

Exam 15.01.2018

Read the questions carefully and justify all your answers

Respond to group 1 and group 2 in two separate sheets

The exam will take 90 minutes plus 20 minutes tolerance for non-native speakers writing in English

It was a sunny Sunday morning in late November 2014, when Jeroen Merchiers, general manager of Airbnb for Northern, Eastern and Southern Europe, was jogging along the beach in Barcelona. He was recently transferred to Europe, after being the general manager for North America and was reflecting about its company.

In a collaborative economy, also known as the sharing or peer economy, owners “share” and rent out idle capacity they are not using, such as a house, apartment, car or bicycle, to a stranger through peer-to-peer platforms. Airbnb fits in this emerging paradigm, being a community marketplace where guests can book accommodation from a list of verified hosts. The company had traditionally identified itself as a technology platform that facilitated hospitality arrangements between hosts and guests. As such, it had been exempt from collecting tourist taxes, city taxes or personal income tax from hosts. Signing up to the website is free of charge and it costs nothing to post a listing. This has reduced the barrier for hosts to enter the market. Upon finding the listing that they want, would-be guests need to sign up to the website, which then provides information for contacting the host directly as well as for providing payment information for an accommodation request. When the host accepts the request and the transaction is in place, Airbnb charges the guest a transaction fee of 6% to 12% and the host a fee of 3%.

Airbnb offers free membership and free access to accommodation lists. Users are free to browse as they please and are prompted to pay a service charge only when making a reservation, which let Airbnb maximize the number of potential transactions. The rooms provided by Airbnb are 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. Therefore, instilling trust in the platform was paramount for Airbnb in order to get people to share their homes and to ensure guests had pleasant travel experiences. To that end, Airbnb focused its efforts on customer service and satisfaction. Airbnb used the revenue from transaction fees to implement systems such as improved customer verification, \$1 million theft/damage insurance, authentic guest reviews and social media connections. All these efforts contributed to positive word of mouth, which played a key role in generating up to 80% of the guest traffic. All of these factors, designed with the specific purpose of building trust on both sides of the platform, helped Airbnb create a scalable business model that has led to promising financial returns. As such, Airbnb is 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.

Airbnb's value proposition in this new environment within the sharing economy model is to offer multiple lodging options, cost savings, locations off the tourist trail, new friends in new places, easy-to-use and personal profiles, and reviews. However, illegal listing of personal homes and apartments raised legal issues and increasing legislation around the world is being issued. There was also a problem over hosts not paying tax on earnings.

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. and market competition in peer-to-peer renting services has increased significantly in the last few years. The main competition of Airbnb includes HomeAway and Booking.com.

HomeAway is a vacation rental marketplace with more than a million vacation rental listings in 190 countries. The United States-based company is one of the market leaders with a strong brand portfolio in the industry. Founded in February 2005 and headquartered in Austin, Texas, the company went public in 2011.

Booking.com is a booking website that started as a small start-up in Enschede in the Netherlands in 1996. Through its online travel agent (OTA) services, the company connects consumers wishing to make travel reservations with providers of travel services across the world. The company's brands include Booking.com, KAYAK, Agoda.com, Rentalcars.com and OpenTable. Booking.com offers consumers online accommodation reservations, including hotels, bed-and- breakfasts, hostels, apartments, vacation rentals and other properties.

Airbnb management believed that travelers chose its service, among other reasons, because it was the best-known site among peer-to-peer rental platforms and because, since its launch, it had built a reputation in the market for being trustworthy. Reviews by both guests and hosts were of the essence in building that trust, yet for hotels it was estimated that only about 2% of all travelers wrote reviews. Nevertheless, high-quality services based on trust (such as double evaluation systems, the elimination of anonymous reviews, professional photography and 24-7 customer services) have helped Airbnb build a strong reputation in the industry and have led the company to stand out from its competitors.

Group 1

- a) Considering the PESTEL analysis, identify three trends that you consider most important in Airbnb's macro environment. (4 points)

Theory (40%)	Application to the case
Define PESTEL analysis: Analysis of the macro environment, following a set of dimensions/trends in the broader society that influence an industry and the firms within it (Political, Economical, Social, Technological, Environmental and Legal).	Economic (20%): It is increasingly expensive to live in big cities and people (hosts) are taking advantage of their spare bedrooms as a much needed source of extra income: "For hosts, rents provide a source of income to help pay for soaring accommodation costs in many major cities."
PESTEL analysis is not an analysis to the company! Impacts of Airbnb in the economy, or the technology it uses are not part of the PESTEL analysis.	Collaborative economy could also be mentioned as an economic trend if the previous explanation was given. Social (20%): The collaborative economy paradigm is increasingly important: "In a collaborative economy, also known as the sharing or peer economy, owners "share" and rent out idle capacity they are not using, such as a house, apartment, car or

	bicycle, to a stranger through peer-to-peer platforms. Airbnb fits in this emerging paradigm, being a community marketplace where guests can book accommodation from a list of verified hosts. Also, the search of more authentic experiences by tourists, can also be mentioned.
	Legal (20%): Countries are creating new laws to address the rise of business models related with the sharing economy, including Airbnb that is related to dodging taxes: “However, illegal listing of personal homes and apartments raised legal issues and increasing legislation around the world is being issued. There was also a problem over hosts not paying tax on earnings.”
	Technology can also be accepted, with the increasing use of ICT and new internet-based business models.

- b) Considering the industry environment described in the text, build the Porter’s Five Forces model for Airbnb. (6 points)

Definition of Porter’s five forces Model and naming each force (25%) Application of each force to the case (15% each) For each force it was not enough to describe it (e.g. saying who are Airbnb’s suppliers or customers), the answer must clearly emphasize which characteristics of each force contribute to increase or decrease its strength.		
	Suppliers (low strength) Lodging hosts are the suppliers of Airbnb. There are many hosts advertising their lodging through Airbnb, weakening this strength. On the other hand, there are also many competitors that provide the same services of Airbnb, so suppliers can switch easily. However, they would not benefit of the trust build by Airbnb. As such, overall, this strength is low.	
Threat of new entrants (low/medium) Technology-speaking it is not very hard to set up a similar platform. However, it is quite hard to build a community with	Industry Rivalry (high) There are many competitors in the market that are large companies with plenty of resources, making this an important strength. The market is	Threat of substitutes (medium/high) The traditional providers (hotels) are the substitutes here. While their business model is under threat they have a more

so many hosts available and also it is hard to get the trust aspect. As such, although new companies can enter the market, it would be hard for them to gain a foothold.	expanding, decreasing a bit this strength, but it is still important	comprehensive set of partnerships (travel agencies, guides, sometimes even airlines) and are fighting back with lower prices. Although Airbnb was gained significant strength, the traditional lodging industry still holds significant power.
	<p style="text-align: center;">Customers (low)</p> <p>Airbnb customers are all those interested in lodging in a foreign city. As a B2C business with millions of customers, customers of Airbnb don't have a great power over Airbnb. Even with the rivalry in the industry, the trust that Airbnb has built makes harder also for customers to change to other competitors.</p>	

Group 2

- c) Has Airbnb developed a competitive advantage in its market? If so, how do you characterize Airbnb's competitive advantage? (5 points)

Theory (40%)	Application to the case (60%)
<p>Explain that a company has a competitive advantage in a market when it offers a unique value solution for its customers, difficult to replicate by competitors, allowing the company to achieve above-average profits in a sustainable way.</p> <p>The explanation can also resort to the criteria for being a competitive advantage:</p> <p>Valuable for the customers and rare (unique)</p> <p>Hard/costly to imitate (sustainability of the competitive advantage)</p> <p>Allows above average returns</p> <p>The competitive advantage results from a strategy that seeks a dynamic fit between the company's core competences and market conditions. However, describing Porter /business strategies is not the same as explaining different strategies is not explaining what competitive advantage is.</p> <p>It is accepted however, if the response relates competitive advantage with core competences, and then characterizes the core competences in terms of</p>	<p>Airbnb has a competitive advantage because:</p> <ul style="list-style-type: none"> - Offers a unique service that is highly valued by customers: wide network of hosts/lodging options, great user experience with the website and the whole service, strong reputation and trust through the review process and guarantees/insurance, high quality of service. - Offers a lower price than hotel competition, although can be discussed, because it does not differentiate from direct competitors such as Homeaway. - This is hard to imitate by competitors – the website, but particularly the brand recognition and reputation, as well as the largest network of hosts in the world. These are very hard to imitate. - The growth and financial success of Airbnb since its foundation as reported in the text show that Airbnb has a sustainable competitive advantage that

value added and uniqueness, hard to imitate, and the basis for above average returns.	enables it to gain above average returns, and is much more successful than its rivals.
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d) What is/are the organizational structure(s) of Airbnb. Justify your answer. (5 points)

Theory (40%)	Application to the case (60%)
<p>Explain organizational structures overall, explain geographical division structure and network structure in more detail.</p> <p>Geographical-based divisional structure: divisions are defined according to the geographical markets they serve, and is usually used when there is a large diversity of characteristics of different markets.</p> <p>Network structure is characterized by a web of strategic relationships established between a group of companies, which together offer a more complete solution to customers. A central organization that tries to maximize the whole network performance coordinates this network.</p> <p>A network structure is usually associated with strategic outsourcing. However, explaining what strategic outsourcing is as if it were a network structure is not correct.</p> <p>Simply explaining that the functional structure is organized by functions, and that the divisional structure is organized by divisions, is not enough or adequate.</p>	<p>Network structure, because Airbnb is the center of a network of hosts, with whom it establishes a partner relationship, enabling Airbnb to offer a more complete solution. (40%)</p> <p>Geographical divisional structure because the text mentions that Airbnb is internally structured by geographical divisions: Northern, Eastern and Southern Europe on the one hand; and North America on the other hand. (20%)</p>