driving you can either be Lufthansa or Boeing. This is about mindset – the biggest innovation is not about being a car company. What I am trying to say is that our biggest investment is into technology and into the community – the shift from metal to code."

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> – Mathias Holst

In his opinion, while a car is still a big cost for a consumer even with a subscription model, users should not be attached to the vehicle in the same way as if they buy it. "For sharing-based models to work with cars, you need to decouple the emotional product and make it a commodity", Holst continues. "So far we have made very good progress but explaining the business model remains hard work."

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– Mathias Holst

4. Piloting P2P-sharing of cars in Europe

Can subscription models convey a new sense of car ownership to consumers? Can they facilitate P2P-sharing as well as a higher utilization of the cars and create positive effects for consumers, companies and ultimately society as a whole? The Lynk & Co case provides interesting insights.

In 2021 Lynk & Co, a subsidiary of Chinese automotive Giant Geely, launched its innovative offering in seven European countries and with a variety of ownership models ranging from purchase to leasing and subscription. Sales started in April 2021 for Germany, Belgium, Sweden, and the Netherlands. Sales in Spain started in June, Italy and France started in July. Across all countries sales increased during the last quarter of the year. All sales have been conducted online and with each sale comes an automatic membership in the Lynk & Co community. Despite the variety of ownership models offered, subscription revenue at a price point of EUR 500 per month already accounts for 83 % of total revenue. The remaining 17 % come from cash, financing, and leasing sales at a price point of around EUR 48,000 per purchase. The number of shared vehicles as a percentage of total sales averaged 17 % for the year 2021. Almost all shared vehicles (99 %) stem from the month-to-month subscription model – although all other members of the Lynk & Co community would also be able to share their vehicles with others. On the basis of this initial data, the subscription-based system seems to be a catalyst for sharing.

This supports Lynk & Co's notion that the product sold in their case is not a car, but a community feeling. The car is seen as a platform and the brand building is around the community to share and drive product utilization.

But how did Lynk & Co's management arrive at this strategic direction?

When Alain Visser and Lynk & Co's CDO David Green started the brand journey together the challenge was to "think outside the car". Together with a team they did some brainstorming centered around some simple questions: what is a car, what is it for and what is "outside the car"? At some point in the process around 2015 the team had come up with a statement saying something like "a car is for connecting people to places, experiences and other people" – inspired by the legendary Nokia brand claim "connecting people".

The group was intrigued by the uniqueness of the smartphone and how it could have such a global impact. What could they learn from this? How could Lynk & Co knock "owning a car" off the pedestal on the wish lists of 17- to 21-year-olds? The first suspect must be the touch screen, surely: before its introduction phones were only mobile, it took a touch screen to make them smart. So, it was decided to put big touch screens in the cars. But not to just duplicate car buttons or to mirror a tablet. Touch screens in a car need special thinking to craft carefully designed interactions. And they need to use natural voice controls in order to keep the driver's hands free. What came next? A connection to the internet. Every Lynk & Co car can be permanently connected to the brand cloud. As a standard, for all models and all specifications. This will enable Lynk & Co cars to exchange information with the world and will make the cars permanently part of the Internet of Things. Thereby it is possible to use the power of the internet when driving or to control the car when you are not in it. Most of this is unusual but none of it is unique. So, what is the missing ingredient?

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Again, looking back on the evolution of smartphones offers inspiration. What really unlocked the potential of this new class of devices was the introduction of third-party apps through an app store. According to David Green, the same kind of thinking should be applied to Lynk & Co as a provider of mobility services:

"There are thousands of sensors creating hundreds of gigabytes of data during an hour drive. What is really outside the car? The Internet of Things. Lynk & Co is therefore not just a car with a touch screen, and a cloud connection, it is one platform on the Internet of Things. We are going to open up that platform for innovation from inside and from the outside in a way that will be the first in our industry. Physical locks will only be a backup for a Lynk & Co car. It can be both unlocked and started via Radio Frequency Identity and digital encryption. This has enabled our tech team to create sharable locks. The crazy thing about these locks is that anyone can have one, not just car owners. But only Lynk & Co members will be able to activate a shared lock and will have complete control once they have unlocked it. This means Lynk & Co owners can lend their car out to a friend or a service technician while lying on a Caribbean beach without putting down their cocktail."

This means the mechanism for P2P-sharing is fully digital. The functionality stays with the car. So when buying a used vehicle from someone that has never shared the vehicle, the sharing functionality can be activated in the app by the new owner. But how does the incentive mechanism behind the sharing work? And how is trust between peers generated in an ecommerce car environment?

Lynk & Co offers two kinds of contracts: for members with cars and without cars. The decision to share or not share their car ultimately lies with the members. They also determine the price and other settings. Lynk & Co operates the sharing platform. As the platform provider, Lynk & Co carefully investigates that all users of the platform are legitimate. This even leads to some additional friction in the sharing process such as taking pictures before and after using a shared car.

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One additional aspect is directly related to Lynk & Co as a company: if trust is a critical aspect to Lynk & Co's achievement, it follows that a long-term investment horizon is a fundamental factor for the success of the firm as a whole. At the community level, this means that Lynk & Co selects those who will understand that the value of the network and the peer-to-peer trust also build the brand and will pay off over time in the form of a strong community. This in turn assumes that the community trusts not only Lynk & Co's ability to manufacture reliable vehicles, deliver its production commitments over time and generate new attractive models. But also that the relationship will be constructive over many years, driving product utilization.

In that regard, the particular design of Lynk & Co's relationship to its parent company Geely could prove an invaluable competitive advantage from an organizational and strategic point of view. On the one side the company benefits from getting the infrastructure (the car) right whilst having the time and a secure flow of funds to invest. On the other side a high degree of organizational independence allows the team to do things differently and build a new culture. Other car brands clearly state that they rely entirely on their dealers to provide customers with a quality experience. In contrast, Lynk & Co differentiates its brand by means of a community network managing the business on a multidimensional level: maximizing new sales, servicing existing customers and increasing car utilization through member encouragement with a clear and sustainable value proposition.

5. Conclusion: What others can learn from Lynk & Co

The radical approach and its effect on the supply cost in combination with community building has been a foundation to the success story so far. Yet within platform economics maintaining this relationship can be costly. Ultimately, Lynk & Co's offer is not limited to just a car. The relationship-based approach to community management, balancing consistent customer service and entrepreneurial spirit, can capture value in the long run and secure both Lynk & Co's and Geely's success in positioning a new form of mobility.

From a firm strategy and business model perspective, the decisions of Lynk & Co to employ and enable their value proposition by means of a market-mediated platform on top of selling cars drive value – the utilization has increased for the cars being shared. From a consumer perspective, the ability to delegate seems to function well on the basis of the sharing platform. Enabling and empowering people is an important feature of the sharing economy and overall platform-based business models. The platform model can unleash network effects if wanted by the owner of the car. Growing the community through a mixture of empowerment and delegation will be key whilst ensuring that innovation is community driven. Outside-in innovation will be important in the long term as it creates the unique value proposition that can only be offered by a network of peers.

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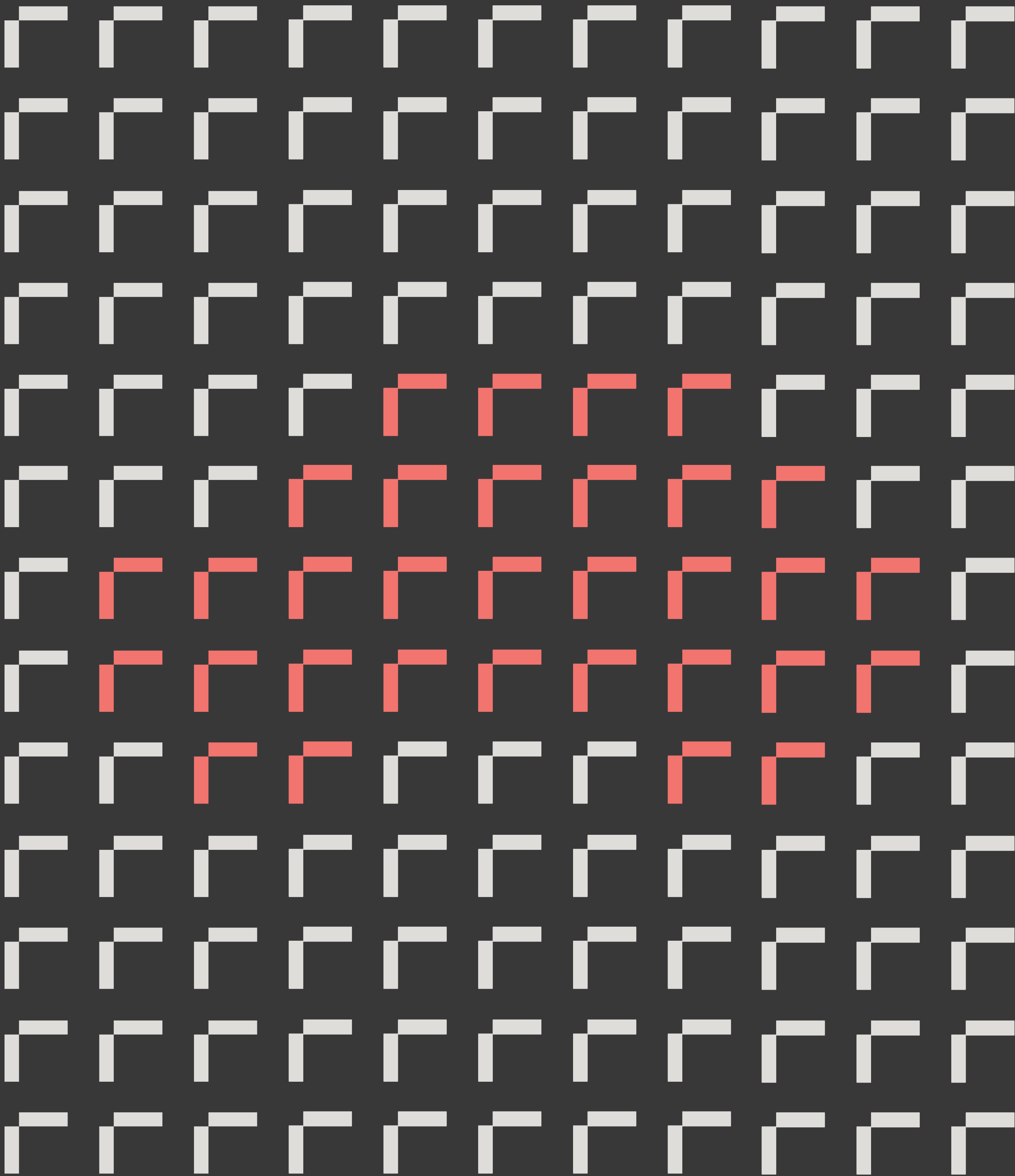

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