



Corporate Tycoon

CASE STUDY 1- AIRBNB

TRANSFORMING TRAVEL THROUGH TECHNOLOGY



“Nothing is a transaction. Everything is a transformation” (Chesky as cited in Ive, 2015). We are living in a world which is powered, to a large extent, by a shared economy. To view business as usual will no longer work. Airbnb’s success story, what it has done and achieved, is not just a celebration of creativity – it is the very definition of game-changer.

## Company overview

Avid travellers will know Airbnb, an online lodging rental platform. People can become a host on Airbnb by listing their spare rooms while travellers can search for their holiday locations and ideal accommodation. Brian Chesky and Joe Gebbia, both graduates of Rhode Island School of Design, founded AirbedandBreakfast in 2007 to rent out air mattresses and provide breakfast options in their apartment to visitors attending a design conference in San Francisco. They did so to pay for their own rental fees. The idea was to offer visitors a way to save some money by not having to pay prices charged by hotels. A concept totally unheard of in those days, they only managed to interest three guests. In 2008, they were joined by Nathan Blecharczyk, a computer engineer trained in Harvard who was also Gebbia’s roommate before Chesky. Their initial intention was to target visitors at large-scale events and conventions, where hotel rooms were expensive and alternative accommodation was scarce. This effort produced a few thousand listings in 67 countries. Advertising on Facebook together with email campaigns worked well during the events.

However, revenue dropped to a paltry sum at other times. In 2009, upon advice from Paul Graham, Founder of start-up incubator Y Combinator, Chesky and Gebbia went to New York City to gather feedback and learn from their successful hosts. After the visit, they revamped the website based on the experiences of these hosts and high-quality photographs of the apartments were added. This was in sharp contrast to the less professional-looking photographs common on websites such as HomeAway and TripAdvisor. They changed the company name from Airbedandbreakfast to Airbnb in 2010. The site’s offerings were extended to include the rental of a variety of properties such as entire homes and apartments, private rooms, castles, boats, manors, treehouses, tipis, igloos and even islands. Business grew steadily and by 2011, Airbnb raised more than USD 7.2 million and acquired several of its competitors – Accoleo in 2011 and CrashPadder in 2012. In addition, the company acquired travel guides NabeWise and Localmind in 2012 which allowed it to provide localised information on various destinations. By 2014, Airbnb had offices in Hamburg, Berlin, Beijing, Dublin, London, Paris, Milan, Barcelona, Copenhagen, Sao Paulo, Sydney, Seoul, Singapore and Tokyo.

The company’s expansion efforts paid off. Cumulative guest bookings reached USD one million in February 2011, USD five million in January 2012 and USD 10 million by June 2012. In 2013 alone, more than six million people became Airbnb guests for the first time and nearly 250,000 new listings were added. By 5 July 2014, Airbnb had over 330,000 guest bookings and hosted guests in thousands

of cities across more than 160 countries. In Paris alone, more than 20,000 people stayed in Airbnb rooms in one night. Airbnb was valued by venture capital investors, as at 28 April 2015, to be worth USD 20 billion (Matthews, 2015). How was Airbnb able to transform the way people travel, disrupt the hospitality industry and in the process make billions of dollars for itself and its hosts?





## Mode of business operations

Airbnb does not own the listed properties but simply charge both the hosts and guests for using its website. Travellers are able to make enquiries or bookings directly with the property owners. Suffice it to say trust is of pivotal importance here. The founders identify this element very early in the process and instituted many steps to cultivate trust amongst users as well as their trust in Airbnb. High-quality photographs of listings now distinguish Airbnb's properties from its competition and evoke a sense of prestige (Munger as cited in Helm, 2015). The company also pays close attention to the needs and experiences of its hosts in an attempt to improve Airbnb's services. For example, Chesky lives in Airbnb's listed properties to gather insights of the true Airbnb experience.

The website is not structured by functions. Instead, the user experience is tailored according to the needs of both its hosts and guests. Hosts are encouraged to provide more information in their Airbnb profiles to enhance their credibility. Reviews are also used to enhance reputations of hosts. In so doing, Airbnb endeavours to become a platform of trust whereby people feel safe to make transactions.

Airbnb plays the role of a cyber-agent, connecting like-minded buyers and sellers and collecting a nominal agency fee when a successful deal is struck between a host and guest. It has created a community of like-minded travellers, i.e. hosts who want to share their own travelling experiences with other travellers. To do so, Airbnb requires travellers to create their profiles on its website before they can make any reservations. A traveller's profile is accessible by his chosen host the moment a reservation request is submitted. Upon receiving the reservation request, the host will go through the traveller's profile and decide whether to accept or decline the traveller as a family guest. Once accepted, the traveller will pay a six to 12 per cent guest service fee in addition to the reservation fee, payable via a good range of payment methods such as credit cards, PayPal and Google Wallet. Airbnb collects a three per cent service fee from the host for each successful reservation and also offers a Host Protection Insurance programme. The economic value of using Airbnb is one reason for its popularity – there have been instances when the total cost of Airbnb stays were reported to be 20 to 40 per cent lower than a hotel's. Conversely, there are also instances when Airbnb's rates were higher than hotels' as well, especially during special events. However, the value Airbnb provides goes beyond just economics. Both guest and host have opportunities to share and exchange their travelling experiences. It is this social value that makes Airbnb attractive.

Airbnb hosts are mostly people who rent out spare rooms in their apartments. They typically live in the apartments or at least in the neighborhood of the listings. Therefore, they have special knowledge and insights on local attractions and interesting activities that guests might enjoy. Airbnb encourages hosts to share these insights with guests, making their stays more pleasurable and memorable. This aspect contributes to the uniqueness of an Airbnb stay vis-à-vis a hotel stay. Owners can monetise spare assets during pockets of availability. This is a key feature of the "sharing economy". The sharing economy is changing the dynamics of competition and poses significant threats to conventional businesses. Many asset owners who are engaged in conventional rentals have complained about Airbnb for being an industry disruptor.





On the other end of the spectrum, consumers welcome the shared economy with open arms. It provides them with more options and new perspectives of meeting their accommodation needs. Airbnb has won the hearts of many travellers who have spoken positively about the experience it provides. Airbnb's guests come from different parts of the world and are interested in accommodation options with a twist. They look for homely comfort, great experiences and a personal touch. Many early guests who stayed in Airbnb's largest market in New York City reportedly became hosts when they returned home. These guests enjoyed the unique travel experience and were keen to replicate it for others who travelled to their regions. They too wanted to be part of Airbnb's community.

Guests can search for accommodation across a wide price range which is solely decided by hosts. The types of accommodation also depend on what the hosts can offer. While listings were initially concentrated in cities, various locations became available as more people learnt about Airbnb. In less than 10 years, Airbnb has become a multi-billion-dollar enterprise and one of the most highly valued technology companies in the United States (US). Many corporate investors, hedge funds and mutual funds now seek the company.

### **Key features of the business**

The success of Airbnb was a result of an amalgam of many factors. Airbnb connected travellers, referred to as "guests", who like the idea of alternative accommodation and living with locals, referred to as "hosts". The latter of whom are willing to rent out some of their unused space for short periods of time.

How Airbnb works:

- Travellers can search for accommodation listed on Airbnb's website.
- Hosts can list their rooms or properties by creating a free account as well as a profile.
- Guests can send requests to hosts who have to respond within 24 hours.
- Identities of hosts and guests are verified using a government-issued identification card, social media account and personal contact information.
- The company offers a 24-hour customer service hotline and up to USD 1 million in Host Protection Insurance programme.
- Payment is handled by Airbnb which takes a three per cent cut of the listing price from the host and six to 12 per cent service fee from the guest.
- Hosts and guests can provide reviews within 14 days of the stay, which serve as useful evaluation or feedback for both parties.

The proliferation of social media has engendered the environment in which people are becoming comfortable with searching and sharing information, photographs and opinions online. Coupled with several cycles of economic and financial turmoil, the idea of lower-priced accommodation may be palatable but would anyone want to live with a stranger for several days even though the price is less than that of a hotel room?





Airbnb's solution was to come up with an improved website that projects credibility, respectability and a bit of fun. High-quality digital photographs are used to capture style while providing potential guests a peek into the lodging. Hosts can request for a professional photographer at Airbnb's expense to take photographs of their premises simply by clicking on the "Apply" button. The payment process is straightforward. Guests can choose from several payment methods when making a reservation. Other salient pointers are as follows:

Unique model built upon people:

Start-ups today are built not based on productivity gains made possible by eliminating human resources but by leveraging on software technologies that generate employment (Mims, 2015). The lodging industry is labour intensive and taking on this industry is not simply about using technology to up productivity and replace labour. For a company to be successful in this industry, it should be able to create markets for both the labour force and customers. In 2009, many homeowners were caught by one of the worst financial crises in American history and were looking for avenues to generate income. Renting out spare rooms was a stop gap measure for the laid-offs – it offered a temporary solution to their income problems before they found another job. Home stays were attractive to travellers looking for a unique, personal experience that was also priced affordably.

Unique product offerings:

Airbnb is a virtual marketplace for buyers and sellers to meet for exchange. However, the exchange goes beyond utility. It is a social platform that connects like-minded hosts and guests who can now share memorable episodes of their lives. It has an efficient mechanism in place to collect actual customer stories. One particular video shares a real story of an Airbnb customer who took her father to Berlin to heal an emotional wound. Such stories are not only believable and interesting but also resonate with others who yearn similar experiences. The result is a powerful mix of style, art and substance that engenders high visitation and consumption. Airbnb's customers are the company's spokesmen, brand ambassadors and salesmen.

Conversely, hotels are unable to create an authentic experience that is customised specifically to the tastes and preferences of their guests. Although hotels have comfortable beds, complemented by room service and amenities such as swimming pools and gymnasiums, their services are largely standardised. Hotel staff are nice and polite but they are trained to respond to customers' needs according to standard operating procedures. Most of their behaviours are predictable. In other words, hotels are less adept at making a guest feel special.

Airbnb has a comprehensive listing of properties. Its website is user friendly and users can search by keywords to look for their ideal stays. Alternatively, they can refine their searches according to categories such as property type; room type; price; size; amenities; and host's spoken language. Its customer service has received high praise. Airbnb's service is prompt, its staff helpful. They are easily contactable by telephone and email.





Anyone can be a host by creating a free listing on Airbnb's website. Airbnb has guidelines to assist hosts with creating descriptions of their listings and amenities. Hosts can post up to 24 photographs of their listings and Airbnb also provides professional photography services in most countries and cities. There is an additional feature that allows hosts to charge different prices for nightly, weekend, special events and monthly stays. While hosts are free to set a price, Airbnb offers insights into the typical prices in the vicinity with the suggestion to "offer a great deal". Later, hosts can increase the price if they receive positive reviews from guests and gain a stellar reputation (Airbnb, n.d.). It is also possible to include periods when the listing is unavailable for bookings. Hosts has the option to delay making their listings available until they are ready to receive guests. They can also choose to let guests submit a reservation request or allow instant bookings. Advice on how to prepare for and receive guests is also shared on the website.

### Venturing into untrodden territories

Chesky is someone who understands the milieu he operates in, in this case, the lodging rental business. He has found a creative way of unleashing latent market potential. Renting out properties is not a new concept. Before Airbnb, many homeowners were already engaging professionals to do so. Online companies such as HomeAway, Priceline and TripAdvisor were already established players in this market. Airbnb's success would be slim if it targeted this same group of homeowners. Instead, Chesky decided to venture into an untapped segment of the market – entrepreneurial homeowners who want to transact the rental service themselves rather than contracting professionals to carry out the tasks. The potential of this market segment was latent and unknown at that time. However, it turned out to be huge and later brought success and fame to Chesky and Airbnb. He was ranked number 1,006 on the 2015 Forbes list of billionaires with a personal net worth of USD 1.89 billion as of August 2015 (Forbes Ranking, 2015).

### Connecting like-minded people

Airbnb helps customers bond around common aspirations – the ability to stay anywhere, meet other people and have an adventure. The marketing focus is on fostering a community that makes sharing possible. Airbnb motivates users by giving them opportunities to connect with other people who share similar values and interests. In so doing, the company is able to ensure satisfaction on the supply side. When guests interact with like-minded hosts, they extend the same respect to the host as they would when relating to their family members. They also treat the host's property with care. This way, the likelihood of a pleasant experience for both the host and guest is high; the chances of abuse such as messing up and vandalising the rented premises are reduced.

### An impeccable founding team

Airbnb has three co-founders, namely Brian Chesky, Joe Gebbia and Nathan Blecharczyk. Chesky is Airbnb's Chief Executive Officer (CEO) responsible for company's vision, strategy and growth. His parents were social workers and so Chesky had a comfortable though never privileged life. The first advice he had from his parents after graduating from the Rhode Island School of Design was to get a job that provided good health insurance. It was at his school where he met Chief Product Officer (CPO) Gebbia who had earned dual degrees in graphic and industrial design. When Chesky first founded Airbnb with Gebbia, they were living in airbeds, sharing a living room, trying to realise an idea which many people thought was crazy. Desperate for cash but reluctant to give up, they were willing to try every opportunity to raise funds for their business when investors showed no interest in their company.





During the 2008 US presidential campaign, they sold special-edition cereals called “Obama O’s” and “Cap’n McCain’s” cereal. They managed the fundraising – from packaging design to sourcing for printer, production and marketing. They sold 1,000 boxes of cereals at USD 40 per box and raised more than USD 30,000. They took up a credit card loan of USD 20,000 to USD 30,000 just to keep the business afloat. They were merely thinking of survival. Little did they expect the business to grow at such an impressive rate.

Gebbia leads the product team responsible for creating the Airbnb experience. The Airbnb experience is holistic. It begins when users make first contact with Airbnb and only ends after a stay is completed. This approach is further extended to include the hiring experience of Airbnb staff from the moment they respond to a job advertisement right up till their employment. Even those who reject job offers from Airbnb are tracked for potential referrals. The ability of Airbnb to create unique experiences can be credited to Gebbia (Anders, 2015).

Blecharczyk is the Chief Technology Officer (CTO) overseeing the technical strategy of the company. At the age of 14, Blecharczyk was already creating software for sale. He later graduated from Harvard University with a computer science degree and went on to work for Microsoft and other well-known software companies before joining Chesky and Gebbia. Coming from a technical background, he sees things quite differently from his co-founders who are both designers. He brings diversity to the management of the company (Blecharczyk as cited in Abbot, 2013). He is also a strong advocate of collaboration. He believes that employees should be organised by projects. Crossfunctional product teams assembled based on project needs are more effective than simply assigning specific roles to employees within the organisation.

### **Business strategies**

Airbnb has created a social platform which facilitates the interactions between guests and hosts so that they can exchange value in a multi-faceted marketplace. Airbnb develops the content that guests will consume and homeowners will provide. Like conventional businesses, platforms have significant upfront costs (Moazad, 2014). For platform businesses to survive, they need to have highly scalable ecosystems capable of driving the critical mass of the business through the network effects of buyers and sellers. Without the critical mass, the business will be a failure no matter how good the idea is, how well the technology works or how beautifully the product is designed. In the early years of Airbnb, Chesky went knocking door to door in New York to recruit users and helped existing ones improve their listings. In addition, Airbnb spammed Craigslist<sup>1</sup> to gain early momentum. With thousands of apartments moving from Craigslist to Airbnb every week, the traction became rather unstoppable, contributing to much of Airbnb's success. Table 1 highlights the company's business growth and Table 2 shows its market valuation for the past seven years.





Table 1: Airbnb's business growth

Year	2015	2014	2013	2012	2011	2010	2009
Airbnb revenue (USD)	900.00 MM <sup>2</sup>	423.00 MM	245.00 MM	130.00 MM	35.00 MM	5.30 MM	900,000 MM
Total employees	-	1,550	825	500	140	13	4
Properties	-	925,000 <sup>3</sup>	550,000 <sup>2</sup>	300,000 <sup>2</sup>			
Guests	-	10,100,000 <sup>4</sup>	4,000,000 <sup>5</sup>	1,500,000 <sup>6</sup>	650,000 <sup>5</sup>	250,000 <sup>5</sup>	50,000 <sup>5</sup>

Source: PrivCo (2015)

Table 2: Airbnb's market valuation

Year	June 2015	May 2015	October 2014	April 2014	October 2012	July 2011	November 2010	April 2009
Secondary market implied valuation (USD)	24.00 BN	20,00 BN	13.00 BN	10.00 BN	2.53 BN	1.31 BN	71.80 MM	2.99 MM

Source: PrivCo (2015)

## Problems

Airbnb has been criticised by industry watchers for the security and safety issues that arose. There were complaints from hosts and guests as well.

### Security and safety issues

The issue of customer safety and security is important. Hotels have regular fire and security inspections to ensure the safety of their guests. Airbnb's hosts are not obligated to carry out such inspections. In the event of property loss such as fire, theft or injury, what are the liabilities involved and to what extent are they applicable to the host and guest? For hosts, Airbnb provides insurance coverage against property damage caused by a guest as well as bodily injury or property damage in the building. Airbnb's insurance will be in excess over any insurance that the host has and this is where complications arise. Homeowner and tenant policies are less straightforward with regard to insurance coverage for a host who rents to Airbnb guests. The Insurance Service Office's<sup>7</sup> homeowner and tenant policy forms cover the business use of a property as an exception of exclusion and are limited to the occasional rental of the entire property or unlimited rental of the entire property to no more than two roomers or boarders. How does one define "occasional"? Could the rental of rooms for short stays over an extended period of time of say one year be considered occasional? Insurance agents and companies have different stands on that.

<sup>1</sup>Craigslist is a classified advertisements website with dedicated sections on jobs, housing, personals, sale, wanted items, services, community, gigs, résumés, and discussion forums

<sup>2</sup> Estimated

<sup>3</sup> End of year

<sup>4</sup> End of year; 25+ million cumulative guests

<sup>5</sup> Beginning of year; ~ 6 million guests served in 2013

<sup>6</sup> Beginning of year

<sup>7</sup> An organisation in the US that collects statistical data, promulgated rating information, develops standard policy forms and files information with state regulators on behalf of insurance companies that engaged its services







### Complaints and adverse publicity

Guests have blogged about filthy rooms and dirty bed sheets. Hosts know horror stories such as having an entire house ransacked by party-goers when they thought they were renting to some quiet suburban family. Neighbours of hosts assert their right to not be living next door to a “hotel” with a never-ending stream of rowdy strangers.

Hosts have also been criticised for listing very high prices for stays during special events. For example, prices for rooms in Philadelphia rose to more than USD 1,000 a night in September of 2015 when the Pope was scheduled to visit (AFP, 2015). Prices for rooms are also known to rise sharply during traditional year-end holiday seasons. Many are put off by the high prices. Apparently, some hosts are trying to make as much hay as they can while the sun is still shining. Airbnb appears to be doing little to address recalcitrant hosts. When it did respond to complaints, it appeared diplomatic and tepid (Arrington, 2011). If the company continues to ignore market criticism, it will face the inevitable consequence of getting sidelined when a better option becomes available to the market. However, others have opined that the increase of rental prices during peak periods is a common practice in the hotel industry. It is a pricing strategy readily used by services marketers to curb shortterm spike in demand. Customers who are unwilling to pay the increase will naturally turn away.

The hotel industry also opposes Airbnb openly as it is taking away their customers by undercutting prices. Hotels are subjected to local tax and regulations. Their tax contributions are a key and important source of government revenue. Airbnb's hosts, on the other hand, are able to rent out their premises at a much lower rate because they are not required to pay taxes. Instead of benefiting the economy and improving the welfare of society, Airbnb is criticised for facilitating the evasion of taxes and regulations which eventually add to the tax burden of others. Many hoteliers have filed formal complaints against Airbnb with their local governments.





### **Laws on rental**

Although it is not illegal to rent out rooms, homes, or apartments in the US, many cases of Airbnb rental fail to meet local housing laws and regulations. For instance, in New York, homeowners or tenants are not allowed to rent out their apartments for a period of less than 30 days unless they are also living in the property. In an attempt to impose stricter legislation, law makers in San Francisco proposed a cap of 90 days on every property rental regardless of whether the host is present. They also require rental companies, such as Airbnb, to share data on rentals and ban rentals in certain neighbourhoods where people have the right to sue their neighbours for damages if they have evidence that their neighbours are renting out rooms or homes illegally. Authorities in New Orleans, Malibu and other US cities have created a new housing law that bans regular short-term letting of rooms unless permission is granted officially.

Globally, Airbnb is also not spared from legal pressures. It was fined €30,000 for breaching local tourism laws in Barcelona. In Berlin, officials have created a new housing law banning homeowners from renting out rooms on a short-term basis without first obtaining permission from the authorities. Airbnb responded by arguing that the company brought financial benefits to low-income households. It has since updated its terms of service so that users are more aware of local laws and taxes.

However, not all countries are apprehensive of online lodging rental platforms. Countries such as the Netherlands, United Kingdom (UK) and France have pro-sharing legislations. For instance, Amsterdam permits homeowners to rent out their homes to as many as four people at any one time and for as long as two months in a year, so long as homeowners pay the relevant taxes. In June 2014, Eric Pickles, secretary of communities and local government of the UK, announced reforms that would scrap rules preventing homeowners from listing their properties on sites such as Airbnb.

### **Further development**

In May 2015, Airbnb announced its interests in the professional vacation-rental business. As reported by Wall Street Journal (Fitzgerald, 2015), the company was developing software that would have the capability of not just allowing vacation property owners such as beach and ski resorts to showcase their properties on Airbnb's website but also standardise service routines and prices. The move was Airbnb's attempt to boost and modulate the irregularities in its revenue streams, a characteristic feature of its business model where income is generated from short-term rentals. However, there are already many well-established sites such as HomeAway and TripAdvisor offering similar services online. Airbnb faces stiff competition in this market segment. This market segment has very different consumption behaviours. There are fewer vacation property owners but their assets for rental are larger in size. They are looking for continuous rental incomes over a longer period of time. They are likely to be business savvy, managing the vacation resort as a business. In addition, resort vacationers might not share the same travelling aspirations and beliefs as the leisure traveller. They may not be satisfied with a simple bed-and-breakfast stay (Gill, 2014). This is a totally different ball game. The capabilities of Airbnb to meet the demands of these hosts have yet to be tested.





In April 2015, Airbnb released news that it planned to offer its rental platform in Cuba after the Presidents of US and Cuba jointly announced their interests to restore diplomatic ties that were absent for more than 50 years. Setting up a business platform in Cuba will require overcoming a host of challenges, including spotty web access, limited payment options and the ongoing US embargo. Is the Cuban plan an attempt by the company to circumvent the restrictions and challenges faced in its own backyard? Or could it be an early sign that the online lodging rental platform business model is unsustainable in the long run? What should Chesky do to ensure the sustainability of Airbnb in the long run?

### **End-of-Case Questions**

#### Question 1

What is the company selling? What is its value proposition? Using the business model canvas, evaluate Airbnb's business model.

#### Question 2

What was/were Airbnb's business growth strategy(ies) in the United States? Could the same business growth strategy(ies) be used internationally?

#### Question 3

Could an online lodging rental platform business be sustainable in the long run?

#### Question 4

Discuss the entrepreneurial qualities of Brian Chesky, Joe Gebbia and Nathan Blecharczyk. Do you think they have the ability to drive Airbnb's growth? Why?

#### Question 5

Would it be viable to develop a local version of Airbnb? If yes, why? If no, why?

