Spring 4-29-2019

How Three Millennials Revolutionized a Global Industry

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Recommended Citation
Congel, Sabrina; Clark, Kelly; and Cizeau, Mélody, "How Three Millennials Revolutionized a Global Industry" (2019). Global Manager Abroad. 8.
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How Three Millennials Revolutionized a Global Industry

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May 2019
Acknowledgements

We would like to thank Professor Jimmy Chen, our mentor Rich Karcher, and the Freeman College of Management for their invaluable support and expertise.
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It all began in 2007, when Joe Gebbia, a twenty-five-year-old serial entrepreneur in San Francisco, composed an email to his roommate, Brian Chesky. The email read, “I thought of a way to make a few bucks - turning our place into a ‘designer’s bed and breakfast’ - offering young designers who come in to town a place to crash.” This lighthearted idea dawned upon Gebbia before an upcoming design convention in the area. He caught wind of the fact that all surrounding hotels were fully booked, and quickly realized that there was a way to profit from the shortage. As they sat in their San Francisco apartment eating ramen, Gebbia and Chesky spit-balled ideas to create a business.

At first, welcoming strangers into their apartment was a farfetched idea, not only to Gebbia and Chesky, but to society at large. Struggling to make rent due to a 25 percent increase, Joe and Brian welcomed the thought of “extra bucks” by opening their home to strangers. Realizing the potential in this idea, Joe Gebbia and Brian Chesky, along with their old roommate Nathan Blecharczyk, got to work on creating a business.

Desperate for a place to rest their head, two men and one woman unknowingly broke down the walls of traditional lodging during their stay in San Francisco, becoming the first customers of a $25 billion startup. Within a matter of 4 weeks, 800 people had signed up to host guests. Due to these first travelers’ desperation for a place to stay, this foreign idea of sleeping in stranger’s home would later become the norm. That winter, the idea of Air Bed and Breakfast was born.

Initially started as a side hustle business, Airbnb struggled to gain traction from investors. The founders were introduced to twenty Silicon Valley investors; ten replied to their emails, five met them for coffee, and zero invested in Airbnb. After three failed attempts and various rejections from investors, Air Bed and Breakfast finally gained some traction by 2008.1 In March 2009, Air Bed and Breakfast simplified their name to Airbnb to ensure that there was no confusion with their brand. One month later, Airbnb welcomed a large seed investment that provided financial stability for future growth. By convincing that single investor, the phenomenon of Airbnb was able to hit the ground running.

This study will examine the ways in which Airbnb has disrupted both the hospitality and travel industries. Through an analysis of their business expansions into new markets and business lines, this study will reveal the importance of their acquisitions and technological innovations for future growth. As stated above, the founders of Airbnb have continued to challenge the status quo in order to build a revolutionary business that will forever transform the global travel industry.

The research presented in this case study, is guided by the overarching question of: *How do Airbnb’s strategic acquisitions, technological advancements, and consumer-centric business endeavors position Airbnb to compete within the hospitality industry on a global scale?*

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Global Hospitality Industry

The hospitality industry includes various fields, including: food and drink services, event planning, theme parks, transportation, and cruise lines. Because Airbnb continues to transform the hospitality industry, it is necessary to examine how their strategy helps them continue these developments.

Global tourism has experienced compound annual growth rates (CAGR) of 4.0 to 4.5%. Today, people are much more focused on incorporating travel into their leisure time. Specifically, in the U.S., there have been almost 10 years of consecutive growth in the travel industry. Looking solely at job openings, the U.S. Bureau of Labor Statistics reported that there were 353,000 openings within the leisure and travel industries in 2009; by 2018, the number of job openings had increased to 1,139,000. Within the global hospitality industry, there are three main trends that are influencing the future of this field.

Industry Trends

The Sharing Economy

One of the biggest trends affecting the global hospitality industry is the growth of the sharing economy. According to a report by PricewaterhouseCoopers, the sharing economy is defined as allowing “individuals and groups to make money from underused assets... In this way, physical assets are shared as services.” Within the hospitality industry, the sharing economy is particularly appealing because it often offers better pricing, more unique experiences, and more choices to consumers. However, security, hygiene, and uncertain quality are still big concerns. The sharing economy is estimated to grow from $15 billion in 2014 to $335 billion by 2025. With this exponential growth in sharing economies comes the common denominator of the rise in millennial preferences.

Millennials

Millennials overtook the baby boomers as the biggest population group in the U.S. in 2015. A recent study by Forrester also found that millennials tend to value experiences over material goods, stating, “a characteristic reflected in using smartphones to share their adventures, diversions and gatherings on social media platforms like Facebook and Instagram.” Millennials, in general, have fewer issues with sharing, and research has found that 47% of millennials prefer to spend money on experiences over products, compared to only 29% of baby boomers. Given that the millennial generation prioritizes sharing over ownership, they have embraced startups like Airbnb.

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6 Ibid.
Experiences

Happiness studies show that experiences increase contentment far more than purchases do. This sentiment is especially true for the younger generations, who are shying away from ownership of material goods in general. In addition, a study by the Harris Group found that 65% of millennials are currently saving money to travel, which is more than the average for other generations.

Experiences create emotional connections. Improving the overall experience and making it unique is really important as positive memories of a trip influence satisfaction and loyalty intentions that may result in word-of-mouth recommendations. Moreover, 69% of survey participants say they will not trust sharing economy companies until they are recommended by someone they trust; additionally, guests are likely to spend 31% more on a business with excellent reviews. In their press release on experiences, Airbnb stated that, “Guests who book Experiences on Airbnb are usually satisfied as 91% of Experience bookings receive five star reviews”.

Skift and Marriott International’s 2017 Luxury survey shows that although there’s a rising demand for accessing local people and experiences, consumers overwhelmingly trust globally-recognized brands over local services. 44% survey respondents preferred bigger and better-known luxury providers. This result indicates a growing opportunity for worldwide companies, such as Airbnb, to use their scale to deliver more authentic experiences.

The demand for more authentic travel experiences comes from all budget segments. Brands are using exclusive travel experience to differentiate themselves and to appeal to a higher-end consumer. Chris Cahill, CEO of AccorHotels, stated in a recent interview that the quality of furnishings and comfort have become the basis of luxury today.

Luxury is an emotional experience of facilitating self-fulfillment that goes beyond just a trip. In a recent survey by Skift and Marriott International, more than 75% of luxury travelers strongly agreed with the statement that they found more value in goods and services that enable them to learn something new. This same study also found that 52.8%
of respondents believe that the value they place on transformative travel has increased in
the last 3-5 years.\textsuperscript{17} The expansion of social networks also drives the pursuit of more unique
experiences. A growing percentage of people expressed the exclusive access to experiences as “an opportunity to set themselves apart from their peers”.\textsuperscript{18} Brands are shifting their
marketing strategy to a customer-value approach, using the data that consumers create to
tailor their marketing approaches to the consumers’ specific needs.

\textbf{Competitive Landscape}

\textbf{Hotels}

Hotels have traditionally controlled the majority of the hospitality and travel
markets globally. An overall increase in global travelers sparks a positive correlation with
the rise in attractive destinations in the eyes of consumers. In support of this trend, from
2009 to 2017, U.S. hotel gross bookings grew from $116 billion to $185 billion (see figure
1).\textsuperscript{19} The CAGR for US lodging was 6.0\% between 2009-2018, compared to the CAGR of
4.4\% for restaurants.\textsuperscript{20} According to Deloitte, “Hotels will likely continue to introduce
innovative concepts, products, and loyalty strategies to cut through the noise of the more
than 270 trademarked brands (and virtually innumerable independents) that currently
exist worldwide”.\textsuperscript{21} On average, hotels run margins of about 20 - 30 percent, while brands
structured around apart-hotel business models have margins of 50-60 percent.\textsuperscript{22} Hotels are
constantly forced to keep up with profitability by capitalizing on margins and business
segments.

\textbf{Apart-Hotels}

Apart-Hotels combine the concept of Airbnb by blurring the line between apartment
rentals and hotel-stay experiences. The AKA Collection is an apart-hotel brand that
revolutionizes the idea of luxury long stay lodging. Their business balances the idea that
space and comfort of a luxury condo can coincide with the services and style of an intimate
boutique hotel. AKA has the feel of a high-end condominium building and less like a hotel,
which attracts travelers interested in weekly or monthly stays. According to an SRT report
in 2016 on the hospitality industry, 46.5\% of Airbnb guests were booking “long term” stays
over seven nights.\textsuperscript{23} Brands such as AKA are capitalizing on this extended stay trend
whether it be for business, leisure, or displacement due to healthcare or renovations. Also,
the AKA business model outperforms Airbnb in areas surrounding consistency, privacy,

\textsuperscript{17} The Luxury Evolution. Marriott International & Skift, 2018, 17.
\textsuperscript{18} Ibid., 12.
\textsuperscript{19} Langford, Guy, Adam Weissenberg, and Marcello Gasdia. 2019 Travel, Transportation, and Hospitality Industry Outlook. Deloitte United
States, 2019.
\textsuperscript{20} Ibid.
\textsuperscript{21} Ibid., 7.
\textsuperscript{22} Ibid.
and security. They intend to grow this model 12 - 36% through new properties in cities like Paris, Rome, Austin, Miami, and Chicago.\(^{24}\)

Locke Hotels is another apart-hotel brand that plans to expand their presence through 22 projects in the next few years with locations in Paris, Dublin, and Berlin. Locke is primarily focused on European cities and has a goal of building valuation to $2 - $2.5 billion.\(^{25}\)

Another familiar start up brand, WeWork, has put tremendous effort into a WeLive spinoff in the N.Y.C. and D.C. areas. The listings in these cities mimic the apart-hotel style of accommodations. A millennial company such as WeWork has the capacity to leverage their global network and brand to create movement in the hospitality and travel industries.

Online Travel Agencies & Online Booking

The hospitality industry has attracted a plethora of startups, online agencies, hotel brands, and more organizations that have crowded global markets. The direct competitors that Airbnb faces are institutions such as Booking.com and Expedia, which include broad networks of end-to-end travel companies. These are examples of Online Travel Agencies (OTAs) which are “online companies whose websites allow consumers to book various travel services directly via Internet”. They are third party agents, reselling trips, hotels, cars, flights or vacation packages. OTAs can provide a whole experience package, proposing private accommodations, tours and activities, restaurant reservations, and more.

Booking.com, owned by Priceline, provide similar services to Airbnb with more than 5.4 million properties in over 228 countries\(^{26}\). These include apartment rentals, entire homes, and vacation rentals. However, they do not offer individual rooms or portions of


\(^{25}\) Ibid.

their listed properties as Airbnb does. The network of sites within their platform includes Kayak, Priceline, and Agoda. The traffic through these sites account for large international exposure as only 9% of bookings derive from the U.S., revealing a larger international presence than Airbnb.27 The number of alternative accommodations on Booking.com currently exceeds the number of hotels on the platform, with vacation rentals properties growing faster than hotel properties.28 Booking.com offers a total of over 29 million listings with about 5.7 million alternative accommodations listings.29 There is no traveler fee through Booking.com, nor subscription fee to their online platform. Through their business, rental owners only have to pay a 3% credit card fee and a 15% booking fee.30

Expedia Group Inc. is an additional competitor that has a network of 25 websites through their corporation. The brand owns names such as HomeAway Family, VRBO, VacationRentals.com, and Homelidays. Through acquisitions like HomeAway Family, Expedia gained access to international markets. Expedia lists more than 2 million rentals in 189 countries. The fees surrounding their services include a 5% booking fee, 3% credit card processing free, and a guest service fee between 6-12%.31 Expedia has a similar model of review and rating systems compared to Airbnb. In addition, there are no shared or private rooms similar to Booking.com’s approach. Overall, the platform bridges the gap between guests and hosts by building trust through reviews, profiles, and communication services.

Airbnb still ranks No. 1 in the home-sharing market, retaining 15% of the market share, followed by Expedia with 12% and Priceline with 9%, according to a 2017 study done by the Susquehanna International Group.32 These OTAs could become threats to Airbnb’s plan for long-term growth. According to a Morgan Stanley report, OTAs’ scale advantage, traffic acquisition and user conversion expertise will be difficult to compete for Airbnb.33 OTAs are experts in the realm of marketing and advertisements. They spend over $10.7 billion per year on direct advertising, which is approximately two times as much as the top 5 hotel chains combined34. OTAs invest aggressively in the development of their technology. Some agencies spend as much as $1 billion on technology annually. While Airbnb has the most app downloads in the US, Booking.com, Expedia Group Inc. and Hotels.com are not far behind.35
Airbnb is an online hospitality service that users can access online or through a mobile app. Airbnb acts as an intermediary connecting hosts and guests across the world. Founded in August 2008 and headquartered in San Francisco, it is a privately held global business, however they plan to go public in 2019. The company does not own any of the real estate listings, but it receives commissions from every booking. Airbnb charges the host with a service fee of 3% and the guests with a fee that ranges from 6-12% of the booking amount.

Airbnb is currently one of the world’s largest accommodation platforms with over six million listings in 81,000 cities and 191 countries. There have been over 300 million guest check-ins with Airbnb. Airbnb, with an estimated worth of $38 billion, is the second most valuable private company in the US, after Uber.

Airbnb at Home
Airbnb at Home is a service-based, online platform that connects users and hosts across the world. Because they are a service-oriented company, they strive to create a seamless ‘experience’ for their users through technological platforms. That being said, there is no Airbnb representative present when you book your travel through their online service. As the innovative company that they are, they remove the middleman when it comes to booking travel accommodations.

Through the use of their service, Airbnb offers customers lodging accommodations from private rooms to entire homes in thousands of locations across the world. Users are
presented with options in which they can customize their searches through filtering the location, price, accommodation, and home-type of listings.

**Backyard**

Backyard is a new initiative by Airbnb that is targeted at the corporate travel market. In 2016, Airbnb built an “innovation lab” in a community center in Japan, which was the first project of their product development team, Samara. Through this endeavor, Airbnb is building customized housing complexes for longer travel stays. The design of the homes will create new ways in which housing accommodations can be built and designed for sharing. In the eyes of Joe Gebbia, Backyard is “an endeavor to design and prototype new ways of building and sharing homes.” Backyard was created in order to design the “optimal” Airbnb experience for customers, while also drawing on the idea of Accessory Dwelling Units (ADUs). By doing so, Airbnb has hired “industrial designers, interaction designers, architects, roboticists, mechanical and hardware engineers, material specialists and policy experts” to construct these shareable units. Although, the implementation of ADUs opens to door to new genres of regulations and rules as they must comply with town licenses, privacy, and security measures.

Backyard is a subsidiary of Samara. The objective of this business venture is to challenge conventional thinking and discover ways in which hosts can design spaces that are most compatible with the sharing economy of hospitality. The group strives to think through the lens of what a home designed and built to share really looks like. This initiative helps Airbnb lock in listings for customers interested in longer term needs. This business line reveals Airbnb’s strategy to further expand their business pipelines into new areas of interest with a consumer-centric approach.

However, there are also implications associated with Backyard. Due to the tremendous investment and manufacturing costs associated with the design of homes from scratch, this idea could experience delays before fully hitting the ground running. Therefore, the shift from being a company that provides housing options to actually providing the houses will be a monumental impact on the overall housing market. The first wave of homes is intended to reach the public sphere in late 2019. In this period, Airbnb will be able to gage consumer sentiment.

**Experiences**

Airbnb’s ultimate goal is to provide great experiences for travelers across the globe. In order to fulfill this mission, they offer a plethora of excursions, local guides, and cultural experiences in their worldwide destinations.

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37 Ibid.
38 Ibid.
39 Ibid.
For example, Airbnb demonstrates its expansion into all aspects of the travel experience through its partnership with Resy in 2017.\textsuperscript{40} Resy is an online platform that allows users to book reservations at restaurants, similar to the concept of Open Table. It was launched in 2014 and has over 1.6 million users. The platform allows individuals to search for restaurants using a variety of filters, such as cuisine, time of day, or location. With this partnership, Airbnb offers a way to book reservations through their app.

Experiences are a key element in Airbnb’s strategy, as it has grown 25 times faster than its home offerings achieved in its first year. Airbnb currently offers roughly 5,000 Experiences across 60 cities, which resulted in a 2,500\% increase in bookings in 2017.\textsuperscript{41} The company has launched new Experience categories such as Airbnb Concerts, Social Dining, and Adventures.

Unique local experiences are what differentiates Airbnb from traditional accommodations. Through their 2017 study, Guttentag and Tussyadiah demonstrated that social interaction is the main factor that drives customers to choose Peer-to-Peer accommodations over others.\textsuperscript{42} According to the Airbnb UK report, 78\% of guests who chose to book on Airbnb say they do it to live like a local. Guests are looking for insider knowledge and recommendations, while also finding the comfort of staying in a “home away from home”.\textsuperscript{43} For some travelers, Airbnb provides an opportunity to make new friends and connect with individuals in foreign environments.

\textsuperscript{40} “Airbnb and Resy Team Up to Offer In-App Restaurant Reservations.” (Airbnb Press Room, 2017).
When it comes to the role of hosts’ ability to deliver to their guests, Airbnb customers rank their stays on a multitude of parameters. The experience that the hosts provide determine guests’ overall intentions to return. In their reviews, Airbnb customers seem to put more emphasis on the hospitality of the hosts when they talk about their journey with Airbnb. After hospitality, they mention the location and proximity to the city center, local restaurants, quiet neighborhood as a key determinant of their overall trip. Overall, the emphasis on local experiences differentiates Airbnb from its competitors, and they are continuing to improve and expand this business line to promote further success.

**Airbnb at Work**

Airbnb at Work is a business branch that offers new ways for employees to travel and connect. Whether it be work trips, relocations, team-building experiences, or spaces for individuals to collaborate, Airbnb at Work has professionals covered. For example, if there is an employee travelling for work and is in need of an accommodation that supports working from home, professionals can find work-friendly listings through Airbnb at Home. In addition, if there is an employer interested in getting out of the office for a team-building activity, Airbnb at Work supplies a list of activities with locals that groups can participate in. Through this business line, Airbnb continues to support the needs of travelers regardless if their trips are for leisure or business oriented.

**Airbnb Acquisitions**

In order to expand into foreign markets, hire experts in the industry, adopt software, and expand their global presence, Airbnb has strategically acquired specific businesses that allow them to broaden the scope of their global presence.

**Luxury Retreats**

Luxury Retreats is a Montreal-based, villa rental company that offers high-quality listings with a full-service experience. The company was founded in 1999 a Barbados villa owner approached the current CEO, Joe Poulin, due to his interest in a luxury rental website.

Today, the company has a diverse portfolio of over 5,000 luxury villas available in 300 different destinations worldwide. Across these locations, the online platform serves 580,000 travelers. They offer bespoke vacation experiences and have a team of specialists dedicated to finding the perfect home for their guests. Each villa is handpicked and inspected to comply with high quality standards. The company accepts less than 5% of homes that apply to the platform, which maintains the exclusivity of the brand. In 2013, they launched The Home Inspection Program, which ensures a standard of excellence for all of the listed accommodations. This initiative is the first of its kind in the vacation rental industry. With top tier standards like the Inspection Program, Luxury Retreats has built an

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45 “Business Travel Management | Airbnb for Work.” Airbnb For Work.
excellent reputation built on convenience, comfort, trust, and guarantee. With that being said, 40% of their clientele are repeat customers bringing in an annual bookings' revenue of $150 million.

Airbnb was quickly attracted to this business model and acquired Luxury Retreats for $300 million in February 2017. This shifted their expansion into high-end vacation rentals and travel service markets. This addition complements Airbnb's aim to provide a variety of homes and experiences to travelers, especially to consumers that are willing to visit traditional vacation destinations. Airbnb plans to launch Beyond by Airbnb, a site derived from the company's acquisition of Luxury Retreats. This site will include a travel-planning service, which will mix customized experiences with luxury listings. In addition to Beyond, they launched Airbnb Plus. This feature labels 75,000 high-quality homes across over 50 markets. All Airbnb Plus homes are verified against a 100-point checklist for quality, cleanliness and style to ensure a consistent and comfortable stay.

However, the acquisition is mostly focused on the technology that Luxury Retreats provides Airbnb in managing their listings. Joe Poulin joined Airbnb to lead Luxury Homes and the Luxury Retreats team. Poulin has maintained their previous business model, while successfully integrating into Airbnb's platform. Luxury Retreats brings Airbnb the opportunity to grow rapidly in the luxury market and to target higher-end customers. According to the analyst Douglas Quinby, "average transaction values are significantly higher in vacation rentals of the Luxury segment and they are also usually longer stays at larger properties compared with an Airbnb big-city booking of a few days". This makes the luxury market highly profitable. In addition, ITB Berlin and IPK International estimated in a 2017 report that spending on luxury travel has grown at an 18% annual rate since 2014, which is nearly twice the growth rate of spending on all international travel.

Overall, this acquisition allowed Airbnb to strategically gain access to luxury markets through the expertise and high-end empire that Joe Poulin established.

**Airbnb & France**

Airbnb's position in France is crucial to their potential for transforming business lines through acquisitions. France represents one of Airbnb's most profitable markets. Paris is Airbnb's top global destination and is Airbnb's' most lucrative market in the world. The city currently has the second largest number of Airbnb listings after London with over 500,000 listings and 13 million guests and hosts combined. France has held the title of most popular tourist destinations in the world for more than 20 consecutive years. In 2018 alone, 89 million tourists are estimated to have traveled to France. That being said, France is a valuable market for Airbnb to capitalize on as it provides a myriad of activities and experiences in a high demand market.

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**Luckey Homes**

Luckey Homes, founded in 2015, is a French concierge property management company serving 20 different cities in France. The company helps short-term rental hosts with managing their listings, providing cleaning services, and ensuring the overall condition of accommodations. It also handles guest arrivals and departures while providing customer assistance. Luckey Homes’ value-proposition is to enhance the guests’ and hosts’ overall experience by providing full-service management.

Airbnb strategically acquired the company in December 2018. Luckey Homes created a valuable proprietary management software. Through this acquisition, Airbnb gained a new platform for managing properties and providing services. The acquisition also signaled a major shift in the company’s approach toward private accommodations. Airbnb strategically decides to buy a company like Luckey Homes instead of partnering with them. For example, Marriott is currently partnering with property management company Hostmaker. Through this decision, they can work alongside Hostmaker, but they do not have access to their managerial decisions and business lines. Instead with Airbnb, choosing to fully acquire Luckey Homes has provided a great avenue to take advantage of their technology and prominence within the prosperous French market. Airbnb gained technological values as well as a conceptual framework that will allow for future establishments in the property management sector.

**Gaest**

In January 2019, Airbnb acquired Gaest to further its expansion into Airbnb for Work. Gaest, a Danish online marketplace for renting out meeting spaces for short periods of time, was founded in 2015 by Anders Mogenson. With Gaest, companies are able to book spaces for meetings, team-building events, interviews, workshops, and even photoshoots. Its premise is similar to Airbnb’s in that the spaces are listed by independent hosts. For now, Gaest will function as a unique platform, but Airbnb will be the parent company overseeing operations.

Airbnb gained many benefits from this addition. First, Airbnb acquired a platform that allows them to enter the workspace industry. This acquisition puts Airbnb in direct competition with companies like WeWork, Regus, and others involved in the shared workspace industry. This also signals a shift in direction for Airbnb’s growth towards business travelers. With this expansion, Airbnb has created a new branch of the company called Airbnb for Work, which caters towards business travelers and companies looking for spaces to rent for a variety of company-related activities. Along with Airbnb at Work, these two business segments work hand-in-hand to cater to corporate markets.

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50 Peterson, Becky. "Airbnb Acquires Danish Startup Used to Book Meeting Spaces for Just a Couple Hours or Days." Business Insider, 2019.
**HotelTonight**

HotelTonight is Airbnb’s most recent acquisition in early March 2019. It is an online hotel-booking service that offers guests last-minute, discounted accommodations at boutique and independent hotels all over the world.51

Through this acquisition, Airbnb is able to further their mission to build an end-to-end travel platform. In their press release on this acquisition, Airbnb stated that, “Welcoming more boutique hotels to our platform will help us deliver on our commitment to make Airbnb for everyone, providing guests the authentic, local experience they have come to expect on every trip.”52 By acquiring HotelTonight, Airbnb is able to tap into the market of individuals who may not want to stay in a stranger’s home. In addition to expanding the consumer base, Airbnb also expects that the additional consumers will benefit Airbnb at Home hosts as well. According to Airbnb, “nearly 90% of guests who first used Airbnb to book a hotel room and returned to [their] platform for a second trip then booked a home.”53 This acquisition is a perfect example of how Airbnb strives to cater to every traveler’s need by providing traditional lodging for those who are reluctant to stay in a stranger’s home.

**Role of Technology**

Due to the crowded hospitality market, increased competition causes companies to invest in technology at the core of their business models. There is an industry wide push towards making the overall experience for travelers, guests, and hosts more efficient. With that mentality, technology provides a medium for which hoteliers can improve operations to make the overall process more systematic.

In terms of global technology trends within the industry, there is a focus on mobile software, cloud services, augmented and virtual reality. Through web and application development, hospitality brands are forced to innovate and keep up with the pace of smartphone dependencies of consumer markets. For example, today, in order to book a hotel stay, travelers go directly online or through mobile applications.54 Within this realm, Airbnb is becoming a distribution disruptor through their pro-mobile efforts. As a start up, they have the ability to constantly remain ahead of the curve with this mobile trend.

Additionally, augmented and virtual reality are among two of the top hospitality trends of 2019 when it comes to technology. The ability to give renters a three-dimensional perspective where they can visualize the property, venue, meeting rooms, and neighborhood prior to arriving is an attractive quality. This demonstrates their efforts in making guests more well-informed. Some hotels have even implemented artificial

53 Ibid.
intelligence by operating their hotels through robots. However, this trend does not pose an immediate threat, as it will take years and pushback to integrate robots within this human-centric industry.

Specifically, for Airbnb, technology is at the core of its business model. Without software, algorithms, and databases, Airbnb would not be the established, worldwide brand it is today. Machine-learning construction began in 2013 in order to fortify search engines and discovery.\(^5^5\) Through the help of machine-learning and AI, Airbnb strives to find the perfect match between hosts and guests. However, Airbnb defines a fine line between AI and their business operations. Their mission is to have AI enhance, not replace, business functions. Airbnb has implemented AI to help with back-end operational efficiencies like fighting against fraud or optimizing pricing for hosts. Specifically, they have installed a Smart Pricing technology for hosts where they can set controls that combine data in order to decipher among 70 factors that impact pricing.\(^5^6\) These factors determine the best possible price for the available nights on your listing based on algorithms. The algorithms factor in aspects like seasonality, lead time, market popularity, listing popularity, listing details, and booking history into pricing. Given that Airbnb is a service-based company, this metric reveals their care for providing hosts with the best possible pricing options to maximize their listings. This facet strengthens overall brand loyalty and user happiness.

In the future, Airbnb hopes to implement algorithms and software specifically for listing photos. For example, if an uploaded listing image included a crib, but the host did not include this accommodation in writing, Airbnb hopes to create an algorithm that would support this. Also, the use of Natural Language Processing (NLPs) will be a way to improve reviews. NLPs can surface reviews that are most relevant to the listing to determine what is most important for future guests. With NLPs, users can search for a “ski in-ski out cabin in Colorado”, and would be provided lists of options in various locations.

In order to implement these technological advancements, Airbnb staffs fully established engineering and software teams who work on mending the gap between digital and physical barriers in order to remain ahead of industry trends and competition. Airbnb prides itself on autonomy, data, experimentation, and diversity when it comes to their technological initiatives.

**Airbnb’s Advantage Over Competitors**

Airbnb’s business model and strategic pricing give them an advantage over their competitors. First, Airbnb has a unique and broad selection of accommodations. Their inventory ranges from entire homes or apartments, to luxury mansions, to even the most basic single rooms in a host’s apartment. Second, Airbnb offers authentic experiences. They

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provide more culturally immersive experiences in a local’s home compared to chain hotels. Third, their low prices trump the expensive offerings by other competitors, as Airbnb’s average price per night is roughly $100 in Europe and $160 in the U.S. $\textsuperscript{57}$ Fourth, Airbnb is not subjected to as strict of safety regulations as traditional hotels. For example, hotels are required to have smoke and fire alarms and are liable for the well-being of their guests. It disclaims liability for the conduct of individual hosts and the activities that occur at their properties.

Overall, due to the various avenues within the hospitality industry, whether it be hotels, apart-hotels, or online booking agencies, Airbnb is surrounded by innovative and transformative corporations that are willing to overtake market share. However, with better prices and more possibilities, Airbnb is positioned to beat out its competitors.

**Airbnb’s Global Growth Strategy**

Through acquisitions, strategic partnerships, global expansion, and a consumer-centric mission, Airbnb continues to revolutionize the hospitality industry. As Airbnb’s mission is to make their customers ‘feel at home’ anywhere and everywhere in the world, they strive to accommodate travelers in all stages of their adventures. Whether it be providing a quiet and comfortable environment for business travelers, or advertising cultural excursions to wanderlust travelers, Airbnb fully remains a customer-focused service. With this mindset, Airbnb aims to further integrate themselves into the travel itineraries of their customers across the globe.

**Global Risks**

**Regulations**

Due to their omnipresence within the hospitality industry, Airbnb is vulnerable to various regulations and risks. Airbnb has faced many regulation issues since its creation. Many areas around the world have placed heavy restrictions on the growing short-term rental market, including New York, San Francisco, and Paris. For example, it is currently illegal in New York City, one of Airbnb’s most popular locations, for an apartment to be rented out for less than thirty days, unless the host is residing in the apartment at the same time. $\textsuperscript{58}$ However, half of Airbnb listings may break local and state laws. $\textsuperscript{59}$ In February 2019, Paris fined Airbnb $14 million for advertising 1000 illegal rentals adverts. $\textsuperscript{60}$ Airbnb must try to find measure to comply with these laws because it could be harmful to its business.

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$\textsuperscript{60}$ Amiel, Geraldine. “Airbnb Contests Paris City Hall Claim of Illegal Adverts.” Bloomberg, 2019.
Moreover, regulation can prevent hosts to rent their homes and limit Airbnb’s supply growth.

**Safety and Privacy Issues**

Airbnb’s main weakness is its lack of safety and privacy measures. This is due to accommodations being offered by the hosts and not by the company itself. Airbnb doesn’t have control on security issues and its image can suffer from some accidents. For example, it faced several privacy issues of hosts hiding cameras in the rented room and recording guests\(^{61}\). The company also suffered from security issues such as the Brighton incident where a group of guests fell two stories when the balcony of their vacation rental collapsed beneath them.\(^ {62} \)

Airbnb’s private rentals are not subjected to the same safety regulations as hotels. The properties rented on the platform don’t always contain safety equipment. Most homes in major U.S cities have smoke detectors but only half have a carbon monoxide detector and fewer have fire extinguishers or first aid kits.\(^ {63} \) Nick Shapiro, Airbnb’s Global Head of Trust and Risk Management, said that “All hosts must certify that they follow all local laws and regulations - Every listing on Airbnb clearly states the specific safety amenities it has, including smoke and CO detectors, fire extinguishers, and first aid kits, so guests can look first and then decide whether that home, tree-house, yurt, or igloo is the one they want to book or not”. He also stated that "Airbnb supplies free smoke and CO detectors to any host who requests one".\(^ {64} \) If guests want more security and safety, Airbnb Plus listings offer enhanced features and amenities with smoke and carbon monoxide detectors. Airbnb’s development in the luxury market aims to target a wider range of customers that are looking for more quality, more safety, and more security than regular accommodations.

Over the years, the company has increased protection over its services to reduce travelers’ perceived risk that could prevent them to use the platform.\(^ {65} \). For example, now the company asks for guests and hosts to scan their ID to authenticate their identity. In June 2017, Airbnb purchased Trooly, a check and identity verification company. Its process determines a “trustworthiness score” through the run of search engines, online public records, and social messaging services for information about people.\(^ {66} \) In January 2015, Airbnb began offering $1 millions of secondary insurance to protect hosts against property damage by guests due to vandalism or theft.\(^ {67} \) The company also encourages guests to sign up for traveler’s insurance. Despite these measures, safety and privacy concerns are still the biggest barriers for Airbnb.

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\(^{64}\) Ducharme, Jamie. “Renting an Airbnb Could Be Risky For Your Safety, a New Study Finds.” TIME, 2018.


Economic Threats

A future economic downturn could be a threat for Airbnb business as a decrease in discretionary income for travelers and an increase of unemployment could lead travelers to reduce their vacation budget. Consumers could even decide not to travel or to cancel their existing vacation to save disposable income.

On the other hand, people need more money during tough economic times. A declining economy could incentivize more homeowners to rent out their homes to earn additional income to use Airbnb’s platform. Economic downturns can represent great opportunities for platforms offering alternative accommodations. Indeed, Airbnb and other successful companies emerged in 2008, during the Great Recession.68

Five Forces Analysis

It is necessary to look at the different forces that shape competition within the short-term rental market to understand what can shape Airbnb’s position. By knowing it, the company can adjust its strategy to suit the competitive environment.

The threat of new entrants is moderate. There are not many barriers to entry, as it is easy to enter the market for new startups as initial costs are not high. Airbnb’s assets are intangible as hosts own the accommodations. However, Airbnb has expanded globally into 191 countries and new entrants will need a large amount of capital to compete on a global scale.

The threat of substitutes is high. A guest can choose to go to a hotel, an apart-hotel, or use other OTAs as an alternative. Moreover, people can rent out their homes by themselves through word-of-mouth and C-to-C interaction in this growing sharing economy. There are no switching costs for it.

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The bargaining power of suppliers is low. The suppliers for Airbnb are the hosts that list their homes on the platform. There are a wide range of people willing to rent their home and they don’t have many alternatives for connecting with customers. However, regulations can discourage people from renting out their homes.

The bargaining power of buyers is moderate. The demand for accommodations is high, so guests have limited power. However, customers are very sensitive to economic and political downturns as well as to safety and privacy issues. As a result, Airbnb must ensure high quality services.

The rivalry among competitors is moderate. Some existing companies are competing with Airbnb by offering alternative accommodations on websites like Booking.com, Expedia or TripAdvisor. Some other companies have started to imitate Airbnb’s business model, like the Chinese company Xiaozhu.com. However, not many are as successful at offering a wide range of services as Airbnb. Airbnb continues to be the most well-known company for private and alternative accommodations.

Vertical Integration

Through vertical integration, Airbnb has gained access to new levels of their value chain within various business lines. Initially started as Airbnb Homes, the company opened its doors to hosts interested in making money off of vacancies whether it be a single room or their entire home. In order to expand this line of business, Airbnb enacted the strategy group, Backyard, to cater to the top of their value chain, their hosts. By creating a design framework to further support housing guests, this business initiative supplies hosts with strategically constructed living quarters that best accommodate guests. The research and design that Airbnb directs towards Backyard reveals their strategy in expanding into the construction market.

In addition to Backyard, the creation of Airbnb Plus is a strategy within their Airbnb Homes business line that further caters to strengthening the quality of hosts, which in turn benefits their customers. The ‘Plus’ program allows hosts to earn a ‘Plus’ classification on their listings due to superior comfort, quality, and style. This program is a useful tactic in promoting recognition and incentives for hosts to uphold high-quality aspects of their listings. Airbnb Plus therefore benefits not only hosts, but it makes the overall experience of their customers’ trips more enjoyable as well.

The integration of Luxury Retreats is another endeavor that proves Airbnb Home’s attention towards attracting a broad consumer base by catering towards luxury markets. Not only does this business line win Airbnb a larger market share, but it also contributes to their overall brand strength no matter the class of their guests. With this acquisition, Airbnb took possession of Luxury Retreats’ team of experts and got the opportunity to develop Airbnb Plus with more efficiency.

In order to further vertically integrate their business lines, Airbnb’s acquisition of Luckey Homes was strategically focused on expanding their technological footprint in
addition to gaining more of the French market share. Luckey Homes provides a segue into the property management business. Through the acquisition, Airbnb vertically integrated Luckey Home’s business model and expertise in their value chain. Therefore, this strategic acquisition shows how Airbnb in a step closer to capitalizing on all stages of travel and hospitality. Given the crowded marketplace of property management, Airbnb’s technology, service-based platform, and breadth of clientele has the power to dominate global property management markets.

**Horizontal Integration**

Airbnb employs horizontal integration to diversify the services that it offers as well as to increase market share and their consumer base. Through recent acquisitions and partnerships, Airbnb has shown that it is expanding into three new areas of the travel industry: business travel, experiences, and traditional accommodations.

One of the ways that Airbnb has laterally expanded would be their creation of a new branch of their company called Airbnb for Work. Airbnb for Work is designed for business professionals, making it easier for them to keep track of bookings and work travel while providing accommodations guaranteed to have necessary amenities like free, reliable wi-fi. In January 2019, Airbnb acquired Gaest, an online marketplace for business-related rentals such as meeting rooms, interview spaces, and workshop spaces. Through the acquisition of Gaest, Airbnb has been able to support their expansion into Airbnb for Work, which, in turn, offers more services to its customers, as well as increases the consumer base to include companies and other business professionals.

In late 2016, Airbnb laterally expanded again into the travel industry through the introduction of a new feature on its app called ‘Experiences’. With Airbnb Experiences, hosts are able to offer local experiences such as tours and events in addition to places to stay. Moreover, Airbnb has partnered with other companies to further facilitate guests’ interactions with the local area. For example, Airbnb has partnered with Resy, an online reservation platform, to offer guests the ability to make in-app restaurant reservations. By offering more ways to get involved in the local culture, Airbnb is catering to millennials, who believe that experiences are more important than accommodations when traveling.

Although Airbnb has marketed itself as an alternative to traditional accommodations, it has begun to expand into the traditional lodging sector of the travel industry. In March 2019, Airbnb acquired HotelTonight, an app that allows users to find and book rooms at boutique and independent hotels at a discounted rate. Through this acquisition, Airbnb is able to tap into a previously untapped market: the dedicated hotel customers. By offering hotel rooms, Airbnb has increased its consumer base to include those who would not stay in a stranger’s home and it has diversified its product offerings.

Lastly, Airbnb has expressed interest in the transportation industry through their recent hire of an airline executive. This push towards expanding outside of their home-rental business reveals their desire to become more of a full-service travel website. Adding
transportation to their portfolio of businesses will allow travelers to go through their service for all stages of travel, which seems to be Airbnb’s long-term goal. However, instead of building an entire airline, it is suggested that Airbnb focuses on ameliorating the transportation experience. Airbnb could consider partnering with other sharing economy platforms to enhance its services. For example, a collaboration with Uber would make it easier for hosts to go to Airbnb accommodations. At the end of the day, Airbnb is a consumer-centric business striving to help individuals travel from point A to point B seamlessly. Their next steps over the course of several years will be telling of their control over travel and trip planning.

**Recommendations**

Given the risks associated with immersing themselves in global markets, Airbnb has the proper technology and platform to globalize successfully and to further integrate themselves outside of the home-rental business. Their vertical and horizontal endeavors prove their strategy towards becoming a ‘one stop shop’ for travelers. That being said, it is recommended that they kickstart this strategy in the United States.

The United States is the region in which Airbnb initially gained a following of investors, interested hosts, and guests. It is because of their initial efforts in the U.S. that their bizarre idea of opening one’s home to strangers was adopted. Given the U.S. market’s loyalty and connection to the brand, Airbnb should focus on the strategic domestic operations of installing their new business innovations. Whether it is partnering with domestic transportation startups like Uber and Lyft, or capitalizing on property management businesses, Airbnb’s technology, drive for success, and innovative strategy have the power to break down U.S. hospitality barriers.

Within the U.S., the rental vacancy rate is at the lowest it has ever been since 1985 (see figure below). However, demand for multifamily housing, especially in the rental market, remains robust.

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A rise in multifamily homes and building permits due to high demand indicates an increase in the overall housing market. This impacts Airbnb as it allows for more housing options for guests within the U.S. This positive trajectory implies strong growth and potential for new listings for rooms, apartments, and entire homes for Airbnb guests. Overall, the indicator of a booming housing market in the U.S. provides a prosperous environment for a strategic shift in Airbnb’s efforts to become a full-service travel and hospitality brand.

**Millennials**

In 2015, Europe overtook the U.S. in terms of the number of Airbnb listings, and it now accounts for over half of Airbnb’s business. However, looking for future growth, Airbnb would benefit from focusing on the U.S. as opposed to Europe. In the United States, millennials and post-millennials account for 40% of the workforce, surpassing Generation X and making them the largest generation in the workforce. Millennials and post-millennials are important to not only to the sharing economy as a whole, but to Airbnb itself, as they occupy 60% of Airbnb’s guest base. Millennial tastes and preferences have indicated a shift in culture towards a sharing economy, as the millennial generation generally prefers to rent rather than own, to spend money on experiences rather than products, and to travel rather than stay at home. With the millennial generation taking over the majority of the labor force and the post-millennial generation starting to join the labor force, these two sharing-focused generations are monumental markets of whom Airbnb should continue to take advantage.

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Disposable Income

As the economic indicator of disposable income changes year-over-year in the United States, 2019 presents a great time for Airbnb to promote growth within the U.S. market environment. In 2019, the disposable income of individuals increased by 2.2% compared to 2018. Looking ahead, analysts forecast this percentage to jump 1.5% between 2022 and 2023.\textsuperscript{73}

As we can see on the infographic from 'How Much' on 36 countries in the OECD (Organization for Economic Co-operation and Development), the U.S. are quite important compared to other countries. Here, the size of bubbles represents the average household wealth that includes savings, securities, stocks and loans. On average, U.S. families have a net worth of $176,100, compared to just $128,400 for Switzerland, the second-wealthiest country. The colors of the bubbles correspond to household net adjusted disposable income, which is the amount of income left over after taxes and transfers have been removed.\textsuperscript{74} U.S. families have on average $44,049 in disposable income. This reveals that it is the perfect region for Airbnb to direct their focus given the amount of economic bandwidth people have to spend on living expenses and other purchases such as travel. According to a LearnVest Money Habits and Confessions survey, Americans spend on average 10% of their incomes on vacations. In turn, 25% of Americans spend 15% or more.\textsuperscript{75} Given the economic preferences of Americans when it comes to their disposable income.

\textsuperscript{73} Year-over-year change of real disposable income in the U.S. from 2012 to 2023.” Statista, 2019.
\textsuperscript{74} Raul. “Visualizing Countries with the Highest Household Wealth.” How Much, 2018.
\textsuperscript{75} Maranjian, Selena. “Here’s What the Average American Spends on These 25 Essentials.” The Motley Fool, 2018.
income, Airbnb’s strategy to expand their travel services would be supported by the demand of U.S. travelers and their interests.

**Conclusion**

Ultimately through series of vertical and horizontal integration whether it be through acquiring competitors, expanding business lines, or accumulating more market share, Airbnb has grown to capture the various stages of the traveler’s journey. For a business that currently has more rooms than the largest hotel chain in the world, Airbnb’s global footprint will allow for the necessary foundation to counteract the ‘norm’ of hospitality for generations to come.
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