Airbnb, Hotel Industry and Optimum Strategies: Evidence from European Cities, Barcelona, London and Paris

Authors : Juan Pedro Aznar Alarcon, Josep Maria Sayeras Maspera

Abstract : Airbnb and other similar platforms are offering a near substitute to the traditional accommodation service supplied by the hotel sector. In this context, hotels can try to compete by offering higher quality and additional services, which imply the need for new investments or try to compete by reducing prices. The theoretical model presented in this paper analyzes the best response using a sequential game theory model. The main conclusion is that due to the financial constraints that small and medium hotels have these hotels have reduced prices whereas hotels that belong to international groups or have an easy access to financial resources have increased their investment to increase the quality of the service provided. To check the validity of the theoretical model financial data from Barcelona, London and Paris hotels have been used analyzing profitability, quality of the service provided, the investment propensity and the evolution of the gross profit. The model and the empirical data provide the base for some industrial policy in the hospitality industry. To address the extra cost that small hotels in Europe have to face compared by bigger firms would help to improve the level of quality provided and to some extent have positive externalities in terms of job creation and an increasing added value for the industry.

Keywords : Airbnb, profitability, hospitality industry, game theory

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