
ACCORHOTELS' DIGITAL TRANSFORMATION: A STRATEGIC RESPONSE TO HOSPITALITY DISRUPTOR AIRBNB

Researcher Valerie Keller-Birrer prepared this case under the supervision of Professor Tawfik Jelassi as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

AccorHotels, Europe's leading hotel group, was going through a major digital transformation initiated by its CEO, Sébastien Bazin. A relative newcomer to the hospitality industry, the private equity investor was shaking up the traditional strategy of a large hotel chain and disrupting AccorHotels' business model.

Bazin was transforming the group at breathtaking speed, yet believed AccorHotels was not changing fast enough to keep up with the changes occurring in the hospitality industry. New digital players had entered the market and were challenging the conventional hospitality approach. In particular, the emergence of the sharing economy – with the start-up Airbnb in the lead – had created a major challenge if not a threat to established hotel chains. The San Francisco-based accommodation rental company had turned a simple idea, renting an air mattress in your living room, into a US\$30 billion company in just eight years. More than a short-term, real-estate rental company, Airbnb had become a societal phenomenon appealing to a new generation of travelers.

Although the new digital players' business model was considered one of the most significant trends to shake up the hospitality industry in recent years, established hotel chains showed little reaction. They maintained healthy growth rates and experienced little impact on their bookings. Bazin, however, quickly realized that the new sharing economy players represented a threat to the business model of existing hotel chains and firmly believed that Airbnb should be taken seriously. After joining the Accor Group in 2013, he set out to drastically transform the 50-year-old hotel chain with the aim of turning it into an active player in the new hospitality economy able to compete head-on with the industry's digital disruptors. AccorHotels embarked on a far-reaching digital transformation that affected its corporate culture, organizational structure, value proposition and overall business model.

Had AccorHotels reacted fast enough to the industry changes and was the business transformation initiated by Bazin enough to compete with the new sharing economy giant Airbnb? Could a large, asset-heavy company become a dynamic and agile organization? Bazin believed the only way forward was to stop "watching the world passing by" and fully embrace the sharing economy. Was he right to develop an acquisition strategy of digital platforms to be on a par with Airbnb or should he stick to his core competence of managing and running hotels?

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The Hospitality Industry

The Traditional Hospitality Industry

The hotel industry had been growing for seven consecutive years since the 2008-2009 global financial crisis and was expected to reach revenues of \$550 billion by 2016.¹ It benefited from a strong growth in demand as the number of people traveling around the world for business or leisure continued to grow, and was expected to increase by 4% in 2016 from its 2015 level of 1.2 billion travelers worldwide.² This was matched by a growth of 4%, or 420,000 additional rooms, in the global branded supply since 2011, reaching a total of 9.9 million rooms and apartments.³ (Refer to **Exhibit 1** on global hotel industry revenues from 2008 to 2016 and **Exhibit 2** on the annual growth rates of hotel chains supply.)

After a decade of relative stability in the global ranking of hotel groups, several merger and acquisition operations in 2015 and 2016 brought about significant changes. Marriott with the acquisition of Starwood Hotels & Resorts became the biggest player worldwide and the first to surpass the one million-room mark. It was followed by Hilton Worldwide, InterContinental Hotels Group (IHG), Wyndham (with the acquisition of Dolce), Jin Jiang Hotels, and AccorHotels with the acquisition of Fairmont Raffles. (Refer to **Exhibit 3** for the global hotel groups' ranking by number of rooms). Despite this industry concentration, and with the exception of the Americas, the hotel industry remained extremely fragmented, with the majority of hotels still held by independent hoteliers.

Hotel chains depended heavily on the high-end categories: the upscale and luxury segment represented 59% of revenues, while the midscale range remained an important contributor with 27%. However, the economy and budget segment, representing only 14% of revenues, was the only segment showing some decline, with average daily rates down by 0.2% compared to an overall increase of daily rates of 1.9%.⁴

The Digital Disruption of the Hospitality Industry

For half a century, the hospitality industry had mostly been unchallenged. The majority of big hotel chains were created between 1942 and 1965 and were able to grow exponentially, with little competition, until 2000. A first disruption took place in 2005, with the emergence of new digital players: online booking platforms such as Expedia, which replaced physical travel agencies. A second disruption took place a few years later with the rise of price comparison websites, such as Kayak, and rating sites, such as TripAdvisor, which facilitated customers' selection decisions. According to Bazin, by 2016, 80% of online traffic was going through Booking.com and Expedia, while 80% of the recommendations were in the hands of TripAdvisor.⁵ Yet, these two disruptions triggered little reaction from the hotel industry.

The third disruption occurred with the emergence of the sharing economy, a marketplace built around the sharing of resources (e.g., a room, a service, a skill or a car), mostly between private individuals. All transactions were coordinated through the internet, mainly as a temporary exchange. This practice quickly evolved into a profitable business model thanks to pioneering start-ups, such as Airbnb (for sharing accommodation) and Uber (for sharing a car). Many other companies also emerged in the sharing economy, such as Fon (a wi-fi sharing service), Holidog or DogVacay (pet sitter communities), and Taskrabbit (for hiring people to do small tasks or jobs).

The high market capitalization of some shared economy companies and the amount of funds they were able to raise clearly showed that these new players were to be taken seriously. After Marriott and Hilton, Airbnb already represented one of the primary values in the industry, even if this was not recognized since the company had not yet been introduced on the stock exchange⁶ (refer to **Exhibit 4** for *Ranking of Major Hotels Groups and Digital Companies by Company Value*). While Airbnb was the pioneer of the sharing accommodation sector, it was quickly followed by other start-ups around the world, such as Homestay, Bedycasa and Onefinestay, to name just a few.

Did the sharing economy represent a threat for the hotel industry?

According to Yves Lacheret, senior vice president of new business integration at AccorHotels, “The hotel industry underestimated the third hospitality revolution: The rise of the sharing economy.”⁷ Hotel group leaders initially doubted that the sharing economy represented a competitive threat. Hilton CEO Chris Nassetta said in October 2016 that Airbnb was not “a major threat” to his company’s business.⁸ Many industry players considered Airbnb a competitor but not a threat, assuming that sharing platforms were bringing in new customers, as had low-cost airlines in the passenger air transportation industry 10 years earlier. Hoteliers believed it was possible for both hotels and sharing platforms to grow without stealing customers away from each other – a belief that was supported by the strong growth rates in the traditional hotel industry since the economic crisis.

Major hotels chains catered to luxury business travelers, while initially Airbnb operated in the economy segment since it offered a cheaper alternative to budget travelers. A Boston University study conducted in Texas confirmed that the sharing economy indeed had a negative impact on budget revenues. It found that each 10% increase in supply on Airbnb caused a decrease of 0.37% in monthly hotel revenues, in particular among low-end hotels.⁹

Airbnb

Based in San Francisco, Airbnb was a privately owned accommodation rental company. It enabled hosts around the world to list and rent out their properties or rooms to guests who used the website to find a place to stay – from a shared room in an apartment to a whole villa or castle. Nathan Blecharczyk, CTO & co-founder of Airbnb, described the concept of Airbnb: “Airbnb allows travelers to stay in someone else’s home. We make it as easy to book someone else’s home as it is to book a hotel.”¹⁰

History

In 2007, roommates Brian Chesky and Joe Gebbia started AirBed&Breakfast in their San Francisco apartment. Their idea was to make a few extra dollars by facilitating accommodation rentals. The two friends provided three inflatable mattresses and a homemade breakfast to guests who were unable to find alternative accommodation in the city during a design conference. In 2008, Nathan Blecharczyk joined the two co-founders and Airbedandbreakfast.com was subsequently launched. The start-up initially struggled to convince investors of its business potential and was relaunched at the 2008 Democratic National Convention in Denver (Colorado) based on the idea that the shortage of hotel rooms would push people to look for alternative accommodation options.

This was a turning point for the start-up. It had the opportunity to join a prestigious start-up accelerator where the co-founders spent three months improving their business plan. The

website name was shortened to Airbnb.com and in April 2009, the start-up finally found an investor, Sequoia Capital. From then on, the company started to grow and in 2011, four years after the first air mattress guests, it covered 89 countries, had its first international office in Hamburg (Germany), and hit 1 million online bookings. That same year, a further funding of \$112 million pushed the value of the company to over \$1 billion, making Airbnb a “unicorn”¹ in Silicon Valley. By the end of 2016, eight years after it was formally launched, Airbnb had 3 million listings, including 3,000 castles and 1,400 treehouses in more than 65,000 cities and 191 countries. Its market value was estimated at \$30 billion, making it the second most valued start-up company in the world, behind Uber (\$68 billion). Airbnb had become a key player in the hospitality industry, with a value just below the \$35 billion market cap of Marriott International, the world’s largest hotel chain.¹¹ Blecharczyk described the unique growth of Airbnb at the 2016 WEF:

We started it eight years ago and nobody thought it was a good idea back then. The obvious thought was, “Why would you allow a stranger to stay in your home?” So, fast-forward eight years, to date, 70 million guests have stayed in a stranger’s home, just 40 million last year alone.¹²

Key Figures

Being privately owned, Airbnb did not disclose its detailed financial performance. However, it was estimated that its revenues had grown from \$250 million in 2015 to \$1.7 billion in 2016, with a target of \$2.8 billion in 2017 and \$8.5 billion by 2020. Airbnb recorded profits for the first time in 2016 with \$100 million earnings before interest, tax, depreciation and amortization. The company was expected to be profitable again in 2017, with \$450 million in EBITDA and had a target of \$3.5 billion by 2020.¹³ (Refer to **Exhibit 5** for Airbnb revenue growth and forecast.)

Business Model

Product

Airbnb defined itself as “a trusted community marketplace for people to list, discover, and book unique accommodation around the world.” The start-up provided the platform to facilitate the transactions, but was not the provider of the ultimate service – the accommodation. As Blecharczyk explained: “The hosts are micro entrepreneurs and we’re giving them a hospitality toolkit, facilitating the search, the payment, the standards.”¹⁴ A central piece of Airbnb’s success model was a simple equation: disappointment equals expectation minus reality.¹⁵ To manage expectations, Airbnb ensured that each listing offered an accurate portrayal of the amenities and the type of experience guests would find, by listing the accommodation’s advantages as well as potential negative aspects. Airbnb strongly believed that high-quality pictures would make a key difference, and professional photograph services were provided in most cities free of charge. In Paris for example, 50% of Airbnb apartments featured professional photographs.¹⁶

Full transparency was what fueled the community and ensured high satisfaction rates. Throughout the application process, hosts and guests could find reviews and social media connections to build trust amongst users. Using Airbnb’s online reputation system, both hosts and guests provided feedback at the end of each stay with guests rating the accommodation’s

¹ A unicorn is a start-up with a value of US\$1 billion or more.

features such as location, cleanliness, convenience, etc. Mapping and destination pictures further helped customers find the right accommodation. Airbnb had an excellent mobile presence that described and mapped nearby attractions and services from any connected device.

Pricing

Airbnb generated revenues by charging hosts a 3% service fee to cover the cost of processing payments, and guests a 9% to 12% service fee for each reservation they made. The company provided a dynamic pricing tool that offered hosts pricing recommendations based on available demand, supply, features, and amenities of the accommodation.¹⁷

Customer Experience

Beyond providing a platform to find accommodation, Airbnb offered its users an authentic experience, a way to discover out how it felt to live like a local. The younger generation was not interested in many of the services big hotels offered; they preferred to be in a cool neighborhood with bigger rooms, more space, and possibly a kitchen. More than just a platform to find a place to stay, Airbnb had become a trendy movement, a new lifestyle.

The Airbnb concept appealed to young, leisurely travelers willing to consider more adventurous accommodation options. More than a third of Airbnb users were under 30 years of age, compared with 16% for online travel agencies. Due to its sharing economy mindset, verification system and high customer satisfaction, Airbnb users showed high levels of loyalty and satisfaction.¹⁸ Beyond the unique experience, part of the appeal was that Airbnb offered a cheaper alternative to a hotel room. In San Francisco, for example, the 2015 average daily rate of Airbnb accommodation was 18.8% lower than that of a hotel room.¹⁹

Challenges

Airbnb's exponential growth came with some challenges. Various reports began to emerge of theft or damage to property as well as increasing complaints from neighbors about disturbances, noise and damage. One growing concern was the start-up's negative impact on the housing market, as landlords were reported to kick out long-term tenants to maximize their income by renting apartments to Airbnb customers, thus converting apartment buildings into what essentially became illegal hotel rooms. These unlawful professional landlords were putting an important strain on rental prices. The rapid growth of Airbnb listings led to the "corporatization" of the offering, with an increasing number of listings coming from other hospitality companies and providers of multiple properties, including hotels, real-estate agents, and serviced apartment providers.

Following these concerns, city authorities started to issue laws to protect the housing market and tenants. Since existing regulation did not cover accommodation provided by the sharing economy, Airbnb found itself in a regulatory gray area. Related discussions were particularly heated in New York City, where Airbnb's growth was particularly strong. A bill was signed in 2016 to fine tenants or landlords who rented out unoccupied flats for less than 30 days. Other cities followed suit, including Berlin and London, where restrictive rent rules were introduced. Airbnb's response to such new regulation was to proactively work with city authorities to find a compromise with policy makers before restricting regulations were issued. Seventy lobbyists were said to be working for Airbnb in the US, trying to get favorable legislation passed to benefit the company.

Another source of conflict, and hoteliers' most frequent criticism of Airbnb, was the way it was taxed compared with hotels. While hotels had to pay occupancy and sales taxes, Airbnb was not subject to occupancy tax laws and was not paying local governments' sales tax. The company was working with governments across the world to explore ways to facilitate occupancy tax collection in as many locations as possible.

Expansion

Targeting the Business Sector

For years, hoteliers had claimed that Airbnb and hotels did not compete for the same customers, since hotels catered to business and luxury travelers, while Airbnb appealed to budget and leisure travelers. This changed when Airbnb adapted its offer to appeal to the highly profitable business travel segment, the bread and butter of hotels. *Airbnb for Business* was launched in 2015 and included a central billing system, a dashboard for HR representatives, as well as billing and reporting tools.

“Business travel ready” lodgings had to meet various criteria, such as high customer ratings, 24/7 access to the property, an entire home or apartment, wi-fi, and a laptop-friendly workspace. In July 2016, Airbnb announced a partnership with three of the world's biggest corporate-travel bookers (American Express Global Business Travel, BCD Travel and Carlson Wagonlit Travel), thus putting Airbnb properties on the list of options for employees when booking a business trip.

By the end of 2016, Airbnb's new focus seemed to be paying-off. Data from Concur, a travel-expense firm, showed that: the number of business travelers expensing Airbnb accommodation had grown 44% in the second quarter of 2016 compared with a year earlier, driven by small and mid-sized businesses as well as tech and academic companies. Airbnb estimated that about 10% of its bookings were for businesses travel rather than pleasure,²⁰ with customers including Google, Morgan Stanley, Salesforce.com, SoundCloud, and Vox Media.

Future Outlook

Airbnb did not stop at growing its core business and targeting business travelers, it had big plans for further expansion. In March 2016, it was able to raise \$1 billion to provide fresh funds for expansion, bringing the total funds raised from investors since it started in 2008 to more than \$3.5 billion, and further delaying any prospect of an initial public offering.²¹ In an effort to diversify its services, Airbnb began to develop a flight-booking service to compete with leading travel-booking sites, like Expedia and Priceline.

In February 2017, Airbnb made its biggest acquisition, spending about \$300 million to acquire Luxury Retreats. With 4,000 properties around the world, this Canadian company specialized in high-end rentals such as Richard Branson's Necker Island, which could accommodate 34 guests and cost \$80,000 per night for the whole island.²² The deal gave Airbnb access to the highly profitable luxury market to appeal to elite travelers, while also enabling it to offer Luxury Retreats' concierge service to its other customers.

AccorHotels was reported to have also bid for Luxury Retreats. Although AccorHotels' cash offer was bigger, Luxury Retreats chose Airbnb partly because its founder, Joe Poulin, had foreseen keeping more control with Airbnb.²³ Clearly, AccorHotels' and Airbnb's paths were increasingly crossing as they seemed to play more and more in the same field.

AccorHotels Group

History

AccorHotels was a French multinational hotel group headquartered in Paris. Its history started in 1967, when two friends, Paul Dubrulle and Gérard Pélisson, opened their first Novotel in Lille Lesquin, in the North of France. Five years later, they started the international expansion of Accor with the opening of the first Novotel abroad, in Neuchâtel, Switzerland. Then in 1974, the first economy hotel, Ibis, was opened in Bordeaux. A year later, the company started to expand through acquisition with the purchase of 3-star chain Mercure, followed by the takeover of the 4-star Sofitel brand in 1980. In 1983, the Accor group was created, with a total of 440 hotels and 35,000 employees in 45 countries. Forty years after it was started, AccorHotels was present in 95 countries, employed 240,000 people, and owned, operated or franchised 4,100 hotels for a total of 570,000 rooms. Its portfolio comprised 20 internationally renowned brands, from luxury hotels to economy lodgings. (Refer to *Exhibit 6* for AccorHotels global presence, and *Exhibits 7 and 8* for an overview of AccorHotels brands and portfolio structure).

Key Figures

In 2016, AccorHotels revenues were up 0.9% at €5,631 million, and EBIT was up 4.6% at €696 million. Net profit at €266 million had grown 8.1% compared to 2015, thus outpacing revenue growth. The group considered itself the biggest hotel operator in the world, as it operated 75% of its 4,100 hotels directly, an approach that significantly differed from many of its US competitors, like Marriott and InterContinental, which were mostly franchisers. (Refer to *Exhibit 9* for AccorHotels revenue and net profit growth from 2011 to 2016.)

Corporate and Digital Transformation under New CEO Sébastien Bazin

Since 2005 AccorHotels had witnessed a high turnover among its top leadership, with four different CEOs at its helm in eight years. In 2013, Bazin was appointed with the objective of driving the company's stock price up. Bazin had a private equity background and came from a Los Angeles-based private real-estate investment firm, Colony Capital, which was a major investor in AccorHotels. He headed up Colony Capital's European branch and led several acquisitions in the hospitality sector, including Fairmont & Raffles.

According to Lacheret, the start of Bazin's role at the helm of the Accor group coincided with a rupture in the group's strategy. A relative newcomer in the hospitality industry, Bazin was the first hotelier to acknowledge the risk the new industry disruptors represented for the hotel business. He firmly believed that traditional hotels had to fundamentally change their business model if they wanted to be able to compete with the new players. The new CEO quickly set out to completely transform the group with the goal of giving Accor the means and capabilities to embrace the disruptive changes taking place in the industry. He observed:

Accor is in the middle of a revolution (...). For 50 years, we have been doing things very well, but from now onwards we are going to do things differently.²⁴

AccorHotels' ambition was to reinvent the hospitality profession and become the world's industry benchmark, so it could offer a unique experience to its guests, employees, and partners. The group's new strategy was based on several pillars: two fields of expertise (HotelServices and HotelInvest), a new brand name (AccorHotels), and a new promise (Feel Welcome). In order to compete with the new disruptive players, the group would go through

a major digital transformation that would make it more customer-centric. It would be supported by a transformation of AccorHotels' corporate culture as well as its organizational structure. Finally, a strong focus was put on expansion, through acquisitions and participation as well as through internal innovation.

Two Fields of Expertise – HotelServices and HotelInvest

In November 2013, AccorHotels redefined the group's structure: its two core competencies, hotel operator/franchisor and hotel owner/investor, were reorganized into two strategic divisions. By clearly distinguishing its two businesses, the group hoped to acquire the resources to develop its hotel projects with greater efficiency and flexibility, and enhanced profitability. Each unit represented a value creation lever: HotelServices was the operator and franchisor of 4,100 hotels operated under the group's brands. Of the 4,100 hotels managed by HotelServices, 1,183 were owned by HotelInvest, the property owner and investor. HotelInvest's mission was to streamline and manage the existing assets through disposals and acquisitions. In July 2016, AccorHotels announced "Booster," a plan to divest the real-estate ownership in its HotelInvest to new investors, a process that was expected to yield \$5 billion by 2017. These funds would give AccorHotels greater financial resources to speed up growth.

A new Brand Name and a New Customer Promise – Feel Welcome

In June 2015, the hotel chain was rebranded AccorHotels to uphold its hospitality business and increase its visibility by connecting it to its digital platform AccorHotels.com. The group also adopted a new slogan "Feel Welcome," which illustrated the group's passion for hospitality and the hotel industry profession.

Digital Transformation – Leading Digital Hospitality

Bazin strongly believed that in order to compete with the new hospitality players, AccorHotels had to reinvent digital hospitality by becoming more technology-oriented. He explained:

Airbnb is a technology company and its mission is to become a hospitality company. For AccorHotels, it's the other way around: It has been in the hospitality business for 50 years and needs now to become a technology company.²⁵

In October 2014, AccorHotels launched a five-year digital transformation plan named "leading digital hospitality" for which €225 million was allocated – a big investment for AccorHotels. This digital transformation plan, covering 2014 through 2018, was based on three building blocks: a common mobile app for all hotels, a strong focus on the customer, and various tools to streamline the customer experience. More than 100 digital experts were hired to help the company in its digital transformation.

The group's online booking platform, AccorHotels.com, was already well established with 329 million visits a year. Available in 28 languages, the platform was not only accessible to all AccorHotels brands but also to independent hotels. One third of Accor's sales were booked through the internet and 12% via mobile devices. In 2015, AccorHotels launched a single mobile application, Mobile First, common to all Accor hotels, with the objective of increasing mobile bookings to 35% and, within five years, having half of its direct bookings made via mobile.²⁶ By 2016, AccorHotels' mobile application already showed a users' increase of 40%.

One of the objectives introduced by the new CEO was for AccorHotels to become much more customer-centric. As he put it:

The only thing that matters is the customer. For years, we had it all wrong; we were focusing on the product and the brand. We are going to listen to what customers want, why they are going to Airbnb, and why they go to other brands.²⁷

Bazin believed that customer retention was driven by experience and the memories customers retained about their hotel stay. A key factor influencing the customer experience was the level of interaction the hotel had with guests, together with its ability to use information to improve the customer experience. AccorHotels developed a customer experience model that described the entire travel experience in seven steps: 1) the dream; 2) selection; 3) booking; 4) planning the trip; 5) traveling and staying; 6) sharing the experience; and 7) loyalty. The group's objective was to be present through the whole journey and in particular increase its presence before and after Step 5. (*Refer to Exhibit 10 for AccorHotels' customer experience model.*)

One way for AccorHotels to become more customer-centric was to leverage its customer database, through a project that was called "Voice of the Guests." According to Bazin, most companies had useful customer data but were unable to use it. The objective of "Voice of the Guests" was to enable AccorHotels to extract information from the customer database and use it to offer tailor-made services for each customer.

Various tools were introduced to improve the customer experience at every step to ensure a "seamless journey": "one-click" booking, online check-in (similar to airlines' online check-in), and paperless payment, to name just a few. The plan also included an electronic membership card to the loyalty program "Le Club AccorHotels," which covered every brand of the group in every country worldwide and had, in 2017, around 25 million members.²⁸

In order to speed up its digital transformation, in October 2014 AccorHotels acquired Wipolo, a web and mobile platform that managed trip itineraries, linking them with Facebook and Twitter. It then acquired in April 2015 Fastbooking, France's leader in the direct digital marketing of hotels. Fastbooking served more than 3,500 hotels, mostly in Europe and Asia, with a website builder, a channel manager, digital marketing campaigns, and a business intelligence software.²⁹ Fastbooking was also open to independent hotels that were not part of the AccorHotels Group, which was, according to Lacheret, "going to transform AccorHotels into an e-marketplace." The group hoped to have 10,000 hotels on its platform within the next few years.

Cultural Transformation

AccorHotels was competing with lean digital disruptors that were fast, flexible and very dynamic. It therefore had to become flatter, faster in decision-making and more agile. This meant fundamentally changing managers' and employees' mindsets. In order to drive innovation, management had to accept the prospect of failure. According to AccorHotels deputy CEO, Sven Boinet, "the biggest challenge is to transform middle management as they are the most resistant to change. People at AccorHotels need to change the way they think. It's hard to become disruptive."³⁰ The human factor was central to the hospitality industry. With 240,000 employees, 56% under 35 years of age, AccorHotels was committed to the training and development of its employees, encouraging them to express themselves and become self-reliant, bold and collaborative.

To support the group transformation from the inside, in early 2016 AccorHotels moved its international headquarters to Issy-les-Moulineaux, just outside Paris. Designed with the objective of reinventing the way AccorHotels employees should work together, the new building featured innovative work spaces and technology that allowed high connectivity anywhere in the building. Describing the new premises, Boinet remarked:

In the new building, there are open office spaces for everybody, including the CEO. Microsoft is right down the road. The change to open space is brutal. The idea is to foster communication among employees.

Corporate Transformation – Driving Innovation

Challenging and disrupting codes at AccorHotels, which had not launched a new brand in 30 years, was also part of the digital plan. Bazin was committed to changing the legacy culture of the company and disrupting the traditional hotel approach. His objective was to create a group in which 30% of activities were new and 70% came from the classical hotel business within five years: “In the coming years, we intend making a third of our HotelServices revenue by targeting professions with which we were not associated over the last 50 years..”³¹ Dedicating resources to innovation and development – almost like an R&D department – was something new in the hotel industry, as Lacheret explained:

Manufacturing companies spend 4% to 7% of their revenues in R&D investment, but service companies like hotels do not invest in R&D. AccorHotels is going to set money aside to invest in research and development, though this is really not in the company’s DNA.

In order to drive these changes, flexible structures were created within AccorHotels’s heavy top-down hierarchy – a new position, a new committee and a new team:

Chief Disruption and Growth Officer

In April 2016, Bazin hired Thibault Viort, a 42-year-old serial digital entrepreneur, as Chief Disruption & Growth Officer, a newly created C-level position. Lacheret outlined the objective of the position: “the goal is to push AccorHotels to change, adapt faster and speed up decision making processes.” Prior to joining AccorHotels, Viort had created, among others, Facebook’s first online games. In his new position, he was expected to identify new growth opportunities in order to foster the emergence of new entrepreneurs within and outside the group, oversee investments or acquisitions in emerging activities, as well as reinforce interactions with start-ups. Bazin explained: “We are looking at start-ups that are developing state-of-the art technologies following two angles: either to improve hotel performance or to enrich customer experience.”³²

Shadow Comex

AccorHotels was the first major French group to create a Shadow Executive Committee staffed by six women and six men aged between 25 and 35 years, representing seven nationalities. Boinet saw them as a “think tank for innovation projects.” These millennials met every two months to evaluate new projects and were involved in strategic decisions. They contributed to making AccorHotels more attentive to digital natives and played a key role in AccorHotels’ cultural transformation. This successful idea received the 2016 gold award for digital innovation (category: company optimization) and was quickly replicated at the country-level throughout the group.

Marketing Innovation Lab

Innovation at AccorHotels was mainly the result of in-house creativity. To foster this, the Marketing Innovation Lab was set up, which focused on the creation of new lifestyle brands aimed at millennials.

AccorHotels Disruptive Ideas

Millennials, the tech-savvy generation born after 1980, were rising up as the new global travelers and were expected to become the biggest single group of hotel customers by 2020. They had high expectations for hotels, wanting contemporary design, high-quality amenities, smart technology, and a locally inspired ambiance. To meet the demands of millennials, hotel offerings had to evolve, with a focus on design, experience and perceived value. An outcome of AccorHotels' digital transformation and its newly created structures was a pipeline of disruptive ideas, targeted at millennials and embedded in the digital economy.

Mama Shelter

In 2014, AccorHotels purchased a 35% stake in Mama Shelter, a chain of trendy hotels and restaurants created by Serge Trigano (founder of Club Med) and designed by Philippe Starck. The hotel's aim was to offer travelers what it described as "urban retreats" in a typical and often non-touristic neighborhood. More than hotels or restaurants, Mama Shelter was a living space, popular, fun and friendly, where guests felt at home thanks to the kindness and family attitude of the teams that run them.

Jo&Joe

Created by AccorHotels' Marketing Innovation Lab, "Jo&Joe" was the first brand created by the group since Bazin had joined the company in 2013. Jo&Joe was a groundbreaking hospitality concept that combined digital experience with living areas designed for locals as well as young globetrotters. Targeted at millennials, the new lifestyle brand was described by the company as an "open house," a unique environment that blended the best of private rental, hostel and hotel formats. The first Jo&Joe opened in Hossegor, France, in March 2017 and the group was aiming at 50 Open Houses by 2020 in fashionable destinations around the world (refer to **Exhibit 11** for more information on the Jo&Joe concept).

New Food and Beverage Strategy

Part of the shake-up strategy that Bazin started in 2013 was to reorient its Food & Beverage division. With the proliferation of smartphones, it had become easier for customers to find alternative restaurants and by 2017, only 20% of hotel guests took a meal in the hotel. By redesigning its food and drink products to meet the demands for more local and personalized experiences, the group was hoping to draw in diners, and in particular to appeal to the millennial generation, which had been courted by Airbnb.

Community Services to Locals

Also part of the group's digital transformation was to expand AccorHotels' presence in the digital economy, while at the same time discovering new ways to make the most of its existing assets. Bazin wanted to change the way people interacted with his hotels and expand services beyond hotel guests. A pilot was launched in early 2017 to offer a choice of daily services to residents who lived close to hotels, for example assistance with simple tasks such as holding packages or keys, picking up dry cleaning, or recommending the best services nearby. The underlying platform providing and managing these local services would be AccorHotels' loyalty program, Le Club AccorHotels. The model would allow AccorHotels to increase return on buildings that, during the day, had little activity. Bazin summarized the idea:

There is a “thin digital layer” that can be applied to under-used assets, in a similar way to how Airbnb was formed to become the service between hosts and guests. (...) AccorHotels will try to find a way of “bringing the neighborhood into the hotel.”³³

Growth through New Activities via Acquisitions

The last element of AccorHotels’ new business strategy was expansion. The company aimed at becoming a key player in the hotel luxury segment and the world’s leading luxury private rental provider.²

FRHI

In July 2016, AccorHotels acquired Fairmont Raffles Hotels International (FRHI), which included the brands Fairmont, Raffles and Swissôtel. Luxury was the most profitable as well as fastest growing customer segment and these iconic brands were a major addition to AccorHotels’ hotel portfolio, while also strengthening the group’s position in North America.

Squarebreak

In February 2016, AccorHotels acquired for €3 million a 49% stake in Squarebreak, a company created in 2013 that rented out luxurious homes with hotel services in France, Spain and Morocco. In 2015, Squarebreak had more than 250 listings and aimed at reaching 600 in 2016 and 1,000 in 2017.³⁴

Oasis Collections

Also in February 2016, AccorHotels acquired a 30% stake in Oasis Collections, an American marketplace for private rentals with hotel services. The company was launched in Buenos Aires in 2009 and had 1,500 properties in 18 destinations in Latin America, the US, and Europe. Oasis Collections complemented the private rentals with additional hotel services and amenities, including concierge services and access to members’ club venues.³⁵

Onefinestay

In April 2016, AccorHotels acquired Onefinestay.com for €148 million and planned to invest another €64 million to help the start-up expand in 40 new markets.³⁶ Onefinestay was launched in London in 2009 and specialized in upmarket accommodation. As of April 2016, it employed over 700 people and had 2,500 exclusive homes in its assortment covering selected European and North American cities. It emphasized hotel services delivered by local guest services teams available around the clock. Its patented “Sherlock” keyless entry technology, consisting of a physical device and a smartphone app, enabled secure keyless access to Onefinestay homes.

² Other acquisitions included: 25hours (acquisition of 30% of its capital), Banyan Tree (5% stake), BHG (integration of 26 hotels), Rixos (50% interest in the joint venture management company), AvailPro (full acquisition to create the European leader of digital services for independent hotels), VeryChic (digital platform for the private sale of luxury hotel rooms and apartments, cruises, breaks and packages), Potel & Chabot (40% of the share capital), Noctis (AccorHotels and the FCDE in exclusive talks to acquire 100% of the latter’s minority interest in Groupe Noctis).

John Paul

In November 2016, AccorHotels acquired for \$150 million 80% of John Paul, the world leader in the concierge market. The company's founder kept the remaining 20% and continued to serve as CEO. John Paul offered premium customer and employee loyalty services to three million clients, mostly in the banking, car, travel and luxury sectors. John Paul's concierges were available 24/7 to cater to their customers' requests, from the simplest to the most extraordinary, anywhere around the globe. Founded in 2007, John Paul employed a workforce of 1,000 people across five continents. In 2016 the company had revenues of \$60 million and an EBITDA margin of 15% to 20%. It aimed to achieve 2017 revenues of \$80 million and hoped to double sales to \$170 million by 2018.³⁷

Travel Keys

AccorHotels announced in February 2017 that it had begun negotiations for the acquisition of Travel Keys, an Atlanta-based private vacation rental broker. Founded in 1991, Travel Keys was an elite travel broker with a luxury collection of over 5,000 upscale villas across more than 100 destinations around the world. It offered professional vacation planning and 24/7 concierge services. The transaction was expected to close in the second quarter of 2017.³⁸

Challenges Ahead

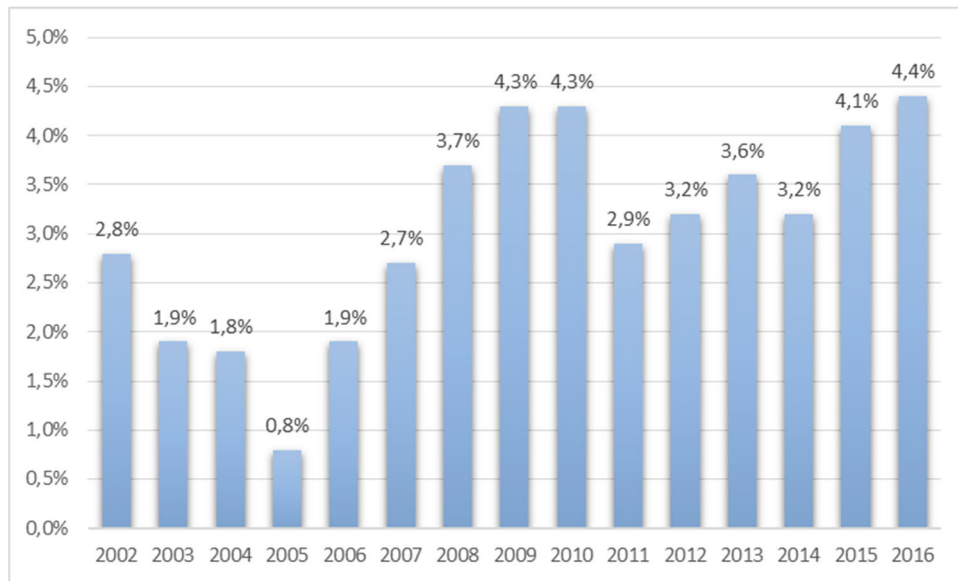
AccorHotels had recognized early the potential threat that the sharing economy presented for the hotel industry. Bazin actually believed that "the industry had not reacted quickly enough to these changes" and that "it had been a mistake not to have become an investor in Airbnb in the past."³⁹ Over several years, the two business models grew in parallel, seemingly without threatening each other. However, they started to converge as Airbnb adapted its offering to appeal to business travelers, while hotel groups entered the sharing economy. AccorHotels' digital transformation was well under way, but would it be enough for the hotel giant to become an agile player able to effectively compete against Airbnb? What else could Bazin do to strengthen and speed up his group's transformation? How would AccorHotels look in the near- to medium-term future? Deputy CEO Sven Boinet was quite optimistic since he firmly believed that over the next 10 years, hotel supply would not be enough to meet the continuously increasing demand, as he concluded: "we work in an industry that is blessed by the gods!"

Exhibit 1
Global Hotel Industry Revenue (2008-2016)



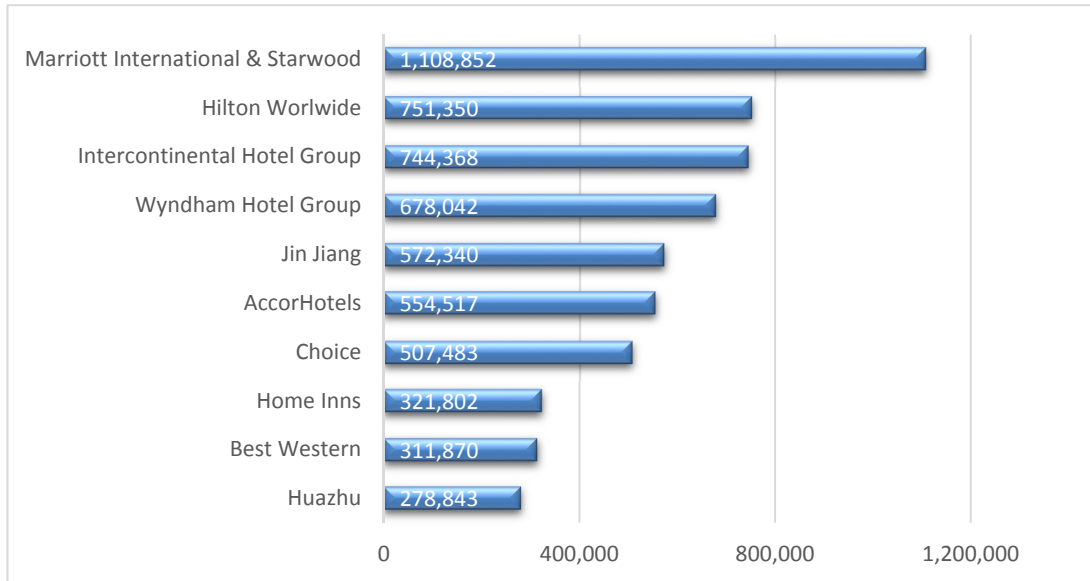
Source: <http://www.hospitalitynet.org/news/4073336.html>

Exhibit 2
Annual Growth Rates of Hotel Chains Supply



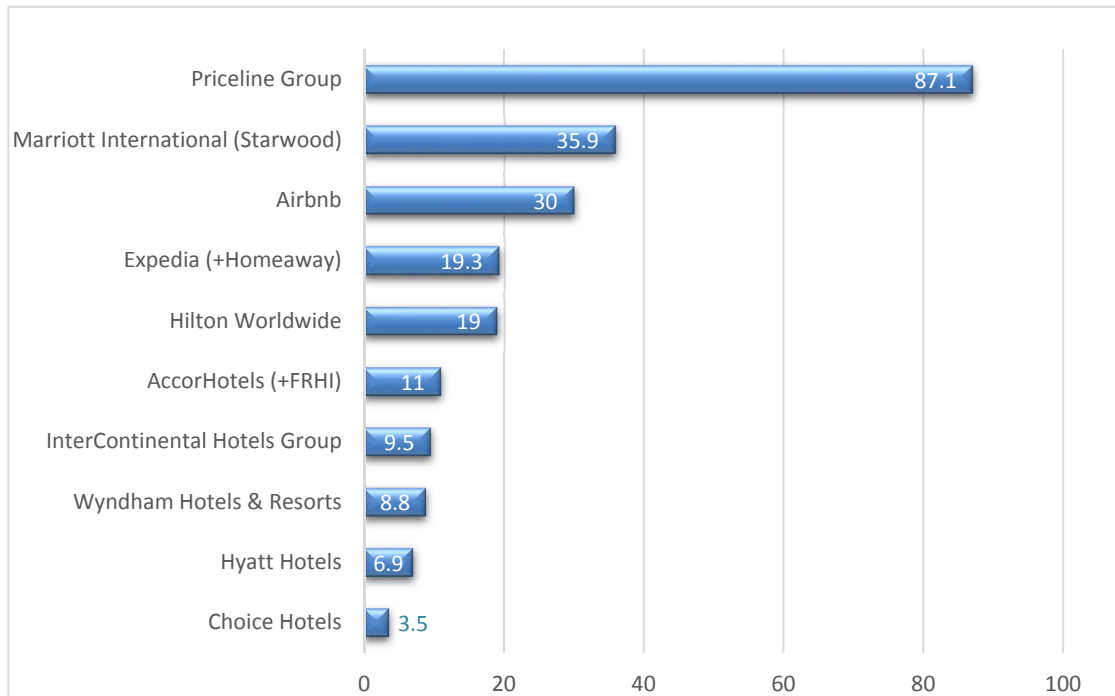
Source: <http://hospitality-on.com/en/news/2016/07/07/worldwide-hotel-chain-supply-global-chain-supply-confirms-growth/>

Exhibit 3
Global Hotel Group Ranking by number of rooms (2016)



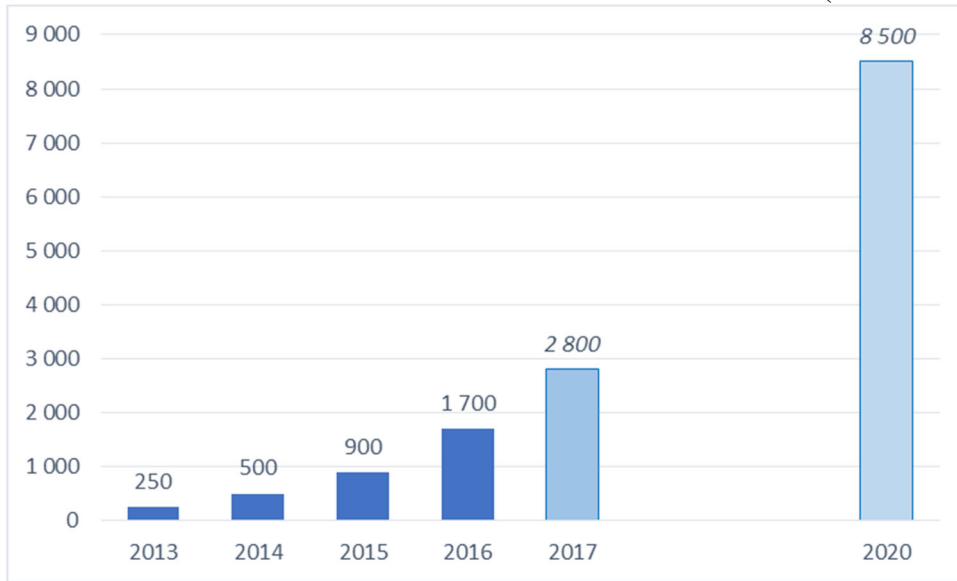
Source: <http://hospitality-on.com/en/news/2016/04/08/global-hotel-ranking-top-10-what-does-the-future-hold-after-the-marriott-starwood-merger/>

Exhibit 4
Ranking of Major Hotels Groups and Digital Companies by Company Value (March 2017)



Source: <https://finance.yahoo.com>

Exhibit 5
Airbnb Revenue Growth and Forecast in million USD (2013-2020)



Sources:

2013 and 2015 data: <http://www.inc.com/linkedin/sramana-mitra/billion-dollar-unicorn-airbnb-continues-soar-sramana-mitra.html>

2014: <https://www.quora.com/How-much-revenue-is-Airbnb-making>

2016, 2017 and 2020 data: <http://www.valuewalk.com/2017/02/airbnb-expects-2-8b-2017-revenue-8-5b-2020/>

Exhibit 6
AccorHotels Global Presence

ACCORHOTELS OVERVIEW GROUPS BRANDS CUSTOMER PATH TALENT & CULTURE SUSTAINABLE DEVELOPMENT SOLIDARITY ACCORHOTELS

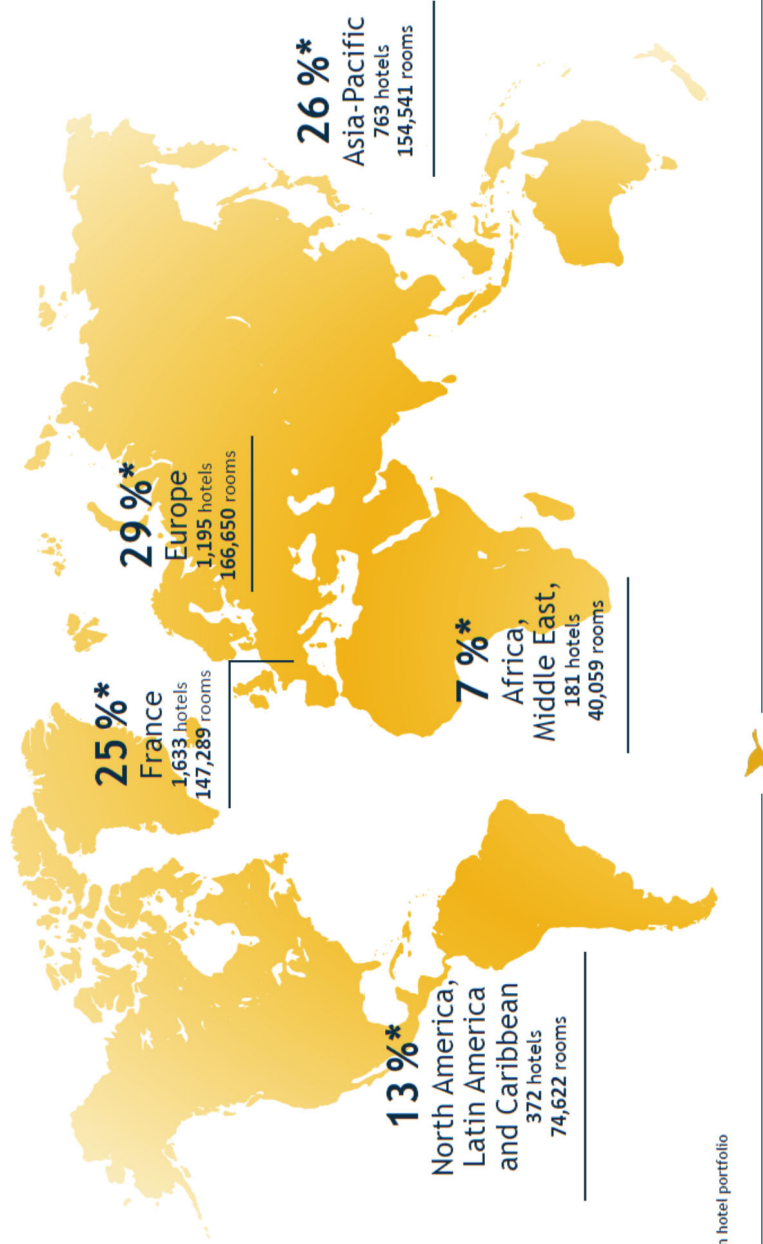
**ACCORHOTELS,
A WORLDWIDE
HOTEL OPERATOR**

583,161
ROOMS

4,144
HOTELS

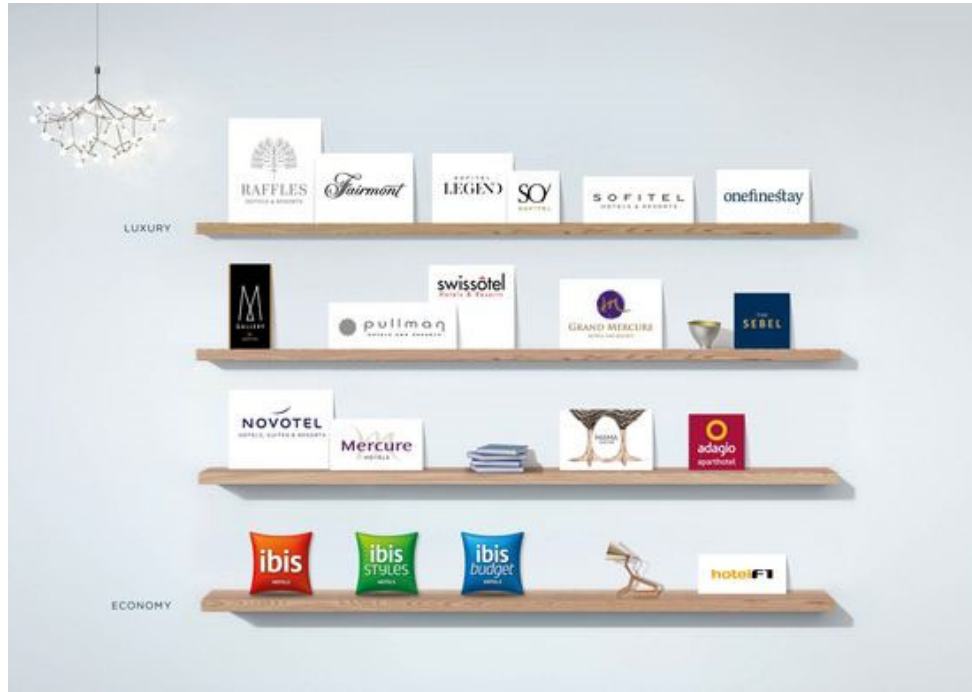
95
COUNTRIES

**1 hotel opened
every 36 hours**



* As a percentage of total number of rooms in hotel portfolio

Exhibit 7 Overview of AccorHotels Brand Portfolio



Source: Company information

Luxury and upscale segment: The goal of this segment, with 510 hotels and 129,000 rooms, was to improve service excellence and develop flagship hotels in cities with a view to enhancing brand value. This segment included the high-end luxury hotels Raffles, Fairmont, Sofitel Legend, the luxury hotels SO Sofitel, Sofitel, the accommodation rental company Onefinestay, as well as the upscale hotels MGallery by Sofitel, Pullman, Swissotel, Grand Mercure, and The Sebel.

Midscale segment: The aim of the 1,281 midscale hotels with 196,000 rooms was expansion and innovation to bolster the range and brand differentiation. It encompassed Novotel, Suite Novotel, Mercure, Mama Shelter, and Adagio.

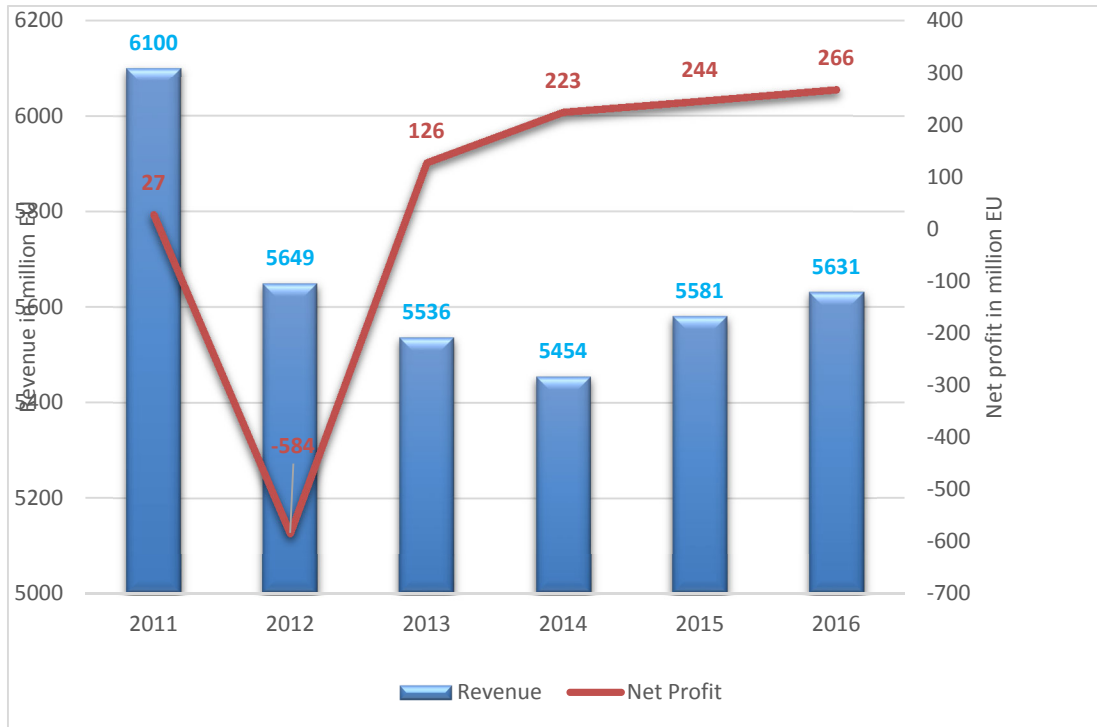
Economy segment: Finally, the objective of the economy segment was to take the Ibis brand family's success to the next level to cement its leadership with Ibis hotels and Adagio Access. This segment included 2,318 hotels offering 255,000 rooms.

**Exhibit 8
AccorHotels Portfolio as of December 2016**

Brand	Owned		Fixed lease		Variable lease		Variable lease on EBITDAR		Managed		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
RAFFLES	0	0	0	0	0	0	0	0	11	1927	0	0	11	1927
FAIRMONT	1	593	1	769	0	0	0	0	71	27 618	1	258	74	29 238
SOFTEL	16	2 681	4	1 199	3	419	1	150	93	24 673	3	1 196	120	30 318
PULLMAN	5	1 119	5	1 219	4	810	2	1 339	81	23 968	22	6 762	119	35 217
MGALLERY	2	219	5	578	3	432	0	0	34	3 841	44	3 846	88	8 916
SWISSOTEL	0	0	3	2 123	2	468	0	0	22	8 129	4	1 273	31	11 993
GRAND MERCURE	0	0	0	0	0	0	0	0	26	8 024	15	1 096	41	9 120
THE SEBEL	0	0	0	0	0	0	0	0	12	1 074	14	702	26	1 776
Upscale	24	4 612	18	5 888	12	2 129	3	1 489	350	99 254	103	15 133	510	128 505
NOVOTEL	49	10 595	34	6 975	78	13 590	9	1 645	166	40 176	112	16 238	448	89 219
NOVOTEL SUITES	1	118	6	971	11	1 396	0	0	5	637	9	806	32	3 928
MERCURE	31	5 381	42	6 897	47	7 443	4	614	194	31 177	429	44 382	747	95 894
ADAGIO	2	207	9	992	6	732	1	336	32	3 881	4	437	54	6 585
Midscale	83	16 301	91	15 835	142	23 161	14	2 595	397	75 871	554	61 863	1 281	195 626
NO BRAND	1	62	1	51	0	0	0	0	20	2 966	13	1 495	35	4 574
Multibrand	1	62	1	51	0	0	0	0	20	2 966	13	1 495	35	4 574
IBIS	107	16 387	83	11 380	132	19 615	43	7 692	168	31 376	555	52 291	1 088	138 741
IBIS STYLES	6	734	12	1 027	7	1 304	3	696	58	10 061	281	22 322	367	36 144
IBIS BUDGET	65	6 970	78	8 636	59	6 698	13	3 430	43	6 269	312	23 513	570	55 516
ADAGIO ACCESS	0	0	5	467	1	160	1	156	40	4 122	0	0	47	4 905
HOTELFI	20	1 455	0	0	158	12 579	0	0	0	0	59	3 830	237	17 864
FORMULE 1	0	0	0	0	0	0	0	0	9	1 286	0	0	9	1 286
Economic	198	25 546	178	21 510	357	40 356	60	11 974	318	53 114	1 207	101 956	2 318	254 456
Total	306	46 521	288	43 284	511	65 646	77	16 058	1 085	231 205	1 877	180 447	4 144	583 161

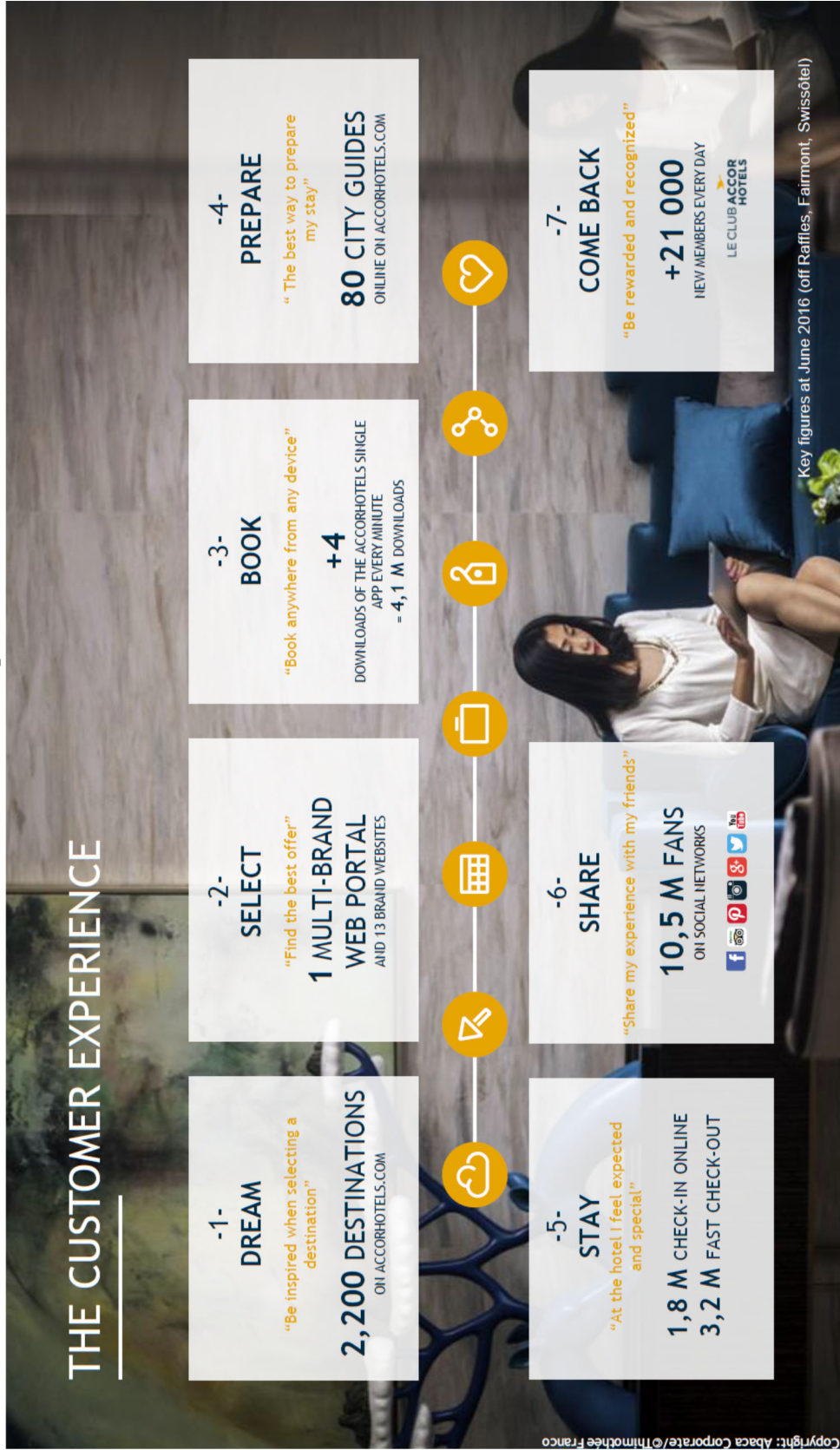
Source: Company information

Exhibit 9
AccorHotels Revenue and Net Profit Growth 2011 to 2016



Source: Company information

Exhibit 10
AccorHotels Customer Experience Model



Source: Company information

Exhibit 11 Jo&Joe Concept

Accommodation: Jo&Joe includes different accommodation types such as a modular sleeping area that guests share, private sleeping accommodation in rooms and apartments for two to five people with a private bathroom and possibly a kitchen area, or out-of-the-ordinary accommodation (OOO) that includes yurts, hammocks and caravans for groups of up to six people.

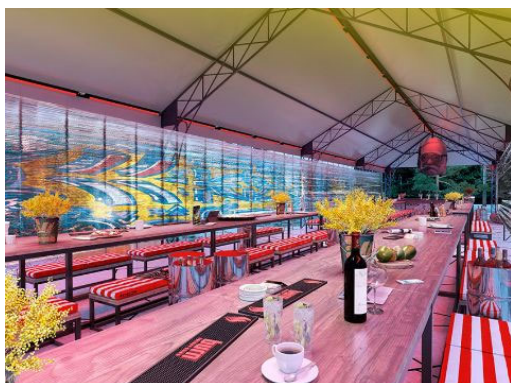


Social interaction spaces: Jo&Joe provides spaces to encourage social interaction, such as a bar that is highly visible from the street to draw locals, a collaborative kitchen where guests can cook for themselves or for each other, or a “Happy House” area where guests can do their laundry, relax, cook, or unwind, just as they would if they were at home.

Location: Jo&Joe is located in urban city-center locations “close to public transport and less than 15 minutes away from the major points of interest.”



Mobile app: A mobile app that connects guests, Jo&Joe staff members, and locals alike serves as a “social accelerator.”



Source: Company information

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