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The sharing economy and the future of the hotel industry: Transaction cost theory and platform economics

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ABSTRACT

The 'sharing economy' is in the process of transforming numerous industries. Among these, the hotel sector is especially vulnerable to the strategic disruption that sharing platforms present. Companies such as Airbnb represent the epitome of this threat. This paper sets out to achieve two fundamental research objectives. First, it develops a set of exploratory research propositions based on a qualitative application of transaction cost theory (TCT) to the emergence of sharing platforms. Second, it offers specific strategic and tactical recommendations for the hotel industry based on the TCT analysis referred to above. The paper suggests that, in revising their business models to cope with the new competitive challenges posed by sharing platforms, hotel chains can leverage their superior capacity to deal with three key features of transactions drawn from TCT (frequency, uncertainty and asset specificity) and develop what this paper terms 'integrated platforms'. By employing the TCT lens to understand the emergence of sharing platforms, this is the first study to systematically develop a theoretically grounded approach to understanding how transaction features impact the emergence of sharing platforms, and it hence has clear implications for numerous industries being impacted by these developments, not least the hotel industry.

1. Introduction

Airbnb, a provider of travel accommodation and a pioneer of the 'sharing economy', has served thirty million customers since its launch in 2008, without owning a single room. Although valuation of Airbnb remains difficult due to its private ownership, its 2014 revenue-based valuation of over $10 billion exceeded that of well-established global hotel chains, such as Hyatt (Dickey, 2014). By mid-2017, Airbnb's valuation stood at $31bn (Thomas, 2017), with plans for an Intial Public Offering (IPO) in which the valuation of the company might reach $50bn (Johnson, 2017). This means that it would be worth more than the world's largest hotel chain, Marriott International. It is also valued higher than the Hilton and Hyatt hotel groups combined (Ting, 2016). The core strength of the Airbnb value proposition appears to be its capacity to combine practical attributes (such as home benefits and novelty) with an 'authentic' travel experience compared with a traditional hotel (Guttentag et al., 2017). Pemberton (2016) has reported that the growth rate of bookings in outer London (predominantly through Airbnb-type rentals) is double that of inner London bookings due to tourists' desire to experience a more 'local' reality than that provided by staying in a hotel.

The emergence of Airbnb as a sharing platform is both a remarkable and a novel development that presents a serious threat to the economic sustainability of the hotel industry. Indeed, hotels are characterized by important fixed operating costs, rendering their profitability vulnerable to any adverse shock in demand, such as the introduction of peer-to-peer sharing platforms. Three recent studies have established the impacts of Airbnb on the hotel sector. The initial impact of Airbnb appears to have been a reduction in the profitability of budget hotels (The Economist, 2017). Aznar et al. (2017) have shown that in the case of a major tourism destination – Barcelona – the presence of a high density of Airbnb rentals has made hotel investment returns on equity fall. Likewise, a study commissioned by Hotel Association of New York City has estimated that New York hoteliers lost a cumulative $2bn in revenue because of Airbnb (Newswire, 2015). Zervas et al. (2017) studied another city with high Airbnb listing density, Austin, Texas, and found that hotel revenues had fallen by up to 10 per cent, disproportionately impacting 'low-end', non-business hotels relative to higher-end, business-focused properties.

The most comprehensive survey of the sharing economy and hospitality literature to date has been carried out by Cheng (2016). It covers a broad range of topics in a systematic and thoughtful manner,

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helping to identify key areas for future research. Yet, it omits discussion of the structural nature of sharing platforms such as Airbnb, which is the focus of our analysis. With the aim of better understanding the salient features of this emerging business model, several scholars have directed their attention to Airbnb as an exemplar of the threat of sharing platforms. Varmaa et al. (2016) have considered whether Airbnb is a durable innovation or a short-lived phenomenon. Based on in-depth qualitative interviews and a questionnaire with key stakeholders (customers, hotel managers, etc.), they argued that Airbnb is indeed a durable threat to the hotel industry and, by implication, one to which current hotel business models will need to adjust, as their 'findings point to the need for the hotel industry to be more proactive, and to shake itself out of its stupor' (236).

Wang and Nicolau (2017) have recently studied price determinants of sharing economy accommodation listed on Airbnb in 33 cities. The authors estimated a multivariate model using 25 explanatory variables in five broader categories, such as site and property attributes and online review ratings. Perhaps of crucial importance for the hotel industry is their finding that hotel chain and star ratings had little or no power to dissuade customers from choosing Airbnb accommodation: 'Instead, host attributes are identified as important price determinants…. Hosts with superhost status, more listings, and verified identities usually charge higher prices' (130).

Brochado et al. (2017) have examined the influence of cultural attributes on Airbnb customer preferences. Across three notionally diverse cultures (India, Portugal and the United States), the study found that seven factors were commonly asserted as reasons for customers' choice of Airbnb. These included stay experience, host attributes, room or apartment attributes and location. Guttentag and Smith (2017) have examined Airbnb from a disruptive innovation perspective and found that, when it came to consumer preference, Airbnb outperformed budget hotels and motels, underperformed upscale hotels and had mixed outcomes versus mid-range hotels. This finding is potentially important since it suggests that as hotel assets (services, facilities, room amenities, etc.) become commoditized, in the sense of going from upscale to budget properties, the Airbnb threat becomes greater.

If the threat posed to the hotel industry by sharing platforms such as Airbnb is well understood, scholars are starting to focus on the conditions necessary for the possible coexistence of hotels and such platforms. Richard and Cleveland (2016) have explicitly addressed areas in which hotels can establish differentiated positioning relative to peer-to-peer sharing platforms. They argued that hotels can provide 'safer, legal, higher quality, and consistent' products (241) relative to peer-to-peer platforms. From their perspective, hotel chains are 'branded marketplace platforms' (241) for which hoteliers provide consistent branding messages and, through their brand reputation, act as guarantors of quality and safety.

1.1. Purpose and structure of the paper

While the extant literature in the hospitality field has focused on important functional aspects of sharing platforms such as Airbnb (e.g. branding and marketing), few published studies to date have systematically theorized the general structural form of sharing platforms themselves (Cheng, 2016). We believe that further detailed analysis of the core structural features of sharing platforms from the perspective of economic exchange can uncover dynamics of their functioning that can offer important insights for firms and organizations threatened by the emergence of such platforms, as well as nurture a richer debate among the academic community on the nature of sharing platforms in general and the evolution of the hotel industry, specifically.

This paper adopts an explicit theoretical lens to contribute to the understanding of sharing platforms: transaction cost theory (TCT) – a well-established strand of organizational economics and the theory of the firm (Williamson, 1971, 1975, 1979, 1985, 1991). Hardly any research studies have considered transaction cost aspects of the sharing economy, with the exception of a recent study by Henten and Windekilde (2016).

Benkler (2004) has defined the discrete category of physical goods that simultaneously possesses excess capacity as 'shareable' goods. To combine comparative transaction cost and motivation analysis, Benkler argued that this excess capacity could be more efficiently harnessed through sharing than through the transfer of ownership. Elaborating on this contribution, we posit two archetypical types of sharing business models: 'peer-to-peer' platforms – where a firm develops and manages transactions between independent users and suppliers – and 'integrated' platforms – in which a firm administers various mechanisms integrating transactions between independent users and suppliers and may also possess its own asset stock that can be made available to users on an on-demand basis.

We articulate the key features of these two sharing platforms by focusing on the nature of transactions and, specifically, on three key variables: 1) the frequency of platform transactions, 2) the uncertainty of platform transactions and 3) the specificity of shared assets. In common with most forms of transaction governance, sharing platforms typically prosper as the frequency of transactions rises. As we will explain, this may be facilitated by a partial or total integration of transactions by the platform owner. Furthermore, where the certainty of the transaction is high (due to its limited timespan) and the shared assets possess low specificity, peer-to-peer sharing platforms prosper and grow. Conversely, the higher the level of uncertainty associated with the sharing transaction and the higher the value of specific shared asset, the greater the incentive for platform owners to adopt mechanisms of platform integration, which might eventually, but not necessarily, lead to the progressive integration of the shared assets themselves, making their own inventory of assets available for sharing. These theoretical insights, as we will see in the last part of this paper, have important implications for competitive strategy – especially for the ways in which hotel chains can respond to the emergence of sharing platforms such as Airbnb.

This new domain of research has a relatively limited extant literature (both theoretical and empirical), as has been highlighted above. This poses a methodological challenge, which is further impacted by the relative recentness of the phenomenon being studied, implying a lack of data for empirical analysis. Both these factors militate against hypothesis testing. We thus decided to draw on the approach of Glaser and Strauss (1967) and Eisenhardt and Graebner (2007) by employing an exploratory method with a view toward developing conceptual propositions rather than testable hypotheses. This has an advantage when it comes to generating novel insights into the sharing platform phenomenon studied in this research given the relative paucity of empirical testing of theoretical frameworks. It could also present future research opportunities for more comprehensive hypothesis testing when sufficient available data become more readily available.

Our paper is organized as follows. In part two, we provide a discussion of the platform economics literature as it pertains to economic sharing, describing the contextual, *prima facie* conditions that foster the creation of sharing platforms. In part three, we introduce the TCT perspective and posit that sharing platforms (be they peer-to-peer or integrated) represent novel hybrid governance forms of transactions. Part four derives propositions, grounded in TCT, on the nature of sharing transactions and their impact on the nature and evolution of sharing platforms. We here posit an evolutionary perspective on sharing platforms suggesting that – under conditions of high frequency and uncertainty of transactions, as well as high specificity of shared assets – peer-to-peer platforms might progressively transform themselves via the adoption of an array of integration mechanisms, including (in the most extreme case) the direct ownership of assets exchanged through the platform. This potential evolution has competitive implications for hotel chains, which we examine in part five of our paper. Part six offers a future empirical research agenda based on our theoretical discussion.