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Trade Friction Points – Measuring Contractual Ecosystems

Sally Guyer, Global Chief Executive Officer, World Commerce & Contracting

Adrian Furner, Fellow & Executive in Residence, World Commerce & Contracting

Wednesday, 16 February 2022, 15:00 GMT



A Word From Today's Chairman

Professor Michael Mainelli
Executive Chairman
Z/Yen Group





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Today's Agenda

- 15:00 – 15:05 Chairman's Introduction
- 15:05 – 15:25 Keynote Presentation – Sally Guyer, Adrian Furner
- 15:25 – 15:45 Question & Answer



Today's Speakers



Sally Guyer

Global Chief Executive Officer
World Commerce &
Contracting



Adrian Furner

Fellow & Executive in Residence
World Commerce & Contracting

Trade Friction Points – Measuring Contractual Ecosystems

Z/Yen webinar 16th February 2022



OMX18
OMX ICELAND 8



World Commerce
Contracting

in partnership
with



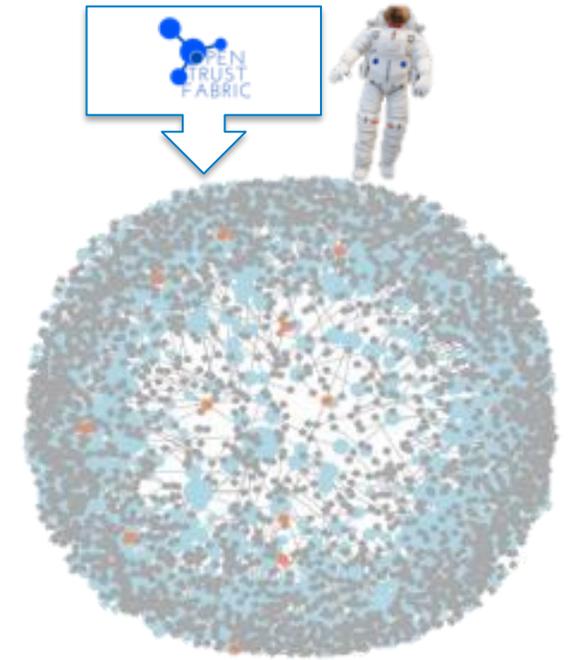
Agenda

- **Introduction & background**
- **Friction points & their importance**
- **A comparison of 3 different accommodation booking platforms**

The EU Economy as an Ecosystem of Contracts - background to the project

Demonstrate how an innovative approach that can be used both for reporting the European economy as an ecosystem of contracts and as an actual way to describe the connection between the legal and accounting world, basically a **boundary object** between the two worlds.

- First feasibility study started in 2019 with the report in published in 2020
- Second feasibility study initiated mid-2020 with the report published in 2021 with a preface by Salla Saastamoinen, Acting Director-General for Justice and Consumers and sponsored by Harald Stieber, Senior Economist at European Commission
- A European Commission funded collaboration between



What is the issue with MEASURING the Economy?

Past

- Static Representation
- Data reflecting standards Goods and Service trade
- Not capturing welfare gains from innovative services



When measuring the economy, numbers are no longer good enough

Many of the yardsticks we use to assess economic performance today are outdated relics of the past, which is why GDP is a useless barometer for Britain

Present

- Dynamic Representation
- Servitization and digitalisation of services
- Tokenization of Assets and resources
- New and more data types (API Traffic)

New trends emerging

- WWW
- Platforms
- App Economy
- Servitisation

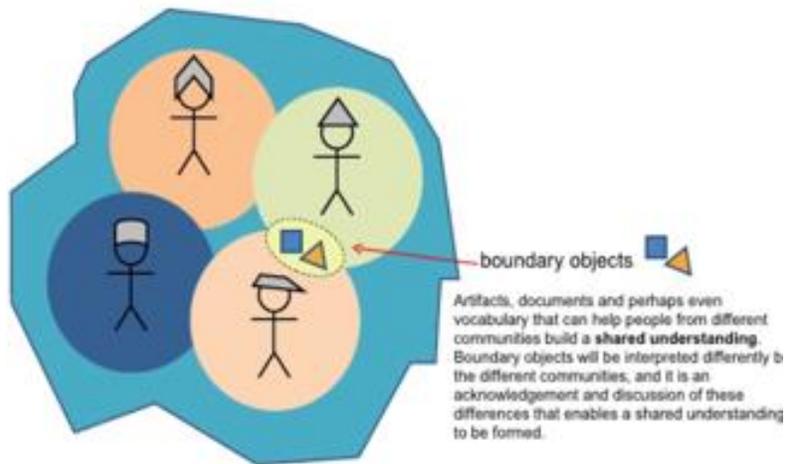
Future

- New Economic indicators
- Real time monitoring
- Better policies and impact assessment

Contracts are “Boundary Objects”

“A boundary object is any object that is part of multiple social worlds and facilitates communication between them.”

Susan Leigh Star and James Griesemer 1989

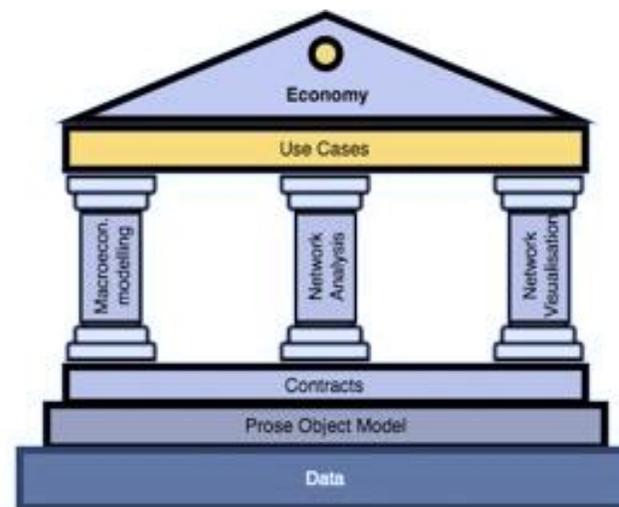


Distributed Intelligence: From Reflective Practitioners to Reflective Communities, Gerhard Fischer, Center for Learning, Learning & Design (L3D) Department of Computer Science and Institute of Cognitive Science, University of Colorado, Boulder, <http://l3d.cs.colorado.edu/~gerhard/>, may 2006.

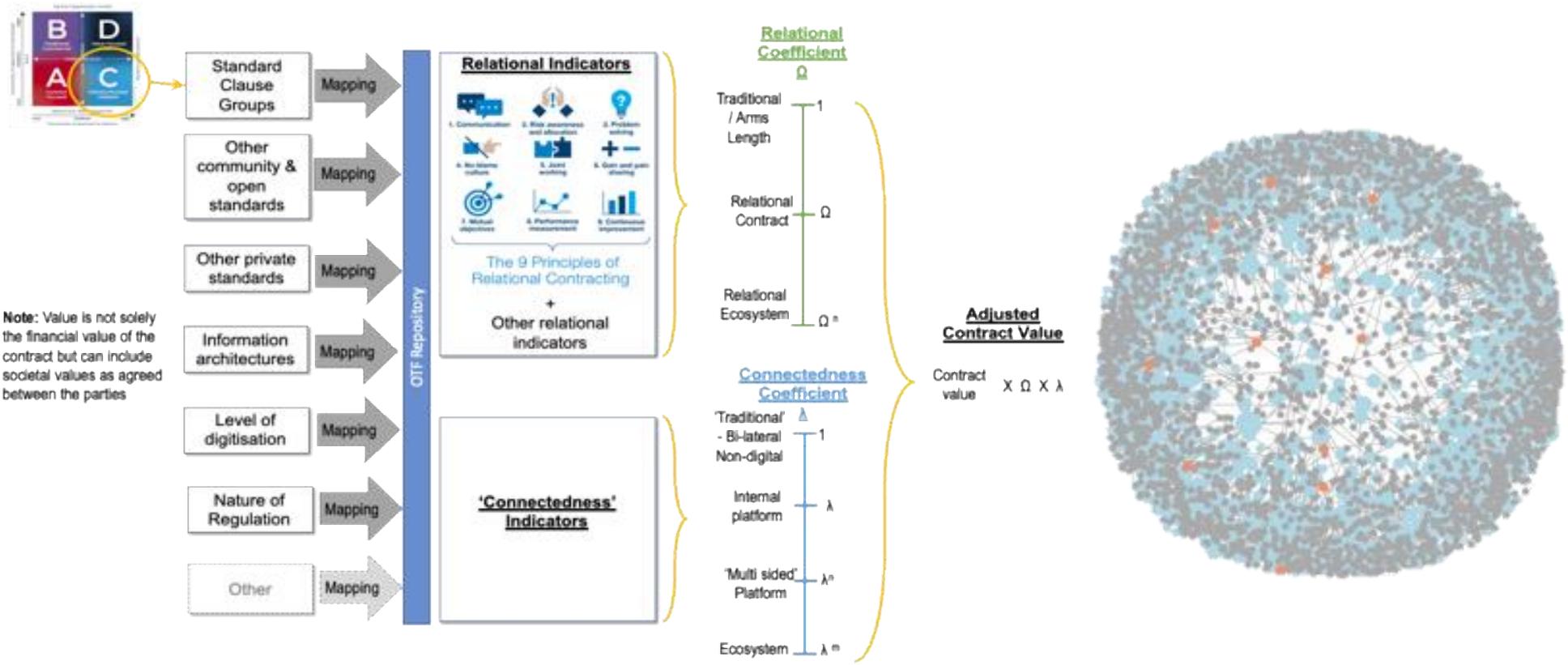
“...“contracts” are foundational artefacts for the structuring and organisation of our world...” (Nobel Prize Awarding Committee)

“Contract economics is about understanding the cost of contract creation, the financial impacts of risk allocation and acceptance, managing the operational costs associated with contract performance, identifying friction points throughout the contract lifecycle and tackling the sources of contract value erosion.”

<https://www.worldcc.com/Resources/Content-Hub/View/ArticleId/10006/Faster-Contracts-Better-Contracts>



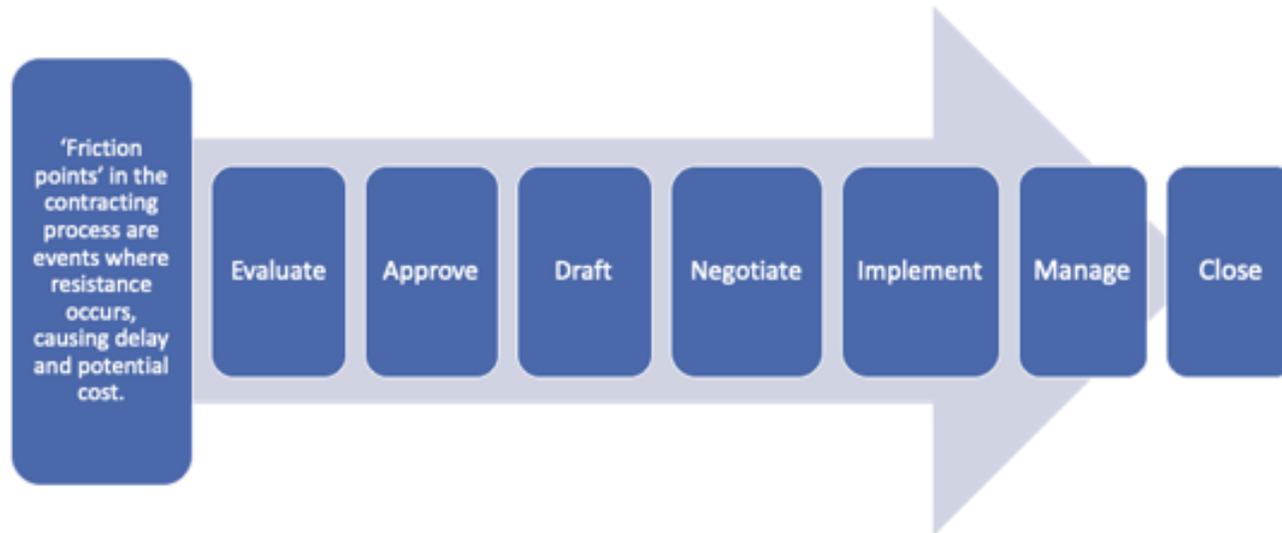
Discovering the "intangible side of the economy" via Contracts



WHAT'S THE IMPACT OF VELOCITY ON THE VALUE GENERATED FROM A CONTRACT?

Friction and the Contracting Process

**FRICION POINTS ARE ACTIVITIES IN THE CONTRACTING LIFECYCLE
AFFECTING ITS VELOCITY**

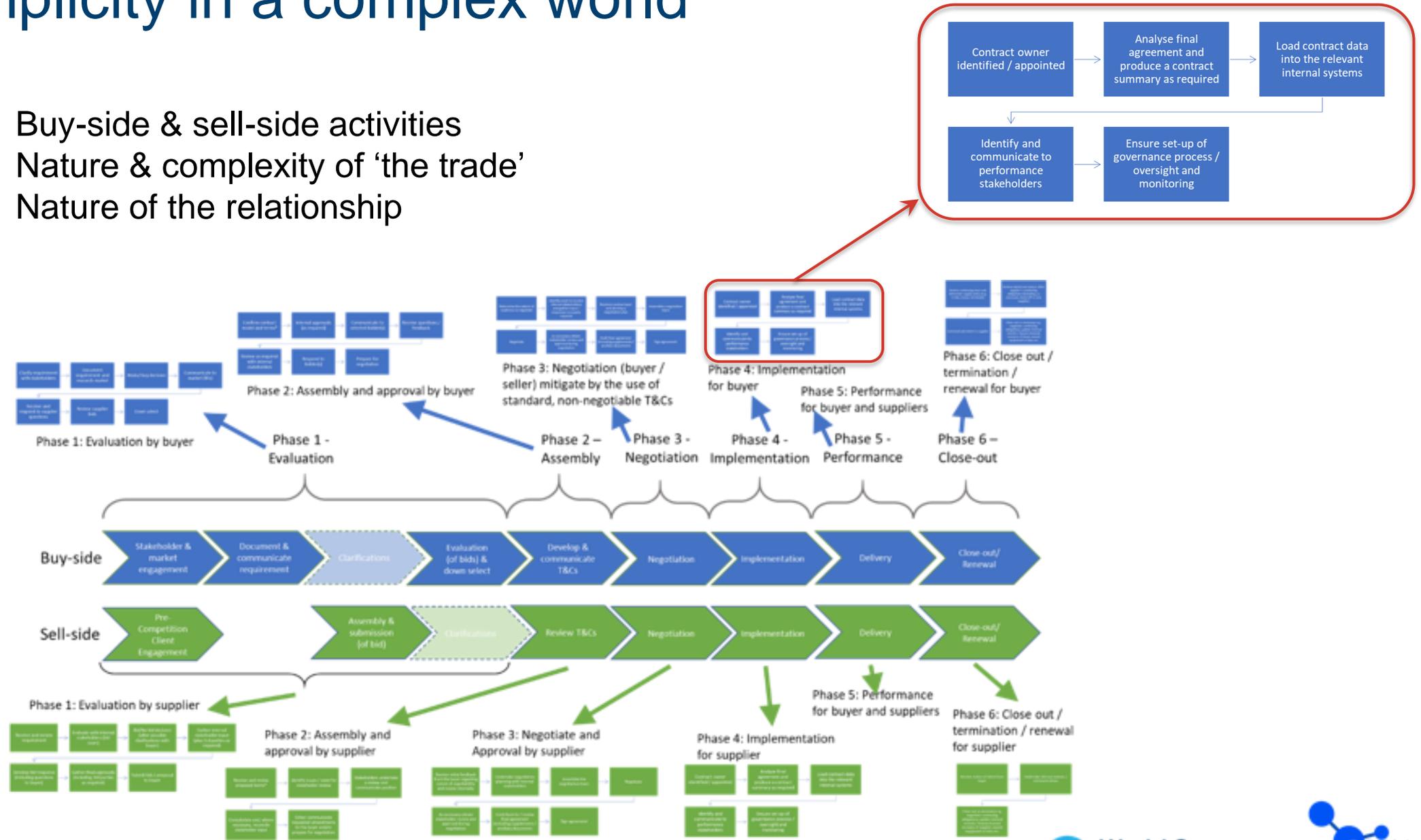


Individually and collectively they add and erode value to the outcomes



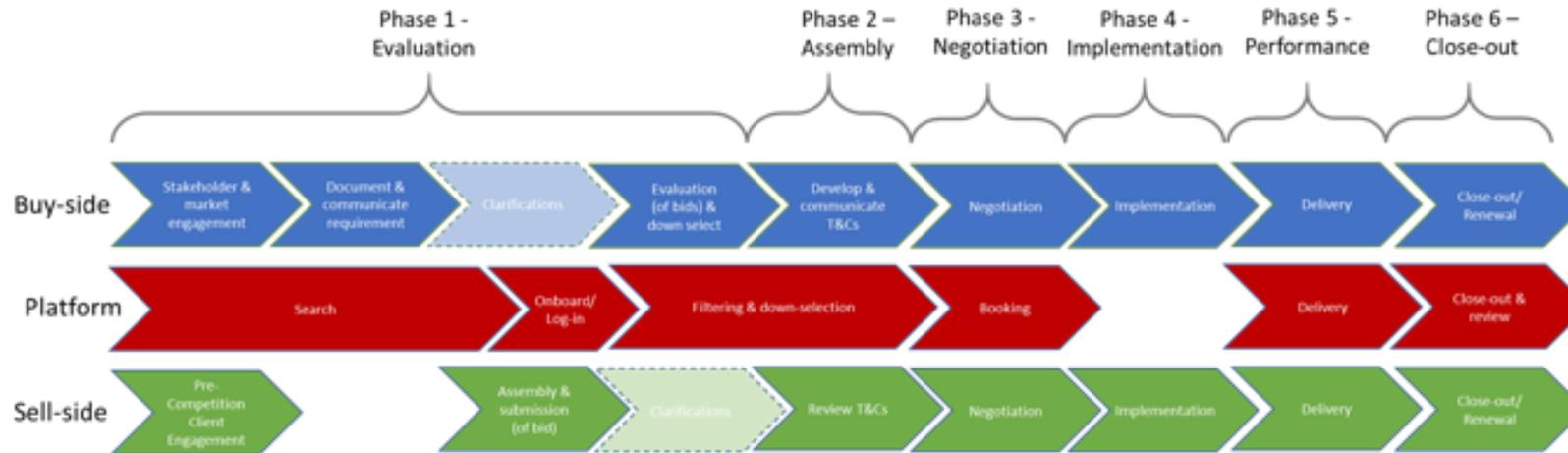
Simplicity in a complex world

- Buy-side & sell-side activities
- Nature & complexity of 'the trade'
- Nature of the relationship

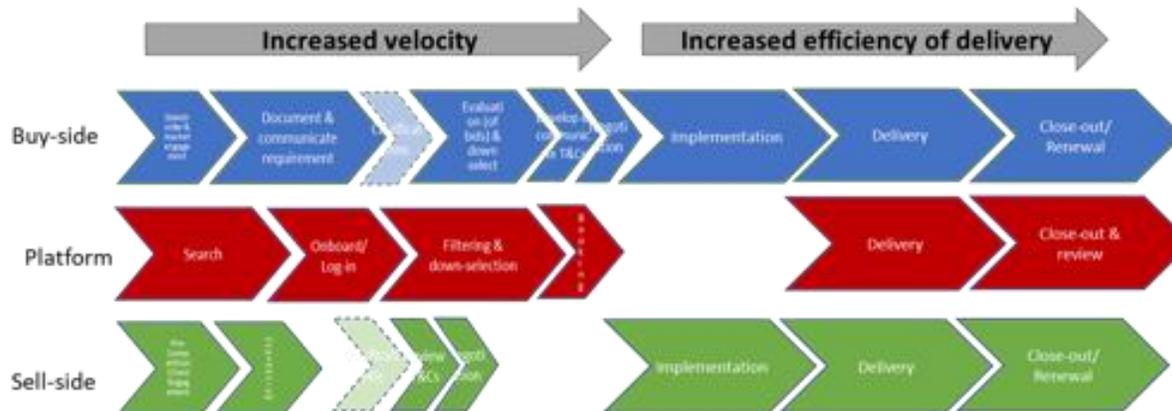


The impact of platforms on the contracting lifecycle

The insertion of a platform



The impact of a platform



Platforms can be digital and non-digital (e.g. framework agreements)

Case study 1: three differing accommodation booking platform models

Example:

Global
infomediary



<u>Revenue</u>	<u>Mkt Cap./Value</u>
~\$5Bn	\$120Bn*1

Platform model:

Acts as the primary reservation platform:

- End-to-end integration and control of the user experience to reduce friction points
- End-to-end digitisation – data capture, flow and use
- End-to-end self-service by hosts and guests
- More recently the option to use a connectivity solution or a channel manager

Global
intermediary



<u>Revenue</u>	<u>Mkt Cap./Value</u>
~\$12Bn	\$20Bn*1

Acts as a primary reservation platform or a reservation channel when used with a 'connectivity solution' to connect to your primary reservation platform

- Platform acts as an integrator of other platforms and connections
- Less alignment and consistency of commercial offerings with user requirements

Local
intermediary



<u>Revenue</u>	<u>Mkt Cap./Value</u>
~\$0.14Bn*2	\$1.3Bn*3

Acts as a primary reservation platform and a 'connectivity solution' to other reservation channels

- Digital portal on a traditional 'back-end'
- Much of the activity takes place around and/or off-platform

Aims:

- Compare three alternative platform models
- Test applicability of the friction point model
- Understand the role, and impact of, and interaction between the:
 - Relationship
 - Platform design & user experience
 - Contract & terms
 - Friction points and velocity of transaction

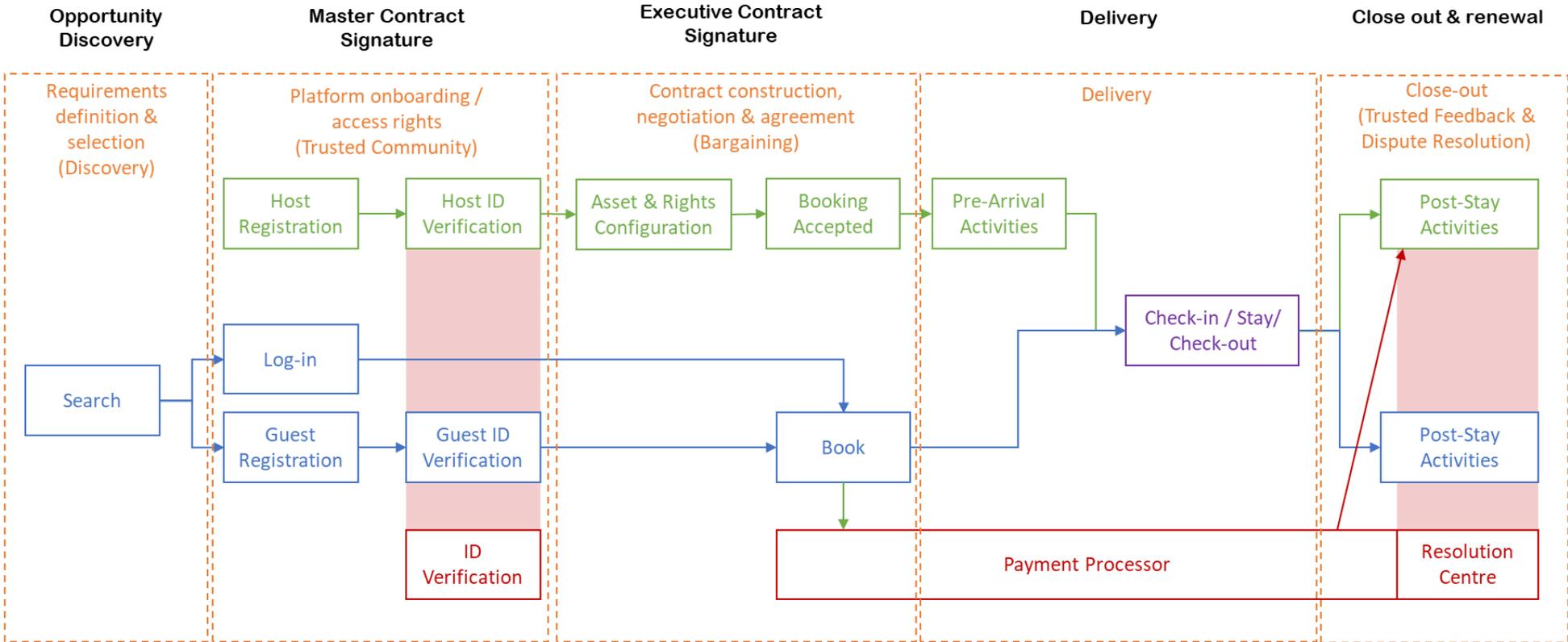
*1 Based on Feb 2021 data

*2 2019 revenue of parent company
Awaze Vacation Rentals Ltd

*3 Based on reported sale price in 2018

Analysis part 1 – mapping the infomediary platform

Airbnb Process Map (Simplified)



- Data aggregation
- Data visualisation & UX design
- Perception of choice

- Differential membership levels based on data & service offering

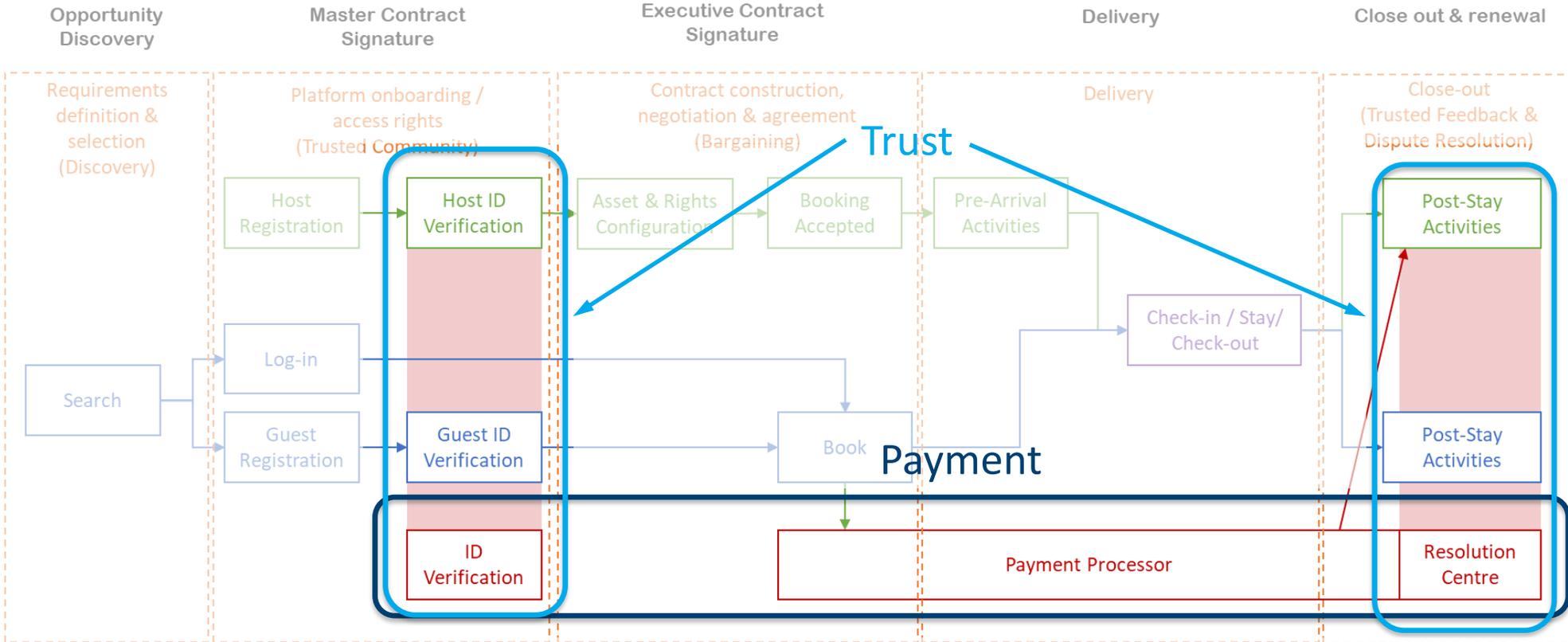
- Asset management
- Market access (Asset listing & visibility)
- Asset booking
- Counterparty qualification
- Market based insurance

- Payment assurance (cancellation)
- Mis-use & damage (security deposit)
- Service delivery
- Customer support
- Platform support

- Mediation service wrt offering & compliance
- Payment assurance
- Reputation enhancement

The importance of the infomediary – trust & payment

Airbnb Process Map (Simplified)



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- Reputation enhancement

Analysis Part 2 – assessing the platform frictions’

Each platform (local intermediary, global intermediary, & infomediary) assessed through the lifecycle from a Guest perspective & a Host perspective where possible

A standardized guest booking was used on all platforms to understand:

- User experience
- The level of friction & velocity
- The user outcome
- The nature of the relationship and the level of trust



Guest Experience – Discovery & Filtering
Table 6 Guest Experience – Discovery & Filtering

Friction Point Phase		Platform A (Local Intermediary)	Platform B (Global Intermediary)	Platform C (Infomediary)
1-6	Guest experience	Self-service direct digital platform or through other platforms incl. Airbnb or through agents	Self-service digital platform	Self-service digital platform
1	Basic search results	17 options	32 options (21 local + 9 wider area) + 100+ showing 'sold out' (disclosure that 'what we are <u>are</u> paid impacts our sort order')	293 options - 232 options in local area
1	Refine search – parking & coastal	12 options	5 options (not possible to filter on coastal, this had to be done from map and car parking included actually excluded accommodation with car parking)	25 options (opened to wider area) or 7 in local area with 18 places nearby
1	Price range (excl. Most & least expensive property)	£1707 - £2145	£840 - £8,120 £17,080 (refined search)	£766-£2243 (wider area) £1286 - £2050 (local area)
1	Quality of search	Good	Poor	Good
1-6	Data visualisation/UX & System Usability Scale (SUS) Score ¹	Prose 41.7 = 'Poor'	Visual 54.2 = 'OK'	Visual 93.3 = between 'Excellent' and 'Best Imaginable'
1	Search on map	No	Yes	Yes
1	Property details	Traditional layout	Visually clear graphical layout	Visually clear graphical layout – easy to see offering and conditions
1-6	Number of reviews / properties	Low – 0 to 20	Variable and often very low (single 0-5 reviews) unless hotels	High – 10s to 200+
1	Time to discover for Guest	10 mins	15 mins	5 mins

Some insights ...

1. Trust, both perceived and evidenced, can enhance velocity
2. Standardization can enhance the user experience and enhance velocity
3. Negotiation is not always in a traditional sense
4. Each participant has an 'intangible balance sheet' which builds and declines over time
5. A value adding platform is not an accident but consciously designed

The screenshot shows an Airbnb search results page for Amsterdam, dated July 11-13, 2023, for 1 guest. The page displays three listings with their respective photos, descriptions, and prices. A map on the right side shows the location of the listings in Amsterdam.

Listing 1: Private room in Grachtengordel, Garden Suite, ROOM. 2 guests - 1 bedroom - 1 bed - 1 private bathroom. WiFi - Heating. Price: £61 / night (€323 total). Rating: 4.41 (308 reviews).

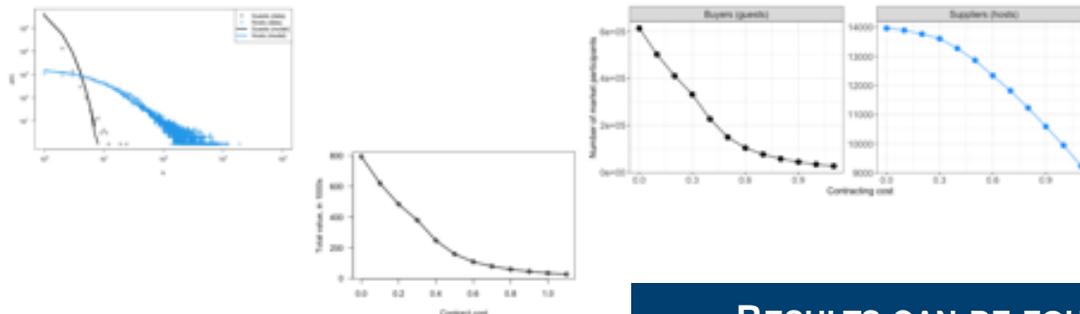
Listing 2: Private room in Amsterdam Centrum, Guesthouse Anno 1659 - Amsterdam city centre. 2 guests - 1 bedroom - 1 bed - 1 private bathroom. WiFi - Heating. Price: £109 / night (€278 total). Rating: 4.84 (116 reviews). Superhost.

Listing 3: Entire flat in Volewijk, On the waterfront, a perfect spot!. 2 guests - 1 bedroom - 1 bed - 1 bathroom. WiFi - Heating. Price: £118 / night (€296 total). Rating: 4.93 (517 reviews). Superhost.

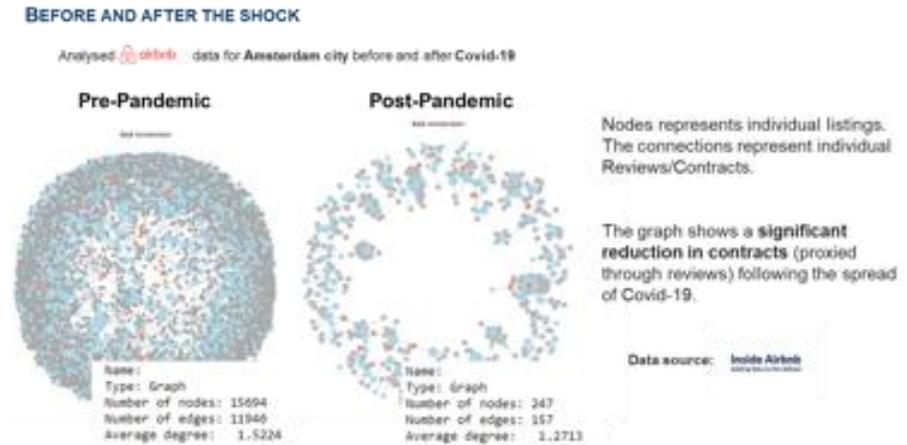
Analysis Part 3 & 4 – modelling the network

Agent based modelling:

- A simplistic model
- Calibrated using Airbnb reviews in Amsterdam over 10 years
 - ~445k unique guests
 - ~14k hosts
 - Forming ~428k unique ‘contracts’
- Model then used to test the impact of contracting cost on:
 - The net value of the network
 - The number of participants in the network
 - The inequality between buyers and sellers



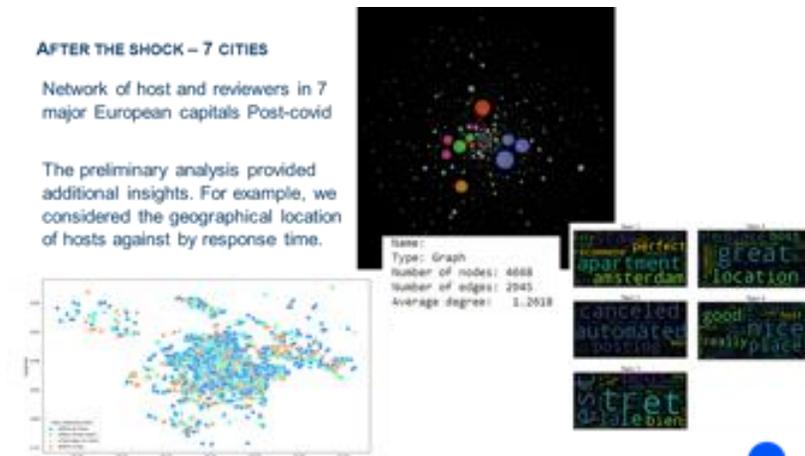
The market dynamics pre- & post-shock:



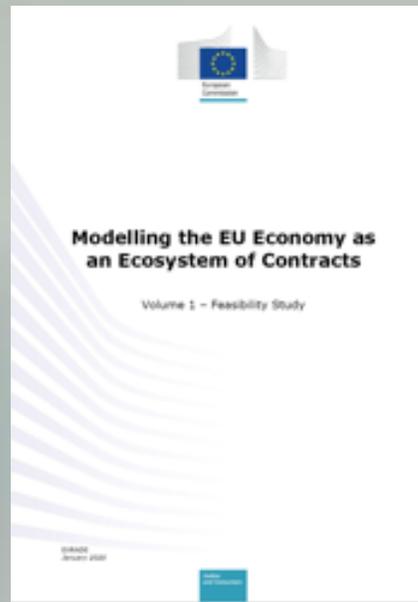
AFTER THE SHOCK – 7 CITIES

Network of host and reviewers in 7 major European capitals Post-covid

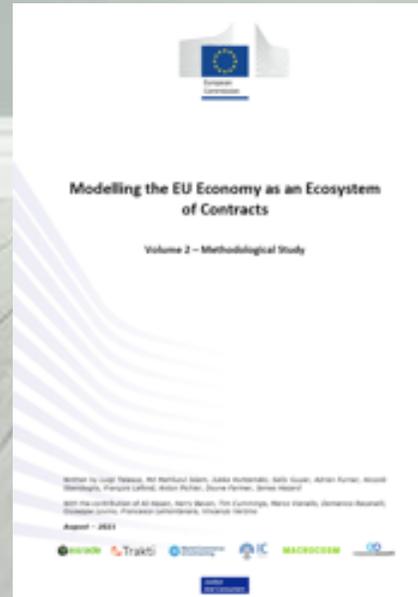
The preliminary analysis provided additional insights. For example, we considered the geographical location of hosts against by response time.



RESULTS CAN BE FOUND IN THE REPORT & ASSOCIATED WHITEPAPERS



<https://bit.ly/3Gyijo7>



<https://bit.ly/3GAw7P1>



<https://bit.ly/3GuMqNf>



<https://bit.ly/3uzozcZ>

www.opentrustfabric.org
www.worldcc.com



Comments, Questions & Answers





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Forthcoming Events

- Thu, 17 Feb (11:00-11:45) Global Innovation & National Interests
- Mon, 21 Feb (15:00-15:45) Financial Services & UK Competition Law: Evolving Business Models & The Competition Law Landscape
- Wed, 23 Feb (16:00-16:45) The New Political Capitalism
- Thu, 24 Feb (08:00-09:15) BizTech Huihuà Chat: Realising The Renewable Energy Internet - The Financial Interconnectors

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