

Northern Michigan University

CASE: AIRBNB CASE

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Dr. Brunswick

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## AIRBNB HISTORY

**Oct. 2007** - First Guests are hosted by two co-owners.

**Mar. 2008** - Brian Chesky and Joe Gebbia officially launch Airbed and Breakfast. The goal was to provide housing for festival and conference attendees at SxSW. Only two bookings were made.

**Aug. 2008** - Another attempt took place during Democratic National Convention. Eighty bookings were made. (Obama O's)

**Mar. 2009** - Changes name to Airbnb and expands beyond rooms to entire apartments/buildings

**Jun. 2011** - Begins International expansion (Germany)

**May 2012** - \$1 M Host Insurance Guarantee

**Nov. 2012** - Charity Work in NYC after Hurricane Sandy ([Disaster Relief Tool](#))

**Nov. 2019** - International Olympic Committee 9-year partnership

**Mar. 2020** - Launches Frontline Stays to house medical professionals

**Apr. 2020** - Launches "Online Experiences" to help with lost earnings during pandemic

**Jun. 2020** - Enhanced Cleaning Protocol to address COVID-19 concerns

**June 2020** - Partnership w/ Color of Change by launching Project Lighthouse

**Sep. 2020** - Launched City Portal to help enforce local short-term renting laws

**Dec. 2020** - Initial Public Offering

**Dec. 2020** - Launched Airbnb.org a nonprofit

**May 2021-May 2022** - Multiple Platform updates and upgrades to UI

## **CASE EVENTS**

The following dates are from the Bloomberg Businessweek article and represent real incidents that have occurred under Airbnb's services. The dates, a description of the incident, as well as Airbnb's response to the events are provided below.

### ***2011***

- Airbnb host in San Francisco blogged about her recent Airbnb guests ransacking her home. An Airbnb co-founder responded inappropriately to the situation, the hashtag "RansackGate" started trending, and the situation escalated.
- (Airbnb responded with a public apology, established a \$50,000 damage guarantee for hosts, a new 24-hour customer-support hotline, and a new trust-and-safety department. The damage guarantee later increased to \$1,000,000.)

### ***October 2011***

- Airbnb host in Barcelona plied two American women with alcohol and then raped them.
- (Airbnb declined to comment on the situation, they responded by paying out the two women an undisclosed amount, and the host was banned from Airbnb and sentenced to 12 years in prison.)

### ***December 2015***

- A Manhattan woman has her Airbnb broken into using a set of duplicate keys and is attacked and raped. The woman was not the one to rent the Airbnb, thus she had not signed the Airbnb terms of service agreement.
- (Airbnb responded with a \$7 million payout and the women signed an agreement not to talk about the settlement. No policy for how hosts exchange keys with guests was established.)

### ***2017***

- A 51-year-old woman sued Airbnb after being allegedly assaulted by an Airbnb host in Los Angeles. During her stay, she encountered weird behaviors with the host, and decided to leave, the host followed her into the rental, and sexually assaulted her. Upon leaving, the host said, "Don't forget to leave me a positive review on Airbnb" and was not charged for his actions.
- (Airbnb had not done a thorough background check of the host. The host had previously been charged with battery but was not convicted, thus he was not flagged. Airbnb responded by offering the woman an undisclosed amount of money in exchange for dropping the lawsuit and banning the host from Airbnb.)

### ***2018***

- A woman traveled to Costa Rica for her birthday and was murdered by a security guard who worked at the complex where the Airbnb rental was in. Her body was found about a thousand feet away from the rental, decomposing, wrapped in plastic, and half buried.

The security guard was working in the country illegally and had not gotten a background through Airbnb.

- (Airbnb settled the case by offering the woman's family an undisclosed amount of money.)

### ***November 2018***

- Retired couple dies from inhaling toxic fumes while at Airbnb in Mexico. Son made a public announcement on television pleading with Airbnb to protect its users better.

### ***May 2018***

- Guests rented an Airbnb in Santiago, Chile. All six guests, 2 being children, died of carbon monoxide poisoning.
- (Relatives of the guests had contacted Airbnb before they passed, however, their response was delayed because there was no one that spoke Portuguese at the call center.

### ***October 2018***

- A shootout occurred at a home in California. The guest had been reported for previously leaving a bullet at another rental day before and an internal safety warning was triggered. The guest was advertising a "mansion party" on social media and more than 100 people showed up. A gunman opened fire and five people were killed.
- (Airbnb co-founder Chesky made a public Twitter condolence post about the situation and announced new safety measures. Airbnb's new safety measures included a ban on part houses and verification of photographs, amenities, cleanliness, and safety of all listings on Airbnb. Airbnb had not reached out to the victims' families until a week later. Airbnb was criticized for providing little more than prayers. The company offered to pay for the funerals but had reluctant behavior when they were sent bills of more than thirty thousand. The bill was finally paid, but the settlement is still being negotiated.)

The following list are other examples of related serious incidents provided in the Bloomberg Businessweek article. Some are more general events that have occurred on multiple occasions, while others are specific incidents with no specific dates.

### ***Other incidents (no specific dates)***

- Hosts hurling suitcases out of windows
- Concealed cameras
- Gas leaks
- Sexual assaults
- Physical assaults
- Guest is found naked in bed with Airbnb host's 7-year old daughter
- U.S. citizen is raped at an Airbnb in India, by the Airbnb host's relative who was out on bail after being charged with murder.

Following each incident, Airbnb has responded and or either made corrections to their service operations. Provided is a list of examples of how Airbnb has tried to correct its service failures.

### **Airbnb Corrections**

- Paying for flights, accommodations, food, counseling, health costs, and sexually transmitted disease testing for rape survivors.
- Relocate guests to hotel rooms at 10 times the cost of their bookings, paid for round-the-world vacations, and even signed checks for dog-counseling sessions.
- Hired body-fluid crews to clean the blood off carpets and contractors to cover bullet holes in walls.
- Payouts related to property damage.
- December 2018 - Airbnb announces \$150 million of additional trust-and-safety spending. Introduced a 24/7 hotline, offering guests immediate access to a safety agent, created a system to flag high-risk reservations, banned users under the age of 25, banned users that did not have a history of positive reviews from booking an Airbnb in the area where they live, and stopped one-night stays for major holidays.

### **COMPANY BRIEF FINANCIAL OVERVIEW**

Airbnb has been operating since 2008 and started trading on the Nasdaq exchange in December 2020. It is important to analyze the company's revenue, as well as net income, to understand its financial performance year-to-year and overall, see Figure 1.1. In addition, looking at the total amount of bookings and Airbnb listings per year is an important aspect to look at, as this is a unique service. Airbnb's service is similar to hotels in that they collect the number of bookings per year, but also have the consumer-to-consumer aspect, thus the need for the category of listings.

Airbnb Inc. Overview				
Year	Revenue (Millions)	Net Income (Millions)	Bookings (Millions)	Listings (Millions)
2017	\$ 2,600	\$ (70.00)	115	4
2018	\$ 3,600	\$ (17.00)	140	6
2019	\$ 4,800	\$ (674.00)	272	7
2020	\$ 3,300	\$ (4,585.00)	193	5.6
2021	\$ 5,900	\$ (352.00)	300	6
2022	\$ 6,497	\$ 1,547	330*	6.6*

*Figure 1.1 Shows Airbnb's revenue, net income, the total amount of bookings, and the total amount of listings for the years 2017 to 2021. Source: Wall Street Journal*

\* = Estimates based on proportion of previous year's category to revenue multiplied by current years revenue ( $300/5900 \times 6497 = 330$  million).

## I.

### ***Merriam Webster defines ethics as:***

A set of moral principles: a theory or system of moral values.

### ***In Business Context:***

Business ethics can be understood as the study of the ethical dimensions of the exchange of goods and services, and of the entities that offer goods and services for exchange. This includes related activities such as the production, distribution, marketing, sale, and consumption of goods and services (Stanford) (cf. Donaldson & Walsh 2015; Marcoux 2006b).

### **Airbnb Ethical Marketing and Severity of Liability Implications**

Airbnb is ethical in some cases and unethical and lacks social responsibilities in others. The Ransack Gate occurred in 2011 in San Francisco. The host of the Airbnb said her guests trashed her clothes, burned her belongings, and smashed a hole through a locked closet door to steal her passport, credit card, laptop, and hard drives, as well as her grandmother's jewelry. The host blogged a follow-up post stating that an Airbnb co-founder had contacted her and rather than offering support asked her to remove the post saying it could hurt an upcoming funding round. Soon #RansackGate was trending on many social media platforms. Airbnb's response was a public apology from Chesky, an initial \$50,000 damage guarantee for hosts (since increased to \$1 million), a 24-hour customer-support hotline, and a new trust-and-safety department. While this may seem like an appropriate ethical response to the host, would the company have responded the way it did if #RansackGate was not trending on social media? Airbnb has done things to help its customers who were victims of assault, vandalism, and safety issues but at what point is it too little too late?

In 2015 a 29-year-old woman walked into her Airbnb and realized there was a man in her room. She was held at knifepoint and was raped by her intruder. Police eventually found and arrested the man, they found a copy of the key used to get into the victim's Airbnb apartment. The company's elite trust-and-safety team sprang into action. They relocated the woman to a hotel, paid for her mother to fly in from Australia, flew them both home, and offered to cover any health or counseling costs. The duplicate keys posed a particular problem for the company. Airbnb does NOT have a policy for how hosts exchange keys with guests, its reputation for safety, and possibly its legal liability. The local media did not report the crime and kept it under the radar as the company wanted. Two years after the assault Airbnb wrote a check for \$7 million in exchange for the woman of the assault to sign an agreement to not talk about the settlement "or imply responsibility or liability" on the part of Airbnb or the host.

The service liability issues throughout the case are severe. The severity of these issues ranges from house ransacks to sexual assault and even carbon monoxide poisoning. The company should be held responsible for these issues since Airbnb is the one allowing hosts to let guests stay at their homes. It is Airbnb's responsibility to ensure all hosts follow the proper protocols

and guidelines when allowing guests to stay. Therefore, Airbnb should be held liable for safety concerns within the legal guidelines. When looking at Airbnb's website under the safety tab the company states, "Safety and security are must-haves in any home. In addition to the steps Airbnb takes to help protect our community, we strongly urge both Hosts and Guests to stay aware and take certain safety precautions when they're hosting or traveling." Airbnb offers the option to pay for the host's carbon monoxide alarms to ensure the safety of guests. Providing these alarms gives guests and hosts a sense of security. Only twenty-six out of fifty states in the U.S. enforce carbon monoxide alarms in homes. While Airbnb does not enforce the usage of carbon monoxide alarms the company strongly recommends checking alarms throughout the homes or apartments and ordering new ones if need be.

Below is a chart, Figure 1.2, which was taken from a study conducted by John Jay College of Criminal Justice and the University of Colorado School of Public Affairs in Colorado Springs. The two-and-a-half-year project was funded by ASIS International, the world's largest membership organization for security management professionals. According to the study, there were 5 main complaints made by customers regarding their experiences with Airbnb. These five complaints include: customer service issues (72.2%), scams (22.3%), host cancels stay (10.4%), unsafe conditions (6.1%), and discrimination (3.8%). The complaint that is the most relevant to the case is the unsafe conditions which make up about 6.1% of all complaints that customers reported experiencing. Some customers may not report a complaint so the numbers below only account for the complaints that were reported.

**Unsafe Conditions at Airbnb**

Column1	Instances	Proportion
Bookings	300,000,000	100%
Unsafe Conditions	300,000	0.10%
Infestations / Unsanitary	167,400	55.80%
Serious Safety Issues	49,500	16.50%
Obnoxious Environment	45,000	15%
Unsafe Amentities	22,500	7.50%
Hidden Cameras	9,600	3.20%
Theft	5,700	1.90%
Other	300	0.10%
Total	300,000	100.00%

*Figure 1.2 estimates of specific instances of unsafe conditions at Airbnb*  
*Sources: Asher & Lyric, Bloomberg*

In 2021 there were 300,000,000 bookings through Airbnb, according to the case fewer than 0.1% of these bookings resulted in a reported safety issue. Using this number provided by Airbnb about 300,000 of the 300,000,000 bookings reported a safety issue. The study broke down the unsafe conditions into 7 different categories the first one being infestations/unsanitary making up about 55.8% of unsafe conditions which is about 167,400 bookings that result in this issue. This category covers extreme bug infestations, unsanitary living conditions, problems with rodents, and dangerous mold present. The second category is a serious safety issue which makes up 16.5% or about 49,500 bookings of unsafe conditions. This category includes police having to be called due to a serious safety issue at the property. It also includes drug use, deals or paraphernalia as well as weapons being found on the premises, and bodily assault such as rape or harm. The third category, obnoxious environment, comprises about 15% or 45,000 bookings of unsafe conditions. This category covers hostile or intimidating hosts, inconsiderate roommates, dangerous neighborhoods or threats, disruption, or drunkenness. The fourth category is Unsafe amenities which comprises about 7.5% or 22,500 bookings of unsafe conditions. Carbon monoxide issues, electrical/fire hazards or problems with smoke alarms, no keys or entrance code, and other broken amenities. The fifth category is one of the small categories but is still a serious safety concern is hidden cameras. This category comprises about 3.2% or 9,600 bookings of unsafe conditions. Criteria of this category include; undisclosed hidden cameras or microphones, and bedroom/bathroom cameras. Many hidden cameras go undetected since they are so tiny and expertly concealed so this percentage/number could be higher than what is actually reported. The sixth and final category is theft which compromises 1.9% or 5,700 bookings of unsafe conditions. This category includes breaking and entering, in some cases the thief has access to the property. Stolen items may not be compensated by Airbnb. The other category comprises any other unsafe conditions that do not fall within the criteria for the categories mentioned above, about 0.1% or 300 bookings of unsafe conditions fall into this category.

When looking further into how the company has handled safety issues, the company is not being ethical in its responses to the examples of service failure. No amount of money, accommodations, or counseling can get rid of or take away any emotional damage the victims of these crimes endured. How much money is it worth to prevent these instances from occurring again in the future?

### ***Social Responsibility Definition:***

According to a Harvard article, social responsibility is the idea that all businesses have a responsibility for their doings to society and what exists around them. Businesses that emphasize social responsibility typically are positively making an impact on the world. There are multiple perspectives of social responsibility which include environmental, ethical, philanthropic, and economic. Their definitions are as follows:



*Environmental responsibility* entails the business being as environmentally friendly as possible such as reducing pollution, and greenhouse gas emissions, regulating energy consumption, using more sustainable resources, and many more.

*Ethical responsibility* concerns the business operating in a proper and ethical manner. This requires the business to have fair treatment throughout stakeholders, leadership, investors, employees, suppliers, and customers.

*Philanthropic Responsibility* is concerned with the business striving to make the world a better place. This can be done by dedicating specific amounts of earnings to charities and nonprofit organizations.

*Economic Responsibility* of a business is to make sure they can back all financial decisions. Not only are they striving to produce a profit but also positively impact all aspects around them.

### **Is Airbnb Socially Responsible?**

Airbnb has the foundation of being a socially responsible company, however, the company is flawed with its marketing causing ethical issues.

*Environmentally:* Airbnb has committed to operating as a Net Zero company by 2030. This is defined as reducing carbon emissions/ greenhouse gas emissions that are in connection to their corporate operations. Investing in natural solutions to offset residual emissions. To support these claims they plan on publishing their ecological footprint to exhibit progress. Other strives include increasing renewable energy, working with their corporate vendors to decrease their carbon footprint within their operations, assisting their employees in reducing their ecological footprint, and consulting with the community and environmental experts.

*Philanthropically:* Airbnb has supported local communities through employees receiving four hours of paid time off each month to volunteer in local communities, and running the Open Homes program that provides homes for free for those affected by disaster/illness/conflict; an example of this is after the storm Sandy in the United States during 2012 Airbnb permitted 1,400 hosts in New York to open their home for their displaced neighbors.

*Economically:* Airbnb claims to have had a positive economic impact starting in San Francisco in 2012. San Francisco is a city where Airbnb generates approximately 56 million in local spending and supports 430 jobs. Out of the total guests spending 12.7 million goes directly to host households. New York is another city where Airbnb generates \$632 million in economic activity in the city, this includes \$105 million in direct spending in the outer boroughs. Other cities that create strong economic impact include Paris, Amsterdam, Berlin, London & Edinburgh, Sydney, and Barcelona.

*Ethically:* Airbnb claims through its Code of Ethics that people have the right to report any concerns and no one can discourage another from reporting a concern or retaliate against anyone

who reports a concern. This flags issues internally with Airbnb considering they have encouraged multiple people, who have had negative experiences with them, to be quiet and have influenced these decisions with money. This exhibits Airbnb's marketing as deceitful, they should be making efforts to warn their users of the possible situations at hand. Airbnb doesn't have the power to control each host or their users' choices or actions however they can be transparent.

### **Estimated Service Liability Issue Dollar Costs**

In the context of Airbnb, service liabilities are related to the restitution for loss related to personal injury, property damage, or other harm caused by a product or service. As specified in the article, "Airbnb spent an average of roughly \$50 million annually on payouts to hosts and guests. Payouts are related to property damage and legal settlements" (Bloomberg). \$50 million was used as a component for these estimates. The \$50 million was divided by the revenues of the years 2017 to 2021 to get each year's "Percentage of Revenue" After calculating these percentages, the 2017 to 2021 percentages of revenue were averaged and resulted in 1.34 percent. This percentage was then used for the remainder of the years 2008 to 2016. Each year's revenue was then multiplied by 1.34 percent resulting in the "\$ Cost of Service Liability Issues". The \$50 million, again coming from the estimate from the article, was used as years 2017 to 2021's "\$ Cost of Service Liability Issues". For the current year 2022, an estimate was formed. The 2022 revenue up to this point, Quarters 1 to 3 were added together, and then was multiplied by 1.34 percent which equated to \$87.06 million. Finally, all "\$ Cost of Service Liability Issues" were added together and the \$384.08 million was derived.

### **Estimates of Costs of Service Liability Issues Each Year Since Inception**

Year	Revenue (Millions)	\$ Cost of Service Liability Issues (Millions)	Percentage of Revenue
2008	\$ 1.0	\$ 0.01	1.34%
2009	\$ 0.9	\$ 0.01	1.34%
2010	\$ 8.4	\$ 0.11	1.34%
2011	\$ 52	\$ 0.70	1.34%
2012	\$ 189	\$ 2.54	1.34%
2013	\$ 250	\$ 3.36	1.34%
2014	\$ 400	\$ 5.37	1.34%
2015	\$ 900	\$ 12.09	1.34%
2016	\$ 1,700	\$ 22.84	1.34%
2017	\$ 2,600	\$ 50.00	1.92%
2018	\$ 3,600	\$ 50.00	1.39%
2019	\$ 4,800	\$ 50.00	1.04%
2020	\$ 3,300	\$ 50.00	1.52%
2021	\$ 5,900	\$ 50.00	0.85%
2022	\$ 6,497.00	\$ 87.06	1.34%
<b>Total</b>	<b>\$ 30,197.25</b>	<b>\$ 384.08</b>	<b>-</b>

*Figure 1.3 Shows the revenue for years 2008 to 2021, the percentage of revenue that is service liability costs per year, and the total dollar cost of service liability issues per year.*

*Sources: MacroTrends, BusinessInsider, Privco, Company, Data, Fortune, Bloomberg, CbInsights, CNBC, Techcrunch, UCLA*

The \$384.08 million estimate was multiplied by a 10 percent margin of error, which equates to \$38.41 million. Figure 1.4 shows the \$38.41 million added (liberal estimate) and subtracted (conservative) from the \$384.08 million estimate. Thus, the range of estimates are \$345.67 million to \$422.49 million.

Liability Issues (In Millions)					
Conservative		Neutral		Liberal	
\$	345.67	\$	384.08	\$	422.49

*Figure 1.4 Summary of range of estimates of the total overall \$ dollar costs associated with service liability issues surrounding Airbnb.*

Service Liability Claims means all liabilities of the company resulting from or under:

1. Any warranty made or allegedly made by the Company prior to the Closing Date with respect to any product it distributes or uses or any services it renders ("Business Products").
2. Any alleged defect in, non-performance, or deficiency of any nature in any Business Product sold or provided (as applicable) prior to the Closing Date.
3. Or any injury to person or property caused or alleged to be caused to any degree by any Business Product sold or provided (as applicable) prior to the Closing Date.

## II.

### Aspects of Responsibility

In this case, there is not one specific person to blame for these horrible incidents. The company, the hosts, and the customers have contributed to the examples of service failure and have some level of responsibility related to these faults.

#### **1. Airbnb Fault**

Airbnb is a key player in the continuous issues regarding customer safety. In a sense Airbnb is encouraging strangers to connect online, exchange money, meet in real life, and even sleep under the same roof. The responsibility leads back to Airbnb as they are the ones who are responsible for informing users of the potential risks that are associated with using their service. In the incident where the woman in New York had her rental broken into, duplicate keys were made.

Airbnb did not, and still does not have, a policy regarding keys. The lack of clear rules in the exchange of keys between the guest and host makes Airbnb at fault for these service failures. The primary issue on the company side is deceitful marketing. Airbnb lacks total transparency with its customers. One way the company could do this would be while customers are going through the renting approval process to provide a warning prior to them finalizing their rental, it would be left in the customer's hands as to whether or not they choose to read it.

## ***2. Property Owners' Fault***

Based on the case study the property owners or the hosts can be an accomplice in the safety issues or be the issue themselves. In the example of the people that have died from carbon monoxide poisoning and inhaling toxic fumes, the property owners are responsible for the service failure. Carbon monoxide detectors should have been at the rental to alert guests of any harmful chemicals. It is prominent for the hosts to create safe environments for guests and by doing so take the necessary precautions to ensure safety. Some examples of this could be Airbnb enforcing keypads or for each rental property to meet set standards of safety. Unfortunately, in the cases where the hosts are the problem themselves, Airbnb can only do the background checks and encourage renters to look at reviews. In regard to events that happened in the case, property owners were at fault for not taking the proper safety measures.

## ***3. Customers Fault***

There were very few situations in the case study that referenced the customers being a safety issue, however, there are times when they are the ones at fault. In one instance, an Airbnb guest was responsible for throwing a “mansion party” and getting more than 100 people to show up to the Airbnb. This incident ended up with five people getting killed due to someone opening fire. In other instances, Airbnb rentals are the source of noise complaints or damage to neighborhoods. Guests are at fault for disrupting the neighborhood and angering the homes around the rental. Customers can be the cause of service failures. In these specific scenarios, Airbnb should be reactive when hosts file complaints and conduct investigations.

# **III.**

## **Definitions**

The definition of the terms B2C, B2B, and C2C is based on the Investopedia definition and are as follows:

***Business-to-Consumer (B2C)*** - Businesses sell directly to their customers or end-users.

***Business-to-Business (B2B)*** - Businesses create transactions with other businesses which will then be used to create a new value-added product or service.

***Consumer-to-Consumer (C2C)*** - Businesses that create a market for customers to interact with each other and conduct transactions.

## **Airbnb Marketing Strategy (4 P's)**

### ***Product***

- Core Services: Hosting's and Rentals
- Supporting Services: Airbnb experiences
- Focuses on personalization
- Hosts can include complementary services to make stay more comfortable and enjoyable
- Includes business travel and luxury destinations (Airbnb Corporate Housing and Airbnb Luxe)

### ***Price***

- Relatively low-cost service when compared to traditional hospitality services.
- A flat fee of 3% for hosts and about 14% for guests.
- Cleaning fee averages around \$65. Can increase to \$105 depending on property size.
- Additional costs can be added for further services
- Average Global Price: \$137 per night
- Average North American Price: \$208 per night

### ***Distribution***

- Airbnb digital platform
- Mobile app and website
- Filters for pricing, destination, property type, and additional amenities are available

### ***Promotion***

- Advertising (Video Campaigns and User-Generated Content)
- Social Media Engagement
- Influencer Marketing and Referrals

## **Hyatt Marketing Strategy (4 P's)**

### ***Product***

- Core Services: Hospitality services and Hotel Rooms
- Select versus Full-Service Offerings
- Several Tiers: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale, and Timeshares
- Well-Trained Service Employees and security staff or security systems
- Supporting Services: Banquet Halls, Gardens, Bars & Restaurants

### ***Price***

- Premium Pricing Strategy
- Discounts for Groups or Extended Stays
- Average Price in 2022: \$276.83 per night (All-Inclusive) (Q1:\$309.9 Q3:\$243.75)

### ***Distribution***

- Hotel Franchise System
- International Presence: 679 Hotel Properties Worldwide
- Located in 56 Countries

***Promotion***

- Several Tie-Ups with Travel Agencies (Agencies Recommend Hyatt)
- Loyalty Program That Offers Free Stays (Member, Discoverist, Explorist, Globalist)
- Heavy Reliance on Word-Of-Mouth Advertising as Hyatt Strives to Meet Every Customer Need

**Airbnb Marketing Strategy (Pros & Cons)**

*Description:* Airbnb is a business that resides within the C2C market where hosts are able to find guests through Airbnb's platform and vice versa. The appeal of Airbnb is the relaxing atmosphere of being in a home rather than a hotel. Another allure of Airbnb is the discounted pricing when compared to other midscale to luxury accommodations. Distribution of services is decentralized in host homes, which is assigned and directed through Airbnb's mobile app or website. Airbnb relies heavily on advertising and influencer marketing to achieve its promotional goals.

***Pros:***

- No property investment costs
- Access to the largest number and variety of rentable locations
- Extremely fast-growing business
- High Personalization
- Competitive advantage offers the uniqueness of experience to consumers
- Lower cost to renters when compared to similar quality rooms in traditional hospitality

***Cons:***

- A decentralized structure allows for crime to be committed without prevention in many instances
- Larger surveillance expenses are needed
- Consistent negative net income
- eCommerce reliance prevents certain market segments from using the platform
- Reliance on continued advertising

**Hyatt Marketing Strategy (Pros & Cons)**

*Description:* Hyatt is a B2C hospitality business that provides a full-service experience. Trained service employees are available for any need that arises, food, drink, cleaning services, etc. Scales of hospitality range from midscale to luxury and have timeshare options available for purchase. Hyatt is a franchising company, which allows for multiple owners, but at a much smaller scale than Airbnb. Hyatt is considered a premium-priced hotel provider, but numerous midscale properties exist with a price per night of less than \$100.

***Pros:***

- A centralized structure helps solve and prevent instances of service failure
- Nearly complete control of all service aspects; Consistent service output (Increased Homogeneity)
- Additional supporting services available
- Franchising structure allows for lower property investment costs when compared to non-franchised hotel chains
- Longer company history (62 years) helped build a loyal customer base and brand awareness

***Cons:***

- High utility and property expenses
- Vacant rooms continue to cost money whether filled or not
- Less Personalization when compared to Airbnb
- Higher Priced Offering when compared to Airbnb

**Which has the Better Marketing Strategy?**

Airbnb for a Variety of Reasons:

1. Massive Growth in a Short Period of Time. No Property Investments are Required.
2. Larger Room Availability than the Largest Five Hotel Chains Combined (The Spaces)
3. Immense Revenue and Net Profit Potential (\$1.5bn in 2022 so far)

The largest drawback of Airbnb's marketing strategy is the uncontrollable nature of a decentralized service. The homogeneity of a business-like Hyatt will be much more reliable than Airbnb, but at a cost to personalization. In addition, the most important negative of the lack of control is the risk of serious service failures as described thoroughly throughout this case. But when the marketing strategy is looked at from a business growth perspective, Airbnb is by far the Wunderkind.

**IV.****Strategic Recommendation**

It is recommended that Airbnb implement a "Safety Campaign" in order to improve its service quality and decrease service failure.

The Safety Campaign recommendation entails an addition to the Airbnb website. There will be an additional button located on the top right of the navigation bar, labeled "Safety Awareness" that highlights 0.1% of bookings resulting in unsafe conditions. This "Safety Awareness" button will be shortened to "Safety" on the website. This button sends the user to a new window that will highlight six main unsafe conditions that are reported to Airbnb, see Figure 1.2. Each condition will highlight the number of bookings that are reported for that specific condition. For

example, one of every 1,800 bookings are reported to have infestations/unsanitary conditions. Each condition will have 3 different buttons that the potential guest can click on. The three buttons highlight:

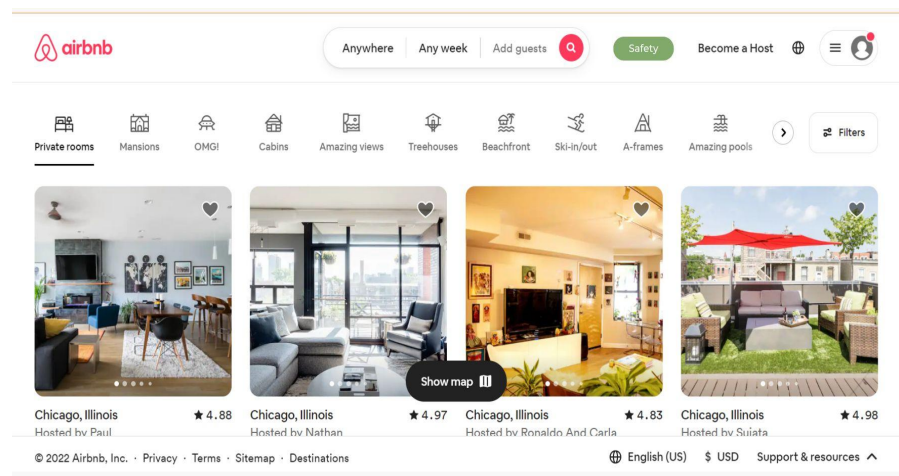
- Issues
- Solutions
- Questions

The “Issues” button will bring the user to a new window that goes over previous incidents regarding that specific condition. For example, for the Infestations/unsanitary issues button, it would include guests' previous experiences related to this situation at the Airbnb they were staying at. It would also include the location, date, and name of the host.

The “Solutions” button will bring the user to a new window that provides customers with a list of what to do if they are in this situation by providing a list of contacts of who to call, what to do, and where to go.

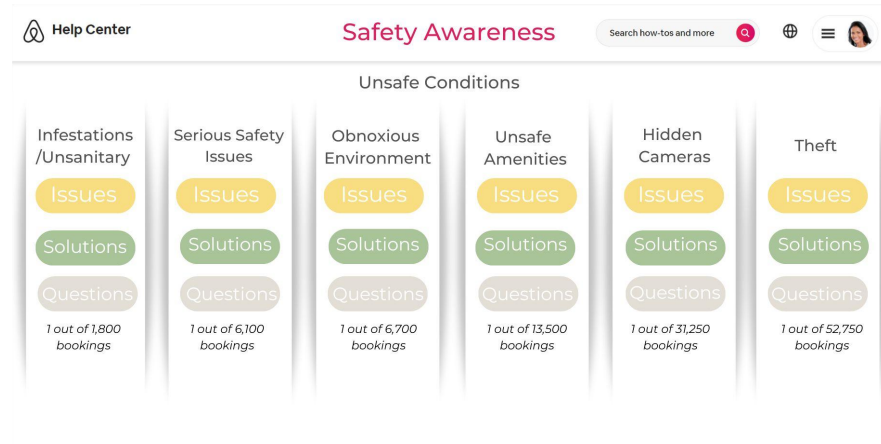
The “Questions” button will bring the user to a new window that allows users to ask questions regarding the issues or solutions that may apply. The 24-hour customer support hotline will also be provided on this tab.

Provided are examples of the recommendation implemented on the website. Image 1.1 shows what the “Safety Awareness” tab will look like on the main home screen and image 1.2 shows what the web page will look like after clicking on the safety button from the home page.



*Image 1.1 Example of the “Safety Awareness” tab, implemented on Airbnb’s Website.*





*Image 1.2 Example of the Safety Awareness website page and the three conditions.*

### **Challenges:**

There are a number of possible challenges that could occur with the addition of the Safety Awareness tab. The most prevalent concern with this idea would be scaring away potential or existing customers by displaying the transparency of the company's current safety awareness including but not limited to unsanitary conditions, serious safety issues, obnoxious environment, unsafe amenities, hidden cameras, and theft. The transparency would potentially reduce bookings and cause the company to lose an estimated 2.5%-5% of its revenue in the first year, see Figures 2.1, 2.2, and 2.3. The creation of the Safety Awareness tab is intended to prevent some, but not all service liability issues for the company. While it does not directly prevent issues such as theft, assault, or battery, it makes guests aware of what the risks are and how to react in those situations. The final concern is addressing the elephant in the room and that is whether anyone will take the time to look into the Safety Awareness tab. This might be the hardest challenge to estimate because each customer values different factors when selecting an Airbnb rental such as the price, amenities, or location. These factors would be the guest's first major concerns, thus users may not notice or click on the Safety Awareness tab. Therefore, the Guests will not take the time to look at the safety tab before completing their Airbnb rental purchase.

### **Opportunities:**

The Safety Awareness tab provides many opportunities and benefits for Airbnb. These opportunities include decreased liability, increased ethical practice, an exhibition of care and transparency to users, provides helpful resources for users, as well as incentives for good host practices. The presence of the Safety Awareness tab makes Airbnb less liable. The company is exhibiting possible safety issues and providing some resolutions, tips, and tricks recommendations to users who have any issues. Airbnb has the authority to say to users that they are transparent and have provided safety precautions and therefore can not be held liable for them. In addition to decreased liability, adding a tab on their website is cheap and fairly easy. As a result of Airbnb presenting possible issues and solutions, this should decrease the number of unethical hosts who use hidden cameras, scams, improper health codes, and more. In some

aspects, Airbnb is exposing unethical hosts and using the Safety Awareness tab as a scare tactic. If any user/renter experiences safety issues in a host's home, they will be flagged and investigated. The Safety Awareness tab physically represents important resources for prevention in situations where safety can be of concern. This is the principal in Airbnb expressing their concern and want for their user's safety and showing they are taking the necessary precautions to ensure so. With hope, if Airbnb continues transparency, they will have reduced costs. Their current practices reflect poorly on the business and its morals. The Safety Awareness tab's goal is to change that by being well-rounded in social responsibility. Unfortunately, Airbnb cannot control every host and renter, however, they can blatantly state issues and recommend resolutions.

**Effectiveness scale:** 65/100. The reason the recommendation is 65/100 on the effectiveness scale is that it is a risky option. It does not directly prevent issues such as theft, assault, or battery; it makes guests aware of what the risks are and how to react in those situations. Any recommendation will not be 100% effective; this recommendation benefits all parties. It keeps hosts in check, decreases liability issues for Airbnb, and provides safety issues and solutions for guests to see. Finally, it addresses its marketing ethics issue by providing transparency to its users.

### **Cost of Implementation (Annual Basis)**

The cost of creating a web page ranges anywhere from \$50,000 to \$65,000. The R&D associated with the website about what to include in the safety features would cost anywhere from \$35,000-\$50,000 and about \$15,000- \$35,000 for legal fees regarding liability. The overall costs for the Safety Awareness tab addition to the website can range from about \$100,000 to \$150,000 for Airbnb. Assuming the transparency of the new Safety Awareness tabs scares away potential or existing customers, Airbnb can estimate a 2.5-5% loss in revenue within the first year, as seen in Figures 2.1, 2.2, and 2.3. Future losses due to implementation will be minimal and therefore not included in the estimations.

Low Estimated Five-Year Loss in Revenue (In Millions)	
Estimated Revenue in 2022	\$ 8,663
Instant Loss of Customers	2.50%
Instant Loss in Revenue	\$ 216.58
Estimated Service Liability Payout (2022)	\$116.08
Annual % Reduction in Service Liability	25%
Annual \$ Reduction in Service Liability	\$ 29.02
5-Year Reduciton in Service Liability	\$ 145.11
Cost of Implementation	\$0.15
<b>Total Loss in Revenue Over 5 Years</b>	<b>\$ 71.62</b>

Medium Estimated Five-Year Loss in Revenue (In Millions)	
Estimated Revenue in 2022	\$ 8,663
Instant Loss of Customers	3.75%
Instant Loss in Revenue	\$ 324.86
Estimated Service Liability Payout (2022)	\$116.08
Annual % Reduction in Service Liability	37.5%
Annual \$ Reduction in Service Liability	\$ 43.53
5-Year Reduciton in Service Liability	\$ 217.66
Cost of Implementation	\$0.15
<b>Total Loss in Revenue Over 5 Years</b>	<b>\$ 107.35</b>

High Estimated Five-Year Loss in Revenue (In Millions)	
Estimated Revenue in 2022	\$ 8,663
Instant Loss of Customers	5.00%
Instant Loss in Revenue	\$ 433.15
Estimated Service Liability Payout (2022)	\$116.08
Annual % Reduction in Service Liability	50%
Annual \$ Reduction in Service Liability	\$ 58.04
5-Year Reduciton in Service Liability	\$ 290.21
Cost of Implementation	\$0.15
<b>Total Loss in Revenue Over 5 Years</b>	<b>\$ 143.09</b>

*Figures 2.1, 2.2, and 2.3 exhibit the low, medium, and high estimates of lost revenue due to implementation costs as well as lost business.*

## V.

### **Working for Airbnb as a Marketing Manager Preference**

The team concluded that they would not want a marketing manager position at Airbnb. The key factors in making this decision were as follows:

- The multitude of unsafe incidents that greatly negatively impact customers of Airbnb
- The lack of transparency of Airbnb; which could greatly affect the rates of incidents
- The use of NDAs and arbitration to silence victims
- The prioritization of individuals with social media prominence regardless of the severity of service failure
- The use of misleading marketing campaigns to dispel fears of strangers that could've possibly prevented negative outcomes
- Airbnb's responses to service failures, and their solutions to correcting the problem by means of "throwing" money at the problem in order to come to a settlement.

The team believes that the marketing practices of Airbnb is the main cause of the unethical judgment bestowed upon Airbnb. Being a part of the marketing practices would make each marketer complicit in the process that allows for so many individuals to be injured when less misleading and transparent marketing would prevent these outcomes. Rather than "throwing" money at the problem, Airbnb should be taking more preventative and transparent measures that would undeniably hurt revenue. The main question is: *What amount of money is worth the cost of a person's life?*

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