Aalto University
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HOTEL INDUSTRY COMPETITIVE RESPONSES AGAINST AIRBNB

A case study of hotels vs. Airbnb in Helsinki

Master's Thesis
Javier Savolainen
Aalto University School of Business
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**Aalto University
School of Business**

**Aalto University, P.O. BOX 11000, 00076 AALTO
www.aalto.fi
Abstract of master's thesis**

Abstract

Airbnb is widely regarded as one of the most successful sharing economy innovations in the accommodation services industry. The online home-sharing platform has registered over 300 million guest arrivals since it started in 2008. With presence in over 191 countries worldwide, the nearly 5 million listings on the platform eclipse the room capacity of the top five hotel brands in the world combined. The exponential growth of Airbnb has surprised many market spectators including hotel executives that have largely dismissed the new competitor.

The emergent academic research on Airbnb has established that Airbnb poses a disruptive threat to the hotel industry, given that it substitutes more low to mid-market stays than previously believed. Hotel competitive responses against Airbnb have remained largely obscured, with lobbying and moderating peak pricing as the most evident competitive responses. The research aim of this thesis was to create new understanding on how hotels compete against Airbnb. A theoretical framework explaining factors influencing competitive response was adopted from the competitive dynamics field and supplemented with other research streams from strategic management literature.

This study employed a single case study method focused on the hotel market in Helsinki, Finland. Research data was drawn using semi-structured interviews with 13 hotel industry executives from 11 hotel organizations operating in the area. The interviews were recorded, transcribed and analyzed using qualitative content analysis. This thesis also relied on secondary online data sources for general hotel and Airbnb market data in the area.

The findings of this thesis show that hotel organizations in Helsinki have mainly responded to Airbnb by adapting to changing lifestyle and online trends. Executives from leading hotel chains were found to be in a key role in influencing the anti-Airbnb agenda at the national industry association. The booming hotel market in Helsinki was identified as one of the reasons behind executives' optimism and reduced threat perception on Airbnb. Furthermore, internal orientation and focus on most immediate competitors explained why hotel organizations neglected monitoring Airbnb supply and thus underestimated its scale.

Tekijä Javier Savolainen	
Työn nimi Hotellialan kilpailulliset vastatoimet Airbnb:n markkinoille tulon jälkeen: Tapaustutkimus hotelleista ja Airbnb:stä Helsingissä	
Tutkinto Kauppatieteiden Maisteri	
Koulutusohjelma MSc Degree Programme in Strategy	
Työn ohjaaja(t) Taija Turunen	
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Tiivistelmä

Airbnb:tä pidetään yleisesti yhtenä menestyksekkäimmistä jakamistalouteen pohjautuvista palveluista majoitusalalla. Vuonna 2008 perustettu internetissä toimiva kodinjakamispalvelu on jo fasilitoinut yli 300 miljoonaa majoittumista ja toimii tällä hetkellä 191 maassa. Sivustolla olevat lähes viisi miljoonaa kohdetta ylittävät kapasiteetissa jopa maailman viiden suurimmat hotelliketjun yhteenlasketun kokonaiskapasiteetin. Airbnb:n eksponentiaalinen kasvu on yllättänyt markkinat mukaan lukien hotellialan johtajat, jotka pitkään jättivät uuden kilpailijan huomiotta.

Akateemisen tutkimuksen mukaan Airbnb muodostaa disruptiivisen uhkakuvan koko toimialalle, sillä kuluttajat ovat korvanneet matalan ja keskitason hintaluokan yöpymisiä Airbnb:llä aiempaa luultua enemmän. Hotellien vastatoimet ovat kuitenkin pysyneet huomaamattomina. Näistä lobbaustoimet, sekä korkeansesongin hintakilpailu ovat olleet selkeimpiä merkkejä perinteisen majoitussektorin vastatoimenpiteistä. Tämän tutkielman tarkoitus on ymmärtää kuinka hotellit kilpailevat Airbnb:n aiheuttamaa liiketoiminnallista uhkaa vastaan. Kilpailullisiin vastatoimenpiteisiin vaikuttavia muuttujia tutkittiin kilpailudynamiikan teoriaan perustavan viitekehityksen avulla. Teoriaa täydennettiin muulla strategisen johtamisen kirjallisuudella.

Tutkimuksen empiirinen osuus toteutettiin tapaustutkimuksena, joka keskittyi hotellisektoriin Helsingissä. Tutkimuksen pohjana käytettiin 11 eri hotellin johtoryhmän jäsenten haastatteluja ja yhteensä haastatteluja tehtiin 13. Tutkimuksen tulokset analysoitiin laadullisen sisällöntutkimusanalyysin menetelmien mukaisesti. Tutkimuksessa käytettiin myös toissijaisia tutkimuslähteitä hotellimarkkinoiden-, sekä Airbnb:n markkinadatan keräämiseksi.

Tutkimukset tulokset osoittavat, että Helsingissä sijaitsevat hotellit ovat pääasiassa vastanneet Airbnb:n tuloon mukautumalla muuttuviin lifestyle- ja online-trendeihin. Suurten hotelliketjujen johtajat ovat myös olleet vaikuttavassa asemassa Airbnb:n vastaisen agendan luomisessa kansallisessa toimialajärjestössä. Helsingin kasvava hotellimarkkina kuitenkin lisäsi hotellien johtajien optimismia ja tämän arvioitiin heikentävän Airbnb:stä syntyvien uhkakuvien vakavuutta. Lisäksi hotelliyritysten huomio keskittyi usein lähinnä suoriin kilpailijoihin hotellisektorilla, minkä takia monet niistä aliarvioivat Airbnb:n liiketoiminnan laajuuden Helsingissä ja jättivät Airbnb:n seuraamisen vähemmälle huomiolle.

Avainsanat Airbnb, Hotellitoimiala, Kilpailudynamiikka, Vastatoimenpide, Disruptio

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1 INTRODUCTION

1.1 Background

Over the past decade, rapid technological advancements and changing consumer patterns have enabled disruptive innovations[1] in the service industry (Varma, Jukic, Pestek, Schultz and Nestorov, 2016). One on-going success story has been Airbnb, which has since starting in 2008 grown exponentially with its online home-sharing platform, to become one of the largest privately held companies in the world with a $31 billion valuation (Lunden, 2017). The idea behind the service is that it connects people needing an accommodation to private people providing such a service. For guests, using Airbnb offers a more authentic experience compared to a hotel stay, at a lower price point. For hosts, renting their room or apartment via Airbnb can be a great way to earn extra income and meet travelers around the world. The service has registered over 300 million guest arrivals since it started and in early 2018 the company has under 5 million listings available in more than 191 countries. (Airbnb, 2018) Morgan Stanley estimates that 28% of travelers in Europe and U.S used the service in 2017 (Scaggs, 2017).

At the background of the rapid adoption rate behind services like Airbnb has been the socio-economic movement called the sharing economy, where consumers are more mindful about societal aspects of consumption, reconnection to local communities and cost savings (Botsman and Rogers, 2011; Tussyadiah, 2015; Jiang and Tian, 2017). Airbnb's sharing philosophy and image of a friendly community has been associated as one of the success factors behind the platforms exponential growth (Oskam and Boswijk, 2016), even if some past research has criticized its use of "faux sharing" vocabulary on a short-term rental activity (Belk, 2014). Nevertheless, Airbnb has changed consumer behavior and enlarged the market for private accommodation immensely through its online platform (Henten and Windekilde, 2015).

Early research on Airbnb has studied different aspects of the Airbnb phenomena, mainly focusing on aspects of the platform and its users. The findings indicate that users participate in Airbnb primarily because of its economic benefits over hotels (Balck and Cracau, 2015; Nowak et al., 2015; Guttentag, 2016) and financial motivations in hosting (Ikkala and Lampinen, 2015;

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[1] A product, technology or a business model that challenges existing products with a different set of main attributes. As the product improves it starts substituting existing products and surpasses them to become the preferred choice among mainstream consumers. (Christensen, 1997; Christensen and Reynor, 2003)

Oskam and Boswijk, 2016). While the role of social interactions has been found important (Tussyadiah and Pesonen, 2016; Ikkala and Lampinen, 2015), other findings suggest that experiential aspects and sustainability play a secondary role (Guttentag, 2016; Hamari, Sjöklint and Ukkonen, 2015). Research has also indicated that Airbnb users tend to be well-educated, younger and earn more than the average person (Guttentag, Smith, Potwarka and Havitz, 2017; Nowak et al., 2015).

Media coverage on Airbnb has brought up both positive and negative aspects of the Airbnb, ranging from diverse experiences to regulatory concerns (Guttentag, 2016). While the aggregate net impact of Airbnb on society is largely debated, Tussyadiah and Pesonen (2016) found evidence that an active Airbnb community in a tourism destination can positively impact visitor numbers, frequency of travel and increase length of stay. However, Nowak et al (2015) and Guttentag (2017) note that the ability of Airbnb to unlock new demand seems to be quite limited. In conclusion, research on the Airbnb phenomena has been heavily skewed on the consumer side and relatively little research has been done to understand how it's affecting the hotel industry.

What makes innovative services like Airbnb particularly interesting is that peer-to-peer markets are increasingly substituting goods and services that have for a long-time been offered by traditional industries (Zervas, Proserpio and Byers, 2016). The first impact study on Airbnb noted that peer supply has a negative impact on hotel revenues, especially on low-end accommodation services and hotels catering non-business travelers (Zervas et al., 2016). Subsequent impact studies have found the effect to be nuanced (Xie and Kwok, 2017; Blal, Singal and Templin, 2018) and occurring especially in capacity constrained cities during peak times (Farronato and Fradkin, 2018). These findings combined with findings from demand side studies indicate that Airbnb supply substitutes hotel stays much more than what was initially believed and thus presents a disruptive threat against hotels (Blal et al., 2018; Guttentag, 2017).

Airbnb can be a particularly challenging competitor for hotels, as the platform lowers entry barriers for competing new listings. In particular, it diminishes peak pricing power of hotels. Peer supply can also adjust more readily to demand fluctuations, which is not the case with hotels that have to bear the fixed inventory costs also outside tourist season. (Zervas et al., 2016) Another competitive advantage for Airbnb hosts is that their revenues from the platform are often additional income to already incurred costs such as rent and utilities (Oskan and

Boswijk, 2016). Peer supply can also take advantage of existing housing infrastructure, which is subject to less restrictive zoning permissions than what hotels have to comply with (Zervas et al., 2016). Hotels are often subject to additional tax and regulation (i.e. health and safety), which Airbnb was able to circumvent at least initially (Einav, Farronato and Levin, 2016). Furthermore, findings from the U.S indicate that proactive tax compliance among Airbnb hosts could be relatively low (Bibler, Teltser and Tremblay, 2018).

Thus, while research on Airbnb has studied various aspects of the Airbnb phenomenon, one particularly large research gap remains: there seems to be a very limited understanding on how hotels have responded to the rapid growth of Airbnb. Hotel competitive responses like lobbying (Guttentag, 2016; Blal et al., 2018) and moderating prices during peak times (Zervas et al., 2016; Farronato and Fradkin, 2018) are the most evident competitive responses. The only academic study so far exploring hotel reactions documented very few competitive responses in the U.S markets (Varma et al., 2016). Negligent attitudes of hotel executives before 2016 suggested that they underestimated the potential threat from Airbnb (Guttentag, 2016; Varma et al., 2016). More recent media comments have reported that hotel executives have started softening their positions (Allen, 2017) and that the industry has begun taking more systematic collective action against Airbnb (Benner, 2017; Zaleski, 2018; Blal et al., 2018)

1.2 Research aim and research questions

The research aim of this thesis is to create new understanding on how hotels compete against Airbnb. Firm-level competitive responses are of particular interest. Furthermore, understanding the factors that influence competitive response can be useful in structuring this. The empirical setting of this study is the hotel market in Helsinki. The research questions of this thesis are:

RQ1: How have hotels reacted to the increasing presence of Airbnb in Helsinki?

RQ2: Why have hotel operators chosen certain responses over others?

The results of this thesis will provide new insights for managers, policy makers and academics researching Airbnb. More specifically, the findings should help managers in evaluating and developing most appropriate competitive responses against disruptive innovation. For legislators, the study can provide new insights on competition between the traditional industries and new disruptive market entrants. Such information can help regulators to set policies that

advance the competitiveness of traditional industries. Finally, for academics providing a starting point for understanding competition between hotels and Airbnb can enable multiple interesting future avenues of research that can help us understand competing against disruptive innovations. Such understanding should be valuable not only for business schools around the world, but also for the society at large.

2 LITERATURE REVIEW

2.1 Hotel Industry

2.1.1 Definition of hotel

Hotel is a commercial business unit that provides travelers and tourists, accommodation and other related services (Oxford dictionaries, 2017; Jafari, 2002). The establishments vary in terms of concept, target customers, price, service provision, and ownership and operative structure (Jafari, 2002). In Finnish legislation, accommodation services are defined, as professional services that offer furnished rooms or other types of accommodation on a short-term basis for customers (Finlex, 2017). In this thesis, the term hotel will be used as a broader concept like accommodation services that operate as a commercial business unit in an urban setting. Also special segments like hostels and apartment hotels will be included, as these could substitute hotel use in some cases.

2.1.2 Hotel industry characteristics

The hotel business is considered to be service-oriented, labor- and capital-intensive by nature, which requires a considerable level of customer adoption and managerial know-how to succeed in (Rushmore, 2001). Furthermore, the location of a hotel is of high importance and is often studied by analyzing demand generators (e.g. proximity of tourist attractions) for leisure and business travelers in the area (Rushmore, 2001). Besides capital intensiveness, the industry is characterized by volatile cash flows, but with prospects of high profits (Salakka, 2015). The industry is also prone to considerable 'dynamic risk', as demand can have seasonal fluctuation, the industry is cyclical (i.e. demand is influenced by the economic situation), and external events (e.g. terrorism) can have major implications for the operations (ibid.).

Hotels have a wide range of differentiating characteristics that separate them from one another. These include the concept of the hotel and the hotel property (Salakka, 2015). These have important implications for the business models of hotels. Some distinctive features of hotels include rooms with bathrooms, air-conditioning, fixtures, equipment and furniture, which require maintenance and replacement over time (ibid.). As the hotel property can be considered quite technical and specific by nature, this translates into higher development and maintenance costs (Talja, cited in Salakka, 2015). Hotel operations are characterized by long start-up period,

high start-up costs, and on-going maintenance costs. Salakka (2015) notes that hotel properties have little alternative uses, which has important implications industry entry and exit barriers. Furthermore, hotels run the risk of internal obsolescence (e.g. technical functionality missing), as their property becomes outdated relative to newer hotels (Rushmore, 2001; Salakka, 2015).

2.1.3 Hotel operational modes and segments

Hotel operations typically follow a co-operation model between the property owner and a possible external party that manages the daily operations of the business. Another operations model is the case where the hotel owner is also the operator; this tends to be more common with small and independent hotels. A major drawback of this model is that hotel operation under this model may not be efficient, as running successful hotel operations requires a diverse skill set. This structure has also the highest risk-return profile. (Talja, and Nuutinen, cited in Salakka, 2015; Salakka, 2015)

Larger hotel chains are typically franchising or management contract based (Talja, and Nuutinen, cited in Salakka, 2015). The reasons between choosing either operative model have been studied in Dev, Erramilli and Agarwal (2002). Management contracts are usually chosen in a case where the hotel's competitive advantage depends on 'irreproducible capabilities' (e.g. quality) in a service-sensitive market (Dev et al., 2002). The expertise of the investors (i.e. owners) also influences their ability to employ management contracts (ibid.). On the other hand, the franchising model is chosen in cases where the target market is developed and availability of managerial talent is good (ibid.).

Hollenback (2014) notes that hotel chains have been largely successful in the past 30 years. This has largely been the case because chains are able to extract a premium, due to low consumer information, although this effect diminishes over time (ibid.). Furthermore, Hollenback (2014) notes that benefits of large chains are largely based on market power and not cost efficiency. On the other hand, Rushmore (2001) explains that franchising can help market entry by reducing the run-up phase of a hotel, thus limiting capital risks, while enabling a knowledge transfer for successful operations.

2.1.4 Performance in the hotel industry

Revenue management is a highly important aspect of improving performance in the hotel industry (Vinod, 2004). In Revenue Management, hotels aim to maximize profits by managing customer behavior through price and availability of their inventory in different channels (Anderson and Xie, 2010). Different customer segments have different price elasticities, so hotels should have a deeper level of understanding on customer needs and customers' willingness to pay (Vinod, 2004). For instance, demand from leisure customers tends to be elastic, so they often are more price sensitive than corporate customers (ibid.).

Similarly to the Airline industry, from which revenue management has been adopted from (Anderson and Xie, 2010), hotels also engage in dynamic pricing to maximize their profits (Abrate, Fraquelli and Viglia, 2012). The internet has made hotel industry pricing highly transparent and allowed hotel revenue managers to respond faster to changing consumption patterns in real-time (Abrate et al., 2012). Based on a sample size of 1000 hotels in eight European capital cities, hotels engage in strategic behavior as they optimize prices based on room availability in the area (ibid.). Hotel pricing strategies also target customer segments differently, for example prices rise immediately before the weekend in anticipation of leisure demand, but decline right before mid-week days, as business customers tend to book their rooms early (ibid.). 'High-valuation customers' have a lower level of patience in their booking timing compared to 'low-valuation customers' (ibid.).

Despite the seemingly tactical nature of price setting in the hotel industry, research on strategic pricing has found interesting results on what drives performance the most in the hotel industry. Enz, Canina and Van der Rest (2016) and Noone, Canina and Enz (2013) found that average daily rate (ADR) was more important than occupancy rate in maximizing revenue per average room (RevPAR) for both independent hotels and affiliated chains. The first paper studied 4000 European hotels over a 10-year time period, while the latter one studied 7000 U.S hotels over an 11-year time period. The implications are that hotels tend to benefit from a differentiated product and service offering (Enz et al., 2016). Also Van der Rest and Harris (2008) note that understanding 'price elasticity of demand' and 'customer pricing behavior' are important for maximizing revenue in the hotel industry.

"Understanding how customers respond to offerings in the marketplace is critical to developing a solid pricing strategy and ensuring that a hotel's rate structure is focused on creating customer value." (Enz et al., 2016)

Finally, revenue management systems become especially effective, when they are integrated to multiple data sources (Anderson and Xie, 2010). For instance, web traffic data can provide various types of insights about the most effective sales channels and "online buying behavior of customers" (Saxena and Lamest, 2018). Furthermore, hotels have various channel partners and services providers that are able to provide information ranging from competitor inventory to performance tracking in reaching customers (Anderson and Xie, 2010). Today a large share of customer related data comes from external service providers and the vast amount of data available can be overwhelming for hotel managers (Saxena and Lamest, 2018). Linking external sources (e.g. TripAdvisor) and revenues through interactive dashboards have enabled hotels managers to explore data in new ways (ibid.)

2.1.5 Hotel industry in the internet age

The rise of internet has had major implications for the hotel industry, as it has created an increasingly complex market place for hotels, intermediaries and consumers. For hotels, the internet has granted an easier access to customers through new intermediaries and direct sales, thus leveling the playing field in the hotel industry. As a consequence, consumers today are having increasingly higher amount of available options (i.e. destinations and hotels) and more information to choose the most appropriate products and services to them. In addition, consumers are increasingly using dynamic packaging (i.e. instead of single product trips offered by travel agencies), allowing them to purchase flights, hotels and other services separately at a lower cost. (Kracht and Wang, 2010; Buhalis and Law, 2008) This poses significant challenges for hotels as they are having difficulties in adopting to new media and evolving distribution channels (Xiang and Gretzel, 2010).

The first challenge that hotels are struggling with is online consumer behavior. Consumers today have rich access to product and service information of hotels through the internet and social media (Xiang and Gretzel, 2010), which refers to modern internet based applications that allow sharing of user generated content (UGC) in virtual communities (Zeng and Gerritsen,

2014). These virtual communities have become increasingly important, as consumers trust more online reviews than commercial messages (Buhalis and Law, 2008). Cantallops and Salvi (2014) note that online reviews have become an important factor in hotel selection. Sparks and Browning (2011) explains that this is because such information is easier to process. Noone and Mcguire (2014) arrives at similar conclusions, noting also that consumers today focus less on 'price-benefit tradeoffs'.

Hotels that are able to satisfy their customers and generate positive online reviews are able to reach higher sales (Mayzlin, 2006; Luca, 2016); therefore hotels have an incentive to avoid negative electronic word-of-mouth (i.e. eWOM), which refers to informal online communication about characteristics and usage of goods, services or companies providing them (Cantallops and Salvi, 2014). Smyth, Wu and Greene (2010) explains that hotels are likely to be motivated to improve their performance, given the impact of online reviews on virtual travel community websites like TripAdvisor, which is the largest online travel community for reviewing hotels, restaurants and other attractions (Buhalis and Law, 2008; O'Connor, 2010). Smyth et al. (2010) points out that 'improved information efficiency 'through such websites has increased standards of service to some extent. However, the "TripAdvisor Effect" may diminish overtime as markets become more developed (ibid.).

O'Connor (2010) demonstrates that hotels are lacking effort of trying to improve their online reputation. Murphy and Kielgast (2008) explains that while large hotels have been able to keep up with managing their online reputation, especially hotel SMEs tend to lack in capabilities for understanding online consumer behavior and in having a vision for their own online presence. Milan (2007) notes that today, brand image is socially constructed through regular dialogue with consumers online (O'Connor, 2010). Therefore, hotels should more actively engage with social networks and be more proactive online, in order to create more business and establish customer loyalty (O'Connor, 2010).

The second challenge that hotels are facing is the rise of new online intermediaries: Search Engines and Online Travel Agencies. Combined, these market players create additional monitoring and marketing costs for hotels, while their power in the market is growing. Search Engines – sites that index websites for easier consumer access (O'Connor, 2009) - are at a central role in online consumer behavior today. In 2018, around 3.5 billion online google searches are made every day (Mangles, 2018). O'Connor (2009) explains that online search is

among the most valued access points of travel information, facilitating 75% of online travel purchases. Xiang and Gretzel (2010) points out that search engines also have an important role in endorsing social media in travel planning.

Paraskevas, Katsogridakis, Law and Buhalis (2011) note that hotels' position in search engine results has become essential from strategic point of view. Hotels can improve their online presence by 1) search engine optimization (SEO), which means improving index structure and links to their site, or 2) through paid placements (PP) through search engines like google (Sen , 2015). Failure to participate successfully in online marketing can lead to loss of website visitors and even brand dilution, as hotels are listed on third-party sites. O'Connor (2009) notes that this occurs frequently, and that lack of knowledge or attention from hotel managers has led to rampant trademark infringements.

The second group of formidable intermediaries has been the Online Travel Agencies (OTAs), some of which have even surpassed traditional industry players in size (Kracht and Wang, 2010). Leading OTAs like booking.com, Expedia and Orbitz provide a single market place offering hotel rooms, flights, car rentals and more. These third-party sites allow consumers to compare for example hotel attributes and prices, thus leveling the playing ground for the hotel industry. Xiang, Magnini and Fesenmaier (2015) note that OTAs have become a leading source for travel planning. Another reason that has made them a successful distributor of market supply has been the better website functionality and design (Buhalis and Law, 2008).

Hotel executives view OTAs like booking.com, Orbits and Expedia as both competitors and partners (Varma et al., 2016). A major negative development for the hotel industry has been that, these third-party websites have started to also include listings other than hotels, such as apartments and hostels (ibid.). Furthermore, as these intermediaries have become increasingly powerful in the market place, they have been able to start charging higher listing and advertising fees (Kracht and Wang, 2010), while continuing to alter rankings and search results, which has translated to higher monitoring costs for hotels (Varma et al., 2016). On the other hand, OTAs have increased occupancy levels in hotels in general, while helping especially smaller hotels that do not have an established brand name (ibid.).

2.2 Airbnb and Hotels

2.2.1 Airbnb concept

Airbnb is an internet company that has become widely known around the world for its online home-sharing site Airbnb.com. Since starting in 2008, the company has grown from a Silicon Valley start-up, into one of the largest privately held companies in the world with a $31 billion valuation by 2017 (Lunden, 2017). Today, the company is located in more than 191 countries around the world and holds under 5 million listings on its website (Airbnb, 2018). By early 2018, the site has registered more than 300 million guest arrivals (Airbnb, 2018). Morgan Stanley estimates that 28% of travelers in Europe and U.S used the service in 2017 (Scaggs, 2017).

The basic idea behind Airbnb's online home-sharing site is that it connects people needing an accommodation to people that can provide one. The service is based on an online platform that mediates the interaction of the two user groups. For guests, using Airbnb can offer a more authentic experience compared to a hotel stay, at a lower price point. When searching for listings guests can filter the results based on listing type, price and location. For hosts, renting their room or apartment via Airbnb can be a great way to earn extra income and meet travelers around the world. Airbnb earns money on the transactions made on the website. (Airbnb, 2018)

The online home-sharing platform of Airbnb facilitates transactions between users. Payment from guests are charged upon host confirmation and held by Airbnb until 24 hours after check-in. They payment for guests consists of per night rate and other possible fees set by the host. Airbnb charges the guests an additional 6-12% service fee on the transaction and a 3% currency exchange fee on the combined total. Hosts receive the payment that they charge from guests minus the 3% commission on night rate that Airbnb charges. Airbnb supports hosts through various services that facilitate setting up listings online and give tips how to optimize the revenue of the listing. Hosts have the full autonomy to manage their listings (e.g. availability and price) as they see fit. (Henten and Windekilde, 2015; Airbnb, 2018)
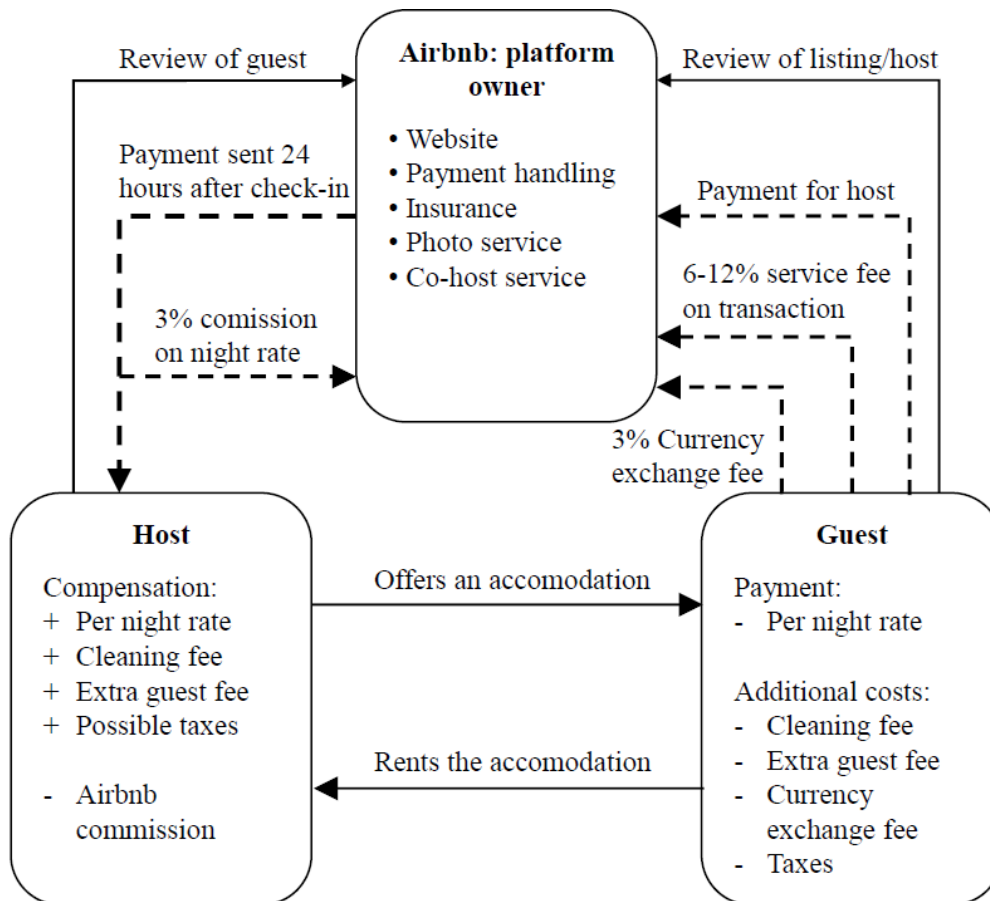
Figure 1. Airbnb platform

The Airbnb platform relies on reputational mechanism to generate trust and encourage bookings. After guests leave the property the platform reminds both parties to rate their experience. Guests rate the various aspects of their stay ranging from cleanliness to host friendliness. Users are also able to leave each other public comments that can be reviewed by the online community. Hosts that receive good ratings and positive reviews get more bookings that other hosts; such hosts are also able to charge higher prices (Ikkala and Lampinen, 2014). Airbnb provides users a resolution center to handle conflict or other special situations that may arise. Airbnb also extends hosts an insurance that covers up to $1 million in liabilities. (Airbnb, 2018)

2.2.2 Airbnb movement

Airbnb is widely regarded as one of the most successful sharing economy innovations in the accommodation services industry (Liu and Mattila. 2017; Guttentag et al., 2017). The origins of the service come from people sharing their living costs with people seeking for a more affordable and personal experience (Helm, 2014). Today, Airbnb promotes itself as 'a global travel community' that enables travelers to gain local experiences and empowers local residents to become hospitality entrepreneurs (Airbnb, 2018). The associated consumer movement behind the success of Airbnb will be discussed next.

The sharing economy has emerged as a new socio-economic movement, where consumers are more mindful about societal aspects of consumption, reconnection to local communities and cost savings (Botsman and Rogers, 2011; Tussyadiah, 2015; Jiang and Tian, 2017). While sharing economy encompasses various activities from exchanges in second-hand market places to improved utilization of physical assets (Schor, 2014), 'collaborative consumption' is a more descriptive term for sharing activities that involve a market place exchange (Belk, 2014). Belk (2014) defines collaborative consumption as "people coordinating the acquisition and distribution of a resource for a fee or other compensation". The changing consumer behavior where people prefer to pay for a temporary access, rather than buying or owning things, is growing phenomenon (Bardhi and Eckhardt, 2012; Belk, 2014).

> "*Collaborative consumption has emerged as a major trend as the global economic recession and social concerns about consumption sustainability lead consumers and society as a whole to explore more efficient use of resources and products.*" (Jiang and Tian, 2017)

Online companies like Airbnb have benefitted from these changing consumer trends and have gained more popularity by spreading their sharing ideology (Belk, 2014; Oskam and Boswijk, 2016). For instance, Airbnb CEO Brian Chesky has commented that Airbnb is not simply about renting spaces but also about making experiences and meeting new people (Helm, 2014). Early research on Airbnb has studied user motivations to use the platform and have found that consumers use the service primarily because of the economic benefits it provides over hotels (Balck and Cracau, 2015; Nowak et al., 2015; Guttentag, 2016). Financial motivations also explain why hosts use Airbnb (Ikkala and Lampinen, 2015; Oskam and Boswijk, 2016). While

the role of social interactions has been found important (Tussydiah and Pesonen, 2015; Ikkala and Lampinen, 2015), other findings suggest that experiential aspects and sustainability play a secondary role (Guttentag, 2016; Hamari, Sjöklint and Ukkonen, 2015). Thus, the characteristics of the Airbnb movement also explain why the service has been so successful and threatening for hotels (Guttentag, 2016; Oskam and Boswijk, 2016)

Some past research on Airbnb and the related consumer movement, has also criticized the "faux sharing" vocabulary (Belk, 2014) used by Airbnb. Indeed, one of the success factors behind the rapid growth of Airbnb has been its philosophy and image of a friendly community (Oskam and Boswijk, 2016). Even if experiential aspects have found to be a secondary motivation, the role of WOM (word of mouth) and eWOM (electronic word of mouth) have been found to be important for raising awareness about the service and encourage trying the service for the first time (Guttentag, 2016). Past research on Airbnb has established that consumers are highly satisfied with Airbnb and substitute hotel stays with Airbnb more than what was initially believed (Guttentag, 2016; Nowak et al., 2015). Thus the "sharing ideology" used by Airbnb may have been one source of confusion, which has led the hotel industry to initially believe that Airbnb supply is mostly complementary to hotel stay. (Guttentag, 2016; Oskam and Boswijk, 2016). Nevertheless, there has been a significant debate on Airbnb impact on hotels and tourism destinations, which will be discussed after the platform perspective of Airbnb.

2.2.3 Competitiveness of P2P platforms

Another important aspect explaining the emergence of collaborative consumption has been the development of information and communication technologies (ICTs), as internet based platforms have created new market places for various types of goods and services (Hamari, et al., 2015; Tussyadiah, 2015). Schor (2014) categorizes platforms into four groups based on two dimensions. Along these dimensions, Airbnb is categorized as a peer-to-peer for-profit platform, as seen in figure 2.1.

		Type of Provider	
		Peer to Peer	**Business to Peer**
Platform orientation	**Non-Profit**	Food Swaps, Time Banks	Makerspaces
	For-Profit	Airbnb	Zipcar

Table 1. Platform categorization (Schor, 2014)

Past research on peer-to-peer (P2P) platforms has identified numerous reasons for their success. One of them is technology innovation and another is supply-side flexibility (Zervas et al., 2016). The primary explanation on the success of P2P platforms has been that these technology platforms enable buyers and sellers to find each other, thus significantly reducing transaction costs between the parties and lowering barriers for market entry (Einav et al., 2016; Henten and Windekilde 2015; Zervas et al., 2016). This can be highly valuable, because conveying information about highly differentiated buyers and sellers, at a minimal transaction cost is challenging (Einav et al., 2016).

The reason behind Airbnb's rapid growth has been that the company has boosted the number of listings on the platform by incentivizing Airbnb hosts to join, which in turn has made the platform more attractive to guests (Oskan and Boswijk, 2016). Such network externalities frequently occur in two-sided markets (Rochet and Tirole, 2006), as users are willing to pay more for an access to a larger network (Eisenmann, Parker and Van Alstyne, 2006). As shown earlier in this sub-section, Airbnb primarily makes money from transaction fees paid by guests. Network externalities are one of the primary reasons for Airbnb's rapid growth (Oskam and Boswijk, 2016), as its transactions have also more than doubled every year (Farronato and Fradkin, 2018).

Another success factor behind platforms like Airbnb is that the seller supply-side tends to be flexible (Zervas et al., 2016); Airbnb hosts (i.e. sellers) can list their apartments when the demand is high. This is not the case with hotels, which offer a more standardized product and incur higher fixed costs also outside the tourist season (ibid.). A related competitive advantage

for Airbnb hosts is that their revenues from the platform are often additional income to already incurred costs such as rent and utilities (Oskan and Boswijk, 2016). Peer supply can also take advantage of existing housing infrastructure, which is subject less restrictive zoning permissions than what hotels have to comply with (Zervas et al., 2016). Hotels are often subject to additional tax and regulation (i.e. health and safety), which Airbnb could circumvent at least initially (Einav et al., 2016). Furthermore, findings from the U.S indicate that proactive tax compliance among Airbnb hosts could be relatively low (Bibler, Teltser and Tremblay, 2018). Airbnb's minimal regulatory compliance overall has met with regulatory backlash in many parts of the world (Bershidsky, 2017).

2.2.4 Airbnb impact on the hotel industry

To understand the impact of Airbnb on the hotel industry, a holistic perspective on past Airbnb studies is needed. Like other P2P platforms, Airbnb has enabled market transactions that may not have been previously possible, because of high costs in "searching, contacting and contracting" (Henten and Windekilde, 2015). Airbnb started as a service for home-owners to cover their rental expenses (Oskam and Boswijk, 2016), thus creating a new market on short-term private accommodation (Henten and Windekilde, 2015). While Airbnb has communicated publicly that it believes to be complementing existing offering (Zervas et al., 2016), promoting it as providing economic benefits to residential districts, several researchers and industry analyst have pointed to evidence that this could be marginal (Oskam and Boswijk, 2016). Industry comments on whether Airbnb is impacting the hotel business have been mixed (Guttentag, 2016; Varma et al., 2016), so a distinction between complementarity and substitution is necessary.

Starting from the complementarity, the impact of Airbnb to the local markets has been covered in the media and to a lesser extent in academic research. In the media, Airbnb has received both positive and negative coverage (Guttentag, 2016). While the aggregate net impact of Airbnb on society is largely debated, Tussyadiah and Pesonen (2016) found evidence that an active Airbnb community in a tourism destination can positively impact visitor numbers, frequency of travel and increase their length of stay. P2P accommodation can improve visitor experiences and encourage spending on travels, thus boosting destination image, increasing frequency of travel and bringing economic benefits to local businesses (Tussyadiah and Pesonen, 2016).

Airbnb can therefore be beneficial especially for underdeveloped tourism destinations, as the increased diversity in offering can bring new demand (Tussyadiah and Pesonen, 2006). However, several studies have also brought up negative externalities that Airbnb may have on tourism destinations, also questioning the studies made by Airbnb (Oskam and Boswijk, 2016). For instance, Gutierrez, Garcia-Palomares, Romanillos and Salas-Olmedo (2017) and Tussyadiah and Pesonen (2016) note that in over-developed tourism areas, there can be conflicts between Airbnb and residents. Airbnb related regulatory challenges will be explored further in the next sub-section.

Moving on to the topic of substitution, around ten recent academic papers to date have studied the impact of Airbnb on the hotel industry from demand or supply-side perspectives. The first group of papers has aimed to investigate the degree of substitution between Airbnb and hotels through a demand-side investigation. A Morgan Stanley industry report, Nowak et al. (2015), has been the most comprehensive demand-side exploration of Airbnb substitution. Nowak et al. (2015) surveyed 4000+ adults from four countries (i.e. U.S, UK, France and Germany) and found that travelers used Airbnb as a substitute for hotels in 41% of the cases, while 'bed & breakfast', 'friends & family', and 'extended stay' hovered around 30% each. The findings were similar in Guttentag (2017). The second edition of the Morgan Stanley report from 2016 covered on Ting (2017a) reports that Airbnb's use as a substitute had grown the most relative to hotels reaching 49%. From leisure and corporate travelers around 19% have used Airbnb in the last 12 months, according to the survey in 2016 (Ting, 2017a). The Morgan Stanley report also noted that the share of Airbnb from the total hotel market demand in the U.S and Europe would rise from 2% in 2015 to an expected 6% in 2018 (ibid.).
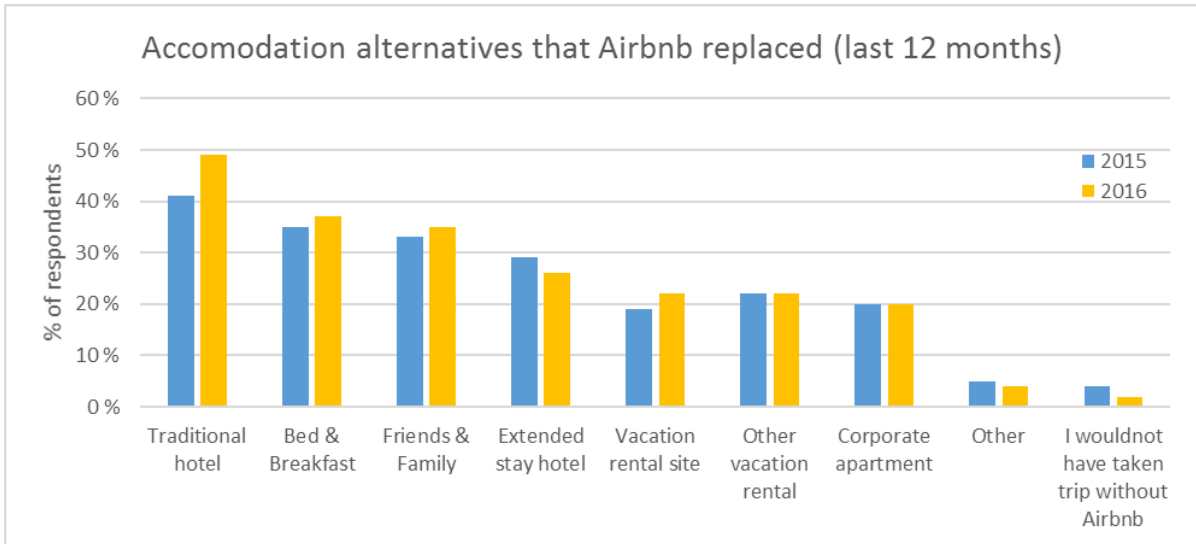
Figure 2. Airbnb substitution (Ting, 2017a)

Other demand-side investigations in the academia have been tied to the North American context (Guttentag, 2016, 2017) or Australia (Hajibi and Dolnicar, 2017). As noted by Guttentag (2016), understanding the consumer perspective of Airbnb substitution can be useful in understanding relative competitive performance towards hotels. Degree of substitution was found to be relatively high in the lower-end of the accommodation offerings, with mixed results for mid-scale hotels, in both Guttentag (2016) and Hajibi and Dolnicar (2017). On the other hand, in a newer dataset Guttentag (2017) found that Airbnb substituted mid-scale hotels to a large degree. The findings also indicated that mainly wealthier, "nonbackpackers" or families chose Airbnb over both mid- and upscale hotels (Guttentag, 2017). Also, Nowak et al. (2005) found that travelers using Airbnb tend to be wealthier, younger (i.e. 50% < 35 years) and stay for longer periods of time. Also, Airbnb stays tend to be significantly longer than hotels', with 22% of Airbnb stays representing more than 6 nights (Ting, 2017a). Most importantly, Nowak et al. (2015) and Guttetag (2017) note that the ability of Airbnb to unlock new demand seems to be limited.
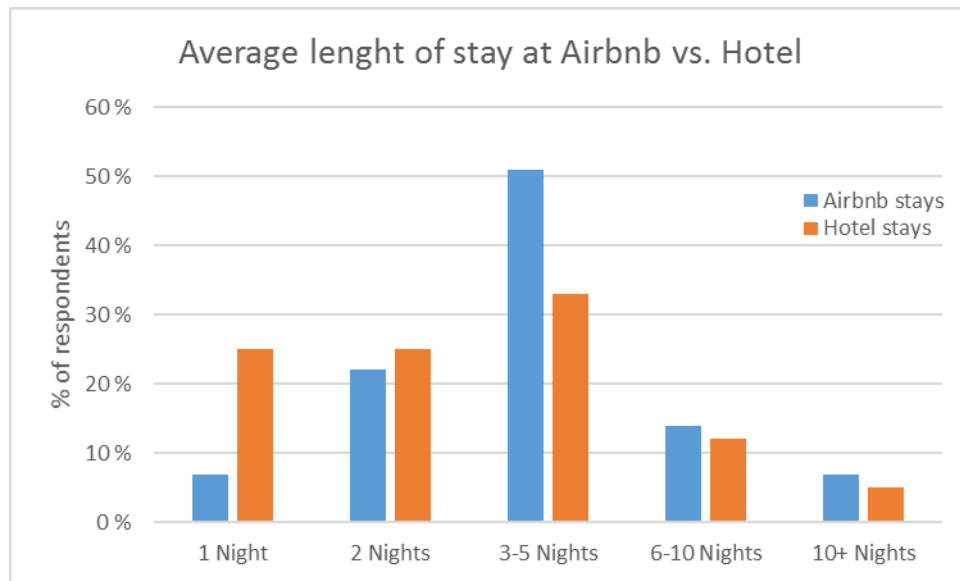
Figure 3. Comparison of length of stay at Airbnb vs. hotels

Airbnb offering also seems to be highly competitive compared to hotel standards, as for instance Guttentag (2017) noted that the platform not only outperformed mid-scale hotels on its "authenticity, uniqueness and price", but also in quality attributes like cleanliness. The Morgan Stanley team noted that Airbnb satisfaction rates are around 90% with several customers appreciating especially the website and the app (Nowak et al., 2015; Ting, 2017a). Mid-market hotels on the other hand outperformed Airbnb on "ease of placing a reservation, ease of checking in/out, ease of resolving unexpected problems and security" (Guttentag, 2016). Developments to the Airbnb platform will be covered in the next sub-section.

The supply side research on Airbnb has focused on various aspects of Airbnb impact from a quantitative perspective. Similarly to the demand-side investigations, there are relatively few academic papers on the topic and additionally many mixed industry reports. The first academic research paper on the topic, Zervas et al. (2016) found that Airbnb had influenced the Texan hotel industry revenues by 8-10% from 2008 to 2014. The effects seemed to apply mainly to low-end and hotels without business customers (Zervas et al., 2016). Another interesting finding was that Airbnb supply increase had 0.39% negative impact on RevPAR, whereas hotel supply increase had a 1.6% negative impact for RevPAR (ibid.). In a related study covering major U.S cities, Farronato and Fradkin (2018) estimated that hotel revenues would have been only 1.5% larger without Airbnb, as around half of its customers were not substituting for hotel stay. On the other hand, the impact varied across cities depending on market characteristics (i.e. Airbnb market shares in different cities 1-15%) (ibid.). Industry reports have produced

mixed results on Airbnb impact on the hotel industry in different cities, but due to conflicts of interest they could be biased or even "cooked up" (Cf. Xie and Kwok, 2018).

Another significant finding has been that peer accommodation supply seems to be highly elastic, meaning that Airbnb supply is flexible and limits the 'peak pricing power' of hotels (Zervas et al., 2016; Farronato and Fradkin, 2018). For instance, Farronato and Fradkin (2018) noted that Airbnb supply tends to appear especially in 'capacity constrained' cities, where cost of hosting is lower. In these locations the impact comes mainly through price, not occupancy (Farronato and Fradkin, 2018) Airbnb hosts are therefore reactive to market conditions, lowering hotel industry price premiums mostly during 'compression nights' (i.e. nights where hotel occupancy is at $\geq$ 95%) (ibid.). However, industry sources like STR note that the number of 'compression nights' in global metropolises have dramatically increased from 2010-2015, despite a small dip more recently (Haywood et al., 2017).

Airbnb impact on hotels could be even more nuanced than this. For the market in San Francisco, Blal, Singal and Templin (2018) found that Airbnb supply itself does not impact hotel sales. Rather, areas where Airbnb reviews are positive, hotel revenues are impacted negatively (Blal et al., 2018). Xie and Kwok (2018) found that in Texas, price differences between hotels and Airbnb listings, and price dispersion among Airbnb listings, diluted the negative impacts on hotels. Airbnb customers seem to be comparing prices and reviews between the product groups, so Airbnb customers can easily switch to hotels if Airbnb rates were higher than their hotel equivalent, especially in the upscale segment (Blal et al., 2018). Most of the impact studies presented in this sub-section highlighted the contextual factor, so this review mainly functions is mainly directional.

2.2.5 Competition between Airbnb and Hotels

Competitive reactions of the hotel industry in response to Airbnb have been the least studied aspect of the Airbnb phenomenon. Academic research papers covering Airbnb have commented that industry opinions on Airbnb have remained mixed and even deeply skeptical (Guttentag, 2016; Zervas et al., 2016; Guttentag and Smith, 2017). In 2014-2015, media comments from top hotel executives' largely dismissed Airbnb as something significant (Weed 2015; Carr, 2014), while many hoteliers at the lower end of the market started being concerned (Watkins, 2014; Martin 2016). In 2016-2017, hotel industry executives started softening their

positions (Allen, 2017) and the industry begun taking more systematic collective action against Airbnb (Benner, 2017).

Early competitive responses against Airbnb by hotels include setting lower prices (Zervas et al., 2016), enhancing product offering, improving personalization, and lobbying (Varma et al., 2016). Varma et al. (2016) documented that in the U.S markets, especially smaller hotels have been more active in coming up with tactical responses relating to marketing and concept development. One possible reason could be that Airbnb has substituted low to mid-market offerings, as noted in Zervas et al. (2016). Smaller hotels are also reliant on individual customers, while larger organizations have established client bases (Varma et al., 2016).

There are several factors that make competitive response against Airbnb challenging for hotels. First, differences in infrastructure requirements (Zervas et al., 2016) and regulatory compliance (Watkins, 2014) make it harder for hotels to react to changing market conditions; Airbnb can leverage existing housing infrastructure and adjust supply based on demand (Zervas et al., 2016). Second, hotels are having a hard time in quantifying the impact of Airbnb (Watkins, 2014; Henten and Windekilde, 2015). Third, rapid growth of Airbnb demonstrates that the service has created new consumer behavior (Henten and Windekilde, 2015) that hotels may have to adjust to. Fourth, hotel executives from leading chains have commented that their motivation and ability to act is limited, as they have established reputations and customer bases (Varma et al., 2016).

Exploring the competition between hotels and Airbnb Varma et al. (2016) documented relatively few competitive responses from hotel executives in the U.S markets. Hotel executives, especially from larger and upscale organizations, saw Airbnb as a niche product. These executives saw Airbnb apartments as suitable for younger tourists looking for a holiday apartment, not for business travelers. (Varma et al., 2016) Similar industry comments were also covered in Guttentag (2016). Attitudes of hotel executives suggest that they have underestimated the potential threat of Airbnb (Varma et al., 2016; Guttentag, 2016).

Hotels industry executives have seen Airbnb as a niche product (Varma et al., 2016). However, both Guttentag (2016) and Blal et al. (2018) note that the development of Airbnb has similarities with the process of disruptive innovation, especially as Airbnb has been refining its features and offering new services. For instance, in 2014 Airbnb introduced instant booking

(Lawler, 2014) to address difficulties in booking as noted in Guttentag (2016). The company has also made increasing efforts to attract business travelers (Guttentag, 2016). In 2014, Airbnb partnered with Concur to attract Fortune 100 companies to its new portal for business travelers (Terdiman, 2014). In 2015, the company introduced new tools to encourage more business travelers to use the service (Dillet, 2015). More recently, hotels have also started to compete with apartment offerings in the same sales channels, as OTAs have started to include such listings on their websites (Nowak et al., 2015; Xie and Kwok, 2017).

Local authorities and hotel associations in several international markets have been trying to curtail Airbnb at least since 2013 (McNamara 2015; Guttentag, 2016). Especially in the U.S, media sources like Benner (2017) have documented systematic development of anti-Airbnb agenda by hotel associations at the highest national level. Leading hotel organizations like Marriot, Hyatt and Hilton are members of the American Hotel and Lodging Association, which has been one of the most active bodies for lobbying against Airbnb in the U.S (Guttentag, 2016; Zaleski, 2018; Blal et al., 2018). More recently, media sources like Bloomberg and Financial Times have covered local regulators' efforts to limit Airbnb in some markets and their links to hotel industry funding (Financial Times, 2017; Hook, 2017; Eidelson, 2017). The role of individual hotel organizations in these lobbying efforts has not been studied. Varma et al. (2016) reported that only one out of twelve hotel executives in their sample talked about lobbying actions.

Large hotels seem to have adopted a "wait and watch" approach to Airbnb (Varma et al., 2016). While the shift to non-standardized lifestyle and boutique offerings has been slowly on-going since 2010 (Guttentag, 2016), more recently upscale organizations have expanded their portfolios offering new enhancements through more social and local experiences (Glusac, 2016). Nevertheless, leading hotel organizations continue to exhibit relatively low levels of concern for Airbnb (Tully, 2017). Despite the rapid continued growth of Airbnb, the third and most recent Morgan Stanley report estimated that the number of new Airbnb users could start to slowdown in 2018, with traveler penetration marginally improving to 29% (Ting, 2017b; Scaggs, 2017).

The competition between hotels and Airbnb continues to evolve in new ways. Airbnb has expanded its offering to tours and activities (Ting, 2016). It has also recently introduced a new luxury product category (i.e. Airbnb plus), a loyalty program, and a strategy to start partnering

with boutique hotels to list more high-end offerings to its website (Zaleski, 2018). The company has also improved its regulatory compliance in several markets by for example collecting local taxes and setting a yearly quota (e.g. 90 days in London) for hosts (Hook, 2018). To conclude, Airbnb's recent efforts demonstrate that it is trying to attract more mainstream customers, thus becoming more disruptive as suggested by Blal et al. (2018).

Academic research has made some propositions how hotels could counter Airbnb. Hotels have already started to adjust their focus on new and local experiences (Glusac, 2016), as suggested by Oskam and Boswijk (2016), and Hajibaba and Dolnicar (2017). However, hotel organizations should also start monitoring the development of Airbnb, in order to understand its potential impact on their business and to devise better revenue management strategies (Blal et al., 2018; Xie and Kwok, 2017). Hotels should also work more closely with OTAs, which have market data on both hotel rooms and apartments (Xie and Kwok, 2017). Nevertheless, newest industry developments like Airbnb becoming OTA like, suggests that hotels will still have to reevaluate their strategies (Ting, 2018).

2.3 Competitive dynamics

This sub-section focuses on the competitive dynamics research stream, which will be used as the foundation for the theoretical framework for this thesis. This research stream has been chosen because it has extensively studied competitive actions from various viewpoints. At such, the theory can provide a holistic viewpoint in understanding what factors contribute to competitive responses, which is a central domain for this thesis.

2.3.1 Introduction to the research stream

The competitive dynamics research has become an active area of research within the strategic management field. It studies competitive interaction between firms by using a specific competitive action (or reaction) as a unit of analysis. Competitive actions can be either strategic or tactical in nature, and they are motivated by firm aims to improve their industry position, competitive advantage or profits. (Chen, 2009; Nair and Selover, 2012; Smith, Ferrier and Ndofor, 2001; Ketchen, Snow and Hoover, 2004)

The foundations of competitive dynamics research can be traced back to the ideas of the Austrian School of economic thought and Schumpeter (1942), which viewed competition as a 'dynamic market process', rather than a static one (Smith et al., 2001). Schumpeter (1934, 1950) described the dynamic market process, where firms act and react in quest of market opportunities, through the concept of 'creative destruction' (Smith et al., 2001). The Austrian School asserted that profit motivations drive actions that prevent status quo from existing in the market place; this occurs through 'entrepreneurial discovery' where firms direct resources towards new market opportunities to meet consumer needs (ibid. and Chen, 2009). The competitive dynamics research has adopted the use of action and reaction as a unit of analysis from Schumpeter (1934) and the Austrian School (Smith et al., 2001).

There are several characteristics that discern competitive dynamics research. The first aspect is that focus is within concrete and identifiable firm actions or behaviors, which occur at a unique time and place. The second aspect is that the research focuses on competitive interdependence. This is based on Schumpeter (1934) in which outcomes of firm actions are dependent on the 'competitive context' in which they occur. Lastly, the field has attempted to explain the causes and consequences of firm action and reaction. (Smith et al., 2001)

Competitive dynamics research has several research streams that have studied competition in different settings. Some of the traditional streams are identified by Ketchen et al. (2014): the most studied has been competitive action and response stream, and other streams include multimarket contact, first-mover advantage and co-opetition. More recently papers like Chen and Miller (2015) have aimed to create a multidimensional view, by adding competitive-cooperative and relational views beside the traditional rivalrous one. This last stream will be covered in a later sub-section.

2.3.2 Basic models in competitive dynamics research

The basic model in competitive dynamics research consists of a setting where two parties, the actor and the responder, interact through a competitive action or a competitive response. The competitive actions and reactions are influenced by organizational characteristics of the two firms and the 'industry competitive environment'; the subsequent interaction outcome translates into 'organizational performance'. The actor performs the first competitive action, which then provokes a competitive response from the responder. (Smith et al., 2001)

The Awareness-Motivation-Capability framework is the underlying theory which explains organizational characteristics that affect competitive action and response (Chen, 2009). Broadly speaking, the characteristics of a competitive action or reaction are seen as the function of three organizational characteristics: 1) awareness of the context and competitive interdependence, 2) factors that "induce or impede" motivation, and 3) "the cognitive and resource based factors" that influence firm capability to act (Smith et al., 2001). The framework aims to explain the behavioral drivers in inter-firm competition (Chen, 1996; Yu and Canella, 2007).
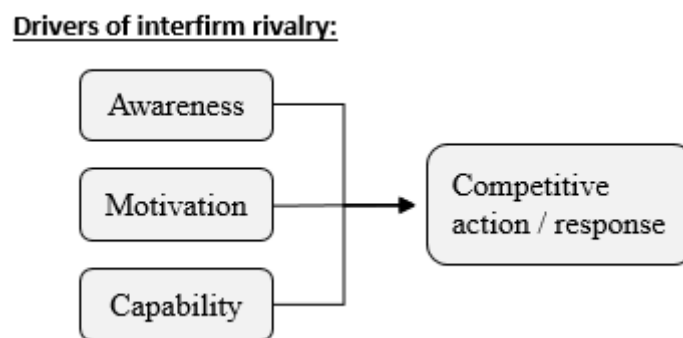

Figure 4. AMC Framework

Competitive dynamics research has formulated important theories that further explain and predict competitive actions through the AMC framework. Past research has studied how organizational characteristics like firm age, diversity of the market it operates in, and demographics of its top management team (TMT), influence the level of awareness of the firm. Past performance and market dependence have been used as explanatory factors influencing firm motivation to act. Lastly, the 'decision-making process' (i.e. also influenced by TMT), has been used to understand resource deployment - the action of the firm (Grimm and Smith, cited in Smith et al., 2001). (Smith et al., 2001)

The presented organizational characteristics apply to both actors and responders, but competitive dynamics research has also theorized other factors that in particular influence the competitive response of the responders. The most studied has been 'information-processing capabilities', but others like 'market dependence', 'structural complexity' and 'external orientation' have also been researched. The responders are in a key role for observing and interpreting a competitive action (Smith, Grimm, Gannon and Chen, 1991). Successful response to a competitive action entails that market players have 'sensory systems' in place to support their market monitoring capability (Smith et al., 1991). Miles and Snow (1978) was the first to explain that these systems and capabilities vary significantly between firms, based on firm orientation (i.e. internal or external). Market leaders or firms that operate in fewer product markets tend to have more advanced sensory mechanisms (Smith et al., 2001). Internal structure has also been found to influence the capability to interpret information (Huber and Daft, 1987); firms that have several layers of hierarchy between the market monitor and decision maker run the risk of 'information transmission failure'. (Smith et al., 2001)

As a last piece of the model, the 'industry competitive environment' influences competitive interaction between firms. The competitive environment has been also theorized to influence the firms' awareness, motivation and capability to act. The theoretical foundation for this idea has been adopted from industrial organizational economics' structure-conduct-performance paradigm, which theorizes the feedback loops between market structure, firm conduct and firm performance. Competitive dynamics research has studied industry structure through barriers to entry, concentration and growth rates (Scherer and Ross, 1990). Higher levels in these dimensions translate into lower levels of competitive activity (Schomburg, Grimm and Smith, 1994). (Smith et al., 2001)

Industries with high barriers to entry, such as those identified as capital intensive (e.g. tech firms, consumer product firms, hotels), are less motivated to engage in hostile competition (Smith et al., 2001). Ferrier (2000) explains that companies in such industries are likely to have simpler and predictable competitive actions. High levels of industry concentration, which is measured by market share pertaining to the n largest firms in the market (e.g. HH index), have also been found to influence incumbents willingness to compete, due to possible oligopolistic coordination (Young, Smith and Grimm, 1996). Industry growth rate on the other hand is a key indicator for industry demand (Schomburg et al., 1994), which has been empirically proven to influence competitive behavior (Smith et al., 2001). A delayed competitive response is more typical in high growth industries than low growth ones (Smith et al., 1989; Schomburg et al., 1994).

2.3.3 Competitive Action, Response and Repertoires

In competitive dynamics research competitive actions are defined as "externally directed, specific, and observable competitive moves initiated by a firm to enhance its relative competitive position" (Ferrier, Fhionnlaoich, Smith and Grimm, 2002). The two types of competitive actions commonly used in literature are strategic actions and tactical actions (Nair and Selover, 2012; Chen, 2009). Strategic actions are those that companies use to improve their market position, such as investments, alliances, and new product launches that have long-term implications and are relatively irreversible in nature (Miller and Chen, 1994; Hsieh and Hyun, 2016). Tactical actions are often temporary actions such as "price changes", "advertising campaigns" or "incremental product improvements" that are more reversible (Miller and Chen, 1994).

Response to competitive actions is naturally dependent on the type and characteristics of the initial action. Given that responding to strategic actions requires more commitment, such actions may evoke a delayed response, as deciphering the information and formulating a response takes time (Smith et al., 1991). On the other hand, tactical actions can be resolved more easily, as these can handled directly by low and middle level managers (Chen, Smith, Grimm, 1992) Characteristics of competitive attacks have been used to predict competitive (non-)responses. Past research has identified that 'radicality', 'scope', 'magnitude' and 'irreversibility', influence the likelihood and speed of response (Smith et al., 2001). For

example, radical actions (i.e. actions that depart from previous actions or industry norm) will be harder for competitors to interpret and thus tend to lead to slower reactions (Smith et al., 2001). On the other hand, a competitive action may only influence a certain number of firms in a market, so the scope of the competitive action is also relevant (Chen, Smith & Grimm, 1992). Chen and MacMillan (1992) explains some of these dynamics in practice: competitive attacks with significant overlap to defenders' market (i.e. dependence) are more likely to evoke a response, unless the cost of doing so (i.e. irreversibility) is too high. (Smith et al., 2001)

A competitive repertoire refers to the complete list of competitive actions that a firm carries out in a given timeframe (Smith et al., 2001). Past research has examined competitive repertoires of firms mainly through three attributes: inertia (i.e. level of activity in market oriented changes), simplicity (i.e. tendency for a limited action types) and non-conformity (i.e. deviation from industry norm) (Chen, 2009). These attributes and thus competitive responses are influenced by past performance and market dependence (Smith et al., 2001) However, the optimal action is highly likely to be context dependent, given the diverse empirical findings in multiple fields as noted by Ketchen et al. (2004).

2.3.4 Competitive Asymmetry

As highlighted in an earlier section, competitive market structures have important implications for competitive actions and responses. In particular, the concept of competitive asymmetry provides a more nuanced understanding of competitive interaction. Chen (1996) explains the concept this way: companies differ in terms of threat they pose to each other; firm A may be more significant competitor for firm B than vice versa. Two firms are likely to differ in terms of market commonality (i.e. degree of market overlap with focal firm) and resource similarity (i.e. extent of comparability of resources by type and number in relation to the focal firm) (Chen, 1996). Furthermore, these two measures suggest that competitive repertoires can differ significantly (ibid.).

Desarbo, Grewal and Wind (2006) explain that besides the supply-based perspective offered by strategic management literature (e.g. Chen, 1996), a demand-based perspective that is similar in reasoning is used in marketing literature. In this latter view, Carpenter, Cooper, Hanssens and Midgley (1988) theorized that marketing effectiveness between competitors is disproportionate compared to their market shares. Asymmetry arises when brands have 'unique

features' that expose or shield their strategies from competitive actions or when temporary deviation in their marketing mix elements occur (Carpenter et al., 1988). Desarbo et al. (2006) notes that besides the two perspectives differing in unit of analysis (firm vs. brand), also the source of data is different. The supply-based perspective has asked firm executives how they perceive the market structure (i.e. this is called management cognition), while the demand-based perspective relies on information that is straight from consumers (ibid.).

These two perspectives have multiple implications for understanding competition. First of all, competitive asymmetries influence competitive behavior, as noted also by Chen (1996). Secondly, executives need to understand that consumers may view two seemingly differing products as close substitutes, even if their market commonality and resource similarity would imply otherwise (Desarbo et al., 2006).

2.3.5 Competitive-cooperative and relational views in competitive dynamics

Beyond the initial phase of competitive dynamics, academics have proposed a broader understanding of competition (Smith et al., 2001; Chen and Miller, 2015). The competitive-cooperative view point focuses beyond firm rivalry by acknowledging that firms can cooperate by for example forming alliances with competitors and supply-chain partners (Chen and Miller, 2015). Together they can create industry standards or lobby for a common effort more easily (Gimeno and Woo, cited on Chen and Miller, 2015). The relational view on the other hand has emerged over the recent years given the increased importance of stakeholder relationships (Chen and Miller, 2015). According to the relational view, firms use social or ideological actions to improve their competitive position over a longer time period (ibid.). The focus of this sub-section will be on these views and related theoretical foundations in explaining alternative competitive modes of action.

Relational modes of action have been proposed to be influenced by organizational, industry-level and cultural factors (Chen and Miller, 2015). Already two decades ago Dyer and Singh (1998) found that organizational factors such as effectiveness of 'knowledge sharing routines' and 'complementary resources and capabilities' determined the economic gains that cooperative strategies could yield. Chen and Miller (2015) additionally emphasizes the role that managers have in setting long-term goals, rather than short-term economic gains. Industry-level factors such as geographical proximity can encourage alliance formation and support the

emergence of trade associations (Chen and Miller, 2015). Trade associations can regulate firm actions, causing repertoires to converge over time (Smith et al., 2001). The "norms of competitive behavior" are also more established and enforceable if trade associations are present (ibid.). Similar to the relational view, the network theory explains that firms operate within the boundaries of their social networks (ibid.). Firms that are central in their network are more likely to promote industry standards and govern others' compliance to it (Gnyawali and Madhavan, cited on Smith et al., 2001).

The institutional environment also influences firm actions, as they are affected by "institutional norms and pressures to conform" (Smith et al., 2001). Firms can aim to alter their institutional environment through competitive-cooperative modes of action such as lobbying (Chen and Miller, 2015). Reputational activities that aim to gain political support are typical relational strategies (ibid.) that have a similar aim. Through these 'institutional strategies' firms are able to influence 'policy frameworks' that dictate the level of regulation and taxes, thus altering the conditions of their market environment (Smink, Hekkert and Negro, 2015). They can do this by getting involved in the 'public policy process' through lobbying or raising public debate (Smink et al., 2015). Joint lobbying through trade associations has been found to be a particularly effective way to influence the regulatory environment (Bombardini and Trebbi, 2012). Similarly, raising "artificial debate" to the public discussion has proven to be a successful strategy to delay regulatory implementation in several industries (Smink et al., 2015).

2.3.6 Methodologies in competitive dynamics

The competitive dynamics field has focused on two basic research methodologies: 1) field studies, and 2) secondary data studies (Smith et al., 2001). Field studies were mainly employed in the early research phase in the 1980s, where focal firm executives were first interviewed and then firms responded to a questionnaire to provide the researchers some data (ibid.). For example, MacMillan, McCaffery and Van Wijk (1985) interviewed bank executives on their responses against new product introductions. This choice of methodology has been used for small samples in one specific industry, but it involved self-reported data among other limitations (Smith et al., 2001).

Starting from the 1990s most of the research in the competitive dynamics field has adopted structured content analysis of news archives within a particular industry (Smith et al., 2001). For example, in Chen and MacMillan (1992), the researchers identified competitive actions using key words like *reacting to*, *in response to* etc. from an aviation industry magazine. This methodology has been widely used and one major concern presented by Smith et al. (2001) is the reliance on trustworthiness of such industry news sources.

This thesis will adopt a field study case methodology, given the unique competitive setting and specific industry context. Furthermore, such research methodology has been other research streams in the strategic management literature, especially in the setting of incumbent responses to business model innovation, which will be covered next. The chosen research methodology of this thesis will be further elaborated in chapter 3.

2.4 Incumbent responses to business model innovation

The research context of this thesis differs from the typical competitive setting of competitive dynamics under normal conditions. Therefore, this calls for an understanding of incumbent reactions to disruptive competition. First, various research perspectives on incumbent responses will be briefly covered. Second, coverage of disruptive innovation will be presented and specified for the research purposes of this thesis. Third, factors influencing response will be covered with an emphasis on management cognition.

2.4.1 Disruptive innovation

Multiple research streams have explored the performance of incumbents against new entrants. The economic perspective has explained that incumbents aim to protect markets by creating entry barriers and want to avoid cannibalizing their sales (Henderson, 1993). Therefore, they are inherently satisfied with incremental innovations. Organizational theory perspective has established that incumbents' systems that benefit their performance in stable times, also cause their inertia and downfall in times of shifting market situations. They have often developed routines around the factors that made them successful before, which enables them to gain value from lower search costs and selective use of knowledge. Finally, the strategy perspective has explained that incumbents are tied to their 'value networks', where internal processes have been geared to commitments for existing firm stakeholders like specific types customers

(Christensen, 1997). This inflexibility explains why incumbents are having a hard time in responding to disruptive innovations. (Hill and Rothaermel, 2003)

This strategic perspective on disruptive innovation has been an important starting point for understanding the topic and its further classification. Disruptive innovation occurs outside the value network of incumbent firms', focusing on a distinct set of attributes than the existing market leader, often placing emphasis on lower price, simplicity and convenience (Bower and Christensen, 1995). At the first stage of disruptive innovation, the new innovation mainly appeals to niche or periphery segments (Christensen, 1997), which lower incumbents' willingness to respond as their motivation to alter their value network for an inferior market is low (Markides, 2006). As time passes, the new innovation becomes superior to the old offering, causing a rapid preference shift of mainstream customers towards the new product, causing a market disruption (Christensen, 1997).

For the purposes of this thesis a further distinction on disruptive innovation is needed. Markides (2006) further breaks down disruptive innovation into 1) business model innovation, and 2) technological product innovations. Business model innovation redefines what the dominant offering is and how it is distributed to its end-user (Markides, 2006). Markides (2006) argues that while both types of disruptive innovations have similarities, business model innovations are different in that often they are not able to capture the market completely. Also Hill and Rothaermel (2003) support this view by stating that incumbent firms are able to "adapt and survive". Nevertheless, getting disrupted by business model innovation can still be damaging or even fatal for incumbents (Osievskyy and Dewalt, 2015). A more recent paper Habtay and Holmén (2014) distinguishes business model innovation even further as technology or market driven. The definition of business models is largely debated among scholars, but due to the empirical context of this thesis, I will be examining it from the perspective of "attributes of real firms" (Massa, Tucci and Afuah, 2017).

2.4.2 Incumbent responses to business model innovation

The appropriate response to business model innovation has been widely studied in the academia without a straight forward answer (Osievskyy and Dewalt, 2015; Markides, 2006). Firms experience difficulties in deciding on an appropriate response, because they face tradeoffs (Charitou and Markides, 2003). Early research on disruptive innovation explained that, because

incumbents are tied to their existing business models and subject to inertia, the most appropriate response for them was to separate a new venture (Christensen and Raynor, 2003; Gilbert, 2005). Nevertheless, starting from Markides (2006) research has emphasized that the appropriate response depends on the type of disruption occurring and other contextual factors (Habtay and Holmén, 2014; Osievskyy and Dewalt, 2015). A decision to not respond or respond passively can be as detrimental to incumbents (Christensen, 1997; Casadesus-Masanell and Ricard, 2010), as the decision to respond actively (Markides, 2006).

The first response category for incumbents is to enhance their existing business models. The logic is that developing a new venture as a response may not be feasible in the existing organizational environment and it could even risk the core business (Charitou and Markides, 2003; Markides, 2006). Enhancing the existing business model tends to be a common reaction, because incumbents see the new disruption as "inferior" to their own offering (Osievskyy and Dewalt, 2015). Furthermore, they are inclined to move up market by focusing on their most profitable customers and develop more advanced offerings (Christensen and Bower, 1996). Incumbents tend to concentrate on their existing business when they have made significant investments or are facing organizational challenges (Charitou and Markides, 2003). The downside of enhancing the existing business model is that it often exacerbates incumbents' reliance on their existing model (Casadesus-Masanell and Ricart, 2010).

The second response category for incumbents is to adopt a new business model. This should be especially the case when the nature of disruptive business model innovation is both market and technology driven (Habtay and Holmén, 2014). Incumbent firms are likely to choose this option if they have the motivation and the right capabilities to respond in such way (Charitou and Markides, 2003). Incumbent firms often have experiences on major investments and are configured to serve larger markets, so their ability to implement the disruptive innovation could in some cases be better (Charitou and Markides, 2003). In practice, many firms facing disruption tend to experiment with additional business models, which in many cases lead to spin-offs (Charitou and Markides, 2003). However, managers are also hesitant to make radical choices, because they are prone to developing options that have flexible consequences (Casadesus-Masanell and Ricart, 2010).

Finally, incumbent firms can also choose not to respond to the disruptive innovation. Christensen (1997) explains that there are five reasons that obscure the threat from incumbents:

1) resource allocation process pursues most profitable options, 2) opportunity size fails to draw attention or motivation to invest, 3) lack of information on the potential of the opportunity, 4) organizational capabilities linked to existing business model, and 5) underestimating speed of disruption. Markides (2006) argues that the most common reason for non-response is that many new business model innovations are not financially attractive for incumbents to pursue (Markides, 2006). According to Markides (2006) research on business model innovation suggests that business model innovations fail to capture the market completely. Organizational and managerial characteristics explaining non-response will be covered in the next sub-section.

2.4.3 Managerial determinants of incumbent response

The disruptive innovation and subsequent research streams have aimed to understand how incumbent firms adapt to changing market situations. Strategic repositioning against disruptive innovation is frequently an ambivalent move (Eggers and Kaplan, 2009). In disruptive innovation literature, incumbents' response is often grounded to their difficulties in responding to change (Christensen, 1997; Osievskyy and Dewalt, 2015). In particular, organizational and managerial factors in hindering response have been extensively studied (Gilbert, 2005; Tripsas and Gavetti, 2000; Adner and Helfat, 2003; Eggers and Kaplan, 2008). Especially the role of management has been under examination, because they are in a key role to "legitimize particular courses of action" in a challenging interaction between their organization and the external world (Eggers and Kaplan, 2009).

'Managerial cognition' has been one of the focal areas in explaining incumbent difficulty to respond to changing market conditions, as it affects the development of correct organizational capabilities and hence leads to 'organizational inertia' (Tripsas and Gavetti, 2000). Adner and Helfat (2003) define management cognition as "managerial beliefs and mental models that serve as a basis for decision making". 'Bounded rationality' influences managers' decision-making in that they are tied to limited information, understanding of alternatives and their outcomes (Adner and Helfat, 2003); this means that they lean to "simplified representations" of their environment in interpreting information (Simon, 1955). Early studies in the field have shown that managers' past experiences influence their mental models (Kiesler and Sproull, 1982). Managers are also prone to creating simplified representations of their competitors by categorizing them and therefore seeing themselves mainly competing with their most proximate competitors (Reger and Huff, 1993; Porac and Thomas, 1994).

Empirical research in the field has supported the conclusion that managerial cognition influences decision-making and strategic responses to disruptive market situations (Adner and Helfat, 2003). For instance, Tripsas and Gavetti (2000) examined Polaroid's difficulty in adapting to digital imaging and found that management strongly discouraged use of alternative business models, which created inertia despite an early lead on the right technology. Another empirical study Holbrook, Cohen, Hounshell and Klepper (2000) found that different mental models of top management influenced the survival of U.S semiconductor firms in the last century. Similarly, Eggers and Kaplan (2009) found that firm competitive response with entry to new product market is affected by 'CEO attention', where such actors are incapable or reluctant to adopt technologies outside their domain.

Osievksyy and Dewalt (2015) explain that a mixture of 'situational' and 'dispositional' factors define whether a firm makes a strategic change to its business model. The situational factor explains how 'cognitive framing' (Gilbert, 2005) influences the firm perception of the disruption (Osievskyy and Dewalt, 2015). This cognitive framing can strengthen 'resource rigidity' and 'routine rigidity', which are types of organizational inertia that influence firm adaptation to external disruption (Gilbert, 2005). 'Dispositional factors' like managerial experience and industry experience can also influence strategic reconfigurations (Osievskyy and Dewalt, 2015). Managerial experiences where disruptive changes were successfully countered in the past, improved the likelihood of adjusting the business model, while industry experience caused indecisiveness in responding to change (Osievksyy and Dewalt, 2015).

Continuing on the generalizability of management cognition in understanding responses to disruptive change, Walsh (1995) notes that cognitive models are similar inside organizations and inside industries. Daniels, Johnson and de Chernatony (2003) explain that geographical proximity can foster "cognitive convergence", as actors have a tendency to mimic other organizations. Research has also supported the notion that in mature lifecycles mental models are likely to be homogenous across the industry (Daniels et al., 2003). Finally, also the "institutional environment" and similarities in "task environment" can cause mental models to converge (ibid.).

2.5 Theoretical framework

The framework for this thesis is based on a competitive setting where the actor is a disruptive competitor (Airbnb) and the responder is an incumbent (hotel) that reacts to the competitive actions initiated by the market entry. The setting is similar to an action-response dyad of two firms, except instead of one focal firm, several will be studied. Studying multiple responder firms is essential, because competitive asymmetries of the pairs are likely to differ.
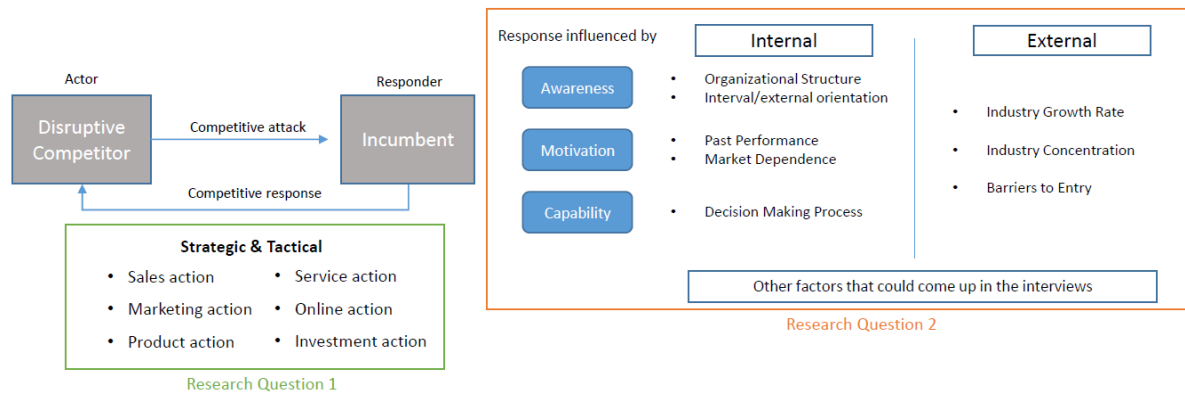
Figure 5. Theoretical framework

The proposed framework aims to answer the research questions of this thesis:

RQ1: How have hotels reacted to the increasing presence of Airbnb in Helsinki?

RQ2: Why have hotel operators chosen certain responses over others?

Therefore, in order to answer the first research question identifying the involved response types (e.g. pricing action, lobbying) and their strategic orientation (i.e. strategic/tactical) will be recorded. In accordance with past research in competitive dynamics, categorization of action types will be developed for this particular context based on industry analysis.

In order to identify, why certain responses have chosen over others, the awareness, motivation and capabilities of the responder firms will be studied based on pre-selected factors that are most likely to provide meaningful results. An emphasis is put to factors that can be reliably told by the respondents with minimal bias. For awareness this would include organizational structure and orientation (Internal vs. external). For motivation, market dependence can be reliable indicator. For capabilities, the interviewees decision making process will be analyzed.

To better understand the competitive context, the industry competitive environment will be studied using industry growth rates, market concentration and industry barriers. These will then be tied to the interview context to get a richer account on the competitive response case.

3 RESEARCH DESIGN AND METHODS

3.1 Research Approach

My thesis aims to analyze how companies compete against disruptive competitors. I have studied this within the context of Airbnb phenomenon, where hotel competitive response has been an under-explored research topic. Past research on Airbnb (Varma et al., 2016) has identified in-depth empirical studies as an area of interest. Therefore, I have chosen a case study research methodology that explores how hotel operators located in the extended city center of Airbnb have reacted to Airbnb. This entails the use of a 'single-case design' with a 'single-unit of analysis' (Yin, 2009).

> "*A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.*" (Yin, 2009)

Yin (2009)'s definition of case study methodology fits extremely well with the topic of this thesis, as can be compared from above paragraphs. Furthermore, case studies are used in situations where the number of data points is fewer that the variables of interest and as a consequence builds on 'multiple sources of evidence' (ibid.). This thesis will also rely on 'triangulation' from multiple sources of evidence (ibid.). I have used both empirical and secondary sources. The empirical sources are based on a field study, while the secondary sources are based on online resources. According to Yin (2009), 'theoretical propositions' are central to guiding research design.

The theoretical framework in my thesis heavily relies on the competitive dynamics research stream, which has mainly relied on quantitative research methodologies such as 'structured content analysis' on secondary data sources like news archives (Smith et al., 2000). The research stream has used case study methodology in an earlier research phase in the 1980s (ibid.). My disposition to use the methodology is largely based on the necessity of the research context. For instance, the analysis of media or industry coverage are likely to exhibit biases, as coverage on Airbnb has included many positive and negative opinion pieces (Guttentag, 2016). Smith et al. (2000) calls this limitation the dependency on 'newsworthiness', also noting that use primary data could help to improve validity. Secondly, understanding the underlying

mechanisms of lobbying and industry funded crackdowns would likely not be captured with structured content analysis. Thirdly, the fact that Airbnb has evoked so lively discussion in society calls for understanding of stakeholder perspective of competitive response (cf. Chen and Miller, 2015), which also talks in favor of a case study. Most importantly, case study methodology has been applied in situations where incumbents are responding to change, especially in management cognition literature (e.g. Tripsas and Gavetti, 2000; Gilbert, 2005).

In order to ensure the appropriateness and correct use of the case study research methodology, I have relied on the recommendations in Yin (2009). First, case studies are typically used in situations where "how" and "why" appear in *research questions* (ibid.). In my thesis this criteria has been met, as the first question explores reactions and the second aims to understand why these reactions have occurred.

The research questions of this thesis are:

RQ1: How have hotels reacted to the increasing presence of Airbnb in Helsinki?

RQ2: Why have hotel operators chosen certain responses over others?

Second, *study propositions* are useful in providing structure and direction in a research project (Yin, 2009). In my thesis, these propositions are based on my theoretical framework, which is based on competitive dynamics research. In essence, my propositions state that competitive reactions are based on internal and external factors that have been listed. Third, Yin (2009) states that *unit of analysis* with the first two components, influence research design and how data is collected. In my thesis, the unit of analysis is hotel operators, as specified by the research questions. A specifying context is those hotel operators that have hotels in the extended city center of Helsinki. I have used a 'single-unit of analysis' (Yin, 2009), which means that I have focused solely on the hotel operators.

Fourth and fifth, Yin (2009) emphasizes that *linking data to propositions* and *criteria for interpreting the findings* should be evident. In this thesis, I have paid close attention that the data aims to answer my research questions. For example, in my field study interviews, I used the theoretical framework of this thesis to develop the questions in my interview guide. The data was therefore linked to provide an answer to my theoretical framework and the interpretation was based on the literature review of this thesis. Based on the examination of my

research design through the five components in Yin (2009) addressed above, I am confident that my research design is on solid foundations.

In the remaining part of this section, I will explain my research philosophy in detail. This is highly important, as epistemological foundations are vital for a case study research methodology, where questions over how well the case analysis represents the truth are likely to arise (Easton, 2010). My research philosophy in this thesis will be *critical realism*, which has been identified as particularly useful for case study methodology, as it reconciliates well between realist and interpretivist epistemologies (ibid.). In essence, critical realism acknowledges that there invariably is an 'interpretive element' (Easton, 2010), which can lead to defective or even 'false attributions' of inference (Yin, 2009; Easton, 2010). This distinction is particularly useful in case study methodology, as most case studies rely on analytical inferences (Yin, 2009) and not on 'statistical inferences' as sample sizes tend to be small (Easton, 2010).

As I'm using a case study methodology the above mentioned risks relating to 'causal inferences' have to be acknowledged and controlled for (Yin, 2009; Easton, 2010). To avoid these pitfalls in my thesis, I have aimed to consider rival explanations whenever possible to ensure the most accurate interpretation, as suggested in Yin (2009) and Easton (2010). I have addressed such alternative interpretations to my findings in the last chapters of my thesis. As recommended in Yin (2009), I have also tried to minimize incorrect inferences by establishing clear boundaries and by tying interpretations to past research.

3.2 Data Collection

For this thesis, I have collected empirical primary and secondary data from multiple sources. Yin (2009) recommends the adherence to three principles in data collection: 1) use of multiple sources of evidence, 2) developing a case study database, and 3) establishing a chain of evidence. These principles were applied also in this thesis. Yin (2009) mentions six typical sources used in case studies: 1) 'documents', 2) 'archival records', 3) 'interviews', 4) 'direct observation', 5) 'participant-observation', and 5) 'physical artifacts'. This thesis focused mainly on interviews as source of evidence, but other sources were also used to a lesser extent, with the exclusion of participant-observations. The research approach was informed and well-crafted in design, but flexible in terms of emergence towards new sources of evidence.

3.2.1 Interviews

In this thesis, I conducted 13 semi-structured interviews with hotel industry executives as its main source of information. The selection criterion for the interviewees were that they had to have an understanding of their organizations tactical and strategic decisions at the highest level. Therefore, nine of the interviewees were C-level executives and three were general managers. The final sample was highly representative of the market as it covered 11 out of 15 hotel operators in the area. In hotel terms, this meant that 35 of the 40 hotels in the area were covered (87.5%). This was due to high-level of concentration among three largest hotel operators, which operated more than half of the hotels in the area. The non-participating organizations, were mainly independent hotels or apartment hotels. Table 1 summarizes the interviews that took place, with limited meta-data provided to respect the anonymity of the participants.

N	Organization	Participant	Code
1	Upscale organization 1	C-level	Upscale organization
2	Upscale organization 2	General Manager	Upscale organization
3	Mid-market hotel chain 1	C-level	Hotel Major
4	Mid-market hotel chain 1	C-level	Hotel Major
5	Mid-market hotel chain 2	C-level	Hotel Major
6	Mid-market hotel chain 2	C-level	Hotel Major
7	Mid-market hotel chain 3	C-level	Hotel Major
8	Independent hotel 1	C-level	Low-mid organization
9	Independent hotel 2	General Manager	Low-mid organization
10	Apartment hotel 1	C-level	Low-mid organization
11	Budget 1	C-level	Low-mid organization
12	Hostel 1	C-level	Low-mid organization
13	Hostel 2	General Manager	Low-mid organization

Table 2. Meta-data on interviews

Defining the sample started with identifying all hotels in the extended city center of Helsinki through visithelsinki.fi and booking.com. The districts covering the area included: Kamppi, Kluuvi, Kaartinkaupunki, Punavuori, Katajanokka, Etu-Töölö, Ruoholahti, Hakaniemi and

Kallio. Hotels that were founded after the first major Airbnb expansion phase in 2013 were excluded from the sample. During this process additional information was collected on all hotels, which served as background information for the interviews. Based on this screening the final number of hotels was 40, which were owned by 15 hotel operators. Table 1 also summarizes the different segments of the hotel market. Mapping the interviewees started with identifying the top executives, mainly CEOs (Chief Executive Officers), at each hotel operator. Contact information for most of them was easily accessible through their website. If this information was missing the hotel reception or sales department was contacted through email or phone. When sending the emails, the content was partly customized for each recipient to improve likelihood of participation. After the first round of emails, non-responsive organizations were contacted again by phone or email.

Prior to starting the interview phase, I developed a thematic interview guide to ensure coverage of all variables in my theoretical framework. During this development process, I focused on ensuring the questions are effective and avoiding biases in question setting. In addition, some questions employed terminology from business model literature to make them more understandable for the interviewees. The first part of the interview guide covered environmental and organizational variables that could influence response, while the second was more directly related to the organizations' views and actions towards Airbnb. I made some minor improvements to the interview guide, based on the first interviews. The final interview guide can be found from Appendix 1 in Finnish and from Appendix 2 in English. Despite the use of semi-structured interview format, attention to emerging themes were given and followed through with more targeted questions. This approach also allowed a more conversational format. The recommendation from Yin (2009) of being an adaptive, informed and unbiased listener were applied with good performance.

Most of the interviews were conducted in October and November of 2017. One interview was conducted in February 2018. The location for the interviews was either the office or lounge area of the participating organization. The participating organizations were granted anonymity and an informed consent of participation was given in exchange, which are standard protocols in case studies (Yin, 2009). This was especially important as competitive information was discussed. All the interviews were recorded with a professional audio recorder with the participants' permission. The recordings played an important role in the data analysis phase to facilitate interpretation. The interviews were conducted in the native language of the

participants, which in most interviews was Finnish. This was done to improve the quality of response and to make the interviewees feel comfortable.

After the interviews, comments and additional observations were documented within the same day. The interview recordings were securely stored on my personal computer. Transcribing services were used, as they were provided in partial research collaboration with department of management studies at Aalto University. File sharing was handled through a private Dropbox folder, with my thesis supervisor passing the recordings to transcribing services and back.

3.2.2 Other sources of evidence

Other sources of evidence were used to a minor extent to provide additional meaning for the interviews. Archival records were relevant in conducting background research of the hotel operators and participants. In one news article, executive team perceptions at one operator towards Airbnb were briefly covered. Direct observation was used after an interview with one independent hotel; the respondent showed how hotels use revenue management systems to monitor tactical competitor moves in real-time. A short field document was based on this observation. In another instance, one interviewee gave out a brochure about the different brands of the hotel chain (i.e. physical artifact) to explain their limited positioning to experimentation.

3.3 Data Analysis

My method for data analysis was qualitative content analysis, which is commonly used in qualitative research (Hsieh and Shannon, 2005). Qualitative content analysis is defined by Hsieh and Shannon (2005) as: "*a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns.*" When applying this method I used the 'direct approach', which is particularly useful for examining relationships between variables based on the used theory (ibid.). I chose to use this method due to its strengths in 1) allowing for multiple interpretations, and 2) usefulness in examining relationships in an informed way (Kohlbacher, 2006). One downside of the direct approach in qualitative content analysis is its strong emphasis on theory. Next, the data analysis process will be described in detail.

The data analysis process started after I had received all my sources of evidence in text format, including the transcribed interviews. I used a modified version of the direct approach for qualitative content analysis described in Hsieh and Shannon (2005). First, I examined each case organization separately to identify their unique context. Then, I identified and categorized types of responses to the interview questions. The categorized answers were expanded to broader 2nd and 1st degree groupings that emerged. Appendix 3 shows the final version of this analysis in a table format with quotes.

Once the answers had been processed I compared whether the factors from my theoretical model predicted competitive responses as the model would suggest. According to Yin (2009), this type of 'theoretical orientation' allows to focus on important data, as well as, to identify alternative explanations. I proceeded to compare similarities and dissimilarities between the hotel organizations. This analytical technique is called 'pattern matching' (Yin, 2009). As a final step, I used 'explanation building' (ibid.) to identify how different factors explained competitive responses. This also entailed developing alternative interpretations in the nature of structured content analysis.

3.4 Evaluation of the study

In any empirical research relating to social science, four tests are often made to assess its quality. These tests are also relevant for the case study methodology. (Yin, 2009) *Construct validity* refers to the use of sound 'operational measures' that have been proven to measure the aspect that is being studied (ibid.). In my thesis, the used constructs can be said to have high validity, as they are based on a stream of research that has employed rigorous research methodologies to test such constructs empirically (Smith et al., 2001). *Internal validity* refers to the soundness of 'causal relationships' (ibid.). In this thesis, Yin (2009) recommendations to acknowledge rival theories and evaluating quality of inferences were applied. For example, I used qualitative content analysis, which employs several analytical techniques to improve internal validity.

External validity refers to what extent can the findings of the study be generalized beyond its research context (Yin, 2009). In my thesis, hotel operators that were located in the city center of Helsinki were examined. Generalizability is expected to be limited, as competitive responses are largely context dependent, so results can differ between locations. The findings of this

thesis would certainly be more generalizable if it had been conducted in multiple Nordic capitals for example. The theoretical foundations of this thesis are on solid grounds, as past research has developed these through extensive empirical research. This means that its explanatory power could be decent and at least used for identifying avenues of further exploration. *Reliability* refers to the extent that the researcher is transparent with his/her research conduct, so that results can be repeated if followed (ibid.). Such research mentality was applied thoroughly in this thesis, which should translate into a high level of reliability. The research conduct and findings of this thesis have been presented in detail in the appropriate sections of this thesis.

Finally, ethical issues of research should be considered when evaluating this thesis. Throughout the thesis it's important that the phenomenon is examined in a scientific way, so that argumentation is based on past research or based on empirical evidence. In this thesis, I have acknowledged past research and cited them correctly. Furthermore, I used considerable amount of time to ensure that the research design of this thesis was sound, so that true knowledge has been created. Another important aspect is ethical stakeholder management, which involves treating other researchers and interview respondents with respect. In my research, communication towards involved parties was polite and direct. Confidentiality and anonymity of the participating organizations was taken care of at the highest level. This also involved getting informed consent from the interviewees and informing them about the study. Finally, measures were taken to protect the interview materials from ending to wrong hands.

4 FINDINGS

This chapter starts with providing background information on the local hotel market in Helsinki based on secondary data. After that descriptive data for the hotel market and Airbnb will be provided. The later sub-sections starting from 4.2 will cover the interview findings of this thesis. Section 4.2 will cover external factors influencing competitive response, while section 4.3 will examine the internal factors influencing response. Finally section 4.4 will present competitive responses that hotel organizations operating in Helsinki have enacted.

4.1 Background on the local hotel industry and Airbnb

4.1.1 Nordic Hotel Industry and Finland

The Hotel sector in Nordic countries can be described as consolidated, as Nordic hotel operators control the overweighing mid-market segment (PwC, 2017; Larsen and Hodari, 2016). This also characterizes the industry in Finland especially well, as until recently only three major hotel operators dominated the market. This characteristic can be largely explained by the prevalence of local and regional visitors in all Nordic countries (Larsen and Hodari 2016; Scandic, 2018). However, the share of international visitors has gradually become more important since early 2000s (Scandic, 2018). The increasing number of foreign travelers has translated into good hotel sector performance in the Nordics (PwC, 2017). The performance of the Finnish hotel industry was sluggish following the financial crisis in 2009, and has only in 2016 recovered to match Nordic levels (Viljanen, 2017).

The success in hotel industry performance in the Nordics has also increased industry optimism, which has translated into a room supply pipeline of 16% in the Nordics for 2017-2020. The industry mindset has been shifting from mid-market dominance towards lifestyle over the last few years; diversifying product segments is seen important for maintaining and increasing the number of foreign visitors and catering changing consumer needs. (Larsen and Hodari, 2016) Offering lifestyle and design concepts can also be seen in the hotel market in Helsinki (Niipola, 2016). Hotel industry executives also see the increased supply as positive, as this can accommodate more international events and alleviate over-demand in peak times (Larsen and Hodari 2016). The hotel industry pipeline in Finland shows an increase in interest from international brands (Larsen and Hodari 2016). Especially regional hotel groups see the Finnish

market as promising: the Norwegian hotel group Nordic Choice Hotels opened two hotels in Helsinki in 2016 (Nikula, 2016), while the Swedish group Scandic became the market leader with its acquisition of 40 hotels from Restel 2017 (Räisänen, 2017).

The number of foreign visitors in Finland has doubled from early 2000s to 7.7 million visitors in 2016 (Ministry of Economic Affairs and Employment, 2018; MaRa, 2018). The tourism industry represented approximately 2.5% of the Finnish GDP from 2011-2015 (Visit Finland, 2017). The Finnish Hospitality Association (i.e. MaRa) sees the industry having good growth prospects, with most potential coming from Asian travelers. Hospitality industry turnover has grown starting from 2010, having flat growth from 2013-2015 and resuming growth subsequently (Ministry of Economic Affairs and Employment, 2017). Both domestic and foreign visitors registered a total number of 20.3 million overnight stays in accommodation facilities in 2016, of these 16.3 million were registered hotel nights (OSF, 2016).

4.1.2 Helsinki as a travel destination

Over the last years, Helsinki as a travel destination has experienced growing interest with international visitors regarding the modern Nordic capital as distinctive in character, while having the proximity to nature and feeling of safety. The growing interest, which have been fueled by positive country image, have enabled Helsinki to better compete against other Nordic capitals in attracting visitors and tapping into a larger share of the global tourism growth. (Mustonen, 2015) Similar to other Nordic countries, this development has been aided by new direct flight connections and increased collaboration with international travel agencies and other online travel channels (PwC, 2017; TEM, 2017). International events are also an important area in the tourism strategy of Helsinki. For example, over the last years the city was visited by 40 000 to 60 000 congress visitors annually (Visit Finland, 2017).

The importance of Helsinki-Vantaa Airport as the flight hub to Asia (Tuominen, 2018) and the city's proximity to the sea (Kuittinen, 2018), make Helsinki an appealing destination of foreign visitors. The number of passenger arrivals to Finland has grown over the last few years, with 2016 and 2017 being the record years (Tuominen, 2018; Kuittinen, 2018: Visiittori.fi, 2018). Helsinki-Vantaa Airport has around 600 000 to 800 000 monthly passenger arrivals, from which around 80% were foreigners (Visiittori, 2018). Cruise passengers represent around 300 000 to 850 000 monthly visitors depending on the season, mainly from neighboring

countries (ibid.). This seasonality is even more pronounced in arriving hotel customers, which range from 130 000 in winter months to 200 000 in the summer months (ibid.). In the last few years, foreigners represented around 53% of hotel guests in Helsinki (OSF, 2018). According to the local destination management officials around half of foreign visitors stay at private home accommodations, which have compensated for the stalling hotel supply (Koivisto, 2016).

4.1.3 Hotel performance indicators in Helsinki

The improved hotel performance and subsequent industry optimism can be clearly seen on the supply side of hotel offerings in Helsinki (Figure 6 and table 3). The number of accommodation establishments in Helsinki remained stable at 52-53 from 2011-2015, followed by an increase to 61 by 2017 (OSF, 2018). The number of rooms in the market followed a similar trajectory with capacity increasing by 14% to 9626 rooms from 2014 to 2017 (OSF, 2018). A large share of this capacity addition came from the earlier mentioned market entry of Nordic Choice Hotels to Helsinki, as stated earlier. Room occupancy levels and average daily rate remained relatively stable from 2012-2015 at 70% and 104.5 € (OSF, 2018). By 2017 these figures had increased to 73.7% and 119 €, thus translating into a 19.5% RevPAR increase to 86.8 € (ibid.).
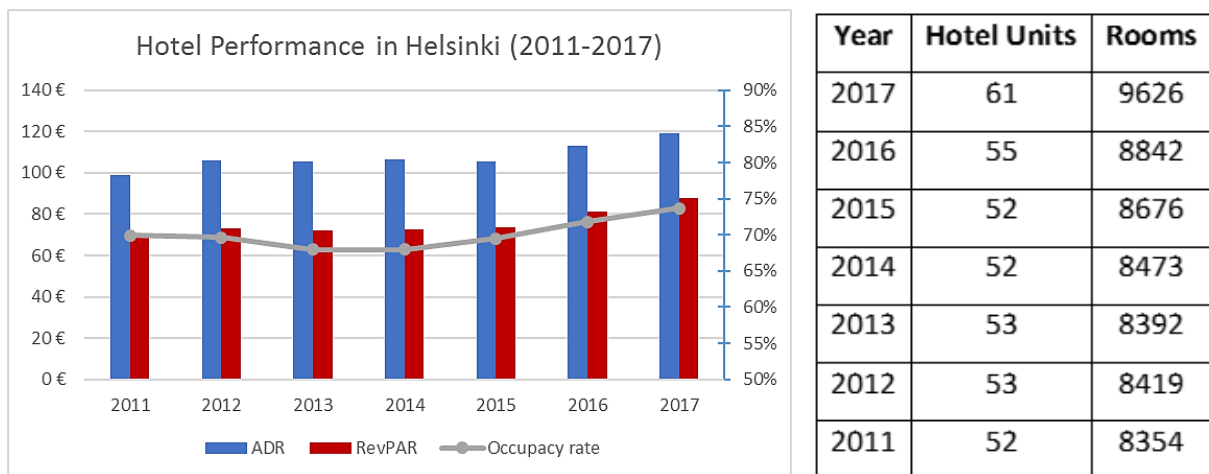
Year	Hotel Units	Rooms
2017	61	9626
2016	55	8842
2015	52	8676
2014	52	8473
2013	53	8392
2012	53	8419
2011	52	8354

Figure 6. Hotel performance in Helsinki (OSF, 2018)   **Table 3.** Hotel capacity in Helsinki

The improved average daily rate and occupancy levels over the last two years can be explained by the increase in demand as seen in figure 7. The figure also shows that the hotel market is highly seasonal, with summer being the peak time. Monthly hotel overnight stays range from 200 000 in winter months to 400 000 in summer months. (Visiittori.fi, 2018) Figure 8 shows that occupancy levels tend to be high over the summer months and that year-over-year developments at the monthly levels are more mixed (Visiittori.fi, 2018); the slightly improving

occupancy levels show that the sharp increase in demand has been absorbed by the increased room capacity.
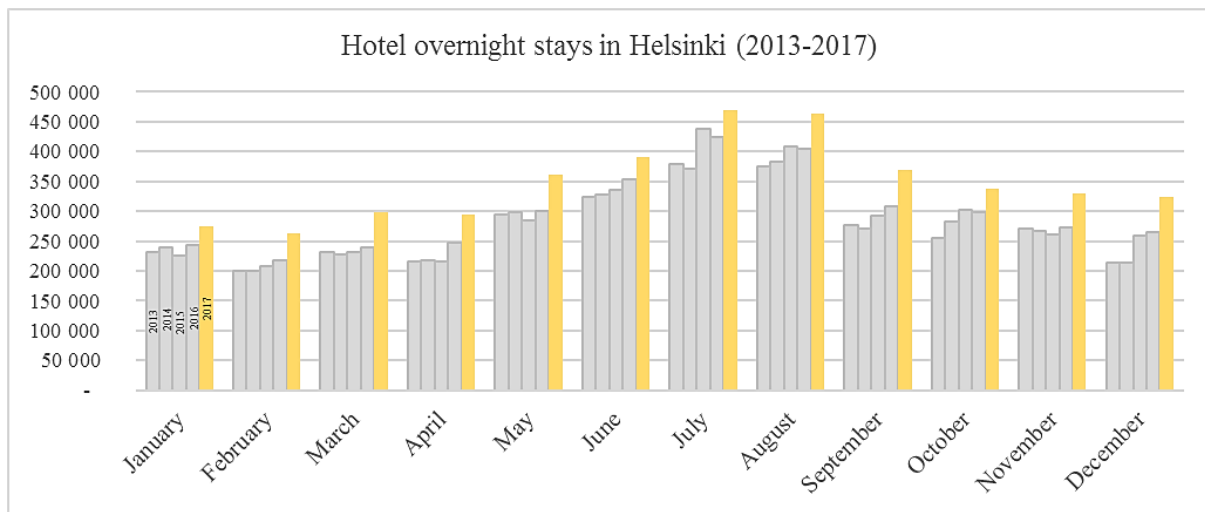
Figure 7. Hotel overnight stays in Helsinki (Visiittori.fi, 2018)
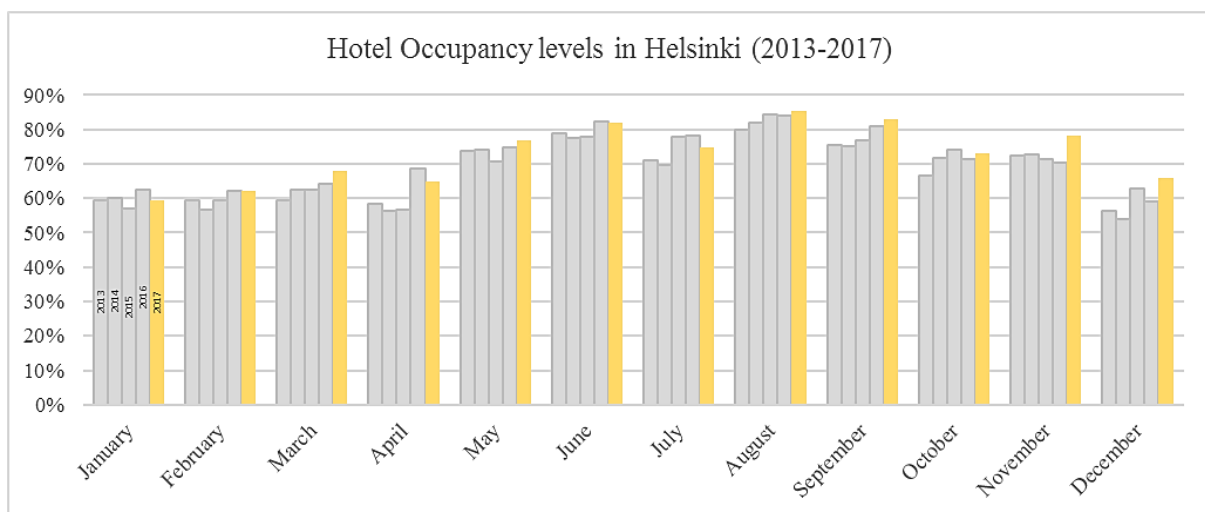
Figure 8. Hotel Occupancy levels in Helsinki (Visiittori.fi, 2018)

The average daily rate at Helsinki have remained relatively stable in the last 5 years, as seen in figure 9. The rates tend to vary from 68 to 82 euros depending on the season. A notable exception is July, when price levels drop to 45 to 50 euro range on average. In the last two years, average daily prices have increased 10-20% for the summer months and around 5% for September-November (i.e. from 2013-2015 levels). (Visiittori.fi, 2018) Two likely reasons for this are: 1) growing demand as seen in figure 7, and 2) the diversifying competition offering from lifestyle offerings mentioned in the earlier sections and discussed in the next sub-section.
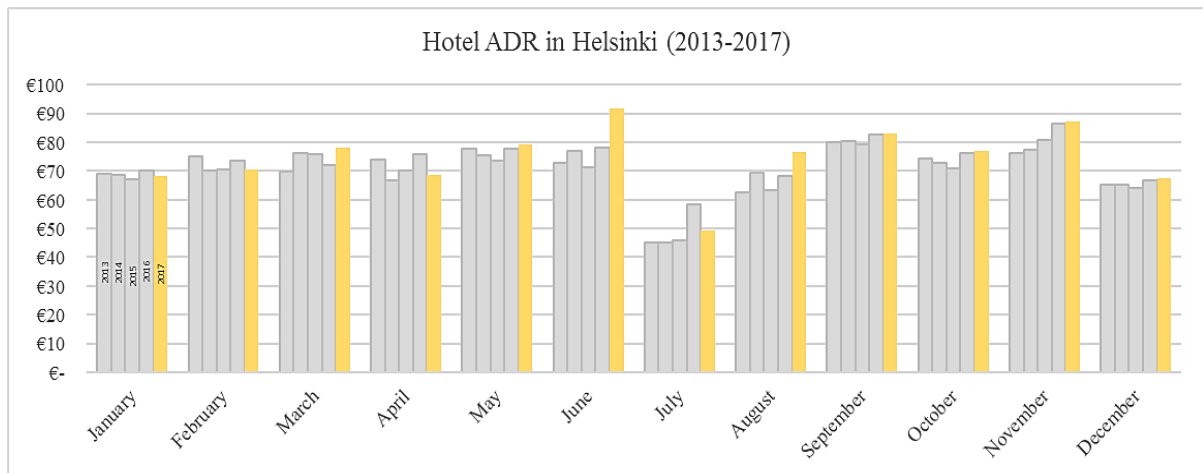
Figure 9. Hotel ADR in Helsinki (Visiittori.fi, 2018)

4.1.4 Airbnb performance indicators in Helsinki

According to media sources, the first Airbnb apartment in Helsinki was posted in 2008, while it took until 2013 for that number to grow to 400 (Murto, 2013). The monthly development from January 2015 onwards is shown in figure 11. In 2015, Airbnb listings in Helsinki with bookings varied from 228 in February to 868 in August (Airdna.co, 2018). By 2017, these figures had grown to 970 and 2227 properties with bookings on a monthly basis depending on the season (ibid.). This sub-section will explore Airbnb listings in Helsinki, using a web-analytics based data from Airdna.co, which monitors the development of Airbnb in various key markets. The service has been used by distinguished industry, media and academic institutions in the past (Cf. Airdna.co/research).

Over the last 12 months, 3857 properties in Helsinki have been listed to the Airbnb platform in 2017; from these 2772 are categorized as active listings that had some activity over the last months. From these active listings 83% are 'entire homes', 15% 'private rooms' and 2% 'shared rooms'. Studios and one bedroom apartments form around 77% of the supply, while two and three bedroom apartments form around 22% of the supply. Around 39% of the active listings are from 'multi-listing hosts'. Location wise, a vast majority of the listings are located within the extended city center of Helsinki, while the rest are scattered in other areas, as can be seen from figure 10. (Airdna.co, 2018)
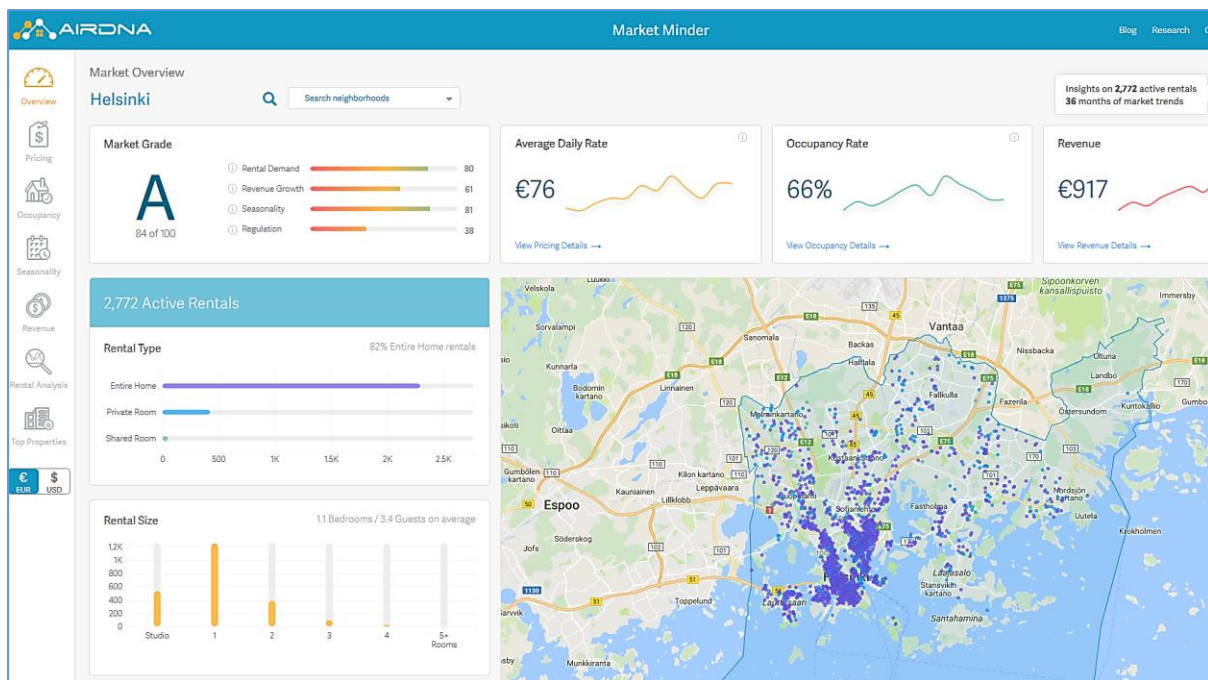
Figure 10. Airbnb listings in Helsinki – Airdna.co

Demand side indicators from 36 months from 2015 until 2017 are presented in figure 11; the number of overnight stays per month have dramatically increased from a low of 2380 nights in February 2015 to a high of 41000 nights in August 2017. This represents an increase of 10% month-over-month basis on average. The demand for Airbnb properties is also highly seasonal, significantly more so than the demand for hotels explored in figure 7 in the previous sub-section. Furthermore, the demand for Airbnb properties in 2017 accounted for 4.8-8.1% of combined overnight stays in Helsinki (i.e. Hotel overnights + Airbnb overnights) depending on the month. The number of Airbnb listings involved in these bookings fluctuate strongly depending on the season, thus indicating a highly seasonal supply. From the 3857 properties that had some activity in 2017, 51% were available for less than 3 months and 25% were available from 4-6 months. (Airdna.co, 2018)
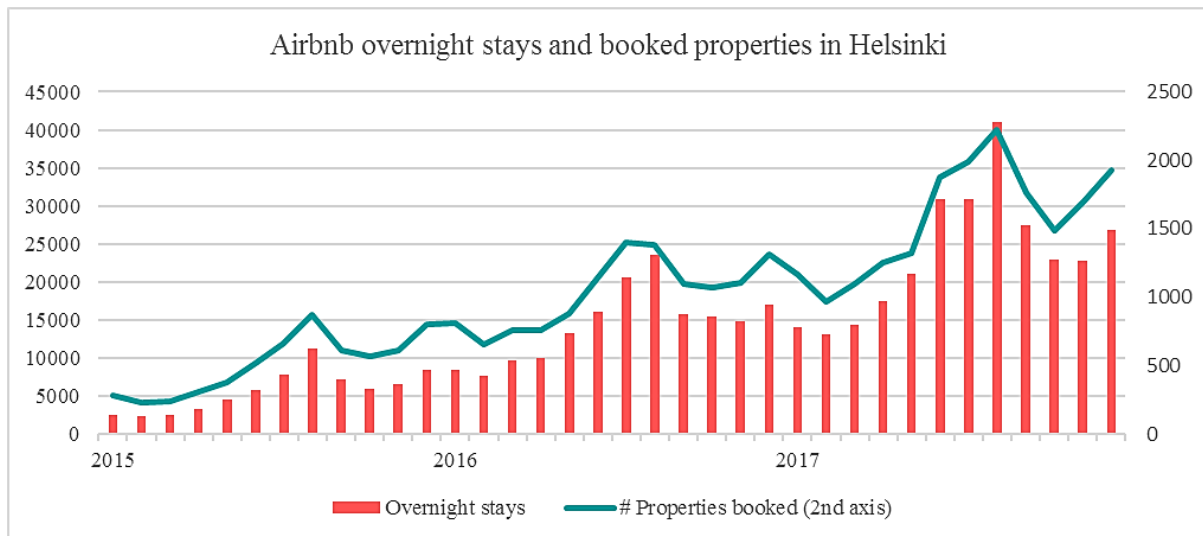
Figure 11. Airbnb overnight stays and booked properties in Helsinki (Airdna.co, 2018)

Moving on to price level information of Airbnb properties in Helsinki, figure 12 shows average daily rates for overnight stays that have been segmented into three groups. The ratio between the groups remained stable over the time period, despite strong seasonal fluctuation. Listings accommodating 1-2 persons formed 37% of the monthly supply and cost 55-66€ per night depending on the season. Listings accommodating 3-4 persons formed 53% of the monthly supply and cost 71-84€ per night depending on the season. These first two groups were mainly studios or 1 bedroom apartments. Listings accommodating more than 6 persons formed 10% of the monthly supply and cost 110-155€ per night depending on the season. The listings in the third group were mainly 2-3 bedroom apartments. Average daily rates for 1-2 persons and 3-5 persons have also been highly stable in the observed 36 months. The average daily prices for Airbnb apartments accommodating more than 6 people have fluctuated significantly. Average daily rate for all Airbnb apartments in Helsinki 2015-2017 on annual basis was 74€, 70€ and 72€ respectively. (Airdna.co, 2018)
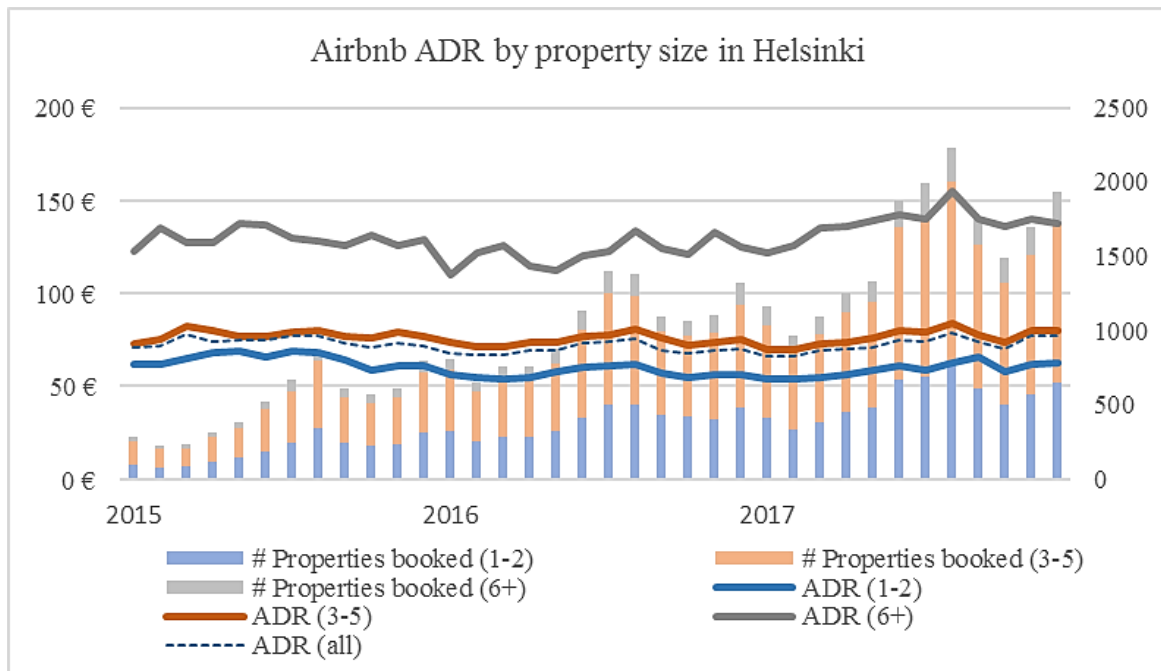
Figure 12. Airbnb ADR by property size in Helsinki (Airdna.co, 2018)

One data limitation in Airdna.co (2018) was unclear methodology involving occupancy ratios. In addition, this indicator may not be particularly informative in measuring Airbnb property performance, as listings can be available for differing time periods. For example, an Airbnb host could reach a 100% occupancy level with 3 nights rented a month or 30 nights rented a month, depending on how they have set the availability of their apartment. On the other hand, a low occupancy rate with full availability could just be an indication that Airbnb hosts who live in the apartment themselves have set their calendar open and are ready to accept the occasional high paying guests for some days.

Figure 13 shows that the ratio of overnight stays to maximum overnight stays assuming properties involved in the realized bookings would have full availability for the month. The relatively small share of overnight stays consistently over the time period also suggests that there are both low and high activity types of Airbnb hosts. This is also indicated by the low number of average booked nights a month per property. In 2015, an average apartment was booked 11 nights a month, while the last two years this number rose to 14 and 15. In percentage terms, booked properties were occupied 36% of the time on average in 2015, and from 45-48% of the time in 2016-2017. Booked nights per property are clearly the highest during summer months. In conclusion, despite the supply growth seen in figure 11, strong demand has translated into more business for Airbnb hosts in a stable price environment.
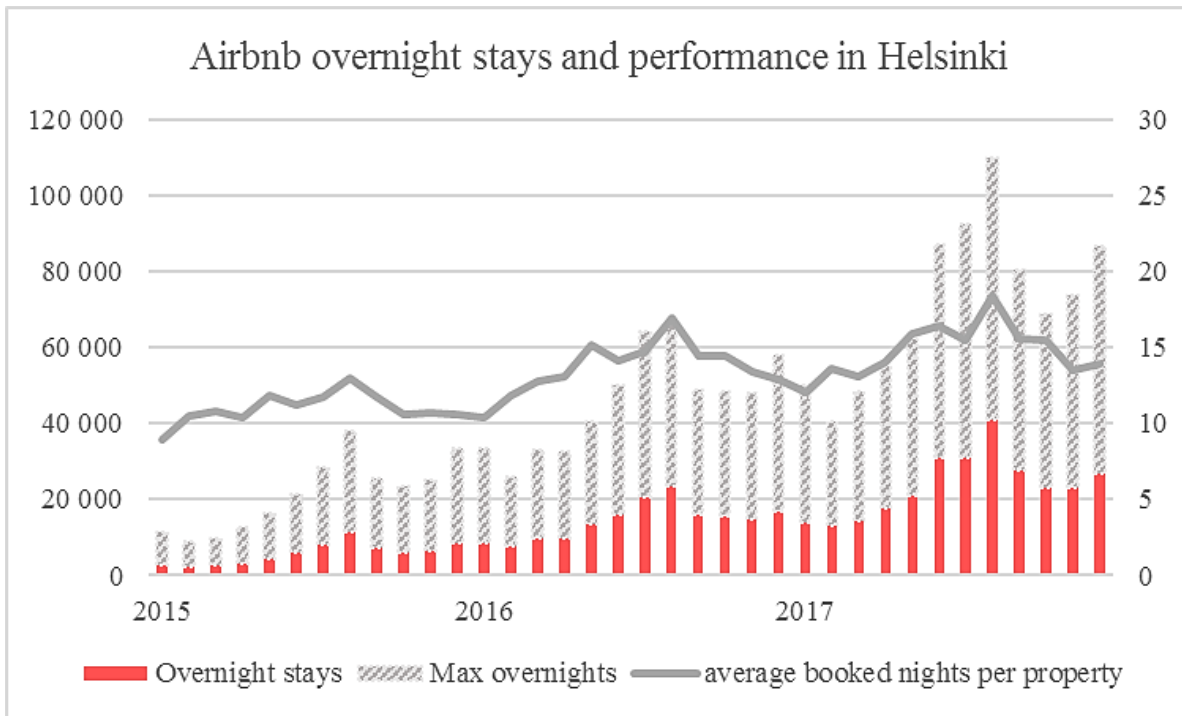
Figure 13. Airbnb overnight stays and performance in Helsinki (Airdna.co, 2018)

Airbnb's sales performance in Helsinki can be seen from figure 14. In 2015, Airbnb hosts in Helsinki generated a total of 5.1 million euros in sales for the year. In 2016, this figure was 12.2 million euros, and in 2017 it was 20.8 million euros. For 2017, monthly sales in Helsinki varied from 0.87 million euros in January to 3.2 million euros in August. Figure 14 also shows the average monthly revenue per host. In 2015, average revenue per property was at 816 euros, and by 2017, this number had increased to 1072 euros. Data on RevPAR from Airdna.co (2018) was not used for validity concerns, as there was no explanation on how the methodology would adjust for Airbnb apartments having multiple rooms and accommodating a higher number of persons per room, which were noted earlier.
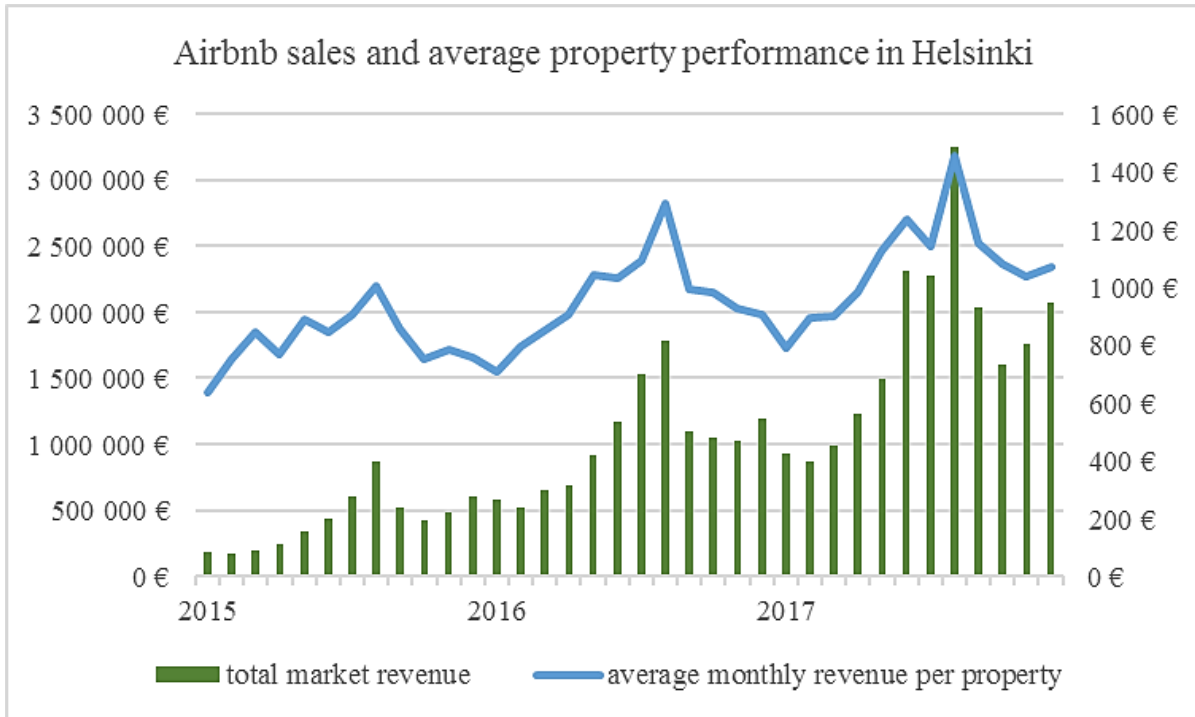
Figure 14. Airbnb sales and average property performance in Helsinki (Airdna.co, 2018)

The number of Airbnb apartments in Finland took longer to start growing, according to Airbnb's regional country manager at the time (Takala, 2015). A comparison of Airbnb listings in European capitals, show that for top 20 capitals in 2016, for every hotel there were 0.12 to 1.31 Airbnb listings (Lepetit-Chella, 2016). This included nine capital cities where the number of Airbnb listings was over 10000 (ibid.). The statistics presented in this sub-section indicate that in 2017, there were 0.40 Airbnb listings for every hotel room in Helsinki (i.e. 3857 Airbnb listings to 9626 hotel rooms). The ratio of Airbnb listings to one hotel room (i.e.2017) would rank 7th on a European comparison in 2016.

Thus the number of Airbnb listings in Helsinki, appear to have caught up with European levels. Those Airbnb listings that had some activity in the past months (i.e. 2772) accounted for over 20% of the total (i.e. combined) accommodation capacity in Helsinki. Nevertheless, as was shown earlier Airbnb had a market share of 4.8% to 8.1% on overnight stays depending on the month (i.e. highest in August). In value terms, the market share of Airbnb is lower given the higher ADR charged by hotels. Airbnb growth in Helsinki has been exponential, as seen from the figures above.

4.2 External factors influencing response

This chapter presents the external factors that are likely to influence competitive response of hotel operators in Helsinki towards Airbnb. First, I will provide descriptive data from the local market, before moving to presenting the interview findings.

4.2.1 Local market trends

Most interview participants agreed that the hotel market in Helsinki and Finland has become more international and diverse over recent years. Several participants stated that tourism is accelerating globally and that this has reflected to the market in Helsinki. Many participants also saw that Finland is in a unique position to attract tourists now.

> "*This year [tourism in Finland] has developed faster than global average, partly due to global situation, where threat of terrorism is apparent in major European cities. Nordics are seen as a safe travel destination. On the other hand, Finland has many appealing themes now. These range from Slush type of conferences to the sauna culture. The country image of Finland is very positive now.*"
> –Hotel Major

All of the interview participants noted that the market is booming and many were positive about its future growth outlook. Some of the appealing aspects cited were that new hotel concepts in Helsinki have brought quality to Nordic levels and that prices are still cheap compared to regional levels. A few participants stated that the number of travelers coming to Helsinki would grow significantly over a 10-year period.

The majority of interviewees noted that also hotel property development is experiencing a good momentum now. Many of them stated that there have been good investment opportunities. One reason mentioned was that capacity additions have been absorbed reasonably well. Another one noted, that the constructions of new office buildings had resulted in several options for hotel organizations to transform vacating offices into hotel concepts. Similarly, commercially repurposed apartments (i.e. apartment hotels) have brought some additional capacity to the market. One hotel executive explained that hotel investment projects follow closely the market cycle and that they can have devastating outcomes in sudden downturns.

4.2.3 Competitive Landscape and trends

The majority of the Interviewees saw that the competitive situation in Finland had recently become invigorated, while a few noted that the overall situation has remained relatively unchanged. Changes in the competitive setting were seen as a positive development by half of the participants. These findings were categorized into those initiated by competitive differentiation and those resulting from digitalization. The first one, competitive differentiation has come from two sources: 1) existing competitors, and 2) new competitors.

> *"For a long time, we didn't really have international hotel brands here. So overall, [Helsinki] has been a very Nordic market place. I would say the competition has been very homogenous and dominated by few chains. The industry has been consolidating also in Finland, and even continuing as Restel is selling its hotels to Scandic later this year. Only in the last few years have market players started to really think how to beat other hotels with just as good rooms."*
> -Upscale organization

> *"The mid-market segment offerings have always been strong. However, the upscale and low-end have been very narrow and thin. We've been glad that customers are willing to pay for higher quality and better service. The competitive landscape has become more diverse, although there is still room for more."*
> -Upscale organization

Many participants also saw the entry of new competitors as a positive development, some noting that new supply also brings new demand. One frequently cited change was the market entry of the Nordic hotel chain Clarion with a major 700-room hotel project. On the other hand, some interviewees brought up Airbnb as an example of a new type of competitor or consumer trend. However, perception of whether Airbnb was a notable competitor varied largely. These perceptions will be covered in a later sub-section.

The second category of change in competition was resulting from digitalization. Digital trends and practices were frequently discussed when talking about competition. One common topic was how online market places have leveled the playing fields between hotels.

"Another development that has happened is that it's not just the big companies that have become connected, but also small hotels. They have entered the same sales channels as large hotels that have better resources. This kind of digitalization has brought options to customers – behind you see a picture of our 200+ room [flagship hotel], so that probably competes with some small 15-room bed & breakfast in Punavuori." –Hotel Major

The increased competition in online market places meant that dynamic pricing had become the industry standard. Participants noted that price competition occurs especially at quiet times, so then upscale hotels can come towards mid-market hotels in price, which in turn brings some of the hotel capacity into the budget segment. One interviewee explained that because of dynamic pricing the market strives for its equilibrium and thus price developments have been limited, as also supply has increased with growth in demand. Also, digital systems for revenue management were discussed in several interviews.

4.2.4 Industry Challenges

The interviewees saw several industry challenges and reflected on how this had influenced their business and how they had reacted to them. I categorized these challenges into two groups, which are those relating to technology and those relating to slow response. Within the first group, centralized online sales channels, outdated backend systems and missing digital competencies were the most discussed.

Respondents agreed that centralized online channels like those provided by OTAs had become a dominant force in the industry. OTA sales channel exposure ranged approximately from 20% to 75% depending on target customers of the hotel and season. Most interviewees commented that the 20%-25% commission margins OTAs charged were steep, but admitted that visibility on external digital channels is paramount.

"OTAs are a big group of pests, but you have to work with them to get visibility among international travelers. The challenge is how do we get users to our own sites and pay less commissions to OTAs. Every hotel operator is facing this same issue." – Upscale organization

The majority of the organizations tried to proactively improve their own channels. Hotels with strong local brands seemed to be in a better position to acquire customers through internal channels. For the major domestic facing ones, traditional sales channels like call centers were still significant. However, one executive noted that these traditional reservation channels are not necessarily very cost effective.

Another industry challenge mentioned several times was outdated backend operating systems or Property Management Systems (i.e. PMS). These inventory systems were largely developed before the internet, so integrating these to global networks was seen as a puzzle. Even if the industry has started to become adapted to the digital age, many of these backend systems limited what organizations could do. Few interviewees noted that the development of these systems was slow and not up to industry needs.

> *"When hotel backend systems (Property Management Systems) were developed in the 70's and 80's, no-one thought that they should be able to do the things we want them to do today. You just simply can't get the data out. It doesn't make sense to build a system on top of it, because it's so expensive and you're going to develop it more anyhow. You should blow up these systems and start from scratch, but no-one can do that."* -Upscale organization

> *"The challenge is that we are tied to the development cycle of the operating system owner and software house. This cycle is not developing as fast as our expectations. So, today you can book directly a seat on your flight, but for hotels you can't really book the room with the best view. The operating system is not really flexible and there is nothing we can do about it."* –Hotel Major

The last source of challenge within the first category was missing digital competencies. This was brought up by two interviewees. Discussions on this topic was very much related to the previous ones on the outdated backend systems and online sales channels. One organization explained that it had done major efforts to improve its digital capabilities.

> *"Perhaps the biggest problem is that the people in this industry who have used these backend systems are very analogical people, they don't necessarily adopt*

to new ways of working. We had a major organizational change recently and ended [many] of these roles to hire people with digital competencies."
– Upscale organization

The second category related to slow industry development that was linked to challenges of the industry being traditional, responding to changes in consumer behavior and those related to the size of the hotel. The industry transition was described by one respondent by the following:

"*In the past concepts and services have been quite standardized, so now we as an industry are starting to foresee customer issues and develop empathy. Of course we still have these people who are not able realize that a granny that's struggling to get through the door needs help, but customer orientation is definitely moving in the right way. For example, some business hotels have ironing equipment in all rooms, luxury shampoos and so on.*" –Low-end organization

Changing consumer habits were also seen as a major challenge and especially changes in how to communicate with customers was discussed in many interviews. In general, the participating organizations had adapted to the online age reasonably well. Especially the role social media was seen as critical. Executives from larger organizations noted that their challenge is to ensure that they are serving customers in most preferred ways.

"*Travelers today use social media, whether it's TripAdvisor or something else. They want more and more experiences. [Customers] are looking for positive experiences that stand out from the mass.*" –Upscale organization

"*We are constantly developing our loyalty programs and our internal sales channels. Of course we have to keep monitoring whether our customer service by phone is working and whether that's how customers want to be served today and so on.*" –Hotel Major

The last challenge was related to the limited resources of small operators. Compared to larger hotel organizations, small hotel organizations had limited ability to invest into sales channels

and external visibility. Therefore, smaller organizations have had to compete more efficiently through social media and by other more creative means.

> *"If you look at our big neighbors, they have poured tens of millions [into online sales channels] if not more. But we are also fighting back, trying to make our own agile and flexible, and work with limited resources in creative ways."*
> –Upscale organization

4.3 Internal factors influencing response

In this section, I will present the findings on internal factors influencing competitor response. These factors have been adapted from the theoretical framework of this thesis, which is based on past research on competitive dynamics.

4.3.1 Internal/External Orientation

Hotels' internal/external orientation was evaluated based on three measures: 1) Operative focus, 2) use of market intelligence, and 3) reaction to industry and digital trends. Responses within the first two were fairly similar across hotels. The operative focus of smaller independent hotels seemed to be mainly tactical and internally focused, while larger hotels had more resources for external orientation.

> *"We are an organization that focuses on internal operations – like improving customer service. But then of course we have sales, marketing and revenue management activities that monitor the external market. Our strategy team follows everything that happens on the market from big picture to daily changes in Helsinki. We are using all available online resources to make independent decisions in order to maximize our result."* –Hotel Major

> *"Our cost structure doesn't allow us to have a revenue manager besides me. We have the basic revenue and channel management tools available. I'm getting some market insight reports to my email. We actively read customer feedback from various channels and try to react to these."* –Low-end organization

Hotels' use of market intelligence was largely dependent on revenue and online channel management systems that retrieve real-time market data. Some respondents eluded that this

was largely due to the price driven market in online sales channels. Market reports were mainly purchased by hotel majors. A small number of interviewees noted that their organizations took part of networking events or engaged in product benchmarking. In conclusion, market intelligence of smaller operators was relating to the front-lines and news sources, while larger organizations were able to monitor the bigger picture more accurately.

With respect to reaction to industry and digital trends, most hotel organizations seemed to be clearly skewed towards the passive than the active end. On the passive side, these involved coming up-to speed with standard industry practices like having stronger online presence or having a Wi-Fi in some cases. One respondent mentioned only refurbishment as a main reaction to trends. Very few hotel organizations had gone through major restructuring, but those that did had focused on concept renewal and improving their digital infrastructure.

> *"Our reaction to digital trends was quite bad still few years ago. Now we have a new website and Wi-Fi in our rooms. Our revenue management function is able to react to price changes now."* –Hotel Major

4.3.2 Organizational decision making and agility

Possible effects of organizational characteristics on competitive response were gauged through 1) decision making, and 2) organizational agility. Especially the hotel majors had centralized decision making structure, while smaller organizations tended to have a decentralized approach, which could be a reason why they experimented more.

> *"Decision making has been centralized to the group level. We look at the big picture when we set strategies and manage our portfolio. These are set for national and regional levels. The second level of strategy happens through dialogue with hotel directors."* –Hotel Major

Organizational agility was evaluated by asking how the respondents' organizations had reacted to industry trends and digitalization, like in the previous sub-section. Upscale organization respondents seemed to be consistently looking for ways to create more value for their customers. Hotel majors and some low-end hotels seemed to operate with "business as usual"

mentality. Especially the hotel majors felt limited need to experiment with new products or technologies. Overall, very few organizations experimented with new technologies.

> *"As a large organization we of course follow the changes brought by digitalization, but in terms of operations and service concepts, not much has changed. If you think that this industry is 2000 years old, many principles are still the same. Over the long-term we might have to adopt to new ways of travel, but at this point it's not really the top priority."* –Hotel Major

> *"We are interested in everything that relates to technology, which could help improve our customer experience and lower prices for our customers…. [This industry] will move forward through digitalization and technology…. [A significant part] of our customers are mobile users."* –Low-end organization

4.3.3 Perception on Airbnb

Interview respondents had diverse apprehensions about Airbnb, ranging from positive to negative. To some extent, this depended on whether the respondent was talking about personal, company or industry level opinion. The majority of respondents mentioned that either they themselves or someone close to them had used Airbnb. The responses of these people also seemed to be more diverse in terms of both positive and negative aspects. Overall, the largest overlap in answers was among unconcerned or reserved perceptions, which reflected the industry level opinions.

Nearly half of the respondents had noted a positive benefit from presence of Airbnb. These benefits included Airbnb: 1) being a demand generator, 2) improving technology acceptance, 3) having an admirable product, and 4) absorbing peak-demand. Most of these were cited a couple of times, with only demand generator being cited a few times.

> *"I'm not from the industry, so I see it very differently. Before I said about competition that supply increases demand. It's a fact that in cities where Airbnb is strong, the hotel industry is also doing extremely well. That just means that the destination is interesting and people come to explore it."* –Upscale hotel

A handful of interviewees had sympathetic viewpoints about Airbnb relating to consumer movement, resource efficiency and boredom of hotels. Although, these categories had very few responses, the answers were relatively uplifting. Furthermore, the few respondents mentioning any of these points usually mentioned the other ones in this category.

> *"I think that this sharing economy, where you use spaces efficiently is amazing. And that you have this disruption happening and use of digital services to get access to things."* –Low-end organization

Unconcerned viewpoints were shared by around half of the respondents. The answers were categorized into two groups 1) small scale, and 2) customers choosing us. Comments in both categories seemed to be relying on personal opinions, as indicated by the use of "I" pronoun. These respondents were also largely different from those providing positive or sympathetic answers. Some interviewees also explained that use cases of Airbnb are different from hotels.

> *"I'm not concerned. Whoever wants to go, can go. Of course we have those long-term residence profiles that might be eyeing those options. But some of them come to hotel, because they want the breakfast and the service. They don't want to do this stuff themselves. So, I think that there is still room for [all of] us."* –Low-end organization

Although the unconcerned viewpoint seemed to be quite dominant perception of Airbnb among respondents, most of the interviewees mentioned at least some concern about Airbnb. These were categorized under the reserved/negative group. Sub-categorizations within this group had the most overlapping answers; legal aspect and the prevailing regulatory inequality received a few responses each. Especially the hotel majors were more expressive than their other concerned competitors. For instance, black market topics, like tax avoidance and non-compliance with labor regulations, were brought up by a few persons.

> *"[This] new competition is not under the supervision of regulatory authorities that would ensure their compliance like the authorities do for us. This is when competition gets distorted, pricing gets distorted and it's always a hit for the industry."* – Hotel Major

Nearly half of the respondents brought up consumer protection and safety. In particular, respondents saw protection of consumer rights in dispute situations. Many also emphasized consumer safety as being a strong benefit of hotels.

> *"Our business is based on service quality and safety. We have 24/7 safety guaranteed. No-one has a second key for our hotel rooms – safety is our main concern there. It's a bit different overall with this Airbnb."* –Hotel Major

The rest of the sub-categorizations within the reserved/negative group had much fewer responses. Concerns over accident responsibility and residential problems were mentioned by a couple of participants each. Finally, two respondents had extreme negative viewpoints of what occurs at Airbnb apartments.

> *"I would never go to such a place, where I can't even be sure that the sheets have been changed or what's under the bed. With Marriot or Scandic, you always know what you're getting."* –Hotel Major

4.3.4 Airbnb impact on hotel business

I classified the communicated Airbnb impacts into three main groups: 1) Industry level, 2) company level, and 3) segment level. At the big picture, most interviewees were of the opinion that Airbnb had not impacted the industry negatively, at least to a noticeable extent with minor exceptions. Some stated that concerns over Airbnb impact had dissipated, as the market had picked up. Few respondents wondered whether it might have even helped bring more visitors to Helsinki. On the other hand, respondents from hotel majors were mixed between impact and no impact. For two hotel majors, respondents from the same organization had contradicting statements. Some participants noted that Airbnb impact on the industry was seasonal or limited to specific dates. For instance, many of them had noticed Airbnb taking some business from hotels during summer festivals.

> *"[From] 52 weekends a year, there are some in which the demand in the city is quite low and that is when we also compete strongly with Airbnb…. I don't see it*

having other effects, except that we of course as an industry challenge it, because there you have a black market and we compete with different rules." –Hotel Major

"*I don't think [Airbnb] has had any impact so far. It could be that it is influencing prices to some extent here on some single days or months. But I can't believe it would have a significant impact on a yearly level. There are individual cases – last July was one when demand dropped – demand was still quite good or decent. I would say [prices] are still more driven by the larger chains and rapid changes in their expectations.*" –Low-end organization

In the company level impact group, participants' responses ranged from no signals to clear signs. Respondents from upscale hotel organizations saw barely any indications of impact to their business. Similar responses of non-impact came from low-end hotel organization participants; some of them noted that their business had grown in double-digits over the last few years. Most of the hotel majors noted that impacts were concealed or even clear. However, the reported impacts seemed to be small and mainly referring to niche segments.

The segment level impacts were noted by a handful of hotel organizations, most of which were hotel majors. Some impacted segments according to a few respondents were 1) festival visitors, 2) families during the summer, and 3) long-term residencies. In addition to the hotel majors, upscale organizations had noted the difference during Flow Festival. None of the respondents reported Airbnb impacting the leisure side segment overall, but a few of them noted that it could be concealed by market growth or lack of more accurate analytics. Around half of the interviewees seemed skeptical on whether corporate travelers would ever use Airbnb. However, one respondent from a hotel major noted that one of their corporate travel sub-segments was the first to have been negatively impacted by Airbnb.

"*I would say it was about few years ago, when one of our corporate travel segments started taking a hit. After taking a closer look, it turned out that some of our key clients had started using Airbnb. -- If you're staying a longer period of time [in Helsinki] and your family wants to visit, you have more space [by using Airbnb]. So it's clearly also those who need for a longer-term stay. Not all of those apartments are economical either, so I see it so that the customer wants*

something different. These days' people are also quite strict on what they eat, so they might want to prepare their own meals." –Hotel Major

"We see [impact from Airbnb] when there is some festival weekend like Flow. At those times our rooms are not anymore fully booked, because it's exactly those type of people who use Airbnb accommodation." –Upscale organization

4.3.5 Monitoring Airbnb

Monitoring activities by respondents' organizations were identified and grouped into three groups: 1) passive, 2) irregular, and 3) semi active. Around half of the respondents commented that their organizations followed Airbnb passively, so mainly through news. A few described that they monitored Airbnb irregularly, like during their strategy renewal or at specific time periods. Some mentioned that it's hard to monitor Airbnb directly due to unavailability of accurate data. Only one respondent noted that he/she used a data analytics source called Airdna.co to monitor Airbnb occasionally. Another participant stated that they had never even talked about Airbnb in their company, although this person had been active contributor on the topic at the industry association.

"[We have followed Airbnb] mainly through news. Like how it's developing globally. I haven't really followed what reactions there have been to it here in Helsinki. We have talked about Airbnb internally, but since our performance has been increasingly better we haven't looked further into that." –Low-end

"We follow news from all players in the market, including Airbnb. When we do our strategy renewal, we might get a market report on Airbnb. Even though we don't see it as a direct competitor, we think it belongs on our 'to-follow list'. Apartment hotels are in the compset for some of our hotels, so we indirectly follow the preference for these types of products also." –Upscale organization

4.3.6 Market dependence

The respondents were asked about their target customers, source of competitiveness and whether they saw an overlap between their and Airbnb's customer groups. The responses were

similar within hotel segments. Upscale hotel organizations saw overlap in clientele was very marginal, mainly in long-term residencies. Hotel majors mainly referred to the overlap being at specific customer segments, which were mentioned earlier. Three hotel major executives stated that some overlap in core target customers might be possible, but then mentioned that this was hard to verify. Two hotel major executives were very skeptical on any overlap.

> *"I have heard sometime that one of our corporate customers has considered using [Airbnb] or even used it in their free-time. But I don't really see it as an alternative to our core business. I think Airbnb users are quite young, so it's more linked to adventure and free-time travel that is decided in advance. Our travelers tend to come on a short-notice on the other hand and the target group is different."* –Hotel Major

> *"Yes, I would say that [also the core segments] could be using these services. But it's very hard to pinpoint these….We know that our loyalty customers stayed with us on average 1 night less this year, but we might never find out what was the reason."* –Hotel Major

Respondents from low-end organizations noted similarities among their and Airbnb's customer groups. However, respondents from these organizations did not seem to be particularly concerned. One of them noted that competition with Airbnb is seasonal. Less than half of the respondents across all hotel segments believed that Airbnb use cases were distinct from those of hotels, despite similarities in target customers. One participating organization explained that they mostly had companies or organizations as clients and that they hardly relied on external sales channels.

> *"Certainly to some extent [we have overlap with Airbnb]. Like us, they also try be different from hotels. Customers who don't want a structured product, are ready to try new concepts, and are price sensitive. In that sense there is overlap…. The overlap is partial, I don't see that we are big competitors, but indirectly yes. There are seasons and days when we compete, and then those in which we don't."*
> –Low-end organization

4.3.7 Competitive outlook

On the general industry outlook, most respondents were positive. In terms of competition, many noted that emphasis is shifting towards more personalized service. Some executives expected further segmentation in Helsinki to continue. Many of the respondents saw that the digital outlook would continue as progressive. The majority expected market power of OTAs to remain strong or increase further in the future. Few respondents saw that new digital applications like those relating to mobile would improve customer experience.

> *"OTAs will certainly have a dominant position also in the future, until someone new challenges them. Digitalization will also change consumer habits…. reservation call centers will decrease in importance, as chat based customer service becomes more popular. Customer expectations on digital applications will also increase with Apple Pay and other services like that."* -Hotel Major

The respondents were also asked on their beliefs on competitive outlook for Airbnb. The responses on Airbnb's outlook were relatively dispersed on the continuum from positive to negative. Less than half of the respondents expected Airbnb continuing to grown. They explained that consumer trends and more efficient use of resources would support its development going forward. They also saw that diversifying supply would be a positive development for the market. While mainly having a neutral outlook for Airbnb, one hotel major executive explained that global travel policies at leading technology companies had become more accommodative towards their employees' use of Airbnb. Some respondents stated that they might have to start following Airbnb more closely in the future.

Some interviewees commented that OTAs had started listing apartments on the same channels and within them even the same categories hotels were in. A few of them discussed how Airbnb would fit this picture. One executive explained that if Airbnb listings enter external sales channels like booking.com, this would level the playing field for hotels. Another executive commented that hotel executives shouldn't see Airbnb as a competitor, but a distribution channel, which could help put pressure against the steep commissions of booking.com.

> *"I think that Airbnb is going to have more competitors going forward, so they will try to renew themselves and have done so to some extent already. One problem*

for them is that these booking.com and hotels.com have entered the apartment business also quite strongly. On the other hand if they enter our channels, I think it would just level the playing field for us." –Hotel Major

"How we have seen it for a long time is that Airbnb is more like a distribution channel competitor for Booking.com and not a new business model, even if there are some [new elements] .... Airbnb will open up, so that also hotel offerings will be well-represented there." –Organization X

Around half of the respondents saw a neutral or negative outlook for Airbnb. Many of them were skeptical on whether Airbnb would ever become a mainstream product. These were mainly from some mid-market and low-end organizations. One hotel major executive was convinced that Airbnb would disappear from Finland once additional regulations set in. Other hotel major executives were less convinced on the effectiveness of regulation. One executive explained that lobbying efforts could also backfire on hotels, if regulation becomes stricter.

"I don't think that [Airbnb] will ever become that significant here. Some target group might get excited about it, especially younger people who are more adventurous. It depends a bit on the markets. In many destinations like Barcelona and New York they get shut down, as they become a burden."
–Low-end organization

4.4 Competitive responses against Airbnb

The interviewees were asked whether their organizations had considered or implemented any responses against Airbnb. Also any collective or cooperative responses were inquired. The responses were categorized into three groups: 1) no response, 2) indirect response, and 3) direct response. Overall, there were very few competitive responses outside the lobbying efforts that were practiced by hotel majors.

Around half of the respondents noted that they had not felt the need to implement any competitive responses against Airbnb. Some of the reasons behind this were not seeing Airbnb as a competitor, small scale of Airbnb, skepticism over its success, organizations' own success, and non-interest to experiment with similar concepts. In the light of statistics from section 4.1,

the executives understated the number of Airbnb apartments at the market place and overstated their own competitiveness against them (e.g. stating that their hotels had lower prices).

> *"I would say that discussion [about Airbnb] has even calmed down over the last couple of years. There was a lot of discussions about it when it came out. At the time there was a fear that you would have more Airbnb apartments than hotel rooms, like in Barcelona. If we are talking about 1000-2000 Airbnb apartments in Helsinki, from which only some hundreds are active, then at the market of 9000 hotel rooms it's not much of a share."* –Low-end organization

> *"I don't see [Airbnb] personally as problem and we don't talk about it in our company, because it's so different. They have two customer groups. The first one is those that want [the room] cheaply, but if you just want a room, we can compete with them in prices…. The other group is adventurous people who want to live like locals – these are totally different from our customers."* –Hotel Major

Indirect competitive responses ranged from broader actions that challenged all industry competitors, to those that were more specifically developed because of Airbnb. The four topics that emerged from the interviews were 1) brand configurations, 2) product configurations, 3) adapting to digital consumption, and 4) communication. These topics addressed the lifestyle movement that also Airbnb embodies to a varying degree of specificity against Airbnb. This included around half of the organizations in each market segment.

Brand configurations were discussed by around half of the hotel majors and upscale organizations. A common theme seemed to be creating an identity for specific hotels to improve their attractiveness. These clearly emphasized on a differentiator aspect, providing a new experience for customers. These brand configurations were developed over the last 5 years or so, in response to new lifestyle consumer trends. Many of the respondents were aware of the Airbnb experience, but noted that their aim was to focus on their own game.

> *"[When] you look at the tightening competitive situation, it's certainly true that your product and customer service need to be competitive…. I believe that it really culminates to the hotel's identity and how interesting story you're able to develop for your hotel concept….We started working on a major brand renewal*

[earlier this decade] …. [Our competitor] is also playing on how strongly their parent brand shows….One way is to develop signature-hotels, which emphasize the unit…. That is how also we respond to individualism and the lifestyle genre."
– Hotel Major

Product configurations were mentioned by three participating organizations. These organizations mentioned that they had evaluated options to develop longer-stay residencies that included for instance kitchenettes. Only one organization went through with bringing a new product concept to market. Another organization decided not to invest in the project, while the last organization had some family rooms with kitchenettes, but chose not to emphasize them. It seems that these were based on the evaluation of prevailing market trends and available opportunities, rather than a direct response against Airbnb.

" [Like Airbnb] we also believe in this residence type concept. We did try develop it to there at [that location], but it would have become too expensive. In a way, we are trying to take into consideration these 'long stay' facilities, where you can buy hotel services while being a bit apart and having privacy. But that's not really the budget segment anymore; I mean even Airbnb has those amazing luxury apartments." –Upscale organization

Adapting to digital consumer patterns was mentioned by several organizations. These ranged from the use of social media to updating their digital infrastructure. However, only one participant explained that partly because of Airbnb, the industry had understood the importance of digital development. Other executives talked about serving consumers in preferred ways at a more general way. Based on various comments, it seems that larger hotel chains tend to react to new technology retrospectively.

"[We] haven't needed to really think about competitive forces against [Airbnb] …. Maybe it's more on the side of how customers prefer to purchase their products and online channels, where it has helped us to develop on digital and that side of the business." –Hotel Major

The last theme is about strengthening the communication of values and benefits that their own products have as opposed to Airbnb. These were mentioned by some hotel majors and low-end

organizations. For instance, one low-end organization had had to strengthen its values in response to the increased competition. One hotel major executive talked about how they would likely start talking more about safety to their customers and the public, in response to Airbnb. The previously mentioned theme on brand configuration is also partly related to strengthening own message theme. Two low-end organizations mentioned that the extra services (e.g. ticket sales) they provided as aggregators increased their competitiveness against Airbnb.

> "We have considered and clarified our own values that are our strengths, like communality. That's totally the opposite from the individualism that Airbnb represents…. I wouldn't say that it has become [as response to Airbnb], as we've had it for quite long, but in the past we didn't perhaps emphasize it enough. We've had to highlight its role as a differentiator especially because of this particular reason. Then other ones are of course sustainable consumption, saving money and these types of ideologies." –Low-end organization

> "[One] important message that we have for our corporate customers is that we have more internal safety guidelines than what regulation or law requires…. [We] will certainly emphasize this safety aspect more in the future…. [When] we are talking about professional accommodation services, then there should be some regulation in place for these [Airbnb] multi-listing or superhosts…. Talking about safety and other these types of things is one competitive advantage that hotels have." –Hotel Major

Direct competitive responses were relatively scarce, with the exception of mediated lobbying efforts that were practiced by all hotel majors to a varying degree. The industry association MaRa (i.e. The Finnish Hospitality Association) has successfully pushed several industry issues to the media and legislators in Finland in the past. All participants were aware that MaRa had led the public discussion on Airbnb. Many of them felt that addressing the regulatory inequalities like enforcing taxes and safety concerns were a good idea. The hotel majors and one other organization had an active role in the association, as each of the hotel majors had at least one representative in the board or the committees.

> "The Airbnb related public discussion has been led by our industry association MARA and its CEO…. He, to a large extent, represents the standpoint of the

whole industry…. It is desirable and wanted that our industry association is the
one that deals with these issues. That is why such an organization exists. [Hotel
chains] have their own representatives in the association." –Hotel major

Those organizations that had positions at the industry association were asked about details on
the actors and their motivations behind the lobbying initiative. The perception among non-hotel
major respondents was that larger chains were behind the initiative. The organizations that held
positions at MaRa had mixed responses on the responsible actors behind the agenda. The hotel
majors were either active or passive supporters of the initiative against Airbnb, which was also
one of the strategic annual highlights of the industry association. Two hotel major executives
from different organizations explained that independent hospitality entrepreneurs were more
active on it, as it was more of an issue in the country side. Another insider explained that it was
clearly pushed by hotel majors and some individual authorities at the association, noting that
some actors had personal issues with new sharing economy concepts.

"I would say that that [the lobbying initiative] is led together with Mara and
individual players. I think it's especially the smaller operators that are active in
that, because there it certainly impacts more…. If the market changes, then
certainly the big players will also become more active. Many are probably
thinking that there is plenty to share, so let [Airbnb] operate for now. The board
of Mara defines the strategy and what is published on this. All the major chains
are represented there, so in a way it's a common effort." –Hotel Major

"Hotels see threats, but they might not know how to act in a new situation….
[Mara and its members] see the whole situation very skeptically, but they don't
see the whole side of it. So [Airbnb] will also help the hospitality industry to grow
and bring new clientele…. Of course as a representative association they shoot
with the ammunition that there is. It is easy to use populist statements that raise
public discussion." –Low-end organization

The motivation for hotel majors to undertake these efforts seemed to be both ideological and
competitive. One hotel major expressed concern about the negative impact of unfair
competition from Airbnb to their business. Another one saw it as an opportunity for relaxing
regulation from traditional players, perhaps even allowing them to enter the Airbnb business.

Few respondents also commented that regulation lags behind development, which is why industry associations have an important role. While one executive acted deeply concerned, none of the hotel majors' executives seemed to be truly concerned about Airbnb impacting their business in a notable way at this point in time.

> "*[Our industry] was afraid that it would show much more. It was good that Airbnb came when the market started growing. If it had come around 2007, there would have been an uproar. But now that we sell better than ever, it doesn't bother us. Next time when there is a downturn, we're going to make a fuss again.*"
> –Hotel Major

There was only one other identified direct action with respect to Airbnb, besides the lobbying efforts. One organization announced a partnership agreement with Airbnb, where they explained that they would list some of their properties on Airbnb. This organization saw Airbnb as an external distribution channel that could be used in parallel with other channels. The main motivation behind this action was to gain brand visibility.

> "*Airbnb is one of our distribution channels. We have used it for a couple of years, but have only [recently] been able to [integrate it to our channels].... How we have seen it for a long time is that Airbnb is more like a distribution channel competitor for Booking.com and not a new business model, even if there are some [new elements].... Airbnb will open up, so that also hotel offerings will be well-represented there.*" Organization X

5 DISCUSSION

5.1 Hotel competitive responses against Airbnb

Research on Airbnb has reported that hotel industry executives have had mixed views about Airbnb, with many of them remaining skeptical about its relevance as a competitor (Guttentag, 2016; Zervas et al., 2016; Guttentag, 2017). The findings of this thesis indicate that hotel industry executives in Helsinki resonate with similar viewpoints, as most of them are not concerned about Airbnb as a competitive threat. Similarly to the U.S (Varma et al., 2016), hotel executives in Helsinki see Airbnb as appealing mainly to niche customer groups during peak times. Nevertheless, executives from leading hotel organizations in Finland commented that their organizations have observed minor negative impacts on narrower customer segments, even as their organizations' overall performance has improved along with market growth. Hotel executives also stated that Airbnb impact on hotel performance is hard to pinpoint. The findings of this thesis provide additional support to past research on Airbnb, which has identified that hotel executives underestimate the disruptive threat posed by Airbnb (Guttentag, 2016; Varma et al., 2016).

The results of thesis supported the notion presented in Varma et al. (2016) that large hotel organizations tend to adopt a "wait and watch" approach, but contradicted the notion that smaller hotels would be more active in developing responses. One main reason for non-response could be that the market was growing rapidly, so hotel organizations in Helsinki had little motivation to explore what threat Airbnb posed. The various external and internal factors influencing response in my theoretical framework provided several possible reasons for non-response. These will be covered in detail in the next sub-sections. Literature on disruptive innovation can also help to explain why incumbents find it difficult to respond to change.

According to disruptive innovation literature, incumbents are tied to their existing 'value networks', where their internal processes have been designed to serve existing stakeholders like specific customer groups (Bower and Christensen, 1995; Christensen, 1997). This makes sense in the context of hotel industry, where hotel properties are significant long-term investments to the hotel business model. Additionally, hotels' challenges in adapting to changes brought by digitalization were discussed in the literature review of this thesis and the interviews. When incumbents have made significant investments or are facing organizational

changes, they are more likely to concentrate on their existing businesses (Charitou and Markides, 2003). This was clearly evident in the research context of this thesis, as hotel organizations were mainly interested in extracting more value from their existing businesses. Furthermore, many organizations seemed to struggle with change and update to industry best practices retrospectively.

In terms of competitive responses, this thesis found no direct support that hotels had set lower prices in response to Airbnb (Zervas et al., 2016), even if past research on Airbnb has identified that this should be the case in capacity constrained cities during peak times (Farronato and Fradkin, 2018). The likely explanation is that this was simply not captured by the qualitative method used, as Airbnb performance indicators in sub-section 4.1.3 contradicted hotel executive comments that Airbnb would still be at a small scale in Helsinki. Past research on Airbnb has stated that hotel executives underestimate the disruptive threat posed by Airbnb (Guttentag, 2016; Varma et al., 2016); the trajectory of Airbnb growth in Helsinki and the analysis of executive comments throughout the findings support this viewpoint.

This thesis found partial support that hotels engaged in competitive responses that enhanced their product offering and improved personalization (Varma et al., 2016). However, contradictory to the findings in Varma et al. (2016) these have been mainly due to general market developments rather than solely because of Airbnb. The shift to non-standardized lifestyle and boutique offerings has been on-going since 2010 (Guttentag, 2016) and these trends were strongly present also in the local hotel industry in Helsinki. Some executives interviewed for this thesis implied that brand configurations and strengthened communication were, at least to a minor extent, partly due to Airbnb. These indirect responses were enacted by around half of the organizations in each segment. Finally, one hotel organization reported that it had made an agreement with Airbnb to list some of its properties on the Airbnb platform, using it as an additional distribution channel. This cooperative action is aligned with Airbnb's new strategy to list smaller hotels on its website as noted by media sources like Zaleski (2018).

The most direct competitive response by hotels against Airbnb in Finland have been lobbying and raising public discussion, which have been occurring since 2014. Similar to the U.S (Blal et al., 2018), industry lobbying activities in Finland were found to be mediated through a national industry trade association (i.e. MaRa). This thesis provided new insights on lobbying formation by identifying how in the context of Finland, executives from leading hotel chains

are in a key role to influence the agenda of their industry trade association. Furthermore, MaRa has been a vocal critic of Airbnb in the Finnish media. The industry association also has a successful track record in successfully influencing regulatory outcomes. Theory suggests that joint lobbying activities through industry association may have been chosen due its proven effectiveness in influencing the regulatory environment (Bombardini and Trebbi, 2012). This thesis provided some evidence that hotel majors were motivated to influence Airbnb regulation due to competitive and ideological reasons. These included addressing regulatory inequalities and concern for consumer protection. In conclusion, industry level factors like the presence of trade associations (Chen and Miller, 2015) and the role of institutional environment (Smith et al., 2001) were identified as important for hotel competitive response against Airbnb in this thesis.

5.2 External factors influencing competitive response

Past research on Airbnb has barely begun to study hotel competitive responses against Airbnb and has so far mainly identified some competitive actions. In my theoretical framework, I hypothesized that based on research on competitive dynamics, hotel competitive responses against Airbnb are influenced by factors relating to the industry competitive environment. Factors such as industry growth rate, industry concentration and barriers to entry, (Scherer and Ross, 1990) were identified as solid starting points for observing possible external factors influencing response. These factors predicted correctly the hotel non-response in the research context of this thesis, but missed some additional factors that are relevant to the Airbnb case.

5.2.1 Industry growth rate, industry concentration and barriers to entry

The multiple research methods used in this thesis allowed for a more holistic understanding of the hotel industry in Helsinki. The market data clearly indicated that industry growth rates had experienced a strong growth momentum in 2016-2017 and this view was also supported by comments from hotel executives. The theoretical starting point is that in industries where growth rates are high, propensity for competitive actions is low or delayed (Smith et al., 1989; Schomburg et al., 1994). In many of the interviews, hotel executives were satisfied with good sales levels and saw the outlook as very positive. Possibly due to the good market situation, some of them stated that for now there is sufficient room also for offerings provided by Airbnb.

Some hotel executives also linked the less intensified lobbying and media coverage against Airbnb to the good market momentum, which kept hotel organizations content and busy.

With respect to industry concentration, the evaluation relied mainly on qualitative methods. Like other Nordic countries, Finland has traditionally been dominated by a few larger mid-market operators. The few hotel majors also controlled the majority of hotel properties in the city center of Helsinki, even as the industry had slightly diversified over the recent years. The theoretical interpretation is that high levels of industry concentration reduce firm motivation to respond, due to possible oligopolistic coordination (Young et al., 1996). The interviews of this thesis mainly indicated that industry motivations to develop new offerings had been low as the market supply was relatively homogenous, even if the market had begun diversifying in the last years. Also, the limited number of sizable congress hotels, protected the core business of some hotel majors.

Industry barriers to entry are relevant for the hotel industry globally, including that of Helsinki, as capital intensive industries have been found to be less motivated to engage in hostile competition (Smith et al., 2001). The absence of new market entrants, such international chains, was also identified as one of the reasons why hotel supply had become so homogenous. The rapidly growing Airbnb supply has clearly benefitted from the constraints of the stalled hotel capacity in Helsinki. The findings also highlight that monitoring the flexible and rapidly scaling Airbnb supply is challenging, so coming up with a competitive response can be demanding for hotels (Zervas et al., 2016). Finally, the evolution of competition in the hotel industry in Helsinki has mainly occurred through existing firms responding to external market trends.

5.2.2 Other external factors influencing response

The hotel industry in Helsinki, like in many other cities globally, has been experiencing a shift towards lifestyle and boutique hotels. Executives clearly associated this shift to changes in consumer preferences, like was noted in the literature review. The combination of increased market demand and increased availability of potential hotel properties, also supported the evaluation of new investment projects by hotel organizations. The increased market activity by hotels also seemed to lower motivations to consider Airbnb as a threat. One hotel executive explained that they had been so busy in developing their own portfolio that they had partly neglected competitor activity. Also other executives stated that for them it was important to

concentrate on their own business. This supports the notion that good market momentum reduces or delays competitive responses.

Another factor relating to market change was digitalization, which was also covered in the literature review of this thesis. Hotel organizations had adopted the use of online distribution channels and social media. Nevertheless, responses to technological change had been slow in many organizations. As mentioned earlier, organizational challenges strengthen incumbent reliance on its existing business model (Charitou and Markides, 2003; Casadesus-Masanell and Ricart, 2010). Narratives of old-school CEOs and retrospective responses to changing market trends indicated that the role of TMT demographics played a central role in the strategic decision-making of hotels. Furthermore, CEO attention has been identified by past research to influence new product market entry and technology adaptation (Eggers and Kaplan, 2009). The findings of this thesis also showed that the hotels had difficulties in responding to change, as hotels in Helsinki lagged behind in some digital competencies and were constrained by their outdated and rigid property management systems.

The two observations presented above revolve around the market change context of the competitive setting of this thesis. In particular the nature of market change has important implications for incumbent firms, as noted in the literature review of this thesis. Airbnb demonstrates especially features of market, but also technology driven business model innovation (Habtay and Holmén, 2014). For instance, Airbnb has created a new market for short-term rental apartments (Henten and Windekilde, 2015) and has taken advantage of consumers' increased use of GPS in moving some market demand to residential areas. The findings of this thesis support the notion that the level and type of industry change in a local market are relevant aspects of the industry competitive environment and should be taken into consideration. As demonstrated in this sub-section, market change can influence hotels' awareness, motivation and capability to act against Airbnb.

Finally, external factors such as the institutional environment and especially industry interactions with it, emerged as relevant aspects in explaining cooperative and relational modes of competition in this thesis. The presence of an active industry association and the key role of market leaders positively affected the formation of anti-Airbnb agenda and possibly caused convergence of managerial beliefs about Airbnb. Theory on management cognition suggests that geographical proximity of local industry actors and the institutional environment can cause

mental models to converge (Daniels et al., 2003). Executives from hotel majors that had representatives in the industry association expressed more negative personal and ideological viewpoints than non-represented industry executives. Most non-represented organizations passively supported addressing regulatory concerns related to Airbnb. Overall, the interviews indicated that "institutional norms and pressures to conform" (Smith et al., 2001) are high in the hotel industry of Finland.

5.3 Internal factors influencing competitive response

5.3.1 Organizational decision making and agility

Also, organizational factors in my theoretical model helped to interpret why hotel organizations in Helsinki had relatively few competitive responses. Decision-making especially among larger hotel organizations tends to be centralized and their interest to experiment were found to be very limited. Some executives explained that the industry was still very traditional, as customers expected somewhat standardized products and many continued to use call centers to make reservations instead of digital reservation channels. These findings complement the view presented in Varma et al. (2016) that large hotel organizations have limited ability to experiment with their existing business models.

Smaller hotel organizations were found to have more decentralized decision making and the agility to experiment more. However, this increased activity was mainly geared towards making enhancements to the existing business. For high-end organizations, the efforts were focused on creating more value added activities for customers, so that they could gain a larger price premium. Overall, the findings of this thesis indicate that hotel organizations have little motivation or ability to alter their value networks (Christensen, 1997), as their internal processes are geared to make more money from the existing business. Thus the operating model that works for hotels in stable times also causes inertia; this inflexibility explains why incumbents struggle with response against disruptive innovations (Hill and Rothaermel, 2003). This inertia was also seen among hotel organizations as delayed responses to digital trends.

5.3.2 Internal/external orientation

The findings of this thesis underline that due to the operational nature of the hotel business, most industry firms tend to be internally oriented. Especially small independent hotels relied primarily on tactical competitive responses in their external competitive orientation. Their market intelligence activities revolved mainly around tactical price responses and monitoring the market environment through media sources. Larger hotel organizations on the other hand had sufficient resources to add a strategic perspective on their external market environment; they conducted their own research and also utilized industry research more actively. The theoretical interpretation based on my theoretical framework is that the starting conditions for having sufficient resources to have relevant market information on Airbnb is low among hotel organization in Helsinki, especially among smaller organizations.

Airbnb supply was not included in the existing competitor monitoring systems of hotel organizations in Helsinki. One reason, according to theory on management cognition is that managers have tendency to create simplified representations of their competitors and see themselves as mainly competing with their most proximate competitors (Reger and Huff, 1993; Porac and Thomas, 1994). Given that most hotel organizations interviewed for this thesis only passively monitored the development of Airbnb (i.e. mainly through media), it is hardly surprising that they underestimated the scale of Airbnb supply in Helsinki. As noted by Christensen (1997) incumbents fail to perceive disruptive threats, as the initial opportunity size fails to draw their attention and they tend to underestimate the speed of disruption. Hotel organizations would be able to devise better revenue management strategies against Airbnb if they started monitoring Airbnb supply (Blal et al., 2018). Despite the very limited competitive attention towards Airbnb, some executives mentioned that they might start to monitor Airbnb more actively in the future.

Several market intelligence related practicalities also limit hotels' ability to analyze Airbnb peer supply effectively. Some hotel executives interviewed for this thesis had observed Airbnb supply through the platform's website (i.e. and some clearly had not). The first pitfall is that the search view is optimized for prospective customers and only shows a limited view of Airbnb listings (i.e. also booked properties are not shown if searching with specific dates). The second problem is that Airbnb supply is highly flexible and can scale up fast (Zervas et al., 2016), so an occasional hotel executive monitoring Airbnb supply in their district of interest

would only see a snapshot of supply in that point in time. Only one hotel executive was aware of a web scraping service called Airdna.co, which provides data on various Airbnb markets globally. Past research on Airbnb has also reported that hotel organizations find it challenging to measure Airbnb impact on their business (Henten and Windekilde, 2015) and the findings of this thesis support that view.

5.3.3 Managerial factors influencing response

The previous sub-section already indicated that managerial cognition plays an important role in explaining why incumbents mainly focus on their most proximate competitors. Furthermore, due to limited market information executives had on Airbnb, the role of their mental models and beliefs (i.e. management cognition) was even more central. Interviews with hotel industry executives clearly suggested that their thinking about Airbnb had been influenced by personal experiences, the media and industry sources. In general, exposure to personal experiences yielded positive opinions, while exposure to industry sources yielded negative and concerned opinions. After the emergence of such findings, I updated my literature review to include theory on management cognition. As theorized by Tripsas and Gavetti (2000), management cognition has a central role in influencing the development of organizational capabilities, thus leading to organizational inertia.

Cognitive models tend to be similar inside organizations and industries (Walsh, 1995). The findings of this thesis suggest that this is the case with the hotel industry in Helsinki, where factors like geographical proximity, mature industry lifecycle, institutional environment and similar task environment (Daniels et al., 2003) have possibly caused mental models to converge. In particular, participation to the decision making at the national industry association (i.e. MaRa) may have caused managerial beliefs about Airbnb to converge, given that responses from hotel majors were so similar. For instance, they used similar metaphors in explaining the regulatory inequality between hotels and Airbnb.

Past research on competitive dynamics has shown that top management team (TMT) demographics can influence awareness and decision-making at firms (Smith et al., 2001). In the context of this thesis, TMT demographics emerged as one possible factor in explaining differences in perception against Airbnb. While a full exploration was not done on the participating firms, TMTs consisting of mainly experienced hotel executives seemed to be the

most skeptical about the success of Airbnb. This supports the finding presented by Osievksyy and Dewalt (2015) that industry experience can cause indecisiveness to adjust the existing business model in response to change (i.e. similar to what Tripsas and Gavetti (2000) observed at Polaroid). Furthermore, another explanation is that seasoned executives in the traditional hotel industry lack 'risk experience', which may reduce their willingness to make business model adjustments (Osievskyy and Dewalt, 2015). Finally, younger hotel industry executives had also positive personal opinions about Airbnb, as they knew people who used the service or had used it themselves.

5.3.4 Market dependence

Past research on Airbnb has documented that hotel executives, especially from larger chains, do not see Airbnb as a direct competitor, as they perceive it as operating in a separate market segment similar to a low cost option (Varma et al., 2016). The findings of this thesis indicated that hotel executives in Helsinki had more diverse views about Airbnb, but generally concluded that they did not see Airbnb as a direct competitor, partly because many of them perceived the market overlap as low. Hotel executives mainly seemed to arrive to this conclusion, because unlike firms in their competitive sets, the 'resource similarity' (Chen, 1996) with Airbnb was so different. With respect to 'market commonality' (Chen, 1996), many executives seemed to be convinced that their product had more threatening substitutes, even if they saw moderate overlap in target customers. One interpretation of this could be hotel executives preferred to rely on simplified and more familiar representations of their competitive environment, as suggested by literature on management cognition.

Low-end organizations perceived moderate market commonality with Airbnb, while hotel majors observed overlap in narrower niche segments and limited verifiability of the overlap in the core business. Upscale organizations saw customer overlap as marginal. These findings were mostly aligned with findings from the U.S presented in Varma et al. (2016), except that executives from large hotel organizations in Finland communicated that they had some evidence that Airbnb was nibbling at their business. Comments from industry executives clearly indicated that Airbnb was not a competitive threat at the moment, because they felt its scale is small and they expected market demand to grow significantly in the subsequent years. Many executives also highlighted that Airbnb supply in Helsinki was mainly seasonal (i.e. summer time) and that the use cases for Airbnb were distinct from hotels.

Past research on Airbnb has noted that there is a clear difference in the extent that hotel executives see a market overlap with Airbnb (Varma et al., 2016) and what the market data supports (Zervas et al., 2016; Nowak et al., 2015). The findings of this thesis partly support the notion that hotel executives have inaccurate perceptions of Airbnb customers (Varma et al., 2016; Guttentag, 2017). One explanation for this is that hotel executives have a narrower view than consumers on what products are substitutes to their own. This is based on the idea from Desarbo et al. (2006) that firm executives sometimes fail to understand that consumers can see two distinct products as close substitutes, even if their market commonality and resource similarity would suggest otherwise. This implies that the role of management cognition has an important role in determining to what extent hotel executives perceive a market overlap with Airbnb. At such, it also explains why incumbent firms fail to respond to market driven business model innovation.

5.4 Revised theoretical framework

At the end of my literature review, I proposed a theoretical framework that was used to explore factors explaining competitive actions by hotel organizations in Helsinki. The framework was based on theory on competitive dynamics and applied to a disruptive competitor – incumbent setting. The framework provided a starting point for exploring hotels' competitive responses against Airbnb in Helsinki and factors influencing those competitive responses. This framework was tested using 13 semi-structured interviews in 11 hotel organizations operating in the city center of Helsinki.

The findings of this thesis indicated that the model had great predictive power in explaining the enacted (non-)competitive responses. The results also indicated that the theoretical model needed some adjustments. First, external factors influencing response were enriched by adding new items for better applicability to holistic case studies. Furthermore, the role of institutional environment was added as a separate category from the industry competitive environment. Second, internal factors explaining incumbent challenges in devising competitive responses needed to be added and existing ones emphasized. In particular, the role of managerial factors like management cognition and TMT demographics emerged as important and were added to the model. Furthermore, specific items used to measure incumbent challenges to respond were made more explicit in all categories of internal factors. The last group of revisions to the model

included adding a higher level of categorization to competitive actions: no response, indirect response and direct response. The types of competitive actions were by replaced with rivalrous, competitive-cooperative and relational modes of action (Chen and Miller, 2015).
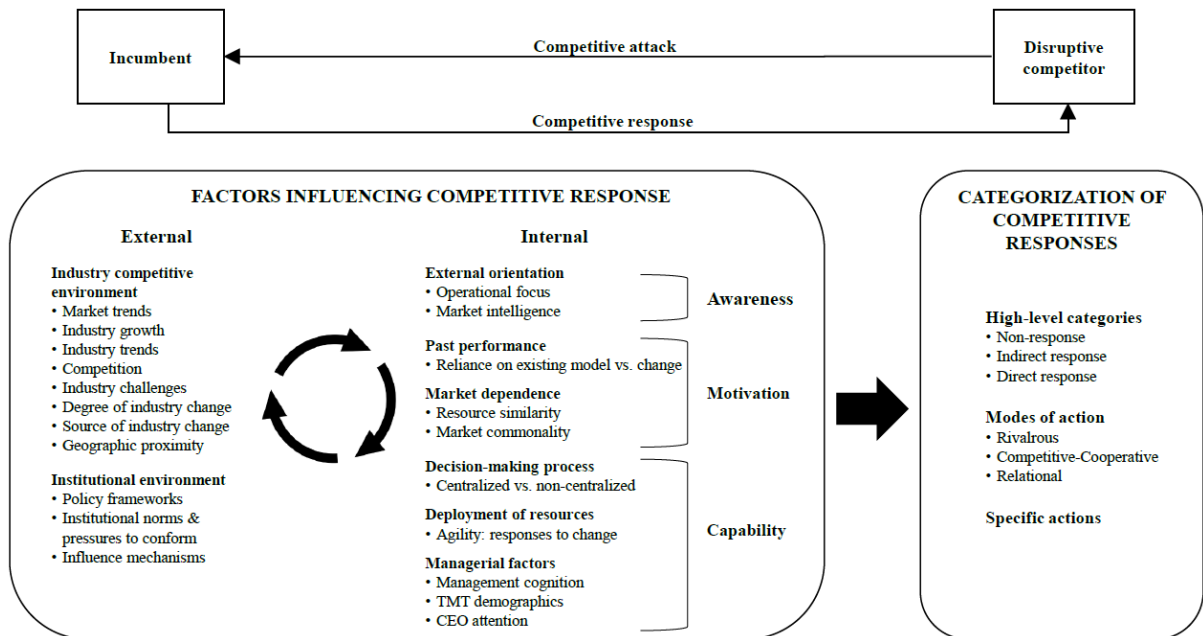

Figure 15. Revised theoretical framework

6 CONCLUSIONS

6.1 Main findings

The rapid global expansion and exponential growth of Airbnb has surprised many market spectators including hotel executives that have largely dismissed the new competitor (Varma et al., 2016; Guttentag, 2017). In most European capitals, the share of Airbnb supply accounts for more than 10% of the accommodation industry capacity (Lepetit-Chella, 2016). While peer supply itself is not necessarily threat for hotel revenues (Farronato and Fradkin, 2018), the figures suggest that hotel executives should not underestimate the threat posed by Airbnb. Research on Airbnb has barely begun to map out how hotel industry organizations have responded to this threat and this was also the central area of investigation in this thesis.

The research aim of this thesis was to explore how hotel industry organizations compete against Airbnb. The research questions of this thesis were: 1) *How have hotels reacted to the increasing presence of Airbnb in Helsinki?* and 2) *Why have hotel operators chosen certain responses over others?* The theoretical framework of this thesis was based on strategic management literature and more specifically research streams on competitive dynamics research and disruptive innovation. The model was tested by conducting 13 semi-structured interviews in 11 hotel organizations in Helsinki.

The results of this thesis show that hotel industry executives in Helsinki do not see Airbnb as a significant competitive threat at this point in time. At such, they have enacted relatively few competitive responses against Airbnb. The findings also support what past research on Airbnb has established that hotel executives have mixed views about Airbnb (Guttentag, 2017) and that they underestimate the potential threat posed by Airbnb (Guttentag, 2016; Varma et al., 2016). Around half of the hotel organizations interviewed had responded indirectly to Airbnb by addressing changing consumer trends. These responses included brand configurations, upgrading digital practices (i.e. retrospectively) and strengthening their communication.

The most significant competitive responses by hotels against Airbnb in Finland have been lobbying and raising public discussion. Similar to the U.S (Blal et al., 2018), lobbying and media activities in Finland were found to be mediated through a national industry trade association (i.e. MaRa). This thesis provided new insights on lobbying formation by identifying

how in the context of Finland, executives from leading hotel chains are in a key role to influence the agenda and actions made by their industry trade association. The participation to such actions were found to be motivated by competitive (e.g. reducing regulatory inequality) and ideological (e.g. consumer safety) reasons.

This thesis generated new knowledge on how external and internal factors explained hotel organizations' competitive responses. The booming hotel market in Helsinki was identified as one of the primary reasons behind executives' optimism and reduced threat perception on Airbnb. Internal factors explained how hotel industry organizations are internally oriented and mainly focus on their most immediate competitors. This thesis found support that hotel organizations neglect monitoring Airbnb (Blal et al., 2018) and as such, underestimate the scale of Airbnb supply in Helsinki. Hotel executives also perceived market dependence with Airbnb as low (Varma et al., 2016), even when there was a moderate overlap among target customers.

The results clearly indicated that managerial factors like management cognition, TMT demographics and CEO attention influenced organizations' awareness, motivation and capability to act against Airbnb. The findings also suggested that the hotel business model can be a major source of inertia, which limits hotels' ability make alterations to its business model in response to Airbnb (Varma et al., 2016). Hotel initiatives to respond to market change only included practices that exploited the existing business model. This is understandable given that hotel properties are significant long-term investments and hotels also struggle with organizational change in response to changing market trends.

6.2 Practical implications

Traditional industries around the world are facing the threat of disruptive innovation and struggle how to respond to change. Over the last decade, the exponential growth of online peer-to-peer platforms like Airbnb, urge the question of whether incumbent firms' can defend their positions and adapt to change somehow. The theoretical framework of this thesis provides managers across industries a useful framework for exploring potential sources of inertia preventing competitive response. The framework also emphasizes that there are distinct response outcomes and modes of action that can be considered. In particular, the Airbnb context has demonstrated how competitive-cooperative and relational modes of action can be

effective. The practical implications for the accommodation industry and political decision makers will be discussed next.

For hotel industry executives, the findings of this thesis suggest that more needs to be done so that hotel organizations can cope with changes in the industry environment. This entails addressing the major sources of inertia, which the findings of this thesis indicated come from internal orientation, over-reliance on existing business models and managerial factors. First, hotel industry organizations need to upgrade their digital competencies, so that they can become more competitive and monitor more effectively their broader competitive environment. Second, as consumer trends push the industry to diversify, the market has clearly demonstrated that distinct business models can provide additional competitive advantage. Finally, the results of this thesis clearly indicated that managerial diversity and exposure to diverse viewpoints helped hotel executives not only cope with change, but initiate it.

With respect to Airbnb, hotel executives need to expand their perspective to help navigate where the industry is going. The trend where peer accommodation appears on online distribution channels merits a more careful evaluation from hotels to ensure that they remain competitive. Recent activities of Airbnb have demonstrated that the platform has shown interest to partner with boutique hotels, so hotel executives will have to re-evaluate their existing strategies, given that OTA players like booking.com charge so high commissions. This is especially relevant for hotels that struggle to gain visibility or have significant exposure to high commission charging OTAs.

Finally, the new knowledge on how incumbent firms react to disruptive innovation and why, provided in this thesis, can also help policy makers understand competition better. Incumbent firms have an important role in establishing the urgency for regulating new forms of economic activity, as also the Airbnb case has demonstrated that some P2Ps circumvent regulation. However, policy makers need to understand that trade associations' actions are motivated by both competitive and ideological reasons. While preserving regulatory fairness and consumer protection are important aspects of regulation, it is important to realize that the role of individual actors and their opinions at trade associations can steer the discussion significantly. The findings of this thesis suggest that such environments can exacerbate cognitive convergence, which could cause actors to push for agendas that harm the competitiveness of the industry by protecting incumbent rents.

6.3 Limitations of the study and suggestions for further research

This thesis advanced the emerging body of literature on competition between hotels and Airbnb. In particular, the theoretical framework provided an interesting opening to start exploring factors influencing hotel response against Airbnb. Nevertheless, this study has also its limitations that need to be addressed. First, this study was conducted in the research context of Helsinki (i.e. single-case design), so the findings are not generalizable to other markets. Future studies could conduct cross-country comparisons of factors influencing competitive response with also other research methods. This could also help identifying the relative importance of specific factors and identify other factors that this study did not. Exploring various research contexts, also across time, would also help to increase the understanding on competition in distinct hotel and Airbnb markets.

Second, this study used a single-unit of analysis (i.e. hotel executives) and semi-structured interviews as its research format. While hotel executives seemed relatively comfortable in discussing openly their organization and competitive position on the condition of unidentifiability, the risk remains that hotel executives could have been able to provide more explicit answers. The research experience indicated that what was implicitly stated was also important, so asking follow-up questions and the use of a recorder was important. Despite this limitation, the case study nature of this thesis allowed for a good triangulation of methods and the sample size covered most of hotel organizations in Helsinki. Future studies could explore the role of managerial factors in determining Airbnb response even further with more specific research questions or other research methodologies.

Third, the findings section of this thesis that incorporated web-scraping data from a service provider called Airdna.co, clearly indicated that methodological concerns should be addressed by the service provider and all users of the data. This data was sufficient to provide a good representation of the performance of local Airbnb supply, but as some data had to be ignored, this reduced the possibilities for more nuanced comparisons on performance indicators against those of hotels. The first part of this problem is that the service provider did not clarify how certain performance indicators were calculated given the distinct nature of Airbnb peer supply. The second problem is that hotel performance indicators applied to a distinct context of housing

units of different size and temporal presence (i.e. also seasonal) in the market make the comparison difficult. This is something that future research could address.

Finally, the theoretical framework of this thesis merely provided a holistic starting point for exploring factors that influence competitive responses. The theoretical framework could be modified to account for various types of research perspectives with different degrees of specificity. Thus, future research on Airbnb will certainly enhance our understanding on new forms of competition and how to respond to change successfully.

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APPENDICES

APPENDIX 1: INTERVIEW GUIDE IN FINNISH

Haastattelurunko – Hotelli toimialan muutos ja kilpailutoiminta

1. Markkinaolosuhteet ja kulutusmallit
   a. Minkälaisena näette majoitustoimialan Helsingissä?
   b. Entä kilpailun näkökulmasta?
   c. Mitä trendejä olette havainneet toimialalla?
   d. Kuinka hotellinne on reagoinut markkinakehitykseen ja trendeihin?

2. Liiketoimintamalli, organisaatio ja päätöksenteko
   a. Keitä teidän kohdeasiakkaanne ovat ja mitä arvoa tuotatte asiakkaillenne?
   b. Mikä on teidän kilpailukyvyn lähde ja mihin se perustuu?
   c. Miten olette reagoineet erilaisten digitaalisten kanavien ja muiden online-trendien kehitykseen?
   d. Missä määrin keskitytte sisäisten operaatioiden kehittämiseen verrattaen ulkoisen markkinan ja kilpailun seurantaan?
   e. Kuinka saatte markkina-, sekä kilpailutietonne?
   f. Miten seuranta- ja analyysitoimet kääntyvät teillä toimenpiteisiin?
   g. Kuinka taktiset ja strategiset päätökset tehdään organisaatiossanne?

3. Tietoisuus uudesta kilpailijasta
   a. Miten koette Airbnb:n tulon markkinoille?
   b. Onko suhtautumisenne Airbnb:hen muuttunut jotenkin vuosien varrella?
   c. Miten näette sen vaikuttaneen toimialaan ja markkinaan?

4. Airbnb ja kilpailutoiminta
   a. Missä määrin näette päällekkäisyyksiä teidän ja Airbnb:n kohdeasiakkaiden välillä?
   b. Onko Airbnb:n markkinaläsnäolo vaikuttanut jotenkin toimintaanne?
   c. Entä toimintatapoihinne?
   d. Oletteko harkinneet tai toteuttaneet muita taktisia tai strategisia kilpailutoimenpiteitä organisaatiossanne?
   e. Minkälaisia kokemuksia teillä on ollut organisaationne sisälle näiden vastatoimenpiteiden kehityksestä?
   f. Oletteko harkinneet yhteistyötä muiden toimijoiden tai sidosryhmien edustajien kanssa vastatoimena?
   g. Mihin suuntaan näette kilpailun kehittyvän jatkossa?

Lopetus: Onko teillä nyt lopuksi muita kommentteja aiheeseen liittyen tai kysymyksiä tutkimuksesta?

-Jos tulee jotain mieleen vielä, niin voitte olla yhteydessä. Päätetään haastattelu tähän. Kiitos erittäin paljon ajastanne.

APPENDIX 2: INTERVIEW GUIDE IN ENGLISH

Interview guide – Hotel industry disruption and competitive interaction

1. Market conditions and consumer patterns
   a. How would you describe the hotel market in Helsinki?
   b. …how about from competitive perspective?
   c. What new trends have you observed in the market?
   d. How has your hotel reacted to market developments and trends?

2. Business model, organization and decision-making
   a. Who are your target customers and how do you create value for them?
   b. What are the sources of your competitive advantage and what are they based on?
   c. How have you reacted to the emergence of new digital channels and other online trends?
   d. To what extent do you focus on improving internal operations compared to monitoring market trends and competition?
   e. How do you get informed on market developments and competition?
   f. How do you translate market observations into actions?
   g. How are tactical and strategic decisions made in your organization?

3. Awareness of the new competitor
   a. What is your opinion on Airbnb?
   b. Has your opinion about it changed somehow over the years?
   c. How do you feel that it has affected the industry/market?

4. Airbnb and competitive Interaction
   a. To what extent do you see a market overlap with Airbnb?
   b. Has the market presence of Airbnb affected your business somehow?
   c. How about in the way you operate?
   d. Have you considered or engaged in any tactical or strategic responses within your organization?
   e. What were your organization's experiences in formulating these (executed/intended) responses?
   f. Have you considered collaborating with other operators or stakeholders as a competitive response?
   g. How do you see the competitive relationship going forward?

Closing: Do you have any further closing comments regarding the topic or questions about the research?

-Lets end the interview here then. Thank you very much for your time!

APPENDIX 3: CODING SCHEMES

External factors influencing response

Theme	2nd order Coding	1st order Coding	Representative quotes
Market situation	Trends	Finland is seen an attractive destination	”*This year [Finland] has developed faster than global average, partly due to global situation, where threat of terrorism is apparent in major European cities. Nordics are seen as a safe travel destination. On the other hand, Finland has many appealing themes now. These range from Slush type of conferences to the sauna culture. The country image of Finland is very positive now.*” ”*Many Asian countries are becoming wealthier, which has led to increased travel from these countries. Now [Asians] have seen all the central European locations and they want something new.*”
		Helsinki becoming more international	”*In 1988 there were only two international hotels in Finland, which were both in Helsinki. After this quite many international chains have appeared and then of course in recent years these boutique hotels. Along with capacity growth the diversity in offering has reached good Nordic levels.*”
		Change in consumer behavior	”*As a hostel, we have noticed that travelers have started to appreciate more sustainable consumption patterns. Overall, I would say that customer groups have become more diverse in Helsinki.*” “*Today consumers can easily explore options online. 10-15 years ago, people called call centers and booked that way. Now with everything online, customers might choose a small bed & breakfast in Punavuori instead of our 200+ room [flagship hotel].*” “*Another megatrend is new sharing economy business models like Airbnb. Customers are looking for new experiences and so far there has been room in the [Helsinki] market for these.*” “*People are getting used to digitalization*”
	Developments	Hotels are making great results	“*The lodging industry is growing globally due to the rise of international leisure travelers. Tourism in Finland is growing now above the global average of 4-5% and Helsinki is now getting its share. We are enjoying this development very much at the moment.*” “*The average occupancy rate in many hotels Helsinki has been around 80-90% from May until September this year. The last months have also been strong and this will continue. It has been quite many years since the market was this good.*”

		Investment momentum good	"[At] the moment the market is growing, although the capacity is increasing in similar proportions. Demand has grown 12%, but capacity 15%." "Real-estate investors are now pondering on what to do with office spaces that are not compatible with modern work practices. So, there have been several larger real-estates vacated, and one idea is to make them hotels. This then causes that capacity has increased, some of which have been publicly announced. Investment seems to be heating up now." "At this moment projects are being developed. But hotel industry investments follow booms and busts. Hotel projects were going at full speed in 2007-2008 when the bottom fell. The situation was difficult and [hotels] went bankrupt. And now those that were built are all needed. This goes on and on."
Competitive situation	Changing due to digitalization	Access to Online sales channels	"Another development that has happened is that it's not just the big companies that have become connected, but also small hotels. They have entered the same sales channels as large hotels that have better resources. This kind of digitalization has brought options to customers – behind you see a picture of our 200+ room [flagship hotel], so that probably competes with some small 15-room bed & breakfast in Punavuori.. "Revenue management tools have become the industry standard, also for smaller hotels. You can sometimes be very tactical; when you know that [other hotel's revenue manager] is gone for the weekend you can dump supply for the weekend and bring prices back up on Monday before they run their report. Another aspect is that you can easily see which hotels reacted to your price changes, so you know that [we] are in their compset, so their comparison group."
		Dynamic pricing	"Helsinki has had very stable prices in the last 10 years, especially as supply has increased during periods of growth. Of course, periodically events like Slush bring price levels up. Dynamic pricing has become the industry standard and because the market looks for its equilibrium, the price development has been modest." "During quiet times expensive hotels come on our turf. That's when we have to lower our prices so that even someone will come. So dynamic pricing brings some of the hotel capacity to our budget segment also."

	Changing due to differentiation	Existing competition	”For a long time, we didn't really have international hotel brands here. So overall, [Helsinki] has been a very Nordic market place. I would say the competition has been very homogenic and dominated by few chains. The industry has been consolidating also in Finland, and even continuing as Restel is selling its hotels to Scandic later this year. Only in the last few years have market players started to really think how to beat other hotels with just as good rooms.” "The mid-market segment offerings have always been strong. However, the upscale and low-end have been very narrow and thin. We've been glad that customers are willing to pay for higher quality and better service. The competitive landscape has become more diverse, although there is still room for more."
		New competition	"Recently there have been a few new operators, which have brought more healthy competition. Last year's October Clarion entered the market with 700 rooms, so supply increased by nearly 10% overnight. It's a fact that supply brings demand also, as the rest of us have had to improve and communicate our offerings better." "[The competitive environment] has been very stable and especially the budget segment remains under-developed. Besides temporary [price] visits from higher segments, we have seen some new entrants also outside the [traditional] industry. These sharing economy things like Airbnb landed some years ago to Helsinki. Although, they don't play a major role in Helsinki."
Industry challenges	Technology develops fast	Online sales channels becoming centralized	”OTAs are a big group of pests, but you have to work with them to get visibility among international travelers. The challenge is how do we get users to our own sites and pay less commissions to OTAs. Every hotel operator is facing this same issue.” "Naturally we are investing in our own digital channels so that we would have higher visibility on various channels. But well, it's an endless battle with Booking.com, Expedia and these. They are so large and can put more money on developing technology and marketing than any player can." "We want to benefit from online travel activity through our [OTA] partners, but of course we simultaneously see it as a threat that is growing. The challenge is how do we keep our customers loyal to us and serve them through our own channels. Corporate travel has also disembarked to this online-side, so we have to ensure that our direct contact with customers remains." "[Also] it limits our pricing quite much, because for example in the contracts of booking.com, it's said that you can't offer a cheaper price through your own channels."

			" *I must say that this is a perplexing industry in the sense that despite internet and its success, a large part of our [sales] comes through our own call and reservation centers.*"
		Outdated backend systems	"*When hotel backend systems (Property Management Systems) were developed in the 70's and 80's, no-one thought that they should be able to do the things we want them to do today. You just simply can't get the data out. It doesn't make sense to build a system on top of it, because it's so expensive and you're going to develop it more anyhow. You should blow up these systems and start from scratch, but no-one can do that.*" "*Large players are using the same operating system for their Property Management System, so that's the system where our inventory is stored. We then have our own infra that connects our PMS to those global channels. The challenge is that we are tied to the development cycle of the operating system owner and software house. This cycle is not developing as fast as our expectations. So, today you can book directly a seat on your flight, but for hotels you can't really book the room with the best view. The operating system is not really flexible and there is nothing we can do about it.*"
		Missing digital competencies	"*Perhaps the biggest problem is that the people in this industry who have used these backend systems are very analogical people, they don't necessarily adopt to new ways of working. We had a major organizational change recently and ended [many] of these roles to hire people with digital competencies.*"
	Hotels slow to react	Traditional industry	"*We are constantly developing, but I would say that we have accumulated knowledge over the years – we've had the same employees here for at least 25 years. Some of them have routines that are hard to develop, but when you read customer feedback we usually get appraised on our customer service.*" "*In the past concepts and services have been quite standardized, so now we as an industry are starting to foresee customer issues and develop empathy. Of course we still have these people who are not able realize that a granny that's struggling to get through the door needs help, but customer orientation is definitely moving in the right way. For example, some business hotels have ironing equipment in all rooms, luxury shampoos and so on.*"

		Consumer habits changing	"*Recently we have focused on ensuring our availability on multiple sites and of course on social media. We also see it important that our processes for booking and reserving are made as easy as possible for the customer. This is why we started offering Mobilepay and Paypal payment solutions to our customers.*" "*Travelers today use social media, whether it's TripAdvisor or something else. They want more and more experiences. [Customers] are looking for positive experiences that stand out from the mass.*" "*If you're a smaller boutique or lifestyle hotel, you have to be in the top 10 on TripAdvisor. Otherwise you're not going to survive. That's the first thing [customers] look – what's your ranking. It's a brutal game. It's not too hard to make it to the top of the list, but staying there year over year, that's the challenge*"
		Small organizations don't have resources	"*If you look at our big neighbors, they have poured tens of millions [into online sales channels] if not more. But we are also fighting back, trying to make our own agile and flexible, and work with limited resources in creative ways.*"

Internal factors influencing response

Theme	2nd order Coding	1st order Coding	Representative quotes
Internal/External orientation	Operative focus	Internal and external	"*We are an organization that focuses on internal operations – like improving customer service. But then of course we have sales, marketing and revenue management activities that monitor the external market. Our strategy team follows everything that happens on the market from big picture to daily changes in Helsinki. We are using all available online resources to make independent decisions in order to maximize our result.*
		Purely tactical and internal	"*Our cost structure doesn't allow us to have a revenue manager besides me. We have the basic revenue and channel management tools available. I'm getting some market insight reports to my email. We actively read customer feedback from various channels and try to react to these.*"

	Market intelligence	Mixed methods	*"Then the circles are quite small here in Helsinki, so I hear stuff from colleagues on what's happening in town or globally. We actively visit different networking events also."*
			"Our revenue manager follows prices and such on daily basis in real-time. We follow very closely news and social media, and share these within our organization. We also know what competitors' product looks like, as we have a system where our employees go and test them."
		Mainly systems	*"We monitor price and market developments through our revenue and channel management tools. We are not buying [any market reports] at the moment, so mainly public sources. – We have been a bit lazy on networking, although I go to them sometimes."*
	Reaction to Industry and digital trends	Active	*"Market change for us has meant that we've had to upgrade in every possible area. We have renovated, invested in our staff, our product and also into digitalization that relates to customer experience. We have renewed all our digital infrastructure. We have invested immensely in digital marketing and targeting it."*
			"Our reaction to digital trends was quite bad still few years ago. Now we have a new website and Wi-Fi in our rooms. Our revenue management function is able to react to price changes now."
		Passive	*"For a long time we had an old-school hotel executive in charge. Before we changed our CEO we were behind in quite many things, like in daily reactions and on big things as well. Now we are at good middle range."*
			"To give you an example, we have done a full refurbishment in this building quite recently. With different elements and lighting in this lounge, we've brought this to the 2020s. I think we succeeded well; we've also had some younger customers visit us now."

Organizational structure	Decision Making	Centralized	"*Decision making has been centralized to the group level. We look at the big picture when we set strategies and manage our portfolio. These are set for national and regional levels. The second level of strategy happens through dialogue with hotel directors.*"
		Decentralized	"It's ou*r CEO who prepares and decides our strategy together with our board. The CEO then executes the strategy with the team. Our board supports us very actively and we have dialogue on a weekly basis.*"
	Organizational agility	Active responders	"*Market change for us has meant that we've had to upgrade in every possible area. We have renovated, invested in our staff, our product and also into digitalization that relates to customer experience. We renewed all our digital infrastructure. We have invested immensely in digital marketing and targeting it.*"
			"*We are interested in everything that relates to technology, which could help improve our customer experience and lower prices for our customers…. [This industry] will move forward through digitalization and technology…. [A significant part] of our customers are mobile users.*" –Low-end organization
		Passive responders	"*We have set ourselves a strategic path and vision that we follow; everything else is just daily tactics. Then we review our performance on monthly, quarterly, semi-annual and yearly basis.*"
			"*As a large organization we of course follow the changes brought by digitalization, but in terms of operations and service concepts, not much has changed. If you think that this industry is 2000 years old, many principles are still the same. Over the long-term we might have to adopt to new ways of travel, but at this point it's not really the top priority.*"
			"*[Those] smaller and private hotels are more agile in developing and trying new stuff. But you have to remember that when you're in a large chain, you have certain standards in this market, so you can't dribble too much. We do simultaneous roll-outs when the time comes.*"

Perception of Airbnb	Positive viewpoints	Demand Generator	"*I'm not from the industry, so I see it very differently. Before I said about competition that supply increases demand. It's a fact that in cities where Airbnb is strong, the hotel industry is also doing extremely well. That just means that the destination is interesting and people come to explore it.*" "*[Airbnb] can be a good option and I think it's important that they are available. Some people might not come at all if that option wasn't available.*"
		Advances technology acceptance	"*Well, [Airbnb] uses technology to serve customers. I see that Airbnb disrupting the hotel industry just benefits [our hotel]. People start to realize that hey you can do things this way also. They are not spooked anymore that there is no reception service and things work even better.*"
		Product is good	"*We think that it's an interesting and good concept. They have succeeded in creating the user experience, which is not done easily. It was the third company that started to build such a site...*"
		Helps to absorb peak-capacity	"*Probably during some periods it also helps Helsinki. (Reference to YLE news story on Rovaniemi). When [Rovaniemi] is full during winter months [Airbnb] helps the town. It ensures larger industry revenues through extra capacity.*"
	Sympathetic viewpoints	Consumer movement	"*We have also talked about this Airbnb-phenomenon and I see that it is a kind of tribe thing. That you have that feeling of home and feeling of community. Today communities are very important.*"
		Resource efficiency	"*I think that this sharing economy, where you use spaces efficiently is amazing. And that you have this disruption happening and use of digital services to get access to things.*"
		Boredom of hotels	"*At some level much is said about the death of hotels. So the people who travel a lot for work – you change wallpapers – maybe you just get bored of all that.* "
	Unconcerned viewpoints	Scale small	"*I don't really see it as a concern. Probably that [Flow festival] comment was a bit far-fetched, because it's a busy weekend anyway. But yeah, I don't think Airbnb fights with hotels in Helsinki at the scale that we should be concerned.*"

		Customers choose us	”I'm not concerned. Whoever wants to go, can go. Of course we have those long-term residence profiles that might be eyeing those options. But some of them come to hotel, because they want the breakfast and the service. They don't want to do this stuff themselves. So, I think that there is still room for [all of] us.”
	Reserved or negative viewpoints	legal aspect	”Perhaps the largest concern is what the media has been also bring up, that how much is [tax evasion] occurring. What is the share of the black market when it is known that [Airbnb] sales are at quite large figures? Now in Helsinki it varies around €1.5M, even higher during some months.” ”It's so easy to do tax evasion in those. You don't have any bookkeeping or check-out system. If you stay at my place tomorrow, who is going to know about it?” "Yes, they should pay [the industry specific VAT] also. And also things like paying salaries for personnel. I'm guessing that not everything is always 'by the book'."
		Regulatory inequality	"Our concern over this time period has been that the market has new capacity that plays under different rules than traditional industry." "[This] new competition is not under the supervision of regulatory authorities that would ensure their compliance like the authorities do for us. This is when competition gets distorted, pricing gets distorted and it's always a hit for the industry."
		Consumer protection & safety	"Our business is based on service quality and safety. We have 24/7 safety guaranteed. No-one has a second key for our hotel rooms – safety is our main concern there. It's a bit different overall with this Airbnb."

		Accident Responsibility	"*As I was saying, it's also an issue of consumer safety. How are consumer rights protected if there is a dispute situation? Or who is responsible if there is a fire?*"
		Residential problems	"*Will there be some residential problems at some point, like in several metropolises. So professional entities grabbing apartments and influencing the lives of residents. Well, but that's still probably far ahead here.*" "*How are the housing associations going to react to increased number of unwanted visitors?*"
		Extreme viewpoints	"*What do you do in situations where [Airbnb hosts] rent out their spare room and some guests [start running suspicious activities] there. I bet the neighbors won't like that either*" "*Two scenarios will happen sooner or later. One is that [violent crime happens]. That's all it takes to finish that trend. You have no guarantee of safety. Another is that you have a group of people who destroy the place to the ground.*" "*I would never go to such a place, where I can't even be sure that the sheets have been changed or what's under the bed. With Marriot or Scandic, you always know what you're getting.*"
Airbnb impact on industry/ business	Industry level impacts	Less than expected	"*[Our industry] was afraid that it would show much more. It was good that Airbnb came when the market started growing. If it had come around 2007, there would have been an uproar. But now that we sell better than ever, it doesn't bother us. Next time when there is a downturn, we're going to make a fuss again.*"
		Seasonal	"*During Flow [festival] you can clearly see how Airbnb is flourishing and how it's clearly taken a share of business from hotels.*"
		Pricing	"*I don't think [Airbnb] has had any impact so far. It could be that it is influencing prices to some extent here on some single days or months. But I can't believe it would have a significant impact on a yearly level. There are individual cases – last July was one when demand dropped – demand was still quite good or decent. I would say*

			[prices] are still more driven by the larger chains and rapid changes in their expectations." –Low-end

"*[Airbnb] doesn't necessarily impact our overall pricing, but at the segment level it might. We have to examine at what price ranges family rooms and apartments are going for in the market. If there is 10% extra capacity on the market, then of course it impacts and that's a fact.*" |
| | Company level impact | No signals | *"I think it's more on the budget hotel or hostel side where it impacts. Well, I have heard that some of our corporate traveler customer has considered or even used this on their leisure time. But it doesn't really seem to be an option for our core business."* –Upscale hotel

"*Quite the contrary, demand for our product has grown immensely and we have nearly doubled our visitor numbers. I'm just glad that it's attracting visitors to Helsinki. No direct positive or negative influences from Airbnb per se, but I think it is part of the reason why.*" |
| | | Concealed | *"[Presence of Airbnb] can't be seen in the numbers, as at this moment there is over-demand. Of course if there wasn't Airbnb, we would have more customers. But those are mainly the adventurer types that might not come at all without Airbnb."* |
| | | Clear | *"We haven't had any signals that [Airbnb] has impacted us anyhow. Even if we probably are competitors to some extent. We haven't noticed any impact on demand, prices or any individual segments. But of course we don't get all the full information anyhow. I don't know how it is at a bigger scale."*

"*Of course [Airbnb] impacts our business. We are clearly losing business to these new areas. How much is this? We don't know, because no-one measures it, but if someone did that would help, so we could at least talk about real numbers.*" |

	Segment level impact	Leisure side	"We haven't noticed any impact on leisure side demand. Another possibility is that it's just being concealed as the market is growing, because of course leisure travelers also book these apartments."
		Corporate travelers	"I would say it was about few years ago, when one of our corporate travel segments started taking a hit. After taking a closer look, it turned out that some of our key clients had started using Airbnb. -- If you're staying a longer period of time [in Helsinki] and your family wants to visit, you have more space [by using Airbnb]. So it's clearly also those who need for a longer-term stay. Not all of those apartments are economical either, so I see it so that the customer wants something different. These days' people are also quite strict on what they eat, so they might want to prepare their own meals."
		Families in summer	
		Long-term residents	"I would say that [Airbnb] has quite certainly impacted us. The good thing is that the market is growing at the same time, but yeah of course we see it in some segments. Like long-term stays, families during the summer and such. It's also extremely hard to pinpoint, which segments are being affected. We know that our loyalty customers stayed with us on average 1 night less this year, but we might never find out what was the reason. [Airbnb] hits from all sides.
		Festivals	"We see [Impact from Airbnb] when there is some festival weekend like Flow. At those times our rooms are not anymore fully booked, because it's exactly those type of people who use Airbnb accommodation."
Monitoring Airbnb	Passive monitoring	Mainly news if at all	"[We have followed Airbnb] mainly through news. Like how it's developing globally. I haven't really followed what reactions there have been to it here in Helsinki. We have talked about Airbnb internally, but since our performance has been increasingly better we haven't looked further into that." "We don't follow Airbnb anyhow. No market reports either. Even our association Mara can't get numbers on Airbnb, because Airbnb doesn't provide them. We never talk about Airbnb in this firm. -- I'm taking part in the discussions at Mara"

	Irregular monitoring	…+ Airbnb website, market reports	*"We follow news from all players in the market, including Airbnb. When we do our strategy renewal, we might get a market report on Airbnb. Even though we don't see it as a direct competitor, we think it belongs on our 'to-follow list'. Apartment hotels are in the compset for some of our hotels, so we indirectly follow the preference for these types of products also."* *"We have mainly followed [Airbnb] as a trend, and of course know that it's here. During peak times we also follow their price levels. It's quite easy to see offerings from that side by going to booking.com – sometimes they are even at the hotels category! Of course, we can't get exact data on Airbnb, but we have an idea about it through the performance of commercial apartment hotels. Then have reviewed our key accounts and found out that some have been using Airbnb."*
	Semi-active monitoring	…+ close to real-time analytics	*"I follow it occasionally to have a big picture on [Airbnb] supply. Compared to hotels, the supply varies to some extent. You can clearly see that when there is a major happening, the supply also increases. I follow its development through Airdna.co website."* *"We have to compare at what levels are the prices of family apartments during the summer. If there is 10% extra capacity [due to Airbnb] then it of course impacts pricing – that's a fact."* *"This Airdna.co is a third-party website that somehow gathers information from Airbnb website. I have bought some reports from them. Here you can see daily rates, occupancy levels, daily sales, locations, type of offering, and then there is that growth – it's quite staggering."*
Market Dependence	Luxury and Lifestyle – upscale leisure and corporate	Customer overlap marginal	*"I don't see any overlap. There might be like one weekend a year, but even then we are anyways 100% full. Certainly there are foreign families that choose Airbnb over us, because they get more space for the same price….These are so different types of products. We are a full-service lifestyle hotel that offers an experience."* *"It shows quite little, because our product doesn't compete with theirs.*

			Well, except of course their luxury apartments, those compete with our long-term accommodation.” *“I have heard sometime that one of our corporate customers has considered using [Airbnb] or even used it in their free-time. But I don't really see it as an alternative to our core business. I think Airbnb users are quite young, so it's more linked to adventure and free-time travel that is decided in advance. Our travelers tend to come on a short-notice on the other hand and the target group is different.”*
	Hotel majors – diversified customer segments	Customer overlap diffused	*“The only overlap I see is where we have cottages. – Not [in the city center of Helsinki]. Maybe during weekends – work-people never go to Airbnb. It's the leisure and internationals that use those but nah I don't see that either. It might be some Finns, but I can't see which group that would be. If they want an Airbnb there must be a reason.”* *“Of course [Airbnb] impacts our business. We are clearly losing business to these new areas. How much is this? We don't know, because no-one measures it, but if someone did that would help, so we could at least talk about real numbers…. It's more the apartment hotel –type of accommodation service that competes more with Airbnb.”* *“Of course we see it in some segments. Like long-term stays, families during the summer and such. It's also extremely hard to pinpoint, which segments are being affected. We know that our loyalty customers stayed with us on average 1 night less this year, but we might never find out what was the reason. [Airbnb] hits from all sides.*
	Lower-mid – ideologically predisposed customers	Customer overlap – many similarities	*“Certainly to some extent [we have overlap with Airbnb]. Like us, they also try be different from hotels. Customers who don't want a structured product, are ready to try new concepts, and are price sensitive. In that sense there is overlap. -- The overlap is partial, I don't see that we are big competitors, but indirectly yes. There are seasons and days when we compete, and then those in which we don't.”*

			”There are similarities yeah. I see that Airbnb customers like ours are more active people, who research the accommodation options themselves and want to live more freely --. That is certainly one similarity, the kind of independent and self-organized travel.”
Perception on Outlook	Airbnb	(Positive) Growing consumer trend	”I think that [Airbnb] is going to grow and that more people will start using it. We have people at work who put their homes to Airbnb, so it will probably become a habit. This is based on what's happening in other cities. When [the travel industry] develops there will be these options available. As long as nothing bad happens, I think its share will grow.”
		(Neutral) Airbnb will face competition	”I think that Airbnb is going to have more competitors going forward, so they will try to renew themselves and have done so to some extent already. One problem for them is that these booking.com and hotels.com have entered the apartment business also quite strongly. On the other hand if they enter our channels, I think it would just level the playing field for us.”
		(Negative) Regulation will stop Airbnb	"[Airbnb's] operating model won't work after regulation sets in. You have to have permits and pay taxes. This is a land of permits. At least in Finland, running an Airbnb apartment will become expensive with all these inspections."
	Digital		"Digital development is going to continue every year; we are going towards online sales channels few percentage points a year. I think in the future a large share of this business will come from mobile."
			"OTAs will certainly have a dominant position also in the future, until someone new challenges them. Digitalization will also change consumer habits – reservation call centers will decrease in importance, as chat based customer service becomes more popular. Customer expectations on digital applications will also increase with Apple Pay and other services like that."

	Competitive	Market power	"The market position of OTAs will keep growing, But they will certainly face new entrants who develop better user-experiences and interfaces. That side of the industry will certainly grow."
		Consumer habits	- Global travel policies are also changing – companies like IBM and Google are examples of companies that have large volumes to Finland, and they allow their employees to use Airbnb. If we did start noticing our volumes going down, we would know a probable cause given these recently changed policies on corporate travel."
		Segmentation	"[The market] will experience stronger segmentation. There will always be room for traditional mid-market operators, but there will be increasingly different options available for all types of travelers." "So far, we've had [only the city center of Helsinki] where nearly all hotels are located. This will certainly change, as new centers in Pasila, Tikkurila and around the Helsinki-Vantaa Airport will emerge." "Finland is quite a small market and now that one hotel chain bought another, certainly the renewal momentum could be hindered. Industry development in Helsinki has been halted compared to other Nordic capitals, but there is good potential going forward."

Competitive responses and related answers

Theme	2nd order Coding	1st order Coding	Representative quotes
Competitive Response	Concentrated response	Considering a similar product concept, but gave up	" [Like Airbnb] we also believe in this residence type concept. We did try develop it to there at [that location], but it would have become too expensive. In a way, we are trying to take into consideration these 'long stay' facilities, where you can buy hotel services while being a bit apart and having privacy. But that's not really the budget segment anymore; I mean even Airbnb has those amazing luxury apartments."
		Strengthening communication about values products represent	"We have considered and clarified our own values that are our strengths, like communality. That's totally the opposite from the individualism that Airbnb represents…. I wouldn't say that it has become [as response to Airbnb], as we've had it for quite long, but in the past we didn't perhaps emphasize it enough. We've had to highlight its role as a differentiator especially because of this particular reason. Then other

			ones are of course sustainable consumption, saving money and these types of ideologies."
			"[One] important message that we have for our corporate customers is that we have more internal safety guidelines than what regulation or law requires…. [We] will certainly emphasize this safety aspect more in the future…. [When] we are talking about professional accommodation services, then there should be some regulation in place for these [Airbnb] multi-listing or superhosts. The government should get its hand on this, because when the first fire happens, [people] are going to wonder whose responsibility is it then…. [Because fires] occasionally happen even in ours and competitors' hotels when customers light up candles…. Talking about safety and other these types of things is one competitive advantage that hotels have."
		Lobbying	"The Airbnb related public discussion has been led by our industry association MARA and its CEO…. He, to a large extent, represents the standpoint of the whole industry…. It is desirable and wanted that our industry association is the one that deals with these issues. That is why such an organization exists. [Hotel chains] have their own representatives in the association."

"As I said, our counter-measures are at the side of our industry association that brings up the public discussion to unify regulation…. We do have our so-called representative at the association, whose job is to bring these concerns of ours to their attention. The association then does the measures that benefit this industry."

"Yes, Mara has been actively driving the public discussion [on Airbnb] throughout the years. It's even one of the annual strategic highlights."

"Mara as our industry association pushes for [Airbnb regulation]; we as a firm don't take a stance on this…. Yes, [some of our C-levels] have board and committee positions at MARA that take part in these discussions. So yes, in a way we do influence through MARA. The way I see it is that innovation today occurs at a speed that regulation is simply not able to keep up."

"Of course to some extent [the heavy industry regulation] is the reason [for lobbying against Airbnb]."

"I have been involved [in the lobbying effort against Airbnb through Mara]. I wanted them to reduce regulation for all of us."

Who drives the lobbying?

"I would guess that it's the big ones [that are behind in pushing for the regulation through Mara]. I don't really see that the small ones are interested at all. There is very little interest." |

			"I'm aware [of the lobbying efforts of Mara], but I haven't followed it that much. It's probably the major chains that did the initiative."

"Mara has actually been quite successful in their lobbying. They have successfully brought up several issues to the attention of the public and even achieved favorable decisions on some topics…. I don't really know how their decision making works, but I could imagine that there are very close ties to these big players."

"No, I think that [the initiative has come from the small players]. Mara is more the association of small operators. Even now we will be having this one meeting where all of us are going to vote against, even if it would be ok for us."

"I would say that that [the lobbying initiative] is led together with Mara and individual players. I think it's especially the smaller operators that are active in that, because there it certainly impacts more. And summer is of course the number one season for many individual hospitality entrepreneurs; If your town or village starts having this kind of ad hoc accommodation popping up it can be a big deal. If the market changes, then certainly the big players will also become more active. Many are probably thinking that there is plenty to share, so let [Airbnb] operate for now. The board of Mara defines the strategy and what is published on this. All the major chains are represented there, so in a way it's a common effort. But to be completely honest, our company hasn't been particularly active towards Mara in this." |
| | Soft response | Product and marketing related | "Well, we haven't had any direct responses…. Our plan is to play our own game. Of course we follow what's happening at the market and what people want and appreciate…. We shouldn't try to make our own product similar to Airbnb, because then we would lose everyone. We have to strengthen our own message, while listening to the consumer…. [For] us it has been more important to observe how [Airbnb] develops…. We think that it's an interesting and good concept. They have succeeded in creating the user experience, which is not done easily…. [We] have investigated it and seen how it works and develops."

"I don't think we've had any major responses. Whenever we start working on a hotel, then we also evaluate the growth and demand for this type of products…. In some hotels we do have kitchenettes and other special configurations, but we haven't really gone as far as to emphasize them too much."

"[When] you look at the tightening competitive situation, it's certainly true that your product and customer service need to be competitive…. [Our] industry is actively investing today and there have been new interesting concepts and brands that people want |

			to try out. They recognize them from their trips abroad…. I believe that it really culminates to the hotel's identity and how interesting story you're able to develop for your hotel concept."
		Online related	*"[We] haven't needed to really think about competitive forces against [Airbnb].... Maybe it's more on the side of how customers prefer to purchase their products and online channels, where it has helped us to develop on digital and that side of the business."*
		Extra services	*" No we haven't [considered any collaborative competitive responses against Airbnb]. Well, in one way you could think that it's easier to buy extra services from us…. [Our] role is quite important in that the customer's trip succeeds and that their expectations are met. With our extra services and service desk we are able to info or buy customers different kinds of tickets. So in that sense, we are able to compete with Airbnb and it's our strength."*
	No need for response	Small scale & there is space	*"We are not ignoring it, but it's currently at such small scale."* *"I would say that discussion [about Airbnb] has even calmed down over the last couple of years. There was a lot of discussions about it when it came out. At the time there was a fear that you would have more Airbnb apartments than hotel rooms, like in Barcelona. If we are talking about 1000-2000 Airbnb apartments in Helsinki, from which only some hundreds are active, then at the market of 9000 hotel rooms it's not much of a share."*
		Accident sensitivity	*"Just let [Airbnb] come and die…. It only needs a couple of accidents for it to finish…. These accidents will happen."*
		Don't see them as competitors	*"No we haven't [considered any competitive responses]. We haven't really considered them as our competitors. Our lowest prices could be more economical than what they might ask and if someone wants to go they can go…. There are always risks involved when you go to these Airbnb [apartments], as long as you don't have a safety or quality guarantee."* *"I don't really see the need to compete with them. If you compare Airbnb with hotels, you have two extremes. Airbnb uses digital systems and can do that effectively, but if you're talking about the bed and experience itself, it's quite different."*
		/Different target customer	*"I don't see [Airbnb] personally as problem and we don't talk about it in our company, because it's so different. They have two customer groups. The first one is those that want [the room] cheaply, but if you just want a room, we can compete with them in prices…. The other group is adventurous people who want to live like locals – these are totally different from our customers."*
		No need to experiment	*"Our company is not bringing any sub-brands to the market in the near-future. I believe that it's best to try them at the world's biggest metropolises first and get experience there."*