

## Company Case Airbnb: Making Hospitality Authentic

Like many services industries, hotel companies have done a tremendous job of ensuring the quality of the customer experience through standardization. People booking rooms through any of the major hotel chains can be pretty much assured of certain basics. They'll enter the 13-by-25-foot room into a short hallway with a bathroom and closet on one side or the other. In the bathroom, they'll find the basics along with a sterile display of soaps, hair care products, and other toiletries. The room features a bed or two flanked on both sides by nightstands with a reading light by each. An upholstered chair and ottoman sit at an angle in the far corner with a desk opposite. A dresser topped with a flat-screen TV sits across from the foot of the bed. Visitors might also discover a mini-fridge and a microwave oven.

The artwork and décor are fairly contemporary although impersonal and nondescript. Other details throughout the hotel

property are equally predictable. And although luxury level across these features varies from chain to chain, the vibe is the same. Many travelers count on this standard experience—it assures that their experience will be within a set of narrow, expected boundaries. Minimizing the risk of negative outcomes typically results in a satisfactory lodging experience for most guests most of the time.

But one lodging provider is targeting travelers who have a different set of needs and expectations. Airbnb is turning lodging services upside down by promising a hospitality experience that is the complete opposite of the one provided by major hotel chains. A major player in the new sharing economy, Airbnb is an online community marketplace that connects people who want to rent out space in their homes with those who are looking for accommodations. Like a true online marketplace, Airbnb doesn't own

any lodging properties. It just brings buyers and sellers together and facilitates transactions between them. But Airbnb's promise of value is what really sets it apart from the hospitality world's status quo. The new-to-the-game lodging provider pitches an authentic experience—a true sense of what life is like in the place you visit.

Whereas the hotel industry has spent decades sculpting its standardized offering, in just eight years Airbnb has built a global network of more than 2 million listings and 60 million guests throughout 34,000 cities in 191 countries. It has also built a market value of more than \$25 billion. Although these numbers may sound impressive on their own, in its brief existence Airbnb has managed to exceed the accomplishments of the largest hotel chain in the world—100-year-old Hilton Worldwide with its 765,000 rooms, 4,660 properties, and a market value of \$22 billion.

How did Airbnb pull off this amazing feat? According to Brian Chesky and Joe Gebbia—the start-up's founders—Airbnb simply recognized that the travel industry had lost touch with its customers by offering only one cookie-cutter option—ticky-tack rooms in antiseptic hotels and resorts. This standardized model seemed to dictate an unintended goal for the entire hotel industry—to ensure that nothing remotely interesting happens. Once Chesky and Gebbia recognized this, they set out a strategy to bring authenticity back into the hospitality industry.

### Two Million Rooms—No Two Alike

It all started when the founders had a hair-brained thought on how to generate some extra income to help pay the rent on their modest San Francisco loft apartment. During a major convention that had every hotel room in the city booked, they rented out three air mattresses on the floor of their apartment for \$40 a night each. In the process, they discovered that the people who booked that real estate got more than just a place to stay at a time when they needed it most—they got a unique networking opportunity. From that moment, Chesky and Gebbia moved quickly to develop and formalize the business concept.

Today, using Airbnb to either list a property or rent one to stay in is relatively simple. For hosts—Airbnb's official term for property owners who want to rent out space—it's a simple matter of registering and being vetted to ensure legitimacy. Listings can be pretty much anything from a couch, a single room, a suite of rooms, or an apartment to a moored yacht, a houseboat, an entire house, or even a castle (Airbnb currently claims more than 1,400 castle listings). Some hosts even rent out space in their yards for guests to pitch a tent. With more than 2 million listed properties for rent, each is as unique as its owner. Because listings are in private homes and apartments, they are typically located in residential neighborhoods rather than commerce centers where national and global hotel brands abound. Bookings can be offered by the day, the week, or the month, and hosts decide on price and the other details of their service and listings. Airbnb keeps only 3 percent of the booking fees and returns the rest to the host within 24 hours.

For guests, the process is about like buying or booking most anything online. Registered users search by city, room type, price range, amenities, host language, or various other options, including entering their own keywords. Most listings provide photos and details that give potential guests a reasonably accurate idea of what their stay will be like. Guests can contact potential hosts with questions before booking. On top of the fee for the property, guests typically lay down a security deposit and pay a 6 to 12 percent service fee to Airbnb. Bookings are made

through Airbnb, so money changes hands only through a secure interface. When guests arrive at the chosen property, the host either greets them or arranges for entry.

As the founders were getting Airbnb off the ground, they constantly faced a big challenge. Many people—investors included—were skeptical. In fact, during Airbnb's first year, the founders were turned down by every venture capitalist they approached. "When we started this company, people thought we were crazy," said Chesky. "They said strangers would never stay with strangers, and horrible things are going to happen." They also had a hard time convincing guests; few people were willing to risk staying with someone they'd never met.

But Airbnb overcame these concerns through various means. First, it set up a standard rating system for both hosts and guests, allowing each side to assess the other and reviewing what others have said about prior experiences. A "superhost" status gives an assurance of extensive booking experience and high-quality service. A "business travel ready" badge notes that the host provides specific amenities like Wi-Fi, a desk, and basic toiletries. Airbnb also puts guest and host minds at ease with its verification process, tips for safe and satisfactory bookings, and a 24-hour Trust and Safety hotline. Hosts are further protected by an included insurance policy that protects their property from damages of up to \$1 million. Airbnb admits that although these measures do not guarantee that nothing bad will ever happen, the likelihood of a negative outcome is no greater than it is for staying at a chain hotel.

### Seeing the World as the Locals Do

From the beginning, Airbnb primarily served budget-minded customers with prices for listings lower than those of comparable hotel rooms. But more and more, Airbnb is seeing a shift toward customers—leisure and business travelers alike—who want more than just low price. This is hardly an accident. Airbnb deliberately positions itself as a provider of unique and authentic experiences through its branding, communications, and other aspects of its business. In doing so, Airbnb has taken the uncertainty of staying in a stranger's house and turned it into an asset. Whereas hotels can compete on price and convenience, they cannot compete when it comes to the relationship between guest and host. "Guests are looking for experiences where they connect with people and connect with culture," says Chesky. "You can't automate hospitality."

Such was the theme of the second-annual Airbnb Open—a motivational event held in Paris, the company's biggest market, and attended by 5,000 hosts from 110 different countries. In his keynote address, Chesky explained that the entire hospitality industry caters to tourists in a way that makes them feel like tourists. But with an Airbnb experience, guests start to feel like they are a part of the neighborhood and the city.

As part of his presentation, Chesky summed up the entire Airbnb philosophy by illustrating the experience his own parents had when they arrived in Paris just days before the event. Pictures of their first day in town—hosted by typical tourist guides—were projected on a big screen. There was a picture of them on a double-decker tour bus, another on a generic boat ride, and a third standing in line at the Louvre. Chesky narrated each image with comical cynicism. "Every year, 30 million people go to Paris. They look at everything and they see nothing. We don't need to go to monuments and landmarks to experience a culture. We can actually stay with people." Then Chesky showed images from his parents' second day in Paris—guided by some

of Airbnb's top hosts—where they experienced the city from the perspective of locals. They had coffee at an authentic sidewalk café, took a walk in a garden, and drank and danced at a cozy Parisian boîte. "Maybe we should not travel to Paris," suggested Chesky. "Maybe what we should do is live in Paris."

### Executing on the Promise

This ideal—one supported by all Airbnb employees—was the driving force behind a recent and ambitious rebranding effort by the tech start-up. The company tossed out its original straightforward text logo in favor of something far more abstract—a symbol that resembles a puffy capital letter "A" with the two sides crossing over. Airbnb calls it the "bélo," "the universal symbol of belonging." The new logo communicates a sense of belonging through something that transcends language, culture, and geography. A new slogan accompanies the logo—"Belong Anywhere."

To ensure that the Airbnb guest experience is as authentic and unique as possible, the company focuses first and foremost on its community of hosts. In fact, Airbnb considers its hosts to be its primary customers. As a result, Airbnb has been able to nurture a huge global community of lodging providers who are true believers in the Airbnb vision. Treated as active participants in the business, hosts develop a sense of ownership and devotion. In this manner, Airbnb influences hosts to follow certain guidelines toward creating the best guest experience possible. This is by no means intended to create a standardized model. But by urging hosts to offer guest services such as airport pickup and walking tours, Airbnb strengthens the connections formed with guests. "What's special in your world isn't just the home you have," Chesky tells the crowd at the Airbnb Open. "It's your whole life."

The explosive expansion of Airbnb in every world market has certainly caught the attention of the big hotel chains. Developers are beginning to build hotels in places where they normally would not. For example, eight new hotels are going up in Williamsburg,

a Brooklyn neighborhood that is a huge Airbnb market but not a traditional tourist locale. But even as hoteliers attempt to invade Airbnb's turf, they will have a tough time duplicating the Airbnb experience.

Despite its expansion and success, Airbnb still finds itself battling for legitimacy. Some cities do not allow the rental of personal property for any duration less than 30 days. And there are many travelers who might prefer the Airbnb experience but still have concerns about staying with strangers. Airbnb is rising to these challenges with idealistic fervor. In fact, Chesky goes so far as to suggest that Airbnb's mission goes beyond providing an authentic guest experience and into the realm of establishing world peace. He explains that living in close proximity to those from other cultures makes people understand each other a lot more. He concludes, "I think a lot of conflicts in the world are between groups that don't understand each other."

### Questions for Discussion

- 8-18** How do the four characteristics of services apply to Airbnb? How does Airbnb deal with each characteristic?
- 8-19** Apply the service profit chain concept to Airbnb.
- 8-20** How does Airbnb differentiate its offer, delivery, and image?
- 8-21** How much of a threat is competition to Airbnb?
- 8-22** Will Airbnb last as long as Hilton Worldwide has? Explain.

**Sources:** Max Chafkin, "Airbnb Opens Up the World?" *Fast Company*, February 2016, pp. 76–95; Marshall Alstyne, Geoffrey Parker, and Sangeet Choudary, "Pipelines, Platforms, and the New Rules of Strategy," *Harvard Business Review*, April, 2016, pp. 54–62; Dan Peltier, "Airbnb's CMO on Authentic Travel Experiences," *Skift*, July 14, 2015, <https://skift.com/2015/07/14/skift-global-forum-2015-airbnbs-cmo-on-the-meaning-of-authentic-travel-experiences/>; and additional information from [www.investopedia.com/articles/personal-finance/032814/pros-and-cons-using-airbnb.asp?performancelayout=true](http://www.investopedia.com/articles/personal-finance/032814/pros-and-cons-using-airbnb.asp?performancelayout=true) and [www.airbnb.com/about/about-us](http://www.airbnb.com/about/about-us), accessed July, 2016.