

**Read the questions carefully and justify all your answer.
You cannot use any class or personal materials.**

The rise of a unicorn - Airbnb

The original founders of Airbnb, Joe Gebbia and Brian Chesky, first met at Rhode Island School of Design. In 2007, the then unemployed Brian and Joe became roommates in San Francisco. They could not afford their rent payments and had extra space and some inflatable mattresses in their loft. They decided to try renting out space on the mattresses and serving guests breakfast. After they got a few paying guests, they brought on web architect Nathan Blecharczyk to create a smooth web interface. They named the website “Air Bed and Breakfast”. The launch of their startup was timed to take advantage of the anticipated shortage of hotel rooms in Denver, Colorado, the site of the Democratic Party national convention in the summer of 2008. They didn’t make any money. However, they soon added a payment facility to their website allowing them to charge up to 15 per cent of the booking (the host pays 3 per cent and the traveller between 6 and 12 per cent). By April 2009, they were breaking even.

Attracting funding for their start-up was not easy. Nonetheless, in 2009 Airbnb received its first funding of \$20,000 from an angel investor. The company was renamed Airbnb and it provided an app and website that connects people seeking lodging with renters who have listed their personal houses, apartments, guest rooms on either platform. In November 2010 Airbnb raised an additional funding of \$7.2m. This allowed the company to expand to 8000 cities worldwide, to increase the number of employees to 500.

However, in 2010 Airbnb was experiencing slower listings in New York. Joe and Brian booked spaces with 24 hosts and flew out to try to understand the problem. They soon realised hosts were doing a very poor job of presenting their properties. They immediately rented a \$5000 camera and took as many photos of New York apartments as possible. Listings in the city suddenly doubled. From there on hosts could automatically schedule a professional photographer. This was an immediate hit and by 2012 there were 20,000 freelance photographers being employed by Airbnb around the world. The photos also built trust for guests as they verified addresses. The company also introduced Airbnb Social Connections, which leverages users’ social graphs via Facebook Connect. This shows whether friends have stayed with the host or are friends with the host and it allows guests to search for hosts based on other characteristics, like alma mater. Again, this reassured potential guests.

Further venture funding of \$112m was received in July 2011. Airbnb expanded through acquisitions with a deal in Germany and the purchase of their largest UK-based competitor Crashpadder. Offices were opened in Paris, Barcelona and Milan. Airbnb’s growth was explosive with more guest nights booked than Hilton Hotels by 2014. By 2016 Airbnb was valued at \$25bn – more than any other hotel group. Airbnb forecasts \$10bn of revenues by 2020, with \$3bn of profits before tax.

Airbnb proved attractive to guests and hosts as its listings were far superior to others available at the time, such as Craigslist – they were more personal, with better descriptions and nicer photos that made them more appealing for people searching for vacation rentals. The rooms provided by Airbnb were also cheaper than equivalent ones at hotels and had more of a personal flavour. Staying in another person’s apartment makes the visitor feel far more at home than an anonymous hotel room. However, trust is necessary for the widespread acceptance of peer-to-peer accommodation, as many people will understandably be wary of hosting a stranger or sleeping in a stranger’s home. For hosts, rents provide a source of income to help pay for soaring accommodation costs in many major cities.

In 2013, the founders had begun to ask themselves: ‘What is our mission? What is the big idea that truly defines Airbnb?’. As they recalled in their own words: ‘For so long, people thought Airbnb was about renting houses. But really, we’re about home. You see, a house is just a space, but a home is where you belong. And what makes this global community so special is that for the very first time, you can belong anywhere. That is the idea at the core of our company.’

In 2016, Airbnb had over 1.5 million listings in 34,000 cities in 192 countries, with 40 million total guests. Anyone anywhere in the world can list spare space from a room to a tree house, from a castle to an island in Fiji, with prices ranging from \$50 to \$2000 per night. Airbnb received 30 million page views per month.

The company was now focused on the whole travel trip with an emphasis on delivering local experiences. This focus on hospitality was not just about where you stay, but what you do – and whom you do it with – while you’re there. To this end they introduced Airbnb Neighbourhoods and local lounges, partnering with local coffee shops that can offer free wifi, a comfortable setting and local guide-books. They also acquired a small start-up that connects guests with locals who can answer their questions. They also offer cleaning services.

Airbnb was providing a strong challenge to hotels with prices 30–80 per cent lower than local operators. Hotels were having to diminish prices to protect their occupancy rates.

During 2016, Airbnb redesigned its website and apps with subtle animations and flashier imagery. This huge rebranding represented a transition from a hotel service to a lifestyle brand. Airbnb wanted their logo to be seen on a variety of products, houses and businesses, so people understood that owners supported their ideal and their brand. Airbnb’s focus was now firmly on ‘belonging’. This rebranding is needed since competition is increasing. Airbnb is the most prominent company in its particular domain, but it also represents part of a more general emergence of internet-based companies that permit ordinary people to offer tourism accommodation. Airbnb has several competitors offering essentially identical services, including Wimdu, 9flats, and Roomorama, plus niche competitors like Onefinestay, which solely offers upscale listings. Also, there are several major companies, including HomeAway, HouseTrip, and FlipKey (a subsidiary of TripAdvisor), which function similarly to Airbnb but focus chiefly on vacation homes instead of primary residences. Finally, there are various ‘hospitality networks’ in which hosts offer tourists accommodation free of charge, such as CouchSurfing.

- a) Characterize Airbnb service concept. [4]
- b) Characterize Airbnb positioning strategy in the tourism services market. [4]
- c) Based on the text information, what do you expect the price Elasticity of Demand to be for Airbnb customers? [3]
- d) Based on the text information and Airbnb’s focus on ‘belonging’, develop a communication strategy for Airbnb. (Explain the following steps: target audience, objectives, communication design and channels). [5]
- e) Develop a service blueprint for booking a room and explain how this tool can help Airbnb in providing a better service. (Assume the client is already registered in Airbnb). [4]