



## Research paper

## The effects of Airbnb's price positioning on hotel performance

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## ABSTRACT

This study examined the relationship between the price positioning of Airbnb listings, measured in price difference between a hotel property and the nearby Airbnb listings as well as price dispersion among these Airbnb listings, and the performance of nearby hotels. An exploratory analysis using field data points collected from the Airbnb listings and their hotel counterparts in the metropolitan area of Austin, Texas between Quarter 3, 2008 (debut of Airbnb in Austin) and Quarter 2, 2011 reveals intriguing findings. The entry of Airbnb listings was penetrative to local hotels. However, the price positioning of Airbnb, manifested in higher average price as compared to nearby hotels, as well as larger price dispersion among individual listings, significantly mitigated such penetration. Important theoretical contributions and practical implications for hotels are discussed.

## 1. Introduction

“Sharing economy” builds on the ideology of making good use of underused resources among consumers (Botsman and Rogers, 2011). When underused resources are shared among peers or other consumers, additional value can be created (Koopman et al., 2015). In fact, the idea of sharing resources is not new, but today's technology makes it possible for entrepreneurs to scale up the sharing economy in a virtual marketplace (Katz, 2015). Airbnb, for example, is one of the most successful models in sharing economy. Founded in 2008, Airbnb allows travelers to connect with local residents who are willing to rent out an extra bed/bedroom or an entire house. As of December 2016, the company has recorded more than 2 million listings and entered over 34,000 cities in 191 counties (Airbnb, 2016). Meanwhile, the world's largest hotel company, Marriott and Starwood combined, only has approximately 5500 properties and 1.1 million rooms (Karmin and Hoffman, 2015).

Amid the rapid growth of Airbnb, academic researchers and professional analysts alike have weighed in a torrent of debates regarding the impact of the “room-sharing phenomenon” on the hotel industry. Table 1 highlights a few recent reports and discussions about Airbnb's impact. The findings, however, are surprisingly mixed. While several studies have reported Airbnb's considerably negative impact on the hotel industry (Corsun et al., 2016; HVS, 2015; Lane and Woodworth,

2016; Zervas et al., 2016), a similar number of studies have claimed the impact remains negligible (Alvarado et al., 2016; Haywood, 2016; Haywood et al., 2016; Wroten, 2015). Some industry professionals cast doubt on these mixed findings and challenged some of the analyses on several grounds, including conflicts of interest involving room sharing platforms in data analysis,<sup>1</sup> methodology rigor (mostly descriptive studies), and the oversight of such confounding factors as price comparison among Airbnb listings and hotels, which could cause bias in the analysis.

Referring to Marshall's classic pricing theory in economics (Ekelund & Hébert, 2013), goods with similar attributes are usually sold in similar prices in a competitive market, where the price mechanism can be used to explain the dynamic interactions between supplies and demands (e.g., how the equilibrium price may change according to the supplies and demands, and vice versa). Price is a very important variable in analyzing supplies and demands. For lodging products in particular, price, as measured in average daily rate or ADR, is perceived as a fundamental variable in hotel performance evaluations and used in the Smith Travel Research (STR) scale schemes for segmentation (STR, 2016). Furthermore, because consumers often perceive price as the most influential factor in their purchasing decision for a stay in a limited-service hotel and one of the most important influential factors for a full-service hotel stay (Tanford et al., 2012), information regarding the differences in price among hotels and nearby Airbnb listings has also

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<sup>1</sup> Industry practitioners continue to attack recent research on room sharing services by STR.Inc. One industry observer commented, “There is so much wrong here I barely know where to start. Two small hotel companies are mentioned to represent all of NY and no discussion of depressed rates. I can only assume the author has a relationship with Airbnb.” Source: <http://www.hotelnewsnow.com/Articles/64225/Right-scale-mix-equals-strong-quarter-for-China-Lodging>. For many, the data used by STR in these articles was “cooked up.” Source: [http://hotelmktg.com/index.php/content/article/hotel\\_industry\\_disputes\\_report\\_about\\_airbnbs\\_impact\\_in\\_nyc](http://hotelmktg.com/index.php/content/article/hotel_industry_disputes_report_about_airbnbs_impact_in_nyc)

**Table 1**  
A Review of Impact Studies with Mixed Findings.

Research Team	Research Sponsor	Data Source	Research Context/Data/Analysis Method	Key Findings
Winkle and Haywood (2015)	STR Inc. <sup>a</sup>	insideairbnb.com	Airbnb's entry to London, UK/Hotel performance data for the 12 months ending 31 August 2015 and Airbnb listing data gathered on 3 September 2015/Descriptive analysis	Airbnb significantly penetrates the London market at price points above that of average hotel units.
HVS (2015)	Hotel Association of New York City	TS Worldwide, LLC and airdna.com	Airbnb's entry to New York, U.S./Hotel performance and Airbnb listing data from September 2014 through August 2015/Descriptive Analysis	Airbnb has cost New York an estimated \$451 million in lost hotel revenue over the 12 months. The total cost to New York is \$2.1 billion, including the impact on the construction industry and lost tax revenue.
Zervaset al.(2016)	Independent Researchers	STR Inc.	Airbnb's entry in Texas, US/10; 555 hosts and 13,935 listings from 2008 to August 2014/Econometric Analysis	The negative impact of Airbnb on hotel revenue is in the 8–10% range, with lower-priced hotels and those hotels not catering to business travelers being most influenced.
O'Neill and Ouyand (2016)	American Hotel & Lodging Association (AH & LA)	airbnb.com	Airbnb's entry to 12 US cities/Airbnb listing data in 12 major U.S. cities from September 2014 through September 2015/Descriptive Analysis	Nearly 30 percent (\$378 million) of Airbnb's total revenue in the market it enters came from "full-time operators," with rentals illegally available at least 360 days a year.
Wroten (2015)	STR Inc.	insideairbnb.com	Airbnb's entry to New York, U.S./Interviews with local hoteliers in October 2015/Content analysis	Despite the Airbnb entry, hotel occupancy, average daily rate, and revenue kept growing in the New York City.
Lane and Woodworth (2016)	CBRE Hotels <sup>b</sup>	STR.Inc. and airdna.com	Airbnb's entry to U.S. markets/Compiled selective information for hundreds of U.S. markets in 2015/Descriptive analysis	New York was the number one domestic market at risk from the growth of Airbnb, followed by San Francisco, Miami, Oakland, and Oahu.
Haywood et al. (2016)	STR Inc.	Airbnb. Inc.	Airbnb's entry to Manhattan, New York/Airbnb and hotel daily data (supply, demand, revenue) from 1 December 2013–30 November 2015/Descriptive Analysis	Airbnb sales do not materially affect hotel performance in Manhattan, New York.
Alvaradoet al. (2016)	STR Inc.	Airbnb. Inc.	Airbnb's entry to boroughs of New York City/Airbnb and hotel daily data (supply, demand, revenue) from 1 December 2013–30 November 2015/Descriptive Analysis	Airbnb units in the boroughs of New York City (of the Bronx, Brooklyn, Queens and Staten Island) do not significantly affect key performance indicators of hotels.
Haywood (2016)	STR Inc.	Airbnb. Inc.	Airbnb's entry to Manhattan/New York City/Airbnb and hotel daily data (supply, demand, revenue) from 1 December 2013–30 November 2015/Descriptive Analysis	Airbnb units have little effect on the competition for business during compression nights.
Corsun et al. (2016)	Denver City Council	Survey data collected with local patrons of Vacation Rentals by Owner (VRBO) in Denver	Short-term rentals' entry to Denver, U.S./Over 400 short-term renters in 2016/Descriptive Analysis	Denver is missing out on least \$2 million in tax revenue annually from short-term rentals.

<sup>a</sup> STR, formerly known as Smith Travel Research, is an American company based in Hendersonville, Tennessee that tracks supply and demand data for multiple market sectors, including the global hotel industry. Source: <https://www.str.com/>.

<sup>b</sup> CBRE is the world's largest commercial real estate services firm, with 449 offices in more than 60 countries. Source: <http://www.cbrehotels.com/EN/aboutus/Pages/about-us.aspx>.

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