APPETITE FOR DISRUPTION

BY PAUL CULLUM

From its origins in mid-90s academic business theory, "disruptive technology" has become an inescapable buzz phrase in any discussion of modern commerce and the so-called sharing economy.

While those who embrace the Internet and its seismic anarchy see burgeoning juggernauts such as Airbnb, Lyft, Uber and the like as plucky upstarts, tilting at corporate windmills until their whole rigged infrastructure topples and crashes to earth, others see them as an all-out assault on order, tradition, civility, government regulations and organized labor, if not capitalism itself.

In the March **TechCrunch.com** article "The Battle is for the Customer Interface," Tom Goodwin, senior vice president of strategy and innovation at Havas Media, summarized the sea change accordingly: "Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate. Something interesting is happening."

The concept of disruptive technologies is credited to Clayton Christensen, a Harvard professor who coined the term in his 1995 *Harvard Business Review* article "Disruptive Technologies: Catching the Wave" (co-written with Joseph Bower), and expanded two years later in the book *The Innovator's Dilemma*. Disruptive technologies (later modified to "disruptive innovations") have historically been those businesses that attract untapped consumer markets by inventing new efficiencies—often at the expense of established business models, regulatory safeguards and labor dynamics.

"I'm personally uncomfortable with the way these companies have been described as the sharing economy, because they do no such thing," Goodwin says. "They are businesses that are matching people-who-provide with people-who-want… And if there's a burden on existing, incumbent companies to tax people, or [comply with] health and safety regulations, then we're at an unfortunate moment in time where government isn't able to catch up with that."

CONVENTIONAL WISDOM

Founded in San Francisco in August 2008, Airbnb (or by extension, other peer-to-peer property rental companies such as Wimdu, Roomorama, 9Flats, Couchsurfing and Afterkeys) is part concierge, part stockbroker—matching savvy traveler to short-term rental with laser-like precision, according to customized need, while balanced on the fulcrum of the Internet and its proprietary algorithms. Uber is a crowd-sourced taxi service (competitor Lyft identifies itself more strongly as a ride-share service) with a sleek, streamlined phone app as its hyper-attentive dispatcher.

But as with the discovery of electricity or the invention of the internal combustion engine, integrating such ease and elegance into polite society didn't come without a few bumps in the road.

Airbnb horror stories are thick in the anecdotal record: There are wild tales of rentals being burglarized by guests or damaged to the tune of thousands of dollars, of inadvertently hosting drug addicts, prostitutes and, in at least one case, a full-blown orgy. Guests report mouse droppings, roaches, bed bugs, expired food, ongoing construction, flooding and barking dogs—all in a single TV ad from the New York-based **ShareBetter.org**, a putative consortium of politicians and tenants' rights activists.

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contact the renter
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taxi service
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Lyft defines itself more strongly as a ride-share app

EDITOR'S NOTE:
SORRY FOR THE, AHEM,
DISRUPTION. LET'S TRY
THIS AGAIN.

An April 2014 statement by the American Hotel and Lodging Association announced an initiative to "highlight the bad, unfair and in some cases unlawful business practices employed by short-term online rental companies and the lack of parity between safety, security, tax and other requirements." As a result of public backlash, Airbnb initiated numerous changes, including a 2011 "Host Guarantee" that insures property damage up to US$50,000, stringent identity verification measures (some of which have met with their own criticisms for being excessive) and high-profile relief efforts such as providing victims of Hurricane Sandy with temporary shelter.

Founded a year later, also in San Francisco, Uber seems to have taken this possibility for controversy to a whole new level, beginning with its use of surge or predatory pricing, an algorithm-driven policy that allows demand to dictate cost, most noticeably during holidays, rush hour, inclement weather, emergencies and natural disasters. This reached its zenith during Hurricane Sandy in 2012 when prices doubled, and later during a 2014 hostage crisis in Sydney, Australia, where minimum fares increased by 400 percent. Although Uber ultimately waived its fees during those incidents and refunded overages in the latter, the policy—which the company attempted to patent in 2013—remains a cornerstone of its business.

Beyond the anecdotal reports of traffic fatalities, sexual assaults and unsafe drivers, Uber has been sued by taxi drivers in multiple cities for allegedly operating without an appropriate license; the National Federation of the Blind for violating the Americans with Disabilities Act; and its own drivers for stealing their tip money. The company's response to such public outcry has often been that its drivers were independent contractors, and thus their behavior beyond its purview. And a widely reported organized campaign of ordering and canceling rides from its competitors—more than 5,000 from Lyft alone—provoked **Salon.com** columnist Andrew Leonard to write, "There's little doubt that Uber is the closest thing we've got today to the living, breathing essence of unrestrained capitalism… This is how robber barons play."

(As of press time, requests for comments from Airbnb and Uber have gone unanswered.)

"I think these companies are more like insurgents than they are companies," Goodwin says. "They've kind of hacked their way into these business environments where they've been able to disregard traditional rules, and therefore I think there is a duty of care for people to make sure that health and safety and other guidelines are being administered. We assume that when we're staying in someone's Airbnb or being driven around by an Uber [vehicle] that somehow, someone somewhere has looked after our interests. And I don't actually think that's the case."

Airbnb, Lyft and Uber have all started business divisions within the past year, and for the first time in their billion-dollar valuations, they're forced to put on a coat and tie and go chasing after the grown-up market. The Airbnb Business Travel program offers direct billing and automated expense reports to save business travelers time, and its variety of accommodations offers price and location options for event attendees. Lyft for Work and Uber for Business offer travel vouchers for commuting or business travel, direct corporate billing and account oversight, group transportation to and from the airport or offsite at events and a host of customized options. All seem to still be negotiating the learning curve and eager for partnerships.

The Global Business Travel Association (GBTA), comprising travel management professionals across a broad spectrum of industry, conducted a recent webinar for its members titled "Shared Economy Risk: What You Need to Know." The 60-minute presentation variously counseled that peer-to-peer car sharing is often no cheaper than traditional transportation sources, drivers may not have been trained or vetted and hidden costs such as surge pricing may lay in wait for the unwary traveler. It also questioned emergency response options at private residences, and noted that hotel employees have mortgages to pay just like shared economy entrepreneurs. However, it expended most of its cautionary concern on private airline companies.

GBTA Executive Director and COO Michael W. McCormick says, "Our industry was built on innovation. But as an industry, we must work together to understand all of the risks and benefits as part of a total end-to-end impact evaluation. At the end of the day, the company still pays the bill and is responsible for the safety of their travelers while on the job."

BETWEEN MARKET AND MISSION

San Francisco, the incubator in which these young businesses were hatched, may be the civic entity that ultimately wrangles and domesticates them for civilized consumption.

Carlee Duncan, CMP (MPI Northern California Chapter), meeting and events manager for the American Academy of Ophthalmology, observes that Airbnb "essentially cannibalizes" the accepted practice of booking hotel rooms in blocks in order to leverage concessions from the hotel, by allowing attendees independent options and thus leaving the planner to face liability for the unclaimed rooms.

"Those meeting professionals within San Francisco don't utilize Airbnb or necessarily promote it because, depending on how your contracts are written, you face attrition issues," she says. Duncan reports positive experiences with Uber, and appreciates the flexibility they provide, although she has faced skepticism on the part of higher-ups over perceived "liability issues." But those perceptions may be about to change.

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— Tom Goodwin
Havas Media

Joe D'Alessandro (MPI Northern California Chapter), president and CEO of the San Francisco Travel Association, argues that the city's unusually high hotel occupancy rate—85 percent last year—means that Airbnb is in a perfect position to handle the overflow, much as Lyft and Uber were willed into

being to solve the taxi shortage that plagued the city up until two years ago. He compares it to the just-announced partnership with the 2016 Summer Olympics in Rio de Janeiro whereby Airbnb will provide 20,000 rooms, essentially making that event possible.

"Airbnb provides a credible alternative," he says. "It will never replace the hotels. The very nature of a hotel is being the headquarters, the energy source and point zero of that meeting, so it's important for people to be there. All your colleagues or people you want to network with are going to be staying there. But it's an additional opportunity. What we're finding is that a lot of younger people who have a tradition of vacationing with Airbnb or similar companies may actually prefer it because it may fit their style a little more."

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The so-called Airbnb Law, passed in October 2014, one of the first such U.S. laws, legalized short-term rentals as long as hosts live full-time on premises, restrict their rentals to 90 days a year, pay a $50 fee and the standard hotel tax rate of 14 percent and register in-person with the city's planning department.

In February, **Starwood Hotels & Resorts and Uber announced a landmark partnership** in which members of the Starwood Preferred Guest program receive points for using the car service.

"We welcomed these entities, but we wanted them to play by the same rules that everybody else has to play by," D'Alessandro says. "With Airbnb, we wanted to make sure that we collected hotel taxes, that they were safe for visitors to come to and that they met proper business standards."

Groundbreaking agreements with ride-sharing companies allow them to pick up and let off passengers at San Francisco International Airport, governed by the same laws and fee structures as taxi drivers. After a fractious history between ride-sharing companies and state regulatory bodies, the California Public Utilities Commission (CPUC) in 2013 established a separate class of "transportation network companies" to govern them, for the first time establishing a regulatory model that might be exported successfully elsewhere.

A Lyft spokesperson explained: "California is the first state to regulate ridesharing in this way, and we use CPUC's rules as a kind of model for what we'd like to see in other cities and states across the country."

But a year later, in December 2014, district attorneys in San Francisco and Los Angeles filed consumer protection lawsuits against Lyft, Uber and a third company, Sidecar, over their failure to conduct adequate background checks on their drivers, among numerous other violations. Lyft reportedly settled the suit for $500,000, while talks with the other two continue. More recently, the California DMV has ruled that ride-sharing vehicles must now carry commercial license plates, and class-action suits by both Lyft and Uber drivers challenging their classification as independent contractors have been set for jury trial—developments that could potentially threaten the companies' business models.

D'Alessandro sees the current situation as similar to the sudden emergence of online travel agencies such as Expedia and Orbitz that briefly set off a local panic and which now merely represent another facet of the industry.

"I wouldn't necessarily say that everybody's happy, because it's a new level of competition that people have to figure out a way to deal with," he says. "But if you can make a product that people want to use even within the new competitive landscape, then everybody wins.

"A lot of these companies started from a concept, and they grew so fast that they didn't know what the next step was going to be for them. [Five years ago] some of them didn't even think of themselves as members of the hospitality industry; they thought of themselves as technology companies that were providing an app. Five years from now, they're going to be mainstream companies. Problems come up in every industry, problems you haven't seen before, and so you have to figure out a solution. I'm confident that in all of these cases, we will." ■