



Airbnb: Exciting innovation or passing fad?

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ABSTRACT

In this paper we investigate the Airbnb phenomenon from the dual perspective of their customers and competitors. We use two different methods to collect data: an online survey administered to customers of Airbnb and traditional hotels, and in-depth interviews with hotel executives. Our survey findings suggest that there are significant differences between the type and motivation of customers that book Airbnb compared to those that book traditional hotels. Further, the interviews with hotel executives indicate that Airbnb is not considered to be a significant disruptor and/or competitor by the major players in the hospitality industry, though the smaller and mid-range hotels are contemplating adjustments and interventions in anticipation of increased competition from Airbnb. We discuss these findings as well as implications for practice and policy and offer suggestions for future research.

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1. Introduction

Over the past few years, rapid advances in technology have enabled several service-industry businesses to develop innovative ways to reach and serve potential customers, as well as to expand their customer base. For example, the advent of services such as Airbnb, the largest hotel chain in the world, and Uber, the largest fleet of cars for hire in the world (Tucker, 2014) has fundamentally changed the way in which people access transportation and lodging services. Customers now have more choices, as well as different, and often more efficient, ways of booking these services. According to Bailetti (2012), the rapid global growth of technology startups, such as Airbnb, can be attributed to three factors: (1) the problems they addressed were globally pervasive, (2) they enabled customers to act entrepreneurially, and (3) they provided innovative web-based services, and adopted and deployed innovative web-based processes to allow them to innovate continuously and efficiently. As an example, Airbnb enables rental hosts to act in an entrepreneurial manner, whereby rental hosts list their available accommodations on Airbnb and earn profits by renting them, usually at rates cheaper than comparable hotels, leading to savings for travelers.

The exponential growth of both Uber and Airbnb around the globe is clear evidence that traditional ways of doing business are giving way to newer and innovative models. A look at Airbnb's figures, for example, is enough to make businesses take notice. Founded in 2008, Airbnb has

become the largest lodging company and brand all over the world, with over 1 million properties in over 34,000 cities and 192 countries, with a valuation reported to be from \$10 billion to \$13 billion (Austin, 2014; Spector, MacMillan, & Rusli, 2014), to \$24 billion (Newcomer, 2015). Not surprisingly, Fred Wilson of Union Square Ventures has expressed his regret at passing on Airbnb, which was, obviously, a great opportunity.

Overall, it is clear that Airbnb offers an interesting and innovative alternative to the traditional hotel stay. Relatedly, some initial research is beginning to emerge (see, e.g., Edelman & Luca, 2014; McNamara, 2015; Sundararajan, 2014), though it is not clear yet how Airbnb is affecting the hotel industry, and how the hotel industry is gearing up to face this challenge. Furthermore, the nature, tendencies, attitudes, perceptions, commonalities and choice differences of those who are using Airbnb as a hotel or boarding service and those who are not using Airbnb are not well known.

The evolution of services such as Uber and Airbnb is clear evidence of the strength of the entrepreneurial model. However, as Kerr, Nanda, and Rhodes-Kropf (2014) note, entrepreneurship is basically about experimentation, since it is almost impossible to know or predict which ideas will ultimately succeed. And for entrepreneurs, having an idea is not enough, since they can hardly know which specific technology, product, or business model will be successful until someone is willing to invest in their idea(s). Nonetheless, the current trends, in several industries including transportation and hotel, point to one major change—end users will increasingly have more power than systems operators have due to the choices available to them (Row, 2013).

Given the tremendous growth of Airbnb over the last few years, one way to approach the investigation of the phenomenon is through the “lens of the disruptive innovation theory” (Christensen, Raynor, &

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McDonald, 2015) which posits that a new product (or service) that challenges established ways of doing business will initially have limited appeal, but could later experience explosive growth, as it moves from the sidelines to becoming an accepted, every day, product/service (Guttentag, 2015). Accordingly, we designed the present study to examine factors that impact lodging preferences and choices, and examined the reactions of the hotel industry, through a comprehensive survey and a series of one-on-one interviews. Our analyses, primarily using descriptive statistics, as in Wu and Chen (2015), are supplemented with a discussion of the potential implications, followed by recommendations, and suggestions for future research. Before we present our study and its results, in the next section, we present a review of the extant literature and press coverage.

2. Literature and press coverage review

The coverage of Airbnb in the popular press appears to follow the same rapid-growth trajectory as the number of listings available for booking on the site itself. Indeed, as Brian Chesky, founder and CEO of Airbnb, tweeted (Chesky, 2014), the company reached the one-million-listing milestone as early as December 7, 2014. The main themes emerging from the plethora of articles in the popular press revolve around regulation and taxation issues faced by Airbnb hosts and customers around the world. One of the most prominent cases is the investigation by the New York attorney general (Schneiderman, n.d.), which used four years of anonymized Airbnb user-data and found that up to 72% of the transactions were illegal under existing law (Forbes, October, 2014). The findings are consistent with the general attitude of “forgiveness-not-permission” adopted by many of the sharing-economy companies. Not surprisingly, the potential for negative impact on local economies due to loss of tax revenue has been repeatedly highlighted in the popular press (see, e.g., The Guardian, May, 2014). The popular press has also shown keen interest in discussing the negative experiences of both Airbnb hosts and users, including property damage, email scams (The Guardian, May 2015), and accidents (The New York Times, April, 2015b). Of course, Airbnb has also generated positive publicity—by adding, for example, exotic locations such as Cuba (Airbnb PR, 2015a, 2015b), allowing Cubans to be entrepreneurial within the confines of the transitioning communist economic system. Similarly, Airbnb also partnered with the Rio 2016 Olympic Games to become its official alternative accommodations service (Airbnb PR, 2015a, 2015b).

Given the tremendous growth of Airbnb, scholars have begun to examine the relationship between the traditional players in the hospitality industry and the sharing economy, epitomized by Airbnb. For example, Zervas, Proserpio, and Byers (2016) collected information on all Airbnb listings in Texas, and found that the growth of Airbnb negatively affects the revenue of local hotels. More specifically, in Texas, a 1% increase of Airbnb listings led to a 0.05% loss of quarterly hotel revenue. However, the authors found that the impact of Airbnb on hotels was somewhat uneven, with the impact felt much more by lower-end hotels, than by high-end, business, and luxury hotels. They also reported that since Airbnb properties provided fewer services and facilities compared to business and high-end hotels, they were not really competing for the same customers, as business and leisure travelers prefer to stay at properties that offer comprehensive services. Interestingly, these authors concluded that neither regulations disallowing the rental of non-shared accommodations nor regulations limiting rental hosts to only one listing can hope to eliminate or even mitigate the impact of Airbnb on hotel revenues.

Overall, the current view seems to be that the impact on traditional players is almost negligible, and many hotel executives view Airbnb as a niche player (Fast Company, 2014, The New York Times, May, 2015a). However, several analysts and investors predict significant disruptions ahead, particularly for the millennial generation (Fortune, April, 2015).

2.1. Customer choices and decision making

From the point of view of customers, booking a hotel room is seen as selecting from a combination of several attributes (Jannach, Gedikli, Karakaya, & Juwig, 2012), and customers make trade-off decisions—choosing some attributes over others to finalize their selection (Goldberg, Green, & Wind, 1984). In this connection, the hospitality literature (see, e.g., Oh, 1999) has emphasized the importance of ‘customer value’ in understanding hospitality customers’ decisions-making processes. Here, customer value is defined as “the customer’s overall assessment of the utility of a product based on perceptions of what is received and what is given” (Zeithaml, 1988). In other words, hospitality customers treat their transaction as an exchange, and evaluate the value and fairness of the exchange based on the services received in exchange for the price paid. So, for example, while some tourists may value factors such as availability of a restaurant (Saleh & Ryan, 1992), others may value the reputation of the hotel chain. In this connection, Murphy and Chen (2014) argue that several key attributes, including extrinsic attributes such as review ratings, review frequencies, and review variations, and intrinsic attributes such as star-ratings and price, have significant impact on people’s hotel selection, with review related extrinsic attributes often seen as more important than star-ratings and price. In other words, price is not the only determinant when customers choose hotels – instead, customers tend to select hotels with higher review ratings, higher review frequencies, and less review variations. Ironically, most hotels tend to adopt a price-reduction strategy to maintain desired room occupancy rates, but cutting price might actually harm a hotel’s reputation and fail to maintain customers in the long run, mainly because most customers hold the belief that a hotel’s price represents its value, and they expect to receive better services with higher prices (Chan & Wong, 2006). Indeed, these authors further assert that beyond price, location and service are the most important factors that determine a customer’s final choice. Accordingly, they recommend that hotels located in so-called “bad areas” should consider providing transportation services to and from airports and shopping centers at a discounted price, or even for free. In addition, to improve hotel service, hoteliers should provide additional services during peak seasons as well as recruit professional staff that are capable of providing appropriate services.

Another perspective on hotel choice is presented by Lockyer (2005) who found that people’s selections of hotels depend on two broad factors: “Trigger Point” and “Must Haves.” “Trigger Point” can be defined as the set of reasons for an individual to select an accommodation—so, for example, trigger points are different for people who need to visit the hospital to see a family member who has suddenly taken ill, versus people who have an upcoming vacation that they have been planning for months. “Must haves” can be considered key factors that influence the selection of any accommodation, such as location, price, facilities and cleanliness. In this connection, some studies have reported that when it comes to choosing hotel rooms, males and repeat customers tend to emphasize the hotel’s product and prior experience more than women and first-time users. Also, leisure travelers and travelers with lower levels of education are more likely to base their decisions on the recommendations of their friends, relatives and travel agents, while business travelers rely more on their previous experience, hotel services, and the recommendations of their companies (see, e.g., Chan & Wong, 2006; Chu & Choi, 2000). Interestingly, travelers with higher levels of education conduct their own research before booking. Finally, travelers from Asia are more likely to rely on their previous experience and hotel advertisements on TV and travel magazines, as compared to travelers from the Americas and Europe.

When it comes to Airbnb, however, users may rely more on social media and other customers’ reviews posted on social media (Sparks & Browning, 2011), thus relying on user-generated branding—that is, “the strategic and operative management of brand related user-generated content to achieve brand goals” (Burmann & Arnhold, 2009, p.

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