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Coworking-spaces in Asia: A business model design perspective

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Abstract

Coworking-spaces are a recent phenomenon that spreads around the world. Coworking-spaces particularly rise and increase in importance in Asian countries because of the cultural (i.e. collectivism, high-context communication) and institutional contexts (i.e. mega-cities, digitalization, sharing economy) in Asia. Despite the various advantages of coworking-spaces, very limited understanding exists how coworking-space providers can design their business models for the differing user demands and their business models. To close this gap, we take a business model design perspective. We emphasize that coworking-space providers can use four layers of value creation and several value capture approaches to configure their business models along a continuum from rather basic efficiency-centered to novelty-centered full-service business models.

Introduction

Building upon the global trends of digitalization and sharing economy, coworking-spaces open around the world and build a new avenue for business development and innovation for both independent entrepreneurs and incumbent firms. The first ideas about coworking-spaces developed around 2007 in Silicon Valley and led to a rise of coworking-spaces ever since (Jackson, 2013). Reports describe that coworking-spaces mushroom in the US (Jackson, 2013), in several countries of Europe (Foertsch, 2014 ; Schmidt, Brinkhoff, & Brinks, 2013), and in Asia (Pearce-Neudorf, 2014). Despite its advantages and the rise of coworking-spaces, only very few researchers and mostly only non-management scholars looked at this new phenomenon (Capdevila 2013; Gandini 2015; Moriset 2014; Pohler 2012; Spinuzzi 2012) overlooking the diverse opportunities for business model development. We assume that coworking-spaces and their business models will specifically rise and increase in importance in Asian countries because of the cultural (collectivism, high-context communication) and institutional contexts (Mega-Cities, strong digitalization) in Asia. Hence, the aim of our research is to deliver a first understanding about the forms of business model development of and in coworking-spaces while explaining its specific importance and configurations for Asia.

Coworking-spaces offer their users ‘coworkers’ (mostly self-employed, freelancer, or micro-enterprises) access to office infrastructure at self-regulated working hours and the potential to interact with other coworkers in the office and the social space. Coworkers gain an environment for resource sharing (desks, wi-fi connection, conference rooms, kitchen, office supplies), and community (daily routines, sense of community, social environment) (Capdevila, 2013; Gandini, 2015; Garrett, Spreitzer, & Bacevice, 2014). Coworking-users have the opportunity to interact with others, receive feedback, build partnerships, create trust in relationships through co-presence, and to collaborate with others, and from these interactions improve several aspects of the business model and its performance. Coworking-space users can form relationships with other ‘coworkers’ who work in the same location

and enjoy the social activities and social interactions as within hierarchical organizations (e.g. joint coffee breaks, joint lunch, or after work activities) thus reducing the isolation of digital work. Coworking-spaces allow loosely coupled practices that contribute to the development of a community in the coworking-space (Garrett et al., 2014) and which specifically provide a social context for individuals from collectivist-Asian cultures.

The varied coworking-spaces around the world take different forms, offer diverse physical environments (common offices, single offices, conference rooms, 3D printers, conferences facilities, even labs etc.) to diverse target groups. Self-employed persons, freelancers, and microbusinesses, but also incumbent firms access the coworking-space's infrastructure and the social interaction that additionally provides inspiration and other contacts to entrepreneurs for business development and innovation (Spinuzzi, 2012). Coworking-spaces provide office space typically in good locations that are overly expensive in cities, specifically the mega-cities of the world as in Asia. Coworking-spaces reduce the isolation of digital and creative workers that often work in home-offices and who particularly in Asian countries require intense personal social interaction and context-rich direct communication for their social well-being and their business development. Coworking-spaces specifically nurture the desire of digital or creative coworkers from collective cultures that otherwise suffer from a lack of social exchange which might damage their creative potential for business model development and innovation. Coworking-spaces allow to work besides or with others, exchanging ideas and contacts – thus improving the freelancer's or entrepreneur's business models through inspiration and feed-back (Kwiatkowski & Buczynski, 2011), specifically in Asian cultures where individuals need rich direct and high-context communication about both work-topics and non-work topics. Coworking-spaces allow the pursuit of cultural/social projects but primarily of their users' business models. The office and social environment of coworking-spaces generally allows finding mates, new ideas, enjoying the community, and finding new contacts for start-ups, improving creativity and entrepreneurship in all cultural contexts. Additionally, coworking-users might take advantage from the involvement in projects from incumbent firms. When incumbent firms rent office or conference space, they can source new ideas from the users in the coworking-spaces and implement open innovation projects or recruit personnel. Coworkers might earn money from inclusion in the incumbents' projects or might learn from the incumbent firm's project stimulating their own business model or start-up. Coworking-spaces additionally can provide a variety vocational training, coaching, and the access to business angels and investors accelerating start-ups that bring education for entrepreneurs.

Despite the many practical advantages of coworking-spaces for their users in general and particularly in an Asian context, relatively little is known about the requirements and opportunities for a configuration and design of coworking business model from the perspective of the provider and the user. As coworking-spaces take different business models and allow diverse business models of their individual and their institutional users, we aim to clarify and structure the concept of coworking-spaces from a business model perspective. This piece of conceptual work will explain the different business model components of coworking providers and coworking users and develop a first configuration of business model design dimensions in and of coworking-spaces, explaining its relevance in the Asian context. It contributes to business model research explicating a new and strongly increasing area for business model design and innovation in today's digitalized and sharing economy for both start-ups and incumbent firms.

Business models of coworking-space-providers

Coworking space providers

Different institutions following specific targets and business models provide coworking-spaces. We define the term *commercial coworking-space provider* for firms that run coworking-spaces as their (core) business model aiming for value capture through fees for their infrastructure, space and other services. For (incumbent) firms that offer a coworking-space to their employees we use the term *corporate coworking-space provider*. Corporate coworking providers might also rent out office space for externals for a fee – as commercial coworking-space providers – but often aim to capture value through greater creativity and innovativeness of their employees or internal units through the inspirational advantages and knowledge flows in the cowork. Especially IT-companies (e.g. Google or Apple) aim on value creation and capture in coworking-spaces to foster creative and open social interaction exclusive for their temporary and permanent employees. *Public coworking-spaces* instead are open to everyone. They might be run by commercial, corporate, or non-profit coworking-space providers, e.g. governmental institutions or universities. First prominent examples of university coworking spaces are the Blackstone Launchpad by a group of mainly US-based universities (e.g. Cornell University, UCLA, New York University), the i-Lab in Allston by the Harvard University, the day-office in Ashburn by the Lakeview University, the start-up Sauna in Helsinki by the Aalto University, or the coworking-space by the Technical University of Berlin.

Efficiency vs. novelty-centered business models

Business models in general are structural templates of how firms run and develop their business on holistic and system-levels (Spieth, Schneckenberg, & Ricart, 2014; Christoph Zott & Amit, 2013; C. Zott, Amit, & Massa, 2011). Researchers identified different design themes that detail the systems dominant value creation drivers (Christoph Zott & Amit, 2010). In line with previous findings, business models are either novelty-centered or efficiency-centered in nature (Christoph Zott & Amit, 2007, 2008). Whereas efficiency-centered business models aim for greater efficiency through reducing transaction costs by limiting the scope of provided contents, definition of clear and ridged structures and governance mechanisms, novelty-centered business models aim for adopt new contents linking activities and actors in new ways and keeping governance emerging and flexible (Christoph Zott & Amit, 2010). In line with this, efficiency-centered business models are primarily compatible with cost-leadership market strategies and novelty-centered business models allow for a greater differentiation (Christoph Zott & Amit, 2008).

Applying the business model perspective to the phenomenon of coworking-spaces, at the core, coworking-spaces build a class of new business models providing a novelty centered activity systems that adopts new activities (content: e.g. space, infrastructure, services) and/or links the activities (structure of renting out resources and providing services), and/or govern these activities in a new way (e.g. service packages, linkages to incumbent firms). However, this new concept of coworking-spaces business models ranges from more efficiency-centered concepts to novelty-centered designs. In particular when adopting a cost-leadership strategy or addressing less wealthy coworkers that cannot effort an alternative working space, coworking-space provider can focus on efficiency, reducing costs into their physical resources and by reducing transaction costs by running their business model. For example coworking spaces use old empty factory facilities and reduce their offers to a very limited content (i.e. used machines, energy, and space). Other coworking-space providers develop novelty-centered

business models which raise users' willingness to pay. By providing fancy interior, top of the line equipment, additional services as well as innovative offers, coworking-space providers can differentiate their business model and address a clientele that could use or does use other office space but particularly seeks the additional gains provided by the coworking conditions.

Four core layers of value creation of coworking-space providers

Corporate coworking-spaces typically do not charge fees to their employees and use their internal coworking spaces for value creation and capture from greater innovation. For example, besides the coworking-concept in Silicon Valley, the Google Campus in London offers about 500 workshops mostly focused on IT qualification, some for free, some for a fee. Coworkers organize most of the courses themselves. Thus, the coworking-spaces function as creativity and innovation hub and as a new form for HR-development. Similar conditions apply to public coworking-spaces.

Commercial coworking-spaces instead require a business model for creating and capturing value from their customers (Amit & Zott, 2015). Regarding value creation, four layers can be identified: The basic layer of the business model of coworking-spaces is the offering of office space which includes business infrastructures (e.g. desks, printer, and wifi) and the social space that includes a lounge or cafeteria space at least. Coworking-spaces can provide physical space and infrastructure, e.g. the access to creativity rooms, 3D printers, labs, machine workshops as well as leisure and sport facilities as an extended or modified business model-layer. In a second layer, coworking-spaces utilize their position and resources to offer additional physical offerings that are compatible with the basic value creation layer but not in the core of the coworking portfolio. For example, some providers provide co-living spaces available or act as brokers to housing. As a third layer, coworking-spaces may offer diverse services of vocational training, team coaching, start-up-coaching (e.g. business plan training) and Barcamps for which they charge additional fees or which are included in higher rents. In a fourth layer, coworking spaces might provide or brokerage of contacts to investors, experts, vacant positions or offers, projects of incumbent firms. In this case, coworking-space providers act as platform providers that link multisided markets (Hagiu & Wright, 2015).

Together, the various degrees of diversification of value creation show design parameters, which coworking-space providers can use to configure business models along a continuum from lean efficiency-centered to differentiated novelty-centered systems. A focus on the core basic layer provides the opportunity to significantly reduce the costs. On the other hand, we see a potential to significantly diversify the portfolio of coworking-space providers and to position themselves as full-service providers.

Examples from Asia illustrate the different configurations of business models for coworking-spaces. Located in Bali, 'Hubud' offers a basic coworking-space comprising layers one and two. Coworkers can use the available desks, internet connection, and e.g. networking events. 'Hubba' in Bangkok emphasizes the provision of services as constituent part of the business model and offers events to network with other coworkers and venture capital investors, too. The 'TechTemple' located in Beijing and the 'Impact Hub' located in Singapore exhibit a more professional approach towards coworking. Besides the offer of working space (desks, offices, meeting-rooms), and basic services (networking events), both coworking-space providers offer a variety of services for entrepreneurs, e.g. individualized coaching and mentoring, business related training and consulting, marketing

support, and e.g. incorporation services. As displayed in table 1, the ‘TechTemple’ as well as the ‘Impact Hub’ added a third layer to their business models. Instead of only organizing networking events, the coworking-space providers add the contact initiation with venture capital investors and business angels as third layer to their business models. Renting out co-living-space just evolves as an additional layer for the business models of coworking-spaces. ‘Angkorhub’ in Cambodia offers a complete package for (digital) business nomads who strive for independent and flexible working in Asia. Angkorhub picks coworkers up at the airport, equips them with local SIM-cards, and provides a coworking-space with private accommodation.

Table 1: Business model layers for coworking-spaces in Asia

Coworking-Space	Hubud (http://www.hubud.org)	Hubba (http://hubbathailand.com)	TechTemple – Startup Zen (http://techtemple.cn)	Impact Hub (http://singapore.impacthub.net)	Angkorhub (https://angkorhub.com/)
<i>Location</i>	Bali, Indonesia	Bangkok, Thailand	Beijing, PR China	Singapore, Singapore	Siem Reap Town, Cambodia
<i>Description</i>	Coworking-space focused on work-life balance	Coworking-space with focus on entrepreneurs.	Coworking-space with focus on startup incubation.	Holistic coworking for startups and entrepreneurs, part of a global network.	Coworking- and co-living-space
<i>Pricing</i>	Pricing model for hourly, daily, unlimited or event access.	Monthly pricing model for one day, 5 days, or unlimited access.	Flexible pricing for individuals and teams.	Flexible pricing for access to selected offers (e.g., dedicated desk).	Pricing daily, weekly, and monthly.
Business model					
Layer I <i>Office space (e.g. desks, internet), technical space (machines, tools), and social space (cafe)</i>	Garden, internet, open desks, meeting-rooms, organic kitchen.	Garden, desks, meeting rooms, offices, dining area, and a café, fixed telephone number.	1,800 square meters office space for 300 coworkers including desks, meeting rooms, offices, dining area, and a café.	Desks, meeting rooms, offices, dining area, and a café, fixed telephone number.	Garden, internet, open desks, meeting-rooms, café.
Layer II <i>Extended offering portfolio (housing, co-living models)</i>					Private rooms, breakfast and lunch, 24 hours access to coworking-space.
Layer III <i>Service provision (vocational training, start-up coaching)</i>	Networking events.	Business consulting, networking events including venture capital investors, partner matching.	Individualized coaching for coworkers and start-up teams.	Staff members for assistance, mentoring, coaching, consultancy with experts, marketing support, incorporation services.	Airport service, SIM-Cards for Cambodian network, networking-events, workshops.
Layer IV <i>Platform business (contacts to investors, experts, incumbent firms)</i>			Regular events including venture capital investors and business angels.	Networking events, fundraising, global network, stable venture capital partners.	

As value capture component of the business model, coworking spaces can use and combine different revenue with the value creation layers above. Today, the majority of commercial coworking-spaces rely on some kind of subscription based model (Gassmann, Frankenberger, & Csik, 2014). Via hourly payment or via a membership-model providers offer flexible memberships to their individual or institutional users which covers alternative models of days, hours, weeks (Capdevila 2013; Gandini 2015; Garrett et al. 2014; Moriset 2014; Spinuzzi 2012). By payment of the fee, users get access to the office and social space. Users might pay add-ons for accessing single offices, group and creativity facilities, the use of other technical equipment. Further, some training, coaching, access too in-house conference might be completely, partially, or not included in the membership. Users thus might individually pay for additional services or pay for service packages. Additionally, commercial coworking-space providers can capture value from the fees of training, coaching, Barcamps, recruiting services, conference organizations etc. The access to more sophisticated or a wider range of services might allow the coworking-space provider to charge a higher membership fee. Higher membership fees can also come from their configuration of resources and activities: a good location, a specific interior, a specific menu, service (here: e.g. IT support), and from the image, spirit, and community in the coworking-space. As the utility of coworking-spaces depends on network effects and thus a certain number of users, providers can offer freemium models (Gassmann et al., 2014) in which basic users can use the co-working space for free but additional services or more comprehensive packages are offered for a comparably high premium rate. Thus, coworking-spaces can develop diverse membership models covering their different value creation layers and then including or excluding the access to infrastructure and services in a specific service package. Additionally coworking-space providers earn from selling complementary goods such as food and drinks in the social space and charge a relatively high price for it (comparable to cinemas or hotels). They can host projects of bigger incumbent firms that extend their office space or aim to source new ideas and talents from the coworking-space. Incumbent firms can rent conference space or give presentations in coworking-spaces to recruit talents or ideas. The individual user of the services then might not always be the one paying for it. For example, coworking-spaces might charge incumbent firms that rent office space and/or conference venues and that might integrate coworkers into their projects. Especially, when commercial coworking-spaces aim for specific industries, technologies or focus on entrepreneurs, incubation, and start-up acceleration they might take business models as or similar to technology incubators or investors. Incubation programs and governments might pay the coworking-space. These accelerator coworking-spaces might have stakes and investments of governmental institutions which promote entrepreneurship in a city or a region. Coworking-spaces with a focus on start-ups might also offer complete packages for venture development and request shares of the start-up. Lastly, coworking-space providers can capture value from cross-subsidization via third parties. They could collaborate with equipment providers that might install their hard and software for advertising purposes. Furthermore, some part of the remaining office space can be rented to third-parties that offer their products or services to the coworkers.

In combination of the four layers of coworking-space value creation and the different opportunities for capturing value, multiple configurations of business models can be designed for the local demand in Asian cities.

Business models of coworking-users

Efficiency focus

Coworking-spaces allow physical proximity, probably associated with cognitive proximity coming with intense face-to-face interaction that facilitates the creation and nurturing of trustful relationships (Capdevila, 2013). Trust-based relationships always reduce transaction costs related to the search, validation and transfer of information and new knowledge in every cultural background, but specifically in Asian cultures. Beyond this coworking-spaces are a place where individuals (freelancer/self-employed) can better execute their business model because they have better office-facilities than at home, can structure their private and business life easier than in a home-office, can comfort their life because of more and easy social contacts, take advantage from the community and their identification with it, and finally increase their business directly by getting access to business opportunities and ideas for improvement. Thus, coworking-spaces can improve freelancers and self-employed individuals' operative and efficiency orientated business models. Similarly, coworking-spaces can help to increase the efficiency of micro-businesses. The coworking-space helps to reduce production costs by the sharing of the infrastructure and helps to reduce transaction costs of finding an office, adapting its size to the company growth or decline, finding some additional manpower, especially when needed temporarily. Also incumbent firms that (temporarily) need more office space will find the desks, offices, and conference venue of coworking-spaces as a flexible form of rent. Incumbent firms might get in contact with personnel and freelancers to adapt to capacity changes and to recruiting demands.

Novelty focus

Coworking-spaces offer independent entrepreneurs and company entrepreneurs the possibility to get in touch with creative individuals, experts, entrepreneurs, and start-ups. Fabbri and Charue-Duboc (2014) highlight in a case-study that coworking-spaces drive entrepreneurship through numerous and varied interactions among coworkers,, the arrangement of the spaces, the ambiance, the events, but above all the personal interactions as the fruit of a proactive effort. Through personal interaction in the office and social space of the cowork entrepreneurs get new ideas for the development or innovation of their business model. Independent entrepreneurs and company entrepreneurs might not only insource ideas but also find mates for their start-ups or innovation projects using the different layers of the coworking-spaces business model. Personal contacts might improve the development of a business plan and allow access to investors. Especially as coworking-spaces can provide direct contacts or linkages to firms, institutes etc. that aim to insource innovation, creativity and new business ideas the coworking-users get access to institutional partners that can improve their business models or involve them in their innovation projects or novel business models

Conclusion

Coworking-spaces have many advantages of for individuals, freelancers, entrepreneurs, start-ups, incumbent firms, and even investors especially in the Asian context where individuals are very open to the new trends of digitalization and sharing economy and further where rents are very high in the strongly growing mega-cities and where individuals strongly base their well-being and business upon intensive context-rich direct communication. The diverse institutions of coworking-providers might follow a range of different efficiency and novelty orientated business models which provide numerous opportunities for business model development of their individual and institutional users, also following both efficiency and novelty focused business models. We assume that in the future coworking-spaces all around the world, but especially in Asia will increasingly take the role as a hub for independent and corporate entrepreneurs improving or inventing business models in an inspiring innovative social climate. Entrepreneurs and companies will need to understand how they can best develop new strategies and practices for using coworking-spaces.

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