

Impacts of COVID-19 on the Hospitality Industry: Case Study of Airbnb's Response and Market Exit

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Abstract: This paper investigates the impact of the COVID-19 pandemic on the hospitality industry, with a specific focus on Airbnb as a case study. Through an in-depth analysis, this paper uncovers the disruptions and transformations experienced by the hospitality industry due to COVID-19. Examining the case of Airbnb sheds light on the complexities and vulnerabilities inherent in the sharing economy model. The study showcases the unique challenges Airbnb faces in the Chinese context and evaluates the effectiveness of the strategies employed to sustain operations. It provides valuable insights into Airbnb's decision-making processes and gives alternative solutions that could be helpful. By combining the findings from this case study, this paper offers practical assessments and recommendations for the future development of the hospitality industry. In conclusion, this paper provides a comprehensive examination of the impact of COVID-19 on the hospitality industry through the lens of Airbnb.

Keywords: hospitality industry, Airbnb, COVID-19

1. Introduction

The COVID-19 was first detected at the end of 2019. People who had it would experience fever, sore throat, and lung infection in serious cases. It is a new disease to the world; people were quickly reacting to it. The global spread of the COVID-19 pandemic has led to substantial restrictions on travel, causing great disruption in the hospitality industry. People have been required to strictly follow government regulations, isolating themselves in their homes and significantly reducing social interactions. These circumstances have undoubtedly greatly affected the tourism sector, which is closely connected to the hospitality field.

One of the most direct impacts of COVID-19 is on tourism. According to the data collected by World Tourism Organization, a worldwide travel breakdown occurred starting in mid-March 2020. This results in a significant decrease in the number of international tourists. Between January and May, there was a substantial 56% decline in arrivals, followed by a staggering 97% drop in April and a further 98% decrease in May 2020 [1].

The whole world had almost around 50% fewer tourists. Before the effective vaccination, the consequences of infection would be fatal. Air travel and tourists make up a large proportion of the transmission of the disease. As a result, based on Euro control's report in 2020, there was an 88% reduction in flight numbers during April compared to the previous year. In Europe, the tourism industry experienced a near-total standstill, as hotel occupancy plummeted by 85% year-on-year in April, despite

notable decreases in hotel prices, as reported by STR [2]. The impact of the pandemic extended beyond traditional hotels, affecting the short-term home rental market as well.

2. Case Background

The Covid-19 pandemic has profoundly affected various sectors, causing significant financial and physical repercussions. One industry that has been particularly devastated is the hospitality sector, and the specific case of Airbnb will be examined in this paper. Airbnb is a platform for exchanging resources. Joe Gebbia and Brian Chesky, the founders of Airbnb, initially struggled to pay their rental bills. In response to this challenge, they devised a plan to rent airbeds in their San Francisco apartment to individuals who had difficulty booking hotels, setting the price at \$80. This marked the inception of Airbnb's business model.

As they aimed to expand their business beyond the confines of their apartment, Joe Gebbia and Brian Chesky realized the necessity of establishing a broader network of rental properties and potential renters. To achieve this objective, they tapped into the opportunities presented by the 4th industrial revolution, characterized by digital transformation and smart technologies. With the assistance of Nathan Blecharczyk, the founders combined their ideas with Nathan's programming expertise, resulting in the collaborative development of a website that facilitated home-sharing between users. This innovative platform enables individuals with spare rooms to list their spaces, while potential renters can easily book them, establishing the foundation of Airbnb's success [3].

Nevertheless, Airbnb is currently confronted with a formidable challenge brought about by COVID-19. The tourism and hospitality industry has reached a standstill, resulting in significant market damage. Various factors need to be considered when assessing Airbnb's situation, both from a physical and psychological standpoint. Travel restrictions imposed by regulations have limited travel plans, leading to a substantial decrease in tourism. Consequently, the demand for rentals, hotels, and short-term accommodations has declined. The economy has experienced a severe contraction, twice as significant as the impact of typical economic shocks like cyclones, bushfires, earthquakes, or terrorist attacks [4]. With the economy no longer flourishing, people's income has decreased accordingly. This reduction in income is one of the primary causes of the decline in rental demand and rental prices. Another factor to consider is that individuals with poor health conditions or fear of contracting diseases may opt not to stay in Airbnb accommodations. This could be due to concerns about the cleanliness and health standards of the property owners, as, unlike hotels with professional cleaning teams and staff maintaining cleanliness daily, Airbnb listings often need strict cleanliness requirements [5].

3. The Effect of COVID on Airbnb in China

In January 2020, the Chinese authorities issued local travel warnings and restrictions. Overnight, bookings from China were canceled as the epidemic began to spread. In March, the United States implemented new international travel restrictions. During this period, many guests began requesting refunds for their bookings. In March, Airbnb's bookings in China plummeted by 96% compared to January, while the U.S. market saw an 80% decline. Due to the shutdown measures implemented across the United States due to the epidemic, Airbnb's business was virtually frozen in April, losing all short-term accommodation revenue. In early and mid-April, Airbnb secured two rounds of funding totaling \$1 billion, with interest rates of 9% and 11.5%, respectively, at a high cost [6]. This was largely due to the company's nonperforming assets, which led Airbnb, once a Silicon Valley unicorn and a globally recognized name, to be described overnight as a "struggling business".

On May 5th, Brian Chesky announced in a memo that significant layoffs would occur worldwide, with nearly 2,000 employees being let go, which accounts for a quarter of Airbnb's workforce. This

affects 7,500 employees in 24 countries. He also stated that the company is expected to incur a loss of \$1 billion in the first half of this year, with annual revenue being less than half of the previous year [7].

One key question revolves around whether Airbnb will go public in 2020. Considering factors such as addressing employee needs, handling the pandemic crisis, and competing in the market after the pandemic, Airbnb seems inclined to pursue an initial public offering (IPO) this year. Firstly, employees serve as the fundamental pillar of the company, and enabling them to benefit from equity is crucial for maintaining their motivation. Although the duration and impact of the pandemic crisis remain uncertain, the industry is undergoing significant changes amid the ongoing situation. Airbnb and its rivals view the post-pandemic market as a realm of increased opportunities, with sufficient funding as a vital impetus.

4. Strategies to Address the Impact

Undoubtedly, the COVID-19 pandemic and the near halt of the tourism industry have brought about fundamental shifts for Airbnb. To address the substantial losses resulting from numerous cancellations and support landlords who rely on rental income to cover their mortgages, Airbnb has established a dedicated fund of \$250 million to compensate hosts [8]. They recognize that hosts and their listings are the bedrock of Airbnb's business, and ensuring their well-being and sustaining this foundation will be crucial for recovery during and after the pandemic.

Airbnb has ceased marketing activities and halted recruitment, implementing measures such as founders foregoing salaries and executives taking a 50% pay cut to reduce expenses. Additionally, they have adjusted their strategic approach by shifting their focus toward the long-term accommodation market. Leveraging their large user base, they aim to provide a wider range of destination travel products and services, enhance user engagement through personalized offerings and comprehensive services, and generate increased operational revenue [6].

Airbnb has also published new guidelines regarding the pandemic situation. For example, their recent introduction of the cleaning guidelines program instills a sense of safety for guests when they return to their accommodations. They are also highly cooperating with local governments to ensure the safety of travelers and residents. For instance, people are required to wear masks, keep social distancing, and there are now higher standards of cleaning teams to sanitize and tidy the room.

Moreover, in response to the travel disruptions caused by the COVID-19 pandemic, Airbnb introduced a revised cancellation policy to provide flexibility to residents and travelers. Detailed information and guidance about specific circumstances can be easily accessed on Airbnb's official website. For instance, individuals infected with COVID-19 can cancel their bookings and receive a complete refund. Additionally, considering the restrictions imposed by governmental authorities on travel, provisions for refunds and cancellations were also made available. By implementing these updated policies, Airbnb successfully safeguarded the interests of travelers and hosts, mitigating potential financial losses resulting from the COVID-19 pandemic.

However, this also means that the pressure and the consequences have all led to Airbnb. They are now responsible and taking care of the loss. According to the official data, Airbnb's revenue in Beijing dropped by 43% in March 2020 compared to March 2019, and its occupancy rate was lower than 10% [9]. Nevertheless, Airbnb was still trying to cover up for the customers and had published the Ten Commitments as follows.

Airbnb China's Ten Commitments to support its host community: Refund Hubei hosts' service fees; Provide resource support and financial compensation; Give priority to helping "heart-warming hosts"; Empower landlords for long-term growth; Strengthen various types of host training; Reward the host community; Extend the time for free cancellation; Fully match employee donations; Care for front-line pandemic professionals; Strengthen the development of Chinese communities [7].

From the Ten Commitments, it is evident that Airbnb prioritizes mitigating the pandemic's impact over maximizing its profits. Despite their sincere efforts, the outcome did not yield favorable results; on the contrary, the situation worsened.

On the 30th of January 2021, Peng Tao, who had served as the Chief Executive Officer of Airbnb China for three years, announced his resignation. Xiao Jinhong, the Chief Operating Officer of Airbnb China, took full responsibility for the daily operations and management of Airbnb's business in China. The position of CEO of Airbnb China has remained vacant until now. Referring to Airbnb's 2021 financial report, it can be noted that there were indications of Airbnb's intention to exit from China. It mentioned that Airbnb would invest more in its operations in China, but it might fail to achieve profitability or gain a larger market share. They also pointed out, "We do see a relative recovery in the Asian region in the first quarter compared to the fourth quarter of 2021, but not the Chinese market" [10].

Another aspect that has led to Airbnb's failure in the Chinese market is the need for more cultural embeddedness. Airbnb has yet to be successful into China. Up until October 2021, other short-term rental companies in China, such as Tujia with 2,300,000 listings, Xiaozhu with over 800,000 listings, Meituan with 700,000 listings, and Muniiao with 13,500,000 listings, have surpassed Airbnb, which only has 150,000 listings, making it the least among all other companies [11].

5. Potential Suggestions

Firstly, Airbnb should focus on targeting younger travelers, particularly those born in the 1980s and 1990s, as they will significantly influence the Chinese travel market. Understanding and catering to their unique needs and preferences, such as independent travel and meaningful experiences, will strengthen Airbnb's competitive position.

Secondly, Airbnb should expand its business into the countryside and integrate its offerings with rural tourism to increase supply in the post-pandemic period. Tujia's success with its countryside accommodation business highlights the potential for rural lodging, especially considering the growing demand for accessible natural and rural destinations. For example, Tujia's countryside accommodation business grew 300% in 2018 and another 200% in 2019, generating RMB 500 million in 2018 and RMB 550 million in 2019 for Minsu hosts [12]. In 2019, Tujia had 70,000 countryside Minsu listings, many catering to high-end customers with high turnouts. Additionally, Airbnb should further enhance the host and guest experiences. Strengthening host community development and providing value-added services to guests, such as pick-up and drop-off services, can improve loyalty and attract more hosts and guests to the platform.

Collaboration through mergers and acquisitions is another strategy Airbnb could consider after its initial public offering. Teaming up with or acquiring local players with growth potential can facilitate Airbnb's localization efforts in China and help it effectively reach properties and domestic tourists. However, Airbnb needs to navigate the challenge of integrating local resources and strengths with its original ethos of peer-to-peer accommodation offered by community members. This is particularly significant as the Chinese Minsu business is undergoing a trend of monopolization through mergers and acquisitions [7]. Overall, these observations provide insights into areas where Airbnb can focus its efforts and strategies to improve its position in the Chinese market in the post-pandemic era.

Despite all efforts made by Airbnb, it still decided to exit the Chinese market at the end of 2022. The impact of COVID-19 eventually led to Airbnb's decision. However, this does not mean they are giving up on the Chinese market. They are not changing their focus on the abroad markets for Chinese travelers. Brian Chesky expresses his thoughts: "The concept of travel as we know it has ended. But that doesn't mean travel is over; it just means travel will no longer be how we used to know it. The destinations people choose to visit will be redistributed" [6]. He believes that the emerging trend is that "rather than the global population traveling to a few cities and staying in major tourist attractions,

the future will see a redistribution of travel destinations, with people engaging in local community-based tourism on a large scale. This is a very important trend, and we must collaborate with cities worldwide to facilitate this transformation responsibly. Airbnb has already begun collaborating with dozens of tourism organizations and bureaus to assist them in welcoming travelers again [6]. Airbnb is experiencing a downturn and working hard to restore and recover its original operations. They believe that new opportunities also come with the challenge of COVID-19.

6. Conclusion

The COVID-19 pandemic has profoundly impacted humanity, prompting significant adjustments in our lives in the post-pandemic era. Various industries have experienced varying degrees of disruption. This paper examines the hospitality industry, with Airbnb as a case study. The short-term rental market has witnessed a sharp decline in demand, and Airbnb has faced considerable challenges and taken responsibility for navigating this crisis.

Throughout this period, Airbnb has implemented diverse strategies to mitigate losses and protect the rights of both hosts and guests. These strategies include developing specific policies in response to COVID-19, implementing a free cancellation policy, facilitating returns and refunds, enhancing customer service, and providing assistance through their website help page. Additionally, they have published commitments in the Chinese market, aiming to overcome the challenges while maintaining their market share. However, these efforts proved ineffective, ultimately leading to their exit from the Chinese market.

The underlying reasons for this outcome can be attributed to a lack of cultural embeddedness and intense competition in the market. Other rental companies swiftly gained advantages and captured a significant market share. Despite Airbnb's attempts to target the younger generation, focus on rural areas, and collaborate with other companies, they were unable to succeed. This serves as a valuable lesson not only for the hospitality industry but also for other sectors. In the face of challenges, even when efforts have been made and the desired outcome is not achieved, it is crucial to explore alternative paths that can bring about more favorable results. It is important to note that exiting the Chinese market does not signify a complete loss for Airbnb. They have redirected their focus towards markets in other parts of the world while continuing to serve Chinese customers through alternative means. Challenges often bring new opportunities, and seeing Airbnb's future endeavors will be intriguing.

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