**MGT562 Ecosystem Design**

End-of-Course Assessment

January Semester 2023

|  |  |
| --- | --- |
| Name | Sruthi Madhusudanan |

Table of Contents

[Introduction 3](#_Toc133155747)

[**Website** 3](#_Toc133155748)

[Airbnb: Working methodology 5](#_Toc133155749)

[Reasons for success 5](#_Toc133155750)

[Business model Canvas 6](#_Toc133155751)

[**Value proposition** 6](#_Toc133155752)

[**Customer segments** 7](#_Toc133155753)

[**Channels** 7](#_Toc133155754)

[**Customer relationship** 7](#_Toc133155755)

[**Key Resources** 7](#_Toc133155756)

[**Key Activities** 7](#_Toc133155757)

[**Key Partners** 7](#_Toc133155758)

[**Cost Structure** 7](#_Toc133155759)

[**Revenue Streams** 7](#_Toc133155760)

[Business model 8](#_Toc133155761)

[Airbnb Market Segmentation (purple, n.d.) 8](#_Toc133155762)

[**Hosts** 8](#_Toc133155763)

[**Guests** 9](#_Toc133155764)

[**Freelance Photographers** 9](#_Toc133155765)

[System diagram 9](#_Toc133155766)

[**Worldwide 3rd party property listing** 10](#_Toc133155767)

[**Hosts/property owners** 10](#_Toc133155768)

[**Rent out idle property** 10](#_Toc133155769)

[**Compete on a New Cost Structure** 10](#_Toc133155770)

[**Double-Sided Platform** 10](#_Toc133155771)

[Platform strategy 11](#_Toc133155772)

[**VR and AR** 11](#_Toc133155773)

[Designing a Scalable business network 12](#_Toc133155774)

[Network effects 13](#_Toc133155775)

[References 13](#_Toc133155776)

**AIRBNB**

# Introduction

## **Website**

Airbnb Website : <https://www.airbnb.com.sg/>

Airbnb is a marketplace that brings together people who are in need of stay with people who have extra space for rent. Airbnb has grown globally to over 4 million hosts with 1.4 billion guests ever since two hosts in San Francisco welcomed three guests to their home. To help the guests connect with the communities in an authentic manner , hosts offer unique stays and experience every day. Airbnb has created a website to help with the advertisement of the above : **airbedandbreakfast.com**

Airbnb implements the sharing economy concept. Airbnb provides customers with a platform to search for a list of rental properties worldwide. Being the world's biggest accommodation provider, its eye opening to know that they don’t own any property . The guest can find a place to stay close to their desired location, and the host can make some extra income by renting out their extra space. Basically Airbnb is a two sided marketplace.

Thanks to their unprecedented success, they are now one of the most valuable companies in the world. As of April 18, 2023 , Airbnb is worth $73.44B billion. Due to company’s tremendous and growth and market expansion, now people can rent out their unused space and make money across the globe. Additionally, the business stays up with the times by introducing fresh consumer incentive schemes and benefits to entice more hosts to advertise their properties on the site.

A picture containing text, font, screenshot, white

Description automatically generated

Figure 1 : Airbnb statistics

Airbnb’s business strategy also covers other services which include;

**Airbnb Plus:** This provides a list of stays which have high rates with upgraded facilities..

**Airbnb Experience:** Hosts interacts with the guests and share more details on various activities like local experiences, food options etc. This allows guests to create lasting memories and experience the unique things in the neighbourhood

**Airbnb Work Collection:** Airbnb’s new collection targeting working professionals. Here, business users can look for an appropriate stay based on their business needs.

A timeline of airbnb

Description automatically generated with medium confidence

Figure 2: Airbnb Timeline

Airbnb: Working methodology(REYNARD, 2012)

Airbnb is a marketplace where guests can book stays from a pool of verified hosts. Airbnb doesn’t charge any membership fee for guests to join or for hosts to post their listing.  
Airbnb provides users with a targeted interface that helps narrow down travelling preferences and find attractive, cost-effective alternatives to hotels and other rentals. Once the user finds a listing of their choice, they can procced to sign up for the membership. Upon which the platform provides the guests with the access to deal with the host in person and also process payment details. After the hosts confirm the transaction and the guests check-in, users card will be charged with about 6-12% transaction fee from Airbnb. The hosts also undergo a similar flow, where in they receive a notification about guests interest and have the option to approve or decline the request. Once booking is confirmed, the payment is processed for the hosts and Airbnb charge their transaction fee, 3%.

# Reasons for success

There are multiple reasons for the success of Airbnb (Jackson, 2018) , Some of them are

* **Open Platform:** Airbnb is a non-linear business type with its producers, also known as host. The platform allows anyone to turn a host with an open room or free space. Hosts give the platform variety.
* **Affordability:** Airbnb provide guests with a wide range of options. Users can find multiple options in Airbnb that matches their budget requirements. The price ranges from as lows as $10 and go up $60 or more a night.
* **Free market:** A major highlight of Airbnb is how they conceptualize and execute the concept of free market. Airbnb prices are much lower than nearby motels or inns. Airbnb’s offering just tries to match the recurring travel demands with the supply along with the fact that the organisation doesn’t hold any physical property.

Current business ecosystem could be understood from their business model.

# Business model Canvas

A picture containing text, screenshot, website, web page

Description automatically generated

Figure 3 : Business model canvas

## **Value proposition**

**Host:** The biggest value proposition for the host to is to make money in a fully controlled and safe environment that provides insurance coverage as well as guests profiling. Add to this, 24X7 support via various channels like email, chat and phone.

**Guest:** The major value proposition for the guest is to savings on the bookings through a targeted platform that provides cost effective attractive bookings along with basic amenities and verified hosts.

## **Customer segments**

**Hosts**: People who have space to rent and intend to make quick money can provide their listings and specify the conditions of booking.

**Guests**: People who want a place to stay can look for a listing of their preferred choice and pay through Airbnb.

## **Channels**

Website and app are their first hand channels. Along with that the company also uses social media, affiliate channels and Word of mouth..

## **Customer relationship**

Airbnb has created a platform that enables strong and open communication between the different segments as their relationship with the customers is based on the trust factor of the transaction carried out in the platform.

## **Key Resources**

Their platform and mobile app, the content generated by the partners in the form of listings and reviews, their human resources and their algorithm are their key resources.

## **Key Activities**

Airbnb’s key activity is platform development and maintenance. Apart from that their sales and marketing efforts, information security efforts, and customer service are some of the major activities to take a note of.

## **Key Partners**

Airbnb’s major partners are their hosts. Hosts can be anyone who owns a private property without whom the platform cease to exist. Professional freelance photographers, insurance companies and investors form the other set of partners.

## **Cost Structure**

Airbnb invets heavily in major activities, resources, and channels, like platform maintenance and development, sales & marketing, card & insurance fees, employee salaries and legal and administrative costs.

## **Revenue Streams**

Airbnb generates charges both the hosts and the guests a service fee for their revenue.

Host fees (3 - 5%)

Guest fees (0 - 20%)

# Business model

Airbnb follows aggregator business model much like Uber. Airbnb business strategy deviates from conventional hotel business that invests millions in building their properties . (purple, n.d.)

The Airbnb follows the sharing economy business model where in they allow people to make better use of their unused idle properties . Airbnb overcame the initial mobilization hurdle by making their platform free to register for both the parties. Platform allows users to freely browse the listings and service fee is prompted only when a reservation is confirmed. Airbnb multiplied their head start by improving their on customer service and satisfaction. Airbnb attracted more users by forming an ecosystem focussing on personalization, reliability, and trust. To further strengthen the ecosystem To further enhance their platform Airbnb pumped their revenue on initiatives such as enhanced customer verification, guest reviews, insurance coverage for the listings to name a few.

A diagram of a business model

Description automatically generated with low confidence

Figure 4 : Business model

# Airbnb Market Segmentation (purple, n.d.)

Now we have a good understanding of the company’s history and working. Let’s now shift the focus to the three core segments upon which the business is built on.

## **Hosts**

Hosts own the property. They are the one who want to make quick money by providing the extra space for rent. Hosts update their listing in the platform with images and clear descriptions of the property and surroundings.

Hosts have the flexibility to define the rent and occupancy timings. They also have the rights to accept or decline the bookings based on the guest profile.

## **Guests**

Guests book the place for rent through app or the web. Guests searches through all the listing for their preferences like location, budget, amenities & convenience.

Guests can save more via Airbnb than a hotel booking and also all the payments are handled securely on the platform.

## **Freelance Photographers**

Airbnb maintains a vast network of photographers around the globe who are directly contracted by them.

The strategy behind maintaining a vast network is to provide the guests a crystal clear idea of how the space looks through high quality photographs. Airbnb invests on high quality images help generate more bookings and responses as their business model primarily deals with physical space provision

System diagram(Strategyzer, n.d.)

A picture containing text, screenshot, diagram, font

Description automatically generated

Figure 5 : System Diagram

## **Worldwide 3rd party property listing**

The most costly elements in the hotel industry are the properties and their operational costs . Also, when hotel rooms are not rented, they are a sunk cost. The hotel industry is very capital intensive.

## **Hosts/property owners**

Airbnb understands the difficulty of the owners who have idle assets like unused bedrooms, apartments, beach houses, etc. to rent them continuously for short periods of time.

## **Rent out idle property**

Airbnb presents property owners with an opportunity to generate extra income (average $924/month in 2017) by becoming a host. Airbnb allows the hosts to access a pool of guests via their platform there by solving one of the biggest pain points of the property owners.

## **Compete on a New Cost Structure**

Airbnb doesn’t own any property which keeps their operational costs limited to

platform management, marketing promos, and other host and guest support activities. This in turn helps them provide a highly competitive rates compares to traditional hotels.

## **Double-Sided Platform**

In order to attract the hosts, Airbnb needs a large pool of travellers. Focussing on building this “other side of its platform” is a major success factor in the value proposition to hosts.

# Platform strategy

A picture containing text, screenshot, diagram, human face

Description automatically generated

Figure 6 : Platform strategy

While Airbnb already is a platform business , we need not develop from scratch but could add features which could enhance its performance . Airbnb works on a peer-to-peer platform business model. Airbnb leverages two-sided network effects and makes money via a service fee they charge on both their host and guests. This fee is known as “platform tax”. For instance, On every 100$ booking fee / night set by the hosts, Airbnb makes about $15 via platform tax charging both the hosts and the guests

In 2022, Of the $63.2 billion Gross Booking Value through the platform, service fee accounted for $8.4 billion. Airbnb take charges a percentage fee from hosts and guests on each booking that happens through the platform which is known as take rate. Airbnb’s take rate has fluctuated over the years, with a peak of 14.1% in 2020 and a 13.3% in 2022. (Cuofano, 2023)

## **VR and AR**

However my recommendation would be to introduce VR and AR experience as their Platform strategy , which will give hosts and guests new options for reducing barriers for travel researching and booking. Before leaving the comfort of their own home, guests can step inside a house using tools like 360-degree photographs and 3D scans to get a sense of what to expect and how to get around the neighbourhood.

AR services will help real world practical problems and offer more information about the unit to the guests, such as where to look for coffee mugs in an apartment, or providing instant translations on how to setup a thermostat. (Williams, 2017). However the challenge for Airbnb lies in the fact that it requires to make the VR tools simple and easy for guests to use the functionality and derive value, like virtually exploring a home’s interior and surrounding neighbourhood. (Williams, 2017).

A picture containing indoor, wall, interior design, vase

Description automatically generated

Figure 7 : VR technology

# Designing a Scalable business network

Airbnb’s ecosystem consists of both substantial demand-side economies of scale (indirect network effects) as well as supply-side economies of scale We can consider this model as a flywheel.

For designing scalable business network I would recommend to introduce “Loyalty Program to Guests” which offers multiple benefits to both guests and hosts and results in positive network effects . At present Airbnb doesn’t have any loyalty program. A loyalty program will reward guests for repeat bookings, encourage to try new types of accommodations, and thereby increase their lifetime value to the platform.

Airbnb could offer a tiered loyalty program that rewards guests with discounts, free stays, or other perks for booking a certain number of nights per year. Guests who reach a certain level of loyalty could receive additional benefits, such as priority access to popular listings or concierge services.

The benefits of loyalty program extend beyond just repeated bookings. By increasing the lifetime value of its guests, Airbnb can also benefit from increased word-of-mouth referrals and positive reviews, which can help to attract new hosts and guests to the platform.

A picture containing text, screenshot, diagram, font

Description automatically generated

Figure 8 : Loyalty program and network effects

# Network effects

Here we have Cross-side network effects and same-side network effects which aids for the scaling of the business . Introduction of loyalty program encourages guests to repeated bookings in the platform , which also acquires new guests who come through Positive WOM , reviews and loyalty program benefits . when number of guests increase , it results in more bookings , which creates a suitable atmosphere for new hosts to join and thereby benefit from it . And with more hosts , we will have more listings available for selection , which enhances experience and convenience for the guests . This results in WOM and reviews which then leads to repeated bookings and again guests gets benefitted by the loyalty program and this continues and benefits all . This is attributed as a flywheel model .

# References

Dreyfuss, J. (2018, May 22). *The Airbnb effect: Fueling start-up ecosystems around the world*. Retrieved from https://www.cnbc.com/2018/05/22/the-airbnb-effect-fueling-start-up-ecosystems-around-the-world.html

Jackson, Y. (2018, July 2). *https://medium.com/@jyolanda562/the-4-reasons-why-airbnb-is-so-successful-f20c28d46472*. Retrieved from https://medium.com/@jyolanda562/the-4-reasons-why-airbnb-is-so-successful-f20c28d46472

REYNARD, S. W. (2012, Fall). *UCLA.* Retrieved from http://www.econ.ucla.edu/sboard/teaching/tech/Airbnb.pdf

purple. (n.d.). *How Does Airbnb Make Money? – Airbnb Business Model Explained*. Retrieved from https://www.apurple.co/airbnb-business-model-know-how-does-airbnb-work/

Strategyzer, W. (n.d.). *Strategyzer*. Retrieved from AirBnb: https://www.strategyzer.com/business-model-examples/airbnb-business-model

Cuofano, G. (2023, Febraury 19). *How Does Airbnb Make Money? Airbnb Business Model Analysis*. Retrieved from https://fourweekmba.com/airbnb-business-model/

Williams, R. (2017, December 12). *Airbnb envisions how AR, VR will shape future travel experiences* . Retrieved from https://www.marketingdive.com/news/airbnb-envisions-how-ar-vr-will-shape-future-travel-experiences/512810/

McDarris, A. (2022, December 5). Retrieved from How to Earn or Redeem Points on Airbnb Stays: https://www.nerdwallet.com/article/travel/how-to-earn-or-redeem-points-and-miles-on-airbnb-stays

Sridharan, M. (2022, may 28). *Airbnb Business Model*. Retrieved from https://thinkinsights.net/digital/airbnb-business-model/

JORGENSON, E. (2017, August 7). *Flywheel Effect: Why Positive Feedback Loops are a Meta-Competitive Advantage*. Retrieved from https://www.ejorgenson.com/blog/flywheel-effect

H, E. (n.d.). *Airbnb: Reinventing hospitality with network effects*. Retrieved from https://d3.harvard.edu/platform-digit/submission/airbnb-reinventing-hospitality-with-network-effects/

hub, B. s. (n.d.). *Airbnb Business Model | How does Airbnb make money?* Retrieved from https://bstrategyhub.com/airbnb-business-model-how-does-airbnb-make-money/

Priceonomics. (2017, June 15). *How Much Are People Making from the Sharing Economy?* Retrieved from https://priceonomics.com/how-much-are-people-making-from-the-sharing/

Vieira, K. C. (Feb 3 2021 ). Does Network Effect Have an Influence on the Acceptance of Airbnb? *Sage Journals* .

queensland, U. o. (n.d.). *The evolution of Airbnb’s business model*. Retrieved from https://uq.pressbooks.pub/airbnb-978-1-74272-321-1/chapter/the-evolution-of-airbnbs-business-model/