



Mutual learning opportunities: the sharing economy and the lodging industry

The sharing economy has cast consumers as service providers, enabling underutilized assets to be operated for financial gain. The leading companies in this new sharing economy market have initially been focused on the transportation sector, including well-known ridesharing companies Uber and Lyft, which connect passengers with private drivers. In addition, they have also made inroads into the hospitality space by, for example, connecting travelers with home or apartment owners and matching part-time cooks with adventurous eaters.

The rise of many of these businesses has been impressive, as some have reached valuations on par with well-established, publicly traded companies.⁶⁵ Not only are their valuations making headlines, but their growth is as well. Uber, only in its sixth year of operation, already controls about 17% of the US\$100 billion global taxi/limousine market.⁶⁶ In a year, Airbnb, a company that enables people to rent out lodging, added more listings to its existing inventory than the largest hotel companies introduced as new units combined over the same period.⁶⁷

As shared economy concepts continue to grow their footprint in the hospitality and leisure sector, both the traditional lodging industry and the new-age sharing economy companies can learn from one another. Some examples include segmenting customers, changing consumer preferences, creating customer loyalty and managing feedback, to name a few.

Most established lodging brands are intentionally standardized, which, from a consumer's perspective, helps set expectations for the product and services

while increasing overall confidence in the experience. This enhanced trust in both the product and brand enables a faster selection process for the customer. In comparison, lodging platforms under the sharing economy model typically provide non-standardized products, which can vary widely in physical attributes, quality and level of service; this requires more initial research by the customer before making a buying decision.

While the numerous types of accommodations in a sharing company can be an advantage for travelers seeking a unique, less-traditional experience, attracting other specific segments of the market can be a challenge. For example, business travelers seek certainty, reliability and ease when making lodging decisions. Hotel companies, on the other hand, have segmented their products based on different consumer preferences into various brands, each associated with a differentiated product type, design, price point and facility and amenity package, enabling consumers to make their lodging choices faster and with a greater degree of confidence.

65. "Airbnb Weighs Employee Stock Sale at \$13 Billion Valuation," *The New York Times Dealbook*, <http://dealbook.nytimes.com/2014/04/21/morning-agenda-airbnbs-10-billion-valuation>, 23 October 2014.

66. "A Disruptive Cab Ride to Riches: The Uber Payoff," *Forbes*, www.forbes.com/sites/aswathdamodaran/2014/06/10/a-disruptive-cab-ride-to-riches-the-uber-payoff, accessed 16 October 2014.

67. "Airbnb: The Hotel Disruptor Unconstrained by Real Estate," *Bloomberg TV*, www.bloomberg.com/video/airbnb-the-hotel-disruptor-unconstrained-by-real-estate-g34TH4zdTiiQgq1z~WLI~A.html, accessed 18 August 2014.



Segmentation in the shared economy is possible, as seen by Uber, which has adopted the use of brand categories with the introduction of uberX, UberBLACK and uberXL. These differentiated categories not only help segment the customers based on different product types and needs, but it also allows the consumer to make a quicker buying decision.

Loyalty programs are one significant driver of bookings for traditional hotels. Hotel companies pride themselves on the strength of their reward programs to create brand affinity and loyalty and ultimately to generate revenue. These programs are an especially important contributor to business-travel demand, as they enable travelers to earn points on business trips that can then be redeemed for personal travel. Given the success of these programs for established hospitality companies, a lot can be learned from them.

Currently, the only major company in the sharing economy that has launched its own loyalty program is Uber. The introduction of reward programs appears to be a logical next step for many of the business models in the sharing economy in order to foster and strengthen loyalty among their users. However, these programs will likely be somewhat different from the existing hotel companies' programs based on how customers can redeem points and how the ultimate service provider gets compensated. This is due to the decentralized nature of most of the sharing economy models.

One of the key challenges in the sharing economy is the lack of control over inventory. Traditional lodging companies control their inventory not only in terms of supply but also in terms of pricing and execution of the service. Business models in the sharing economy are commonly based on a third-party host setting the price and providing the service. Pricing may prove particularly challenging for hosts who lack the necessary experience to effectively assess the market value of the service they are providing.⁶⁸

The lodging and travel sector, particularly airlines, have long seen pricing as a key success factor and developed sophisticated pricing models and revenue management tools. While some companies in the sharing economy have started to adopt similar strategies, most programs are still in their infancy. Airbnb, which originally had left pricing at the discretion of its hosts, has spent significant effort on developing a pricing model following feedback from users who faced difficulties setting the right price point for their listings.

The predictive pricing algorithm provides hosts with a recommended price for their listing depending on many factors, including room style, property type, number of reviews, capacity, location, seasonality, pricing of other listings, hotel and airline demand, and even temperature changes at the destination. However, it still allows the host to ultimately set the final price.

Customers are increasingly seeking unique, authentic experiences anchored in the destination they are visiting. Part of the appeal of the shared economy concepts has been their ability to cater to those specific needs. Given the diversity of unit locations in any particular market that companies like Airbnb offer, customers are able to have a differentiated experience by, for example, staying in local neighborhoods that do not feature traditional hotel accommodations and but offer unique amenities. Other examples include Feastly or EatWith, which offer home-cooked tasting menus that could change daily in the intimate setting of the chef's home.

The traditional lodging industry has taken note, as we are seeing a shift toward adding lifestyle brands, allowing customization and incorporating authentic local offerings. For new and existing lodging projects to succeed, it's imperative for them to take this shift in guests' preferences into account.

68. "Fueled Fix: How Airbnb Should Unleash Market Pricing," *Forbes*, www.forbes.com/sites/rameetchawla/2014/11/07/fueled-fix-how-airbnb-should-unleash-market-pricing, accessed 7 November 2014.

