

2015-6

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Recommended Citation

O'Rawe, M (2015) 'Should Hoteliers be Afraid of Airbnb?', Hotel & Restaurant Times, June, p. 45

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Should hoteliers be afraid of Airbnb?

Airbnb is now one of the most talked-about forces in travel and hospitality, and is receiving growing attention from both hospitality scholars and managers alike. How concerned should Irish hoteliers be of this “peer-to-peer” accommodation model? Does it merely represent a gentle shaking up of an informal tourism accommodation sector, or has it the potential to devour the entire hotel sector? Where’s the evidence and how compelling is it?

Renting rooms is of course an age-old idea, but Airbnb’s new technology twist has recently enabled them to raise funding which is thought to be around \$10 billion. Some business commentators put the figure at \$20 billion. Such a valuation overshadows all but the largest hotel chains. The impressive inventory of worldwide listings for Airbnb (over 1 million, as of March 2015), and its rapid growth trajectory, means it can no longer be dismissed. By way of comparison in New York city, last year’s hotel room supply grew by 4%, with Airbnb inventory up by a staggering 197%. The picture in Ireland displays a similar scale of expansion; listing numbers are all roughly around the 200% year-on-year growth mark, according to James McClure, general manager for Airbnb, UK & Ireland.



Often assessing these new business model phenomena can be aided by way of seeing them in a theoretical context. Academic and entrepreneur Clayton Christensen has written extensively on the topic of what he termed ‘disruptive innovation’ since the 1990s. Christensen explained the ways in which fringe ideas can come to redefine markets, offering innovations which are simpler, more convenient and lower cost. His fascinating thesis is that the same practices that led to a business’s success can eventually result in its demise, painting a bittersweet picture whereby, as companies become large, they lose sight of evolving niche markets and opportunities. In other sectors we have seen disruptive newcomers create a new ‘normal’. Popular examples such as Netflix, Apple and Twitter have all changed the game in their respective sectors. The hospitality industry is no stranger to innovation. Indeed, the industry has faced disruption before, in the area of OTAs and rate-shopping tools, and their impact on the traditional travel agency. Back in the 1960s, Holiday Inn also disrupted the model of hospitality by transforming the hotel product into something much more affordable and accessible, and pioneered the franchise model to allow rapid scale of expansion.

Aside from these examples, much of the successful innovation over decades in hospitality might be more accurately deemed “incremental”, a label which unfortunately often attracts criticism.

To what extent does Airbnb fit the bill of disruptive innovation? Yes, Airbnb may not offer the quality and reliability offered by traditional hotels. But those who dismiss it as operating as a niche, or only at the lower-end of the market, may be interested in its private villa luxury-oriented listings and entry into the business travel market earlier this year. Indeed, bold claims by CEO Brian Chesky to develop a full-blown hospitality brand, and the recruitment of hotel veteran Chip Conley point to the company’s ever-increasing ambitions.

These debates may all be interesting, as are arguments by proponents on the wider diffusion Airbnb brings by spreading economic benefits to areas which do not traditionally benefit from tourism. But, money talks... and the statistics may be starting to show that Airbnb is stealing share from hotels. While the impact is not as dramatic as that of other companies in a similar space in the sharing economy - Uber has led to a decline in taxi usage of 65% in some U.S. cities - alarm bells are still ringing.

A recent 35-page report by Boston University has served to draw the battle lines in sharper focus. Although based on the market in Texas, and only the first substantial study of Airbnb, the findings are worth thinking about. The study finds a correlation between an increase in Airbnb listings in a region and a decrease in hotel revenue. The authors found that for every 1% increase in Airbnb listings there was a corresponding 0.05% decrease in hotel revenue. Much has been made of

this. However, correlations are not the same as causations; many other external factors can affect room supply. Moreover, the same report, along with other global data, shows that the hotel sector has probably more to fear from an increase in room supply generally than the impact of the new kid on the block. Airbnb does not own inventory, but scales by improving its ability to match users and leveraging better data. Hence, potential growth is perhaps boundless. Airbnb enables anyone with a spare room and a mattress to run their own “hotel” and benefit from a global market of travellers.

Critics cast a now regular spotlight on the weaknesses in the Airbnb model, particularly on variations in consistency of service quality and security. As Airbnb does not “own” inventory, critics point to its incapability in controlling quality. The spotlight on their regulatory environment has also intensified with a focus on the variability of taxation situations across countries. Hospitality companies have reason to complain that in this regard it’s an uneven playing field. A variety of approaches has been adopted globally, but none of them seems to be straightforward. In Ireland, Revenue have recently amended the long-standing Rent-a Room relief to clarify that rental through Airbnb and similar sites are not covered by such reliefs. Elsewhere, Airbnb is currently stepping up opposition to a new bill making its way through committee in California which would require the company to collect taxes at the request of local government and report booking information. Calls for clampdowns on illegal rentals and subletting are also increasing.

With some hotels now advertising on Airbnb, and the go-to source of hospitality data, STR, now focusing on its impact, it’s clear that this new player cannot be ignored. Their approach to innovation goes beyond the product and business model, extending into employee motivation and organisational innovation.

It’s not likely that mainstream hotels will fail in the face of disruption by Airbnb. But the rise of Airbnb should be provoking some soul-searching by the ‘traditional’ hospitality sector. Notwithstanding the renewed buoyancy of the sector, Irish hoteliers will need to have a sharpened focus on innovation in all its guises - sustained value, service and exceeding expectations - if they are to meet the new challengers head-on. ○

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