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# Impact of Airbnb on Hotel Industry in Helsinki

Haki Fissha

Ashmita Shrestha

| Abstract: | |
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The sharing economy has opened doors to many business ideas within the hospitality industry but at the same time disrupted longstanding industries. Airbnb is one of the most famous company part of the sharing economy that has created a reliable marketplace for people to advertise, find and book an interesting and unique accommodations all over the world. The fast growth of this sector and Airbnb is due to technological advancements that provide an easy access to the tourism industry all over the world. It has put many questions in many hotel owners' mind, who consider if Airbnb will be a threat, and if it has affected or will affect their business in the future.

The aim of this research is to find out if Airbnb has affected the performance of hotels in Helsinki. The target groups are from hostels to five star hotels. The study will attempt to find out if Airbnb's presence has caused any impact on hotels in the Helsinki region, and if there is any competition between hotels and Airbnb. If so; has it influenced the hotel occupancy rate, price and revenue? A qualitative research method is used to conduct this research. Semi-structured interviews with 6 hotel managers were conducted in order to find out the performance of their respective hotels, against the background of Airbnb's significant growth in Helsinki.

The results indicate that hotel performance in Helsinki has continued to grow while more and more hosts were renting out their places on Airbnb. Hotels have been very successful at selling their rooms with overnight stays in hotels showing an increase along with the occupancy rates and the RevPAR. All in all, Airbnb is not considered a threat to the hotel business in Helsinki as it does not have a negative effect on the performance of hotels. It is not even considered a competitor by hoteliers.

# Table of Contents

## Figures

## Tables

# 1 INTRODUCTION

The sharing economy currently has opened doors to many business ideas within the hospitality industry. Individuals are proposing to share their private apartments and houses, cars and other personal materials temporarily for travellers from all over the world; and, travellers are willing to use other individual spare materials cars or even apartment rooms.

Airbnb was found in 2008 as a platform that helps travellers seeking accommodations to connect with individuals who have extra rooms in their house. It allows hosts to utilize their spare rooms and help them generate income without putting much effort. The fast growth of this sector is due to high-speed internet connection and provided an easy access to the tourism industry all over the world. It has put many questions in many hotel owners mind if it will be a threat or if it has or will affect their business in the future. This paper will be based on collected information to finding out if the growth of Airbnb has any impact on the performance of traditional accommodation providers within Helsinki.

Airbnb has created the belongingness feeling to travellers by making them part of the local society at their any preferred destination. The fact that travellers can be in touch with their hosts had made them to choose Airbnb; We all enjoy travelling even though it is for so many reasons and finding a good accommodation with perfect price and good hospitality is one of the important part of planning a trip. Many people want to experience the local life while traveling. They want to feel part of the local society to have a good understanding about the city that they are staying in which was not easily possible in the older days but now credits to the founders of Airbnb it is possible to find a good place with a host that has a better knowledge about certain destinations.

Currently Airbnb works in a lot of countries attracting many customers since the price is fair and help them build new friendships with locals. The interaction with the local society and the fact that they are making friends has helped Airbnb to grow faster in the past years. Not only travellers but hosts are enjoying the whole Airbnb process. They try to bring out the best in order to get a rating; they put some extra services in order to challenge their competitors.

## 1.1  Research Aim and Questions

The aim of this research is to find out if Airbnb has affected the performance of hotels in Helsinki. The target groups are from hostels to five star hotels. The study will attempt to find out if Airbnb's presence has caused any impact on hotels in Helsinki region. If there is any competition between hotels and Airbnb. If so; has it influenced on the hotel occupancy rate, price and revenue.

To reach this aim, this research will try to answer the following questions;
1. Has the presence of Airbnb affected the performance of hotels in Helsinki?
2. Does it have an effect on the occupancy rate, pricing and revenue of hotels?

## 1.2  Thesis Structure

The first chapter is Introduction, where the researcher demonstrates the reasoning behind the choice of the research topic, the overall purpose and aim of the study is indicated as well as structure of the paper is outlined.

In the second chapter, the literature review is presented where readers are provided an insight into the topic of sharing economy reviewing general definitions and driving forces supporting this phenomenon. Also, the future of the sharing economy is discussed and its impact on tourism.

Further Airbnb is introduced; this section focuses on the fast pace of Airbnb development and its impacts on hotel industry. This part also mentions about the current growth of Airbnb in Finnish market in particularly in Helsinki area.

Also, the performance indicators used in the hotel industry are explained. The concept of occupancy rates, pricing and revenue is introduced and key figures of performance indicators of hotels in Helsinki is also included.

The third chapter of the thesis is the discussion about research methodology, merged with the explanatory section about data collection and data analysis.

The fourth chapter contains the major findings collected during the research conducted along with relevant information needed for accomplishing the research aim.

The fifth chapter of the thesis is assigned to the discussion derived from the comparison of the research and theoretical observations. Also, the reliability and validity and limitation is discussed.

Finally, the last chapter contains the conclusion that summarizes the whole thesis with findings.

# 2 THEORITICAL FREMEWORK

## 2.1 The Sharing Economy

Sharing is not a new concept. While it has been a longstanding form of exchange, new forms of sharing have emerged in recent years. Giving somebody a ride, having guests in your house or running errands for friends are not revolutionary concepts. The new concept here is that now it is a market where all this is not done to help out a friend but rather providing these same services to strangers for money (Sundararajan, 2016). The sharing economy is generally defined as "the peer-to-peer-based activity of obtaining, giving, or sharing the access to goods and services, coordinated through community-based online services" (Hamari;Sjöklint;& Ukkonen, 2016, p. 1) which will soon be an inseparable part of the economy.

The present day sharing economy has created new ways and means of supplying shared goods and services and opportunities which a decade ago would have been know just as connected consumption or collaborative consumption. This consumption was based on peer-to-peer relationships without any external market factors to mediate the exchange. (Schor & Fitzmaurice,, 2014)

There has been a significant increase in the sharing activity which can be seen by the growing number of firms that have emerged and their impressive growth in the market. Some of the examples of these firms being Airbnb, Zipcar, Spotify., RelayRides, TaskRabbit, etc. These firms are the driving forces behind rise of the shared economy and its recognition globally. With more firms entering the market and more people using the services, the growth of the sharing economy is undeniable. (Böckmann, 2013)

The major economic, technological and social changes that took place in the past 10 years is the reason for the major growth of the sharing economy specifically in the travel industry. (Trivett, 2013)

Economical

It is not a coincidence that many of the sharing and rental services we find on the internet were founded during the global recession between 2008 and 2010. Due to the economic collapse and subsequent fiscal austerity, unemployment rates were high, income stagnated, people found it difficult to pay their debts. At the same time gas prices, airfare and hotel rates did not show any tendency to decrease. This led to the growth of collaborative consumption where it allowed people with idle or excess assets to make money and the potential consumers a cheaper option compared to the mainstream services. (Trivett, 2013)

Another economic trend that contributed to the growth of the sharing economy is the prevalence of venture capital to fund the start-ups with the concept of sharing. It has been estimated that USD 23 billion in venture capital funding has poured into the market since 2010, with Airbnb and Uber having been collected more than half of the sum raised since 2007. (Wallenstein & Shelat, 2017)

Technological

Technology has played a major role in the growth of the sharing economy. This era of constant advancement of technology where internet is easily accessible, the use of smartphones has increased significantly and social media influences is major has allowed for the concept of collaborative consumption to be born and created an economy of micro entrepreneurs.

Reputation also plays an important role in this business. Ratings and reviews has been possible because of technology. These ratings and reviews by hosts and users of the services determines whether other consumers would want to use the same services provided by the hosts. For example, after staying at an Airbnb, the guests rate the hosts services and write their reviews. These ratings and reviews are seen by potential customers to help make their decision whether to choose the Airbnb listing. People would not want to go for listings that have poor ratings and bad reviews. Hence, this improves

the quality of the customer service, as hosts rely on these ratings to generate more income. (Evans, 2016)

Social

Change in consumer taste and norms are also major drivers of growth of companies part of the shared economy. People are moving towards sustainability because of the growing awareness of the environmental impact of our consumption practices. Hence practices like recirculation of goods, recycling and renting unused spaces are becoming very popular which also helps in reducing personal consumption towards sustainable levels (Schor & Fitzmaurice,, 2014). Research shows that in few cities in North America, both car ownership and emissions from driving has reduced as a result of car sharing programs in these cities (Martin & Shaheen, 2016). Reduced cars means less emission which also means less fuel consumption leading to a positive impact on the environment and conservation of resources.

### 2.1.1  Future of sharing economy

Over the past decade, the world has witnessed the rise of a new sharing economy where people use Internet and mobile technologies to access goods and resources provided by their peers, rather than a traditional corporate vendor. This sharing platform is leading towards the emergence of an unexplored economy which had initially been driven by the tech start-ups and now it is moving from emerging model to one that is used by a large portion of the population. The sharing economy currently is where social media was 10 years ago and like social media, sharing economy will continue to evolve and build moment along with disrupting most industries in the coming years. (Sparks & Honey Cultural Strategists)

Growth of sharing economy is possible where the number of people willing to share is huge but the service providers are limited and cannot match the demand. Another possibility of growth of sharing economy is places where functional mobile services are evolving. The USA has seen a fast growth in the sharing economy. While in Europe the expansion is comparatively slower due to the language barrier and fragment market. But with more people learning English and it becoming the main language between the online

consumers, there is a possibility for fast growth of the sharing economy. (Lahti & Selosmaa)

## Market size

Willingness to participate in sharing communities
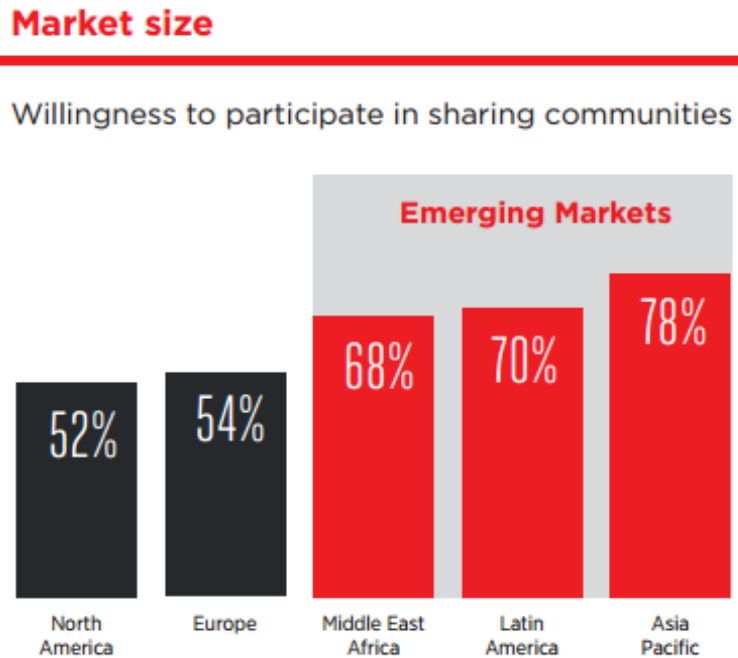


*Figure 1 Willingness to Participate in sharing communities (gsma)*

As for the developing countries, the sharing economy offers many opportunities to people as it creates jobs, promotes entrepreneurship, and increase the sources of income. This is therefore leading to more people willing to participate in sharing communities. This would be the impact the sharing economy players will have on the emerging markets. According to gsma, the emerging markets which are basically developing countries in the Middle East, Africa, Latin America and Asia Pacific have very high percentage of people willing to participate in the sharing communities as seen in Figure 1. (gsma)

More and more people are embracing the sharing economy around the world. According to PwC, the five main sectors of the sharing economy comprised a market of about USD 15 billion in 2014 globally. By 2025, they say this market will grow to USD 335 Billion This means that these five sectors namely peer-to-peer lending, online staffing, peer-to-peer accommodation, car sharing, and music and video streaming will generate more than 50 percent of the total global revenue, up from only five percent of their current share. (Yaraghi & Ravi, 2017, p. 6)

In Finland, the sharing economy is estimated to be EUR 107 million in 2016 based on the total value of transaction on digital platforms. It is expected to grow to EUR 350 million in 2017 which is 227 percent increase from 2016. The number is expected to double by 2018 to EUR 700 million. By 2020, it is estimated to grow to EUR 1.375 billion which is a 1,200 percent increase since 2016. Also, crowdfunding seems to be responsible for 65 percent of the value of the sharing economy transactions in 2016. But the main growth is expected to be ride-sharing platforms which is expected to grow to 29 percent in 2020 from 1 percent in 2016. (Carlström, 2017)

Sharing economy is still not fully accepted by everyone. But with the constant advancement in technology, the sharing economy is bound to improve. At the rate the sharing economy is expanding, the risks and challenges are also growing with it. Hence, the innovators must be focused and alert all the time while coming up with ideas. This is important because the balance of demand and supply must be maintained. (Anastasia, 2015)

One of the section of the market that had not embraced the sharing economy were the Big Brand Companies. They believed it is just a way for the millennials to earn extra money during the recession and thought that the successful companies that are part of the sharing economy like Airbnb and Uber are just passing trends. But with the change in consumer behaviour due to the availability of new and cheaper alternatives as result of collaborative consumption, lots of businesses have been disrupted. Therefore, several big companies are making strategic changes to their business model to adapt the sharing economy. For example, General Motors launched their own car-sharing service called Maven in 2016. The insurance company AXA has established partnerships with sharing economy companies like Blabla car, Uber, Ouicar and Socialcar. Hence, the competitive pressures of the collaborative economy and the ever-growing list of companies rising to meet will push big brand companies into the market. (Zammit, 2017)

Sharing economy has had and will have a significant impact on the economy. It is becoming a threat to traditional service providers as the consumer purchasing behaviour is changing with significant increase in new sharing economy platforms. Hence, sharing economy is not just a passing trend. It is going to be around for many decades to come and evolve. (Anastasia, 2015)

## 2.1.2 Impact of Sharing Economy

The travel and tourism industry is the sector that has been affected most by the emergence of sharing economy. Services in this sector have traditionally been provided by businesses such as hotels, taxis or tour operators. But with the recent change in market where, a growing number of people are willing to share temporarily with tourists. This is changing the tourism marketplace by giving people new choices on accommodation, things to do and ways to get around. The supporters of this business model think that sharing economy with the help of online platforms provides easy access to wide range of services which compared to traditional service providers are more affordable and are often of higher quality.

Over a decade ago, travelling somewhere would mean that travellers would stay at hotels, resorts or hostels etc. Basically, meaning a traditional provider of accommodation. But in the present day, it is not that obvious anymore with companies like Airbnb's increasing popularity. Travellers now are pickier than ever, with so much options to choose from, they do not want to settle for less than they have to. (Trivett, 2013) This is pushing these established companies to respond to the increasing competition. One of the example being the French national railway operator SNCF's new products which is low cost train and bus services. These products were the solution to compete with the ridesharing services like BlaBlaCar. (Juul, 2017)

It has been estimated by the European Commission in 2016 that the gross revenue in the EU from sharing economy platforms and providers amounted to EUR 28 billion in 2015. Tourism related activities, particularly accommodation and transportation sectors are responsible for majority of this revenue. (European Commission, 2016, p. 8)

According to the survey by (Eurobarometer, 2016) the consumer interest in sharing economy was very strong where half of the respondents were well aware of the services of sharing economy platforms and 17 percent had used those services at least once. The respondents who were more most likely to use the sharing economy platforms were the age group between 25 and 39 which was 27 percent of the people surveyed.

According to the European tourism forum report, business association HORTEC which represents hotels, restaurants, cafes etc. in Europe the size of the accommodation sector of the sharing economy is more than double the size of traditional hotel economy in

Europe. Taking Airbnb as an example, it has over 3 million listings in over 191 countries around the world compared to Hilton which is a global chain hotel that has only 215 thousand rooms in 76 countries. Most of the countries in Europe is experiencing immense growth in sharing accommodation. This is due to the fact that international tourists are particularly looking for this services. One of the example being Milan, where 455 hotels and 398 non-hotels already exists, the number of accommodation listings in most popular sharing platforms was identified to be 8,500. There is no doubt that collaborative economy services are clearly becoming a part of tourism experience. (European Tourism Forum, 2016, pp. 1-2)

Despite the positive impact that sharing economy has there are also negative impacts. Sharing economy is a largely unregulated sector which creates unfair competition with traditional industries as traditional industries follow a number of rules and regulations concerning environment protection, labour, various taxes, licensing fees, personnel training costs, insurance fees and other regulatory compliances. With the growing popularity of the sharing platforms, the part time workers in the industry is increasing leading to an economy with reduced job security and unsteady income as people who work under a shared economy do not get the same benefits accorded to full-time employees such as paid leaves, sick pay and bonuses. Additionally, it also takes away profit from businesses. For example, Uber has reduced the number of people using taxis since its inception which has had an effect on the profit of taxi drivers and companies offering transportation services. (Sherman, 2014)

The income that individuals make can also be deceiving. For example, Uber claims its drivers earn up to USD 90,000 in New York and USD 74,191 in San Francisco by working 40 hour a week. However, while claiming high incomes what is not mentioned is the cost of running the business falls on the workers where they have to pay for wear-and-tear on their vehicles, gas and other insurances. Others jumping from one job to the next must absorb the transportation costs, expense for tools to do the work, phone service, accounting, health insurance and taxes. By this measure, even annual income of USD 90,000 looks far less lucrative if a third or more of the money comes off the top. (Sherman, 2014)

Sharing economy also has resulted in loss in potential government revenues like taxes. People doing business online like providing legal writing and web development services

are not regulated. These practices allow people from different parts of the world to offer services as well which leads to most people who earn income online not paying taxes for their earnings which should have been added to government's tax revenues. (Lombardo, 2015)

The sharing economy is built on trust between the customer and the host or driver but people do take advantage of this trust. There have been instances when customers have been harassed and threatened. Hosts have also had their properties trashed by inconsiderate guests. Hence the issue of security and safety arises. As companies like Airbnb and Uber do perform background checks on their drivers and hosts respectively but the checks are very limited. Also, online buyers and sellers are not totally protected from fraud as buyers can be exposed to products that might be of inferior quality. (Sherman, 2014)

All economic system has positive and negative impacts. The sharing economy has gained momentum through the years has been adapted globally. As for the negative impacts solutions to avoid it could be regulating the practices with proper laws that would benefit all the parties involved. (Lombardo, 2015)

## 2.2 Airbnb

Airbnb was established in August 2008 in San Francisco California; found by Brian Chesky, Nathan Blecharczyk and Joe Gebbia. It is a reliable marketplace for people to advertise, find and book an interesting and unique accommodations all over the world. Currently Airbnb works in many countries attracting many customers from all over the world. It has expanded to 191+ countries, in over 65,000+ cities and over 200,000,000+ guests around the world. (Airbnb)

Anyone who has an extra room in their home can start Airbnb. It allows hosts to utilize their spare room and help them to generate income without putting much effort. There are some terms that needs to be considered before becoming a host; it requires the following information about hosts

- The kind of host you want to become; who the host want to benefit socially or financially, is it because you want to enhance your personal growth; or earn some income out of it?

- Logging into the platform create profile by answering various personal questions; for safety and security purpose

- Commitment and time

- Materials provided for guests; such as essential furniture and other materials, house rules

- Setting up the price, check for security, and positive relationship with neighbors

- Risk and liability. Such as house insurance and other protection to properties.

- Reading the terms and conditions of the platform on how to become a host.

Not only travellers but hosts are enjoying the platform as it has added value to their lives. They are providing good services to get the best ratings by being unique and authentic which led them to maximize their revenue increasing their share.

Though Airbnb has generated solutions to the hospitality industry; but due to its fast growth traditional accommodation providers have not been very pleased. Currently Airbnb is banned in some countries due to factors such as the changes in house prices, security and other issues; prices have gone up and locals are not able to afford to live there anymore.

## 2.2.1 How Airbnb works

Airbnb does not own the properties that are listed in their website. It only acts as an intermediary between those who want to rent out space and those who are looking for space to rent. Creating an account on Airbnb is free. One of the requirement before the account is created is accepting to treat everyone equally, regardless of race, religion, sex, or other factors. Once agreed, the account is active. (Juggernaut, 2015)

Airbnb hosts list their properties on the online platform with different room types which can be a single room or even a whole house. It allows hosts to promote their properties by signing up for free by putting pictures, titles with descriptions including their backgrounds which gives information for travellers to know a little bit about their hosts.

It also shows prices, location and reviews. It has multiple language options including sign languages. (Juggernaut, 2015)

Travellers can look for any kind of property at any given time after creating Airbnb profile then they can contact hosts and send reservation request and then process the payment details. Before the reservation is final, however, the host has to approve the request, unless the listing is an "instant book" listing, as those listings do not require the host to approve. (Juggernaut, 2015)

### 2.2.2  Airbnb's Growth

Since its inception in 2008, Airbnb has grown from three air beds in San Francisco to over 3,000,000 listings in more than 65,000 cities in 191+ countries around the world.

The first million room nights booked for Airbnb was in February 2011 but since then the growth has been staggering. It took Airbnb only 4 months after the first million room nights booked to book its second million night. By the end of January 2012, a total of 5 million night had been booked. (Guttentag, 2015, p. 1198)



*Figure 2 Airbnb listings growth (Golden, 2017)*

Airbnb started to grow considerably since 2011. With 600,000 listings at the end of 2013, it reached 1 million after one year. The number of listings has had an upward trend ever

since with 2016 reaching 2 million listings and more than 3 million in 2017. (Golden, 2017) Also, up until December 2016, a total of 140 million guests have arrived at Airbnb listings since 2008 which nearly 80 million in 2016 which is double the guests from 2015. (Airbnb, 2017)

In major cities like Paris, San Francisco and Seattle, the size of the host-and-guest community in 2016 was more than 20 percent of the population. Every year the community in Japan and Australia has grown by more than 200 percent making Sydney and Tokyo two of the top-five markets. Even without focusing to grow their community in China, 1 million guests have stayed at Airbnb listings in China. (Airbnb, 2017)

The revenue generated by travel and tourism sector is USD 7.2 trillion which is almost 10 percent of the global GDP. With the continuous expansion in the market the generation that have been quicker in embracing the peer to peer accommodation platforms have been the Millennials and Generation Z. These younger adult generation will account for 75 percent of consumers by 2025 in the US alone. Currently around 60 percent of the guests who have ever booked on Airbnb are millennials and the growth has been 120 percent in 2015. With support from residents towards allowing residents to rent extra spaces on Airbnb, specially in key markets in US, 85 percent were millennials. Adding to it, more than 50 percent of the millennials admit to most likely willing to support elected officials who favour home sharing. (Airbnb, 2017)

In China, 90 percent of millennials admit travel as an important part of their identity. Millennials constitute for 83 percent of Airbnb users in China who have made at least one booking which is the highest proportion of any country. (Airbnb, 2017)

### 2.2.3 Positive and Negative effects of Airbnb

Airbnb platform has benefited both hosts and travellers. Travellers can stay connected to the local environment with low cost; and hosts get to meet travellers from all over the world while making profit out of it. Airbnb gives various options with different listings and fair prices; it mainly serves travel segment such as budget-minded tourists and travellers that stays for longer days. But currently since many companies are planning on cost cutting; Airbnb has started to attract business travellers as well. (Folger, 2016)

Sustainability is a major positive part of Airbnb; it is an environmentally conscious way of traveling. 72 percent of Airbnb travellers appreciated the benefits of Airbnb and how it contributed to the hospitality industry. Airbnb has reduced energy usage within America and Europe compared to hotels which includes lowering greenhouse gases, less water consumption, waste avoidance, and increased environmental awareness. Due to travellers choosing Airbnb they are able to save energy within North America and Europe in 900,000 homes. (Airbnb citizen, 2017)

In many cities, Airbnb has been accused of driving up rental prices, disrupting communities and displacing local residents by reducing available housing stock. In Amsterdam, according to report by the Dutch bank ING, Airbnb is responsible for the rise in real estate prices because people are prepared to pay more for a flat when they can make extra money by renting it out. These platforms have become extremely popular, and lucrative. An estimated 22,000 rooms and flats in the Amsterdam are now offered for rent in online sharing platforms at least once a year. (Zee, 2016)

In Canada, Airbnb is responsible for removal of as many as 14,000 units of housing from rental markets in Montreal, Toronto and Vancouver, according to a report by the Urban Politics and Governance Lab. In downtown Montreal, it is more than three percent of the total housing stock which is comparable to the rental vacancy rate in any of the three cities. (Phys, 2017)

A study analysing the impact of Airbnb listings by ZIP code in the US revealed that for every 10 percent growth in Airbnb listings, there was a 0.4 percent increase in average rent in the particular ZIP code. Also, on average every year from 2012 to 2016, Airbnb listings in central Brooklyn neighbourhoods grew by 41 percent. During that same period, rents in these neighbourhoods also saw an increase by 7.7 percent a year with an estimated average increase of USD 131 every year. However, not all the increase is considered only because of Airbnb. Other factors also had influenced the housing costs and the findings suggests that Airbnb was responsible for an estimated USD 27 of this increase. (Barron;Kung;& Proserpio, 2017, p. 19)

### 2.2.4  Impact on Hotel Industry

In less than a decade, Airbnb has become a phenomenon and has transformed how millions of people travel, building a global marketplace around short-term apartment and room rentals other than conventional options like hotels or hostels. This incredible growing speed has some impact in markets around the world.

Airbnb's influence has been growing and the some of the leaders of world's largest hotel companies are beginning to address its competition. According to study conducted by CBRE Hotels' Americas Research, out of the USD 141 billion that hotels generate in US, travellers spent USD 2.4 billion on Airbnb lodging from October 2014 to September 2015. Even though it is a small percentage of what hotels generate what is significant here is that it is huge increase from the same time period the previous year. Out of the USD 2.4 billion spent by travellers, more than 55 percent of it was spent in five U.S. with New York being on top of the list. With an Airbnb Competition Index of 81.4 out of 100, the city is also on the top of list among the domestic market at risk for hotels. (Trejos, 2016)

According to a report by HVS on the effects of Airbnb in New York City, it was estimated that USD 450 million in direct revenues are lost by hotels to Airbnb per year (HVS, 2015, p. 21). The rooms nights booked between Airbnb and hotels showed the biggest effect as between September 2014 and August 2015, the hotel room nights reserved were 480,000 while Airbnb has over 2.8 million room nights booked (HVS, 2015, p. 5). Along with decreasing demand for traditional hotels in New York many hotel employees are losing their jobs and in total over 2,800 jobs are directly lost to Airbnb. The additional negative effects of low demand of hotel rooms are seen in the additional revenue losses as well. Overall over USD 108 million revenue from food and beverage revenues of hotels are lost because of travellers choosing to book with Airbnb. (HVS, 2015, p. 23)

But on the contrary, many hoteliers and economists consider Airbnb is not a threat for the hotel industry. According to analysts at Deutsche Bank "Ultimately, Airbnb looks to be 'increasing the pie,' rather than necessarily reducing the share for others," and believes that Airbnb is offering an alternative when hotels demand grow leading to significant increase in the market rate for example due to events in the city. Also, the travel market has expanded over the years with the help of low cost airlines as it has made it affordable to people to travel, who otherwise would not have been able to travel, or would have travelled less frequently. Because of this, hotels in major cities RevPAR has not changed

much over the years while simultaneously supply of rooms on Airbnb has increased (Bryan, 2016). Similarly, Christopher Nassetta, CEO of Hilton Worldwide distinguishes the business between the both. According to him hotels are in business of serving people while Airbnb is more in business of lodging. (Trejos, 2016)

### 2.2.5 EU Regulations about Airbnb

The European Union warned in summer 2016 member states not to over-regulate companies such as Airbnb Inc. in guidelines that serve the basis for the EU to take to court those countries that do not abide by the rules. The guidelines published by the European Commission, provide the EU's interpretation to existing law and how it should be applied to the so-called "sharing economy." According to the EU member states have responded indifferently to the rapidly growing market. Home-sharing service Airbnb did not face warm welcome in some big European cities. Airbnb confirms that while some cities like London and Amsterdam were encouraging the market with progressive policies, the other cities have more "complex, burdensome and disproportionate regulations," to the detriment of those using the service. In Paris and Berlin regulators and hotels have raised complaints. The reaction led to EU guidelines. (Drozdiak, 2016)

The EU sees sharing economy as promoting entrepreneurship and startups and wants to encourage the growth of the sharing economy at a time when the job market is relatively weak. In its statement, the EU asks countries to ban a company's activity only as a measure of last resort. Due to the commission the member states should consider those who earn money through such companies to be employees. The consideration should be based on three main criteria: the nature of the work, whether the users act under direction from the company and whether they are being compensated for their work. The EU also urged member states to simplify the application of tax rules to those using sharing-economy platforms. (European Commission, 2016)

The guidance is technically nonbinding and does not represent a proposal for new EU-wide rules. It would serve as the basis for the EU's investigations into member states that do not comply with the laws. If the EU finds wrongdoing, it could eventually take the countries to court and demand penalty payments. (European Commission, 2016)

### 2.2.6  Airbnb market in Finland and Helsinki in particular

Airbnb is a new trend in Finland which is becoming very popular. The amount of rooms offered has been increasing at a very high rate over the last few years. In Finland, as of July 2016 there were 5,551 Airbnb listings with a yearly growth of 96 percent. 2,500 of the listings are in Helsinki and there has been a yearly growth of 77 percent. According to Aja Guldhammer, Nordic Country Manager, it took a while for the Finnish culture to embrace the idea of Airbnb compared to the other Nordic countries.

Over the years, the number of Airbnb users in Finland has increased because the price is fair and it also helps travellers to build new relationships with locals, explore new cultures and experiences It can be seen that in Finland people can freely involve in Airbnb as hosts whenever they have idle rooms or apartments, which make this kind of accommodation, flourish quickly and strongly, especially in current context of economic strains.

Airbnb has a strong presence in Helsinki compared to the rest of the country as half of the total listings in Finland is located in Helsinki.
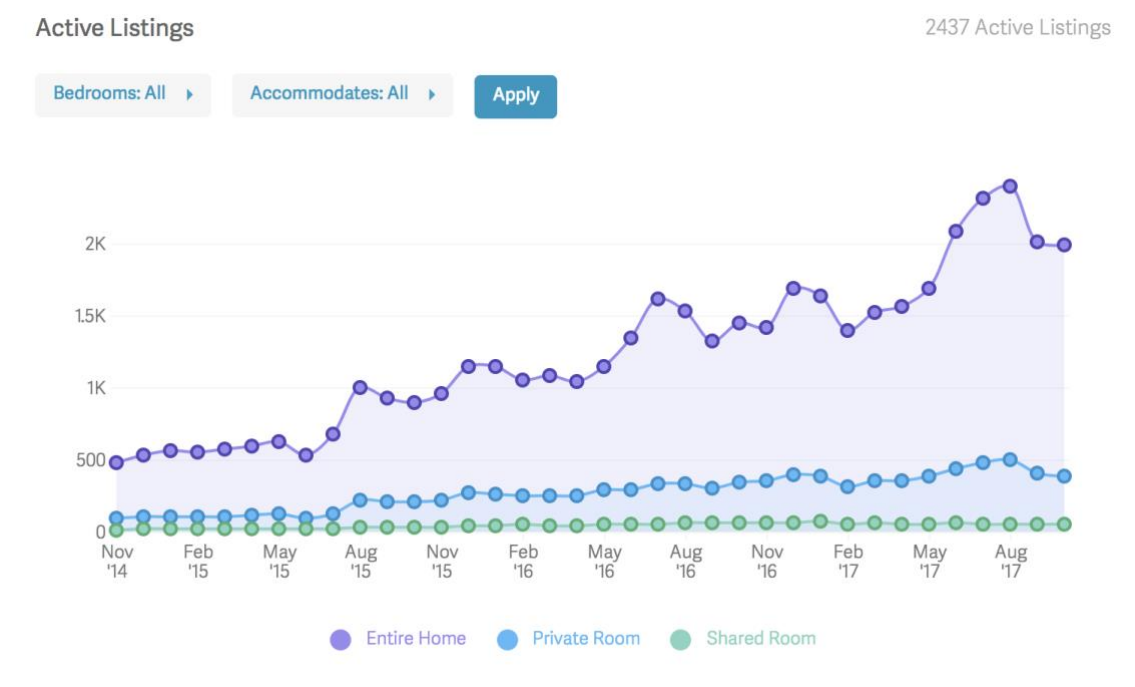


*Figure 3 Active listings of Airbnb in Helsinki (Airdna)*

According to Airdna, the total amount of active Airbnb listings in Helsinki in 2014 was 588. Since then it has been only growing at a very high rate when in August 2017 it

reached up to 2,960 active listings. Basically, it has increased by 403.4 percent in just a matter of 3 years (Airdna). The major share of the listings in Helsinki are Entire homes while private room and shared room have small share of listings. However, it is important to acknowledge the baseline when analysing growth rates. As Airbnb is relatively new to the market in Helsinki, it has more room to grow compared to the hotels that have existed and has an established position in the market for over decades. Also, Airbnb's inventory is not constant, as hosts can add or take off their property from Airbnb depending on their willingness to make their property available or not. As a result, the supply is always changing which is clearly seen in Figure 2.



*Figure 4 Demand growth of Airbnb listings in Helsinki (Airdna)*

The demand growth for entire home listings in Airbnb in Helsinki has also seen a major rise. According to Airdna, the total number of booked properties in Helsinki in August 2015 were 866 with 11,265 booked nights during the month, in August of 2016 the booked properties were 1,379 with 23,431 total booked nights and in August 2017 the booked properties were 2,220 with 40,924 booked nights. Comparing the booked properties of August 2015 with August 2017, it has seen a 156.35 percent increase. In total 2015 registered 68,124 listings nights booked and 171,985 were booked in 2016 which is 152.5 percent increase. Also, the number of booked properties in Airbnb grew

significantly from 6,059 in 2015 to 12,338 in 2016 which is a 103.6 percent increase (Airdna). This has shown how more are more people have been choosing Airbnb in Helsinki. However, the demand of Airbnb listings, with staggering growth rates it becomes difficult to assess the nature of this demand. Whether it is because of the increase in travellers coming to Helsinki or whether it is actually a room night that if not for Airbnb's presence would have been spent in a hotel.
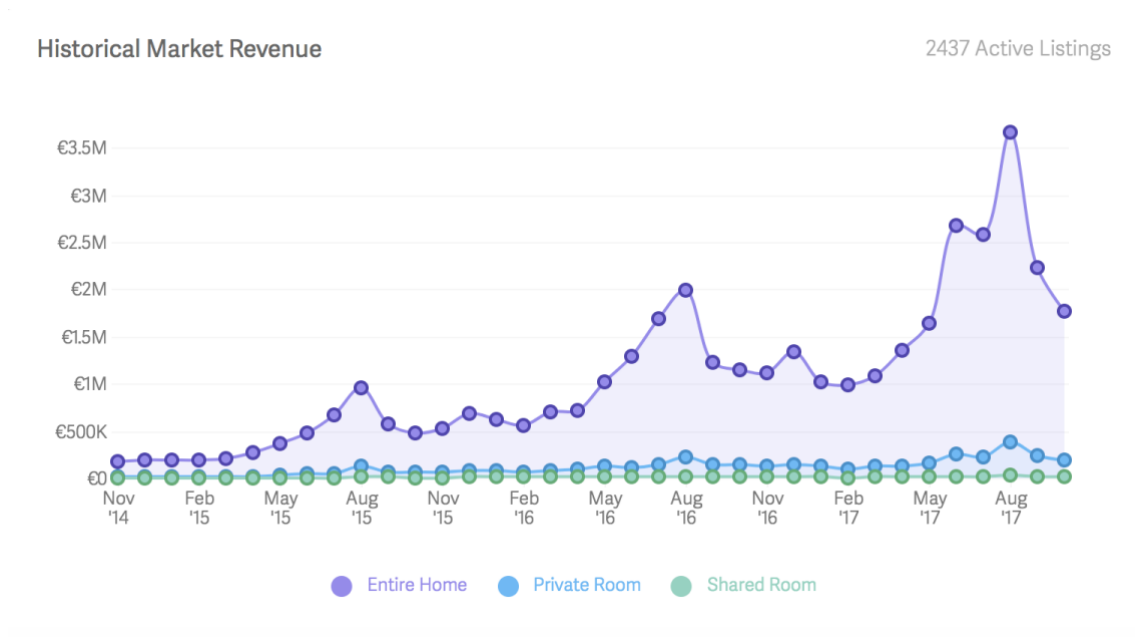


*Figure 5 Market Revenue of Airbnb in Helsinki (Airdna)*

The performance of Airbnb in the Helsinki market has also been quite remarkable. With growth in demand and increase in properties booked, the market revenue of Airbnb listings has also seen a major growth. With a total market revenue of EUR 200,786 in November 2014, EUR 610,504 in November 2015 and EUR 1,254,167 in November 2016, it is a 524.63 percent increase in market revenue during the same period. Also, the market revenue has increased from 6.2 million in 2015 to 15 million in 2016 which is a 141.6 percent increase in one year. (Airdna)

*Figure 6 Occupancy rate of Airbnb listings in Helsinki (Airdna)*

According to Airdna, the current occupancy rate of Airbnb listings is 74 percent in Helsinki. The trend of occupancy rate has seen an increase 10 out 12 months in each percentile group when comparing it to the same months the previous years. (Airdna)



*Figure 7 Monthly RevPAR of entire home Airbnb listings in Helsinki (Airdna)*

According to Airdna, the current RevPAR of Airbnb listings is EUR 45. The monthly RevPAR of Airbnb listings in Helsinki has increased significantly over the last few years. In 2016, the growth rate was 40.3 percent from 2015. (Airdna)
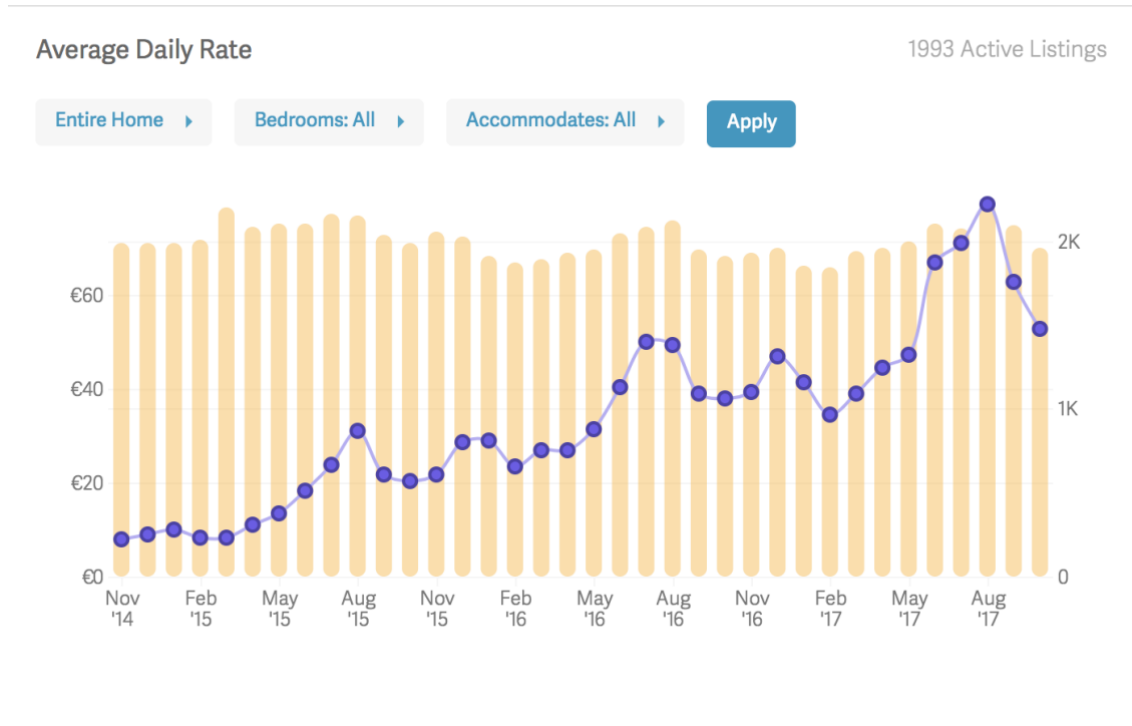


*Figure 8 Average Daily Rate of Entire home listing in Airbnbin Helsinki (Airdna)*

According to Airdna, currently the average daily rate of entire home listings in Airbnb is EUR 70. In 2015, it was EUR 74 and with a decline rate of 5.4 percent it was EUR 70 in 2016. (Airdna)

## 2.3 Hotel Industry in Helsinki

The first premises of holiday accommodation and spas in Helsinki were established at the end of 19th century which was the time when tourism started to grow. Since then the business has accelerated over the years had has seen an inflow of International hotel chains since 1970's but with a gap during the wars when a lot of hotels were shut down. Also, the 1990s' recession had an effect on hotels for several years. But international events like Olympic Games in 1952 and the presidency of the Council of the European Union in 1999 have helped to bring tourists and visitors successfully to Helsinki. (Hotel Arthur)

Helsinki is slowly raising its profile as a major conference destination as well as a leisure tourism destination. The hotel industry in Helsinki is small compared to other Nordic capital cities. The hotel demand is very stable and is split evenly between domestic and international demand. The domestic demand being 47 percent and international demand 53 percent. It is the same with leisure and business travellers, the demand is split evenly with 50.7 percent of leisure travellers and 48.3 percent being business travellers (Statistics Finland). According to visitor survey by Visit Finland, International travel to Finland increased to a total of 7.7 million visits in 2016 which is a 2 percent increase from 2015. (Visit Finland)

Compared to other neighbouring capitals Oslo, Norway, Stockholm and Copenhagen, Helsinki is lagging in terms of hotel performance due to tourism demand levels. But industry experts are certain about the continuity of the steady rise in demand in the coming years. With it the number of overnight stays in Helsinki is expected to rise, especially with the growth of Asian source markets. (Heiberg, 2015)
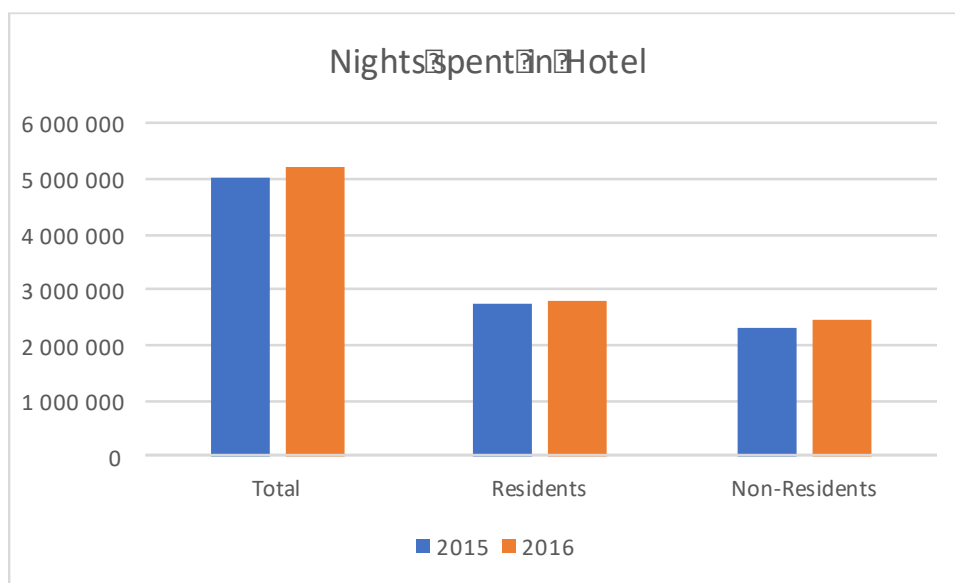


*Figure 9 Night spent in hotels in Helsinki (Statistics Finland)*

According to Statistics Finland, overnight stays in hotels have increased by 3.9 percent in Helsinki in 2016. Out of the total night spent, the night spent by both foreigners and domestic customers have grown equally at 1.3 percent. (Statistics Finland)

Helsinki is said to be a rate-driven hotel market, where higher rates for business travellers drive the majority of business. However, lower leisure rates are used to maintain occupancy during July to December. (Heiberg, 2015)

### 2.3.1 Occupancy rates

Occupancy rate is a very important metric for businesses in the hospitality industry as it drives their level of success. It measures the number of units that are occupied in hotels, commercial premises or any other unit which is rented out to tenants. It is also considered very important for a hotel's management specially for sales department. (Saleem & Al-Juboori, 2013)

The occupancy rate is calculated by dividing the total number of units occupied by the total number of units available times 100 (littlehotelier). While calculating the occupancy rate, it is important to determine the number of available units. As sometimes due to many factors some of the units may not available to be used by the customers. For example, a hotel with 50 rooms might only have 45 rooms that can be used by the customers. So, 45 should be the basis for the occupancy calculation not 50.

A high occupancy rate indicates that most of the units are generating income but the occupancy rate that is lower than the capacity of the establishment indicates lost selling opportunities which affects the revenue. Even with low occupancy rates, many establishments continue their operations in the off seasons if the fixed costs and variable expenses are covered by the occupancy rates then. Occupancy rate reaches its maximum rate when an establishments demand exceeds its capacity. This happens because the management in the short run will not be able to increase the bookings to meet the demand. (littlehotelier)

As a high occupancy rates indicates generation of income, low occupancy rate indicates problems which may be due to various reasons. Some of them being high rates, bad economic conditions, bad location of the property etc. This is the reason occupancy rates are significant to the owners, operators, investors etc. and are regularly tracked by them. These rates help in decision making process which will have an impact on revenue generation and profitability. For real estate investor, occupancy rates are predictors of cash flow, they also use the rates as a basis for investing in new projects. Occupancy rates also indicates prospects of new projects, for example if the occupancy rate of a hotel in a particular neighbourhood is high it could mean a there might be room for new hotel in the same neighbourhood. Also, government agencies use occupancy rates to review project proposals. (Ramu, 2014)

The study conducted by IPK International reveals that the occupancy rates are high in cities which have no place for new hotels under construction. For example, cities like Singapore and Hong-Kong have very high occupancy rates which is higher than 80 percent. Whereas in Europe the occupancy rate stays on average between 50 percent and 60 percent. (IPK International, 2013, p. 10)
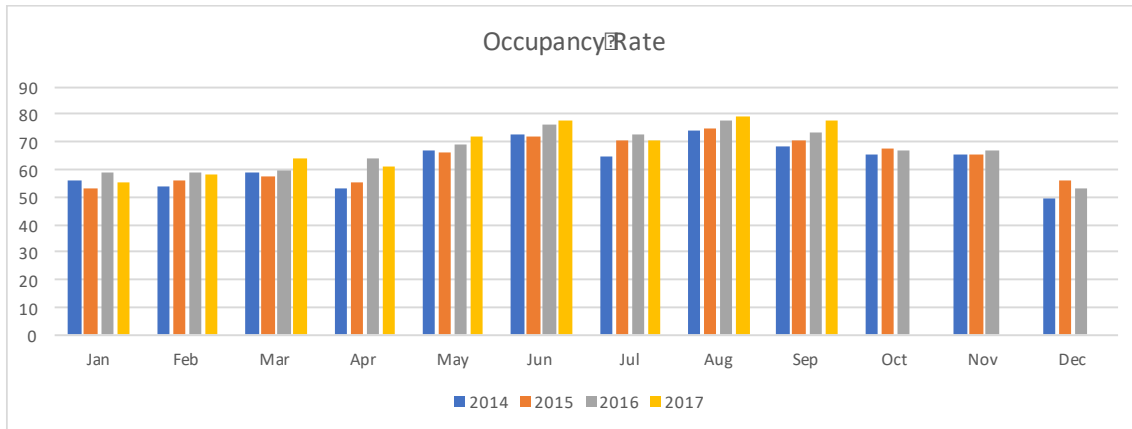


*Figure 10 Occupancy rate of rooms of hotels in Helsinki (Statistics Finland)*

According to Statistics Finland, the occupancy rate of hotels in Helsinki has seen a growth in the last four years. In 2014 the occupancy rate of hotels stood at 62.5 percent, the following year it increased to 64 percent. The year 2016 also saw a growth of 3 percent more than the previous year. Also until September 2017, the occupancy rate is about 68.9 percent. (Statistics Finland)

### 2.3.2  Pricing

Pricing is very important for the success of hotels and are also a key to define the performance of the establishment. It is generally the price that is mostly looked by the customers (RateGain, 2017). Hotels can set their own prices whether they are a part of a chain or are independent establishments.

One of the advantage of the hotel industry is that they have the flexibility to change their prices more frequently. Hence price becomes an important tool which the hotels can use to manipulate demand and draw certain market segments. Also, the hotels can reduce the prices temporarily to facilitate growth and eventually increase the prices after the goals have been achieved. Hotels have the advantage to slow their bookings by increasing their price and also reducing the booking channels temporarily which helps them avoid the

temporary customers. This opens up availability to targeted segments like the loyal customers of the hotel, corporate customers etc. which is beneficial for the business in the long run. (Yelkur & DaCosta, 2001)

The growing online purchasing behaviour of consumers have an impact on the pricing. The prices being distributed publicly online on such a large scale creates a competitive environment where consumers have the accessibility to compare prices and products. (Yelkur & DaCosta, 2001)

Traditionally, the demand for hotels could be categorized into few segments according to the nature of the travel of the consumers being, business, leisure, meeting and groups. The hotel fixes prices for only these segments to be profitable. But today in technologically driven and a very competitive market, hotels consider many variables like demographics, geography, social media data, purchase histories etc. while creating a demand segmentation and offer prices that are targeted specifically to each segment. (Worldhotels)

Hotels set up prices most of the time according to demand forecasts. During the seasons when the demand is forecasted to be high, prices are also high. For example, higher the reservations for a particular day, prices go higher. However, some managers choose to charge a price lower than the recommended price to avoid the risk of error. During the low seasons when the demand is low, the price is also usually lowered. However, hotels proposing more often low prices is appreciated by potential and actual customers. (Bendoly, 2013)

For the consumer, the price also depends on the quality of services. The consumers give a lot of importance to the value for money, it is to say that if a service is judged as being of quality, it would be more expensive. According to Litvin, the 3 factors that influence this relationship is classification, brand and word of mouth. As a matter of fact, services are always more difficult to estimate than products, which why consumers are paying even more attention to these very characteristics. (Litvin;Goldsmith;& Pan, 2006)

But value for money is not the only factor that consumers are after. Consumers these days are ready to contribute to the society and this being the reason willing to accept small rise in prices, which would correspond to a more important commitment of the establishment to the practices of CSR (Corporate social responsibility) or of sustainable development.
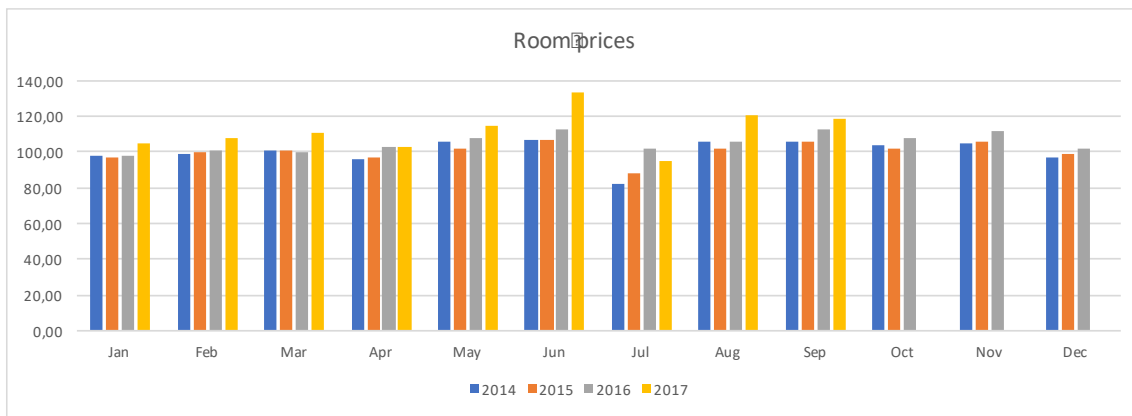
Room prices

*Figure 11 Prices of rooms in Helsinki (Statistics Finland)*

In Statistics Finland's accommodation statistics, "room price (room rate) indicates the average price (incl. VAT) per occupied room per day, i.e. the average price a customer has paid for a room for an overnight stay. The average room rate is calculated by dividing the sales revenue from sold rooms (VAT included) by the number of occupied rooms". (Statistics Finland)

According to Statistics Finland, the prices of rooms in hotels in Helsinki has fluctuated over the last four years. In 2014, the price of hotels in average was EUR 101.29. The following year it went down to EUR 100.71. But from 2016 there has been an increasing trend in prices in most of the months because of which the average price was EUR 106.89. Until September 2017, the prices have also seen an increase compared to the previous year. (Statistics Finland)

### 2.3.3  Revenue

Revenue in the hotel industry is generated through room rentals, renting meeting spaces, sale of food or beverage and all the other extra services that hotels provide to their guests. All of these services generates revenue for the hotels. Being a service oriented business, good customer service and other small details makes a difference in the success of the business. Extra service generates certain share of the total revenue generated by the hotels. In most hotels, the major share of their revenue comes from room bookings. And the two factors that determine the amount of revenue a hotel earns from its rooms are occupancy and average daily rate. (Jensen)

In the hospitality industry, the focus of revenue management has shifted from just analysing to strategizing as well. The basic idea of revenue management is that it aims to

supply the right product or service to the right customer at just the right price and at the right time. The goal is the optimization of financial results. By analysing sales trends and forecasting results, using historical scenarios, price strategies are adjusted to maximize revenues (Revxpert). Revenue management is a very important aspect of the hotel. It is very important to understand the importance of revenue management in hotels for it to be implemented properly and gain the results as desired.

Ideally, hotels want to increase their sales and decrease expenses to increase the hotels net earnings. Increasing the net earning require work and a good revenue management. The indication of a hotels improving performance can be seen in measurable rise in occupancy rates, ADR and RevPAR. (Azavista)

Revenue per available room (RevPAR) is a very important performance metric used in the hotel industry that helps the hotels to assess their operations and ability to fill the available rooms at an average rate. RevPAR indicates an increasing average room rate or occupancy rate. It can be "calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate or it can also be calculated by dividing a hotel's total room revenue by the total number of available rooms in the period being measured." (Investopedia)

Hotels can use RevPAR to adjust room rates in order to maximise revenue which makes it an effective performance indicator. RevPAR is calculated on a per room basis, so hotel may have a lower RevPAR but higher overall revenue due to having many more rooms. (Investopedia)
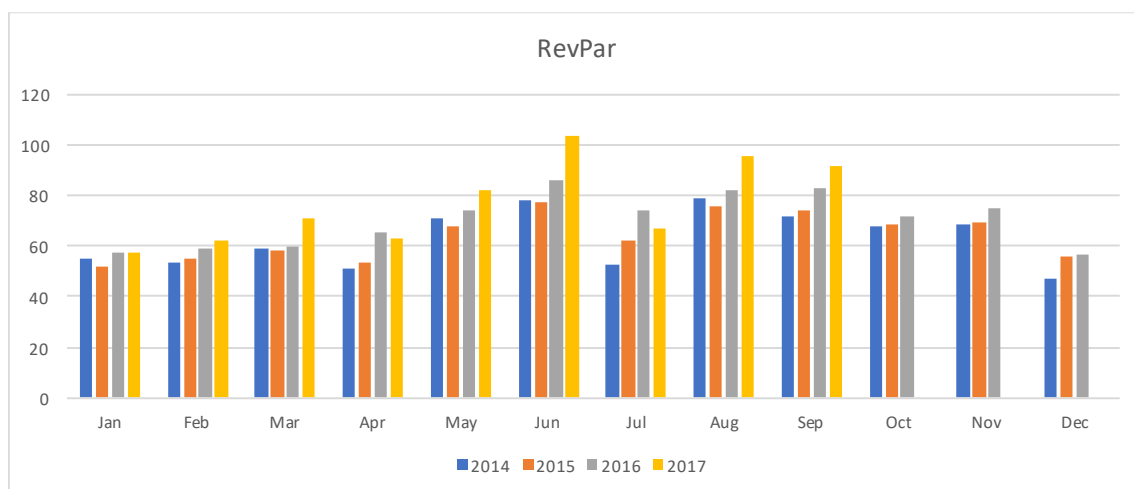


*Figure 12 RevPAR of hotels in Helsinki. (Statistics Finland)*

Hotels in Helsinki has seen an increase in the occupancy rate in the last few years. According to Statistics Finland the RevPAR of hotels in Helsinki has also seen an increasing trend over the last four years. The RevPAR of hotels in 2014 was EUR 63.35. The following year it increased to EUR 64.42. Also, the year 2016 saw an increase and the RevPAR was EUR 71.65. In 2017 until September, the RevPAR is EUR 77.40. (Statistics Finland)

# 3  RESEARCH METHODOLOGY

There are two types of data collection in research design: primary and secondary data. The material used for this thesis is collected through secondary data to provide background information and outline theories from existing established digital and literature sources.  and primary data which is obtained through interviews.

"Data are also divided into two other categories, not by referring to their source but to their characteristics; basically, whether they can be reduced to numbers or presented only in words", meaning quantitative or qualitative respectively. (Walliman, 2011, p. 69)

In this research, qualitative research methodology is used as the aim of this study is to evaluate the impact of Airbnb on the performance of hotel in Helsinki. Because the research objective is broad, it must be understood deeper with a presence on the ground. Therefore, the information sought is held by the persons working in the hotels in Helsinki particularly in the revenue management department.

Qualitative data can be obtained by several methods, namely Interviews, observations, focus groups. In this research interviews were conducted as the method of data collection as it allowed the researcher to be more flexible in exploring the subject and getting the interviewee's point of view in the research subject. It gives a better insight into what interviewee sees.

Interviews can be formalized and structured, using standardized questions for each respondent, or they may be informal and unstructured conversations. It also can be categorized as structured, semi-structured, and unstructured interviews. Semi-structured interviews consist of a list of themes and questions to be covered, but they may vary

depending on the interview and additional questions may be required. (Saunders;Lewis;& Thornhill, 2009)

For this thesis, semi-structured interview is conducted as they allow to obtain structured information in order to carry out a correct analysis but at the same time the researcher can make room for additional follow-up questions.

## 3.1 Data Collection

The qualitative part of the data collection is a set of semi-structured interviews with a sample of 6 interviews. The interviewees are hotel managers of 6 different hotels in Helsinki. This is important as respondents must have access to information on the occupancy rate, prices, and revenues of the institution which is held by persons in charge of hotels.

The interview guide was used as a basis for the data collection and further analysis. Key points and specific questions were used, but always giving the respondent an opportunity to comment on their answers, which helped to collect even more information. The same interview guide was used and the same questions were asked to all interviewees. The interview was conducted based on a dialogue which was audio recorded and notes were taken. The researcher did not judge the answers, but rather tried to understand the trends and the position taken by the interviewee with regard to the problem.

The data were obtained through a visit to the respondents' workplace. This method has advantages for the researcher in terms of personal contact and the ability to ask more questions based on the answers. However, the disadvantage being that interviews take longer time, the interviewee is obliged to give more time, on average 30 mins.

Qualitative studies often face refusals. Out of the 35 hotels contacted by the researcher, only 6 interviews were managed to be arranged. In search of relevant respondents, google searches, LinkedIn and personal contacts were used. Out of the 6 interviews, 4 were acquired through personal contacts and only 2 were acquired through regular email request.

The interview was divided into 5 main parts: questions, related to the background of the company; questions about occupancy rates; questions about pricing; questions about

revenue; questions related to the presence of Airbnb and how it has affected their company.

## 3.2 Data analysis

Qualitative data analysis is the process that involves moving the raw that has been collected and use it to provide explanation, understand and interpret the phenomena and situations that is being studied. (Saunders;Lewis;& Thornhill, 2009)

The collected data from the interview was processed manually, and the results of the interview were transcribed, without interfering with answers. The relevant information was then gathered and divided into different sections according to the research questions. No technical tools were used to analyse the data. The answers gathered from interviews were compared to the information gathered from the theoretical sources.

## 4   RESULTS

## 4.1 Background Information and Occupancy rates

*Table 1 Background Information of Hotels Interviewed*

|  | Hotel A | Hotel B | Hotel C | Hotel D | Hotel E | Hotel F |
|---|---|---|---|---|---|---|
| Category | 2* | 3* | 4* | 4* | 3* | 3* |
| Started | 1992 | 1985 | 2016 | 2010 | 2010 | 2007 |
| Competitors | Cheap Sleep, Park, Omena, Hotel Ava, Hotel Finn, and other cheap hotels and hostels | Hotel Helka, Hotel Arthur, Hotel Jardin, Glo Art Hotel, Hotel Albert | Hilton hotel Airport | Hotel Rivoli, Jardin, Hellsten Senat, Hotel Helka, Hotel Aleksenteri, F6 | Hotel Arthur, Carlton Helsinki | Cumulus Hotel, Hotel Arthur |
| Competitive advantage | Price, locations and different services | Location, Price | Service | Location | Location | Location |

| Rooms | 135 | 64 | 258 | 58 | 152 | 21 |
|---|---|---|---|---|---|---|
| Target group | Construction workers, Finnish travellers, students | Tourists, business travellers, associations, foundations | Business travellers, airport customers, families | International Business travellers, families | Business travellers, families, tourists | Business travellers |
| Occupancy rate | 65-80 percent | 60 percent | 75 percent | 80 percent | 65-80 percent | 88 percent |
| Turnover | - | 1.5 million | - | Above 2 million | Above 2.5 million | Above 1 million |
| Booking channels | Mostly online channels, GTA, Miki travels | Direct calls, group bookings from travel agents, mainly online booking sites like Expedia | Booking.com, Expedia, direct bookings | Different booking channels | Booking.com, Hotels.com, direct bookings, Expedia | Expedia, booking.com Hansel |

Hotel A has been in the market for twenty-five years since 1992. It offers 135 rooms in total which includes single, twin and triple rooms but they do not have any dormitories. The main target group of the hotel are the construction workers during winter. Also, student groups and international groups are their target customers. 67 percent of their customers are Finnish travellers and Finnish groups. As for their competitors, they do not consider Airbnb listings as competition but rather budget hotels and hostels like Cheap sleep, Park, Omena, Hotel Ava, Hotel Finn as their main competitors. Their competitive advantage is cheap price, good location and different services that they offer.

The occupancy rate of the hotel is between 65-80 percent. The occupancy rate has gone down a bit in the last few years but they do not consider Airbnb as the reason behind it.

"Our occupancy has gone a little bit down but at the same time our middle rate has increased. In five years, over 15 percent. It is quite a lot. The revenue is higher but there are less people." Hotel Manager A

Hotel B has been in the market for thirty-two years since 1985. It is a relatively small hotel with 64 rooms which are mostly single rooms and double rooms and also including a few family rooms and superior rooms. The hotel does not have big corporations as clients but their main customers are different associations, foundations, societies, small and medium size companies. 75 percent of their customers are business travellers and 60 percent of clients come from abroad. Also, 75 percent of the booking they receive are for single rooms.

They consider location of the hotels as a key factor when it comes to competition. Price is also considered as a big factor but at the same time not the only factor to compete. Their main competitors being Hotel Helka, Hotel Arthur, Hotel Jardin, Glo Art Hotel and Hotel Albert are also competitors as they are located in the same area.

The location of the hotel is considered as the main advantage as it is centrally located close to the railway station. Also, price is considered as an advantage as in a three-star hotel category it offers a competitive price under 100 euro per room.

The occupancy rate has decreased from 80 percent to 60 percent in a year. Although the occupancy has decreased by 20 percent in comparison to previous year, the average price of rooms has gone up. The hotel does not take Airbnb as a consideration for the decreased occupancy rates. They believe it is due to the changes in economic situation in Finland and abroad.

"At the moment occupancy is 60 percent. More importantly the average price has gone up. Our Hotel has about the same average occupancy rate as other hotels in Helsinki." Hotel Manager B

Hotel C is a newly opened hotel in Helsinki in 2016. Based in Norway there are three hotels in the Helsinki area. The hotel offers two hundred fifty-eight standard rooms and nine deluxe rooms. The location of the hotel is close to the airport hence the target customers being travellers who need accommodation close to the airport, who have early flights or long travel. Also, business travellers and families are their target customers. They focus more on their service to customers and considers passion and synergy as the

main advantage in their service. The competitors are mainly hotels located around the same area and cater the same group of customers.

The occupancy rate has been good so far. On average, it has been about 75 percent. There have been few decreases in some of the months, but it general it has been quite good. Airbnb does not affect the occupancy rates so strongly as most of the guests are short stay guests.

Hotel D is an upper upscale hotel in central Helsinki which opened in 2010. It is a relatively new hotel that offers fifty-eight rooms in three different categories namely comfort, style and lux. The hotel also offers nine rooms with small kitchens giving an option for guests that intend to stay longer. According to the manager the hotel is also very popular among families and the longest stay has been for six months. 80percent of the guests are international business travellers, some families and young adults. Positioning itself as an upper upscale hotel it considers Hotel Rivoli Jardin, Hellsten Senat, Hotel Helka, Hotel Aleksenteri, F6 as its main competitors. The main season is the same for the most of the hotels summer starting in May and the low one is in winter starting in November. Also, congresses and other big events have an effect.

Since the opening of the hotel in 2010 the occupancy rate has gone up from 78 percent to 80 percent. According to the hotel manager the occupancy has not been affected by the Airbnb at all but he adds that it may become an issue in future as there has been talks about Airbnb.

Hotel E has been in the market for seven years since 2010. The hotel offers a total of 152 rooms in the form of standard and superior rooms. They also have family rooms and one room accessible for people with disabilities. The hotels customer group includes business travellers, families, tourists. A fair share of their guests are Finnish customers. The competitive advantage of the hotel is its location. Plussa and PINS customers receive a 10 percent discount on normal daily rates.

The occupancy rate of the hotel has increased over the last few years. It is usually between 65-80 percent. They also do not consider Airbnb as competition. But also points out if occupancy rates decreases in the future, it would have to be looked into if Airbnb is one of the reasons. But as of now Airbnb does not affect the occupancy rates.

Hotel F has been in the market for ten years since 2007. It is a small hotel and at the moment they are building a chain of small hotels in Helsinki. They currently have 21 rooms and at the moment building 18 more rooms. Their rooms are Hilton standard rooms. Their main customer groups are business travellers and as they are a part of an American chain of hotels, they also have a lot of customers from USA. During the weekdays, their customers are mainly businessmen but during the weekends they also cater the leisure groups who are in Helsinki for the weekend events. They have three benchmark hotels around their location. Cumulus Hotel and Hotel Arthur are hotels they consider as their competition. The major competitive advantage of the hotel is its location.

The current occupancy rate is 88 percent. The last 2 years the occupancy rate has been stable but since 2011 to 2015 there was a very good growth in the occupancy rate. Airbnb is not at all considered as a competition as they are a very small hotel.

## 4.2 Pricing

None of the hotels monitor Airbnb's pricing and take Airbnb listings prices into consideration while pricing their own rooms. They are more focused on competing with the prices of their respective competitors.

"Airbnb pricing is not monitored at the moment. Maybe in the future." Hotel Manager B

The pricing of the hotels is quite different from one another because of the difference in the category of the hotels.
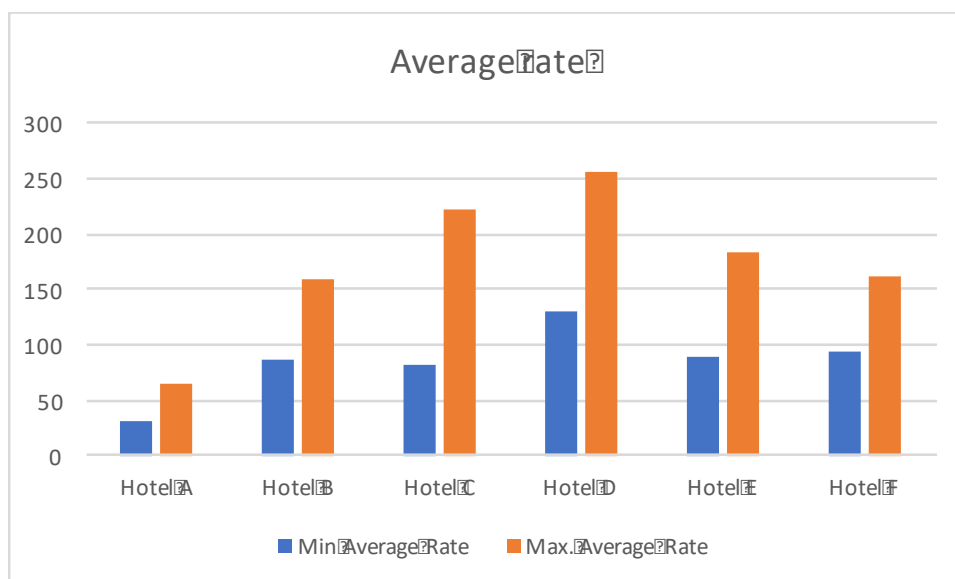
*Figure 13 Average rate for a standard room*

The figure above shows the minimum and maximum average rate for the hotels for a standard room. The prices of hotels B, E and F are around the same range as they fall under the same category of hotels. The pricing difference is very logical as hotels falls under different category of hotels so the pricing policy is also different.

Hotel B monitors pricing daily by taking into consideration of their own booking situation and other hotels as well. Compared to few other hotels in the same area their prices are relatively lower. The Airbnb pricing is not monitored currently but the manager does not deny that maybe in the future it could be considered.

Hotel A has minimum rate between EUR 27-30. The Hotel Manger A also adds that in comparison to the hostels in general the price of their hotel is a little higher. This is due to the fact that most other hostels have dormitories which is around EUR 15.

Hotel Manger E mentions pricing of the rooms are changing constantly. Monitoring the price of the market has become very important to set own prices among other factors.

Hotel C priced their room lower in the beginning phase of their operations to attract customers as a part of their short-term marketing strategy. But now prices are competitive. Prices are monitored and are set taking many factors into consideration. Mostly demand forecasts and pricing of other competitor hotels.

## 4.3  Revenue

The hotel representatives mentioned other sources to increase their revenue in addition to accommodation were restaurants, sauna, conference rooms etc.

*Table 2 Additional services provided by the hotels interviewed*

| Hotel | Food & Bevarages | Wellness & Sauna | Conference | Other services |
|-------|------------------|------------------|------------|----------------|
| Hotel A | x | x | | |
| Hotel B | | x | x | x |
| Hotel C | x | x | x | x |
| Hotel D | x | x | x | x |

| | | | | |
|---|---|---|---|---|
| Hotel E | x | x | x | x |
| Hotel F | x | | | x |

Hence the services have been categorized into different sections and illustrated in the table above to the services relevant to each hotel. Sauna and food and beverages are the most popular additional services provided by the hotels.

All the respondents were very clear in their answers that majority of their revenue is generated from accommodation services. The extra services are just considered as a supplement.

Manager of hotel A clears that even though the occupancy rates has gone down, the revenue has not been affected much due to the higher average daily rates.

The popular sales channels were online booking systems such as Expedia, bookings.com, hotels.com etc. Bookings from travel agents and direct bookings are also very popular. One of the interesting comment from Manager of Hotel B was that since Airbnb is not in the same booking channels as hotels, it shouldn't be a problem.

Manager of Hotel E also mentions the growth in occupancy rates with high average daily rates has increased the revenue in the last few years.

## 4.4 Airbnb's impact

All the respondents were unanimous in their answer about how Airbnb has affected the performance of their individual business. They all agreed that presently it has not affected their business specifically. However, manager of Hotel A admits to maybe having to considering Airbnb's threat in the future.

Also, the hotel managers points out their advantages that Airbnb cannot compete with presently. Hotel manager A points out their personal service in terms of giving their guests suggestion on events and things to do in Helsinki as they are very aware and keeps track of all the events and happenings planned in the city.

Hotel manager C mentions their positioning in the Airport area and catering to certain segment of the market like customers in rush among others as the advantage over Airbnb.

As Airbnb's current positioning in the Airport area is weak and their standards cannot meet the special needs of Airport hotel guests.

Hotel Manager B states that Airbnb has not affected them directly. However, he also adds that Airbnb's 12 percent share of the room capacity is quite notable but the extent of effect it has in their hotel is not known currently. At present their hotel does not consider Airbnb as competition and would rather focus on getting the customers that have chosen hotels.

"Airbnb has not affected us. The economic situation has been good and that has affected business positively. Airbnb's 12 percent share of the room capacity is notable but the question is how much effect it has on our hotel is not known at the moment. As long as Airbnb is not in the same booking channels as hotels like Booking.com there is not a problem." Hotel Manager B

"The most of the hotels see Airbnb as another niche product that has its own client. There are always people who want to stay in a hotel and people who want to stay in Airbnb." Hotel Manager B

Hotel Manager D talks about their room that includes small kitchen which caters to customer group who wish to stay for a longer period in the hotel. He also adds that currently Airbnb does not affect their business but it might have a bigger role in the future.

Hotel Manager F mentions they do not consider Airbnb as a threat at all because their main customer groups are business travellers who also looks for the services in hotels that Airbnb cannot cater to. He also gives his opinion on where the Airbnb might be affecting. He adds it could be taking a share of customers who are coming to Helsinki for longer stays. And as their hotel does not have family room and are business oriented hotel, it is not affecting them.

Giving his opinion Hotel Manager F says "Airbnb's effects have started to be seen in big hotels because if the hotel has 500 rooms, maybe 20 rooms could have such customers who have preferred Airbnb because of the pricing."

Hotel Manager E mentions that hotel rates in Helsinki are quite low in comparison to hotel rates in other capital cities in Europe. Because the middle rate in Helsinki is comparatively lower could be a reason the business has not been affected by Airbnb like in other countries.

However, Hotel manager A admits that "Definitely need to consider the threat of Airbnb it in the future".

# 5 DISCUSSION

The theories and data from the secondary research were similar to what was found with the research findings. On the basis of the theory and the research results the research objectives are being answered. The purpose of the research was to find out if Airbnb has affected the performance of hotels in Helsinki. It was investigated if Airbnb has an effect on the occupancy rate, pricing and revenue of hotels in Helsinki. Further, it was investigated if the arrival of Airbnb pulled a reduction in the occupancy rate in hotels in Helsinki. Did hotels in Helsinki have to lower their prices to compete with Airbnb and finally if the hotels in Helsinki figured out a reduction in their revenue. Results of this study indicate that the presence of Airbnb in the market does not have an effect in the performance of hotels in Helsinki. Even with Airbnb's impressive demand growth, the hotels in Helsinki have increasing occupancy rates, prices and revenue over the last few years.

However, it is important to acknowledge the baseline when analysing growth rates. As Airbnb is relatively new to the market in Helsinki, it has more room to grow compared to the hotels that have existed and has an established position in the market for over decades.

The hotels in Helsinki has not seen a reduction in occupancy rates as an effect of Airbnb. Findings indicate that four out of the six hotels interviewed had a growth in their occupancy rates since the past four years. However, two of the hotels had a decrease in their occupancy rates. It was stated that Airbnb was not the reason behind the decrease in the occupancy rate but rather the economic situation Finland. Also, due to the difference in target customers, Airbnb does not affect hotels occupancy rates. Where Airbnb has seen a major increase in market demand along with major increase in active listings from 588 listings in 2014 to 2,960 active listings in 2017. The occupancy rate has also shows a growth in each percentile group. The occupancy rates of hotels in Helsinki at the same time also increased. Over the last four years the occupancy rate of hotels in Helsinki has increased from 62.5 percent in 2014 to 68.9 percent until September of 2017 with a steady growth between these two years as well. But demand of Airbnb listings, with staggering growth rates becomes difficult to assess the nature of this demand. Whether it is because

of the increase in travellers coming to Helsinki or whether it is actually a room night that if not for Airbnb's presence would have been spent in a hotel.

Airbnb pricing does not influence the pricing of the hotel rooms in Helsinki nor have the hotels have had to lower the prices in order to compete with Airbnb. Findings from the interview indicates that Airbnb prices are not considered while pricing the hotel rooms. Also, Airbnb prices are not monitored as Airbnb is not considered as competition. Hotels are more focused on competing with prices from their competitor hotels. As pricing is one of the important aspect of revenue management for the success of hotels, it is set according to demand forecasts and prices of the competing hotels. Pricing is one of the important fields to check the possible impact of Airbnb's competitive presence in the market. Again, the prices of hotels in Helsinki in general has increased when compared to each month in previous years. There have been a few decreases in some months during some years specially in 2015 but majority of the period has seen an increase as Figure 3 clearly shows. As a result, the last two years' prices have seen an increasing trend. An increasing occupancy rate with increase in average prices determines a healthy position of hotels in market.

Revenue of hotels in Helsinki have not face reduction due to Airbnb. Findings of research suggests that major share of a hotel's revenue is generated from the accommodation services. The additional services are considered to be supplementary revenue and the extra services provided by hotels not only generates additional revenue but also is a competitive advantage against Airbnb. As Airbnb do not match up to the additional services hotels provide their guests. The attractiveness of the hotels in this age where Airbnb's popularity is increasing may persist due to traditional hospitable attitude of hotel staff and additional services. Findings from the research show that even though the room listings and supply of Airbnb has grown sharply in Helsinki, there is no tendency for hotels' revenue per available room to decline. RevPAR is an important performance metric for the hotels as it also points towards increasing occupancy rates. As findings reveal increasing occupancy rates and prices for room, the RevPAR of hotels in Helsinki has also increased consistently over the last few years as can be seen in Figure 4.

Overall the performance of hotels in Helsinki have improved over the last few years. Airbnb is not considered a competition to the hotel business yet. Findings suggest different opinions of people in terms of Airbnb. As hotels are considered to be in business

of serving people whereas Airbnb are in business of lodging meaning that they have fundamentally distinct businesses. Airbnb seems to be growing the pie rather than reducing the share for others. Most of the hotels see the Airbnb as a niche product that has its own customer group. Even though the case might be different in other countries where hotels do see Airbnb as competition and has taken a certain percentage of the market share. Finland in general has seen a late growth in companies part of the sharing economy compared to other countries. But the estimation in growth of sharing economy in Finland by 1,200 percent from 2016 to 2020 cannot be overlooked. Airbnb being a major part of the sharing economy, it is also bound to grow. In Helsinki, Airbnb has started to grow at a very fast pace only since 2014. Basically, they have been in the market for about 3 years now, so hotels have not considered it as a threat until now. As some hotels believe Airbnb is not a threat to them because of the certain customer group they cater but others do not deny it taking a strong position in the market and becoming competition in the future.

## 5.1  Reliability and Validity

In a qualitative semi-structured interview, the lack of standardisation may cause concerns over the reliability of the data. It means that if other researchers would conduct the same research whether the results are going to be similar or not. Along with standardisation, the issue of bias is also one of the concerns. The two types of bias to be taken into consideration are the interviewer bias and the response bias. The interview bias is where the behaviour of the interviewer can create a bias in the way the interviewee responds to the questions. It can be caused when the interviewer attempts to impose their own beliefs through the questions asked. This leads to not being able develop the trust of the interviewee and as a result, the value information received may be limited. The response bias is related to the whether the interviewees want to reveal and discuss certain issues as it may lead to questions that would intrude on sensitive information. As a result, the answer given would only provide a partial information. (Saunders;Lewis;& Thornhill, 2009)

"Validity refers to the extent to which the researcher gains access to their participants' knowledge and experience, and is able to infer a meaning that the participant intended

from the language that was used by this person" (Saunders;Lewis;& Thornhill, 2009). High level of validity is possible to be obtained in non-standardised interviews where the interviews are conducted carefully by clarifying questions, probing the meaning of answers and discussing topics from different angles. The qualitative research using semi structured interviews cannot be used to make statistical generalisations about the entire population, where the number of cases is small. The findings in a case study using these methods is not necessarily intended to be replicated as findings in these research reflects the reality of the time they were collected, where the circumstances to be explored are dynamic and complex. (Saunders;Lewis;& Thornhill, 2009)

The situation around the topic sharing economy is developing very quickly and so is Airbnb's growth in Helsinki. Therefore, situation might be subject to change and the results of the research may differ as well. Qualitative research approach was chosen to conduct interviews for this research which is mostly based on the Hotel managers' opinions and views on considering Airbnb as a competition and its impact. Hence again comes to whether the results of the research will be same if the same procedure is repeated.

## 5.2  Limitation

In this study, the research method implemented is based on semi-structure method which does not require numerous responses. Therefore, limited responses will bring some restrictions to cover the whole hotel market in general in Helsinki. Also, the thesis focuses on qualitative research where result analysis will be based on opinions of people of the industry who have thorough understanding about the industry.

Airbnb being is very new to the market compared to hotels especially comparing the availability of very accurate data by Statistics Finland on hotel performance metrics in Helsinki. One of the limitation of this study could be the reliance on data provided by Airdna and as opposed to official data released by Airbnb. While the accuracy of Airdna data especially could be reliable with many leading global consulting firms using the same.

Because of the nature of Airbnb, it is good to keep in mind that the research data describes the current situation. Airbnb's growth rate in Helsinki has been at a very fast pace so most

probably the situation might change in a few years' time and the interviewed hotel representative might have a different approach towards Airbnb competition. Also, the findings of this study is only representative of the Helsinki area and applying the same findings to other markets may not be appropriate.

# 6  CONCLUSION

Airbnb has grown at a very fast pace in the last few years and have been able to attract many customers from all over the world. With its growing presence, it has given an option to travellers to find a place to stay almost anywhere around the world.  This new trend has also grown in Finland, especially in Helsinki in the past few years. Fairly new to the Helsinki market compared to other cities, it has shown a remarkable growth in the last three years with more listings being offered and more people choosing to stay at accommodation listed on Airbnb. It leads to the questions as to if it is becoming a major competition to the hotels in Helsinki and affecting their performance.

However, hotel performance in Helsinki has continued to show strength while more and more hosts were renting their places on Airbnb. Hotels have been very successful at selling their rooms with overnight stays in hotels showing an increase along with the occupancy rates and the RevPAR. All in all, Airbnb is not considered as a threat to the hotel business in Helsinki as it does not have a negative effect on the performance of hotels. It is not even considered as a competition by hoteliers as it is considered to be a niche market that caters to certain group of consumers. But if the demand of travellers in Helsinki towards Airbnb continues to grow with the same rate, hotels may need to reconsider their take on Airbnb as evidences of its effects in other major cities where the market share of Airbnb is quite significant has been seen.

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# 8  APPENDIX

**Semi structured interview questions**

1. When did you enter the hotel market?
2. The positioning of the hotel?
   - Who do you consider as your competitors?
   - What are your competitive advantages?
3. What is the capacity if the hotels? (no. of rooms)
4. What is your target market segment/ target customers?
5. What is the gross income in a year?

6. How is the current occupancy rate?
7. How has it changed over the last 5-6 years and the current situation?
8. If Airbnb is one of the reason, in what way do you think it has affected you?
9. What are the high and low seasons?

10. What are the types of rooms?
11. How are your rooms priced?
12. Is Airbnb listing's pricing monitored as well?
13. If yes, how does your revenue manager monitor the pricing of Airbnb? s
14. Does it affect the pricing of your rooms?

15. What kind of extra services does your hotel offer?
16. Accommodation services proportion from total revenue? (in percent)
17. From which channels your bookings mostly come from? (travel agents, directs bookings, online)

18. How has the growing presence of Airbnb in the market affected your business?

19. Do you think Airbnb will be a big competition (if not already) in the future?

20. What are the actions to compete with Airbnb?