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Disruption of the market structure in the tourism and hospitality accommodation service. The impact of the new short-term rental players.

The tourism industry evolves fast following the current economic, social, political and technological trajectories. The study explores how the appearance of the non-traditional tourist services brokered by digital short-term rental platforms have affected the structure of the tourism accommodation service and have altered the competition among the actors. Finally, it discusses the possible future scenarios. The Porter's five forces model and its evolution are used to disentangle the structure of the tourist accommodation industry through a longitudinal study. The discussion of the changes in strategic network of relationships in which the actors are involved allows to trace possible future scenarios.

Key words: Tourism and hospitality accommodation service, Short-term rental, Peer-to-peer, Porter's five forces model, Strategic networks.

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Introduction

Several factors, such as the advent of internet and ICT, the 2008' financial-economic crisis and the appearance of new models of consumption, have strongly affected the tourist accommodation services. In the last decades, the industry has undergone many changes, moving from the traditional to non-traditional tourist channels and from linear to complex relationships (Sigala, 2018). Short-term rentals brokered by online platforms within the new paradigm of the peer-to-peer consumption are a manifestation of this transformation.

The Porter's five forces model (Porter, 1979), the dominant paradigm in literature of the industry analysis (Schertler, 1984; Porter, 1985; Yarrborough, 1990; Porter, 2008), and its integration with the impact of government and the power of ICT (Schertler, 1984; Yarrborough 1990, Porter and Heppelmann, 2014), are used to disentangle the structure of the tourist accommodation industry and to analyse its changes over time. The integration of the model (competition in the industry, potential of new entrants, power of suppliers, power of customers and threat of substitute products) with two more forces aims to overcome the static nature of the model and to address the dynamic and constantly evolving realities.

As the peer-to-peer accommodation violates the boundaries of existing industry involving actors that are not typically part of traditional cohorts which are becoming significantly more competitive, a network perspective (Gulanti et al., 2000) is used to analyse the relationships within and between the forces in a time-lapse (provide it). The preliminary longitudinal study aims at answering the following research questions: *How have competitive forces in the tourist and hospitality accommodation sector changed with the entry of new players brokered by the new digital platforms? What are the emerging trends and new players that are currently influencing the market structure? Which is the impact of the new development trajectories in the tourist industry?* The discussion of the evolution of the accommodation service identifies how strategic network of relationships are changing tourist

and hospitality accommodation sector and provides evidence to investigate the competition in a local context.

Theoretical Background

The tourist accommodation service industry and its changes over time

Tourism is a multidimensional industry including a variety of services/sectors (UNWTO, 2018). The accommodation sector is growing and changing faster. It comprises the provision of short-term accommodations - daily or weekly - for visitors and travellers excluding the provision of long-term residences - monthly or annual - (OECD, 2014). The structure of the accommodation industry reflects the economic, political and social trajectories by adapting to emerging global trends. The main trends which changed the rules in the accommodation service in recent years are strictly linked to ICT development and to the national/regional/local regulations adopted by governments for the integration of these changes. These two forces play a crucial role to reshape the service model, moving from a red ocean industry – where the giants of the hotel industry (i.e. Marriott) were the leaders and the competition was bloody – towards a blue ocean one – where the sharing economy paradigm is new catalyst for innovation and enter the market gaining power and affecting competition (Chan and Mauborgne, 2004).

Porter's five forces model and its evolution

The drivers which are at the base of the sector structure transformations correspond to the evolution of the Porter's five forces model integrated with the two more elements, capturing the dynamic nature of the sector and the enlarged competition. In the Porter's model (1979), five forces determining the competition in an industry - the *established competitor*; the *potential of new entrants*; the *power of suppliers*; the *power of customers*; the

threat of substitute products. Since the emergence and raising awareness of new driving forces, the model has been integrated with two more forces- the power of ICT and the impact of government – which drastically altered the competitive environment in the tourist accommodation service which is dynamic and changing over time (Yarrborough, 1990; Andriotis, 1998). Porter (1985) listed the sources of the competitive advantage into traditional and non-traditional and identified the value chain activities. The ability to access the scientific knowledges and Information and Communication technologies have been listed among the non-traditional sources of competitive advantage, later assimilated to fluctuating factors (Porter, 2008). Even if Porter (1985; 2008) doesn't consider these elements truly as forces, certainly sees the need to assess how they affect the industry.

Technologies are shaping tourism management and marketing from linear to complex taking the role of *game changer* and value co-creator (or co-destructor) (Sigala 2018). In particular, digital platforms altered the competition by favoring the birth of new business models and by enhancing different connections among several actors in a flexible and non-binding way (Belk, 2014; Katz and Krueger, 2016; Schor, 2017). The peer-to-peer platforms business model (Breidbach and Brodie; 2017, Einav et al., 2017; Muñoz and Choen, 2017; Tussyadiah and Pesonen, 2018) which match the capacity-constrained assets and resources with consumer demand and which favor the provision instead of ownership transfer (Wirtz et al., 2019), is the new frontier in the tourism accommodation service and deserves further studies.

Some evidences which investigate the impact of the main sharing platforms on market structure (E.g. Airbnb, Booking, E-Bay), reveal that different regulations have produced different impacts on local contexts (Einav et al., 2016; O' Regan and Choe, 2017), supporting them or not. Although, there is no common agreement among scholars about the benefits of the state regulation on peer-to-peer markets, nowadays seems necessary to incorporate new

technologies in the design of normative machine to protect consumers from unconscionable operators or adverse market forces (Einav et al., 2016).

Although the drivers - ICT development and changing in political contexts - present blurring boundaries making difficult a 360-degree view of the tourist industry structure and although the Porter's five forces model is static in nature - it maps the structure of the industry by focusing on strategic variables/nodes -, the Porter's model remains the main tool for the sector structure's enlarged analysis, whose meaning is the representation of the interdependence between economic sectors/activities and the identification of strategic nodes (i.e. activities which influence and control different segment of the supply chain).

Methodology

The competitive forces in the tourist accommodation service industry are analysed through the evolution of the Porter's five forces model (Yarrborough, 1990; Andriotis, 1998; Porter, 1985; Porter, 2008; Porter and Heppelmann, 2014). This theoretical framework is used to empirically disentangle and analyse the tourist and hospitality accommodation sector and analyse its changes in four-time frames:

- t1: Traditional accommodation service: before the advent of digital platform in the tourist accommodation service.
- t2: The peer-to-peer (p2p) innovation: the 2008' crisis and the advent of digital platforms and private short-term renters.
- t3: The market overcrowding: i.e. p2p+b2c+b2b+c2b2c.
- t4: Current strategic networks: possible future scenarios.

Disentangling the accommodation service industry leveraging on the Porter's five forces model – and its evolution.

From niche to mass tourism: the 90s (t1)

In the 90s, tourism becomes indispensable in people's lifestyle and in the 21st century it's truly established as a global mass phenomenon (OECD, 2014; UNWTO, 2018). The growth of tourism manifested in a greater range of options in the tourism accommodation services, i.e. the traditional and linearly organized accommodation services. The supply-side was dominated by the industry giants – such as hotels and B&B – surrounded by medium-small hotels scattered in historical cities and in the resort areas. The services were triangulated by intermediaries – travel agencies and tour operators – which reach the demand-side – the consumers (Buhalis and Zoge, 2007). Internet and ICT technologies impacted widely on the tourist accommodation sector (Buhalis and Zoge, 2007). Advanced and differentiated tools were introduced (computers, computerized reservation systems, digital phone network, videos, teleconferencing, etc.) shortening distances, guaranteeing flexibility and information in real time, increasing competition among actors, increasing transparency and lowering switching costs (Buhalis, 1998; Buhalis and Licata, 2002; Buhalis and Zoge, 2007).

Internet and the ICT altered dramatically the five competitive forces: the number of *established competitors* increased because ICTs and related tools have made it possible to level out the differences between the actors and to reach suppliers and end-consumers more easily; *suppliers* have increased their bargaining power and their competition lowering costs and increasing efficiency; *buyers* also increased their bargaining power thanks to the ease of directly accessing products and information. For *Potential entrants* the accommodation service sector became attractive identifying new market share niches as the Internet has made the sales channels much more attractive and has exponentially increased creative distribution opportunities. The *threat of substitute* was limited by strong brand identity or high switching costs. In this case the Internet and the ICT intensified the rivalry and pushes companies to

provide an increasingly wide range of options with innovative features lowering the barriers for substitutes.

The 2008' crisis and the advent of the digital platforms in the tourist accommodation service (t2)

At the beginning of the new millennium was impacted by the 2008' financial-economic crisis and the reappearance of the peer-to-peer consumption (p2p). The biggest crisis of the neoliberal capitalism of the last two decades (Kotz, 2009) changed the way in which production and consumption were conceived and proposed in many sectors in the United States and worldwide somehow returning to their origins (Belk, 2014). The labour market has suffered a strong regression and we have witnessed a decrease in wages and permanent jobs: *"The shift to temporary and part-time workers replaced high-wage jobs with low-wage jobs. Unrestrained competition among large corporations put downward pressure on wages."* (Kotz, 2009 p.307)

According to the UNWTO international tourism started to decline during the second semester of 2008 and intensified during the first semester of 2009 experiencing its highest regression pick (Kotz, 2009; Sheldon and Dwyer, 2010; Papatheodorou et al., 2010). The need for people to face the economic recession pushed many citizens to monetize their physical assets and/or know-how and to create new income (The Economist, March 9th, 2013; Katz and Krueger, 2016; Schor, 2017).

The supply and demand of tourist services in the accommodation sector find a new niche: the p2p consumption in the so-called Sharing Economy phenomenon (Belk, 2014; Frenken, 2017, Breidbach and Brodie, 2017, Einav et al., 2017; Muñoz and Choen, 2017; Tussyadiah and Pesonen, 2018). Sharing Economy paradigm, a market niche that boosts the production and consumption of goods and services in a flexible and non-binding way,

favouring access instead of ownership and fostering the short-term rental. The entrance of digital platforms enabled any person to become a tourist supplier altering the tourism market in different ways. First, replacing old off-line model of travel agencies and tour operators and giving new power to the *consumers* which can search for short-term accommodation quickly and cheaply. Second, increasing the transparency and visibility in the industry and intensifying the competition among the *existing competitors*. Third, making the market more appealing as efficient communication channels reduced the upstart marketing costs lowering the barriers and helping new *entrants*. Finally, helping the new players in accessing the potential suppliers and the resources – they have offered new products and services by enhancing experiences giving new space to *supplier* and *substitutes*.

The mayor novelty consisted in the *entry of privates* who become amateur entrepreneurs aiming to increase their salaries by monetizing their physical assets or know-how. The organization of amateurs' sellers through the digital platforms model has strongly altered the accommodation market bringing new substitute products in the competitive game.

The market overcrowding (t3)

In few years, the digital platforms in the accommodation service has seen a huge increase: the low entry barriers and the impressive earnings perspective have intensified the competition in the industry. Furthermore, the slow government machine failed to keep up with the speed and adaptive capacity of the new technologies and the lack of regulation have thus favoured the entry of many and different competitors. They were able to subvert the rules of the game by adopting flexible structures, easily convertible and above all with low starting capital.

The business models that firstly was based on the p2p activities (or consumer-to-consumer) shifted to b2c, b2b, c2b2c business models pushing players to enter the

accommodation sector. Not more and not only privates use the online platforms to make extra money for facing the crisis, but many practitioners/businesses have entered the market. In these years we witnessed the birth of many platforms: Airbnb in 2008; Couchsurfing in 2004 but in 2011 it begun for-profit; Uber in 2009; My taxi in 2010 (Katz and Krueger, 2016; Schor, 2017). Several studies, both qualitative and quantitative, were conducted trying to understand the dynamics and trends of the new drivers on market. Anyway, many questions remain unresolved due to the complexity and non-linearity of the phenomenon. The t3 timeframe, need to be deepen with a network perspective to evaluate the nodes and ties within and between the market forces and to evaluate the impact of the peer-to-peer phenomenon.

Possible future scenarios (t4)

The market overcrowding (t3) lead us to rethink the current situation and assess possible future scenarios. A further study will be conducted to evaluate which are the new players and the new links established between the actors, both off-line and online. In particular, the study of the relationships between the elements that constitute each of the competitive forces - intra and inter - will be conducted with the application of a network perspective that will confirm the identified elements in a holistic and dynamic way (Gulanti et al., 2000) and allow to trace possible future scenarios in peer-to-peer regulation (Frenken, 2017).

Based on the Frenken (2017) and on the strategic networks' perspective of the accommodation industry, we could identify several evolutions of the impact of peer-to-peer platforms in different regulatory contexts. In particular, these scenarios base their development on the undertaken regulation – strong vs weak – to face the impact of the new digital sharing platforms.

- The super platforms-capitalistic scenario – b2b or b2c or c2b2c – (the market).

The State doesn't control and regulate the platforms. Multinational platforms in the accommodation service industry (e.g. Airbnb, Booking, Home-away) will be able to freely operate, increasing their weight and power over the accommodation services structure. For-profit platform will substitute entirely no-profit platform (E.g.: Couchsurfing). They would become more and more integrated (big data, user-based) in people's life offering a variety of different impersonal services. User behaviour will be continuously monitored and recorded (big data), the service will seem more and more personalized but in reality, it is an increasingly stronger control by multinational over people to push more consumption (while the real sharing should push for a more conscious and social consumption behaviour). Platforms intermediate the services among consumers who will have no contact between each other: the sociality at the basis of sharing behaviour will be entirely lost. The benefits of this scenario remain highly uncertain and to be explored but the sharing economy is highly to blow up and a question emerges: The 2008' crisis was the crisis of the neoliberal capitalism, are we going in the same direction?

- Strong regulations for a fair assets' distribution (The state).

The state preserves its historic social function of regulator of the services. The sharing economy phenomena increase going in the direction of platforms oligopoly. People use platform to capitalize their assets but the discrepancy among people will also increase. Only who have available assets can afford to enter the platforms system as owner and the assets (home, apartments) will be held in the hands of fewer people. The state will intervene by increasing taxation on capital or on revenues. The platforms could cooperate with the State to help to collect capital (e.g. Airbnb is collecting taxes for government in many city). This is what is largely happening in many countries. Despite these benefits, many economists are sympathetic with the idea that competition shouldn't be regulated.

- Platforms cooperatives – p2p – (cooperativism).

This scenario implies the “real sharing” platforms’ system, whereby people cooperate together to shorten economic distances and to use the idle capacity of the assets. The platforms enjoy mixed proprietary forms and the State will cooperate. The ownership will be held by consumers and this implies a greater return in users’ profit. Both for-profit and non-profit platforms will survive. Of course, the issues of the lack of huge capitals for investing in R&D, ICT, etc. emerged. Probably this scenario is easily applied to small communities and to local contexts, while global context will be held by for-profit and capitalistic platforms.

Discussion and conclusion

The accommodation industry’s theoretical analysis through the Porter's five forces model in different time frames and through a networks perspective allowed us to value what and how changes have occurred in the accommodation sector in the last decades. This theoretical investigation has allowed us to identify the new players and the new trends that the sector is experiencing, envisioning possible future scenarios.

The new accommodation services’ business model – peer-to-peer -, brokered by digital platforms, have the merit of allowing people to access new gains by leveling entry barriers and increasing competition in the sector guaranteeing price differentiation. This high competition has been a godsend for many citizens and businesses reshaping the old red-ocean sector. But the too high and not properly regulated competition, may actually backfire and alter the structure of other markets, such as the real estate one. In particular, the feeling proved by several studies, is that the pill that cured the financial-economic crisis, which was driven by neoliberal capitalism, could trigger a new one. The peer-to-peer and short-term accommodation service is no longer held by private/amatorial citizens but has once again

become the prerogative of multinational companies invading local contexts and significantly altering the competitive forces in the market.

This first theoretical analysis aims to ground a case study analyses using mix methods to collect case evidence on how competitive forces have shaped themselves to value the strength and size of these changes. To prove the strategic nodes identified through the Porter's model and to evaluate the ties among the actors, a strategic network perspective was applied. Given the scale of the phenomenon, seems necessary to conduct new researches, both theoretical and practical, to test and quantify the scope of these new drivers on the tourism industry and, particularly, on the accommodation service.

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