Level playing fields and the sharing economy

Definitions

Level Playing Field: “A situation in which everyone has a fair and equal chance of succeeding” (OED)

Sharing Economy: The Sharing Economy (sometimes also referred to as the peer-to-peer economy, mesh, collaborative economy, collaborative consumption) is a socio-economic ecosystem built around the sharing of human and physical assets. It includes the shared creation, production, distribution, trade and consumption of goods and services by different people and organizations. These systems take a variety of forms, often leveraging information technology to empower individuals, corporations, non-profits and government with information that enables distribution, sharing and reuse of excess capacity in goods and services.[1] A common premise is that when information about goods is shared, the value of those goods may increase, for the business, for individuals, and for the community.[2] [http://en.wikipedia.org/wiki/Sharing_economy](http://en.wikipedia.org/wiki/Sharing_economy)

See also


Overview of the problem

There has been much discussion in the media and public arena generally, and within the tourism industry specifically, about the sharing economy. Two high profile examples of businesses in the sharing economy are Airbnb and Uber, both of which are active in the tourism space – accommodation and car hire respectively. A further example is the rise in Freedom Camping, which increasingly competes with commercial caravan parks.

Understandably, existing businesses in these sectors have come out strongly against these two companies and the business models on which they are based. Early in VTIC’s discussions on this issue, the following areas of concern were identified specifically in relation to Airbnb; however the principles could also apply to other operators in the sharing economy:

- **Safety and Compliance:** The type of service facilitated by Airbnb means that many properties offered on the website do not comply with local and state health and safety requirements such as hygiene standards, food safety, fire safety, and building codes. This in turn potentially compromises the safety and well-being of the consumer using the service. Of course there are also risks to Airbnb hosts; there are always general safety concerns when connecting with strangers over the internet.
• **Impact on visitor experience:** The unregulated nature of the service offered by Airbnb means the quality of the visitor experience could be compromised.

• **Impact on government tax revenues:** Being unregistered and therefore unregulated, the rooms let via Airbnb do not contribute to government revenues otherwise raised through taxation levied on traditional commercial accommodation providers, GST being one example.

By not complying with the regulations required of ‘traditional’ accommodation and hire car/taxi service providers, the likes of Airbnb and Uber are able to charge much lower prices and this competes directly with traditional operators. Concerns have also been expressed in industry forums that there will be a race to the bottom, in terms of pricing and service levels, which will be to the detriment of the visitor experience and the tourism industry broadly.

It is important to note that whilst Airbnb has been in the spotlight of late, the issue of unregulated accommodation establishments has been around for a long time and must be addressed across all sectors of the accommodation industry. For example, so-called illegal backpacker hostels have, for a long time, flouted the laws relating to prescribed accommodation. Regular reports from industry and in the media of unsafe, illegal, and often overcrowded accommodation – particularly in relation to hostels and farms hosting Working Holiday Makers (WHMs) – indicate that there is a lack of enforcement and little incentive for compliance.

Problems with the Airbnb service, both from consumers and hosts, are well documented on the Internet, as are the numerous legal actions taken against the company by hotelier groups and local governments around the world. These provide some good insights into approaches taken in other jurisdictions and how effective these have been.

Though not strictly speaking a sharing economy model, Freedom Camping is nevertheless another example of a service operating in direct competition with existing ‘traditional’ providers, without having to comply with the same raft of regulations. Freedom Camping refers to the provision of free camping sites by local Councils in response to older consumers who have paid for fully or partially self-contained vehicles, who do not want to pay to stay in commercial caravan parks or other regulated sites.

The Caravan Park industry is heavily regulated in accordance with the Victorian Caravan Park Regulations, which prescribe substantial compliance requirements for fire safety equipment, water, sanitation and amenities provisions, electrical safety provisions, etc. Councils that endorse free camping sites, or ignore existing by-laws that prevent the use of local areas for free camping, are in breach of their own regulations, and operate the free parks with very few of the compliance costs mentioned above. This presents a real threat to the viability of existing businesses.

Industry research shows that for many caravan parks the loss of income to free camp-sites could reduce financial viability to a significant level which might ultimately end in closure. This would reduce the range of accommodation options to encourage more family-based tourism – the fastest growing market in this sector.

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Assessment

Is this issue a priority? Yes.

- Tourism has been identified in Deloitte’s report “Positioning for Prosperity: Catching the next wave” as one of the Fantastic Five sectors for growth.
- In the period between 1997–98 and 2011–12 tourism’s contribution to Australian GDP was $87.3 billion, or 5.9 per cent share of the Australian economy\(^1\).
- Airbnb and Uber have market capitalisations valued at around $10bn\(^v\) – they are big, rapidly growing businesses which present serious competition in their sectors, as well as raising issues of regulatory compliance and enforcement on a scale that cannot be ignored.
- There is a growing need to ensure that regulatory reform keeps pace with technological advances and consumer trends which result in a rapidly changing business environment.
- As well as threatening the viability of local businesses, Freedom Camping also results in diminished economic contribution to local communities. Industry research indicates that visitors to caravan parks generate more than three times more retail expenditure in to the local economy than free campers, and that the caravan park itself ploughs $1.38 back into the local economy for every $1 it generates in fees and sales.

Is it government’s job? In part, yes.

The fundamental issue from the perspective of traditional operators is that Airbnb, Uber and illegal backpacker hostels all operate outside of the existing regulatory framework. In the case of Freedom Camping, local Councils (regulators) are effectively competing with the local businesses they are supposed to regulate. If there is insufficient or no enforcement of the regulations, then this is an issue for government. If the existing regulations or legislation are inadequate, then this is an issue for government.

In addressing this problem there are some key questions for regulators and industry alike to consider:

- Are there clearly identified breaches of legislation and regulation with regards to the operations of businesses such as Airbnb and Uber?
- Is it reasonable for regulators to also act as operators?
- If so, are these being addressed with correct and timely enforcement of existing regulations?
- If not, why not?
- Are changes to existing legislation and regulation required? Is new legislation or regulation required?
- Is there harm in doing so?
- Is there harm in maintaining the status quo?

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Is the problem serious enough to justify government intervention? The tourism industry thinks so.

It is the usual conundrum of how to police those operating outside a regulatory framework – if operators are not registered, how can they be found in order to enforce compliance? In the case of Uber, in May 2014 representatives of Victoria’s Taxi Services Commission used the Uber app to take rides, thus identifying drivers in order to issue fines. Airbnb operators could be identified via the website; however the real challenge is the rapid growth of these businesses. Founded in August 2008, Airbnb now operates in more than 34,000 cities and 190 countries, with over 800,000 listings worldwide.

Freedom Camping has been endorsed by some local Councils in Victoria, despite vigorous opposition by tourism businesses and organisations, including VTIC. The resulting situation, where the regulator becomes a service provider competing with other local businesses, is unsatisfactory and undesirable.

Will intervention work? Maybe.

It is highly unusual for a business sector to call for stronger or greater regulations and it is incumbent on the tourism industry to ask itself, “Is this what the industry really wants?”

In the instances of “Airbnb v the traditional accommodation sector”, “illegal hostels v compliant accommodation” and “Uber v the taxi and hire car industry” it is clear that the existing regulations are not being properly enforced. If this continues, then intervention through legislative or regulatory reform should be considered.

Dealing with newcomers and game changers

There are many ways in which challenges from new competitors can be countered or overcome – in tourism it is typically through:

- provision of a better quality of service; or
- a differentiated, personalised or packaged product or experience;
- through identifying new markets; or
- working to ensure customer loyalty to one’s business.

It is important to remember that competition is an essential part of a healthy, functioning business environment.

However, it is different when not everyone plays by the same rules and one has to ask, in the new sharing economy, are we even playing the same game? Services such as those offered by Airbnb and Uber have emerged in part in response to an identified gap in the existing offerings in their respective sectors. Moreover, the business models on which they operate are vastly different to the traditional proponents in their sectors.

Clearly, consumer demands and desires are changing rapidly and the popularity of a service like Airbnb demonstrates that it truly resonates with travellers. A cursory glance at blogs and forums on the topic of Uber versus taxis reveals huge consumer dissatisfaction with the taxi industry service

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and genuine enthusiasm for an alternative service that is cheaper, friendly and more readily available when required.

From a broader tourism industry and visitor economy perspective, it is clear that these businesses in the sharing economy are filling consumer demand for more affordable and flexible accommodation and transport services. For those in the tourism industry, but outside the accommodation and taxi sectors, anything that encourages more people to travel, and allows them some extra spending money, is probably viewed as a good thing.

Indeed the events sector is one that could greatly benefit from the services offered by both Airbnb and Uber. At the recent Victorian Tourism Conference in Geelong, in a panel session on staging major concerts at Hanging Rock, it was noted that there are around 2,000 beds in Macedon Ranges Shire; but that for one concert alone, there were more than 17,000 attendees. Once all the traditional hotels, motels and BnBs are full, what are the alternatives? If demand for accommodation in the area is deemed insufficient, or too inconsistent, to warrant significant large-scale investment, then Airbnb is arguably a reasonable option, at least from a visitor’s or an event planner’s perspective.

Or, take the example of the 2012 Australian Open Tennis men’s final match which went for a record-breaking 5 hours and 53 minutes and finished in the early hours of the morning, when public transport services do not run and taxis can be scarce. It was unfortunate that many tennis fans who had just witnessed a thrilling match ended their night with a long and frustrating wait for transport home. It’s not hard to imagine that Uber, had it been in Melbourne then, would have been able to provide an alternative transport service at the time required, at the touch of an app.

VTIC’s position

It is short-sighted to dismiss out of hand either Airbnb or Uber, or any others like them. The services and products they offer have a strong consumer following and both are here to stay for the foreseeable future. However the concerns around visitor safety and visitor experience remain.

It is for these reasons that VTIC seeks not to sideline these major players in the sharing economy, but to review the rules of the game, and even the state of the playing field, to ensure that we maintain a strong and profitable tourism industry that provides an outstanding experience for every visitor to Victoria. This also means working with the traditional players in the sectors to innovate to meet rapidly changing consumer needs and expectations.

Where to from here?

a) Level playing field:
VTIC believes that fast-growing, tech-based business models present significant challenges to the business sector and to lawmakers and regulators alike. We will explore the potential for this topic to be the subject of an inquiry by the Victorian Competition and Efficiency Commission (VCEC).

b) Freedom Camping:

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VTIC supports VicParks position on Freedom Camping. VicParks recommends that Councils should not provide free camp sites within, say, a 30km distance from a commercial caravan park that pays rates to the Council as a commercial business and has to meet high overheads and compliance costs. VTIC, together with the Caravan Parks Association of Victoria (VicParks) met with the VCEC in August 2014 to determine whether there was a case to pursue under the Competitive Neutrality policy. It was determined that it did not meet the required tests to form a breach of Competitive Neutrality. VTIC and VicParks are considering other avenues to address this situation.

Endnotes

1 What is Airbnb?

Airbnb defines itself as a “social website that connects people who have space to spare with those who are looking for a place to stay”.

By industry practice it equates to an OTA or booking engine in style and seemingly focusses and attracts micro accommodation providers covering many traditional styles but also simply free bed space (being the original concept). There are however providers who list multiple accommodation options. Operators are able to act on a booking enquiry option or a book now option.

They charge guests a 9-12% service fee every time a reservation is booked, depending on the length of the reservation, and they charge hosts a 3% service fee to cover the cost of processing payments. The end result in service costs is comparable to traditional OTA’s fees towards the lower end of the cost structure for such services.

As at May 2013 there were 8200 listings in Australia with anticipation of reaching 13,000 by December 2013 at that point. No current statistics are readily available and Airbnb have not responded to requests. Further a profile of the listings is not readily available; therefore a quantified understanding of the listing profile is not possible at this stage.

Airbnb’s business model currently operates with minimal regulatory controls. There is however a two way feedback mechanism and guidance for hosts and guests. It is noted that forums have referenced dissatisfaction with the management of the feedback mechanism.

The site lists accommodation under three primary types:

1. “Entire place” – basically a holiday home or unit generally
2. “Private Room” – similar to B & B style accommodation
3. “Shared room” – similar concept / style to a sort of private backpacker accommodation

Listed properties / hosts have the option to designate a property type / sector with the primary options being apartment, house and Bed and Breakfast. There are a large number of further options in this regard listing most sectors but which do not include hotels or serviced apartments. (Source: Accommodation Association of Australia)

http://www.hotelnewsnow.com/Article/14036/Spains-hoteliers-urge-action-against-Airbnb
http://therealdeal.com/blog/2013/08/19/hotels-seek-to-file-class-action-lawsuit-against-airbnb/