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## **Airbnb and the Hotel Industry: The Past, Present, and Future of Sales, Marketing, Branding, and Revenue Management**

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For a long time, the hotel industry did not consider Airbnb a threat. Both the industry and Airbnb claimed they were serving different markets and had different underlying business models. Over the years, as Airbnb become more successful and grown to being larger than the companies in the hotel industry, the rhetoric has changed. The hotel industry began to realize they had something to worry about.

A stage of denial was followed by the American Hotel & Lodging Association (AH&LA) attacking Airbnb by sponsoring research to demonstrate its negative impacts on the economy and lobbying governments to impose taxes and regulations on homesharing. The association is arguing for a level playing field between homesharing and hotels (and rightly so). The next stage of this battle involves competition and integration. Not only are hotels looking to add homesharing-like attributes and experiences to their properties, to more effectively compete with Airbnb, but are also looking to tap into the platform-based business model that underlies Airbnb's success.

# The hotel industry's response: classic pattern of disruption

## Denial

Airbnb's competition with traditional hotels is overstated, as it serves a different segment of travelers – *Brian Chesky, CEO, Airbnb*

"No, they're not a threat. We serve different markets" – *Hotel CEOs*

## Attack

"We want a level playing field"

"Airbnb is running illegal hotels" – *AH&LA*

## Participation

"Hmm.. This is bigger than we thought. How can we compete in this space?"

**Buy:** Accor → Onefinestay

**Partner:** Hyatt → Oasis; Marriott → Tribute Portfolio Homes

**Build:** New organic brand: Accor → Jo & Joe?



## The Past: How does Airbnb impact the hotel industry?

Airbnb's disruption of the hotel industry is significant, both existentially and economically. A recent study by Dogru, Mody, and Suess (2018) found that a 1% growth in Airbnb supply across 10 key hotel markets in the U.S. between 2008 and 2017 caused hotel RevPAR to decrease 0.02% across all segments. While these numbers may not appear substantial at first, **given that Airbnb supply grew by over 100% year-on-**

**year over this ten year period means that the “real” decrease in RevPAR was 2%, across hotel segments.** Surprisingly, it was **not just the economy but also the luxury hotel segment** that was hard hit by Airbnb supply increases, experiencing a 4% real decline in RevPAR. The impact of Airbnb on ADR and occupancy was less severe. In Boston, RevPAR has decreased 2.5%, on average, over the last ten years due to Airbnb supply increases. In 2016 alone, this 2.5% decrease in RevPAR amounted to \$5.8 million in revenue lost by hotels to Airbnb. Brands that felt the impact the most were those in the midscale and luxury segments, with a decrease in RevPAR of 4.3% and 2.3% respectively. These supply increases are also fueling Airbnb taking an increasing share of the accommodation market pie. For example, in New York City, Airbnb comprised 9.7% of accommodation demand, equaling approximately 8,000 rooms per night in Q1 2016 (Lane & Woodworth, 2016). As a whole, Airbnb’s accommodated demand made up nearly 3% of all traditional hotel demand in Q1 2016.

Buoyed by a growth rate of over 100% year on year, Airbnb now has over 4 million listings, with the U.S. being its largest market. The company also has significant room to grow in other countries, particularly emerging markets in Africa and India. The company has run into some competition in China, with local rivals Tujia and Xiaozhu. Also, within the U.S., the good news is that Airbnb will not grow at 100% indefinitely and will eventually plateau as it reaches a saturation point (Ting, 2017a). In view of this, the company has turned to alternative strategies to continue to increase supply. It is now targeting property developers to turn entire buildings into potential Airbnb units, through its newest hotel-like brand, **Niido**. Currently, there are two Airbnb branded Niido buildings in Nashville, TN and Orlando, FL with over 300 units each and Airbnb plans to have as many as 14 home-sharing properties by 2020 (Zaleski, 2018). Niido works by encouraging tenants to list their units on Airbnb, with Airbnb and Niido taking 25% of the revenue generated. Airbnb has also clearly evolved from its original premise of “targeting a different market” to attracting segments traditionally targeted by hotels, such as the leisure family market, business travelers, and the upscale traveler, as evidenced through its latest offering, **Airbnb Plus**. These homes have been verified for quality, comfort, design, maintenance, and the amenities they offer. They also have easy check in, premium internet access, and fully equipped kitchens. Their hosts are typically rated 4.8+, and go above and beyond for their guests. Through **Airbnb Experiences**, travelers can partake in everything from the great outdoors—hiking and surfing—to “hidden” concerts and food and wine tours. In addition to these products, Airbnb has also “created” its own segments of travelers: novelty and experience seekers who are looking for unique and unconventional accommodation like yurts, treehouses, and boats, all things that a traditional hotel company cannot provide.



## **The Present: Understanding what consumers want lies at the heart of the battle between hotels and Airbnb**

There are larger societal trends that are impacting what consumers seek travel, and we think this has implications for the Airbnb and hotel dynamic. These trends include:

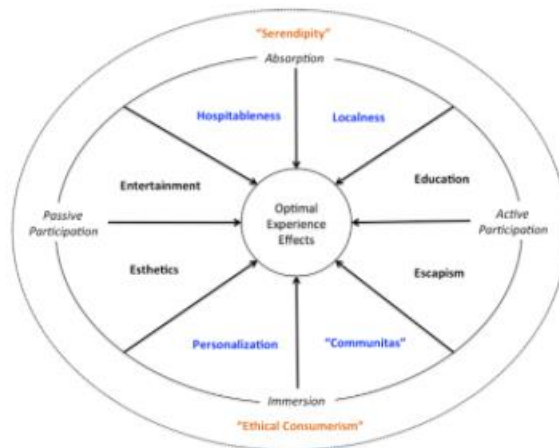
- 1) A shift to a “**new luxury**”—seeking out unique, authentic experiences that serve as a launchpad for self-actualization—fueled by an increased wealth gap in the United States.
- 2) An **increased mobility**, particularly among previously under-represented groups in the United States (the black travel movement, for example) and the global traveler (more Indian and Chinese international travelers than ever before).
- 3) The changing nature of brand loyalty: from long-term relationships to consumers’ needs for **instant gratification and personalization**.
- 4) Changing nature of “ownership”: In a **post-consumerist society**, the emphasis on “access-based consumption” has put a spotlight on wellness and **well-being**, beyond materialism.
- 5) A **co-everything world** where work, play, and life blend into one seamless mosaic: Technology has changed the way we live our lives, and how we are connected to work, to each other and to the things that drive us. An upcoming 5G world and the IOT is only likely to accelerate the pace of change. Take LiveZoku (<https://livezoku.com/>), for example: is it a residence? A hotel? A WeWork? A space for the local community? A thriving food and beverage destination? It’s all of these things.

What do these trends mean? They require marketers and experience designers to re-think what the travel experience means to the customer. The notion of the experience economy was created by Pine and Gilmore in 1998, and included four dimensions: **escapism, education, entertainment, and esthetic**. Leveraging one, or ideally, more of these dimensions creates memorable experiences for customers, which in turn results in brand loyalty. This dynamic has been fairly well-established in the academic literature. However, Airbnb has changed the game for the experience economy by emphasizing the sharing lifestyle and a sense of community, cleverly incorporating the above highlighted trends into its communications with customers. Because of Airbnb popularity and success, six new dimensions have been incorporated into the experience economy, in the context of the travel experience: **personalization, communitas, localness, hospitableness, serendipity, and ethical consumerism**, as was presented by [Mody in 2016](#).



Source: Pine and Gilmore (1998)

### The Accommodation Experiencescape



Source: Mody (2016)

Interestingly, in a recent study by Mody and colleagues (Mody, Suess, & Lehto, 2017), the researchers found that Airbnb outperformed hotels on all the dimensions of this new, expanded, accommodation experiencescape. Airbnb outperforms hotels in the **personalization** dimension because of its wide array of homes and locations, enabling genuine micro-segmentation and the “perfect match” between guest and host (Dolnicar, 2018). Moreover, no one home is similar to another, giving customers a unique experience every time, enhancing the **serendipity** associated with an Airbnb stay. Airbnb elevates the sense of **community** that consumers seek, particularly when sharing space with other travelers and/or with the host, and allows consumers unparalleled access to “**the local**”—that café or cute little store that only locals know about. However, there are areas where hotels hold their own. For example, the pathways between these dimensions and memorability were just as strong for hotels as for Airbnb, emphasizing the need for hotels to engage customers by leveraging the “right” dimensions for the brand—dimensions that align with the brand’s mission, story, and personality.

One such dimension where hotels perform just as well as Airbnb is **hospitableness**, as confirmed in a study by Mody, Suess, and Lehto (2018). More “investor units” on the Airbnb platform means that the host is often not present when guests arrive to the home; moreover, all communication is done electronically and with someone who “manages” the Airbnb unit and doesn’t necessarily own or live in it. In turn, hotels that leverage the human factor—the welcome of a friendly check-in agent, the helpfulness of the concierge, the warm greeting and genuine interaction between guest and food and beverage staff—create more positive emotions, which subsequently lead to higher brand loyalty. It is imperative that hotel brands really think about the high-tech, high touch experience they are looking to provide, particularly in the golden age of brand proliferation that we live in.



From a non-experience standpoint, **regulation** is another bone of contention that merits close inspection. After years of denying that Airbnb was a competitor, in 2016, the American Hotel & Lodging Association first began an extensive lobbying effort for the imposition of **taxes and regulations on Airbnb** that level the playing field. Over the last couple of years, the voices of the hotel lobby and other community groups have translated into governments taking some action, in the U.S. and abroad. However, in a study of regulation across 12 European and American cities, Nieuwland and van Melik (2018) found that governments have been fairly lenient towards short-term rentals with little to no (meaningful) regulations thus far. Moreover, **regulations have been designed to alleviate the negative externalities of Airbnb on neighborhoods and communities** rather than to level the playing field between Airbnb and hotels.

Another challenge with regulating the peer to peer economy has been **enforcement**. In New York City, under the Multiple Dwelling law, it is illegal for a unit to be rented out for less than 30 days unless the owner is present in the unit at the time the guest is renting. However, it is still possible to find “entire homes” on Airbnb in New York City, even though, in principle, these typically include homes where the host is not present during the guest’s stay. Moreover, Nieuwland and van Melik (2018) and Hajibaba and Dolnicar (2017) have found that regulations tend to be very similar across cities, without accounting for the specificities of a particular location, which makes the process perfunctory and superficial. There also remains the danger of **over-regulating** Airbnb, given that there is still very little knowledge about effective ways of regulating these innovations in the sharing economy, thus stifling their potential. Avoid over-regulation is critical, since Airbnb has significant welfare effects in the economy. In addition to stimulating travel to previously inaccessible markets, Airbnb also creates customer surplus (Farronato & Fradkin, 2018), an important economic value measure. Moreover, other research has suggested that the average resident is not as negative towards the Airbnb as media rhetoric might suggest (Mody, Suess, & Dogru, 2018). The need for a data-driven approach to Airbnb regulation remains paramount.



**The Future: Competing with the sharing economy requires re-thinking the brand and the experience**

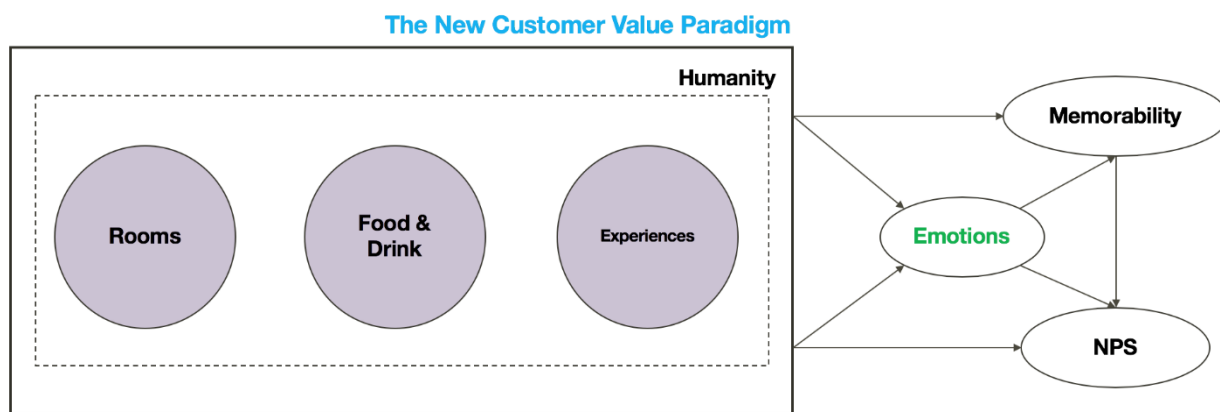


While regulation is outside the control of the hotel industry, the brand and the customer experience are not. We contend that these are the areas where hotel companies' efforts need to be focused. Hotels need to re-think the **brand promise**, both for the parent brand as well as individual brands in the portfolio, and how it defines and shapes the guest experience. Recent research by Mody and Hanks (2018) indicates that while Airbnb leverages the authenticity of the travel experience—by enabling local experiences that provide a sense of self and sense of place, hotel brands that are perceived as being authentic—original, genuine, and sincere—can generate higher brand loyalty. Thus, while it's hard to compete with homesharing in terms of experiential authenticity, **brand authenticity** is a pillar on which hotels can build a strong foundation for loyal brand relationships. This is particularly important because while Airbnb promotes experiential authenticity as a key reason to use the brand, most travelers tend to stay with the brand for much more functional requirements, such as space and price (Chen & Xie, 2017; Dogru & Pekin, 2017)

There is no one definition for or manifestation of an “authentic” brand. It's a perception, a feeling that consumers have about what you stand for. An authentic brand has at its core the brand promise, an authentic value proposition that gives consumers a *raison d'être* for associating with the brand. However, what an authentic brand does require is effective **storytelling**. A brand is perceived to be authentic, if it has an authentic story that feeds it. Brand stories can come from many sources: a brand's values, personality, heritage, uniqueness, or its quest and purpose. What is important is telling compelling and coherent stories across the brand's various touchpoints to engage consumers at a visceral, emotional level. Taking off industry blinders, and looking for inspiration outside the hotel industry, is critical. Tom's Shoes is an excellent example of leveraging its quest—One for One—in creating a compelling brand story. As another example, in an industry typically focused on the in-store, “physical” experience, Burberry has set the gold standard for authentic, digitally-led and emotive storytelling, by looking within and leveraging over 150 years of history ([Watch the YouTube Video here](#)). In this vein, we think that Fairfield Inn and Suites' return to “where it all began”—the Marriott family's Fairfield Farm in the Blue Ridge Mountains of Virginia— to craft the brand experience of the future, from a design and communications standpoint, is an excellent example of leveraging authenticity and crafting a compelling brand promise (Ting, 2017b).

Another idea that lies at the heart of the brand promise is what we call the **experiential value proposition**, or **EVP**. For the longest time, hotel marketers have relied on the guest room as the primary source of value for the guest. But think about the last time you traveled. Was it the prospect of the hotel room that got you excited about your trip? Or was it everything that the hotel enables you to do – the experience outside the guestroom? From experiencing art and music in the lobby to its proximity to the must-do craft beer garden, hotel marketers must realize that it's the complete package—what's inside and outside the room—that customers use as cues for making their decision to choose an accommodation. We call this proposition offered by the hotel—what's inside and outside the guest room, enclosed within an experience of hospitableness and a connection to humanity—its EVP. We present the EVP in Figure 1. The EVP mirrors the

value paradigm of the modern traveler, something that must be reflected in the hotel brand's sales, marketing and pricing and revenue management efforts. Thinking about a brand through the lens of the EVP paradigm has the power to re-orient the customer's mindset from one of price-shopping to experience-shopping.



**Figure 1.** *The Experiential Value Proposition Framework*

How does a hotel marketer apply the EVP paradigm? Its application can open up many avenues. Hotels can start by **rethinking the design of their primary digital channels, led by the website** by adding more rich, vivid content that goes beyond the guestroom, in order to better integrate aspects of the wider hotel and local experience. The Standard Hotels serves as an excellent example (<http://www.standardhotels.com/>) Its website feels more like a local lifestyle and culture magazine than a digital media property “selling” a hotel room. The website’s rich images and stories draw the visitor into wanting to learn more about what the brand has to offer. While not every hotel can or would want to go the Standard way, since the brand has its own distinct voice and personality, there is a case to be made for going beyond static images of beds in guestrooms, which tend to blend into one indistinguishable whole after a point, particularly on OTA websites. When was the last time the image of a hotel bed excited you to want to stay there? Yet, when you look at the imagery put out by most hotels, this is what marketers still focus on.

Placing an emphasis on **humanity and providing a sense of hospitableness** can also enhance a brand’s EVP. Instead of technology replacing the human connection, the industry needs to look for ways in which technology can actually free up employees so that they can spend their time crafting more personal and unique experiences, delighting guests instead of performing routine transactions. Moreover, if the human connection is what people seek out when traveling with Airbnb, why is it that hotel confirmation emails still get sent out by automated systems that highlight the “facelessness” of the hotel entity. Why not use that as an opportunity to truly welcome the guest; a simple touch such as a welcome letter from the GM with his/her photo, or

that of an employee who is “assigned” as “your personal host” during your stay can go a long way in emulating the human connection that the sharing economy enables.

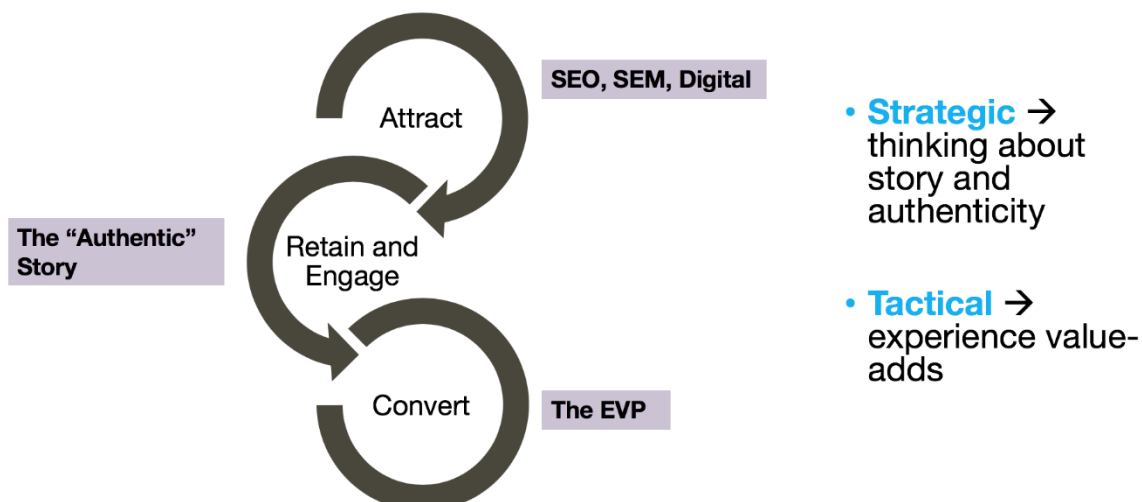


The **design of the hotel’s public spaces** can be used to enhance the guest’s experience of “communitas”. Ian Schrager would agree (Schaal, 2017). After all, with much of Airbnb’s supply being dominated by investor units that provide little or no host contact, what better an opportunity for hotel brands to show that they are the original connectors of human beings? Sheraton has been wise in incorporating some of these communal elements into its brand makeover by introducing productivity tables and studio spaces and a day-time coffee bar that transforms into a bar at night. In terms of another design element, Airbnb’s attractiveness to family and group travelers can be offset by offering connecting and/or multiple rooms for one price, with other experience value-adds thrown in (as with the Marriott family room connecting rooms package).

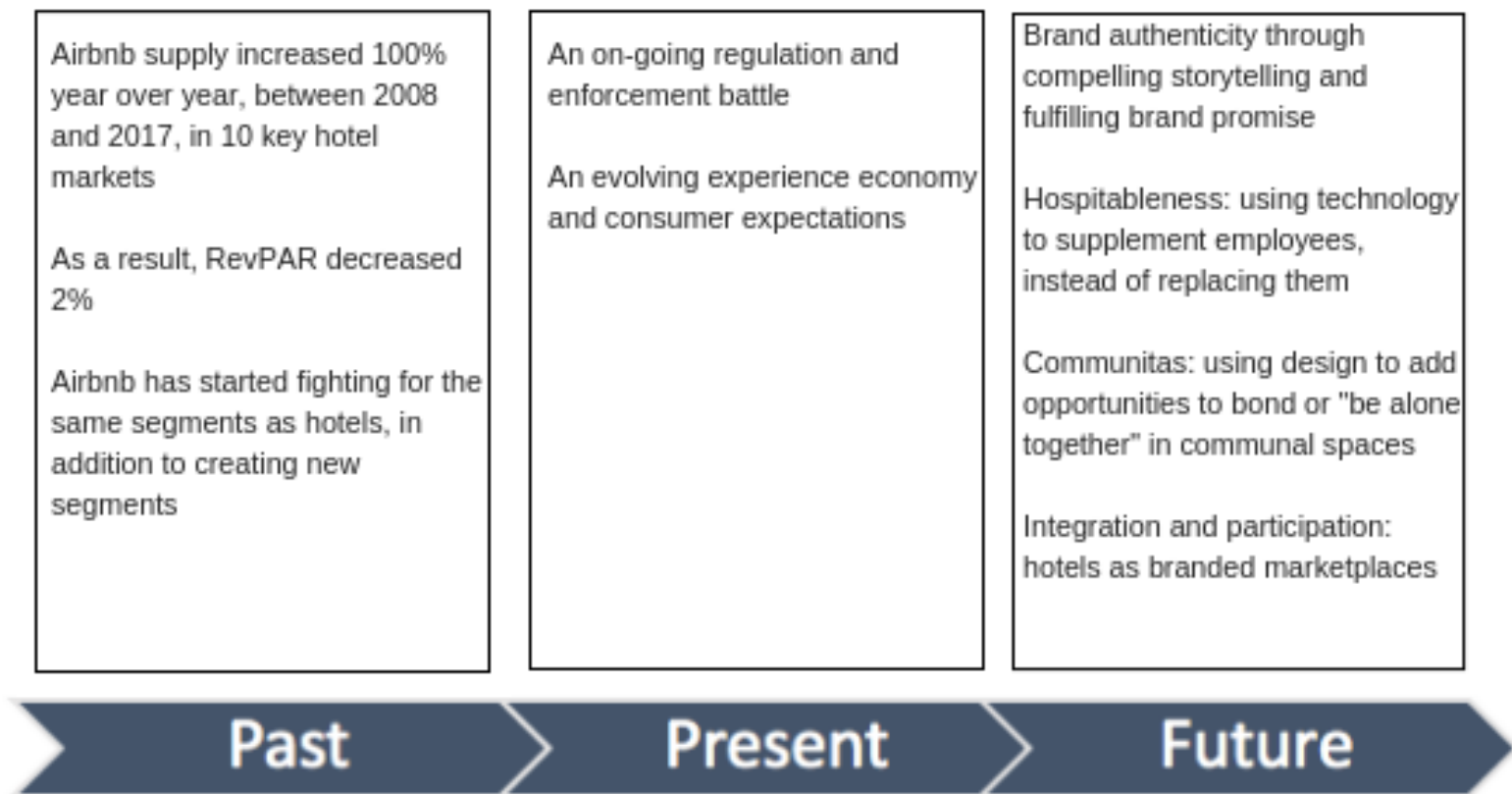
Finally, the role of the **loyalty program** cannot be emphasized enough. Loyalty programs must move beyond programmatic levels to being able to leverage data from guest history, social media, and other marketing data sources, powered by predictive analytics, to personalize and individualize the guest experience of the brand. In an age of instant gratification, the loyalty program has to be gamified to unlock value-adds and offer creative bundling.

At the level of the hotel company, beyond the individual brand, the hotel industry has started **participating in the home sharing business** and is increasingly looking to integrate these platform business models. For example, while Accor purchased Onefinestay, Marriott has teamed up with Hostmaker to create Tribute Portfolio Homes, a partnership that was recently expanded to four European cities (Fox, 2018). From an organic brand development standpoint, Accor’s newest Jo & Joe brand mimics the sharing economy within the confines of a traditional hotel space. Other, more innovative and bold ways of integrating the sharing economy ethos into a hotel could include offering an “Airbnb floor”, an antithesis to the club floor, one that would not offer housekeeping and other hotel services and thus be offered at a lower price. With hotel brands becoming “branded marketplaces” for accommodation and not just hotel rooms, perhaps there is merit in listing hotel rooms on alternative accommodation platforms. HomeAway is already adding hotels to its platform through the Expedia Affiliate Network, while Airbnb is making a push for bed-and-breakfasts and boutique hotels. Homesharing providers hope that by adding these options to their listings, they will fulfill their goal of being “for everyone”, while allowing independent and boutique hotels to reap the benefits of branded distribution at a lower cost than traditional OTA brands.

In sum, hotels must adopt a sales, marketing, and revenue management approach that is both **strategic and tactical**.



At a strategic level, hotel brands need to re-think their story, and how they portray and fulfill their authenticity and brand promises. At a tactical level, it’s the experience and value beyond the guestroom that must be factored into what is presented to current and potential guests, what they are charged for it, and how it is leverage to create “memorable memories” that lead to higher net promotor scores and brand loyalty. We present a graphical summary of the past, present, and future of Airbnb vs. hotels in Figure 2.



**Figure 2.** Summarizing the past, present and future of Airbnb vs. hotels



Makarand Mody, Ph.D. has a varied industry background. He has worked with Hyatt Hotels Corporation in Mumbai as a Trainer and as a Quality Analyst with India's erstwhile premier airline, Kingfisher Airlines. His most recent experience has been in the market research industry, where he worked as a qualitative research specialist with India's leading provider of market research and insights, IMRB International. Makarand's research is based on different aspects of marketing and consumer behavior within the hospitality and tourism industries. He is published in leading journals in the field, including the International Journal of Contemporary Hospitality

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