Nobody gonna take my car

Buying a car is likely to be the second most expensive purchase for many people after buying a property. Yet estimates suggest privately owned cars spend up to 95 percent of their life unused. Given the expense and lack of use, a purely financial analysis suggests a market designed to share cars should develop

Source: Shutterstock

The technology needed to make car sharing possible is available and is essentially no different from technologies that allow people to share properties and car journeys. There were about 270 million passenger cars in Europe in 2016, yet only 0.1% of these (370,000) were available for sharing in 2018 according to ING's latest report on car sharing.

The report estimates this will grow to around 7.5 million over the next 18 years. Even then, this would represent less than 3.0% of the cars available. Self-driving cars may change the nature of transport and the practicability of car sharing in the future, but current technology continues to present problems.

Arguably, one issue presents a special problem for developing car sharing markets. Our car sharing report noted survey results of European consumers which found “European love cars ... two out of three Europeans attach emotional value to cars”. This is critically important as it means a key element in sharing markets must be strengthened to make car sharing work, which is trust.

Read our full report on car sharing here

Trust and sharing

Trust is a key element in sharing. Those who supply a good must be highly confident it will not be damaged. Conversely, customers who borrow must be confident they will get a product of appropriate quality.

Part of the role of the company that links suppliers and customers in a sharing market is to provide a way to monitor the trust of both suppliers and customers. One way to do this is by leaving a review after a transaction is completed. Over time, a trust score is built for individual suppliers and customers and is already quite common in property sharing and ride-sharing companies.[1]

An important side-effect of these reviews is that the ranking of an individual becomes the intellectual property of the company coordinating the booking. This can lead to market dominance by a few providers. This is one of the reasons some companies in the sharing economy are yet to make a profit. Investors funding these companies are willing to wait (and risk their capital) until a dominant market position is built in the hope that it will take a prime position and become profitable in the future.

Trust is likely to be even more important when it comes to car sharing because lending a car require its use to be unsupervised, which differs from renting a room in your house or a nearby property. To an extent, suppliers can quickly and easily monitor how their property is being used, but you can't always do that for a car.

Technical solutions may help. For example, black boxes that use telematics to monitor the car's location and how it is being driven and insurance ratings of users gained over a sharing history could be developed. However, it's unclear this will be sufficient to break the emotional factors limiting car sharing.

The supply side response in sharing markets

The higher level of trust required in car sharing has further implications. Sharing markets have greater potential when increasing demand by customers quickly leads to a response by suppliers. For example, increased demand for ride-sharing services can lead to an increase in the prices being charged by the website or mobile app connecting people wanting rides and drivers. This is aimed at encouraging drivers who would otherwise not work to do so.

This is a key element of the two-sided markets that differentiates sharing from traditional markets. However, for two-sided markets to work, there must be enough customers and suppliers to allow flexibility and network effects to work.

When thinking about car sharing, there is little evidence that the supply of cars available for sharing will be large enough to develop network effects and to respond quickly to changes in prices.

I don't like other people using my stuff

In many ways, we shouldn't be surprised by the difficulties facing car sharing. In the 2015 ING International Survey on the sharing economy, not wanting to share belongings was the key reason why many people didn't want to participate in the sharing economy. [1] With cars, it appears possession is felt even more keenly. Even then, we should have figured this out long ago. Rock band Deep Purple warned us in 1972 of this in their classic hit Highway Star.

[1] Other important reasons cited for not wanting to share were concerns about insurance and a lack of confidence in the quality of the goods to be shared. Each of these elements has particular relevance to the potential for the development of car sharing.

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