

Airbnb in 2016: A Business Model for the Sharing Economy*

Overview

Airbnb was founded in 2008 when Brian Chesky and a friend decided to rent their apartment to guests for a local convention. To accommodate the guests, they used air mattresses and referred to it as the ‘Air Bed & Breakfast’. It was that weekend when the idea; and the potential viability; of a peer-to-peer room-sharing business model was born. While not yet a publically-traded company in 2016, Airbnb had seen immense growth and success in its 8-year existence. The room-sharing company had expanded to over 190 countries had more than 2 million listed properties, and had an estimated valuation of \$30 billion. Airbnb seemed poised to revolutionize the hotel and tourism industry through its business model that allowed hosts to offer spare rooms or entire homes to potential guests, in a peer-reviewed digital marketplace.

This case is meant to introduce students to the sharing economy and potential business models, as well as how technology and the legal environment can both lead to opportunities, as well as challenges. The case opens and closes with quotes from the founder, Brian Chesky, as a method to juxtapose for students how rapid advances in technology can lead to changes in competitive strategies for business, yet, how the legal environment can both lag behind, and be used to obstruct such strategies.

An overview of the accommodation market (i.e. hotels, motels and bed & breakfasts) are provided to illustrate for students such strategic considerations as competitors; both large and small; and the type of consumer, such as business and recreational. The case then presents the costs of operating said businesses to demonstrate the inherent competitive advantage of Airbnb’s business model. This competitive advantage is further illustrated when within the case the changing consumer demands and expectations are discussed, thus bolstering the company’s competitive advantage. Within this presentation of the competitive advantages, then, is the issue of regulations within the market, and the continuing issues Airbnb faces, given current and forthcoming regulations. The case closes by asking students to consider how Airbnb may need to mitigate these issues concerning regulations, while preparing for a future IPO.

Suggestions for Using the Case

Students should find Airbnb in 2016: A Business Model for the Sharing Economy an interesting case because of their own experiences with smartphones and companies such as Uber, or even Airbnb. We recommend using the case immediately following your coverage of Chapter 1. As this case specifically addresses the sharing economy, it lends itself well to discussions of smartphones, technology and their impact on competitive positions for both new and incumbent competitors. It may also lead to discussion of disruptive innovation.

*This teaching note reflects the thinking and analysis of the case author Professor John D. Varlaro, Johnson & Wales University. We are most grateful for his insight, analysis and contributions to how the case can be taught successfully.

We think Airbnb in 2016 is an excellent leadoff case for the course (other good choices are Robin Hood, Mystic Monk Coffee, and Amazon.com's Business Model and Its Evolution—which also require that students draw upon the material covered in Chapters 1 and 2). Due to this, then, the case may be ideal for sustainable competitive advantage, competing differently, and business models. Specifically, the customer value proposition and the profit formula, as found at the end of Chapter 1.

The assignment questions and teaching outline presented below reflect our thinking and suggestions about how to conduct the class discussion and what aspects to emphasize.

To give students guidance in what to think about and what analytical tools to utilize in preparing the Airbnb in 2016 case for class discussion, we strongly recommend providing class members with a set of study questions and insisting that they prepare good notes/answers to these questions in preparing for class discussion of the case.

To facilitate your use of study questions and to make them available to students, we have posted a file of the assignment questions contained in this teaching note for the Airbnb in 2016 case in the instructor resources section of the Connect Library. (We should also point out that there is a set of study questions posted in the student section of the OLC for each of the 31 cases included in the 21st Edition.)

You may also find it beneficial to have your class read the Guide to Case Analysis that follows Case 31 in the text and is also posted in the instructor resources section of the Connect Library. Students will find the content of this Guide particularly helpful if this is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

Videos for Use with the Airbnb in 2016 Case. There are two videos that you may consider having students view prior to class discussion of the case (or you may choose to open the class discussion with one of the two videos). Both videos are posted at YouTube and can be accessed through the following links:

- Airbnb's International Growth Strategy is a 5:04 minute video posted at YouTube (<https://www.youtube.com/watch?v=QsF4VHriFFY>).
- Airbnb's VP of Product on Growth and Planning for the Future is a 6:40 minute video posted at YouTube (<https://www.youtube.com/watch?v=o1RMH8WQtAQ>).

The length of the case makes it ideal for an in-class written case or a final exam case. Our recommended questions for written assignments are as follows:

- 1. Hilton Worldwide has asked you to assess the threat of Airbnb. Please prepare a 5-6 page report that includes a description of both Hilton and Airbnb's business model, as well as discussed customer demands and profiles of users. The company's management also asks that you make a recommendation as to best handle the appeal of Airbnb, and how to potentially reach millennials and other potential users of Airbnb.**
- 2. As a new member of Airbnb's management, you have been asked to prepare an analysis of its competitive position and potential threats. Your 2-3 page executive summary should list strategic issues confronting Airbnb and make recommendations to address such issues. The executive summary should be supported by your analysis of the industry.**

Assignment Questions

1. Using the example chart in the textbook for business models, illustrate and compare the value proposition for Airbnb, large hotels such as Marriott and Hilton and bed & breakfasts.
2. Compare and contrast the general strengths and weaknesses of large, hotel chains such as Marriott and Hilton, bed & breakfasts, and Airbnb.

3. How has the consumer changed and how does Airbnb's customer value-proposition meet this change?
4. What key factors may determine the success of Airbnb?
5. What recommendations would you make to Airbnb to improve its competitiveness in accommodation market while mitigating any current and future risks?

Teaching Outline and Analysis

1. Using the example chart in the textbook for business models, illustrate and compare the value proposition for Airbnb, large hotel chains such as Marriot and Hilton and bed & breakfasts.

Students should be able to identify the following:

	Large Hotels	Bed & Breakfast (single proprietor)	Airbnb
Customer Value Proposition	<ul style="list-style-type: none"> Familiar brands International brands to which customers are accustomed and potentially feel affinity and loyalty Global reach with loyalty programs 	<ul style="list-style-type: none"> One location, offering unique, local accommodation Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area If in rural area, may be only accommodation 	<ul style="list-style-type: none"> Use of technology to which users are familiar Smaller, more intimate stays Varying and different locales in which to stay, both local and international reach Cheaper accommodations Unique accommodations
Profit Formula	<ul style="list-style-type: none"> Revenue generation dependent on renting rooms and overall occupancy Cost structure extensive, composed of wages and purchase and upkeep of multiple physical assets/ locations Other costs would include food and beverage, marketing, taxes, licenses Global costs further complicate structure, including operating across multiple legal and physical jurisdictions 	<ul style="list-style-type: none"> Revenue generation dependent on renting rooms and overall occupancy Cost structure associated with operating brick and mortar physical location, food and beverages, marketing Possibly wages if large enough to necessitate staff 	<ul style="list-style-type: none"> Revenue generation transaction fee charged to users whom offer and rent accommodations through app Cost structure associated with developing and updating software and technology, as well as marketing and wages for engineers, professional management and staff
Profit Margin	<ul style="list-style-type: none"> Dependent on generating sufficient revenues across multiple locations to cover fixed and variable costs globally. Profitable locations may be used to offset losses and unprofitable locations 	<ul style="list-style-type: none"> Dependent on generating revenues sufficient to cover fixed and variable costs. Lack of profitability several jeopardizes business as owned by sole proprietor 	<ul style="list-style-type: none"> Independent of costs associated with operating hotels/bed & breakfasts. Instead, profitability associated with percentage of revenue generated by all participating users offering accommodations

2. Compare and contrast the general strengths and weaknesses of large, hotel chains such as Marriott and Hilton, bed & breakfasts, and Airbnb.

	Large Hotel Chains	Bed & Breakfast (single proprietor)	Airbnb
Strengths	<ul style="list-style-type: none"> Familiar, International brands Brand loyalty Global reach Perception of safe, comfortable and/or reliable accommodations Corporate accounts 	<ul style="list-style-type: none"> One location, offering unique, local accommodation Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area If in rural area, may be only accommodation 	<ul style="list-style-type: none"> No costs associated with operating hotels, thus greatly reduced cost structure Leveraging technology when consumers are more smartphone dependent Market leader perception in technology Ubiquitous, as user can access anytime through app Offering both low-cost accommodations, as well as unique experiences
Weaknesses	<ul style="list-style-type: none"> High cost structure, further complicated by global operations and presence If consumer has bad experience with one location, all locations may be viewed as terrible Need at times to compete on price through discount offerings 	<ul style="list-style-type: none"> Revenue generation dependent on renting rooms and overall occupancy, highly associated with travel trends in the area Cost structure which is highly sensitive to fluctuations, as a sole proprietor has very little room for shifts in revenue and costs 	<ul style="list-style-type: none"> Perception of at times unsafe experiences Users may be hesitant to use Airbnb in specific locations, opting for a more familiar brand Legal exposure through individual users not following laws, such as anti-discrimination Legal exposure as cities and towns determine if renting rooms through Airbnb is legal, and the potential for it to be illegal Business model is relatively easy to copy, as demonstrated by Uber and Lyft in the ride-sharing space

3. How has the consumer changed and how does Airbnb's customer value-proposition meet this change?

Students will be able to identify the following:

- ***Desire for unique experiences, not focused on ownership.*** Students should be able to discuss how evidence of the sharing economy not only with Airbnb, but also Uber, Lyft, and other similar companies. Students may reference their own experiences, but should discuss how Airbnb provides users the opportunity to experience multiple, unique accommodations not associated with larger brands. Further, smaller sole proprietors such as bed & breakfasts may be accessed through the app. Finally, those offering accommodations may also share in the desire to not only have a unique experience with a guest, but not be reticent to invite a stranger into their own home or apartment.
- ***Desire to access experiences immediately through smartphone technology.*** Students should note that Airbnb is possibly through smartphone technologies. Further, apps and smartphones have provided the consumer the opportunity to have immediate access, such as purchasing songs immediately only after hearing them on the radio, or even the simple act of "googling" and looking-up information

- ***Familiarity with apps and fluency with life/smartphone integration.*** Consumers are less technology averse to using smartphones and apps than previous years, and this trend should continue to occur. Thus, as younger generations whom have used smartphones from childhood age and get older, technology and businesses such as Airbnb will be less alien and more common place.

Students should conclude that these consumer changes position Airbnb very strongly to compete effectively, especially given the business model (as identified in Question #1).

4. What key factors may determine the success of Airbnb?

Factors that are necessary for competitive success for Airbnb:

- ***Mitigation of legal threat.*** Any regulation which inhibited or prevented Airbnb users from offering their rooms on Airbnb represented a significant barrier. Students should observe that due to Airbnb's progressive business model, legislation both domestic and international did not account for, and had yet caught-up to business models utilized by companies like Airbnb. To that point, students should observe the complicated legal issues represented at the local, state and federal-level within the U.S., and that these regulatory levels also existed abroad. Further, students should note that competitors, both sole proprietor and large hotel chains invested, and will most likely continue to invest resources in lobbying to exclude Airbnb and create severe barriers to its operation.
- ***Use of smartphone and other technology for differentiation.*** Due to its business model, Airbnb was already differentiated from traditional competitors. In addition, continuing innovations based on current and emergent technologies were essential to maintaining current users, while expanding into new users. Students should also recognize that user experience with the app, including ease of use was an essential component of its competitive advantage.
- ***Brand image.*** Image was also a critical factor in helping consumers choose which accommodation to patronize. Included within this image was reliability, quality of stay and safety. Given the sheer immensity of the user base, and how each location represented a unique offering, Airbnb had a significant challenge in continually ensuring both quality and safety when consumers used Airbnb.
- ***Expansion of Users and Accommodations.*** Overall expansion of users who offer accommodations and those who use Airbnb to book accommodations was critical to its success. This continued growth will be necessary to ensure profitability. Students may note how as estimated revenue has grown, bookings growth has been projected to decline (exhibit 3).

5. What recommendations would you make to Airbnb to improve its competitiveness in accommodation market while mitigating any current and future risks?

- Students should note that the estimated revenues were strong, and that Airbnb's cost structure combined for a very solid competitive position. Students should first recommend Airbnb continue to lobby and advocate for friendly legislation as it did in 2015, but may also identify other avenues for such activities. For example, students may identify business organizations, such as chambers' of commerce, as large, pro-business groups that could be leveraged to gain legislative support.
- Students should identify how single-proprietor establishments can be a boon for Airbnb, and devise methods to enroll and assist such businesses in utilizing Airbnb as a platform for marketing and offering accommodations. Doing so can mitigate the legislative risk while growing the user base and potential future revenues.
- The business segment (exhibit 1) is an essential component of the market, which students may identify as an opportunity for increased user base and revenue growth. Students should also identify, however, given Airbnb's current position, it is not as business friendly, and would need potentially need to change its user interface

- Students should recognize how continued investments in technology will be necessary to maintain the technological differentiation. These investments will not only be within smartphone and computer interfaces, but within emergent technologies. For example, some students might discuss how virtual reality (VR) could be leveraged to market accommodations, or even improve brand aspects such as quality and safety.
- Students should note that strategies that mitigate competition between larger hotels and Airbnb can reduce legislative and competitive risk, while potentially expanding user base and revenues. For example, students might suggest Airbnb creating a space in the marketplace for established, large-chain hotels. Students could argue that by doing so, Airbnb mitigates legislative risk, while also expanding into the business segment with minimal internal changes and investments.

Epilogue

There was nothing new to report at the time this teaching note went to press, although similar news articles continued to appear discussing the aspects within the case.