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Value co-creation in a sharing economy: The end of price wars?

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ABSTRACT

The growing phenomenon of the sharing economy facilitates collaborative production and consumption, which highlights the concept of value co-creation. The current study aims to investigate the role of value co-creation in a sharing economy with an examination of consumers' willingness to pay a premium price. Three types of functional, social, and emotional co-created values were explored through an online survey that focused on the pre-consumption, mid-consumption, and post-consumption stages. Four hundred and ninety-nine valid surveys were collected. The results showed that activities that involve functional and social values in the pre-consumption stage are stimulators of paying a premium price. In the mid-consumption stage, emotional value is also important for customers. However, in the post-consumption stage, only social-value-based activities are associated with willingness to pay a premium price.

1. Introduction

Since 2008, when the term "sharing economy" was first introduced by Professor Lawrence Lessig at Harvard Law School (Kim et al., 2015), this type of innovative peer-to-peer business has grown rapidly. With the widespread use of social media and information technology (Baird and Parasnis, 2011; Chahal and Kumar, 2014), a sharing economy enables people to collaboratively make use of under-utilized inventory through fee-based sharing activities on online platforms (Eckhardt and Bardhi, 2015). Due to its popularity, lower cost, and transaction fees, this collaborative consumption pattern has been broadly adopted in many industries, such as ridesharing (e.g., RelayRides, Uber, and Lyft), sharing of accommodations (e.g., Airbnb), dining (e.g., Kitchit, EatWith), local delivery (e.g., Instacart, Postmates), tours (e.g., Vayable, Toursbylocals, and Tripforeal), and even pets (e.g., BorrowMyDoggy). Economically, this sharing consumption business model benefits both suppliers and consumers (Zervas et al., 2015). Consider the case of Airbnb, which is an online marketplace for individuals to share accommodations in more than 191 countries around the world (Airbnb, 2017). Hosts rent out their spare rooms for people to stay for a short time, while guests benefit from this sharing activity with lower expenses than from traditional providers, such as hotels, resorts, and clubs (Zervas et al., 2015).

Studies on pricing strategies and economic transactions support the notion of the sharing economy. Transaction cost theory, developed by Coase (1937), states that transactions in markets bear many costs; however, economic agents try different approaches to lower these costs. In the traditional market, economic agents combine to develop large entities and decrease transaction costs. This type of cooperation illustrates the concept of a sharing economy. The World Wide Web has made communication between economic agents and individuals easier and led to the increase of sharing economy services, resulting in low transaction costs. For example, online sharing economy platforms make direct transactions possible between individuals in different parts of the world with a very low transaction cost (Henten and Windekilde, 2016).

Although its lower costs and transaction fees make the sharing economy hugely popular among entrepreneurs and consumers (Zervas et al., 2015), critics have begun to question its price advantage after Uber's sudden revenue loss (Newcomer, 2016). In addition, Airbnb's triumphs in 2016 suggested that the sharing economy does not translate to a cheaper provision of goods or services (Roderick, 2016). A factor beyond pricing advantages must be examined.

In service management and marketing theories, the sharing economy is represented by service providers that offer an innovative experience for consumers (Angelis et al., 2010; Grönroos, 2008). This service experience is co-created through the interactions of suppliers and consumers (Saarijärvi et al., 2013). This value co-creation echoes the concept of collaborative consumption (Belk, 2014; Bhalla, 2010; Lee et al., 2012; Hamari et al., 2016). Recognizing the connections between value co-creation and the sharing economy, Airbnb recently introduced a matching system that centers on personalization and memorable experience. Its app gathers travelers' preferences or lifestyles and then matches them with the hosts, neighborhoods, and experiences that meet their needs (Roderick, 2016). This co-creative

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experiential offering differs from the price competition that explains the success of the sharing economy business model. However, the relative newness of the sharing economy (Cannon and Summers, 2014; Cohen and Kietzmann, 2014; Eckhardt and Bardhi, 2015; Kim et al., 2015; Sundararajan, 2013; Zervas et al., 2015) and the equally nascent concept of value co-creation (Gronroos, 2011; Grönroos and Voima, 2013; Saarijärvi et al., 2013; Vargo et al., 2008) mean that few empirical studies have tested the link between value co-creation and pricing strategies in the sharing economy context. Therefore, there is a clear need to delineate the relationships between value co-creation, customer experience, and pricing in the sharing economy business model.

This study undertakes to fill this gap in the literature. Value co-creation occurs in various stages of service provision, so the current study examines and discusses the values co-created by customers and service providers through sharing economy businesses in the three main consumption stages (pre-, mid- and post-consumption). The objectives are (1) to determine the values that customers perceive through co-creation activities in a sharing economy and (2) to assess the various impacts of the co-created values on consumers' willingness to pay (WTP) a premium price for the sharing economy experiences in pre-/mid-/post-consumption stages.

2. Literature review

2.1. Sharing economy and value co-creation

The sharing economy is an increasing trend in consumer behavior, changing the way in which products and services are provided and consumed (Kathan et al., 2016). A sharing economy has specific characteristics, including "non-ownership, temporary access, and redistribution of material goods or less tangible assets such as money, space, or time" (Kathan et al., 2016). Global estimates show that the revenues of major sharing economy companies could reach $335 billion by 2025 (Pricewaterhouse International Ltd., 2015). However, the reasons for this success remain unknown. Pricewaterhouse International Ltd. (2015) identified key words and phrases related to success—affordability; efficiency; convenience; fun; trust between providers and users; a sense of community; and being an environmentally friendly practice. Users do not merely spend less money but also enjoy an experience that is specific to the shared model of consumption and different from that of established businesses. Most previous studies found that spending money on experiences makes individuals happier than material purchases do (Scitovsky, 1976; Frank, 1999; Boven and Van Gilovich, 2003). Specifically; 97% of a survey's participants stated they had a positive or a very positive experience with a sharing economy (Wosskow, 2014). Therefore; a sharing economy involves different types of value; from monetary to experiential; that are created jointly by both owners and users.

The sharing economy is closely related to value co-creation. Service-dominant logic principles indicate that value creation results from a joint production process in which both the provider and the customer play significant roles (Prahalad and Ramaswamy, 2004a). O'Hern and Rindfleisch (2008) classified value co-creation into four types: collaborating, tinkering, co-designing, and submitting. Prahalad and Ramaswamy (2004a) proposed a system for value co-creation built upon direct interactions between providers and customers and presented a model including dialogue, access, risk benefits, and transparency (DART). To emphasize personalized experiences in the co-creation process, Echeverri and Skålén (2011) suggested that the five practices of informing, greeting, delivering, charging, and helping between providers and customers are critical to interactive value creation. Grönroos (2012) modeled value co-creation in service as a platform on which value co-creation occurs in direct interactions between customers and service providers. Despite the differing perspectives on value co-creation, all the categorizations share a common concept: direct interaction between providers and customers.

2.2. Pricing strategies and willingness to pay a premium price

Researchers have proposed various pricing strategies that emphasize differing determinants of pricing positions (Hinterhuber, 2008), including pricing based on cost (Winslade et al., 1984), market or competition (Strategies, 1999), and value (Hinterhuber, 2004). Value-based pricing considers the role of customers in production, distribution, and marketing (Hinterhuber, 2004). Managers set prices according to customer perception of economic value, defined as the maximum price that customers are willing to pay (Hinterhuber, 2004). However, the concept of economic value could also be defined as the difference between customers' perceived benefits and sacrifices (Zeithaml, 1988). This interpretation is related to the business offering, which combines the benefits customers receive from companies, including economic gains, technical support, service benefits, and social advantages, so the offering is considered to be a value carrier. Increasing competition in various markets means customer behavior is more value-driven. It is therefore recommended that businesses focus on a value-based pricing strategy to achieve a competitive advantage.

The WTP premium is the maximum price a customer is willing to pay for a specified product or service (Smith and Nagle, 1994). Various studies have recognized the factors influencing customers' WTP (e.g., Han and Windsor, 2011). For example, Li et al. (2012) conducted a study on luxury fashion brand customers in China and showed a direct link between customers' perceived value and WTP (Li et al., 2012). Li et al. (2013) also studied the impact of value on WTP for luxury fashion brands and confirmed the positive effect of functional and social values on WTP. While these studies revealed the influence of values on WTP, the difficulty inherent in quantifying values calls into question whether WTP is an appropriate way to address values. Many researchers have adopted WTP as a conversion metric to quantify customer experience (for example, Lau et al., 2013). WTP captures the trade-offs between purchases implied in pricing and enables comparisons among emotional experiences. Therefore, WTP can be used to address different types of values, even abstract ones.

3. Hypotheses development

3.1. Value co-creation and consumption

The service management and marketing literature includes several discussions on the relationships between value co-creation and consumption (Payne et al., 2008; Prahalad and Ramaswamy, 2004b; Vargo et al., 2008). Value is created or co-created through consumers' adoption or application of resources provided by firms to consume the services, ultimately enhancing consumers' well-being (Grönroos, 2011; Grönroos and Helle, 2010; Saarijärvi et al.,2013). For example, hotel guests consume various hotel services, which consequently improve their perceived values of their stay. Therefore, contrary to traditional marketing theory that consumption destroys value, consumption activates value and even destroys resources to create value (Cabiddu et al., 2013; Grönroos, 2011). Value creation or co-creation is the ultimate outcome of consumption. In service marketing theory, consumption of services mainly occurs during interactions between service users and providers (Grönroos and Voima, 2013; Prahalad and Ramaswamy, 2004b; Ramaswamy, 2009; Vargo et al., 2008), such that value is an interactive consumption experience. To apply this logic to the collaborative consumption pattern of a sharing economy, the role of value co-creation must be discussed in three distinctive stages: pre-consumption, mid-consumption, and post-consumption.

3.2. Pre-consumption stage

The sharing economy has emerged with the development of online peer-to-peer platforms (Zervas et al., 2015) that greatly facilitate the communications, interactions, and transactions among service users,