

## **SHARING ECONOMY – A CHALLENGE FOR THE HOTEL INDUSTRY. CASE STUDY: AIRBNB**

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### **Abstract**

*At present, alongside traditional forms of accommodation, reserved through travel agencies, intermediaries or directly from providers, peer-to-peer accommodation business models have been developed, to maximize economic, social and cultural exchange. In this respect, the technological development of the communications networks is one of the factors that influence the accommodation activity and implicitly the hotel industry. Sharing economy would not have been possible without information and communications technology, which not only facilitated the dissemination of information, but also contributed to a significant reduction in the cost of trading products or services. In this context, the aim of the paper is to analyse the impact of one of the biggest sharing platforms for accommodation services, namely Airbnb, on the hotel industry.*

**Keywords:** *sharing economy, hotel industry, Airbnb*

**JEL classification:** *O32, Z32*

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### **1. Introduction**

In the current economic context, existing technologies allow unlimited access to information and processing possibilities. The digital era has created new opportunities, challenges and business behaviours, with the Internet as a powerful channel of information and sales. Looking at this context, technologies provide companies with the opportunity to collect useful information about consumers, markets and competition ((Kotler and Keller, 2012).

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Technological development and the challenges generated by the economic and financial crisis have led to the emergence of new economic models. Whether it is travel, accommodation or funding, the sharing economy is now part of everyday life. Besides the actual economic exchange, sharing platforms, aim to form new communities, organizations and business models. Thus, sharing economy creates values that include trust, transparency, human contact, authenticity, mutual help.

Within this type of economy, each transaction involves three parts: the consumer who pays the service, the receiving provider, and the platform that helps them find one another, which takes a commission on payment. As a result of the development of the sharing economy, the consumers benefit from a low price and a wide range of services traded through the social media, while the providers of goods and services – through peer-to-peer platforms – record additional revenue.

According to data provided by the World Economic Forum, sharing economy platforms have grown rapidly and companies behind them are currently recording a total market share of 4.3 billion dollars.

In this context, one of the sectors where sharing platforms have seen an upward trend is accommodation. Airbnb is a peer-to-peer accommodation business model, which connects hosts who have a short-term rental space with guests, i.e. people who need accommodation at a certain time.

Worldwide, the number of Airbnb users is steadily increasing, at first the sharing platform was preferred by young people and the millennium generation, but recently began to represent an alternative for business people, due to their interest in cost reduction, but also due to the best price-quality ratio in most cases.

Therefore, the social and economic opportunities brought to individuals by collaborative platforms, including Airbnb, are undeniable, so the main research objective of the paper is to analyse the sharing accommodation platforms influence on the hotel industry. In order to achieve this objective, the methodology consists in the descriptive data analysis of various studies and reports developed by Eurostat, Euromonitor International and Statista.

## **2. General consideration regarding Airbnb and the sharing economy**

The concept of "collaborative consumption" was originally created in 1978 by Felson and Spaeth. In 2011, Botsman and Rogers reinterpreted the term by including sharing, trading, negotiation and barter. Thus, even though

the exchange of goods or services between people is an old process, the need for a model of sharing has been established due to the decline in the middle-class income (Hacker and Pierson, 2011). As a result, people began to become aware of property costs and under-optimal use, realizing that what they really need are the benefits of goods, not the actual products. Among the first uses of collaborative economy were durable goods, mainly cars and apartments (Dominici et.al, 2016)

The sharing economy consists of using Internet technologies to connect groups of territorially dispersed people for the better use of goods and other useful things. Thus, the sharing economy represents “the peer-to-peer-based activity of obtaining, or sharing the access to goods and services, through online platforms” (Hamari et. al, 2016).

Globally, there has been an increasing number of companies entering the market – Airbnb, 9flats, Spotify, Uber, RelayRides – and their development had made the growth of the sharing economy undeniable.

The development of the sharing economy, and of travel industry, is due to the economic, technological and social changes that took place in the recent years. (Trivett and Staff, 2013)

Among the opportunities ensured by the sharing economy we can mention promotion of entrepreneurship, job creation and revenue growth. Thus, statistics show that, more and more people are willing to embrace the sharing economy, with Middle East, Africa, Latin America and Asia Pacific as emerging markets. In this context, according to GSMA 68% of people from Middle East, Africa, 70% from Latin America, 78% from Asia Pacific, 52% from North America and 54% from Europe want to participate in the sharing communities.

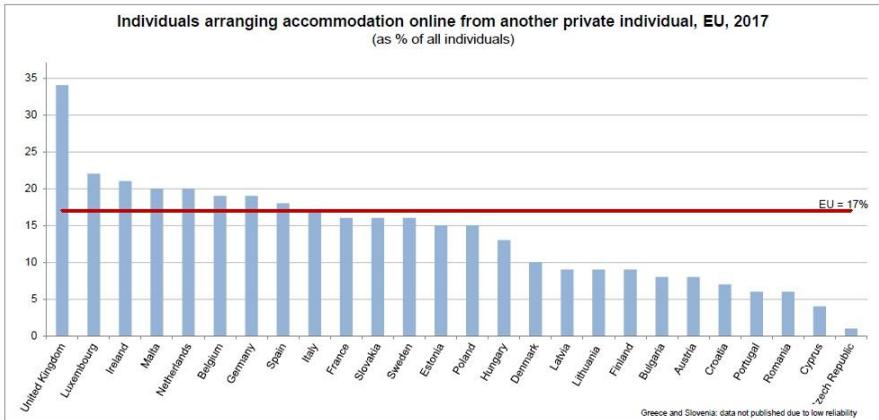
Furthermore, data obtained from PwC shows that in 2014 the sharing economy generated \$15 billion, and by 2025 is expected to comprise a market of about \$335 billion. The five key sharing sectors: lending, staffing, car sharing, hospitality, and media streaming, will therefore generate 50% of the total global revenue.

In the current dynamic environment, temporary access to property becomes more important than ownership of those goods. Such business models become important opportunities in a wide range of areas, including accommodation (Dredge and Gyimóthy, 2015).

At European Union level, according to Eurostat data, in terms of sharing economy, it is found that the top is led by the United Kingdom, with 34% of population booking accommodation from individuals using online

platforms, followed by Luxembourg (22%) and Ireland (21%), while in Romania only 6% of population have used sharing platforms for accommodations (see figure 1)

**Figure 1: Individuals arranging accommodation online from another private individual**



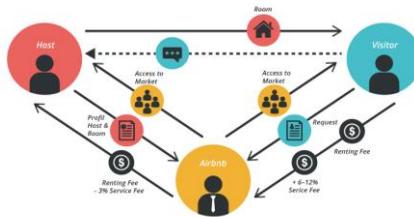
Source: Eurostat, 2017

Regarding the age segment, at European Union level, booking online accommodation from individuals through specialized sites or apps was done by 22% of people aged between 25 and 54, 17% by people aged between 16 and 24, and only 10% of those aged between 55 and 74 had chosen sharing platforms.

In the hotel industry, the concept of collaborative economy is best represented by Airbnb, through which individuals rent their property for a relatively short period of time.

Started in 2008, Airbnb is a peer-to-peer accommodation business model that had influenced the hotel industry by providing a large-scale of places for rent, offering an optimal price-quality ratio, thus allowing travellers to enjoy locals' life at a better value than traditional accommodation structure. Airbnb is a market for both guests and host, and the figure below shows how this business works:

**Figure 2: Airbnb business model**



Source: <https://bmttoolbox.net/stories/airbnb/>

Airbnb operates with minimal regulatory controls in most locations, to overcome this shortcoming, an online review system allows participants to evaluate each complete stay. Ratings are used by guests to evaluate their experience in terms of cleanliness, location, communication, etc. (Zervas, et.al., 2016).

Currently, Airbnb has grown from three air beds in San Francisco to over 5 million listings in more than 81,000 cities in 191 countries around the world. In February 2011, Airbnb registered the first million room night booked, and almost one year later – by the end of January 2012 – a total of 5 million (Guttentag, 2015). At present, the number of overnights booked via Airbnb has progressively increased, at is expected to reach 187 million overnights in the United States and Europe by 2020 (see figure 3)

**Figure 3: Number of Airbnb overnight stays in the United States and Europe**

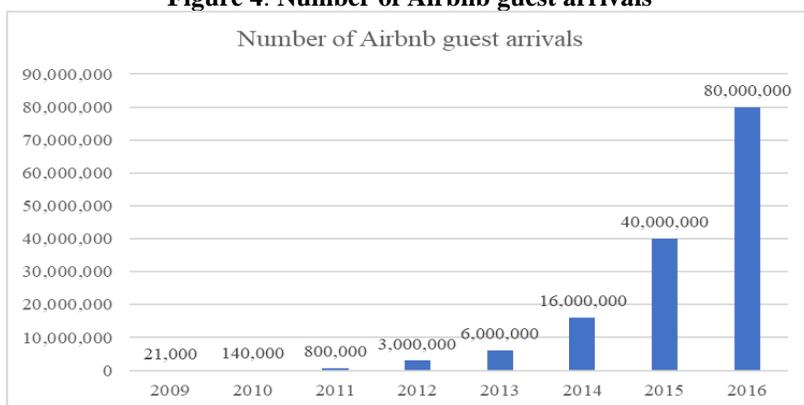


Source: Statista, 2018

At airbnb.com, each host has one to several photos, a personal statement, reviews, and certified contact information. And every accommodation unit offered for rent through the sharing platform is accompanied by photographs, location, availability, price, a brief description and capacity.

Considering the benefits of the sharing economy, and the fact that consumers are more demanding and populate an interactive market, as shown by the figure below, the number of Airbnb guests' arrivals have increased from 21.000 in 2009 to 80.000.0000 in 2016 (see figure 4)

**Figure 4: Number of Airbnb guest arrivals**



Source: Airbnb, 2018

Although Airbnb is not the only sharing platform that provides accommodation services is by far the most successful business model. The accommodations offered for rental by the Airbnb platform provide guests with authenticity, uniqueness and familiarity, helping them connect to local culture and benefit from experiences different from those specific to the hotel. Therefore, the Airbnb concept consists of "belonging" and "uniqueness" provided to the guest experience (Liu and Mattila, 2016).

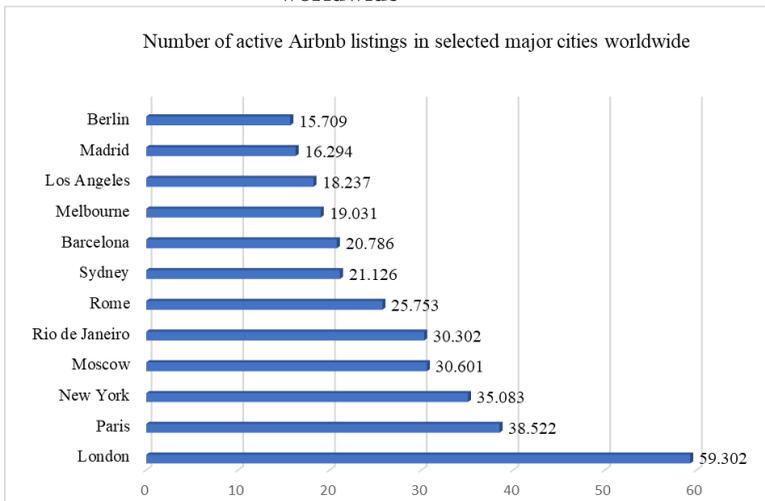
### **3. Airbnb vs Hotel Industry: trends and perspective**

In the current economic context, the development of technologies, changes in travellers' preferences, the desire to get quality experiences, and the continuous orientation of consumers to maximize the benefits of sharing platforms, significantly influence the development of the hotel industry.

Globally, we can say that Airbnb has remodelled the hotel industry forever, prompting large hotel groups to develop their offers in order to be able to provide their clients with as many accommodation options as possible.

Today, Airbnb has more than 5 million unique places to offer for accommodation around the world. Data offered by Statista show that London is currently the world's Airbnb capital with 59.302 active rentals, followed by Paris – 38. 522 active rentals – and New York – 35.083 active rentals (see figure 5)

**Figure 5: Number of active Airbnb listings in selected major cities worldwide**



Source: Statista, 2018

As for the average daily rate in selected major cities worldwide, we can see by analyzing the data contained in the figure below, that the online sharing platform for accommodation services – Airbnb – ensures travelers a costs reduction.

**Figure 6: Average room per night in selected major cities, in January 2018**



Source: Statista, 2018

Thus, we can appreciate that Airbnb is cheaper than hotel accommodation, for example choosing to stay in one of Airbnb places in Tokyo ensures traveller a \$127 saving, and a cost reduction of \$ 119 for staying in New York.

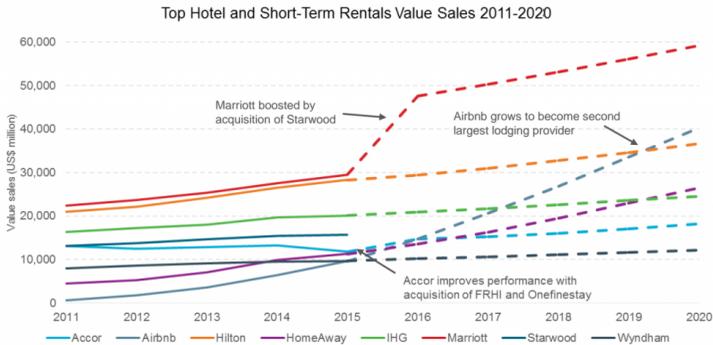
From this point of view, Airbnb has an important impact on the hotel industry, the reduce average daily rate can be consider a competitive advantage for the peer-to-peer accommodation business model, causing more and more travellers to choose sharing platforms to the detriment of hotels.

Under these conditions, hotels in major cities have increased competition due to the expansion of Airbnb's premises. In many cases, as a result of the upward trend registered by the collaborative consumption, hotels have experienced a drop-in revenue due to the need of lowering prices.

The most affected are independent hotels, most of them preferred by leisure travellers, and to a lesser extent hotel groups operating in a franchise or management contract whose development is based on investments in marketing and who have used their clients with a certain standard of traveling experience.

Comparing hotel and alternative accommodations companies in terms of value sales, from data obtained from Euromonitor International, we can see that for 2020 it is expected that Marriott will be largest hospitality company, closely followed by Airbnb (see figure 7)

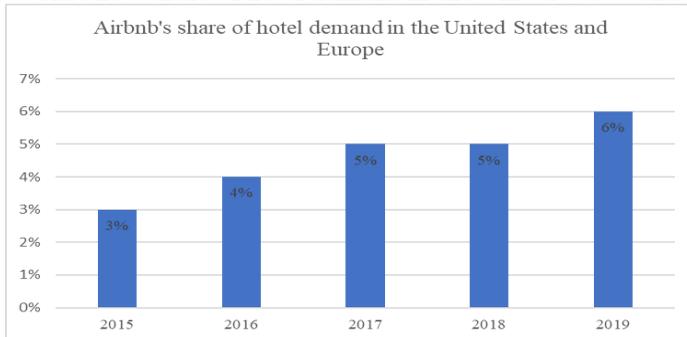
**Figure 7: Top Hotel and Short-Term Rentals Value Sales 2011-2020**



Source: Euromonitor International

However, Airbnb and the hotel industry have been in existence for years without affecting their market shares, but as technology and online booking grows, the peer-to-peer accommodation business model will expand its impact on accommodation activity. In this context, the figure below shows the evolution and forecasts of Airbnb’s share of hotel demand in the United States and Europe.

**Figure 8: Airbnb’s share of hotel demand in the United States and Europe**



Source: Statista, 2018

Thus, collaborative consumption will continue to influence the hotel industry, especially economy, budget and midscale hotels, whose cost-price ratio coincides with that offered by Airbnb hosts.

The social media has fundamentally changed consumer processes regarding the hotel industry. Sharing platforms, such as Airbnb, influence the hospitality industry and its need to adapt to the digital era, involving hotel units to incorporate in their strategies, mobile technologies and applications to ensure flexibility in time, space and increasing the visibility of the accommodation offer in real time.

Trading of accommodation in the digital environment will be the future of emerging brands. Information technologies will direct new business models to new dimensions of innovation. In addition, as regards the hotel sector, ensuring international expansion and achieving a sustainable competitive advantage will be influenced by the market's characteristics and the range of options that accommodation services offer.

#### **4. Conclusions**

The collaborative economy includes economic systems models, cultural perspectives on human coexistence, and ideas of value creation. The sharing economy seeks to achieve: zero marginal costs, optimal use of capacity, direct exchange and re-circulation of unnecessary resources.

Airbnb provides accommodation facilities at low prices even with last minute reservation, personalized service and many other benefits. The sharing platform affects local hotel incomes in a negative way due to the familiar accommodation types, but also the infrastructure and instant accessibility.

At the level of the European Union, Romania is one of the last countries in the use of peer-to-peer accommodation platforms. The lower position of our country can be justified by the lack of information or openness to the online environment.

In the European space, London has the largest number of spaces available on Airbnb, followed by Paris. Instead, Berlin has the lowest number of accommodation units registered on the Airbnb platform. This means that at the European level the highest tourist requirements are for London and Paris due to their culture and attractions.

Considering the data provided by various reports and study, the results of the paper consist in the identification of the accommodation types that are mainly influence by the collaborative consumption, namely budget and midscale hotels; the changes that hotels need to introduce in their operative management in order to minimize the competition of Airbnb, among which can be mention the development of application capable of increasing the visibility of the hotel offer and to ensure flexibility in time for consumers, and

also the need of lowering prices without affecting the quality of accommodation services. The sharing economy and online platforms enhance the quality of the hotel industry due to transparency and the establishment of a stable relationship between the provider and the tourist.

In the current economic context, demand for sharing platforms that provide accommodation service may increase due to low incomes, which would allow intermediaries such as Airbnb to grow further.

Worldwide, therefore, the sharing economy is constantly expanding and brings many benefits and challenges to the hotel industry. Among which we can mention fierce competition as a result of alternative accommodation places development, increasing the number of jobs, encouraging small entrepreneurs, better communication and collaboration between the parts involved, knowledge of other cultures.

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