Incumbents' Strategic Responses to Gig Disruptors in the Hotel Industry: How and How Much?

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Gig and sharing economy entrants pose distinctive threats to incumbents. We examine how non-platform incumbents respond to these "gig disruptors," whose ability to mobilize underutilized assets at scale without incurring proportional fixed costs enables them to penetrate markets more rapidly than traditional entrants. Incumbents need to respond quickly, but their responses vary depending on internal resources, external competition, and the adjustment costs of strategic choices. Resource-constrained incumbents gravitate toward price adjustments, while resource-rich incumbents reallocate resources toward quality changes. Competition from other incumbents further moderates these responses by limiting the extent to which firms can recapture demand. The degree of response also matters. Resource-constrained incumbents that raise prices more aggressively can achieve stronger revenue gains in less incumbent-saturated markets by leveraging the low adjustment costs of price changes. Using property-level hotel data and exploiting a regulatory event restricting short-term rentals, we find that gig disruptors disproportionately affect resource-constrained hotels, and that incumbents' performance and responses are further influenced by the intensity of competition among them. We also show that aggressive rather than cautious price adjustments by resource-constrained incumbents yield larger revenue gains, especially in less crowded markets. Overall, our findings highlight both the appropriate direction and degree of incumbents' responses.