

A Work Project, presented as part of the requirements for the Award of a Master's degree in  
Management from the Nova School of Business and Economics.

Strategic Business Models Field Lab: Analysis of the Peer-to-Peer Business Model in the OTA  
Accommodation Industry - Recommendation: Add-On Services

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## ***Abstract***

Despite the harsh impact of the COVID-19 pandemic, the OTA Accommodation industry remains a growing and diverse environment. Utilizing Business Model Analysis as a guiding framework, this Field Lab Report provides insights into the evolution and variation of OTA Accommodation business models. The focus is then narrowed on the Peer-to-Peer Accommodation Model with an analysis of its main components, advantages, and vulnerabilities. Three detailed recommendations are ultimately proposed to strategically optimize this business model and address innovation opportunities. In this particular part, the proposed recommendation regards Add-On Services that P2P Accommodation platforms should take in consideration in order to protect their business model from unexpected shocks that might block international or domestic travel. To conclude, key insights and possible extensions are provided.

***Keywords:*** Strategy, Tourism, Business Model, Online Travel Agencies, Business Model Innovation, Peer-to-peer platforms

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### ***Recommendation: Add-On Services***

The second recommendation we would like to propose for a strengthening in the Peer-to-Peer Business Model is an expansion in the type of services offered by Accommodation Online Travel Agencies, to which, the group, refers to as Add-On Services. This recommendation emerges from the following problem: The exposure of the analysed industry to unexpected shocks that might block international and national travel and consequently, make the P2P Business Model more vulnerable. In this sense, we would like to recommend Add-On Services that might help in the protection of the P2P business model and OTA Accommodation industry companies from these shocks, and further deepen the relationship with the company's guests. Moreover, the services presented are digitally based as digitalization is the basis of this industry.

The recommendation's goal is to stimulate complementary growth, on the supply and platform side, and guest-experience, on the customers' side. How can new types of services improve the Business Model? The group believes that by defining and following this strategy, OTAs that operate in this business model, will be able to strengthen the value offered to customers, through an augmented guest-experience, and might be able to catch some niche markets, therefore, the P2P business model will be more consistent and resistant to unexpected shocks. These services intend to be part of a complementary growth that decentralizes OTA's revenue from their core products, which together with reaching niche markets enable P2P Business Model to become stronger, mainly through the value proposition, market segments and revenue model components.

The rationale behind this recommendation, mainly, lays on the idea on taking the example of some dominant players in the industry, that operate in this business model, such as Airbnb and Expedia (in some extent of their business) and create a to-follow strategy so that niche players

can take their illustration and learn on how to become stronger. Throughout the recommendation, the group will provide insights on why this is a good lesson to take from dominant players. To support in a more easy-going way the discussion on this recommendation, let's first consider the example of Airbnb's response to COVID-19. This example demonstrates how an unexpected global shock can affect the tourism industry, and consequently the Accommodation Online Travel Agencies industry. As the whole world has witnessed, COVID-19 has come and changed everything we knew so far, particularly in the tourism industry. Borders closed and there was a total international and national tourism block in order to contain the virus spread.

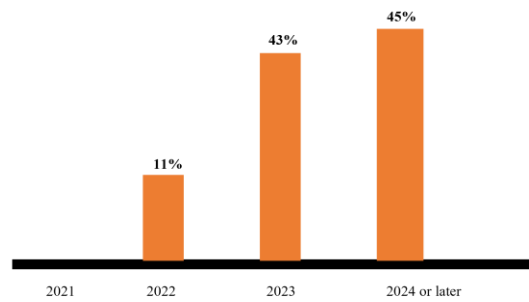
Taking a look in a broader scope, the pandemic has developed unprecedented negative economic impacts on tourism industry, in a world where globalization has been growing and tourism industry has been growing with it (World Tourism Organization 2020b). The tourism industry is the third largest global economy sector and represents 7% of global trade (World Tourism Organization 2020b), and the COVID impact on this industry will be used as a proxy for the impact on Accommodation OTA industry, as they are positively and directly related to each other. In some countries Tourism industry can represent more than 20% of the country's GDP. All parts of the sector's value-chain have been affected and studies have shown that the sector has fallen by \$910 billion to \$1.2 trillion, which represents a decrease between 1.5% and 2.8% in the global GDP (World Tourism Organization 2020a). This impact also raises several social issues as many jobs were lost, which directly reflects on people's quality of life, both in developed and developing countries. This problem becomes more serious and with a greater impact on Small Island Developing States (SIDS), which are highly dependent on tourism as this sector can accomplish over 80% of the state's exports. On a wider view, tourism sector,

worldwide, accounts for 100 to 120 million jobs threatened by the pandemic (World Tourism Organization 2020a).

International tourism is expected to decline up to 70%, returning to the levels seen 30 years ago, much due to closed borders and decreased demand. According to UNWTO World Tourism Barometer, international tourism visits (overnight) fell by 72% between January and October as of 2020, which reflects less 900 million tourists, compared to the same period in the previous year (2019). Asian and Pacific were the most affected region accounting with a decrease of 82%, followed by the Middle East (73%) and Africa (69%), the less accentuated fell occurred in Europe and America with a record of 68% decrease. Studies conducted by this organization expect that tourism will return to its 2019 level in 2 ½ to 4 years (approximately in 2023). Their confidence level index on this matter remains low, much due to the restrictions implemented by countries, even if the borders are not fully closed, restrictions indicate consumers that travel is not safe enough. However, experts consider domestic demand the first to recover from the pandemic (World Tourism Organization 2020a).

A survey was conducted by UNWTO to understand how tourism workers perceive the levels of international tourism to return to its 2019 levels in their country, the global results indicate that 11%, among the sample, believe it will happen in 2022, while 43% in 2023, and 45% believe it will happen only in 2024. Africa, America and Europe are the most optimistic samples (which means they forecast a shorter recovery), while Asia/Pacific and Middle East are the least optimistic (forecast a longer recovery) (World Tourism Organization 2020a).

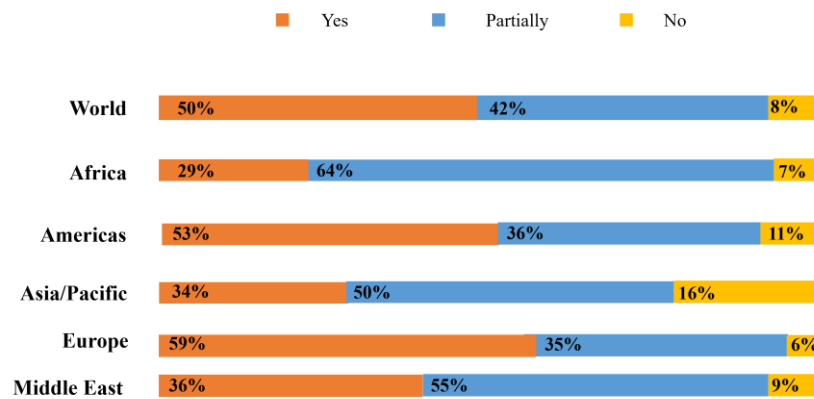
**When do you expect international tourism to return to pre-pandemic 2019 levels?**



*Figure 1 – “When do you expect international tourism to return to pre-pandemic 2019 levels?” Adapted from a survey conducted by UNWTO . September 2021.*

Furthermore, tourism workers, on a global scale, consider domestic demand is driving the tourism recovery in their countries, which means it is important to continue investing in this market, but it is not offsetting the losses of international demand drop (World Tourism Organization 2020a).

**Is Domestic Tourism driving the recovery in your destination?**



*Figure 2 – “Is Domestic Tourism driving the recovery in your destination?”. Adapted from a survey conducted by UNWTO. September 2021.*

The conclusions from this global overview clearly demonstrate the urgency of tourism sector dynamization in order to remain profitable and competitive. Focusing on Accommodation OTA industry, besides offering, as complementary services, dynamic on-the-ground experiences since 2016 (local experiences such as boat trips, monuments visiting or guide visits with a local), Airbnb further developed “Airbnb Online Experiences – Travel the World From Home” in 2020 as a COVID-19 response, which Airbnb describes as “live, interactive video session limited to small groups. They offer access to expert hosts, online interaction, and a great way to connect with people around the world” (Airbnb 2021c)(*Appendix 1*).

These services connect travelers with local experts, from an in-person to a virtual program and include experiences such as planning trips with local hosts, interactive games with different nationalities, magic shows, international cooking lessons, virtual tours with local experts, workout lessons, bartending with experts, virtual bike tour and countless more online experiences (*Appendix 2, 3 and 4*). Airbnb launched these online experience services in 2020, in the middle of the pandemic, so that people were able to connect from the comfort of their homes, be it due to travel restrictions or guest’s preference due to the low level of travel confidence (Airbnb 2021b). Therefore, Airbnb increased their range of products, deviating the pressure on being profitable on their core product (accommodation), much needed in the pandemic time when the core business was almost shut down.

The value proposition offered by Airbnb through these online experiences, in one hand to the guests, was enabling the connection to a “global community to handcrafted activities in cities around the world” (Airbnb 2021d) in a time that was mandatory to stay at home to protect the global and national health and for the hosts, enabled them “to keep earning through COVID-19 disruptions” (Airbnb 2021d). Summarizing, when people all around the world were unable to

travel due to a pandemic no one would foresee, Airbnb activated the online experiences (Add-On Services) that provided guests with the possibility of traveling all around the world without leaving their living rooms, and also work on their mental health as several studies have shown how hard it was for societies to be confined in their homes. Also, for the hosts, it was great as they could earn some income from different sources since most of their accommodations were empty. “With so many people needing to stay indoors to protect their health, we want to provide an opportunity for our hosts to connect with our global community of guests in the only way possible right now, online.”, Catherine Powell, Head of Airbnb Experiences (Hotel Business 2020).

In the third quarter of 2021, Airbnb profits rose 280% and the company experienced the highest revenue and net income ever, additionally its shares raised more than 3% (CNBC 2021). Even though the vaccination has been accelerating globally, restrictions and consumers' lower level of confidence in international travel still occur and thus, these positive numbers indicate that Airbnb has been doing it right and there is room and demand for these types of online services. Airbnb states that Online Experiences are their fastest-growing product and hosts have earned more than \$2 million since its launch, furthermore Airbnb reports that more than half of people who booked these interactive and unique experiences says they will keep booking in-person activities when there is possibility to do so. Also, more than 80% of the online experiences' guests book experiences from hosts outside their home country. In a survey conducted by Airbnb, the results were the following “82 percent said Online Experiences were more unique, 70 percent said Online Experiences were more intimate, 71 percent said they felt more of a connection with their Airbnb hosts than they did with the other activities, and 70 percent felt Online Experiences were higher quality.” (Airbnb 2021d)

The numbers above reaffirm that online experiences might be a great substitute for international travel for when self-isolating, but not just a replacement, there is a strong belief that when the pandemic is over and restrictions are fully lifted, guests will still be interested in online experiences as people remain interested in learning and connecting virtually. In another survey conducted by Airbnb, the company asked about the likelihood and reasons why guests would continue to book online experiences after the resume of in-person activities, the top reasons were “Online Experiences teach them new things (76 percent), expose them to other cultures and lifestyles (75 percent), are good value for the price (66 percent) and are convenient (65 percent).” (Airbnb 2021d) Even though the focus on this discussion, up to this point, was the need of online services from the demand side, on the supply side, the hosts, and the P2P platforms itself, are highly dependent on these services to remain their business vital (nowadays) or as a complement to capture higher revenue.

The information regarding this topic, so far, indicates positively for niche players to follow Airbnb’s (dominant player) case and expand toward online experiences in order to protect themselves from unexpected situations that might negatively affect the international tourism demand, and likewise, complement their growth with new interactive and unique products. Synergies might arise from these Add-On Services, as Online Travel Agencies already have the platform (technology and know-how) needed to establish the connection of these services with customers, moreover P2P accommodation platforms already have their pool of customers and might be able to catch new ones with the new services offered. Furthermore, these companies hold customer’s trust in their platform which is a requirement when offering virtual services. All these conditions reunited, niche players are able to add different types of experiences, and

specifically, online experiences to customers without struggling too hard, because these services go in accordance with the company's business model, which is already established.

Following the panorama presented above, this recommendation lies on the proposal of four distinct Add-On Services categories: the first being the main one, followed by three other that can help on achieving the goal proposed by this recommendation. As mentioned before, these Add-On Services, intend to complement the hosts and platform's growth, and also expand the guest-experience through a digital path. Furthermore, the relevant business model components, for each category, will be analysed for the purpose of understanding how these Add-On Services may be able to improve the P2P Business Model.

The first category should be called *Travel by Home* and the **market segment** which the category aims to target is *Digital Tourists*, a niche market. The digital tourist concept comes from a recent concept of *Digitally Enhanced Tourism*. The former concept of digital tourism represents the use of any information tool, IT solution or searching engine that is convenient for tourists to meet their tourism-related needs and also develops the competitiveness in the industry (Happ and Ivancso 2018), which implies that is the digital support for tourism experience before, during and after it occurred (Benyon et al. 2013). *Digitally Enhanced Tourism* further seeks to improve the quality extent of technology role in digital tourism experience, with the final objective of intensifying the technological experience in tourism (Benyon et al. 2013). Consequently, *Digital Tourists* are the type of tourists that take advantage of digitally enhanced tourism since it requires a deeper intensive digital experience and know-how.

This service category has the purpose of enabling guests to travel to other parts of the world and be in contact with other countries and nationalities without leaving their homes, through online experiences. The services suggested in this category are online, live and on-

demand courses – for example, international culinary classes, digital tours with a local host from other cities around the globe, bicycle tours around the city, typical cultural shows from a country, workout lessons, or local workshops and courses. Thus, the contribution of this service to the platform's **value proposition**, in a guest perspective, relates to the increased range of products the guest is able to choose and the convenient and unique manner of traveling from home, when prevented from travel or for a matter of preference. In the host perspective, the platform is giving him/her the opportunity of increasing the host's revenue with differentiative products, besides accommodation. In terms of **revenue model**, platforms may be able to apply a commission up to 20% on these services (commission rate charged by Airbnb for these services) which is much higher than for the accommodation services.

The succeeding category for niche players to take in consideration lies on the Expedia Group example and is related to Digital Loyalty Programs. *Digital Loyalty Programs* category aims to target accommodation guests' **market segment** and is a digital, reward-system based program, which means that for each booking a guest makes, he/she accumulates points that can further be applied to following booking reservations, which adds **value** to the company's **proposition** in the guests' view. Loyalty programs are defined as “a program that allows consumers to accumulate free rewards when they make repeated purchases with a firm” (Liu 2007). The consumers only take advantage of it in the long-term as these programs intend to give long-term rewards, in contrast with one-purchase rewards (Liu 2007). Thus, guests are satisfied with the discounts they can earn, and the platforms can benefit from customer retention, since customers feel connected with that specific company that offers them better conditions than others. These programs should be fully digital, which means, should be held only through the platform's website or app.

Regarding the effectiveness of Loyalty Programs, there is controversy on this matter, however empirical studies suggest that companies should focus on building long-term loyalty programs to increase the possibility of customer retention and, furthermore, the programs should be built on a segmentation basis, with the notion that not all customers are equal neither they have the same needs, and thus, if the P2P Accommodation platform wants to retain them, it should make an effort to offer the best program for each type of customer (Liu 2007). This might imply having different types of loyalty programs with different features. In terms of **cost structure**, loyalty programs are a cost to Accommodation OTAs however, offer exclusive conditions to its customers as a marketing strategy to gain their retention and preference (loyalty), and moreover stimulate more bookings from them in the future (Schaal 2021).

The third proposed category is *Things to Do When Travelling* which represents on-the-ground experiences in the countries where the platform offers accommodation, communicated, and booked through the given P2P Accommodation Platform. These services act as complementary services, that differ from the *Travel by Home* category as they are held presential and not online. These experiences are highly important to complement accommodation services and offering the guest an augmented platform experience: connecting hosts and guests beyond the accommodation service; and offering more convenience to customers via gathering more tourism-related services in a single platform.

As mentioned before, since 2016, Airbnb developed its complementary services (Airbnb Experiences), however some vulnerabilities need to be addressed in order for this category to be more successful. The offered **value proposition** by these experiences is the opportunity to be guided by local experts, within small groups, and the assurance of unique high-standard experiences (Airbnb 2021a). According to Arival, the global research authority for tours,

activities and attractions (Whaley 2020), few Airbnb Experiences are relevant in terms of the revenue they generate. To overcome this situation, P2P platforms should focus on fewer but differentiative and unique experiences for each country and/or city. From the platform perspective this would better engage hosts and enhance the platform's reputation on this matter (Whaley 2020). In what concerns to improvements in the **revenue model**, P2P Accommodation platforms would be able to charge another commission rate, beside accommodation, for these services.

The final category of the proposed Add-On Services lies on **Co-Hosting** between Hosts and Co-Hosts, verified by the accommodation platform. In this context, co-hosting occurs when two or more people are responsible for hosting and managing an accommodation. In this relationship, firstly, there is the host, that owns the property and is willing to rent it, and the co-host that only manages the renting process through the P2P accommodation platform, including contact with guests, check-in and check-out or even the cleaning process.

The idea behind this category is such that hosts can benefit from better concierge and management rental services, inside the platform scope. It might also be the case that, for a given potential host, management tasks are a barrier for rent his/hers property, due to lack of time or simply because he/she is not willing to carry that burden, and in that case, these services act as a stimulus for increasing the platform's network, in what it comes to the number of hosts and accommodations. This means, the platform itself promotes the optional service of having a co-host that manages the host property, and this co-host is as independent from the platform as the host is, once again, the platform only promotes the peer-to-peer (in this case, host and co-host) gathering and has several requirements just as it happens to hosts, to ensure the qualification for doing so, and avoid being affected or lose reputation because of a peer's actions.

These services provide several benefits to the host, especially ensuring standardized quality since the co-hosts have professional experience in the area, which leads to the delivery of good quality management services. This Add-On Service delivers superior **value proposition** to the hosts, as well as consolidates P2P Business model's **capabilities** by delivering higher and standardized quality of the services provided.

Concluding, as described along this recommendation, Add-On Services' ultimate goal is to consolidate and strengthen Peer-to-Peer Accommodation Business Model by improving guest experience, through the digitalization of P2P Accommodation Platforms, and increasing hosts and platforms' revenue growth with complementary services. The evidence shown through the COVID-19 example, faced by Airbnb, indicates positively for niche players in the industry to follow dominant players' example and complement their platforms with digital services to the guests. Furthermore, on the hosts' side there are also some management services opportunities they might benefit from.

## Appendix

When do you expect international tourism to return to pre-pandemic 2019 levels?

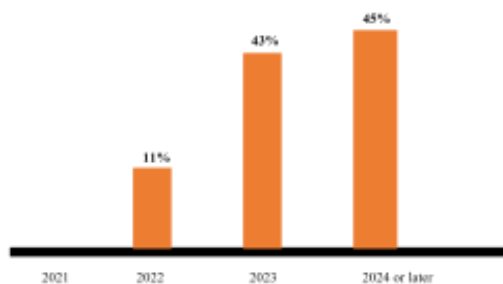


Figure 1 – “When do you expect international tourism to return to pre-pandemic 2019 levels?”

Adapted from a survey conducted by UNWTO. September 2021.

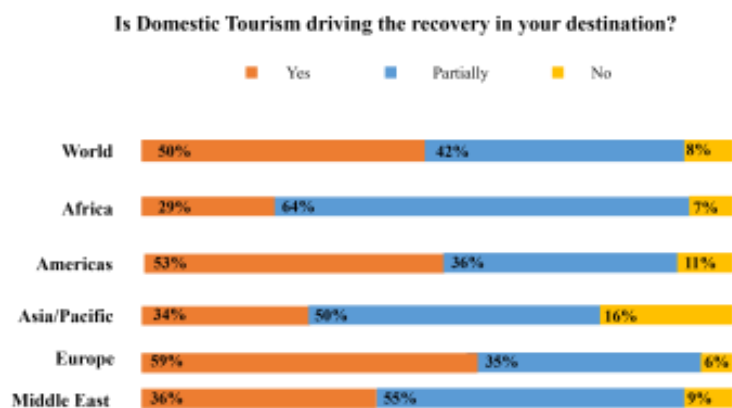
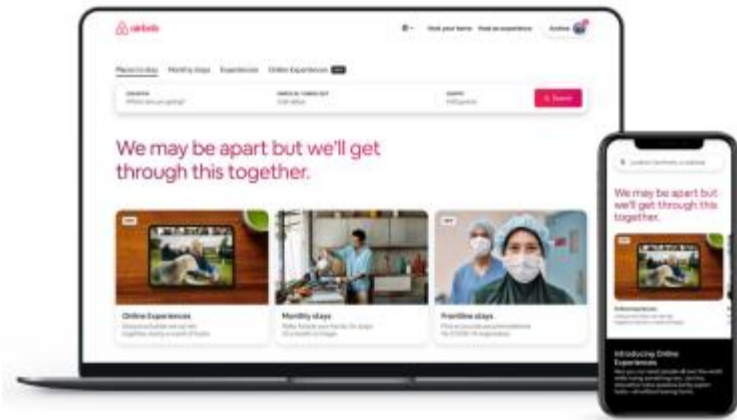


Figure 2 – “Is Domestic Tourism driving the recovery in your destination?”. Adapted from a survey conducted by UNWTO. September 2021.



*Appendix 1 – New Airbnb’s website separator as a response to COVID-19 (Airbnb 2021c).*



*Appendix 2 – Examples of Airbnb’s online experiences – workout lesson (Airbnb 2021c).*



*Appendix 3 – Examples of Airbnb’s online experiences (Airbnb 2021c).*

### **List of Airbnb's Online Experiences Examples**

Coffee Lessons with National Judge (Mexico City, Mexico)  
Family Baking Experience (San Francisco, California)  
K-BEAUTY 101 with a TV Host (Seoul, South Korea)  
Dogs of Chernobyl (Chernobyl, Ukraine)  
Join a Rollerskating Dance Party (Brooklyn, New York)  
Cooking Class with Moroccan Family (Marrakech, Morocco)  
Make the Perfect Chinese Steamed Bun (Singapore)  
Interior Design Workshop (San Francisco, California)  
Sketch with a NYC Artist (New York, New York)  
Swedish Pastries with a Professional Baker (Stockholm, Sweden)  
Day in the Life of an Olympic Bobsledder (Los Angeles, California)  
Meditation with a Japanese Buddhist Monk (Osaka, Japan)  
Secrets of Magic (London, United Kingdom)  
Mystical Coffee and Fortune Reading (New York, New York)  
Quarantinis, GINspiration at Home (Bath, United Kingdom)  
Learn to Cook Mexican Salsas (Mexico City, Mexico)  
Irish Dance Masterclass (Galway, Ireland)  
Remote Rescue Goats (Catskills, New York)  
Virtual Bike Tour with 2x Gold Medalist Triathlete - Alistair Brownlee (Yorkshire, United Kingdom)  
Sonoma Ricotta Cheese Making and More (Sonoma, California)  
Guided Meditation with Sleepy Sheep (Loch Lomond, United Kingdom)  
Grandma's Pasta (Rome, Italy)

*Appendix 4 – List of Airbnb's Online Experiences Examples (Airbnb 2021d).*

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