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Airbnb

For all the lone wanderers or people just searching for a “home away from home,” Airbnb has created the perfect solution for renters and providers worldwide. Since its inception in 2008, Airbnb started an innovative community marketplace for people to list, discover, and book a wide variety of accommodations around the world. Airbnb has pioneered a new industry of “collaborative consumption” and peer-to-peer accommodation rentals, which leaves room for the company’s potential growth and worldwide adoption.

Airbnb has experienced immense success with over 1 million hosts and travelers, over 10 million nights booked, and over 26,000 cities within 192 countries.¹ Despite the substantial growth and potential within this new industry, Airbnb faces several strategic issues moving forward. Airbnb lacks a sustainable competitive advantage, faces a heavy influx of new competitors, and also faces multiple legal and trust issues in the market. Airbnb must determine its direction moving forward or risk losing its competitive position in this emerging industry.

Collaborative Consumption Movement

Collaborative consumption is a term used to describe the “rapid explosion in traditional methods of sharing, bartering, lending, trading, renting, and swapping.”² Also known as a “peer-to-peer online marketplace,” this trend has seen immense growth in recent years. This exponential growth is largely due to the increases in internet-accessibility, online social networking, mobile technology, location-based services, and penny-pinching. There are several online P2P services offered that defy traditional “rental” services, such as renting out your own car, gadgets, parking spot, and even your own garden, among many other things. The ability to rent out almost anything has been a huge advantage to the peer-to-peer economy, as individuals can now capitalize on items that would otherwise not be in use.

The development of the peer-to-peer economy challenges existing traditional services in which a transaction is conducted between a company and a customer. Rather than renting through a car rental agency (Hertz, Enterprise) or hotel booking company (Hotels.com, Expedia), consumers can now use a peer-to-peer marketplace where they can find more flexibility and often a better price. With the advent of the peer-to-peer economy, the industry is seeing increased competition in the renting marketplace in general, as there are competitors in both the traditional “renting” marketplace (Marriott, Westin) and competitors who offer similar services in the peer-to-peer online marketplace as well (Wimdu, Roomorama).³

History of Airbnb

Founded by Brian Chesky, Joe Gebbia, and Nathan Blecharczyk in August 2008 in San Francisco, California, Airbnb broke ground as one of the first peer-to-peer services to specialize in housing accommodations. Unable to pay for housing while traveling to a design conference in 2007, Chesky and Gebbia offered to rent part of their lofts as accommodations to subsidize to cost of their trip.⁴ They soon realized the potential in growing this market and joined with programmer Nathan Blecharczyk to start Airbnb and change the way people think about travel.

In January 2009, the company joined Y Combinator’s incubator program and expanded its offerings from just shared spaces to apartments, whole houses, and other properties. The expansion led to rapid growth throughout the year and in November 2010, it raised \$7.2 million in Series A funding from Greylock Partners and Sequoia Capital, announcing that out of 700,000 nights booked, 80% had occurred in the past six months. By February 2011, Airbnb reached one million bookings and in July 2011, the company raised an additional \$112 million, placing it at a \$1 billion valuation. Using these funds, Airbnb expanded internationally by purchasing Accoleo, a German clone of the site.⁵

Airbnb: How it Works

Airbnb is a community marketplace where guests can book living accommodations from a list of verified hosts. Membership to the site is completely free and there is no cost to post a listing. Using a targeted user interface designed to narrow down traveling preferences, Airbnb offers an attractive, cost-saving alternative to traditional hotel bookings and vacation home rentals. Upon finding a desired listing, guests are prompted to sign up for membership, which provides access to contact the host directly as well as provide payment information for a request. Only once the host accepts the transaction and the guest checks in is the credit card charged, along with a 6-12% transaction fee from Airbnb.⁶ The process is similarly simple for hosts, who

receive a notification once a guest indicates interest in a particular listing and have the option to approve or deny the transaction. Once the listing is booked, the host receives the payment and Airbnb takes a 3% transaction fee.⁷

Business Model

By allowing free membership and free access to list properties, Airbnb quickly overcame the initial mobilization hurdle and attracted a dedicated following of guests and hosts. Users were free to browse as they pleased and were only prompted to pay a service charge when a reservation occurred, allowing Airbnb to maximize the number of potential transactions. Airbnb expanded on its first mover advantage by focusing on customer service and satisfaction. By forming a reputation of personalization, reliability, and trust, Airbnb attracted users that truly believed in the brand value the company created. To establish this ecosystem, Airbnb used the revenue from transaction fees to implement systems such as improved customer verification, million-dollar theft/damage insurance, authentic guest reviews, and social connections.⁸ All of these factors helped Airbnb create a highly scalable business model that has led to promising financial returns.

Financial Landscape

With nearly \$120 million in venture funding to date, most of Airbnb's growth can be attributed to its heavy investment in marketing and infrastructure. By devoting resources through the Google Display Network, Airbnb attracted customers through compelling display ads that introduced its services as an entirely new way to travel the world. This investment largely paid off, driving a 120% increase in branded searches and increasing the number of nights booked from 800,000 to 2 million.⁹ This form of enhanced advertising, as well as an improved website infrastructure, allowed Airbnb to grow its revenue from \$850,000 in 2009 to nearly \$45 million in 2012, translating to a 3 year compounded growth rate of 275%. Sales numbers rose similarly, from merely 365 bookings in 2008 to 15.8 million in 2012. Even the number of employees jumped from 4 in 2009 to over 500 in 2012.¹⁰ While future growth remains to be seen, Airbnb is currently enjoying a financial stability that will allow it to invest heavily in expanding its current market share of users.

Room-sharing P2P Market Forces

Airbnb is currently the market leader in the room-sharing peer-to-peer online marketplace, but it faces competition from several companies, who are all seeing booms to their

businesses as the peer-to-peer economy expands. Four of the top competitors Airbnb faces are Wimdu, Roomorama, 9flats, and Couchsurfing.org.¹¹ These companies have similar offerings in the P2P property rental market. Because they are very similar in structure (low fees, easily accessible), there is limited differentiation found among the companies' core business models. The differentiation that does exist is found in the number and diversity of listings, brand recognition/reputation, and loyalty of user base.

Problems Facing Airbnb

Developing a Sustainable Competitive Advantage

As mentioned before, while Airbnb is a market leader and offers competitive advantages in its brand recognition, ease of use, extensive listings, and network effects, the company faces difficulty in maintaining a *sustainable* competitive advantage. The peer-to-peer rental marketplace is a recent advent, and as such, is not a defined market and can be shaped with relative ease. Due to relatively low barriers to enter this market, Airbnb's competitors can almost perfectly replicate its business model, which makes long-term growth challenging.

Establishing Consumer Trust

A major barrier to the continued proliferation of Airbnb services is establishing consumer trust. Since Airbnb connects individuals to each other versus the traditional model of connecting individuals with an established company, continuing to defy this norm is a challenge that Airbnb constantly faces, and must address while they continue to expand. While Airbnb has insurance policies in place to address issues of vandalism, theft, or violence, the true cost of these incidents lie with the potential damage to Airbnb's reputation. As Airbnb continues to expand, methods of establishing consumer trust must be adapted over several countries and designed to respect cultural norms.

Legality Issues

Airbnb faces legality issues in both domestic and international markets. There is legal ambiguity with Airbnb's services and it is not quite clear whether its rental services violate any laws.¹² This may vary from state-to-state and country-to-country, so Airbnb must be cautious of its expansion to minimize the risks of lawsuits and increased pressure from the hotel industry. Renting accommodations for less than 30 days is technically illegal in certain states, so Airbnb must deal with these issues or risk losing its business. Airbnb may need to fix these issues prior to expanding aggressively or implementing new services.

Strategic Options

With the arrival of new competition and problematic legal/consumer issues, Airbnb must prioritize a series of strategic options. Although the company currently enjoys a considerable first mover advantage, Airbnb must consider three main options to ensure optimal competitive positioning within the market to secure future financial stability and growth.

Increase usage and establish Airbnb in domestic market

Since the peer-to-peer market is still relatively unknown to the general population, aggressively advertising Airbnb's business could substantially increase untapped domestic customers waiting to lend or rent new accommodations. The current 200,000 worldwide listings statistic merely shows there are still millions of untapped living spaces. Next, resources can be directed towards developing technology or strategies to differentiate Airbnb from its competitors. When asked about what separates Airbnb from competitors, Brian Chesky merely listed aggressive expansion and first mover advantage.¹³ Airbnb has no sustainable advantage so developing any edge it can is essential. Airbnb can either focus on addressing its domestic legal issues through lobbying or circumvent the problem by avoiding the states that outlaw P2P accommodation rentals.

Integrate Airbnb's platforms with other outlets

The peer-to-peer accommodation rental market is similar to the hotel rental industry, so Airbnb can adopt similar partnerships with outside companies to bundle goods. If partnerships are formed, both the outside providers and Airbnb will benefit from increased usage, promoted traffic, and growth in revenues. Partnerships with car rental services, review services, and airline agencies are all viable options when browsing selections for accommodation providers. Moving forward, the erupting "collaborative consumption" industry also represents potential partnerships. Instead of only claiming a room, customers can now rent other goods from the same lenders. For example, a user can have the opportunity of renting a room on Airbnb, borrowing someone's car from a service such as Getaround, and also rent a spare digital camera through another service such as SnapGoods. The usage of services can be promoted through integrating their processes together and collectively pushing the savings potential of the collaborative consumption model.

International Expansion

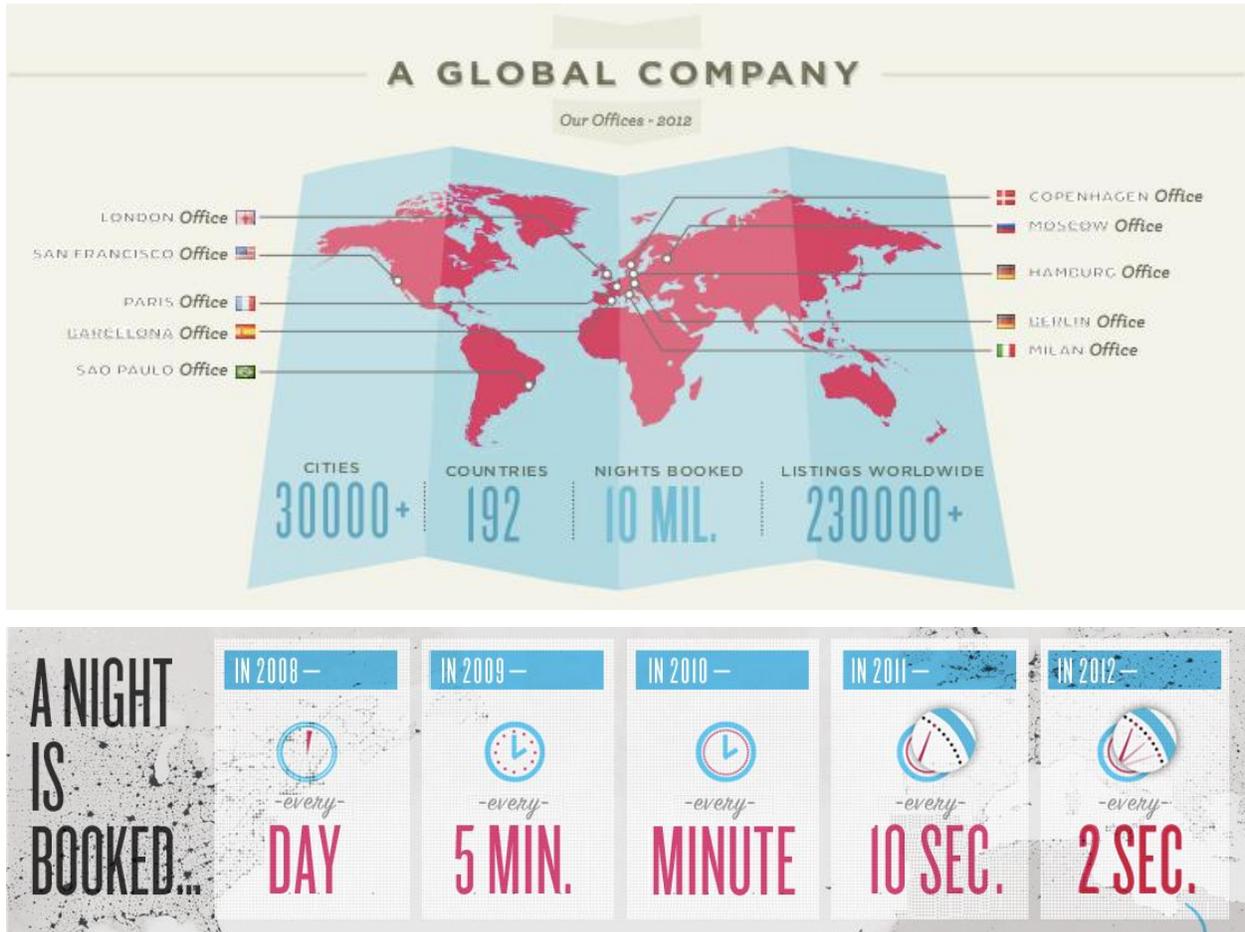
Airbnb's increasing international user base has heavily accounted for the start up company's growth over the past five years. However, competitors have risen in the international markets such as 9flats.com (Europe) and Airizu.com (China) and have quickly gained traction. Aggressive international expansion could be the optimal priority for Airbnb as the peer-to-peer accommodations marketplace exponentially expands. New offices need to be created in major cities such as London, Paris, Shanghai, and others. Local teams can better understand the geography and culture of the country, leading to better marketing, customer service, and dealings with legal issues. Next, 24-hour customer service will need expansion into other languages in order to educate new users and retain previous customers.¹⁴ Without adequate support, potential customers will move towards other accommodation services that provide a better-localized service. Finally, advertising efforts are required to further educate the general population about the usefulness of a "collaborative consumption" modeled business. Since the concept is still so new and widely unused, increasing expenditures on educating the international market could lead to the most potential for maximizing worldwide profitability.

Conclusion

As the pioneer for the collaborative consumption industry, Airbnb will be forced to quickly adapt to changes in the market and attempt to secure the most customers during the industry's expansion period. By effectively prioritizing the strategic issues, Airbnb can ensure market dominance in the domestic or worldwide market. The future of the collaborative consumption market is very uncertain, but Airbnb is poised for continued dominance of the peer-to-peer accommodations marketplace contingent on its upcoming decisions.

Exhibit 1

Airbnb – Key Statistics

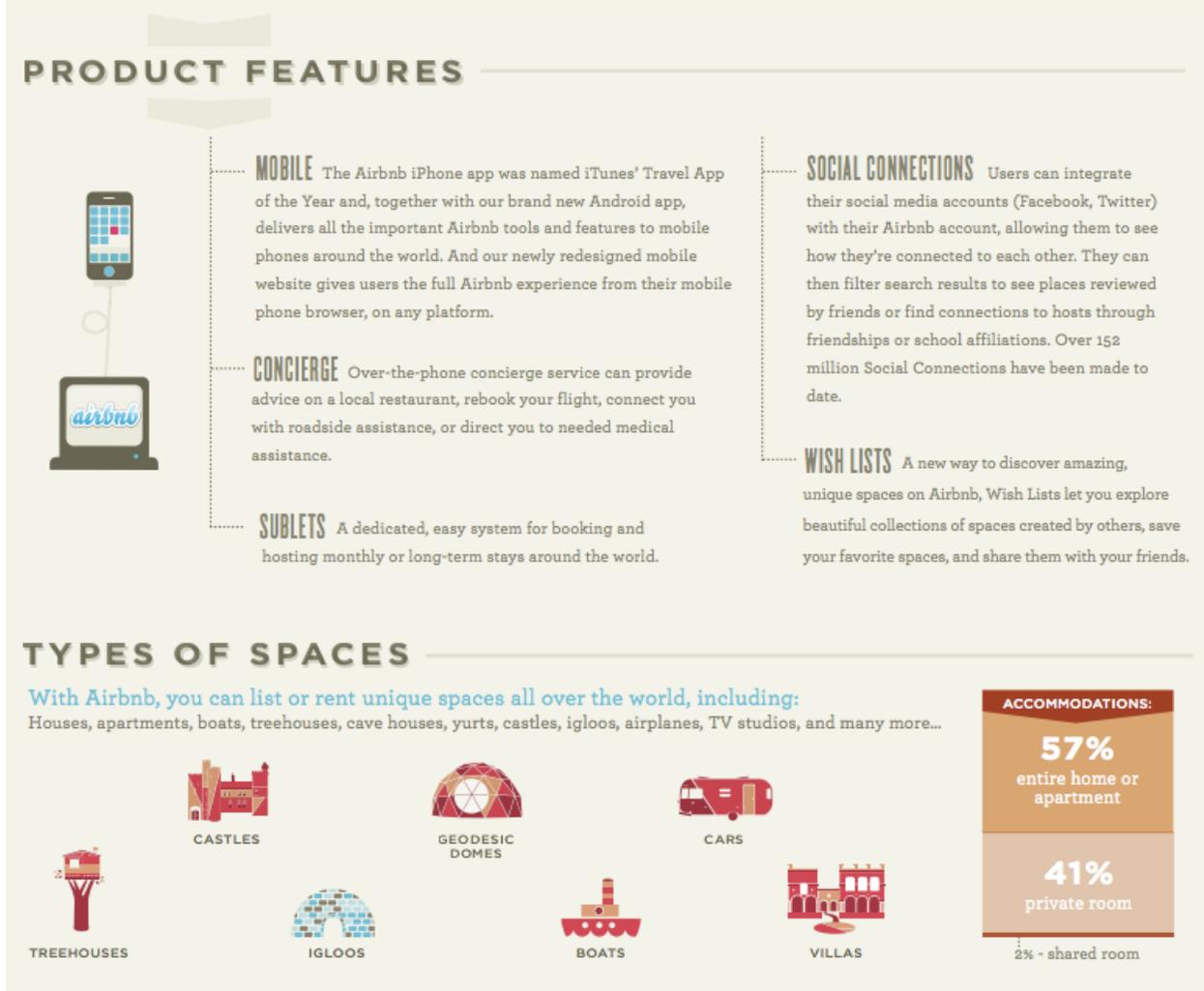


Source: "Airbnb." *Fact Sheet*. Airbnb.

<http://assets.airbnb.com/press/press-releases/Airbnb Fact Sheet_en.pdf>

Exhibit 2

Airbnb – Key Products



Source: "Airbnb." *Fact Sheet*. Airbnb.

<http://assets.airbnb.com/press/press-releases/Airbnb Fact Sheet_en.pdf>

Exhibit 3

Airbnb – Revenue, Employee, and Booking Rate Growth (2008-2012)

Income Statement	2012	2011	2010	2009	2008
Revenues	\$45,000,000	\$18,000,000	\$6,800,000	\$850,000	
Employee Figures	2012	2011	2010	2009	2008
Total Employees	500 ¹	140	13	4	
Productivity (Revenue/Employee)	\$90,000	\$128,571	\$523,077	\$212,500	
Sales Breakdown	2012	2011	2010	2009	2008
Booking Rates	15,800,000 ²	1,261,440	525,600	105,120	365

Notes

Financial Notes:

* Airbnb, Inc. fiscal year end: 12/31

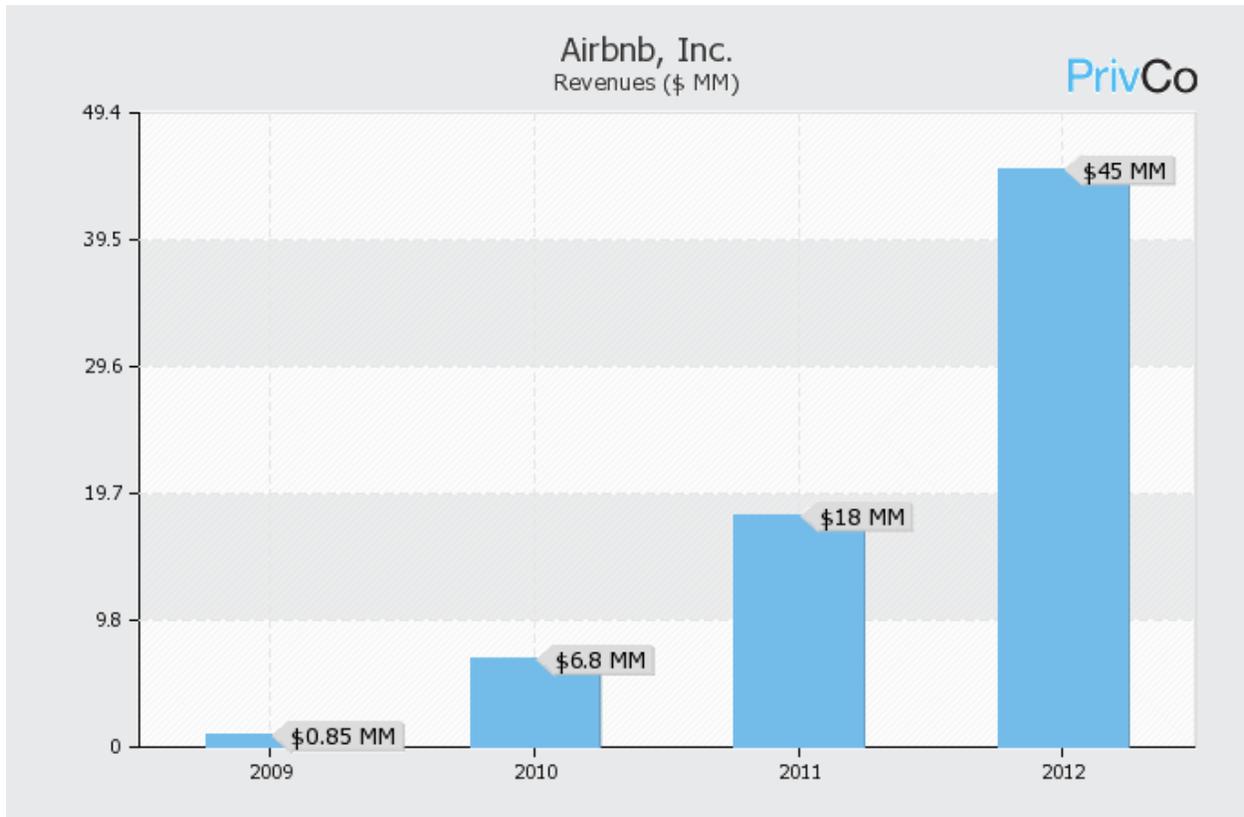
1 As of July 2012

2 Projected

Source: "Overview & Corporate Organization." *PrivCo*.
<<http://www.privco.com/private-company/airbnb>>

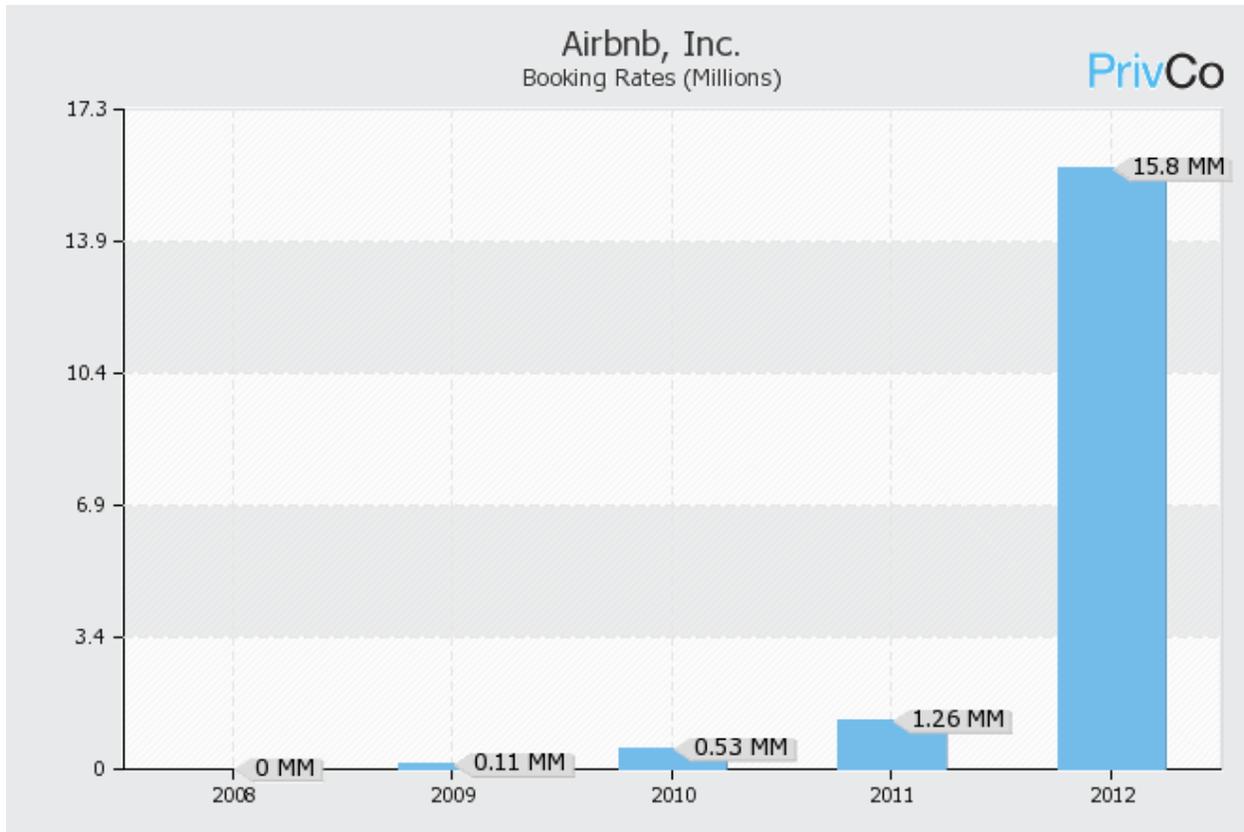
Exhibit 4

Airbnb – Revenue Growth (2008-2012)



Source: "Overview & Corporate Organization." *PrivCo*.
<<http://www.privco.com/private-company/airbnb>>

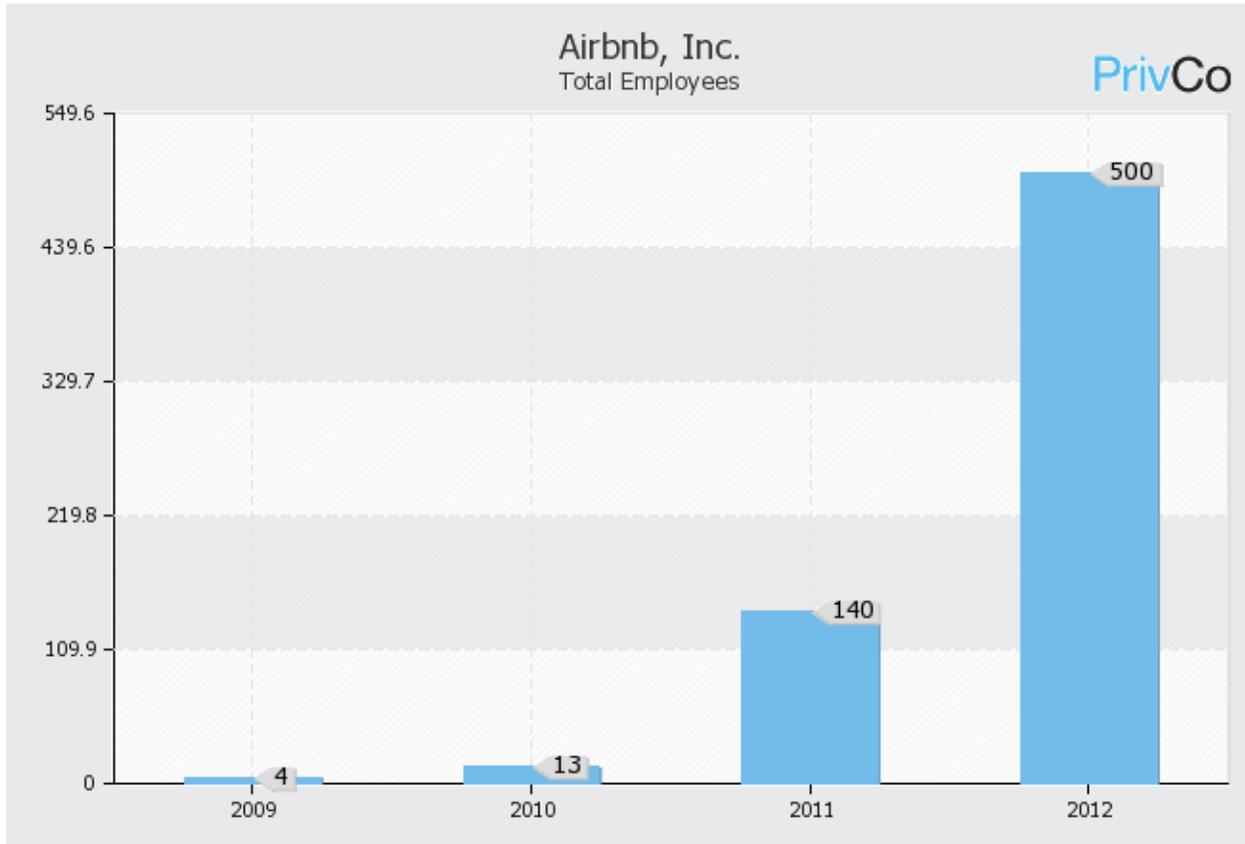
Exhibit 4
Airbnb – Booking Rates Growth (2008-2012)



Source: "Overview & Corporate Organization." *PrivCo*.
<<http://www.privco.com/private-company/airbnb>>

Exhibit 5

Airbnb – Employee Growth (2008-2012)



Source: "Overview & Corporate Organization." *PrivCo*.
<<http://www.privco.com/private-company/airbnb>>

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- ¹ "Airbnb Fact Sheet." *Airbnb.com*.
<[http://assets.airbnb.com/press/press-releases/Airbnb Fact Sheet_en.pdf](http://assets.airbnb.com/press/press-releases/Airbnb%20Fact%20Sheet_en.pdf)>
- ² *Collaborative Consumption Hub*. <<http://www.collaborativeconsumption.com/the-movement/>>
- ³ "Overview & Corporate Organization." *PrivCo*. <<http://www.privco.com/private-company/airbnb>>
- ⁴ "Airbnb Story." *Airbnb.com*. <<https://www.airbnb.com/home/story>>
- ⁵ "Overview & Corporate Organization." *PrivCo*. <<http://www.privco.com/private-company/airbnb>>
- ⁶ "Airbnb Service Fees." *FAQ*. Airbnb. Web. <<https://www.airbnb.com/help/question/104>>
- ⁷ Ibid
- ⁸ "Responsible Hosting." *Airbnb*. <<https://www.airbnb.com/responsible-hosting>>
- ⁹ "Airbnb and The Google Display Network." *Google*. Airbnb.
<<http://www.google.com/adwords/watchthisspace/case-studies/airbnb/>>
- ¹⁰ "Overview & Corporate Organization." *PrivCo*. <<http://www.privco.com/private-company/airbnb>>
- ¹¹ "Overview & Corporate Organization." *PrivCo*. <<http://www.privco.com/private-company/airbnb>>
- ¹² Sankin, Aaron. "Airbnb Legality." *Huffington Post*.
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- ¹³ Tsotsis, Alexia. "Airbnb's Brian Chesky on Expansion Efforts." *TechCrunch*.
<<http://techcrunch.com/2011/11/10/airbnbs-brian-chesky-on-expansion-efforts-we-use-our-community-to-figure-out-whats-next/>>
- ¹⁴ Lawler, Ryan. "Airbnb Plans Aggressive International Expansion." *GigaOM*.
<<http://gigaom.com/2012/01/26/airbnb-international-expansion/>>