

## **Marketing capabilities for value creation in the short-term rental segment: an exploratory analysis of Airbnb**

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### **Abstract**

This study explores the role of marketing capabilities for value creation in the short-term rental sector, also in light of the degree of professionalization of hosts. The study integrates secondary quantitative and qualitative data generated from a set of 55 interviews. The results show strong differences between individual and professional hosts, identifying the development of marketing capabilities as the reason behind the latter's better performance. They include skills related to (i) data analysis; (ii) pricing policies; (iii) customer relationship management; and (iv) revenue management tools. In terms of academic implications, this article is in line with recent emerging evidence on the role of professionalization in short-term rentals and has a trait of originality in both method and content. Previous studies on Airbnb are in fact purely quantitative in nature, with a focus on identifying the determinants of the ability of professional hosts to outperform individual hosts. However, these studies do not explain why, which this is precisely the focus of this article.

### **Keywords**

Marketing capabilities, Airbnb, value creation, revenue management

## **1. HOSTS IN THE SHORT-TERM RENTALS BUSINESS: FEATURES AND LEVEL OF PROFESSIONALIZATION**

The strong rise of Airbnb has attracted attention to the listing concentration, exploring the professionalization degree, usually defined according to the number of listings managed. Some studies have considered other variables, such as experience (years of activity in the business), type of listings (professional hosts usually avoid renting shared rooms), year-round availability (longer for professional), “Superhost” status, or number of reviews (Deboosere et al., 2019). Only a few studies have introduced the idea of professionalization processes or degrees (Bosma, 2021).

The theoretical background of this study is the resource-based view of the firm (Barney, 1991) and the capability approach (Teece, 2007). Previous studies have identified some promising capabilities that a host can develop, ranging from the listing preparation to commercialization (Cocola-Gant et al., 2021). In this article, the focus is on revenue management capabilities (RMC) and in particular the ability of the professionalization degree to positively influence the creation of RMC:

- RQ 1: What are the main determinants of RMC regarding short-term rentals (STR)?

- RQ 2: Why are professional hosts more efficient at creating RMC than single-listing hosts?

Based on previous studies in the hospitality domain, the revenue management (RM) process can be segmented into four major components: i) identifying the required information to establish the RM strategy, ii) making strategic and then tactical pricing and RM decisions, iii) managing communication with the guests, and iv) making available software dedicated to RM.

The first activity focuses on the information necessary to set up RMC and includes, among others: i) data availability, ii) data analysis know-how, iii) benchmarking know-how, and iv) demand forecasting know-how. The *availability of data* can support the RM process, especially if they are well-organized and simple to accessed. Moreover, *data analysis know-how* has indeed been advocated as one of the most relevant skills for the entire RM process in the hospitality sector (Kimes, 2011). *Benchmarking know-how* includes identifying the most relevant competitors, examining their rates, and considering them during the RM process (Vives et al., 2018). Rates focus on future transactions and the future market conditions. This requires *demand forecasting know-how*.

Pricing formulation includes: i) dynamic pricing know-how, ii) revenue or price maximization, iii) multichannel ability, and iv) presence of a revenue manager. *Dynamic pricing know-how* improves listing revenue but also requires an adequate organizational structure and culture and cannot be considered costless. The third component focuses on managing and communicating with the guests. In this study we focus on i) ability to interact with potential clients and ii) reputation.

Finally, a coordination mechanism is introduced: the presence of *RM software*.

## 2. METHODOLOGY

Considering the explorative nature of this research, a mixed approach, based on archival data related to the destination and interviews, has been adopted. The purpose of quantitative data is to show the “why question” and in particular the differences between single and multi-listing host in managing price.

The city of Milan was selected for this study. In 2022 AirDNA database included almost 20,000 active hosts in Milan managing entire apartments/houses. The large majority are single hosts (15,758), but 163 hosts manage more than 20% of the whole Airbnb supply. There is a clear relation between the number of listings and the revenue per available night.

The qualitative analyses is driven by a protocol based on the four blocks previously presented and tested with several initial hosts. After small refinements, all the interviews were conducted. We adopted a polar approach to understand how professionalization can help the emergence of RMC (Eisenhardt, 1989). All the interviews were recorded, transcribed, and coded using NVIVO software.

To define the sample of interviewees, host segmentation has been based on the following variables: i) number of listings managed (Sainaghi & Baggio, 2021), ii)

price variability (Abrate et al., 2022), iii) revenue per available night (RevPAN) (Xie et al., 2019), iv) overall review rating, v) host response time (Gunter & Önder, 2018). The analyzed sample of interviewees includes 55 hosts and more than 650 listings. For simplicity, the professionalization degree was synthesized using the number of listings.

### 3. FINDINGS

#### 3.1. Information and data analysis skills

The code *data availability* shows that single hosts usually do not have a dedicated register with all past data; they use the repository offered by Airbnb but mostly for fiscal and administrative purposes. The opposite is true for medium and multiple hosts. “Although I have only been open for three years, I have an archive of reservations. It is also helping me to understand the seasonality of Milan and therefore to formulate the rates” (interview #27). *Data analysis know-how* is heterogeneous and extremely polarized. For multiple hosts, the data analysis process is simple, fast, and performed periodically with software. *Benchmarking know-how* is perceived as an important activity by single hosts during start-up. “I spent a lot of time on benchmarking activity during the start-up of my business. Currently, I dedicate about an hour a month” (interview #8). Multiple hosts declare the strategic relevance of benchmarking. Concerning *demand forecasting know-how*, Milan after Covid outbreak has registered growing demand and new consumer behavior patterns. Professional hosts mainly use software and the number of requests/reservations to predict demand. “To predict potential demand, I use price lab, a module of our RM software” (interview #42).

#### 3.2. Pricing and revenue management decisions

Single hosts tend to use one static *price* or just few classes of price. “For my apartment, I consider a price of €80 to be optimal” (interview #1). Medium hosts use also intertemporal price discrimination. “The prices of the apartments during the course of the year are differentiated mainly according to events” (interview #27). Multiple hosts enlarge price discrimination or adopt a dynamic pricing approach. “Every day I apply a different price. We do the same work that hotels do” (interview #42). Concerning *revenue or focus on price maximization*, single hosts are more oriented toward price. “For me, it is more important to have a high price than higher revenues” (interview #3). Some medium and especially multiple hosts showed a completely different approach. “When I don’t receive requests, I shift the price downward. Conversely, when it gets a lot of bookings, I try to raise the price. An empty room is always a ‘minus.’ I have to cover fixed costs, so it’s better to lower the price than to go empty” (interview #28).

Focusing on *multichannel ability*, single and medium hosts largely used only Airbnb “I only use Airbnb because it’s an effective channel, and they only ask for 3% of the

fee” (interview #1). Multiple hosts, by opposite, show a strong orientation toward multichannel ability. Medium and especially multiple hosts have created direct connections with their guests to skip, for repeaters, the use of commercial platforms and their related costs.

As far as *presence of a revenue manager*, only some multiple hosts had a revenue manager on their staff.

### 3.3. *Guest communication*

The *ability to interact* with potential clients is a crucial activity for Airbnb hosts. All the hosts usually respond very quickly to guests. Single hosts are usually enthusiastic to form a personal relationship with guests. Check-in and the interaction with guests are personally managed by the hosts, sometimes with the support of occasional collaborators. For multiple hosts interaction is mediated primarily by employees, collaborators, and technology. “We have digitized the entire check-in process thanks to digital locks” (interview #42). The different methods used by hosts to interact with guests appears disconnected with pricing strategy, but they play a crucial role. In fact, the presence of collaborators increases fixed costs and generates more focus on revenue rather than rates. By contrast, a well-organized staff allows acceptance of one- or two-night clients, increasing flexibility.

Regarding *reputation*, hosts consider reviews very important as they can support a rate increase. “As visibility increased, coupled with good reviews, I raised the price” (interview #27). The number of reviews is also important. Multiple hosts use reviews to identify problems and reported examples of improvements introduced.

### 3.4. *Revenue management software*

Single hosts largely do not use a software, while multiple hosts largely used it. Focusing on price, RM software support the activities described in the previous section, including data, benchmarking, demand forecasting, dynamic pricing, and multichannel selling.

## 4. CONCLUSIONS

This study explores the role of marketing capabilities for value creation in the short-term rental sector, in light of the degree of professionalization of hosts. Two theoretical contributions are proposed. First, the research adds to the knowledge about how RMC is created in the context of STR. The crucial role of professionalization is confirmed (Cocola-Gant et al., 2021) and a complex set of relationships emerge between tangible and cultural barriers to RMC. Second, findings can explain why quantitative studies have sometimes shown controversial results on factors affecting price and revenue performance since positive, negative and also insignificant correlations have been found between professionalization and price performance. Furthermore, the relevance of the multichannel approach considerably reduces the possibility of studying STR price using only Airbnb data.

As to practical implications, this study sheds light on the pricing formulations of both single and multiple hosts, supporting the revision of pricing strategy but also the evolutionary patterns implemented by hosts.

The study presents two main limitations. First, the “multiple hosts” group is not internally homogeneous, including property management companies and more “genuine” Airbnb hosts. Second, results are based on interviews from a single destination.

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