

Airbnb: Future Glitch in Tourism Sector

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Abstract

Airbnb is an online marketplace connecting travelers with local host, in hope to provide a local, authentic and diverse travel experience with affordable accommodation. It is built on the foundation of sharing economy model. The company is founded by Brian Chesky and Joe Gebbia in 2008. Since establishment, Airbnb has successfully bridge worldwide travelers with local hosts to provide a comfortable lodge in a stranger's house. It has achieved spectacular yet unbelievable growth, and company are expanding to more than 100 countries world-wide. This paper will analyze the approaches undertaken by Airbnb to achieve tremendous success in less than a decade.

Keywords: *Airbnb, Collaborative Sharing, Online Marketplace, Technology, P2P*

Introduction

Airbnb was founded in August 2008 by Brian Chesky and Joe Gebbia at San Francisco. They envisioned to help travelers to find accommodation from local hosts for more exclusive travel experience, such as staying in a local host's house or apartment at a small fraction price. Airbnb is commonly known for their vacation rentals and hospitality marketplace, and Airbnb became the first ground breaking collaborative sharing model to demonstrate that businesses don't have tangible assets to begin with. Aside from cheaper prices than hotel, travelers also able to engage with local host, savour local-like daily lifestyle, fast adjustment and become less home sick while being abroad. This feature has allowed Airbnb to gain a global fame and attracted capital venturists to invest in their company. As today, Airbnb's accommodation marketplace provides access to over 6 million unique places to stay in over 100,000 cities and 191 countries and regions. Although Airbnb is just a decade year old company, their growth rate is tremendous as Airbnb's current valuation is at USD 38 billion (Forbes, 2018).

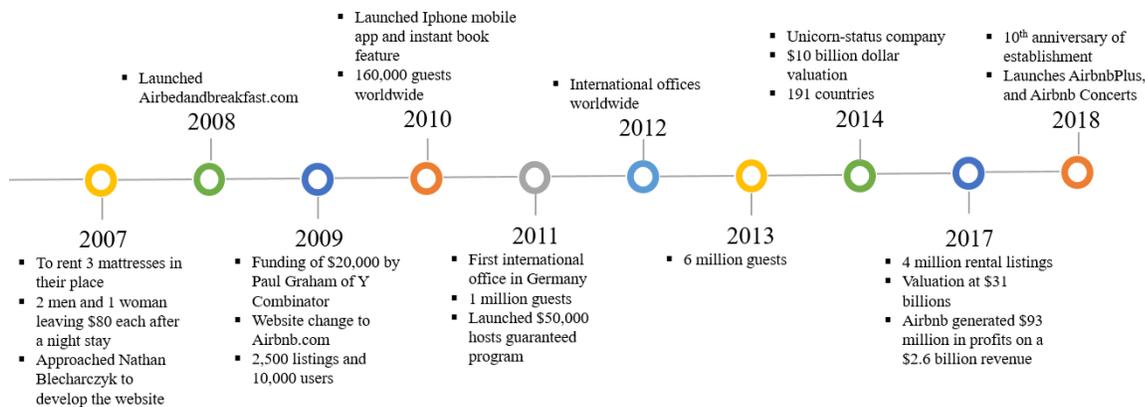
The objective of this paper is to explore into development of Airbnb to bridge the knowledge gap pertaining to tremendous growth and success of technology start-ups. In addition, this paper will also evaluate the current challenges faced by Airbnb when they expanding to other cities and

countries.

Company Background

Airbnb was instituted in 2007 when two guys, Brian Chesky and Joe Gebbia were unable to pay for their apartment rental. Coincidentally at that time, there was a big event in their city, and they found out that every corner of accommodation was fully booked. They came up with an idea to rent out three mattresses in their place will be a good idea. Two men and a woman came up to their apartment and stayed for a night at their place. The next day, each of them left their apartment leaving behind \$80 for their one-night stay. This experience had kick a spark into their minds which this accommodation rental could perhaps a big idea. They need a better marketplace to advertise their place and room listings which lead them to contact their classmate, Nathan Blecharczyk to develop an official website.

Figure 1: Airbnb Timeline (Airbnb, 2019)



They officially debuted www.airbedandbreakfast.com in March 2008. Three of them posted their mattresses again in conjunction with the famous SXSW festival, and two bookings were confirmed. Conversely, the two guests are not enough for them to build an online business. Consequently, three of them started selling Obama O's and Cap'n cereals and raised \$30,000 as their first company funds. This helped the founders pay off more than \$25,000 in credit card debt. At the same time, they faced rejections from potential investors to fund their business. The story of www.airbedandbreakfast.com turned anecdotal when Paul Graham, an investor from Y Combinator invested \$20,000 in their company. The website also received more than 80 bookings during the Democratic National Convention event at Denver delivered a great impact and sealed the potential of sharing economy platforms.

In 2009, www.airbedandbreakfast.com changed its name to Airbnb.com. The community of Airbnb has been rapidly growing and gigantic. Joe, Brian and Nathan never thought it would become a host to 10,000 users with their 2,400 listings on their website. A year later, Airbnb launched its first iPhone mobile app and instant booking feature. The community of Airbnb also fast growing to where it reached 160,000 bookings. In 2011, Airbnb begins international expansion and opens an international office in Germany.

In the same year, the company crossed the 1 million guest bookings milestone and launched the \$50,000 guarantee to protect hosts against theft, vandalism and delinquent customers. The company expanded to London, Paris, Milan, Copenhagen, Moscow, New Delhi and San Paulo in

early 2012. In the same year, Airbnb opens international offices in Australia and Asian countries. Airbnb crossed its 6 million bookings milestone in 2013 and moved its headquarter to San Francisco. Airbnb cemented its success when it was valued by private investors at over 10-billion-dollar company in early 2014. In 2017, it was valued at \$31 billion and Airbnb are currently 4 million Airbnb rental listings across the world in 65,000 cities and 191 countries (Griffith, 2019).

Literature Review

Peer to Peer (P2P) Economy Model

According to Investopedia (2019), concurrently with the growth of UBER and Airbnb, P2P economy model will grow from \$14 billion in 2014 to a forecasted \$335 billion in 2025. Peer to peer economy is a decentralized model whereby two individuals interact to buy and sell goods and services directly with each other using an online platform, which is without an intermediary third-party, or the use of company business (Investopedia, 2019). P2P economy model can also be referred to as the shareconomy, collaborative consumption, collaborate economy or collaborative consumption exchange (Forbes, 2019).

Sharing economies allows individuals and groups to make money from underused assets, for example parked cars and spare bedrooms can be rented out when not in use. Spurred by the advancement of internet and its use of big data in the past decade, homeowners and travelers able to find each other using a community-based online platform in effort to acquire, to provide or to share their unused assets or services. In the context of Airbnb, homeowners make use of space bedrooms. Homeowners will be connected directly to customers of whom intending to rent the place and the company will monitor the sales, ensure safety of the customers and protect homeowners from defacement. Apart from being a community-based online platform, Airbnb rates were reported to be between 30-60% than hotel rates around the world.

Airbnb benefits from the growing phenomena of sharing economy model to provide services at great cost advantage. Unlike hotels, Airbnb rates are lower due to zero investment on building new spaces from ground, minimum labor cost resulted from hiring and selection of staff, as well as the cost due to asset maintenance. Figure 2 presents a comparison of price and facilities provided by Airbnb and a regular hotel. It is found that the average daily rate for an Airbnb apartment in Kuala Lumpur, Malaysia was RM 150 compared to a three-star boutique hotel which cost RM 207. Airbnb is exploiting the advantage of the homeowners for borrowing their unused spaces and taking care of the customers’ needs at their own cost. As a result, homeowners are generating incomes from their unused spaces, whereas Airbnb invested in its platform to improve travelers’ search and book experience.

Figure 2: Comparison between Airbnb and a 3-star boutique hotel (Airbnb, 2019; Agoda, 2019)

Category	Airbnb (Studio Apartment)	3-star Boutique Hotel
Distance	5 minute walking distance to KLCC	
Price/Night	RM 150	RM 207
Services and	1 Bedroom	1 bedroom

Amenities		
	1 Queen size bed	1 Queen size bed
	1 Bathroom	1 Bathroom
	Full Condominium Facilities	Hotel Facilities
	Access to swimming pool and gym	No breakfast
	No breakfast	

Furthermore, Airbnb make the most of alternative accommodation than hotels for travelers. Guests are connected to homeowners' living space as they are open to choose from options such as on tight-budget, minimalist decorating style living space or even luxury house or bedroom. Moreover, with homeowners become their local guides, Airbnb's platform has successfully merging hospitality, service and great experience to meet each traveler's needs and expectations.

Seeds of Success

The concept of Airbnb is evidently unique and appealing to fill up the curiosity gap of travelers. Although the idea of Airbnb started from only renting three mattresses, Joe, Brian and Nathan decided to add details when they realized that travelers hope to live in their dream town for a short period of time. Fundamentally, living in someone else's house, watching locals makes a living, savoring their popular cuisines and live like a local are travelers' choice for unique experiences. For some travelers, it is not about being a tourist, checking off their bucket list and holiday satisfaction, ironically, they want to reminisce this travel experience for their entire life. Airbnb has sensed it and take advantage of this market segment as their targeted customers. Since then, Airbnb has grown rapidly over the past 12 years and defeating the competitors even the five-star hotels. For example, from a customer testimonial, staying in Hanok, a Korean traditional house allowed them to experience how the local people live, what they eat, and what they do. Customer had acknowledged their stay was an unforgettable experience because it was not something to be captured behind the selfie stick, yet the experience would stay forever with the customers.

Beside the travelers' wants of to live like a local, the success of Airbnb lies in its founders' passion. Today's Airbnb is their dream come true for Brian, Joe and Nathan because it is neither painless nor effortless. Their passions to keep with their dream and never letting go is what make Airbnb successful today.

One last key success factors of Airbnb is the culture embedded in the organization. Airbnb is a customer-centric organization that never cease to amaze its customers. It looks after their hosts and guests and protect them from any means. When a guest is scrolling on the Airbnb website, using the principal of simplicity such as instant click, guests are able to conveniently book their ideal accommodation for their trip. Moreover, the website will personalize each customer's preferences and suggest type of property based on their budgets. This features fits the need of every customer that come from diverse backgrounds, styles, experiences and cultures.

Challenges

Size for Potential Markets

The journey of Airbnb to rise as alternative accommodation provider is not easy. As exhibited in Figure 3, the alternative accommodation provider market is growing steadily over the past few years. The estimated values from the total bookings of Airbnb have rose from \$102.23 billion in 2014 to \$154.3 billion in 2018. Market analysts predicts that the percentage of worldwide alternative accommodation market share is expected to grow over 10% annually until 2019, and 9% from 2020 to 2022. At the same time, online bookings will increase from \$37.6 billion in 2014 to \$78.59 billion in 2018 and \$143.1 billion in 2022. There is also a tremendous growth in market penetration percentage from 36.8% in 2014 to 64% in 2022. Airbnb successfully penetrated the middle income population with its sharing accommodation platform, synchronously with 5% annual growth of middle income population worldwide. This makes Airbnb dominant in the sharing accommodation industry.

Despite that, competitors like Booking.com and Agoda.com started to offer similar type of accommodation in addition to hotel bookings. Booking.com has over 28 million total reported listings, and website traffic of 600 million visitors, including more than 5.7 million listings of home, apartments and other unique places to stay, and covers more than 148,000 destinations in 228 countries and territories worldwide. In contrast, Airbnb has a total of 150 million users and 1.9 million listings online. Some other Airbnb alternatives and competitors included Flipkey, Turnkey, HomeAway, Vrbo, Outdoorsy, Homestay, SellMyTimeshareNow, onefinestay and more. They all provide unique and their own specialty depending on what customers are looking for (Foster, 2018). As a result, the competition for alternative accommodation becomes stiff and tough.

Figure 3: Worldwide Market Share (Wasiolek, 2018)

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total bookings (million)	102.23	113.14	125.59	139.7	154.23	170.28	185.93	202.91	221.48
Year to Year Growth (%)		10.7	11.0	11.2	10.4	10.4	9.2	9.1	9.2
Online bookings	37.6	45.87	55.5	66.61	78.59	92.74	107.58	124.79	143.51
Year to Year Growth (%)		22	21	20	18	18	16	16	15
Penetration rate (%)	36.8	40.5	44.2	47.7	51.0	54.5	57.9	61.5	64.8

Competitors

The rise of Airbnb is also indicated as a disruptive innovation. It describes the sudden entrance of Airbnb which impacts the perceived process by the customers due to a completely different way on how Airbnb is presenting themselves among the tourism industry. This means, by Airbnb providing accommodation rentals through borrowing the housing owners' property is an odd way of thinking for customers to live their holiday. Thus, this refers to an absolute new market creation and is shaking up the entire tourism sector due to the failure in expecting the future Airbnb is able to provide.

The major negative impact of the Airbnb appearance is on traditional accommodation such as hotels. Since Airbnb is spread widely over 81,000 cities and 191 countries with over 6 million places to stay, the company triggers hatred and threatens most of the accommodation rents. As Zervas, Proserpio and Byers (2016) found out the relation of Airbnb rise and changes of volume

and revenue in Texas hotels, they figured which the 10% increase of Airbnb was the decrease of 0.37 hotel revenue and room occupancy. Moreover, not only big hotels yet also low-end hotels. They might even need to shut down their business due to the high-level cater of Airbnb stays.

Figure 4: Airbnb Competitors (Owler, 2019)

RANK	COMPANY	LEADERSHIP	CEO SCORE	EMPLOYEES	TOTAL FUNDING	REVENUE
		 Brian Chesky Co-Founder & CEO	81/100	4,500	\$4.6B	\$2.6B
1		 Glenn Fogel CEO	67/100	17,000	--	\$12.7B
2		 Mark D. Okerstrom President & CEO	71/100	24,500	\$72.8M	\$11.6B
3		 Stephen Kaufer President & CEO	78/100	3,366	\$4B	\$1.6B
4		 Steve Hafner Co-Founder & CEO	89/100	205	\$293M	\$662.5M
5		 Johan Svanstrom President	62/100	499	--	\$200M
6		 John Banczak Chairman & CEO	85/100	400	\$119.5M	\$200M
7		 CEO	--	2,000	\$723.2M	\$500M
8		 Kurt Ekert President & CEO	94/100	19,000	--	\$1.5B
9		 Francis Davidson Co-Founder & CEO	79/100	255	\$305M	\$100M

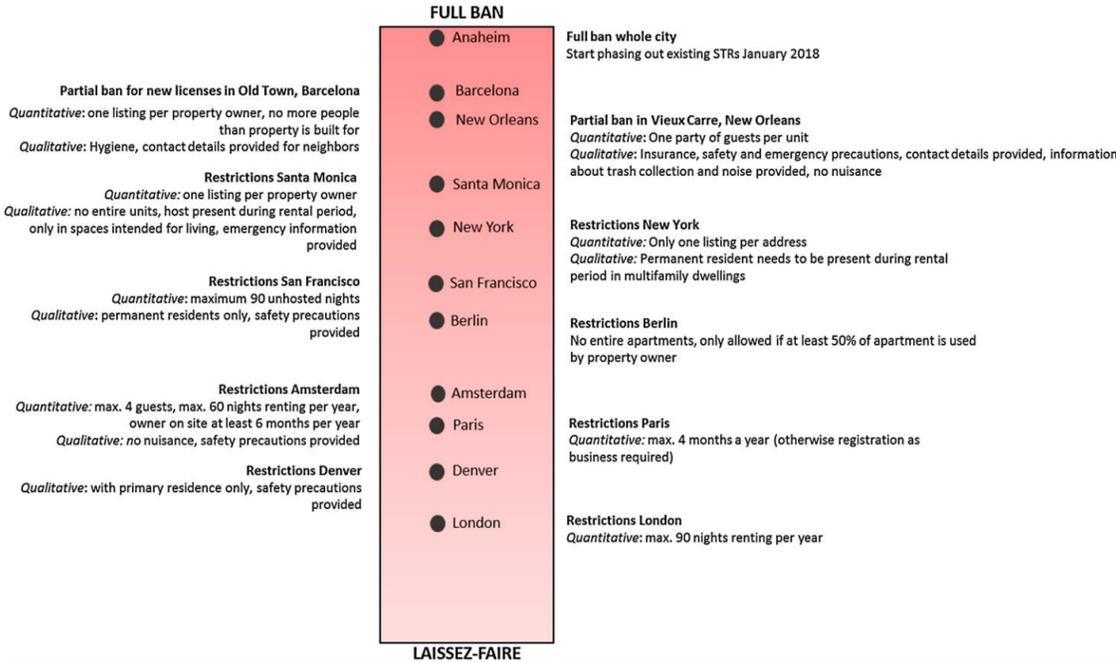
Legal Law and Regulations

Underlying the huge success of Airbnb is the popular said of which the company is operating illegally. The sudden appearance of Airbnb using sharing economic model had the government unprepared due to the failure to look far to tourism industry future. The massive alteration from personal property to open public vacation rental may come as a threat to the governmental system due to zero regulations existing beforehand, leading to state losses due to unpaid taxes in a bunch of countries whereby Airbnb exists.

The sharing economy puts government in difficulty to impose the taxation laws due to the blur line between which is the provider or consumer, employee or self-employed and professional and non-professional services. Additionally, the rapid growth of Airbnb makes government losing track in detecting the registered and unregistered Airbnb housing rentals list. Therefore, the easiest way is

to ban, do quantitative restrictions or limit the night stays of travelers in Airbnb. As presented in figure 5, those are a list of regulatory approaches regarding the presence of Airbnb in 11 European and American cities. Severely such as Anaheim in California, total banning of Airbnb in city already starting in January 2018 while the famous New York, limiting the number of guests staying, one listing per address and require the local resident to present throughout the guests' rental period.

Figure 5: Regulatory Approaches in 11 European and American cities (Nieuwland and Melik, 2018)



Regarding this issue, Airbnb has been very strict in applying the new terms of service for rental hosts in its website for the hosts to report, pay and collect taxes both from customers and to government. Either tourist taxes, or VAT also to register their housing rental to government. The host would be held responsible if fail to do so and even banned from the Airbnb listing. Because these are legal issues and Airbnb had been exposed to fulfil some subpoenas, the latest was in March 2019 whereby the company was sued by the City of Paris regarding the 1.010 illegal Airbnb listings. Thus, the company surely did not desire to recall the similar heart-breaking momentum nor encounter another in the near future.

Conclusion

Conclusively, Airbnb is today a very successful and large marketplace of home sharing. With a complex rollercoaster historical background which leads the company to a knight in shining armour today. Airbnb has earned so many trusts out of the past rejections specifically from the investors and customers. With the application of cost leadership advantage and market development strategy, Airbnb has successfully attracted more customers with its low-cost home sharing platform comparatively to regular hotels and other accommodations, while the appealing side of new demand appears from Airbnb creating a new market, shaking the tourism industry sector with its presence. Airbnb also would not be the Airbnb today without the unique business

concept of home sharing, the love and relentless hard works of its founders and doing only the best for its customers. Surely, it was never a smooth-sailing to go as far as today. Airbnb has to encounter with challenges such as enabling the company reach in a large market size, dealing with complex government legal issues and numbers of competitors. Nonetheless, Airbnb still has a long road ahead. Thus, ways to overcome the current challenges are as recommended below.

Recommendations

Market Size

A large available market share, specifically in online booking accommodation sector, Airbnb shall embrace the wide-opened market opportunity and strengthen its brand by enlarging its reach through increasing market share. Firstly, to increase its market share, strong customer relationship should be built. For instance, today Airbnb does not provide a user-generated content which allows customers to share their personal stories on their stays experience. Airbnb focuses more on its product updates and press releases which are far outdated. It would be easier to attract more customers via word-of-mouth so they would want to experience the similar things.

Secondly, through hiring more high-skilled labors in the company. This reduces expenses on high employee turnover and more trainings. Thus, Airbnb could invest more money on their core competencies to develop marketing on customers or create newer features. Thus, with the increase of market share, it provides competitive advantage as Airbnb would gain a lot of investors, add more loyal customers also strengthen brand awareness.

Competitors

To eliminate competitors, low-cost pricing and high brand awareness would be inadequate. Instead of respective product such as homes, experience or restaurants, it is time for Airbnb to finally offer a whole package of unforgettable experience. The company could offer special price for each package including their chosen stays, where they desire to explore, their favorite local cuisines and hosted specially by local tour guides which company picks for safety and customers convenience. This would attract more customers who are clueless as what to do on their holiday and certainly provide a greater experience for them to savor every holiday. Added with a great marketing strategy, this offer would be a perfect set.

Legal Issues

Despite the application of terms of service regulation, there are still numbers of reluctant hosts to follow the terms to pay taxes and register their housing rentals. Thus, it would be better if the company creates an app whereby the host is tracked if they had done any steps regarding to the city specific regulation. For instance, this app would apply regulations geographical based, every time the host has paid taxes or collect tourism taxes, they need to report in the app. Whether they have registered their house to government, they are required to tick the box of 'already registered'. If there is no process improvement in completing the requirement, hosts would either be fined or banned. Therefore, this would be an effective way for Airbnb to do regular check on its hosts worldwide.

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