

Using Uber to Understand the Airbnb Challenge

In late July 2015, Ontario taxi cab and limousine drivers filed a class-action lawsuit against Uber seeking over \$400 million in compensatory and punitive damages. This marks one of the latest in a long series of opposing activities against this game changing and rapidly proliferating company. Putting aside personal judgments on this case or any preceding one, I can't help but think of the parallels this has with Airbnb and its disruptive impact on the hospitality industry.



Even though they exist in mutually exclusive spaces, a snapshot comparison between the two organizations yields uncanny similarities. Both founded around 2008-2009, they now operate on a global scale with valuations in the tens of billions of dollars and strong growth fueled by mounting consumer acceptance and new product offerings. Uber is a usurper to traditional car services while Airbnb challenges traditional accommodations, and yet they are both largely mobile and urban-centric with flawless apps and two-way user review accountability checks.

With so much in common, would it be reasonable to also say that Airbnb's legal foibles might follow a similar path as Uber? More importantly, what can we, as hoteliers, learn about how traditional car services have fought back against and adapted (or not) to this ferocious new entrant? Can hotel properties coexist with this highly unregulated, free market enterprise or are we on the path of extinction?



Sharing Economy or Taking Economy?

The phrase 'sharing economy' is what's used to describe this new market shift away from traditional forms of service and transaction. In other words, the old rules are out the window, the playing field has been leveled and practically anyone can 'share' their goods (cars, apartments, parking spaces and so on) for a profit, all through a simple user friendly website and with minimal precedents to entry.

These sharing economy systems, Airbnb and Uber included, let buyers and sellers meet on the open market where decisions can be made on the fly and without serious penalties. To me, this sounds more

like the 'Taking Economy' as it lets consumers say to themselves, "Hey, I've got a smartphone and I want everything without lifting a finger, damn the consequences."

Airbnb (and other companies with this non-traditional modus operandi) now pose perhaps the single greatest threat to the hospitality industry. From quaint beginnings as a website mainly for coach-surfers and backpackers, the company has emerged in the past few years to offer accommodations that rival every hotel in the world. They still have plenty of products targeting the low end, but they also have ultra-luxury houses and condominium units available for booking as well as an impressive corporate travel programme.

Think of what you go through to set up and sustain your commercial enterprise: occupancy permits, employee background checks, health inspections, fire alarm testing and so on. Airbnb has almost none of that, serving to disrupt an established system that not only protects the consumer from harm but also employs a lot of people across multiple fields in the process.

Next, consider what your city is losing in destination tax levies as well as state and property taxes. Think about how all that money cycles back through the local economy in the form of infrastructural upgrades, urban renewal, capital for new attractions and support for tourism bureaus. In the short run, endorsing Airbnb may translate into heightened travel to a region due to increased room supply, but thinking long-term (years or decades from now), without large-scale periodic upgrades shepherded forward by governmental institutions, a municipality's incoming traveler numbers may go into decline.

Yes, left unchecked, we are all expecting significant erosion to the traditional accommodations market as a result of these sharing economy outfits – the model is too enticing not to draw away members of our target consumer set. But there are other, more selfless reasons beyond the four walls of your property for you to join the fight. Neighborhoods need constant repairs, and without proper taxation to spearhead this upkeep, a 'tragedy of the commons' situation is likely to ensue. A good first step is to recruit your CVB or local hotel association to see what can be done as a collective on behalf of the district.

Rise to the Challenge

While these above paragraphs may appear to be wildly anti-Airbnb, it is better to give this the glass-half-full perspective. That is to say, no matter what courtroom rulings or injunctions occur within the next decade, Airbnb is here to stay – it's too entrenched and its gig-based exchange structure is too perfectly aligned with our capitalistic systems for it to dissolve.

Moreover, have you tried Airbnb? It's actually pretty great! The website and app work flawlessly, and they have some truly remarkable rooms available. There's a reason why it's passed the billion dollar valuation mark within the first decade of its existence, and it's because it gives customers what they want. Try it for yourself to see. And rather than wait for external actions to correct the issue, you best treat this company as a legitimate, bona fide competitor to your business.

Bringing it back to the current state of affairs for taxis versus Uber, you could make the argument that these cab services have 'done it to themselves'. Uber beat them to the punch in terms of a developing a fluid mobile app that allowed for wallet-less transactions, GPS location tracking, better accountability via a driver-rider rating system and oftentimes cleaner interior vehicle cabins. What have taxi companies done to augment their product offerings since the arrival of Uber? What would compel, for example, a millennial with the Uber app on his or her smartphone to go back to the old ways of calling a cab?

Instead of complaining about Airbnb, this is your opportunity to rise to the challenge. Make your property the best it can possibly be and wholeheartedly authentic to your territory so that there is no question in the consumer's mind as to who provides the best choice of accommodations. Just as third-party review sites have shined a spotlight on all of our operational deficiencies, so too is Airbnb forcing us to improve our products. In my mind, there's only one solution to this sharing economy problem, and that is to be better hoteliers.

Fighting Back Against Airbnb, French Canadian Style

The Canadian province of Quebec, with a population of some 8,200,000, is known as the last great bastion of the French language in North America. French Canadians, as they are better known, enjoy a joie de vivre unique to this continent – thousands of square kilometers of untouched wilderness, great skiing and cheeses that rival even that of their ancestral nation of France. While you've all marveled at pictures (or



had the pleasure of visiting) the Fairmont le Chateau Frontenac, other visitors with more modest resources stay at smaller bed and breakfast establishments that the province is known for.

These fiercely independent properties are regulated by Quebec law as well as through licenses which cover safety, health and other related matters. These B&B owners also pay commercial property tax, contribute to local tourism contributions (in essence, another tax), and provincial and federal sales taxes. In a nutshell, these are good corporate citizens and true hoteliers, admittedly on a smaller scale than the Fairmont.

For those not bombarded with Canadian news media, let it be known that Quebec is unlike any other place in North American. Not only are their civil laws based upon French rather than British statutes, but they have an insular, wholly traditional sensibility in addition to a fiercely independent spirit that rivals even that of the interlopers who attended a certain tea party in Boston. In other words: come and enjoy our land, but don't try and change a thing, especially if your company is a six-letter word called 'Airbnb'.

It is with this strength and obstinacy of character that has made Quebec somewhat of a trendsetter in the hospitality industry with the recent tabling of Bill 67, which would force Airbnb hosts to comply with the same taxes paid by licensed hotel properties.

“Everyone is going to play on the same rink.” remarked Quebec Tourism Minister Dominique Vien at a press conference, no doubt drawing a parallel to the NHL and the beloved Montreal Canadiens! She also went on to talk about the huge amount of tax that would be recouped in provincial coffers that the bill’s passage would impose on Airbnb operators (and their guests as a through-put).

Ms. Vien went on to say, “It is inequitable, unsafe and just not fair.” I couldn’t agree more. Hotels go through a literal ton of red tape to obey the rules of the road, and it’s unjust that Airbnb has been able to circumnavigate these stipulations which are in place to first and foremost protect guests from harm.

The proposed bill is being supported by an increase in government inspectors (from 2 to 18) and fines imposed on violators of a minimum \$500 to a maximum of \$100,000. Too bad Ms. Vien couldn’t run for governor in your state!

Hoteliers out there, what are you waiting for? If Quebec can bring such legislation to the voting floor, why can’t you? We know Airbnb is not going away. Most of us simply want what Quebec is proposing: the same rules for everyone.

Is this going to be another case – like the OTAs a decade ago – where we all wake up and say that our distribution system has been taken over and there is nothing we can do? Can we count on getting some leadership from the mega-chains, each with a phalanx of legal beagles on staff? Obviously, Quebec isn’t the only jurisdiction that is taking action, but will such regulations be passed in time before your hotel customers are converted to Airbnb customers?

(Articles by Larry Mogelonsky, published in Hotels Magazine on Tuesday, October 27, 2015)