**Analysis of Multi-Sided Network Business Model: A Case Study of Airbnb**

Name:

Student Number:

Program:

Submission Date:

**1. Multi-Sided Network: An Initial Analysis**

**1.1. Company Identification and Description**

Airbnb is an online platform that brings together people who wish to lease their homes and those who want to lease homes. Airbnb is an online marketplace and hospitality service that was developed in August 2008 by three entrepreneurs from the United States namely Brian Chesky, Joe Gebbia, and Nathan Blecharczyk. It developed into an international site, which generates millions of listings in more than 220 countries and areas, from single rooms up to castle or luxurious villas.

**Facilitation of Transactions:** Airbnb does not own any of the listed properties; it merely serves as a platform that connects customers and property owners. Instead, it connects two principal categories of users: hosts who provide their properties for temporary stays and guests who need short-term lodging. What Airbnb does is enable these two groups meet, negotiate and transact online through the digital platform provided by Airbnb.

**Revenue Model:** Another criterion that shows that Airbnb is a platform provider is the revenue model. The major source of income for the company is through a service fee that is levied on its customers for every booking made. This fee is normally in relation to the amount of the transaction and is split between the host and the guest. Such fee-based structure is typical for multi-sided platforms when the platform owner receives revenues from providing connections between different sets of users.

**Global Reach and Scale:** Airbnb’s platform has grown tremendously, as it connects millions of hosts and guests across the globe. The company has established itself as a key industry participant in the travel and hospitality sector where there are network externalities that help drive growth in the system as more participants join the network.

**Advanced Algorithms:** Airbnb employs sophisticated techniques such as predictive modeling and artificial intelligence to recommend properties to users. It also incorporates dynamic pricing strategies making it possible for the hosts to change their prices according to the market trends, location and other considerations and hence optimize the returns.

**Trust and Safety Features:** In order to ensure that the transactions on the platform are safe and secure, Airbnb has provided different trust and safety measures. These are such as guest and host feedback, payment platform, and a host protection plan that seeks to cover the host in case of loss due to property damage.

**Community Focus:** Airbnb has paid special attention to the need to foster togetherness, that is, the opportunity to interact with people through the application. This has been another of its major orientations as a community oriented and unlike other conventional hotel chains.

**Brand Strength:** This makes a lot of sense in some way since another attribute that also contributes to Airbnb’s competitive advantages is its well-established brand image. Building on the further expansion of the platform and the presence of a successful brand Airbnb can attract various users to the platform which will add more value to the platform and its features.

The transactions between the hosts and the guests provide Airbnb with revenues through the service charges it levies on both the hosts and the guests making it a multisided platform. They continue to grow their markets, adopt new technologies and have well-established brands that support its claims of being a very effective platform provider in the new digital economy.

**Evidence of Platform Provider**: Airbnb's business model is based on a platform that connects two distinct user groups hosts and guests. The platform earns revenue by charging a service fee on each booking, a characteristic feature of a multi-sided network.

**1.2. Platform Sides**

Airbnb's platform includes two primary sides:

**Hosts**: Individuals or businesses that list their properties for short-term rental. Hosts benefit from the platform's vast user base and secure payment processing.

**Guests**: Individuals seeking accommodation for short-term stays. Guests use the platform to search for, book, and review properties based on their preferences and budget.

These sides interact directly through the platform, with Airbnb acting as the intermediary that facilitates communication, transactions, and dispute resolution.

**1.3. Traditional Business Model**

**Marriott International is one of those with an old business model in the hospitality sector. In contrast to Airbnb, Marriott owns, leases, or franchises properties and directly manages transactions and customer experiences.**

**Why It's Not a Platform Business: In the model of Marriott, a direct relationship with customers is involved; it implies one entity is in charge of all services from booking to room management. There is no such involvement of any intermediaries that would facilitate interactions between independent groups, which is clearly a defining feature of a platform business.**

**1.4. Comparison of Business Models**

**Airbnb (Platform Model)**: Relies on network effects, with value increasing as more users join the platform. It scales rapidly without owning physical assets, reducing overhead costs.

**Marriott (Traditional Model)**: Involves significant capital investment in properties and a direct service delivery model. Growth is tied to the expansion of physical assets and service quality.

**Scalability**: Calls for limited capital investment to quickly scale across multiple markets for Airbnb. However, Marriott reports slower growth and needing important capital.

**Flexibility**: The model Airbnb offers provides flexibility in inventory and pricing, driven by the market. Demand, on the other hand, is designed to ensure that Marriott has the available assets with fixed prices.

**2. System Dynamics**

**2.1. Important Factors Influencing Business Performance**

**Number of Hosts**: This affects the availability and diversity of listings, which in turn affects the guest experience and booking rates.

**Number of Guests**: The recovered Stereotypes affect the demand for listings, which in turn affect the host earnings as well as the platform.

**Quality of Listings**: This means that the high-quality listings get a higher number of guest and higher customer ratings.

**Platform Fees**: Affects the incentive for hosts listing properties and guests booking these properties.

**2.2. Relationships Between Variables**

**Positive Relations**:

**More Hosts More Listings**: More hosts lead to greater variety over fewer hosts, as there are typically more choices when selecting more hosts. That kind of facilities will be provided, it will help to attract more guests .

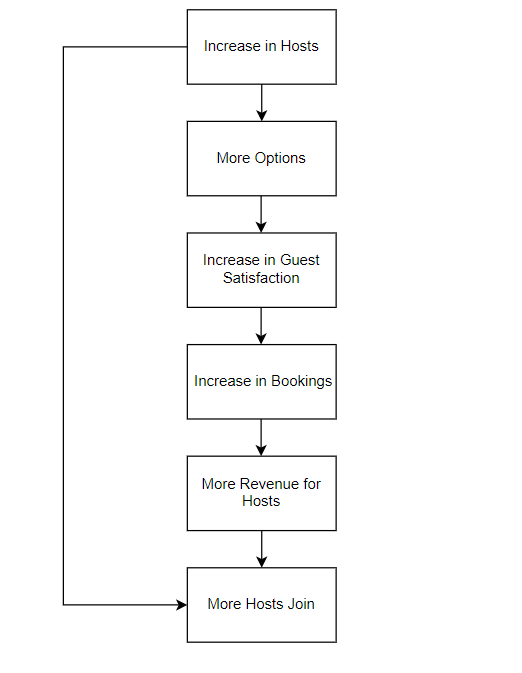
**More Guests Higher Earnings for Hosts**: An increase in the number of guests leads to more bookings, which increases host revenue.

**Negative Relations**:

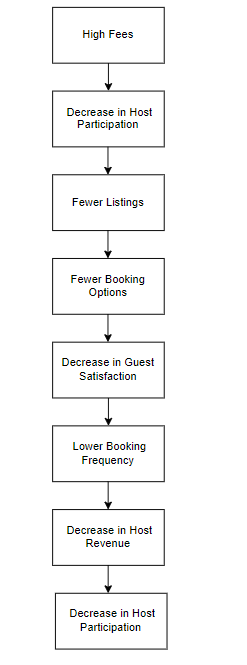
**High Platform Fees Lower Host Participation**: If fees are too high, hosts might find it less profitable to list their properties, reducing the number of listings.

**2.3. Feedback Loops**

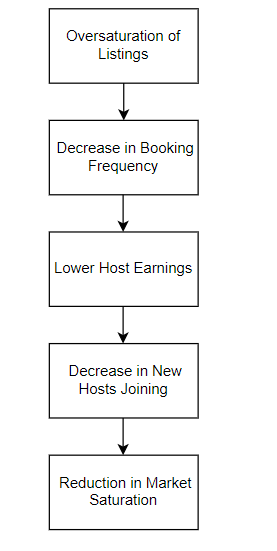
**Reinforcing Loop**: As more guests book through Airbnb, hosts are encouraged to join the platform, which further attracts more guests (positive feedback loop).



**Balancing Loop**: If the market becomes oversaturated with hosts, competition may drive down prices, potentially reducing the attractiveness of the platform for hosts (negative feedback loop).



**System Dynamics Diagram**: The diagram illustrates these relationships, showing how the increase in hosts and guests leads to a reinforcing cycle, while high fees or oversaturation may create balancing loops.



**3. Strategy and Business Model**

**Porter’s Five Forces Analysis**

**1. Threat of New Entrants**: **Moderate**

**Barriers**: While the technological barrier is relatively low, building a network of users like Airbnb's requires significant time and marketing investment.

**Implication**: New platforms could emerge, but scaling to Airbnb’s level is challenging due to established network effects.

**2. Bargaining Power of Suppliers (Hosts)**: **Low**

**Explanation**: Airbnb has millions of hosts, none of whom are large enough to exert significant power over the platform.

**Implication**: Airbnb can dictate terms, such as fee structures, without much pushback.

**3. Bargaining Power of Buyers (Guests)**: **Moderate**

**Explanation**: Indeed, guests have many choices available to them, other platforms, and conventional hotels wherein they have some level of decision-making as to where to go.

**Implication**: In this respect, price sensitive and quality factors are some of the important strategic control that Airbnb needs to employ in order to be able to sustain customers.

**4. Threat of Substitutes**: **High**

**Explanation**: The tight competition is complemented with other online platforms providing hotels, other rentals or even Couchsurfing serve as a constant threat.

**Implication**: In an unrelenting and intensifying global market, Airbnb thus has to adapt and search for its new sources of differentiation.

**5. Industry Rivalry**: **High**

**Explanation**: Competition with the other online platforms such as Vrbo and the traditional hospitality industries is stiff.

**Implication**: Marketing cost of Airbnb has to be high for the company to sustain it position in the market to ensure that customers get the best they need.

**4. Network Effects**

**Same-Side Positive Effect**: The identification encourages more hosts to join Airbnb since more hosts mean even more hosts the credibility of the platform and awareness of it expand.

**Same-Side Negative Effect**: If there are many hosts then there will be competition between them and this is not good for the world wide web decreasing costs and, in some cases, negatively affecting satisfaction.

**Cross-Side Positive Effect**: The multiplication of guests leads to the fact that more hosts want to join, as he chances for bookings and income to rise.

**Cross-Side Negative Effect**: This is because less guests will be willing to book a property with a low quality if it compromises the quality of the listing.

It could reduce the likelihood of guests booking their space, thus resulting in a decrease in the number of hosts providing their properties. As all of these effects are vital since they either confirm the enlargement of the platform or the erosion of its popularity can be used to recommend that organizations should point their strategic focus towards these areas to avoid decline.

**5. Pricing Strategy**

**5.1. Money Side and Subsidy Side**

**Money Side**: The customers, the service users, who pay a certain amount of money for staying at the facility.

**Subsidy Side**: Listers receive free listings and can afford to pay a little more in fees to become a platform.

**5.2. Pricing Strategy**

**Strategy**: A very good example of dynamic pricing can be seen in Airbnb. The price depends here on demand, geographical location, and the time of the year. This approach helps generate optimum revenue for the hotel while offering cheap prices to guests at the same time.

**Rationale**: The site should make the prices more fluid, meaning that supply and demand should find each other so as to give maximum revenue to the host and the best deal for the guest.

**5.3. Examples of Services Provided**

**For Guests**: Security of clients' purchase, communication with the client support team, feedback from other customers.

**For Hosts**: Very few identified insurance slots, very few identified property management instruments, and pinned listing enhancement tools.

**6. Professional Structure, Style, and Content**

**6.1. Report Composition**

**Introduction**: The report starts with a clear section of the objectives of the. Review and analysis of Airbnb as the chosen company.

**Content Structure**: There are six clear and logical sections in the report informative headings. It is noteworthy that the numbers and the captions of the figures and the tables are properly designed and described within the text.

**6.2. Arguments and Resources**

All the facts used are backed up with data from credible sources such as scholarly articles, and journals magazines, business publications and newspapers, white papers, and newspapers.

**6.3. Critical Analysis and Conclusion**

**Critical Analysis**: This paper critically analyses Airbnb’s business model, to establish their strategic position both strengths and weaknesses.

**Conclusion**: The strategic implication of the group work report is presented in this final section whereby the findings made throughout the group work study are outlined towards the key theoretical directions and horizons of the Airbnb’s platform business model into the future.

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