



“ROLE OF AIRBNB IN INDIAN HOSPITALITY INDUSTRY: ASPECTS, PROBLEMS AND PROSPECTS”

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Abstract

Airbnb is a business enterprise from San Francisco, California, USA. It was founded in 2008. It is an online market place based on ‘shared market economy’ concept. Through its website, Airbnb tries to connect those people who have space to share, with those who are looking for a place or vacation home, for consideration. In less than ten years, Airbnb has grown all over the world with such a speed that it has become a threat to conventional hotel industry in several countries. Awareness towards Airbnb is gradually increasing in India. Indian hospitality and tourism industry will certainly grow in the nearest future. Airbnb may experience bright prospects in India. However, for the purpose, Airbnb will have to undertake aggressive marketing strategies. It will also have to develop a positive attitude in the minds of Indian travelers and house owners towards the activities of Airbnb. The present research paper tries to analyse the present problems faced by the Airbnb and imagine the future prospects for the organization in India.

Key words: *Airbnb, Hospitality, Shared Economy, Travel & Tourism Sector.*

1. Introduction

In this modern business world, the terms ‘Network Hospitality’ and ‘Shared Economy’ are gaining increasing attention in the sphere of hospitality industry. Just a few years ago, these terms were hardly a topic of academic or commercial interest. However, Airbnb, a business enterprise based on the shared economy concept, has made tremendous growth in the recent past. Airbnb is an online marketplace, founded in San Francisco, California, USA, in 2008, which enables people to list, find and rent vacation homes for a processing fee. Airbnb, through its website, connects people who have space to share, with those who are looking for a place to stay, for consideration. By the end of first half of 2016, it has over 15, 00,000 listings in 34,000 cities, in 191 countries. With its speedy growth, Airbnb has become a serious competitor to conventional hotel industry all over the world. With the largest networked accommodation service, it is now threatening major hotel chains in the world like Hilton, Marriott, Starwood and Wyndham. Awareness towards Airbnb is slowly increasing in India. It is quite interesting to imagine and analyse the probable impact of Airbnb on hospitality industry in India.

2. Airbnb: Conceptual Framework

The business model of Airbnb is more associated with the term ‘shared economy’ compared with the term ‘networked economy’.

The concept of ‘networked economy’ is referred where connections may be used by people for mutual benefit, but with the commercial intentions. On the other hand, ‘sharing economy’ takes place where consumers contact and transact among each others. Here, consumers grant others temporary access to underutilized assets to earn money. It is essential to remember that in ‘sharing economy, transaction does not take place in the form of leasing or renting of asset by a businessman to a consumer. Here, transaction takes place between two consumers. Secondly, transaction is on temporary basis. A permanent transfer of ownership of asset is not assumed in it. Although, HomeAway, Wimdu and House Trip are the organisations operating in this sector, Airbnb is a clear market leader.

Airbnb offers the combined economic benefits to both travelers and residents in the tourist areas. Airbnb model is based on two assumptions. One, there are people who can’t afford their homes and need extra money. Hence, they rent out their homes for a short period of time. And second, there are travelers who can’t afford expensive stay at hotels, and are in search of comparatively cheap access to homes on temporary basis.

3. Airbnb: Origin and Growth

In October 2007, Brian Chesky and Joe Gebbia, who could not afford the rent of their premises, basically invented the concept of offering the ‘Airbed and Breakfast’. They offered accommodation in their living room to three guests, providing bed of air mattresses and homemade breakfast. In February 2008, technical architect Nathan Blecharczyk joined as the third co-founder of ‘Airbed & Breakfast’. On August 11, 2008, the site – Airbedandbreakfast.com, was officially launched. In March 2009, the name ‘Airbedandbreakfast.com’ was shortened to ‘Airbnb.com’. The company then decided to offer not only shared apartments, but the entire homes, castles, boats, tree houses and private islands also. Airbnb continued to experience the rapid growth. Airbnb announced its 1millionth booking in February 2011; 5th million in January 2012 and 10th million in June 2012. By the end of June 2016, it had more than 15, 00,000 bookings in 34,000 cities from 191 countries.



Airbnb has its headquarter at San Francisco, California. By the end of 2016, Airbnb has its eighteen other offices located in different cities such as Amsterdam (Netherlands), Barcelona (Spain), Berlin (Germany), Beijing (China), Copenhagen (Denmark), Dublin (Ireland), London (UK), Miami (Florida, USA), Portland (Oregon, USA), Milan (Italy), Moscow (Russia), Paris (France), Sao Paulo (Brazil), Seoul (South Korea), Singapore, Sydney (Australia), Tokyo (Japan), Toronto (Canada), and New Delhi (India).

Airbnb founding team acts as the key managerial staff for Airbnb such as, Brian Chesky, Co-founder and Chief Executive Officer; Joe Gebbia, Co-founder and Chief Product Officer; and Nathan Blecharczyk, Co-founder and Chief Technical Officer.

4. Airbnb: Business Model

Airbnb is a peer-to-peer accommodation marketplace for vacation rentals that connects the vendors of rooms or accommodations (called as 'hosts') with the travelers / users of the rooms/ accommodations (called as 'guests'). Both 'hosts' and 'guests' have to register with Airbnb for developing a unique user profile on the website. For the purpose, they have to submit a valid email address, a valid telephone number and a scanned copy of government issued ID. Hosts display their personal information along with the property details (called as 'listing'), including price/ fees, amenities, house rules, and detailed information about their neighbourhood. This is also accompanied by the reviews of previous guests, response rating and private messaging system, and few photographs of the property. Hosts also express their philosophy behind hosting the property. Pricing can be determined by the users who can charge for nightly, weekly and monthly stays.

Guests research on internet and send the message directly to the user through Airbnb to ask questions regarding the property. When potential guest makes a reservation request, the host has to accept or refuse the request within 24 hours. After the host and guest agree with the terms and conditions of reservation of the property, they mutually coordinate meeting time. After the guest has availed the use of property, both the guest and host are expected to express their review on the said experience.

Airbnb facilitates online payments from guest to host through its security payment feature which processes payment transactions 24 hours after check in. In addition, the Airbnb website facilitates security deposits and cleaning fees.

Airbnb's primary source of revenue comes from service fees from bookings. Fees vary from 6% to 12% depending upon the price of booking. Airbnb also charges the host 3% from each guest booking for credit card processing.

5. Hypothesis

The popularity of Airbnb is increasing all over the world. The activities of Airbnb are considered as serious challenge to conventional hotel industry. Awareness regarding activities of Airbnb is also on rise in India. In future, Airbnb will play a crucial role in Indian hospitality industry, provided systematic marketing strategies are adopted by the Airbnb Company in India.

6. Objectives

The present research is done with the following objectives-

1. Understand the functioning of Airbnb Company
2. Analyse the role of Airbnb in hospitality industry on global and Indian level
3. Identify the impact of Airbnb on conventional hotel industry in India
4. Understand the problems faced by Airbnb in India
5. Imagine the future of prospects Airbnb in India

7. Research Methodology

The present research paper is based on Secondary Data, mainly collected from internet. This is because of the fact that Airbnb, although has made a sensation in the sphere of hospitality industry, it is of recent origin. Very few references are found regarding Airbnb in the books and periodicals. Several businessmen, even from hotel industry are not aware of activities of Airbnb.

8. Hospitality Industry in India

The hospitality industry is broadly divided in two areas such as tourism industry and hotel industry. Tourism sector includes variety of tourism operations such as heritage tourism, pilgrimage tourism, adventure tourism, wild-life tourism, medical and healthcare tourism etc. Hotel industry offers variety of accommodation alternatives such as business hotels, resort hotels, apartment hotels, casino hotels, convention centers and conference centers etc.



Hospitality industry is playing a crucial role in the sphere of service sector in India. The rich cultural heritage, variety in ecology, and several places of natural scenic beauty are some of the key factors indicating a huge potential for the growth of tourism industry in India. In the recent past, tourism sector in India has been noteworthy source of revenue and employment generation. In 2015, the travel and tourism sector contributed to a total 124.8 billion U S dollars to Indian GDP (Gross Domestic Product). This was approximately 6% of the national GDP. In this year, more than 23.5 million jobs were offered by this sector. The Travel and Tourism Competitiveness Report of 2013, published by World Economic Forum, India, stated that the ranking of India is 11th in the Asia Pacific region and 65th in the world Travel and Tourism Competitiveness Index. Indian government has developed the tourism policy which aims at development of integrated tourism circuits, speedy implementation of tourism projects, special capacity building in the hospitality sector and new marketing strategies.

Indian hospitality industry is growing at a cumulative annual growth rate of 14% every year, adding significant amount of foreign exchange to the country. In 2015, more than 8 million international tourists arrived in India. Broadly speaking, hotel prices in India, compared with European tourist spots, are low. The occupancy rate, in the recent past, has also been quite stable in India. Existence of Airbnb is quite insignificant in India at present.

9. Airbnb in India: Origin and Growth

Airbnb has made entry in India through Airbnb India Private Limited, incorporated on 12th March, 2012, as a subsidiary of foreign company. It is registered at Registrar of Companies, New Delhi, and it's authorized and paid up capital is Rs. 1, 00,000. At present, company has three directors, namely Mr. Dheeraj Basantani, Chai Jia Jih, and Siew Kum Hong.

Airbnb India Pvt. Ltd. owns and operates online portal, and provides accommodation solutions. It provides services like list, discover and book accommodation. The firm also offers travel credit, gift cards and business travel package etc. By the end of 2014, company had more than 5000 listings in India, all over India at various cities like New Delhi, Lucknow, Jaipur, Ahmedabad, Indore, Nagpur, Mumbai, Pune, Bengaluru, Hyderabad, Chennai etc.

Users in India are much different from their counterparts in the West. Hosts include single elderly women (who are using Airbnb to earn some extra money), elderly couples (whose children are living in foreign countries), and young software engineers and big corporate officials who are using Airbnb to broaden their global professional network. Indian travelers are tempted to use Airbnb with three motives such as value for money, access to amenities (like kitchen, wifi, washing machines etc.), and local experience. Young generation in India is more eager to have the Airbnb experience.

10. Airbnb in India: Aspects and Problems

Airbnb is facing several problems in India, with different dimensions such as conceptual, legal and psychological level.

(i) Conceptual Aspects & Problems

- *Uncertainty*: Basically, while availing the Airbnb service, the guest has no idea about the probable location of the premises, facilities available at accommodation and attitude of the host. At the same time, host is also unaware about the approach, honesty and integrity of the guest. Hence, there exists a lot of uncertainty regarding the whole transaction.
- *Safety*: Both guest and host usually meet each other for the very first time. Hence, host may fear safety of his/her life and property. At the same time, guest may have a similar fear in his/ her mind. Unfair incidents have taken place in India due to wrong behavior of hosts and guests.
- *Lack of Awareness*: In India, general public is not much aware of the activities of Airbnb. There exists a need for aggressive marketing on the part of Airbnb India Pvt. Ltd. for creating awareness among the probable guests as well as hosts in India.
- *Lack of Adequate Facilities*: Tourists / guests expect certain basic facilities in the accommodation such as separate attached toilet-bathroom, wifi connectivity, adequate parking space etc. Frequently in India these facilities are not provided by the hosts.
- *Lack of Privacy*: When the accommodation offered by the hosts does not provide enough privacy to the guests, they are not eager to avail Airbnb listings.
- *Lack of Relaxation*: Stay in a hotel, frequently, offers a complete relaxed experience to the guests. Guests may experience luxurious furniture, ready high quality food and absolute privacy. All these things may or may not be available in Airbnb accommodation.

(ii) Legal Aspects & Problems

Basically there exists confusion all over the world including India regarding the legal and taxation stand to be taken against the activities of Airbnb.

- **Global Situation**

In San Francisco, Airbnb's home city, Airbnb hosting was illegal, and Airbnb hosts were fined till October 2014, when the law was passed in this context legalizing short-term rentals in San Francisco. Now the law requires the hosts to register themselves, carry liability insurance and pay the city's 14% hotel tax.

In January 2014, the Federal Court of Germany gave the verdict that a transfer of residence to tourists is not covered by a permission to sublet. In this case, the tenant was previously warned by the landlord. A case is pending now which focuses around the question whether a termination without notice is possible, if no explicit permission from the landlord is obtained.

In 2016, in France, Association of Hospitality and Tourism has filed a complaint against Airbnb regarding unfair competition and tax evasion.

- **Indian Situation**

In India, neither the hotel industry has undertaken any organised protest nor has the government taken any definite legal stand in respect of Airbnb. This may be because of negligible activities of Airbnb in India at present.

(iii) Psychological Aspects & Problems

1. *Mentality of Hosts*

Although a humble beginning has been made by several Indians offering their premises as Airbnb accommodation, they have not really understood their responsibilities and duties as the hosts. On social sites, frequently stories are narrated by the guests of the inadequate facilities, poor time management and lack of professional approach displayed by the Indian hosts.

2. *Mentality of Guests*

On several occasions, guests are also found to be behaving in irresponsible manner, creating damage to the property of the hosts.

3. *Mentality of accommodation owners and travelers*

Due to the lack of awareness, Indian accommodation owners have not understood that their unused accommodation or part of it can be a source of income. And some of those who are aware of it are not ready to take the 'so called' risk of probable damage to the property. Indian travelers (especially who are senior citizens) are also not ready to try the unconventional accommodation in the form of Airbnb premises. They prefer traditional stay in hotels in a relaxed ambience.

11 Future of Airbnb in India: Prospects

The future of Airbnb in India has very good prospects due to the following aspects-

- Basically, travel and tourism industry has a very bright future in India. Large numbers of foreign travelers are likely to visit India, who might be quite familiar and habituated with Airbnb activities.
- By the end of 2016, India possessed 65% population under the age 35. This young population belonging to modern age is, on the one hand eager to make more money by playing the role of Airbnb host, while on the other hand ready to explore cheap alternative of staying in Airbnb premises. This young generation is also eager to have the experience of stay with local ambience.
- Till date, there is neither strict legislations against Airbnb activities, nor organised oppose of businessmen from conventional hotel industry.
- Airbnb may experience the success in future if it undertakes aggressive marketing strategies using various advertising media to create awareness about its activities among Indian population. Social networking sites like Facebook, Twitter, LinkedIn etc. can be effectively used for converting young generation into 'would-be hosts and guests' of Airbnb. Company may develop tie-ups and collaborations with travel and tourism companies for increase of its business.

12. Conclusion

Airbnb may not expect a smooth sailing in India. In future, conventional hotel industry will display the organised protest against the activities of Airbnb. However, considering the bright future of hospitality and tourism industry in India, Airbnb can hope to receive a slice of share in the success. Airbnb will prove as an effective alternative to conventional stay in hotels. But it is necessary for Airbnb to positively change in the mentality of would be hosts and guests in India. The company will have to create awareness among Indian population, and undertake aggressive marketing strategies to increase the business.



Airbnb India may think of developing strategic tie-ups with travel and tourism companies. Techno-savvy Indian youth with global travelling experience will be responsible for the growth of Airbnb in India.

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