

Millennials, Peer-to-Peer Accommodation and the Hotel Industry

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Abstract

Today's world market is a buyer's market and the new customers, the millennials, are thought to be distinctively different than others. Technologically comfortable, the most educated generation ever, multitaskers, and strongly influenced by friends and peers, millennials have a different buying behaviour and other expectations from service providers. Thus, companies from the hospitality industry and policymakers face a number of challenges in trying to meet their (future) demands. At the same time, the “sharing economy” has led to the rise of the peer-to-peer accommodation sector and to a new business model (Airbnb).

The aim of this paper is to present these challenges for the hotel industry, because there has not been significant research concerning the trends and changes this new generation / new business model will bring to the hospitality industry. Finally, it suggests how hoteliers could adapt to these new expectations and proposes several questions for future research.

Key words: generation Y, millennials, peer-to-peer accommodation, Airbnb, secondary data

J.E.L. classification: L83

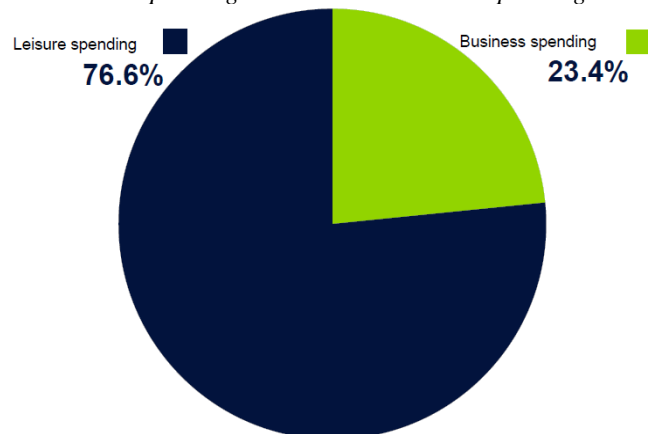
1. Introduction

Tourism is an important sector worldwide. In fact, *in 2015*, the **direct contribution of travel and tourism to the world GDP** was USD 2,229.8 billion (3.0% of total GDP), while its **total contribution** rose to 9.8% (USD 7.2 trillion), providing 1 in 11 jobs on the planet (WTTC, 2016a). As regards the money spent by foreign visitors to a country, USD 1,308.9 billion were spent globally last year.

Leisure travel spending (inbound and domestic) generated 76.6% of direct travel and tourism GDP (USD 3,621.9 billion) compared with 23.4% for **business travel spending** (USD 1,106.9 billion) (fig. 1).

Figure no. 1. Worldwide travel and tourism's contribution to GDP:

Leisure travel spending versus business travel spending in 2015



Source: (World Travel & Tourism Council – WTTC, 2016a, p. 6)

Furthermore, *domestic travel spending* generated 72.3% of direct travel and tourism GDP compared with 27.7% for *foreign visitor spending* (WTTC, 2016a).

Thus, it is obvious that tourism plays an important role in generating earnings, creating jobs and contributing to tax revenues. But, given the recent safety and security concerns, the rise of peer-to-peer accommodation sector (Airbnb, couch surfing, home exchanges) as well as the characteristics of the new generations (especially millennials), one might ask him-/herself about the future perspectives of this sector.

2. Tourism and the new generation

Tourism is characterized by multigenerational visitors as well as a multigenerational workforce. This is relevant because it is thought that generational cohorts share common values, attitudes and behaviours. Although the analysis of cohort effects is not new, it is thought that generation Y is distinctively different than the previous ones.

Generation Y or *millennials* are young people born roughly between 1980 and the mid-2000s. They are now reaching adulthood, which means that, on one hand, they enter the workforce and, on the other hand, they represent the new visitors/ travellers.

According to Euromonitor International (2015, p.19), *millennials are savvy shoppers*. “*They have grown up on free services, games and social networking, are buying fewer cars and homes, and are using their comfort with technology to locate best prices and learn about trends*”.

Benckendorff Pierre, Moscardo Gianna and Pendergast Donna (2010, p.5) characterize millennials as “*a hero generation, with a focus on brands, friends, fun and digital culture; confident, relaxed, conservative and the most educated generation ever. For them safety is very important, they value teams and collaboration, are multitaskers, strongly influenced by friends and peers*”.

As regards *their behaviour as visitors/travellers*, a study by the World Youth Student and Educational Travel Confederation (in Benckendorff, Moscardo, Pendergast, 2010, p.11), conducted on 8500 millennial travellers, revealed that “*they are travelling more often, book more over the internet and usually spend more on travel, are avid of information and experiences as well as willing to explore more destinations*”. These findings are confirmed also by G Brief (2016), according to which millennials travel 4.7 times per year for business and 4.2 times per year for leisure, which is more often than other generations.

At the same time, they *want to gain value from their travel*, either by saving money or by learning something new. Thus, millennials check on average 10 sources before travel purchases and might choose instead of hotel rooms cheaper accommodations such as those offered by *World Wide Opportunities on Organic Farms* (lodging with labour exchange) or the stay for free couch surfing (G Brief, 2016; Lee, 2013).

However, the most recent study conducted by Kressmann Jeremy and the Skift Team (2016) informs that *millennials prioritise travel and experiences over other purchases*, spending more on travel than on other items. As for the already know fact that they *rely on social media and user-generated content* when making a (travel) decision, conforming to this study this behaviour is driven by “*the human connections and personal storytelling that social media helps facilitate*” (Kressmann, Skift, 2016). This might explain millennials option for a *travel agent*.

Why are all these details important and why should one try to understand millennials’ needs as accurate as possible? Because this age group represents a huge opportunity for the industry, with a worldwide millennial travel spending of US\$ 200-300 billion annually (Kressmann, Skift, 2016).

In this context, the companies in this field might succeed in attracting millennial travellers if they *facilitate relationship building, help them connect with locals and tell their stories in social media*, respectively by offering *flexible loyalty programs with instant gratification* (Adventure Travel News, 2014). Also, companies should make sure they *provide accurate, easily accessible information on their mobile-optimized websites* (otherwise millennials will search for it on Google or TripAdvisor, content which is not under their control), *real-time information / photos* and *monitor their social media presence* (Lee, 2013).

3. The rise of peer-to-peer accommodation sector

The travel industry includes hotels, motels and other types of accommodation; restaurants and other food services; transportation services and facilities; amusements, attractions, and other leisure facilities; gift shops and a large number of other enterprises (Theobald, 2005, p.7).

Of these, the **new accommodation concepts** include **hostels, Airbnb, couch surfing¹** and **home exchanges**. Besides their low cost, Airbnb, couch surfing and home exchanges allow travellers to “feel at home”, to have an authentic travel experience. Although there are a lot of such accommodation websites (casaparticularcuba.org, couchsurfing.com, homeexchange.com, homestay.com, lovehomeswap.com and others), lately Airbnb caught a lot of attention.

Airbnb is an accommodations-booking platform, a peer-to-peer marketplace where people can list, find and rent unique accommodations around the world. It has 2 million listings worldwide (in more than 34,000 cities and 191 countries). The listings vary widely, ranging from a living room to castles and lighthouses, but typically involve a private room or an entire apartment or house (airbnb.com).

Founded in August 2008, Airbnb has experienced a rapid growth over the years (fig. 2). By now, more than 60 million people used this service (airbnb.com).

Figure no. 2. Airbnb's evolution between 2008 and 2012, worldwide



Source: (own graph based on data from Guttentag, 2015, p.1198)

However, Airbnb's future growth is threatened by **legal issues**: many cities prohibit short-term renting without special permits, which makes Airbnb accommodation illegal; also guests can generally avoid paying the taxes that are typically charged in the traditional accommodation sector (for more details see Guttentag, 2015 as this subject is beyond the aim of this paper).

In terms of **user demographics**, the available information is limited. Still, according to Airbnb (in Guttentag, 2015, p.1193), “**40% of its guests are American, while the majority of the rest are Europeans. On average they are 35 years old**”.

As for **trust**, respectively people's concerns about hosting a stranger or sleeping in a stranger's home, Airbnb allows hosts and guests to post public reviews about one another. Moreover, each user has a profile (which can be linked with the Facebook or LinkedIn account) and is able to communicate directly with a host or a guest.

With respect to Airbnb's evolution, some assumed that it was driven by the fact that millennials are open-minded and embrace the “sharing economy”. However, as reported by Skift's (2015) “*Travel Habits of Millennials*” study, Airbnb was the least-used of all accommodations options by American millennials (3.7%). Of these, male, older, suburban millennials preferred the Airbnb-type accommodations.

Airbnb declined Skift's statement that not many millennials stay at Airbnb (Skift, 2016). Thus, in terms of the drivers which influence the choice of this type of accommodation, **the opportunity to immerse in the local culture / to live like a local** seems to be a strong motivator, given millennials' interest in experiences and their willingness to explore the destination.

¹ Couch surfing means staying the night at the home of another person (friend or stranger), for free, sleeping in whatever spare space is available (floor, couch).

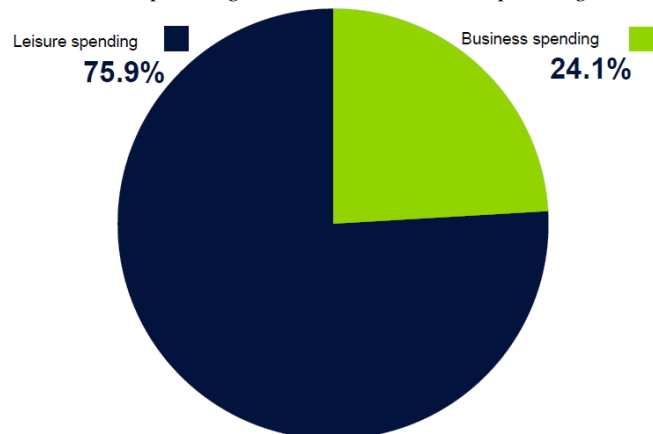
4. Romania, millennials and Airbnb – short overview

Last year, in Romania the **direct contribution of travel and tourism to GDP** was RON 9.3 billion (1.3% of total GDP), while its **total contribution** was RON 35.6 billion (5.1% of GDP) (WTTC, 2016b). Both of them are expected to rise in the following years. As regards *the money spent by foreign visitors*, RON 8.4 billion were spent in 2015.

Leisure travel spending (inbound and domestic) generated 75.9% of direct travel and tourism GDP (RON 16.3 billion) compared with 24.1% for **business travel spending** (RON 5.2 billion) (fig. 3).

Figure no. 3. Travel and tourism's contribution to GDP in Romania:

Leisure travel spending versus business travel spending in 2015



Source: (World Travel & Tourism Council – WTTC, 2016b, p. 6)

Furthermore, **domestic travel spending** generated 60.8% of direct travel and tourism GDP compared with 39.2% for **foreign visitor spending** (WTTC, 2016b).

As regards **millennials**, there were 5.35 million people aged between 16 and 36 years old (out of 19.87 million inhabitants) in 2015 (INSE, 2016a). This means approximately a quarter of the total population (27%).

In terms of **Airbnb's listings**, there are 300+ listings in Romania (airbnb.com), compared with 6,821 accommodation units (INSE, 2016b). Sadly, there is a **lack of data** about how many people used this platform, about its evolution in Romania, and so on. The only available numbers are those published by a Romanian newspaper, according to which approximately 27,000 people worldwide used Airbnb to accommodate in a Romanian-based apartment or villa last year (Nita, 2015). However, given Airbnb's rapid growth worldwide it is worth studying its evolution in Romania, as well as its economic impact, which calls for future research.

5. Discussion and conclusions

The sharing economy is growing, representing convenience, innovation, and community. As for the magnitude of its economic impacts, Zervas Georgios, Proserpio Davide and Byers John (2016) are among the first to provide empirical evidence that the sharing economy is significantly changing consumption patterns.

Thus, one might be concerned about Airbnb's impact on the hotel industry. *Is this peer-to-peer marketplace an alternative for those who usually book accommodation in hotels? What type of travellers are attracted to Airbnb? Is it appropriate just for leisure or even business travellers might use it?*

These are all questions without an answer right now because of the **lack of data**. Still, it seems that Airbnb and hotels are targeting different segments. Apparently **Airbnb** is **a good option for younger travellers** (which could use their comfort with technology in order to find the best offers; also the host-guest messaging requires usually more time and effort in order to book Airbnb accommodation compared with booking a hotel room) **or for those who are looking for cheap accommodation** (since most listings have kitchens and washing machines, the guests might save

money if they cook their own food or if they wash their clothes instead of using a laundry service). This opinion is shared also by Guttentag (2015, p.1205), who considers that “*Airbnb only appeals to a niche market, it operates in parallel with the traditional accommodation sector, and its size will never be great enough to impact traditional accommodation providers. [...] It suits young, technologically comfortable, adventurous, and budget-conscious tourists*”. Yet, Guttentag thinks that ***Airbnb might affect hostels and bed & breakfast accommodation***, as their markets may overlap considerably.

To sum up, ***future research*** is needed in order to find answers to ***questions*** such as: *Which attributes (price, location, amenities, pictures of the apartment, reviews) influence the choice for a particular Airbnb accommodation? How does Airbnb impact destinations’ tourism economies? What is the level of awareness and concern with Airbnb within the hotel industry?*

As for ***millennials*** and the challenges hoteliers are facing in order to meet their needs, it is important to keep in mind that millennials ***are unafraid of trying new products and utilizing new ways of booking***. Along these lines, Starwood’s Aloft brand and Marriott’s MOXY hotels seem to have understood this generation’s needs and behaviour, which might increase their profitability. To conclude, ***hotels should provide low prices, free Wi-Fi, a lobby which enables socialization and smart technology***.

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